RBC Global Asset Management

The Global Investment Outlook

RBC GAM Investment Strategy Committee

SPRING 2021

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*.

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Executive Summary

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The pandemic is entering a new phase with vaccines at hand, case counts in decline and businesses gradually resuming normal operations. Bond yields have surged, stocks have climbed to records and a variety of market signals suggest that economies are on the cusp of a strong recovery.

Virus retreats, economic outlook improves

After a difficult few months, the virus situation has improved significantly across the world's major nations. The number of new infections has plunged in just a few months and global transmission rates have fallen to their lowest level since the pandemic began. Tightened restrictions, vaccinations and seasonal factors have all contributed to curbing the spread of the virus. Containing COVID-19 has been critical to the economic recovery, which is now underway and has much more room to grow supported by significant monetary and fiscal stimulus. In fact, the economy has been incredibly resilient for most of the pandemic and the damage from the second wave of the virus was milder than expected. We look for a significant rebound in economic growth this year, with most economies achieving pre-pandemic levels of output sometime this year or next. Our economic forecasts were mostly upgraded from last quarter and remain above the consensus.

Outlook is less clear with many variables at play

Although our base case scenario is quite constructive, a number of moving parts make the growth outlook less clear than usual. Some of the risks include the unprecedented nature of the pandemic, uncertainties related to the distribution of vaccines and their efficacy against new variants, and the possibility of another virus wave. Uncertainties also exist around the potential for inflation and amount of additional fiscal stimulus on the horizon. Our assessment is that these risks are roughly balanced in terms of their ability to turn out better or worse than expected. The vaccine and the virus represent greater downside risks, but the reverse is true regarding fiscal support.

Inflation concerns mount but upward price pressures are limited

The combination of significant ease in monetary policy, central banks' willingness to accept faster inflation, historically high sovereign-debt loads and a push for local production of medical supplies has investors concerned that inflation could run too hot. Prices are indeed rising, albeit off a low base, and we should recognize that inflation expectations remain in line with levels of the past decade. Expectations in previous crises that significant growth in the money supply would lead to inflation haven't materialized because increases in the supply of money have ended up in savings or been returned to banks as excess reserves. It's also worth keeping in mind that demographics and sector effects related to technology, health care and education are putting downward pressure on inflation. Our view is that the underlying inflation trend will move higher but that it will remain at low levels relative to history.

Expecting further U.S. dollar weakness amid tailwinds for cyclical currencies

The U.S.-dollar bear market is still in its early stages and longer-term factors point to further declines. The recent rise in U.S. bond yields has given the greenback a short-term boost, offering investors a more attractive opportunity to sell the dollar. An environment of stronger global economic growth and higher commodity prices is supportive for cyclical currencies. We expect emerging-market currencies to outperform their developed-market peers and think that the Canadian dollar can outperform among its G10 counterparts.

Bond yields surged, valuation risk recedes

Longer-term bond yields have surged as investors' expectations of faster inflation and better economic growth are offsetting the impact of central-bank efforts to hold rates down. The U.S. 10-year Treasury yield rose roughly 50 basis points over the past quarter, moving above 1.50% for the first time since the pandemic. Part of the increase was due to real, or after-inflation, interest rates rising from unsustainably low levels. We think real rates could rise even higher but structural changes related to demographics, an increased preference for saving versus spending and the maturing of emerging markets will ultimately limit how high they can go. Moreover, the recent surge in global yields has dampened the acute valuation risk that existed in the bond market and we think that bond prices could find near-term support at current levels.

Stocks rise to record levels led by economically sensitive segments

Global equities rose to new highs as the pace of COVID-19 vaccinations progressed, virus counts declined and earnings exceeded expectations. The S&P 500 Index gained 5.6% in the past quarter and has climbed to more than one standard deviation above fair value. We recognize there is froth in some areas of the market and that valuations are elevated, but our modelling suggests the possibility that price-to-earnings ratios could rise even further as fears of the crisis fade and interest rates return to normal levels. While U.S. large-cap technology and momentum stocks are expensive, equity markets in Canada, the U.K., Europe and Japan remain below their fair values and offer compelling upside. Furthermore, the economic recovery has stoked a rotation out of traditional U.S. large-cap leadership into other more economically sensitive areas of the market, driving rallies in small- and mid-cap stocks, financials and industrials, and value stocks overall.

Asset Mix – maintaining overweight in stocks, underweight in bonds

In our base case scenario, the economy enjoys a powerful rebound in 2021 as virus threats fade and normalcy draws closer. We've seen a substantial jump in fixed-income yields, and, for the first time since early 2020, we now expect slightly positive returns for sovereign bonds over the year ahead. Given the expectation of a solid cyclicals recovery in economic growth and corporate profits, we believe a bias toward risk taking remains appropriate. Although the advantage of stocks over bonds has diminished somewhat as a result of rising yields, equities continue to offer an attractive risk premium versus fixed income. As a result, we are maintaining our overweight position in stocks and underweight in bonds. For a balanced, global investor, we currently recommend an asset mix of 64.5 percent equities (strategic neutral position: 60 percent) and 34.5 percent fixed income (strategic neutral position: 38 percent), 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*	
	Spring 2021	Change from New Year 2021	Spring 2021	Change from New Year 2021	Spring 2021	Change from New Year 2021	Spring 2021	Change from New Year 2021	Spring 2021	Change from New Year 2021	Spring 2021	Change from New Year 2021	Spring 2021	Change from New Year 2021
Real GDP														
2020A[1]	(3.50%)		(5.40%)		(6.80%)		(9.91%)		(4.86%)		2.03%		(1.43%)	
2021E	6.00%	2.00	5.20%	0.20	5.30%	(0.30)	6.10%	(0.50)	4.00%	0.30	9.00%	N/C	7.80%	0.40
2022E	3.70%	N/C	3.90%	N/C	4.40%	N/C	5.80%	N/C	3.00%	N/C	5.50%	N/C	5.00%	N/C
CPI														
2020A	1.25%		0.75%		0.25%		0.85%		(0.02%)		2.49%		3.37%	
2021E	2.20%	0.40	2.00%	0.40	0.80%	(0.20)	1.20%	(0.40)	(0.20%)	(0.70)	1.30%	(0.60)	2.50%	(0.10)
2022E	2.10%	N/C	2.10%	N/C	1.40%	N/C	1.90%	N/C	0.80%	N/C	2.40%	N/C	2.90%	N/C

A = Actual E = Estimate *GDP Weighted Average of China, India, South Korea, Brazil, Mexico and Russia. [1]Awaiting actual Q4 2020 GDP release for Canada,Brazil and Russia. As a result, the Canadian and Emerging Markets real GDP growth figures for 2020 are forecasts.

Targets (RBC GAM Investment Strategy Committee)

	Feb. 2021	Forecast Feb. 2022	Change from New Year 2021	1-year total return estimate* (%)
Currency Markets against USD				
CAD (USD–CAD)	1.27	1.18	(0.09)	8.1
EUR (EUR–USD)	1.21	1.30	0.03	6.9
JPY (USD–JPY)	106.56	99.00	N/C	7.4
GBP (GBP–USD)	1.39	1.36	0.03	(2.6)
Fixed Income Markets				
U.S. Fed Funds Rate	0.13	0.13	N/C	N/A
U.S. 10-Year Bond	1.40	1.30	0.30	2.4
Canada Overnight Rate	0.25	0.25	N/C	N/A
Canada 10-Year Bond	1.36	1.10	0.25	3.8
Eurozone Deposit Facility Rate	(0.50)	(0.50)	N/C	N/A
Germany 10-Year Bund	(0.26)	(0.35)	0.05	0.7
U.K. Base Rate	0.10	0.10	N/C	N/A
U.K. 10-Year Gilt	0.82	0.50	0.20	3.9
Japan Overnight Call Rate	(0.02)	(0.10)	N/C	N/A
Japan 10-Year Bond	0.16	0.05	N/C	1.3
Equity Markets				
S&P 500	3811	3925	125	4.5
S&P/TSX Composite	18060	18500	800	5.4
MSCI Europe	134	143	7	9.6
FTSE 100	6483	6900	400	10.2
Nikkei	28966	32000	3750	11.9
MSCI Emerging Markets	1339	1425	125	8.6

*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD. Source: RBC GAM

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 60% equities, 38% 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 1981 – 2021, 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	Spring 2020	Summer 2020	Fall 2020	New Year 2021	Spring 2021
Cash	**2.0%**	1.0% – 16%	2.0%	1.0%	1.0%	1.0%	**1.0%**
Bonds	**38.0%**	25.0% – 54.0%	39.0%	38.0%	37.0%	34.5%	**34.5%**
Stocks	**60.0%**	36.0% – 65.0%	59.0%	61.0%	62.0%	64.5%	**64.5%**

Note: Effective June 1, 2020, we reset our strategic neutral positions to reflect long-lasting changes in economy and capital markets' dynamics. Boosting strategic neutral equity exposure by 5% and reducing fixed income by same amount in our reference balanced portfolio.

Regional Allocation

Global Bonds	WGBI* Feb. 2021	Past range	Spring 2020	Summer 2020	Fall 2020	New Year 2021	Spring 2021
North America	**40.8%**	18% – 48%	44.2%	42.3%	41.3%	41.1%	**40.8%**
Europe	**41.9%**	32% – 56%	37.7%	39.0%	36.0%	41.0%	**36.9%**
Asia	**17.3%**	16% – 35%	18.2%	18.7%	22.7%	17.8%	**22.3%**

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

Global Equities	MSCI** Feb. 2021	Past range	Spring 2020	Summer 2020	Fall 2020	New Year 2021	Spring 2021
North America	**66.8%**	51% – 66%	63.6%	65.7%	65.4%	66.0%	**65.3%**
Europe	**15.6%**	15% – 35%	17.8%	16.1%	16.2%	14.6%	**15.4%**
Asia	**9.3%**	9% – 18%	11.1%	10.7%	9.8%	10.6%	**10.4%**
Emerging Markets	**8.3%**	0% – 8.9%	7.5%	7.5%	8.6%	8.8%	**8.9%**

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** Feb. 2021	RBC GAM ISC New Year 2021	RBC GAM ISC Spring 2021	Change from New Year 2021	Weight vs. Benchmark
Energy	2.87%	0.42%	2.37%	1.94	82.5%
Materials	4.45%	5.78%	5.95%	0.17	133.7%
Industrials	10.30%	10.43%	9.80%	(0.63)	95.1%
Consumer Discretionary	12.42%	13.88%	14.42%	0.54	116.1%
Consumer Staples	7.17%	6.54%	5.17%	(1.38)	72.1%
Health Care	12.79%	14.82%	12.79%	(2.02)	100.0%
Financials	12.88%	12.07%	12.88%	0.81	100.0%
Information Technology	22.34%	23.63%	24.34%	0.72	109.0%
Communication Services	9.11%	9.22%	9.11%	(0.10)	100.0%
Utilities	3.05%	2.42%	1.05%	(1.36)	34.5%
Real Estate	2.62%	0.80%	2.12%	1.32	80.9%

*FTSE World Government Bond Index. **MSCI World Index. 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%	1.0%	1.0%
Fixed Income	73%	68-88%	69.9%	69.9%
Total Cash & Fixed Income	75%	60-90%	70.9%	70.9%
Canadian Equities	10%	0-20%	11.5%	11.4%
U.S. Equities	8%	0-18%	9.3%	9.2%
International Equities	7%	0-17%	8.3%	8.5%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	25%	10-40%	29.1%	29.1%

	Return	Volatility
40-year average	8.5%	5.3%
Last 12 months	5.3%	7.8%

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%	1.0%	1.0%
Fixed Income	58%	43-83%	54.6%	54.6%
Total Cash & Fixed Income	60%	45-75%	55.6%	55.6%
Canadian Equities	13%	3-23%	14.2%	14.1%
U.S. Equities	15%	5-25%	16.6%	16.5%
International Equities	12%	2-22%	13.6%	13.8%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	40%	25-55%	44.4%	44.4%

	Return	Volatility
40-year average	8.9%	6.4%
Last 12 months	7.8%	9.7%

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%	1.0%	1.0%
Fixed Income	38%	23-53%	34.5%	34.5%
Total Cash & Fixed Income	40%	25-55%	35.5%	35.5%
Canadian Equities	15%	5-25%	15.6%	15.5%
U.S. Equities	25%	15-35%	26.7%	26.5%
International Equities	15%	5-25%	16.5%	16.7%
Emerging Markets	5%	0-15%	5.7%	5.8%
Total Equities	60%	45-75%	64.5%	64.5%

	Return	Volatility
40-year average	9.1%	7.8%
Last 12 months	12.0%	12.2%

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%	1.0%	1.0%
Fixed Income	23%	8-38%	19.4%	19.4%
Total Cash & Fixed Income	25%	10-40%	20.4%	20.4%
Canadian Equities	18%	8-28%	18.4%	18.2%
U.S. Equities	30%	20-40%	31.7%	31.5%
International Equities	19%	9-29%	20.6%	20.9%
Emerging Markets	8%	0-18%	8.9%	9.0%
Total Equities	75%	60-90%	79.6%	79.6%

	Return	Volatility
40-year average	9.2%	9.5%
Last 12 months	15.0%	14.2%

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%	1.0%	0.5%
Fixed Income	0%	0-15%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-17%	1.0%	0.5%
Canadian Equities	29%	19-39%	28.3%	28.7%
U.S. Equities	38%	28-48%	37.9%	38.3%
International Equities	20%	10-30%	21.2%	20.8%
Emerging Markets	11%	1-21%	11.6%	11.7%
Total Equities	98%	83-100%	99.0%	99.5%

	Return	Volatility
40-year average	9.2%	12.1%
Last 12 months	19.3%	18.1%

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

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The U.S. dollar depreciated against most major currencies in the latest quarter ended February 28, 2021. The greenback fell 4.3% versus the British pound, 2.0% relative to the Canadian dollar and 1.1% against the euro but rose 2.1% with respect to the Japanese yen. Sterling advanced considerably as the Brexit deal dispelled uncertainty and optimism grew for a robust economic recovery bolstered by the successful vaccination campaign underway thus far. The ongoing global economic recovery, policy support and rising commodity prices helped to boost the loonie against the U.S. dollar. The euro also advanced against the dollar by virtue of lower inflation expectations, cheaper valuations and a better current account balance. The yen, however, fell victim to the widening yield advantage that the U.S. has over Japan following a rapid rise in U.S. Treasury yields which make U.S. sovereign fixed income assets more attractive. On a one-year basis, the U.S. dollar sank against all four currencies with the largest decline of 8.5% versus the euro and the smallest drop of 1.2% versus the yen.

The key global bond indexes we track recorded losses in the latest quarter in U.S.-dollar terms. The losses ranged from 1.1% for the FTSE European Government Bond Index to the 3.4% drop in the FTSE Japanese Government Bond Index. Yields in the major markets rose meaningfully as inflation expectations increased and the outlook for the global economic recovery improved with the new COVID-19 infections numbers. The 10-year Treasury bond yield increased 57 basis points in the quarter to 1.40% after reaching as high as 1.61%. Over a one-year period, fixed income returns were positive for most markets except Japan. The FTSE Japanese Government Bond Index lost 2.8% as the FTSE European Government Bond Index led with a 9.0% return which was driven largely by currency movement.

Global stocks surged to new records in the three-month period ended February 28, 2021 as a more “risk on” tone took hold on the back of continued fiscal and monetary support and better-than-expected outcomes with respect to the economy, corporate profits and vaccine efficacy. All major global equity indexes we track posted strong positive returns for the quarter in U.S.-dollar terms. The MSCI Emerging Markets Index was a top performer, delivering an 11.5% return over the period as the index is often a beneficiary of confidence in strong global growth. The MSCI UK Index has performed similarly well with a 9.0% return on potential of a faster reopening than many expected prior to rolling out the vaccines. Most other major stock markets recorded gains in the mid-single digit range for the period. Despite the one-year period now coinciding with the onset of the COVID-19 pandemic, many global equity indexes have delivered impressive returns in the 20% to 30% range.

The size, style and sector leadership that shifted in the fall with the announcement of positive vaccine news carried through the winter. With the economic recovery underway, the stocks of smaller, more economically sensitive companies outperformed their larger counterparts. The small-cap S&P 600 Index’s 23.9% gain was over 18 percentage points higher than the S&P 500’s 5.6% return in the latest quarter. Likewise, value stocks, which are more tied to the economic backdrop, outpaced growth stocks as the Russell 3000 Value Index was up 10.0% to the Russell 3000 Growth’s gain of 4.7%. In the same way, investors preferred sectors that tend to do well in an economic expansion such as Energy and Financials which recorded gains of 23.5% and 13.9%, respectively. On the other end of the spectrum was the Utilities sector, which lost 5.1%, and Consumer Staples, which lost 4.3%. Overall, 9 of the 11 sectors posted positive returns for the quarter. Over the one-year period, Information Technology led with a 51.2% return and Utilities was in last place with a 0.1% return.

Exchange Rates
Periods ending February 28, 2021

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.2726	(2.01)	(0.02)	(5.19)	(0.28)	(1.22)
USD–EUR	0.8288	(1.14)	1.25	(8.50)	0.37	(2.05)
USD–GBP	0.7178	(4.31)	(1.84)	(7.97)	(0.40)	(0.02)
USD–JPY	106.5950	2.10	3.23	(1.17)	(0.03)	(1.12)

Note: all changes above are expressed in US dollar terms

Canada
Periods ending February 28, 2021

	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	(1.26)	(3.58)	6.62	4.84	4.57	(3.25)	1.09	4.55

U.S.
Periods ending February 28, 2021

	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	(2.21)	(2.37)	1.42	5.36	3.59	(4.17)	(3.85)	4.93
BBgBarc U.S. Agg. Bond Index TR[1]	(2.02)	(2.15)	1.38	5.32	3.55	(3.99)	(3.88)	5.03

Global
Periods ending February 28, 2021

	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	(1.65)	(2.85)	4.12	3.89	3.57	(3.63)	(1.29)	3.46
FTSE European Government TR	(1.09)	(3.65)	9.04	3.25	4.13	(3.08)	3.38	2.97
FTSE Japanese Government TR	(3.38)	(4.48)	(2.78)	0.22	1.36	(5.32)	(7.82)	(0.06)

Canada
Periods ending February 28, 2021

	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	7.99	4.05	21.02	9.05	11.71	5.82	14.74	8.75
S&P/TSX 60	7.84	4.23	20.55	9.36	12.09	5.67	14.30	9.05
S&P/TSX Small Cap	18.72	10.00	49.55	8.29	11.99	16.33	41.79	7.99

U.S.
Periods ending February 28, 2021

	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	5.63	1.72	31.29	14.14	16.82	3.51	24.48	13.82
S&P 400 TR	15.48	8.41	39.79	12.04	15.20	13.16	32.53	11.73
S&P 600 TR	23.95	14.42	46.69	13.23	16.66	21.45	39.08	12.92
Russell 3000 Value TR	10.04	5.72	23.34	8.35	12.17	7.83	16.94	8.05
Russell 3000 Growth TR	4.71	(0.17)	45.22	20.84	22.14	2.60	37.68	20.50
NASDAQ Composite Index TR	8.32	2.47	55.27	23.17	24.99	6.14	47.22	22.83

Note: all rates of return presented for periods longer than 1 year are annualized. [1] Bloomberg Barclays U.S. Agg. Bond Index TR. Source: RBC GAM

Global
Periods ending February 28, 2021

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	5.85	1.54	29.34	10.77	14.10	3.41	21.99	10.33
MSCI EAFE TR *	5.86	1.15	22.46	4.59	9.73	3.41	15.49	4.17
MSCI Europe TR *	5.71	0.96	20.30	4.16	8.84	3.27	13.46	3.74
MSCI Pacific TR *	6.03	1.47	26.20	5.27	11.48	3.58	19.02	4.85
MSCI UK TR *	8.99	3.35	9.21	(0.10)	4.75	6.48	3.00	(0.50)
MSCI France TR *	4.63	1.74	20.28	4.48	10.68	2.21	13.44	4.06
MSCI Germany TR *	6.19	0.14	26.97	2.23	9.20	3.74	19.75	1.82
MSCI Japan TR *	4.65	0.50	28.38	5.19	11.26	2.23	21.08	4.77
MSCI Emerging Markets TR *	11.49	3.85	36.05	6.35	15.24	8.92	28.31	5.92

Global Equity Sectors
Periods ending February 28, 2021

	USD					CAD		
Sector: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	23.47	19.05	4.36	(6.43)	1.01	20.62	(1.57)	(6.80)
Materials TR *	8.17	2.18	44.07	8.21	15.73	5.67	35.87	7.78
Industrials TR *	4.08	1.63	26.40	7.12	12.72	1.68	19.21	6.69
Consumer Discretionary TR *	5.66	0.14	49.75	16.23	17.56	3.22	41.23	15.76
Consumer Staples TR *	(4.26)	(6.66)	10.33	5.47	5.92	(6.47)	4.05	5.04
Health Care TR *	1.35	(1.68)	21.52	11.81	11.59	(0.99)	14.61	11.36
Financials TR *	13.92	8.29	19.87	2.38	11.71	11.29	13.05	1.96
Information Technology TR *	6.40	0.64	51.17	24.69	28.10	3.94	42.57	24.19
Communication Services TR*	8.84	4.96	37.77	15.70	10.26	6.33	29.94	15.24
Utilities TR *	(5.06)	(6.82)	0.12	8.90	7.77	(7.25)	(5.58)	8.46
Real Estate TR *	3.61	1.37	2.73	5.60	NA	1.22	(3.11)	5.18

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

Economic Outlook

Vaccines versus variants

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Chief Economist
RBC Global Asset Management Inc.

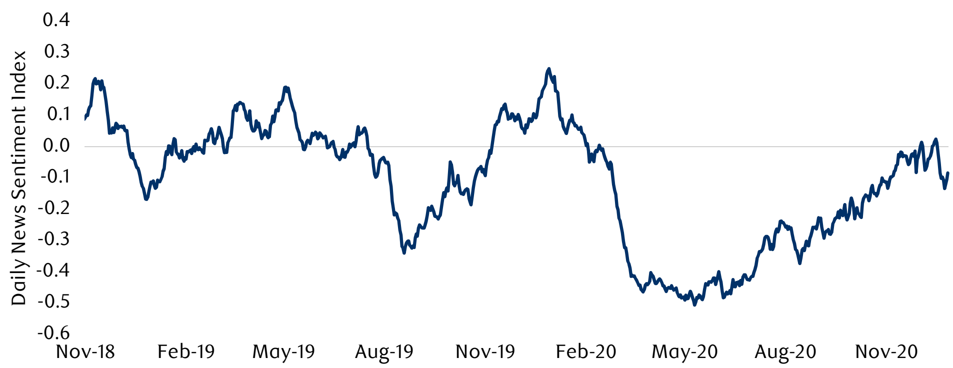
The pandemic and its cascading repercussions remain the dominant economic theme, albeit in a landscape increasingly populated by non-virus developments such as the new U.S. government, an anticipated further round of U.S. fiscal stimulus and the finalization of Brexit.

Economic growth dipped at the end of 2020 due to new social-distancing restrictions meant to dampen the latest virus wave. But the damage was ultimately quite minor (Exhibit 1), and the economy appears to be rebounding again as infection rates have fallen (Exhibit 2).

Vaccines are a key focus for the year ahead with regard to the rate at which they are deployed, their efficacy and the extent to which they may be undermined by virus variants. So far, the news has been more good than bad, with widespread inoculations now underway and favourable results reported (Exhibit 3).

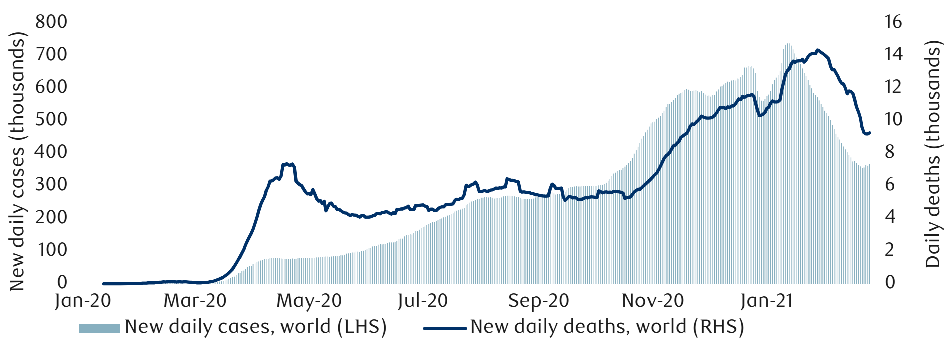
Pitted against the good news of declining infections, rebounding economies and bold vaccination campaigns is the advance of new virus variants that appear to be much more contagious, moderately more deadly and, in some cases, possibly more resistant to the current generation of vaccines. Another wave of infections due to these variants now seems likely. Fortunately, the success thus far in

Exhibit 1: News sentiment fell much less during second wave of COVID-19



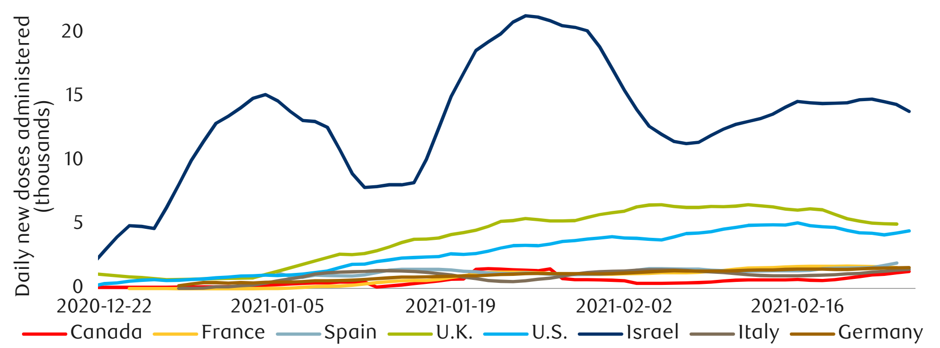
Note: As of 12/27/2020. Source: Federal Reserve Bank of San Francisco, Macrobond, RBC GAM

Exhibit 2: Global COVID-19 cases and deaths declined significantly



Note: As of 2/25/2021. 7-day moving average of daily new cases and new deaths. Source: WHO, Macrobond, RBC GAM

Exhibit 3: Countries are ramping up vaccinations



Note: As of 2021/2/25. 7DMA number of new daily coronavirus vaccine doses administered per million. Source: Our World in Data, Macrobond, RBC GAM administering vaccines should limit hospitalizations and deaths.

On balance, and acknowledging this last risk, we nevertheless retain above-consensus growth forecasts for 2021: the pandemic economic recovery is presumed to continue, a stance consistent with the risk-seeking tilt in our recommended asset mix.

Virus in retreat

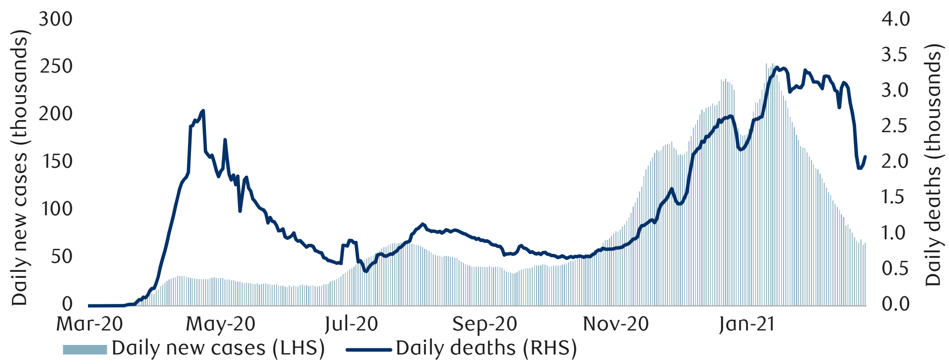
The world was swept up in a serious second virus wave over the fall. A combination of colder weather, re-opened schools, social-distancing fatigue and a string of holidays proved incompatible with controlling the pandemic.

Fortunately, the pendulum began to swing in the opposite direction in early 2021. The number of new infections in many wealthy nations has now fallen dramatically in just a few months (Exhibit 4). The global transmission rate recently reached its lowest level since the pandemic began (Exhibit 5).

The decline in infections thus far has been particularly marked among developed nations, though emerging-market economies have also improved (Exhibit 6).

