



# Monthly economic webcast: Central banks to the rescue

Eric Lascelles, Chief Economist

March 2019



**Global Asset  
Management**

# Report card

---

## POSITIVE DEVELOPMENTS



- Risk assets rebounded
- Dovish central banks
- U.S.-China trade negotiations in “final stages”
- Gov’t shutdown over for good
- China: stimulus, better data
- Growth slowing, but OK rate
- Inflation tame for the moment
- Brexit likely delayed, downside risks shrink

## NEGATIVE DEVELOPMENTS



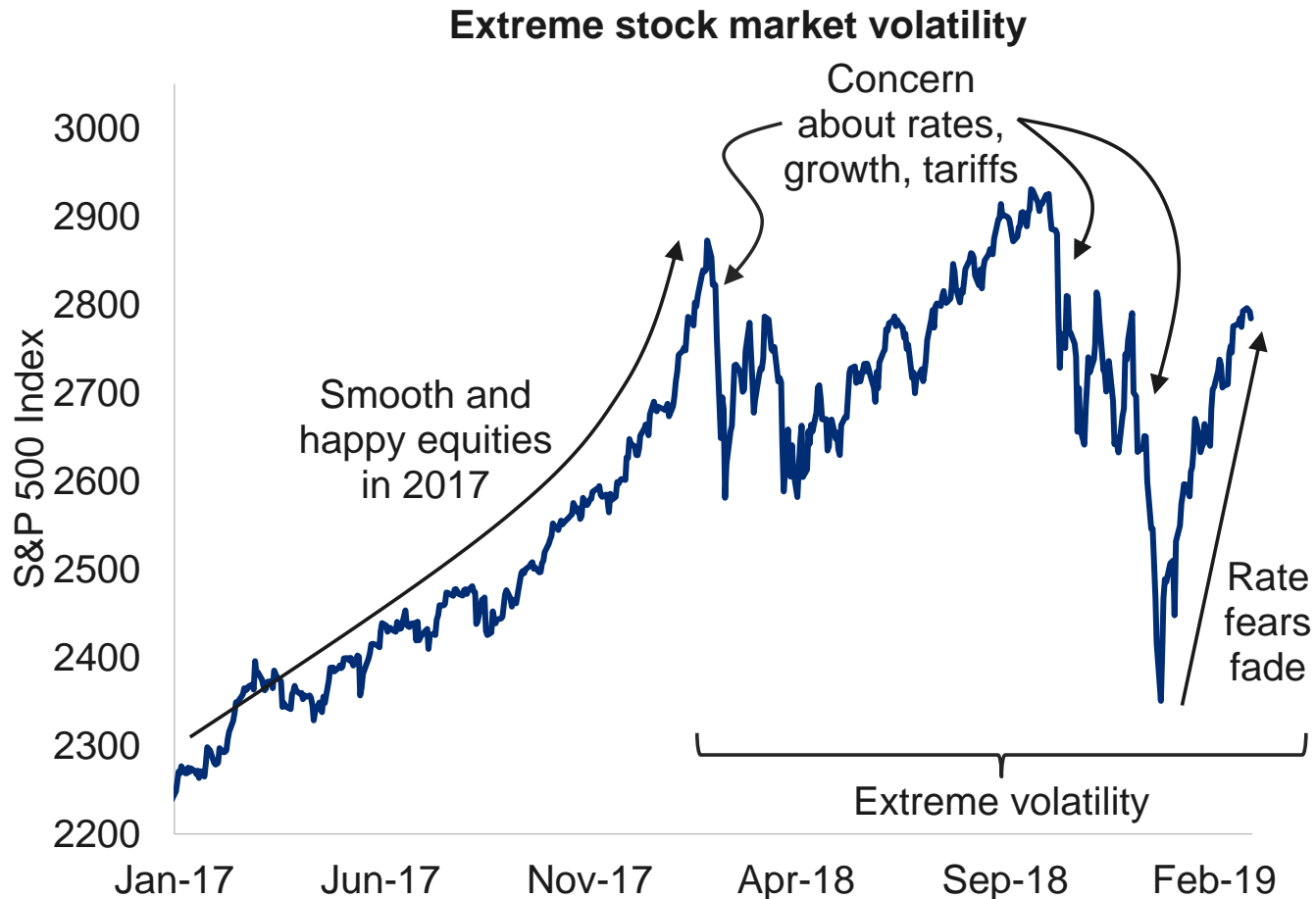
- Slowing global growth, including US & Cdn GDP
- “Late cycle” and advancing
- Tariff battles ahead: autos, possibly India, Turkey
- Geopolitics: India-Pakistan; U.S.-North Korea; French yellow vests; Venezuela

