

Global Insight

Weekly

Growth grinds on

Frédérique Carrier – London

Markets strapped back in the roller coaster as another much-needed round of fiscal stimulus in the U.S. twists in the wind. We're mindful of the risks to the economic outlook, but we explain why growth does appear to have a clearer path forward.

Negotiations are off ... no, they're on

President Donald Trump's tweet early in the week pulling the plug on negotiations for fiscal relief to support businesses and individuals prior to the election jolted markets. Equities retreated and bond yields fell as investors sought the safety net provided by bonds. A lack of support would hurt the unemployed and could raise the specter of unemployment for those currently working, curbing their appetite for spending.

The announcement came on the heels of Federal Reserve Chair Jerome Powell's speech warning that the risk to the economy of under-delivering on the fiscal front was much greater than that of over-delivering. A recent survey of institutional investors by RBC Capital Markets found that just over 60 percent of respondents believe additional fiscal stimulus is needed for the U.S. economy to fully recover, and close to half believed a bailout package would come in Q4.

Stimulus of at least \$1 trillion is widely seen as desirable by economists. Negotiating positions in Congress had been staked out, with the Democrats in the House of Representatives recently passing a \$2.2 trillion package and the Republicans in the Senate suggesting a \$600 billion package, pointing to the congressional chasm. The White House has proposed a \$1.6 trillion deal.

In a now characteristic volte-face, Trump announced 48 hours later that he *would* negotiate a "bigger deal." Should these negotiations not come to fruition before the elections in early November, a blue wave, where Democrats win the presidency

and control of both chambers of Congress, may well be the fastest path to delivering stimulus, while a divided Congress could spell more gridlock and less substantial relief.

Not over yet, but clearer path forward

The fiscal drag in the U.S. is currently substantial, with the federal government already spending some \$200 billion less per month than back in April, when one-off checks to households were sent out and unemployment payouts were at their most generous. Moreover, spending by U.S. states has also been constrained as most operate under balanced budget requirements and with government revenues dented by the crisis, expenditures are being reined in.

Despite the lack of another round of fiscal stimulus and the country's battle with spiking COVID-19 infection rates, the U.S. economy did not contract as the summer wound down. The capacity of people to adapt to a crisis and some headwinds so far proving to have less of an economic impact than initially feared buttressed the economy's performance in Q3.

Market pulse

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- 3 Canadian consumer spending on an upward trajectory
- 4 EU and UK banks outperform, challenges remain
- 4 Singapore preparing for final phase of reopening

Click [here](#) for authors' contact information. Priced (in USD) as of 10/8/20 market close, ET (unless otherwise stated). **For important disclosures and required non-U.S. analyst disclosures, see [page 6](#).**

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Wealth
Management

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In particular, credit defaults will likely top out below the levels seen during the global financial crisis, according to RBC Global Asset Management. Banks seem increasingly comfortable with the credit losses they have provisioned for, both for commercial loans and residential real estate, and actual losses remain quite small.

RBC Global Asset Management Inc. Chief Economist Eric Lascelles points out that in the U.S., a slightly lower percentage of mortgage holders—seven percent—are deferring mortgage payments than at the peak of the crisis a few months back (eight percent). The improvement is even starker in Canada with only six percent of Canadian mortgage holders deferring mortgage payments, down from 16 percent at the peak of the crisis.

Moreover, rising house prices in the U.S. and Canada are creating an exit opportunity for households in difficulty, so that only a small fraction of mortgages is likely to be foreclosed upon. Housing markets in both countries could well be somewhat weaker in the future, as unemployment and lower immigration take their toll. But Lascelles suggests this may happen with a sufficient lag, giving the U.S. and Canadian economies time to be in a much better position to handle it, having already navigated around many fiscal and credit challenges.

Upgrading GDP numbers

Given the better economic performance in Q3, RBC Global Asset Management recently upgraded its 2020 growth forecasts for both the U.S. and Canada. Lascelles now believes the U.S. economy could contract by 3.5 percent, much less than the prior estimate of negative six percent. Canada's economy could shrink by 5.2 percent, rather than a more painful seven percent that he had pencilled in.

