GLOBAL

Insight

Wealth Management

Perspectives from the Global Portfolio Advisory Committee

July 2021

The FinTech future

The convergence of finance and technology can help make economic growth sustainable by empowering unbanked populations.

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All values in U.S. dollars and priced as of market close, June 30, 2021, unless otherwise stated.

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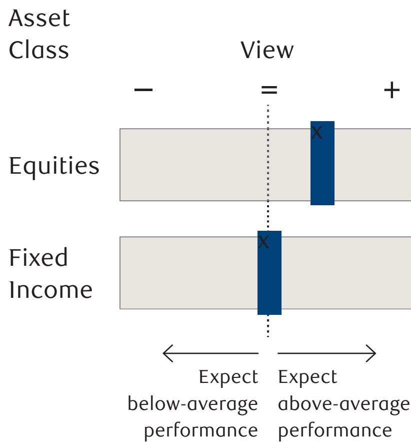
RBC'S INVESTMENT
Stance

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

- Absent a vigorous return of the pandemic, the momentum generated by a series of stimulus injections from governments, combined with unprecedented support from monetary policies, should keep the global economy powering ahead at an above-average rate through next year, at least. U.S. recession risks are nowhere in sight, according to our six leading indicators, and other major economies are in favorable positions as well.
- In the early stages of an expansion, with recession risks nearly nonexistent, equity markets have scope to push higher. Consolidation periods and corrections can arrive at any time as the economic and earnings growth trajectories transition from peak levels to something less spectacular, and as monetary policies become somewhat less accommodative. But any wobbles should be temporary and superseded by another leg up for the economy, corporate profits, and the equity market. We would maintain a moderately Overweight position in equities in balanced portfolios.

FIXED INCOME

- Global yields remain in tight trading ranges, despite a surprising hawkish pivot by the Fed at its June meeting, as lingering concerns around COVID-19 variants hang over markets. However, the Fed signaled that discussions on tapering asset purchases have begun; we expect a formal announcement on plans in August or September, provided strong labor market gains continue. We favor shorter maturities in government debt as we continue to position for modestly higher yields in the back half of the year. In credit markets, valuations are historically rich and corporate bond yields have reached fresh record lows, but we still expect credit to outperform government debt in 2021.
- We maintain our Market Weight in global fixed income, but continue to reduce interest rate risk exposure as we still expect global yields to rise modestly on continued repricing of a strong economic recovery. We maintain a modest Overweight to corporate credit, primarily via preferred shares.

MONTHLY
Focus

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The FinTech future

In this fourth article in the SusTech series, we focus on FinTech, the convergence of finance and technology, which can help make economic growth sustainable by empowering unbanked populations. With the face of finance changing rapidly, we believe there will be investment opportunities in companies that effectively embrace the evolution.

FinTech: A disruptive force

FinTech is a term coined to describe a rapidly growing industry segment that is aiming to deliver financial services more broadly, efficiently, and innovatively using powerful online technologies, enabled by "Big Data" and cloud computing. Initially arriving on the scene in the form of online-based payment services (PayPal, Alipay, Apple Pay), FinTech enterprises have begun offering access to credit, insurance, and investments. FinTech potentially represents a major disruptive force that will necessitate a response from banks and other financial services providers, as well as from regulators.

What is driving the growth of FinTech?

- Dramatic growth of e-commerce has brought with it the need for easy-to-use, online, secure payment services.
- Huge, underserved populations exist around the world with little-to-no access to banking services or credit. This acts as a powerful constraint to global economic growth and social improvement. FinTech may be uniquely suited to fill these gaps.
- Massive amounts of data available from e-commerce transactions, social media, and internet searches allow FinTech companies to determine what financial services to offer to which person, as well as how to price that product. Data has become more important than collateral for these providers.
- Regulators do not appear to have been able to keep pace with FinTech evolution. This is allowing FinTech businesses to innovate aggressively, and perhaps take risks that their customers are not fully aware of, while restraining incumbent financial services companies, which are regulated, from competing head-on with these new entrants.

What can FinTech offer?

For underserved populations, FinTech's most dramatic impact is opening up access to credit and offering digital cash transfer platforms. Beyond these, FinTech offers services that have altered and continue to transform the financial services industry.

Low-fee digital cash transfer platforms

Digital cash transfer platforms are now widely used worldwide. These can be particularly beneficial to migrant workers, whose families—often unbanked—rely on receiving money from abroad.

According to the World Bank, funds sent back to the home country are an important source of income for several developing countries, representing a non-negligible four percent of GDP in Mexico, for example, and up to an eye-watering 27 percent of GDP in Nepal. Global remittances in 2019 exceeded $700 billion, with over $500 billion flowing to developing nations. The International Monetary Fund estimates that remittances sent through traditional channels are subject to fees that average 10 percent but can be as high as 20 percent for small remittances of under $200, which are typical for poorer migrants.

M-Pesa, the text message-based payment system initially launched in Kenya in 2007, exploited the opportunity, allowing users to send and withdraw funds via basic mobile phones. The service is now used by 48 million customers across eight countries. According to the World Bank, M-Pesa has advanced the financial empowerment of women, helping them gain control over their income, fostered startup businesses, and advanced financial inclusion, which means that individuals and businesses have access to affordable banking services.

Another example is the UK FinTech company Wise (formerly TransferWise), which provides a low-fee digital payment solution to transfer money, making financial services more affordable across society. It initially differentiated itself from the competition by being transparent about fees and focusing on small transactions. When the company entered the Malaysian market in 2019, its fourth Asian market, the authorities welcomed it, commenting that it would improve financial inclusion and support the country's balanced economic growth.

Access to credit

FinTech can help improve access to credit for small and medium-sized enterprises (SMEs) and provide services in remote areas through alternatives to traditional lending methods.

A prime example of this is Ant Group, a Chinese FinTech company, which had a profound impact on consumers' and entrepreneurs' access to loans. At its peak, Ant counted more than 1.2 billion users and handled 110 trillion yuan in payments ($16 trillion), or over 25 times more than the U.S.'s PayPal.

Starting out as a payment service on Alibaba's e-commerce platform, the company became the leading app for mobile and online payments, providing credit facilities to smaller enterprises on Alibaba.com and enabling consumers and merchants to borrow money sourced from banks on their smartphones.

Ant is able to gather a large amount of consumer finance data from its parent's e-commerce platform. This enables it to assess borrowers' creditworthiness even if they lack the repayment track record required by

traditional banks, and to tailor the financial terms of a loan to suit each borrower based on the particular risk profile. As such, Ant can help SMEs access trade finance, supporting their development and expansion.

Other services

Beyond these, FinTech offers a wide range of services, and we highlight four key segments.

Large global payment networks
Provide payment processing services to merchants who accept credit and debit cards

When paying with a credit card, consumers use a bank-issued card that is linked to a global payment network, such as Visa or Mastercard. The merchant, in turn, works with a merchant processor who manages the credit card transaction process and is an intermediary between the merchant and the financial institution involved, authorizing transactions and helping merchants get paid on time by facilitating the transfer of funds.

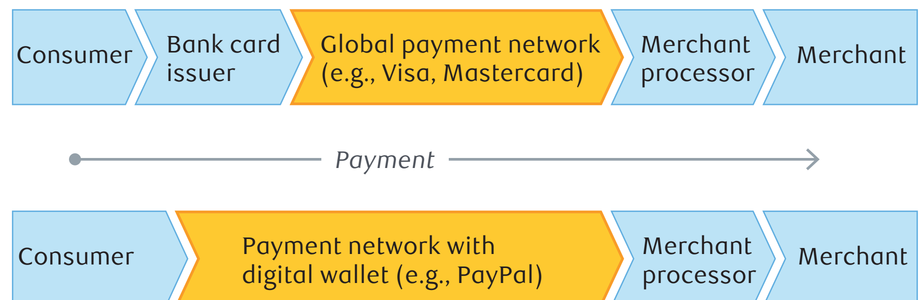
Global payment networks enable consumers and merchants to smoothly conduct commerce on a global scale and to utilize digital mobile devices, opening up new opportunities for merchants. They can also enhance overall efficiency and working capital management for businesses of all sizes by digitizing business-to-business payments.

Payment networks using digital wallets
Provide direct connection between consumers and merchant processors, operating via software-based systems that store users' payment information

Digital wallets allow a party to make electronic transactions and bypass traditional banks. According to market data provider Statista, digital wallets accounted for 44.5% of all global e-commerce transactions in 2020. Solutions within a consumer digital wallet can include merchant payments, peer-to-peer payments, international money transfers, bank accounts, lending, and cryptocurrency trading.

