



Monthly economic webcast: Yield curve sends warning

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April 2019



**Global Asset
Management**

Report card

POSITIVE DEVELOPMENTS

- Dovish Fed and ECB
- Credit market signals still positive
- U.S.-China trade negotiations making progress
- Growth slowing, but OK rate
- Higher oil prices

NEGATIVE DEVELOPMENTS

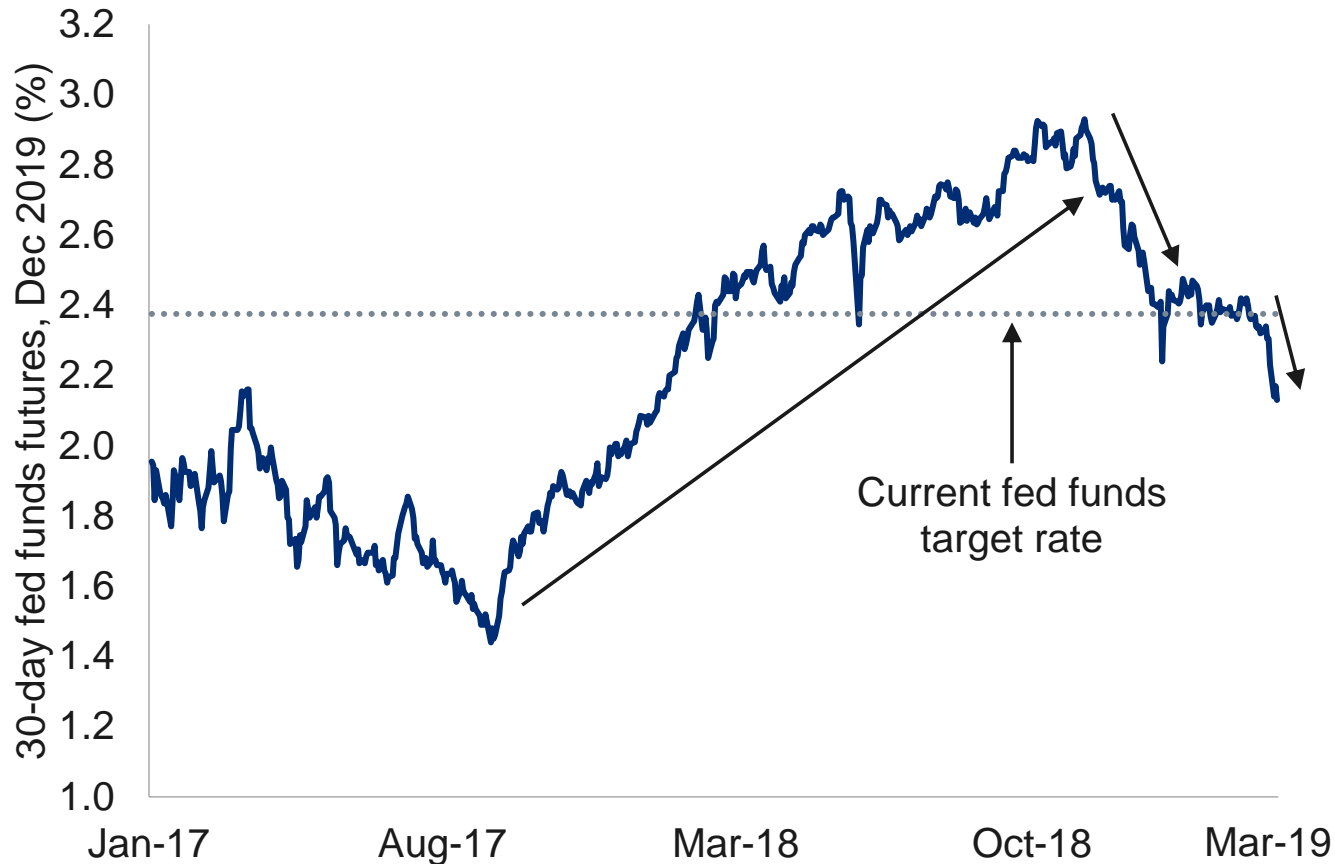
- Global macro data still weak
- Yield curve inverts
- U.S. bond yields fell
- Canadian headwinds: debt, housing

INTERESTING

- Brexit in flux
- U.S. politics: Mueller report; Trump investigations
- U.S. Q1 GDP forecast tracking higher
- Canadian federal budget
- Italy joined China's Belt and Road Initiative