## INTERESTING



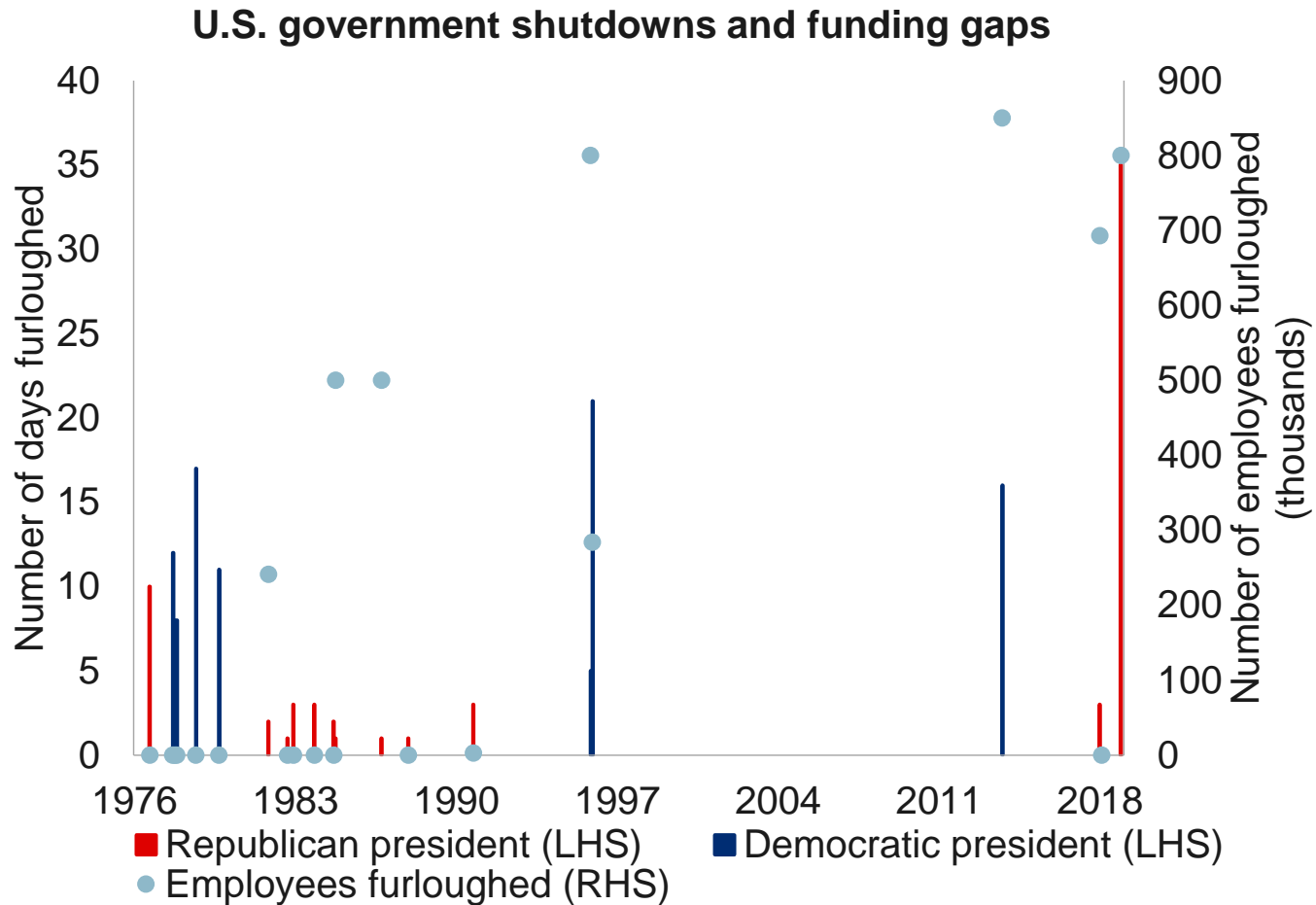
- China lowers growth target
- China’s National People’s Congress starts this week
- U.S. politics: Border wall funded; Trump investigations

