RBC Global Asset Management

The Global Investment Outlook

RBC GAM Investment Strategy Committee

NEW YEAR 2020

The RBC GAM Investment Strategy Committee

The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC GAM. The Committee regularly receives economic and capital markets related input from internal and external sources. Important guidance is provided by the Committee's regional equity advisors (North America, Europe, Asia, Emerging Markets) and from the Global Fixed Income & Currencies sub-committee. From this, the Committee builds a detailed global investment forecast looking one year forward.

The Committee's view includes an assessment of global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits and stock prices.

From this global forecast, the RBC GAM Investment Strategy Committee develops specific guidelines that can be used to manage portfolios.

These include:

- the recommended mix of cash, fixed income instruments, and equities
- the recommended global exposure of fixed income and equity portfolios
- the optimal term structure for fixed income investments
- the suggested sector and geographic make-up within equity portfolios
- the preferred exposure to major currencies

Results of the Committee's deliberations are published quarterly in *The Global Investment Outlook*.

Contents

2 **Executive Summary**
The Global Investment Outlook
Eric Savoie, MBA, CFA – Associate Investment Strategist, RBC Global Asset Management Inc.
Daniel E. Chornous, CFA – Chief Investment Officer, RBC Global Asset Management Inc.

4 **Economic & Capital Markets Forecasts**
RBC GAM Investment Strategy Committee

5 **Recommended Asset Mix**
RBC GAM Investment Strategy Committee

10 **Capital Markets Performance**
Milos Vukovic, MBA, CFA – V.P. & Head of Investment Policy, RBC Global Asset Management Inc.

13 **Global Investment Outlook**
2020 vision
Eric Lascelles – Chief Economist, RBC Global Asset Management Inc.
Eric Savoie, MBA, CFA – Associate Investment Strategist, RBC Global Asset Management Inc.
Daniel E. Chornous, CFA – Chief Investment Officer, RBC Global Asset Management Inc.

45 **Global Fixed Income Markets**
Soo Boo Cheah, MBA, CFA – Senior Portfolio Manager, RBC Global Asset Management (UK) Limited
Suzanne Gaynor – V.P. & Senior Portfolio Manager, RBC Global Asset Management Inc.
Taylor Self, MBA – Associate Portfolio Manager, RBC Global Asset Management Inc.

49 **Currency Markets**
The U.S. dollar's decade of strength coming to an end
Dagmara Fijalkowski, MBA, CFA – Head, Global Fixed Income and Currencies, RBC Global Asset Management Inc.
Daniel Mitchell, CFA – Portfolio Manager, RBC Global Asset Management Inc.

Regional Equity Market Outlook

56 United States
Brad Willock, CFA – V.P. & Senior Portfolio Manager, RBC Global Asset Management Inc.

58 Canada
Sarah Neilson, CFA – Portfolio Manager, RBC Global Asset Management Inc.
Irene Fernando, CFA – Portfolio Manager, RBC Global Asset Management Inc.

60 Europe
Dominic Wallington – Head, European Equities & Senior Portfolio Manager, Portfolio Manager, RBC Global Asset Management (UK) Limited

62 Asia
Chris Lai – Senior Analyst, Asian Equities, RBC Investment Management (Asia) Limited

64 Emerging Markets
Philippe Langham – Head & Senior Portfolio Manager, Emerging Market Equities, RBC Global Asset Management (UK) Limited

66 **RBC GAM Investment Strategy Committee**

Executive Summary

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Associate Investment Strategist
RBC Global Asset Management Inc.

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management Inc.

Financial markets staged a solid recovery in 2019 as a number of key macro challenges from last year faded and new tailwinds emerged. Although risks remain, several positive signals have led us to a more constructive outlook with lesser odds of a negative scenario unfolding.

Economic growth may be bottoming

After nearly two years of decline, economic growth may be close to bottoming. While actual data has yet to improve, leading indicators of growth have stabilized and/or turned higher in most major regions. In 2019, the economy has been supported by a strong service sector and resilient consumers, offsetting weakness in manufacturing. More recently, monetary easing has helped stabilize economies and we expect the boost from lower interest rates to kick in on a lagged basis. We have, however, trimmed our outlook for 2020 global growth to 3.25% from 3.50%, mainly because of slower-than-expected momentum carrying over from 2019. Emerging-market economies are set to rebound, while developed-market growth may continue to decelerate marginally. With this updated forecast, we expect global growth in 2020 to match that of 2019, which is an encouraging sign after two years of deceleration.

Macro risks have faded, but not disappeared

Progress on U.S.-China trade and Brexit has reduced two of the key macro risks to our outlook. Trade relations between the U.S. and China have improved as the two countries are nearing a "Phase One" trade deal. That said, there remains friction between the world's two largest economies and there is no certainty that they will reach a deal that significantly improves the global trade outlook. Brexit is also looking a bit better as the risk of a "No Deal" Brexit has shrunk. The U.K.'s departure from the EU will still inflict economic damage, but less than we had initially feared. The U.S. presidential election in November is likely to provide a new source of uncertainty as the campaign unfolds. Overall, we believe that the macro risks facing economies and markets are less severe than we would have imagined a quarter ago.

Odds of imminent recession reduced slightly

Our assessment of the U.S. business cycle continues to indicate that we are late in the cycle, a view that we have held over the past few years. That said, some of the inputs to our scorecard framework have become less concerning recently. The most noticeable change is that the U.S. yield curve – proxied by the spread between 3-month and 10-year Treasury yields – is no longer inverted. This indicator has been a classic recession signal and the steepening in the yield curve since the summer suggests that the odds of recession have declined. However, other measures continue to show that we are fairly late in the business cycle. For example, most output-gap estimates suggest that the U.S economy is already operating at full capacity. We estimate the risk of recession at approximately 35% over the next year, which is still elevated but down from our prior assessment of 40%.

U.S. dollar tailwinds are waning

After touching multi-decade lows in 2011, the U.S. dollar has appreciated for nearly nine years, buoyed by relatively strong growth and higher interest rates. These tailwinds are

beginning to dissipate, however, as the Fed has undertaken a series of rate cuts and resumed quantitative easing. Next year's U.S. election introduces additional downside risk for the greenback, adding to the mounting headwinds of overvaluation, and fiscal and trade deficits. An acceleration in global growth would further erode the relative attractiveness of the dollar and tip the greenback into a period of sustained weakness. In this environment, we are constructive on emerging-market currencies with strong fundamentals and expect the euro and yen to outperform the loonie and the pound.

Central banks deliver monetary stimulus

Financial assets benefited this year from the major tailwind of aggressive monetary easing. The U.S., the Eurozone, China and India all lowered interest rates and some regions restarted quantitative easing. While the U.K. and Japan did not provide additional monetary support, they did not dial back prior stimulus efforts. One challenge that this new round of stimulus presents is the possibility that policymakers will have little room for additional easing in the event that economies require more stimulus. While some central banks have lowered rates into negative territory, we hope that such unorthodox policies don't last as they could have unintended consequences. With substantial monetary stimulus in place, a logical next step would be for governments to turn to fiscal spending as a tool for supporting economic growth.

Low-yield world is likely to persist

Although bond yields have rebounded somewhat in the last quarter, we don't believe this increase marks the start of a sustained rise in yields. Real interest rates are being depressed by a number of secular factors such as aging populations, an increased preference for saving versus spending, and slower rates of economic growth. The downward pressure on real rates from these forces is expected to reverse only marginally over the coming decade. We forecast that inflation will be relatively stable, meaning the direction of bond yields will be linked to changes in real interest rates. Our models suggest that bonds are susceptible to valuation risk as yields are below their equilibrium levels, especially outside North America. However, we think that any increase in yields is likely to be gradual and extend over a long period. Given the starting point of extraordinarily low yields and the fact that they are likely to move higher over time, if only a little, we can expect low sovereign-bond returns for the foreseeable future.

Stocks soared in 2019, but could still have room to run

Equities delivered impressive gains in 2019 amid low interest rates, stable inflation and moderate economic growth. The S&P 500 has rallied over 25% so far this year and is now the closest to fair value of the major indexes that we track, while stock markets outside the U.S. still look quite attractive. Profit growth will likely need to resume in 2020 to support further equity gains. Analysts expect earnings growth to re-accelerate and a variety of market signals reinforce this view. Since the summer, economically-sensitive sectors have outperformed defensives, value stocks have led the growth style, and international markets have participated in the rally. In the past, these types of market rotations have been associated with improving economic and corporate-profit growth, and may indicate the bull market has room to run.

Boosting equity weight, sourced from cash

In our view, the economy is likely to continue to expand at a moderate pace and we therefore expect bond yields to be relatively contained. We remain underweight fixed income given uninspiring return projections over our 1-year forecast horizon. Stocks offer the potential for bigger gains and, balancing the risks and rewards, we think that the risk premium between stocks and bonds is worth capturing at this time. As a result, we have leaned toward taking on more risk this quarter after de-risking our portfolios for more than two years. Stabilization in economic leading indicators, the rotation into value, and improving global market breadth have heightened our conviction in a positive outcome for risk assets. We added two percentage points to our equity allocation this quarter, sourced from cash, marking the first steps in the reversal of our prior de-risking. For a balanced, global investor, we currently recommend an asset mix of 59% equities (strategic neutral position: 55%) and 40% fixed income (strategic neutral position: 43%), with the balance in cash.

Economic & Capital Markets Forecasts

Economic forecast (RBC GAM Investment Strategy Committee)

	United States		Canada		Europe		United Kingdom		Japan		China		Emerging markets*	
	New Year 2020	Change from Fall 2019	New Year 2020	Change from Fall 2019	New Year 2020	Change from Fall 2019	New Year 2020	Change from Fall 2019	New Year 2020	Change from Fall 2019	New Year 2020	Change from Fall 2019	New Year 2020	Change from Fall 2019
Real GDP														
2018A	2.86%		1.88%		1.84%		1.37%		0.78%		6.58%		5.57%	
2019E	2.25%	(0.25)	1.50%	N/C	1.25%	N/C	1.25%	N/C	0.75%	N/C	6.00%	N/C	4.75%	(0.25)
2020E	1.75%	N/C	1.50%	(0.25)	1.00%	(0.25)	1.00%	(0.25)	0.25%	(0.25)	5.75%	N/C	5.00%	(0.25)
CPI														
2018A	1.95%		1.97%		1.55%		2.01%		0.30%		1.93%		2.37%	
2019E	1.75%	(0.25)	2.00%	N/C	1.25%	N/C	2.00%	N/C	0.75%	N/C	2.50%	N/C	3.00%	N/C
2020E	2.00%	N/C	1.75%	(0.25)	1.25%	(0.25)	2.00%	(0.25)	1.25%	N/C	2.75%	N/C	3.00%	N/C

A = Actual E = Estimate *GDP Weighted Average of China, India, South Korea, Brazil, Mexico and Russia.

Targets (RBC GAM Investment Strategy Committee)

	November 2019	Forecast November 2020	Change from Fall 2019	1-year Total Return estimate* (%)
Currency Markets against USD				
CAD (USD–CAD)	1.33	1.37	N/C	(2.9)
EUR (EUR–USD)	1.10	1.20	N/C	6.7
JPY (USD–JPY)	109.49	98.00	N/C	9.8
GBP (GBP–USD)	1.29	1.28	0.06	(1.9)
Fixed Income Markets				
U.S. Fed Funds Rate**	1.75	1.75	N/C	N/A
U.S. 10-Year Bond	1.78	1.75	N/C	2.0
Canada Overnight Rate	1.75	1.50	N/C	N/A
Canada 10-Year Bond	1.46	1.60	0.10	0.2
Eurozone Deposit Facility Rate	(0.50)	(0.50)	0.10	N/A
Germany 10-Year Bund	(0.36)	(0.30)	0.10	(1.0)
U.K. Base Rate	0.75	0.75	0.25	N/A
U.K. 10-Year Gilt	0.70	0.60	0.10	1.6
Japan Overnight Call Rate	(0.03)	(0.20)	(0.10)	N/A
Japan 10-Year Bond	(0.07)	(0.20)	N/C	1.2
Equity Markets				
S&P 500	3141	3300	250	6.9
S&P/TSX Composite	17040	17875	775	8.0
MSCI Europe	137	148	12	11.7
FTSE 100	7347	7925	325	12.6
Nikkei	23294	25350	3450	10.7
MSCI Emerging Markets	1040	1110	60	9.6

*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD. **Upper bound of federal funds target rate.

Recommended Asset Mix

Asset mix – the allocation within portfolios to stocks, bonds and cash – should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor's profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter term fluctuations in markets.

Every individual has differing return expectations and tolerances for volatility, so there is no "one size fits all" strategic asset mix. Based on a 40-year study of historical returns[1] and the volatility[2] of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC GAM Investment Strategy Committee publishes a recommended asset mix based on our current view of the economy and return expectations for the major asset classes. These weights are further divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark setting is 55% equities, 43% fixed income, 2% cash.

A tactical range of +/- 15% around the benchmark position allows us to raise or lower exposure to specific asset classes with a goal of tilting portfolios toward those markets that offer comparatively attractive near-term prospects.

This tactical recommendation for the Balanced profile can serve as a guide for movement within the ranges allowed for all other profiles.

The value-added of tactical strategies is, of course, dependent on the degree to which the expected scenario unfolds.

Regular reviews of portfolio weights are essential to the ultimate success of an investment plan as they ensure current exposures are aligned with levels of long-term returns and risk tolerances best suited to individual investors.

Anchoring portfolios with a suitable strategic asset mix, and placing boundaries defining the allowed range for tactical positioning, imposes discipline that can limit damage caused by swings in emotion that inevitably accompany both bull and bear markets.

[1]**Average return**: The average total return produced by the asset class over the period 1979 – 2019, based on monthly results.

[2]**Volatility**: The standard deviation of returns. Standard deviation is a statistical measure that indicates the range around the average return within which 2/3 of results will fall into, assuming a normal distribution around the long-term average.

Global Asset Mix

	Benchmark Policy	Past range	New Year 2019	Spring 2019	Summer 2019	Fall 2019	**New Year 2020**
Cash	**2.0%**	1.0% – 16%	1.0%	1.0%	2.5%	3.0%	**1.0%**
Bonds	**43.0%**	25.0% – 54.0%	41.0%	41.0%	40.0%	40.0%	**40.0%**
Stocks	**55.0%**	36.0% – 65.0%	58.0%	58.0%	57.5%	57.0%	**59.0%**

Note: Effective September 1, 2014, we revised our strategic neutral positions within fixed income, lowering the 'neutral' commitment to cash from 5% to 2%, and moving the difference to bonds. This takes advantage of the positive slope of the yield curve which prevails over most time periods, and allows our fixed income managers to shorten duration and build cash reserves whenever a correction in the bond market, or especially an inverted yield curve, is anticipated.

Regional Allocation

Global Bonds	**WGBI* Nov. 2019**	Past range	New Year 2019	Spring 2019	Summer 2019	Fall 2019	**New Year 2020**
North America	**43.8%**	18% – 48%	46.8%	46.7%	40.3%	48.3%	**43.8%**
Europe	**37.7%**	32% – 56%	34.0%	36.5%	43.3%	32.9%	**37.7%**
Asia	**18.5%**	16% – 35%	19.2%	16.9%	16.5%	18.8%	**18.5%**

Note: Past Range reflects historical allocation from Fall 2002 to present.

Global Equities	**MSCI** Nov. 2019**	Past range	New Year 2019	Spring 2019	Summer 2019	Fall 2019	**New Year 2020**
North America	**64.5%**	51% – 63%	61.8%	61.5%	61.9%	63.1%	**62.5%**
Europe	**17.9%**	18% – 35%	18.6%	19.1%	19.1%	18.2%	**18.6%**
Asia	**10.4%**	9% – 18%	12.1%	11.9%	11.6%	11.2%	**11.4%**
Emerging Markets	**7.3%**	0% – 8.5%	7.5%	7.5%	7.5%	7.5%	**7.5%**

Our asset mix is reported as at the end of each quarter. The mix is fluid and may be adjusted within each quarter, although we do not always report on shifts as they occur. The weights in the table should be considered a snapshot of our asset mix at the date of release of the Global Investment Outlook.

Global Equity Sector Allocation

	MSCI Nov. 2019**	RBC GAM ISC Fall 2019	**RBC GAM ISC New Year 2020**	Change from *** Fall 2019	Weight vs. Benchmark
Energy	5.03%	3.16%	3.03%	(0.13)	60.2%
Materials	4.40%	2.41%	2.40%	(0.02)	54.5%
Industrials	11.23%	10.54%	12.23%	1.69	108.9%
Consumer Discretionary	10.48%	11.51%	12.48%	0.97	119.1%
Consumer Staples	8.50%	8.78%	6.50%	(2.28)	76.5%
Health Care	12.66%	13.75%	13.66%	(0.10)	107.9%
Financials	15.71%	13.48%	15.71%	2.23	100.0%
Information Technology	16.76%	18.50%	18.76%	0.26	111.9%
Communication Services	8.44%	8.54%	8.44%	(0.10)	100.0%
Utilities	3.47%	5.06%	3.47%	(1.59)	100.0%
Real Estate	3.33%	4.26%	3.33%	(0.92)	100.0%

*FTSE World Government Bond Index **MSCI World Index ***As of the close on November 30, 2018, the Telecommunication Services Sector was broadened and renamed Communication Services. This modification in the classifications also impacted the Consumer Discretionary and Information Technology sectors.
Source: RBC GAM Investment Strategy Committee

"At RBC GAM, we have a team dedicated to setting and reviewing the strategic asset mix for all of our multi-asset solutions. With an emphasis on consistency of returns, risk management and capital preservation, we have developed a strategic asset allocation framework for five client risk profiles that correspond to broad investor objectives and risk preferences. These five profiles range from Very Conservative through Balanced to Aggressive Growth.

Very Conservative

Asset Class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0%-15%	3.0%	1.1%
Fixed Income	78%	55%-95%	75.0%	75.2%
Total Cash & Fixed Income	80%	65%-95%	78.0%	76.3%
Canadian Equities	10%	5%-20%	10.9%	11.6%
U.S. Equities	5%	0%-10%	5.2%	5.7%
International Equities	5%	0%-10%	5.9%	6.4%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	20%	5%-35%	22.0%	23.7%

	Return	Volatility
40-Year Average	8.6%	5.4%
Last 12 Months	10.6%	2.8%

Very Conservative investors will seek income with maximum capital preservation and the potential for modest capital growth, and be comfortable with small fluctuations in the value of their investments. This portfolio will invest primarily in fixed-income securities, and a small amount of equities, to generate income while providing some protection against inflation. Investors who fit this profile generally plan to hold their investment for the medium to long term.

Conservative

Asset Class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0%-15%	3.0%	1.0%
Fixed Income	63%	40%-80%	60.0%	60.1%
Total Cash & Fixed Income	65%	50%-80%	63.0%	61.1%
Canadian Equities	15%	5%-25%	15.6%	16.3%
U.S. Equities	10%	0%-15%	10.1%	10.8%
International Equities	10%	0%-15%	11.3%	11.8%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	35%	20%-50%	37.0%	38.9%

	Return	Volatility
40-Year Average	8.9%	6.4%
Last 12 Months	11.4%	3.6%

Conservative investors will pursue modest income and capital growth with reasonable capital preservation, and be comfortable with moderate fluctuations in the value of their investments. The portfolio will invest primarily in fixed-income securities, with some equities, to achieve more consistent performance and provide a reasonable amount of safety. The profile is suitable for investors who plan to hold their investment over the medium to long term.

Balanced

Asset Class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0%-15%	3.0%	1.0%
Fixed Income	43%	20%-60%	40.0%	40.0%
Total Cash & Fixed Income	45%	30%-60%	43.0%	41.0%
Canadian Equities	19%	10%-30%	19.3%	19.8%
U.S. Equities	20%	10%-30%	20.0%	20.9%
International Equities	12%	5%-25%	13.4%	13.9%
Emerging Markets	4%	0%-10%	4.3%	4.4%
Total Equities	55%	40%-70%	57.0%	59.0%

	Return	Volatility
40-Year Average	9.2%	7.7%
Last 12 Months	12.3%	5.6%

The **Balanced** portfolio is appropriate for investors seeking balance between long-term capital growth and capital preservation, with a secondary focus on modest income, and who are comfortable with moderate fluctuations in the value of their investments. More than half the portfolio will usually be invested in a diversified mix of Canadian, U.S. and global equities. This profile is suitable for investors who plan to hold their investment for the medium to long term.

Growth

Asset Class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0%-15%	3.0%	1.0%
Fixed Income	28%	5%-40%	25.0%	24.9%
Total Cash & Fixed Income	30%	15%-45%	28.0%	25.9%
Canadian Equities	23%	15%-35%	23.1%	23.6%
U.S. Equities	25%	15%-35%	24.8%	25.7%
International Equities	16%	10%-30%	17.8%	18.3%
Emerging Markets	6%	0%-12%	6.3%	6.5%
Total Equities	70%	55%-85%	72.0%	74.1%

	Return	Volatility
40-Year Average	9.3%	9.3%
Last 12 Months	12.9%	7.2%

Investors who fit the **Growth** profile will seek long-term growth over capital preservation and regular income, and be comfortable with considerable fluctuations in the value of their investments. This portfolio primarily holds a diversified mix of Canadian, U.S. and global equities and is suitable for investors who plan to invest for the long term.

Aggressive Growth

Asset Class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0%-15%	2.0%	1.0%
Fixed Income	0%	0%-10%	0.0%	0.0%
Total Cash & Fixed Income	2%	0%-20%	2.0%	1.0%
Canadian Equities	32.5%	20%-45%	31.8%	31.9%
U.S. Equities	35.0%	20%-50%	33.8%	34.4%
International Equities	21.5%	10%-35%	23.3%	23.4%
Emerging Markets	9.0%	0%-15%	9.1%	9.3%
Total Equities	98%	80%-100%	98.0%	99.0%

	Return	Volatility
40-Year Average	9.5%	12.0%
Last 12 Months	14.0%	10.4%

Aggressive Growth investors seek maximum long-term growth over capital preservation and regular income, and are comfortable with significant fluctuations in the value of their investments. The portfolio is almost entirely invested in stocks and emphasizes exposure to global equities. This investment profile is suitable only for investors with a high risk tolerance and who plan to hold their investments for the long term.

Capital Markets Performance

Milos Vukovic, MBA, CFA
V.P. & Head of Investment Policy
RBC Global Asset Management Inc.

The U.S. dollar depreciated against most major currencies in the quarter ended November 30, 2019 as the U.S. Federal Reserve (Fed) continued cutting interest rates and investors began expecting better growth outside the U.S. The pound benefited from positive developments related to Brexit, appreciating 5.9% against the U.S. dollar. The Bank of Canada's decision to hold rates steady and a sense that the worst of the economic slowdown in Europe may be over helped both the Canadian dollar and euro to record marginal gains of 0.2% against the greenback. With a month left in 2019, the U.S. dollar is up 4.0% against the euro this year, is down 2.7% against the loonie and 1.4% against sterling, and is essentially flat against the yen.

The mixed economic statistics in the latest quarter were cheered by markets as they followed a period of almost universally weak economic-data releases. This stoked investor optimism about the global economic outlook, driving up global yields in the latest three-month period. As a result, global fixed-income markets suffered losses in the quarter, with the global sovereign FTSE WGBI Index down 1.1%, in U.S.-dollar terms. North American bond indexes like the FTSE Canada Universe Bond Index, Barclays Capital Aggregate Bond Index and FTSE U.S. Government Bond Index fared better, each posting a slight 0.3% loss. The FTSE Japanese Government Bond Index saw the largest decline, falling 5.2% as yields rose from a firmly negative level and the yen fell against the dollar. The retreat in bonds during the past quarter masked solid year-to-date returns as the FTSE Canada Universe Bond Index returned 11.2%, while the remaining majority of global bond indexes posted mid-single-digit to high-single-digit returns.

Equity markets had a strong quarter fanned by the potential bottoming of leading economic indicators, continued global monetary easing and encouraging progress made in U.S.-China trade talks and on Brexit. An effort by central banks to stretch the economic cycle is a key tailwind. Major global equity markets participated in the latest rally, with returns that ranged from 6.1% for the MSCI Emerging Markets Index to 10.5% for the MSCI Germany Index, in U.S.-dollar terms. The distribution of returns has been much wider this year as U.S. indexes like the S&P 500 recorded gains of close to 30% while the MSCI Emerging Markets Index rose roughly 10%.

As risks diminished, investors sought higher potential returns in small-cap stocks, which outpaced mid-cap and large-cap stocks in the latest quarter, albeit by a small margin. The small-cap S&P 600 Index climbed 8.6% while the large-cap S&P 500 Index rose 7.9%. Value stocks slightly topped growth stocks in the latest three-month period, perhaps signaling that a reacceleration of economic growth is forthcoming.

All 11 sectors recorded gains in the latest quarter. Financials and Industrials were among the top-performing sectors. Financials led the way with an 11.3% return, while Industrials gained 9.2%. The worst-performing sector was Real Estate with a 1.2% return. The best-performing sector this year has been Information Technology, soaring 41.7%, and the worst performing has been Energy with a 5.8% return.

Exchange Rates
Periods ending November 30, 2019

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.3283	(0.23)	(2.70)	(0.03)	(0.37)	3.03
USD–EUR	0.9077	(0.24)	4.00	2.76	(1.28)	2.46
USD–GBP	0.7732	(5.92)	(1.45)	(1.48)	(1.10)	3.87
USD–JPY	109.4550	3.03	(0.14)	(3.58)	(1.46)	(1.60)

Note: all changes above are expressed in US dollar terms

Canada
Periods ending November 30, 2019

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE Canada Univ. Bond Index TR	(0.27)	11.16	9.65	4.20	0.49	(0.50)	9.62	3.81

U.S.
Periods ending November 30, 2019

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE U.S. Government TR	(0.28)	8.95	10.97	4.15	3.11	(0.52)	10.94	3.63
Barclays Capital Agg. Bond Index TR	(0.28)	8.79	10.79	4.10	3.08	(0.52)	10.76	3.71

Global
Periods ending November 30, 2019

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE WGBI TR	(1.10)	6.41	8.55	3.99	2.02	(1.33)	8.52	3.46
FTSE European Government TR	(1.41)	4.81	6.87	4.59	0.46	(1.64)	6.84	4.20
FTSE Japanese Government TR	(5.22)	2.71	7.31	2.53	3.65	(5.44)	7.28	2.15

Canada
Periods ending November 30, 2019

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P/TSX Composite	4.68	25.72	15.74	7.72	2.96	4.43	15.71	7.32
S&P/TSX 60	4.75	25.38	15.26	8.36	3.46	4.51	15.23	7.95
S&P/TSX Small Cap	(1.79)	12.98	6.07	(0.98)	(0.97)	(2.01)	6.04	(1.35)

U.S.
Periods ending November 30, 2019

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P 500 TR	7.86	27.63	16.11	14.88	10.98	7.60	16.08	14.45
S&P 400 TR	7.33	22.75	8.86	9.04	8.60	7.08	8.83	8.63
S&P 600 TR	8.58	19.22	4.83	8.49	9.53	8.33	4.80	8.09
Russell 3000 Value TR	8.39	22.82	10.81	9.26	7.77	8.14	10.78	8.85
Russell 3000 Growth TR	7.43	31.93	20.28	19.21	13.39	7.18	20.25	18.77
NASDAQ Composite Index TR	9.11	31.91	19.51	18.91	13.86	8.86	19.48	18.46

Note: all rates of return presented for periods longer than 1 year are annualized. Source: RBC GAM

Global

Periods ending November 30, 2019

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	7.64	23.96	14.53	12.35	7.75	7.60	14.46	11.89
MSCI EAFE TR *	7.76	18.17	12.44	9.62	4.26	7.72	12.37	9.18
MSCI Europe TR *	7.60	19.12	13.62	10.23	3.34	7.56	13.55	9.79
MSCI Pacific TR *	7.99	16.67	10.68	8.72	6.14	7.95	10.61	8.28
MSCI UK TR *	8.92	15.12	10.76	7.97	1.66	8.88	10.69	7.53
MSCI France TR *	7.96	22.11	16.53	13.11	6.41	7.92	16.45	12.65
MSCI Germany TR *	10.48	18.50	11.68	8.00	2.56	10.43	11.61	7.57
MSCI Japan TR *	9.70	17.17	9.34	8.52	6.95	9.66	9.27	8.08
MSCI Emerging Markets TR *	6.06	10.20	7.28	9.01	3.12	6.02	7.21	8.56

Global Equity Sectors

Periods ending November 30, 2019

	USD					CAD		
Sector: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	4.26	5.79	(4.44)	(1.06)	(2.01)	4.22	(4.50)	(1.46)
Materials TR *	7.34	18.47	13.68	8.81	5.20	7.30	13.61	8.37
Industrials TR *	9.22	26.50	15.87	10.95	8.15	9.18	15.80	10.50
Consumer Discretionary TR *	5.32	22.92	14.35	13.33	9.25	5.28	14.28	12.87
Consumer Staples TR *	1.05	20.23	12.13	9.21	5.99	1.01	12.06	8.77
Health Care TR *	9.84	19.18	9.57	14.13	7.22	9.79	9.50	13.67
Financials TR *	11.25	21.84	10.73	8.88	5.87	11.21	10.66	8.44
Information Technology TR *	11.18	41.66	30.25	24.60	17.00	11.13	30.16	24.09
Communication Services TR*	6.00	24.94	16.22	8.02	4.01	5.95	16.15	7.58
Utilities TR *	1.75	17.94	15.30	12.58	6.22	1.71	15.22	12.12
Real Estate TR *	1.20	21.57	15.06	10.07	NA	1.16	14.98	9.62

* Net of taxes. Note: all rates of return presented for periods longer than 1 year are annualized. Source: Bloomberg/MSCI

Global Investment Outlook

2020 vision

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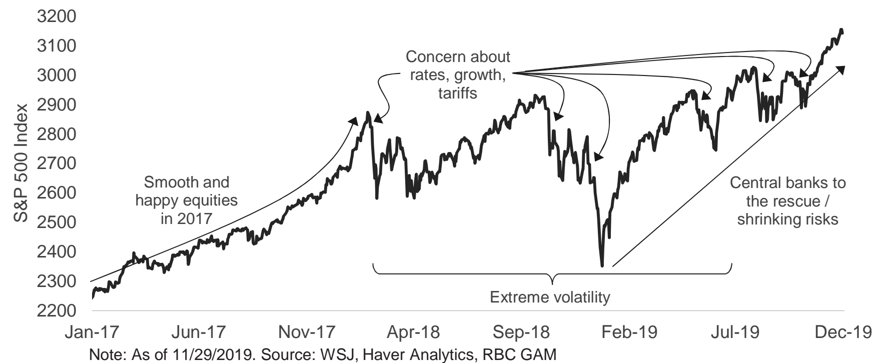
Despite recurring bouts of volatility, the stock market ultimately found its form in 2019, first unwinding the damage done in late 2018 and more recently reaching new highs (Exhibit 1). Two main developments have underpinned this swell of optimism.

First, central banks are delivering a significant economic boost, which may allow global economic growth to stabilize after nearly two years of deceleration. Already, some leading indicators of the manufacturing sector have tentatively stopped falling (Exhibit 2).

Second, while negative macroeconomic risks remain significant, several have diminished over the past quarter, presenting a better risk-taking environment for investors. Important progress has occurred with regard to Brexit, trade negotiations, the resilience of the business cycle and Chinese stimulus.

