Global Asset Management

For more on our current view and outlook, consult **The Global Investment Outlook**.

FALL 2018

One-minute market update

Economy

- Led by the U.S., global economic growth is running at an above-average pace, but many other major economies are slowing.
- Protectionism, China's economic deceleration and the aging business cycle are among the key risks that threaten our base-case view of solid, albeit moderating, economic growth.
- While we expect the global economy to continue expanding, the mild slowdown in economic momentum since the start of the year led us to lower our developed-world growth forecasts slightly and they are now mostly below consensus. Our emerging-market growth forecasts are also below the consensus estimate.

Fixed income

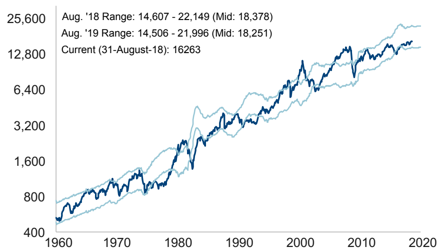
- In response to strengthening labour markets and firming inflation, central banks have continued a gradual tightening of monetary policy.
- Our model assumes that real, or after-inflation, interest revert to their historical norm over the next half-decade and that the increase is distributed evenly over time.
- A sustained period of rising yields would act as a headwind to bond returns for many years.
- We remain underweight fixed income, but are holding a larger position than we have in the past since bonds should provide a cushion in a balanced portfolio in the event of a recession and/or deterioration in the outlook for corporate profits.

Equity markets

- Global equities were mixed over the quarter, with the S&P 500 Index rising to an all-time high while many other markets posted negative returns.
- Stocks can deliver decent upside with reasonable assumptions but earnings growth is now critical to sustaining the bull market.
- We remain overweight equities, as we think economic growth will be sufficient to drive further gains in corporate profits and revenues.
- Given the aging business cycle and the fact that U.S. equities are above fair value, we are holding less exposure to stocks than we have at earlier points in the bull market, and caution investors to expect lower total returns and heightened levels of volatility over the coming quarters.

CANADIAN EQUITIES – Fair value range

S&P/TSX Composite Index

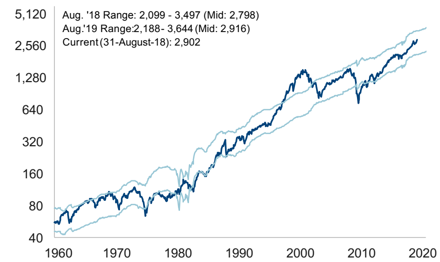


Over the three-month period ended Aug. 31, the index increased by 2.0%. Valuations remain below the midpoint of the fair value band.

Source: RBC GAM

U.S. EQUITIES – Fair value range

S&P 500 Index

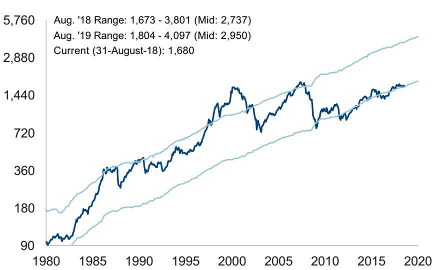


The U.S. stock market made progress over the three-month period ended Aug. 31, rising 7.8 % in local currency terms. While valuations increased over the quarter, they still hover only slightly above the midpoint of the fair value band.

Source: RBC GAM

EUROPEAN EQUITIES – Fair value range

Eurozone Datastream Index

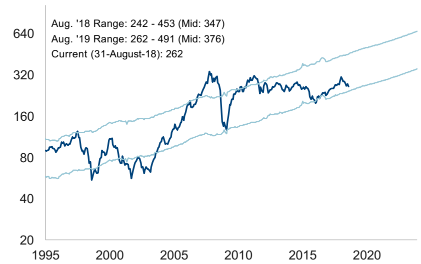


European equities declined by 0.3% in USD terms for the three month period ended Aug. 31, 2018. Despite favourable performance over the past several years, valuations continue to sit below the lower limit of the fair value band.

Source: Datastream, Consensus Economics, RBC GAM

EMERGING MARKETS – Fair value range

Emerging Markets Datastream Index



Emerging-market equities declined by 4.7% in USD terms for the three month period ended Aug. 31, 2018. Strong returns over the past several years have pushed valuations above the lower limit of the fair value band, but they are still well below the midpoint.

Source: Datastream, RBC GAM

* Fair value estimates are for illustrative purposes only. It is not possible to invest directly in an unmanaged index.

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