GLOBAL
Insight
WEEKLY

Perspectives from the Global Portfolio Advisory Committee

April 28, 2022

Pressures come knocking

Kelly Bogdanova – San Francisco

Stock markets have been thrown into another funk, amid rising pressures from several directions. We discuss the overt challenges facing markets, some other risks lingering in the background, and what this spells for the equity outlook.

What is front and center?

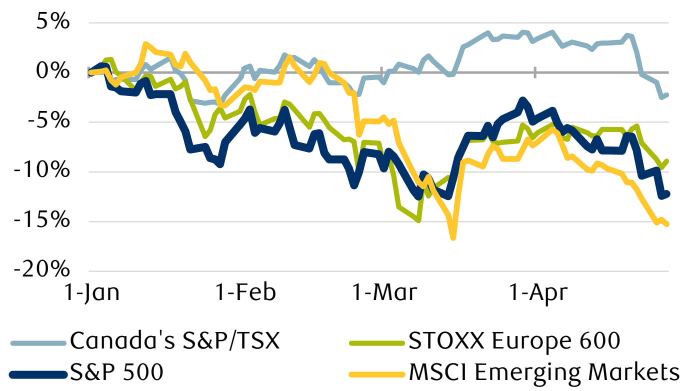
Equity markets have resumed their downward trend, with the S&P 500 falling 7.7 percent so far this month as of April 27, testing the March lows, and other major indexes outside of the U.S. have pulled back as well, as the chart illustrates. The S&P 500 has declined 12.8 percent from its all-time high in early January.

Lately, markets have been pressured primarily by three factors:

The potential for further deceleration in global economic growth: This stems from the renewed COVID-19 lockdowns in China and their potential to exacerbate supply chain problems. Also, the ongoing sanctions and counter-sanctions risks related to the Russia-Ukraine conflict have impacted some supply chains and continue to put a premium on commodity prices. Recession risks for the U.S. and Canada are still relatively moderate by our indicators, but we think they have increased for Europe, while growth for China and the global economy could decelerate beneath current consensus forecasts.

The Fed's even more aggressive rate hike rhetoric: The Fed indicated it plans to pull its rate hikes forward, packing more of them into 2022 in order to fight inflation. At this stage, we think it's difficult for economists and

Year-to-date performance of select equity indexes



Source - RBC Wealth Management, Bloomberg; data through 4/27/22

market participants to forecast the degree to which rate hikes will impact economic and earnings growth, and the pace and magnitude of the hikes. So far this year, consensus U.S. GDP forecasts have come down for 2022 and 2023 in anticipation of more rate hikes (see chart on page 2). But we don't think they have come down enough, especially given the negative result just released that preliminarily indicates Q1 GDP declined 1.4 percent largely due to a much-wider-than-expected trade deficit (strong imports coupled with weak exports) and soft

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

inventory growth. Together, these items subtracted four percentage points from Q1 growth, more than offsetting solid household demand and business investment. We anticipate economists will reduce their full-year 2022 estimates and could trim other quarters too.

Also, even if the year-over-year inflation rate has already peaked or could soon, market participants are debating just how much the Fed will be able to impact inflation and how "sticky" it will be. RBC Global Asset Management anticipates headline inflation will decelerate in the second half of this year but will still be "uncomfortably high" at year-end.

Cracks in the corporate earnings story: The aggregate Q1 earnings and revenue results for S&P 500 companies have been good thus far. However, there have been some notable misses and/or cautious guidance by high-profile firms including Texas Instruments, Alphabet (Google), Boeing, Whirlpool, JPMorgan Chase, Netflix, PayPal, Harley-Davidson, and Baker Hughes. This, combined with the above two headwinds, raises questions about earnings growth prospects going forward, specifically whether consensus forecasts could come down.

What is lingering in the background?

Military developments on the ground in Ukraine have been barely mentioned in equity trading notes of our research providers recently, which indicates the conflict is not currently the market's focus like it was in late February to early March. But related geopolitical risks linger, and we don't think they have been fully factored into equity prices.