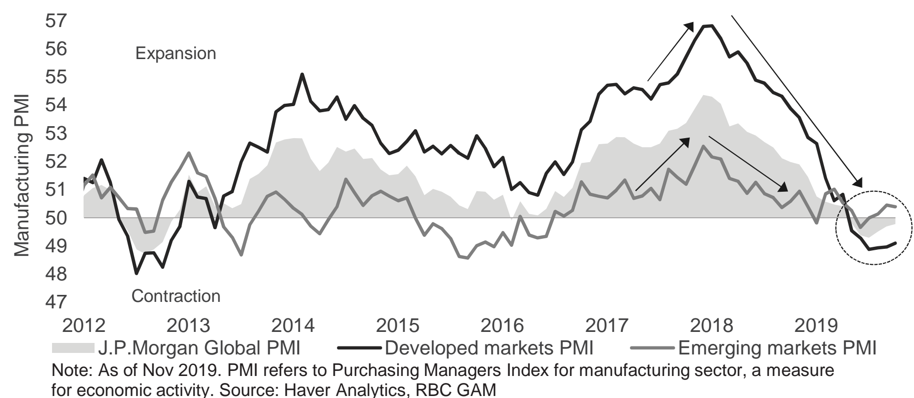
In response to the reduction in downside risks and the prospective stabilization of growth, we have increased our tactical asset allocation toward equities by 2 percentage points, bringing the overall mix to 59% equities, 40% bonds and 1% cash.

Exhibit 1: Stock market overcomes fears



Note: As of 11/29/2019. Source: WSJ, Haver Analytics, RBC GAM

Exhibit 2: Some improvement in global manufacturing



Note: As of Nov 2019. PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM

After a decade of growth, the global economy is now operating near its full potential. This is a happy development in the sense that it means both workers and businesses are enjoying unusual prosperity. But if history is any guide, it also hints that there is less room remaining for further outsized economic and market gains.

Shrinking downside risks

It is important to keep track of economic uncertainty. Successful investing requires not just investing in line with one's base-case forecast, but also factoring in alternate scenarios. A flurry of recent research has also found that uncertainty itself acts as a drag on economic growth as businesses and households delay purchases until greater clarity can be achieved. In other words, a high level of uncertainty doesn't just mean

that there is a chance that something bad will happen – it also actively diminishes growth all by itself.

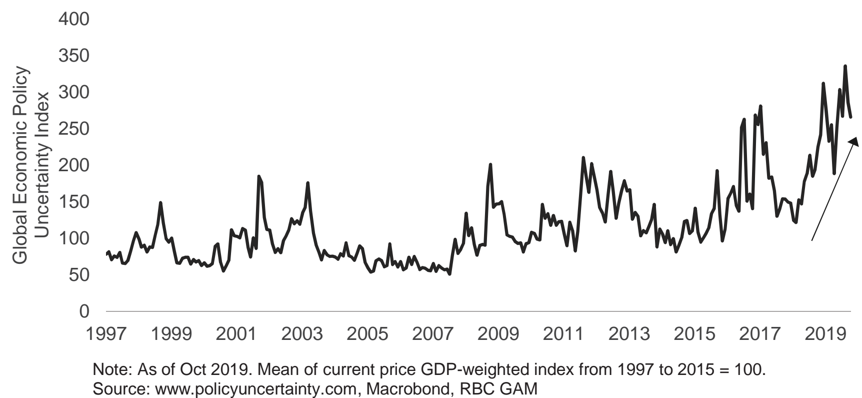
The world remains awash in a high level of policy uncertainty (Exhibit 3). The rise of populism has played a central role in sowing this chaos. Classic engines of growth such as globalization and economic liberalization have been challenged by tariffs and other isolationist policies. The U.S. political environment is particularly divided, with the 2020 election seemingly set to pit far-from-centre candidates against one another.

Fortunately, several of these downside risks have shrunk in recent months:

- The odds have shrunk considerably of Brexit culminating in the U.K. exiting from the European Union (EU) without a deal.
- U.S.-China trade relations have improved modestly as scheduled tariffs have been pushed back and negotiations continue toward a narrow deal.
- Recession risks have arguably shrunk as the U.S. yield curve has re-steepened out of its traditional danger zone.

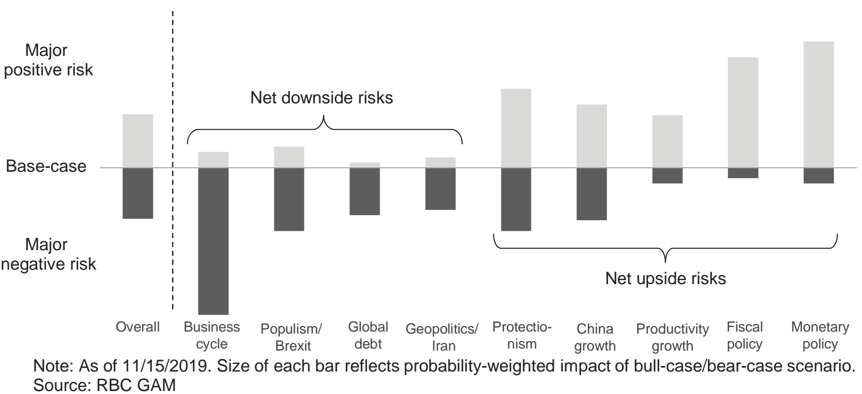
While the aggregate downside risks to global growth are probably still larger than the upside risks, the difference is no longer gaping (Exhibit 4). Furthermore, there are several points of uncertainty that tilt substantially to the upside, such as the future path of monetary and fiscal stimulus, and the rate of sustainable productivity growth. And let us not forget that even bad things such as protectionism could

Exhibit 3: Global economic-policy uncertainty high but retreating



Note: As of Oct 2019. Mean of current price GDP-weighted index from 1997 to 2015 = 100. Source: www.policyuncertainty.com, Macrobond, RBC GAM

Exhibit 4: Key global macro risks over the next year



Note: As of 11/15/2019. Size of each bar reflects probability-weighted impact of bull-case/bear-case scenario. Source: RBC GAM

yet be resolved more favorably than assumed in our base-case forecast.

Bottoming growth?

Global economic growth has slowed materially over the past two years. The debate today is whether a bottoming process might now be occurring. So far, the evidence is inconclusive.

Actual economic data shows little sign of resurgence. The Citi global economic data change index remains negative, if less so than in the past (Exhibit 5). The U.S.-specific measure is also still depressed. For their part, economic surprises remain roughly neutral (Exhibit 6).

Promisingly, a smattering of forward-looking economic measures have edged higher, as already depicted in Exhibit 2. But there isn't a great deal of geographic breadth beneath this tentative improvement. While the U.S. and Eurozone PMIs have edged higher, China, Japan and the U.K. continue to fall.

From a theoretical standpoint, several headwinds are set to impede 2020 growth:

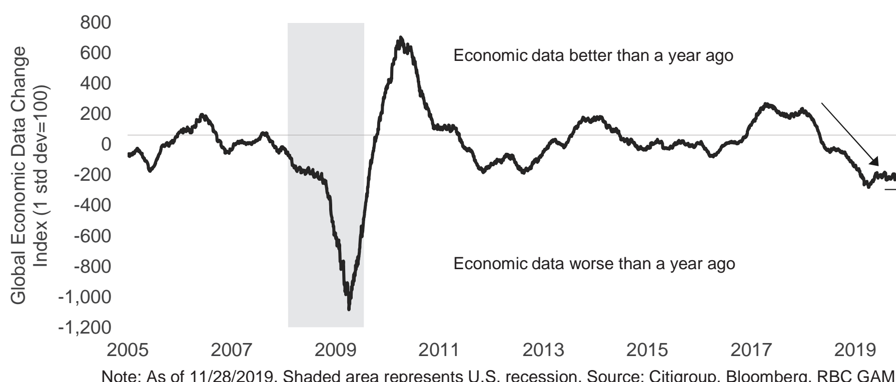
- Policy uncertainty remains considerable, even if it has diminished somewhat. In turn, uncertainty should continue to wear on confidence and business investment.
- The business cycle continues to emit fairly late-stage signals, meaning a degree of economic fatigue is likely.
- Protectionism, even though it has ebbed somewhat, remains a potent drag on economic growth as previously instituted tariffs continue to worm their way into economic decision-making.

However, in contrast to a year ago, a major new economic tailwind has now formed. Central banks have delivered significant monetary stimulus, with the result that financial conditions have loosened (Exhibit 7). In turn, the lagged effect of this action should provide a material offsetting boost to growth in 2020 (Exhibit 8).

Updated forecasts

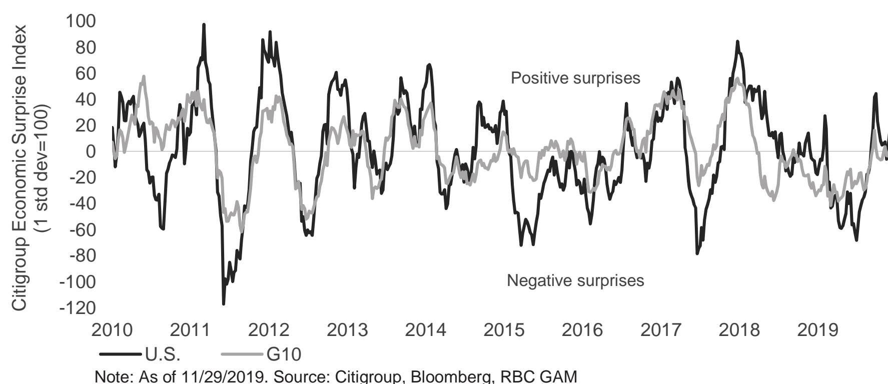
The aforementioned headwinds and tailwinds figure centrally into our 2020 growth forecasts. At the most aggregated level, the global growth outlook for 2020 has been trimmed slightly, to 3.25% from 3.50%. This is mainly because of a softer-than-expected handoff from 2019 as opposed to new malign forces in the coming year. Even with this reduction, global growth in 2020 should approximately match that of 2019 – a welcome development after two years of deceleration.

Exhibit 5: Global data remains steadily negative



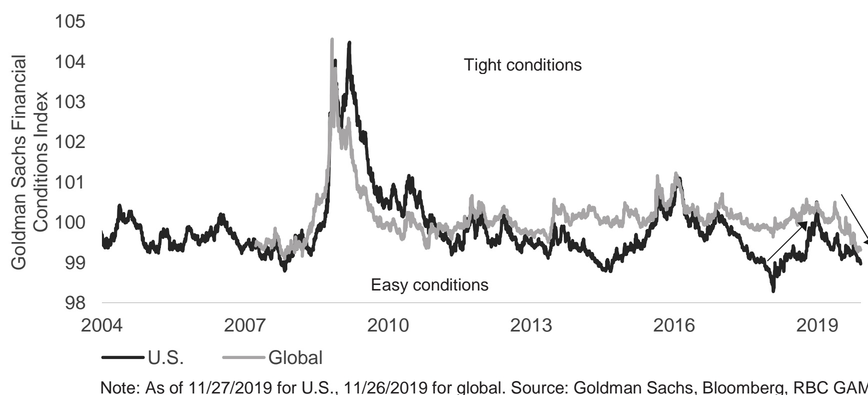
Note: As of 11/28/2019. Shaded area represents U.S. recession. Source: Citigroup, Bloomberg, RBC GAM

Exhibit 6: Global economic surprises roughly neutral



Note: As of 11/29/2019. Source: Citigroup, Bloomberg, RBC GAM

Exhibit 7: Global financial conditions continue to ease



Note: As of 11/27/2019 for U.S., 11/26/2019 for global. Source: Goldman Sachs, Bloomberg, RBC GAM

Breaking this outlook into its two principal components, emerging-market economies appear set to rebound whereas developed-market growth may slow slightly further. Among emerging markets, India, Brazil, Mexico and Russia may manage slight accelerations (Exhibit 9). However, we suspect China will fail to match its peers. The expected deceleration in developed-world growth is set to be fairly broad though only slight, encompassing the U.S., Eurozone, the U.K. and Japan (Exhibit 10).

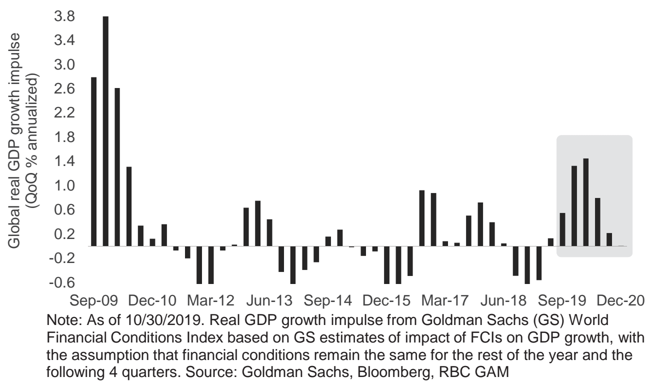
Our forecasts are not drastically different than the consensus, but where they differ they tend to land slightly below the average. This has been the winning bet for the bulk of the past decade (Exhibit 11).

Watching consumers

The economic slowdown of the past two years has been disproportionately a tale of trade-oriented sectors such as manufacturing suffering from protectionism and elevated uncertainty (Exhibit 12). It is fair to describe what has happened as a "manufacturing recession" in that the sector has suffered a very real decline in output. Fortunately, the broader economy has not itself succumbed thanks to the relative resilience of the service sector and buoyant consumers.

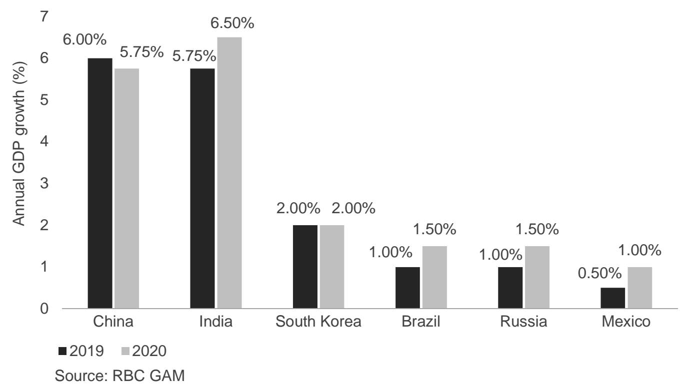
Articulating the crucial contribution of consumer spending to growth in recent quarters, U.S. GDP growth excluding the consumer sector actually shrank in the second and third quarters of 2019.

Exhibit 8: Easier financial conditions to support global growth



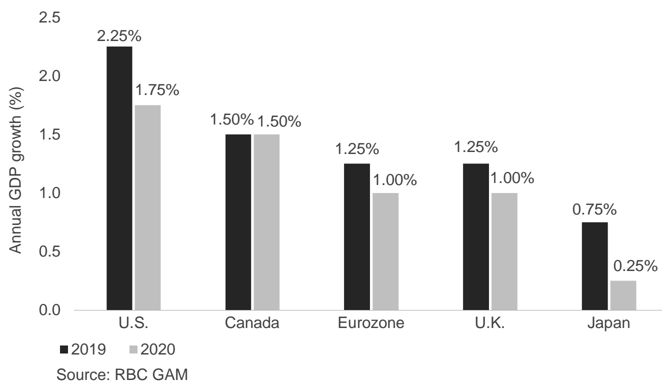
Note: As of 10/30/2019. Real GDP growth impulse from Goldman Sachs (GS) World Financial Conditions Index based on GS estimates of impact of FCIs on GDP growth, with the assumption that financial conditions remain the same for the rest of the year and the following 4 quarters. Source: Goldman Sachs, Bloomberg, RBC GAM

Exhibit 9: RBC GAM GDP forecast for emerging markets



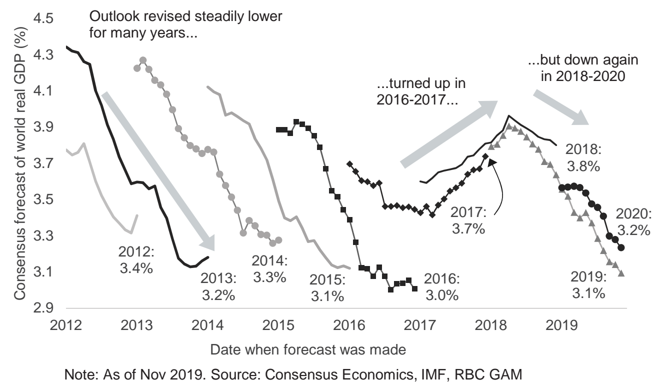
Source: RBC GAM

Exhibit 10: RBC GAM GDP forecast for developed markets



Source: RBC GAM

Exhibit 11: Consensus global forecast downgraded



Note: As of Nov 2019. Source: Consensus Economics, IMF, RBC GAM

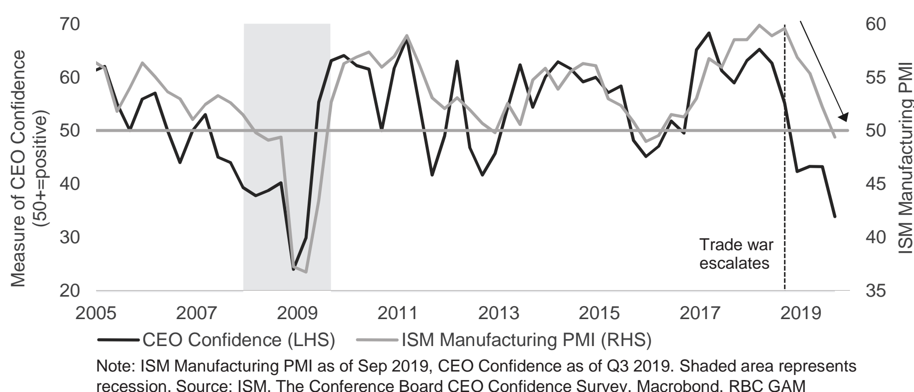
Fortunately, the 70% of the economy represented by consumer spending continued to expand, in part because the sector is known for its stability, particularly in contrast to the jittery manufacturing sector. U.S. households are also quite healthy (Exhibit 13). Job growth has been adequate; wage growth is good; household debt is tame; borrowing costs are low; the household savings rate is high; the value of household assets such as homes and equities is rising; and consumer confidence is decent.

In light of these sparkling attributes, our base-case forecast is for consumers to continue supporting the broader economy and thereby avert recession. But households nevertheless merit close monitoring given the risk that a wobbling labour market could interfere with consumption in the future.

One labour-market concern relates to the deterioration of business confidence. Capital-expenditure intentions and hiring plans have both slipped (Exhibit 14). The former inclination has been acted upon forcefully, with fixed investment falling in the past few quarters. Curiously, however, the intention to pare hiring has not been pursued as aggressively. That could well change.

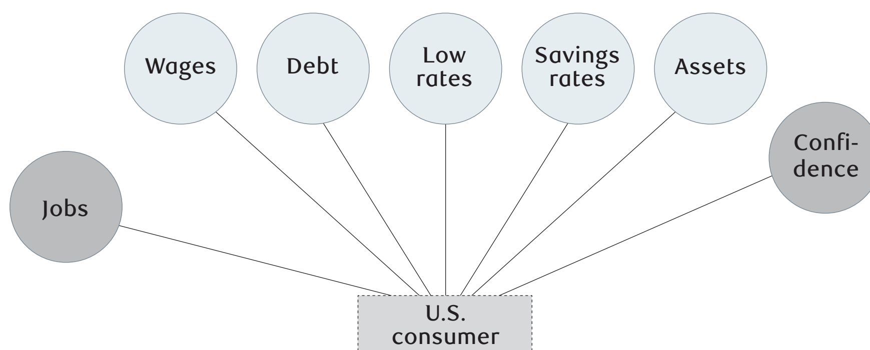
In fact, some of the subtler measures of U.S. labour-market health have already started to deteriorate, even as hiring and unemployment have remained strong. After a decade of relentless gains, job vacancies have declined at the same time that jobless claims have begun to rise. Furthermore, the recent modest increase in consumer credit

Exhibit 12: CEO confidence hurt by trade war



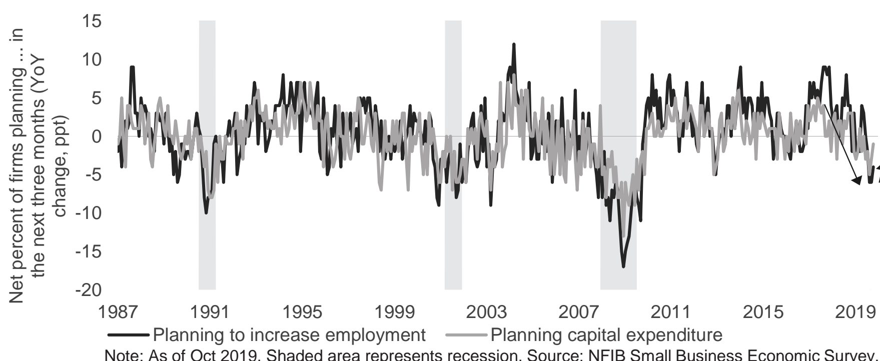
Note: ISM Manufacturing PMI as of Sep 2019, CEO Confidence as of Q3 2019. Shaded area represents recession. Source: ISM, The Conference Board CEO Confidence Survey, Macrobond, RBC GAM

Exhibit 13: U.S. consumers are still healthy, but at risk of drooping



Source: RBC GAM

Exhibit 14: U.S. businesses hiring and capex plans are poor, but bounced recently



Note: As of Oct 2019. Shaded area represents recession. Source: NFIB Small Business Economic Survey,

delinquencies normally precedes a rise in the unemployment rate (Exhibit 15). Were hiring to slow further, this would unavoidably damage consumption.

Business cycle is late but not done

We continue to closely monitor the state of the U.S. business cycle given its time-tested status as a bellwether for global decline.

Our scorecard-based approach signals that the U.S. economy is most likely at a late point in the business cycle (Exhibit 16). This has been a consistent diagnosis over the past few years and we note that it is quite normal to spend two or three years in each major phase of the business cycle. Moreover, it is apparent that the cycle has continued to inch forward given that the "end-of-cycle" counter-claim has been strengthening in recent years at the same time as the "mid cycle" counter-claim has been weakening (Exhibit 17).

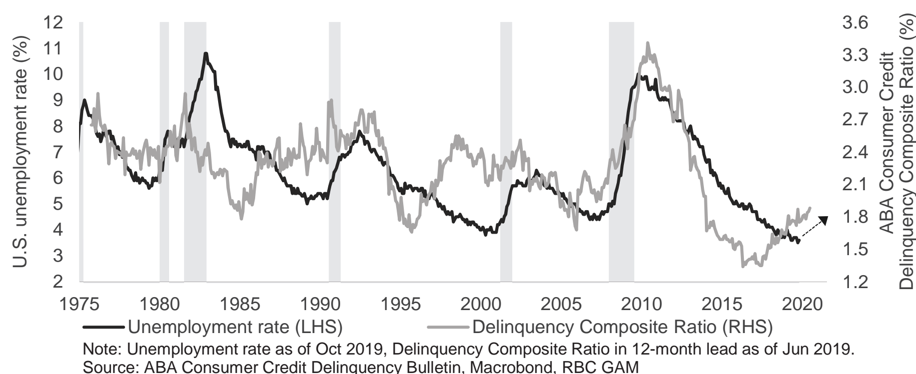
Happily, certain business-cycle inputs have become less worrying recently. Most prominently, the U.S. 3-month to 10-year yield curve has un-inverted, suggesting that the risk of imminent recession has diminished (Exhibit 18). Other market-based variables broadly agree.

On the other hand, more economically linked measures continue to suggest that the cycle is still fairly late. For instance, four out of five output gap estimates indicate that the U.S. economy is already operating beyond its sustainable potential (Exhibit 19). This doesn't mean that a downturn is imminent given that it is customary for the economy to overheat significantly before any decline, but it does signal that the hour is growing fairly late. We can also observe a slight deterioration in the labour market, which provides a similarly late signal (Exhibit 20).

Weighing good against bad, the bottom line is that we assign a 35% risk of a U.S. recession over the coming year – down somewhat from prior assessments, but still considerable.

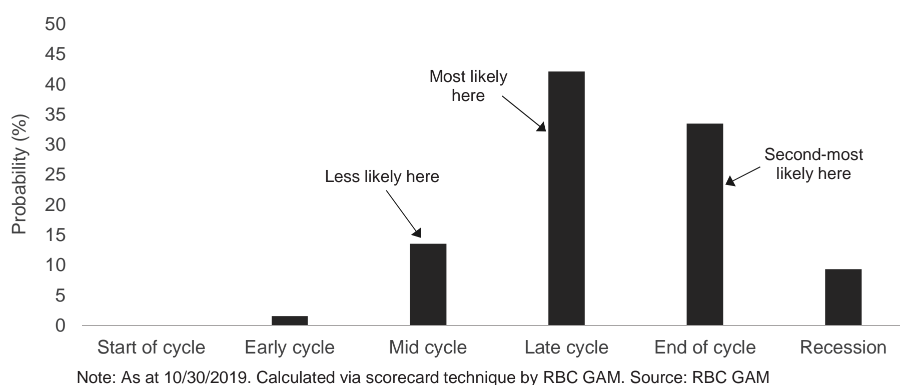
If it stretches the imagination to fathom how a forecast for 1.75% U.S. GDP growth could somehow morph into an outright negative outcome, keep in mind that a variety of downside risks continue to loom. In addition, when an economy palpably undershoots normal, businesses and households frequently respond by cancelling their spending plans. In turn, this second-order psychological reaction can push economies the rest of the way into recession. Historically,

Exhibit 15: U.S. unemployment rate to rise?



Note: Unemployment rate as of Oct 2019, Delinquency Composite Ratio in 12-month lead as of Jun 2019. Source: ABA Consumer Credit Delinquency Bulletin, Macrobond, RBC GAM

Exhibit 16: U.S. business-cycle probability



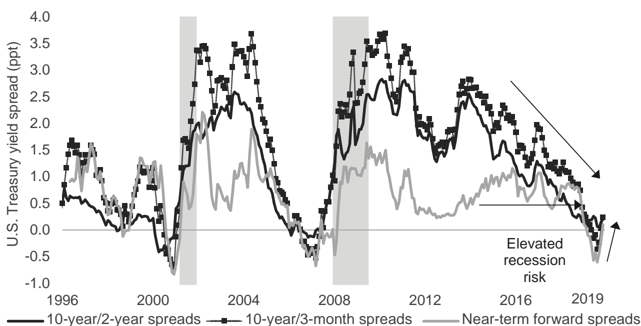
Note: As at 10/30/2019. Calculated via scorecard technique by RBC GAM. Source: RBC GAM

Exhibit 17: U.S. business-cycle scorecard

	Start of cycle	Early cycle	Mid cycle	Late cycle	End of cycle	Recession
Equities						
Volatility						
Credit						
Business investment						
Employment						
Leverage						
Inventories						
Housing						
Prices						
Consumer						
Sentiment						
Corporate profitability						
Economic trend						
Economic slack						
Cycle age						
Bonds						
Monetary policy						
Allocation to each stage of cycle	**0%**	**2%**	**14%**	**42%**	**33%**	**9%**

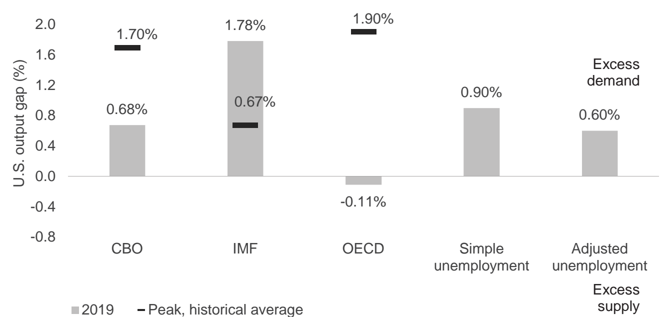
Note: As at 10/30/2019. Darkness of shading indicates the weight given by each input for each phase of the business cycle. Source: RBC GAM

Exhibit 18: Yield curve argues recession risk has shrunk



Note: As of 11/27/2019. Near-term forward spread measured as forward rate of 3-month Treasury bill six quarters from now minus spot 3-month Treasury yield. Shaded area represents recession. Source: Engstrom and Sharpe (2018). FEDS Notes. Washington: Board of Governors of the Federal Reserve System, Bloomberg, Haver Analytics, RBC GAM

Exhibit 19: U.S. output gap – historical peak vs. now



Note: Historical average of peak output gap during each expansion estimated based on CBO data from 1950, IMF data from 1980, and OECD data from 1991. RBC GAM estimates of output gaps based on Okun's law using reported actual and demographics-adjusted unemployment. Source: CBO, IMF, OECD, Macrobond, RBC GAM

this critical stalling point occurred at around 2.0% GDP growth (Exhibit 21). But in this slow-growth era, we suspect the stall speed is now closer to 1.0%. That means a buffer still exists, but not of infinite magnitude.

Finally, regardless of when it might arrive, it is useful to have a sense for what the next recession might look like (Exhibit 22). Here are our best guesses:

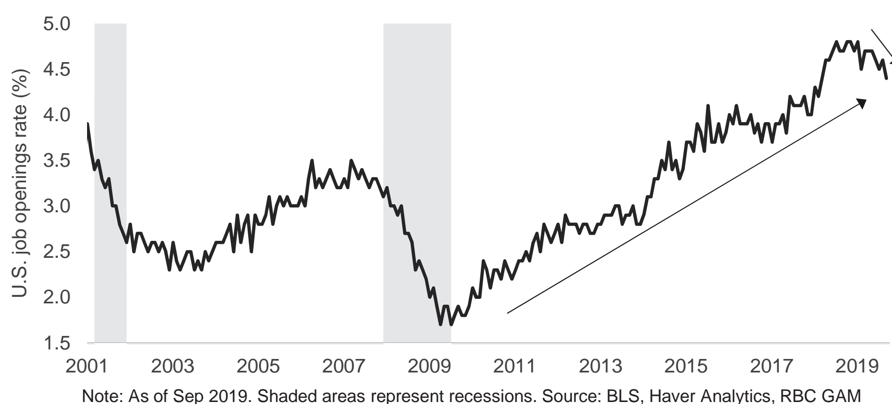
- The next recession will likely be global in nature given the high degree of growth synchronicity recently observed among nations.
- The next recession should be milder than the last one, in part because the last one was unusually deep, but also because the tentative overheating currently on display is primarily of a business-cycle variety rather than a reflection of balance-sheet excesses.
- The next recession could take longer than normal to escape from because central banks and governments have less remaining policy space than usual to deliver stimulus.
- Canada will likely be hit worse than the U.S. in the next recession, in large part because the U.S. has already dealt with its housing market and household debt excesses, whereas Canada has not.

Protectionism down but not out

The trade environment remains challenging, as demonstrated by an outright decline in global exports (Exhibit 23).