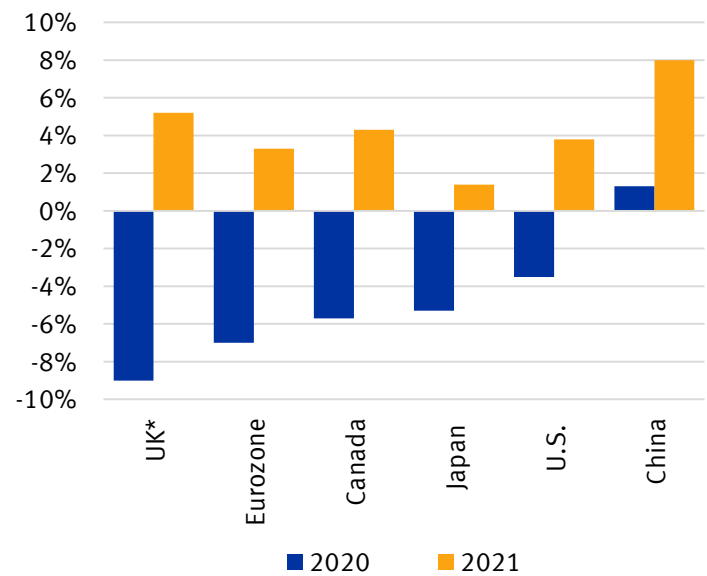
Both the U.S. and Canada could return to their 2019 peaks earlier than previously expected, with the U.S. potentially as early as the end of 2021.

In Canadian Prime Minister Justin Trudeau's recent Throne Speech, which outlined the government's agenda, he pledged greater federal generosity through extending emergency support for small businesses, continuing a wage subsidy program until summer 2021, and expanding the employment insurance program.

These new GDP forecasts remain fluid, given the high risk around the last quarter of the year. After all, the current spike in infection rates could prove more painful than expected. But while economic growth could underwhelm, we do not expect a double-dip recession. Economic activity indicators, such as Purchasing Managers' Indexes, are largely in expansion territory. Admittedly, these indicators are no longer actively rising from month to month, meaning the "easy" part of the recovery is probably over.

Global GDP growth forecasts

Annual average % change



*For the UK, the magnitude of the GDP bounce in 2021 will depend on the outcome of Brexit negotiations.

Source - RBC Global Asset Management; data as of 10/5/20

Lascelles is not alone in upgrading his forecasts. The International Monetary Fund (IMF) recently announced that the world economy should perform better in 2020 than it originally believed at the peak of the pandemic. Yet Kristalina Georgina, the managing director of the IMF, hastened to add that the "calamity is far from over."

Take advantage of volatility

After the September pullback in equities, we have increased our recommended positioning of global equities to Market Weight from a modest Underweight.

On a 12-month view, we expect the global economy will gradually normalize thanks to the entrenched commitment of major central banks to an ultralow interest rate policy, fiscal support, and further progress taming the COVID-19 virus. As the global economy recovers, so too will corporate earnings. Valuations may seem elevated in the U.S., but they are not unreasonable in an environment of very low rates.



