

# Global Insight

Perspectives from the Global Portfolio Advisory Committee



## A U-turn for the auto sector?

It wasn't that long ago that the auto sector was on an open road to the car of the future. Will the gauntlet of potholes left by COVID-19 cause the sector to swerve?

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Wealth Management

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The typical cadence of the business cycle appears to be holding true, no matter how atypical the current U.S. and global recessions might be. Our eyes are on the yield curve and what it might mean for both the duration of the recession and the robustness of the recovery.

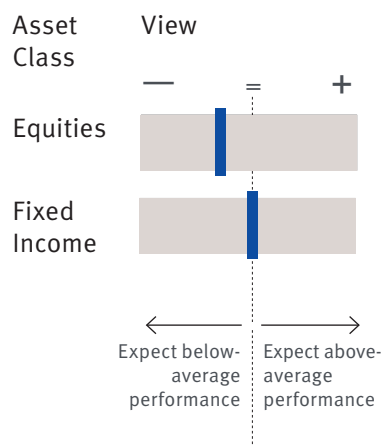
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All values in U.S. dollars and priced as of market close, June 30, 2020, unless otherwise stated.

# RBC's investment stance

## Global asset views



See “Views explanation” below for details

Source - RBC Wealth Management

## Equities

- Major economies are rebounding, but there are still obstacles along the path toward more normal levels of GDP activity. The recent emergence of new COVID-19 hotspots in the U.S. and the associated retightening of lockdown measures raise questions about how long it will take for economic output to reach pre-pandemic levels.
- RBC Global Asset Management anticipates it will take until the very end of 2021 for U.S. GDP to recover. This would be much quicker than the recovery from the global financial crisis of 2008–2009. But we think even this accelerated pace is somewhat slower than the global equity market is anticipating. A similar timing disparity seems to be playing out for the corporate earnings recovery as well. We would continue to hold equities at a modest Underweight level in portfolios.

## Fixed income

- The Fed’s moves to keep short-term rates low in order to support economic growth and inflation expectations have produced modest yield curve steepening led by rising yields at the long end—a notable shift from the curve flattening and inversions of recent years. In response, we have shifted to a neutral duration profile, from moderately long previously. Though risks remain, current market valuations still offer attractive risk/reward profiles in certain fixed income sectors, specifically in corporate credit.
- We maintain our Market Weight in global fixed income. Demand for “safe” assets remains robust, and with markets already priced for a short recession we maintain a broad Overweight to corporate credit.

## Views explanation

(+/=/-) 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.

# A U-turn for the auto sector?



**Joseph Spak, CFA**  
RBC Capital Markets, LLC  
New York, United States



**John Stackhouse**  
Royal Bank of Canada  
Toronto, Canada



**Jim Allworth**  
Vancouver, Canada  
jim.allworth@rbc.com

It wasn't that long ago that the auto sector was on an open road to the car of the future. But will the gauntlet of potholes left by COVID-19 cause the sector to swerve? John Stackhouse, Senior Vice President, Office of the CEO at RBC, and Joseph Spak, U.S. Auto Sector Analyst at RBC Capital Markets, LLC, explore where the auto sector is going from here, and what that means for the prospects for autonomous and electric vehicles. We hope you find this commentary insightful. — Jim Allworth

This article is updated from an [interview](#) released on June 3, 2020.

- The auto industry is restarting under COVID-19 protocols.
- Work-at-home requirements and an aversion to transit and ride-sharing may stimulate more demand for cars.
- Autonomous vehicle development is slowing, but electric vehicle development/production is gaining momentum.

**John Stackhouse:** The North American auto sector has started to reopen and plants are calling workers back to get production going again. How has the pandemic changed auto manufacturing?

**Joseph Spak:** First and foremost, we believe most companies have prioritized worker health and safety here as we begin to reopen. As production gradually ramps up, automakers, suppliers, and other industry stakeholders have really been engaged in a coordinated effort to bring the industry back online. We've seen companies institute new protocols that can require mandatory facemasks and other personal protective equipment, or PPE, temperature checks, greater line spacing, and sometimes physical barriers. Many plants have begun to operate on reduced or staggered shifts. And we've seen a lot of industry leaders like Aptiv, Magna, Ford, General Motors, and Lear publish playbooks and protocols for a restart that they also want their supply base to follow.

We wouldn't be surprised if companies look for a means to add additional automation in the future, in areas of the vehicle where that's feasible, to help with the new reality of plant layouts. And the other thing I would mention is that companies to date have really taken a lot of short-term temporary measures to help manage their margins. But we believe there's a path for much of those temporary

Joseph Spak is a Managing Director and leads the U.S. Auto & Auto Parts coverage for RBC Capital Markets. He is consistently a top-ranked analyst in the Institutional Investor poll, including a #2 ranking in 2019. Joseph holds an MBA from the Yale School of Management and a BBA from the University of Michigan.

As Senior Vice President, Office of the CEO at RBC, John Stackhouse is responsible for interpreting trends for the executive leadership team and Board of Directors with insights on how these are affecting RBC, its clients, and society at large.

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costs to become permanent and result in a more competitive cost structure in the future.

**John:** As we've seen, the crisis revealed some pretty significant supply chain vulnerabilities. What do you think manufacturers are doing to secure supply chains in this new environment?

**Joe:** Auto is a truly global industry. It's been very interesting to watch the impact cascade into North America as the pandemic has evolved. So, in the early stages of the COVID-19 outbreak, automakers and suppliers were concerned about supply chain disruptions, primarily with parts sourced from China and maybe some other Asian countries.

Then the North American and European shutdowns occurred and, at the same time, China's production was starting to ramp back up as the Chinese economy began to reopen. And during that time, we saw some supply chain disruptions around the globe. Even now in North America as production has restarted, we've seen some temporary shutdowns, in some instances because of confirmed infection cases in the plants. But other temporary shutdowns have been because of the supply chain operating in different regions with different protocols and maybe at different parts of the pandemic curve. For instance, Mexico is at a different part of the curve than the U.S. But many parts of the vehicle come from Mexico. Each of these individual temporary closures reverberate through the supply chain because it's a very "just-in-time" industry, and a manufacturer can't build a car with only 90 percent of the parts. So it stops ordering the other parts of the car, even if those parts are not necessarily the ones not arriving on time.

I wonder whether this causes "just-in-time" to shift a bit more toward "just-in-case." But that also has some working capital considerations that the companies will have

### U.S. light vehicle sales

Millions of units, seasonally adjusted, annualized rate



U.S. auto sales rose by 40% m/m in May prompting manufacturers to step up production plans for June and July.

Source - RBC Wealth Management, U.S. Bureau of Economic Analysis

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to think through. The pandemic has caused, in our opinion, some innovation and changes elsewhere within the auto value chain. For example, dealers have had to evolve to more online sales and touchless delivery. That's probably a welcome development for many, but it also causes the dealers and automakers to rethink their technology and some of the marketing tools they've used to sell vehicles.

**John:** Before the pandemic, we had the “sharing economy” and there were a lot of prophecies of the death of the automobile. You posited that COVID-19 may be reversing that trend of declining car ownership. Can you give us some insight into what led you to that conclusion?

**Joe:** The automotive industry has four key secular themes known as CASE, or connected, autonomous, shared, and electric. Looking at shared, which I would say is ride-sharing, we saw a significant impact during the pandemic. Uber rides, for instance, globally were down about 80 percent in April. Some of this was clearly due to stay-at-home policies. But there's also a consumer aversion to getting into a stranger's car, not knowing who was there before.

And then there's the original shared transportation—public transportation. In major cities around the globe, we saw public transport ridership—i.e., on subways and buses—fall by over 80 percent versus typical usage. Again, this was no doubt impacted by the stay-at-home policies, but also some aversion to being in a crowded space with strangers. Studies have suggested that subways, for instance in New York City, were one of the superspreaders of the virus. So these things, in my mind, have a way of playing into the human psyche.

In China, we've already seen some automakers attributing part of the sales rebound in April and May to consumers, opting for the safety of their own car versus China's public transport system. We've heard anecdotal evidence of that here in the U.S. as well. Residents in major cities like New York or San Francisco that maybe never had vehicles before now, are purchasing one. Perhaps that's also a way to get out of the city when they want to on the weekend or during the week.

