GLOBAL Insight WEEKLY

RBC Wealth Management

Perspectives from the Global Portfolio Advisory Committee | March 21, 2024

Off to the races

Thomas Garretson, CFA – Minneapolis

The Fed's highly anticipated March meeting failed to deliver much in the way of anything new, but it at least alleviated some of the market's recent concerns that rate cuts could be delayed. However, other global central banks took steps to grab the spotlight, with potentially significant ramifications.

If there's one key takeaway from the slate of central bank meetings this week, we think it's this: policymakers remain keen to get started on the path of dialing back restrictive policy rates in hopes of sustaining economic expansions, even in the face of inflationary backdrops that remain somewhat murky.

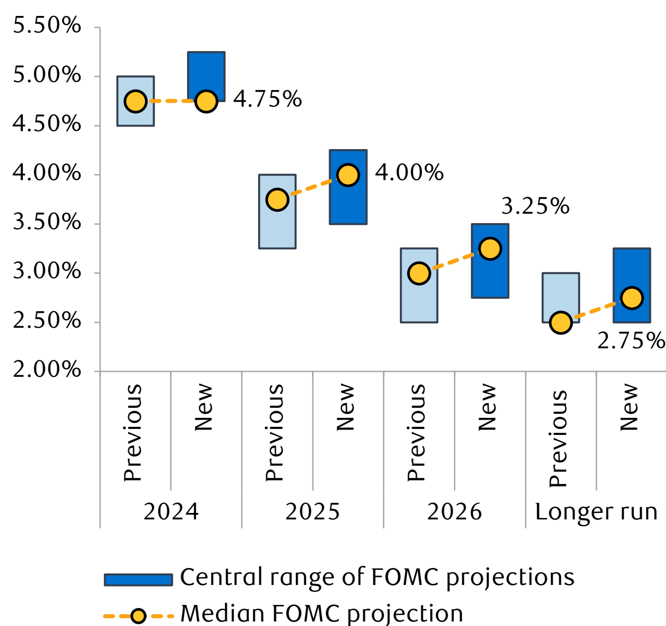
Indeed, while inflationary data across the globe, and particularly in the U.S., has been mixed to start 2024, there has been significant progress since the worst of the inflationary wave peaked some 18 months ago, a story that policymakers are continuing to lean into.

Up to this point there has been a sense that most major central banks would wait for the U.S. Federal Reserve to make the first move, but the Swiss National Bank surprised with a quarter-point cut this week to 1.50 percent, becoming one of the first majors to make a move, perhaps setting the stage for the rest.

On top of that, emerging market central banks, which tend to be even more sensitive to inflationary pressures and dynamics, are already winning the race to cut by a country mile. The Central Bank of Brazil, for example, delivered another half-point cut this week, having now cut rates by 300 basis points since August 2023. Emerging market central banks continuing to ease is perhaps, and likely is in our view, a leading indicator for developed market central banks.

The Fed's updated rate projections

Federal Open Market Committee (FOMC) projections of the federal funds rate at the end of 2024



Projections shown from December 2023 (previous) and March 2024 (new); central range excludes the three highest and lowest estimates; chart shows upper bound of target range projections.

Source - RBC Wealth Management, Bloomberg, Federal Reserve

For perspectives on the week from our regional analysts, please see pages 3–4.

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Priced (in USD) as of 3/20/24 market close (unless otherwise stated). Produced: 3/21/24 15:27 ET; Disseminated: 3/21/24 15:40 ET

All of which should give more global central banks confidence to soon take their first steps out of the gate, in our view, with the only question now being how they want to pace themselves in this race to ease.

"Putting off an easy thing makes it hard; putting off a hard one makes it impossible"

The biggest, and we would say perhaps singular, question heading into this month's Fed meeting was whether policymakers would pare back rate cut expectations this year after a pair of elevated inflation data releases in January and February. The short answer is that they did not; the longer answer is that they technically did not.

As the chart on the previous page shows, the median estimate of policymakers' projections still shows three rate cuts this year, as it did in December, to a target range of 4.50 percent to 4.75 percent, from 5.25 percent to 5.50 percent. But only just barely. The average of the forecasts would suggest just two cuts this year. Put simply, there appears to be a clear divide at the Fed, and the incoming data will certainly tip the scales one way or the other, but our base case remains for three rate cuts this year, likely at the June, September, and December meetings.