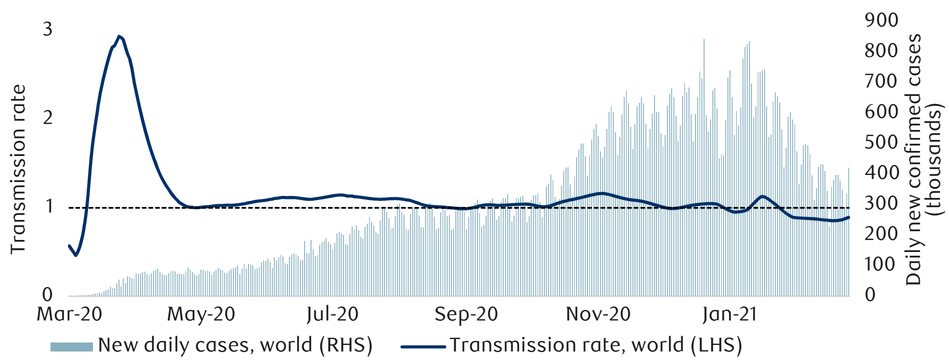
The most obvious explanation for this reversal is that the cumulative effect of several rounds of stricter rules were finally sufficient to curb the outbreak. But other factors were likely also relevant. The peak of the wave aligned with the Christmas holidays, and so the subsequent end of that social season may also have been an important contributor. As vaccinations now mount, the swelling fraction of the population that is immune to COVID-19 provides further downward pressure.

Exhibit 4: COVID-19 cases and deaths in the U.S. fell sharply, now bottoming



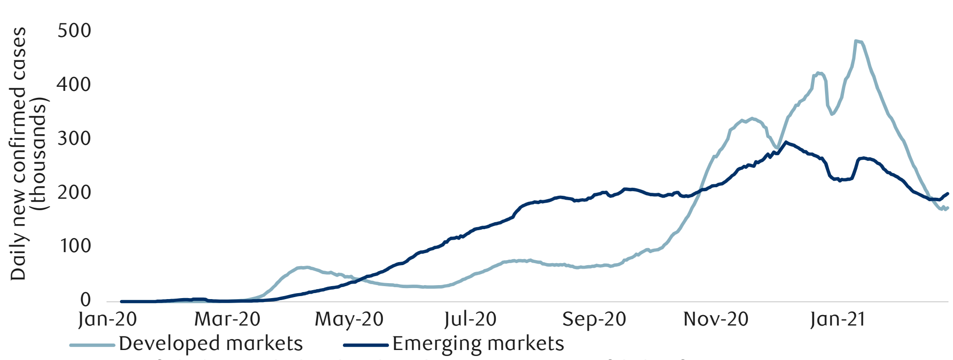
Note: As of 2/25/2021. 7-day moving average of daily new cases and new deaths. Source: WHO, Macrobond, RBC GAM

Exhibit 5: Global transmission rate fell to lowest level during pandemic



Note: As of 2/25/2021. Transmission rate calculated as a 7-day change of underlying 7-day moving average smoothened by a 14-day moving average of new daily cases. Source: WHO, Macrobond, RBC GAM

Exhibit 6: Cases fell substantially in both developed and emerging markets, now bottoming



Note: As of 2/25/2021. Calculated as the 7-day moving average of daily infections. Source: WHO, Macrobond, RBC GAM

Indeed, given that vaccination campaigns are focused on the most at-risk individuals, fatalities have begun to decline with particular speed.

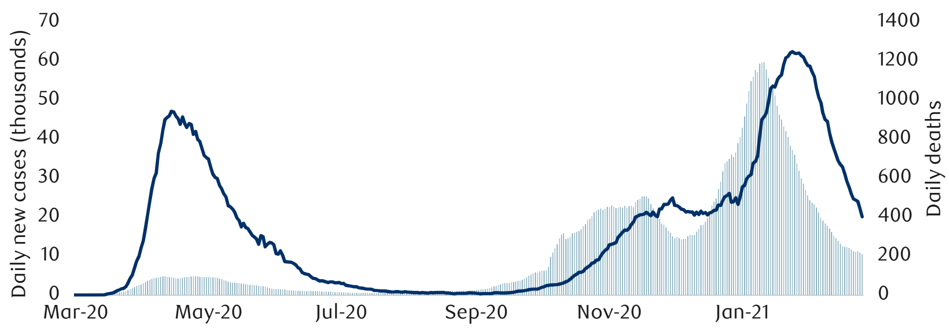
A further, more speculative, hypothesis for the virus's recent retreat involves seasonal factors. The Great Flu of 1918-1919 surged in the spring of 1918, the fall of 1918 and then again in the spring of 1919. COVID-19 similarly surged in the spring of 2020 and then the fall of 2020. These could all be coincidences, or it may be that such viruses are naturally more transmissible in cool rather than frigid conditions.

Looking ahead, there are three reasons to fear a further virus wave this spring. First, as just discussed, it could be that the virus spreads more easily in spring-like weather conditions. Second, countries are already beginning to loosen restrictions – policymakers have a history of re-opening too enthusiastically.

Third, new virus variants could prove problematic. There are now several new, more contagious variants of COVID-19. The U.K. and South African types are most widespread, with studies concluding they are in the realm of 56% more contagious than the original virus, and potentially 20% to 30% more fatal. Worryingly, some variants may also be less responsive to the current generation of vaccines.

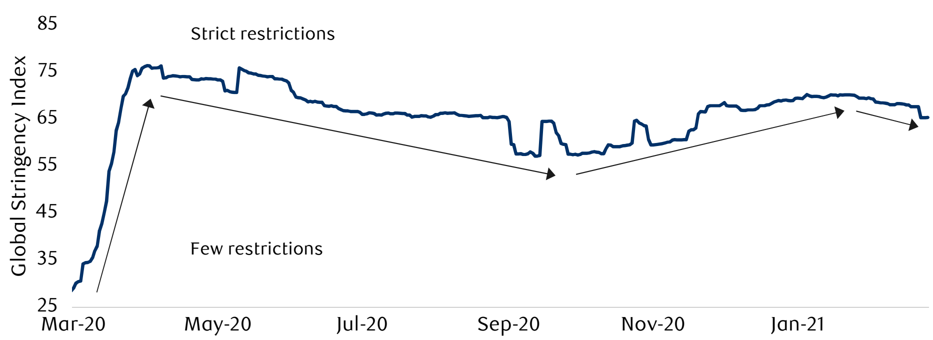
Epidemiologists predict that these new variants will likely become the dominant form of the virus in many countries in the spring, much as they have already taken over the U.K. and a handful of other countries. Even as the original version of the virus is in steep retreat, the new variants are accelerating. This means that the

Exhibit 7: U.K. successfully quelled new COVID-19 variant



Note: As of 2/25/2021. 7-day moving average of daily new cases and new deaths. Source: WHO, Macrobond, RBC GAM

Exhibit 8: COVID restrictions are now easing again



Note: As of 2/25/2021. Global Stringency Index measuring the strictness of lockdown policies that restrict mobility, calculated as stringency index of 50 largest economies. Sources: University of Oxford, IMF, Macrobond, RBC GAM

current level of social distancing is insufficient to halt their progress. A further viral wave seems fairly likely, conceivably necessitating additional economic restrictions.

A few glass-half-full observations are nevertheless useful. We know that the new variants can be controlled with sufficient effort, as the U.K. has managed to sharply reduce its infections, albeit with additional economic damage (Exhibit 7). South Africa has also reduced its infection numbers. Further, as vaccinations continue to gain steam over the next few months, hospitalizations and fatalities should be lower in any future wave, and indeed any wave could prove rather slight relative to the rough seas of the past year.

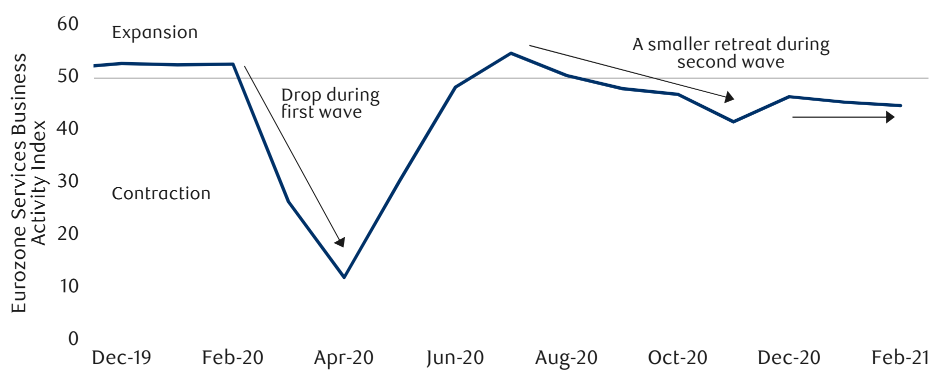
Limited second-wave economic pain

Over the fall, as daily COVID-19 infections rose to new heights, fatalities approached their spring peaks and hospitals neared capacity, governments were compelled to impose more stringent economic restrictions (Exhibit 8).

While these new rules were less stringent than those deployed in the spring of 2020, some economic damage still resulted. Fortunately, the damage was much more limited than last spring (Exhibit 9). This makes sense. While restaurants, bars, gyms and small retailers were closed, these represent a fairly small share of economic activity. Meanwhile, in contrast to last fall, sectors such as construction, manufacturing and real estate continued to operate, and these areas are responsible for around 10 times as much economic activity as the aforementioned sectors. Additionally, sectors such as agriculture and financial services fared much better this time. While they were never officially shuttered last spring, the altered social-distancing landscape did take some time to adjust to. No further adjustment was necessary in recent months. While economic growth slowed at the end of 2020 and into early 2021, most countries have managed to avoid even a single quarter of outright contraction.

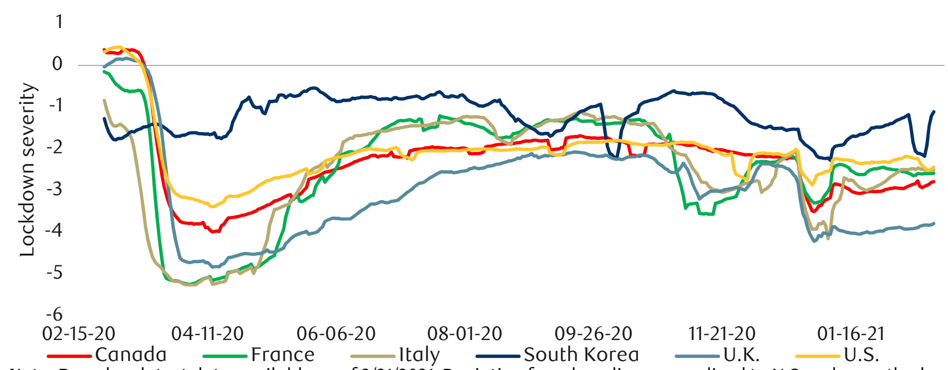
Now, as restrictions start to ease, real-time mobility measures show the beginning of an upturn (Exhibit 10).

Exhibit 9: Economic damage during second wave was much less intense



Note: As of Feb 2021. Source: HIS Markit, Haver Analytics, RBC GAM

Exhibit 10: Real-time mobility has started to rise



Note: Based on latest data available as of 2/21/2021. Deviation from baseline, normalised to U.S.and smoothed with a 7-day moving average. Source: Google, University of Oxford, Macrobond, RBC GAM

Vaccines to the rescue

It is nothing short of astonishing that a number of vaccines to combat COVID-19 were developed, tested, proved effective, manufactured and distributed, all within the span of a single year. Historically, it has taken many years to achieve all of this. In addition to the risk-taking of the companies involved, it is extremely fortunate that COVID-19 came along at a time of rapid progress in genetic sequencing and biotechnology.

A number of vaccines have demonstrated efficacy rates of 90% or higher – well beyond initial expectations. Furthermore, several vaccines have been found to deliver protection in excess of 90% even before the second inoculation has been delivered, allowing countries to stretch supplies.

The distribution of vaccines was initially choppy and slower than expected, but the logistical issues have now largely been addressed in key countries and the pace of inoculations has quickened considerably. Demonstrating this, the large majority of forecasters now believe that most Americans will be inoculated by the middle of the year – a sharp increase relative to expectations even at the start of 2021.

However, there have been stark differences in the rate of vaccination across countries. Israel leads by a considerable margin, having managed to secure a large supply relative to its small population, apparently in exchange for sharing detailed health outcomes with manufacturers. Among large countries, the U.K. and U.S. lead the way, seemingly based in part on their domestic pharmaceutical industries, in part due to their early orders, and in part due to their geopolitical clout. Europe lags somewhat, with Canada further behind (Exhibit 11). Japan has only just begun the vaccination process, and large countries such as China and India must inoculate enormous populations, slowing their progress. Many of the world's poorest countries will have to wait until the second half of 2021 or beyond to make significant progress.

While Canada has ordered more vaccines on a per-capita basis than any other nation, its orders were late, it lacks domestic manufacturing capacity, and it arguably also lacked sufficient geopolitical clout to secure a large number of early doses.

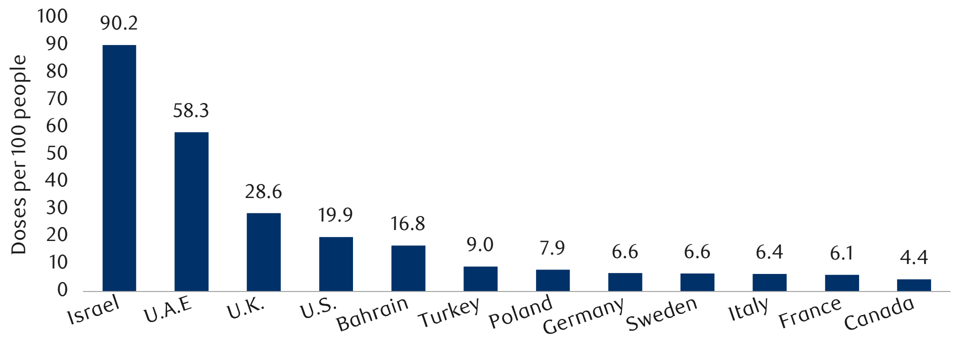
The pace of vaccination informs the rate at which the economies of individual countries can normalize. The U.K. and the U.S. appear to have the clear upper hand among large, wealthy nations.

The ultimate goal of vaccinations is to achieve herd immunity. However, given that children cannot be inoculated and that not all adults will be, and that some new variants may be less responsive to vaccines, the virus is likely to linger into 2022 and possibly beyond. If successful, efforts underway to permit children to be inoculated and to develop a booster for certain variants would improve this calculus.

Fortunately, there is great value to inoculation efforts whether or not herd immunity is achieved. Certain benefits are already beginning to accrue (Exhibit 12):

- The first round of people being inoculated are those at greatest risk of dying. In turn, the fatality rate for the virus should fall precipitously over the coming months.
- The second round of people to be inoculated are disproportionately those in front-line jobs – likely the group that is transmitting the virus the most. As this group is inoculated over the next several months, the infection numbers should collapse.
- Lastly, the remaining low-risk and low-contact people will be inoculated, and while this won't materially alter the fatality or infection numbers, it will represent further progress toward herd immunity.
- Throughout, politicians are likely to incrementally re-open economies as the risk shrinks. It is likely that such re-openings will be front-loaded, cueing off of declining hospitalizations rather than awaiting lower infections (Exhibit 13).

Exhibit 11: Israel leads in global coronavirus vaccination race



Note: As of 2021/2/25. Cumulative total doses administered by country per 100 people.
Source: Our World in Data, Macrobond, RBC GAM

Exhibit 12: Significant milestones even before herd immunity

Vaccination rounds	Targeted groups	Timing	Share of population	Effect on fatalities	Effect on transmission	Effect on economy
Round One	Old, vulnerable, front-line medical	Dec – Mar	15%	Sharp decline in fatalities	Modest decline in transmission	Moderate boost to economy
Round Two	Front-line non-medical, people who work or live in close contact with others	Mar – May	35%	Moderate decline in fatalities	Sharp decline in transmission	Moderate boost to economy
Round Three	Young, healthy, remote workers, children?	May – end of year	50%	Minimal decline in fatalities	Modest decline in transmission	Moderate boost to economy
Herd immunity (~70% of population immune) should be achieved over summer or early fall U.K. and U.S. may be somewhat faster; CA, EZ & JP somewhat slower						

Depends heavily on what criteria goverments use for reopening

Source: RBC GAM

Optimistic about the way forward

We have found it helpful to regularly revisit five key economic questions posed at the beginning of the pandemic (Exhibit 14). The first three have already been answered.

How deep was the initial economic decline? The drop varied from 10% to 25% of GDP depending on the country – unprecedented, but not as bad as feared.

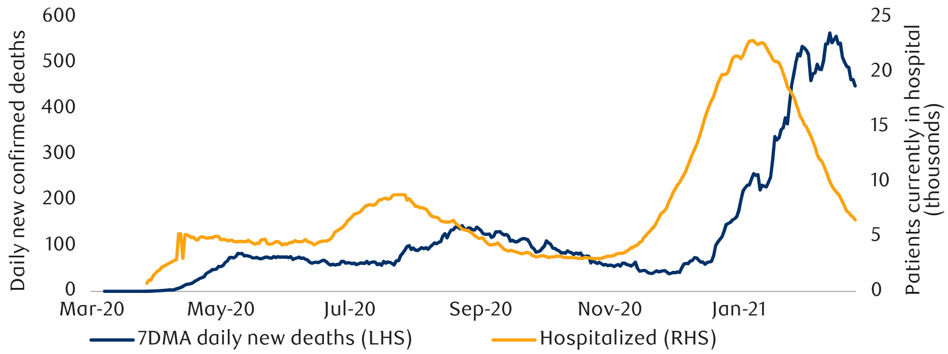
How long did this decline last? The trough of output in the spring lasted barely over a month – shorter than expected.

When did economies recover half of their lost output? Amazingly, half of the economic decline was already recovered by the middle of 2020. The common theme in all three answers is that the economic reality was better than the initial expectation.

Even factoring in recent undulations, we believe the economic recovery remains not just underway but has considerable room left to grow (Exhibit 15). We estimate that around 70% of the economic decline suffered during the worst of the pandemic has since been recovered, albeit with considerable variation by sector (Exhibit 16). Retail activity is now well beyond normal, aided in significant part by government support; conversely, the food and drinks sector remains well below normal.

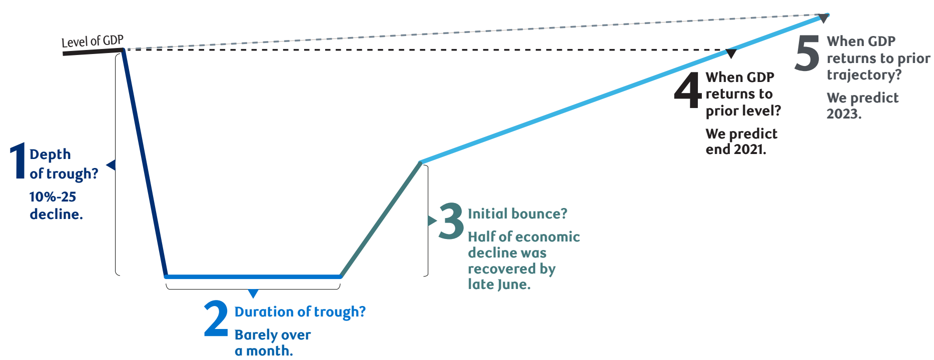
Progress in 2021 should be slower than it was over the final two-thirds of 2020, mainly because there is less low-hanging fruit to pluck. Nevertheless, as businesses continue to adapt to this altered environment and as economies

Exhibit 13: COVID-19 hospitalizations in California have fallen dramatically



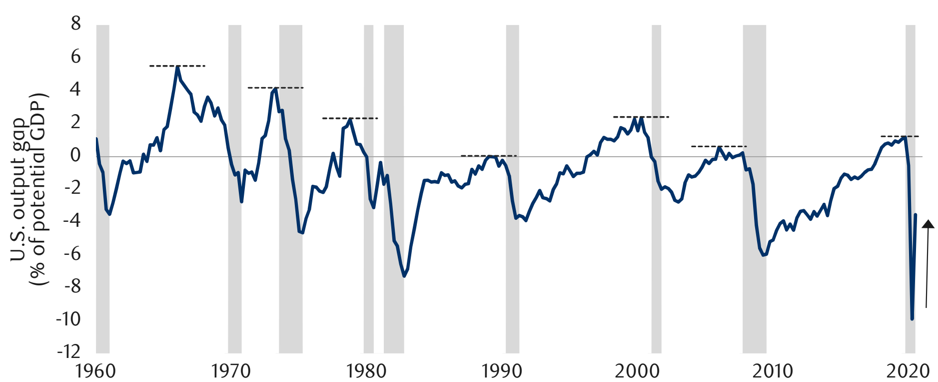
Note: As of 2/25/2021. 7-day moving average of daily new deaths used as trendline. Source: The COVID Tracking Project, Macrobond, RBC GAM

Exhibit 14: Five key economic questions – so far, answers have been better than expected



Note: As at 2021-01-08. Source: RBC GAM

Exhibit 15: Still considerable room for catch-up growth in coming years



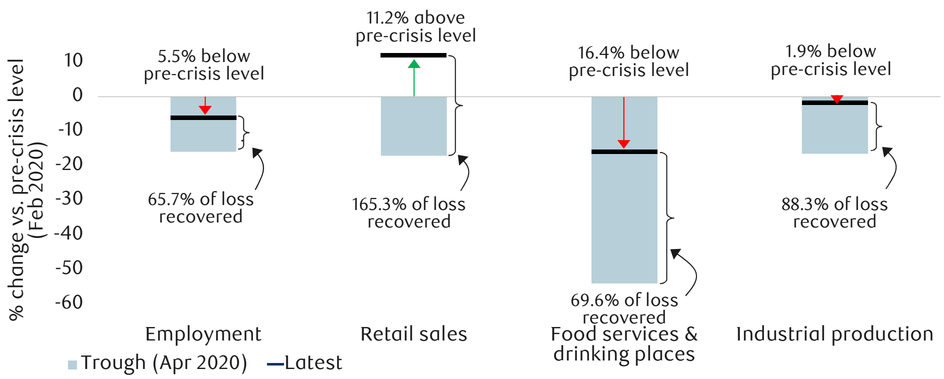
Note: As of Q4 2020. Shaded area represents recession. Source: CBO, Macrobond, RBC GAM incrementally re-open, robust growth is likely, with the remaining 30% of the economic decline set to be recovered in the U.S. by the end of the summer. Canada should attain a similar milestone toward the end of 2021, and most other developed countries reaching that point in early to mid-2022. From there, we continue to believe that most economies will return to their full potential around 2023.

Our business-cycle scorecard now makes the case that the U.S. economy has shifted firmly into the early phase of the business cycle (Exhibit 17). This offers no guarantees for the future, but hints that recent economic wobbles are temporary and that the economic recovery should have lasting power.

This cycle reading alongside economic surprise indexes that have remained persistently positive since the spring of last year suggest that above-consensus forecasts remain the winning strategy for 2021 (Exhibit 18).

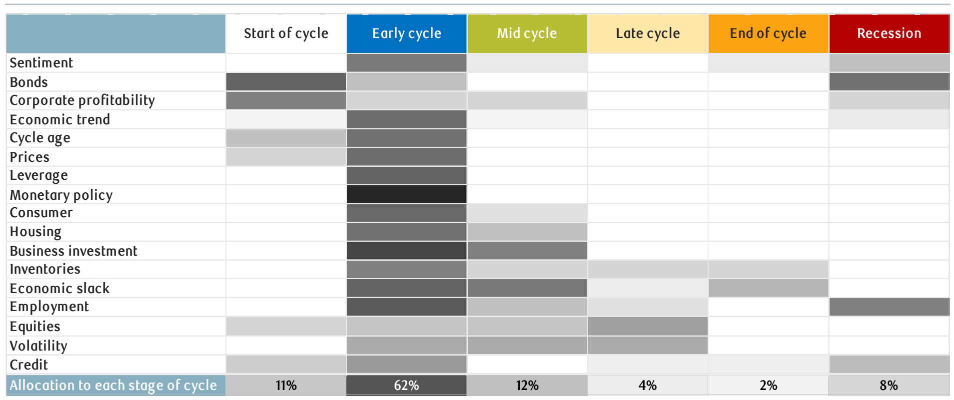
We are alert to the possibility that several pandemic-related headwinds might arrive with a lag. These include an eventual fiscal drag as stimulus programs expire, the possibility that credit problems surface and the risk that housing markets end their frenzied run. But fiscal support is likely to remain in place until it is no longer urgently needed, there is little evidence of mounting credit issues and housing has shown no inclination to soften. Furthermore, a key potential tailwind exists in the form of significant pent-up demand. Households have accumulated a great deal of savings that may be unleashed by the easing of social-distancing restrictions.

Exhibit 16: Traditional economic data confirms that significant U.S. recovery has already taken place



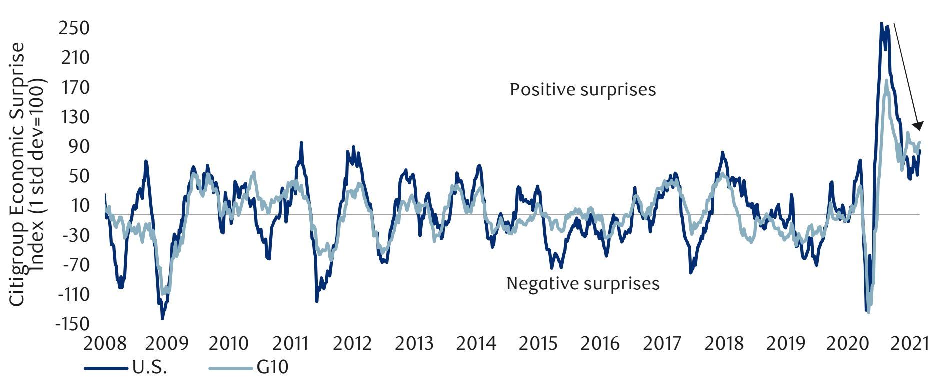
Note: As of Jan 2021. Trough since Feb 2020. Source: Macrobond, RBC GAM

Exhibit 17: U.S. business-cycle scorecard



Note: As at 2021-02-03. Darkness of shading indicates the weight given to each input for each phase of the business cycle. Source: RBC GAM

Exhibit 18: Global economic surprises remain positive after wild swings

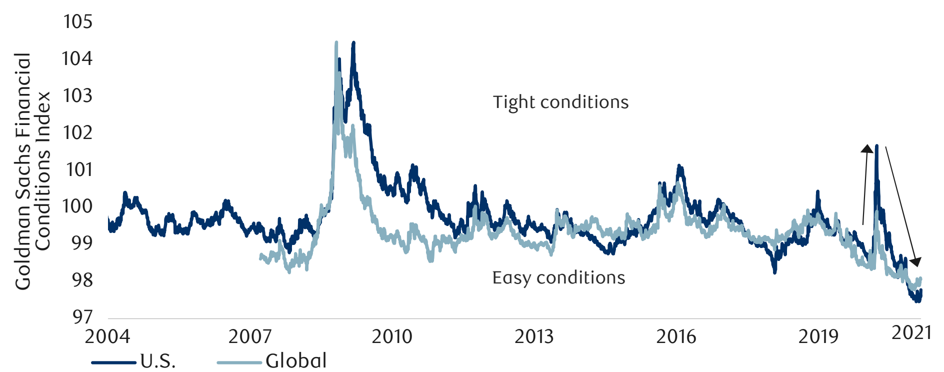


Note: As of 2/26/2021. Source: Citigroup, Bloomberg, RBC GAM

Policy support persists

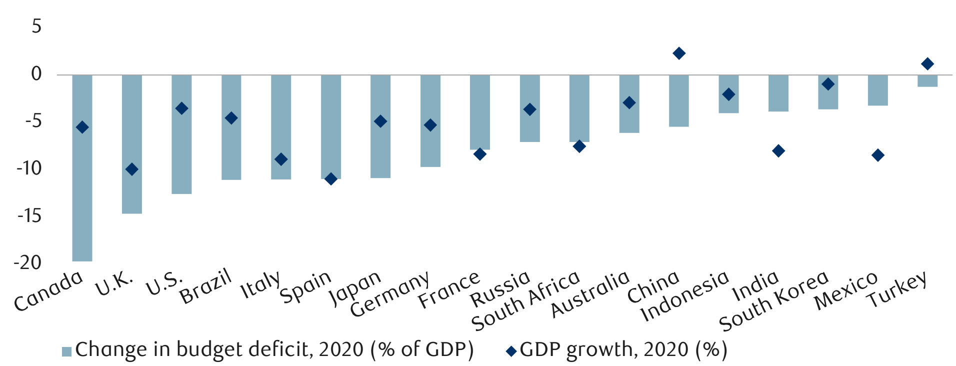
Policymakers have had an enormous role in cultivating the economic rebound. Low policy rates and money printing have translated into the easiest financial conditions on record (Exhibit 19). Central banks insist that they will remain locked in stimulus mode for several more years, though there are some concerns that rising inflation and a vigorous recovery could force at least mild tightening somewhat sooner.

