



### THE STYLE ISSUE

## The death of (traditional) value

We think investors willing to expand their traditional investment toolset to incorporate extra-financial factors stand to reap superior returns over time.

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## Growth stocks regained investors' love in 2023

After growth stocks brought heartbreak in 2022, the growth style of investing was at the top of the leaderboard in 2023. Can the rebound continue?

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**New highs, more risk**



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Produced: Feb. 6, 2024 10:14 am ET; Disseminated: Feb. 7, 2024 11:00 am ET

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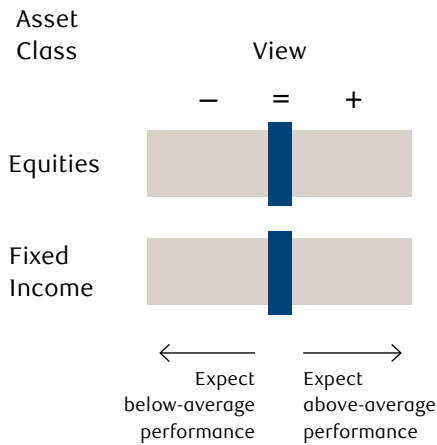
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## RBC'S INVESTMENT Stance

### Global asset class views



(+/-/=) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

**+ Overweight** implies the potential for better-than-average performance for the asset class or for the region relative to other asset classes or regions.

**= Market Weight** implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

**- Underweight** implies the potential for below-average performance for the asset class or for the region relative to other asset classes or regions.

Source - RBC Wealth Management

### Equities

- We continue to suggest Market Weight exposure to equities in a balanced global portfolio as technical metrics are sufficiently convincing, in our view, to indicate more upside is possible. Moreover, a further decline in inflation while the U.S. economy remains resilient could encourage the Federal Reserve to cut rates. Such a soft landing is possible although not yet certain. Enough reliable leading indicators suggest to us that for now the door to recession remains open. Given markets currently ascribe a low probability to a recession, any fading of economic growth or a resurgence of inflation could usher in a period of retrenchment in markets.
- Our preferred market remains Japan where secular changes, including the return of inflation and an authorities-driven improvement in corporate governance, are combining to unlock the market's longstanding valuation discount.

### Fixed income

- Global yields have been volatile to begin 2024, with the average yield on the Bloomberg Global Aggregate Bond Index trading as high as 3.75% and as low as 3.50%, ending January at 3.6%. With the global inflationary backdrop rapidly improving, and central banks taking varied steps toward eventual rate cuts, traders are attempting to gauge both the timing and the extent of monetary policy easing this year. Though yields on offer have dropped dramatically from the highs of late 2023, they remain well above the averages of the past 20 years and continue, in our opinion, to suggest relatively attractive entry points. However, we would exercise caution over the near term, as rate cut expectations currently priced into markets look too aggressive, in our view.
- We remain Market Weight U.S. fixed income with yields remaining above multidecade averages. While economic risks have subsided in the U.S., global recession risks are still elevated and credit valuations remain rich, in our view. Therefore, we broadly remain Underweight corporate credit with a slight bias toward government bonds.

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 MONTHLY  
 Focus


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## The death of (traditional) value

Classic investment thought posits that growth is part and parcel of the value equation. So what happens if growth is slow or absent? Does value still work? We argue that throughout most of this century value as an investment factor hasn't worked in the same way as in the past, and that incorporating non-traditional, extra-financial factors into portfolio strategy can enhance potential upside.

### Key points

- **Value without growth doesn't work.**
- **Traditional value companies that are best able to capture and retain talent and are pragmatic in their adoption of technology solutions going forward are, in our view, likely positioned to see improvements in their earnings in the years ahead. This growth resurgence will likely help reignite the “animal spirits” driving earnings multiples higher, and thus returns, for the group.**
- **We believe investors who are willing to expand their traditional investment toolset to incorporate so-called extra-financial factors that feed growth stand to reap superior returns over time.**

### What is value?

The seeds of traditional value investing were sown by Benjamin Graham in his seminal works “Security Analysis” and “The Intelligent Investor: The Definitive Book on Value Investing,” published in 1934 and 1949, respectively. Graham's work stands as the keystone of modern investment analysis, shifting the conversation around investing from *speculation*—which was the default practice prior to the 1929 stock market crash—to one of *intrinsic value*, or the calculated *real* value of a business based on earnings, assets, liabilities, and cash flows, among others.

Graham's intrinsic value framework argued that stocks trading in short-term irrational markets may have a price that is higher or lower than what the business is really worth. This dislocation between what a company's price *is* in the marketplace and what *it ought to be* based on company fundamentals over the long term means that a prudent investor should buy when market prices are lower than intrinsic value and sell when they are higher.