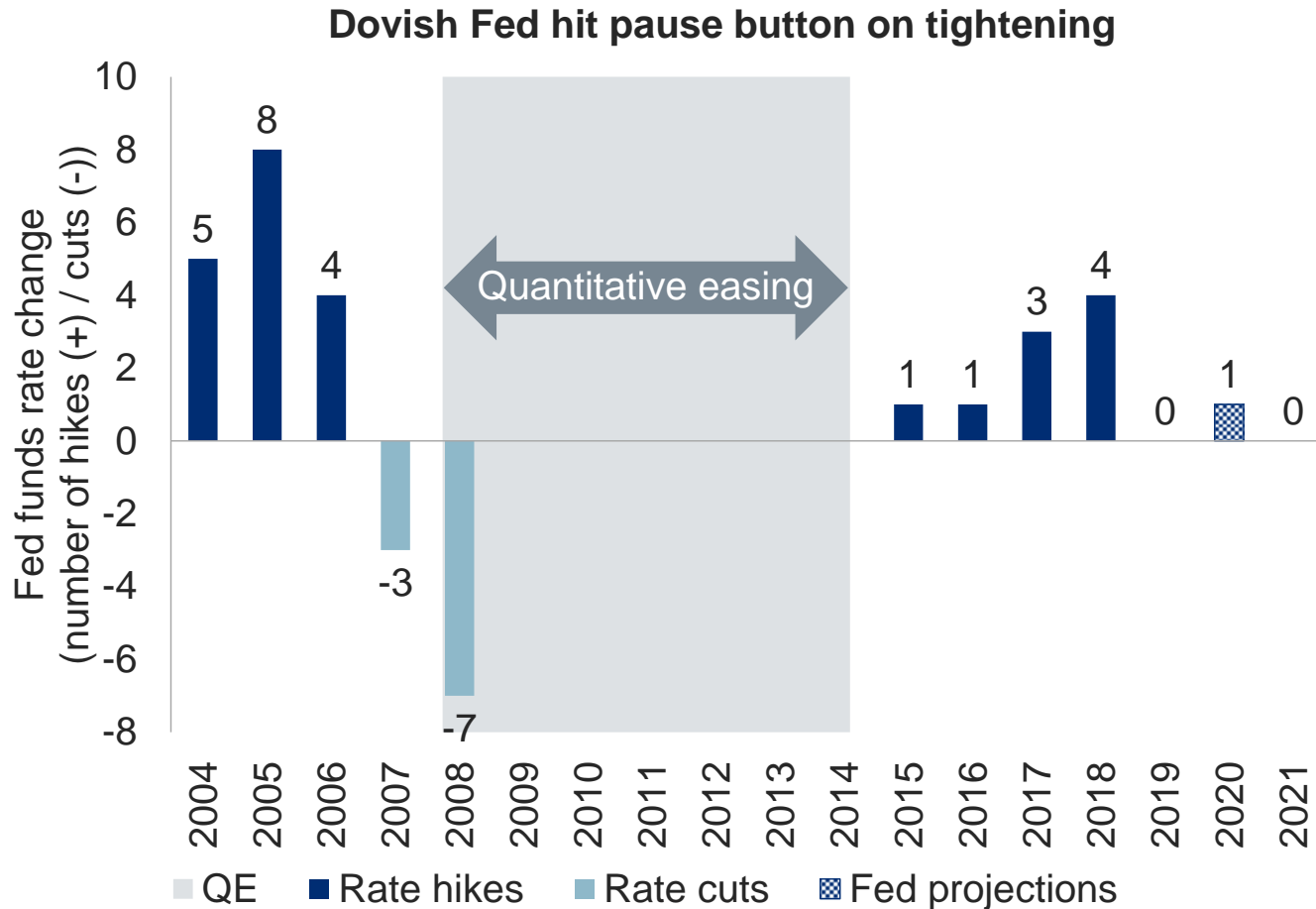
Markets price out Fed hike, now expect cut

Bond market no longer expects rate hikes in 2019



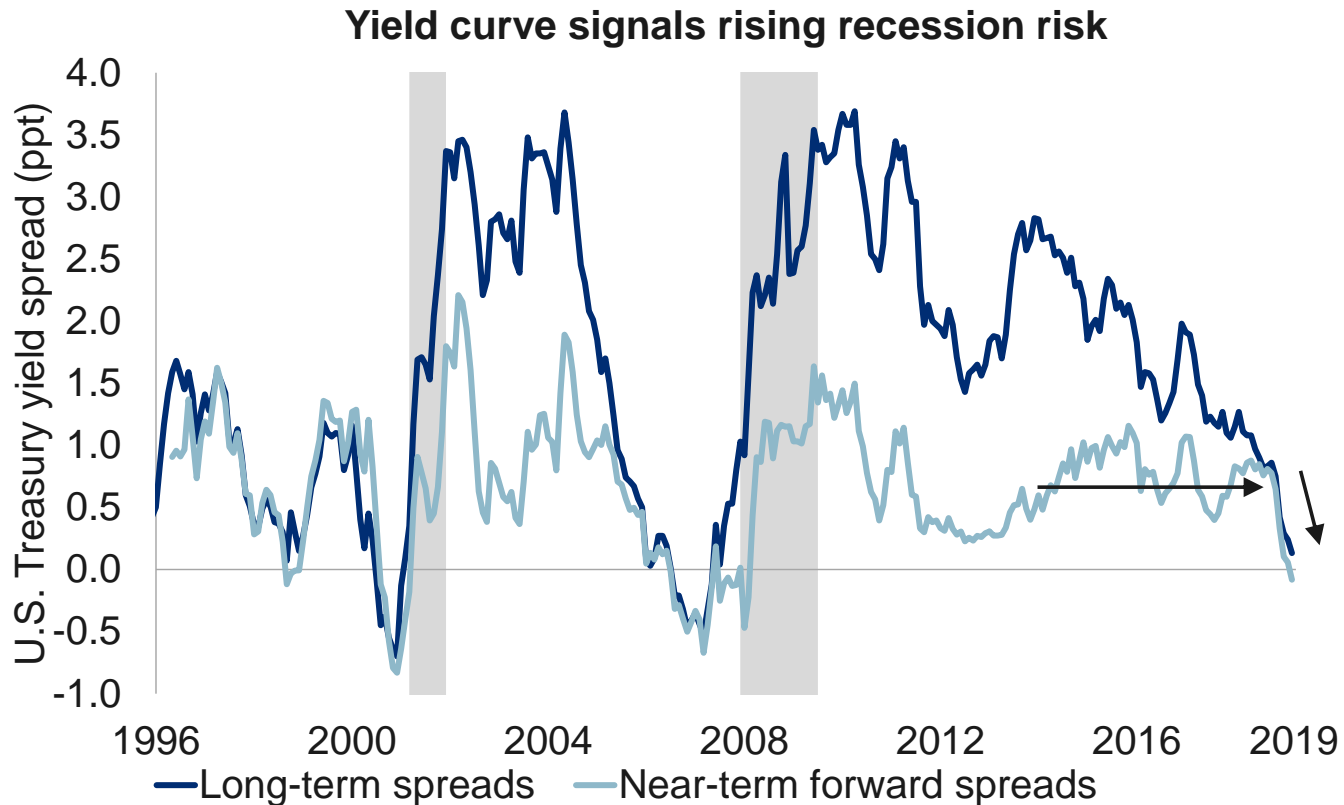
Note: As of 3/27/2019. Source: Bloomberg, RBC GAM