But there are two other aspects we have thought about. One is, for years we've heard of the trend toward more urbanization where ride-sharing and vehicle-sharing is more convenient than ownership. But does some urbanization reverse in the wake of the pandemic? That would increase the need for personal vehicle ownership in my mind.

And second, there's the work-from-home trend. Pandora's box may have opened a little here. From here on, we may see a greater number of employees working remotely. That means the household is more full during the day. There are currently about 1.9 vehicles per U.S. household. But we wonder if working at home will cause vehicle density to tick up. And if you're more spread out in the suburbs, the vehicle

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miles traveled in the U.S. would increase as well, which would impact the longevity of vehicles. There would also be massive repercussions for municipal budgets, urban planning, and real estate.

**John:** As you mentioned, two of the other big trends underway before COVID-19 were the prospect of autonomous vehicles and the growth of electric cars. Has COVID-19 altered the trajectory of those trends?

**Joe:** Autonomous has already proven to be a tougher and more costly engineering endeavor than many thought a few years ago. I think development may take a little bit of a step back just from a funding perspective. Capital could be a little tighter. The first use case for autonomous vehicles was robo-taxis—if vehicle utilization could be increased, that would really help the economics of the model, considering that autonomous vehicles would be more expensive. But again, going back to the heightened concerns around ride-sharing, now that might be tougher to achieve.

There are two things I could see happening here. One is probably some consolidation amongst autonomous vehicle software providers. And two, maybe some companies try to pivot to autonomous delivery or possibly long haul, or some other uses of autonomous technology that don't involve ride-sharing.

As for electric vehicles, they are more expensive today than their internal combustion engine counterparts. So, maybe there's a little bit of a near-term impact if the consumer feels more economically stressed. But, you know, I don't think the investment in electric vehicles can really abate given the regulatory requirements. And governments in some countries, such as Germany and France, and even the broader EU, are offering stimulus to the auto industry, but it's geared around cleaner vehicles. So, no, the trend to electric might actually be accelerating somewhat.

As for the last theme—connected—cars are becoming computers on wheels, and I think there's an opportunity for more connectivity in the car in the wake of COVID-19. So, musing about things like biometrics and health monitoring ... can the vehicle become an important tool that helps enable telemedicine? There's already a lot of sensors in each new auto. And cars are already connected to the internet and equipped with cameras. At the Consumer Electronics Show in January 2020, I saw a vehicle equipped with different sensors and artificial intelligence that can track in-cabin body temperature, respiration, and heart rate. That seemed somewhat superfluous, not even six months ago. But it may be more relevant now.

**John:** We entered this year with a bit of a war on the car globally, certainly a war on the internal combustion engine. In your view, what does the future of the car look like now?

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**Joe:** The vehicle of society remains the car. The personal car, in my opinion, remains an important part of broader mobility. I think what propels that car in the future is certainly going to change. I think it will be more electric and more, potentially, alternative propulsion.

And the consumer demands for what the car really offers is going to change, in my view. You can even see it in the commercials today. No longer are cars sold on horsepower and performance, but really more on the interior experience and some of the connectivity trends. And I would expect that in the long term, there will be a trend toward more autonomous vehicles, although that is still some ways out.

**John:** Thanks for your insights, Joe.





**Gopa Nair, CFA**  
Toronto, Canada  
gopa.nair@rbc.com

# Health Care in the sweet spot

The Health Care sector offers a unique combination of above-average forecast earnings growth, driven by powerful long-term trends, and below-average valuations. While the sector can be volatile in an election year, we believe investors should focus on its sustainable long-term prospects.

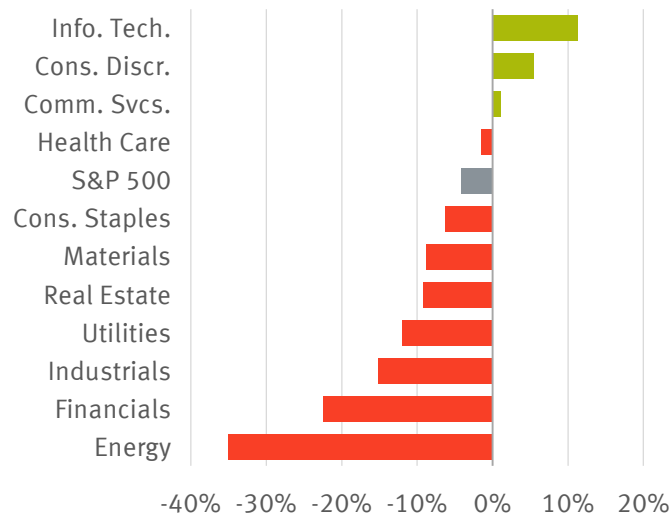
- The political equation as it applies to the Health Care sector, looks to be unusually benign this cycle.
- COVID-19 has focused investors on the importance the sector plays in keeping the economy growing and productive.
- Long-term themes of aging demographics, the need to get value for health care spending, and the convergence of health care and technology offer many opportunities for sector growth, in our opinion.

Vince Lombardi, the legendary American football coach, once said, “It’s not whether you get knocked down, it’s whether you get up.” We suspect Lombardi would have liked the look of the Health Care sector today—it has taken its fair share of hits over the past year but has kept getting up, shrugging off the blows, and moving forward.

Much of the Health Care focus last year was on the possibility of some iteration of Medicare for All (M4A) legislation being enacted should a progressive Democrat clinch the 2020 U.S. presidential election, as M4A could have seriously impacted operating models of the managed care sector. However, Joe Biden, a more traditional Democrat, is the presumptive nominee for his party, and given his involvement in crafting and ushering through the Affordable Care Act (ACA), which was supportive of private insurance companies playing in the same sandbox as the government, we think the likelihood of M4A rearing its head and rattling the sector has receded.

Also helping the sector has been the arrival of the COVID-19 pandemic, which has created an awareness that viruses and diseases have not been eradicated and that companies doing novel research will be able to drive new medical discoveries and can get rewarded for their success. The combination of fading M4A fears and growing optimism over a potential vaccine for treating COVID-19 has provided support for Health Care stocks, with the group outperforming the S&P 500 year to date to become the index’s fourth-best performing sector.

## Year-to-date S&P 500 performance by sector

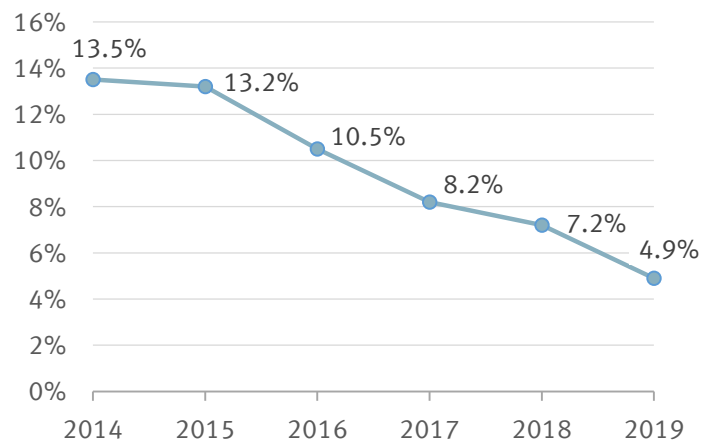


Returns for the Health Care sector have outperformed the S&P 500 year to date.

Source - FactSet; data as of 6/19/20

With the election less than four months away, politicians may start shifting their attention and begin addressing the rising costs of prescription drugs, a topic of importance to the American electorate. In the 2015–2016 election cycle the Health Care sector was volatile as all three leading presidential candidates made drug pricing a focus of their platforms following the notorious 5,000 percent retail price increase for the anti-parasitic drug, Daraprim. At the time (July 2015), the NASDAQ Biotechnology Index was at an all-time high before selling off on fears legislation would be introduced to cut and/or cap drug prices. Donald Trump won the election but his promise to provide drug price relief never materialized as legislation.

## Average annual list (gross) price increases for brand-name drugs



Pace of annual drug price increases continues to moderate.

Source - Drug Channels Institute analysis of SSR Health data; based on approximately 1,000 brand-name drugs with disclosed U.S. product-level sales from approximately 100 currently or previously publicly traded firms

## Take two pills and call me in the morning

Over the past five years the pharmaceutical industry has acknowledged the concerns raised by elected officials, regulators, and patient advocacy groups. While list prices of drugs continue to rise, the annual pace of increases has moderated somewhat as a number of companies have attempted to keep prices in check. In 2015, the average annual price increase for brand-name drugs in the U.S. was roughly 13 percent, but has decreased each year to about 5 percent in 2019. We expect the trend to continue.