Building on the work of Graham, in 1992, Eugene Fama and Kenneth French developed a three-factor model that introduced size and value as investment factors in addition to market expectations that Graham and others had pioneered a generation earlier. Their work around these additional investment factors underscored Graham's fundamental axiom that the market can be irrational in the short term but is efficient over time. Again, this means that investors should:

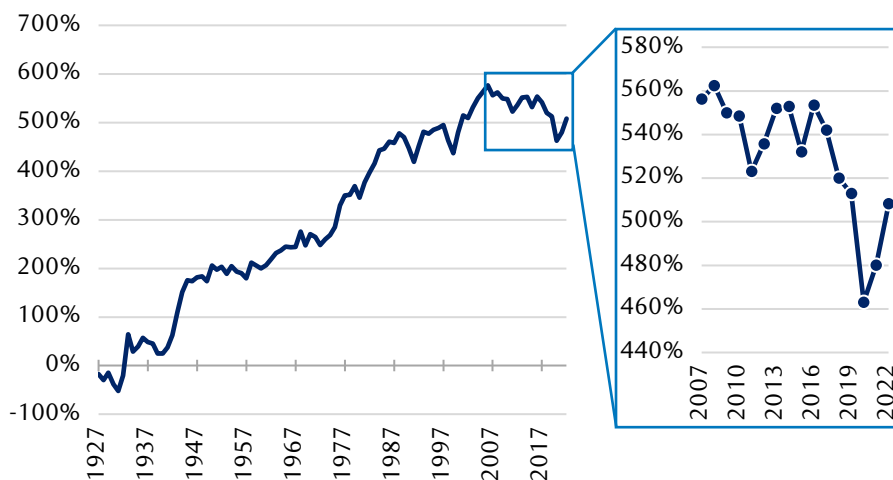
## THE DEATH OF (TRADITIONAL) VALUE

- Buy and hold undervalued stocks while letting market prices rise to meet intrinsic prices over time, and
- Sell or avoid overvalued stocks while letting market prices fall to meet intrinsic prices over time.

The resultant strategy—selecting value over growth—has been tremendously successful over the last 100 years, despite persistent weakness since 2007.

### Cumulative value-factor returns, 1927–2022

Fama-French three-factor model high-minus-low book-to-price factor



Source - Ken French, RBC Wealth Management

### Does value work without growth?

Simply put, no. Warren Buffett, a student of Benjamin Graham's when the latter taught at Columbia Business School, describes it most neatly: "There is no such thing as growth stocks or value stocks as Wall Street generally portrays them, as contrasting asset classes. *Growth is part of the value equation.*"

If true, how can we best see that this is the case and what happens if growth is slow or absent?

We can utilize index returns and their decomposition to better understand what underlying components drove value and growth returns over time and why value as a factor hasn't worked relative to growth for nearly two decades. To illustrate, we will look at key drivers of return including:

- Earnings per share (EPS) and price-to-earnings (P/E) multiples as drivers of price appreciation, and
- Dividend yields and reinvestment to provide a view into total shareholder return.

For comparison, we will use the Russell 1000 Value Index (the Value Index) and the Russell 1000 Growth Index (the Growth Index).

We focus on two key periods. The first is from 1995 through 2006 during which value continued to work as it always had; we denote this as the

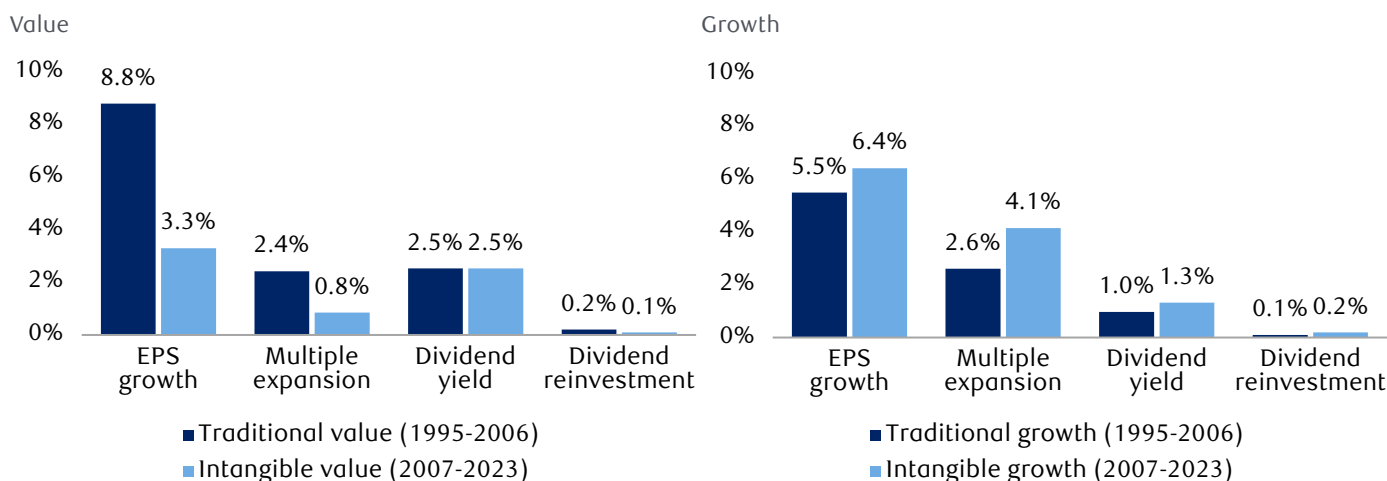
## THE DEATH OF (TRADITIONAL) VALUE

“traditional value” regime. The second is from 2007 through 2023 where value as a factor no longer seemed to work in the same way; we’ll call this the “intangible value” regime.

Let’s look at the total shareholder returns data for each index and for each regime.

The first observation is revelatory in that intangible value clearly has a growth problem ... specifically, a lack thereof.