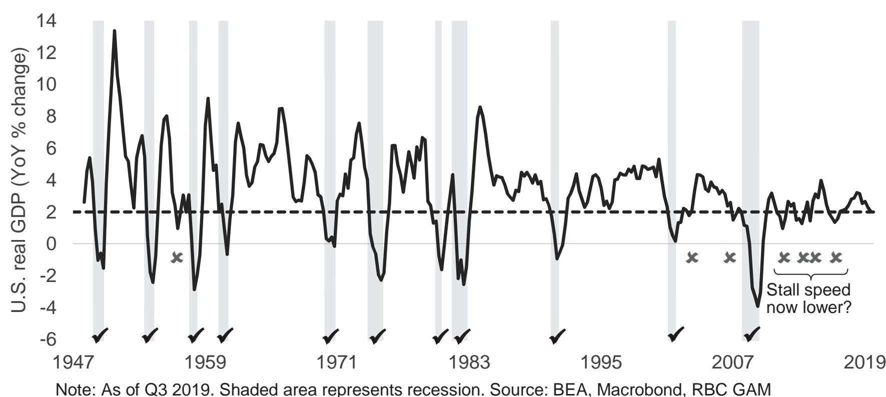
The most compelling explanation for this trade reversal is that U.S. tariff

Exhibit 20: U.S. job openings rate has started to fall



Note: As of Sep 2019. Shaded areas represent recessions. Source: BLS, Haver Analytics, RBC GAM

Exhibit 21: New “stall speed” may be just 1.0%



Note: As of Q3 2019. Shaded area represents recession. Source: BEA, Macrobond, RBC GAM

Exhibit 22: Guesses about the next recession

Global	Milder	Lengthy	Canada < U.S.
• The world is highly interconnected • Most economies have little spare capacity • Synchronized global slowdown underway	• Last recession was unusually deep • Fewer financial excesses this time • More likely a business-cycle recession than a balance-sheet recession	• Policymakers have less ammunition • Fiscal limitations: divided U.S. Congress; strict EU deficit rules • Modern-day economies seem to take longer to rebound	• Canada may be hit harder than the U.S. • U.S. already went through housing market adjustment last time • High Canadian household debt / low savings rate

Source: RBC GAM

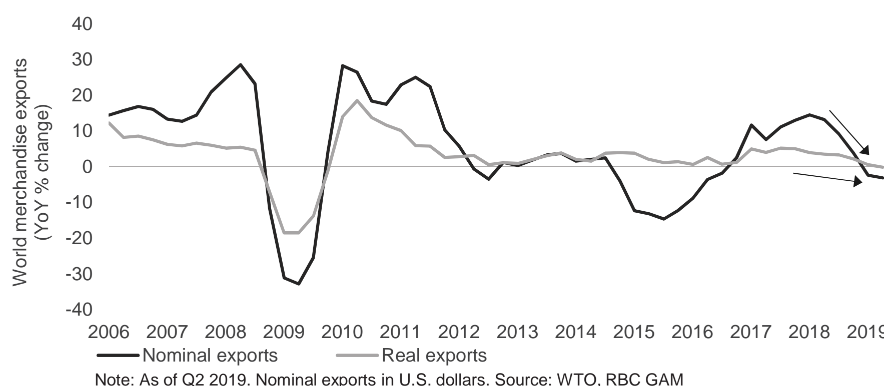
rates have roughly tripled over the past few years (Exhibit 24). In response, some countries have responded to the new U.S. barriers by levying their own tariffs on the U.S., exacerbating the situation. These actions exert substantial economic damage, chopping perhaps a percentage point off the level of Chinese output and roughly three-quarters of a point from U.S. growth (Exhibit 25). This calculus likely underestimates the full extent of the damage as it doesn't factor in non-tariff barriers, which have also increased. Given that trade barriers impede economic activity with a lag, it is not just 2019 growth but also 2020 that is dimmed.

Challenging trade negotiations continue on several fronts, including between the U.S. and China, and the U.S. and the EU. The threat of auto tariffs has receded for the moment, though not necessarily permanently.

Fortunately, there have actually been several promising developments in the trade file:

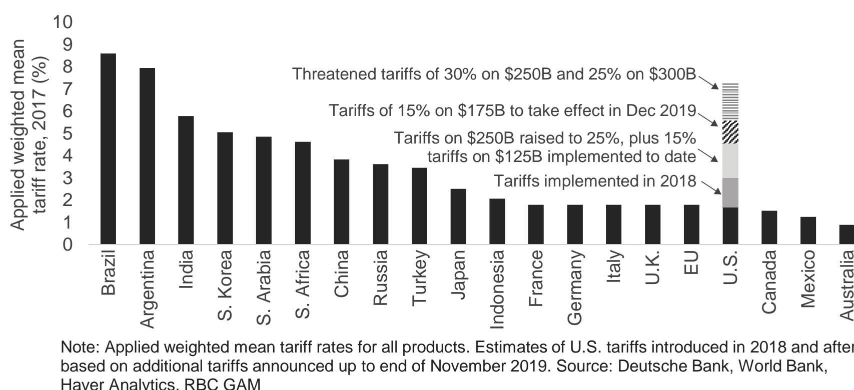
- Underappreciated is the amount of progress that nations other than the U.S. are making toward consequential trade deals. Most recently, 15 of Asia's largest nations representing a whopping 30% of global GDP – and including China, Japan and South Korea – have entered into a regional economic partnership. For its part, the EU continues to pen trade deals, first with Canada, then Mexico, and now Japan. And let us not forget the pact that drew together many Asian nations alongside Canada and Mexico just a few years ago. These

Exhibit 23: Global trade hampered by tariffs



Note: As of Q2 2019. Nominal exports in U.S. dollars. Source: WTO, RBC GAM

Exhibit 24: U.S. tariff rate now substantially higher



Note: Applied weighted mean tariff rates for all products. Estimates of U.S. tariffs introduced in 2018 and after based on additional tariffs announced up to end of November 2019. Source: Deutsche Bank, World Bank, Haver Analytics, RBC GAM

Exhibit 25: U.S. trade scenarios: negative

Scenario	Worst case	Negative	Slightly negative	Neutral	Best case
Likelihood	15%	55%	20%	5%	5%
Detail	Trade war	Substantial tariffs	Small tariffs	Trump tariffs unwind	Foreign barriers fall to pressure
Economic effect	U.S.: -2.1%	U.S.: -0.6 to -0.8%	U.S.: -0.1 to -0.2%	U.S.: 0.0%	U.S.: positive
	CN: -2.5%	CN: -0.75 to -0.95%	CN: -0.2 to -0.5%	CN: 0.0%	CN: ?
	CA: -2.0%	CA: -0.4 to -0.6%	CA: -0.1%	CA: 0.0%	CA: ?

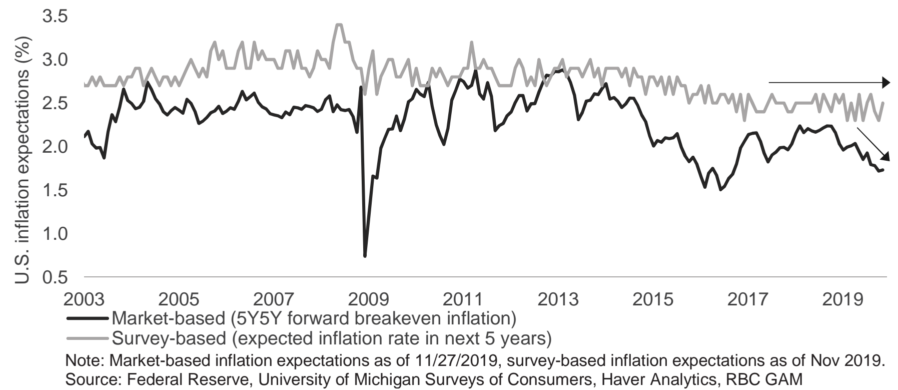
Source: RBC GAM, Oxford, Bloomberg, OECD, Nomura, Goldman Sachs, UBS, Barclays, Fajgelbaum et al

developments don't completely offset U.S. actions, but they represent important counterpoints.

- The U.S. and Japan reached a surprisingly speedy trade agreement earlier this year, no small feat given the negotiations occurred between two of the world's three largest nations.
- The USMCA treaty between the U.S, Mexico and Canada appears to be inching toward the finish line as House Democrats now signal that they will approve the deal with minor modifications.
- Finally and perhaps most importantly, U.S.-China trade relations have improved somewhat. While this is still the source of the fiercest disagreements and the most damaging tariffs, the countries appear to be nearing a so-called Phase One trade deal that would see China buy more U.S. agricultural products and tighten intellectual property enforcement in exchange for the U.S. opting not to raise tariffs further in mid-December. Already, the U.S. has delayed the implementation of tariffs that were meant to be applied in mid-October.

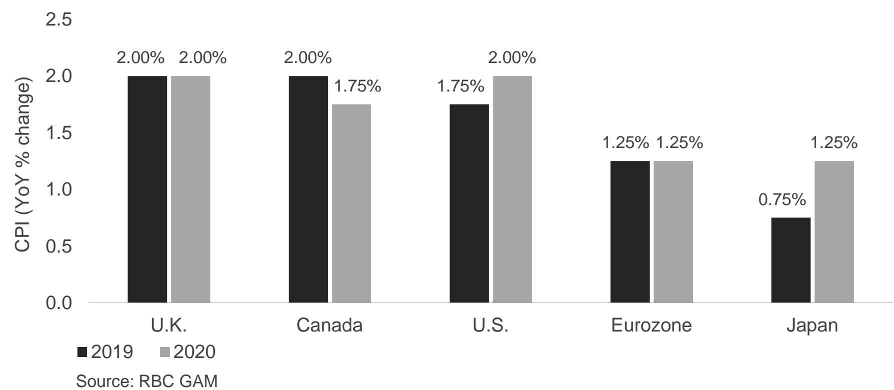
While acknowledging all of this important progress, we remain skeptical that the U.S. and China will achieve a deeper trade deal that eliminates all recent tariffs or that China will abandon its state-owned enterprise-led business model. Serious frictions between the two nations will likely persist for decades as both jockey for influence and competitive advantage in a multi-polar world.

Exhibit 26: U.S. inflation expectations sliding lower



Note: Market-based inflation expectations as of 11/27/2019, survey-based inflation expectations as of Nov 2019.
Source: Federal Reserve, University of Michigan Surveys of Consumers, Haver Analytics, RBC GAM

Exhibit 27: RBC GAM CPI forecast for developed markets



Source: RBC GAM

More generally, the populist forces that have spurred protectionism and Brexit have not obviously peaked. They remain a potent force on the world stage, and may continue to upend the longstanding global order.

Inflation to remain tame

As with the growth outlook, there are a variety of forces pushing in opposite directions for inflation. Arguing that we are operating in a structurally tame inflation environment are such factors as aging population, slowing population growth and the deflationary effects of automation. Globalization was once a further such depressant, but it is no longer advancing with the vigour of past decades. For these secular reasons, a bout of high inflation seems unlikely. Their influence can be seen most clearly in inflation expectations, which have fallen below normal in North America (Exhibit 26).

However, fairly normal inflation is nevertheless entirely achievable thanks to a variety of cyclical forces

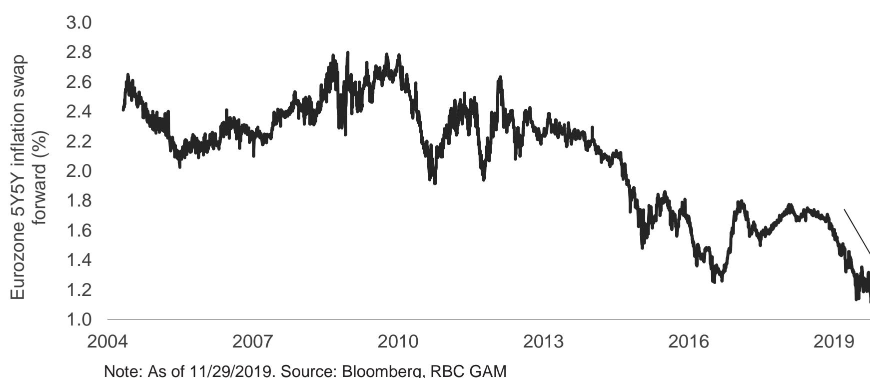
that are exerting a countervailing upward pressure on inflation (Exhibit 27). The most important of these emanates from tight economic conditions, which classically drive inflation higher and have already begun to result in faster wage growth. Furthermore, central banks remain ready to ensure that inflation (and growth) doesn't drop too much. Protectionism is also moderately inflationary.

The story is somewhat different in Japan and the Eurozone, where demographic factors are more challenging and inflation expectations have accordingly fallen into more problematically low territory (Exhibit 28). Fortunately, the Eurozone's demographic situation is not as serious as Japan's, leading us to believe that Europe should remain capable of generating at least moderately positive inflation for the foreseeable future. For that matter, Japan has enjoyed tentative success in escaping from a long period of deflation thanks to the effects of Abenomics.

For context, whereas investors usually consider high inflation to be the greater threat to their returns, excessively low inflation is no more desirable given the danger of getting stuck in a deflationary trap. Fortunately, fairly normal inflation is likely to prevail over the next year.

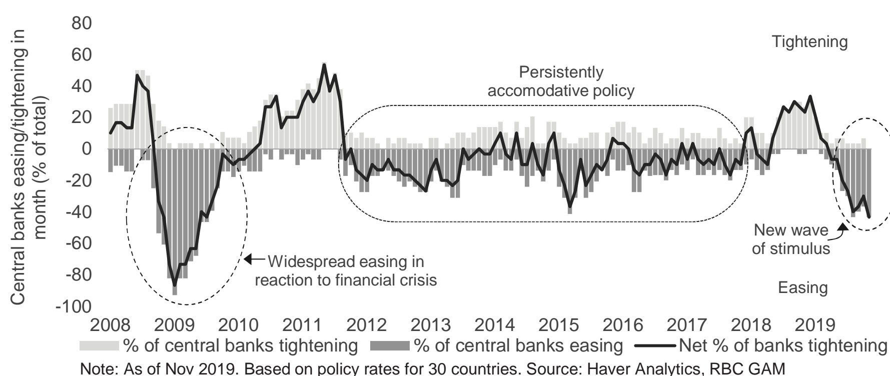
It has gone under-remarked that inflation has also seemingly been tamed over the past several years in emerging-market countries such as India and Brazil, which were previously cursed with chronically high inflation. With this worry out of the way,

Exhibit 28: Inflation expectations in Eurozone at record low



Note: As of 11/29/2019. Source: Bloomberg, RBC GAM

Exhibit 29: Central banks ease on growth and trade concerns



Note: As of Nov 2019. Based on policy rates for 30 countries. Source: Haver Analytics, RBC GAM

emerging-market central banks find themselves better able to respond to shifting economic conditions rather than engage in a constant rearguard action against inflation.

Monetary stimulus to the rescue

Central banks have recently engaged in their most aggressive delivery of monetary stimulus since the global financial crisis (Exhibit 29). This has played a central role in reviving financial-market sentiment and stabilizing economic growth.

Monetary easing has come from most of the major players, including the U.S., the Eurozone, China and India. While the U.K. has not delivered a new round of easing, it never really took its foot off the gas earlier in the decade. Japan has similarly remained locked in stimulus-delivery mode throughout.

One vexing challenge is that central banks have started their easing from a position of fairly low rates, leaving very little remaining room should any further stimulus be required. For the moment, most central banks believe

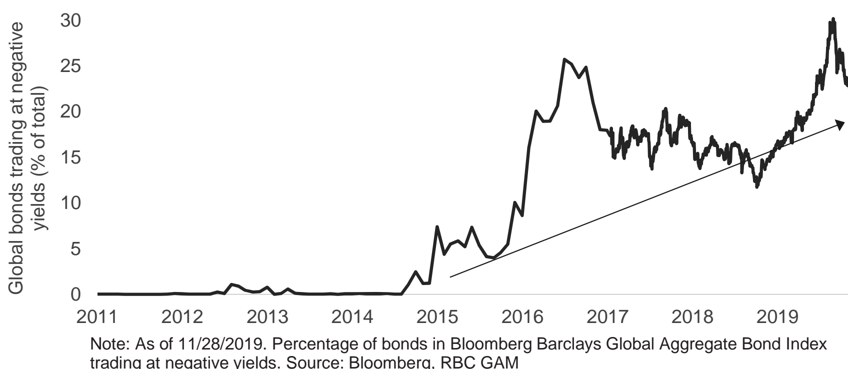
they have delivered enough economic assistance. But should conditions deteriorate again, there isn't much ammunition left. This situation is most acute in Japan and the Eurozone.

Is the recent bout of monetary easing likely to prove sufficient to head off recessionary forces? History provides at least one example of a successful mid-cycle adjustment and central banks arguably have a better chance than usual of successfully delivering this outcome given the speed at which they cut rates. But the great majority of the times that central banks starting cutting rates, they are forced to continue cutting for some time as a recession unfolds despite their best efforts.

In this era of ultralow interest rates, roughly a quarter of the world's bonds have recently traded at negative interest rates (Exhibit 30). It is not so much that the average investor is opting to pay money for the privilege of lending their savings to someone else, but instead that central banks, foreign-reserve managers and banks are effectively compelled in one way or another to continue holding bonds even when the coupon is unattractive.

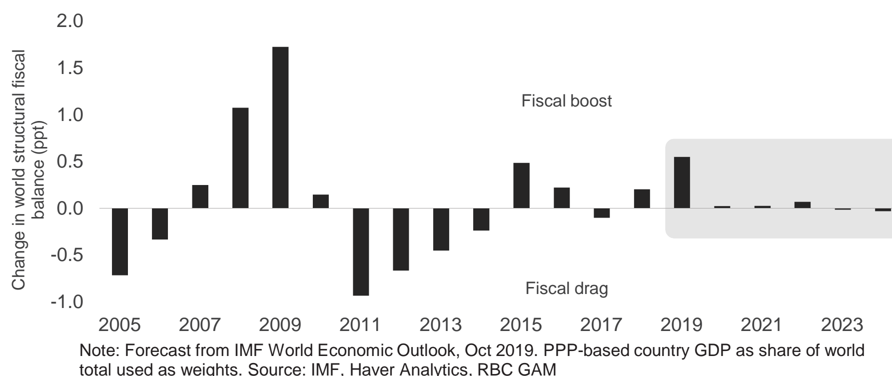
We hope that negative interest rates do not prove a permanent condition. Undesirable distortions occur when rates go negative, including the possibility that economic actors will opt to save more rather than less in an effort to achieve their desired retirement objectives. We are not alone in this queasiness with negative rates. The Fed, Bank of Canada (BOC) and Bank of England (BOE) have all concluded that negative rates probably do more harm than good, and so have

Exhibit 30: Share of bonds with negative yields surged



Note: As of 11/28/2019. Percentage of bonds in Bloomberg Barclays Global Aggregate Bond Index trading at negative yields. Source: Bloomberg, RBC GAM

Exhibit 31: Current budgetary plans say no fiscal stimulus in 2020



Note: Forecast from IMF World Economic Outlook, Oct 2019. PPP-based country GDP as share of world total used as weights. Source: IMF, Haver Analytics, RBC GAM

avoided them. Sweden had previously embraced negative rates but is now having second thoughts. Perhaps there is even a chance that Europe and Japan could stage an eventual retreat should the evidence eventually prove that such actions are counterproductive.

Fiscal stimulus?

With monetary stimulus now activated, the natural question becomes whether governments will also use fiscal policy to support economic growth. The first-blush answer must surely be "no" in that IMF tabulations show official 2020 budget plans to be roughly flat relative to 2019. This represents something of a retreat from 2019, when a significant 0.5 percentage points of additional growth was generated via fiscal means (Exhibit 31).

Fiscal policy is an imperfect tool. Its deployment unavoidably results in a heavier public debt burden, which must either be paid back or serviced indefinitely. Similarly, given that fiscal stimulus is usually only implemented after a lengthy political process, it

tends to be delivered with a significant lag. For these reasons, fiscal policy is less suited than monetary policy for fending off recessions.

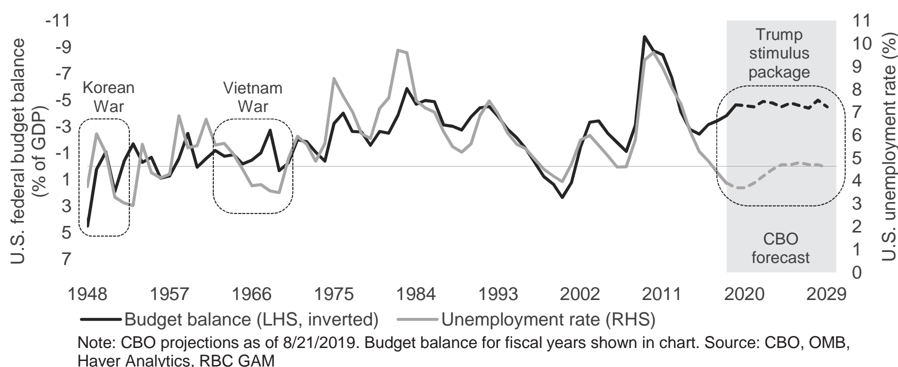
Still, fiscal policy can play a useful role in sustaining demand during extended periods of subdued economic activity. Additionally, the cost of fiscal stimulus is strikingly affordable right now given extremely low government borrowing costs. Indeed, countries including Germany and Japan are actually being paid to borrow thanks to their negative interest rates. Although public debt levels are high across much of the world, what constitutes a sustainable debt burden may need to be re-imagined in this low-rate world.

China is better positioned than most to deliver further fiscal stimulus. Not only is the country large enough to be globally relevant, but its decision-making process is nimble, political considerations are less likely to distort the types of measures pursued, and the country has an impressive track record of delivering powerful jolts of government spending. For these reasons, we flag the possibility that China will opt to do more, particularly as the country's growth rate dips below 6.0% for the first time in three decades.

More broadly, there is evidence that fiscal policy is indeed starting to enter the global spotlight. In recognition of slowing growth, several countries have already creaked into action. India has announced major corporate-tax cuts; Japan now promises fiscal stimulus; Germany and the Netherlands have both put together modest packages; and even Canada seems likely to be more fiscally expansive in response to the recent election of a left-leaning minority government. Some, such as Germany, are managing to navigate around public distaste for government largesse by targeting popular green initiatives. Other countries will probably join the effort over time. This accumulation of fiscal measures presents the possibility that growth could surprise to the upside.

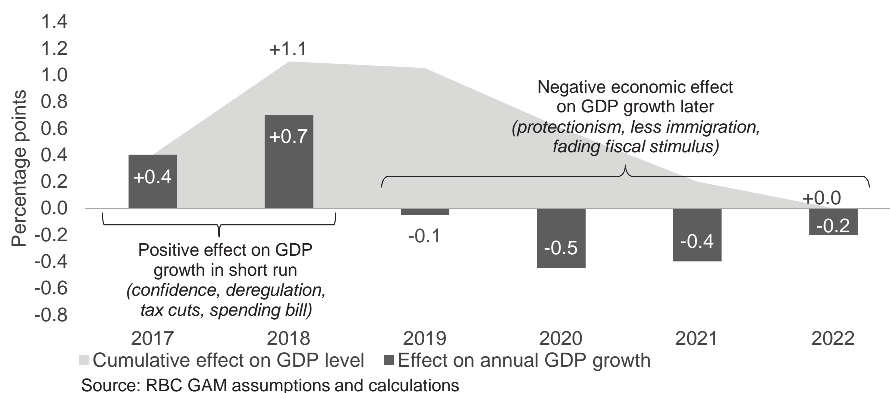
The U.S. has remained notably absent from the fiscal discussion so far, for two reasons. First, the U.S. has already delivered significant fiscal stimulus over the past few years, resulting in a federal deficit of unprecedented size given the relative health of the country's labour market (Exhibit 32). Accordingly, there is less room for further stimulus. Second, while there is a long history of U.S. fiscal stimulus being delivered in an election year, a divided Congress makes that challenging in 2020. If the U.S. government really wants to boost

Exhibit 32: U.S. fiscal deficit is much bigger than it should be



Note: CBO projections as of 8/21/2019. Budget balance for fiscal years shown in chart. Source: CBO, OMB, Haver Analytics, RBC GAM

Exhibit 33: Effect of Trump policies on U.S. GDP



Source: RBC GAM assumptions and calculations

growth, it would be best advised to scale back tariffs.

U.S. election ahead

The stance of U.S. public policy is unfriendly to growth in 2020 as the prior benefits of tax cuts fade and the pain of protectionism and slower immigration mount (Exhibit 33). That said, deregulation is still proving helpful to growth (Exhibit 34).

The rate of U.S. economic growth has accordingly slowed, from nearly 3.00% in 2018 to a more moderate 2.25% in 2019, to what we expect will be just 1.75% growth in 2020. This final figure will represent the slowest rate of expansion in four years. For this reason, we believe the Fed may be persuaded to deliver slightly more monetary stimulus over the coming year.

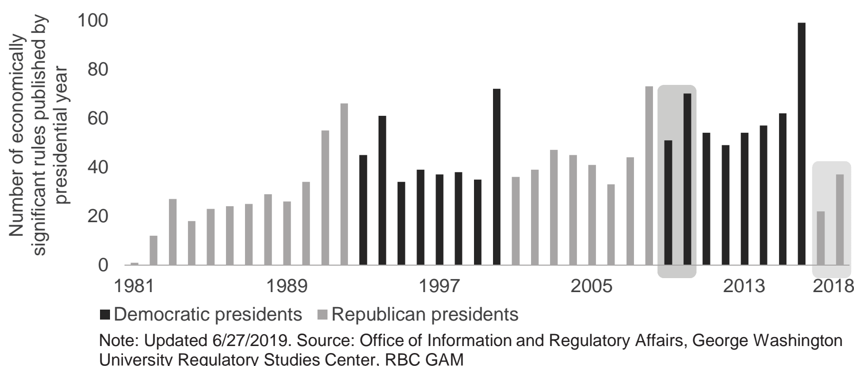
Trade flows have suffered from protectionism and business investment has been silenced by those same tariffs, a high degree of policy uncertainty and worries about the age of the business cycle. Fortunately, as discussed earlier, consumers have mostly held on and seem reasonably likely to continue doing so.

Whereas U.S. housing had been ebbing as interest rates rose, the reversal toward lower rates over the past year has seemingly stabilized the real estate market (Exhibit 35). This improvement may revive other interest-rate-sensitive segments of the U.S. economy.

U.S. inflation looks set to edge slightly higher from 1.75% in 2019 to 2.00% in 2020, benign readings that are both consistent with what we know about the tight economy versus structural deflationary forces. The U.S. dollar has strengthened further over the past year, though we believe it may be starting to top out given the length of its rally and its relative overvaluation.

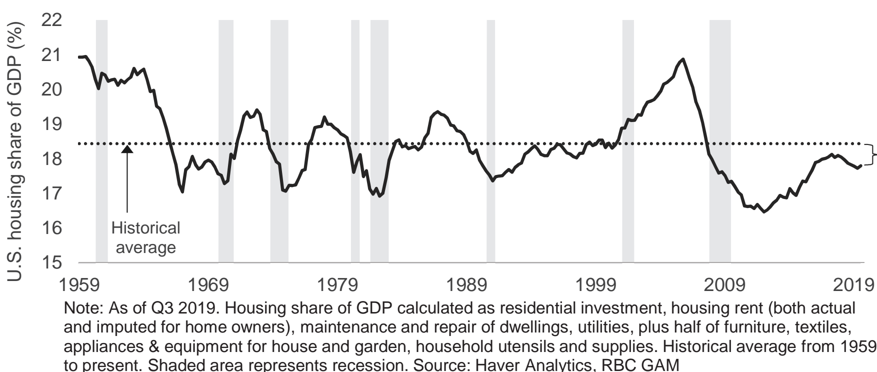
Finally, no discussion of the U.S. outlook would be complete without a word about the country's ructious political environment. In addition to the divided Congress that limits the delivery of legislation, two other hot button issues exist. The first is the effort by Democrats to impeach President Trump over alleged misdeeds with regard to Ukraine. The impeachment looks likely to succeed, and would make Trump only the third president to ever be impeached. However, his conviction and removal from office seems quite unlikely as it would require the support of many Republican senators.

Exhibit 34: Number of regulations published dropped drastically under Trump administration



Note: Updated 6/27/2019. Source: Office of Information and Regulatory Affairs, George Washington University Regulatory Studies Center, RBC GAM

Exhibit 35: U.S. housing has limited downside, has bottomed



Note: As of Q3 2019. Housing share of GDP calculated as residential investment, housing rent (both actual and imputed for home owners), maintenance and repair of dwellings, utilities, plus half of furniture, textiles, appliances & equipment for house and garden, household utensils and supplies. Historical average from 1959 to present. Shaded area represents recession. Source: Haver Analytics, RBC GAM

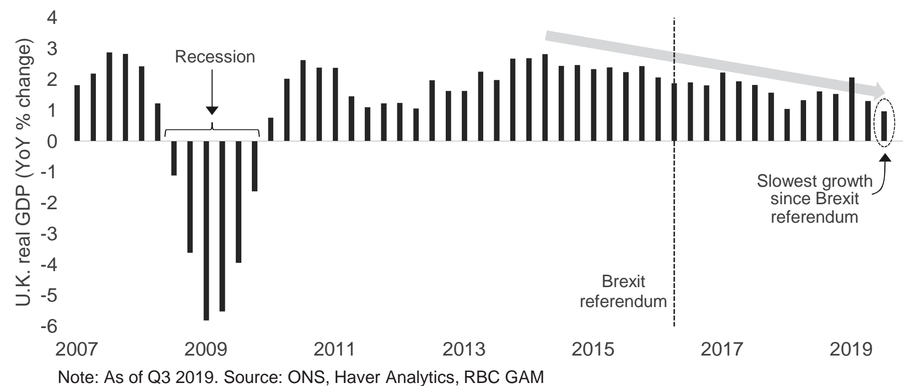
The other key issue is the 2020 election. Financial markets are rightly anxious, as they see a considerable risk that neither of the two eventual candidates will embrace the sort of centrist attributes that have historically proven conducive to good economic growth and strong market returns. President Trump delivered much-appreciated tax cuts, but has also sown considerable uncertainty and delivered damaging tariffs. The Democratic Party race is far from resolved, but left-wing candidates are faring unusually well so far. Politicians usually tack somewhat toward the centre after capturing their nomination and U.S. presidents are greatly restricted in their actions by Congress, but the election is still unusually consequential and fraught with risk for markets.

Brexit resolved?

The British economy has slowed materially in the three and a half years since the Brexit referendum as policy uncertainty has spiked, business investment has fizzled and trading prospects with the EU have worsened (Exhibit 36).

Brexit prospects has experienced enough twists and turns over the past three years that it is foolish to suggest that a particular conclusion is clearly in sight. The December 12 election remains unresolved at the time this report was written, and while the Conservative Party seems likely to capture the most seats, it matters whether they win a majority or a minority.

Exhibit 36: Brexit is already hurting growth



Note: As of Q3 2019. Source: ONS, Haver Analytics, RBC GAM

The most likely scenario remains that Prime Minister Johnson's existing deal with the EU, or some variation of it, advances to the finish line before the current January 31, 2020, deadline. But other possibilities exist depending on how the election concludes, and recent history amply demonstrates that such deadlines are entirely negotiable. Amid this lingering uncertainty, a key message is that the risk of a "No Deal" Brexit – the absolute worst-case scenario – has shrunk from a 40%-plus probability in early September to a sub-10% probability today. In turn, Brexit will still do damage, but much less than once feared.

Of course, even to the extent a deal is struck, negotiations so far are about the interim arrangement that will only apply until the U.K. manages to negotiate a permanent new relationship with the EU. In other words, negotiations and policy uncertainty of one type or another will likely drag on for the foreseeable future.

In the meantime, we look for further muted economic growth in the U.K., with 1.0% GDP growth in 2020. Inflation is likely to remain in the vicinity of the BOE's 2.0% target. On the subject of British monetary policy, we expect no policy-rate change given our hope for a constructive Brexit resolution. The pound is likely to remain in its current range.