Exhibit 19: Financial conditions still extremely stimulative



Note: As of 2/25/2021 for U.S., 2/24/2021 for global. Source: Goldman Sachs, Bloomberg, RBC GAM

Exhibit 20: Massive fiscal stimulus deployed, but rising public debt levels



Note: IMF estimates of general government deficits and GDP growth where official GDP growth is not yet available. Source: IMF Fiscal Monitor, October 2020, Haver Analytics, RBC GAM

Meanwhile, fiscal stimulus has been no less astonishing, as reflected in record fiscal deficits in 2020 (Exhibit 20). Canada led the way in this regard, with an unfathomable deficit equal to nearly 20% of GDP. Such deficits should shrink significantly in 2021 in most countries as the need for stimulus diminishes, but balanced budgets are unlikely in the foreseeable future.

An unavoidable consequence of more fiscal stimulus is more public debt, which now reaches unprecedented heights. Ultra-low interest rates are keeping this affordable for the moment, but even in the low-rate world that should prevail for some time, debt-servicing costs will divert some public funds away from more productive uses. Fortunately, the risk of a sovereign-debt crisis remains low in the vast majority of countries.

While the U.S. fiscal story initially appeared fairly similar to its peers, the trajectory began to diverge in the fall of last year. The initial thrust of U.S. fiscal stimulus expired earlier than in most countries, resulting in modest economic pain. Now the U.S. is back with a vengeance, delivering a US$900 billion stimulus program at the end of 2020, and seemingly on the cusp of a further massive stimulus package worth about US$1.9 trillion. Given simultaneous chatter of a possible multi-trillion dollar infrastructure package, it would appear that the U.S. economy will outgrow most other wealthy nations in 2021.

The new U.S. administration led by President Biden should be a net positive for economic growth. This is in part due to the aforementioned fiscal stimulus outlook, as well as on the presumption of somewhat friendlier trade and immigration policies (Exhibit 21). Despite concerns about the possibility of higher corporate taxes and the reality of greater business regulation, the stock market appears content with the new political direction. We continue to believe Biden is a mild upward force on bond yields and a mild downward force on the U.S.

dollar. But much of this is now already priced in to markets.

Above-consensus forecasts

The growth outlook remains less clear than usual due to the unprecedented nature of the pandemic and large uncertainties that include the rate at which vaccines will be distributed and their efficacy against new variants, the possibility of another virus wave over the next few months, uncertainty over the magnitude of fiscal stimulus from here, and new inflation risks. While significant, these risks are roughly balanced in terms of their capacity to resolve in a surprisingly good or bad direction (Exhibit 22). The downside risks arguably dominate for the vaccines and virus, but the reverse is true with regard to the possibility of future fiscal support.

While acknowledging this uncertainty, our base-case economic forecasts remain mostly above the consensus (Exhibit 23). This is motivated by the aforementioned pattern of positive surprises so far, helpful financial conditions, our conviction that vaccines will prove a game-changer, and the view that there will be limited economic scarring as the pandemic fades.

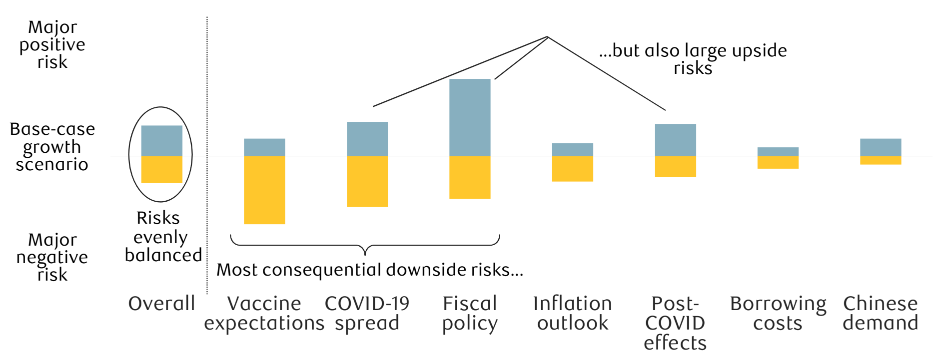
The U.S. appears capable of outgrowing most of its peers due to several advantages. The U.S. is vaccinating its population more quickly than most countries, the country is likely to reopen with the greatest enthusiasm as infections

Exhibit 21: Biden & Blue Wave political implications are mostly positive

Biden policy stance vs Trump	Short-term economy	Long-term economy	Equities	Bond yields	U.S. dollar
Stricter COVID-19 controls	–	+			
Tax increases		–	– –		
Fiscal stimulus	+ +	+	+ +	+	+
Trade/Immigration		+	+		–
Regulations		–	–		–
Overall	+	+	+	+	–

Note: As at 2021-03-01. Source: RBC GAM

Exhibit 22: Key global macro risks over the next year



Note: As of 01/29/2021. Size of each bar reflects probability-weighted impact of bull-case/bear-case scenario. Source: RBC GAM

Exhibit 23: RBC GAM GDP forecast revisions

Forecast year	2021			
GDP forecast	RBC GAM			RBC GAM vs. CE
Forecast date	Q4 2020		**Q1 2021**	CE forecast, Feb. 2021
U.S.	4.0	→ +2.0 →	**6.0**	1.3
Canada	5.0	→ +0.2 →	**5.2**	0.6
Eurozone	5.6	→ -0.3 →	**5.3**	0.9
U.K.	6.6	→ -0.5 →	**6.1**	1.9
Japan	3.7	→ +0.3 →	**4.0**	1.7
Developed countries	4.7	→ +0.8 →	**5.5**	1.2
World	6.0	→ +0.6 →	**6.7**	0.8

Note: RBC GAM vs. CE calculated as RBC GAM forecast minus Consensus Economics (CE) forecast. Source: CE, RBC GAM decline, and it is set to deliver far more fiscal stimulus in 2021 than any other country.

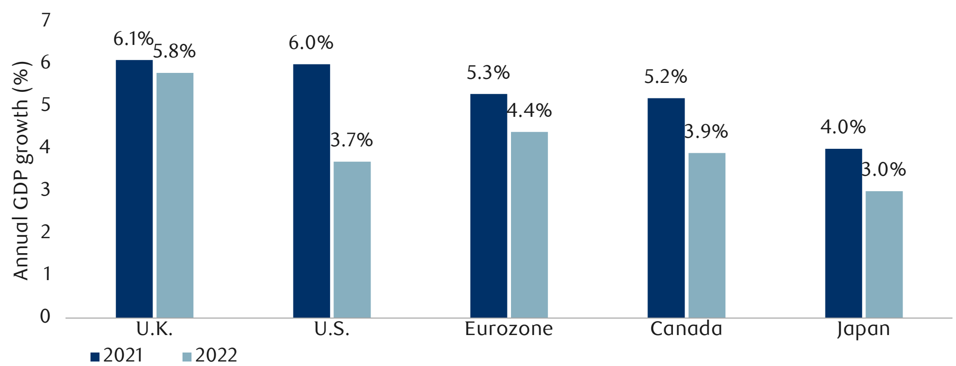
Our new forecasts are mostly a little higher than last quarter (Exhibit 24). One reason for this is that the economic damage from the second wave was milder than expected. Another is that the U.S. is set to deliver even more fiscal stimulus than previously budgeted. Finally, vaccines have been more successful than initially expected.

Further on the subject of national-level differences, it is important to recognize that the countries with the fastest growth rates in 2021 are not necessarily the ones that are truly performing best from an economic standpoint. Fast growth in 2021 is also likely in countries that have a particularly deep economic hole to dig themselves out of, as is the case for the U.K. and the Eurozone.

Instead, it is best to evaluate countries on the basis of how quickly they recover their pre-pandemic output level. We believe the U.S. economy will reach this milestone early in the second half of this year. Canada may take until later in the year, with the eurozone, U.K. and Japan trailing home over the first half of 2022. The U.K. simultaneously grapples with some Brexit damage over the next few years given that its last-minute trade accord with the EU did not extend to the service sector.

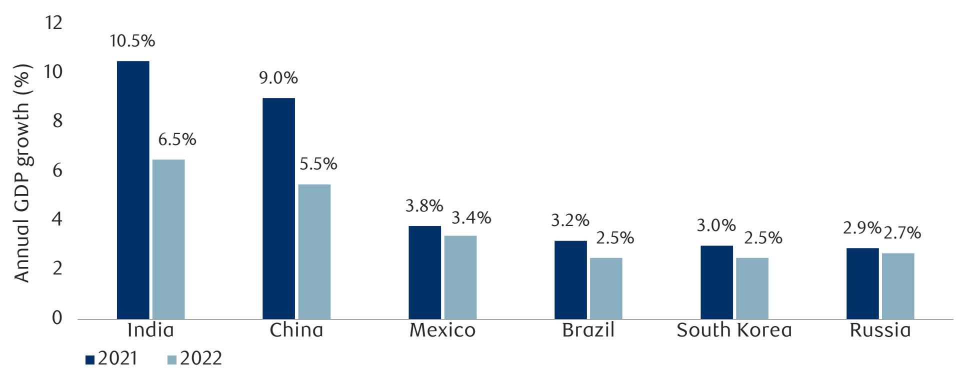
The year 2022 is now within our forecast horizon. Growth is likely to decelerate in 2022, but the rate of ascent should nevertheless remain well above that of a normal year, with

Exhibit 24: RBC GAM GDP forecast for developed markets



Source: RBC GAM

Exhibit 25: RBC GAM GDP forecast for emerging markets



Source: RBC GAM

economies nearing their full potential by year-end.

The main themes are similar for emerging-market nations – a year of global economic recovery. Our forecasts for big countries like China and India are also slightly above the consensus and steady to higher than a quarter ago (Exhibit 25).

Inflation fears

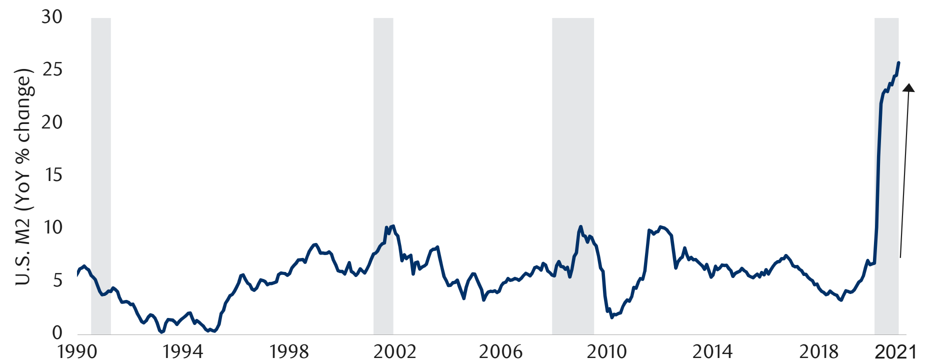
As is usually the case during and immediately after a recession, inflation is low. This makes sense: unemployment is high and pricing power is limited.

Even so, the fear of inflation has now risen significantly over the past few quarters, to an extent that is unusual for such an early phase of the business cycle. Of particular concern is that central banks have printed a great deal of money, as reflected in a surging money supply (Exhibit 26). Other arguments for additional inflation include the U.S. Federal Reserve's new goal of an inflation rate moderately above its traditional goal of 2.0%, the possibility that countries might try to erode their staggering new public debt loads via additional inflation, and the mildly inflationary effects of bringing home some production of medical and other supplies deemed critical. Actual inflation is indeed now rising somewhat, albeit off of a low base.

These are all, to one degree or another, valid concerns. However, this list fails to paint a complete picture. It is worth beginning with inflation expectations, which have risen but remain in line with the norm of the past decade (Exhibit 27). As such, inflation fears are not exactly extreme. Furthermore, really the only way that inflation could end up aggressively higher than normal is on the basis of central-bank money printing. If realized, the other factors might add a few tenths of a percentage point to inflation, but not multiple percentage points.

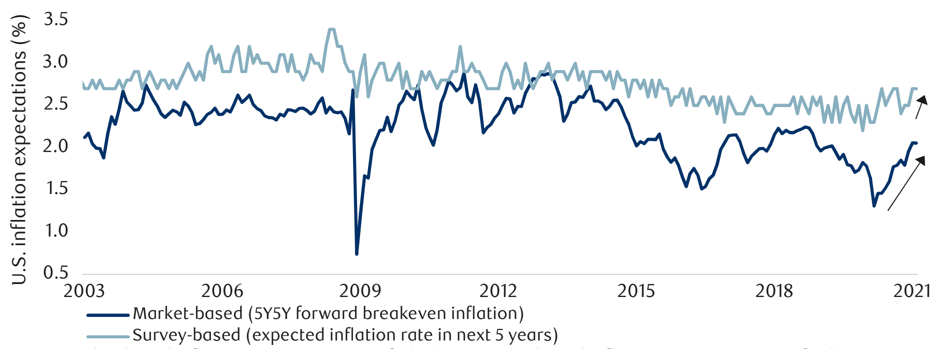
So what of the idea that central-bank money printing might be profoundly inflationary? It is a risk, but an unlikely one. So far, very little of the money has actually made its way into the economy. The great bulk has either been gummed up in extra savings at banks, or returned to the central banks themselves in the form of excess reserves. In practice, there is very little connection between the monetary base and the rate of inflation – a reason that central banks abandoned targeting the money supply as a means of controlling inflation in the 1970s. Also recall that central banks are aiming for a reasonable level of inflation. If money printing suddenly led to too much inflation, central banks would have every motivation and ability to reverse themselves. Of course, that would send interest rates higher – perhaps the real risk in the inflation discussion.

Exhibit 26: U.S. money-supply growth surged during pandemic



Note: As of Jan 2021. Shaded areas represent U.S. recessions. Source: Haver Analytics, RBC GAM

Exhibit 27: U.S. inflation expectations rose, but only to normal levels



Note: Market-based inflation expectations as of 2/25/2021, survey-based inflation expectations as of Feb 2021.
Source: Federal Reserve, University of Michigan Surveys of Consumers, Haver Analytics, RBC GAM

It is also important to recognize that there is a different set of factors that argue for low inflation (Exhibit 28). These aren't as flashy or novel as the upward pressures, but they still matter.

Fundamentally, economic activity should remain below its normal level over the next two years – a fundamentally deflationary pressure. For that matter, even when the economy was objectively tight before the pandemic, inflation was still low. A proper wage-price spiral has not been seen in decades, and in a world of diminished unionization and an increasingly global labour market, it makes sense that wage growth is not the potent inflationary force it once was.

Demographics are also a powerful downward force on inflation. Older, slower-growing populations appear to depress inflation. Japan is the classic example, with Europe now following a similar trajectory. The rest of the world is not immune. Before the pandemic, inflation risks tilted substantially downward for this reason.

Taking all of this information and applying it to the year-ahead inflation outlook, the underlying price trend should be one of low inflation becoming a bit less low.

Several special factors not yet discussed must then be layered on top:

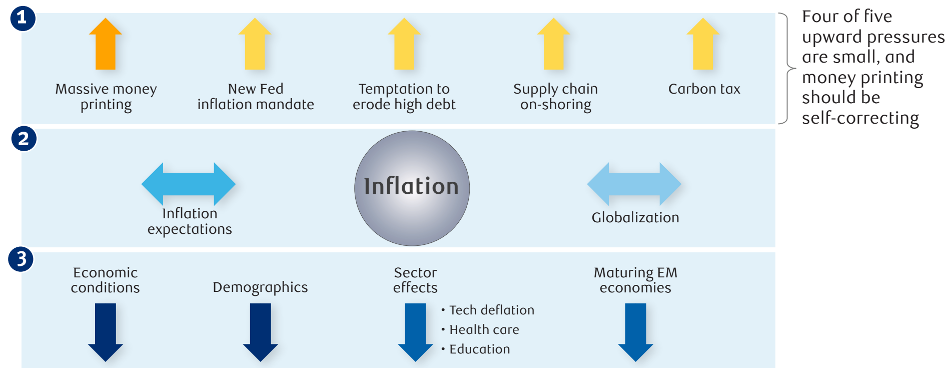
- The partial rebound in oil prices should artificially and temporarily increase inflation somewhat in 2021, though this merely represents the reversal of declining oil prices in 2020.
- In the U.S., a falling dollar adds moderately to the inflation outlook.
- In Canada, rising carbon taxes should tack a few tenths of a percentage point onto Canadian inflation (Exhibit 29).

These forecasts are relatively neutral versus the consensus – a hair higher for the U.S. and Canada, and a little below for the U.K., Eurozone and Japan. It is a similarly mixed proposition for emerging-market inflation. For emerging-market nations, arguably the most important inflation theme is the ongoing gradual decline in their structural inflation rate as their economies mature.

Mixed Canadian story

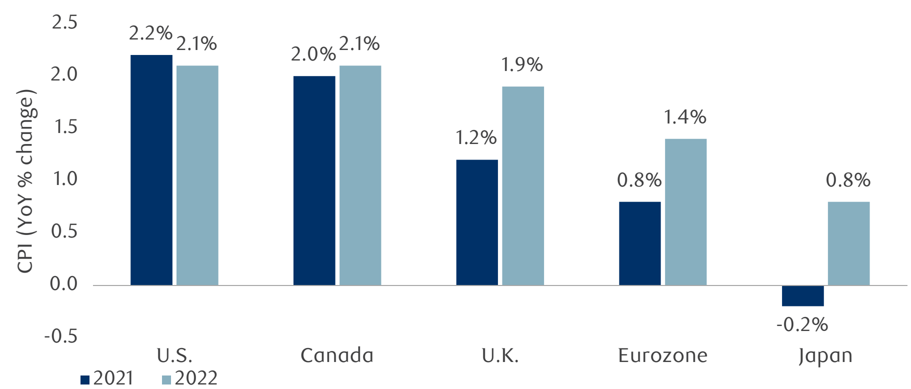
The Canadian economic story is a nuanced one. The country has fared better than most wealthy nations across the pandemic when measured by the number of infections, hospitalizations and fatalities per

Exhibit 28: New upside inflation pressures, but also significant downward ones



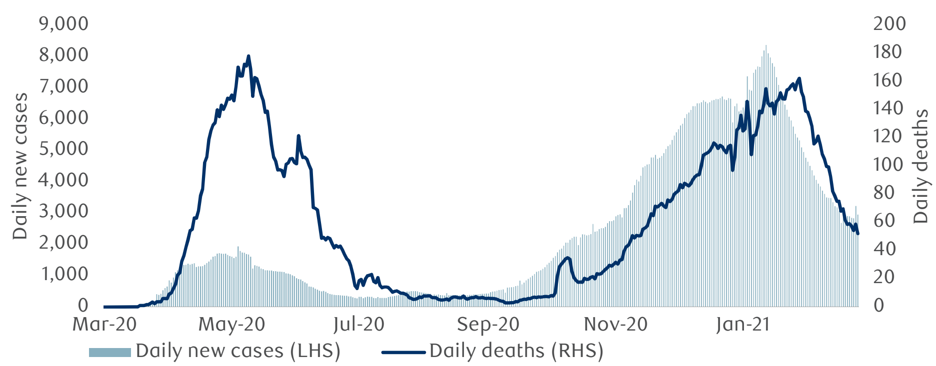
Note: As at 02-16-2021. Source RBC GAM

Exhibit 29: RBC GAM CPI forecast for developed markets



Source: RBC GAM

Exhibit 30: Canadian infections have fallen sharply, now flattening



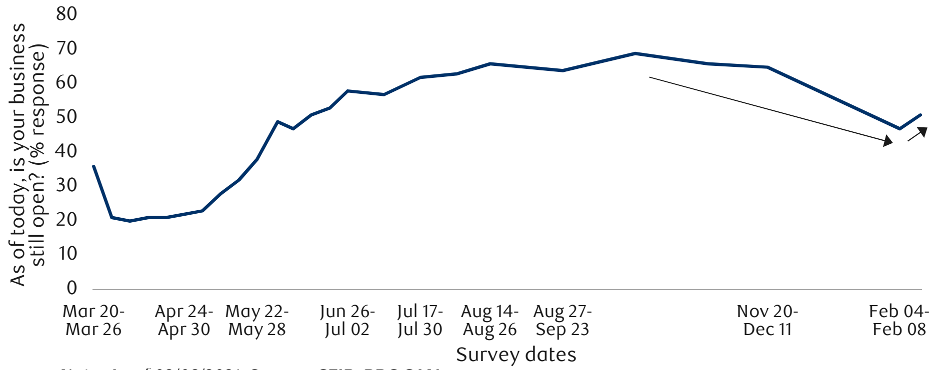
Note: As of 2/25/2021. 7-day moving average of daily new cases and new deaths. Source: WHO, Macrobond, RBC GAM capita. Canada has also recently enjoyed a significant decline in infections (Exhibit 30).

However, a country's economic performance has much more to do with the extent to which it imposes economic restrictions as opposed to the human toll of the pandemic. Canada has generally been somewhat stricter in its restrictions than the U.S., and so suffered a sharper economic decline (Exhibit 31). Much of this was initially offset by more generous fiscal stimulus, leaving the Canadian economy in a roughly similar position to the U.S at the end of 2020 in terms of the economic recovery (Exhibit 32).

But, in 2021, Canada appears set to lag the U.S. recovery somewhat, for four reasons. First, the U.S. is vaccinating at a much faster pace than Canada, allowing for a more rapid normalization of economic activity. Second, the U.S. has repeatedly demonstrated that it will re-open more quickly than most countries even if its pandemic conditions are similar. Third, the U.S. is now delivering big new fiscal stimulus that is not being fully matched by Canada. Fourth, the Canadian dollar is strengthening against the greenback, diminishing the country's competitiveness.

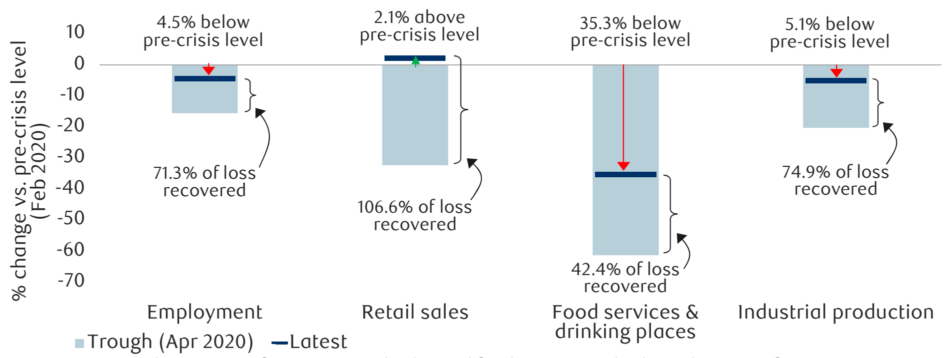
Providing partial but incomplete offsets against these forces, commodity prices have rebounded and may yet rise further, Canada will enjoy some indirect benefit from U.S. fiscal stimulus and political normalization, and the country's woeful vaccination pace appears on the cusp of accelerating significantly in the second quarter of the year. In the end, we look for Canadian growth of 5.2% in 2021 – an impressive clip on an absolute basis, but a bit short of the 6.0% pace in the U.S.

Exhibit 31: Canadian businesses start to re-open after second lockdown



Note: As of 02/08/2021. Source: CFIB, RBC GAM

Exhibit 32: Significant progress made in Canada



Note: Employment as of Jan 2021; retail sales and food services & drinking places as of Dec 2020; industrial production as of Nov 2020. Trough since Feb 2020. Source: Macrobond, RBC GAM

Lasting implications

When afforded the luxury of looking beyond the pandemic, our primary thesis remains that there should be surprisingly little economic scarring and perhaps fewer permanent changes to how society functions than many imagine.

There are several reasons to imagine limited economic scarring after the pandemic:

- The economic recovery so far has been more enthusiastic than expected at every turn.
- The economic damage that remains is mainly the artificial result of government restrictions, and should rebound as soon as the restrictions ease.
- Massive monetary and fiscal stimulus has been so forceful that

the usual recessionary scourge of bankruptcies and defaults has been minimized to the extent that little hangover is likely later.

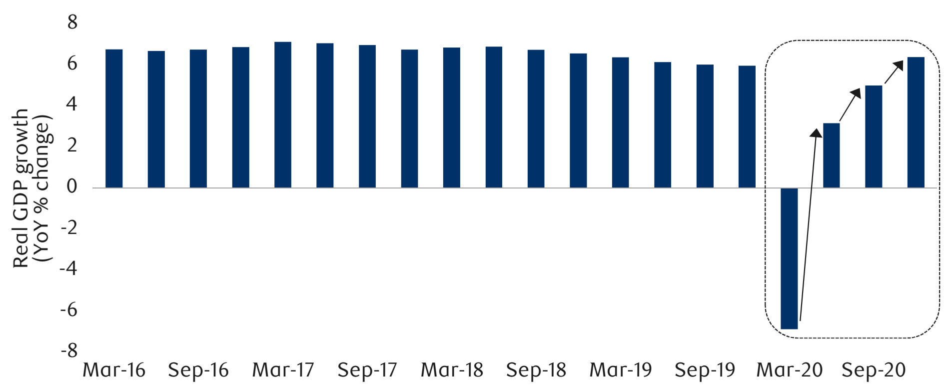
- China, which is well ahead of most countries in its handling of the pandemic, reveals very little economic damage, and even managed to grow unusually quickly in 2020 (Exhibit 33).
- Looking back a decade, the global financial crisis was expected to do a great deal of lasting damage but most of this evaporated fairly quickly.

It is a similar story when thinking about how the world might be permanently altered by the pandemic. Historically, pundits usually exaggerate the extent to which major shocks will leave a lasting mark on the economy and society (Exhibit 34).

We certainly acknowledge that quite a number of things will be different in the immediate aftermath of the pandemic, but many of these should be quite short-lived, others will only last for a few years, and many of the changes that are permanent should de-intensify somewhat (Exhibit 35).

For instance, the level of socializing, physical contact and personal travel should rebound quite quickly once restrictions are lifted. We similarly expect most economic variables to normalize over time: population growth has been only minimally affected, immigration should resume, economic slack and the unemployment rate should normalize over a few years, and there is little reason to expect a sustained diminishment of innovation (in fact, crises are sometimes catalysts for a spurt of subsequent innovation).

Exhibit 33: Chinese economy recovered rapidly



Note: As of Q4 2020. Source: China National Bureau of Statistics, Macrobond, RBC GAM

Exhibit 34: Prior shocks induced fewer lasting changes than expected

Event	Initial expectation	Did this happen?
World War I	• War to end all wars	No – much bigger war within a generation
Spanish Flu	• Very similar to COVID-19 expectations • Lasting economic damage • Lasting aversion to social activities, restaurants, entertainment, travel • Distaste for dense cities	No – life returned to normal very quickly and subsequent decade enjoyed an economic boom
World War II	• Long-lasting economic depression in Europe	No – economy boomed during rebuilding and productivity surged globally due to new technologies
1990s dot com blowup	• End of online tech boom • No more funding for revenue-less companies	No – was actually just the beginning of the online tech boom
9/11	• Less air travel • Aversion to tall buildings, cities	No – record air travel, urbanization continued, many tall buildings built subsequently

Note: As at 2021-02-17. Source: RBC GAM

While suburbs and rural areas may outperform downtowns for some time, the powerful forces underpinning urbanization should eventually revive, reflecting the fundamental attraction of living where jobs are high-paying and plentiful, and given the generally high quality of education, health care and culture available in cities. Although governments are set to be larger than normal for a number of years, there is no reason that the additional spending must be permanent. The same goes for the risk of higher inflation – it exists for several years, but should then fade.