Fed thinks tightening mostly done



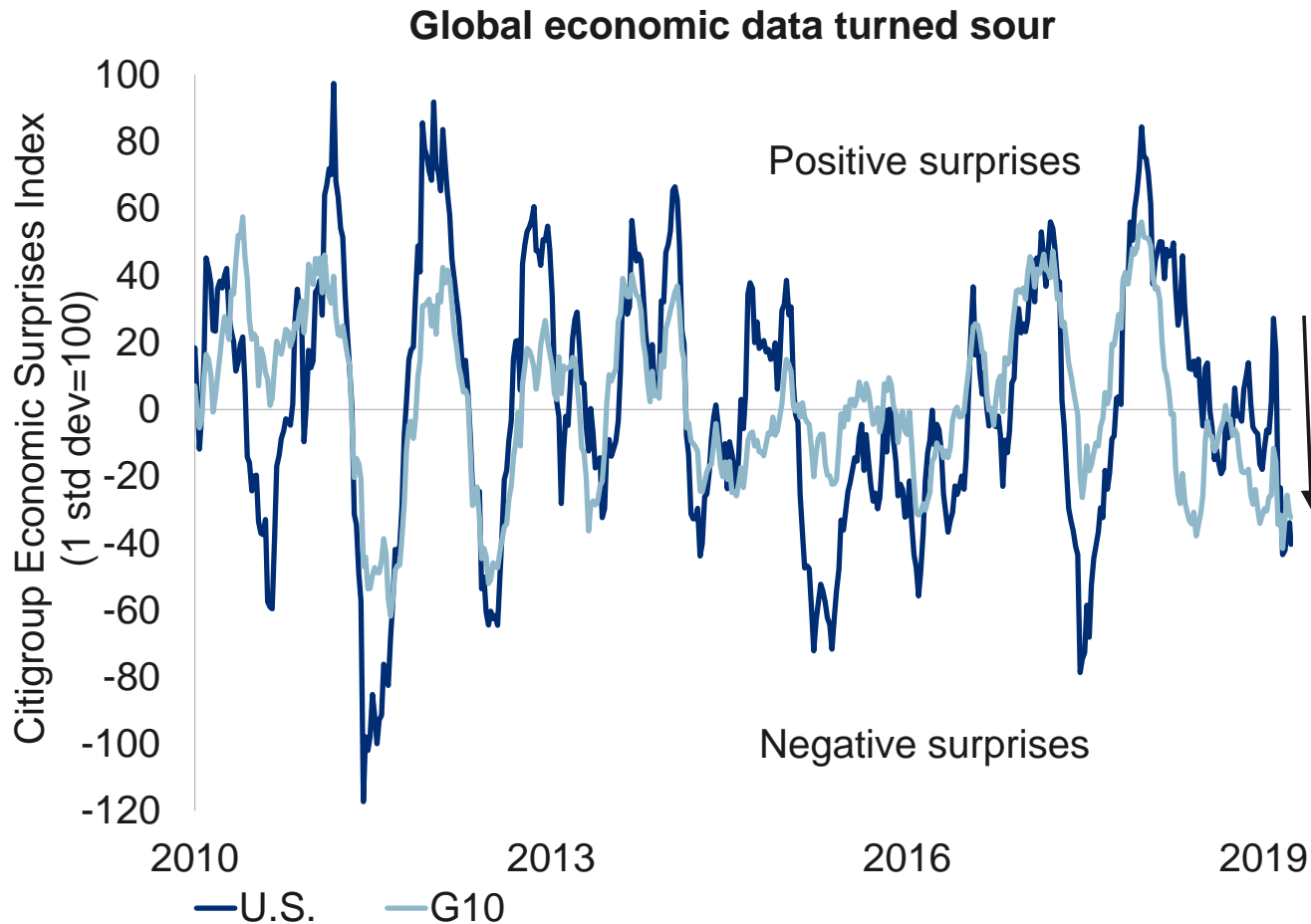
Note: As of 3/20/2019. Source: Federal Reserve Board, Haver Analytics, RBC GAM

Yield curve inverts: recession risk rising



Note: As of Mar 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

Global economic data disappoint



Note: As of 3/27/2019. Source: Citigroup, Bloomberg, RBC GAM

U.S. consumer confidence still good despite recent blip



A very different political environment in 2019 – 2020



Congress

- Democrats won House
- Congress now divided
- Difficult to legislate in '19-20



White House/Trump investigation

- Mueller did not prove conspiracy
- But ~12 other probes continue
- Distracts from policymaking

