



Monthly economic webcast: Advancing protectionism

Eric Lascelles, Chief Economist

April 2018



**Global Asset
Management**

Report card

POSITIVE DEVELOPMENTS



- Global economy data remains strong
- Consumers still optimistic
- U.S. government passed budget bill
- Merkel started her 4th term as German chancellor
- China sets 6.5% growth target

NEGATIVE DEVELOPMENTS



- Sour markets
- Protectionism galore – steel & aluminum, China
- Macro signals flattening out
- More White House personnel changes
- Geopolitics: Russian diplomats expelled after spy poisoning
- Canadian housing market at high vulnerability level

INTERESTING



- New Fed Chair hikes rates
- Brexit transition timing clarified
- Midterm preview? Democrats won Penn. special election
- Populist parties surged in Italian election
- Geopolitics: North Korea meetings with South Korea, China and U.S.

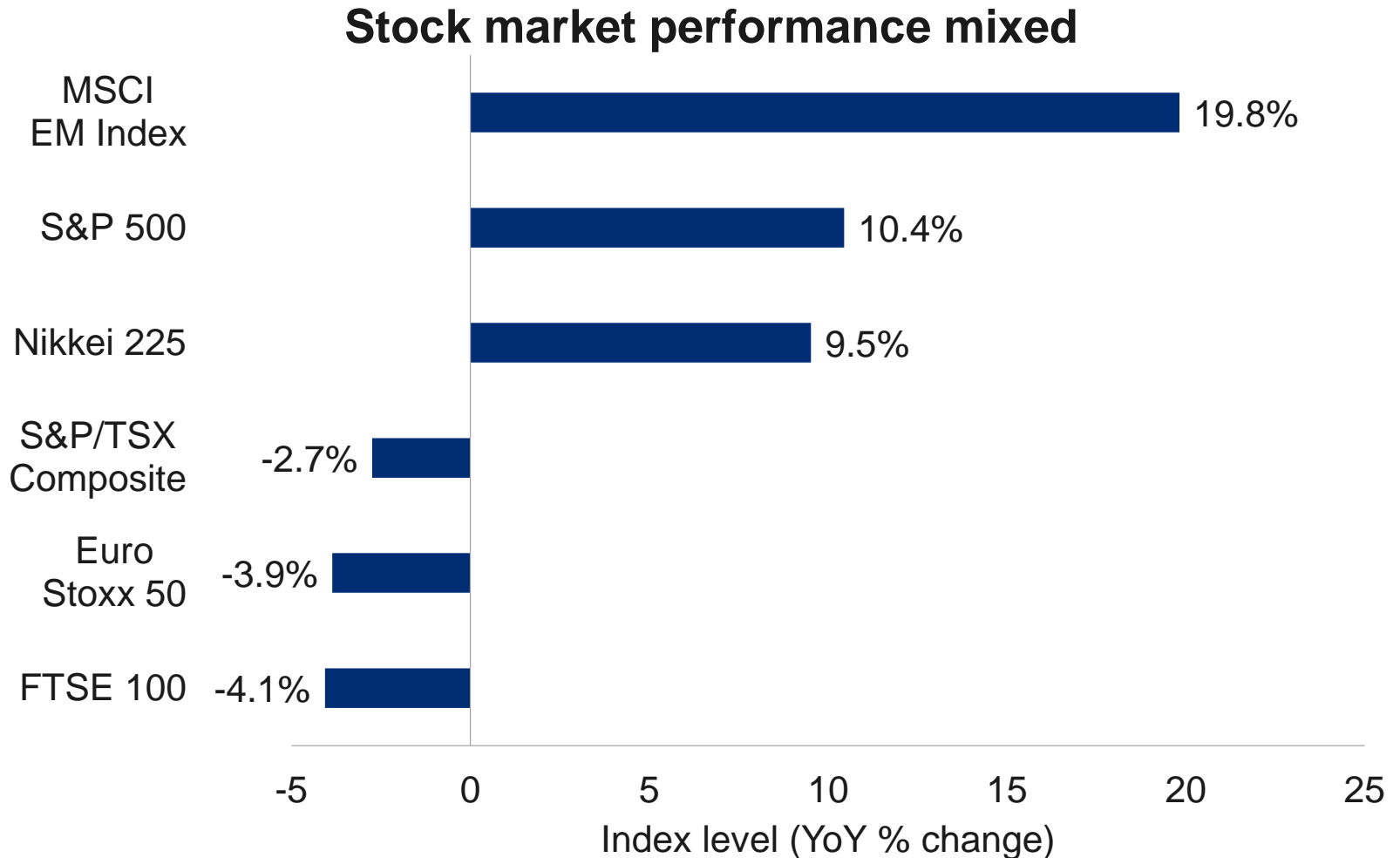
Ongoing turbulence in financial markets

Stock market rattled



Source: WSJ, Haver Analytics, RBC GAM

Some stock markets still doing well despite recent corrections







Note: As of 3/28/2018. Source: Bloomberg, Haver Analytics, RBC GAM

The protectionist landscape in 2018

Protectionism delivered	Protectionism pending
<p>US:</p> <ul style="list-style-type: none"> • Killed TPP trade deal • “Buy American” • Softwood lumber tariff • Bombardier tariff (rescinded) • Washing machines tariff • Solar panels tariff • Steel & aluminum tariffs • Chinese tariffs due to IP practices • Korean FTA renegotiated <p>UK: Brexit vote</p> <p>Globally: Non-tariff barriers rising</p>	<p>US:</p> <ul style="list-style-type: none"> • NAFTA renegotiation (40% chance of bad outcome) • More China trade restrictions to come? <p>UK: Brexit outcome</p> <p>Canada: Provincial trade war?</p>
...fighting back	...counterpoints
<ul style="list-style-type: none"> • Canada retaliates via WTO, Chapter 19 • China retaliates with small U.S. tariffs • Broader trade war brewing? 	<ul style="list-style-type: none"> • 11 countries sign CPTPP • Cdn CETA & interprovincial deal • China reducing some barriers