Eurozone also bottoms

While the U.S. economy tends to attract the most attention, Eurozone growth has also slowed significantly over the past few years. In fact, Germany has arguably suffered more than anyone (Exhibit 37).

This is on its face a surprising finding, as Germany is not in a trade war with anyone, unlike the U.S. and China. However, two other factors help to explain the country's pain. First, Germany is tightly intertwined with China given Germany's production of industrial goods for the country. China's slowdown, in turn, has had an outsized effect on Germany.

Second, the German manufacturing sector is disproportionately oriented toward auto manufacturing. This sector has been challenged by U.S. tariff threats, by European automakers' incorrect bet on diesel technologies, and by a global decline in auto buying.

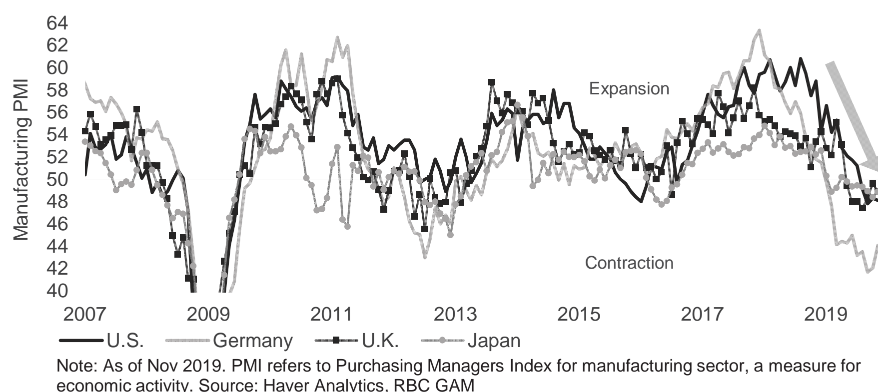
Fortunately, there is tentative evidence via Eurozone PMIs and Germany's closely watched IFO index that growth may now be bottoming out. To that end, we look for growth of 1.0% in 2020 after a 1.25% performance in 2019. Inflation should remain below the ECB's target in the vicinity of 1.25% as Europe juggles moderately tight economic conditions with poor demographics.

Europe appears set to remain a hotbed of populist politics, and Brexit uncertainties will inflict mild damage here as well.

The ECB has a new leader in former IMF head Christine Lagarde. She appears set to follow a broadly similar game plan to her predecessor, Mario Draghi, though it is possible she won't be quite as dovish as he was. This is an interesting thought when paired with Sweden's recent abandonment of negative interest rates. Still, we look for the ECB policy rate to remain locked at -0.50% and for a continuation of the current stimulative course of monetary policy.

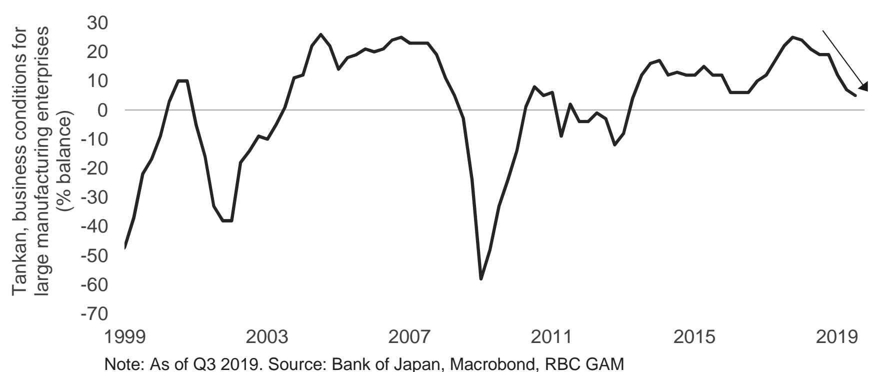
In keeping with the view that the U.S. dollar is peaking, we look for the euro to make moderate gains versus the greenback over the coming year.

Exhibit 37: Manufacturing activities contracted in advanced economies



Note: As of Nov 2019. PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM

Exhibit 38: Japanese business conditions deteriorated further



Note: As of Q3 2019. Source: Bank of Japan, Macrobond, RBC GAM

Japan navigates sales tax hike

As in much of the developed world, Japanese growth has slowed materially over the past few years. Unlike in the U.S. or Eurozone, however, the country's influential Tankan survey suggests that the downward trend is continuing (Exhibit 38). Wage growth has never been particularly impressive, but is now below prior levels. Credit growth has also softened slightly. Japan is, of course, closely tied to both China and the U.S., both of which have themselves slowed.

Japan has a further idiosyncratic reason for economic weakness in the quarters immediately ahead: the country has just implemented a significant sales-tax hike. The two prior such experiences depressed economic demand, and the country reported a big 14% drop in retail sales after the latest move. Consistent with this, we forecast Japanese GDP growth of just 0.25% in 2020. The sales-tax hike also artificially boosts inflation as the after-tax cost of purchases rises, resulting in an anticipated inflation rate of 1.25% in 2020. This is low by international standards, but high for Japan. The Bank of Japan appears locked into stimulus mode, with no imminent change likely.

In keeping with U.S.-dollar weakness elsewhere, we expect the yen to appreciate materially over the coming year.

Japan's sustainable rate of growth remains lower than for nearly every other economy, in large part because of its demographic challenges. But to the average Japanese citizen, the economy likely feels fairly good. The country's unemployment rate is lower than almost anywhere else in the world, and has been on a downward trajectory. Important reforms have occurred in the labour market and on the trade front, including Japan's participation in three major trade deals. The country also appears to be gearing up for another round of fiscal stimulus. These developments should prevent the country's growth rate from suffering too much, though public debt levels spiral ever higher. Of course, with negative borrowing costs, this isn't as ominous as was once the case.

China's upside risk

China is now arguably the world's most important economy. It still ranks second based on sheer output, but it is well in front with regard to how much it contributes to global economic growth.

Unfortunately, the Chinese economy has slowed for a mix of structural and cyclical reasons over the past several years. From a structural vantage point, Chinese demographics are uniquely poor for an emerging-market economy, with a working-age population that is declining. The recent abolishment of the country's one-child policy seems not to have changed the narrative by much. Chinese competitiveness has also naturally deteriorated as the country has grown wealthier, shifting the mantle of low-cost producer to poorer nations. Simultaneously, globalization is no longer advancing as rapidly as it was, in part due to U.S. tariffs, but also because China had already fully integrated into global markets.

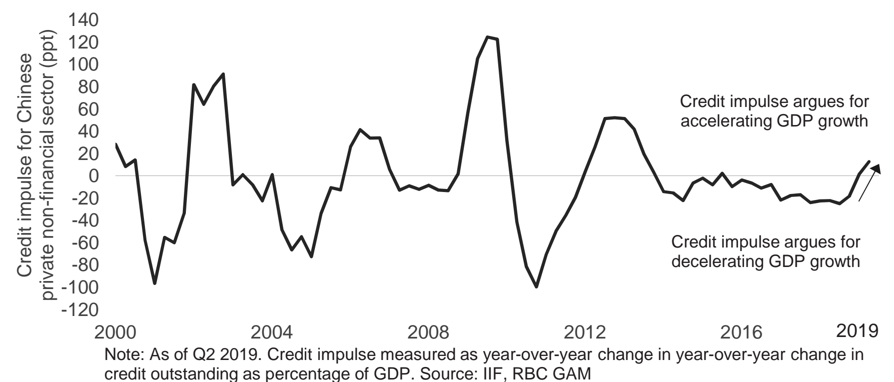
From a cyclical perspective, China has weakened as the country has focused on debt deleveraging, but also because of slowing global demand and U.S. tariffs. Whereas the country once grew at 10%-plus per year, it is now on track to grow by just 5.75% in 2020. This deceleration can also be seen in the country's labour market trend (Exhibit 39).

In response to slowing growth, China has delivered a significant stimulus effort. This includes looser monetary policy, a softer exchange rate and various fiscal measures. Beyond a short-lived resurgence in growth last spring, it cannot honestly be said that the stimulus is particularly evident in the primary gauges of growth such as GDP or the country's PMIs. However,

Exhibit 39: China's employment deteriorates

Note: As of Oct 2019. Composite index based on employment indices of Manufacturing PMI and Non-manufacturing PMI, unemployment rate and year-over-year job creation. Shaded area represents recession. Source: China Federation of Logistics & Purchasing, Macrobond, RBC GAM

Exhibit 40: Chinese credit impulse edged higher



Note: As of Q2 2019. Credit impulse measured as year-over-year change in year-over-year change in credit outstanding as percentage of GDP. Source: IIF, RBC GAM

we do detect at least a vestige of the stimulus in the form of rising Chinese credit impulse after a long period of modest decline (Exhibit 40). Furthermore, should Chinese growth continue to deteriorate, the country is better positioned than most to double down on its stimulus.

Emerging markets may rebound slightly

Emerging-market economies continue to outpace their developed-world brethren (Exhibit 41). This gap remains among the more compelling arguments in favour of investing in emerging-market equities.

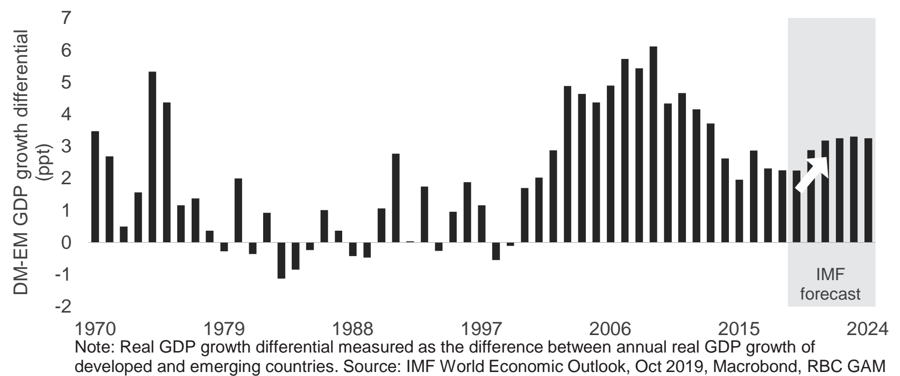
The emerging-market economic picture has improved for several reasons. Protectionism has lost some of its ferocity – a matter of high importance for these trade-oriented nations. Global interest rates have also remained low and the U.S. dollar shows signs of ending its rally. Accordingly, emerging-market growth should accelerate to 5.00% in 2020 from 4.75% in 2019.

That said, populism is also on the rise in emerging-market countries, seemingly in response to the growth slowdown of the past few years. The spending demands accompanying this shift threaten to undermine the fiscal discipline that has kept emerging-market nations in mostly good stead over the past two decades.

Canadian housing on the rise again

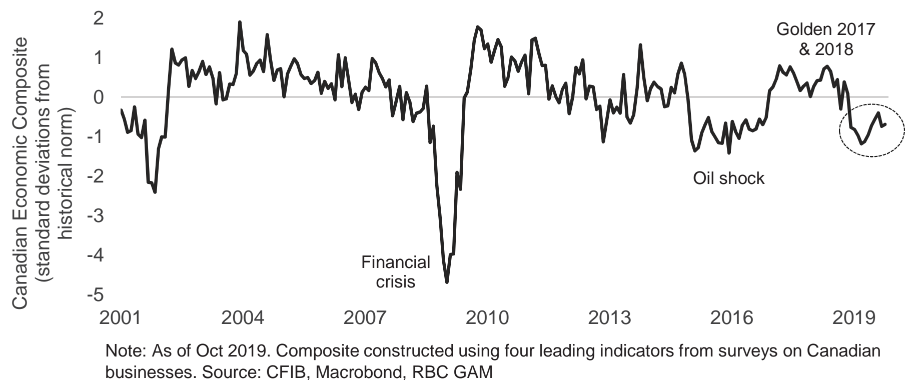
Canadian economic growth has slowed in 2019 after a robust 2017 and 2018 (Exhibit 42). We believe the economy

Exhibit 41: Emerging-market growth advantage to increase



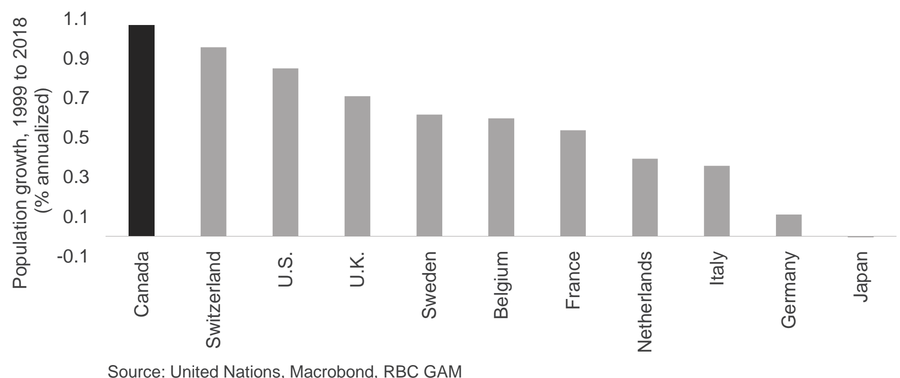
Note: Real GDP growth differential measured as the difference between annual real GDP growth of developed and emerging countries. Source: IMF World Economic Outlook, Oct 2019, Macrobond, RBC GAM

Exhibit 42: Canadian growth to remain subpar



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

Exhibit 43: Canada enjoys fastest population growth in G10



Source: United Nations, Macrobond, RBC GAM

will grow by 1.5% in 2020, maintaining its modest 2019 clip.

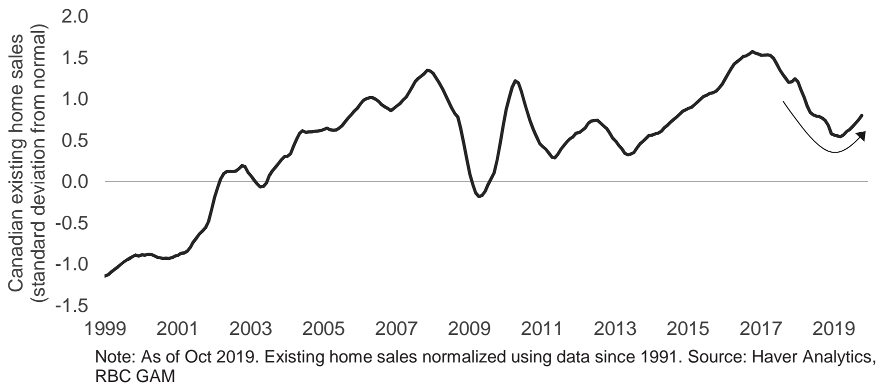
Supportive factors include a labour market that has repeatedly surprised with its strength. This has proven key to the expansion given Canada's dreadful rate of productivity growth. As with the U.S., the Canadian unemployment rate is now the lowest in many decades. We are not convinced the labour market can continue to spit out jobs at the rate of the past few years, but population growth bodes well thanks to strong immigration (Exhibit 43).

The Canadian housing market had suffered a multi-year weakness in response to tighter housing-market rules, but now appears to have fully digested the changes. Every major metric of Canadian housing activity has returned to growth, including existing homes sales (Exhibit 44). There is likely a limit to how enthusiastically housing can rebound given watchful policymakers and concerns about housing affordability and household-debt levels, but for the moment the sector is back to helping rather than hindering GDP growth.

Conversely, the U.S. economic slowdown weighs on Canada given the interconnectedness of the two economies. Canada's competitiveness has also dimmed over the years, whether measured in terms of relative tax rates or via other metrics (Exhibit 45).

The global oil market is in approximate balance and crude prices look fairly normal by historical standards (Exhibit 46), with Middle East tensions presenting an upside risk. However,

Exhibit 44: Existing home sales rebounding



Note: As of Oct 2019. Existing home sales normalized using data since 1991. Source: Haver Analytics, RBC GAM

Exhibit 45: Canada is losing competitiveness
How Canada stacks up

Canada's international ranking (percentile)			
Measure	**2007-2008**	**2017-2018**	**Change**
Public Policy	93.8	92.2	↓
Labour	92.5	92.0	↓
Innovation	91.8	84.7	↓
Composite	93.0	90.2	↓

Note: The composite ranking is a weighted average of the three measures. Ranking for each measure is an average of percentile rankings of the underlying components. Public policy is composed of World Governance Indicators, Ease of Doing Business, and Global Competitiveness Index (GCI). Labour is made up of GCI Higher Education and Training Subindex, GCI Labour Market Efficiency Subindex, and Global Human Capital Index (GHCI). Innovation comprises GCI Technological Readiness Subindex, GCI Innovation Subindex, and Global Innovation Index. GHCI 2013 data used in the calculation of the innovation measure for the 2007-2008 period. Source: GII database, Cornell, INSEAD, WIPO, World Bank, World Economic Forum, RBC GAM

Canada's own energy sector is another matter: it remains hobbled by insufficient transportation infrastructure, and the recent election outcome casts doubt on the speed at which additional pipelines can be constructed.

Unlike many of its counterparts, the Bank of Canada (BOC) has thus far opted not to cut interest rates. Defending this stance, inflation is operating very close to the BOC's 2.0% mandate. Longer-term borrowing costs have nevertheless declined in response to the global trend, though the Canadian dollar's relative strength has neutralized some of this benefit. As a result, Canada's financial conditions are not as growth-positive as several other markets. We believe the BOC may find itself easing at some point over the next year in response to the

aforementioned economic headwinds. In turn, the Canadian dollar should depreciate slightly.

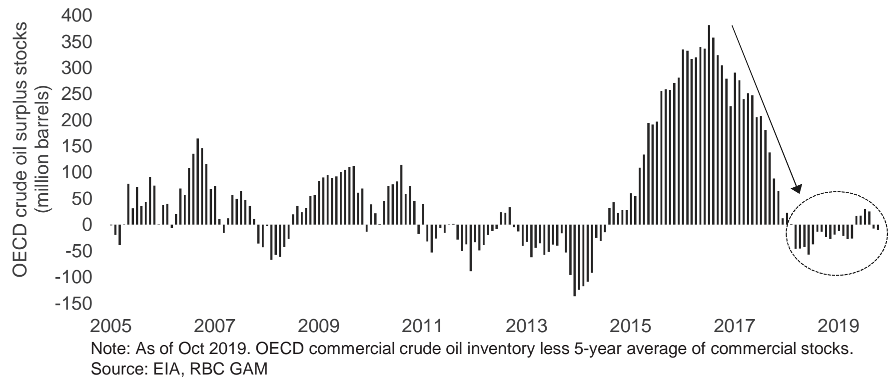
On the subject of Canada's latest federal election, the resulting Liberal minority government could well help short-term economic growth on the principle that minority governments tend to emphasize fiscal spending. However, the positive impact of such stimulus could prove short-lived if Canada fails to address its waning economic competitiveness.

Long-term considerations

It is easy to fall into the trap of focusing exclusively on the outlook for the coming 12 months. But most investors have time horizons far longer than that, and so it is imperative to also evaluate longer-term trends. From a growth perspective, it seems likely that future growth will be slower than that of decades past (Exhibit 47). Prominent drags include more challenging demographics (Exhibit 48), the gradual maturation (and accompanying deceleration) of emerging-market economies, and even lingering post-crisis developments such as populism and high debt levels.

But things aren't all bad. Whereas the official statistics argue that productivity growth has dimmed significantly over the past decade, we suspect the measurements underestimate the true rate of innovation. Furthermore, we have a high level of confidence that human beings remain as innovative as ever, capable of further breakthroughs in such major fields as artificial intelligence, robotics, materials science, nanotechnology and medicine. In addition, whereas the bulk of new inventions have historically come from a small number of developed countries, the arrival of China at the knowledge frontier promises to generate significant further advances.

Exhibit 46: Global oil market roughly balanced



Note: As of Oct 2019. OECD commercial crude oil inventory less 5-year average of commercial stocks. Source: EIA, RBC GAM

Exhibit 47: Long-term challenges and risks to economic growth

Human factors	Economic structure	Post-crisis
• Demographics: – Slower pop. growth – Rising retired % • Decelerating gains in: – Education – Health – Urbanization • Rising complacency: – Low labor mobility – More segregated – Less risk-taking • Falling societal trust • Higher inequality: – Drag on growth – Revolution?	• Fading globalization • Declining creative destruction: – Lower firm turnover – Higher firm concentration • Goods ➔ services • Maturing EM economies	• Populism • Secular stagnation: – Diminished expectations – Less business investment – Skill decay • Debt excesses: – Servicing – Deleveraging
	Environment	**Technology**
	• Climate change: – Higher temperature – More extreme variation – More natural disasters – Higher sea levels • Low prob./high impact: – Asteroid, etc.	• Running out of new ideas? – Not convinced • Cyber-warfare? • Technological singularity?

Source: RBC GAM

Low real interest rates are likely to persist

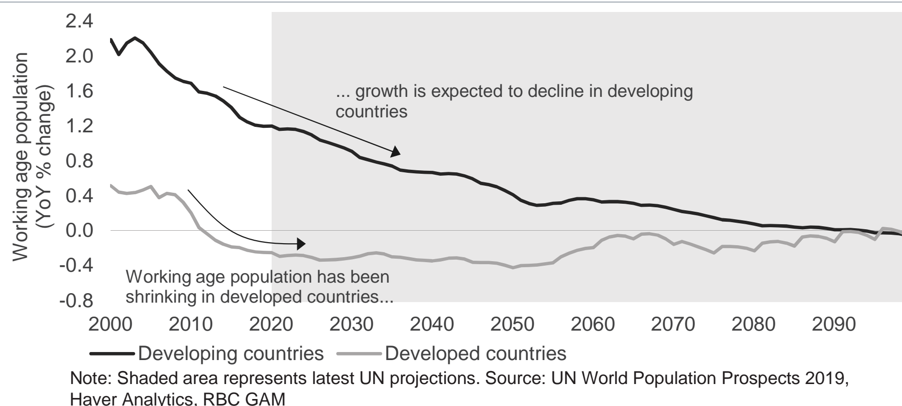
Another important consideration for long-term investors is the current period of extraordinarily low interest rates, which could be a sign that we should lower our expectations for future investment returns. Interest

rates have declined steadily over the past four decades as a result of falling real (or after-inflation) interest rates even though inflation expectations were relatively steady over the period (Exhibit 49). According to a white paper published by the BOE[1], the bulk of the decline in real interest rates since 1980 can be attributed to aging populations, an increased preference for saving versus spending, and slower rates of economic growth (Exhibit 50). Understanding the factors that drove real interest rates lower can help gauge where rates are likely headed. The BOE believes that most of the decline that we've seen since the 1980s is semi-permanent and that the factors that drove rates lower are unlikely to reverse meaningfully over the coming decade.

The BOE expects a mild increase in real interest rates going forward, but given that real rates in the developed world are currently negative, this increase would push them to about zero by 2030. This assumption is important because real interest rates represent the fundamental basis on which nominal investment returns are established. Should inflation remain stable around 2% and real yields on U.S. 10-year bonds hover around 0%, sovereign bonds might generate a roughly 2% total return over the next decade. To arrive at an approximate expected return for stocks, we could add the historical 300- to 400-basis-point equity-risk premium to the bond return and arrive at a nominal return of around 5% to 6% over the very long

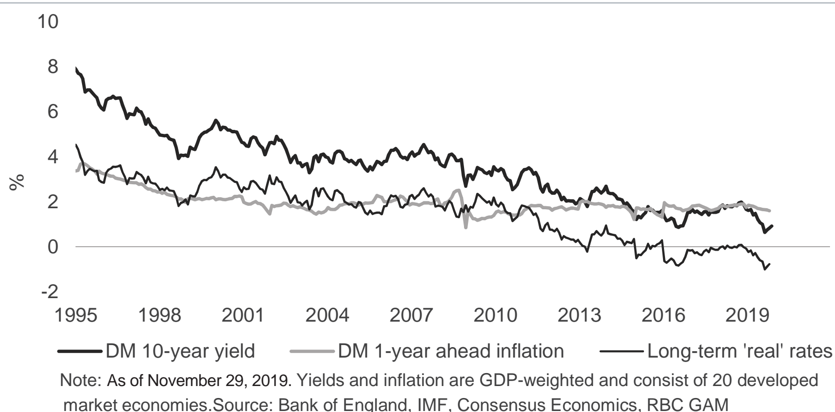
[1] Lukasz Rachel and Thomas D. Smith (December 2015). *Bank of England Staff Working Paper No. 571: Secular drivers of the global real interest rate.*

Exhibit 48: Deteriorating demographics



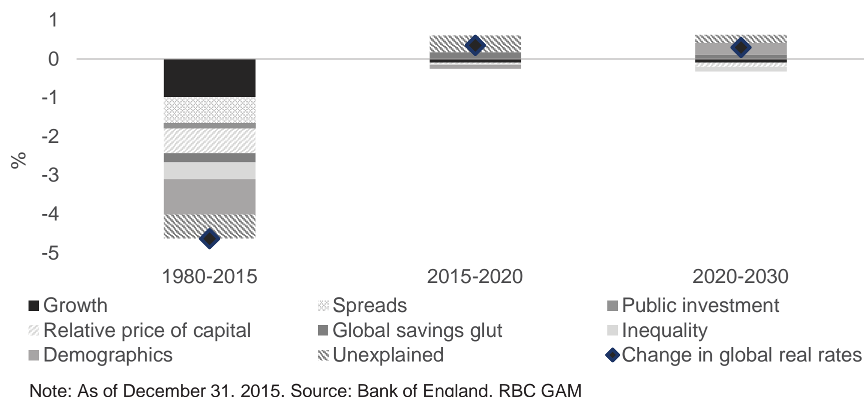
Note: Shaded area represents latest UN projections. Source: UN World Population Prospects 2019, Haver Analytics, RBC GAM

Exhibit 49: Real rates in developed markets



Note: As of November 29, 2019. Yields and inflation are GDP-weighted and consist of 20 developed market economies.Source: Bank of England, IMF, Consensus Economics, RBC GAM

Exhibit 50: Secular drivers of global real interest rates
Change in global neutral rate



Note: As of December 31, 2015. Source: Bank of England, RBC GAM

term. With these numbers in mind and assuming real rates remain depressed, we can expect an extended period of relatively low nominal returns ahead across the traditional asset classes.

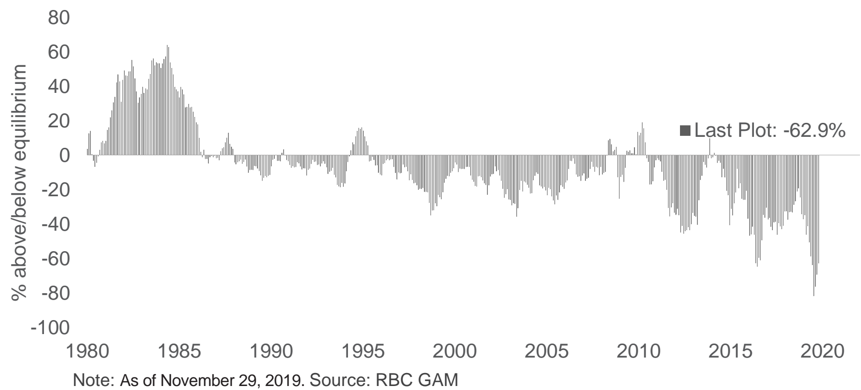
Sovereign-bond yields bounced off extremely low levels

Bonds pared some of their gains from earlier this year as yields rose in all major regions in the past quarter amid stabilization in leading economic indicators and progress on Brexit and a U.S.-China trade. The U.S. 10-year yield rose about 25 basis points to 1.78% and the German 10-year yield rose over 30 basis points to -0.36%. Even with the latest bounce, government-bond yields in most regions remain far below levels at the start of the year and they are beneath their equilibrium levels, particularly outside North America (page 43). In aggregate, our composite of global bond yields suggests valuations are stretched and at risk of delivering negative returns, although that risk has declined somewhat as a result of the rise in yields during the past quarter (Exhibit 51).

With inflation steady, the direction of bond yields will depend on real rates

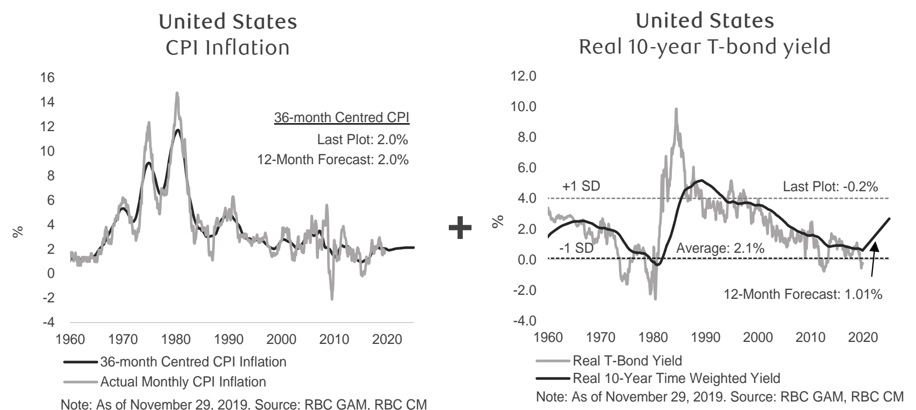
Our own bond model indicates that yields will rise, but this increase is predicated entirely on a rebound in real interest rates to their long-term average. Exhibit 52 illustrates the composition of our bond model, which combines an inflation premium with a real rate of interest to generate an equilibrium level for nominal bond yields. Inflation has been relatively stable and we don't forecast significant

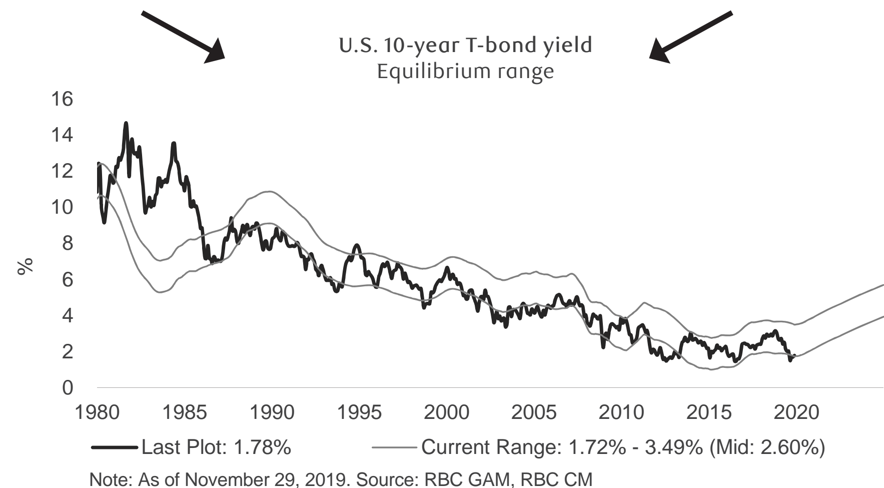
Exhibit 51: Global bond market composite
10-year government bond yields relative to equilibrium



Note: As of November 29, 2019. Source: RBC GAM

Exhibit 52: U.S. 10-year bond yield
Fair-value estimate composition





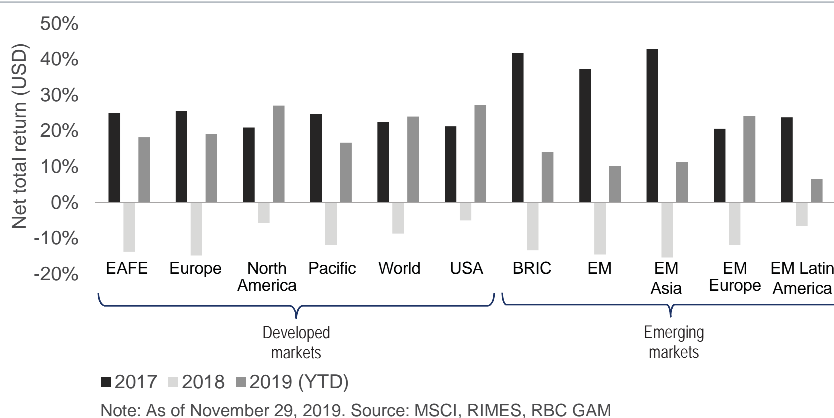
Note: As of November 29, 2019. Source: RBC GAM, RBC CM

changes in consumer prices in the years ahead. To the extent upward pressure on nominal bond yields materializes through the coming months it will likely come from changes in the real rate. Our models suggest that real interest rates will gradually rise back to their 40-year average over the next five years, resulting in an increase of as much as 300 basis points, and the capital loss from rising yields would represent a significant headwind to total returns for bondholders. We note that our model's expected change in real interest rates going forward is much more aggressive than the BOE's projections. If instead we used the BOE's assumption that real rates will only rise about 50 basis points to 100 basis points over the coming decade, the headwind to bond returns would be much less, but either way expected returns for sovereign bonds could still be limited to the low single digits for many years.