While initiatives designed to scuttle escalating drug prices are popular across the Democratic and Republican Parties, we don't anticipate any policies being passed into law this year given the gridlock in Congress and current focus on reopening economies. Nevertheless, we have highlighted the main proposals to address rising drug costs.

## Summary of key drug price reform proposals

### **Part B International Pricing Index Pilot Program**

**Proposer:** Centers for Medicare & Medicaid Services

**Introduced:** October 2018 **Passed:** Expected to launch later this year

Anchors certain Medicare Part B drug prices to an international pricing index to reduce the reimbursement cost for drugs administered in a doctor's office or hospital setting.<sup>1</sup>

### **Prescription Drug Pricing Reduction Act (PDPRA) (S. 2543)**

**Proposers:** Sens. Grassley (R-Iowa) & Wyden (D-Oregon)

**Introduced:** July 2019 **Updated:** December 2019 **Passed:** Not yet at passage stage

Requires rebates to be paid back to Medicare if drug companies increase their prices more rapidly than inflation. Out-of-pocket maximum for Medicare beneficiaries \$3,100 starting 2022.

### **Elijah Cummings Lower Drug Costs Now Act (H.R. 3)<sup>2</sup>**

**Proposers:** House Democrats

**Introduced:** September 2019 **Passed:** December 2019

Gives Medicare the power to negotiate directly with drug companies on up to 250 of the most expensive branded drugs.<sup>3</sup> Makes the lower drug prices negotiated by Medicare available to Americans with private insurance, not just Medicare beneficiaries. Out-of-pocket maximum for Medicare beneficiaries \$2,000.

### **Lower Costs, More Cures Act (H.R. 19)**

**Proposers:** House Republicans

**Introduced:** December 2019 **Passed:** Not yet at passage stage

Requires notification and explanation for price hikes greater than 10% in a single year. Out-of-pocket maximum for Medicare beneficiaries \$3,100. Intended to combat efforts to delay the entry of generics or biosimilar drugs.

Notes: (1) Medicare Part B covers doctors' services and outpatient care. (2) After passing the House in December largely along party lines, Sen. McConnell (R-Kentucky) declared H.R. 3 "dead on arrival" in the Senate, and the White House has threatened a veto. (3) The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) established a prescription drug benefit under Medicare Part D and prohibited the government from negotiating the price of prescription drugs on behalf of Medicare beneficiaries.

Source - Centers for Medicare and Medicaid Services, RBC Capital Markets, RBC Wealth Management

## Earnings growth and forward P/E multiples for the S&P 500 by sector

Sector	EPS growth (y/y)		Forward P/E	
	2020E	2021E	2020E	2021E
Energy	NMF	NMF	NMF	37.0x
Consumer Discretionary	-57.4%	115.4%	63.7x	29.6x
Real Estate	1.5%	7.6%	24.6x	23.1x
Information Technology	1.1%	15.2%	26.0x	22.6x
Communication Services	-15.5%	23.0%	25.1x	20.4x
<b>S&amp;P 500</b>	<b>-22.1%</b>	<b>29.0%</b>	<b>24.8x</b>	<b>19.2x</b>
Consumer Staples	-2.6%	7.9%	20.7x	19.2x
Materials	-21.2%	28.3%	24.1x	18.8x
Industrials	-47.6%	77.4%	32.3x	18.2x
Utilities	1.0%	6.1%	18.4x	17.3x
<b>Health Care</b>	<b>-1.4%</b>	<b>15.9%</b>	<b>17.6x</b>	<b>15.2x</b>
Financials	-36.9%	37.5%	17.1x	12.4x

Source - FactSet; data as of 6/19/20; data for Real Estate captures adjusted funds from operations (AFFO) and price to adjusted funds from operation (P/AFFO)

### Health Care investment fundamentals appear attractive

Despite the S&P 500's impressive roughly 40 percent advance from its March lows, we believe the Health Care sector appears attractively valued relative to the index. The current forward (2021E) price-to-earnings (P/E) multiple for Health Care is roughly 15x, a discount to the S&P 500, while offering reasonable earnings growth compared to other sectors. While the Health Care sector can be volatile in an election year, we believe a number of investment themes exist that are supportive of the sector's long-term growth prospects regardless of the policy environment.

- Aging demographics:** According to the Census Bureau, 2030 will mark a turning point in the U.S. as all baby boomers will be 65 years of age and older, expanding this demographic to 21 percent of the population from 17 percent currently. Furthermore, by 2034 the number of senior citizens in the U.S. will outnumber children for the first time in history. Given the higher per-capita health spending for people age 65 and older, we expect an aging population to drive utilization for prescription drugs, medical procedures, and hospital stays.
- Adoption of value-based care:** Health care spending in the U.S. is rising at what we believe is an unsustainable rate. In 2019, the U.S. spent roughly 18 percent of its GDP or almost \$4 trillion in total spend on health care, far exceeding that of other developed countries which routinely spend around 10 percent to 11 percent and often deliver better outcomes. While per-capita spending on health care in the U.S. is higher, the quality delivered is not much better. Rising health care costs are driving a reorientation of the health care system away from fee-for-service models toward value-based care which puts the patient in the center with care providers such as hospitals and doctors being paid based on patient outcomes against the cost of delivering care. We think managing the treatment of chronic diseases more effectively will not only help patients recover faster from their illnesses at

lower costs, but will force providers to employ technology solutions and become more efficient in the process.

- **Telemedicine:** The convergence of securing data in the cloud, high-quality video conferencing, and social distancing has accelerated a shift toward telemedicine. Virtual visits with a physician provide the dual advantages of faster diagnosis and convenience for patients. Telemedicine is a practical option for people on the go and those who are either house-bound or live in underserved areas lacking access to quality care. Moreover, telemedicine allows hospitals and doctors to easily follow up with patients to monitor their progress, change their course of treatment as required, and determine if in-person attention is needed for more urgent care. Given the frequent monitoring, health issues can be detected earlier in the process thereby keeping treatment costs down.
- **Vertical integration:** Another emerging theme is vertical integration across the health care delivery network as companies come together through acquisitions to offer a variety of services such as health insurance, pharmacy, acute care, nursing care, home health, and data analytics under one roof. A company that is vertically integrated across the services channel can better leverage its infrastructure and offer a greater level of coordinated care to improve treatment and enhance the patient experience. Furthermore, the benefits from combining medical and pharmacy claims as well as data and analytics will help address escalating health care costs and reduce waste across the system.

### Long-term tailwinds + reduced political risk = outperformance

Enacting meaningful legislation to control drug prices is not a slam dunk even were one political party to control both the White House and Congress given opposing viewpoints held by members of the same party and the health care industry's previous track record of helping to shape legislation. While we have no insight as to who will win the presidential election, we believe neither a Biden nor a Trump victory would be troublesome for the health care industry or pharmaceuticals in particular. We think a Trump re-election would largely result in status quo (the rate of growth in prices would come down due to political pressure and industry self-regulation). A Biden victory would likely result in the expansion of the ACA coverage to provide uninsured Americans with greater access to prescription drugs, which we believe would offset some of the pricing headwinds.

While we expect prescription drug pricing to be a focus in this election, as it has been in previous election cycles, we believe the headline risks should not be a reason to avoid the Health Care sector as the fundamental outlook remains strong and underpinned by the powerful long-term trends outlined above. With political risks judged to be lower than in past election cycles, we see the sector offering an attractive combination of a below-average P/E ratio and double-digit earnings growth with very little if any exposure to the COVID-19-induced business cycle swings much of the rest of the market may be vulnerable to.

# A show of restraint

Markets and the economy have both come a very long way in a short time.

From a benign opening to the year things rapidly transitioned in February to a wholesale shutdown of most developed economies, the collapse of stock markets, and the arrival of unbelievably huge monetary and fiscal stimulus efforts to head off a credit crunch and bridge finance the consumer and industrial economies.

By April the number of new daily COVID-19 cases had or was peaking and heading lower throughout the developed world. By May/June the process of reopening most economies was underway.

Things may not be ready to slow down for some time yet. The virus itself could throw curveballs, any one of which might either reignite a surge in new cases or further stimulate the pace of economic recovery. A resurgence in the number of new cases in some places has already provoked worries that reopenings may have to be rolled back, although many more locales have not experienced any significant bump higher in infections or (more importantly) deaths.