How large global payment networks and payment networks using digital wallets work

Several steps between you and the merchant



Source - RBC Wealth Management

MONTHLY FOCUS

The FinTech future

Merchant processors

Manage the credit card transaction process and act as an intermediary between the merchant and the financial institution involved

Merchant processors can have a large impact for small merchants by enabling them to accept electronic payments so they do not have to handle cumbersome cash and checks.

Technology providers

Foster the digitization of a financial institution's ecosystem

Unlike other FinTech segments, this one is not dominated by a handful of key players. A myriad of companies of all sizes offer their technological expertise. Technology providers enable small-to-midsized financial institutions to digitize their ecosystems so they can provide banking services to consumers and businesses more efficiently and cost-effectively.

Four key segments of FinTech and their impact on financial inclusion

FinTech can improve financial inclusion on many levels

	Function	Key companies	Range	Users	Promote financial inclusion by ...
Large global payment networks	Provide the "pipes" that connect consumers to merchants, and merchants to banks	Mastercard	Global	U.S.: 234M credit cards Rest of the world: 709M	Facilitating commerce on a global scale and through digital mobile devices; enhancing efficiency and working capital management for businesses of all sizes by digitizing business-to-business payments
		Visa	Global	U.S.: 340M credit cards Rest of the world: 800M	
		American Express	Mostly U.S.	U.S.: 55M credit cards Rest of the world: 57M	
		UnionPay	China, global	200M users	
Payment networks using digital wallets	Operate two-sided electronic payment networks for e-commerce merchants and consumers via digital wallets	Tencent's WeChat[1]	China, global	1.2B users	Providing a widening array of financial services to merchants and consumers through digital means
		Ant Group's Alipay[1]	China, global	1.2B users	
		PayPal	U.S., global	377M users	
		Paytm	India	350M users	
Merchant processors	Connect merchants to global payment networks	Square	U.S.	2M merchants	Enabling electronic payments, which are easier to handle and less cumbersome for merchants, and thus bringing small and micro merchants into the fold of the financial system
		Adyen	Netherlands	4,050 merchants[2]	
		PagSeguro	Brazil	6.7M merchants[3]	
Technology providers	Provide technology solutions to foster the digitization and higher efficiency of financial institutions' ecosystems	This sector is not dominated by a handful of key participants; a myriad of companies of all sizes offer services	NA	NA	Enabling small-to-midsized financial institutions to digitize their ecosystems so they can provide banking services to consumers and businesses more efficiently and cost-effectively

[1] Alipay and WeChat process more than 90% of all mobile transactions in China
[2] Defined as merchants processing €25 million annually
[3] Micro merchants
Source - RBC Wealth Management

MONTHLY FOCUS

The FinTech future

A FinTech opportunity: Improving financial inclusion can unleash growth

Financial inclusion is a key challenge across the globe. A lack of access to basic financial services can create crippling financial problems for individuals and businesses, in turn holding back an economy's growth potential.

According to the World Bank, more than 1.6 billion adults, or just over a quarter of the world's adult population, do not have a checking or savings account, access to credit, or insurance. This leaves them unable to store, send, and receive payments, unprotected from theft and loss, and without safeguards if they lose their jobs or fall ill, making them vulnerable to predatory lenders.

Substandard infrastructure ranging from an inadequate supply of electricity to poor internet access (particularly in remote areas), the struggle to maintain minimum balance requirements, the lack of identification documentation (which affects one billion people worldwide and 45 percent of women in low-income countries), the lack of a financial track record, and prohibitive costs are typically the reasons why adults do not have a bank account.

However, per the World Bank, more than two-thirds of adults who do not have access to a bank account, do have a mobile phone. Today's technology enables the delivery of financial services through even a basic mobile phone (i.e., non-smartphone).

Low financial inclusion also affects small and microbusinesses. In 2016, the International Finance Corporation estimated that more than 160 million of these entities lacked access to finance and another 160 million were underbanked—meaning they might have a bank account but do not have access to banks' term loans or working capital loans.

Not exclusively an emerging market issue

The unbanked adults are predominantly in emerging economies. Some emerging market governments that are alert to this issue have invested in infrastructure and encouraged banks and startups to look to seize the opportunity this state of affairs presents.

China strove to address the urban/rural differences at the root of its large unbanked population as it recognized the economic potential of closing this gap. It encouraged the development of infrastructure such as broadband networks alongside allowing a growing role for the private sector to advance financial services, hence the progress of Alibaba's Alipay and Tencent's Tenpay (including WeChat Pay). Together these online payment platforms process more than 90 percent of all mobile transactions in the country.

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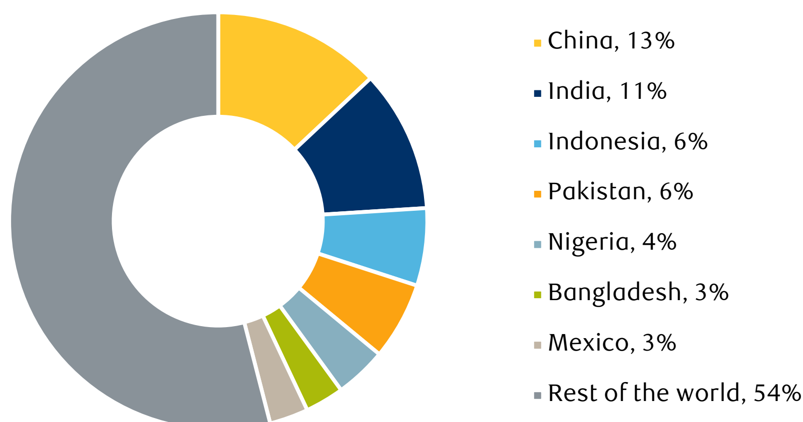
The FinTech future

Nearly half of all unbanked adults live in just seven countries

Percentage of global unbanked population by country, 2017



Source - RBC Wealth Management, World Bank's Global Findex Database

But poor access to banking services is also a problem faced by an uncomfortably large population in developed economies, particularly the underbanked who have a bank account but no access to credit or other financial services.

The Federal Deposit Insurance Corporation's 2019 survey "How America Banks" found that 7.1 million (or 5.4 percent) U.S. households had no bank account, while a report by the Federal Reserve the same year calculated that 16 percent of U.S. adults were underbanked. Mintel, a market research firm, reports that six percent of Canadians are unbanked, without a checking or savings account of any kind, and a further 28 percent are underbanked. In the UK, the Financial Conduct Authority estimates 1.3 million adults are unbanked, while the European Central Bank (ECB) calculates that some four percent of households in the EU do not have a bank account.

Central banks and regulators need to adapt …

RBC Global Asset Management Inc.'s Julie Thomas, a senior portfolio manager specializing in global financials, points out that while the traditional financial system is regulated, offering safety and security for savings, and thus a high level of comfort to users, FinTech sits outside this regulation, affording no such security.

Moreover, for central banks, unregulated newcomers can make delivering monetary policy more difficult. How can central banks control the risk to the economy from increased leverage as FinTech represents a growing share of financial services?

Concern over the loss of control over the economy explains the recent flurry of activity by many central banks to create their own digital currencies. A central bank-backed digital currency would be a digital version of cash, equivalent to a deposit with a nation's central bank.

China launched the e-yuan in 2020; the ECB aims to launch its own digital currency in 2025, while the Bank of England and the Fed are actively exploring the issue. A January 2021 survey by the Bank for International

Settlements (the bank for central banks) reported that most central banks are considering digital currencies. The survey found that central banks representing a combined 20 percent of the world's population are likely to launch their own digital currencies within three years.

Increased regulatory scrutiny on FinTech is also likely, particularly with the advent of "super apps," which are popular in emerging countries. These platforms started out by being a dominant provider of a service used daily by customers, such as ride-hailing services (e.g., Grab in Singapore) or e-commerce (e.g., Mercado Libre in Latin America), and expanded from there into financial services including payments, insurance, and investment. Super apps are blurring the lines between financial services and other industries. Regulatory authorities will likely focus on who controls the data and how it is used. This will be a key issue particularly in Europe where protecting data privacy is a primary concern.

… as will traditional banks

Some traditional banks, concerned about the newcomers encroaching on their territory, are adopting some of these FinTech approaches. Technological capability is not an issue: most banks have been delivering progressively more online access to services for the past 20 years. But FinTech entrants, unencumbered by legacy systems and traditional banking practices, not to mention regulation, have successfully gained ground in market segments that banks traditionally regarded as uneconomic, lacking potential, or too risky. They have also pushed into offering some "high-touch" services, usually delivered person-to-person, with a "clickable" ecosystem featuring decision-making algorithms.