### Value and growth return components: Total shareholder return decomposition



Source - RBC Wealth Management, Bloomberg

On the left-hand chart we can see that EPS growth for the Value Index was very strong in the 1995–2006 period, rising by 8.8 percent per annum. That persistent strength persuaded investors to pay more for each dollar of current earnings (i.e., boost the P/E multiple or sometimes known as “animal spirits”), adding a further 2.4 percent per annum to already robust returns. But in the following 2007–2023 period, earnings growth slowed markedly to just 3.3 percent per annum. Investors lost their enthusiasm for the Value Index with returns from valuation expansion collapsing by two-thirds to just 0.8 percent.

But the right-hand chart shows a very different outcome for the Growth Index. Moderate EPS growth in the 1995–2006 stretch accelerated somewhat to a healthy 6.4 percent per annum from 2007 to 2023 at the same time as value returns sagged by almost two-thirds. Investors’ “animal spirits” were aroused as they headed toward the superior EPS returns of the Growth Index, in the process boosting the added returns delivered by P/E expansion by a rich 4.1 percent per annum compounded over 16 years.

### What happened?

Not just in the 1995–2006 period depicted in the charts but throughout the entirety of the 20th century traditional value had seemingly benefited from the advent and evolution of operations management (i.e., mass production, Six Sigma, just-in-time, “kaizen” or the Japanese concept of continuous improvement, etc.). Process enhancements and the introduction of rudimentary technology and automation for mass manufacturing of real

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## THE DEATH OF (TRADITIONAL) VALUE

goods in the real economy are strong contenders in providing explanation for most of the century-long earnings tailwinds that traditional value companies had benefited from.

That said, it seems fair to suggest that over the intangible growth regime from 2007 to 2023, earnings have expanded in large part from the rise and utilization of new, disruptive technologies which saw dramatic inflection and adoption in the early 2000s (i.e., internet, mobile broadband, Wi-Fi, laptops, social media, smartphones, instant payments, smart devices, software-as-a-service, etc.). Having this first-mover advantage with radically improved technology has helped to build business efficiencies across key financial and extra-financial factors (i.e., factors that are not captured in the financial statements) such as human and social capital management, along with business model improvements in ways that were never previously available.

The integration of technology generated meaningfully robust intangible assets and business efficiencies that have translated to continued earnings growth. This has led investors to drive up the intangible growth multiple from 2.6 percent to 4.1 percent of the per annum price appreciation figure for the index between the two periods, with the anticipation that there is more to come.

### So, is value dead?

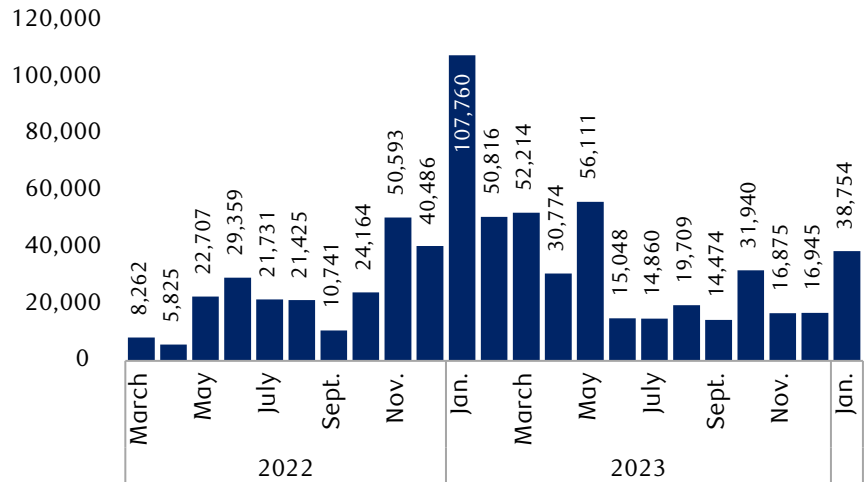
Not exactly, but the world is a different place today. As the digital economy and technologies continue to grow and mature, we do believe that *some* old dogs can learn new tricks.

Consider the backbone of technology—an extra-financial metric known as human and social capital, or simply put, people. Without talented, technologically adept people, or the incentive structures to attract and retain them (i.e., pay, career growth, job satisfaction, corporate culture, and other notorious tech company-related perks like free lattes, nap pods, or bringing your dog to work ...), incremental growth and innovation at the leading edges will begin to slow. Likewise, as technology innovation has concentrated this skilled labor in very few pockets across the intangible growth universe, marginal gains from high-caliber talent across maturing platforms will eventually approach zero. This prompts an important question: how many software engineers or data scientists are needed to develop the next version of a leading smartphone? Probably the same or fewer than the last version as operational efficiencies in these now maturing business models take hold. This dynamic has, in part, led to an unprecedented wave of nearly 670,000 layoffs across more than 2,000 technology companies over the last two years, including a significant number from the “Magnificent 7” (Apple, Microsoft, Google, Amazon, NVIDIA, Meta Platforms, and Tesla).

With intangible growth’s stranglehold on high-caliber technology talent abating, we believe this provides a boon for value companies where data science has had low or no penetration—which is the lion’s share of the index. Value companies that are best able to capture and retain talent and are pragmatic in their adoption of technology solutions going forward are,

THE DEATH OF (TRADITIONAL) VALUE

Tech layoffs



Source - TrueUp

in our view, likely positioned to see improvements in their earnings in the years ahead. This growth resurgence will likely help reignite the “animal spirits” driving earnings multiples higher, and thus returns, for the group.