Exhibit 35: Lasting implications of COVID-19 – few implications are truly permanent and most of those should partially reverse

Permanent

No reversal
- More public debt
- More automation

Partial reversal
- Online > Brick and mortar
- Commercial real estate weakness
- Less business travel
- More skittish/prepared for future viral outbreaks

Significant reversal
- Lower interest rates
- More working from home
- More resources for low prob./ high impact risks

Complete reversal

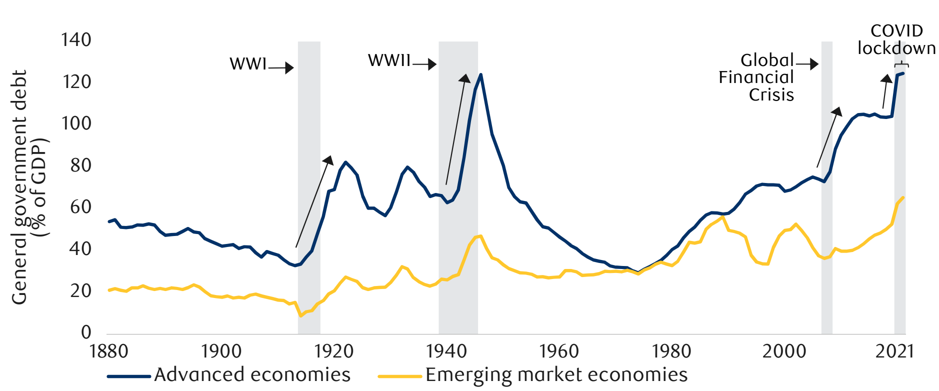
Multi-year
- Rural/Suburbs > Downtowns
- Lower LT return on investments?
- Larger government
- Higher inequality
- More private debt / default risk
- More inflation
- Supply chain on-shoring
- Human capital loss (school closures & unemp.)
- Less mon. policy independence

Short-lived
- Less socializing, physical contact, personal travel
- Higher unemployment
- Lower population growth (deaths, less immig., baby bust = slower GDP growth / housing)
- Less innovation (= slower GDP growth)
- Goods > services
- Big business > Small business
- Private transportation > Public transportation

Note: As at 2021-02-17. Source: RBC GAM

Finally, among permanent changes, only a few are set to remain in full force. We expect public-debt levels to remain permanently higher than otherwise (Exhibit 36). But many of the other permanent changes should at least diminish somewhat in their intensity. Yes, online spending will remain higher than before the pandemic, but likely not to the current extent. Yes, business travel should be permanently lower than before, but not nearly so low as it is now. Yes, more people will likely work from home than before, but executive surveys make quite clear that most people working remotely will be back to the office for more than half of their hours.

Exhibit 36: Global public debt to reach record high due to pandemic



Source: IMF Fiscal Monitor, October 2020, RBC GAM

Bottom line

The pandemic is not yet resolved. It may well be tidily resolved in the coming months for wealthy nations if vaccines prove particularly effective, but there is also the distinct possibility of additional infection waves if some new virus variants manage to take over and prove resistant to the existing generation of vaccines. The inflation outlook is a further source of risk. Uncertainty remains considerable.

However, there is arguably reason for more optimism than pessimism:

- Governments, businesses and workers have adapted to the pandemic to the point that the latest wave of infections only minimally damaged the economy.
- Whether the infection numbers remain low over the next few months or not, it is very likely that the virus will be in serious retreat no later than this summer.
- Vaccines appear to be a genuine game-changer.
- Monetary and fiscal stimulus is likely to remain powerful, and significant pent-up demand waits to be unleashed.
- A key takeaway from the pandemic experience so far is that the economic rebound has been more forceful than expected at nearly every turn.
- Lastly, we continue to anticipate little economic scarring after the pandemic is over.

As such, it is most likely that 2021 will be a year of strong, above-consensus economic growth, with the recovery then extending into 2022 and beyond. Critically, life should be somewhat more normal in the middle of 2021 than it was at the beginning, and then almost completely normal by the end of the year.

Market Outlook

Markets signal improving outlook as pandemic enters new phase

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With vaccines in hand, the pandemic is moving to a different, more manageable stage and the economic recovery that began in the second half of last year is kicking into a higher gear. Supported by ample fiscal and monetary stimulus, we look for a powerful recovery in GDP growth from the sudden and deep contraction of 2020. That said, the dynamics of this recovery may be unlike those in the past due to the potential for lasting impacts from the pandemic, and it remains uncertain how economies will evolve over the next several quarters. We don't know how consumers and governments will respond to their varied situations in a post-pandemic world, but consumers are actually in solid shape as a result of government support and ultra-low interest rates.

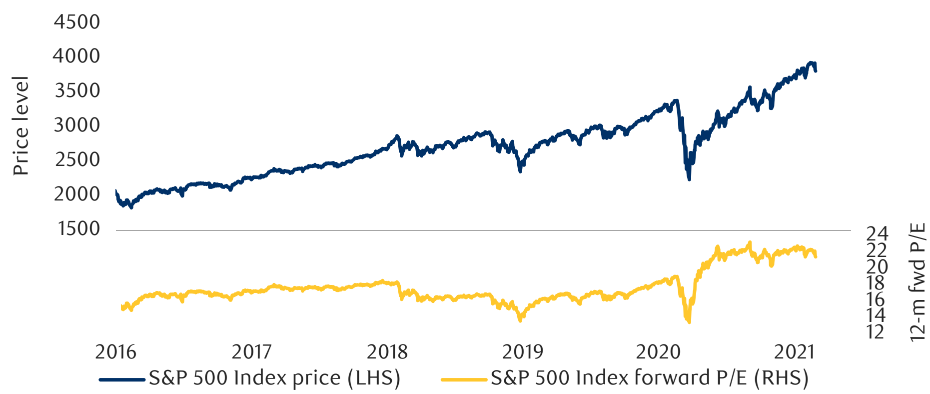
What we do know is that financial markets have responded in a big way. Government-bond yields have moved significantly higher in recent weeks, with 10-year Treasury yields rising back to levels not seen since before the COVID-19 crisis (Exhibit 1). Stock prices have also surged. The S&P 500 Index has climbed more than 70% from its March 2020 low, and elevated equity valuations suggest the potential for strong corporate-profit growth ahead (Exhibit 2). Small- and mid-cap stocks, as well as emerging-market equities, have also enjoyed significant gains over the past six months and eliminated much of the deep discount that existed between those groups and U.S. large-cap stocks. All in all, markets look very different now compared with a year ago, suggesting that fears engendered by the pandemic are fading and that investors are embracing a brighter future for the economy and corporations alike.

In this environment, we look for low single-digit returns from bonds and mid-single-digit to possibly low double-digit returns for stocks over the year ahead. For many quarters, our base-case return forecasts for sovereign bonds had been mildly negative but, with the recent rise in yields, these return expectations have now climbed slightly above zero. This change represents a major shift in the outlook for fixed-income

Exhibit 1: U.S. 10-year government bond yield

Note: as of February 28, 2021. Source: Bloomberg, RBC GAM

Exhibit 2: S&P 500 Index
Price level and valuation



Note: as of February 28, 2021. Source: Bloomberg, RBC GAM markets, where investors may actually be able to earn their coupons without suffering capital losses. In certain equity markets, valuations are somewhat concerning and we acknowledge that froth exists in some areas, setting a high hurdle for earnings improvement to sustain the bull market. Aside from large-cap technology and momentum-driven stocks, though, many equity markets remain appealing on a valuation basis and continue to offer attractive upside potential. As long as the economy grows and earnings rise in line with our expectations, stocks are likely to deliver superior returns versus fixed income, though perhaps that advantage will be somewhat less than we've seen since early 2020. As a result, we are maintaining an overweight stance in stocks and underweight in bonds. For a balanced global investor, we currently recommend an asset mix of 64.5 percent equities (strategic neutral position: 60 percent) and 34.5 percent fixed income (strategic neutral position: 38 percent), with the balance in cash.

'Dr. Indicators' suggest robust economy

We have been monitoring signals known as the "Dr. Indicators" for signs of a pick-up in economic growth because they have a history of signaling cyclical advances. Exhibit 3 plots these indicators – South Korean stock prices, copper prices, the Canadian dollar and the Baltic Freight Index. All have turned higher in the past year, and in some cases, the moves have been massive. The Korean Composite Stock Price Index more than doubled from its March 2020 low and copper prices rose to their highest levels since 2011. The freight index rebounded to levels not seen since

EXHIBIT 3: 'Dr. Indicators'

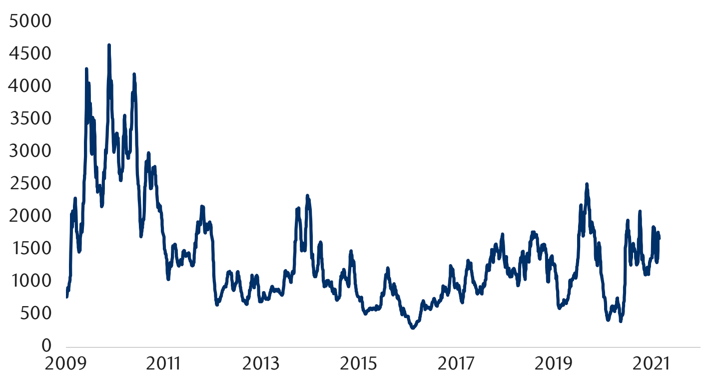
Korean stock price index (KOSPI)

Note: As of February 26, 2021. Source: Bloomberg

Copper – COMEX U.S. cents per lb

Note: As of February 26, 2021. Source: Bloomberg

Baltic Dry Freight Index



Note: As of February 26, 2021. Source: Bloomberg

CAD/USD Exchange Rate

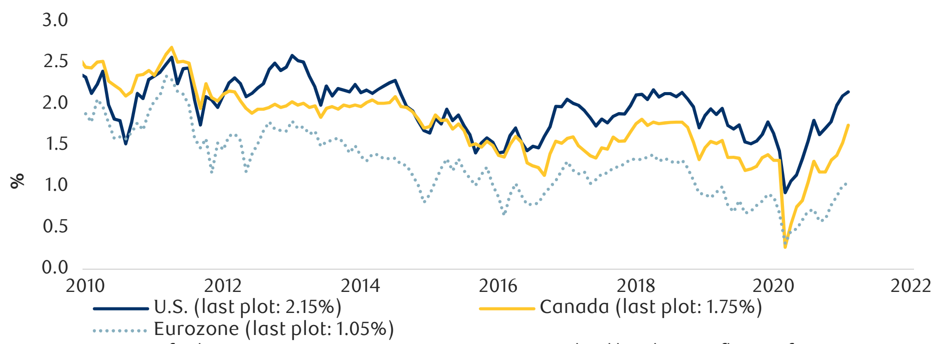
Note: As of February 26, 2021. Source: Bloomberg mid-2019 and the Canadian dollar has risen to its highest level in two years, supported by rising oil prices. These increases are consistent with a view that the economy is on the cusp of a robust recovery.

Inflation is becoming a concern for investors

An economic recovery of the magnitude that we are anticipating brings with it the risk of an inflationary burst given the combination of massive stimulus and pent-up demand. In our view, inflation will likely rise in the near term, due primarily to comparisons against a low base from last year's depressed price levels, but we don't foresee conditions resulting in a structural shift to persistently higher inflation rates. What has caught the attention of many investors is the fact that market-based measures of inflation expectations have been rising in most countries (Exhibit 4). But notice that, while the lines on the chart have trended higher, actual levels of expected inflation are still quite reasonable. In our view, enough slack remains in the economy as a result of the shutdowns and deep recession of 2020 to ultimately dampen any rise in price pressures before a more problematic shift in inflation expectations takes hold.

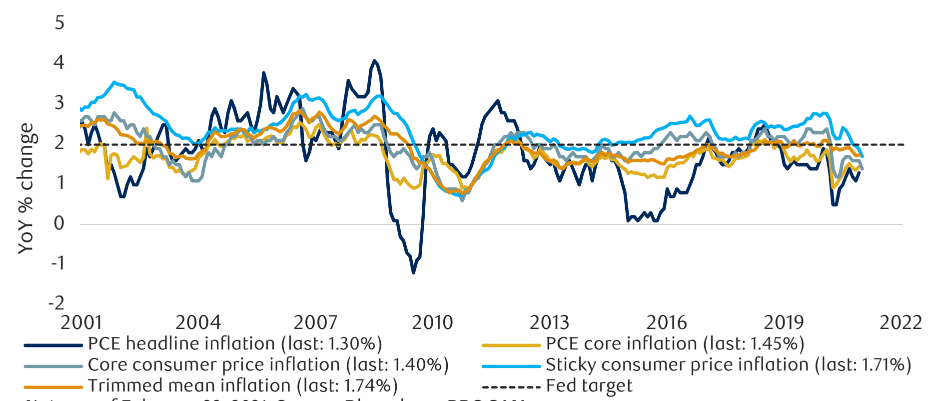
If anything, central bankers will be looking to prevent prices from falling back from any temporary surge. For years, the bigger challenge for central bankers was that inflation was running too low rather than too high. We track five indicators of U.S. inflation that were presented in 2016 by Janet Yellen, former chair of the U.S. Federal Reserve (Fed) (Exhibit 5). All five indicators are consistent with inflation below the Fed's 2% target. Inflation is starting from low levels and, although aggressive monetary and fiscal policy could trigger prices increases in the near term, our view is that any inflation spike likely settles back to reasonable levels over the longer term.

Exhibit 4: Implied long-term inflation premium
Breakeven inflation rate: nominal vs 10-year real return bond



Note: As of February 26, 2021. Eurozone represents GDP-weighted breakeven inflation of Germany, France and Italy. Source: Bloomberg, RBC CM, RBC GAM

Exhibit 5: U.S. inflation measures

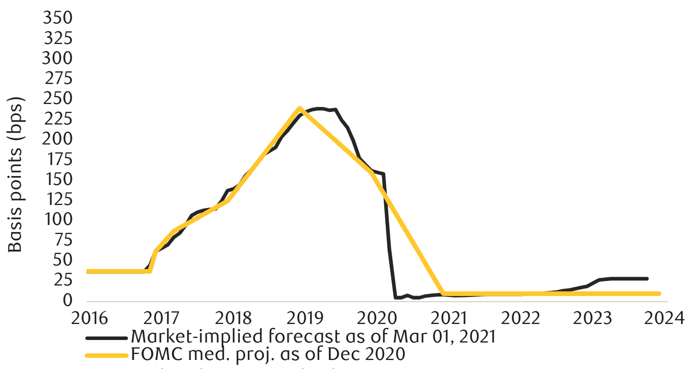


Note: as of February 22, 2021. Source: Bloomberg, RBC GAM

Central banks to keep interest rates low

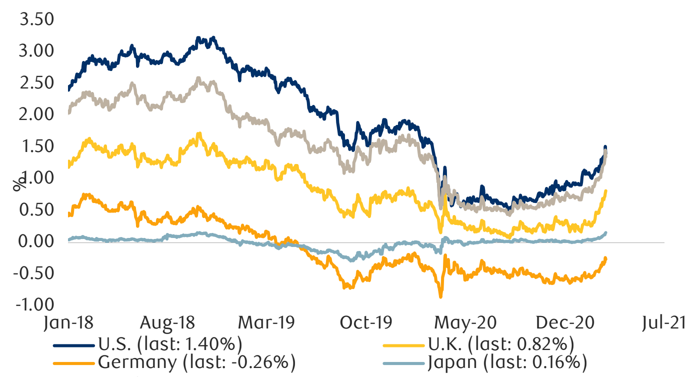
Major central banks have reiterated their commitment to keeping short-term interest rates at ultra-low levels, perhaps for many years, in order to support the economic recovery. Exhibit 6 plots the market-implied fed funds rate alongside projections from the Federal Open Market Committee. The chart suggests no Fed rate hikes until at least the end of 2022 based on market pricing. That is a full year ahead of the Fed's own projections, pegging rates at their current level through the end of 2023. Moreover, the Fed's new policy framework allows for inflation to run above 2% for some time to make up for the periods spent below that level. A more dovish Fed means the bar for raising rates will be that much higher. We agree with both

Exhibit 6: Implied fed funds rate
12-month futures contracts



Source: Bloomberg, U.S. Federal Reserve, RBC GAM

Exhibit 7: 10-year government bond yields



Note: as of February 28, 2021. Source: RBC GAM

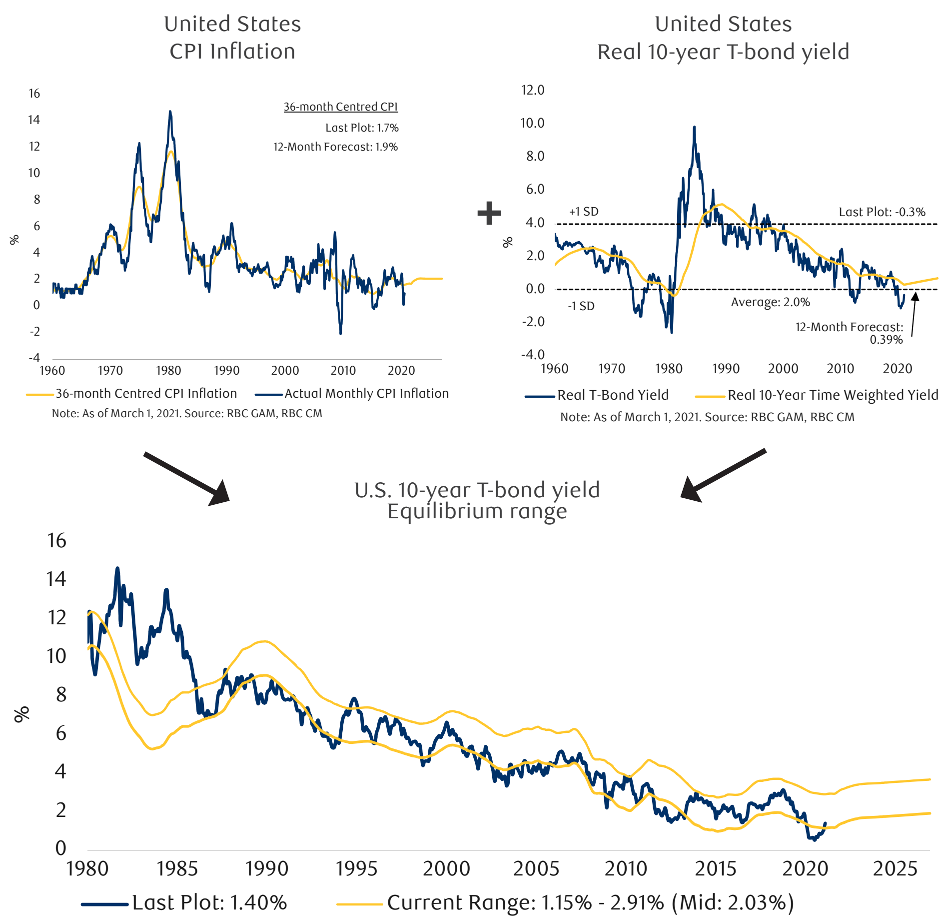
the market and the Fed's view that short-term rates will be unchanged over our 1-year forecast horizon and likely for some time beyond.

Surge in bond yields alleviates valuation risk

Moving out the yield curve, we have seen big changes in fixed-income markets as fears of the crisis faded and bonds started pricing in a better outlook for the economy (Exhibit 7). The U.S. 10-year Treasury yield rose roughly 55 basis points over the past quarter to above 1.50% for the first time since the pandemic. As a result, the U.S. 10-year yield climbed back into the normal range around our modelled equilibrium level. Rising yields have been a feature in all major regions and the acute valuation risk that existed in the bond market has been dampened as a result (page 40).

The latest increase in bond yields was the result of real yields rebounding from historically low levels. Exhibit 8 separates our U.S. 10-year bond model into its inflation premium and real-interest rate components. While the inflation premium contributed to the

Exhibit 8: U.S. 10-year bond yield
Fair-value estimate composition

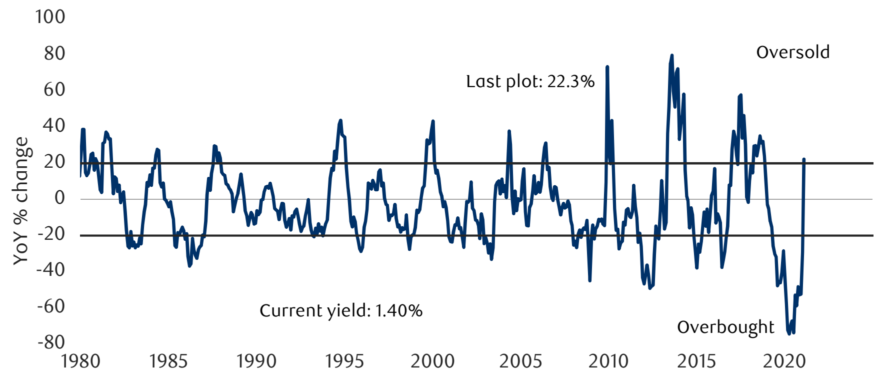


Source: RBC GAM, RBC CM

boost in yields, we observe that the real yield has increased nearly 100 basis points since the summer and is now close to zero. We still think real interest rates can continue to rise, but structural changes related to demographics, an increased preference for saving versus spending and the maturing of emerging markets will likely limit how high yields can ultimately rise. Incorporating these factors into our model has flattened the upward trajectory of the equilibrium band and, as a result, our view of what constitutes elevated yields going forward will be somewhat lower than it was.

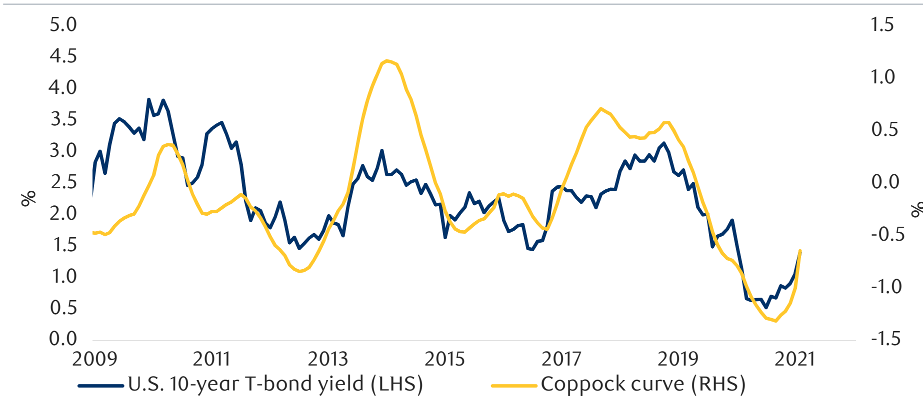
While we think that bonds yields will gradually climb over the longer term, the recent surge was so intense that bond prices could find support not far from levels. Exhibit 9 plots a timing indicator for U.S. 10-year bond yields based on their year-over-year rate of change. The plunge in bond yields in early 2020 pushed bonds well into overbought territory, but the steep sell-off in early 2021 quickly pulled bonds all the way back into an oversold reading. A lot of the overbought nature of the fixed-income market that existed in 2020 has been alleviated by the rapid change in yields so far this year. While we think there's a good possibility that bonds are in a bear market as suggested by long-term price momentum (Exhibit 10), the speed and magnitude of the recent sell-off suggests that bonds could rally from these levels in the near term.

Exhibit 9: U.S. 10-year T-bond yields
Rate of change



Note: as of February 28, 2021. Source: RBC GAM

Exhibit 10: U.S. 10-year T-bond yield
Long-term price (yield) momentum



Note: Coppock curve based on monthly data. As of February 28, 2021. Source: Bloomberg, RBC GAM

Equity-market valuations creep higher as stocks extend rally

Stocks rallied to records in most major markets as vaccinations progressed, virus case counts declined and earnings exceeded expectations. Rising share prices pushed our global valuation composite to its highest level in over a decade (Exhibit 11). For historical context, our global composite was more than 40% below fair value at the depths of the 2008 financial crisis. After trading at a discount for over a decade, stocks clawed back all of that undervaluation and have only recently climbed slightly above fair value. While there has been major change in the valuation underpinnings for equities, it's important to differentiate between stock markets. The S&P 500 has risen to more than one standard deviation above our modelled fair-value level, and even the MSCI Emerging Markets Index, which had extremely favourable valuations, now trades above fair value (page 41). On balance, stocks appear to be expensive and we should moderate total-return expectations and expect higher volatility. However, not all markets are as expensive as U.S. large-cap technology stocks and others that have exhibited extremely strong positive momentum. For example, equities in Europe, the U.K., Canada and Japan still trade at attractive discounts to fair value and offer the potential for compelling returns.

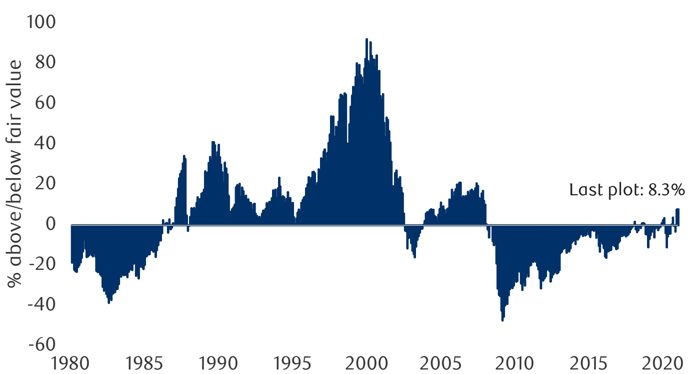
S&P 500 valuation metrics offer differing views

Although U.S. equities are expensive by some measures, other valuation metrics may signal that they remain reasonably priced. Exhibit 12 plots 10 valuation metrics for the S&P 500 in terms of standard deviations from their historic norms. There are some extreme readings and the market does look stretched by a number of these metrics. Our own RBC GAM fair value, which is a multi-factor model, tends to lie somewhere in the middle of these extremes and is probably not a bad way of explaining where we are in the continuum of valuation models. Averaging the 10 indicators from the chart together leads to the conclusion that U.S. stocks are somewhat above fair value. However, two of these valuation metrics (the Fed Model and the Equity Risk Premium), which compare stocks to bonds or interest rates, still suggest the stock market is slightly cheap. When viewed purely through a lens comparing stocks to bonds, one may conclude that U.S. equities are indeed attractive.