Some traditional banks have opted to create hubs external to their main businesses so that these new approaches can be properly nurtured. Once mature, these processes may be adopted into the core businesses. This should be a low-risk way to integrate new technology into a traditional bank, mitigating threats to branding or customer confidence while closing the technological marketing gap with FinTech companies.

Others may choose to buy established new entrants, much like JPMorgan's recent acquisition of Nutmeg, a successful and well-known UK robo-adviser.

Embrace the evolution

The face of finance is changing rapidly, and regulators and central banks alike are taking notice. The arrival of a wider range of participants in financial services makes their task more complex. They will have to adapt, as will traditional banks in order to fend off the approach of newcomers into their territory.

FinTech will not single-handedly lift all of the "bottom two billions"—the poorest individuals in the world—out of poverty. But to the extent that it can reach a portion of them and give them access to financial services, economies will likely benefit and the companies that make inroads into this market segment with a well-thought-out strategy should see bright prospects.

We believe the disruption can create investment opportunities in those FinTech companies that gain staying power, as well as in the traditional banks and financial services providers that are able to effectively embrace this new paradigm.

With contributions from Jason Deleeuw, CFA, U.S. Equities Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – U.S. and Stephen Chang, CFA, U.S. Equities Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – Equities, RBC Dominion Securities Inc.

This article is the fourth part in our ongoing SusTech series, which is exploring the confluence of sustainability and technology and why this concept matters as an investment theme.

Previous articles in the SusTech series ...

SusTech: Sustainability through technology

GreenTech: Transformation to a clean energy world

HealthTech: How technology can help fix health care

GLOBAL
Equity

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Green light for economy and markets

In our view, nothing that has transpired in the past six months has fundamentally changed our outlook for the remainder of 2021 or for 2022. We expect all of the developed economies, led by the U.S., will post above-average GDP growth compared to last year's slump. Absent a vigorous return of the pandemic, the momentum provided by repeated applications of fiscal stimulus from governments—supported by entrenched accommodative monetary policies—should keep most economies powering on through next year and probably beyond. Robust growth this year followed by slower, but still above-average growth next year looks to be the likely outcome.

For the all-important U.S. economy, this view is supported by our economic recession scorecard. All six of the leading indicators of recession we track are giving the economy a decisive green light, and are strong enough to suggest that even an "early warning" phase lies a long way off.

Looking at just one of these indicators, we note that the fed funds rate has almost always risen above the nominal growth rate of the economy (i.e., the rate before adjusting for inflation) before a recession gets underway. The year-over-year nominal growth rate of the U.S. economy was 2.7% as of Q1, is rising sharply, and should be in the 9% neighbourhood by year end, slowing to 6% by the end of 2022. In order for the fed funds rate to rise above that 6% level, and risk inducing a recession, the Fed would need to raise rates a by one-quarter point 24 times—a nearly inconceivable scenario, in our view, especially because the Fed sees no rate increases before 2023.

In our view, the next recession, when it eventually arrives, will likely be triggered the good old-fashioned way—by a tightening of credit conditions sufficient to make interest rates prohibitively expensive and banks more cautious about lending. However, no tightening of that magnitude appears nearby.

No recession on the horizon

Recessions are the enemy of the equity investor, as they have always formed the economic backdrop associated with bear markets. So

U.S. recession scorecard

Indicator	Status		
	Expansion	Neutral	Recessionary
Yield curve (10-year to 1-year Treasuries)	✓		
Unemployment claims	✓		
Unemployment rate	✓		
Conference Board Leading Index	✓		
ISM New Orders minus Inventories	✓		
Fed funds rate vs. nominal GDP growth	✓		

Source - RBC Wealth Management

GLOBAL EQUITY

seeing a recession coming ahead of time is extremely useful from a portfolio-management perspective. We believe, as yet, and probably for some time, no recession appears on the horizon.

While a bear market-inducing recession may not be in the offing anytime soon, there is always the potential for fears arising from a growth slowdown to induce a market correction. In several bull markets over the past 70 years, such worries have led to a correction 12–18 months after the start of the new economic advance. However, these were always eventually superseded by another substantial leg up for the economy, corporate profits, and the equity market.

History lessons

Another way to plot the path ahead is suggested by Eric Savoie, investment strategist at RBC Global Asset Management Inc. He points out that in the U.S. there have been 17 Federal Reserve tightening cycles since 1954, with eight of them producing enough credit tightening to bring on a recession.

Looking at equity market performance over the 12 months leading up to the first Fed rate hike in each cycle, Savoie notes that the median return for the S&P 500 over that stretch was 16.8%. Switching to look at what the market does in the year *after* the first rate hike reveals a median return of an above-average 9%.

So, the year before the first rate hike and the year after are both generally pretty good for the stock market. If the Fed tightening cycle is going to cause trouble for the stock market, that trouble usually arrives a ways down the road from the first rate hike, if it arrives at all, keeping in mind that nine Fed tightening cycles produced no recession or any equity bear market.

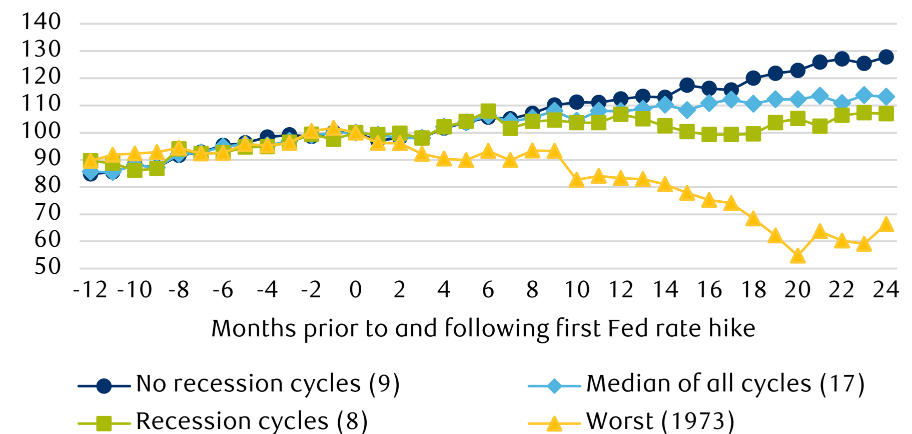
The Fed, while always reserving the right to change its mind, has told us there will be no rate hike before early 2023. Counting backward one year, the historical probabilities would suggest the stock market will deliver positive, probably above-average returns for two consecutive years starting in early 2022.

Correction always possible, but not a given

Of course, even years that feature above-average stock market returns can contain within them rocky periods of correction and consolidation. It's always possible that one lies just around the corner.

Don't fear the rate hike; stocks can still rally as long as hikes don't trigger recessions

Median S&P 500 level before and after first rate hike
Normalized, with level at first hike = 100



Source - RBC Global Asset Management, RBC Wealth Management; data range: 1954-2018

GLOBAL EQUITY

As usual, there is a long list of things investors are worried about, including inflation, the pandemic, geopolitics, and severe weather (ranging from heavy rains to drought conditions). In one sense, investors are right to expect a correction, because they are not uncommon. But they rarely announce their arrival (or conclusion) in a timely enough fashion to allow even a nimble investor to wring much advantage out of that knowledge.

There are also plenty of factors that would argue against a correction occurring:

- Most economies are reopening as the vaccine rollout diminishes the impact of the pandemic;
- Earnings are very strong (GDP-based U.S. corporate profits are already above their pre-pandemic peak) and forward-year earnings estimates have been revised sharply higher over the past six months (S&P 500 by 15% and TSX by 13%);
- CEO confidence, as measured by The Conference Board, is near an 18-year high, while business confidence is high and rising in Germany, France, and Canada, and improving in the UK and Japan;
- Corporate bond yields remain very low and access to credit plentiful; and
- Capital spending is extremely strong, which is good news for productivity and inflation.

It's worth remembering that should a market correction occur without an accompanying downturn in economic activity and corporate profits, then even though share prices are falling for a few months, the intrinsic, underlying value of most businesses goes on compounding upward at a rate driven by earnings growth.

Global equities likely to advance

We are left with a constructive outlook for global equities for the coming 12 months. We expect the impact of the pandemic will continue to subside over the remainder of this year and through 2022. The forecast rising tide of GDP and earnings should permit broad market indexes to advance further from today's levels. We recommend a global balanced portfolio remain moderately Overweight equities.