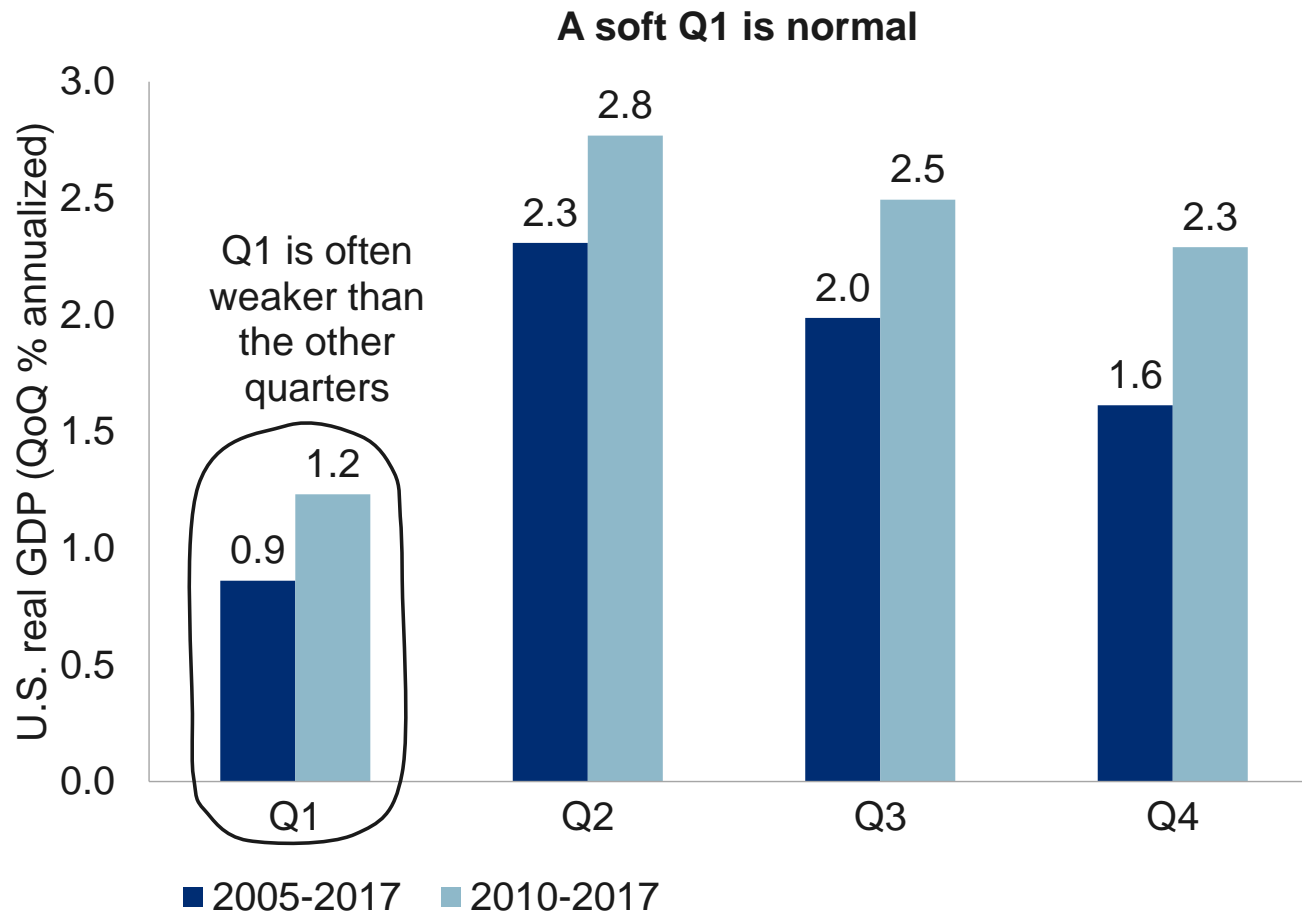
Source: RBC GAM

NAFTA renegotiation scenarios

Scenario	Odds	Details	Economic effect
Termination	30% 	<ul style="list-style-type: none"> • NAFTA scrapped • Prior Canada-U.S. trade deal might also be scrapped • Default WTO tariffs apply • Trade war possible? 3-5x worse • Market thinks <20% chance 	Problematic, resulting in higher costs, supply-chain headaches, worker permit problems <ul style="list-style-type: none"> • U.S. GDP -0.4% • Cdn GDP -0.8% • Mex GDP -1.4%
Substantial changes	10% 	<ul style="list-style-type: none"> • U.S. gets its way: NAFTA defanged • Trade dispute tribunals scrapped • Safeguard exclusions permitted • U.S. gov't procurement protected • Minimum U.S./N.A. domestic auto share • Sunset: Pact to be renewed every 5yrs 	Negative economic effects, possibly worse than killing NAFTA depending on how substantially pact is undermined
Modest changes	35% 	<ul style="list-style-type: none"> • Mix of good, bad and neutral changes • Better integration of intellectual property and modern industries • Some limitations on certain sectors 	Limited economic effect, ranging from slight negative to slight positive
No change	25% 	<ul style="list-style-type: none"> • White House fails to get way; bluff called • Canada and Mexico run out the clock • Congress disinclined to change trade policy 	Prolonged uncertainty; no long-term effect