On the science front, the eagerly awaited vaccine candidates already in trials might prove to be ineffective, dashing hopes for an early remedy. There are at least 135 vaccine candidates under development, of which seven are in Phase 1 trials, seven in Phase 2, and one in Phase 3. Phase 2 trials are the rocks on which most vaccine candidates founder. History suggests there is only a 30% chance that a prospective vaccine which makes it to Phase 2 will go on to become an approved, effective therapy.

## Equity views

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

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

COVID-19 developments could just as easily deliver upside volatility. A vaccine or anti-viral therapy that was shown to kill the virus and/or confer immunity would likely deliver a big upside push to equity prices.

The virus could weaken of its own accord. Reports from Italy and New York City have suggested the situation in those locales has changed for the better: fewer infections require hospitalization while a smaller proportion of those hospitalized require ventilation or intensive care. A big drop in the fatality rate would likely boost consumer and business confidence and open the door to further normalisation of conditions.

Such a degree of potential volatility makes it difficult for investors to focus on long-term values. As we've stated here before, the "value" of the market (or of an individual business) is the present value of *all future earnings*. Looked at that way, even big unexpected changes in the near-term earnings outlook shouldn't have a large impact on the market value of corporations. That's especially true because within a year or so of big, dislocating events ending, the forces

**Jim Allworth**  
Vancouver, Canada  
jim.allworth@rbc.com

**Kelly Bogdanova**  
San Francisco, United States  
kelly.bogdanova@rbc.com

**Patrick McAllister, CFA**  
Toronto, Canada  
patrick.mcallister@rbc.com

**Frédérique Carrier**  
London, United Kingdom  
frederique.carrier@rbc.com

**Jasmine Duan**  
Hong Kong, China  
jasmine.duan@rbc.com

**Nicholas Gwee**  
Singapore  
nicholas.gwee@rbc.com

of global population growth and rising prosperity reassert themselves, and before that stock markets go back to capitalising future earnings appropriately.

Arguably, that is what has been happening since stock markets bottomed and turned higher in late March. Investors have stopped focusing on what appeared in March to be open-ended downside for the economy and the stock market. Instead, they have begun to value businesses on their prospects beyond the pandemic, when the trajectories of the economy and earnings are likely to be positive and not too dissimilar to what they were in the years leading up to this crisis.

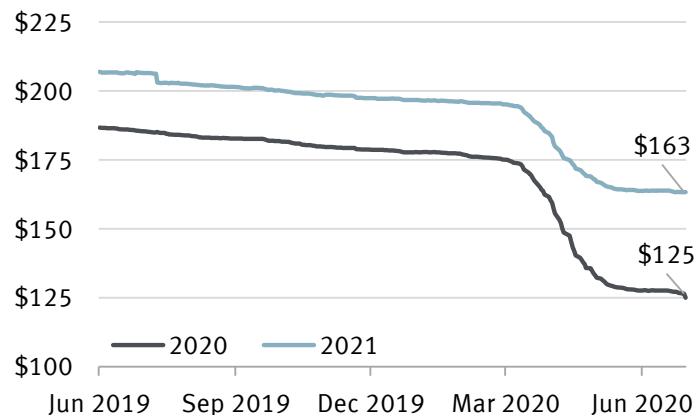
Focusing solely on the crisis-driven downside at the market bottom in March, while ignoring the compelling market values then available and the prospects for a return to economic growth post-crisis, was the wrong thing for a portfolio investor to do in hindsight. By the same token today, ignoring the considerable scope for nearer-term volatility and disappointment, at a point when share values are much fuller and no longer mouth-wateringly compelling, would seem to be making a similar mistake in the opposite direction.

## Regional highlights

### United States

- The second half of 2020 will likely be much less eventful for the market than the first half—a welcome change. The market’s sharp selloff in February and March, followed by a significant stimulus-induced rally, should give way to the major indexes settling into trading ranges with less volatility.
- The corporate earnings outlook is coming into view for this year, but remains uncertain for next, and we think it will take until 2022 for profits to climb above where they were before the COVID-19 recession began. The S&P 500 consensus forecast is hovering around \$125 per share for 2020, which seems achievable. However, we think the 2021 consensus estimate is too high at \$163 per share versus RBC Capital Markets’ \$149 forecast. For comparison, S&P 500 earnings reached \$163 per share in 2019, before the pandemic.
- The market’s price-to-earnings (P/E) ratio is quite elevated at 20.8x our 2021 earnings estimate and in relation to other measures that RBC Capital Markets evaluates. We think the current environment of extremely low interest rates justifies an above-average valuation, and we acknowledge the

S&P 500 consensus earnings per share estimates over time



Declining earnings estimates over time are not abnormal, but the pandemic-driven contraction starting in March was anything but normal.

Source - RBC Wealth Management, FactSet, Refinitiv I/B/E/S; data through 6/30/20

market's P/E ratio can be out of sync with future earnings potential during recessions. But the magnitude of the over-valuation limits the market's ability to push a lot higher, in our view. We would continue to modestly Underweight U.S. equities in portfolios.

## Canada

- The S&P/TSX Composite has advanced 37% from its March 23 low but remains 14% shy of its Feb. 20 peak. At 15.3x estimated 2021 earnings, the Canadian equity benchmark is trading at a modest premium to its long-term average multiple, though it remains discounted relative to the S&P 500 at nearly 19x. We believe the Canadian equity market requires evidence of a sustained economic recovery and enhanced clarity on the outlook for key sectors before it can close that valuation gap.
- Canadian banks outperformed after reporting Q2 results as investors had feared the potential for greater credit charges despite aggregate credit provisions of nearly CA\$11 billion. Valuations have recovered to a modest premium relative to financial crisis lows, with bank-specific multiples reflecting clear delineations with respect to credit conservatism and capital position. Those less conservative in provisioning for credit losses could

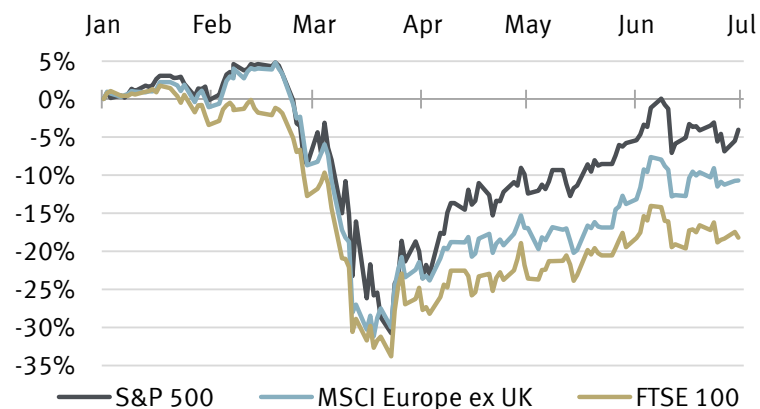
need to take additional charges should the economic recovery stumble and marginal borrowers struggle to meet their obligations.

- The recovery in crude oil prices has buoyed Energy equities, but prices remain at or below levels required to generate sufficient cash flow to cover both capital expenditures and dividends for many Western Canada producers. While the prospects of economic recovery bode well for oil demand, supply conditions remain difficult to chart given historic levels of market intervention.

## Continental Europe & UK

- We've upgraded European equities to Market Weight from Underweight as several key developments appear to be afoot on the Continent. Two events in particular mark a departure from the status quo: (1) the EU proposing a joint response to lend a hand to those countries most affected by the COVID-19 crisis, which suggests a step towards greater fiscal union; and (2) Germany embracing fiscal spending in a significant way. What's more, these are happening against a backdrop of very accommodative monetary policy from the European Central Bank.