REGIONAL
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United States

- The S&P 500's 90% surge from the deep COVID-19 crisis lows of March 2020 through late-June is the strongest post-trough rally of all recovery periods that took place during similar time frames going back to the 1960s. Now we think the market is entering a transition period—from that of a robust rally phase to a two steps forward, one step back phase that commonly transpires when economic recoveries come off of their initial boil.

- With the market's "easy" gains likely in the rearview mirror, we think four interrelated issues will set the tone in the second half of this year and into 2022: (1) inflation rates easing down from high to less lofty levels, but remaining above-average; (2) the progression toward less accommodative Fed policies with the start of the central bank's tapering of asset purchases; (3) continued above-trend GDP growth, but at a slower pace; and (4) the shift from ultra-high earnings growth to more normal growth rates.

- Uncertainties or periodic data contradictions related to any one of these issues could create market volatility or pullbacks, but we think all four are manageable and will not hinder worthwhile market gains over the next six to 12 months. The earnings transition will come into focus sooner rather than later, as we think the upcoming Q2 2021 reporting season will represent "peak growth," or the high water mark of year-over-year earnings growth for this business cycle. But by no means do we think it will mark the peak absolute level of the S&P 500 earnings—profits should march higher over the next year, at least. We would continue to hold modestly Overweight positions in U.S. equities and still favor value sectors.

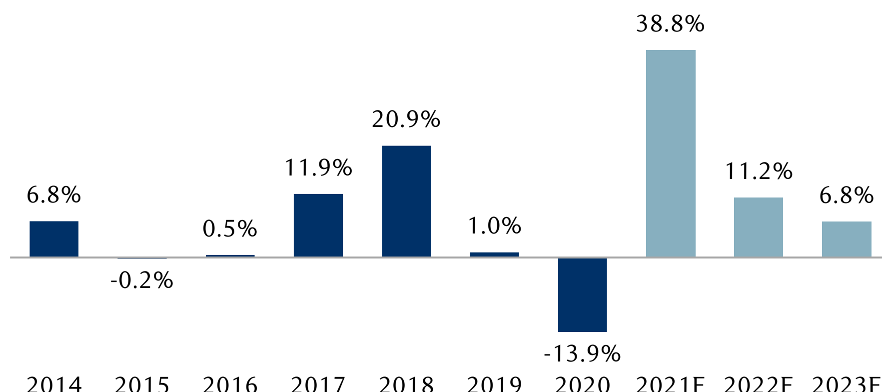
Canada

- Amidst recovery from last year's recession, we expect above-trend economic growth to disproportionately benefit the traditionally economically-sensitive (cyclical) sectors within equity markets. This view supports a constructive stance towards the Canadian market given its cyclical orientation including large benchmark weights in Financials (31%), Materials (13%), and Energy (12%). Moreover, the S&P/TSX Composite continues to trade at a significant discount relative to the S&P 500. Discounts of similar magnitude have historically resulted in positive relative returns for the Canadian equity market.

- We maintain a positive view on Canadian banks in a benign credit environment. Last year's provisions

U.S. earnings growth rate forecast to peak in 2021

S&P 500 earnings growth y/y % change, 2021–2023 data is consensus estimate



Source - RBC Wealth Management, FactSet; data through 6/25/21

REGIONAL EQUITY

Equity views

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

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

for potential loan losses appear to have been overly conservative in the wake of massive government support and the ensuing rapid economic recovery. We believe investor focus over the next year will be on improving consumer loan growth and margin trends as the domestic vaccination campaign advances further, arguably justifying greater liberalization of virus containment measures.

- WTI crude oil prices topped US$70 per barrel in June. The rise has outpaced RBC Capital Markets' already bullish view on the commodity heading into 2021, resulting in an increase in its forecast for average prices to US$72.27 per barrel in 2022 from US$63 per barrel previously. We believe that valuations for Canadian oil producers, particularly those with integrated operations, remain attractive given their impressive free cash flow generation potential amid a supportive commodity price backdrop.

- The key risks to the thesis on Canadian equities include, but are not limited to, the potential for a fourth COVID-19 wave on the back of increasing variant cases and/or slowdown in vaccinations, an appreciating U.S. dollar in the context of its potentially negative impact on commodity prices, and a greater-than-expected slowdown in the Canadian real estate market.

Europe & UK

- We recently upgraded European equities to Overweight, suggesting investors have an above benchmark position in the region. The European Commission's efforts towards debt mutualisation—or sharing—via the €750 billion rescue package and the issuance of EU bonds to support the recovery should reduce systemic risk for the region.

- Beyond this, the economy is predictably bouncing back after a long winter of lockdowns. The ECB's commitment to a continued loose monetary policy even as the Fed moves toward tapering its bond-buying program in early 2022 will likely cap gains in the euro currency, providing a tailwind to corporate earnings. Moreover, European equities typically outperform when economic activity is improving due to their comparatively high exposure to economically-sensitive (cyclical) sectors such as Financials, Industrials, Consumer Discretionary, and Materials.

- The MSCI Europe ex UK Index trades at a more than 20% discount to the S&P 500, but comes roughly in line with it on a sector-adjusted basis. We continue to favour the Industrials and Consumer Discretionary sectors as we believe they are well-positioned to benefit from both an improving global economy and long-term secular trends.

- The UK is also enjoying a robust economic rebound as the bulk of COVID-19 restrictions are being lifted. We advocate a Market Weight, or up to benchmark, position in UK equities. The FTSE All-Share's price-to-earnings valuation is relatively cheap versus its historical average, and the index offers a dividend yield of over 3%. In the medium term, UK economic growth might be capped by a chancellor eager to balance the nation's books, and increasing tensions with the EU in regards to the Northern Ireland protocol, a consequence of the Brexit deal passed by the UK parliament.

- We would take a balanced approach to UK equities by maintaining exposure to quality UK international companies that trade at what we perceive as an unduly large valuation discount to overseas-listed peers; and by holding positions in the beneficiaries of a domestic economic recovery, such as Financials and consumer-focused domestic stocks, the latter of which are underpinned by pent-up demand meeting high levels of consumer savings.

REGIONAL EQUITY

Asia-Pacific

- We expect China equities to stay largely range-bound in H2 2021. Policy normalization could cap market upside in the near term as, historically, equity uptrends usually have been accompanied by credit easing cycles. We expect broad credit growth will continue to slow down in Q3 2021 and may stabilize in Q4. Tensions in U.S.-China relations, tighter-than-expected policy moves by authorities, and/or news related to antitrust investigations could add volatility to the market.

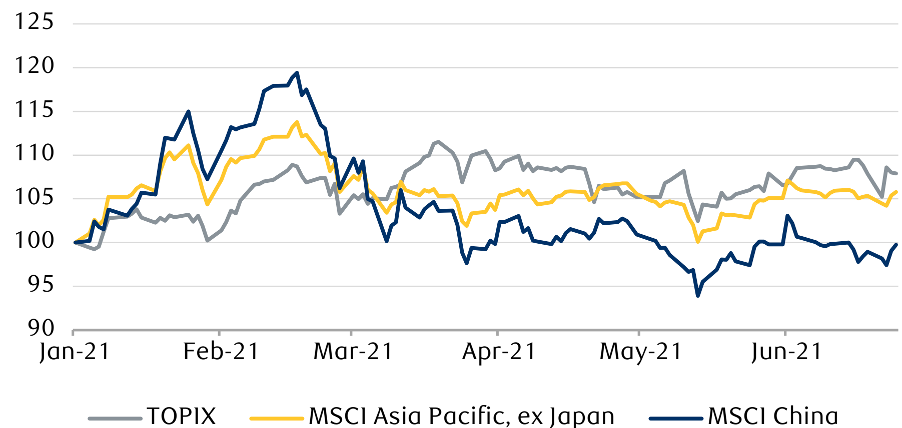
- Company earnings reports are likely to remain solid, which should provide downside support for the market. Sentiment may improve as the H1 2021 earnings season approaches. For the second half of the year, we expect MSCI China to report high-teens earnings growth.

- Despite some short-term headwinds, we remain constructive on China equities as we see attractive longer-term secular opportunities that should coincide with the economic reopening and transition. We prefer quality value stocks such as leading banks and industrial companies. We also like leading consumer staples players and recovery beneficiaries. In addition, we think this is a good opportunity to accumulate quality new economy stocks.

- Japan equities underperformed developed markets in Q2. In the near term, we believe the market could play catch-up as economic activity rebounds on the back of faster vaccination rates. Also, valuations are less stretched than before, earnings revisions remain in positive territory, and we see scope for upside surprises to forward earnings estimates. But for a time frame beyond three months, we think Japan equities could be stuck in a range as growth in the global money supply starts to slow as central banks' monetary easing gradually loses momentum, which could lead to a higher risk premium for Japanese stocks. Meanwhile, USD/JPY movement may also dampen foreign investors' appetite.