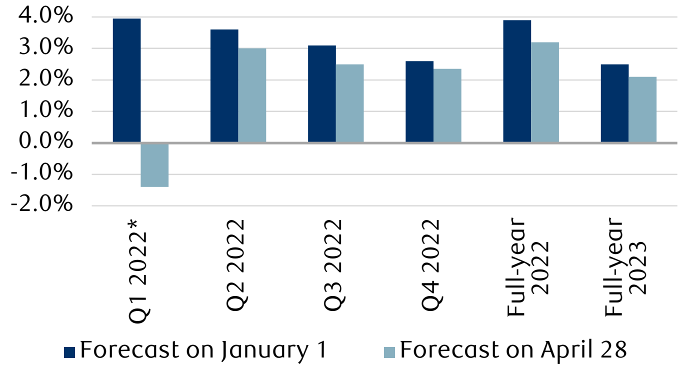
The military conflict could escalate into a more direct Russia-NATO clash in various scenarios. The Kremlin warned of this once again on April 27 by stating it is ready to respond in a "lightning fast" manner if "someone intends to interfere in the events taking place from the outside and creates threats of a strategic nature unacceptable to Russia."

Tensions have already increased with NATO countries' deliveries of heavy weapons to Ukraine through Poland, and some Western defense officials' statements supporting Ukrainian strikes on Russian territory. Also, recent instability in a small disputed region that borders Ukraine, the Pridnestrovian Moldavian Republic (also known as Transnistria), underscores that the military conflict could spill into a third country. Furthermore, it's unclear how NATO would respond if Russia and its allied forces continued to consolidate and expand their gains in eastern and southern Ukraine, and if they ultimately advance into other Ukrainian regions.

Other risks for markets are that European energy supplies could be disrupted further, and additional sanctions vulnerabilities remain. Russia now requires payment for natural gas in rubles instead of dollars and euros from countries that have sanctioned it. This policy is in response to Western countries' freezing of

U.S. GDP forecasts will likely retreat further

Economists' consensus U.S. GDP forecasts at the beginning of the year versus April 28, 2022



* The Q1 '22 forecast for April 28 represents the official preliminary Q1 GDP growth result according to the Bureau of Economic Analysis.

Source - RBC Wealth Management, Bloomberg (consensus forecasts), Bureau of Economic Analysis (Q1 '22 April 28 data)

a significant portion of Russia's central bank assets and blocking of dollar and euro transactions via the SWIFT payment system. While some European countries (Hungary, Austria, and companies in other countries) have reportedly agreed to pay for gas with rubles, others have rejected this (Poland and Bulgaria). If Russian natural gas is blocked due to a refusal to pay in rubles or by some other sanctions/counter-sanctions policy, a number of industrial leaders and CEOs in Germany have warned of severe negative consequences for the German economy.

Meanwhile, the U.S., EU, and their allies are contemplating more economic sanctions, and Russia could add more counter-sanctions. Even after the Russia-Ukraine military hostilities decrease meaningfully or end, we think most if not all of the anti-Russia sanctions by the U.S., EU, and allies will remain in place. Therefore, energy, industrial metals, and agriculture commodities will likely continue to be priced with a "sanctions premium"—higher than they would have been had the Ukraine crisis not occurred—at least for the time being.

Give the market time to work things out

Given the lingering supply chain, inflation, growth, and geopolitical risks, there is a wider range of potential outcomes for the global economy and corporate earnings for this year and next than there was just a few months ago. It could take time for the market to work through the uncertainties and there is risk of a deeper pullback along the way.

We continue to believe the S&P 500 has the potential to be higher than current levels in the next 12 months primarily because U.S. recession risks are no worse than moderate as things stand, a number of economic indicators are sturdy, and earnings trends are still generally good. As long as the end result is an economic "growth scare" instead of a full-blown recession, and Russia and NATO avoid direct clashes, we think any further market downside should be limited.

UNITED STATES

Alan Robinson – Seattle

■ **U.S. stocks stumbled during the week and appear likely to close out April near their lows for the month.** Volatility ratcheted up as earnings season moved into top gear, compounded by fears over inflation, the potential for excessive interest rate hikes from the Federal Reserve, and increasing geopolitical tension. Companies that reported during the week account for 49% of the S&P 500 and 62% of the Nasdaq Composite by market cap; results and guidance appeared mixed. One bright spot appears to be travel, with Visa Inc. (V) posting strong cross-border fee growth and Alphabet Inc. (GOOGL) noting an increase in searches related to travel and vacation rentals.

■ **RBC Wealth Management Inc. Technical Strategist Rob Sluymer notes two lines in the sand that are coming into sharper focus.** The first concerns the S&P 500 Index. He believes this measure of the broad U.S. stock market must hold at the critical support band between 4,100 and 4,200, near its year-to-date lows. A break below this band would, by definition, confirm a new downtrend for the market.