# Wild gyrations in stock market



Note: As of 2/28/2019. Source: WSJ, Haver Analytics, RBC GAM

# U.S. government shutdown was long; now definitively over



Source: Library of Congress, RBC GAM

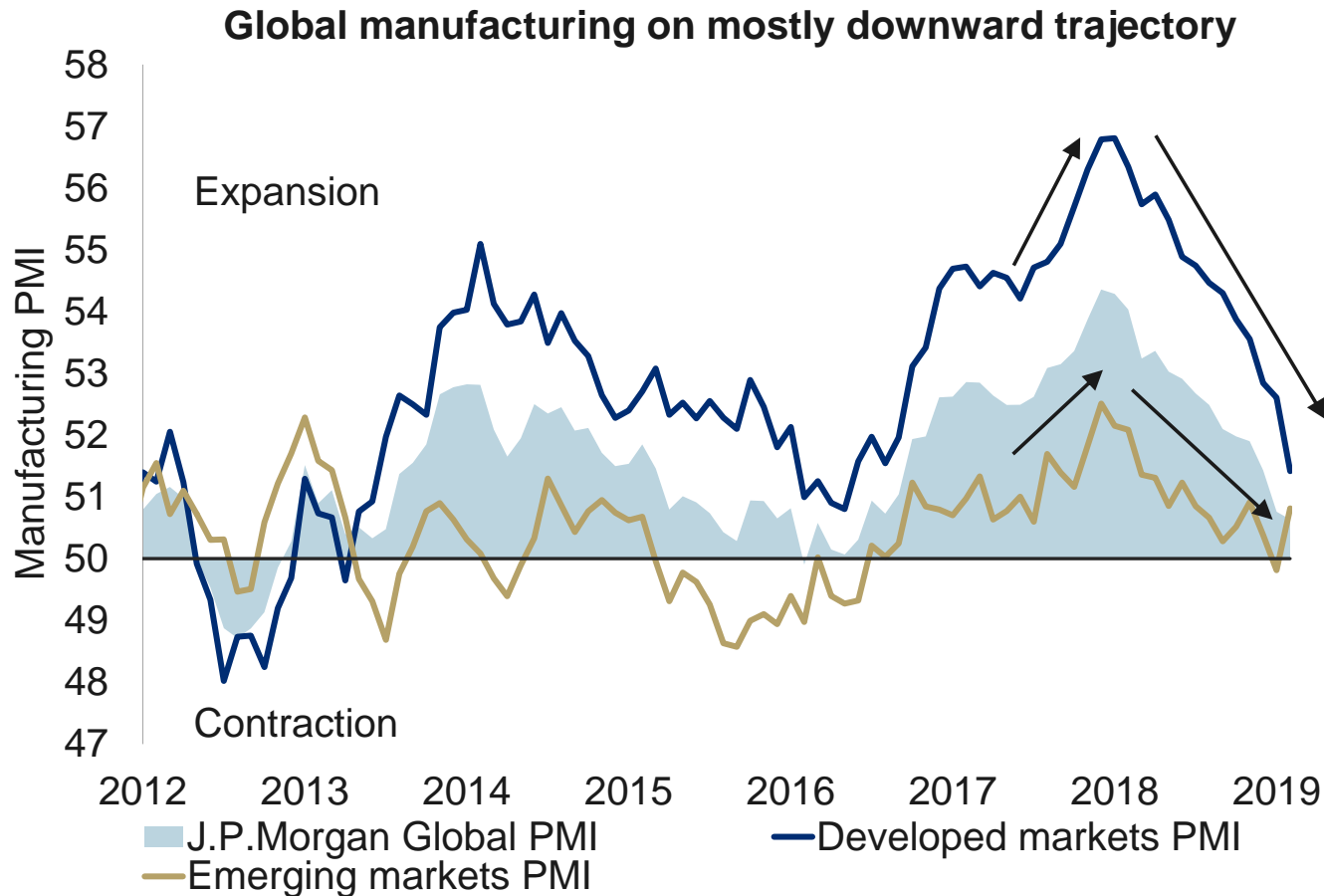
# Markets now expect pause on rate hike

**Bond market has repriced to remove rate hikes**



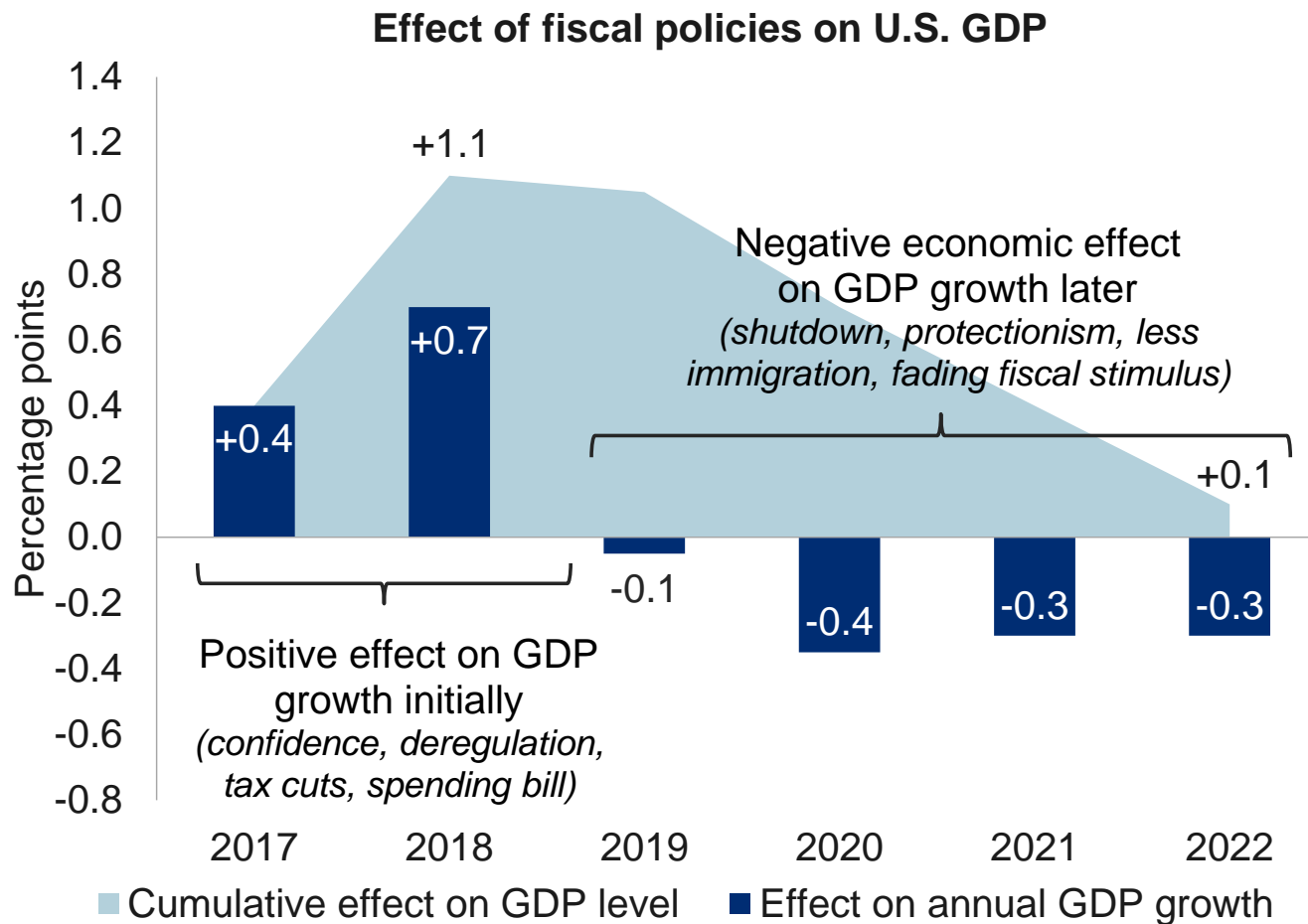
Note: As of 2/28/2019. Source: Bloomberg, RBC GAM