Asian equity markets, year to date

Performance indexed to 100



Source - RBC Wealth Management, FactSet; data through 6/25/21

GLOBAL

Fixed income

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The event horizon

Once beyond view for investors, the prospect of the Federal Reserve tightening monetary policy has now swung back across the market's event horizon and into the observable universe, reintroducing volatility to markets and raising concerns about central bank support for the global economic recovery. On top of that, will the Fed's looming policy moves set the stage for other global central banks to follow suit?

Summer surprise

At the halfway point of the year, the Fed's June meeting marked a pivotal point for policymakers as they began formal discussion of plans to taper asset purchases. Progress toward employment and inflation goals appears to be sufficient for the Fed to begin entertaining the idea of pulling back on the policy reins following the historic policy response to the global pandemic.

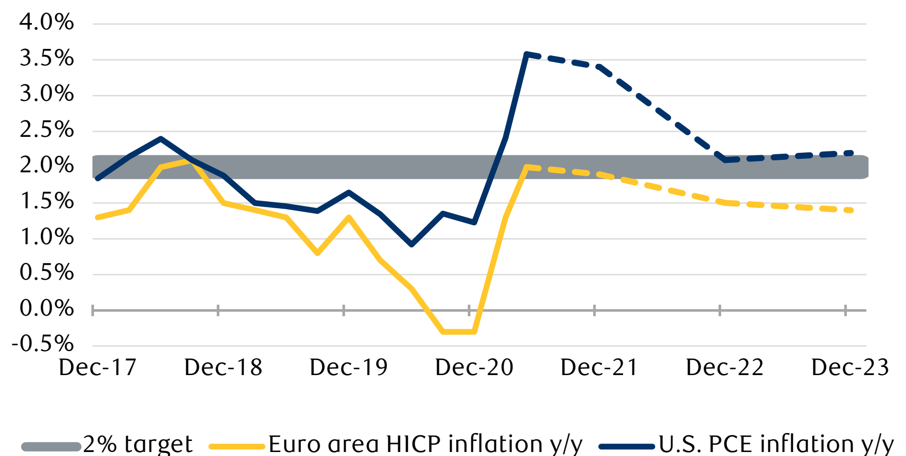
While the onset of the tapering process had been generally expected to occur at some point this summer, what was less expected was that it would be paired with a faster rate hike forecast, with the median projection of the 18 members of the Federal Open Market Committee (FOMC) now indicating the potential for two rate hikes in 2023, up from zero previously. Markets took those two developments together as a sign Fed policymakers may see inflationary pressures as likely to prove more persistent than they had previously let on. Not surprisingly, the unexpectedly hawkish signals from the meeting reintroduced some volatility into the market.

We think that volatility will be a lasting feature during the back half of the year, with markets likely to enter into a game of "will they, won't they" as they digest the Fed's response to each incoming data point on inflation and the labor market.

That's because the Fed has set some lofty goals in its effort to achieve "substantial further progress" on its inflation and employment targets. As of the June meeting, the Fed's projections are looking for an unemployment rate of 4.5% by year's end, from 5.8% currently, and for headline PCE inflation to still be running at a 3.4% clip, roughly unchanged from the 3.6% year-over-

Central bank projections continue to show temporary inflationary pressures

U.S. PCE inflation y/y and euro area HICP inflation y/y



Note: Dashed lines show central bank median forecasts
Source - RBC Wealth Management, Bloomberg, U.S. Federal Reserve, European Central Bank

GLOBAL FIXED INCOME

year pace in the latest data from April. That's a high bar, in our view, so it's equally conceivable that recent hawkishness could turn back to dovishness should the data not keep pace with expectations.

In any event, we still expect the Fed to unveil a formal tapering plan in August or September, and to begin cutting its monthly $120 billion in Treasury and mortgage bond purchases in the first quarter of next year, with further monthly cuts over the course of 2022—which ultimately, we think, will prove undisruptive for markets.

Keep an eye on yield curves

We continue to monitor the shape of the Treasury yield curve, as we see it as one of the most reliable barometers of the U.S. growth outlook, a gauge of whether monetary policy is easy or tight, and a broad indicator of the overall stage of the business cycle.

While the yield curve garners the most attention when it inverts, or turns negative, ahead of rising recession risks, we think the re-steepening process at the early stages of an economic recovery can be just as important.

The slope of the curve between 10-year and 2-year Treasury yields recently peaked at around 1.5%. That's only about half the slope typically achieved in the immediate aftermath of a recession, when 2-year yields tend to drop along with Fed policy rate cuts while 10-year yields rise on recovering growth and inflation expectations.

Since the Fed's seemingly hawkish pivot at the June meeting, the 10-year/2-year curve has flattened significantly, to just 1.2%, on a combination of higher 2-year yields due to higher rate hike expectations, and lower 10-year yields as those same rate hike expectations may be seen as weighing on the economic outlook. While we think the recent flattening will likely prove temporary, we would interpret further yield curve flattening as an indicator that markets believe the Fed to be at risk of removing monetary policy accommodation prematurely.

We continue to expect that the Fed will ultimately remain accommodative, and believe that yield curves are still in the process of steepening. Accordingly, we maintain our view that the benchmark 10-year Treasury yield is headed toward a range of 1.75% to 2.00% by the end of the year, and that 2-year Treasury yields will remain anchored around current levels, as we don't expect any Fed rate hikes until 2023.

Central banks go their own ways

As the Fed charts its own path forward, so too do many other major central banks as the pace of vaccinations and economic recoveries remain on different trajectories.

Whereas the Fed appears to be nearing the point of withdrawing support, the European Central Bank (ECB) has left its accelerated pace of asset purchases unchanged, with few signs that it could be slowed meaningfully in the months ahead even as ECB policymakers have noted an improved economic outlook and a reduction in downside risks.

And that policy support is likely warranted, in our view. The key difference is that where the Fed sees inflation running just above its 2% target through 2023, the ECB still forecasts inflation to fall well short of its own 2% target through the same time horizon. That may keep a lid on the oft-watched German 10-year Bund yield, which recently came close to returning above 0% for the first time since 2019; RBC Capital Markets now believes it will not breach that level until the second quarter of next year.

The Bank of Canada (BoC) has been leading the pack in terms of dialing back policy support, cutting asset purchases in April and signaling a

GLOBAL FIXED INCOME

rate hike as early as next year. The Fed's hawkish pivot may help ease the cross-border burden of divergent policy stances, allowing the BoC to remain on track. Finally, we think the Bank of England is the least likely of the global central banks to make any major policy moves for the balance of the year, as uncertainty remains around the true state of the UK labor market's recovery.

Portfolio positioning

The action for the rest of 2021 is likely to play out in global sovereign yields as markets reprice central bank expectations. Credit markets largely reflect a benign environment amid a robust economic outlook and vastly improved balance sheets, and valuations across the board remain on the rich side relative to historical averages.

In line with our expectation for sovereign yields to move higher, if only modestly, in most regions, we maintain neutral to relatively short views in terms of yield curve positioning. With respect to credit markets, we remain comfortable adding some risk exposure in lower-rated credits to pick up incremental yield, with preferred shares in many regions still offering fairly attractive risk-adjusted yields, in our view.

Stay the course

As central banks plot their various routes to the exits, we stress that policy support will likely remain accommodative to a historic degree for quite some time, and we think any reduction in support will be approached cautiously. There will undoubtedly be hiccups along the way as central bankers fine-tune their messages and plans—not to mention ongoing uncertainty around the path of the global pandemic—but for all of the talk around central bank policy changes, we think they will ultimately be broadly supportive of markets over any reasonably foreseeable horizon.

REGIONAL

Fixed income

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United States

- At its June meeting, the Federal Reserve formally opened discussions around the process of tapering its ongoing $120 billion per month in asset purchases, while now projecting two rate hikes by the end of 2023, up from zero at its March meeting. This hawkish pivot surprised markets and re-introduced broad-based volatility, and while it may persist, we think little has changed with respect to the Fed outlook—policy will remain accommodative for the economy and for markets for some time. While tapering plans will come into focus later this year, we don't expect the actual start until early next year, and that the window for rate hikes is unlikely to open before 2023.