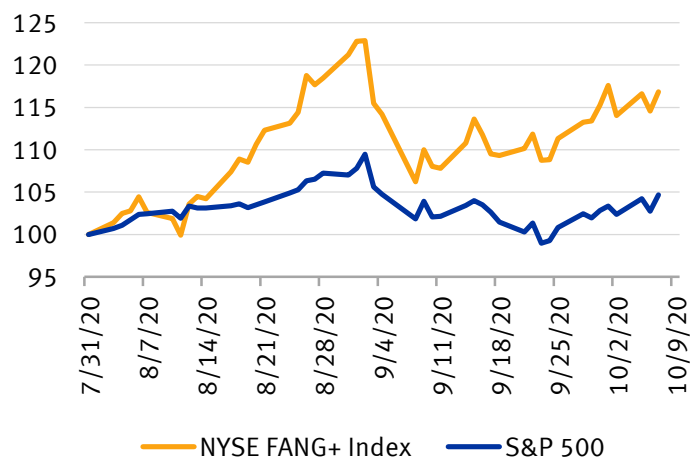
United States

Alan Robinson – Seattle

- Stocks posted moderate gains against a volatile backdrop during what is typically a quiet week ahead of the start of Q3 2020 earnings season. **Stimulus talks, opinion polls, and vaccine headlines conspired to produce choppy trading** as investors looked ahead to the first batch of earnings with major banks the first to report on Oct. 13.
- Leading into earnings week, **consensus estimates expect Q3 S&P 500 revenues and earnings per share (EPS) to decline 4% and 22% y/y, an improvement on the 9% and 32% y/y declines seen in Q2.** Somewhat surprisingly, 54% of S&P 500 companies (weighted by market capitalization) are expected to post higher EPS in 2020 than they did in 2019. It should be less of a surprise that this earnings growth is concentrated in the Tech sector.
- This rosier earnings outlook for Tech stocks likely explains their continued recent strength relative to the market (see chart). However, we note regulatory headwinds may start to build in 2021. Bloomberg reported that **Democrats in the House of Representatives are floating antitrust reforms that could make it easier to break up big tech platforms.** David Cicilline (D-Rhode Island) said his antitrust panel's inquiry confirmed Google (GOOGL), Apple (AAPL), Amazon (AMZN), and Facebook (FB) are abusing their market power to hinder competition. Ken Buck (R-Colorado) agreed, but poured cold water on the more aggressive proposals.
- Tariff headlines gained attention during the week. According to the Financial Times, **over 3,500 companies, including**

Tech stocks shrug off regulatory rhetoric & regain their mojo

Relative performance



The NYSE FANG+ Index is a basket of 10 highly traded large-cap tech stocks. Source - Refinitiv, RBC Wealth Management; normalized with 7/31/20 = 100; data through 10/7/20

Coca-Cola (KO), Disney (DIS), and Ford (F), have recently filed lawsuits against the U.S. government over its China tariffs, as a deadline for appeals approaches. The complaints cite the extent to which the tariffs have increased import costs, and were notable for the broad participation across a range of industries. The International Trade Court will decide how to proceed with the cases, but we believe the extent of the pushback from the business lobby may force a rethink on the extent of these tariffs.



Canada

Sayada Nabi & Carolyn Schroeder – Toronto

- The rebound in international trade flows over June and July was substantial, so it's unsurprising for the traditionally volatile international trade numbers to be choppier going forward. **In August, Canadian export volumes (controlling for price changes) were down almost 8% from February levels, while Canadian imports were down 3.5%** over that same period. Economic disruptions brought by COVID-19 affected some sectors more significantly than others. The dip in exports in August was partially tied to a pullback in motor vehicle production, coming off an unusually strong July production level. Agriculture product exports were an exception, as they ran 13% higher than February levels. RBC Economics believes **much of the initial rebound in economic activity has come from easing pandemic-related restrictions, and most of that lift has likely run its course.** The rest of the economic recovery is expected to be more gradual, and escalating virus spread in recent weeks means another round of global restrictions still poses a risk to the recovery.
- **Canadian spending is on an upward trajectory, according to RBC Economics, with only a handful of signs of a second wave of consumer confidence worries.** While fall fashion and entertainment buys boosted overall consumer spending in Canada, declines in travel-related purchases pulled it in the opposite direction. Consumer spending was up 5% through mid-September, with retail categories providing the most support as apparel, gift, and jewelry purchases were up 1.5% y/y. With more time spent at home it is unsurprising that household entertainment expenditures also increased. Although spending on books and music is still below 2019 levels, there has been a significant boost since the March lows. Travel, as previously noted, has not seen the same support as the retail categories with car rentals and accommodation spending moving in stride with the lower temperatures. At the peak of summer, travel-related purchases were down 60% y/y, and while they picked up a smidge in late July and August, they started declining again as soon as the cooler weather crept in.