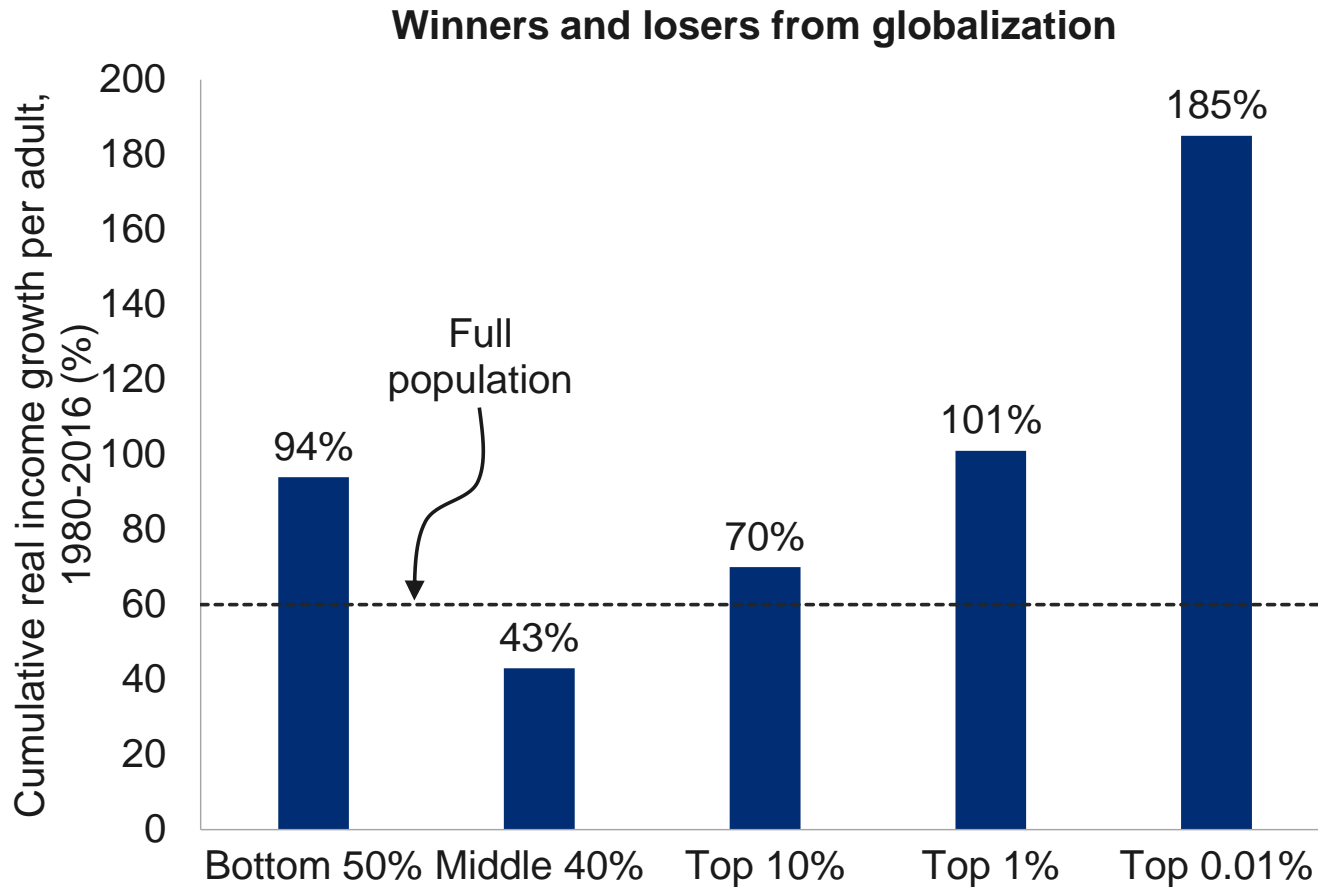
Paralysis: No tax cuts 2.0, immigration, infrastructure, health

Bigger battles: shutdown, NAFTA approval, Trump impeachment?

Unaffected: Tariffs, foreign policy, executive orders

Presidential election 2020: markets fret over populist right vs far-left scenario

Populism is flawed, but springs from legitimate gripe



Note: Cumulative growth of average income of each income group of the world population. Source: World Inequality Database, RBC GAM