# Cyclical: Global growth continues to slow



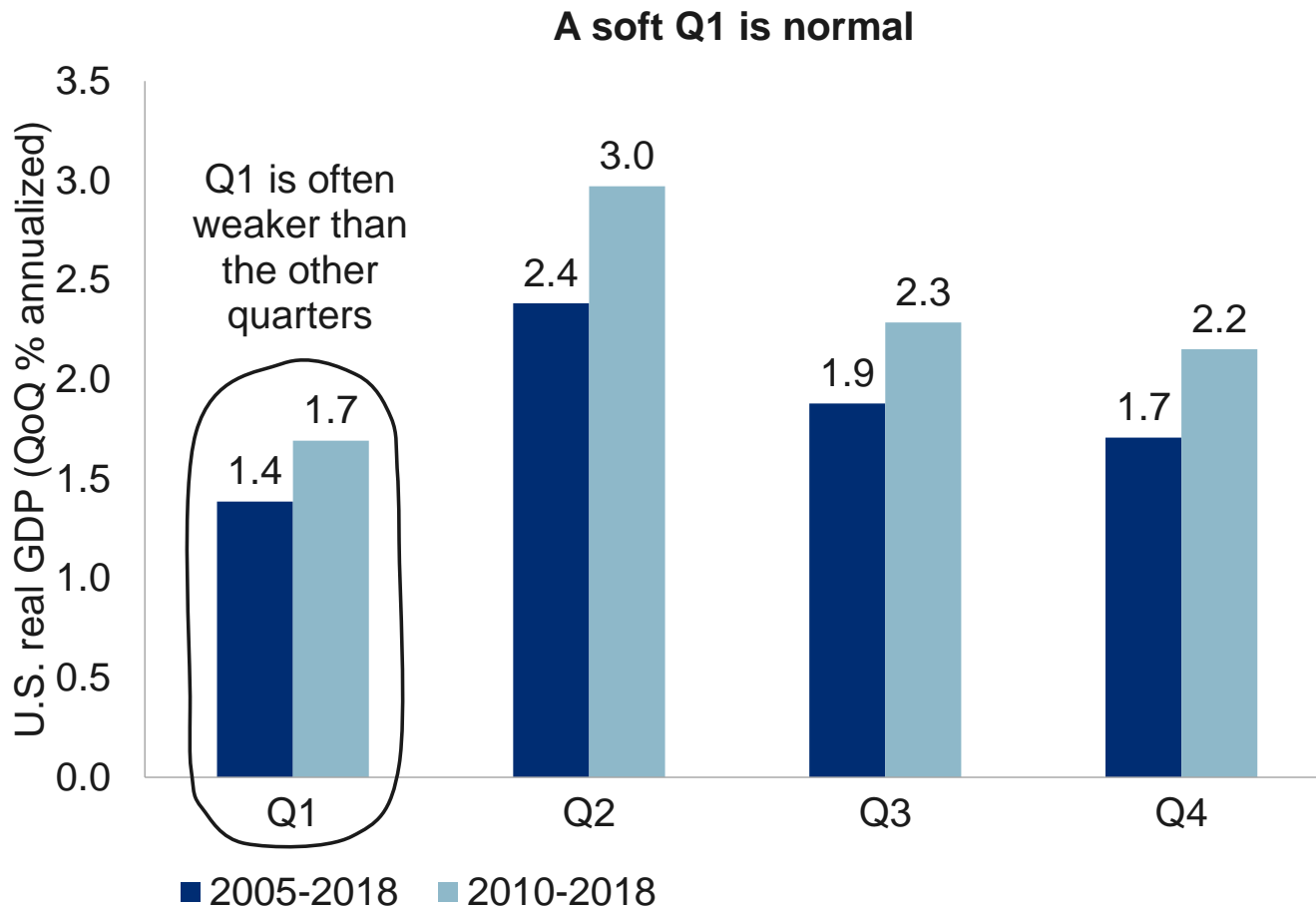
Note: As of Feb 2019. PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM

# Trump economic effect: shifting into reverse



Source: RBC GAM assumptions and calculations

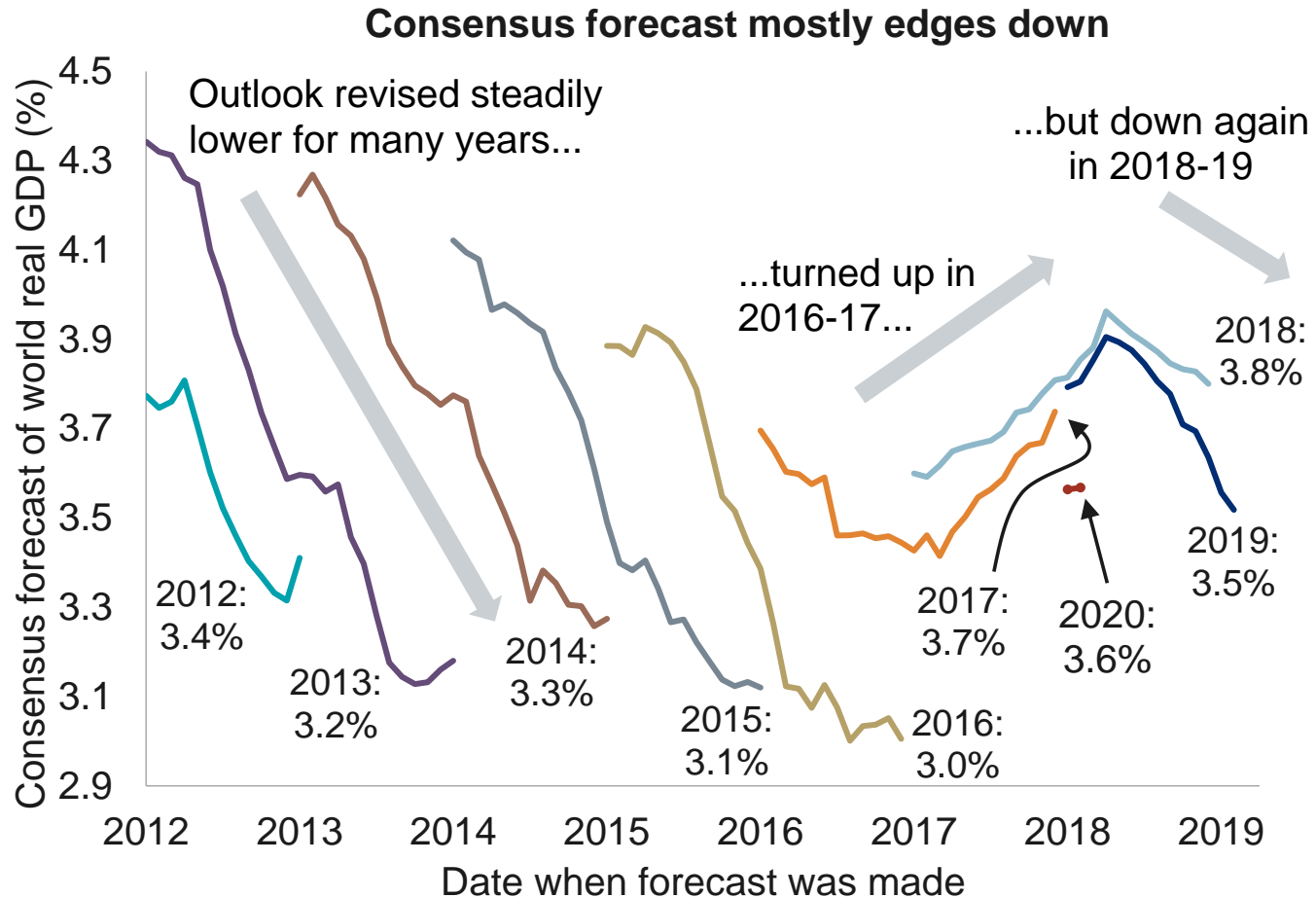
# Don't forget about Q1 seasonal distortion