**Where to fish for growth?**

Our read of the investment narrative over the last several decades has been one where the market has seemingly self-segregated into two distinct investment groups—value or growth. We believe this shift, coupled with the dynamics noted above, has now set the table for patient and nuanced investment in these seemingly “left-for-dead, unimaginative, non-innovating, and stuffy old economy businesses” that, ironically, have the most to gain from leaning into and upgrading their intangible assets—such as human and social capital, brand equity, intellectual property, and network effects, among others.

We believe investors who are willing to expand their traditional investment toolset to incorporate non-traditional, extra-financial factors that feed growth stand to reap superior returns over time. So, as Mark Twain noted to the newspaper upon reading his own obituary, “the reports of my death have been greatly exaggerated,” we believe that value is not yet dead.



MONTHLY  
Focus

# Growth stocks regained investors' love in 2023



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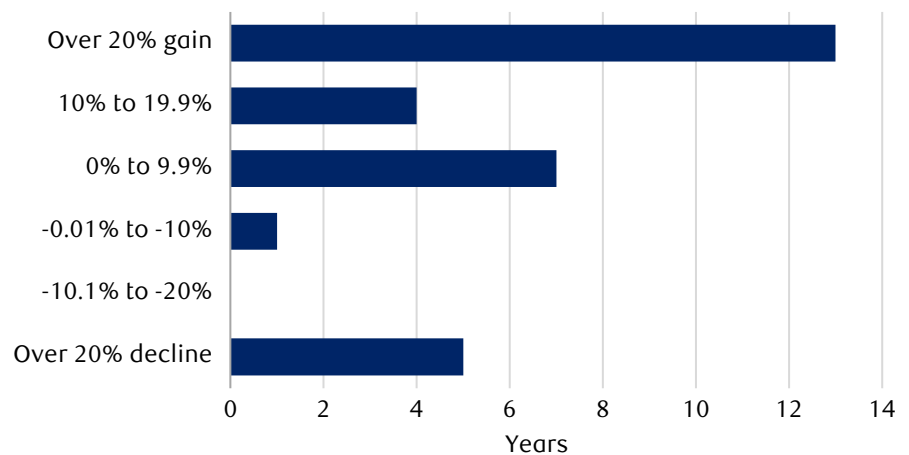
After growth stocks brought heartbreak in 2022, the growth style of investing, utilizing the Russell 1000 Growth Index as the proxy to start the conversation, was at the top of the leaderboard in 2023, advancing approximately 41 percent. But it was dead last a year earlier (down approximately 30 percent) versus most other investing sizes and styles. Can the rebound continue?

### Key points

- Growth stocks are a powerful element within most portfolios over the mid and long term given performance dominance.
- Following the strong double-digit returns in 2023, many investors have high hurdles for fundamentals that growth companies will need to deliver.
- Historical Nasdaq performance in the midst of new technology introductions may provide clues to potential performance.

Painful as that year was, 2022 marked only the second year of negative returns for the growth group since 2008; the other down year, 2018, saw a three percent decline. Growth returns tend to go big or go home. Since 1994, growth stocks produced positive returns 80 percent of the time. Forty-three percent of the time, the annual returns were over 20 percent, eight years delivered positive returns over 30 percent, with only two years down over 30 percent (rounding up last year's decline of 29.8 percent in that calculation). This chart below shows the magnitude of the annual occurrences over that time period.

The Russell 1000 Growth Index has produced a positive annual return in 24 of the past 30 years



Source - RBC Wealth Management, FactSet; data through 12/31/23

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## GROWTH STOCKS REGAINED INVESTORS' LOVE IN 2023

### Good returns, great expectations

The compound annual growth rate (CAGR) for the Russell 1000 Growth Index has averaged 18 percent over the past five years. These returns may naturally prompt the question, “What type of companies tend to be included in this elite group, known as growth stocks, and why would an investor stomach the wild volatility that can accompany owning them?”

Although definitions are plentiful about what constitutes a growth stock, most growth companies would check several, if not all, of the following metrics:

- The companies generate annual revenue growth consistently and above the overall growth of the broader economy, typically measured against gross domestic product (GDP), or the S&P 500.
- The growth rates for revenue outpace the specific company's broader industry in which it operates.
- The revenue, income, and free cash flow growth are expected to sustain elevated levels driven by company-specific initiatives and strategies that grow market share and end-markets.
- Growth companies are often able to sustain superior growth rates for longer than most investors expect by virtue of business models that benefit from secular versus cyclical growth. Secular growth is supported by drivers, themes, and technology that often materially change how individuals live and work, and companies operate. “Cyclical growth” relates to firms that are materially influenced by the business cycle.
- Investors tend to be less discerning, and more accepting, of paying higher valuations for growth companies. Popular valuation methodologies include price-to-earnings; enterprise value-to-sales, which is often used when companies lack earnings (think of Amazon for its first six years of being public, although operating income really began its ramp up after 2015); enterprise-value-to-earnings before interest, taxes, depreciation, and amortization (another alternative valuation methodology when earnings remain negative but the company is profitable before interest and taxes); and/or enterprise value to free cash flow.
- Growth companies tend to operate in the Information Technology, Consumer Discretionary, Health Care, and Industrials sectors. These sectors are weighted within the Russell 1000 Growth Index at approximately 52 percent, 19 percent, 10 percent, and 10 percent, respectively.