Key protectionist issues

NAFTA

Awaits approval

U.S. & China

Asymmetric access to China is key issue

Blanket tariffs

Steel, aluminum & auto tariffs meant to extract trade concessions

Trade war? 15% chance

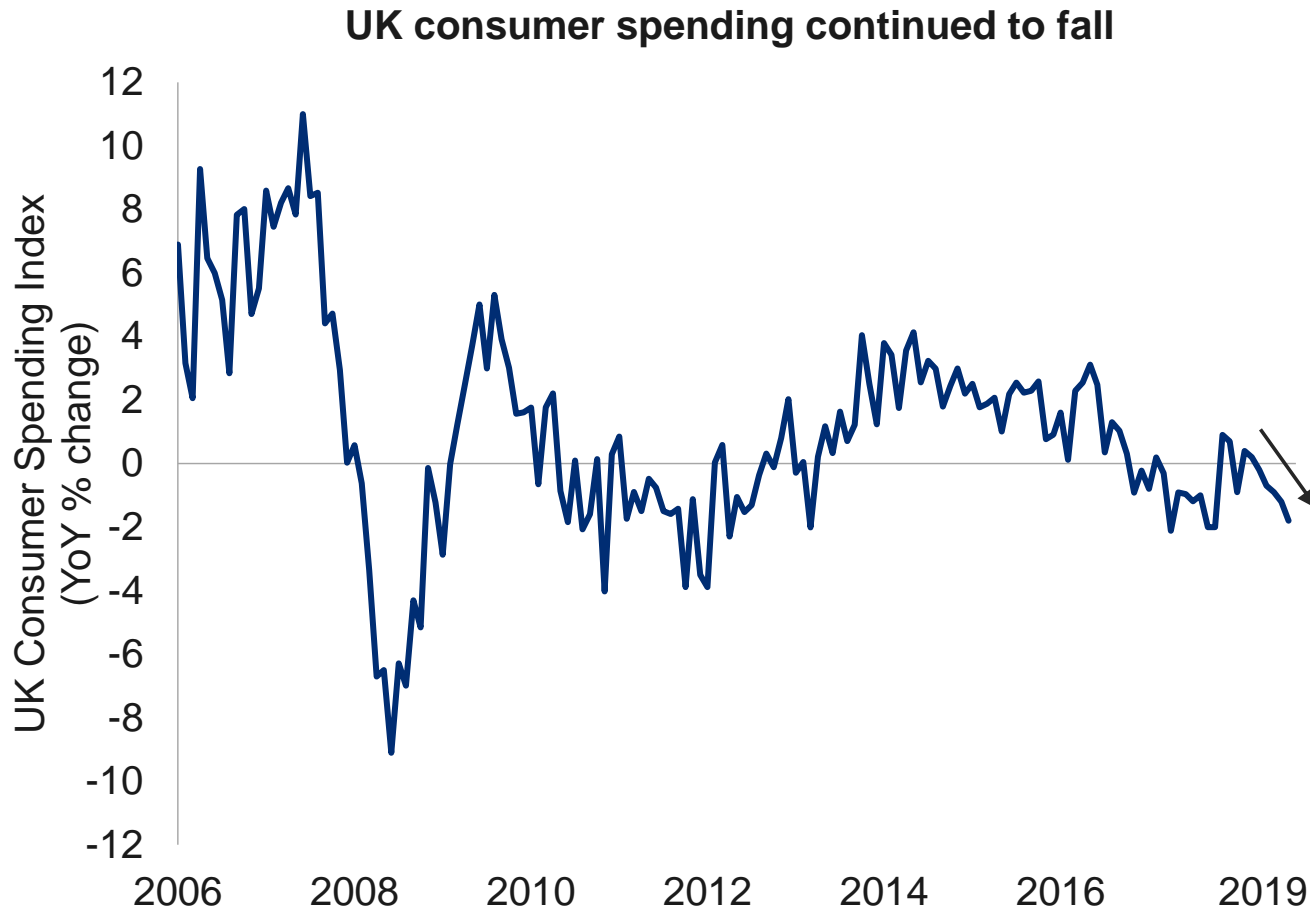
Source: RBC GAM

Soft Chinese activity prompting stimulus boost



Note: As of Feb 2019. Index constructed using 11 proxies for Chinese consumer activities.
Source: CNBS, CAAM, PBoC, SouFun-CREIS, Xinhua/UnionPay, Haver Analytics, Macrobond, RBC GAM

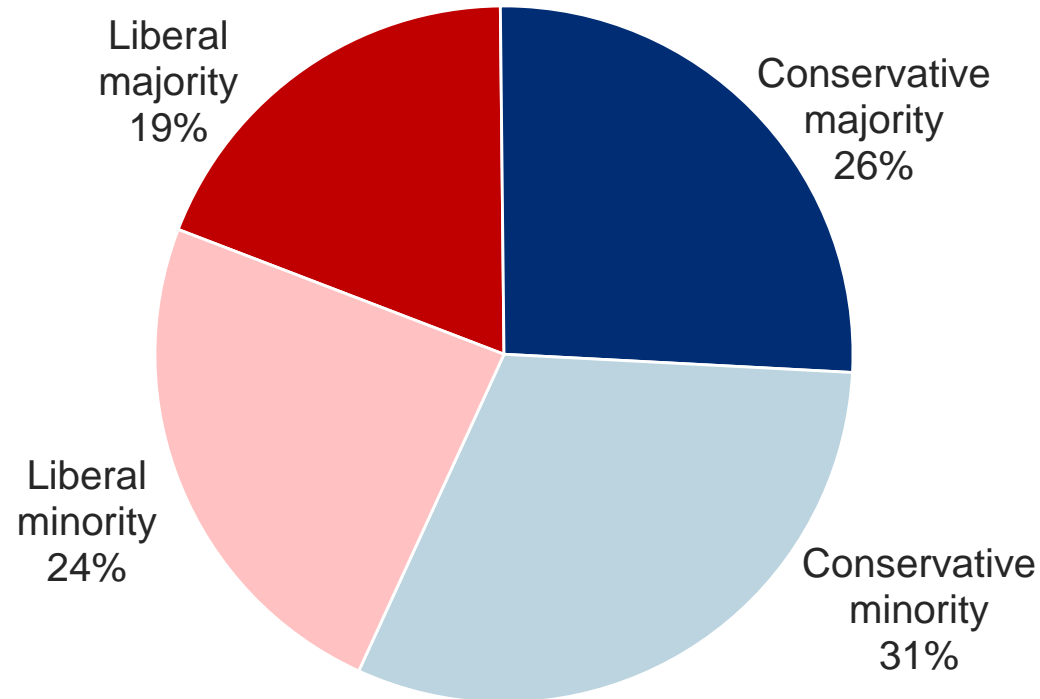
U.K. consumer spending declined on Brexit fears