- Though the benchmark 10-year Treasury yield has fallen sharply over the past month as the potential for tighter Fed policy has weighed on longer-term growth and inflation expectations, we continue to expect yields to rise modestly through year end as the Fed's plans come into view, together with further progress on the fiscal spending front associated with the various infrastructure plans. The 10-year yield will likely head toward the 1.75%–2.00% range.

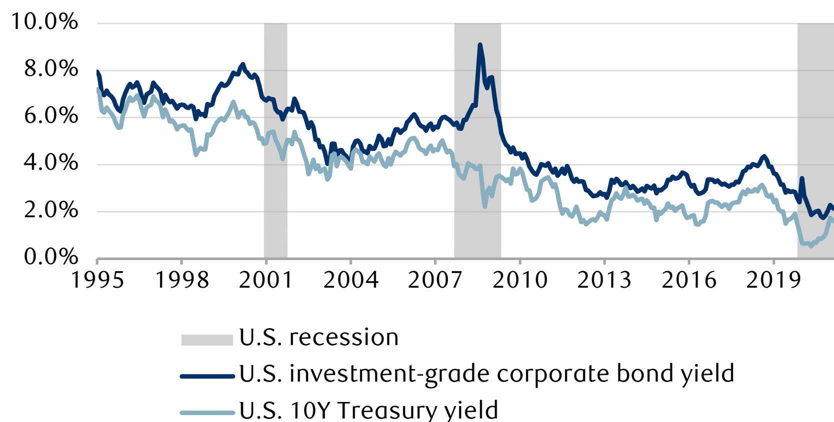
- Credit market valuations continue to rise amid optimism around the economic outlook, the demand for yield, and easy credit market access that has allowed companies to refinance debt and boost liquidity. Investors in investment-grade corporate bonds are now being paid just 0.82% in incremental yield over Treasuries for associated credit risks, near the lowest levels of the past 20 years. We continue to see value in the fixed-to-float preferred share market where investors can add yield, while adding protection via the fixed-to-floating rate coupon structure as the Fed edges toward a potential rate hike cycle over the next couple of years.

Canada

- While preferred shares and high-yield bonds have performed well this year, the yield premium offered for taking credit risk has remained in a tight range in recent months, particularly for higher-quality issuers. Those credit spreads have been kept unusually tight by very accommodative monetary policy and easy financial conditions; on the other hand, they have little room to narrow further given credit spreads are already hovering near historic lows. Outside of a significant reversal in the global fight against COVID-19, there is no obvious catalyst currently threatening this relatively benign credit environment.

Investment-grade corporate bond, 10Y Treasury spread tighten

U.S. investment-grade corporate bond & 10Y Treasury yields



Source - RBC Wealth Management, Bloomberg

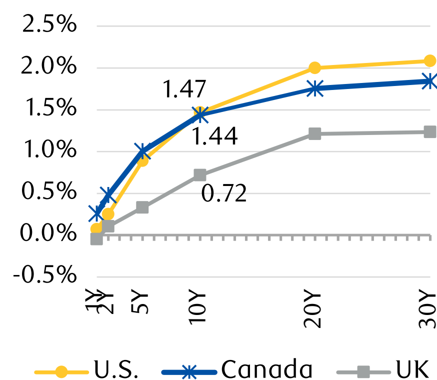
REGIONAL FIXED INCOME

Fixed income views

Region	Gov't bonds	Corp. credit	Duration
Global	=	=	5–7 yr
United States	=	=	5–7 yr
Canada	=	=	5–7 yr
Continental Europe	=	=	5–7 yr
United Kingdom	–	=	3–5 yr

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

Sovereign yield curves



Source - Bloomberg; data through 6/30/21

■ For this reason, we think developments in underlying government rates are likely to remain the key focus for fixed income investors in the second half of the year, which puts particular importance on communication from Bank of Canada (BoC) Governor Tiff Macklem going forward. The BoC's statements have positioned it as marginally more aggressive than most central banks; the Bank sees its first rate hike occurring at some point in H2 2022, compared to 2023 for the Federal Reserve.

■ Expectations for higher rates need not push investors to remain in short-term bonds only. In fact, we believe markets have already priced rate hikes into intermediate-term bonds that are more aggressive than BoC projections, anticipating two full hikes over the course of H2 2021 and H1 2022. These higher rate hike expectations provide some buffer to extend term, even in a rising rate environment.

■ With relatively little compensation for credit risk, and price upside constrained in high-yield and preferred shares, we believe modestly extending term in government or high-quality corporate bonds within a neutral fixed income allocation is appropriate until pockets of value begin to reappear.

Europe & UK

■ The European Central Bank (ECB) announced it would maintain the Pandemic Emergency Purchase Programme (PEPP) at an elevated pace for the next quarter to keep financing conditions favourable. We expect the ECB to keep rates on hold this year, and markets are expecting rates to rise in late 2023—lagging other central banks in raising interest rates as the vaccination rollout and re-opening in the region have lagged and been more challenging.

■ The ECB is also undergoing a strategic review of its policy tools—a key focus will be managing price stability, which will set the tone for inflation targeting. We expect the findings to be announced in September.

■ We suggest a Market Weight on eurozone sovereigns and corporate bonds. The bonds to fund the EU's €750 billion rescue fund are attractive to investors as the ECB asset purchases will be supportive, which could lead to outperformance in H2 2021, in our view. Corporate spreads should continue to be range-bound for the rest of 2021; therefore, the focus is on receiving coupon income. We prefer corporate credit issuers that are eligible for purchase under the Corporate Sector Purchase Programme, which will act to restrain any widening of those spreads.

■ In the UK, the Bank of England's Monetary Policy Committee (MPC) will likely be on hold for the rest 2021, in our view, and keep the current pace of purchases until the end of the year, as its forward guidance states "significant further progress" needs to be evident before the MPC will consider raising interest rates. Due to data lags, the true extent of the labour market challenges will probably be revealed in Q1 2022 once government support ends in September 2021.

■ We would hold an Underweight position on Gilts as we expect those yields to trend higher while the economy continues to reopen. Similar to European Credit, we also expect spreads, already at historic lows, to remain range-bound. We maintain a Market Weight on corporate credit, favouring non-domestic issuers and select domestic issuers.

Asia-Pacific

■ The June pullback in U.S. treasury yields set the stage for Asia investment-grade to perform. The Biden administration taking a few high profile state-owned enterprises off its sanctions list, including ChemChina, China Three Gorges Corp, and China State Construction Group, further underpinned the asset class.

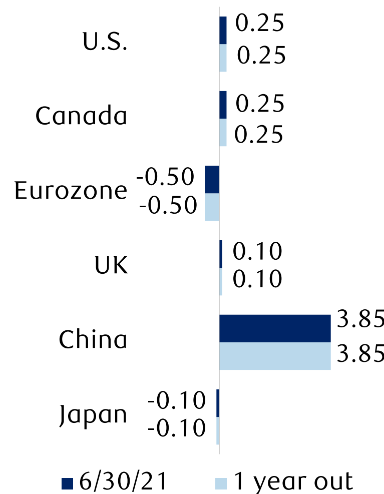
REGIONAL FIXED INCOME

■ Meanwhile, headline concerns related to Huarong's unsustainable debt loads also took a positive turn as the company announced it has started to dispose of seven units: five on finance, one on non-performing asset trading, and a local asset-management company. After disposing of about 700 billion yuan of combined assets, Huarong's total assets should fall to about 1 trillion yuan, markedly alleviating its debt burden.

■ Asia high-yield continues to ride through a period of volatility as the Chinese government tightens policy on the China property sector. On top of the "three red lines" policy that was rolled out in mid-2020, regulators announced two additional "red lines" restricting bank lending to the property sector, and started a centralized land auction policy on the land supply side. While bonds issued by the China property developers have underperformed, property sales have remained largely resilient so far.

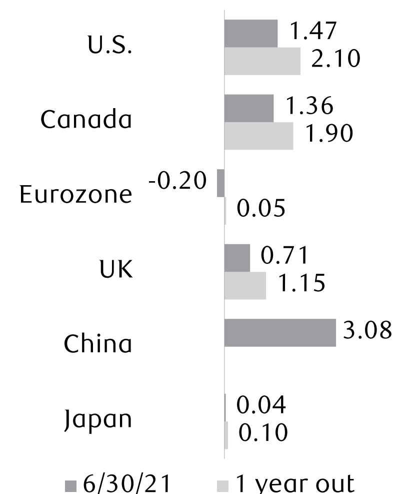
■ We expect the investment-grade segment to be mostly range-bound as credit spreads remain relatively low at some 130 basis points. Key drivers will be the direction in which U.S. yields move as well as any headlines regarding U.S. sanctions. As for high-yield, owing to the stricter policies directed at the China property sector, survival of the fittest will continue to be the rule, and property developers with decent scale and pricing power should stand out within the pack.