Stocks charge ahead in 2019

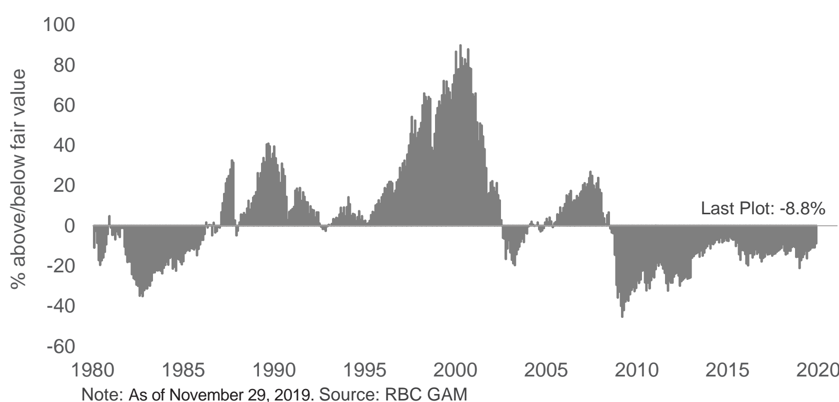
Equities have delivered impressive gains in 2019 amid low interest rates, stable inflation and moderate economic growth. Stocks began the year at depressed levels following the sharp selloff in late 2018, but began to rally as the Fed halted monetary tightening and the U.S. took steps toward making a trade deal with China. In stark contrast to 2018, when stocks were down in all major regions, equities increased across the board in 2019 (Exhibit 53). U.S. stocks led the way with gains of more than 25%. The rally pushed the S&P 500 Index slightly above our estimate of fair value at the band's midpoint, but valuation underpinnings vary largely by region

Exhibit 53: Performance comparison of global equity markets
Net total returns in USD



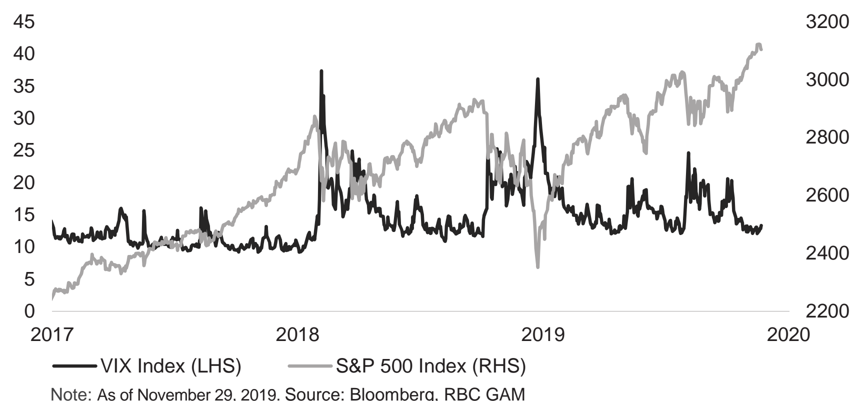
Note: As of November 29, 2019. Source: MSCI, RIMES, RBC GAM

Exhibit 54: Global stock-market composite
Equity market indexes relative to equilibrium



Note: As of November 29, 2019. Source: RBC GAM

Exhibit 55: Volatility Index (VIX)
Chicago Board Options Exchange Market Volatility Index



Note: As of November 29, 2019. Source: Bloomberg, RBC GAM

and, outside the U.S., most markets remain attractively priced (page 44). Our global equity composite suggests that stocks remain below fair value, in aggregate, but we note that the discount is the smallest it has been since 2014 (Exhibit 54).

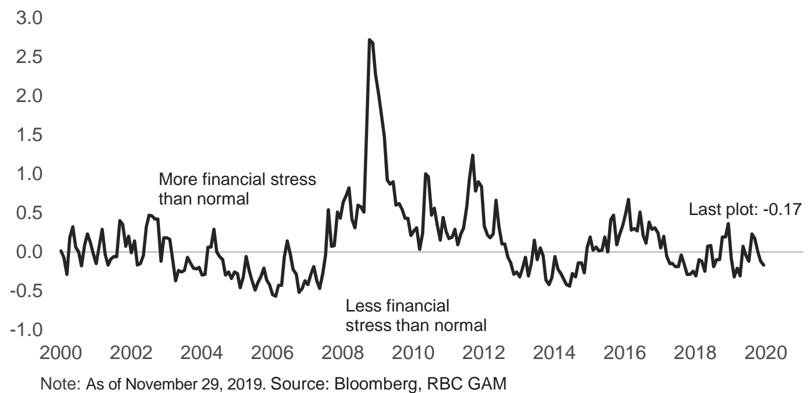
Signals of market stress remain calm

Financial markets have been resilient in 2019 and traditional cautionary signals are not in evidence. Although there have been challenges with respect to growth concerns and trade tensions, stocks have continued their upward march and volatility has remained relatively contained (Exhibit 55). Yield curves are again positively sloped after inverting earlier this year, easing fears of recession, and Bank of America's Global Financial Stress Index indicates less financial stress than normal (Exhibit 56). Within credit markets, high-yield energy bonds and covenant-lite loans are definite concerns, but spreads in the broad indexes suggest these threats remain isolated (Exhibit 57).

Earnings growth may re-accelerate in 2020

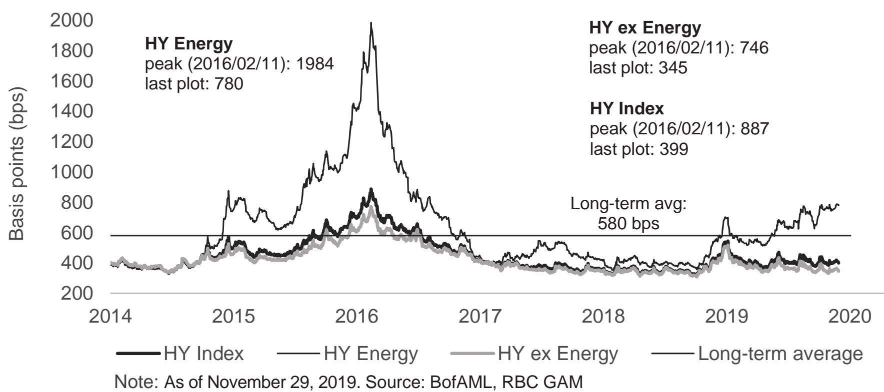
Many investors may question the sustainability of the latest equity rally because it has occurred in the absence of earnings growth. Markets, though, are generally forward-looking and they are likely pricing in a re-acceleration in profits next year. Exhibit 58 plots earnings per share for the S&P 500 Index, and the shaded portion represents the consensus of analysts' estimates in the year ahead. While profits have indeed stalled in 2019,

Exhibit 56: BAML Global Financial Stress Index



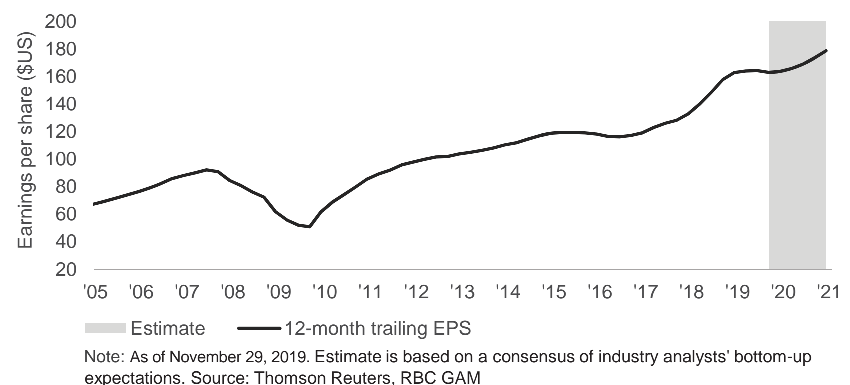
Note: As of November 29, 2019. Source: Bloomberg, RBC GAM

Exhibit 57: BofAML U.S. High Yield Master II Index
Government option adjusted spread



Note: As of November 29, 2019. Source: BofAML, RBC GAM

Exhibit 58: S&P 500 Index
12-month trailing earnings per share



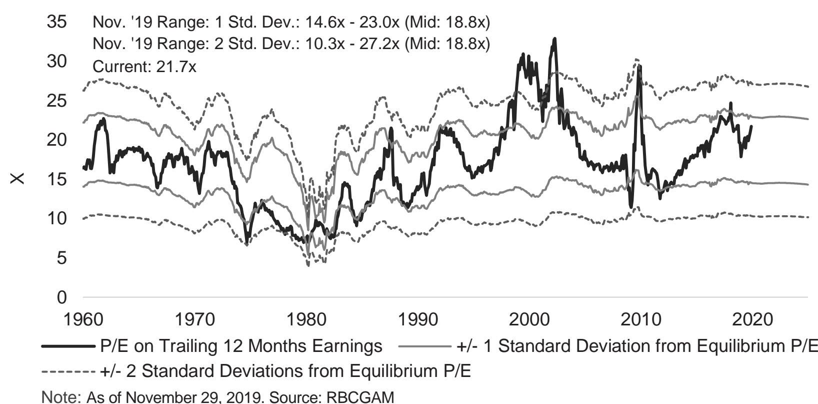
Note: As of November 29, 2019. Estimate is based on a consensus of industry analysts' bottom-up expectations. Source: Thomson Reuters, RBC GAM

analysts look for earnings growth to re-accelerate to the mid-single digits in the first half of 2020 with momentum improving as the year progresses. Financial markets are validating this positive outlook through a gradual increase in valuations and a narrowing of credit spreads (exhibits 59 and 60). Investors are confident enough that profit growth is forthcoming that they are willing to pay a higher price for risk assets today.

Stocks offer decent upside with modest assumptions

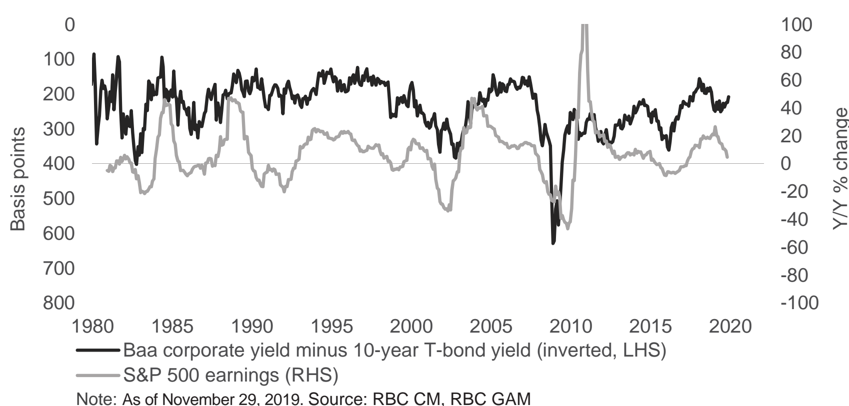
As long as investors remain confident and the economy continues to grow, equities could deliver high single-digit to low double-digit returns over the year ahead. Exhibit 61 outlines various scenarios for the S&P 500 Index by combining analysts' earnings estimates with different price-to-earnings ratios (P/E). The equilibrium P/E of 18.8 is the level that our model deems appropriate given current levels of interest rates, inflation and corporate profitability. As of the time of this writing, the S&P 500 is trading near levels consistent with the top-down consensus earnings estimate of US$164.80 for 2019 and the current equilibrium P/E. Looking ahead to 2020, the top-down estimate of US$182.10 combined with the forecast equilibrium P/E of 18.8 would propel stocks to approximately 3418, representing 10% upside. Although a number of potential challenges and uncertainties remain, these scenarios suggest that stocks can still deliver decent returns using some fairly reasonable assumptions.

Exhibit 59: S&P 500 Index
Normalized (Equilibrium) Price/Earnings Ratio



Note: As of November 29, 2019. Source: RBCGAM

Exhibit 60: Corporate bond spread (inverted) vs. S&P 500 earnings



Note: As of November 29, 2019. Source: RBC CM, RBC GAM

Exhibit 61: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500 Index

		Consensus			
		2019 Top down	2019 Bottom up	2020 Top down	2020 Bottom up
	P/E	$164.8	$164.0	$182.1	$180.6
+1 Standard Deviation	23.0	3788.2	3769.1	4185.3	4149.4
+0.5 Standard Deviation	20.9	3440.7	3423.4	3801.4	3768.9
Equilibrium	18.8	3093.3	3077.7	3417.6	3388.3
-0.5 Standard Deviation	16.7	2745.9	2732.1	3033.7	3007.8
-1 Standard Deviation	14.6	2398.5	2386.4	2649.9	2627.2

Source: Bloomberg, Thomson Reuters, RBC GAM

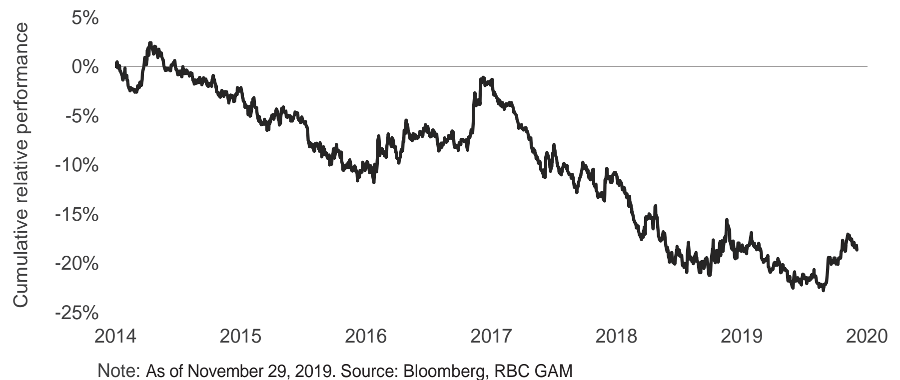
Improving outlook reinforced by market rotation

In addition to signs of stabilization in leading economic indicators, a variety of signals within financial markets suggest that the outlook may indeed be improving. Since the middle of August, value stocks have outperformed the growth style, economically-sensitive stocks have led defensive sectors, and international equities have shown strength relative to the S&P 500 (exhibits 62 to 64). This rotation is important because it comes after nearly a decade of outperformance by U.S. large-cap growth stocks, in particular the FAANMG companies (i.e. Facebook, Amazon, Apple, Netflix, Microsoft, Google). Market gains had been concentrated in these stocks which were delivering very strong earnings increases amid persistently slow economic growth. The emergence of value as a style leader is a sign that economic prospects may be improving as value stocks tend to be mature businesses that rely on firm economic conditions to boost their earnings. Moreover, the participation of financial services stocks and international equity markets (i.e. Europe) is a possible sign that economic growth is set to broaden outside of the U.S. If this important shift in market leadership remains intact, the bull market may have more room to run.

Equities have thrived in past no-recession easing cycles

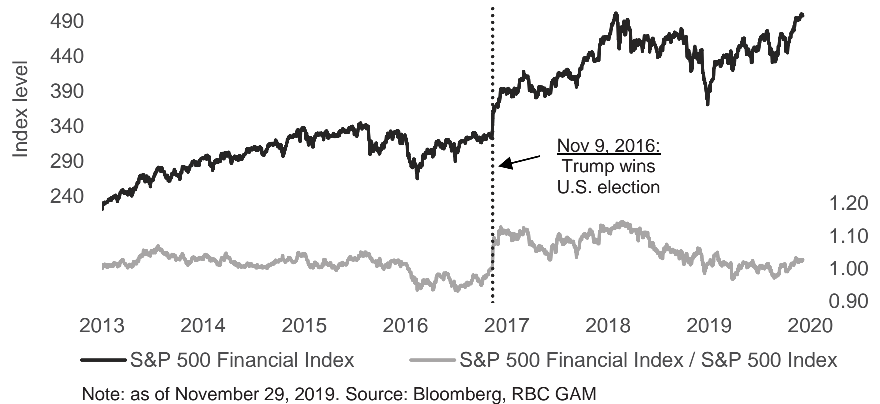
One of the reasons that underlying market dynamics have turned more positive since the summer is that the Fed began cutting rates and the odds of recession diminished. We looked at

Exhibit 62: Value to growth relative performance
S&P 500 Value Index / S&P 500 Growth Index



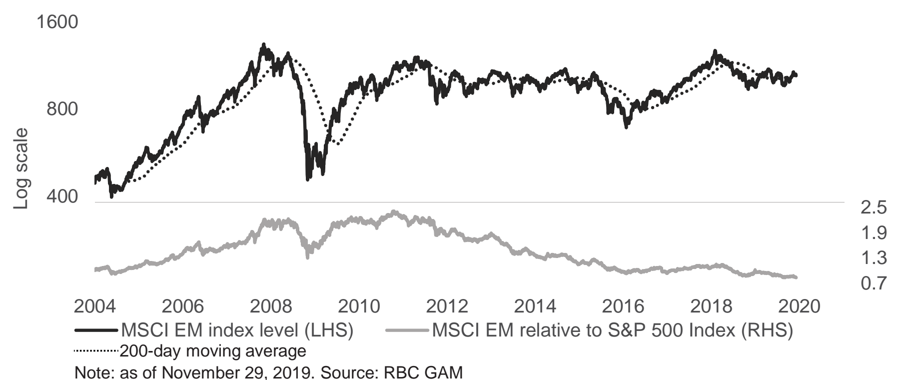
Note: As of November 29, 2019. Source: Bloomberg, RBC GAM

Exhibit 63: S&P 500 Financial Index
Index level and relative strength



Note: as of November 29, 2019. Source: Bloomberg, RBC GAM

Exhibit 64: MSCI Emerging Markets Index
Index level and relative strength



Note: as of November 29, 2019. Source: RBC GAM

15 instances of Fed easing since World War II to gauge what we could expect this time around (Exhibit 65). The Fed typically eases to boost a weakening economy. In those cycles where the Fed was unable to prevent the economy from falling into recession, the median drop in stocks prior to the first cut was approximately 10%. Stocks then fell another 10% in the 12 months after rate cuts began. However, in cycles where Fed easing was sufficient to extend the business cycle stocks have behaved much better, often rising into the first rate cut and continuing to rally for as many as 24 months thereafter. Exhibit 66 plots the performance of the S&P 500 through monetary-easing cycles, where t=0 on the chart is the date of the initial rate cut in any given cycle. The bold solid line on the chart is the current cycle, with the Fed's first rate cut in July 2019. Notice that the solid line is tracking closer to the median for no-recession cycles. Should stocks continue along this no-recession path, they could rise at an annualized rate of 17% for the next two years.

Bull markets can reload without the economy going into recession

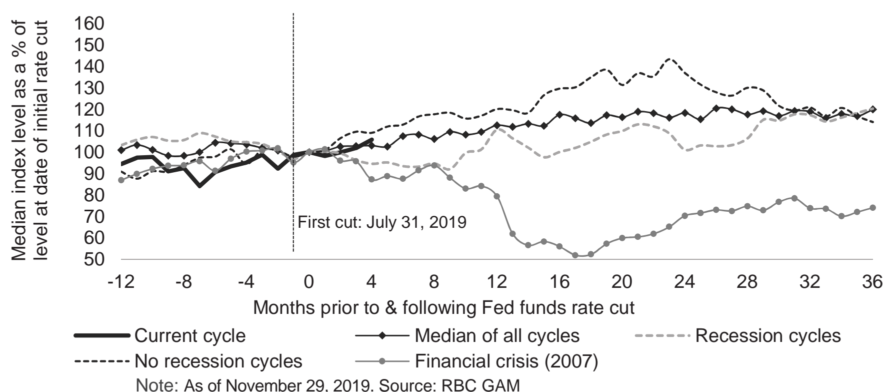
Even though we are 10 years into this bull market, stocks can continue to deliver solid returns as long as leading indicators rebound from nearly two years of declines and the economy experiences a soft-landing. The year-over-year change in the U.S. Conference Board Leading Economic Index (LEI) has been declining since late 2017/early 2018, but may now be stabilizing which could have important

Exhibit 65: S&P 500 return statistics prior to and following the first rate cut

		Trailing returns (%)	First rate cut	Forward returns (%)	
All cycles		12 months		12 months	24 months
November 1957		19.3		32.7	19.3
June 1960		0.4		15.0	0.4
December 1966		13.7		20.1	13.7
August 1969		0.7		-18.8	0.7
September 1971		2.6		12.6	2.6
September 1973		-9.2		-32.4	-9.2
July 1974		-17.5		10.3	9.7
May 1980		0.3		19.2	0.3
November 1981		15.2		10.7	15.2
November 1984		22.2		22.4	22.2
June 1989		8.8		12.6	8.8
July 1995		28.7		18.7	28.7
September 1998		17.0		20.9	17.0
January 2001		-17.9		-13.5	-17.9
September 2007		-16.2		-20.6	-16.2
	# of observations	Median trailing returns (%)		Median forward returns (%)*	
All cycles	15	-0.9		12.6	8.8
No-recession cycles	5	10.0		20.1	17.0
Recession cycles	10	-3.2		10.5	0.6
Financial crisis (2007)		15.0		-20.6	-16.2
July 2019	1	5.8			

Note: Data since July 1954. *Periods greater than 12 months are annualized. Shaded rows represent recession cycles. Source: RBC GAM

Exhibit 66: S&P 500 and the Fed funds rate cut
Implications for current cycle, following first rate cut



Note: As of November 29, 2019. Source: RBC GAM

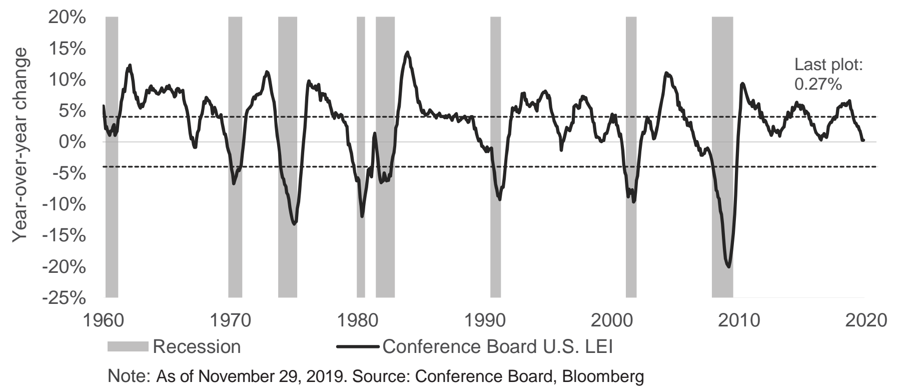
ramifications for market returns (Exhibit 67). An analysis done by Wolfe Research grouped returns for stocks and bonds into six different phases of the market cycle based on changes in the LEI (Exhibit 68). In the Late Deceleration phase – where LEI suggests that growth is good but slowing – stocks have historically generated low single-digit returns and bonds have outperformed, similar to the experience of late 2018/early 2019.

Critically, the LEI is hovering at a point where the economy tends to either rebound or fall into recession. Should the LEI rebound, the market cycle would shift into the Early Acceleration phase – where growth is slow but improving. This phase is consistent with 15.7% annualized returns for stocks, but just 1.3% for bonds. But if the LEI keeps falling and the economy enters recession, the market cycle would shift to the Retrenchment phase, which would be consistent with 22.1% annualized declines in stocks and 9.7% gains in bonds. While we should not dismiss the possibility that the economy could enter recession, triggering a sizeable decline in equity prices, a rebound in leading indicators from current levels would push the market cycle back into the Early Acceleration phase without passing through Retrenchment. This scenario – an economic soft-landing – could lead to a period of strong stock-market performance and relatively subdued performance for bonds.

Asset Mix – boosting equity allocation, sourced from cash

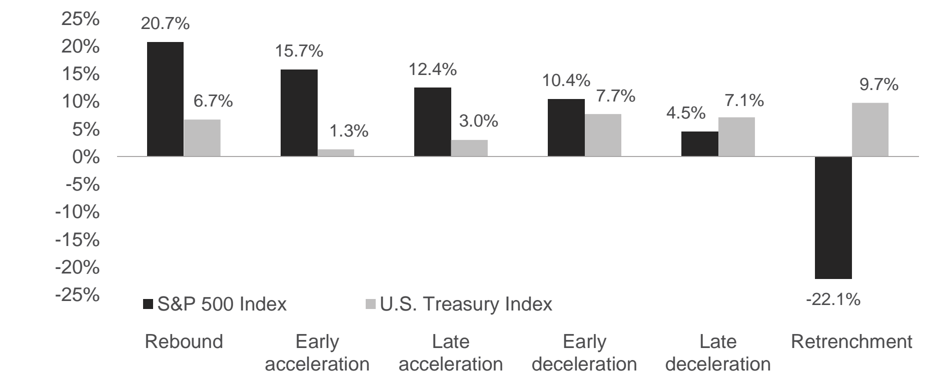
The global economy is growing at a slow but steady pace and a variety of

Exhibit 67: U.S. leading economic indicators
Conference Board U.S. Leading Economic Index



Note: As of November 29, 2019. Source: Conference Board, Bloomberg

Exhibit 68: Performance during market cycle phases (1990-2018)
Average monthly returns, annualized



	Rebound	Early acceleration	Late acceleration	Early deceleration	Late deceleration	Retrenchment
Phase defined by Conference Board U.S. LEI Y/Y Change	Below (-4%) and **rising**	Above (-4%) and **rising**	Above +4% and **rising**	Above +4% and **falling**	Below +4% and **falling**	Below (-4%) and **falling**

Note: As of December 31, 2018. Source: Wolfe Research, RBC GAM

> *Even though we are 10 years into this bull market, stocks can continue to deliver solid returns as long as leading indicators rebound from nearly two years of declines and the economy experiences a soft-landing.*

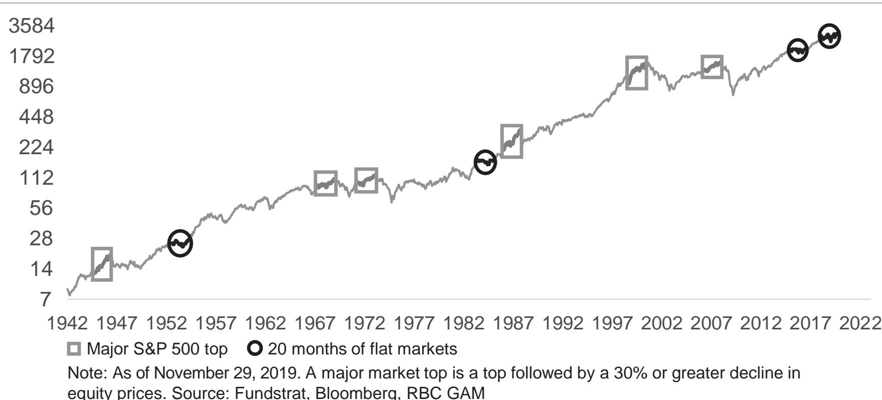
leading indicators may be stabilizing after nearly two years of decline. Central-bank stimulus and progress on Brexit and U.S.-China trade have helped to reduce downside risks. As a result, some of the worst-case scenarios that we had feared in prior quarters appear to be less likely to materialize.

In our base case scenario, the economy will avoid recession, bond returns are likely to be low and stocks offer much more upside potential. Note that even with this year's strong gains, many markets are trading close to where they did almost two years ago.

A research note from Fundstrat caught our eye a few weeks ago. In it, analysts have identified three periods where the U.S. stock market has traded near all-time highs but remained within a 5% range for at least 20 months. In each case, rallies following a breach above that range averaged 50% over the following two years (exhibits 69 and 70)! While gains of this magnitude are not our forecast, we think it's worth keeping in mind that powerful stock rallies, rather than declines, have in the past followed long periods of consolidation within a narrow range. Our own forecast is more modest and looks for stocks to deliver high single- to low double-digit returns over the year ahead.

Balancing the risks and opportunities, we have leaned toward taking on more risk this quarter. The combination of diminishing downside threats and the wide spread between stock and bond yields suggests that it is a better time than usual to be capturing the equity risk premium (Exhibit 71). We had been

Exhibit 69: S&P 500 price history
Major tops and plateaus near highs



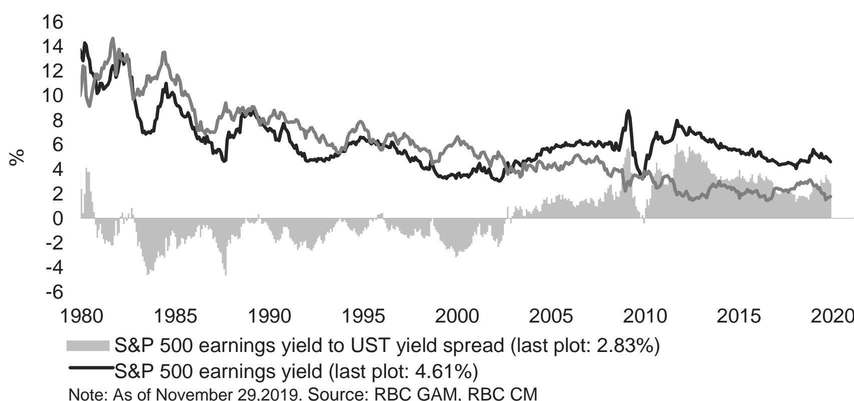
Note: As of November 29, 2019. A major market top is a top followed by a 30% or greater decline in equity prices. Source: Fundstrat, Bloomberg, RBC GAM

Exhibit 70: S&P 500 Index
Table of plateaus near highs

Criteria	(a)	(b)	(c)	(d)	
	Trailing 20-month return (%)	Trailing 12-month return (%)	4-month change of 200D (%)	Distance to 5-year high (%)	Forward 24-month return (%)
17-Mar-54	4.9	1.7	0.2	0.3	73
18-Dec-84	3.6	3	0.6	2.6	49.4
05-Jul-16	1.8	0.6	0.1	2	30.1
Average	**3.4**	**1.8**	**0.3**	**1.6**	**50.8**
04-Sep-19 **Current**	4.8	2.3	1.2	2.9	

Source: Fundstrat

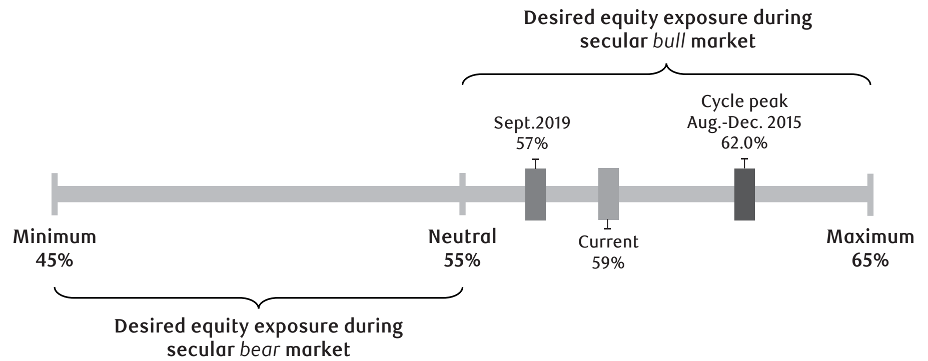
Exhibit 71: S&P 500 earnings yield
12-month trailing earnings/index level



Note: As of November 29,2019. Source: RBC GAM, RBC CM

de-risking our portfolio for the past two years, pulling our equity weight down from 62% to 57% last quarter, which was near the bottom of our desired range of 55% to 65% during a secular bull market for stocks (Exhibit 72). Since then, the combination of Fed easing, diminishing downside risks and a variety of market-based signals encouraged us to begin reversing course. Through the quarter, we added two percentage points to our equity allocation, sourced from cash. For a balanced, global investor, we currently recommend an asset mix of 59 percent equities (strategic neutral position: 55 percent) and 40 percent fixed income (strategic neutral position: 43 percent), with the balance in cash.