Note: As of Q4 2018. Source: BEA, Haver Analytics, RBC GAM



# Consensus growth forecasts mostly being revised lower



Note: As of Feb 2019. Source: Consensus Economics, IMF, RBC GAM

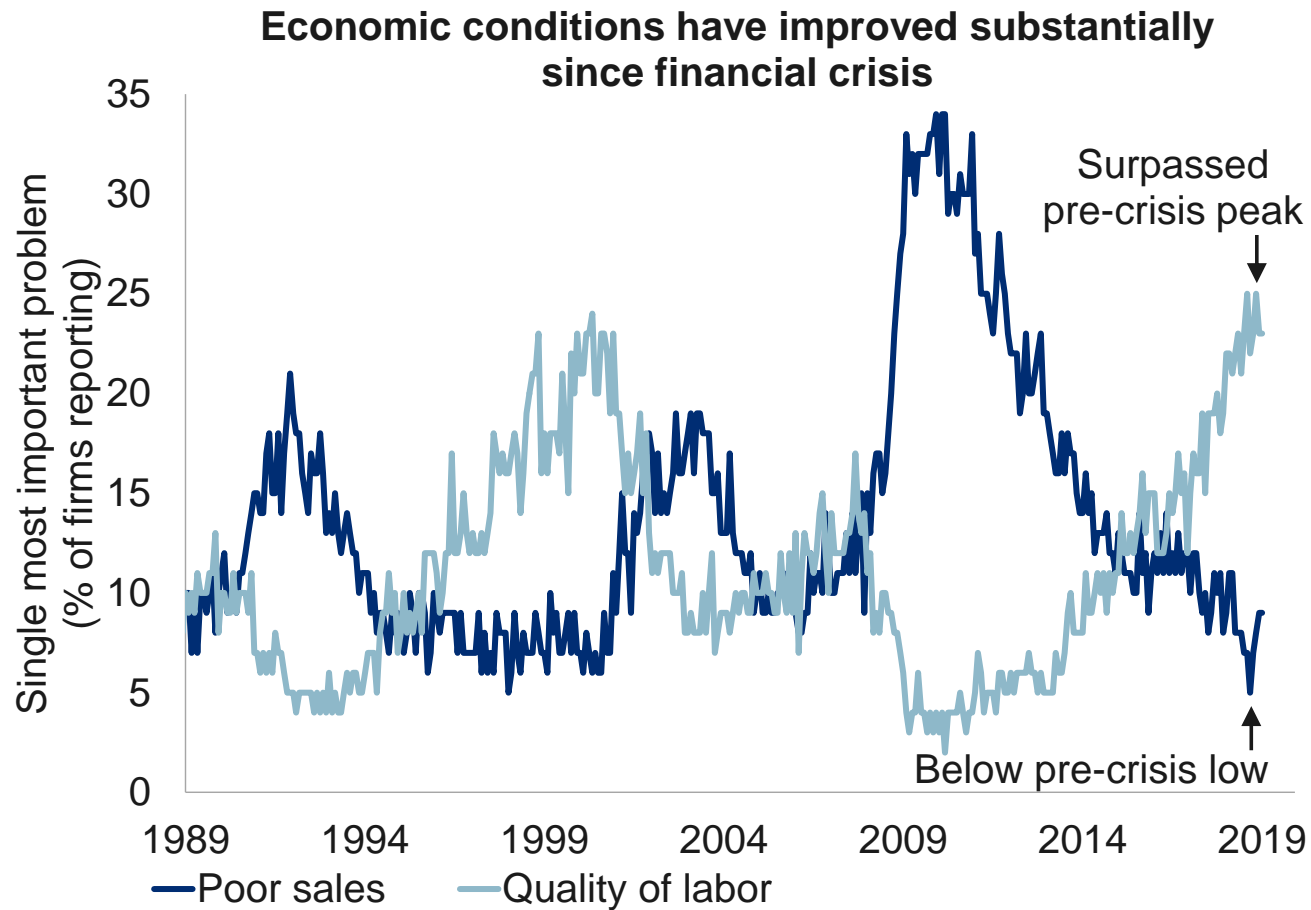
# U.S. is “Late cycle” and moving forward; “End of cycle” now more probable than “Mid cycle”

U.S. business cycle scorecard

	Start of cycle	Early cycle	Mid cycle	Late cycle	End of cycle	Recession
Inventories		Dark shading	Light shading			
Consumer durables		Light shading	Dark shading	Dark shading		
Leverage			Dark shading	Light shading		
Housing			Dark shading	Dark shading		
Equity profitability			Dark shading	Dark shading		
Prices			Light shading	Dark shading	Light shading	
Monetary policy			Light shading	Dark shading	Light shading	
Credit			Light shading	Dark shading	Light shading	
Business investment			Light shading	Dark shading	Light shading	
Bonds				Dark shading	Light shading	
Economic trend				Dark shading	Dark shading	
Employment				Dark shading	Dark shading	
Equity direction				Dark shading	Dark shading	
Economic slack				Dark shading	Dark shading	
Volatility				Dark shading	Dark shading	
Sentiment				Light shading	Dark shading	
Cycle age					Dark shading	
<b>Scores for each stage of business cycle</b>	<b>0</b>	<b>1.5</b>	<b>6.5</b>	<b>14</b>	<b>9.5</b>	<b>0</b>

Legend: Dark shading indicates the most likely stage of business cycle (full weight); light shading indicates alternative interpretation (0.5 weight). Source: RBC GAM