■ **The second relates to the benchmark 10-year U.S. Treasury bond interest rate.** If this yield pushes above technical resistance near the recent cycle high between 3.00% and 3.25%, it would likely trigger additional risk-off behavior, according to Sluymer. Recently, bond yields have tempered their rise; if the pause continues, it may prove to be an important reprieve for equities.

■ Prompted by market turbulence, RBC Capital Markets, LLC Head of U.S. Equity Strategy **Lori Calvasina lowered her year-end target for the S&P 500 from 5,050 to 4,860**, mainly due to headwinds from higher interest rates.

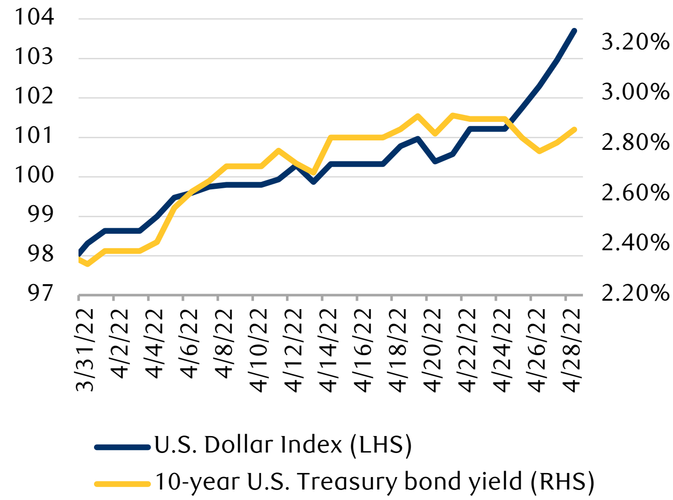
■ **The currency market added to traders' concerns during the week, with the U.S. dollar reaching highs not seen since 2002.** The greenback benefited from weakness in all major currencies as Europe, China, and Japan saw their currencies fall on increasing economic woes. The dollar usually trades in tandem with rising U.S. interest rates, but this relationship decoupled during the week (see chart), suggesting that traders fear increasing geopolitical tension may prompt investors seeking lower risk to increase their dollar allocations.

CANADA

Luis Castillo & Simon Jones – Toronto

■ The rate on the short-term Government of Canada bond benchmark has risen by more than 150 basis points (bps) so far in 2022 on the back of increasingly hawkish commentary from the Bank of Canada (BoC). Every week

The dollar decouples from interest rates as geopolitical tension increases



Source - RBC Wealth Management, FactSet; daily data as of 12:06 pm ET 4/28/22

we seem to highlight how hawkish Canada's central bank is becoming, only to see even stronger rhetoric the following week. **Tackling inflation head-on seems to have become the central bank's number one priority, as words like "forcefully" are continually used by policymakers to describe their plans for monetary tightening.** These views were further reinforced in back-to-back appearances by BoC Governor Tiff Macklem this week, in which he highlighted the delicate balancing act the bank faces in its effort to tame inflation without tipping the economy into a recession. Having already delivered a jumbo 50 bps hike in April, the BoC is not ruling out the possibility of similar, or even larger, increases in upcoming meetings.

■ **Retail sales, which indicate consumer demand for goods and services, were stronger than expected in February, increasing 0.1% m/m** according to Statistics Canada. Jumps in clothing and gasoline sales were the main contributors to February's upside surprise. Sales at clothing and clothing accessory retailers surged 15.1% during the month as Canadians restocked their wardrobes before returning to the office. The rise in gasoline sales, on the other hand, was mainly the result of higher prices at the pump, rather than increased demand. **After controlling for the effects of inflation, retail sales volume declined by a modest 0.4% in February.** Consumer spending data tracked by RBC Economics indicates household spending has remained elevated through March and April, but the composition of that spending has begun to shift towards services as pandemic-related restrictions continue to ease. Statistics Canada's preliminary estimate indicates retail sales rose by 1.4% in March.

EUROPE

Thomas McGarrity, CFA & Frédérique Carrier – London

- **On April 27, the Russian government announced it would stop all deliveries of natural gas to Poland and Bulgaria**; the two countries receive close to 50% and 80% of their gas, respectively, from Russia. **The euro**—already suffering as the U.S. Federal Reserve follows a more hawkish path than the European Central Bank and investors discount higher interest rates in the U.S. than in the euro zone—**continued to fall**, and is now not far from parity with the U.S. dollar.