Valuations could remain elevated and possibly even rise from here

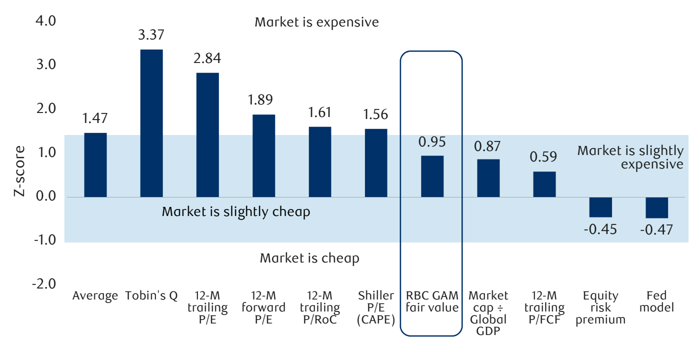
Valuations could even rise a bit further from current levels as yields and interest rates climb from historically low levels. Our models relating price-to-earnings ratios (P/Es) to 3-month T-bills and 30-year bond yields exhibit curved trends that are especially interesting as rates and yields approach zero. (exhibits 13 and 14). These two

Exhibit 11: Global stock market composite
Equity market indexes relative to equilibrium



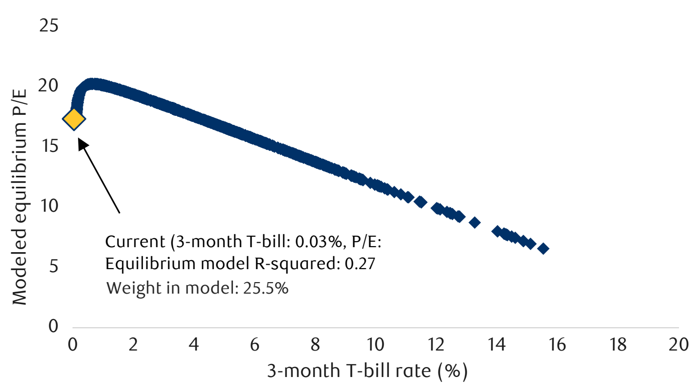
Note: As of March 1, 2021. Source: RBC GAM

Exhibit 12: S&P 500 Index
Normalized valuation metrics



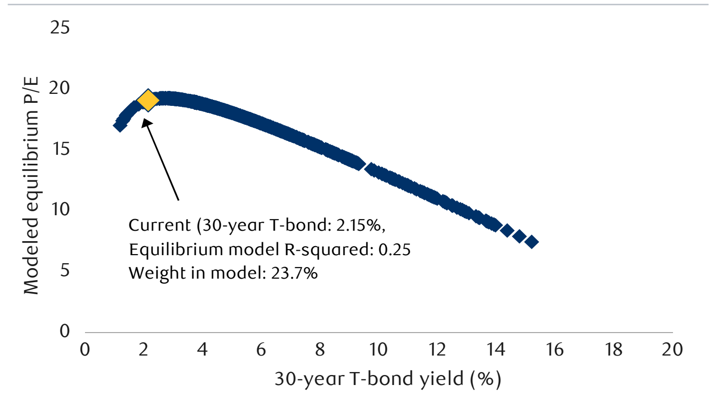
Notes: Historical data from Jan. 1956 for Tobin's Q, 12-month forward P/E, Shiller P/E, 12-month trailing P/E, equity risk premium and Fed model. Historical data from Mar 1956 for market cap ÷ U.S. GDP. Historical data from Jan. 1960 for RBC GAM fair value. Historical data from Jan. 1990 for price to free-cash-flow and price to return-of-capital. As of February 28, 2021. Source: Haver Analytics, RBC CM, RBC GAM

Exhibit 13: S&P 500 equilibrium model
P/E factor as a function of 3-month T-bill rate



Note: as of February 28, 2021. Source: RBC GAM

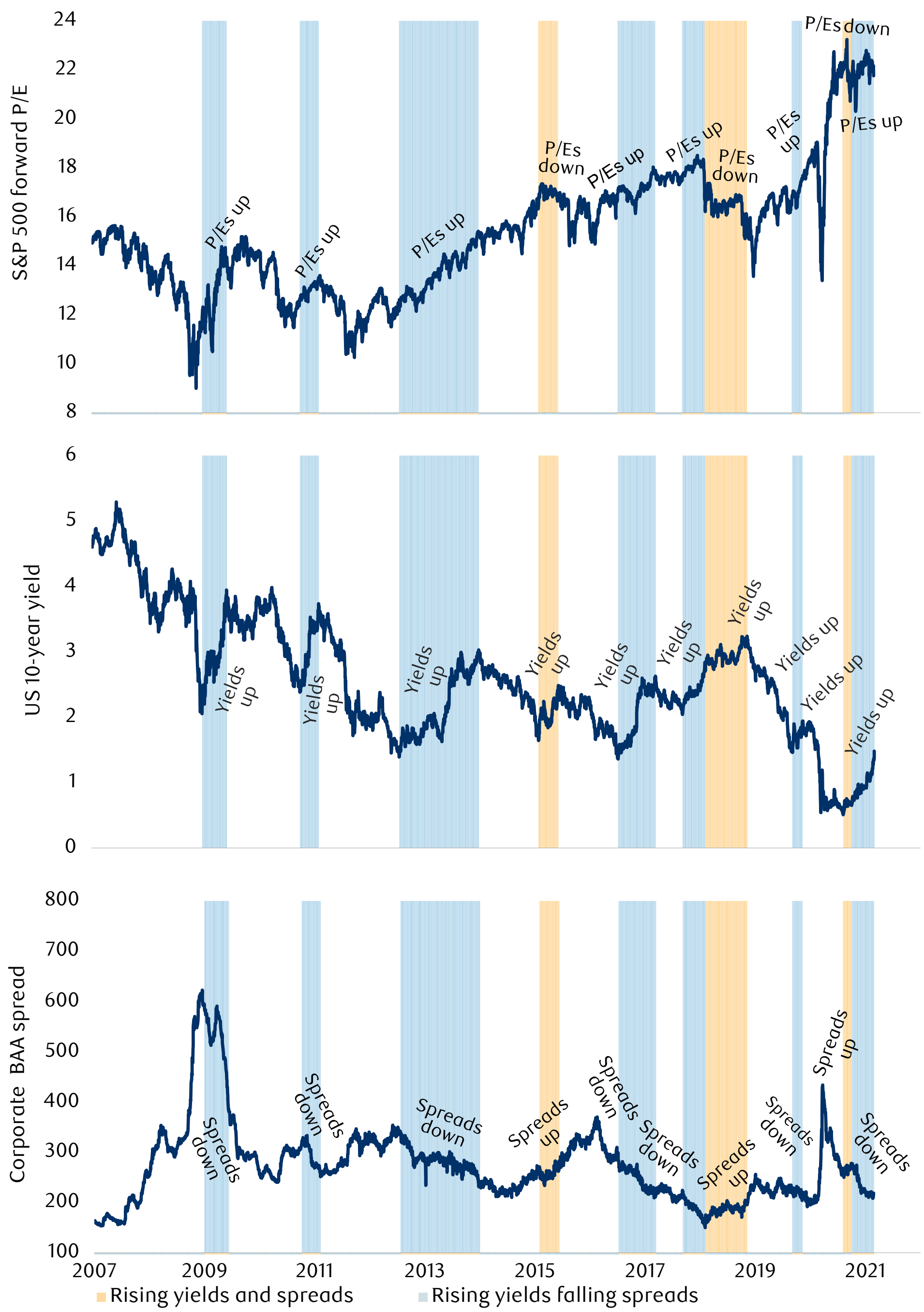
Exhibit 14: S&P 500 equilibrium model
P/E factor as a function of 30-year bond yield



Note: as of February 28, 2021. Source: RBC GAM equations are important because they account for nearly half of the weighting in our equilibrium P/E calculation. At most levels on these charts, higher interest rates and bond yields lead to lower P/Es. But when short rates fall below 0.50% and 30-year T-bond yields pierce 2.70% that trend is reversed. As interest rates fall toward zero, P/Es tend to decline as markets are likely responding to some sort of crisis environment. What this also means is that the initial rise in interest rates and bond yields away from crisis levels could actually cause P/Es to rise.

One of our research partners, Cornerstone Macro, published a study looking at 10 instances of rising Treasury yields since the 2008 financial crisis and noticed that P/Es rose in most of those episodes as long as credit spreads were narrowing (Exhibit 15). Of these 10 instances of rising yields, seven of them were accompanied by narrowing credit spreads and P/Es rose by an average of 1.4 multiple points during those periods (Exhibit 16). In the other three periods where credit spreads were narrowing, P/Es declined an average of 0.7 points. So far, credit spreads appear contained and the data indicates that P/Es can hold elevated levels and even increase amid rising yields.

Exhibit 15: S&P 500 forward P/E during instances of rising yields



Note: as of February 26, 2021. Source: Cornerstone Macro, Bloomberg, RBC GAM

Exhibit 16: Instances of rising U.S. 10-year yields since the 2008 financial crisis

Time period	Length (months)	Change in 10-year yield (bps)	Change in Corporate BAA credit spread (bps)	Change in S&P 500 forward P/E
12/30/08 – 06/10/09	5.3	189	-211	2.6
10/07/10 – 02/08/11	4.1	135	-69	0.9
07/24/12 – 12/31/13	17.3	164	-108	3.3
02/03/15 – 06/10/15	4.2	69	19	0.0
07/08/16 – 03/13/17	8.2	127	-69	0.9
09/07/17 – 02/01/18	4.8	75	-68	0.3
02/02/18 – 11/08/18	9.2	40	46	-1.3
09/03/19 – 11/08/19	2.2	48	-19	1.1
08/04/20 – 09/29/20	1.8	14	10	-0.7
09/30/20 – 02/24/21	4.8	69	-54	0.7

Average statistics

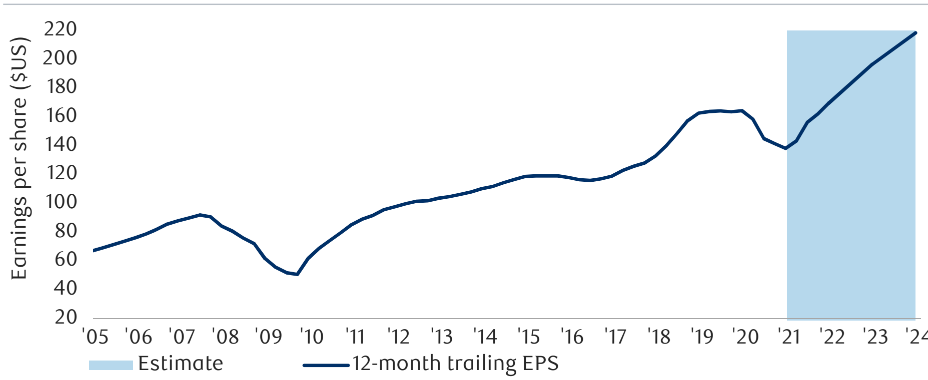
	# Of instances	Average length (months)	Average change in 10-year yield (bps)	Average change in corporate BAA credit spread (bps)	Average change in S&P 500 forward P/E
Instances of rising yields	10	6.2	93	-52	0.8
Yields rising when credit spreads widening	3	5.1	41	25	-0.7
Yields rising when credit spreads narrowing	7	6.7	115	-85	1.4

Note: as of February 24, 2021. Source: Cornerstone Macro, Bloomberg, RBC GAM

Scenario analysis suggests decent returns are still possible

Assuming that valuations maintain their current levels, earnings growth will likely be the main factor affecting stock returns going forward, and earnings estimates are encouraging. Exhibit 17 plots S&P 500 earnings per share, with the shaded region on the chart representing sell-side analysts' estimates over the years ahead. Profits are expected to reclaim their 2019 peak sometime this year, rising over 20% in 2021 and another 15% in 2022.

Exhibit 17: S&P 500 Index
12-month trailing earnings per share



Note: as of February 26, 2021. Note: estimate is based on a consensus of industry analysts' bottom-up expectations. Source: Thomson Reuters, RBC GAM

Combining these earnings estimates with various P/Es provides a sense of what to expect for stocks over the next two years (Exhibit 18). If the S&P 500 earns US$200 next year, the Index could trade as high as 4400, as long as P/Es stay at least one standard deviation above equilibrium – the level consistent with current and expected interest rates, inflation and corporate profitability. It's possible for P/Es to stay at elevated levels if the profit outlook remains robust in an environment of moderate inflation, low interest rates and limited investment alternatives. In our view, positioning the S&P 500 above 4000 is certainly achievable over the next 18 months, generating total returns in the mid to high single digits.

Capital is rotating into economically sensitive segments of the market

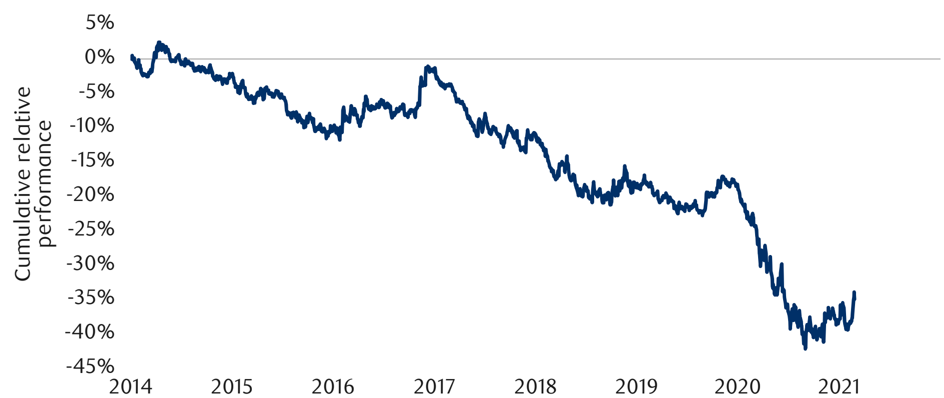
As the pandemic eases into a new phase and the economic recovery gains traction, a shift in the sectors that are leading the market is underway. Growth stocks led for much of the pandemic era, but since the fall of 2020 value stocks have been outperforming, accelerated by the vaccine announcements in early November (Exhibit 19). We recognize that some value stocks are businesses that have been disrupted by technology and are unlikely to recover but, in aggregate, value stocks are clearly moving ahead and are signaling improvement in the economic outlook. Small- and mid-cap stocks have also enjoyed sizeable gains relative to the broader market while mega-cap stocks have begun to lag (Exhibit 20). The S&P 600 Small Cap Index has gained

Exhibit 18: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500 Index

		2021 Top down	2021 Bottom up	2022 Top down	2022 Bottom up
	P/E	$174.0	$172.2	$200.4	**$198.4**
+1 Standard Deviation	22.0	3830.4	3790.8	4411.8	**4366.7**
+0.5 Standard Deviation	19.9	3465.6	3429.8	3991.6	**3950.8**
Equilibrium	17.8	3100.8	3068.7	3571.5	**3534.9**
-0.5 Standard Deviation	15.7	2736.0	2707.7	3151.3	**3119.0**
-1 Standard Deviation	13.6	2371.2	2346.7	2731.1	**2703.2**

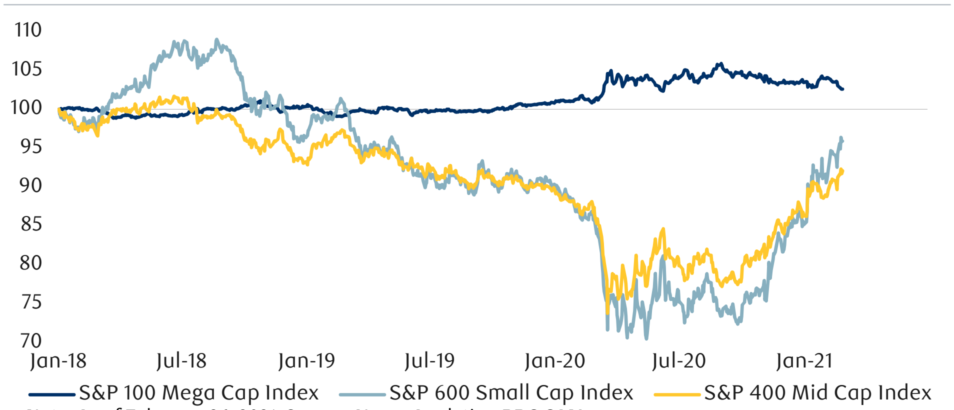
Note: as of March 1, 2021. Source: Bloomberg, Thomson Reuters, RBC GAM

Exhibit 19: Value to growth relative performance
S&P 500 Value Index / S&P 500 Growth Index



Note: As of February 26, 2021. Source: Bloomberg, RBC GAM

Exhibit 20: Returns to cap size relative to S&P 500 Index
Rebased to 100 as of Jan. 1, 2018

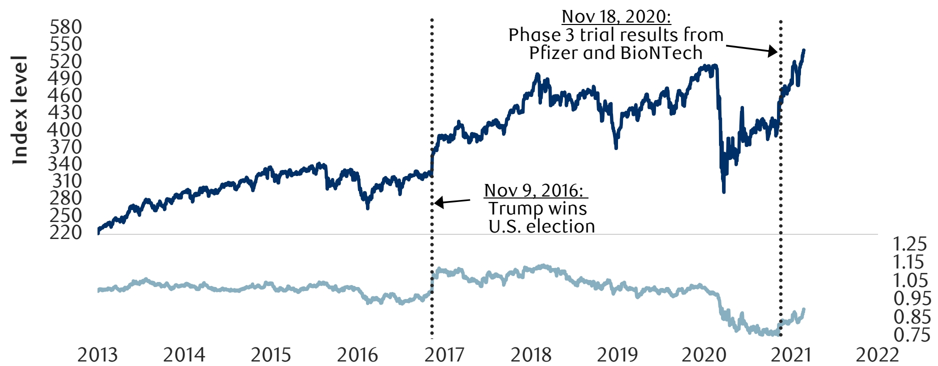


Note: As of February 26, 2021. Source: Haver Analytics, RBC GAM over 50% since October 1, 2020, while the S&P 100 Mega Cap Index rose 11% over the same time frame. The Financials and Industrials sectors touched relative strength lows just before the vaccine announcements and have been outperforming since (exhibits 21 and 22). Other groups that were hard hit by the pandemic, such as gaming, energy, leisure and travel, had been trending higher toward the end of 2020, but really gained traction in January 2021. These trends suggest that risk takers are voting on a robust recovery by favouring stocks that will benefit from a cyclical upswing in the economy and a return to a more normal environment.

In our base case scenario, the economy is set to experience a healthy recovery from the COVID-19 shock as vaccinations progress, case counts decline and businesses gradually resume normal operations. We expect growth to experience a nearly symmetric rebound from 2020, supported by extremely stimulative monetary and fiscal policies as well as consumers in a position to boost their spending. This constructive view is subject to a variety of risks including the possibly negative impact of new COVID-19 variants on the recovery, still-elevated unemployment levels and the chance that inflation runs too hot.

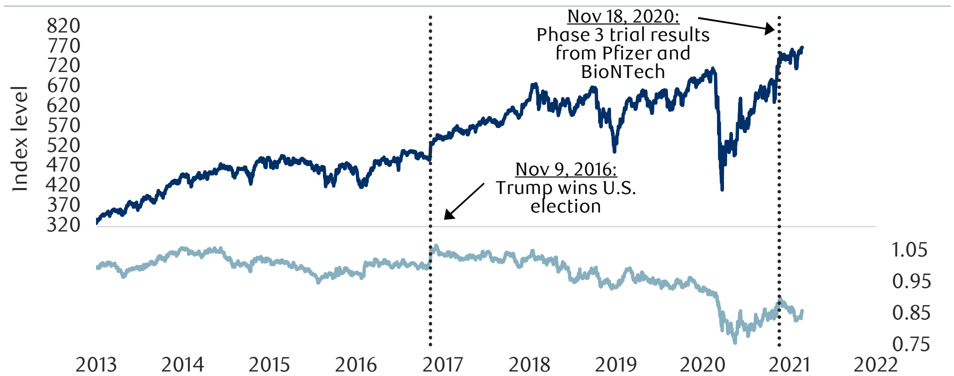
Although central banks are likely to keep interest rates anchored at low levels to support the recovery, longer-term bond yields have undergone a substantial adjustment in the past quarter reflecting improved expectations for both growth and inflation. As a result, the risk of negative returns on sovereign bonds has been dampened and our return

Exhibit 21: S&P 500 Financial Index
Index level and relative strength



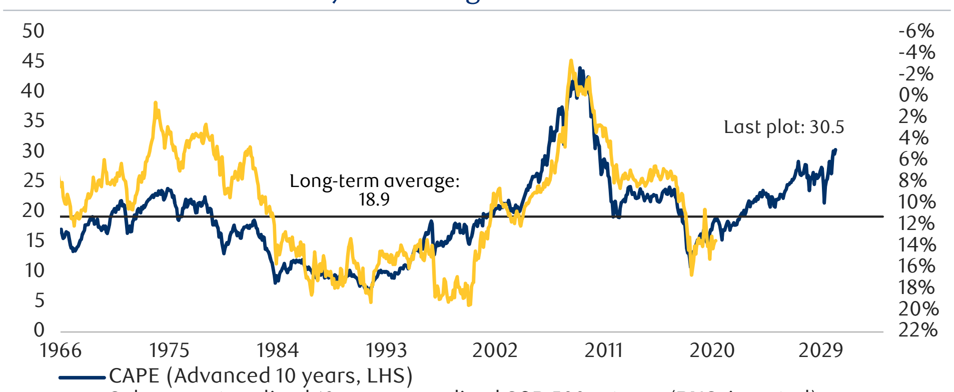
Note: as of February 23, 2021. Source: Bloomberg, RBC GAM

Exhibit 22: S&P 500 Industrials Index
Index level and relative strength



Note: as of February 23, 2021. Source: Bloomberg, RBC GAM

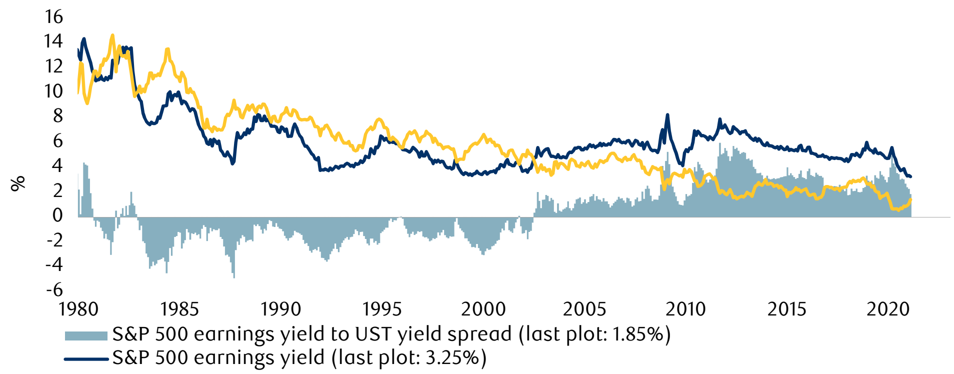
Exhibit 23: Shiller's CAPE
Real S&P 500 Index / 10-year average of real EPS



Note: as of February 28, 2021. Source: Haver Analytics, Bloomberg, RBC GAM expectations for sovereign bonds are now slightly positive for the first time in several quarters. We forecast low single-digit returns in sovereign bonds over our 1-year forecast horizon.

Equities continue to offer superior upside potential and, in our view, the bull market can be sustained against a backdrop of strong economic growth, low interest rates and moderate inflation. We recognize, however, that valuations are elevated in some markets, particularly in the U.S. large-cap space, and our total-return expectations are therefore tempered. Exhibit 23 plots the relationship between economist Robert Shiller's CAPE ratio for the S&P 500 and subsequent 10-year returns for the index. The chart suggests that today's elevated starting point for valuations will likely lead to mid-single-digit returns over the next decade. While we understand the return potential is not compelling for large-cap U.S. equities, many regions outside of the U.S. continue to trade at discounts relative to their historic norms and offer more attractive upside in the high single-digits to low double-digits range.

Exhibit 24: S&P 500 earnings yield
12-month trailing earnings/index level

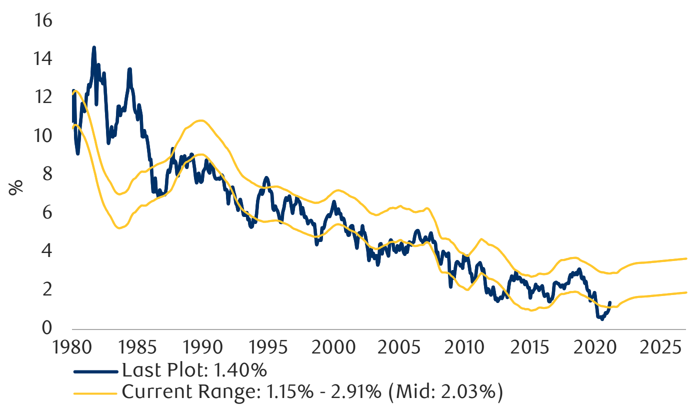


Note: As of February 28, 2021. Source: RBC GAM, RBC CM

Our asset mix reflects an assessment of the risks and opportunities at hand, and we believe a bias towards risk taking is appropriate given a cyclical recovery in the economy and corporate profits. Although the advantage of stocks over bonds has diminished somewhat through the past quarter, equities continue to offer an attractive risk premium versus fixed income (Exhibit 24). For a balanced, global investor, we currently recommend an asset mix of 64.5 percent equities (strategic neutral position: 60 percent) and 34.5 percent fixed income (strategic neutral position: 38 percent), with the balance in cash.

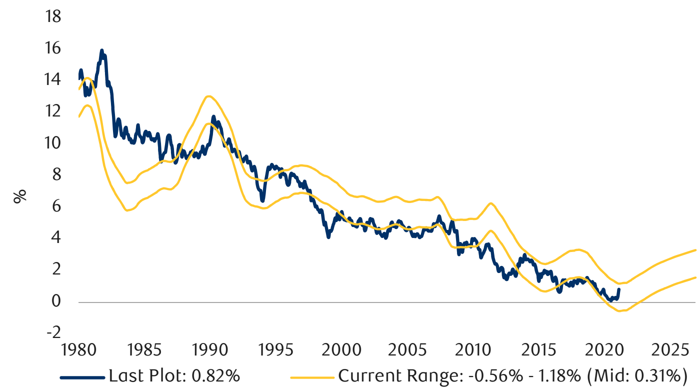
Global Fixed Income Markets

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



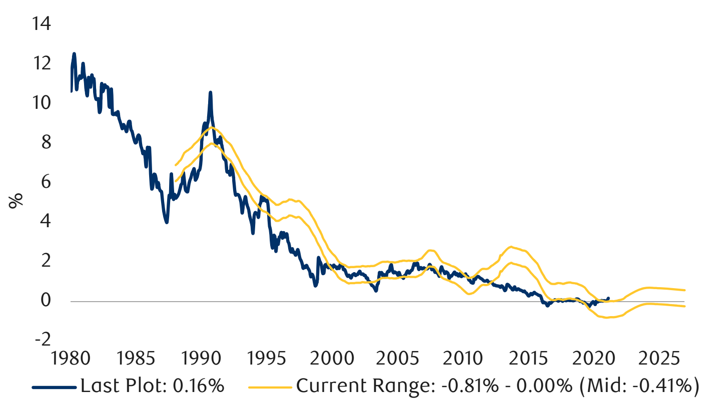
Note: As of February 26, 2020. Source: RBC GAM, RBC CM

Eurozone 10-Year Bond Yield
Equilibrium range



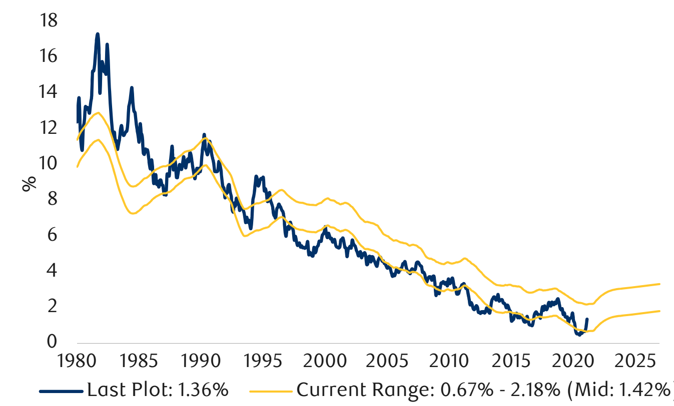
Note: As of February 26, 2020. Source: RBC GAM, RBC CM

Japan 10-Year Bond Yield
Equilibrium range



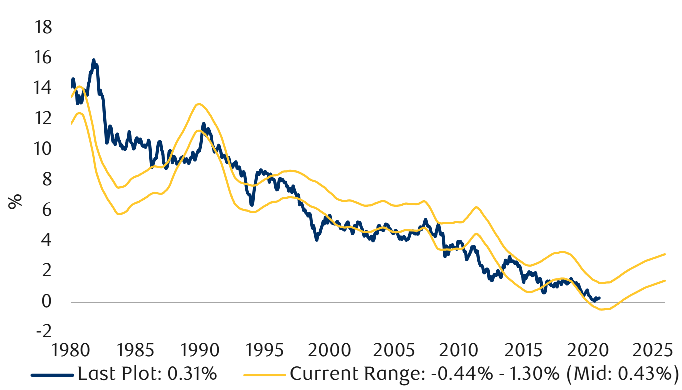
Note: As of February 26, 2020. Source: RBC GAM, RBC CM

Canada 10-Year Bond Yield
Equilibrium range



Note: As of February 26, 2020. Source: RBC GAM, RBC CM

U.K. 10-Year Gilt
Equilibrium range

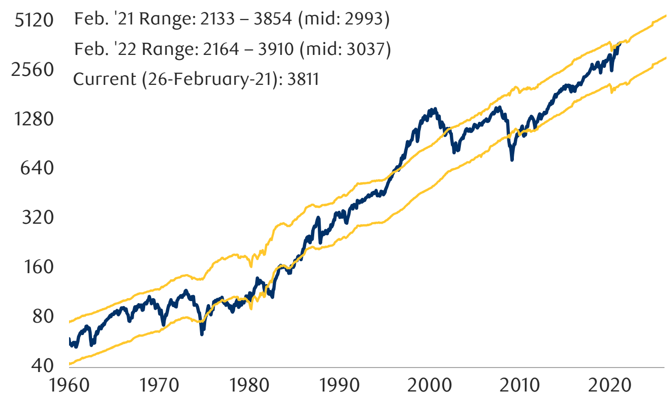


Note: As of February 26, 2020. Source: RBC GAM, RBC CM

> *"Rising yields have been a feature in all major regions and the acute valuation risk that existed in the bond market has been dampened as a result."*

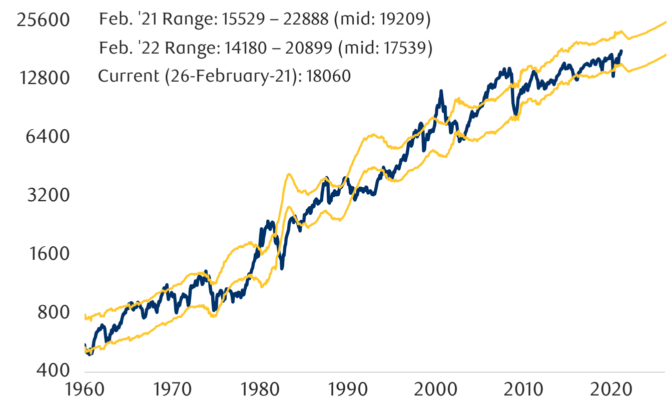
Global Equity Markets

S&P 500 Equilibrium
Normalized earnings and valuations



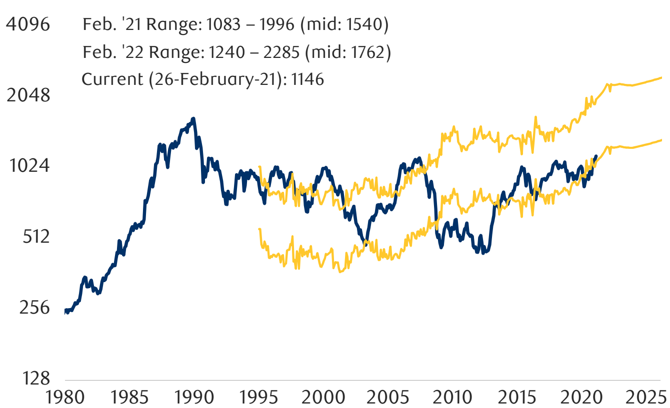
Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



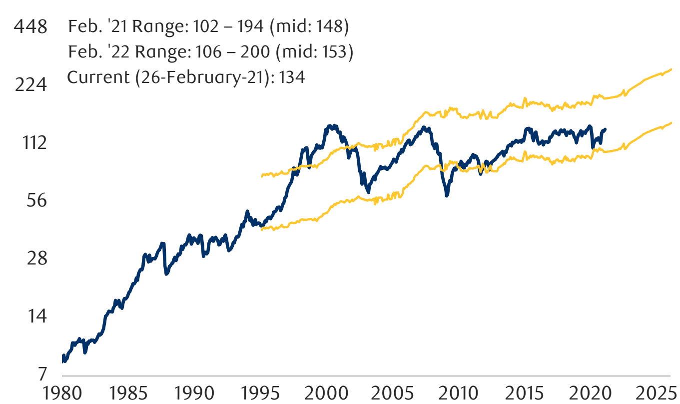
Source: RBC GAM

MSCI Japan Index
Normalized earnings and valuations



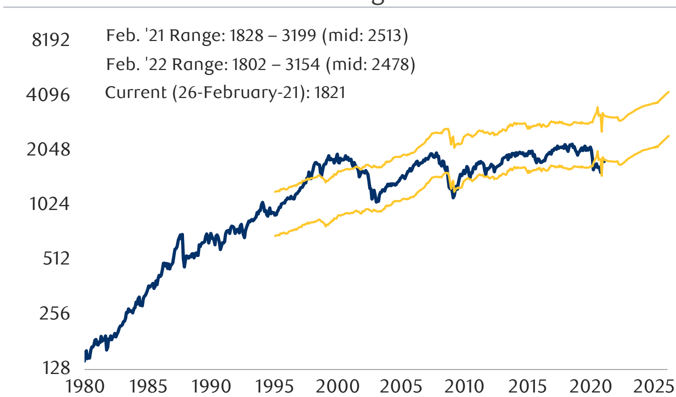
Source: RBC GAM

MSCI Europe Index
Normalized earnings and valuations



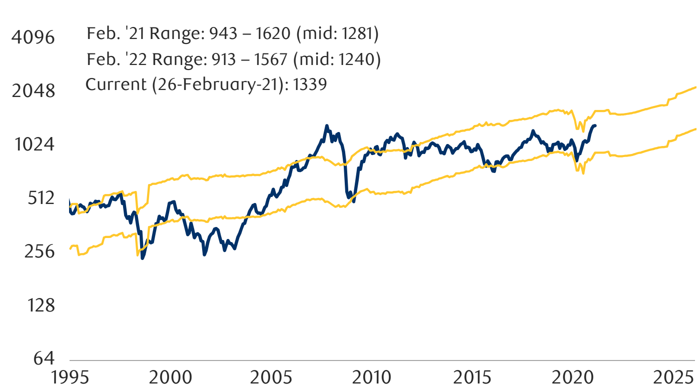
Source: RBC GAM

MSCI U.K. Index
Normalized earnings and valuations



Source: RBC GAM

MSCI Emerging Markets Index
Normalized earnings and valuations



Source: RBC GAM

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Global Fixed Income Markets

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Bond-market outlook

The bond market is telling investors that the worst of the pandemic may well be over.