## Year-to-date performance



Source - RBC Wealth Management, FactSet; data through 6/30/20



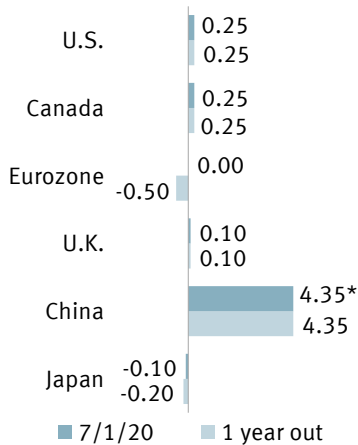
- As for sectors, we favour Health Care, which should be underpinned by aging demographics and rising global health care expenditures, together with renewables-focused portions of Utilities as governments increasingly target green and sustainable investments.
- Europe also offers a rich hunting ground for “quality cyclicals,” such as select companies in the Industrials sector benefitting from secular trends, as well as the luxury and sporting goods categories within the Consumer Discretionary sector where long-term fundamentals also appear structurally attractive despite the existence of near-term risks.
- As for UK equities, we maintain our Underweight stance given the many uncertainties around both the economic recovery from COVID-19 and the outcome of Brexit negotiations. We would focus on UK companies that seem well positioned to benefit from long-term structural growth tailwinds or that possess internal levers to grow. We would keep some exposure to domestically exposed UK stocks, where valuations appear reasonable.

## Asia

- The spike of new COVID-19 cases in Beijing has drawn investors’ attention to China’s second wave. While this adds risks to the economic recovery, the latest data indicates that the recovery remains on track. China reported a sequential improvement in retail sales in May, with growth down 2.8% y/y, an improvement from the nearly 8% y/y decline in April and roughly 16% y/y decline in March.
- However, while private fixed asset investment rose in May, it was still down 9.6% y/y, which could indicate some lack of confidence in the recovery, especially among small and medium-sized enterprises (SMEs), which account for about 80% of total employment in China. As one government goal in 2020 is to support employment, we think policies will continue to be business-friendly. On the whole, the economic recovery is continuing, and the policy and liquidity situation is looser than in previous years, which provides a favorable environment for China’s equity market, in our view. Uncertainty stemming from U.S.-China tensions (i.e., how the U.S. reacts to the Hong Kong national security law) is a short-term overhang.
- The Bank of Japan (BoJ) launched a funds-provisioning measure to encourage banks to extend loans to SMEs. The BoJ now has three emergency credit expansion measures in place totaling about ¥75 trillion. Prime Minister Shinzo Abe’s administration has doubled down on fiscal stimulus by approving a new \$1.1 trillion package, which takes Japan’s total spending to combat COVID-19 to \$2.2 trillion, almost 40% of GDP. The worst may be over for the Japanese economy, in our view, as several consumer and business sentiment indicators rebounded in May from record lows the month prior. Following a strong recovery from the March low, we expect the benchmark TOPIX Index to be range-bound in the near term. We believe much of the positive news has been priced into the market, and meanwhile, risks of further earnings disappointments could push FY2021 valuations to unattractive levels.

# The circle of economic life

Central bank rate (%)



\*1-yr base lending rate for working capital, PBoC

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

The shape of government yield curves is back in focus as the typical cadence of the business cycle appears to be holding true, no matter how atypical the current U.S. and global recessions might be. In a usual business cycle, we observe the following: curve steepening (i.e., long-term rates are higher than short-term rates) ahead of an economic expansion; curve flattening (i.e., long-term rates are at about the same level as short-term rates) as the cycle ages; and curve inversion (i.e., long-term rates are lower than short-term rates) ahead of recessions.

In the U.S., the Treasury yield curve first inverted in early 2019 after years of flattening, at the time sparking recession fears. Certainly the yield curve couldn't have predicted a global pandemic, but now that we find ourselves in an official recession as of February—all eyes are on the yield curve and what it might mean for both the duration of the recession and the robustness of the recovery.

The U.S. yield curve has now come full circle as one benchmark curve, the spread between the 2-year and 10-year Treasury yields has been steadily steepening since February. Of course, the key driver has been the Fed cutting rates back to 0%, and pledging at its June policy meeting to hold them there through at least 2022. But 10-year Treasury yields—widely regarded as the harbinger of economic growth and inflation expectations—showed some signs of life in early June by climbing to 0.90%, having fallen as low as 0.31% in March, but retraced part of that move in late June to close at 0.66%.

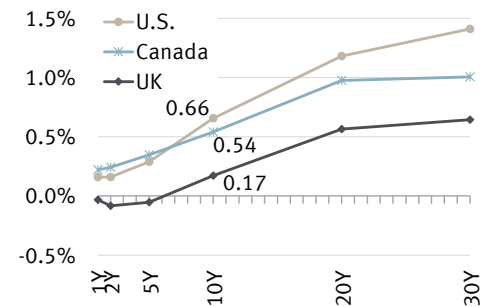
We don't see global central banks taking their foot off the gas anytime soon. But while easy monetary policies from global

## Fixed income views

Region	Gov't Bonds	Corp. Credit	Duration
Global	=	+	5–7 yr
United States	=	+	7–10 yr
Canada	=	+	3–5 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 6/30/20

central banks will support the growth outlook, the robustness of the recovery—and further yield curve steepening—will also depend on strong fiscal support. And though the road to economic recovery will be rocky, we look for further curve steepening to confirm that the rebound is taking hold, just as it has in past cycles.

## Regional highlights

### United States

- Fed policymakers meet once again at the end of July, but given that officials already indicated at the June meeting that rates will likely remain at the 0% lower bound through at least 2022, the

**Thomas Garretson, CFA**  
Minneapolis, United States  
tom.garretson@rbc.com

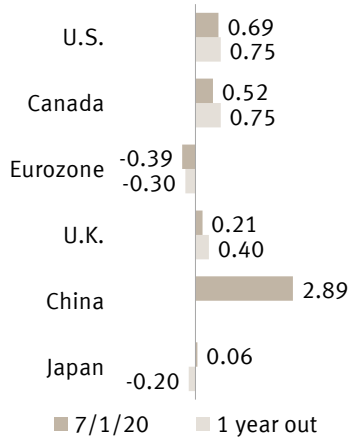
**Christopher Girdler, CFA**  
Toronto, Canada  
christopher.girdler@rbc.com

**Alastair Whitfield**  
London, United Kingdom  
alastair.whitfield@rbc.com

**Calvin Ng**  
Hong Kong, China  
Calvin.Ng@rbc.com

# Global fixed income

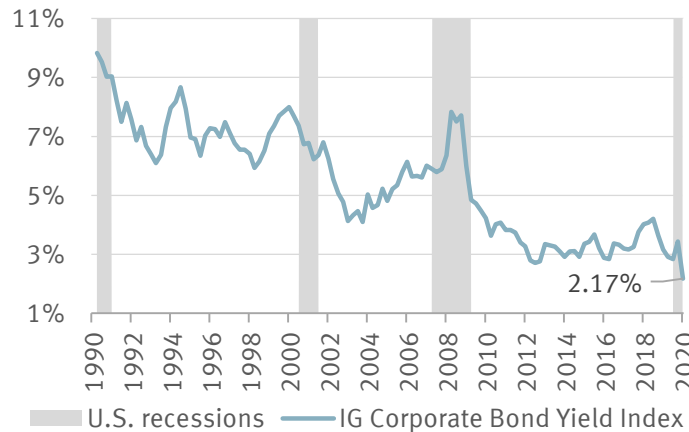
## 10-year rate (%)



Note: Eurozone utilizes German Bunds.

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

## Investment-grade yields fall to record low



Source - Bloomberg, RBC Wealth Management

The combination of low Treasury yields and Fed support for the corporate bond markets is fueling the descent of index yields.

meeting is unlikely to provide anything new for the market and investors. Instead, markets have their eyes on the September meeting, where there are growing expectations that the Fed could announce some type of yield curve control program. We think the Treasury yield curve—essentially flat through the 3-year note, which yields just 0.19%—reflects this expectation, and now it may be up to the Fed to follow through.

- The combination of low Treasury yields and fading credit fears drove down the average yield on U.S. investment-grade corporate bonds to a record low of just 2.15% in June, down sharply from the March peak of 4.58%. High-yield corporates currently yield 6.9%, which remains modestly attractive, in our view, due to both a historically attractive yield advantage over investment-grade corporates and reduced liquidity concerns as a record pace of new corporate bond issuance has allowed many companies to shore up liquidity in order to manage through the pandemic.
- With investment-grade corporate bond yields reaching record lows, certain investors, particularly those in the top tax brackets, may find more attractive valuations in the municipal market, where the taxable-equivalent yield for

the Bloomberg Barclays Municipal Bond Index (assuming a 40% tax rate) stands at 2.5% at the end of June. While we expect the broad level of yields to remain historically low, we think the best strategy is to focus on the steepest part of the municipal yield curve, currently the 7–15 year interval, to hedge against rising rate risks.

