One-minute market update

Economy

- The global economy is running at its fastest clip in seven years supported by an increasingly broad-based expansion, favourable financial conditions and a strong sense of optimism among businesses and consumers.
- The aging business cycle, protectionism and precarious international relations may pose challenges to the economy, but the balance of risks and opportunities, in our view, tilts towards expansion.
- We have nudged our global growth forecasts higher for 2018 and continue to look for firming inflation. Our forecasts for growth and inflation are above the consensus.

Fixed Income

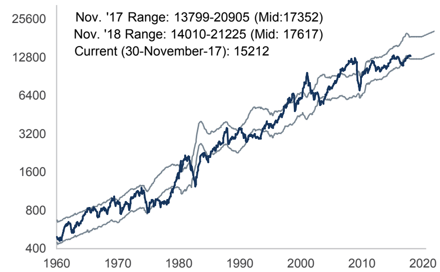
- We expect bond yields to move higher at a gradual pace, supported by an improving economy and the fact that central banks continue to tighten monetary policies.
- Real interest rates have been depressed by unorthodox monetary policy and a heightened demand for safe-haven assets, but investors (savers) will at some point demand a true after-inflation payment to defer consumption, resulting in an upward bias to bond yields.
- The capital loss from rising yields is likely to offset any income earned from coupon payments, resulting in low or even negative returns for sovereign bonds.

Equity Markets

- Global stock markets continue to be supported by the synchronized global expansion and better-than-expected corporate profit growth around the world, but the recent rally has pushed equities closer to fair value.
- Without support from rising valuations, further gains in stocks will likely be paced by corporate profit growth.
- Earnings have indeed been coming through and analysts are optimistic that the positive trend can persist. Corporate tax cuts in the U.S. could provide an additional boost to profits.
- In our view, equities continue to offer superior total-return potential compared to fixed income and we have maintained our moderate overweight in stocks and underweight bonds as a result.

CANADIAN EQUITIES – Fair value range

S&P/TSX Composite Index

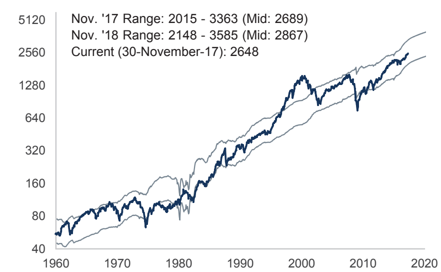


Over the three-month period ended November 30, the index increased by 6.4%. Valuations remain at the lower fair value band.

Source: RBC GAM

U.S. EQUITIES – Fair value range

S&P 500 Index

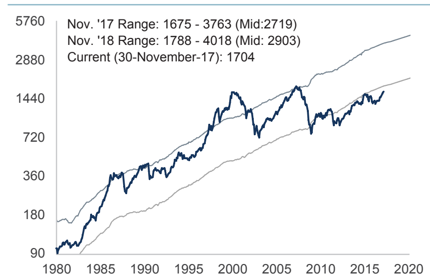


The U.S. stock market made progress over the three-month period ended November 30, rising 7.7% in local currency terms as the economic expansion continued. While valuations have increased, they still hover slightly below the midpoint of the fair value band.

Source: RBC GAM

EUROPEAN EQUITIES – Fair value range

Eurozone Datastream Index

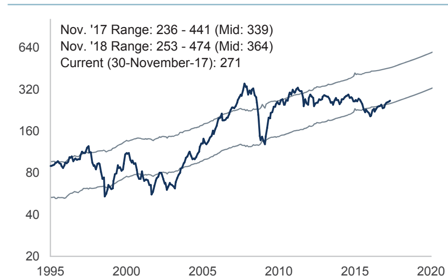


The MSCI Europe Total Return Index (USD) was up 4.0% for the three months as of November 30, 2017 and valuations sit just below the lower limit of the fair value band.

Source: Datastream, Consensus Economics, RBC GAM

EMERGING MARKETS – Fair value range

Emerging Markets Datastream Index



Emerging-market equities extended their recovery, rising 3.3% (USD) in the three months ended November 30, 2017. With significant gains over the past year, valuations continue to move above the lower limit of the fair value band, but 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.

Global Asset Management

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