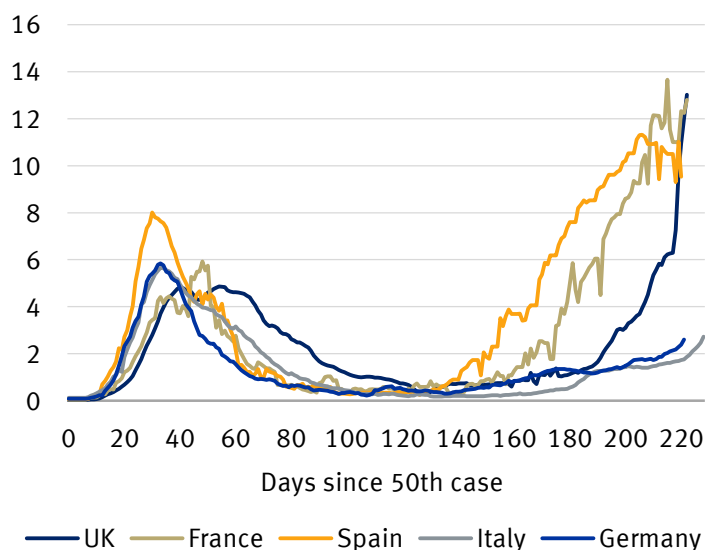


Europe

Frédérique Carrier & Thomas McGarrity, CFA – London

- **European and UK equities edged forward during the week.** This year's laggards, including the banks, outperformed, while profit-taking beset previous top performers in the Technology and Health Care sectors.
- In particular, **the Euro STOXX Banks Index**, which covers continental banks, **remains down more than 40% year to date** and is trading at a very distressed level of 0.4x book value. The sector is benefitting from lower perceived sovereign risk, as illustrated by the spread between Italian and German 10-year bond yields returning to its pre-pandemic low and **the prospect of more sector consolidation**. Yet sustained upside might prove challenging, given the **flat European yield curves** and concerns about the impact on economies of a second wave of COVID-19 infections.
- **UK banks are trading at similarly low multiples**, and despite their good performance so far in the week remain 50% below January levels. Beyond suffering from the impact of the pandemic on the economy and concerns regarding the potential impact of Brexit, the sector has been affected by being prohibited from paying out any dividends in 2020 by the industry regulator. **UK dividends in the second quarter fell by more than 55% year over year**, with half of the reduction due to cancelled and suspended payouts from companies in the Financials sector.

7-day moving average of new daily positive COVID-19 cases
In thousands



Source - Bloomberg, RBC Capital Markets; data through 10/7/20

- The number of **COVID-19 cases continued to increase**, with infections doubling in the UK over the past fortnight to some 14,000 new infections per day and France recording a new all-time high of close to 19,000 daily infections. More restrictions are being discussed and imposed. We believe **this could shave off growth in Q4 and strengthen the case for further central bank intervention** in the autumn.



Asia Pacific

Jasmine Duan – Hong Kong & Nicholas Gwee, CFA – Singapore

- **The Asia-Pacific equity market traded higher** during the week, while Chinese stock markets are closed for the National Day celebration. **Australia led the rally** in the region. The ASX 200 Index is on track to post its best weekly returns since mid-April following the **government's pledge to spend billions** to pull the economy out of its historic COVID-19 slump.
- **Bank of Japan (BoJ) Governor Haruhiko Kuroda warned that uncertainty over Japan's economic and inflation outlook remains "very high"** as the COVID-19 pandemic continues to inflict pain on global growth. Kuroda expects the Japanese economy to head towards a moderate recovery after emerging from a severe downturn. We expect the BoJ to remain on hold and that further support will likely come from fresh rounds of fiscal easing under the Suga administration.
- **The Singapore government announced a series of new measures to help businesses and residents transition into the new normal.** The authorities will release the plan for the final phase of the safe reopening in the coming weeks, which could see a relaxation of restrictions on social gatherings and large-scale events. The government will extend the support measures for borrowers for another six months. The changes should ease concerns over potential negative outcomes for the banking system. Finally, **Singapore is looking to form air travel bubbles with other countries or regions deemed safe** to help revive Singapore's air hub and restore air connectivity. While incremental news flow on reopening plans provides a near-term sentiment boost for the aviation sector, we caution that any pickup in demand will likely be modest until the vaccines for COVID-19 become widely available.
- **The Trump administration is exploring restrictions on the expansion of Ant Group's Alipay and Tencent Holdings' WeChat Pay** over concerns that the digital payment platforms threaten national security, according to a Bloomberg report. The escalating tensions between Washington and Beijing will likely cast a shadow over Ant's IPO (potentially the largest on record, the report noted).