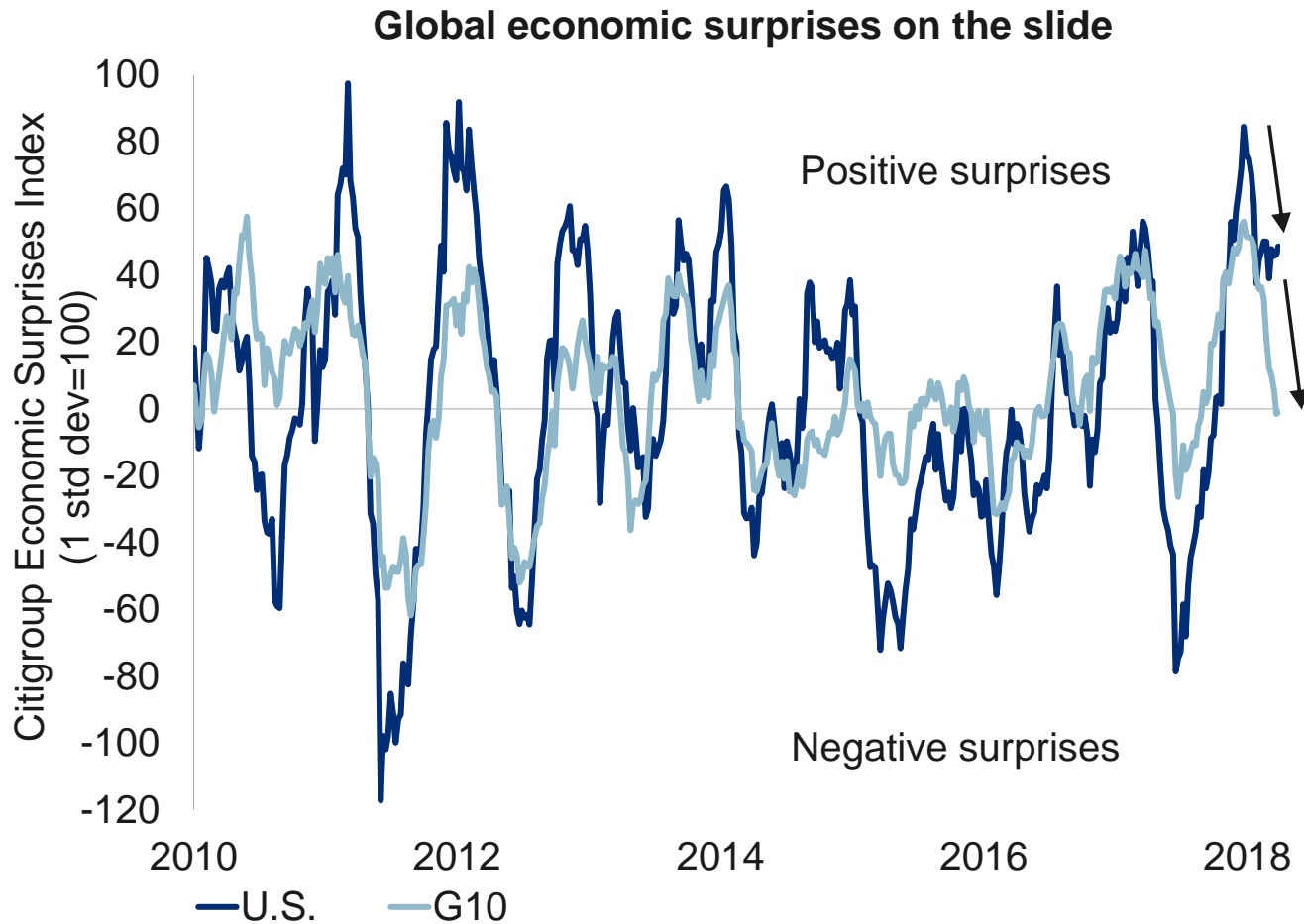
Source: Moody's, RBC GAM

Don't sweat recent soft U.S. GDP tracking



Source: BEA, Haver Analytics, RBC GAM

Economic surprises revert to the mean



Source: Citigroup Alpha Surprise Index, Bloomberg, RBC GAM