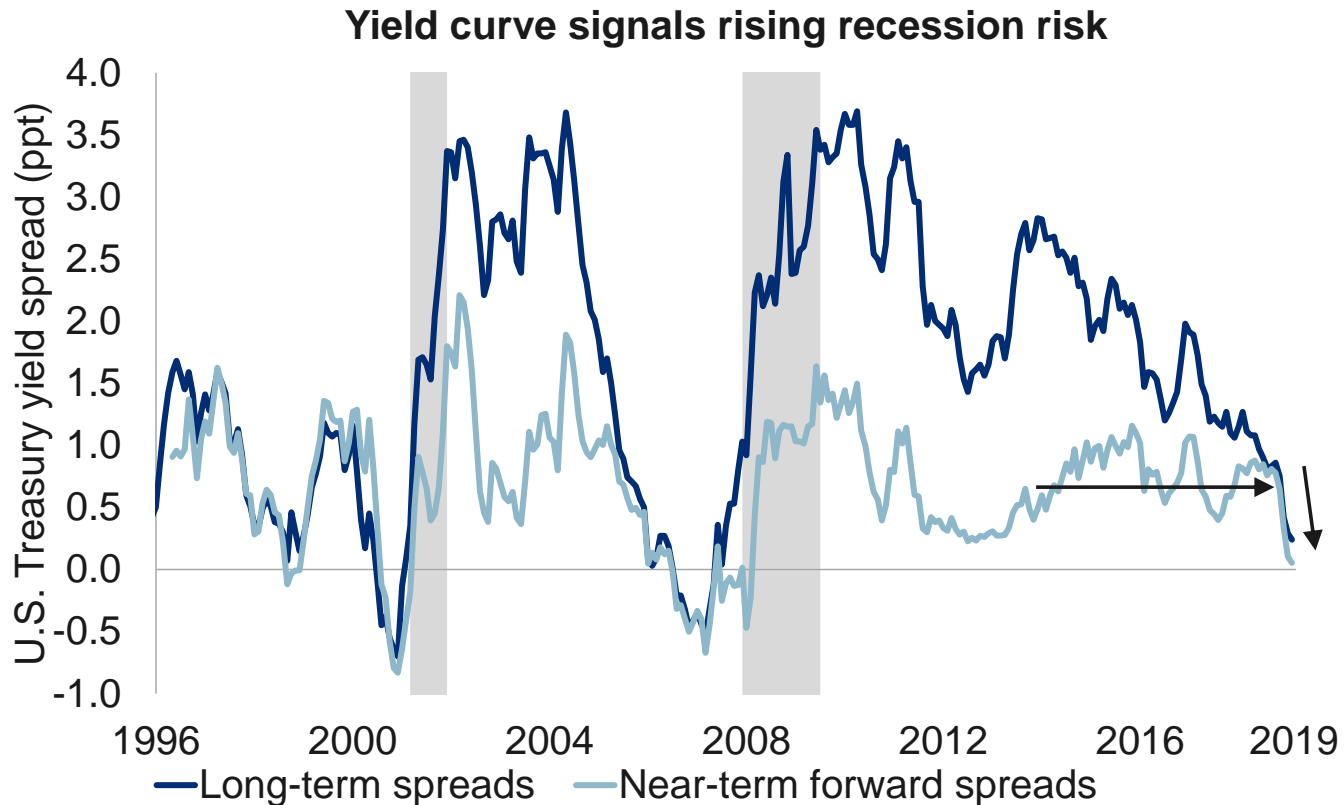
# Economy now extremely tight



Note: As of Jan 2019.

Source: NFIB Small Business Economic Survey, Haver Analytics, RBC GAM


# U.S. recession risk rising



Note: As of Feb 2019. Long-term spreads measured as 10-year U.S. Treasury yield minus 3-month Treasury yield. Near-term forward spread is forward rate of 3-month Treasury bill 6 quarters from now minus spot 3-month Treasury yield. Shaded area represents recession. Source: Engstrom and Sharpe (2018). FEDS Notes. Washington: Board of Governors of the Federal Reserve System, Bloomberg, Haver Analytics, RBC GAM

# U.S. growth scenarios for the year ahead

---

Scenario for year ahead	Normal odds	Current odds	U.S. GDP growth
Bear	15%	40%	<1.5%
Base	75%	50%	1.5% – 3.0%
Bull	10%	10%	>3.0%
Scenario-weighted growth	2.1%	1.7%	

Note: Bear scenario is not necessarily the same as recession. Probabilities are stylized.

Source: RBC GAM forecasts

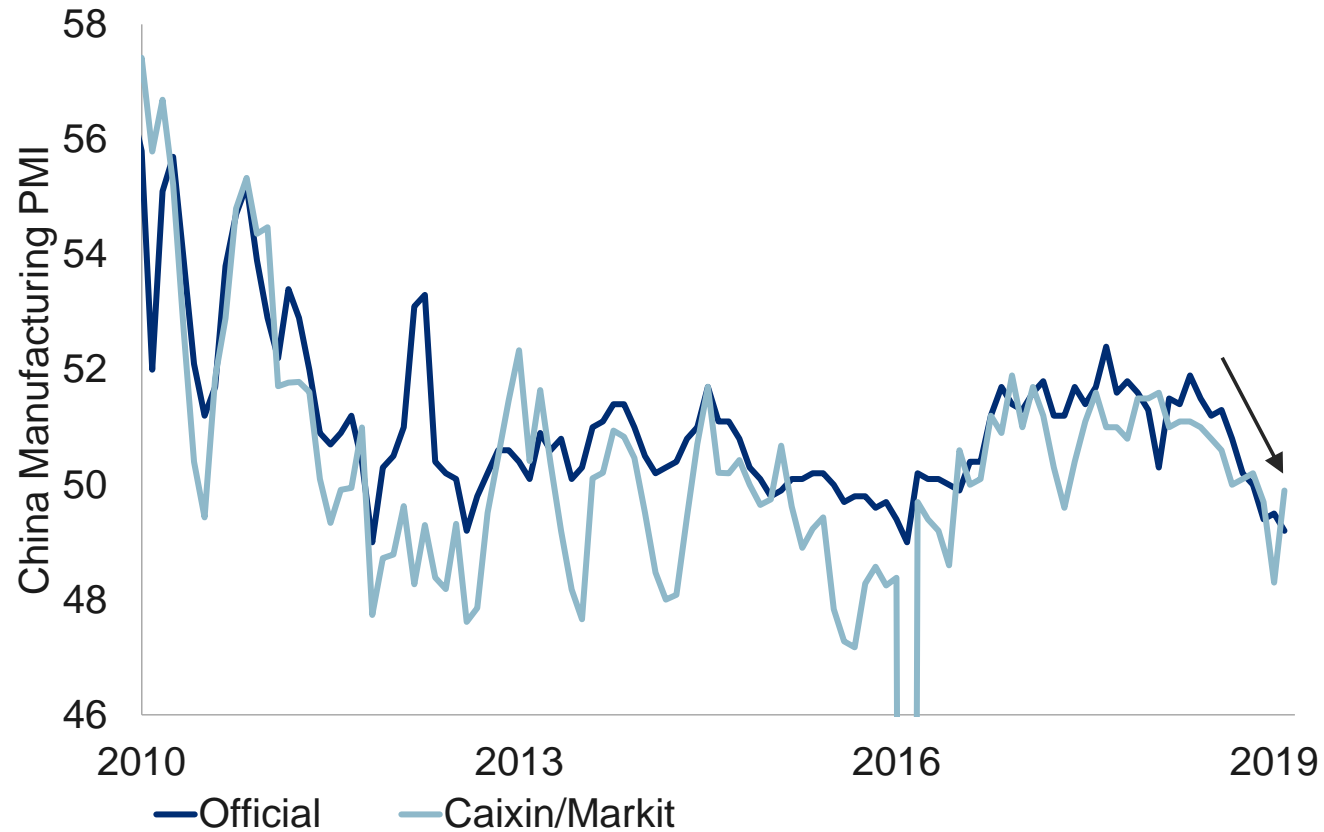
# Long term: U.S. productivity trend gradually reviving