### A different setup in 2024

With the gift of hindsight, the forces behind the pendulum of growth returns from the 2022 correction to the 2023 rally, were in place to start last year.

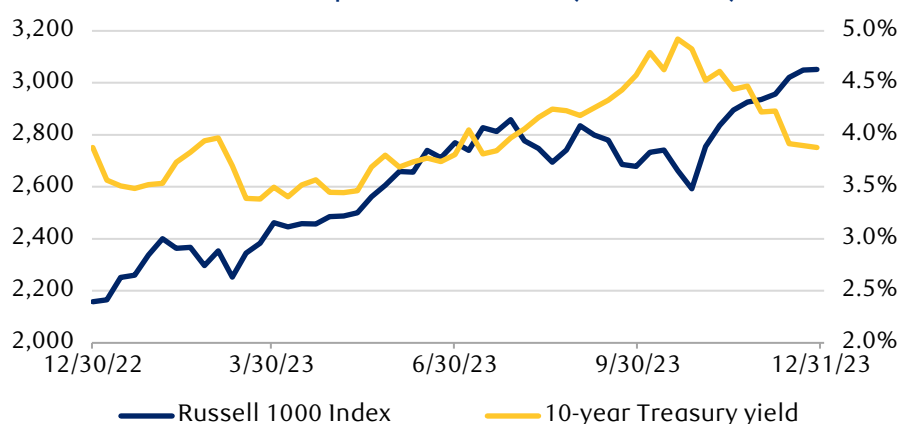
First, the year began with investor sentiment at levels as bearish as during the worst of the 2008–2009 global financial crisis. Such a level of extreme bearishness has always proved unsustainable and often precedes a period of strong outperformance.

## GROWTH STOCKS REGAINED INVESTORS' LOVE IN 2023

Second, growth tends to outperform value when the 10-year Treasury yields come down. In reality, the 10-Year Treasury yield began 2023 at 3.88 percent and, interestingly, ended the year at that very same level. The relationship is shown on the chart below.

Over the course of the year investors became hopeful as inflation cooled, that the Federal Reserve would end its rate hike cycle and probably move on to rate cuts in 2024. That promise of future rate declines lent more and more valuation support to the growth contingent throughout the year. So too did the very strong arrivals of Artificial Intelligence (AI) and Generative AI. The introduction of ChatGPT at the end of November 2022 was like pulling a rabbit out of a hat, reigniting the Technology trade throughout 2023.

**Russell 1000 Growth Index price versus the 10-year Treasury in 2023**



Source - RBC Wealth Management, FactSet; data through 12/31/23

### Different starting line today

Investor sentiment ended the year toward the enthusiastic side of the spectrum, at levels where the forward returns for the overall market could be expected to be more muted. Investors have already priced in an expectation that many companies will sustain strong revenue and earnings growth by exploiting AI. Consensus earnings growth expectations for the Tech-heavy Nasdaq versus the S&P 500 are for fundamentals to accelerate in 2024. Today, the Nasdaq forward multiple is 27.3x, and approximately 470 basis points, or 20 percent, has been added to it since the start of 2022. We think this valuation metric only becomes a concern if this group of stocks can't continue to sustain or accelerate revenue and earnings in 2024. Those companies now need to deliver that kind of performance in 2024.

### Nasdaq earnings growth expected to be almost twice that of the S&P 500 in 2024

	2016	2017	2018	2019	2020A	2021	2022	2023E	2024E	2025E
<b>S&amp;P 500 EPS</b>	\$117.42	\$130.19	\$158.00	\$157.22	\$135.89	\$205.05	\$214.33	\$217.06	\$242.59	\$273.98
<b>Nasdaq EPS</b>	\$244.65	\$279.03	\$327.98	\$292.67	\$281.21	\$431.45	\$401.09	\$456.57	\$562.00	\$678.65
<b>S&amp;P 500 growth</b>	0.8%	10.9%	21.4%	-0.5%	-13.6%	50.9%	4.5%	1.3%	11.8%	12.9%
<b>Nasdaq growth</b>	5.5%	14.1%	17.5%	-10.8%	-3.9%	53.4%	-7.0%	13.8%	23.1%	20.8%

Source - FactSet; data through 1/17/24

## GROWTH STOCKS REGAINED INVESTORS' LOVE IN 2023

### A note on the Nasdaq

The Nasdaq ended 2023 advancing 43 percent, a bit higher than the Russell 1000 Growth Index. The Nasdaq is approximately 57 percent weighted with the Technology sector. This sector's performance surpassed the other 10 by returning almost 56 percent this past year. History provides some insight as to what the future may hold for growth stocks following a year of heady double-digit returns driven by the promise of a transformative technology.

Three examples come to mind. First, the Apple computer was created in 1976. Second, Netscape became the first browser introduced and established the World Wide Web for the masses in 1994. Third, Amazon launched Amazon Web Services in 2006 with Apple's iPhone arriving the following year. The table immediately below shows the six years of consecutive Nasdaq returns starting with the introduction of the three watershed technologies.