Note: As of Feb 2019. Source: Visa, Macrobond, RBC GAM

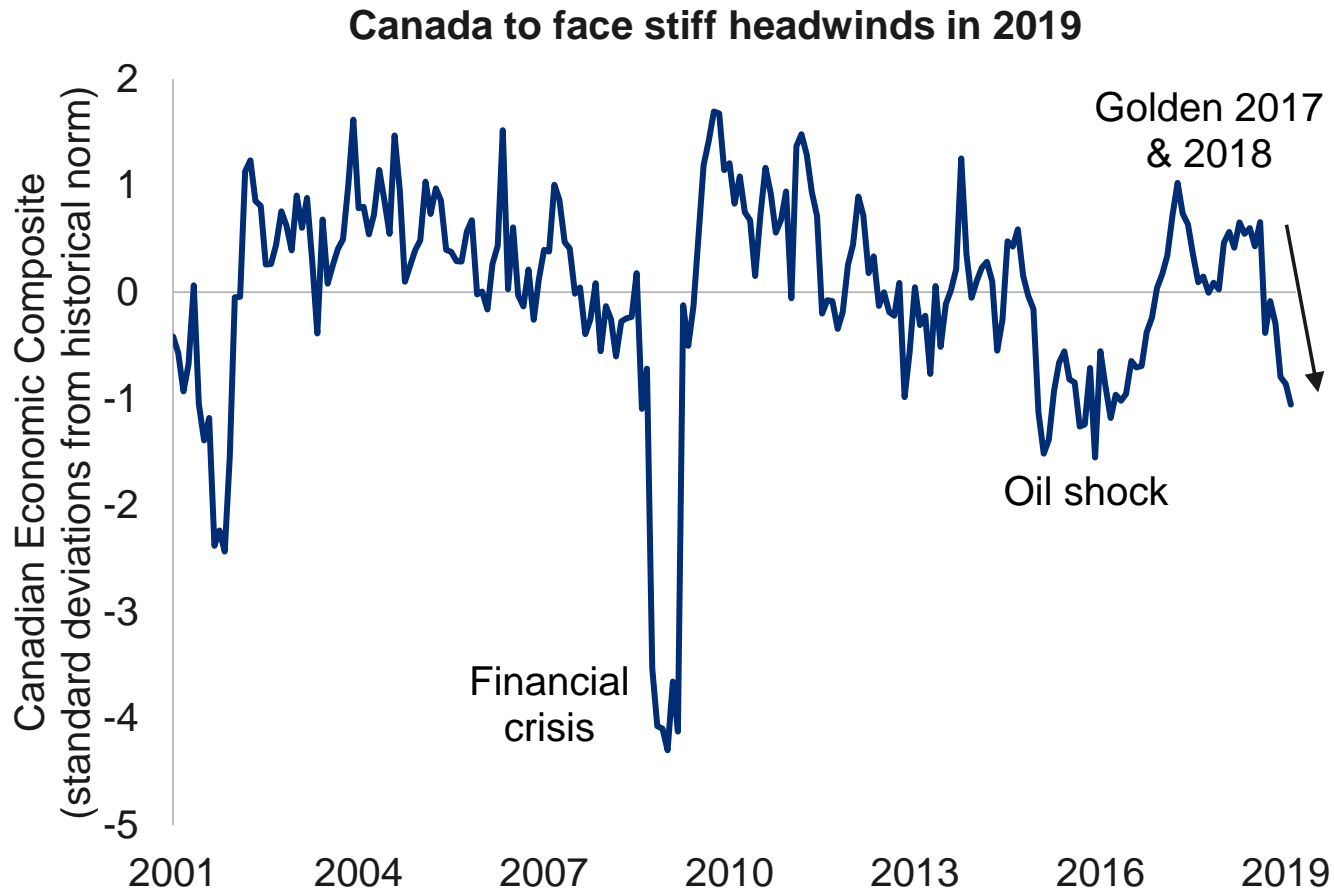
A Canadian “blue” wave in 2019?

The Conservative Party leads in early polls



Note: As of 3/26/2019. Source: CBC Poll Tracker, RBC GAM

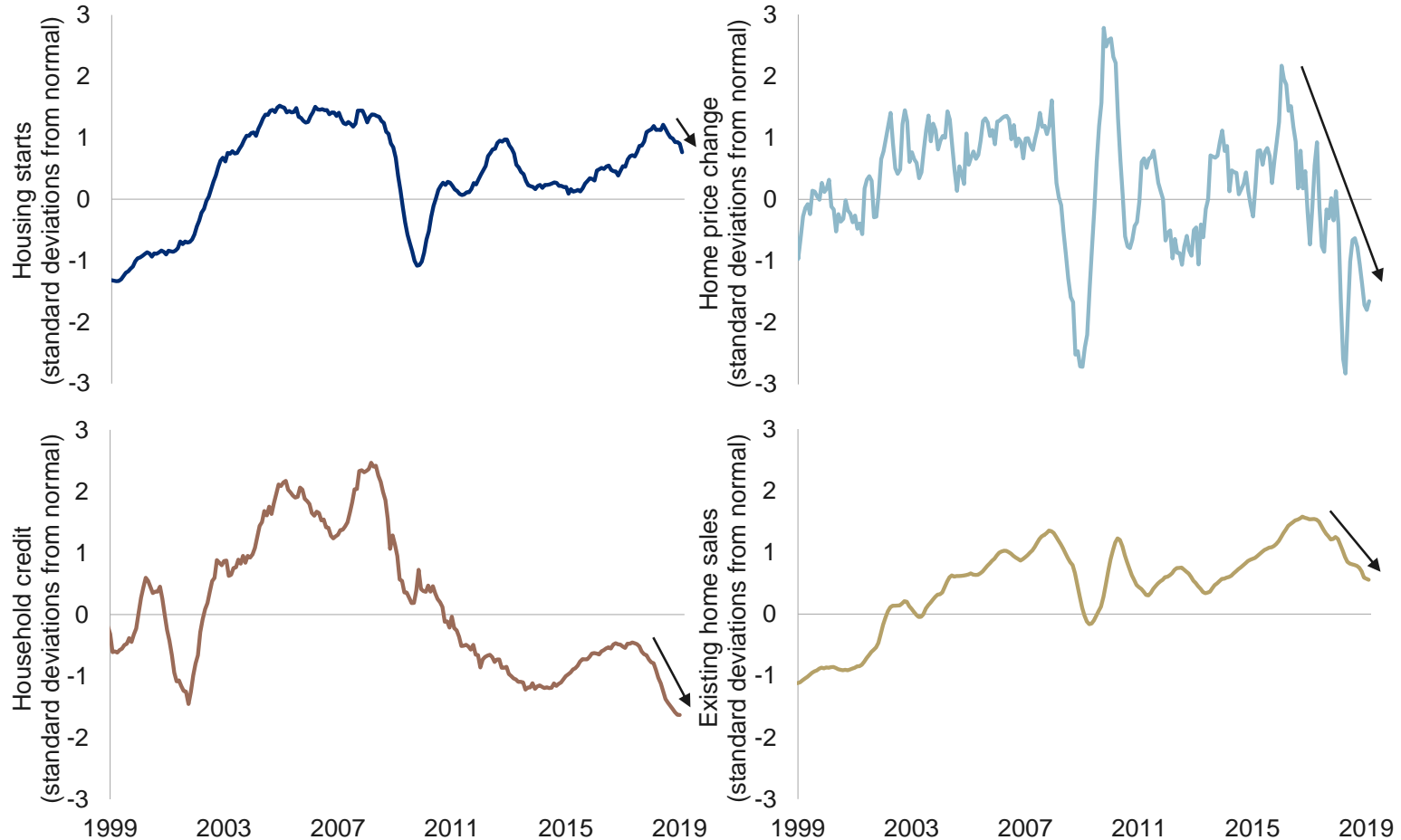
Canadian leading indicator sends weakening signal