- **Russia's decision to stop supplying fossil fuels to some countries may not be as detrimental now as it would have been at the beginning on the war**. Over the past weeks, several European countries have worked at reducing their dependence on Russia by topping up supplies from other providers. Poland reassured its citizens that its domestic gas storage facilities are more than 75% full, meaning it believes it can weather the blow. According to the Financial Times, Germany's economy minister indicated that Germany now obtains only 12% of its oil from Russia, compared with 35% in February.

- Russia's use of its economic weapon is **likely to increase the EU's resolve** to wean itself from Russian oil and gas.

- **The European results season is robust so far**, in our view, with over 75% of STOXX Europe 600 companies reporting sales above consensus expectations. However, focus remains squarely on company outlook statements and guidance in light of the swirling uncertainty around the short-term outlook.

- **Unilever followed the Consumer Staples sector trend of beating sales growth estimates for Q1**. Like-for-like sales growth of 7.3% was roughly three percentage points ahead of consensus, driven by pricing (which rose 8.3%, vs. consensus expectation of 6.3%), while the volume decline of 1% y/y was less than the consensus expectation of -1.7%. The company stated that "this period of unprecedented inflation" will require it to increase prices further in the months ahead, and it expects this to negatively impact volumes through the year.

- **Eyewear giant EssilorLuxottica reported Q1 results ahead of expectations**. On the results call, the chief financial officer stated that the company is not currently seeing consumers trading down. For example, branded contact lenses outperformed unbranded in Q1, while the company saw no real difference in demand in Europe between midrange and entry-level optical products.

The euro's weakness versus the U.S. dollar continues

Source - RBC Wealth Management, Bloomberg; data through 4/27/22

ASIA PACIFIC

Nicholas Gwee, CFA – Singapore

- **Asia Pacific equity markets traded broadly lower in the week, led by Taiwan and China**. Taiwan's TAIEX Index was dragged down by its largest constituent, Semiconductor Manufacturing Co. Ltd. (2330 TT), as investors are increasingly concerned about the slowing demand for consumer electronics such as smartphones and televisions due to COVID-19 lockdowns in China and current geopolitical issues.

- **China's government announced a string of fiscal measures this week to support economic growth, which is under threat from COVID-19 outbreaks**. Beijing said it will step up infrastructure construction by enhancing and advancing work on transport facilities including airports, and on energy and water conservation projects. The government will also subsidize stressed industries, encourage flexible work, and allow small and medium-sized enterprises (SMEs) to delay social insurance payments. Separately, China's State Council pledged to promote the growth of internet platform firms and to give cash payments to low-income people who have lost their jobs. **On the monetary side, the People's Bank of China (PBoC) pledged targeted SME funding and moved to limit the drop in the yuan** by cutting banks' required foreign exchange reserve ratio by one percentage point, to 8%. The currency had fallen to a 17-month low in reaction to the COVID-19 outbreak in Beijing. The PBoC had hiked the foreign exchange reserve ratio by four percentage points last year. We expect China to announce more easing policies to help cushion the economic impact of its tough COVID-19 restrictions.

- **SoftBank Group (9984 JP) is walking away from some of its loss-making portfolio firms to comply with stricter investment criteria**. One company affected by the shift is camera developer Light. SoftBank balked at putting more money into the company, leading to a funding crisis and the possibility of Light winding down operations. The about-face from past largesse comes as SoftBank takes hits from the Tech sector decline.