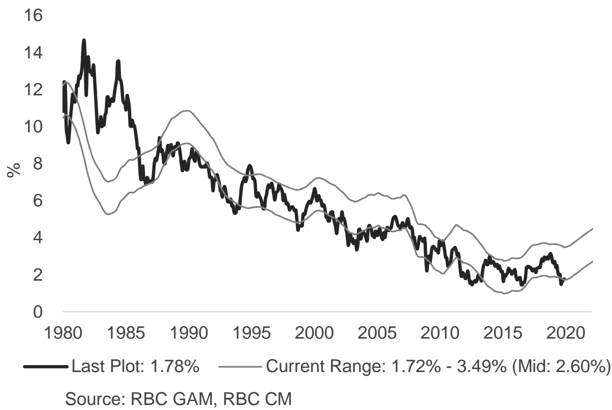
Exhibit 72: Recommended equity allocation for a global balanced investor



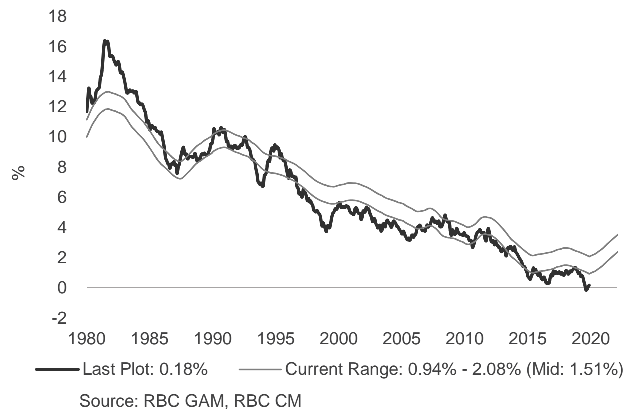
Source: RBC GAM

Global Fixed Income Markets

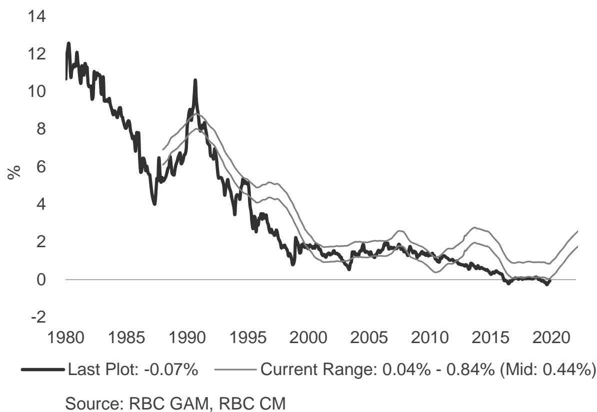
U.S. 10-Year T-Bond Yield
Equilibrium range



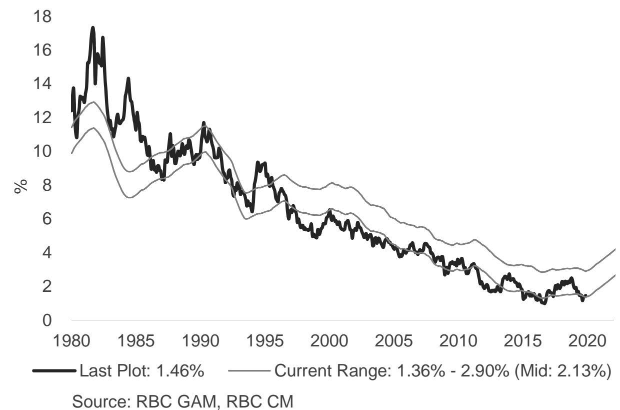
Eurozone 10-Year Bond Yield
Equilibrium range



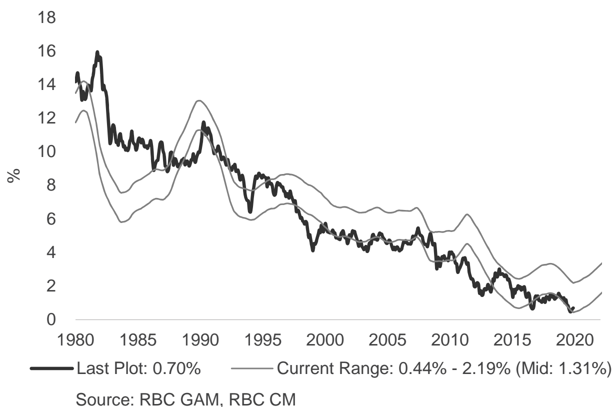
Japan 10-Year Bond Yield
Equilibrium range



Canada 10-Year Bond Yield
Equilibrium range



U.K. 10-Year Gilt
Equilibrium range

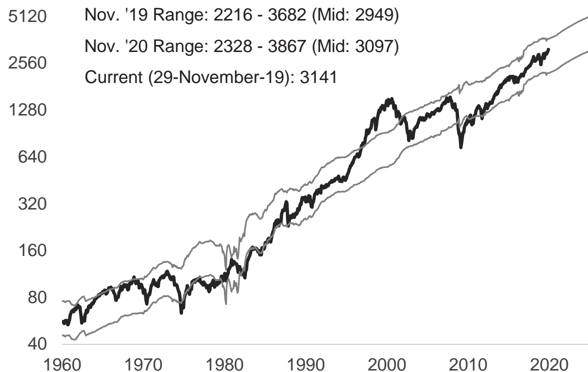


Note: As of November 29, 2019.

> *“Government-bond yields in most regions are far below levels at the start of the year and they remain beneath their equilibrium levels, particularly outside North America.*

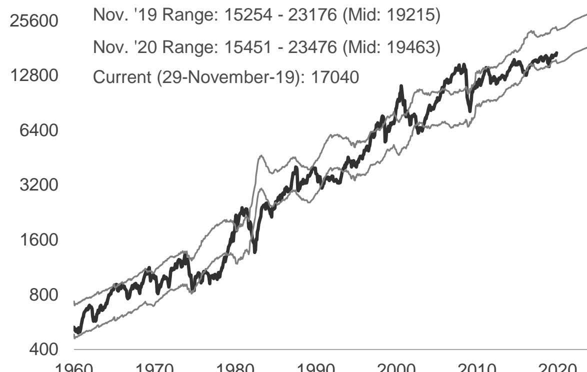
Global Equity Markets

S&P 500 Equilibrium
Normalized earnings and valuations



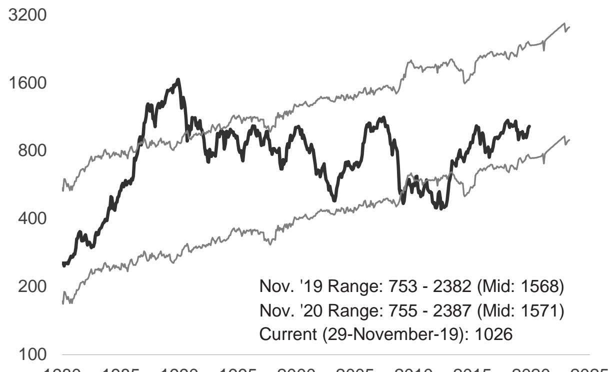
Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



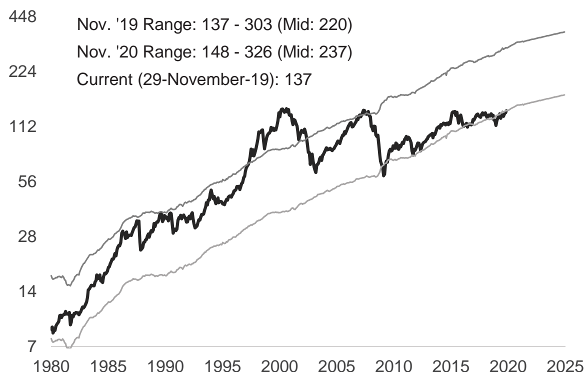
Source: RBC GAM

MSCI Japan Index
Normalized earnings and valuations



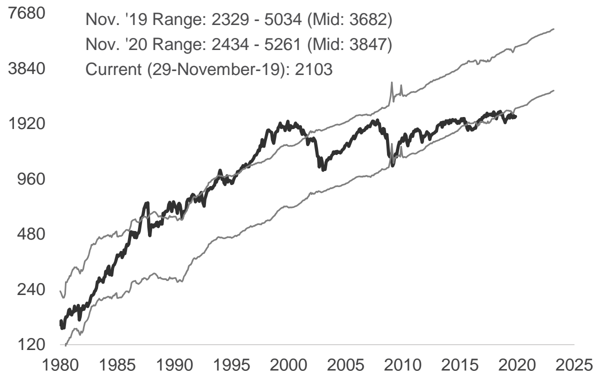
Source: Consensus Economics, RBC GAM

MSCI Europe Index
Normalized earnings and valuations



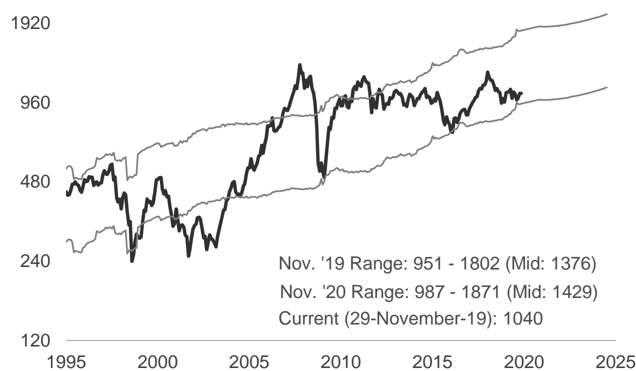
Source: Consensus Economics, RBC GAM

MSCI U.K. Index
Normalized earnings and valuations



Source: Consensus Economics, RBC GAM

MSCI Emerging Markets Index
Normalized earnings and valuations



Source: RBC GAM

Global Fixed Income Markets

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Market outlook

Global long-term bond yields have been moving in tandem in recent years, prompting Canadian investors to question whether fixed-income portfolio diversification can continue to support returns to the same degree that it has in recent decades. Exhibit 1 shows that bond yields hedged to Canadian dollars diverged significantly for most of the past 30 years. Since 2016, however, yields have converged as central-bank policy rates stayed low, prompting income-starved investors to drive down global yields across the board. Our view is that the low-yield environment in which we find ourselves actually strengthens the case for holding a diversified portfolio of global bonds as dwindling bond-market liquidity, shifts in monetary policy, indebted governments, trade tensions and spreading social discord create global uncertainty. We expect this backdrop to result in periods of volatility that will demonstrate the benefits of a diversified bond portfolio.

Diversification is, in fact, becoming ever more important as market liquidity is thinned by central-bank bond purchases to support economic growth and drive up inflation, and commercial banks build inventories to meet regulatory requirements. These

Exhibit 1: Global long-term bond yields have been moving in tandem in recent years

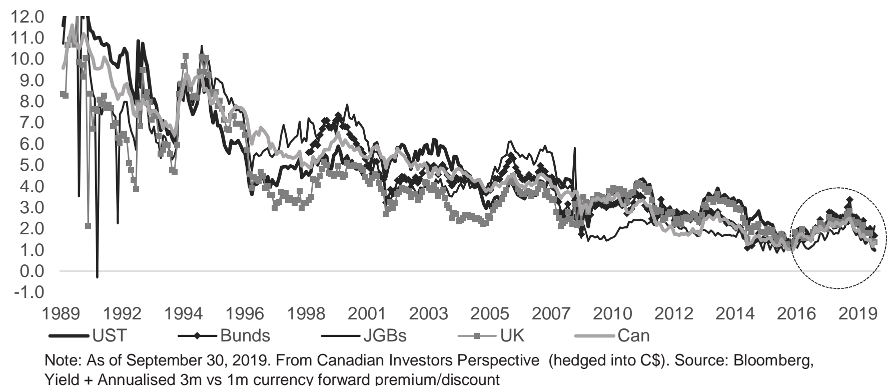
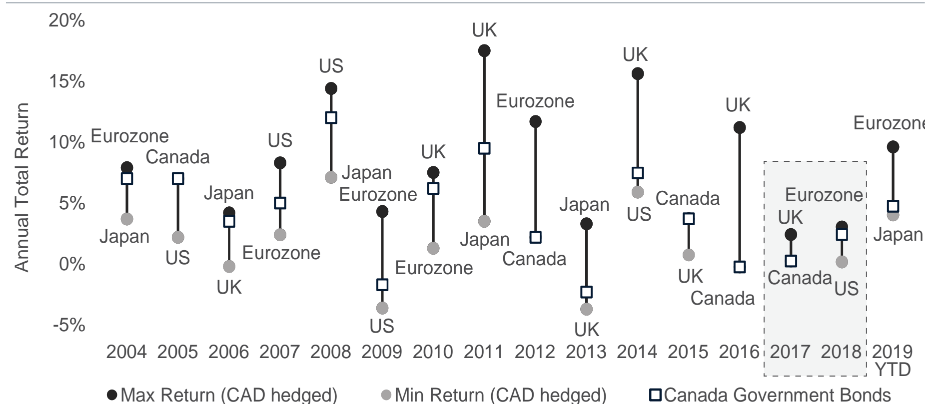


Exhibit 2: Wide total-return dispersion among countries presented diversification opportunity. 2017-2018 were the exceptions



Range between best and worst	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
	420	**480**	**440**	**590**	**730**	**790**	**620**	**1,400**	**950**	**700**	**971**	**296**	**1,142**	**217**	**286**	**558**

Average 2004-1016: 733bps

Source: FTSE WGBI, 2019 YTD as of Nov. 15, 2019

developments increase the potential for heightened volatility in the event of an economic or geopolitical shock. Central banks and financial institutions now collectively own nearly 60% of the government bonds issued by G7 countries, and neither is likely to trade these bonds anytime soon: their holdings are essentially locked away in a vault. While we do not foresee significant increases in bond yields over time, we are concerned that the diminished liquidity will cause more frequent sharp fluctuations in yields. For example, in just one month - August 2019 - the yield on the 10-year Treasury bond dropped 50 basis points. In the following two

weeks, there was a 75% reversal. Such volatility has occurred just nine times since 2009.

Another factor arguing for continued diversification through global bonds is the possibility of a rapid adoption of fiscal stimulus. Social tensions caused in part by unequal economic growth between and within countries could result in governments ramping up fiscal spending and/or central banks doubling down on extremely loose monetary policies – and possibly leading to faster inflation. Examples of governments' increased focus on growth include Australia's recently passed personal tax rebates of as much as A$1,080 (about $980) and Japan's plan to offer a kind of government voucher to spur consumption at small and midsize merchants. The concern is that more governments will effectively turn to putting cash in the hands of consumers at a time when unemployment and nominal interest rates in the U.S., Japan, Germany and the U.K. are at multi-decade lows.

As has been exhaustively discussed, investors are not currently being compensated adequately for the various risks of holding bonds. However, combining ultralow interest rates with a revving-up in fiscal spending would tend to push up long-term bond yields. The degree of adjustment would vary among individual bond markets, and this variance supports portfolio diversification. The Bank of Japan (BOJ) and European Central Bank (ECB) both continue to be engaged in quantitative easing. The U.S. Federal Reserve (Fed) started buying US$60 billion of Treasury bills per month in September in an effort to prevent a recurrence of the spike in overnight borrowing costs – purchases that the Fed said it expects to run through March 2020. The Fed's action may be perceived as facilitating rising government budget deficits given that Treasury-bill issuance has been on the rise. In our view, the risk premiums of U.S. Treasuries have a high chance of rising, but those embedded in European bonds have an even bigger chance of a large adjustment due to their extremely depressed levels.

At this point, we should note that a convergence in bond yields is not necessarily accompanied by a convergence in total returns. The gap between returns in the best- and worst-performing developed-world bond markets averaged 733 basis points between 2004 and 2016 (Exhibit 2). While that gap dropped to 217 basis points in 2017 and 286 basis points in 2018, this year the difference has again blown out. Between January 1 and November 15 of this year, Canadian-dollar investors have currency-hedged total returns of 9.6% on European bonds and 4.0% on Japanese bonds. Why are total returns not more correlated with yields? The main reason is that yield income is only one component of total return, and investing globally on a currency-hedged basis introduces many variables that can affect total returns. Total returns for a Canadian investor, for example, will depend on Bank of Canada (BOC) policy against multiple foreign central banks, the movement of yields across maturities of the 22 developed markets, as well as yield-curve flattening and widening among those many markets.

In review, we believe that the case for bond-portfolio diversification is as strong as ever given today's historically low yields and the uncertain macroeconomic backdrop. In our view, active management through diversification will help investors navigate the occasional surges in bond-market volatility.

Direction of rates

We expect a combination of monetary and fiscal stimulus to boost economic growth and eventually lead to a modest rise in long-term interest rates that would steepen the yield curve. However, risks associated with richly valued higher-yielding fixed-income markets should keep government bonds well supported. Another supporting factor for government bonds is quantitative easing. As long as bond-purchase programs remain in place, the pressure of monetary-policy tightening is pushed further out and suggests limited room for long-maturity government-bond yields to rise over our forecast horizon. We are, as always, on the lookout for short-term volatility and trading opportunities.

U.S. – We expect the Fed to remain on hold for the next 12 months, following the latest policy-rate cut on October 30 to the range of between 1.50% and 1.75%. Our base case forecast for the 10-year Treasury yield is 1.75%. Monetary easing and fiscal stimulus will tend to push up yields if they succeed in driving economic growth higher, while the trade conflict between China and the U.S. will have a

dampening influence on yields. As an aside, yields tend to fall in the period leading up to a presidential election. Our 10-year bond-yield forecast of 1.75% is close to the current market level and unchanged from the previous quarter. Our forecast for the fed funds rate is between 1.50% and 1.75%, similar to our forecast in the previous quarter.

Germany – Mario Draghi departed the ECB at the end of October with open-ended quantitative easing intact and a recent cut in the central bank's benchmark interest rate. With the potency of quantitative easing being questioned, however, the focus has shifted toward fiscal easing. In our opinion, fiscal easing is already taking place in Europe and will get a boost from the fact that governments will be able to redeploy savings from the ultralow interest rates that they are paying into fiscal spending. The question is whether fiscal easing will catch on in a more significant way in the Eurozone. We suspect that it will, especially since huge publicly funded green investments will be needed for the EU to meet its 2030 climate targets. Germany, which has been resisting fiscal spending, may have to acquiesce as the economic slowdown – related partly to tariff tensions and partly to lower demand for automobiles – takes root. We expect no change to the ECB's overnight deposit rate, currently at -0.50%, over our forecast horizon. Our 12-month forecast for the 10-year bund yield is -0.30%, up from a previous forecast of -0.40%.

Japan – Prime Minister Abe has ordered Japan's first fiscal stimulus package since 2016 as his government

Interest rate forecast: 12-month horizon
Total Return calculation: November 20, 2019 – November 19, 2020

U.S.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.50%	1.60%	1.60%	1.75%	2.25%	1.92%
Change to prev. quarter	0.00%	0.15%	0.15%	0.00%	0.00%	
High	1.75%	2.25%	2.40%	2.50%	2.90%	(2.34%)
Low	0.50%	0.50%	0.70%	1.00%	1.60%	7.28%
Expected Total Return US$ hedged: 2.03%						

Germany

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.50%)	(0.40%)	(0.40%)	(0.30%)	0.15%	(0.15%)
Change to prev. quarter	0.10%	0.20%	0.10%	0.10%	0.20%	
High	(0.50%)	(0.25%)	(0.20%)	(0.10%)	0.20%	(1.24%)
Low	(0.60%)	(0.60%)	(0.70%)	(0.70%)	(0.20%)	4.41%
Expected Total Return US$ hedged: 1.87%						

Japan

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.20%)	(0.20%)	(0.20%)	(0.20%)	0.40%	0.86%
Change to prev. quarter	(0.10%)	(0.10%)	0.00%	0.00%	0.10%	
High	(0.10%)	(0.05%)	(0.05%)	0.10%	0.60%	(2.46%)
Low	(0.20%)	(0.20%)	(0.30%)	(0.20%)	0.35%	1.63%
Expected Total Return US$ hedged: 2.55%						

Canada

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.50%	1.50%	1.50%	1.60%	1.70%	0.79%
Change to prev. quarter	0.00%	0.00%	0.00%	0.10%	0.00%	
High	1.75%	2.00%	2.00%	2.00%	2.00%	(2.55%)
Low	1.00%	0.80%	0.80%	0.75%	1.00%	8.62%
Expected Total Return US$ hedged: 1.43%						

U.K.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.75%	0.75%	0.75%	0.60%	1.20%	1.45%
Change to prev. quarter	0.25%	0.25%	0.25%	0.10%	0.00%	
High	0.75%	0.80%	0.80%	1.00%	1.40%	(2.04%)
Low	0.00%	0.10%	0.10%	0.25%	1.25%	1.76%
Expected Total Return US$ hedged: 2.12%						

Source: RBC GAM

frets about the global economic slowdown, the impact of a higher domestic consumption tax and a drop-off in demand now that work on next year's Tokyo Olympics is coming to an end. Abe's 15-month fiscal-expansion plan would boost the economy into 2021 and may add marginally to inflation. We consider it unlikely that the BOJ will change its short-term policy rate over the next 12 months. A continuation of current policy indicates that yields on 10-year JGBs will remain in a range between -0.20% and 0.20%.

U.K. – We don't expect to have much clarity on where U.K. yields are headed until we see the results of the December 12 general election, which is being viewed as a referendum on the future of Brexit. Our base case forecast stays at 0.75%, in line with the Bank of England's policy rate. Our 10-year gilt-yield forecast has been raised to 0.60%, closer to the market rate, from 0.50%.

Canada – The BOC's policy rate has been at 1.75% for just over a year. Against a backdrop of ongoing trade uncertainty, the BOC left the door open for future cuts should the economy falter. The BOC plans to monitor consumer spending, housing and the pace of fiscal spending for signs of economic vitality. Weak global growth and high domestic debt levels will increasingly weigh on the Canadian economy.

Bond issuance by Canadian governments and corporations continues to attract international buyers, spurred by relatively accommodative monetary policies in Europe and parts of Asia. Demand for Canadian bonds has remained strong. Foreign issuance by provinces so far in 2019 is nearly $23 billion, the second most on record. We expect the provinces to continue to be able to tap funding sources outside the country as Canada's stable financial and political systems and the bonds' relatively high yields make them attractive to global portfolio managers seeking to manage geopolitical risks.

The BOC left its benchmark interest rate unchanged on December 4 and signaled that the currently policy setting was appropriate. Financial-market indicators project a 25-basis-point rate cut sometime in the fourth quarter of 2020. Our policy-rate forecast for the next 12 months is unchanged from last quarter at 1.50%, with one rate cut expected. We look for 10-year bond yields to remain stable, rising slightly over our time horizon to 1.60%.

Regional preferences

We took profits on our previous recommendation of overweighting Treasuries by 5%, against an equal underweight in German bunds. We currently have low conviction on the direction of regional bond markets, and therefore are recommending a neutral stance across regions.

Currency Markets

The U.S. dollar's decade of strength coming to an end

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Daniel Mitchell, CFA
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RBC Global Asset Management Inc.

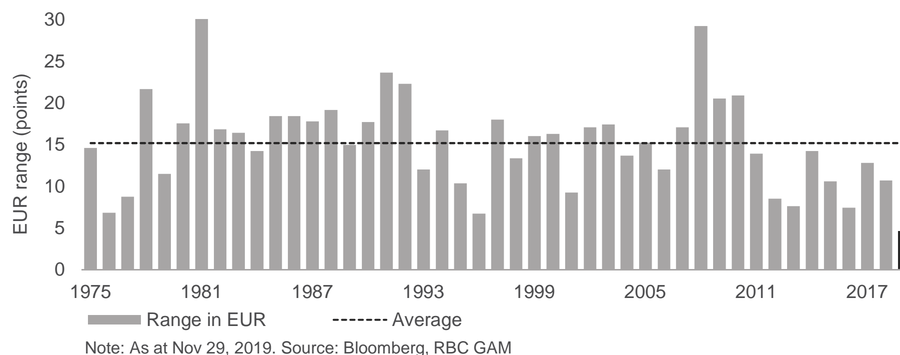
We have witnessed a significant about-turn in U.S. monetary policy over the past year, and yet currency markets in 2019 have been about as exciting as a fireplace channel. The euro's range for the year has been the narrowest in 40 years (Exhibit 1) and the Canadian dollar has been similarly moribund. Even the British pound, which has had ample reason to fluctuate, has "kept calm and carried on."

We do not expect this lack of volatility to persist and forecast that the U.S.-dollar topping process will resolve into a bear market during our 12-month horizon. This changing backdrop will have varying implications for different groups of currencies: we think emerging-market ones have the most to gain while the outlook for developed-market currencies depends largely on individual country factors.

The debate over the next phase of the U.S.-dollar cycle has been simmering for several years. Bearish sentiment toward the U.S. dollar emerged in 2017 as the greenback declined 10% on a trade-weighted basis in response to improvement in European economic data. We were not persuaded at the time that the dollar's long-term descent was about to begin and had correctly forecast a continued choppy environment. Indeed, the 2017 episode proved to be a false start to the widely anticipated bear market, and the greenback has since been slowly grinding higher (Exhibit 2), even though a number of longer-term negative developments have materialized. These negatives include moderate overvaluation, the U.S. administration's jawboning efforts, and worsening U.S. fiscal and current-account deficits (Exhibit 3). Another negative is the renewed interest among global reserve managers in diversifying their holdings away from the U.S. dollar. Russian authorities have led the charge in this effort by substantially reducing their dependence on the greenback as a store of value. Other reserve managers, who all told hold US$12 trillion, have followed suit, converting approximately US$400 billion into Japanese yen and Chinese renminbi since the beginning of 2017.

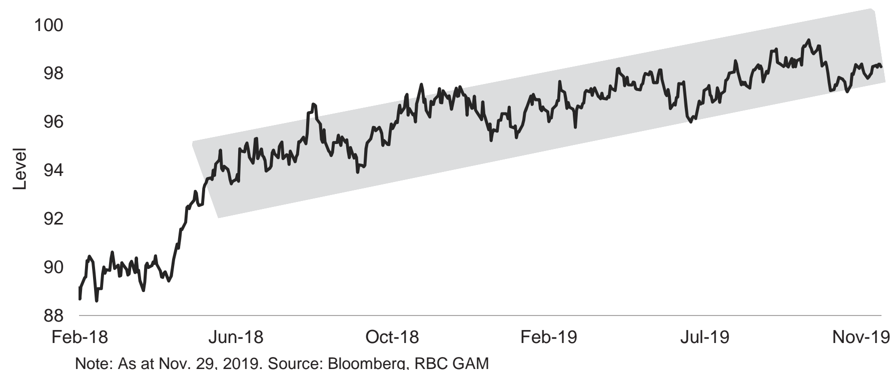
While these factors are not new, the market looked beyond them in the past year, focusing instead on what the U.S. dollar had to offer: stronger growth and higher interest rates.

Exhibit 1: Smallest euro range



Note: As at Nov 29, 2019. Source: Bloomberg, RBC GAM

Exhibit 2: DXY dollar index



Note: As at Nov. 29, 2019. Source: Bloomberg, RBC GAM

More recently, however, industrial production and business-sentiment indicators started pointing toward softer U.S. economic activity, and the U.S. Federal Reserve (Fed) has reduced the dollar's yield advantage by cutting interest rates three times. These developments, when combined with what lies ahead, are enough to tip our outlook onto a more bearish path.

The next section addresses these negative near-term expectations.

1. Election uncertainty

Uncertainty over the outcome of the 2020 U.S. elections could dent the appeal of holding U.S. dollars next year. Predicting the outcome of the election has its challenges, with the possibility that results are swayed by ongoing impeachment proceedings and the questionable health of several candidates. Former New York Mayor Michael Bloomberg's decision to run as a Democrat could dilute Joe Biden's support and perversely boost the odds of an Elizabeth Warren presidency. This would most certainly be a negative outcome for the greenback since Warren's policies are widely viewed as investor-unfriendly. Her protectionist plans are similar to those of President Trump. Her government would actively manage the value of the greenback and would also implement a financial transaction tax - both of which are negative for the U.S. dollar.

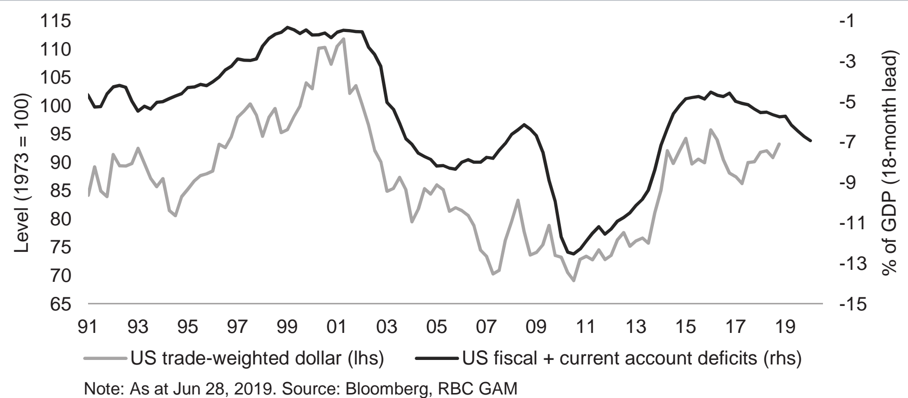
2. Quantitative easing

In mid-September, the Fed began injecting liquidity into financial markets by buying US$60 billion of T-bills every month. Such quantitative easing is often associated with currency weakness because it expands the money supply and threatens to debase the purchasing power of the currency. The historical relationship between excess reserves in the banking system and the U.S. dollar is shown in Exhibit 4, and points to a decline in the greenback assuming the current pace of Fed purchases remains unchanged. Perhaps more intuitive is the fact that the Fed's provision of liquidity to financial markets will reduce borrowing stress in short-term markets, thereby lowering the currency's yield advantage and eroding demand for the greenback.