### Near-term Nasdaq performance following technology transformations

Year	Return	Year	Return	Year	Return
1976	26%	1994	-3%	2006	10%
1977	7%	1995	40%	2007	10%
1978	12%	1996	23%	2008	-41%
1979	28%	1997	22%	2009	44%
1980	34%	1998	40%	2010	17%
1981	-3%	1999	86%	2011	-2%

Source - RBC Wealth Management, FactSet

There is at least one other factor to consider with respect to growth stock investing in 2024. The Nasdaq began trading in February 1971. There have been 13 U.S. elections since that time, and 10 of those produced positive returns with an average of 20 percent. The three election years that experienced negative returns averaged a 30 percent decline. Comparing the growth style of investing to value during these periods, data since 1980 for 11 elections shows value outperformed growth 72 percent of the time.

### Growth has lagged value investing during most election years

Year	Russell 1000 Growth	Russell 1000 Value
1980	35.2%	16.3%
1984	-3.9%	3.5%
1988	8.5%	17.2%
1992	2.7%	9.4%
1996	21.5%	18.1%
2000	-22.8%	4.9%
2004	5.2%	13.7%
2008	-39.3%	-38.8%
2012	13.3%	14.5%
2016	5.3%	14.3%
2020	37.1%	0.1%

Source - RBC Wealth Management, Bloomberg; annual data 1980–2020

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## GROWTH STOCKS REGAINED INVESTORS' LOVE IN 2023

### **Patience, pullbacks, and possibility**

The Russell 1000 Growth Index has outperformed the Nasdaq, S&P 500, and Russell 1000 Value over the past five years, and holds a top 2 position on three-year and 10-year bases. The performance dominance of this investing style makes it a powerful tool in both portfolio construction and investment returns. Growth stocks tend to be more volatile and have deeper corrections as a group and, therefore, exposure should be managed to personal risk tolerance. We think patience is required to capitalize on both the volatility and opportunity.

## GLOBAL Equity



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# New highs, more risk

This latest advance came on the heels of worrying lows set in October and was fueled mostly by investors embracing the idea that falling inflation would permit the Federal Reserve and other central banks to lower short-term interest rates sooner rather than later, and perhaps more aggressively than previously hoped.

While most major equity markets, with the exception of China's, moved higher over the past few months, there was a clear performance division between those markets where GDP growth was better than consensus expectations—notably the U.S.—and those where the economies disappointed, including Canada, Europe, and especially China.

New highs for the S&P 500 have raised expectations that further advances for that index and others could be in the offing. We believe more new highs are possible, even probable, in the coming few months. But not all the technical and valuation metrics are giving uniformly positive readings.

Importantly, breadth has led the large-cap indexes higher. The so-called advance-decline line for the S&P 500 is a measure designed to show whether the majority of stocks are moving in the same direction as the index itself or diverging negatively. In this instance, the advance-decline line moved into new high ground almost two months ahead of the index itself.

But a similar advance-decline measure for the S&P SmallCap 600 remains mired far below its own previous high as that index has consistently underperformed its large-cap big brother. Narrowing stock market leadership is often a leading indicator of more widespread market weakness to come. But as long as breadth within the large-cap index remains in sync with the S&P 500, then we believe additional new highs are a reasonable expectation.

### Equity views

Region	Current
Global	=
United States	=
Canada	=
Continental Europe	–
United Kingdom	=
Asia (ex Japan)	=
Japan	+

+ Overweight; = Market Weight; – Underweight  
Source - RBC Wealth Management

That said, valuations are not particularly compelling, in our view. Back at the October lows, the S&P 500 was trading at what most investors would view as a fairly full valuation of 19x trailing-12-month earnings. Today, the price-to-earnings (P/E) multiple is noticeably richer at 22.3x.

Meanwhile, over the same three-month span, investors and economy watchers alike have transitioned from October's deep concern about the "stickiness" of inflation and the perceived reluctance of the Fed to rule out further rate hikes all the way to recent near unanimous conviction the Fed would start lowering rates this spring, with more cuts to follow quickly.

Opinion swings like this have been the norm over the past couple of years, pushing markets first this way and then that. There is probably more of this to come. It is worth remembering that financial markets do not have a good track record when it comes to forecasting where the fed funds rate will be 3–24 months down the road, and neither has the Fed itself.

Further inflation weakness, if and when it arrives, will open the way to eventual Fed rate cutting, in our opinion. But we think any negative news on the inflation front will probably push out the start of Fed easing, pressure bond yields higher,

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## GLOBAL EQUITY

put an economic hard landing back as a more likely outcome, and lower stock prices.

For us, the extremely strong January jobs report is worrying on this account. If it turns out to be a trend rather than a “one off,” we think the hopes for imminent Fed cutting will once again be dashed and additional fed funds rate hikes could be back on the table. This would simultaneously put downward pressure on P/E multiples and exacerbate the household disposable income and corporate margin squeeze already in evidence, in our opinion.

Saying a soft landing is “in the bag,” as we think many have been doing, doesn’t make it so. Historically reliable leading indicators such as the shape of the yield curve (inverted for 19 months) and the Conference Board’s Leading Economic Index (down for 20 consecutive months) are both well inside their respective forecast timing windows for when recessions have begun in the past.