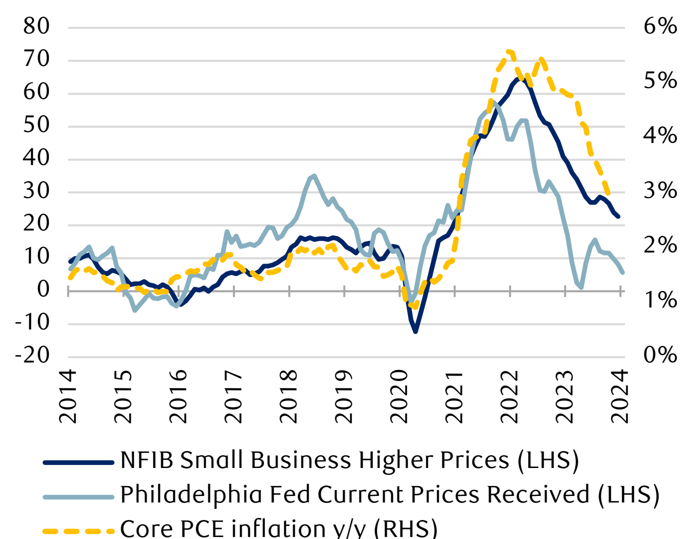
Another lingering question of investors going into this week's meeting was what the Fed plans to do with its balance sheet and its ongoing process of quantitative tightening. Like rate cuts, there was growing concern that the Fed could push back the process of slowing the pace of balance sheet runoff to later in the year, but at the press conference following the meeting Fed Chair Jerome Powell stated clearly that the process is likely to begin "fairly soon."

What does this mean for markets and investors? It looks to us that the Fed likely isn't going to procrastinate this cycle. Policymakers have often discussed the risk of cutting too early and setting off another wave of inflation, versus the risk of cutting too late and setting off a recession—which historically has been the case. It seems to us they are now worried more about risks of cutting rates too late, putting the emphasis less on inflation and more on extending the current economic expansion.

With respect to both beginning the process of rate cuts and slowing the pace of quantitative tightening, we believe an earlier start should give policymakers greater chances of success. As Powell put it, tapering quantitative tightening now could mean that they are ultimately able to shrink the balance sheet to a smaller size than if they wait too long, and only react once stress fractures begin to show in money markets, as was the case in 2019.

Similarly, and as the first chart also shows, the Fed seemingly thinks that sticking with an earlier start to cuts this year could ultimately mean fewer cuts down the road. For the first time since 2018, policymakers see a higher "longer run" rate level, now at approximately 2.75 percent, up from 2.50 percent previously.

Despite recent hiccups, numerous metrics still point to inflation trending lower



Business survey results shown are three-month moving averages for the Philadelphia Fed's Business Outlook Survey Diffusion Index Current Prices Received and the National Federation of Independent Business (NFIB) Small Business Higher Prices Index.

Source - RBC Wealth Management, Bloomberg, NFIB

Jumping the gun?

As always, we think it's of utmost importance to remember that rate cuts won't necessarily mean that monetary policy will be easy. This is a matter of calibrating policy rates to the progress made to this stage on inflation to reduce risks around real economic damage. Central banks' restrictive policy stances will remain in place for some time, in our assessment.

But while global inflation dynamics have been favorable, it remains more of a lingering risk in the U.S., particularly as economic activity remains robust and labor markets tight. Though Powell was, once again, vague in giving markets an idea of what specific data policymakers are watching, the data we watch continues to support the idea that recent inflation data was a blip, and that the trend lower remains in place.

As the chart above shows, data released this week from the Philadelphia Fed on prices received by businesses in March fell to some of the lowest levels of the past year. This squares with data from the National Federation of Independent Business, where the percentage of small businesses seeing higher prices is also fading to fresh lows. Each tends to be a leading indicator of actual inflation data.

Risks certainly remain, but we continue to be encouraged that central banks appear keen to be proactive at this stage, and even if they are quick out of the gates, we expect a pretty slow race. And markets seem to agree, with fresh records for the S&P 500 matched by strong rallies in most global equity markets this week.