Central bank rate (%)



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

10-year rate (%)



Note: Eurozone utilizes German Bunds.

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

Commodities

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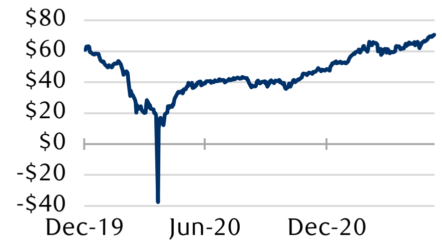
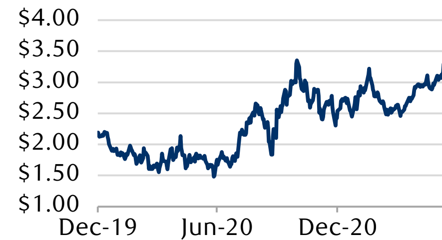
Crude oil: Early innings

RBC Capital Markets energy strategist believes we're in the early innings of a strong cycle and that West Texas Intermediate will likely exceed $70/bbl in the back half of the year. The strategist argues that pared-back global inventories, the further tapering of OPEC spare capacity, and reopening demand are leading to a structurally tight supply environment and higher prices.



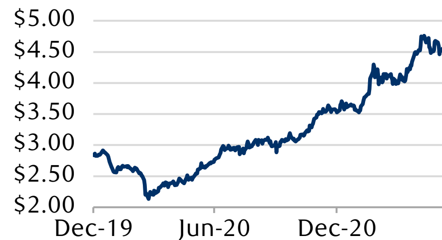
Natural gas: Strong consumption

Natural gas prices have rallied roughly 30% YTD, driven in part by strength in liquefied natural gas exports and rising U.S. domestic consumption. The higher-than-anticipated demand is forecast to cause U.S. inventories to end the year 4% lower than the five-year average as tracked by the U.S. Energy Information Administration.



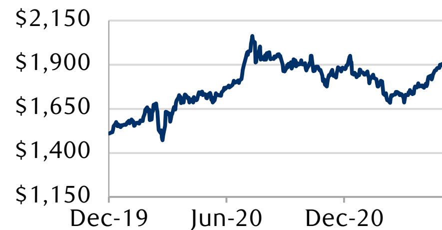
Copper: Tight inventories

Copper is a beneficiary of reopening, but should also be supported by longer-term themes such as the transition towards green energy. While Chinese industrial activity has softened amidst a tightening in government policy, RBC Capital Markets sees copper inventories remaining tight for the rest of the year. Copper prices were up 39% in the year to May, but have since given back almost half of those gains.



Gold: Aided by inflation

While gold has lagged in the face of a risk-on environment, the commodity managed to bounce off its 2021 lows and is effectively flat year to date. Stronger inflation should be a tailwind for gold, but low real rates remain the key driving factor, in our view. Real rates may drift higher towards year's end, but the increase should remain largely contained given high government debt levels.

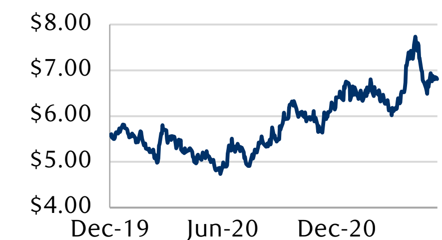


Soybeans: Rising inventories

Soybean prices have retreated from 18-month highs but remain solidly in the green, up roughly 74% y/y. Looking ahead to the 2021/22 season, rising global production should result in modest inventory increases following a year of strong exports to China and drought conditions in the Americas.

Wheat: Supply surplus

The USDA expects global consumption to reach record levels for the 2021/22 season, driven by higher feed and residual use in the EU. However, crop yields and production levels in Russia and North America are being scaled lower due to extreme weather. China is expected to account for approximately 48% of ending stock.



Commodity forecasts

Commodity	2021E	2022E
Oil (WTI $/bbl)	$67.64	$72.27
Natural gas ($/mmBtu)	$3.10	$2.95
Gold ($/oz)	$1731	$1696
Copper ($/lb)	$4.00	$3.75
Soybean ($/bu)	$6.54	$6.00
Wheat ($/bu)	$14.28	$12.38

Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (soybean and wheat); data as of 6/14/21

Chart source - RBC Wealth Management, Bloomberg; date range: 12/27/19–6/11/21

Currencies

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U.S. dollar: Focus on tapering

The Fed was dovish throughout H1, but there was a change in tone at the June FOMC meeting with the median interest rate forecast indicating two hikes in 2023. Focus turns to August's Jackson Hole Economic Policy Symposium, where there is very likely to be a formal conversation on tapering. We look for the comparatively higher U.S. yields to keep the USD supported through H2, unless economic data in the U.S. unexpectedly weakens.

Euro: ECB not ready to remove PEPP

The June ECB meeting underscored the importance of keeping the pace of the pandemic emergency purchase programme (PEPP), which contrasts with the Fed's move toward tapering, expected early next year. This perceived monetary policy divergence, coupled with consensus growth forecasts that favor the U.S., should potentially see the EUR underperform the USD in H2 2021. One risk to this view would be posed by a significant shift to European from U.S. equities.

Canadian dollar: All the hawkishness priced in?

A hawkish taper by the BoC in April and soaring commodity and crude oil prices have made the loonie the top performer in the G-10 so far in 2021. RBC Capital Markets' economists look for the Fed's tapering intentions to catch up to those of the BoC, resulting in a firmer USD/CAD in H2 2021.

British pound: Limited scope for further gains

The pound had strong H1 2021 performance following hawkish comments by BoE members and an impressive vaccine rollout in the UK. A lot of good news has been priced into the GBP, and we expect further gains to be limited. Increasing tensions between the UK and EU regarding Northern Ireland will be something to watch over the coming months.

Japanese yen: Driven by yield differentials

We expect yield differentials to remain the key driver for the JPY in H2, which puts the focus again on what the Fed does on the taper front. Analysts are keeping an eye on capital flows into Japan, which RBC Capital Markets' economists note have been neutral to positive for Japan and should give some support to the JPY.

Currency forecasts

Currency pair	Current rate	Forecast June 2022	Change
Major currencies			
USD Index	92.43	96.80	5%
CAD/USD	0.80	0.79	-1%
USD/CAD	1.23	1.27	3%
EUR/USD	1.18	1.12	-5%
GBP/USD	1.38	1.19	-14%
USD/CHF	0.92	0.98	7%
USD/JPY	111.11	104.0	-6%
AUD/USD	0.74	0.73	-1%
NZD/USD	0.69	0.68	-1%
EUR/JPY	131.75	116.0	-12%
EUR/GBP	0.85	0.94	11%
EUR/CHF	1.09	1.10	1%
Emerging currencies			
USD/CNY	6.45	6.30	-2%
USD/INR	74.33	72.00	-3%
USD/SGD	1.34	1.31	-2%

Change is defined as the implied appreciation or depreciation of the first currency in the pair quote. Examples of how to interpret currency data can be found in the Market Scorecard.

Source - RBC Capital Markets forecasts, Bloomberg

Dovish Fed comments in Q2 reversed the gains made in Q1 on the USD

U.S. Dollar Index

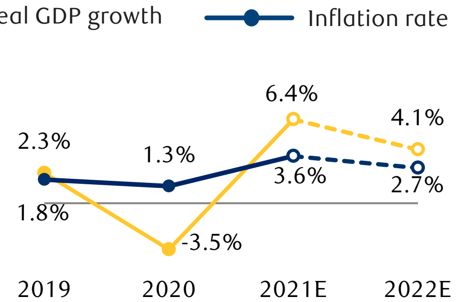
A hawkish tilt in the June FOMC statement puts focus on tapering at Jackson Hole.

Source - RBC Wealth Management, Bloomberg, data through 6/17/21

KEY
Forecasts

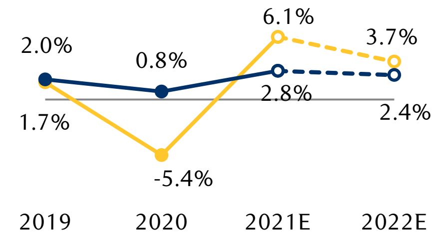
United States: Fed sees two rate hikes in 2023

Lean inventory and strong demand pushed home prices to record highs even as mortgage purchase applications sagged, now 175 below year ago. Payrolls picked up further with biggest gains coming from leisure and hospitality, as the travel industry gained some steam. The Fed now forecasts two rate hikes in 2023, up from zero. A gradual reduction in the pace of asset purchases is expected to begin in Q4. Consumer and business confidence very strong.