History shows the fed funds rate has something to say on this topic. On average, a recession gets underway 25 months after the first Fed rate hike. That would target April of this year, keeping in mind that it took longer than 25 months in half of the experiences measured.

We are maintaining our Market Weight exposure to equities in a balanced global portfolio largely because the constructive breadth readings suggest additional new highs lie ahead. But we think any diminishment of the positive hopes for economic growth, for softer inflation, and for the arrival of Fed rate cuts could usher in another period of correction/retrenchment for stock markets.

It’s not out of the question that the much-hoped-for soft landing is what the U.S. gets, but the historical probabilities suggest that, for now, the door to recession remains open.

GLOBAL  
Fixed income



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# Timing isn't everything

Volatility in global fixed income markets remains elevated as traders attempt to divine what central banks have in store this year. Much of the discourse has been centered around the timing of interest rate cuts, but that topic likely has little bearing on the management of most investment portfolios. In our view, rate cuts are almost certainly coming, but it is the extent of the cuts that matters more.

Global yields have been on a roller coaster ride of late, broadly peaking last fall before dropping sharply into the close of 2023. In the U.S., the benchmark 10-year Treasury note yield reached 5.0% before falling to 3.8%, only to bounce around 4.0% in the early days of 2024. While we expect near-term volatility to give way to a lower-yield environment over the course of this year, we think it's important for investors to think about the broad outlook—and potential entry points.

As the chart shows, longer-term sovereign yields in the U.S. have been highly correlated with market expectations of how deeply the Federal Reserve will cut interest rates by the end of this year. Markets are

## Fixed income views

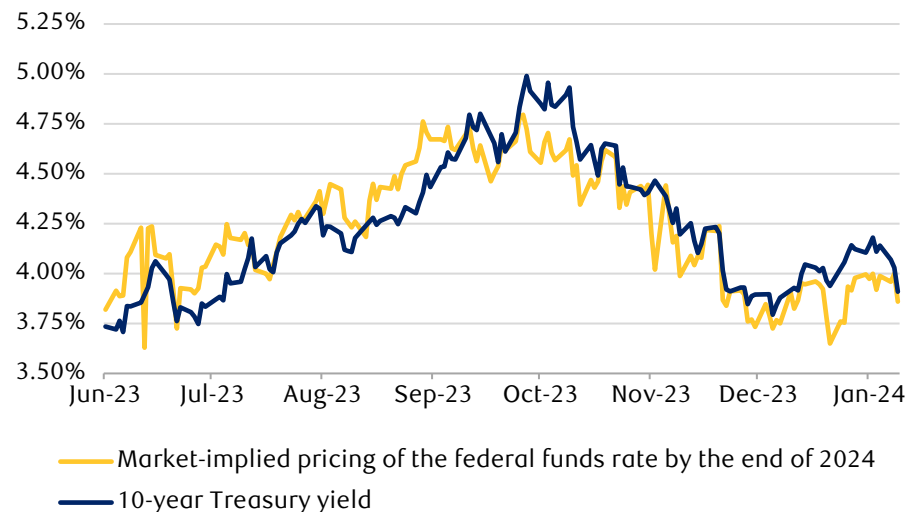
Region	Gov't bonds	Corp. credit	Duration
United States	+	-	3-7
Canada	=	+	3-7
Continental Europe	=	=	3-7
United Kingdom	=	=	3-7

+ Overweight; = Market Weight; - Underweight  
Source - RBC Wealth Management

now priced for the Fed to cut the target range for the federal funds rate to 4.00%–4.25% by December (from 5.25%–5.50% currently), roughly in line with where the 10-year Treasury yield is trading.

In December 2023, Fed policymakers penciled in rate cuts to 4.50%–4.75% this year, so let's use that as the high end of the potential trading range for the 10-year Treasury yield. Both current market pricing and RBC Capital Markets' estimates are in the range of 4.00%–4.25%, so let's take that as the base case. In terms of the low end, the market was priced for 3.50%–3.75% as recently

## The outlook for longer-term Treasury yields hinges on the number of interest rate cuts this year



Source - RBC Wealth Management, Bloomberg; data through 1/31/24



## GLOBAL FIXED INCOME

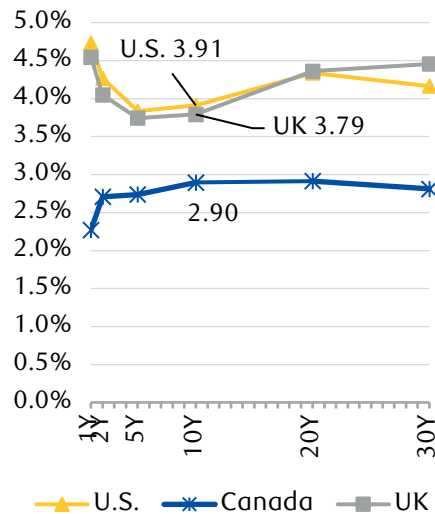
as December, and although we think economic risks will at least remain on the table despite having faded recently, that seems like a reasonable low end for the 10-year Treasury yield this year. Within that framework, we would look to buy bonds and extend maturities should the 10-year yield rise further into the four percent range, and consider reducing exposure below that level.