UNITED STATES

Tyler Frawley, CFA – Minneapolis

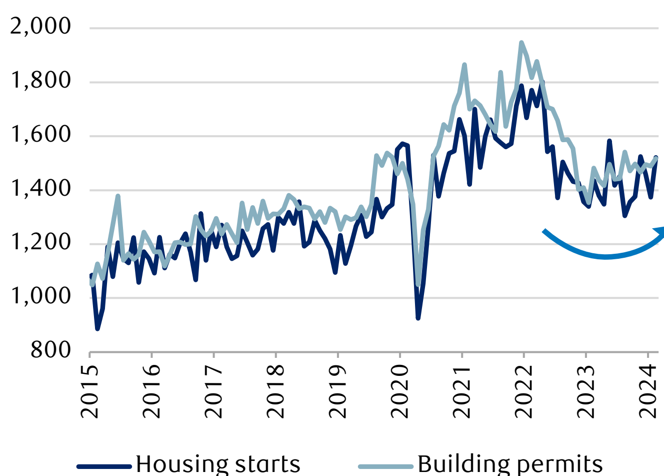
- U.S. equities have continued their march higher following the Federal Reserve's decision to keep interest rates flat—a move that had been widely anticipated by market observers. **All major indexes are higher on the week, with the Nasdaq Composite the best relative performer**, rising 3.10%. The Dow Jones Industrial Average has outperformed the S&P 500, but both are higher, up 2.90% and 2.71%, respectively. Sector leadership is evident in Communication Services, which has returned 4.04%, while Real Estate has lagged, up only 0.75%.

- Both U.S. housing starts and building permits were higher than FactSet consensus expectations in February. After falling 12.3% m/m in January due, in part, to cold weather across the country that made it difficult to break ground on new projects, **U.S. housing starts rebounded sharply in February—climbing 10.7%. This represents the largest month-over-month increase since May 2023**, and equated to an annual rate of 1.521 million units. This acceleration seems to indicate sentiment is improving within the housing market—which has been muted over the past two years as rising mortgage rates and elevated prices pushed potential buyers to the sidelines.

- **NVIDIA unveiled its next-generation AI platform in a bid to maintain market leadership.** At NVIDIA's annual GTC conference, which kicked off on Monday, CEO Jensen Huang used his keynote speech to announce the company's next-gen AI graphics processing unit (GPU) platform, which it calls Blackwell. This new platform includes the new B200 chip, which NVIDIA says will be faster and more powerful than its predecessor, the highly sought after H100 chip that helped solidify the company's status as the leader in AI hardware. The company says the Blackwell platform is 2.5x faster than its previous Hopper platform at training AI models and five times faster at inference—the process in which trained AI models like ChatGPT draw conclusions and respond to user prompts. We view this new platform, with its increased focus on inference, as an attempt by NVIDIA to help calm Wall Street's concerns that demand for its products will start to normalize as competitors including Intel and Advanced Micro Devices begin introducing new AI-focused GPUs to compete, and customers such as Google, Amazon, and Microsoft move from training large language models to implementing them.

Signs of recovery in the U.S. housing market

Housing starts and building permits (thousands)



Source - Bloomberg; seasonally adjusted annualized monthly data through 3/20/24

CANADA

Estefani Ayazo, CFA & Jonathan Laser, CFA – Toronto

- **Canadian inflation softened in February** as the Consumer Price Index (CPI) rose 2.8% y/y, below Bloomberg's 3.1% y/y consensus estimate. CPI-trim and CPI-median, the Bank of Canada's (BoC) two preferred core inflation measures, also slowed more than expected, coming in at 3.2% y/y and 3.1% y/y, respectively. The inflation deceleration was broad-based and particularly significant given that February is typically the strongest month of the year for price increases on a seasonally unadjusted basis. However, shelter inflation remained notably persistent with rent inflation climbing to 7.9% y/y and mortgage interest costs rising 26.3% y/y in February. With this being the last inflation report before the Bank of Canada's next rate decision on April 10, the meaningful inflation slowdown observed in the report drove the Canadian dollar to weaken and government bond yields to fall.