3. U.S./China currency accord

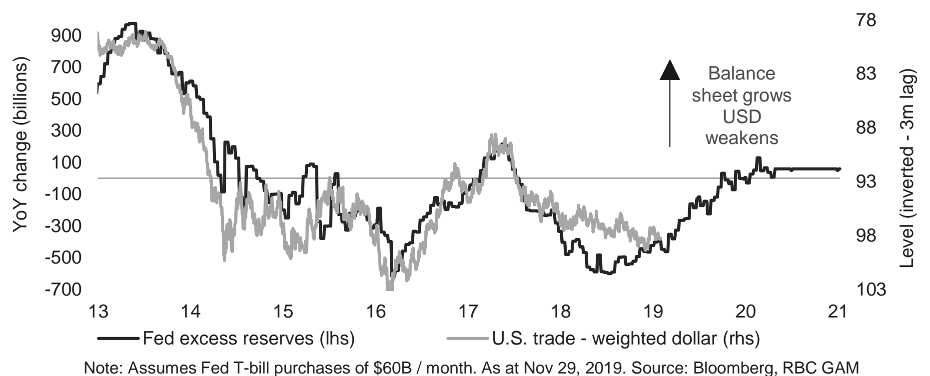
It is not uncommon for currency issues to feature in trade negotiations. The White House has pushed for currency-specific clauses to be included in several trade deals this year, including the U.S.-Mexico-Canada deal (USMCA), and is seeking a similar concession from China in current talks. We think

Exhibit 3: U.S. trade-weighted dollar and the twin deficits



Note: As at Jun 28, 2019. Source: Bloomberg, RBC GAM

Exhibit 4: Fed balance sheet and the USD



Note: Assumes Fed T-bill purchases of $60B / month. As at Nov 29, 2019. Source: Bloomberg, RBC GAM

it is likely that China would accede on this point if Trump agreed to roll back existing tariffs. A currency accord between the two countries would lessen the chances that China seeks a competitive advantage by devaluing.

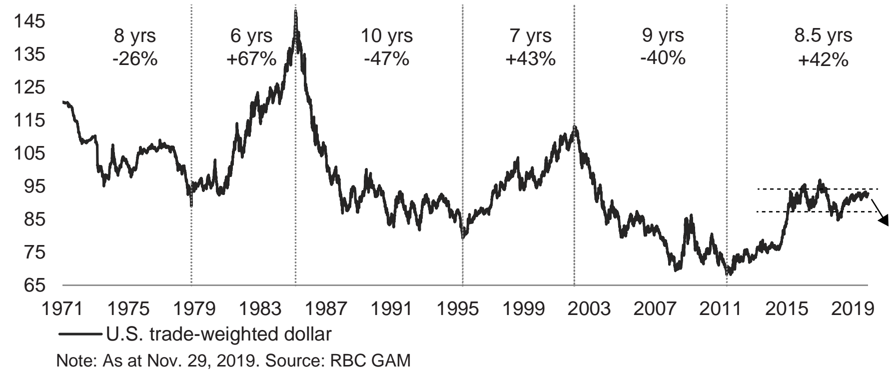
4. Improved global growth

Faster economic growth outside the U.S. would reduce the extent to which the U.S. stands apart. We believe that the U.S. growth advantage will begin to wane in 2020 owing to a renewed emphasis on policy support for economies in the rest of the world. By our count, more than 50 central banks have eased policy this year, including those in the U.S., China and the Eurozone – three of the largest economies in the world. Since monetary-policy decisions affect economic activity with a lag, and since the lags vary by country, it can be difficult to assess how much of a boost will be felt from this easing.

We note, however, that recent efforts to loosen financial conditions should not be underestimated because of the magnitude and breadth of the policy response. It may take time, but it does feel to us as though there is too much pessimism, particularly with regard to the economic prospects in Europe.

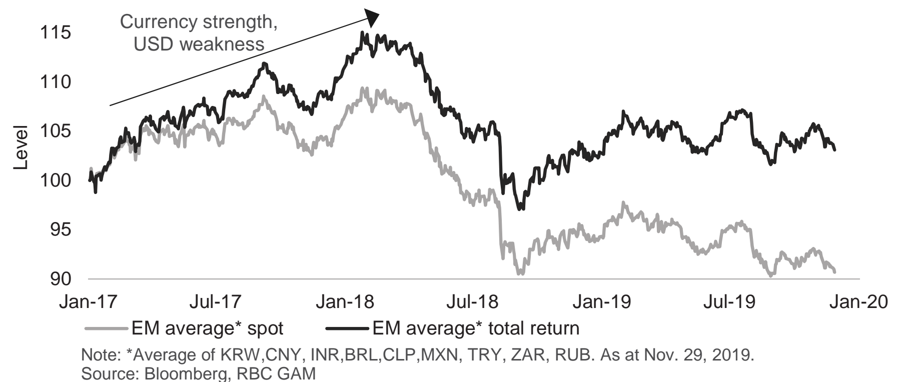
Fiscal easing could also support global growth given the widely held notion that there is little room for further monetary easing in most countries. Germany is one of the few countries with ample capacity to ramp up fiscal deficits, and there are hints that Japan, Canada and Australia could loosen their belts. Climate- change-driven investments in infrastructure could be one way to overcome objections to increased government spending.

Exhibit 5: Trade-weighted USD Index



Note: As at Nov. 29, 2019. Source: RBC GAM

Exhibit 6: Emerging-market returns



Note: *Average of KRW,CNY, INR,BRL,CLP,MXN, TRY, ZAR, RUB. As at Nov. 29, 2019.
Source: Bloomberg, RBC GAM

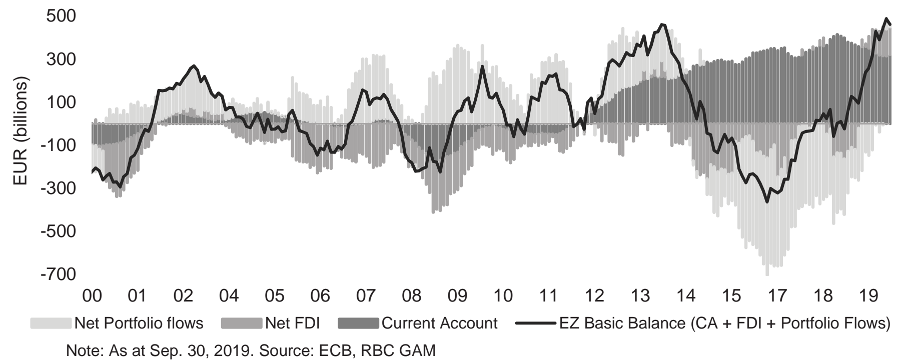
Taking these new U.S.-dollar factors into consideration, we've shifted our outlook from expectations of a range-bound dollar to one in which the greenback can decline on a more sustainable basis (Exhibit 5). It is unlikely, however, that all currencies will benefit evenly. Developed-market currencies, for instance, can be divided into those with stronger qualities, such as stable current-account surpluses and more attractive valuations, and those with poorer fundamentals. Emerging-market currencies have been hit hardest and have the most to gain in the event that the U.S. and China strike a trade deal, fiscal spending is stoked and/or the U.S dollar weakens. Finally, emerging-market currencies enjoy much higher yields than their developed-market counterparts, which has been an important contributor to total returns in recent years (Exhibit 6).

Euro

Our outlook for the euro has become more positive, leading to our 12-month forecast of US$1.20. Underpinning that relatively optimistic view (the median forecast is US$1.14, according to Bloomberg) is an improvement in the Eurozone's balance of payments (Exhibit 7). While the single currency has enjoyed the support of a current-account surplus for several years, the most striking change is that net capital outflows – which were previously offsetting the positive impact of trade surpluses – have reversed. Not only have European investors stopped allocating investments abroad, but foreign investors seem to be showing more interest in European assets. Net foreign direct investment (FDI) has also turned positive, hinting that businesses could be making up for a long period of underinvestment in the region. Together, net inflows from the current account, portfolio investments and FDI have amounted to an impressive 500 billion euros over the past year.

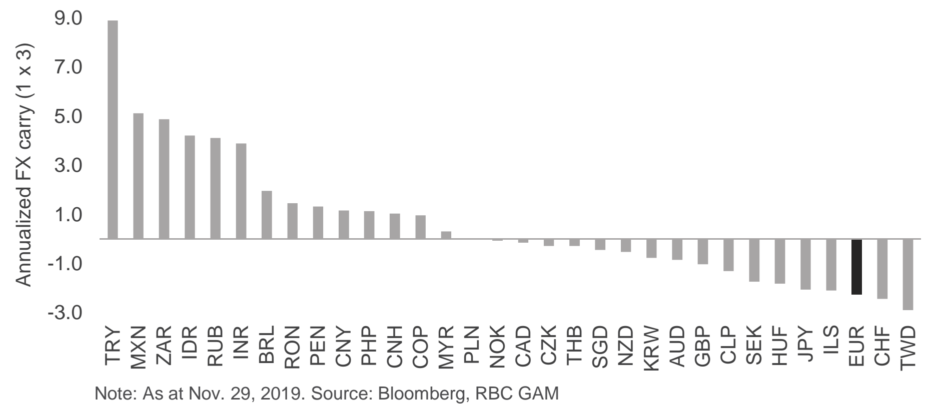
While these positive factors have us more constructive on the euro outlook, we are cautious not to get carried away. Uncertainty about global trade and Brexit have weighed on economic sentiment, and neither issue has been fully resolved. Another headwind is negative yields in the region, which act as a deterrent for investing in the euro. Investors who choose to hold euros instead of the U.S. dollar are sacrificing 2% in the hope that the currency appreciates. In the current low-volatility environment, many investors are opting instead to short the euro in order to fund higher-yielding currencies (Exhibit 8).

Exhibit 7: Eurozone's basic balance of payments



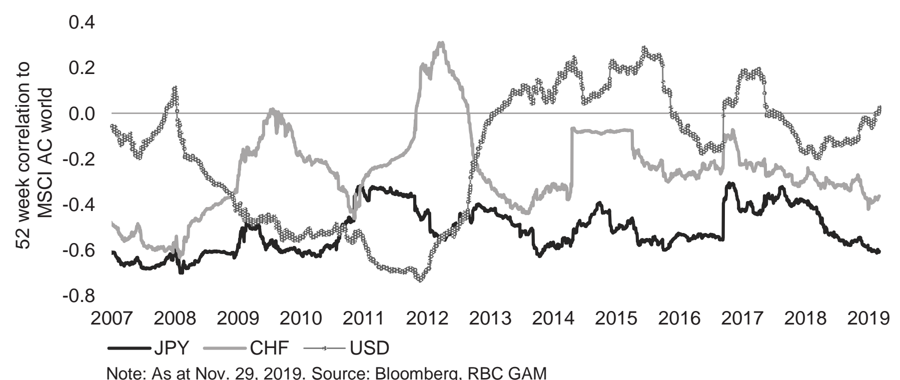
Note: As at Sep. 30, 2019. Source: ECB, RBC GAM

Exhibit 8: Carry implied by FX forwards



Note: As at Nov. 29, 2019. Source: Bloomberg, RBC GAM

Exhibit 9: Currency correlation to equity indexes



Note: As at Nov. 29, 2019. Source: Bloomberg, RBC GAM

Japanese yen

We continue to like the Japanese yen, and forecast that it will appreciate to 98 per U.S. dollar within the next 12 months from 109 currently. As one of the major U.S.-dollar alternatives, the yen would especially benefit in the event that the greenback weakens, while still enjoying support from its undervaluation and Japan's current-account surplus.

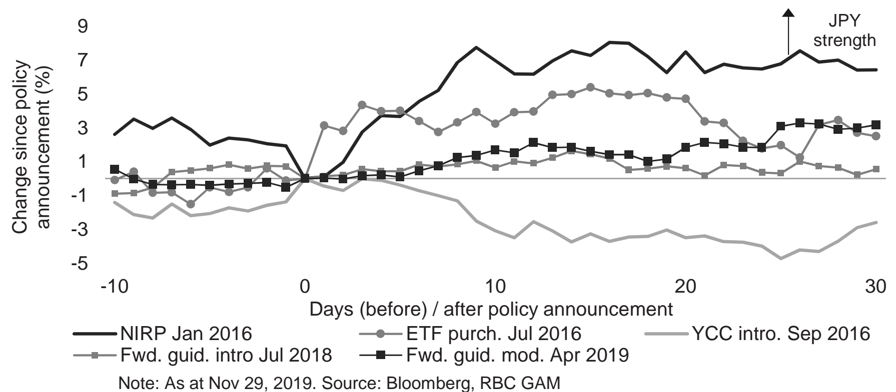
While the Swiss franc and U.S. dollar are sometimes grouped in the safe-haven category, the Japanese yen is the only currency in the developed world that reliably rises when stocks fall and therefore offers portfolio insurance in times of market stress (Exhibit 9).

Speculation that any additional monetary easing by the Bank of Japan (BOJ) would weaken the currency are not consistent with the past movements in the yen (Exhibit 10). An increasing emphasis on Modern Monetary Theory – central-bank-financed fiscal spending – would cause us to re-evaluate our stance, given that the BOJ has been a leader in testing new monetary-policy approaches.

British pound

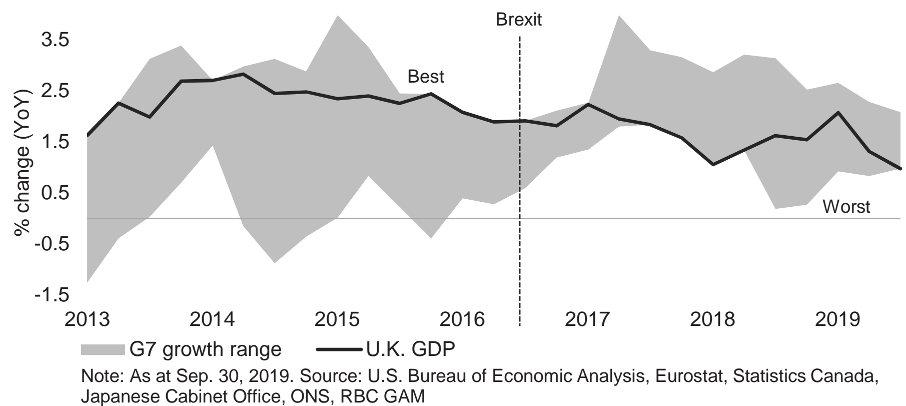
In the more than three years since the Brexit referendum, economic growth in the U.K. has gone from being among the best in the G7 to among the worst (Exhibit 11). We remain skeptical that the U.K. economy can manage a rebound even after a Brexit deal is struck because the country has yet to establish a future trade relationship with Europe. This is a process that is scheduled to be hashed out by politicians and trade lawyers before

Exhibit 10: Impact of policy easing on JPY



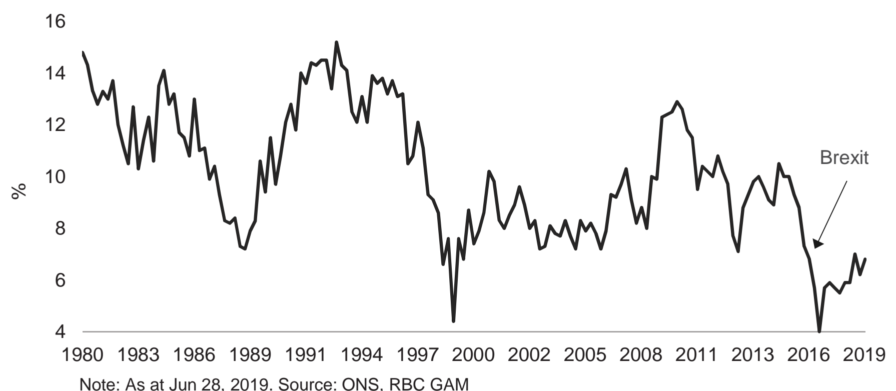
Note: As at Nov 29, 2019. Source: Bloomberg, RBC GAM

Exhibit 11: U.K. vs. G7 growth



Note: As at Sep. 30, 2019. Source: U.S. Bureau of Economic Analysis, Eurostat, Statistics Canada, Japanese Cabinet Office, ONS, RBC GAM

Exhibit 12: U.K. savings rate



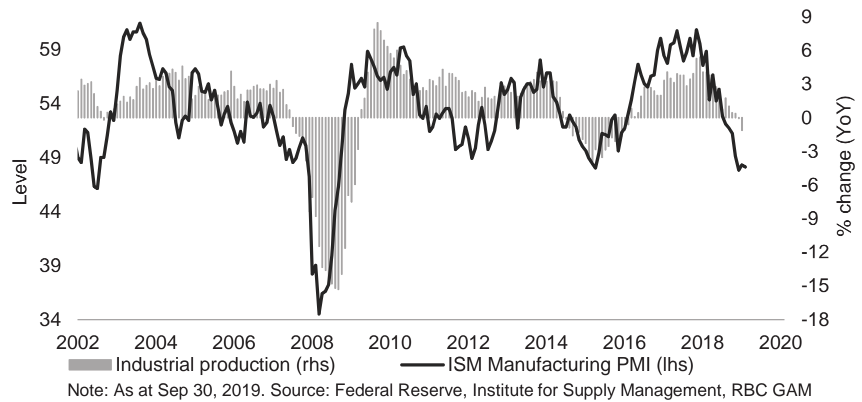
Note: As at Jun 28, 2019. Source: ONS, RBC GAM

the end of 2020, an almost impossibly tall order given that it took negotiators for Canada and the Eurozone almost eight years to hammer out their 1,634-page agreement and a further two years for it to be enacted by European parliaments. Those who think a Conservative majority government will end the Brexit drama are mistaken. Trade uncertainty will continue to hold back investment in the years ahead. Consumers, having already reduced their savings rates since the 2016 referendum (Exhibit 12), are not well-placed to pick up the slack. Our 12-month forecast of 1.28 suggests that the pound will remain weak, even as the U.S. dollar declines versus other major currencies.

Canadian dollar

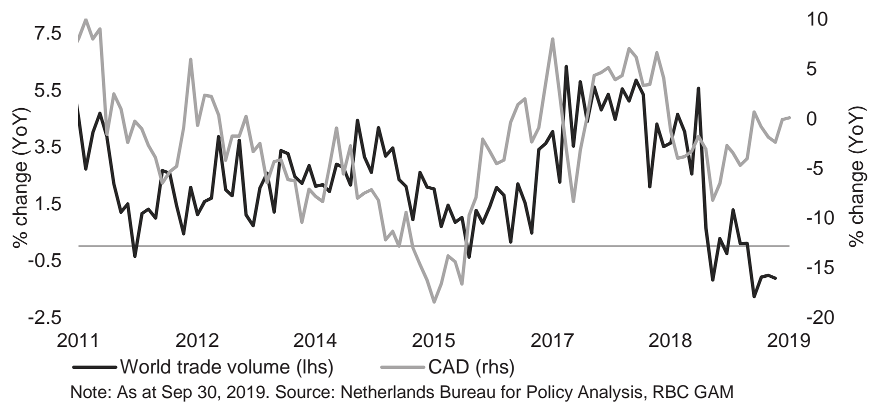
Canada's central bank stands apart from its peers, and not simply because it was named central bank of the year in 2018. These days, inflation is low globally and most other central banks have been forced to capitulate toward offering more monetary stimulus. The Bank of Canada (BOC), however, has been in the enviable position of watching the economy reach its 2% inflation target, allowing the central bank to stand firm on its policy setting. The Canadian dollar has benefited from this relatively less dovish stance. Canada's currency still enjoys the support of yields that are higher than many other developed-market nations, including the U.S. However, Canada's cyclical economic strength, which led to such stable yields, may be short-lived given the country's dependence on the slowing U.S. economy (Exhibit 13). In a recent monetary-policy meeting, the BOC lowered its growth forecasts, warned

Exhibit 13: U.S. industrial production and ISM manufacturing



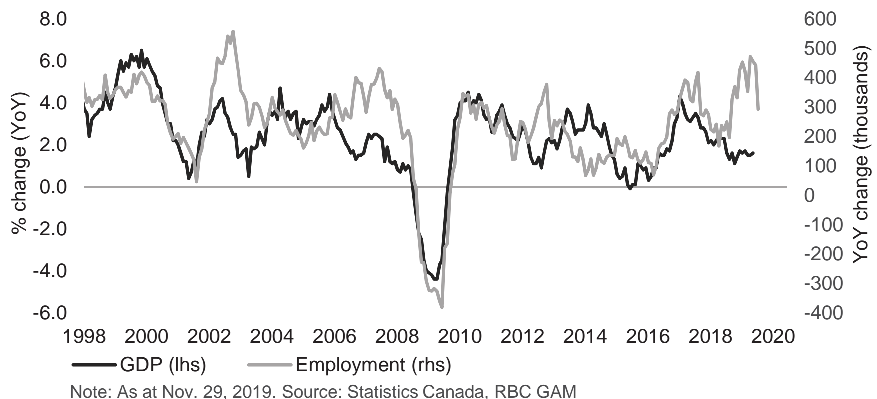
Note: As at Sep 30, 2019. Source: Federal Reserve, Institute for Supply Management, RBC GAM

Exhibit 14: CAD and global trade



Note: As at Sep 30, 2019. Source: Netherlands Bureau for Policy Analysis, RBC GAM

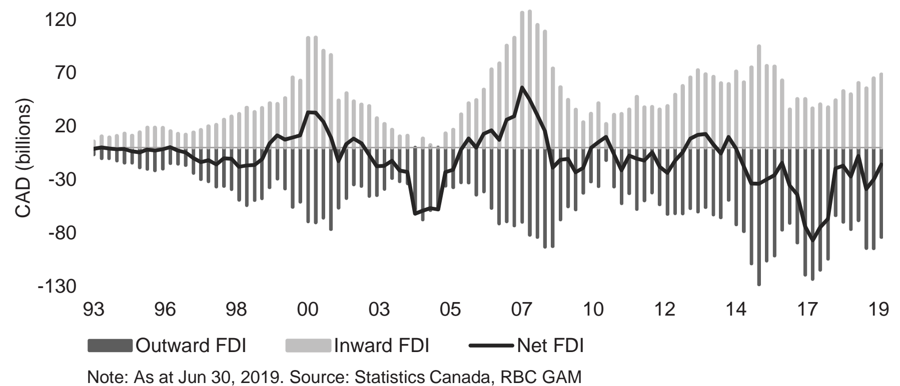
Exhibit 15: Canadian GDP vs. employment



Note: As at Nov. 29, 2019. Source: Statistics Canada, RBC GAM

of downside economic risks and, in an unusual move, noted the stronger currency. BOC Governor Stephen Poloz understands well how a fluctuating currency provides a critical offset during economic hard times, and the central bank has analyzed scenarios that include a 15% drop in the loonie in the event of a pronounced global slowdown. Exhibit 14 reveals one reason why the bank may be increasingly uncomfortable with the currency's recent strength: the fall in global trade volumes bodes poorly for small open economies like Canada.

Exhibit 16: Canadian foreign direct investment



Note: As at Jun 30, 2019. Source: Statistics Canada, RBC GAM

Another concern is Canada's sluggish economic growth amid healthy immigration and impressive job gains. Even after the massive drop in job creation in November, the gap between the pace of hiring and GDP growth suggests a worrying productivity problem (Exhibit 15).

In the near term, economic growth may be supported by increased fiscal spending as the new minority government seeks to secure support for its agenda. There is also hope that final ratification of the USMCA trade deal will bolster corporate investment by reducing uncertainty.

We are not expecting large support for the economy from business investment, however. Canada has become a less attractive place to do business, with its higher taxes, stricter regulations and greater uncertainty over environmental policies. According to a survey conducted by the Fraser Institute, not one Canadian province was among the 10 most attractive jurisdictions (including all provinces and U.S. states) for oil and gas investment. This sentiment was reflected in Encana's recent decision to relocate its headquarters to the U.S., and also by FDI data that shows Canadian businesses prefer to invest abroad (Exhibit 16). Given these competitiveness challenges, it's no surprise that Canadian exports continue to languish and capital outflows to worsen. A minority government does little to provide clarity on Canadian taxation and regulatory policies, and October's election debates featured surprisingly little discussion about helping small businesses succeed. This is hard to believe, given that small business is responsible for 70% of private-sector employment and generates 41.5% of Canadian GDP.

This year, the currency has kept to an exceptionally narrow 1.30-1.36 range, one that we think will be broken by Canadian-dollar weakness in early 2020. Our forecast of 1.37 per U.S. dollar aims to account for some of the economically supportive immigration and labour-market trends while also recognizing the country's longer-term challenges. Ultimately, we think the longer-term negatives will cause the loonie to marginally underperform next year, even in an environment where the U.S. dollar declines overall.

Conclusion

After touching multi-decade lows in 2011, the U.S. dollar has appreciated for nearly nine years, buoyed by relatively strong U.S. growth and higher interest rates. These tailwinds are beginning to dissipate, however, as the Fed has undertaken a series of rate cuts and resumed quantitative easing. The upcoming U.S. election introduces additional downside risk for the greenback, adding to the mounting headwinds of overvaluation as well as fiscal and trade deficits. An acceleration in global growth would further erode the relative attractiveness of the U.S. dollar and tip it into a period of sustained weakness. In this environment, we believe emerging-market currencies with strong economic fundamentals stand to benefit the most. In developed markets, our expectation is for the euro and yen to outperform the loonie and the pound.

Regional Outlook – U.S.

Brad Willock, CFA
V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

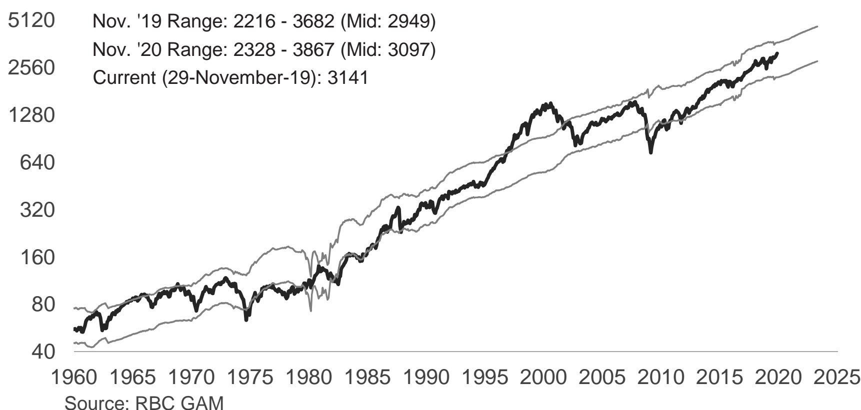
The S&P 500 Index returned 7.9% during the three months ended November 30, 2019, rising to an all-time high with gains in each month. The big stories during the period were two interest-rate cuts by the U.S. Federal Reserve (Fed), which led to a steepening of the yield curve, and a de-escalation of the trade war between the U.S. and China. The Fed's action loosened financial conditions, reducing the risk of recession next year and possibly lengthening the expansion. Investors responded by buying shares in cyclical sectors such as Financials, Information Technology and Industrials, which outperformed during the period. The Health Care sector also performed well as the waning popularity of Democratic presidential candidate Elizabeth Warren reduced the likelihood that universal health care would emerge as a policy alternative. Increased optimism about the growth outlook led to a rise in long-term interest rates and the underperformance of rate-sensitive sectors such as Utilities and Real Estate, as well as the defensive Consumer Staples sector.

United States – Recommended sector weights

	RBC GAM Investment Strategy Committee November 2019	Benchmark S&P 500 November 2019	Active Risk vs. Benchmark November 2019
Energy	3.3%	4.2%	(0.9%)
Materials	2.0%	2.7%	(0.7%)
Industrials	9.8%	9.3%	0.5%
Consumer Discretionary	10.5%	9.8%	0.7%
Consumer Staples	6.0%	7.2%	(1.2%)
Health Care	14.0%	14.1%	(0.1%)
Financials	13.8%	13.1%	0.7%
Information Technology	24.0%	22.8%	1.2%
Communication Services	11.0%	10.5%	0.5%
Utilities	3.3%	3.3%	(0.0%)
Real Estate	2.5%	3.0%	(0.5%)

Source: RBC GAM

S&P 500 Equilibrium
Normalized earnings and valuations



Source: RBC GAM

U.S. economic growth in 2020 is forecast at about 2% and global growth at 3%, similar to average rates since 2010. In the U.S., where consumption drives more than two-thirds of economic activity, consumers remain in good shape to continue supporting the economy. For the time being, consumer confidence remains high and consumers seem willing to spend with personal consumption growing at roughly 3% in the latest quarter. The economy has created an average of about 200,000 jobs over the past three months, wages are rising at a more than 3% annual rate, the unemployment rate remains well below 4% and initial jobless claims are near a 50-year low. There are signs of weakness in manufacturing employment, particularly in Pennsylvania, Wisconsin, Michigan and Ohio. We are monitoring these states because they are the keys to winning

the presidential election next fall and rising joblessness would hurt President Trump's chances of staying in office.

It seems clear that the U.S.-China trade war and the related slowdown in global growth have had a negative impact on U.S. industrial production and manufacturing-job growth. CEO confidence and business investment have deteriorated since the trade war began. Investment spending fell almost 3% year over year in the most recent quarter. Many investors believe that business confidence and investment spending would improve if the trade war de-escalated. While we believe a trade détente will have a positive impact on confidence and therefore spending, we think the impact will be small. In our opinion, the trade dispute between the U.S. and China is likely to persist for many years given the complexity of the underlying issues.

Considering the range of possible outcomes for the stock market next year, we find it useful to start with a look at how earnings and valuations have changed over the recent past. Since the market's low point on Christmas Eve last year, the S&P 500 is up about 34% with increased earnings multiples responsible for almost all of the move. We attribute the substantial expansion in valuations to the reduction in risks around the business cycle and the trade war with China, as well as the Fed's decision to cut short-term interest rates in July, September and October. Given that the Fed is likely to stay on hold unless there is a significant deterioration in the outlook, we expect valuations to stabilize and for market returns to be driven primarily by earnings growth in 2020. With respect to earnings, the current consensus expectation for next year is for earnings growth of about 10%. However, history suggests most analysts start the year overly optimistic, and we therefore think that it is prudent to shave four to five points off next year's forecast to arrive at a more likely outcome.

In the previous issue of the *Global Investment Outlook*, we highlighted the many risks weighing on the outlook for stocks. Three of the major risks have decreased: the previous inversion of the U.S. yield curve, the odds of a costly Brexit and the worsening of the trade war. The build-up of government and corporate debt remains a risk, and we can add to this list the potential impeachment of President Trump and the pro-democracy movement in Hong Kong.

Assuming recession risks do not rise materially and the trade war does not re-escalate, investors should expect the U.S. market to generate total returns that are in the high mid-single digits in 2020.

Regional Outlook – Canada

Sarah Neilson, CFA
Portfolio Manager
RBC Global Asset Management Inc.

Irene Fernando, CFA
Portfolio Manager
RBC Global Asset Management Inc.

The S&P/TSX Composite Index gained 4.7% during the three months ended November 30, 2019, lagging most global markets. So far this year, the Canadian benchmark is up 25.7%, while the S&P 500 has gained 27.6% and the MSCI World Index has advanced 24.0%, all in U.S.-dollar terms. Equity markets continued to climb on optimism that interest-rate cuts by the U.S. Federal Reserve (Fed) will offset uncertain trade conditions and a related softening in economic data. The Fed cut interest rates in October for the third time this year, lowering the target fed funds rate to 1.75%. The consistent monetary-policy easing and the possibility of a resolution to the U.S.-China trade dispute has supported equity markets' recent positive momentum.