MARKET
Scorecard

Data as of April 27, 2022

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	4,183.96	-7.6%	-12.2%	-0.1%	45.4%
Dow Industrials (DJIA)	33,301.93	-4.0%	-8.4%	-2.0%	38.0%
Nasdaq	12,488.93	-12.2%	-20.2%	-11.4%	43.1%
Russell 2000	1,884.04	-9.0%	-16.1%	-18.1%	47.0%
S&P/TSX Comp	20,744.23	-5.2%	-2.3%	8.2%	41.7%
FTSE All-Share	4,121.70	-1.6%	-2.1%	3.8%	28.0%
STOXX Europe 600	444.31	-2.5%	-8.9%	1.0%	32.5%
EURO STOXX 50	3,734.64	-4.3%	-13.1%	-6.9%	29.6%
Hang Seng	19,946.36	-9.3%	-14.8%	-31.1%	-17.8%
Shanghai Comp	2,958.28	-9.0%	-18.7%	-14.1%	5.1%
Nikkei 225	26,386.63	-5.2%	-8.4%	-9.0%	33.4%
India Sensex	56,819.39	-3.0%	-2.5%	16.1%	79.0%
Singapore Straits Times	3,320.67	-2.6%	6.3%	3.3%	30.3%
Brazil Ibovespa	109,349.37	-8.9%	4.3%	-8.4%	39.8%
Mexican Bolsa IPC	52,351.21	-7.4%	-1.7%	7.3%	49.7%
Gov't bonds (bps change)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. 10-Yr Treasury	2.832%	49.4	132.2	121.0	217.1
Canada 10-Yr	2.800%	39.5	137.4	123.8	217.5
UK 10-Yr	1.812%	20.2	84.1	103.8	151.1
Germany 10-Yr	0.801%	25.3	97.8	105.0	125.4
Fixed income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	3.32%	-2.9%	-8.6%	-7.5%	-7.6%
U.S. Investment-Grade Corp	4.11%	-4.1%	-11.5%	-9.1%	-4.8%
U.S. High-Yield Corp	6.78%	-2.8%	-7.5%	-4.4%	15.4%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	1,885.73	-2.7%	3.1%	6.1%	10.0%
Silver (spot $/oz)	23.39	-5.7%	0.3%	-11.0%	53.8%
Copper ($/metric ton)	9,863.50	-4.9%	1.3%	0.0%	90.7%
Oil (WTI spot/bbl)	102.02	1.7%	32.5%	62.1%	698.3%
Oil (Brent spot/bbl)	105.32	-2.4%	35.4%	58.6%	426.9%
Natural Gas ($/mmBtu)	7.38	30.8%	97.9%	156.9%	305.8%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	102.9540	4.7%	7.6%	13.2%	2.9%
CAD/USD	0.7803	-2.4%	-1.4%	-3.2%	9.5%
USD/CAD	1.2816	2.5%	1.4%	3.4%	-8.7%
EUR/USD	1.0553	-4.6%	-7.2%	-12.7%	-2.5%
GBP/USD	1.2537	-4.6%	-7.4%	-9.9%	0.9%
AUD/USD	0.7121	-4.8%	-2.0%	-8.3%	10.1%
USD/JPY	128.4000	5.5%	11.6%	18.1%	19.7%
EUR/JPY	135.5200	0.6%	3.5%	3.1%	16.7%
EUR/GBP	0.8418	-0.1%	0.1%	-3.1%	-3.4%
EUR/CHF	1.0227	0.1%	-1.4%	-7.4%	-3.2%
USD/SGD	1.3809	1.9%	2.4%	4.1%	-2.7%
USD/CNY	6.5606	3.5%	3.2%	1.2%	-7.4%
USD/MXN	20.3855	2.6%	-0.7%	1.6%	-17.5%
USD/BRL	4.9665	4.7%	-10.9%	-8.9%	-12.1%

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 Wednesday'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 0.78 means 1 Canadian dollar will buy 0.78 U.S. dollar. CAD/USD -1.4% return means the Canadian dollar fell 1.4% vs. the U.S. dollar year to date. USD/JPY 128.40 means 1 U.S. dollar will buy 128.40 yen. USD/JPY 11.6% return means the U.S. dollar rose 11.6% vs. the yen year to date.

Source - Bloomberg; data as of 4/27/22 market close

Authors

Kelly Bogdanova – San Francisco, United States
kelly.bogdanova@rbc.com; RBC Capital Markets, LLC

Alan Robinson – Seattle, United States
alan.robinson@rbc.com; RBC Capital Markets, LLC

Luis Castillo – Toronto, Canada
luis.castillo@rbccm.com; RBC Dominion Securities Inc.

Simon Jones – Toronto, Canada
simon.jones@rbccm.com; RBC Dominion Securities Inc.

Frédérique Carrier – London, United Kingdom
frederique.carrier@rbc.com; RBC Europe Limited

Thomas McGarrity, CFA – London, United Kingdom
thomas.mcgarrity@rbc.com; RBC Europe Limited

Nicholas Gwee, CFA – Singapore
nicholas.gwee@rbc.com; Royal Bank of Canada, Singapore Branch

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As of March 31, 2022

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Buy [Outperform]	841	57.68	330	39.24
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