- In a recent speech, BoC Deputy Governor Toni Gravelle noted that **Canada's central bank will likely end its quantitative tightening (QT) program "sometime in 2025,"** though he acknowledged the program might end earlier than expected depending on how liquidity conditions in the banking system evolve. The BoC has been shrinking its balance sheet over the past two years by allowing its bond holdings to run off at maturity, which lowers the amount of liquidity in the financial system, all else equal. Gravelle stated the program is expected to continue until settlement balances have declined to a range between CA$20 billion and CA$60 billion, from the current level of roughly CA$100 billion. In preparation for the forthcoming end to QT, Gravelle indicated that officials have shifted their discussion towards how and where the central bank will resume making bond purchases that it believes would help stabilize the size of its balance sheet.

EUROPE

Rufaro Chiriseri, CFA – London

- **In line with our expectations, the Bank of England (BoE) held the Bank Rate at 5.25%.** More notably, the two hawks on the Monetary Policy Committee (MPC) joined the majority camp, voting to leave interest rates unchanged. The MPC statement highlighted that "the stance of monetary policy could remain restrictive even if [the] Bank Rate were to be reduced, given that it was starting from an already restrictive level." Recent comments from MPC members, the vote split, and the statement suggest the central bank is now more comfortable with entertaining the idea of rate cuts but is maintaining a degree of caution, in our view. We think May seems too soon for a policy change; our base case is for the first cut to be delivered in August, as the central bank will have had three more sets of inflation and labour data to chew on between now and then. That being said, depending on how the data evolves against the BoE's forecasts, June remains a possibility for a cut. Market expectations for this year's cumulative policy easing have shifted higher, to 79 basis points (bps) from 70 bps.

- **Following the BoE decision and the release of data showing improvement in economic activity indicators, 2-year and 10-year UK Gilts initially extended their rally**, with yields (which move inversely to prices) falling by 11 bps and 7 bps, respectively, before paring back some of those gains. Equity markets also had a strong rally, with the FTSE 100 Index up by 1.96% and reaching the highest level since April 2023.

- **UK inflation surprised to the downside, decelerating faster than economists' consensus expectation.** Data for February showed headline Consumer Prices Index (CPI) inflation fell to 3.4% y/y from 4% in January. Services inflation, which is more closely watched by the BoE, fell to 6.1% y/y from 6.5% y/y; this reading is exactly in line with the central bank's February projections. The next significant drop in inflation will likely be in April, when the energy price cap resets and could take inflation below the central bank's 2% target. While the BoE's February estimates also forecast a dip below target, they include an expectation for inflation to reaccelerate into year's end.

ASIA PACIFIC

Jasmine Duan – Hong Kong

- Sentiment towards Asian equities was largely positive during the week, boosted by the U.S. Federal Reserve's hint at possibly three interest rate cuts in 2024, coupled with optimistic projections from AI-related companies. **The MSCI Asia Pacific Index climbed to its highest level since April 2022.**

- **The Bank of Japan (BoJ) decided to discontinue its negative interest rate policy, yield-curve control, and quantitative and qualitative easing, signaling the end of an era of aggressive monetary easing.** The BoJ statement had a dovish tone, however, as the central bank pledged to keep buying long-term government bonds as needed and said it expects "accommodative financial conditions to be maintained for the time being." The anticipated policy shift was well received by the market, with Japanese government bond yields lower, the Nikkei 225 rallying back above 40,000, and the yen weakening to 151.82 against the U.S. dollar after the news. We expect the USD/JPY to trade around 150 until the end of 2024, supported by the wide yield differentials between U.S. and Japanese bonds.

- **Shares of Samsung Electronics Co. (005930 KS) were up 8.8% over the two days following a report by Nikkei Asia that NVIDIA Corp. (NVDA) is interested in purchasing its high-bandwidth memory chips**, which is a type of chip particularly compatible with NVIDIA's AI accelerators. The news bolstered investors' hope that Samsung can narrow its gap with rival SK Hynix Inc. (000660 KS) in the fierce AI competition.

- Samsung senior management mentioned that **the company is targeting the top spot in the global semiconductor market within two to three years**. Additionally, Samsung anticipates that its semiconductor division will rebound to its 2022 performance levels as the prolonged downturn in the semiconductor market shows signs of recovery.