Yields are rising in almost all major bond markets, with the yield on the 10-year U.S. Treasury bond more than doubling to about 1.50% recently from the lows recorded in the early months of the health crisis. The steady pace of inoculations against COVID-19 continues apace, boosting optimism that the broad economy will start to recover.

The rewards of efforts to combat the disease are being reflected in declining transmission and mortality rates, and we can clearly see their impact on investors' evolving views of the pandemic. In the depths of the first COVID-19 wave last summer, the yield on the 10-year Treasury was just 0.50%, and investors expected the first Federal Reserve (Fed) rate hike in the next cycle to occur in late 2025. Just three months ago, as the initial set of vaccine approvals came through, the 10-year yield had risen to 0.90% and market indicators suggested that the next rate hike would arrive in mid-2024. Expectations are now that the Fed will begin hiking rates in the first half of 2023, and the 10-year yield is well north of 1.00%

The Democratic takeover of the U.S. Senate raised the probability of another large fiscal stimulus package. President Joe Biden and Janet Yellen, the former Fed chief and now Biden's Treasury Secretary, have both stressed that the big risk is doing too little to support the economy rather than too much. Additional government spending would likely accelerate the U.S. labour-market recovery and, by extension, the date of the Fed's first hike.

Yet government bond yields remain very low, even by the standards of the past few years. Over the medium to longer term, we believe yields are likely to rise further as investors shift their focus from the short-run shock of the pandemic to longer-term fundamentals. According to our estimates, the U.S. 10-year bond yield should range between 1.50% and 3.50% during "normal" macroeconomic scenarios.

While long-run projections based on fundamentals can be useful, they often fall short during periods of extreme economic distress and disruption – such as during a pandemic. Economic improvement is occurring, but the health emergency continues to weigh on economic activity and, by extension, bond yields. Put differently, while the start of vaccinations was an important milestone for getting the world on the road back to "normal," the pandemic continues to act as a millstone restraining yields.

A key focus for the bond market is the expected date of the Fed's first interest-rate hike since the crises erupted. From the middle of last summer, nearly all of the changes in the 10-year yield could be explained by evolving expectations of the timing of the first rate hike (Exhibit 1). In our view, the first hike should coincide with the moment when policymakers judge that the entire shock of the COVID-19 pandemic has passed. Based on previous cycles, we think the very earliest the Fed would want to start hiking is early 2023. Whenever the first rate hike does occur, further hikes are almost certain to proceed at a gradual pace.

Expectations of accelerating economic growth have translated into signs that investors are more concerned about inflation than at any time since the post-financial crisis recovery spanning 2008-2011. It was during this period that quantitative easing and unprecedented levels of fiscal stimulus emerged as seemingly permanent features of the macroeconomic landscape. Investors are again questioning the continued expansion of government spending even as the most disruptive phase of the pandemic is likely behind us. Inflation is widely expected to accelerate through the middle of this year due to large year-over-year increases in gasoline and food prices, and we expect U.S. inflation could top 3% for a few months sometime this year. But the bond market's concern appears to extend beyond this widely expected blip in food and gasoline prices. There are worries that the expanding scope of government spending and exceptionally easy central-bank policy in response to the pandemic are stoking longer-term inflation pressures.

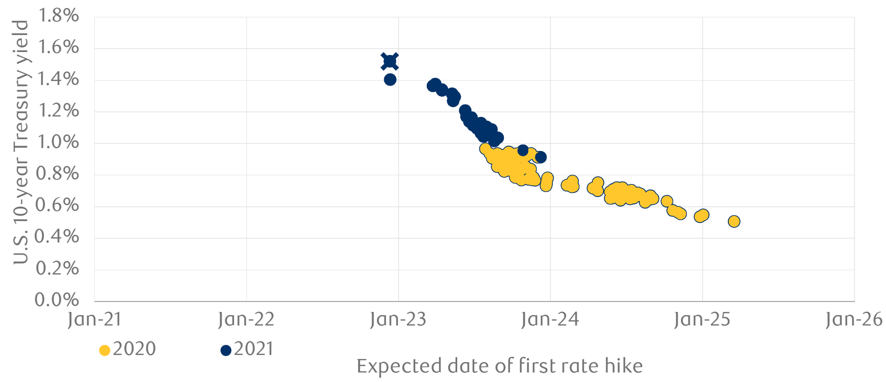
While our thinking is that bond yields should be higher in the long run, we are skeptical that policymakers have truly upset the period of persistently low inflation that is now entering its third decade (Exhibit 2). In fact, the current concerns that budget-busting fiscal spending and gigantic central-bank balance sheets will spur inflation feels eerily similar to the market narrative that dominated the years following the financial crisis.

In contrast to the temporary impulses likely to bolster inflation through the middle of 2021, several long-run forces are tamping down price pressures and bond yields, and are likely to do so for the foreseeable future. These include aging populations, technological progress, rising wealth inequality, the increased concentration of corporate interests and labour's weakening bargaining power. Finally, and not least, major central banks have built up a reservoir of credibility since moving to inflation-targeting frameworks in the mid-1990s.

Our assumptions of slow economic growth and mild inflation against a backdrop of lingering pandemic effects lead us to conclude that the optimal policy path for the Fed will be to avoid raising interest rates unless inflation becomes problematic, and a situation in which central banks move gradually in raising rates should help keep bond yields low.

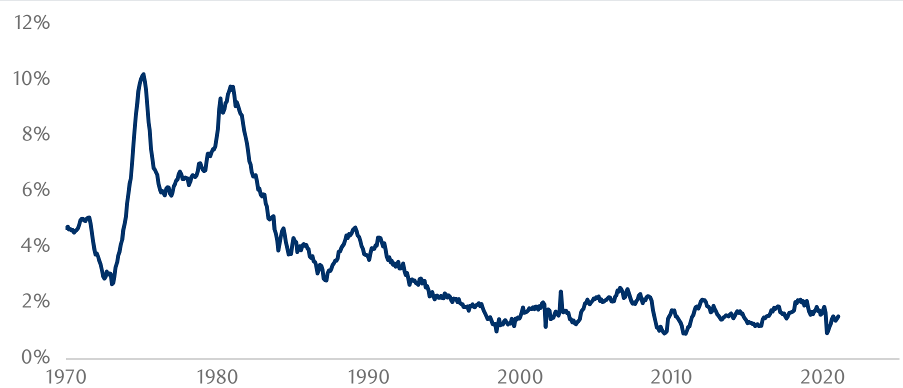
If we are wrong about inflation, it will probably be because we are underestimating the negative impact that the pandemic will have on global supply chains and the growing reluctance of nations to cooperate with each other. A more nationalistic approach to industrial development and economic self-sufficiency could reverse many of the disinflationary effects of globalization over the past 30 years, pushing up prices to uncomfortable levels and perhaps building a case for higher bond yields than we expect.

Exhibit 1: U.S. 10-year Treasury yield and expectations for the Federal Reserve – August 2020 to February 2021



Note: As of February 25, 2021. Source: Morgan Stanley, Bloomberg, RBC GAM

Exhibit 2: Persistently low inflation
U.S. Core PCE Inflation, year-over-year change



Note: As of January 31, 2021. Source: U.S. Bureau of Economic Analysis, Bloomberg, RBC GAM

U.S.

The U.S. 10-year bond yield has climbed to its highest level in over a year in response to an improving outlook regarding COVID-19 as well as rising inflation fears. Based on current market pricing, investors expect the Fed to begin hiking interest rates sometime in the first half of 2023. We believe that expectations for an aggressive hiking cycle are misplaced: upticks in inflation are likely to be transitory and the economy's recovery from COVID-19 will likely stretch over several years, leading to a cautious hiking cycle from policymakers when it does occur. We expect no change in the policy rate over the next 12 months and forecast the 10-year bond yield at 1.30% a year from now.

Canada

The Bank of Canada (BOC) reiterated in January that policy interest rates will remain unchanged until at least 2023, when the central bank expects its 2% inflation target to be sustainably achieved. The BOC plans to continue with its first ever quantitative-easing program, and will adjust the program as confidence in the economic recovery increases. One positive development is lower federal borrowing requirements, which will fall almost 30% to $260 billion in fiscal 2021-2022 from the previous period.

A budding global economic recovery has enabled the BOC to begin scaling back the emergency measures implemented at the height of the pandemic-related financial-market panic last spring. We expect the BOC, which owns about 40% of Government of Canada bonds, to continue with its $4 billion in current weekly bond purchases concentrated in the mid- to long-term range, but to reduce that amount come April if financial markets remain calm.

Over the next 12 months, we expect no change to the BOC's policy rate and 10-year yield to trade around 1.10%.

Japan

There was no change to the Bank of Japan's (BOJ) policy over the past quarter, and we do not believe that any fundamental changes are likely over the next 12 months. In addition, we expect no change to the policy rate, currently at negative 0.10%. Japanese inflation remains stubbornly low even after the most aggressive policy response in the developed world over the past several years, including a BOJ balance sheet that now dwarfs the Japanese economy. Our 12-month forecast for the yield on the 10-year Japanese government bond (JGB) is

Interest rate forecast: 12-month horizon

Total Return calculation: February 28, 2021 – February 28, 2022

U.S.	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.13%	0.40%	0.70%	1.30%	2.00%	2.24%
Change to prev. quarter	0.00%	0.00%	0.10%	0.30%	0.25%	
High	0.13%	0.90%	1.40%	2.00%	2.60%	(2.02%)
Low	0.05%	0.05%	0.10%	0.30%	0.60%	11.97%
Expected Total Return US$ hedged: 3.28%						

Germany	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.50%)	(0.50%)	(0.50%)	(0.35%)	(0.10%)	2.91%
Change to prev. quarter	0.00%	0.00%	(0.10%)	0.05%	0.00%	
High	(0.50%)	(0.25%)	(0.20%)	(0.10%)	0.10%	0.02%
Low	(0.50%)	(0.60%)	(0.75%)	(0.75%)	(0.40%)	7.15%
Expected Total Return US$ hedged: 3.24%						

Japan	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.10%)	(0.10%)	(0.05%)	0.05%	0.65%	2.45%
Change to prev. quarter	0.00%	0.00%	0.00%	0.00%	0.05%	
High	(0.10%)	(0.10%)	0.00%	0.20%	0.70%	1.46%
Low	(0.10%)	(0.10%)	(0.10%)	(0.20%)	0.25%	8.85%
Expected Total Return US$ hedged: 3.56%						

Canada	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.25%	0.50%	0.75%	1.10%	1.60%	3.00%
Change to prev. quarter	0.00%	0.00%	0.10%	0.25%	0.20%	
High	0.25%	0.75%	1.25%	1.60%	2.00%	(0.74%)
Low	0.15%	0.15%	0.20%	0.25%	0.60%	12.04%
Expected Total Return US$ hedged: 2.45%						

U.K.	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.10%	0.20%	0.25%	0.50%	1.25%	3.09%
Change to prev. quarter	0.00%	0.00%	0.00%	0.20%	0.45%	
High	0.10%	0.60%	0.75%	0.90%	1.35%	0.63%
Low	0.00%	0.00%	0.00%	0.00%	0.30%	19.38%
Expected Total Return US$ hedged: 5.43%						

Source: RBC GAM

unchanged at 0.05%. The 10-year yield should remain within the BOJ's target range of negative 0.20% and positive 0.20%.

U.K.

After struggling with its pandemic response for much of 2020, the U.K. government's relatively successful vaccine rollout has offered a rare bright spot for the economic outlook. However, the U.K. economy still faces several headwinds over the next year, not least of which is the final contours of its new relationship with the EU. The EU will remain the U.K.'s largest trade partner, and the sides have yet to reach a final agreement on regulating financial services. We forecast no change to the policy rate over the next year and expect the 10-year government-bond yield to be broadly unchanged at 0.50%.

Eurozone

Monetary policy in the eurozone continues to be exceptionally accommodative. The European Central Bank's (ECB) pandemic-response programs are expected to extend for the next couple of years, backstopping prices of both sovereign and corporate bonds. The formation in February of a credible Italian government by Mario Draghi, former head of the ECB, has lowered the risk-related premium paid for Italian bonds versus German bonds to levels not seen since before the European sovereign-debt crisis of the early 2010s. We expect the ECB to leave its overnight policy rate at negative 0.50% over the next 12 months, and we forecast the 10-year German bund yield to be essentially unchanged a year from now at negative 0.35%.

Regional recommendations

We judge that the European yield curve is overly flat in comparison with Japan's. We recommend a 5% overweight in JGBs and a similarly sized underweight in German bunds. For the U.S., we prefer to stay on the sidelines as we foresee volatility in the near term.

Currency Markets

The U.S. dollar has further to fall

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Portfolio Manager
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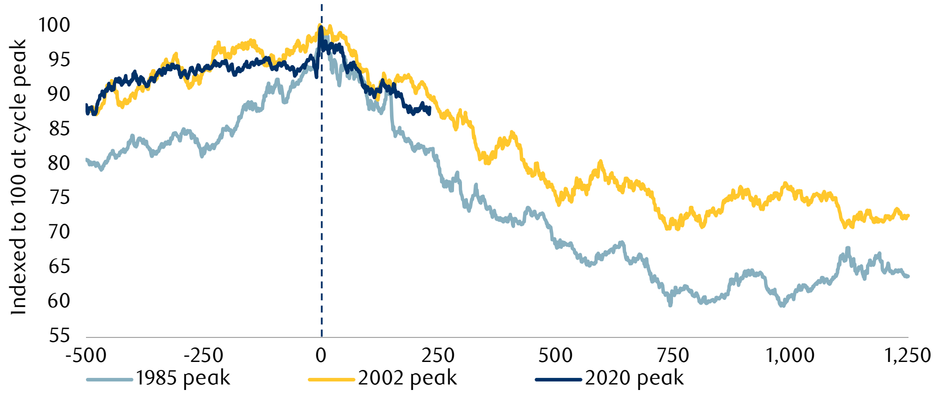
The U.S. dollar has been in decline for a year following last spring's pandemic-related panic in financial markets. We expect the decline to outlast the pandemic and persist well beyond 2021, as long-term issues continue to suggest more weakness ahead for the greenback. We have raised our forecasts for developed-market currencies but suspect that emerging markets will likely benefit more from weakness in the U.S. dollar, the recovery in global growth and strength in commodities.

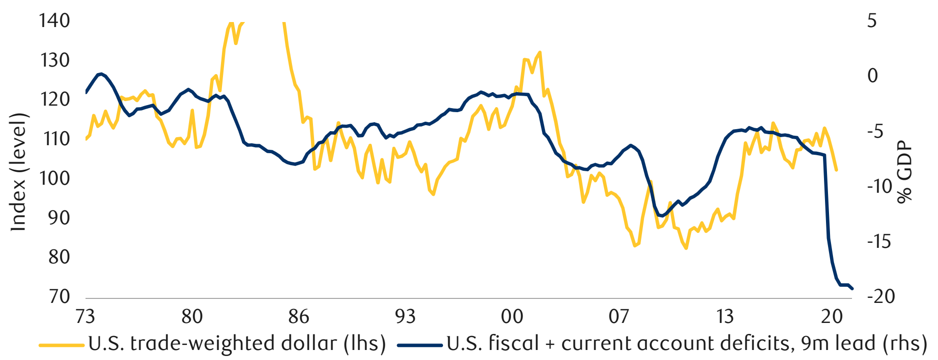
The path laid out by past U.S.-dollar bear markets offers some indication of what we should expect in the coming years (Exhibit 1). As with the significant long-running declines that began in 1985 and 2002, the first stage of the current U.S.-dollar bear market is proving to be robust – both in terms of the relentless pace of decline and the breadth of currencies against which the dollar is falling. Almost all developed- and emerging-market currencies have risen since the U.S. election at the beginning of November. Biden's election refocused attention on the large U.S. fiscal and current-account deficits (Exhibit 2), and his agenda includes further fiscal support that would lead total pandemic-related government spending to rise above US$4 trillion, or 16% of GDP.

Exhibit 1: U.S. dollar bear-market roadmap



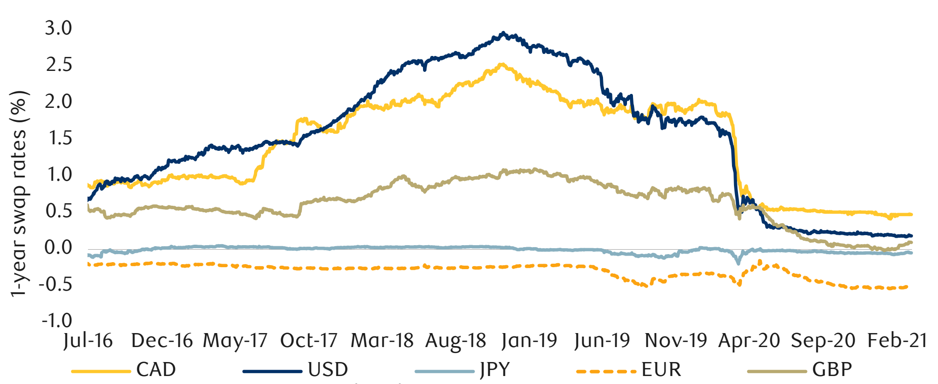
Note: As at Feb. 26, 2021. Source: Bloomberg, U.S. Federal Reserve, RBC GAM

Exhibit 2: Twin fiscal and current-account deficits



Note: Deficits as at Sep. 30, 2020 and U.S. trade-weighted dollar as at Feb. 26, 2021.
Source: Bloomberg, U.S. Federal Reserve, RBC GAM

Exhibit 3: U.S. dollar's interest-rate advantage has fallen

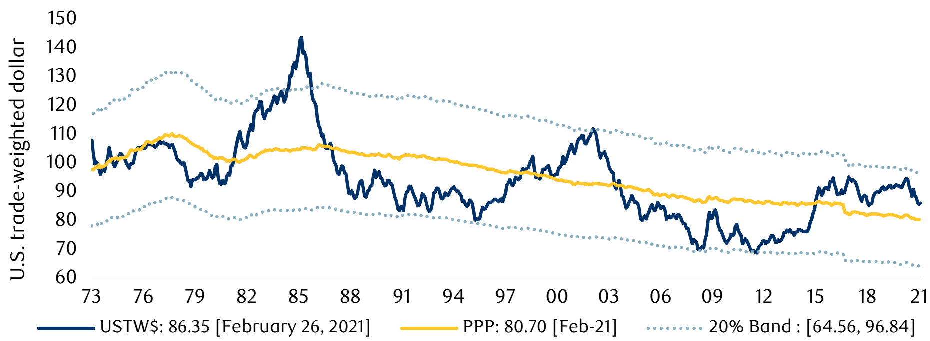


Note: As at Mar. 2, 2021. Source: Bloomberg, ICE, RBC GAM

The U.S. dollar's lower interest-rate premium vis-à-vis rivals (Exhibit 3), and its overvaluation based on purchasing power (Exhibit 4) are other reasons for global fund managers to continue reducing the share of the U.S. dollar in their portfolios. Longer term, Europe and Asia have become more attractive investment destinations given greater political cooperation in the EU and an improved economic and technology-sector outlook in Asia. So, we think that temporary rallies in the greenback, like the one that is materializing in early 2021, are opportunities to add to bets on a continued decline in the greenback.

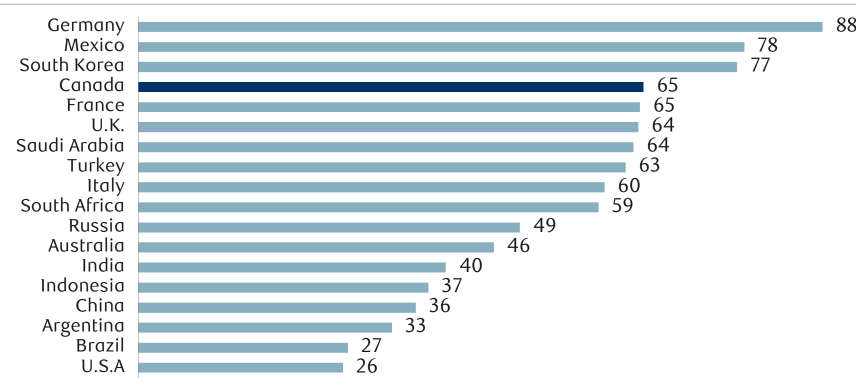
Until recently, the U.S. dollar's weakness in 2020 had gone relatively unopposed. This complacency is ending. Sweden, Chile, Israel and Russia are among the countries whose central banks have indicated they'll buy dollars to stem the rise of their own currencies. The Bank of Japan (BOJ) and European Central Bank (ECB) have both begun to hint at their discomfort with further currency gains, while China's central bank has loosened restrictions on outbound investment to counter appreciation of the renminbi. The concern for most of these countries lies not in a loss of competitiveness – the U.S. dollar is still overvalued, after all. The real problem faced by these central banks is that the speed of the U.S. dollar's descent reduces inflation in these countries and threatens the ability of policymakers to maintain inflation at desired levels. The dampening effect on inflation will peak in the second and third quarters of 2021, so we should expect to hear more from central bankers concerned about developments in foreign-exchange markets. In reality, there's very little these authorities can do individually to stop the powerful tide of U.S.-dollar weakness. While currency intervention and quantitative easing are huge in historical context, they are dwarfed by the US$6 trillion in daily foreign-exchange trading.

Exhibit 4: Purchasing power parity vaulation
U.S. trade-weighted dollar



Note: Uses new Fed USD index from Dec. 31, 2019 onward. As at Feb. 26, 2021. Source: Bloomberg, U.S. Federal Reserve, RBC GAM

Exhibit 5: Exports and imports as a share of GDP



Note: As at Dec. 31, 2019. Source: The Global Economy, RBC GAM

Of all central banks, it is perhaps the Bank of Canada (BOC) that should be most concerned about U.S.-dollar weakness. Canada is among the most trade-oriented economies in the G20 (Exhibit 5), with the U.S. accounting for a much larger share of the country's imports and exports than other developed nations.

Shades of 2013?

Recent volatility in the bond markets has some investors worried about weakness in emerging-market currencies and a repeat of a 2013 episode when risky assets and currencies plunged. At the time, the U.S. Federal Reserve's (Fed) announcement of a reduction in bond purchases caused interest rates to rise and pulled capital away from the emerging world. We think concerns of a similar reaction today are misplaced. For one thing, this year's rise in yields is smaller than the 140-basis-point spike during the summer of 2013. Another big difference is that, in 2013, the U.S. dollar was not in a bear market, and the greenback's prevailing strength at the time acted as a headwind for emerging-market assets. Negative real interest rates in developed markets, an abundance of liquidity and a more multilateral approach to international relations in the Biden administration also make for a friendlier environment for risky assets.

It is worth acknowledging that emerging-market currency weakness in 2013 was mostly confined to the currencies of Brazil, Turkey, South Africa, India and Indonesia. The "Fragile Five" were the countries that were most reliant on foreign-capital inflows because they were running large current-account deficits and had limited reserves to defend their currencies. Today, these countries and other emerging markets are in much stronger shape, with better external balances, larger foreign-exchange reserves and more credible central banks (Exhibit 6). The large outflows from emerging markets last year, in the wake of the pandemic, have not yet fully returned and we think there's room for further appreciation as positions are rebuilt (Exhibit 7).