Note: As of Feb 2019. Composite constructed using four leading indicators from surveys on Canadian businesses. Source: CFIB, Macrobond, RBC GAM

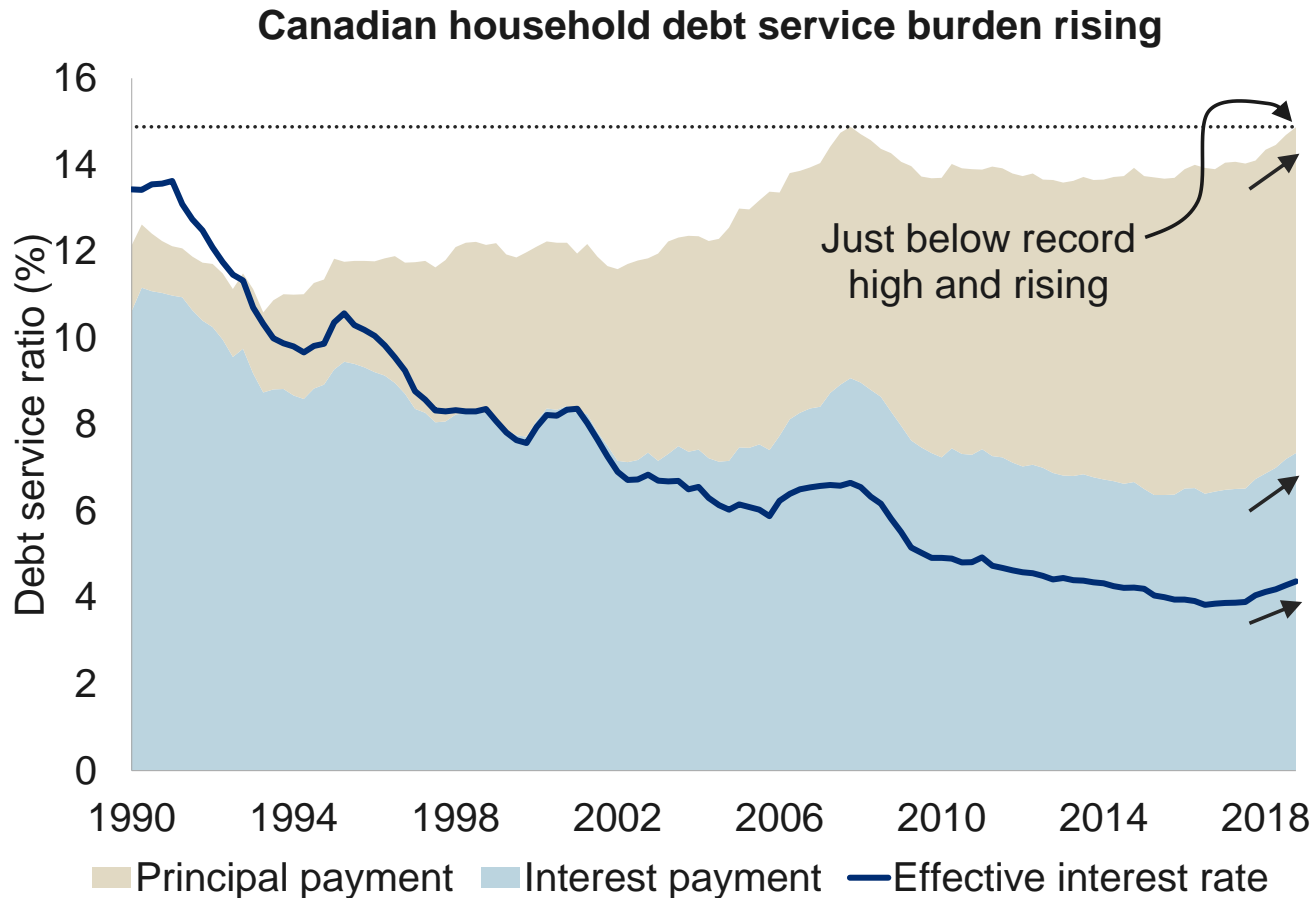
Canadian housing market restrained by new mortgage rules

Canadian housing market slump



Note: Y/Y % change of average home price (Feb 2019) and household credit (Jan 2019); and 12-month moving average of housing starts (Feb 2019) and existing home sales (Feb 2019), normalized using data since 1991. Source: Haver Analytics, RBC GAM