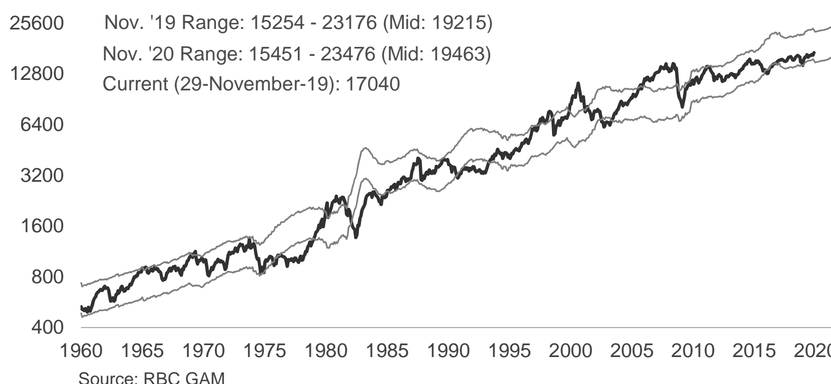
While acknowledging that Canada's economy has been resilient in 2019, the Bank of Canada (BOC) remains focused on the impact of global trade on domestic economic growth beyond this year. Canada's economy has been bolstered by a stabilization of housing prices, strong labour markets, and resilient consumer and capital spending. As a result, the BOC has held its benchmark interest rate steady at 1.75% for a year, during which time 50 other central banks have eased monetary policy.

Canada – Recommended sector weights

	RBC GAM Investment Strategy Committee November 2019	Benchmark S&P/TSX Composite November 2019	Active Risk vs. Benchmark November 2019
Energy	15.5%	16.2%	(0.7%)
Materials	10.5%	10.9%	(0.4%)
Industrials	11.5%	11.2%	0.3%
Consumer Discretionary	4.8%	4.3%	0.5%
Consumer Staples	4.5%	4.0%	0.5%
Health Care	0.8%	1.3%	(0.5%)
Financials	34.0%	33.0%	1.0%
Information Technology	5.0%	5.4%	(0.4%)
Communication Services	5.8%	5.6%	0.2%
Utilities	4.3%	4.7%	(0.4%)
Real Estate	3.5%	3.6%	(0.1%)

Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



The BOC signaled earlier this month that rates are set appropriately, citing the current trade picture, and levels of consumer spending and housing activity. Consensus forecasts for Canada's GDP growth remain modest at 1.5% for 2019, and the same for 2020, with the BOC projecting slightly higher growth. Canada's trade outlook should get some clarity soon with the possible passage of USMCA, the proposed successor pact to the North American Free Trade Agreement. The pact is expected to progress toward ratification early next year. The Canadian dollar has been range-bound for most of the year versus the U.S. dollar at US$0.75, and could soften next year given Canada's moderating economic growth and the potential for the BOC to ease rates.

S&P/TSX earnings are on track to rise close to 5% in 2019 and analysts expect 9% growth in 2020. We expect more of next year's earnings growth to come from the Financials, Materials and Industrials sectors, shifting away from reliance on the Energy sector to drive growth. Progress on trade talks and global economic stability could raise growth expectations. However, we believe that returns could be limited by the failure of trade talks, weaker corporate and consumer confidence, and deteriorating global economic data.

This year's more dovish tone to interest-rate policy and lower 10-year bond yields have supported multiple expansion in Canada's stock market. After reaching a multi-year low of 12.2 times forward earnings in late 2018, the S&P/TSX now trades at 14.6 times forward earnings, slightly below the long-term average of 14.7. The S&P/TSX is trading at a historically wide discount to the S&P 500, which is currently at 17.5 times forward earnings. The discounted valuation is due partly to the fact that the Financials, Energy and Materials sectors make up 60% of the S&P/TSX, versus 20% for the S&P 500.

Canada's Information Technology sector has outperformed so far this year, with a 60% gain largely reflecting contributions from Shopify and Constellation Software. The Utilities and Real Estate sectors continue to perform well due in part to their higher-than-benchmark dividend yields, though valuations are approaching the higher end of historical ranges.

The possibility that economic growth will slow has weighed on prices of industrial commodities this year, hurting energy and materials equities, offset in part by a safe-haven rally in gold prices. The Health Care sector was the only negative performer this year, as cannabis-levered equities fell due to an inability to deliver on elevated expectations.

The Financials sector has performed in line with the S&P/TSX so far this year. Life-insurance companies contributed positively to performance as valuations have recovered from historically low levels amid a recent re-steepening in the yield curve that bodes well for longer-term earnings growth.

In 2020, growth in domestic lending and expense controls could help offset the pressure on net interest margins that would result from BOC rate cuts. Banks continue to trade below historical multiples, in part reflecting concerns about weakening credit quality. However, an improving housing market and stronger mortgage lending should pull up bank valuations to their historical average of 11 times future earnings. Brookfield Asset Management outperformed significantly given rising demand for alternative assets in the low-yield environment.

Energy-sector stocks continued to underperform and currently trade at their lowest valuations in 20 years relative to the S&P/TSX and S&P 500. The sector is being weighed down by soft prices for oil and natural gas, and continued political challenges to pipeline construction. Canada's Energy sector now represents 16% of the S&P/TSX, and pipeline and infrastructure companies make up close to 10% of the index. Investors are concerned that companies will be hurt by slowing global demand, even as geopolitical risks in Saudi Arabia and elsewhere threaten to limit supply. A resolution of trade conflicts, improving economic data and continued supply constraints globally are somewhat supportive for crude-oil prices. Moreover, U.S. shale-oil producers now appear to favour returning capital to shareholders over aggressively raising production, and investors will be closely monitoring the supply growth coming from their basins.

The results of October's federal election were mixed from the perspective of Canada's Energy sector. On a positive note, the Liberal Party-led minority government reiterated its intention to move forward with constructing the Trans Mountain pipeline. However, the election did little to dispel longer-term fears that increased regulatory scrutiny and rising carbon-related costs will limit the profitability of the industry. These concerns have forced major Canadian producers to lower exploration expenditures while increasing spending on technology in an effort to generate free cash flow at current oil prices. The negativity surrounding the industry means that a number of energy producers trade at attractive valuations.

Regional Outlook – Europe

Dominic Wallington
Head, European Equities &
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

After some short-term weakness, the economic picture in Europe appears to be stabilizing, and the composite leading indicator that we follow is beginning to point to the possibility of recovery. Economic conditions have been fairly benign of late - neither particularly good nor particularly bad. Attempts by policymakers to prompt higher levels of growth have tended to work only temporarily in the past decade. On the other hand, the scale of the slowdowns has been small and recession has been avoided. The nature of inventory-led economic cycles appears to have been replaced by exposure to big changes in asset prices. The key complication in this picture remains risks related to politics in the U.K. and the Eurozone, with the largest short-term risk in Europe continuing to be the potential for a disorderly Brexit. The EU recently granted the U.K. a further Brexit extension until January 31, 2020, due to discord in the U.K. Parliament and a December 12 national election that will likely decide the path that Brexit takes.

At the time of writing, the incumbent Conservative Party is ahead in the polls, and it is still difficult to discern whether a Conservative victory reduces or amplifies the risk of Brexit occurring without an agreement between the U.K. and the EU (the so-called hard Brexit). It may well be that a Conservative win releases the deadlock in Parliament that has prevailed for much of the past three years. In the event of a hard Brexit, there will be financial-market and trade dislocation. However, much has been done to mitigate the risks, and valuations of U.K. domestic businesses listed on the stock market have retreated to such low levels that they offer some decent protection in the worst-case scenario and upside in any other.

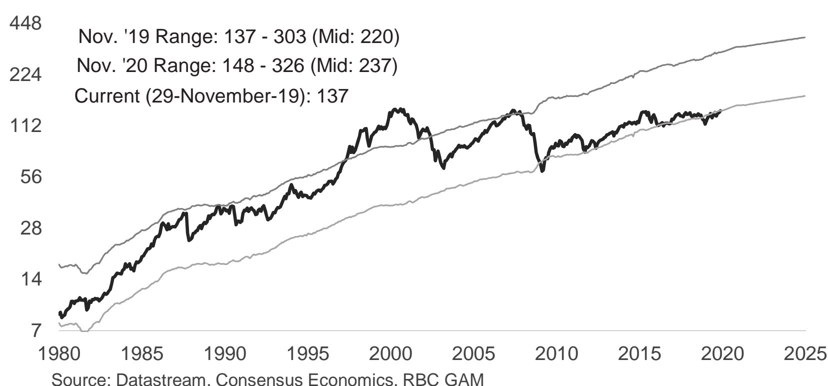
The U.K. and the Eurozone continue to use different tools to stimulate economic growth. The current austerity program in the U.K. was initiated by the then-Chancellor George Osborne in 2010 and has more or less been adhered to since then. The current government has signalled, however, that it is prepared to reinstate fiscal stimulus, and it

Europe – Recommended sector weights

	RBC GAM Investment Strategy Committee November 2019	Benchmark MSCI Europe November 2019	Active Risk vs. Benchmark November 2019
Energy	6.0%	6.7%	(0.7%)
Materials	6.5%	7.2%	(0.7%)
Industrials	14.5%	14.0%	0.5%
Consumer Discretionary	11.0%	10.0%	1.0%
Consumer Staples	14.0%	14.0%	(0.0%)
Health Care	15.0%	13.8%	1.2%
Financials	17.3%	17.8%	(0.5%)
Information Technology	6.5%	6.0%	0.5%
Communication Services	4.0%	4.5%	(0.5%)
Utilities	3.8%	4.3%	(0.5%)
Real Estate	1.5%	1.4%	0.1%

Source: RBC GAM

MSCI Europe Index Equilibrium
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM

is possible that this change will be detailed in the Conservative Party's election manifesto. Elsewhere in Europe, the received wisdom is to continue with the current focus on monetary stimulus within a framework of fiscal austerity.

Companies have over the past decade reduced the pace of growth in capital spending given the slower rate of economic expansion and geopolitical tensions, and there is some debate about whether there will ever be a return to the days when such expenditures contributed significantly to economic growth. Capital allocation these days tends to be directed towards technological enhancement, either in the form of improving the efficiency of internal systems or offering new or improved products and services. Companies that can, are allocating capital to develop or expand into overseas markets offering better opportunities.

Valuations generally recognize these differences of opportunity, and European financial markets are polarized between a group of stocks with low earnings multiples and another group with higher valuations. Companies exposed to European markets or challenged by technological developments tend to be valued at 8 to 10 times earnings, while higher-quality companies and those with international exposure are clustered around a P/E of 20. The companies with lower valuations have been scaling back earnings forecasts, while the other group has tended to experience earnings upgrades and/or sustained profit growth. These P/Es are subject to adjustment. If bond yields shoot up, companies with P/Es around 20 would begin to look expensive, while waning technological disruption and/or economic acceleration in Europe would make P/Es in the range of 8 to 10 look low. As things stand, valuations appear to correctly reflect high levels of uncertainty in the outlook.

Conclusion

Europe's economy appears to have stabilized after decelerating over the past year, and this development is generally good for financial markets. The immediate risks remain the same – trade negotiations between China and the U.S. and the possibility of a disorderly Brexit. Both situations have been heavily researched and are probably fairly well discounted in financial markets. We will watch them carefully because there is always the possibility that things will tilt in an unexpected direction. If not, they may well continue to help form the continuing "wall of worry."

The backdrop for corporate profitability remains good in general, but growth is really only available to companies that have international exposure or are positioned away from substantial technological disruption. Valuations in Europe look cheap relative to the U.S., partly because large parts of the European index are in challenged industries or are composed of companies that are domestically focused. Emergent risks are concerning but do not look sufficient at the current time to undermine the market's trajectory. The key risks appear to be private-equity debt and the changing relationship between corporates and governments as evidenced by suggested changes to corporate-tax regimes and a renewed antitrust focus on large technology companies.

Our sector stance remains broadly unchanged. Within the Consumer Discretionary sector, we like producers of consumer durables. We are positive on prospects for the Consumer Staples sector but less confident about the Energy Sector. We are also optimistic about the Health Care and Industrials sectors, though less so about Financials. We like our exposure to the Information Technology, but the Real Estate, Communication Services and Utilities sectors do not currently hold much appeal for us.

Regional Outlook – Asia

Chris Lai
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RBC Global Asset Management(Asia) Limited

Asian equities gained during the three months ended November 30, 2019. Returns benefited from an improvement in market sentiment starting in late September, as the U.S.-China trade conflict abated and the U.S. Federal Reserve continued to cut interest rates. Developments affecting individual Asian countries included India cutting its basic corporate-tax rate to 22% from 30% in September. In China, the central bank cut its benchmark interest rate to stimulate lending, in part to counter the negative economic impact of continuing street protests in Hong Kong.

Equity markets in Taiwan, India and South Korea outperformed, while Indonesia, Hong Kong and the Philippines lagged the benchmark. Japanese stocks outperformed the rest of Asia.

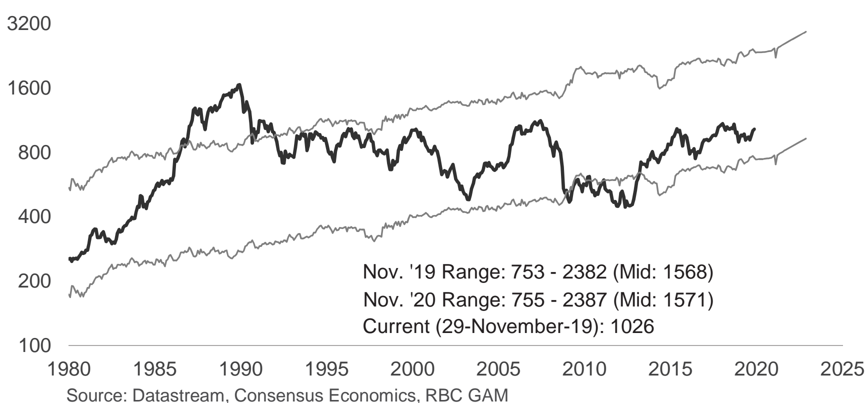
Regionally, the best-performing sectors were Information Technology, Consumer Discretionary and Health Care. The Real Estate and Utilities sectors underperformed.

Asia – Recommended sector weights

	RBC GAM Investment Strategy Committee November 2019	Benchmark MSCI Pacific November 2019	Active Risk vs. Benchmark November 2019
Energy	2.8%	3.1%	(0.3%)
Materials	5.5%	5.9%	(0.4%)
Industrials	11.5%	12.2%	(0.7%)
Consumer Discretionary	16.0%	15.4%	0.6%
Consumer Staples	6.3%	6.4%	(0.1%)
Health Care	7.3%	6.6%	0.7%
Financials	19.5%	19.7%	(0.2%)
Information Technology	14.8%	13.7%	1.1%
Communication Services	9.8%	9.2%	0.6%
Utilities	2.8%	2.5%	0.3%
Real Estate	4.0%	5.4%	(1.4%)

Source: RBC GAM

MSCI Japan Index Equilibrium
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM

Japan

The rally in Japanese equities during the period reflected easing U.S.-China trade tensions and a more positive outlook for the U.S. chip industry, which would bolster Japanese exports. The yen weakened over the three-month period to 109 per U.S. dollar from 106.

The Japanese economy has been steady but unspectacular, helped by a rise in spending related to the 2020 Tokyo Olympics and accelerated retail purchases ahead of a higher consumption tax introduced in October. Both developments helped offset the headwind of slowing regional growth. We forecast that 2020 GDP will decline 0.1%, compared with a forecast of a 0.9% increase for this year, and analysts predict that the widely watched Tankan survey of business conditions will weaken in December.

While the Bank of Japan (BOJ) continues to reaffirm its accommodative policy stance, the pace of balance-sheet expansion

is expected to slow given that the BOJ's Japanese government bond holdings account for 43% of the total outstanding. We forecast Japanese inflation at 0.75% for this year, lower than last year's 1% and shy of the BOJ's 2.0% target. CPI remains weak as wages fell 0.9% in July, even with the unemployment rate at a relatively low 2.2%. The drop in wages reflects efforts by corporations to replace older workers with younger, lower-paid employees.

Asia Pacific ex-Japan

We expect regional market volatility to remain elevated in the near term. President Trump's decision to sign a bill supporting Hong Kong protesters will likely hurt relations between the U.S. and China at a delicate time and could damp the market rally that we have seen since August 2019.

Taiwan has been among the best-performing markets in Asia, as manufacturing shows signs of stabilizing. The country's manufacturing purchasing managers' index rose in October after contracting for most of 2019. Taiwan's central bank has raised its growth forecast for 2019 to 2.4% from 2.1%. Overseas demand has picked up ahead of the rolling-out of next-generation technology and the launch of new mobile devices.

In India, we forecast 2019 GDP growth of 5.7%, the slowest pace in six years. The growth reduction has been broad-based, with less robust consumption and services exacerbated by a drop in lending by non-bank financial companies and weak global demand. The growth slowdown prompted the government to implement a surprise corporate-tax cut in September, and the Reserve Bank of India further cut the policy rate by 25 basis points in October, resulting in a cumulative 135 basis points of easing this year. We expect the central bank to implement a further 15-basis-point cut in December given that consumer and business confidence continue to deteriorate.

South Korea's economy showed some signs of improvement during the period, with unemployment falling to 3.4% in September, below the 4.0% consensus forecast. The government plans to increase fiscal spending 8% in 2020 with measures to support innovation, social welfare and jobs. Semiconductor exports are growing again in volume terms for the first time since the second quarter of 2019. The Bank of Korea recently cut rates to a historical low of 1.25%.

While Indonesia is among Asia's least trade-dependent economies, it isn't immune from slowing global growth. This exposure can be seen best in falling prices for palm oil and coal, whose declines have damped rural consumption. Infrastructure spending also slowed this year due partly to import curbs in 2018. We believe Indonesia's outlook for 2020 and 2021 is relatively positive. There are tangible signs for a new infrastructure cycle in 2020, as President Jokowi launches a new round of priority projects given his re-election.

In addition to almost six months of citywide protests, Hong Kong's economy has been hit by a slowdown in Chinese economic growth. Demands raised by protesters remain unresolved and the confrontations, which have escalated of late, are especially hurting the tourism, retail, transportation and property industries. September retail sales fell 18% and no rebound is expected in the near term. Similarly, sales of existing properties declined 14% in August from a year earlier. The Hong Kong government unveiled a fiscal relief package of US$2.4 billion in August 2019, consisting of targeted tax cuts and business-fee reductions, as well as relief for households. These measures are expected to boost GDP by 0.3% over time. In October, the government announced air-fare and hotel subsidies to support tourism.

Chinese real GDP slowed to 6.0% in the third quarter of 2019 – the weakest quarter-on-quarter growth in at least 30 years. Beijing is likely to lower next year's GDP target to a range of 5.5% to 6.0%, down from between 6.0% and 6.5% in 2019. To achieve the 2020 goal, China's central bank will have to lower policy interest rates and the government will still have to increase stimulus through various measures, including infrastructure projects.

Regional Outlook – Emerging Markets

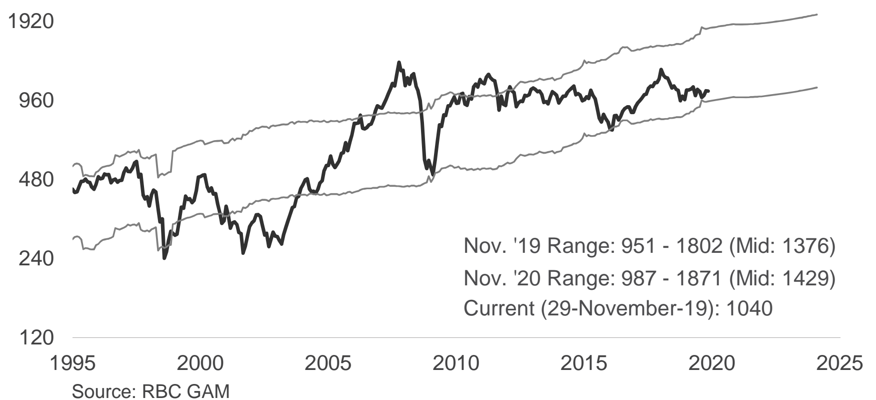
Philippe Langham
Head & Senior Portfolio Manager
Emerging Market Equities
RBC Global Asset Management (UK) Limited

Emerging-market equities have underperformed developed markets over the past nine years given a strong U.S. dollar and slowing earnings and GDP growth relative to developed markets. We believe that these factors will reverse over the coming years and will ultimately support an improvement in emerging-market stock performance relative to developed markets.

There are several reasons to believe that the period of U.S.-dollar strength may be coming to an end: the U.S. Federal Reserve's (the Fed) move from quantitative tightening to balance-sheet expansion; a diminution of international risks; and a stock rally that looks extended, both in terms of duration and degree. Additionally, earnings and relative emerging-market economic growth appears set to improve as a result of improved productivity, structural reforms and more-growth-friendly fiscal policies.

Earnings growth in recent years in emerging markets has been relatively subdued, despite strong longer-term growth. The period of 2012-2015 saw average earnings growth of 2.9%, which improved to 7.8% in 2016. In 2017, emerging markets saw their fastest earnings acceleration since 2010 with 22% growth, while profit growth in 2018 slipped back to 7.4%. The recent improvement lies in strong contrast to the 2011-2016 period, which was characterized by declining earnings and persistent earnings downgrades.

MSCI Emerging Markets Index Equilibrium
Normalized earnings and valuations



Source: RBC GAM

The recovery in earnings in 2017 and 2018 was driven by revenue gains but, in particular, by margin improvements as margins normalized after the cyclical collapse that occurred between 2011 and 2016. Persistent earnings downgrades have occurred in 2019 although the pace of downgrades does seem to be stabilizing.

While 2019, on the face of it, would seem to mark a halt to the earnings progression seen in 2017-2018 with only 1.3% growth expected, a closer look at the composition of this year's earnings growth shows that memory-chip stocks accounted for much of the decline and that emerging-market earnings in areas other than the Information Technology sector and the two commodity sectors have been largely respectable. A similar story is true at the country level. South Korea has stood out as having negative growth in 2019, whereas earnings were not too bad overall, and growth in 2020 is expected to be much more broad-based.

The underperformance of emerging markets relative to developed markets over the past few years has left emerging-market equities looking attractive from both an absolute and relative valuation perspective. There is also a powerful case that emerging-market currencies can perform well, driven by cheap valuations, high real interest rates and strong current accounts.

In terms of style, we believe that companies in the middle segment of returns on equity look particularly attractive from a valuation standpoint. There is a strong case for caution on both the most expensive part of the market, which has become crowded, and for deep-value areas where returns struggle to meet the cost of capital. We also believe that both higher-dividend-yielding stocks and smaller-cap companies, which have underperformed recently but tend to do well over longer periods, look attractive.

Five longer-term themes dominate our thinking on where investors can best position themselves in emerging markets: domestic consumption; the increasing accessibility and uptake of financial products in emerging markets; health and wellness; infrastructure; and the spread of digital technologies. In terms of sector positioning, we favour consumer companies that are driven by high returns and supported by tailwinds such as rising incomes, economic reform, attractive demographics, rising urbanization and increased employment. Within cyclicals, we have a preference for the Financials sector on the grounds of valuation, improving asset quality, the expanding use of financial products and structural growth.

There has been a wide disparity in performance among emerging-market stock markets in recent years, and we believe that countries that embrace structural reforms will end up as the winners. We are particularly positive on the outlook for India, which benefits from both macroeconomic trends and economic reform, but also offers a good choice of high-quality companies. Brazil is also benefiting from economic reform in contrast to Mexico and South Africa, where progress has been disappointing.

We are underweight China, South Korea and Russia. In China, the rapid build-up of debt since the financial crisis of 2008 represents a significant risk. At the same time, there are positive developments in terms of market liberalization and financial reforms. We also believe that the trade war between the U.S. and China will ultimately provide China with a strong impetus to achieve its longer-term goals of technological leadership and self-sufficiency. South Korea and Russia are not currently attractive, as poor corporate governance offsets the appeal of weak currencies.

RBC GAM Investment Strategy Committee

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Daniel E. Chornous, CFA

Chief Investment Officer
RBC Global Asset Management Inc.

Chair, RBC GAM Investment Strategy Committee

Dan Chornous is Chief Investment Officer of RBC Global Asset Management Inc., which has total assets under management of approximately $470 billion*. Mr. Chornous is responsible for the overall direction of investment policy and fund management. In addition, he chairs the RBC Investment Strategy Committee, the group responsible for global asset-mix recommendations and global-fixed income and equity portfolio construction for use in RBC Wealth Management's key client groups including retail mutual funds, International Wealth Management, RBC Dominion Securities Inc. and RBC Phillips, Hager & North Investment Counsel Inc. He also serves on the Board of Directors of the Canadian Coalition for Good Governance and is Chair of its Public Policy Committee. Prior to joining RBC Asset Management in November 2002, Mr. Chornous was Managing Director, Capital Markets Research and Chief Investment Strategist at RBC Capital Markets. In that role, he was responsible for developing the firm's outlook for global and domestic economies and capital markets as well as managing the firm's global economics, technical and quantitative research teams.

* AUM in CAD as of September 30, 2019.

Stephen Burke, PhD, CFA

Vice President and Portfolio Manager
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Stephen is a fixed-income portfolio manager and Head of the Quantitative Research Group, the internal team that develops quantitative research solutions for investment decision-making throughout the firm. He is also a member of the PH&N IM Asset Mix Committee. Stephen joined Phillips, Hager & North Investment Management in 2002. The first six years of his career were spent at an investment-counselling firm where he quickly rose to become a partner and fixed-income portfolio manager. He then took two years away from the industry to begin his Ph.D. in Finance and completed it over another three years while serving as a fixed-income portfolio manager for a mutual-fund company. Stephen became a CFA charterholder in 1994.

Dagmara Fijalkowski, MBA, CFA

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As Head of Global Fixed Income and Currencies at RBC Global Asset Management, Dagmara leads investment teams in Toronto, London and Minneapolis in charge of almost $100 billion in fixed income assets. In her duties as a portfolio manager, Dagmara heads management of several bond funds, manages foreign-exchange hedging and active currency overlay programs across a number of funds. Dagmara chairs the Fixed Income Strategy Committee. She is also a member of the Investment Policy Committee, which determines asset mix for balanced and multi-strategy products, and the RBC Investment Strategy Committee. In 2016, she was appointed to the RBC GAM Executive Committee. Dagmara, who began her investment career in 1994, holds an MBA from the Richard Ivey School of Business in Canada and a Master's degree in economics from the University of Lodz in Poland. Dagmara has been a CFA charterholder since 1997.

Stuart Kedwell, CFA

Senior Vice President and
Senior Portfolio Manager
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Stu co-leads the North American Equity team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities in the firm's Generalist program, a two-year internship in which participants rotate through different areas of the firm. In 1998, he joined the RBC Investments Portfolio Advisory Group, which provides investment ideas and recommendations to RBC DS Investment Advisors. He was also a member of the RBC DS strategy & focus list committees. Stu has been with the firm since 2002 and is a CFA charterholder.

Eric Lascelles

Chief Economist
RBC Global Asset Management Inc.

Eric is the Chief Economist for RBC Global Asset Management Inc. (RBC GAM) and is responsible for maintaining the firm's global economic forecast and generating macroeconomic research. He is also a member of the RBC GAM Investment Strategy Committee, the group responsible for the firm's global asset-mix recommendations. Eric is a frequent media commentator and makes regular presentations both within and outside RBC GAM. Prior to joining RBC GAM in early 2011, Eric spent six years at a large Canadian securities firm, the last four as the Chief Economics and Rates Strategist. His previous experience includes positions as economist at a large Canadian bank and research economist for a federal government agency.

Hanif Mamdani

Head of Alternative Investments
RBC Global Asset Management Inc.

Hanif Mamdani is Head of both Corporate Bond Investments and Alternative Investments. He is responsible for the portfolio strategy and trading execution of all investment-grade and high-yield corporate bonds. Hanif is Lead Manager of the PH&N High Yield Bond and Alternative strategies, including a multi-strategy hedge fund. He is also a member of the Asset Mix Committee. Prior to joining the firm in 1998, he spent 10 years in New York with two global investment banks working in a variety of roles in Corporate Finance, Capital Markets and Proprietary Trading. Hanif holds a master's degree from Harvard University and a bachelor's degree from the California Institute of Technology.

Martin Paleczny, CFA

Vice President and
Senior Portfolio Manager
RBC Global Asset Management Inc.

Martin Paleczny, who has been in the investment industry since 1994, began his career at Royal Bank Investment Management, where he developed an expertise in derivatives management and created a policy and process for the products. He also specializes in technical analysis and uses this background to implement derivatives and hedging strategies for equity, fixed-income, currency and commodity-related funds. Since becoming a portfolio manager, Martin has focused on global allocation strategies for the full range of assets, with an emphasis on using futures, forwards and options. He serves as advisor for technical analysis to the RBC GAM Investment Strategy Committee.

Sarah Riopelle, CFA

Vice President and
Senior Portfolio Manager
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Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions. Sarah is a member of the RBC GAM Investment Strategy Committee, which sets global strategy for the firm, and the RBC GAM Investment Policy Committee, which is responsible for the investment strategy and tactical asset allocation for RBC Funds' balanced products and portfolio solutions. In addition to her fund management role, she works closely with the firm's Chief Investment Officer on a variety of projects, as well as co-manages the Global Equity Analyst team.

William E. (Bill) Tilford

Head, Quantitative Investments
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Bill is Head, Quantitative Investments, at RBC Global Asset Management and is responsible for expanding the firm's quantitative-investment capabilities. Prior to joining RBC GAM in 2011, Bill was Vice President and Head of Global Corporate Securities at a federal Crown corporation and a member of its investment committee. His responsibilities included security-selection programs in global equities and corporate debt that integrated fundamental and quantitative disciplines, as well as management of one of the world's largest market neutral/overlay portfolios. Previously, Bill spent 12 years with a large Canadian asset manager, where he was the partner who helped build a quantitative-investment team that ran core, style-tilted and alternative Canadian / U.S. funds. Bill has been in the investment industry since 1986.

Milos Vukovic, CFA

Vice President, Investment Policy
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Milos, who joined RBC in 2003, oversees investment-management activities including new-fund launches, performance analytics and trade-cost analysis. He is also responsible for developing and monitoring investment mandates and implementing tactical asset allocation for the RBC GAM investment solutions. Milos earlier worked for a Big 4 accounting firm and two top-tier securities firms. He earned an MBA at the Schulich School of Business and has held the CFA designation since 2004. He is a board member of both the Canadian Buy-Side Investment Management Association and the Canadian Advocacy Council for Canadian CFA Institute Societies, and recently joined IIROC's Market Structure Advisory Committee.

Brad Willock, CFA

Vice President and
Senior Portfolio Manager
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Brad Willock joined RBC Global Asset Management in July 2002 and is a Senior Portfolio Manager and CFA charterholder. In his current role, Brad has responsibility for RBC Global Asset Management's core and income-oriented U.S. equity strategies. He joined RBC in May 1996 after receiving a bachelor's of commerce degree with distinction from the University of Calgary. Prior to that, Brad obtained a bachelor's of science degree at the University of British Columbia and represented Canada at the 1992 Barcelona Summer Olympics in volleyball.

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