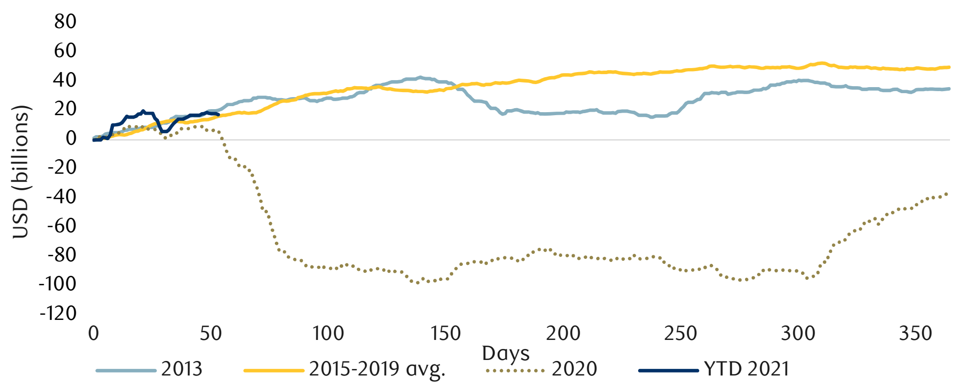
While optimistic about emerging-market currencies as a whole, we expect the performance among individual countries to vary more than last year. Among the more important

Exhibit 6: Emerging-market fundamentals are stronger than 2013

	2013	2020
Current account (% GDP)	-5%	1%
Over / (under valuation)	8%	-18%
Foreign debt (% of total debt)	33%	28%
Reserves (% GDP)	12%	17%

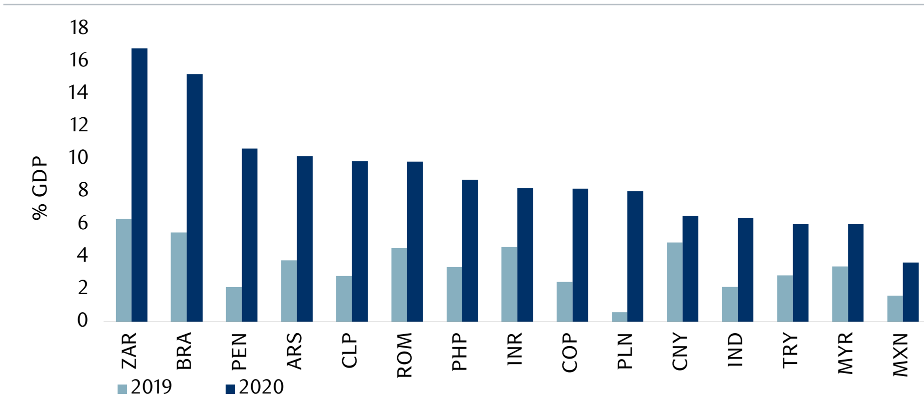
Note: Data is an average of Brazil, India, Indonesia, South Africa and Turkey. As at: Dec 31, 2020.
Source: Macrobond, Bloomberg, IMF, RBC GAM

Exhibit 7: Estimated capital flows into emerging-market assets



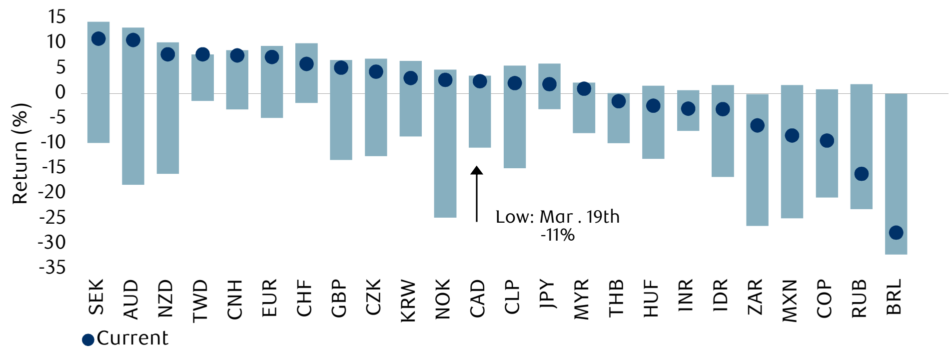
As at: Feb. 22, 2021. Source: IIF, RBC GAM

Exhibit 8: Emerging market fiscal spending



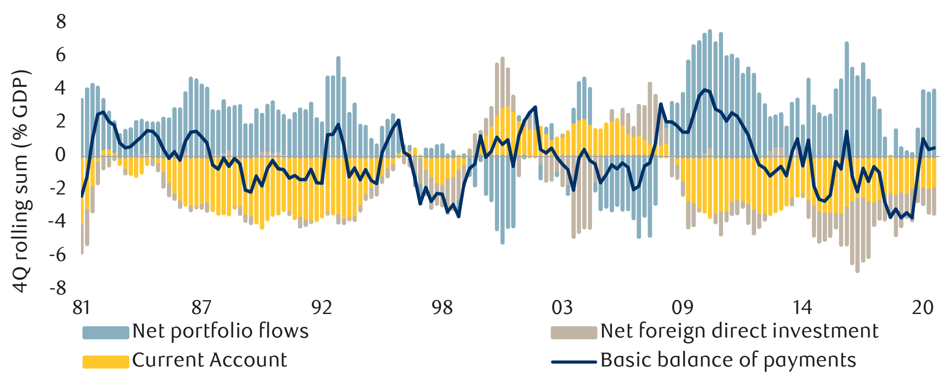
As at: Dec. 31, 2020. Source: IIF, RBC GAM factors driving relative performance this year will be differences in fiscal health. Some governments responded to lockdowns with large debt-financed spending programs that will weigh on future growth through the increased burden of interest payments. Brazil, South Africa and Argentina stand out in this regard, not only because they ramped up spending aggressively (Exhibit 8) but also because the aid came mostly in the form of cash handouts, which are politically difficult to unwind. A study by the International Institute of Finance found that countries rarely return to pre-crisis fiscal balances after large increases in government spending. The most vulnerable countries with large debt loads and a poor history of fiscal discipline will likely see their currencies underperform relative to countries like India and Mexico, which spent more responsibly last year. Another cause for differences in performance will come from regional strengths. Asia is benefiting from booming sales of technology and consumer products as well as links to stronger Chinese economic activity. Emerging markets that rely on commodity exports will get a boost from the increase in prices of metals, energy and agricultural products.

Exhibit 9: Range of returns since the beginning of 2020



Note: As at Mar. 1, 2021. Blue bars represent each currencies range of cumulative returns since Jan. 1, 2020. Source: Bloomberg, RBC GAM

Exhibit 10: Canadian basic balance of payments



Note: As at Dec. 31, 2020. Source: Statistics Canada, RBC GAM

Canadian dollar

We are positive on the prospects for the Canadian dollar. The recovering global economy, exceptional policy support and rising commodity prices represent a powerful combination of tailwinds for the loonie. While the Canadian currency has more than regained its pandemic-related losses, it has notably underperformed other commodity currencies such as the Australian dollar (Exhibit 9). Part of the reason may be that energy prices have been slower to return to pre-pandemic levels than industrial metals and agricultural commodities. In any case, we expect the loonie to catch up to other economically sensitive currencies with the help of large fiscal-stimulus programs in both Canada and the U.S.

Also supporting the Canadian dollar will likely be President Biden's overall policy approach. Plans to tighten business regulations could bolster the loonie by slowing the erosion in Canadian competitiveness that occurred during the business-friendly Trump presidency. Moreover, Canada's trade balance has been improving in recent quarters – reflecting an undervalued currency – and foreign buyers of Canadian assets have helped bring the basic balance of payments into surplus (Exhibit 10).

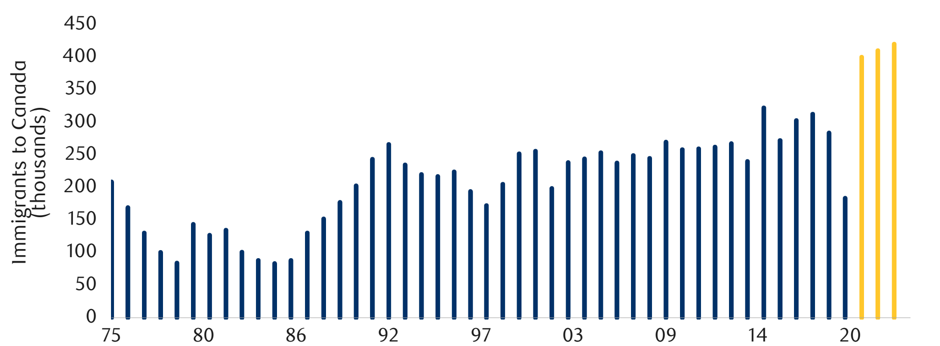
Canada also enjoys higher immigration levels than many of its peer countries. While the closing of borders slowed growth in the Canadian workforce in

2020, the government has unveiled higher annual immigration quotas for the next three years (Exhibit 11), steps that should improve medium-term economic growth and offset some of Canada's lagging productivity. According to Canadian government statistics, immigrants tend to be more educated than the local population and their integration raises the overall rate of participation in the workforce. The list of Canadian-dollar positives includes a growing stock of foreign assets relative to liabilities (lower net debt), relatively light investor positioning and lower asset valuations than in the U.S. A weak greenback is also a critical component of our more optimistic Canadian-dollar outlook.

Not all is positive for the Canadian dollar. The government's relatively slow progress in vaccinating Canadians likely translates into a delayed economic re-opening, and the extent to which Canada is lagging its peers and trade partners is becoming a hotter topic in the press and a bigger concern for small businesses. The cancellation of the Keystone pipeline is another negative, underscoring the challenges ahead for provinces that rely on heavy crude and other commodities in an increasingly "green" investment landscape. Finally, Canada's long-term problem of business underinvestment is evident in statistics that show companies are boosting capital investments abroad at the expense of domestic investment. The long-running issues causing this widening gap are unlikely to change quickly.

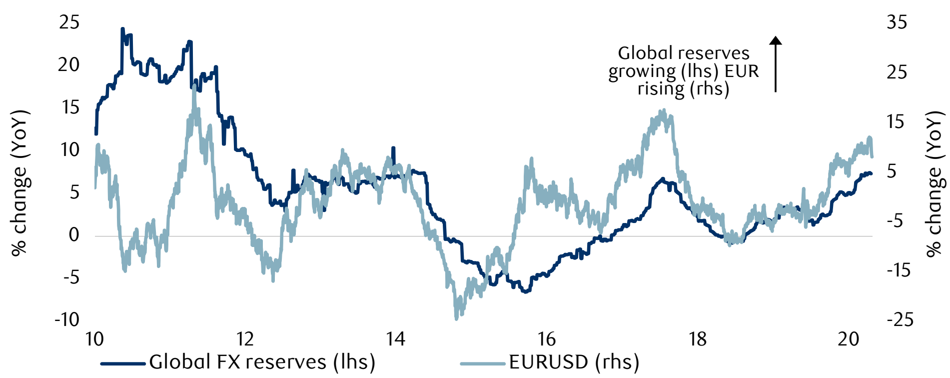
On balance, we think the Canadian dollar is attractive. For the 12 months ahead, we are placing more weight on a global economic recovery, the

Exhibit 11: Canadian immigration set to rise



Note: Bars shaded in yellow are government estimates. 2020 data is our immigration estimate. As at: Oct. 30, 2020. Source: Statistics Canada, Government of Canada, RBC GAM

Exhibit 12: FX reserve growth is positve for the euro



Note: As at Feb. 26, 2021. Source: Bloomberg, RBC GAM

rebound in commodity prices and our expectation that the U.S. dollar will weaken broadly. Given this backdrop and the fact that the loonie is among the most undervalued of G10 currencies based on purchasing power parity, we expect that it will appreciate to $1.18 per U.S. dollar over the next 12 months.

Euro

The euro is the primary vehicle that investors use to avoid holding U.S. dollars, and its behaviour has increasingly been a function of the greenback's movements rather than any glowing economic fundamentals in Europe. Historically speaking, this is not unusual, because the euro offers the most liquid alternative as the second-most traded currency in the world. As sentiment on the U.S. dollar soured last year, the euro rose above 1.23 – a 16% rally from 2020 lows.

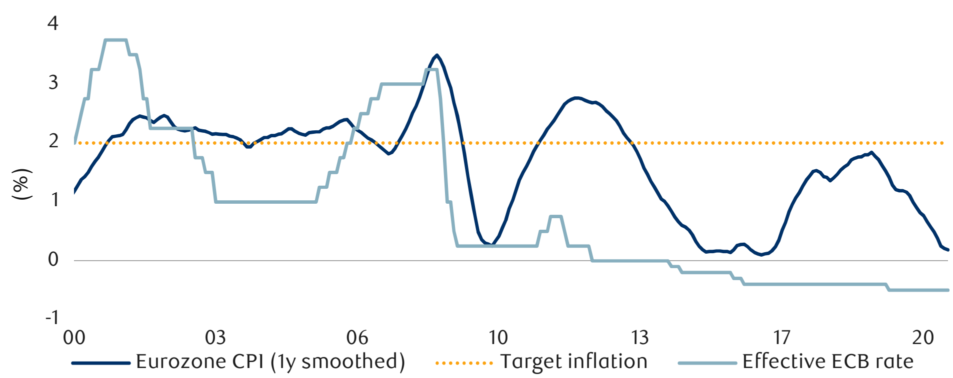
In this light, the behaviour of global foreign-exchange reserve managers creates a momentum loop that supports the euro (Exhibit 12). As the U.S. dollar declines, reserve managers have been buying foreign currencies to slow the appreciation of their own exchange rates. Since most of this intervention occurs in the form of U.S.-dollar purchases, reserve portfolios quickly accumulate too many greenbacks. Managers of these funds then have little choice but to convert U.S. dollars into euros, yen and renminbi. Such flows further depress the value of the dollar and offer a boost to the single currency.

Another factor favouring the euro is the persistence of relatively low inflation in Europe (Exhibit 13) given more than a decade of slower economic growth in the eurozone than in the U.S. Higher inflation in the U.S. means that the purchasing power of the U.S. dollar is eroding faster than the euro's. This process should be accelerated by the Fed's Average Inflation Targeting policy, which promises to keep stimulative policy intact even if inflation rises above the central bank's 2% target.

The ECB's greater aversion to above-target inflation suggests to us that inflation in Europe will continue to undershoot the U.S. We very much doubt that the ECB would ever follow the Fed down the path of average inflation targeting.

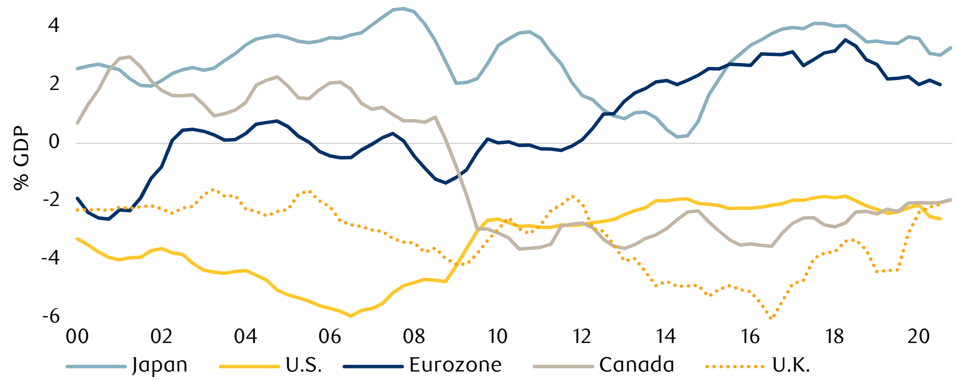
Other long-term factors also compare favourably with the U.S., including cheaper valuations and a stronger current-account balance (Exhibit 14). We expect the euro to appreciate to US$1.30 over the next 12 months.

Exhibit 13: Eurozone suffers from chronically low inflation



Note: As at Feb. 26, 2021. Source: Bloomberg, ECB, RBC GAM

Exhibit 14: Persistent eurozone current-account surplus



As at: Oct. 31, 2020. Source: Bloomberg, RBC GAM

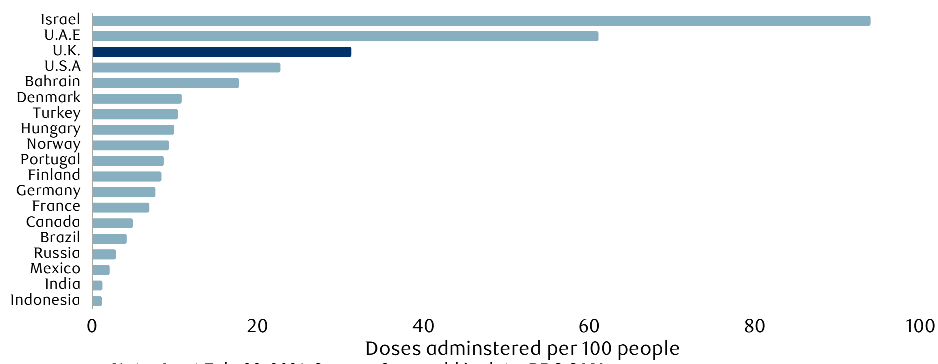
British pound

The pound has enjoyed a nice rally in recent months, due in part to a broadly weaker U.S. dollar. However, sterling has also appreciated against the euro, by approximately 4%, since the year began and is the top-performing major currency so far in 2021. The following developments are supporting the pound:

1. Uncertainty associated with Brexit has largely disappeared now that the half-decade saga is settled.
2. Vaccinations have been among the fastest in the world (Exhibit 15), raising hope of a quicker economic recovery in the U.K.
3. Britain's service-oriented economy would benefit more than many of its peers from a return to "normal.'

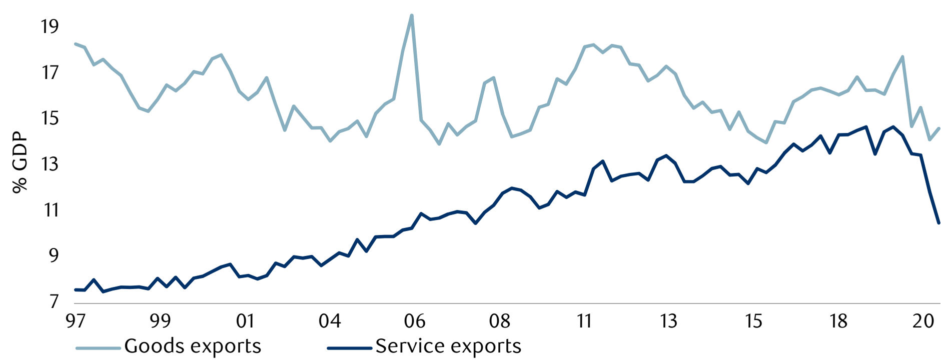
The pound, currently trading near three-year highs, more than reflects the optimism engendered by these improvements. Questions remain about the efficacy of vaccines for faster-spreading variants, the Bank of England continues to threaten to impose negative interest rates and another Scottish election is just around the corner. From a longer-term perspective, we agree in general with arguments that a weaker currency will be needed to help engineer a post-Brexit shift in the economy toward goods from services. The financial-services industry is poised to shrink and the two-decade rise in services exports has likely come to an end (Exhibit 16). The U.K.'s exports outside Europe have risen somewhat, but they are offset by weakness in exports to Europe. So, the fact that the pound is cheap relative to the U.S. dollar is not that helpful – it needs to weaken relative to the currency of its biggest trading partner – the EU. Therefore, while we think the pound could hold its ground against a falling U.S. dollar, sterling will likely underperform other major currencies such as the euro, Canadian dollar and Japanese yen. We expect the pound to trade at US$1.36 in a year's time.

Exhibit 15: U.K. vaccination rate among the best in the world



Note: As at Feb. 28, 2021. Source: Our world in data, RBC GAM

Exhibit 16: U.K. export breakdown



Note: As at Dec. 31, 2020. Source: U.K. Office of National Statistics, RBC GAM

Japanese yen

Until very recently, the yen had been rising along with other major currencies against the U.S. dollar. The yen has pulled back, however, as the recent rise in U.S. bond yields made Treasuries more attractive to Japanese investors, with their huge pool of savings and dearth of attractive domestic investment prospects. Our fixed-income colleagues believe it's unlikely that U.S. yields will rise much more in the short term, so we aren't expecting further yen weakness even if this link between U.S. interest rates and the yen persists.

Speculation in Japan continues to swirl around whether the new prime minister, Yoshihide Suga, will continue his predecessor's stimulative and reform-oriented policies (so far he has) and whether falling currency-hedging costs will prompt large investors to increasingly protect their portfolios against currency movements (yen-positive). There is also speculation that the BOJ could allow interest rates to float higher, a move that could boost the yen as it would encourage repatriation of money invested abroad. For now, the yen should receive support from the currency's undervaluation, a strong equity market and a large current-account surplus. We think the gradual pace of yen gains can continue in the year ahead. Our 12-month forecast is for the yen to strengthen to 99 per dollar.

Conclusion

The U.S.-dollar bear market is still in its early stages and longer-term factors point to further declines. The recent rise in U.S. bond yields has given the greenback a short-term boost, offering investors a more attractive opportunity to sell the dollar. An environment of stronger global economic growth and higher commodity prices is supportive for cyclical currencies. We expect emerging-market currencies to outperform their developed-market peers and think that the Canadian dollar can outperform among its G10 counterparts.

Regional Outlook – U.S.

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

It's coming! The re-opening is coming! Depending on where you live, it might not feel like it, but the number of new COVID-19 cases and patients in hospitals is falling, and fewer people are dying from the disease. Social distancing, personal hygiene and masking have certainly helped, but the global vaccine rollout is also beginning to blunt the spread. The administration of vaccines got off to a rocky start, but many of the manufacturing and logistical problems have been worked out and now almost 2 million people in the U.S. are being inoculated each day. According to the vaccine manufacturers Pfizer, Moderna and Johnson & Johnson, there should be enough doses to vaccinate every American by the end of July. If new cases and hospitalizations continue to decline, local officials will be able to lift restrictions and, gradually, Americans will return to dining out, and going to gyms, theatres, malls and offices. The economy will recover.

The odds of getting back to normal began to improve after the Pfizer and Moderna vaccines received emergency approvals in November. Over the past three months, the S&P 500 Index returned 5.6%, led by the Energy and Financials sectors, which recorded outsized gains as investors sold stable, less economically sensitive sectors such as Utilities and Consumer Staples to gain exposure to the eventual economic re-opening. The rally has been broad-based. Nine of 11 sectors registered gains during the period and the average stock in the index increased just over 9%, indicating that the index return was driven by a growing number of stocks rather than by just a handful of megacap issues. This return pattern is typically seen during the first year following a major market low, as we saw on March 23 of last year. Since 1957, the average one-year return off a major low has been 42%, a little more than half the 70% that we have experienced in just under a year. History suggests that returns in the second year following a low are usually better than average, but the market typically experiences more bumps along the way. A note

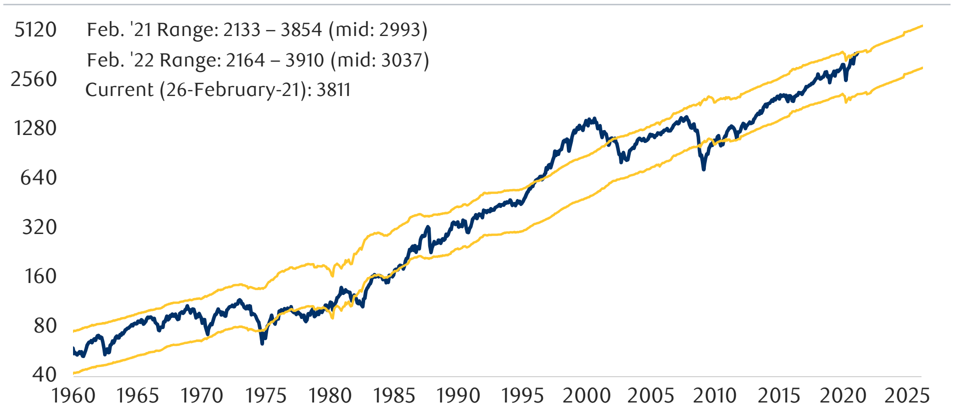
United States – Recommended sector weights

	RBC GAM Investment Strategy Committee February 2021	Benchmark S&P 500 February 2021	Active risk vs. Benchmark February 2021
Energy	2.9%	2.8%	0.0%
Materials	3.3%	2.6%	0.6%
Industrials	8.5%	8.5%	0.0%
Consumer Discretionary	13.3%	12.4%	0.9%
Consumer Staples	4.5%	5.9%	(1.4%)
Health Care	12.8%	13.0%	(0.2%)
Financials	11.4%	11.3%	0.1%
Information Technology	28.5%	27.5%	1.0%
Communication Services	11.5%	11.1%	0.4%
Utilities	1.5%	2.5%	(1.0%)
Real Estate	2.0%	2.4%	(0.4%)

Source: RBC GAM

S&P 500 Equilibrium

Normalized earnings and valuations



Source: RBC GAM

of caution: the current bull market's one-year return is by far the strongest of the 11 bull-market cycles since 1957, and it seems prudent to consider the possibility that we may have borrowed from future returns during the current rally.

The response of monetary and fiscal authorities to the coronavirus crisis was and continues to be extraordinary. Since the pandemic was declared a year ago, the U.S. Federal Reserve (the Fed) has injected about US$6 trillion including loan guarantees into the financial system, while Congress has passed stimulus bills totaling US$5 trillion. As the economy rebounds, we expect the Fed to gradually begin tightening monetary policy sometime next year. Later this spring, we expect Congress to consider another spending bill focused on President Biden's intention to prioritize infrastructure and climate change. We expect this bill to cost as much as US$2 trillion and come with tax increases for corporations and high-income individuals. The bottom line is that the tailwind from the Fed has peaked and should begin to fade late this year or early next year, while the fiscal tailwind is likely to keep blowing. Moreover, the success of the battle against COVID-19 will be crucial to the re-opening scenario. The spread of COVID-19 variants could complicate regional re-openings but we expect vaccine boosters targeted at COVID-19 variants to be available in the fall.

Given the significant advances of stocks in industries including energy, financial services, semiconductors and hospitality over the past three months, it seems clear that most investors have embraced the re-opening scenario as we have outlined it. Economists are forecasting real GDP growth of almost 5% this year and analysts are looking for corporate revenue growth of 9% and earnings growth of 22%. These expectations are somewhat optimistic but not unreasonable given previous economic rebounds. The U.S. economy is driven mainly by household spending, which we believe may be in the best shape in 40 years with huge increases in residential-housing wealth and almost US$2 trillion in historically high excess savings accumulated during the pandemic. Earnings will be bolstered by close attention to costs during the pandemic such that every new dollar of sales generates an impressive almost 40 cents in pretax profit. While the expectations are high, we think corporate earnings should keep beating expectations in 2021.

The S&P 500 remains expensive at a price-to-earnings multiple of 22 times the consensus 12-month earnings estimate of US$177, compared with a trailing five-year average of 18. It seems clear to us that valuations are likely to remain high until macroeconomic risks start to creep back. Potential sources of risk include a significant rise in interest rates, disappointment in Congress's efforts to pass a stimulus bill and the unchecked spread of COVID-19 variants.

The recent increase in investor speculation has put us on guard. Expected returns have fallen somewhat given the strong rally, but massive liquidity and stimulus combined with an American household that is well positioned to drive a strong recovery suggest that it is too early for investors to get defensive with their holdings. We have continued to take money out of some of last year's best-performing areas of the stock market and have added exposure in cyclical industries such as energy, banks, aerospace, restaurants, hotels and specialty retail.

Regional Outlook – Canada

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

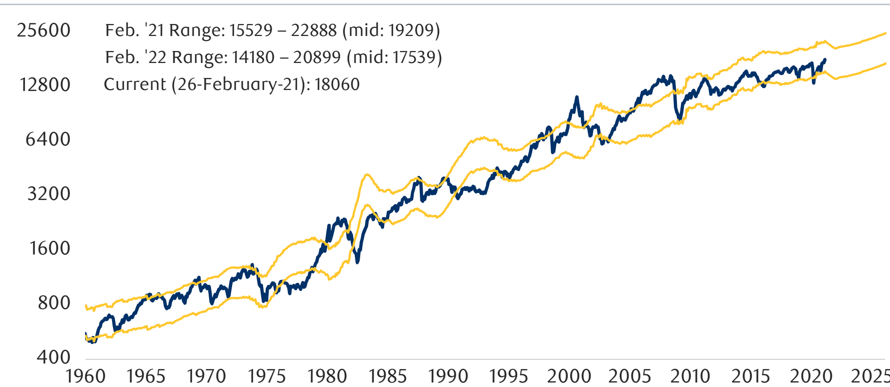
Irene Fernando, CFA
Portfolio Manager
RBC Global Asset Management Inc.

Canada – Recommended sector weights

	RBC GAM Investment Strategy Committee February 2021	Benchmark S&P/TSX Composite February 2021	Active risk vs. Benchmark February 2021
Energy	12.3%	12.1%	0.2%
Materials	12.5%	12.0%	0.5%
Industrials	13.5%	12.5%	1.0%
Consumer Discretionary	5.0%	4.0%	1.0%
Consumer Staples	3.3%	3.4%	(0.2%)
Health Care	1.0%	1.6%	(0.6%)
Financials	31.5%	30.9%	0.6%
Information Technology	9.0%	11.0%	(2.0%)
Communication Services	5.0%	4.7%	0.3%
Utilities	4.0%	4.7%	(0.7%)
Real Estate	3.0%	3.2%	(0.2%)

Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



Source: RBC GAM

The S&P/TSX Composite Index continued its momentum and briefly reached new highs in February. The index gained 8.0% in U.S. dollars during the three months ended February 26, 2021. The S&P/TSX beat the S&P 500 Index, which returned 5.6%, and the MSCI World Index, up 5.8%. The strong market result came amid optimism about vaccine rollouts in much of the developed world and, in Canada, strong commodity prices partially offset by relatively slow progress in administering COVID-19 shots. As vaccine distribution increases across the globe, investors continue to look ahead to an economic and earnings recovery. The arrival of Joe Biden as U.S. president brings the likelihood of more stimulus supporting areas most affected by the virus-related slowdown. From this point on, sustained monetary and fiscal support and evidence of a recovery in corporate profits will be required to bolster equities. Inflation expectations and interest rates are in focus as the U.S. 10-year Treasury yield recently climbed to its highest in a year. Rising interest rates may be an indication that bond markets expect a sustained economic expansion, which historically has boosted stocks and sectors that are tied to growth. The Canadian stock market's sizeable exposure to the cyclical areas of financial services and commodities should benefit its relative performance in a global economic recovery.