Note: As of Q3 2018. Productivity measured as rolling 8-quarter annualized % change of the business sector real output per hour of all persons. Shaded area represents recession. Source: BLS, NBER, Haver Analytics, RBC GAM

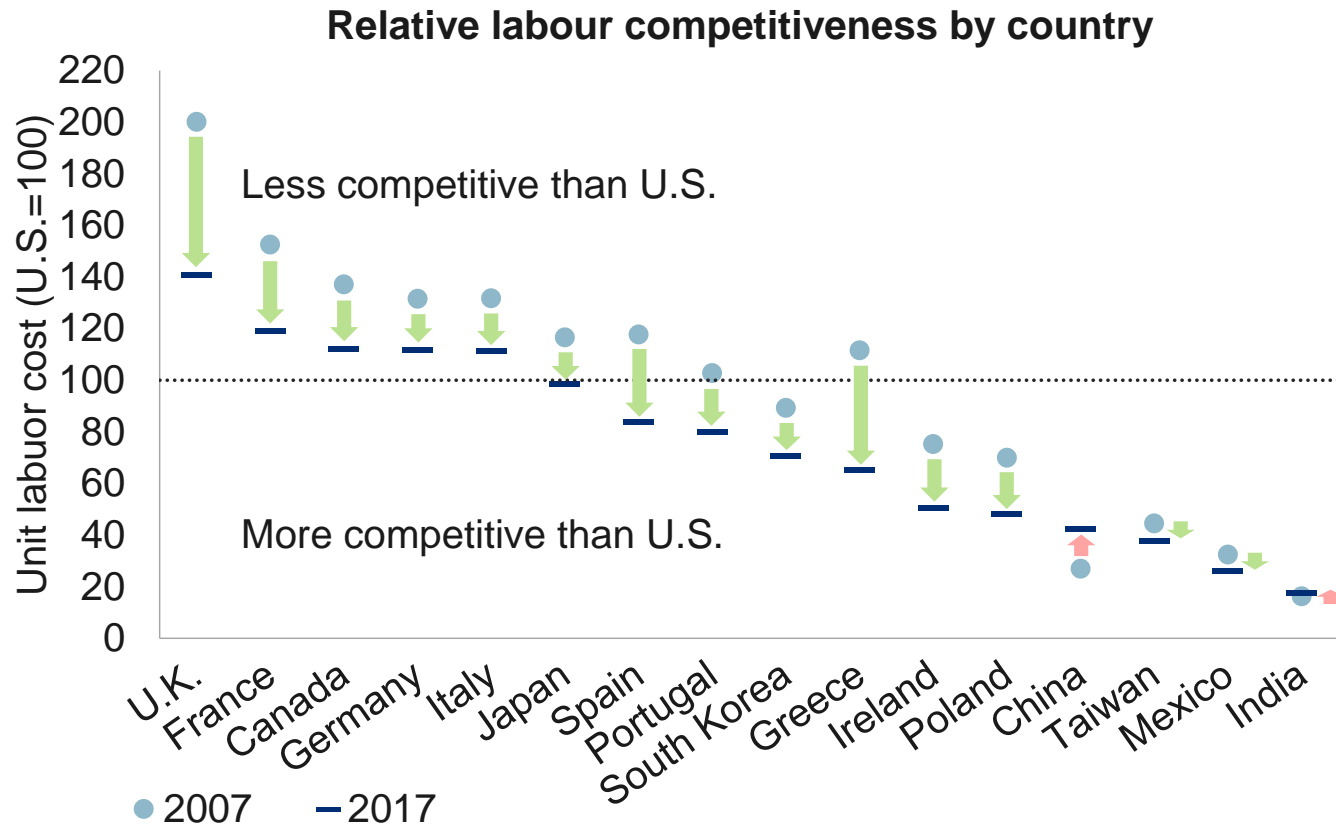
# China growth clearly slowing

Chinese growth has declined notably



Note: As of Feb 2019. Source: China Federation of Logistics & Purchasing, IHS Markit, Macrobond, RBC GAM