## Canada

- Tiff Macklem took over as governor of the Bank of Canada (BoC) in June, but the message remains unchanged: The BoC will act as needed to provide full support to Canadian financial markets. With the overnight rate at 0.25% and indications that it is likely to stay there for an extended period of time, Government of Canada (GoC) yields are accordingly at record lows across the maturity curve. Even the 30-year GoC bond trades with a yield of 1% or less and offers little long-term protection against a possible return of inflation over the medium term. We continue to view real-return bonds as an interesting alternative.
- The BoC recently began purchasing secondary-market corporate bonds but, having announced CA\$10 billion is available, started very slowly. Significant injections of liquidity into

overseas markets have helped push Canadian corporate borrowing rates down to their lowest on record, leaving the BoC with little to do but keep its powder dry. The strong performance of corporate bonds has reduced compensation for credit risk, and with plenty of uncertainty still in the air, we view this as an environment most suited for actively managed bond strategies.

- Preferred shares have performed well since March but remain a notable laggard in recent years. In our view, this market still offers opportunities as yields in excess of 6% are available on a diverse mix of structures. Companies must continue to pay preferred share dividends unless common equity dividends are eliminated entirely, an outcome we view as unlikely.

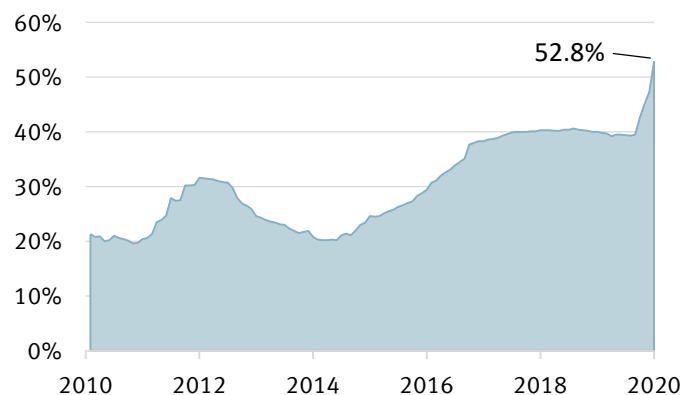
#### Continental Europe & UK

- Fixed income markets in Europe and the UK have been dominated by the forces of central bank liquidity taps at full flow and governments continuing to extend fiscal spending.
- The European Central Bank's (ECB) extension of its new Pandemic Emergency Purchase Programme (PEPP) to a total of €1.35 trillion through

at least mid-2021, as well as progress around a European Recovery Fund that is likely to be agreed by member states across the region, have produced a strong shift in market tone.

- Government bonds in the euro area have benefitted from those measures. German 10-year bond yields retraced to just -0.42%, from March lows of -0.86%, as the country initiated fiscal loosening for the first time in years. Bonds of governments in the European periphery, notably Italy and Greece, benefitted from the ECB's extended purchase programme, with 10-year spreads vs. Germany falling to 3-month lows.
- In the UK, the £100 billion expansion of quantitative easing may need further extension to offset the cumulative GDP decline of 25% over March and April. The challenging trade negotiations between the UK and EU present an additional headwind that may prevent UK Gilt yields from rising too far.
- Overall, corporate credit in both the UK and Europe has followed a path similar to that seen in other regions as both the ECB and Bank of England have ramped up their purchases. Credit spreads have fallen by more than one percentage

#### ECB balance sheet as a percentage of GDP



The ECB steps in to help.

Note: The European Central Bank balance sheet as a percentage of GDP is reported as the month-end value of ECB total assets divided by a four-quarter average of interpolated euro area nominal GDP.

Source - Bloomberg, RBC Wealth Management; data through 6/30/20

point, to reach 1.45% in Europe and 1.76% in the UK.

- For now, our recommendations are unchanged. We retain our Market Weight on European government bonds and Overweight on European corporate credit in light of the ECB's ambitious PEPP programme and willingness to act for as long as the COVID-19 crisis lasts. We maintain our Underweight on UK government bonds, which we view as expensive, and our Market Weight on UK corporate credit.

## Asia

- The relatively attractive valuations in the Asian corporate credit universe during Q2 persuaded us to Overweight Asia high-yield credit in April. We increased our positions in both Asia investment-grade credit and Asia high-yield credit at the beginning of June.
- Thanks to massive balance sheet expansion by the European Central Bank and the Federal Reserve since April, the credit market has shown signs of stabilization after dislocations earlier in the year. The yield on the Bloomberg Barclays Asia USD High Yield Bond Index moved to 8.14% from 11.9% at the close of Q1. Meanwhile, the Asia investment-grade universe continues to provide a haven for liquidity, which has pushed the Bloomberg Barclays EM Asia USD Credit High Grade Index yield down to 2.54% from 3.2% at the end of Q1.
- The risk-reward equation looks largely balanced at the moment with Asia high-yield returning 8.14%, higher than Moody's forecasted default rate of 6.4% by the end of 2020. Overall, our view is constructive for the medium term, but we remain cautious on the near term given the uptick in U.S.-China trade tensions and the possible impact from a second wave of COVID-19. Our base case is that volatility will return in the near term as news headlines trigger profit-taking, but this should be largely mitigated by investors returning to emerging markets (and, in particular, Asia) credit in search of yield given the current ultralow yield environment. China's late May announcement of a fiscal stimulus package of some \$500 billion should also provide a boost to Asia credit markets, in our view.

# Commodities

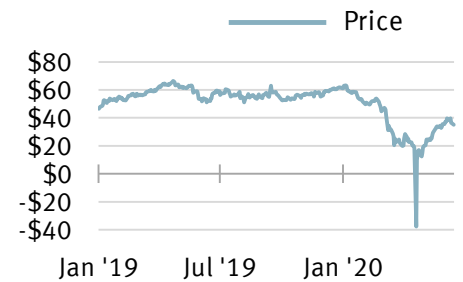
## Commodity forecasts

	2020E	2021E
Oil (WTI \$/bbl)	\$34.71	\$43.77
Natural Gas (\$/mmBtu)	\$2.00	\$2.40
Gold (\$/oz)	\$1,663	\$1,630
Copper (\$/lb)	\$2.40	\$2.75
Soybean (\$/bu)	\$8.67	\$8.80
Wheat (\$/bu)	\$5.25	\$5.00

Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (soybean and wheat)

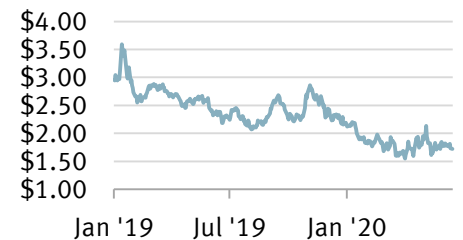
### WTI – Positive pricing

Following the price war earlier this year, OPEC members have put their differences aside, at least temporarily, by curtailing a historic amount of production in an effort to balance the market. Demand will likely ebb and flow alongside the economic recovery in the months to come, in our view. RBC Capital Markets commodity strategists are projecting an average WTI price of \$39.50 through 2020.



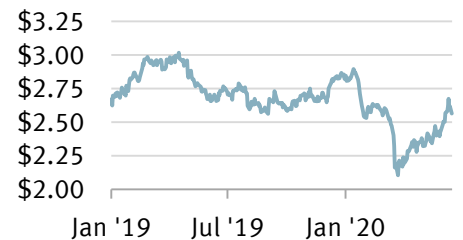
### Natural gas – Demand uncertainty

While natural gas prices bounced 11% off the lows from earlier this year, the demand outlook remains uncertain as usage is falling short of normal levels across most categories on a weather-adjusted basis. However, this has been partially offset by weaker associated natural gas supplies resulting from reduced oil production. Our commodity strategists believe demand will continue to run below normal even as the economy recovers.



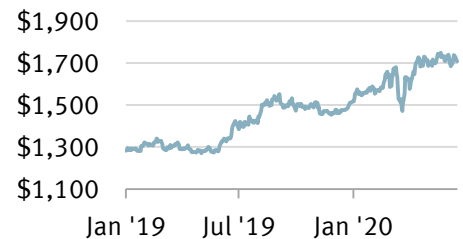
### Copper – Central China

Copper prices rallied 20%+ off the year-to-date low, driven primarily by the restarting of the Chinese economy. Furthermore, many key copper-producing nations have been slow to restart their economies, which has disrupted supply levels and thus aided in the price recovery. We believe the pace at which containment measures are lifted and the strength of industrial demand will be key indicators to watch.