After the challenging economic environment of the past year, economists' consensus forecast calls for Canada's GDP to increase 4.7% in 2021, and 4.1% in 2022. The Bank of Canada (BOC) projects slightly softer GDP growth this year of 4.0%, strengthening to 5% in 2022. The BOC has maintained its overnight interest rate at 0.25% and indicated that monetary stimulus will continue to support the recovery until inflation returns to its 2% target, which the bank expects in 2023. Consumer spending remains subdued as Canadians have increased their personal savings. As virus containment measures ease, households are expected to ramp up consumption and drive economic growth for the balance of the year. Canada's housing market remains hot, with prices surging 13.5% year over year in January 2021. Policymakers could take action to cool this activity, but will likely proceed with caution given the importance of real estate to the domestic economy. With ample stimulus being provided to support the economy, inflation expectations are increasing. A rapid move higher in inflation would likely alarm investors and put pressure on central banks to consider reducing monetary support. This is not what we expect, but we are monitoring inflationary signals.

Earnings of the companies in the S&P/TSX, turbocharged by the economic snapback since the onset of the pandemic a year ago, are expected to climb 51% in 2021. That figure is forecast to fall to 13% in 2022 as economic growth gets back to normal ranges. S&P/TSX index earnings per share of 1,108 would mark a new high for the index, exceeding the pre-pandemic record reached in 2019. The faster-than-expected earnings recovery combined with government stimulus buttresses our positive view of Canadian stocks in 2021. Earnings growth in Canada is being largely driven by a significantly better outlook for the Financials sector, as well as the Energy and Materials sectors benefiting from higher commodity prices. Estimates for Canadian banks have been raised significantly after they reported solid results for the fiscal quarter ended January 2021. The S&P/TSX currently trades at 16.4 times forward earnings, a slight premium to the historical valuation average and a significant discount to the S&P 500's 21.7. The cyclical weighting of the S&P/TSX positions it well to narrow this valuation gap as higher commodity prices and strong global economic growth tend to benefit the index's biggest sectors.

The S&P/TSX Financials, Information Technology, Industrials, Utilities, and Consumer Discretionary sectors all reached new highs in the recent three-month period. The Information Technology sector was again led by Shopify, the largest stock in the Canadian benchmark in terms of market capitalization. The shares surged as retail purchases and commerce in general continue to move online. Technology-stock valuations are elevated based on expectations for strong long-term revenue growth. We note, however, that the sector may be vulnerable to an inflationary environment with rising interest rates, a scenario that would limit the market's willingness to pay lofty multiples. The Utilities sector has been characterized by strong performance from power producers with exposure to expanding demand for "green" energy, a trend that is likely to continue as governments increasingly mandate less polluting forms of power. The Consumer Staples sector, a relatively small weight in the S&P/TSX, has underperformed as grocers struggle to regain momentum on expectations that a return to dining out later this year will pare demand for meals served at home. The Health Care sector, which houses the cannabis industry, outperformed on anticipation that the U.S. will ease regulations governing marijuana use.

Canadian banks have outperformed over the past year, and first-quarter results justified continued optimism. Capital markets and other businesses sensitive to the performance of stocks and bonds performed well. Moreover, capital levels are robust, and credit quality is generally improving. We believe the banks will benefit from rising consumption, accelerating business lending and cost containment. An environment of higher interest rates would also boost earnings, which is not reflected in our base case.

The Materials sector lagged the S&P/TSX over the three-month period given a drop in gold prices as the promise of vaccines and an economic recovery reduced demand for safe-haven assets. In contrast, prices of industrial metals surged, with copper prices gaining 27% in the past three months in a reflection of economic recovery and limited supply. In addition, the move away from fossil fuels has led to a need for overhauling power grids and reconfiguring refueling facilities, further driving demand for copper. The beaten-up Energy sector has begun to stage a recovery. Improving demand for crude oil for use in transportation and industry has been met with a limited supply response, pushing oil prices to a 40% gain in the recent quarter. The North American benchmark oil price exceeds US$60 per barrel, a level where energy producers are expected to generate significant free cash flow. Investors in energy companies should benefit as the rising cash flow is allocated to lowering debt and perhaps to share buybacks and dividend increases.

Regional Outlook – Europe

James Jamieson
Portfolio Manager
RBC Global Asset Management (UK) Limited

Market overview – more to go, despite the run

European equities begin 2021 against a backdrop of positive investor expectations for global risk assets. A high level of uncertainty exists, however, given the possibility of two very different scenarios in the months ahead: that a surge in coronavirus infections requires further policy stimulus at a time when policy is already accommodative, or that effective virus containment brings a faster-than expected economic recovery. We broadly agree with the consensus that Europe should see a solid earnings recovery and that its equity markets continue to look well positioned, even after the sizeable rally from the March 2020 lows.

The economic data in Europe looks decent and increasingly resilient in the face of lockdown measures. Europe was among the hardest hit regions, and a new cycle should result in a strong recovery given how far the economy fell. This is reflected in promising leading indicators and survey data. The shape of economic recovery will be in large part a function of the vaccine rollout that is well underway.

With a Brexit deal reached and the U.K.'s departure formalized, European politics should be relatively uneventful in the coming year. A notable exception will be the departure after 16 years of German Prime Minister Angela Merkel, who will step down following this September's elections. Given the implications for trade, geopolitical power dynamics under the Biden administration will also be of interest, particularly regarding the formation of an effective alliance among the U.S. and the democracies of Europe and Asia vis-à-vis China. In this context, relations between the U.S. and its European allies should improve.

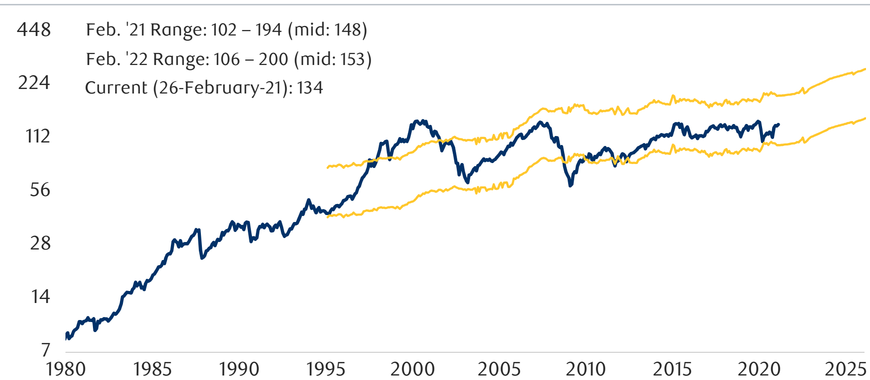
Fiscal policy is finally taking over from monetary policy as the principal economic-stimulus tool and together they are creating a very supportive backdrop for equities. This is not to say that monetary measures won't remain considerable: asset purchases and negative interest rates will continue, programs will ensure access to cheap long-term debt financing, and the

Europe – Recommended sector weights

	RBC GAM Investment Strategy Committee February 2021	Benchmark MSCI Europe February 2021	Active risk vs. Benchmark February 2021
Energy	4.0%	4.8%	(0.8%)
Materials	10.0%	8.6%	1.4%
Industrials	16.0%	14.6%	1.4%
Consumer Discretionary	13.0%	11.7%	1.3%
Consumer Staples	11.0%	12.3%	(1.3%)
Health Care	13.0%	13.9%	(0.9%)
Financials	16.5%	16.4%	0.1%
Information Technology	9.0%	8.0%	1.0%
Communication Services	3.0%	3.9%	(0.9%)
Utilities	3.5%	4.5%	(1.0%)
Real Estate	1.0%	1.3%	(0.3%)

Source: RBC GAM

MSCI Europe Index Equilibrium
Normalized earnings and valuations



Source: RBC GAM

‘whatever it takes’ mantra of former European Central Bank President Mario Draghi still echoes. The Bank of England is in a similar frame of mind.

Fiscal measures being enacted are even more profound. The pan-EU 750 billion-euro recovery fund stands out, not least because 37% of the spending is earmarked for pollution-fighting initiatives financed largely by “green” bonds. These ground-breaking steps, in conjunction with Europe’s many existing decarbonisation policies, will accelerate climate investment and keep the continent among the leading regions in this important area.

Equities – relative appeal, with style rotation short term

Fundamentally, European valuations don’t look too concerning, as they have not risen as much as in other regions. Furthermore, positioning isn’t overly stretched. Heavy industries have benefited most, with areas such as capital goods fully reflecting the improvement. The next areas to benefit could be financials, travel and leisure, which don’t yet reflect much of a pick-up. In other words, value stocks could be the next segment of the market to outperform. We are most interested in identifying businesses that emerge from the crisis stronger and better placed to capitalize on the opportunities that lie ahead.

One thing favouring European equities is that their “value” orientation will be especially useful should inflation expectations and bond yields continue to rise. We think this will happen but only on a temporary basis. So while value stocks may outperform in the short term, we expect growth stocks to resume their leadership in the latter part of the year. Meanwhile, an equity yield of 3% is attractive compared with other asset classes, supporting flows.

Dividends are beginning to recover, and the earlier fall should prove cyclical

With much of the COVID-19 turmoil now behind, we can begin to consider the advantages and risks of dividend stocks. There are signs that dividend reductions have bottomed out, with more companies increasing payouts than decreased them since September. Overall a 17% rise is expected in 2021, based on a long-run average payout ratio of 54% payout and the assumption that the vaccine rollout progresses as expected.

We maintain that, over the medium term, Europe’s culture of sharing profits with investors will prevail once balance sheets have been repaired and the virus damage is more fully assessed. The two main dividend-paying sectors that carry longer-term risks are the Financials sector, and banks in particular, and Energy. In both cases, we believe that the damage will not be lasting.

Banks have been under structural pressure for some time. The regulatory ban on dividends imposed last year was not a surprise, but the duration and severity have been somewhat unexpected given that the system is much better capitalized than during the 2008-2009 financial crisis. Bank executives and investors now have some visibility, and regulators have allowed normal capital distributions to resume in October 2021. The risk of regulatory intervention has risen, but the only way for banks to attract capital – and keep the financial system functioning – is by paying dividends. We therefore expect dividends to remain an important part of the returns offered by banks.

The outlook for the Energy sector remains difficult to determine, with demand for investment in cleaner energy now competing with other components of the capital-allocation mix. The substantial cash flows underpinned by these companies’ long-standing petroleum businesses should enable them to transition their operations to a cleaner future while continuing to make attractive payouts, albeit at slightly lower levels.

There are some long-term developments that will help companies in various sectors bolster capital available for dividends. Technological advances will ultimately result in higher cash flows over time and, therefore, potentially put a floor under dividends. Our best guess on when we will return to pre-COVID payout levels is 2023, which would be one year sooner than the time frame during the financial crisis. This is a fair assumption given that the coronavirus-related downturn has, so far, been shorter.

Dividends are usually a key attraction for investors who have European holdings, so their return will be supportive for investment flows. Assuming a continued earnings recovery, accommodative monetary and fiscal policies, reasonable valuations and the emerging appeal of value stocks, share prices could have further to rise.

Regional Outlook – Asia

Chris Lai
Analyst, Asian Equities
RBC Global Asset Management(Asia) Limited

Asian equities rose to records during the period as the region's better management of the COVID-19 pandemic continued to pay off in its financial markets. Asian stocks also benefited from easy financial conditions and the impact of soaring technology stocks. We expect the global economic rebound to continue even as Asian governments gradually scale back fiscal and monetary measures. Japan is a notable exception to this scenario, for while its stock market has roared back, the country's recovery is proceeding only gradually and stimulus measures will remain in place. Overall, the path of economic growth in Asia and the performance of its equity markets will likely remain bumpy in the medium term given that valuations are elevated and new coronavirus variants could lead to a surge in COVID-19 cases.

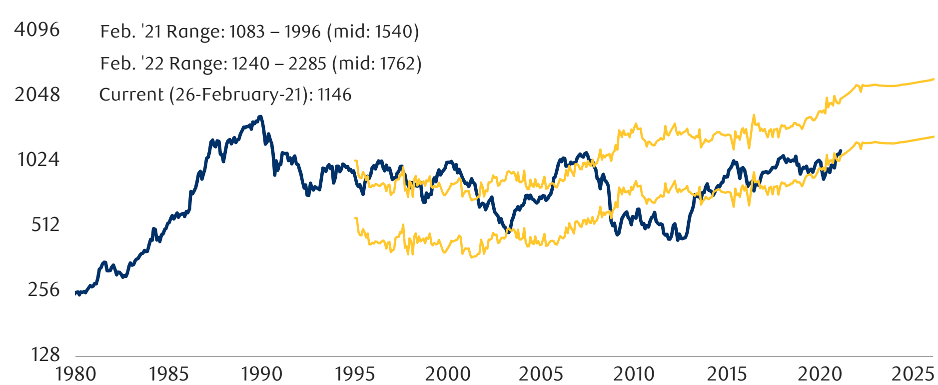
In the recent three-month period, equity markets in South Korea, Taiwan, India and China outperformed, while Australia, Malaysia and Philippines lagged the benchmark.

Asia – Recommended sector weights

	RBC GAM Investment Strategy Committee February 2021	Benchmark MSCI Pacific February 2021	Active risk vs. Benchmark February 2021
Energy	2.0%	2.1%	(0.1%)
Materials	7.0%	6.1%	0.9%
Industrials	9.5%	10.3%	(0.8%)
Consumer Discretionary	18.0%	17.9%	0.1%
Consumer Staples	4.5%	5.5%	(1.0%)
Health Care	7.3%	7.1%	0.2%
Financials	16.3%	16.2%	0.0%
Information Technology	19.5%	18.2%	1.3%
Communication Services	12.0%	10.9%	1.1%
Utilities	1.0%	1.8%	(0.8%)
Real Estate	3.0%	4.0%	(1.0%)

Source: RBC GAM

MSCI Japan Index Equilibrium
Normalized earnings and valuations



Source: RBC GAM

Japan

We do not expect significant changes in economic policy from Japanese Prime Minister Yoshihide Suga or in monetary policy from the Bank of Japan (the BOJ). Japan remains under a COVID-19-related state of emergency, and GDP in the first quarter of this year is forecast to shrink 4.1% after rising in the third and fourth quarters of 2020. The strengthening of the yen over the past 12 months remains a risk for Japan's exporters as it makes their goods more expensive overseas.

Japan has been back in a period of deflation since April 2020, driven by the pandemic-related fall in oil prices. Consumer prices fell 0.9% in the fourth quarter of 2020, excluding food and energy, and are forecast to fall another 0.8% in the first quarter of this year before rising 0.1% in the second quarter. The BOJ is likely to continue to play a role in stimulating the economy through bond purchases and programs that extend generous loans to financial institutions. The Japanese central bank recently increased the amount of commercial paper and corporate bonds that it would be willing to purchase, and we expect the BOJ to extend a stimulative loan program scheduled to expire soon.

Japanese employment has been holding up surprisingly well, with the unemployment rate at 3.0% in the fourth quarter of 2020, compared with 2.4% in 2019's fourth quarter. In December, Suga announced a fiscal package valued at 14% of GDP, which along with two packages passed by his predecessor, will bring total pandemic-related fiscal stimulus to 58% of GDP.

Asia Pacific ex-Japan

A big exception to the strong performance of Asia has been India, although a surprisingly fast decline in coronavirus cases in the country has cleared the path for faster economic growth in the months ahead. We expect more interest-rate cuts in Thailand, the Philippines, Indonesia and Malaysia in the first half of 2021 as their economies require continued significant support. Inflation may gradually rise as growth recovers, but we expect prices to remain under control and within central-bank targets.

China's growth recovery has extended into the first quarter of 2021, thanks mainly to strong exports and a steady improvement in retail sales. Chinese exports have continued to benefit from the need for personal protective equipment as well as computers and related electronics required by people working and playing at home. China's economy has been among the strongest globally. Chinese GDP fell to 2.2% in 2020 from 6.0% in 2019, and we expect this number to rebound to between 8% and 9% in 2021.

Beijing has pledged to move prudently on withdrawing monetary and fiscal stimulus, and we expect only a modest slowdown in credit growth. We also believe that the Chinese government will try to counter the recent rise in interest rates and funding costs to sustain the growth recovery, and to maintain funding to property companies and important manufacturers.

In South Korea, strong export growth, driven mainly by technology, has offset a weak consumer backdrop. Capital-goods imports remain robust, suggesting accelerating global growth, and exports appear set to strengthen on demand for technology, lifting chip prices. In addition, consumer sentiment is forecast to improve on buoyant stock and property markets.

The consensus is that GDP in India will rebound to growth of 9% in fiscal 2021 from a decline of 6.5% in fiscal 2020. The turnaround will be supported by moderation in the number of COVID-19 infections, the impact of easier financial conditions, accelerated vaccine rollouts and faster global growth. The pace of recovery remains uneven, with consumption and investment indicators near historical levels, while exports and industrial sectors are 7% to 10% weaker than we would expect and consumer and retail commerce that requires personal contact more than 30% below pre-pandemic levels.

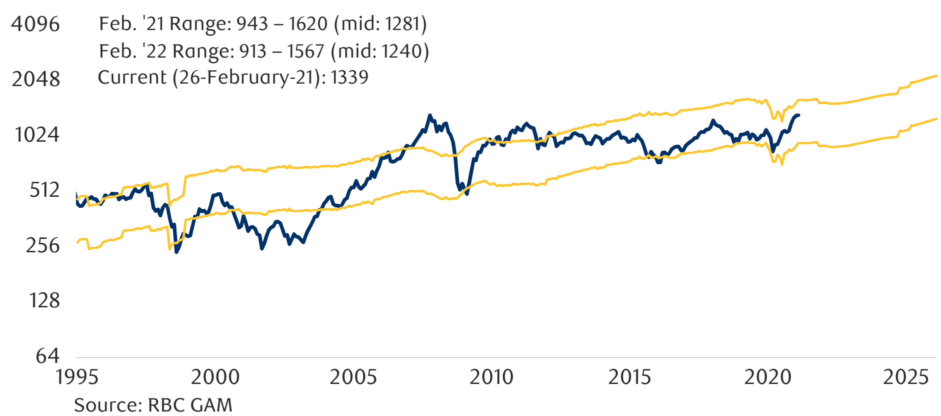
Australia's economy is recovering slowly, and we expect inflation to stay low given spare capacity. We expect the recovery to continue assisted by monetary and fiscal stimulus and growth in Asia, and the Australian government started vaccinating residents in February. While the general outlook for Australia is favourable, the recovery will be somewhat constrained by tensions with China and weak population growth given COVID-related travel restrictions. The economy is benefiting from rising commodity prices, particularly for iron ore, a development that is offset somewhat by the accompanying rise in the Australian currency.

We remain cautious on the outlook for the Philippines. COVID-19 is unlikely to be brought under control until inoculations start to be administered in the fourth quarter of 2021, after the government fumbled vaccine procurement. In addition, fiscal support for the economy will remain limited. We forecast that the current account will fall into deficit starting in the second quarter of 2021 on higher demand for imports related to infrastructure programs ahead of elections in May 2022.

Regional Outlook – Emerging Markets

Laurence Bensafi
Deputy Head and Portfolio Manager,
Emerging Market Equities
RBC Global Asset Management (UK) Limited

MSCI Emerging Markets Index Equilibrium
Normalized earnings and valuations



Emerging-market equities delivered strong overall gains in 2020. However, the returns came from a limited number of markets, with only seven of 27 countries in positive territory. Many emerging-market country indexes fell 10% to 20% over the past 12 months. We have seen better performance across most sectors. However, a handful of stocks was responsible for the improvement.

The concentration of the MSCI Emerging Markets Index has increased in recent years, and five stocks now account for 25% of the benchmark's market capitalization. Six of the 10 largest stocks are in China. Those stocks have been pushed even higher by Southbound Connect, the program that made it possible for investors in mainland China to shift assets into Hong Kong-listed shares from low-interest savings instruments, expensive property and high-valuation shares traded on mainland exchanges. The Hong Kong market is home to companies such as Tencent and Alibaba, which cannot be bought on mainland exchanges. There are mounting concerns that there is a bubble in the Chinese stock market and that the Chinese government may remove liquidity soon to deflate it.

Flows have been driving emerging markets higher recently with close to US$100 billion being invested in emerging-market debt and equity over the past 12 weeks – the third-largest amount ever for a three-month period.

In the near term, we remain cautious on equity markets as the consensus is pricing in a best-case scenario and excess liquidity is bolstering performance. We believe there are a number of uncertainties that could lead to declines in stock markets.

In the medium term, we remain positive on emerging-market equities. We believe they should continue to outperform developed markets, after 10 years of underperformance, due to a combination of better emerging-market economic growth and a weaker U.S. dollar.

Faster economic growth will likely be the main driver of outperformance for emerging-market equities. The powerful recovery in the Chinese economy, which accounts for 40% of the emerging-market benchmark, illustrates how China has managed to master the pandemic. The Chinese economy was hit in the first quarter of 2020, one quarter before the developed world. However, the Chinese recovery has been much faster as the virus was controlled more swiftly, enabling China to avoid further major lockdowns.

Another positive driver for emerging-market equities compared with developed markets is the health of the balance sheets of central banks and governments. Emerging-market countries did not implement huge fiscal packages, which in developed markets has led to a significant increase in debt and, given falling interest rates, means that further action may be difficult to implement. On the other hand, many emerging markets countries have the fiscal space to increase spending if necessary.

On average, the overall number of COVID-19 deaths in emerging markets compared with developed markets has been much lower, and more limited lockdowns mean that any recovery is likely to occur sooner than in developed markets. The consensus is that emerging markets will grow more quickly than developed markets in 2021 and 2022. We believe that the U.S. dollar is overvalued considering the weak U.S. fiscal and trade balances, and we expect any further dollar weakness to be very positive for emerging-market equities.

Value stocks in emerging markets and the U.S. underperformed growth stocks by the most since style indexes began in 2000. The underperformance was attributable entirely to China and Taiwan and was caused by a handful of stocks that have become so large that they influence overall style performance. The stocks with outsized influence are "new economy" companies and performed well even before the pandemic. They are not in the value Index, which is full of financial and cyclicals stocks.

We have argued that certain segments of the new economy seem overvalued because they face increased competition and regulation. Moreover, were we to see more fiscal spending, notably targeting climate change and infrastructure, we could see cyclicals – and therefore value stocks – perform better.

Quality companies with returns on equity of around 10% are also interesting as they are priced at similar levels to lower-quality stocks. We believe that deeply discounted value stocks have already priced in a strong recovery.

The variance in performance among countries was never so large as it was in 2020. The success of Northeast Asia countries – China, South Korea and Taiwan – in containing the virus was reflected in the strong performance of those markets in 2020. We believe, however, that their valuations are more than priced in, with Taiwan the most expensive it has ever been. Countries that have struggled with the virus haven't performed well. Brazilian markets were down 20% in 2020 and Colombia 22%. We expect a rebound in Latin American economic growth in 2021. The rise in prices for metals and oil should also be positive for Latin American economies.

Sectors that have benefited from the impact of the pandemic are Health Care, Consumer Discretionary, Information Technology, Communication Services and Consumer Staples. On the other hand, the Financials and Energy sectors have underperformed since the onset of COVID-19, and these sectors now look attractive based on valuations.

Performance in the Energy, Materials and Industrials sectors might be poised to improve if the "green revolution" unfolds as some analysts predict. Climate change is now a major focus for the largest countries in the world. China recently announced that renewable energy will comprise 25% of the country's electricity generation by 2030, and by 2060 the country expects to be carbon-neutral. We have noticed that China has historically achieved or exceeded such targets, and it is also worth keeping in mind that the quantity of copper, nickel and other commodities needed to achieve carbon-neutral status exceeds the projected growth in their supply. Rising demand for these commodities would be very positive for emerging-market growth, and in this scenario, cyclical stocks and the Financials sector would perform well as any significant rise in commodity prices could fan inflation. We are very positive on the outlook for prices of copper, for which a lack of new projects could lead to a shortage just as sales and the use of electric vehicles and renewable energy accelerate.

RBC GAM Investment Strategy Committee

Members

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 $547 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 February 28, 2021

Stephen Burke, PhD, CFA

Vice President and Portfolio Manager
RBC Global Asset Management Inc.

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.

Soo Boo Cheah, MBA, CFA

Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

Based in the U.K., Soo Boo is responsible for managing global fixed-income allocations. He specializes in assessing the impact of central bank policies and global macroeconomic trends on developed-market bonds. In his role as a senior portfolio manager, he integrates a wide range of investment strategies involving interest rates, currencies, and derivatives. Soo Boo started his career in the investment industry in 2000 and holds an MBA from University of New Brunswick. Soo Boo has been a CFA charterholder since 2002.

Dagmara Fijalkowski, MBA, CFA
Head, Global Fixed Income & Currencies
RBC Global Asset Management Inc.

As Head of Global Fixed Income and Currencies, Dagmara leads a team of 40+ investment professionals in Toronto, London and Minneapolis with almost $100 billion in assets under management. In her duties as a portfolio manager, Dagmara leads management of several bond funds, including the RBC Bond Fund, and manages foreign-exchange hedging and active overlay programs. She leads the Fixed Income Strategy Committee which determines appropriate level of risk taking given market opportunities. Dagmara is a member of the RBC Investment Policy Committee, which determines the asset mix for balanced 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 at the Western University 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
RBC Global Asset Management Inc.

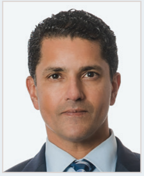
Stu co-leads the North American Equity team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities 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.

Scott Lysakowski, CFA
Vice President and Senior Portfolio Manager
Head of Canadian Equities (Vancouver)
RBC Global Asset Management Inc.

Scott is Head of the Vancouver-based Canadian Equity Team. He is primarily responsible for overseeing equity research and portfolio management of the firm's core Canadian equity strategies. Scott also serves as lead manager for the PH&N Canadian Income Fund and the PH&N Monthly Income Fund. Scott began his investment management career with the firm in 2002 as a senior research analyst and portfolio manager within the Toronto-based Canadian Equity Team. He transitioned to the Vancouver team seven years later and assumed his current leadership role in 2012. During his 15-year tenure with the organization, he has conducted research for and managed a broad spectrum of Canadian equity portfolios, specializing in dividend and income mandates.



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.

Sarah Riopelle, CFA

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

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, ensuring that all aspects of the investment management function at RBC GAM are running smoothly. She is a member of the RBC Wealth Management Diversity Leadership Committee. Sarah joined RBC Global Asset Management in 2003 as a Senior Analyst within Investment Strategy. From there, she moved to the Canadian Equity team as an analyst and then a portfolio manager. She began her career in the investment industry in 1996 after graduating from the University of Ottawa with a Bachelor of Commerce degree, majoring in Finance and International Management. She was awarded the Chartered Financial Analyst designation in 2001.

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.

Jaco Van der Walt, DCom

Vice President and
Global Head of Quantitative Research & Investments
RBC Global Asset Management Inc.

Jaco is Vice President and Global Head of Quantitative Research & Investments at RBC Global Asset Management Inc. He joined RBC GAM in 2019 to ensure that systematic investing thrives at the firm and to help futureproof the quant business in a world of rapidly evolving technologies and alternative data. Prior to joining, Jaco held an executive role at one of Africa's largest financial services companies, leading the Investment Management Office and working across pension funds, insurance, banking, and wealth management. He also chaired the boards and investment committees of several pension plans and has a track record in driving transformational change. He obtained a Doctor of Commerce (Economics) in 1997 from the University of Pretoria and a Masters of Arts in Economics in 1994 from the University of Toronto.

Milos Vukovic, CFA

Vice President, Investment Policy
RBC Global Asset Management Inc.

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
RBC Global Asset Management Inc.

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.

Global equity advisory committee

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> **Eric Lascelles**
> Chief Economist
> RBC Global Asset Management Inc.

Disclosure

RBC Global Asset Management

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