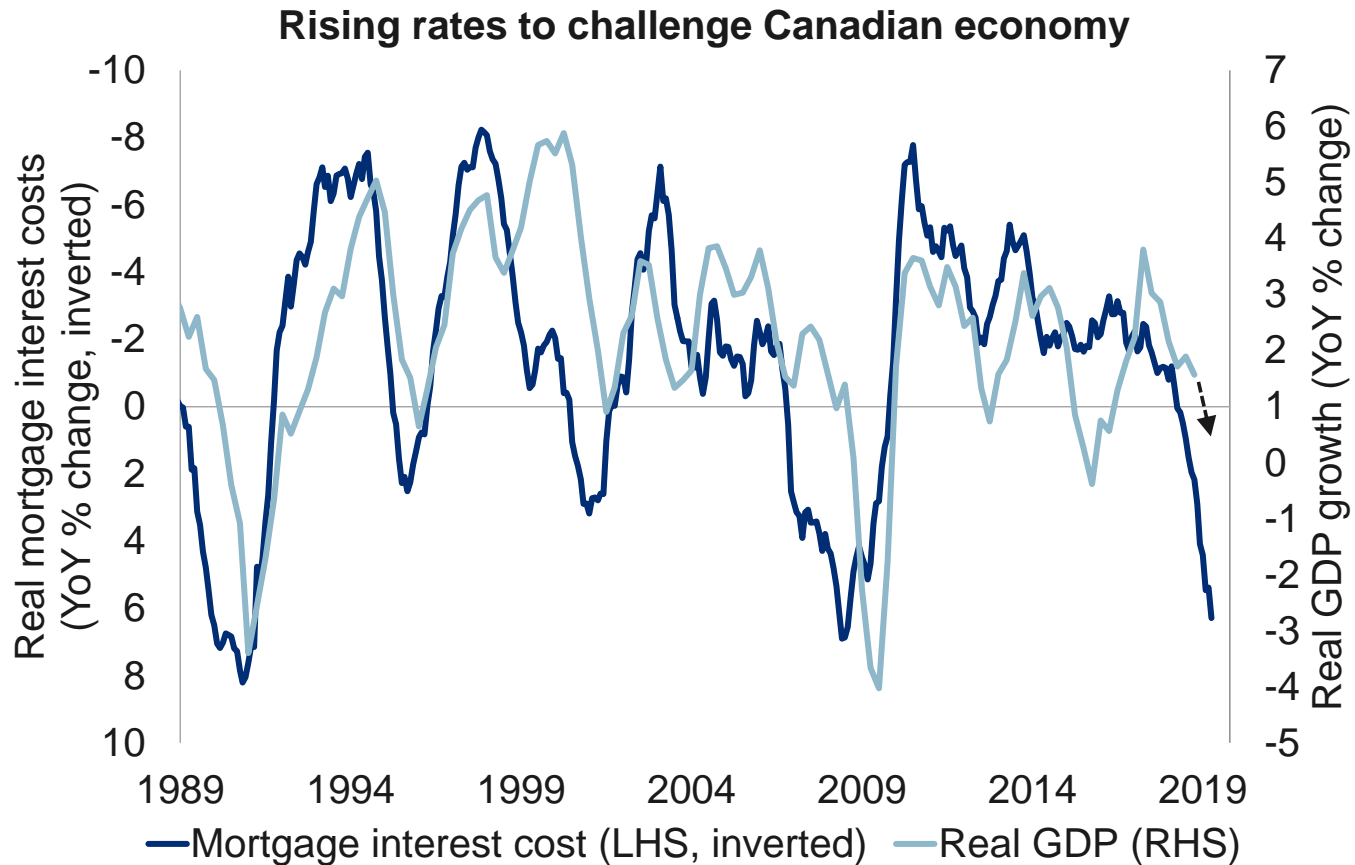
# China losing competitiveness



Note: Competitiveness factors not considered include energy costs, the price of inputs, tax rates, labour laws and regulatory burden. Market exchange rate used to convert wages to reflect actual labour costs facing firms; purchasing power parity exchange rates used to convert real value added to reflect the quantity of goods produced on the presumption that multinationals could then sell them into any market. Source: The Conference Board International Labor Comparisons program, Macrobond, RBC GAM



# Headwinds against the Canadian economy



Note: As of Q4 2018 for GDP, Jan 2019 for mortgage interest cost. Real mortgage interest cost, in 5-month lead, is CPI mortgage interest cost deflated by CPI all items. Source: Statistics Canada, Haver Analytics, RBC GAM

## Follow us on social media

---



@RBCGAMChiefEcon



[www.linkedin.com/in/ericlascelles](http://www.linkedin.com/in/ericlascelles)

# Disclosure

---

This document has been provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC Global Asset Management Inc. (RBC GAM Inc.). In Canada, this document is provided by RBC GAM Inc. (including Phillips, Hager & North Investment Management). In the United States, this document is provided by RBC Global Asset Management (U.S.) Inc., a federally registered investment adviser. In Europe, this document is provided by RBC Global Asset Management (UK) Limited, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC Investment Management (Asia) Limited, to professional, institutional investors and wholesale clients only and not to the retail public. RBC Investment Management (Asia) Limited is registered with the Securities and Futures Commission (SFC) in Hong Kong.

RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC GAM Inc., RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited, RBC Investment Management (Asia) Limited, and BlueBay Asset Management LLP, which are separate, but affiliated subsidiaries of RBC.

This document has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the above-listed entities in their respective jurisdictions. Additional information about RBC GAM may be found at [www.rbcgam.com](http://www.rbcgam.com).

This document is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. The investment process as described in this document may change over time. The characteristics set forth in this document are intended as a general illustration of some of the criteria considered in selecting securities for client portfolios. Not all investments in a client portfolio will meet such criteria. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when printed. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

Any investment and economic outlook information contained in this document has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions.

All opinions and estimates contained in this document constitute RBC GAM's judgment as of the indicated date of the information, are subject to change without notice and are provided in good faith but without legal responsibility. Interest rates and market conditions are subject to change.

Return estimates are for illustrative purposes only and are not a prediction of returns. Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods. It is not possible to invest directly in an unmanaged index.

## **A note on forward-looking statements**

This document may contain forward-looking statements about future performance, strategies or prospects, and possible future action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties about general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events. The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

® / TM Trademark(s) of Royal Bank of Canada. Used under licence.

© RBC Global Asset Management Inc., 2019

Publication date: March 6, 2019