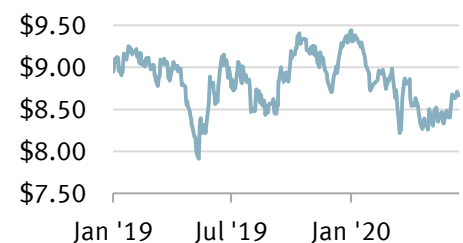
### Gold – Stronger for longer

Gold advanced 13% year to date, outperforming the S&P 500 Index by approximately 18%. In June, the Federal Reserve announced plans to maintain rates near zero through 2022. These supportive monetary measures should continue to provide a tailwind for gold. With the approach of the U.S. election, we believe gold will remain relevant within portfolios.



### Soybeans – Phase 1 purchases

U.S. exporters reported sales of 720,000 tonnes of soybeans to China in June, the largest in 16 months, according to the USDA. Recall that as part of the U.S.-China Phase 1 trade agreement, China will have to ramp up purchases of U.S. agricultural goods in exchange for a reduction in tariffs. Soybean pricing has declined 8% year to date.



### Wheat – Bread winners

The USDA expects population growth, rising incomes, and growth in westernized diets to result in record consumption rates by China and India in the 2020/21 season. Also important to note, production in both countries exceeds consumption levels although neither is a significant exporter. Combined, China and India account for roughly 60% of global wheat stocks. Wheat prices are down roughly 10% year to date.



**Richard Tan, CFA**  
Toronto, Canada  
richard.tan@rbc.com

Source - RBC Wealth Management, Bloomberg; date range: 1/1/19–6/15/20

# Currencies

## Currency forecasts

Currency pair	Current rate	Forecast Jun 2021	Change*
<b>Major currencies</b>			
USD Index	97.50	96.37	-1%
CAD/USD	0.73	0.73	0%
USD/CAD	1.36	1.37	1%
EUR/USD	1.12	1.13	1%
GBP/USD	1.23	1.18	-4%
USD/CHF	0.94	0.94	0%
USD/JPY	107.62	99.0	-8%
AUD/USD	0.68	0.63	-7%
NZD/USD	0.64	0.58	-10%
EUR/JPY	120.74	112.0	-7%
EUR/GBP	0.91	0.96	6%
EUR/CHF	1.06	1.06	0%
<b>Emerging currencies**</b>			
USD/CNY	7.07	7.00	-1%
USD/INR	75.50	74.00	-2%
USD/SGD	1.39	1.38	-1%

\* Defined as the implied appreciation or depreciation of the first currency in the pair quote. Examples of how to interpret data found in the Market Scorecard.

\*\* Bloomberg Consensus forecasts

Source - RBC Capital Markets, Bloomberg

### U.S. dollar: Pressure building

The onset of the COVID-19 crisis brought broad dollar strength. Thereafter, the dollar trended lower in May and June as liquidity concerns eased. Although bouts of market volatility and “safe-haven” demand could continue to support the currency, key pillars of strength have faded, including the yield advantage and relative growth outperformance of the U.S. This could make the dollar vulnerable to downward pressure in the longer term.

### Euro: Risks reassessed

The euro has benefitted from a reassessment of political and financial risks after the EU took firm steps towards a cohesive fiscal response to the pandemic. Along with the European Central Bank’s latest stimulus measures, the joint fiscal-monetary policy response should continue to keep the euro supported, in our view.

### Canadian dollar: Sentiment-driven

The Canadian dollar recovered in line with the broad recovery in equities and risk sentiment, which have been key drivers for the currency in recent months. With unemployment expected to remain high and slack in the economy to persist, we could see further weakness in the

currency through the rest of 2020, before it finds reprieve in 2021 provided COVID-19 remains contained in Canada.

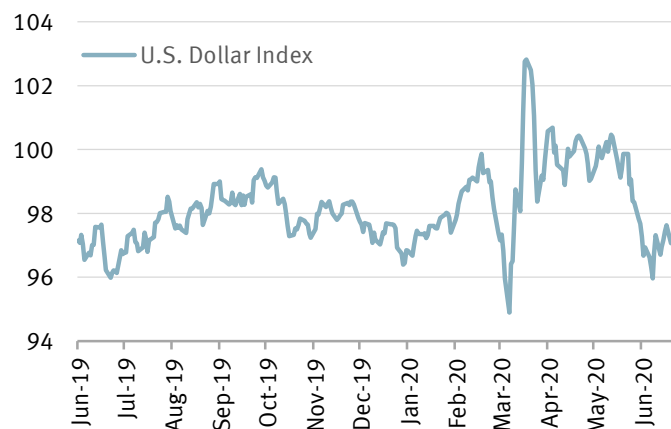
### British pound: Structurally vulnerable

The British pound has recovered from its multi-decade lows earlier in the COVID-19 crisis, but remains vulnerable to downside risks. The UK’s growing fiscal deficit and reliance on foreign capital will likely be a headwind in coming months. With six months left in the Brexit transition period, the UK and EU face a tight timeline to negotiate a trade deal. This could be an increasingly relevant risk factor leading up to the year-end deadline. We maintain a negative outlook.

### Japanese yen: Domestic demand

The Japanese yen remained resilient despite fading “safe-haven” demand with markets optimistic through May and early June. This was largely driven by domestic investors repatriating foreign assets and buying the yen. With G-10 rates near 0%, hedging new foreign investments is again attractive for Japanese investors, which keeps domestic demand for the yen strong. Accordingly, the currency could stay supported regardless of the risk backdrop, in our view.

The U.S. dollar has pulled back from levels seen at the peak of COVID-19 volatility



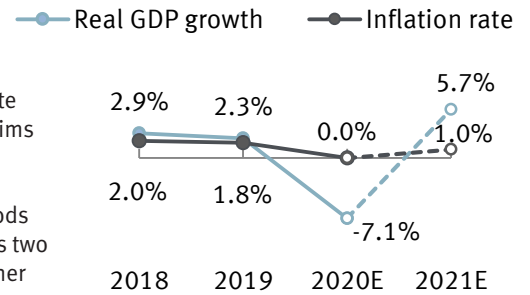
Key pillars of strength have faded for the U.S. dollar, but “safe-haven” demand has kept the greenback buoyed.

**Blaine Karbonik, CFA**  
London, United Kingdom  
blaine.karbonik@rbc.com

Source - Bloomberg, RBC Wealth Management, data through 6/22/20

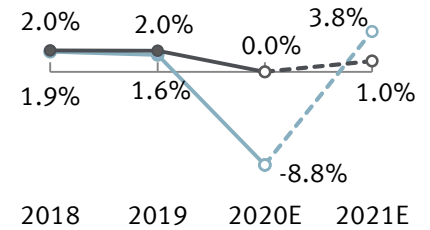
## United States – Housing market resiliency

GDP contracted by 5.0% in Q1. June unemployment rate down to 11.1%, although flattening unemployment claims have signaled a possible slowdown in labor market recovery. Housing has shown surprising resiliency as low borrowing rates have driven demand. Durable goods orders bounced back after plummeting in the previous two readings, led by increased demand for aircraft and other transportation equipment.



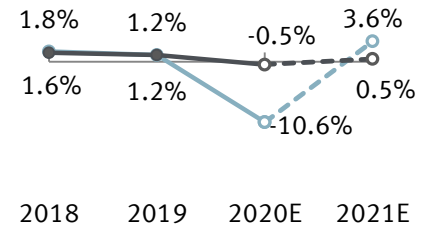
## Canada – Month of records

Retail sales collapsed to an all-time low of -24.6% with vehicle sales the largest drag. Unemployment continues to climb, reaching a new high of 13.7%. Year-over-year Q2 GDP is expected to fall at 32% annualized rate. The housing market performed better than expected as existing home sales soared by 57% over the prior month, although they remain 40% below year-ago levels.



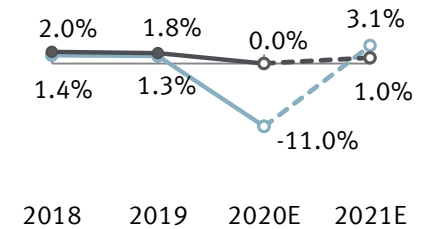
## Eurozone – Retail sales in pain

Unemployment ticked up to 7.3% but remains historically low. Retail sales hit new low with consumers cutting back on discretionary spending. Manufacturing improving but remains in contraction. GDP marginally improved but still sits at -3.1% y/y. Due to renewed outbreaks, some countries were forced to reinstate lockdown measures. Despite this, economic confidence is improving following a significant deterioration in the prior months.