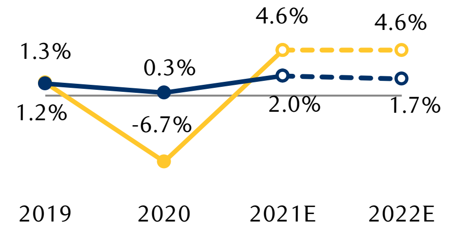
Canada: Third-wave slowdown

Third-wave shutdowns temporarily weakened GDP and employment. However, house prices as well as consumer and business confidence all strong. The BoC left its key interest rate at historic lows and kept the pace of bond purchases steady. Still, the BoC has been the most aggressive central bank, signaling rate hikes as early as next year. The Canadian dollar weakened somewhat last month after climbing for a year.



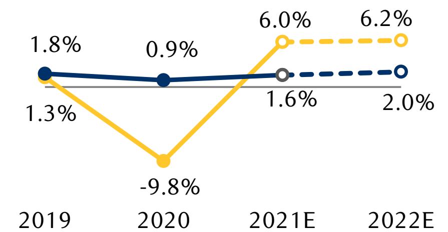
Eurozone: Upgraded GDP & inflation forecasts

The economy is showing significant signs of recovery as COVID-19 restrictions have been lifted across the region. IHS Markit data highlighted activity growing at fastest pace in 15 years as companies struggle to keep up with demand. ECB projections for GDP were increased to 4.6% for 2021 and 4.7% for 2022, from 4.0% and 4.1%. ECB President Christine Lagarde noted the brightening outlook, but insisted inflation pressures remain temporary.



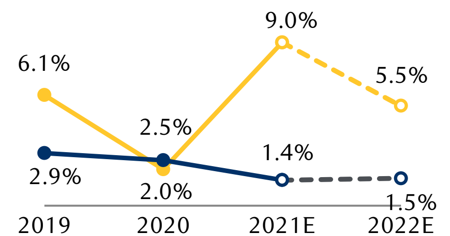
UK: Bank of England stays on hold for now

The BoE maintained the Bank Rate at 0.1%, as expected. BoE Chief Economist Andy Haldane said inflation concerns have "tilted very decisively in the direction of upside risk," raising the prospect of policy tightening down the road. Manufacturing and services PMIs continue to drive higher out of a COVID-19 valley deepened by Brexit uncertainty. Business confidence on the mend, consumer confidence muted.



China: Softer activity in Q2

China PMIs, above 50, remain in expansion territory, but Industrial production has come off the boil, after a strong Q1, as have exports. Lending is slowing as policymakers tighten. Business and consumer confidence both softer. Core consumer prices showing some acceleration. Recent new COVID-19 outbreaks are dampening consumer spending.



Japan: Industrial production sags

Consumer confidence is elevated, while business confidence is improving slowly. Q1 GDP decline was disappointing. Industrial production sagged sharply in latest month as the semiconductor shortage hit hard. Domestic household spending stronger, exports weaker. Slow vaccine rollout and uncertainty around the Olympics are clouding the summer outlook.

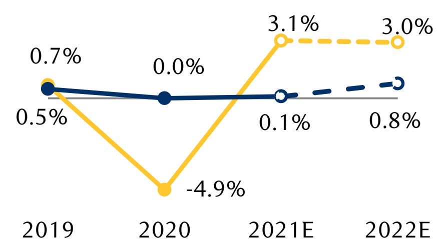


Chart source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management Bloomberg consensus estimates

MARKET Scorecard

Data as of June 30, 2021

Equities

Global markets traded mostly higher in June with the exception of the DJIA, Shanghai Composite, Singapore Straits Times, and Mexican Bolsa IPC.

Bond yields

The U.S. 2-year Treasury yield continued climbing amid inflation concerns and the possibility of a new round of global restrictions as the Delta variant of COVID-19 is on the rise.

Commodities

Stronger-than-expected demand has contributed to rapidly rising natural gas prices, and the commodity has returned more than 40% YTD.

Currencies

The U.S. Dollar Index was mixed for the month, with the greenback trading weaker against the EUR, GBP, and AUD while rallying against the CAD and JPY.

Equity returns do not include dividends, except for the Brazilian Ibovespa. Equity performance and bond yields in local currencies. U.S. 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 0.80 means 1 Canadian dollar will buy 0.80 U.S. dollar. CAD/USD 9.5% return means the Canadian dollar has risen 9.5% vs. the U.S. dollar during the past 12 months. USD/JPY 111.11 means 1 U.S. dollar will buy 111.11 yen. USD/JPY 2.9% return means the U.S. dollar has risen 2.9% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 6/30/21

Index (local currency)	Level	1 month	YTD	12 month
S&P 500	4,297.50	2.2%	14.4%	38.6%
Dow Industrials (DJIA)	34,502.51	-0.1%	12.7%	33.7%
Nasdaq	14,503.95	5.5%	12.5%	44.2%
Russell 2000	2,310.55	1.8%	17.0%	60.3%
S&P/TSX Comp	20,165.58	2.2%	15.7%	30.0%
FTSE All-Share	4,014.74	0.0%	9.3%	17.7%
STOXX Europe 600	452.84	1.4%	13.5%	25.7%
EURO STOXX 50	4,064.30	0.6%	14.4%	25.7%
Hang Seng	28,827.95	-1.1%	5.9%	18.0%
Shanghai Comp	3,591.20	-0.7%	3.4%	20.3%
Nikkei 225	28,791.53	-0.2%	4.9%	29.2%
India Sensex	52,482.71	1.0%	9.9%	50.3%
Singapore Straits Times	3,130.46	-1.1%	10.1%	20.9%
Brazil Ibovespa	126,801.70	0.5%	6.5%	33.4%
Mexican Bolsa IPC	50,289.75	-1.2%	14.1%	33.3%
Bond yields	**6/30/21**	**5/31/21**	**6/30/20**	**12 mo. chg**
U.S. 2-Yr Tsy	0.249%	0.141%	0.149%	0.10%
U.S. 10-Yr Tsy	1.468%	1.594%	0.656%	0.81%
Canada 2-Yr	0.450%	0.320%	0.292%	0.16%
Canada 10-Yr	1.389%	1.486%	0.528%	0.86%
UK 2-Yr	0.063%	0.063%	-0.084%	0.15%
UK 10-Yr	0.716%	0.795%	0.172%	0.54%
Germany 2-Yr	-0.662%	-0.601%	-0.687%	0.03%
Germany 10-Yr	-0.207%	-0.185%	-0.454%	0.25%
Commodities (USD)	**Price**	**1 month**	**YTD**	**12 month**
Gold (spot $/oz)	1,770.11	-7.2%	-6.8%	-0.6%
Silver (spot $/oz)	26.13	-6.8%	-1.0%	43.5%
Copper ($/metric ton)	6,486.50	-8.8%	20.7%	55.7%
Uranium ($/lb)	20.90	-0.5%	-12.6%	-7.7%
Oil (WTI spot/bbl)	68.55	10.8%	51.4%	87.1%
Oil (Brent spot/bbl)	75.13	8.4%	45.0%	82.6%
Natural Gas ($/mmBtu)	3.05	22.2%	43.8%	108.5%
Agriculture Index	273.20	-8.3%	8.0%	48.3%
Currencies	**Rate**	**1 month**	**YTD**	**12 month**
U.S. Dollar Index	92.4360	2.9%	2.8%	-5.1%
CAD/USD	0.8066	-2.7%	2.7%	9.5%
USD/CAD	1.2398	2.8%	-2.6%	-8.7%
EUR/USD	1.1858	-3.0%	-2.9%	5.6%
GBP/USD	1.3831	-2.7%	1.2%	11.5%
AUD/USD	0.7498	-3.1%	-2.5%	8.6%
USD/JPY	111.1100	1.4%	7.6%	2.9%
EUR/JPY	131.7500	-1.7%	4.4%	8.7%
EUR/GBP	0.8572	-0.4%	-4.1%	-5.4%
EUR/CHF	1.0969	-0.2%	1.4%	3.1%
USD/SGD	1.3454	1.8%	1.8%	-3.5%
USD/CNY	6.4571	1.4%	-1.1%	-8.6%
USD/MXN	19.9365	-0.1%	0.1%	-13.3%
USD/BRL	4.9696	-4.8%	-4.4%	-9.1%

Research resources

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Sell [Underperform]	51	3.61	4	7.84

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