Declining yield spread signals aging business cycle



Source: Federal Reserve Board, Haver Analytics, RBC GAM

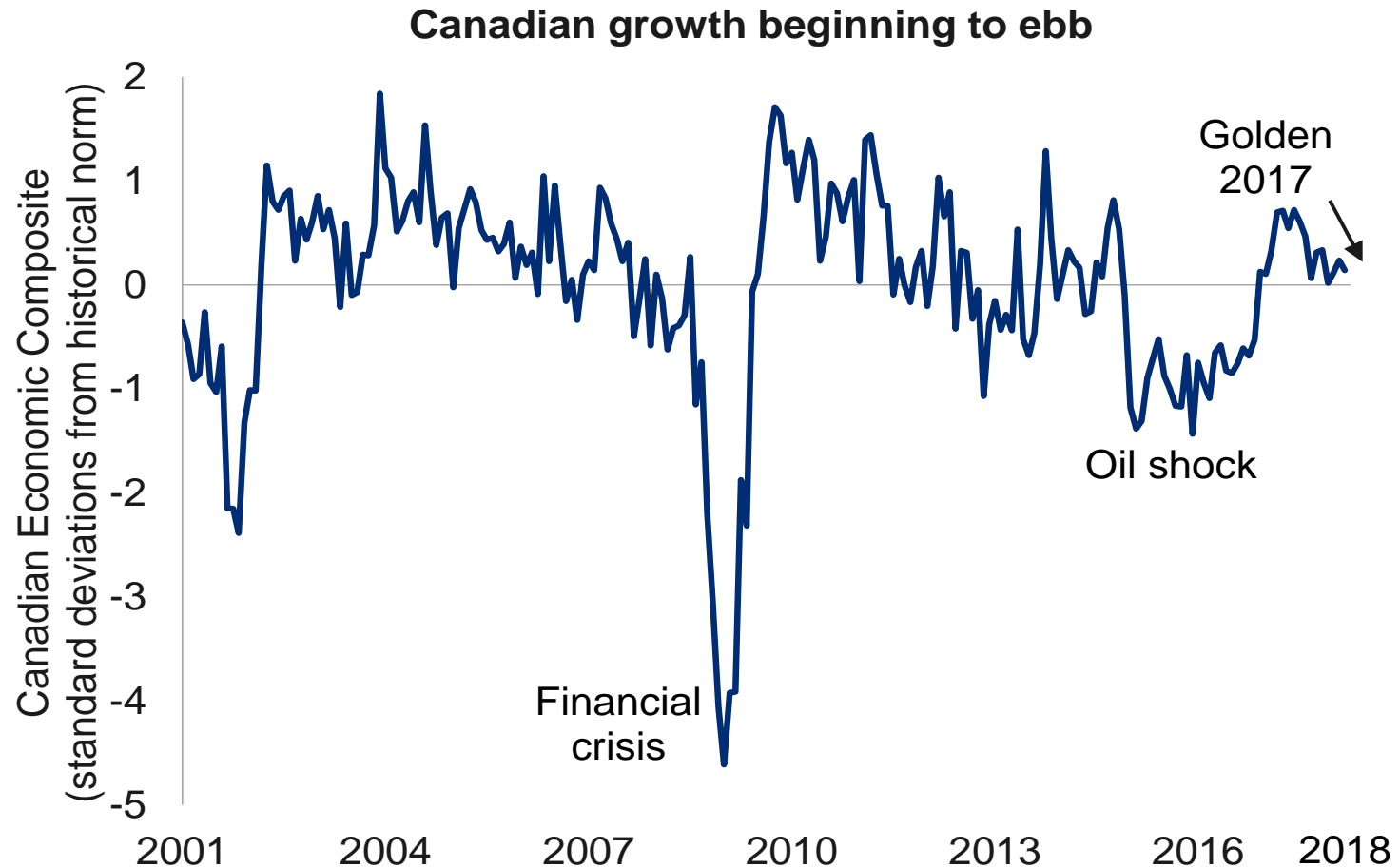
Bank funding costs have risen sharply

Libor-OIS spreads surged recently



Source: Bloomberg, RBC GAM