Canadian household debt not sustainable if rates rise further

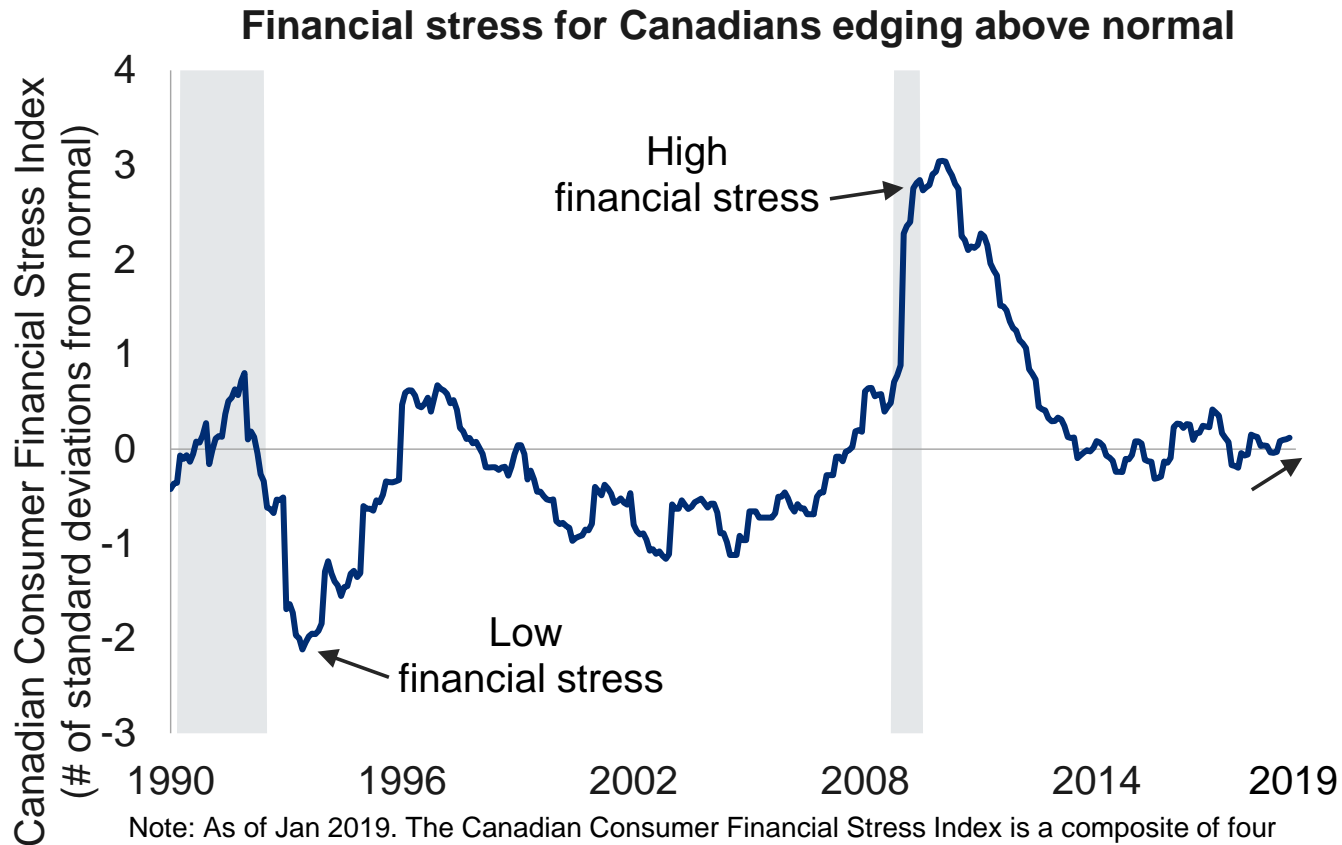


Note: As of Q4 2018. Debt-service ratio defined as cost of interest payments on debt only.

Average effective interest rate since 1990. Source: Statistics Canada, Haver Analytics, RBC GAM



Canadian consumer finances worth watching



Note: As of Jan 2019. The Canadian Consumer Financial Stress Index is a composite of four indicators, based on latest data available: % of mortgages in arrears, credit card delinquency rate, consumer insolvency rate, and household debt service ratio. Shaded area represents recession. Source: Canadian Bankers Association, Industry Canada, Statistics Canada, Macrobond, C.D. Howe Institute, RBC GAM

Long-term headwinds to developed-world growth

Human factors	Economic structure	Post-crisis
<ul style="list-style-type: none"> • Demographics: <ul style="list-style-type: none"> • Slower pop. growth • Rising retired % • Decelerating gains in: <ul style="list-style-type: none"> • Education • Health • Urbanization • Rising complacency: <ul style="list-style-type: none"> • Low labor mobility • More segregated • Less risk-taking • Falling societal trust • Higher inequality 	<ul style="list-style-type: none"> • Fading globalization • Declining creative destruction: <ul style="list-style-type: none"> • Lower firm turnover • Higher firm concentration • Goods → services • Maturing EM economies 	<ul style="list-style-type: none"> • Populism/protectionism • Secular stagnation: <ul style="list-style-type: none"> • Diminished expectations • Less business investment • Skill decay • Debt excesses <ul style="list-style-type: none"> • Servicing • Deleveraging
	<div style="background-color: #003366; color: white; text-align: center; padding: 5px;">Technology</div> <ul style="list-style-type: none"> • Running out of big new innovations? 	

Source: RBC GAM

Long term: U.S. productivity trend gradually reviving



Note: As of Q4 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

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Publication date: March 28, 2019