MARKET SCORECARD

Data as of October 8, 2020

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	3,446.83	2.5%	6.7%	19.1%	19.5%
Dow Industrials (DJIA)	28,425.51	2.3%	-0.4%	8.6%	7.3%
Nasdaq	11,420.98	2.3%	27.3%	46.0%	47.6%
Russell 2000	1,628.55	8.0%	-2.4%	10.6%	-0.1%
S&P/TSX Comp	16,534.54	2.6%	-3.1%	1.5%	3.7%
FTSE All-Share	3,356.09	2.2%	-20.0%	-14.3%	-15.7%
STOXX Europe 600	368.31	2.0%	-11.4%	-2.7%	-1.0%
EURO STOXX 50	3,255.76	1.9%	-13.1%	-5.2%	-1.6%
Hang Seng	24,193.35	3.1%	-14.2%	-6.6%	-7.7%
Shanghai Comp	3,218.05	0.0%	5.5%	10.5%	18.5%
Nikkei 225	23,647.07	2.0%	0.0%	9.5%	-0.6%
India Sensex	40,182.67	5.6%	-2.6%	7.1%	16.6%
Singapore Straits Times	2,543.11	3.1%	-21.1%	-18.3%	-20.1%
Brazil Ibovespa	97,919.70	3.5%	-15.3%	-2.1%	13.7%
Mexican Bolsa IPC	38,404.05	2.5%	-11.8%	-9.7%	-20.1%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	1,893.70	0.4%	24.8%	25.8%	59.4%
Silver (spot \$/oz)	23.84	2.6%	33.5%	34.4%	65.9%
Copper (\$/metric ton)	6,666.25	0.0%	8.4%	18.2%	8.0%
Oil (WTI spot/bbl)	41.19	2.4%	-32.5%	-21.7%	-44.6%
Oil (Brent spot/bbl)	43.43	6.1%	-34.2%	-25.4%	-48.2%
Natural Gas (\$/mmBtu)	2.64	4.4%	20.5%	15.3%	-19.3%

Govt bonds (bps chg)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Tsy	0.772%	8.8	-114.6	-75.7	-246.1
Canada 10-Yr	0.610%	4.9	-109.2	-66.9	-199.0
U.K. 10-Yr	0.289%	6.0	-53.3	-12.7	-138.5
Germany 10-Yr	-0.523%	-0.1	-33.8	7.1	-105.2

Fixed Income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	1.22%	-0.3%	6.4%	6.0%	18.7%
U.S. Invest Grade Corp	2.02%	-0.1%	6.5%	7.1%	23.1%
U.S. High Yield Corp	5.42%	1.0%	1.6%	4.8%	11.4%

Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	93.5930	-0.3%	-2.9%	-5.6%	-2.3%
CAD/USD	0.7576	0.9%	-1.6%	1.0%	-1.8%
USD/CAD	1.3199	-0.9%	1.6%	-0.9%	1.8%
EUR/USD	1.1758	0.3%	4.9%	7.3%	2.3%
GBP/USD	1.2932	0.1%	-2.5%	5.8%	-1.2%
AUD/USD	0.7165	0.0%	2.1%	6.5%	1.2%
USD/JPY	106.0300	0.5%	-2.4%	-1.0%	-6.4%
EUR/JPY	124.6700	0.8%	2.4%	6.3%	-4.2%
EUR/GBP	0.9092	0.2%	7.5%	1.4%	3.6%
EUR/CHF	1.0785	-0.1%	-0.7%	-0.9%	-5.4%
USD/SGD	1.3584	-0.5%	0.9%	-1.7%	-1.8%
USD/CNY	6.7908	0.0%	-2.5%	-4.9%	-2.0%
USD/MXN	21.3955	-3.3%	13.0%	9.0%	13.0%
USD/BRL	5.5905	-0.3%	38.7%	48.0%	47.9%

Source - Bloomberg. Note: 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. Data as of 8:35 pm GMT 10/8/20.

Examples of how to interpret currency data: CAD/USD 0.75 means 1 Canadian dollar will buy 0.75 U.S. dollar. CAD/USD -1.6% return means the Canadian dollar fell 1.6% vs. the U.S. dollar year to date. USD/JPY 106.03 means 1 U.S. dollar will buy 106.03 yen. USD/JPY -2.4% return means the U.S. dollar fell 2.4% vs. the yen year to date.

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Sell [Underperform]	81	5.44	11	13.58

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