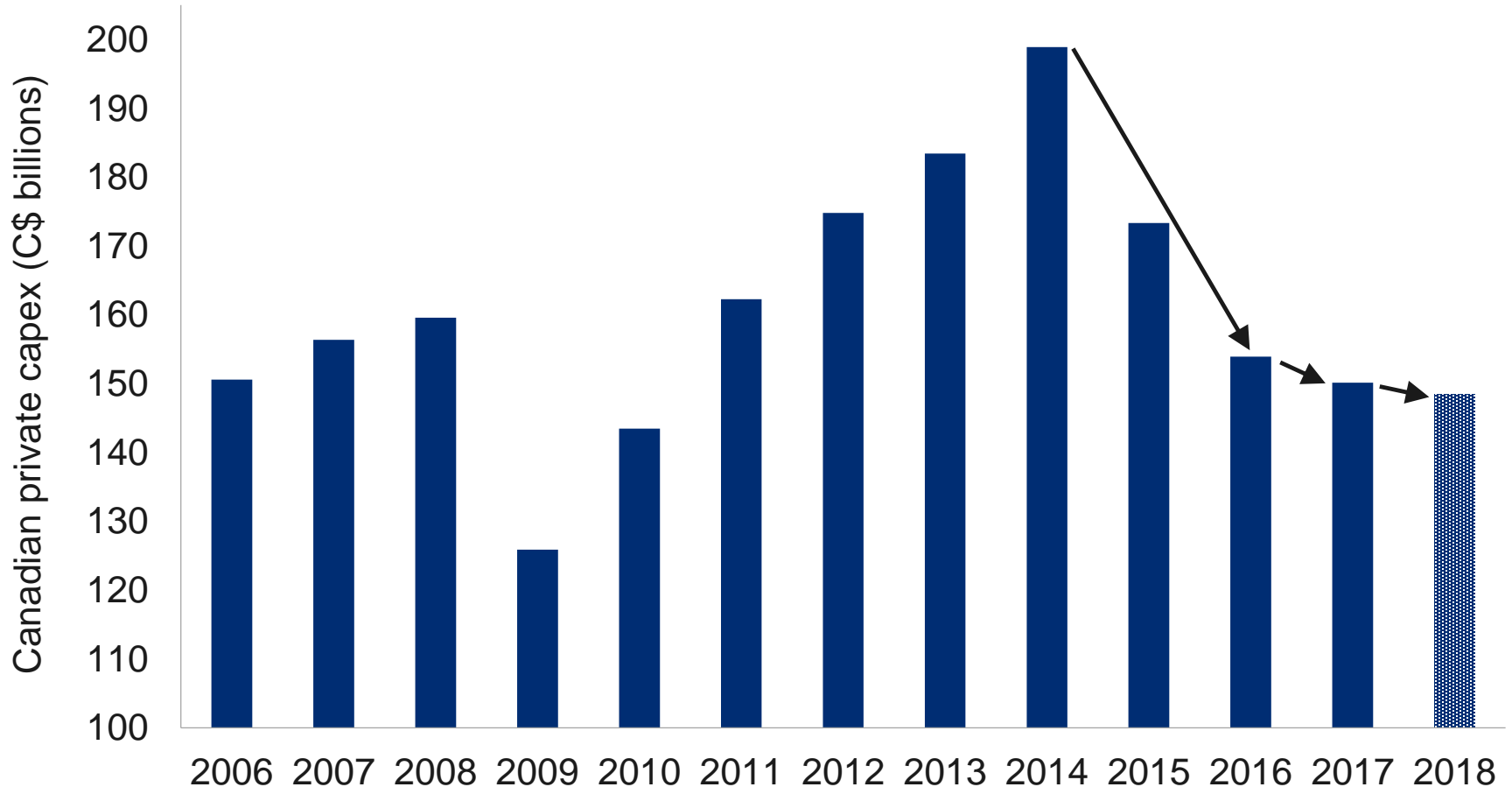
Canadian leading indicator points to moderating growth



Note: Composite constructed using four leading indicators from surveys on Canadian businesses. Source: CFIB, Haver Analytics, RBC GAM

