Global Asset Management

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

NEW YEAR 2019

One-minute market update

Economy

- After enjoying solid and accelerating global growth in 2017 and the first half of 2018, momentum has waned and we expect this trend to continue into 2019.
- Protectionism, European politics, rising interest rates, firming inflation and troubles besetting specific emerging-market countries are among the risks to our outlook.
- We budget for slower growth moving forward as financial conditions have worsened and the boost from the U.S. fiscal stimulus program begins to fade.
- We have lowered our global growth expectations slightly, but they are still near the upper end of the range of the past seven years.

Fixed income

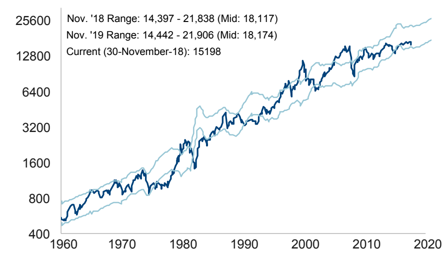
- Central banks have been tightening monetary policy in response to diminishing economic slack and above-average inflation.
- Our models suggest North American 10-year sovereign-bond yields are near equilibrium, but that unsustainably low yields in other regions represent significant valuation risk.
- We continue to believe that yields will rise over the long term, driven by an increase in real interest rates to historical norms, but slowing economic growth could limit how far yields rise in the shorter term.
- We remain underweight bonds as even a modest rise in rates will be a headwind for fixed-income investments. However, recognizing that bonds can provide a cushion in an economic downturn, we took advantage of the increase in yields earlier this quarter to add to our fixed-income allocation.

Equity markets

- Equities have experienced steep declines in most regions in 2018, especially in emerging markets.
- While valuation risk has been reduced, rising interest rates and firming inflation may restrain multiple expansion. Moreover, earnings growth is expected to slow as tailwinds from tax cuts fade, economic growth decelerates and profit margins come under pressure.
- Stocks still offer superior return potential versus bonds under reasonable assumptions, as long as earnings continue to grow as analysts expect.
- We remain overweight equities, but our tactical weight is well below our peak exposure from earlier in the cycle.

CANADIAN EQUITIES – Fair value range

S&P/TSX Composite Index

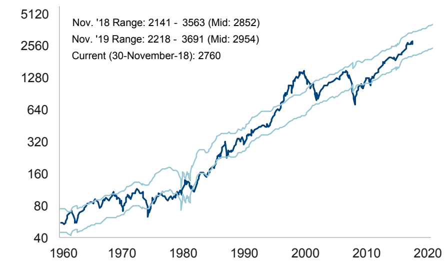


Over the three-month period ended Nov. 30, the index decreased by 5.8%. Valuations remain below the midpoint of the fair value band.

Source: RBC GAM

U.S. EQUITIES – Fair value range

S&P 500 Index

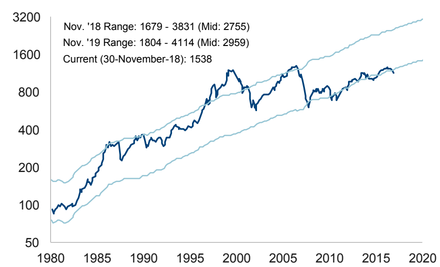


The U.S. stock market declined by 2.6% in local currency terms over the three-month period ended Nov 30. Valuations are now slightly below equilibrium.

Source: RBC GAM

EUROPEAN EQUITIES – Fair value range

Eurozone Datastream Index

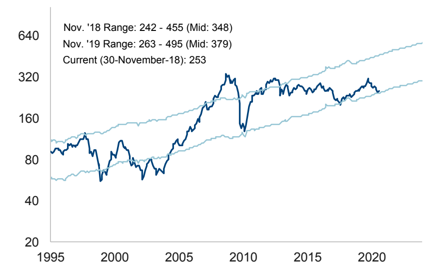


European equities declined by 8.1% in USD terms for the three month period ended Nov. 30 2018. Negative performance since the start of the year has caused valuations to fall below the lower limit of the fair value band.

Source: Datastream, Consensus Economics, RBC GAM

EMERGING MARKETS – Fair value range

Emerging Markets Datastream Index



Emerging-market equities declined by 5.7% in USD terms in the three month period ended Nov. 30 2018. At current levels, emerging market equities are nearing their most attractive valuations since the great financial crisis.

Source: Datastream, RBC GAM

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

Global Asset Management

100757 (12/2018)

015GAM163_100757 (01-2019)_1MU_EN_V1_2_FNL 12/21/2018