Outside the U.S., we think it is likely that central banks will pivot to rate cuts earlier than originally expected. RBC Capital Markets analysts previously foresaw the European Central Bank holding policy rates

steady this year. But after a dovish policy meeting in January, they now see three 25 basis point rate cuts, with the first in June. RBC Capital Markets analysts also changed their call for the Bank of England and now expect a first rate cut by August, whereas they previously saw the UK central bank on hold this year following a relatively dovish meeting in late January.

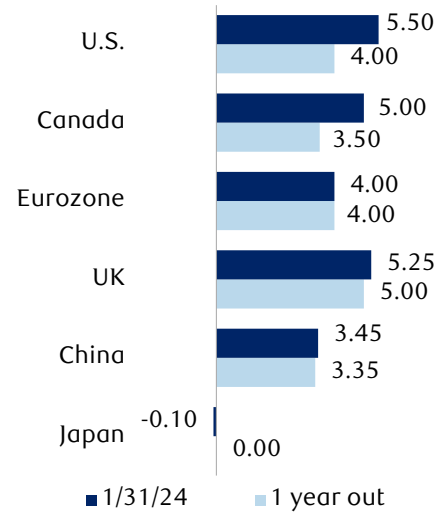
As is typically the case, central banks will likely remain front and center for markets, especially over the near term as traders gauge just how much cutting is in the pipeline.

Sovereign yield curves



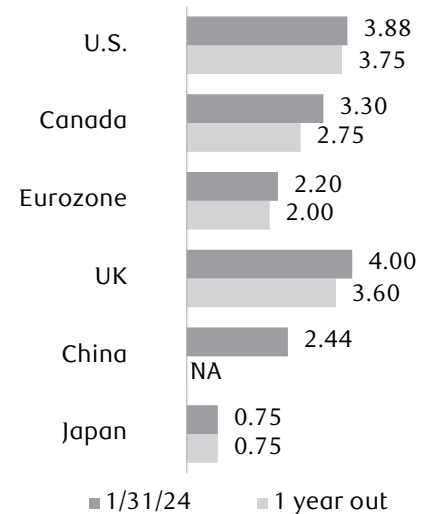
Source - Bloomberg; data through 1/31/24

Central bank rates (%)



Source - RBC Investment Strategy Committee, RBC Capital Markets forecasts, Global Portfolio Advisory Committee, RBC Global Asset Management

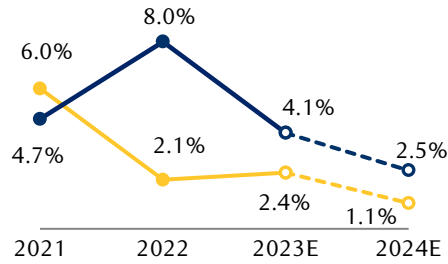
10-year rates (%)



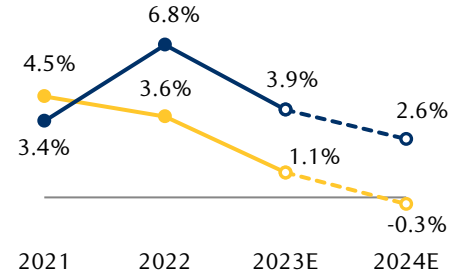
Note: Eurozone utilizes German Bunds.  
Source - RBC Investment Strategy Committee, Global Portfolio Advisory Committee, RBC Global Asset Management

# KEY Forecasts

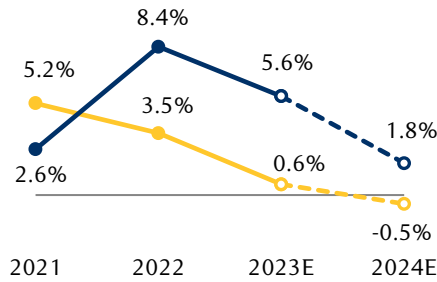
## United States



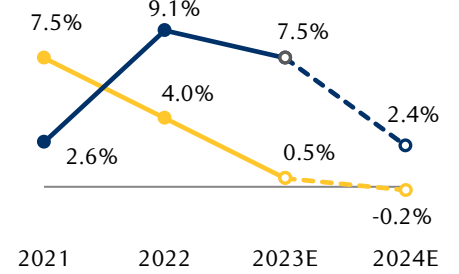
## Canada



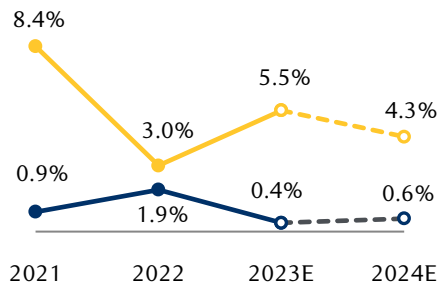
## Eurozone



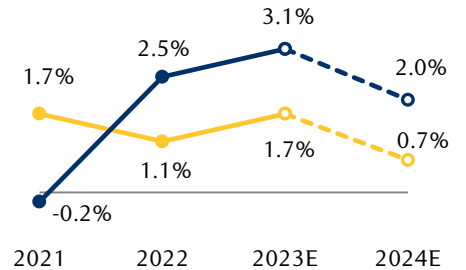
## United Kingdom



## China



## Japan



—●— Real GDP growth

—●— Inflation rate

Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management, Bloomberg consensus estimates

## Research resources

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As of December 31, 2023

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			Count	Percent
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