The yen weakened against the U.S. dollar after Japan exited negative interest rate policy

USD/JPY exchange rate

Source - RBC Wealth Management, Bloomberg; daily data through 12:00 AM HKT 3/21/24

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	5,224.62	2.5%	9.5%	32.2%	17.1%
Dow Industrials (DJIA)	39,512.13	1.3%	4.8%	22.5%	13.7%
Nasdaq	16,369.41	1.7%	9.0%	40.2%	17.8%
Russell 2000	2,074.88	1.0%	2.4%	18.9%	-0.5%
S&P/TSX Comp	22,045.71	3.2%	5.2%	12.9%	1.0%
FTSE All-Share	4,225.49	1.5%	-0.2%	4.6%	2.2%
STOXX Europe 600	505.21	2.1%	5.5%	14.7%	11.1%
EURO STOXX 50	5,000.31	2.5%	10.6%	21.4%	28.1%
Hang Seng	16,543.07	0.2%	-3.0%	-12.9%	-22.7%
Shanghai Comp	3,079.69	2.1%	3.5%	-4.8%	-5.3%
Nikkei 225	40,003.60	2.1%	19.5%	48.5%	49.1%
India Sensex	72,101.69	-0.5%	-0.2%	25.1%	24.6%
Singapore Straits Times	3,177.48	1.1%	-1.9%	1.2%	-4.6%
Brazil Ibovespa	129,124.83	0.1%	-3.8%	27.9%	12.0%
Mexican Bolsa IPC	56,683.11	2.3%	-1.2%	9.2%	2.2%
Gov't bonds (bps change)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. 10-Yr Treasury	4.279%	2.8	40.0	79.4	212.9
Canada 10-Yr	3.489%	-0.1	37.9	67.3	129.7
UK 10-Yr	4.016%	-10.8	47.9	70.6	251.9
Germany 10-Yr	2.432%	2.1	40.8	30.7	205.9
Fixed income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	4.94%	0.1%	-1.6%	1.4%	-4.7%
U.S. Investment-Grade Corp	5.39%	0.4%	-1.3%	4.9%	-2.5%
U.S. High-Yield Corp	7.76%	0.7%	1.0%	13.2%	7.2%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	2,185.96	6.9%	6.0%	10.5%	13.8%
Silver (spot $/oz)	25.57	12.8%	7.5%	13.4%	2.4%
Copper ($/metric ton)	8,870.81	5.6%	4.8%	1.9%	-14.1%
Oil (WTI spot/bbl)	83.47	6.7%	16.5%	23.4%	-20.3%
Oil (Brent spot/bbl)	86.24	3.1%	11.9%	16.9%	-20.1%
Natural Gas ($/mmBtu)	1.70	-8.5%	-32.3%	-23.5%	-65.0%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	103.4300	-0.7%	2.1%	0.1%	5.3%
CAD/USD	0.7412	0.6%	-1.8%	1.3%	-6.6%
USD/CAD	1.3492	-0.6%	1.9%	-1.3%	7.1%
EUR/USD	1.0921	1.1%	-1.1%	1.9%	-1.2%
GBP/USD	1.2783	1.3%	0.4%	4.1%	-3.0%
AUD/USD	0.6583	1.3%	-3.4%	-2.0%	-11.2%
USD/JPY	151.3300	0.9%	7.3%	15.2%	27.0%
EUR/JPY	165.2600	2.0%	6.1%	17.4%	25.5%
EUR/GBP	0.8543	-0.2%	-1.5%	-2.2%	1.9%
EUR/CHF	0.9688	1.4%	4.3%	-2.8%	-5.9%
USD/SGD	1.3398	-0.4%	1.5%	0.2%	-1.2%
USD/CNY	7.1979	0.1%	1.4%	4.7%	13.2%
USD/MXN	16.6931	-2.1%	-1.6%	-11.4%	-18.0%
USD/BRL	4.9714	0.0%	2.4%	-5.1%	-1.0%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.74 means 1 Canadian dollar will buy 0.74 U.S. dollar. CAD/USD -1.8% return means the Canadian dollar fell 1.8% vs. the U.S. dollar year to date. USD/JPY 151.33 means 1 U.S. dollar will buy 151.33yen. USD/JPY 7.3% return means the U.S. dollar rose 7.3% vs. the yen year to date.

Source - Bloomberg; data as of 3/20/24

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As of December 31, 2023

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Rating	Count	Percent	Count	Percent
Buy [Outperform]	829	57.17	253	30.52
Hold [Sector Perform]	575	39.66	154	26.78
Sell [Underperform]	46	3.17	6	13.04

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