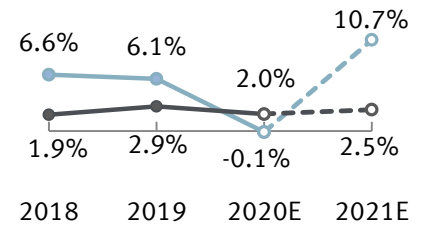
## UK – Record bond sales to combat COVID-19

The UK's plan to sell £50 billion of Gilts through August to combat the impact of COVID-19 dwarfs the steps the UK took during the financial crisis era. UK household savings are up massively. Recovery will require some spending. German Chancellor Merkel has suggested the Johnson government may not be interested in reaching a Brexit agreement, further complicating that issue.



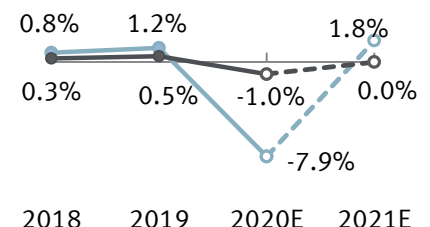
## China – Manufacturing expansion improves

Manufacturing grew faster due to gradual reopening of economies overseas. The manufacturing PMI rose to a better-than-expected 50.9 in June from 49.4 in May. The non-manufacturing PMI also improved despite a new outbreak in Beijing. Increased government construction spending will likely maintain overall momentum. A Standard Chartered survey pointed to a faster manufacturing expansion in June for small and medium-sized businesses.



## Japan – Industrial production tumbles

Industrial production fell a worse-than-expected 8% in May, the fourth straight month of declines. Production is expected to have picked up in June, with a gradual recovery forecast in Q3, buoyed by overseas economies reopening. May retail sales edged up from the prior month for the first time since February, signaling the worst of the pandemic impact may have passed.



Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management (RBC GAM), Bloomberg consensus estimates



# Market scorecard

Index (local currency)	Level	1 month	YTD	12 month
S&P 500	3,054.54	1.8%	-4.0%	5.4%
Dow Industrials (DJIA)	25,530.29	1.7%	-9.6%	-3.0%
NASDAQ	9,928.15	6.0%	12.1%	25.6%
Russell 2000	1,415.08	3.4%	-13.6%	-8.0%
S&P/TSX Comp	15,389.72	2.1%	-9.1%	-5.3%
FTSE All-Share	3,402.26	1.4%	-18.7%	-15.9%
STOXX Europe 600	358.49	2.8%	-13.3%	-6.4%
EURO STOXX 50	3,213.91	6.0%	-13.6%	-6.9%
Hang Seng	24,427.19	6.4%	-13.3%	-14.4%
Shanghai Comp	2,984.67	4.6%	-2.1%	0.2%
Nikkei 225	22,288.14	1.9%	-5.8%	4.8%
India Sensex	34,915.80	7.7%	-15.4%	-11.4%
Singapore Straits Times	2,589.91	3.2%	-19.6%	-22.0%
Brazil Ibovespa	95,320.30	8.8%	-17.8%	-5.9%
Mexican Bolsa IPC	37,769.20	4.4%	-13.4%	-12.6%
Bond yields	6/30/20	5/29/20	6/28/19	12 mo. chg
US 2-Yr Tsy	0.147%	0.160%	1.755%	-1.61%
US 10-Yr Tsy	0.622%	0.653%	2.005%	-1.38%
Canada 2-Yr	0.287%	0.290%	1.474%	-1.19%
Canada 10-Yr	0.507%	0.534%	1.466%	-0.96%
UK 2-Yr	-0.112%	-0.043%	0.620%	-0.73%
UK 10-Yr	0.143%	0.184%	0.833%	-0.69%
Germany 2-Yr	-0.697%	-0.601%	-0.750%	0.05%
Germany 10-Yr	-0.483%	-0.185%	-0.327%	-0.16%
Commodities (USD)	Price	1 month	YTD	12 month
Gold (spot \$/oz)	1,769.34	2.9%	17.4%	26.3%
Silver (spot \$/oz)	17.88	1.9%	2.0%	18.9%
Copper (\$/metric ton)	6,486.50	12.2%	-2.3%	0.4%
Uranium (\$/lb)	20.90	-0.5%	-12.6%	-7.7%
Oil (WTI spot/bbl)	38.99	10.7%	-35.7%	-32.8%
Oil (Brent spot/bbl)	41.03	16.5%	-37.7%	-38.2%
Natural Gas (\$/mmBtu)	1.76	-5.3%	-20.0%	-24.1%
Agriculture Index	273.20	1.8%	-11.3%	-10.2%
Currencies	Rate	1 month	YTD	12 month
US Dollar Index	97.5030	-1.0%	1.0%	1.3%
CAD/USD	0.7311	1.5%	-4.3%	-3.5%
USD/CAD	1.3677	-1.5%	4.5%	3.7%
EUR/USD	1.1219	1.2%	0.2%	-1.2%
GBP/USD	1.2310	0.5%	-6.5%	-2.3%
AUD/USD	0.6869	3.5%	-1.7%	-1.7%
USD/JPY	107.6200	0.1%	-0.6%	0.1%
EUR/JPY	120.7400	1.2%	-0.4%	-1.2%
EUR/GBP	0.9114	0.7%	7.1%	1.1%
EUR/CHF	1.0652	-0.3%	-2.0%	-4.2%
USD/SGD	1.3961	-1.4%	3.5%	3.0%
USD/CNY	7.0731	-1.0%	1.4%	2.9%
USD/MXN	23.1674	3.7%	21.5%	19.6%
USD/BRL	5.4643	2.5%	35.7%	42.0%

U.S. stocks set to post best quarterly performance since 1998 on better-than-expected consumer confidence data.

Global bond yields rallied lower amid rising COVID-19 cases.

After trading higher earlier in June, a spike in COVID-19 cases drove oil lower to end the month on a darkening demand outlook.

The U.S. Dollar Index weakened month over month against major currencies including the Canadian dollar and the euro.

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 0.73 means 1 Canadian dollar will buy 0.73 U.S. dollar. CAD/USD -3.5% return means the Canadian dollar has fallen 3.5% vs. the U.S. dollar during the past 12 months. USD/JPY 107.62 means 1 U.S. dollar will buy 107.62 yen. USD/JPY 0.1% return means the U.S. dollar has risen 0.1% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 6/30/20.

# Research resources

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Kelly Bogdanova – Co-chair; Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

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Mark Bayko, CFA – Head, Portfolio Management, RBC Dominion Securities Inc.

Janet Engels – Head, Portfolio Advisory Group U.S., RBC Wealth Management, RBC Capital Markets, LLC

Thomas Garretson, CFA – Fixed Income Senior Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Christopher Girdler, CFA – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Patrick McAllister, CFA – Manager, Equity Advisory & Portfolio Management, Portfolio Advisory Group, RBC Dominion Securities Inc.

Alan Robinson – Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group – U.S. Equities, RBC Capital Markets, LLC

Michael Schuette, CFA – Multi-Asset Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group – U.S., RBC Capital Markets, LLC

Alastair Whitfield – Head of Fixed Income – British Isles, RBC Wealth Management, RBC Europe Limited

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## Additional Global Insight contributors:

Jasmine Duan – Equity Analyst, RBC Investment Services (Asia) Limited

Nicholas Gwee – Equity Specialist, Royal Bank of Canada, Singapore Branch

Blaine Karbonik, CFA – Associate, FX and Structured Products Specialist, RBC Wealth Management, RBC Europe Limited

Gopa Nair, CFA – Portfolio Manager, RBC Wealth Management Portfolio Advisory Group – Equities, RBC Dominion Securities Inc.

Calvin Ng – Head of Fixed Income Advisory Hong Kong, RBC Wealth Management Hong Kong, RBC Investment Services (Asia) Limited

Joseph Spak, CFA – Research Analyst, RBC Capital Markets, LLC

Richard Tan, CFA – Canadian Equities Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – Equities, RBC Dominion Securities Inc.

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