Canadian capex set to continue falling

Canadian business investment to fall again in 2018

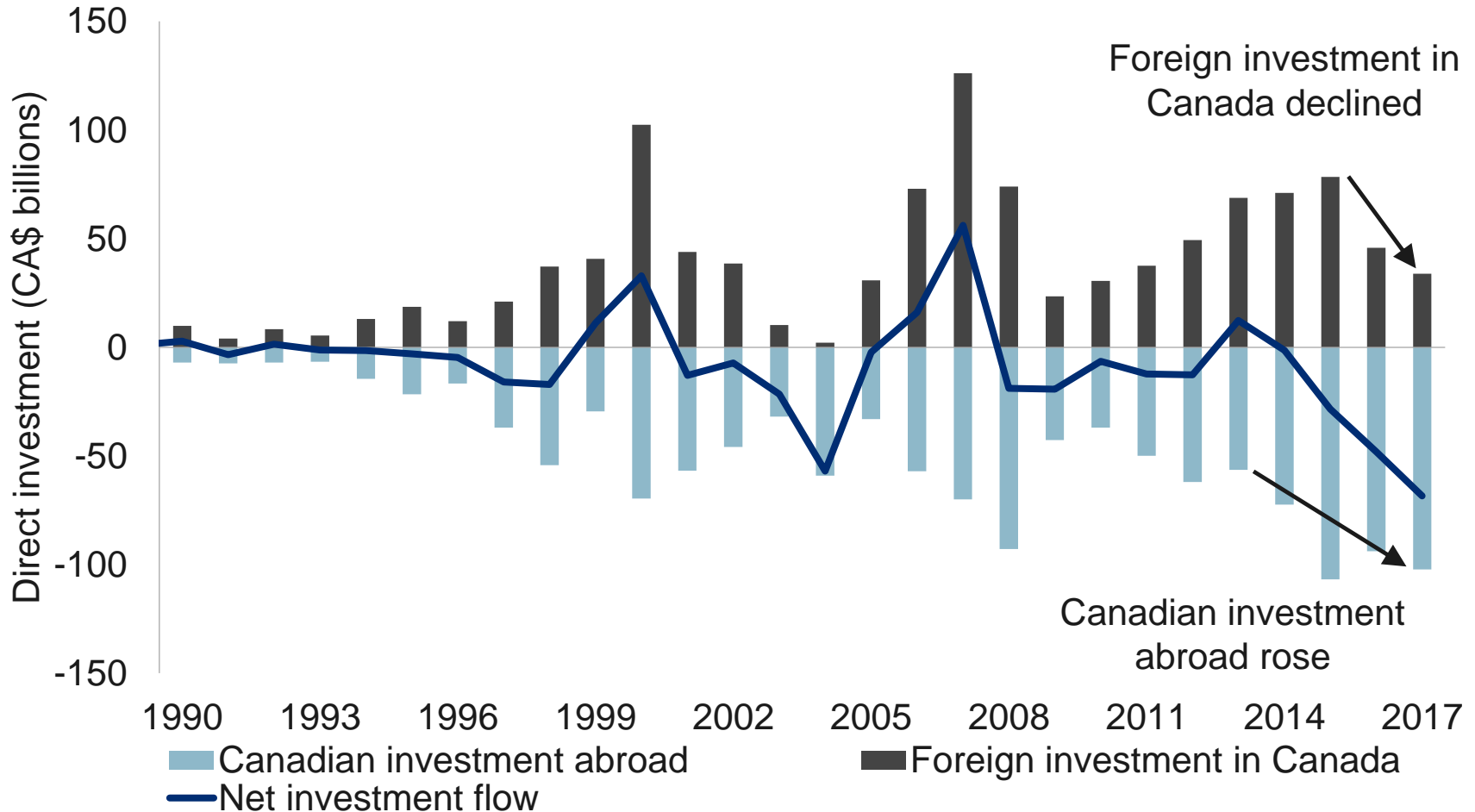


Note: Capital expenditures for latest 2 years are preliminary actuals and intentions.

Source: Statistics Canada, Haver Analytics, RBC GAM

Investors ditching Canada

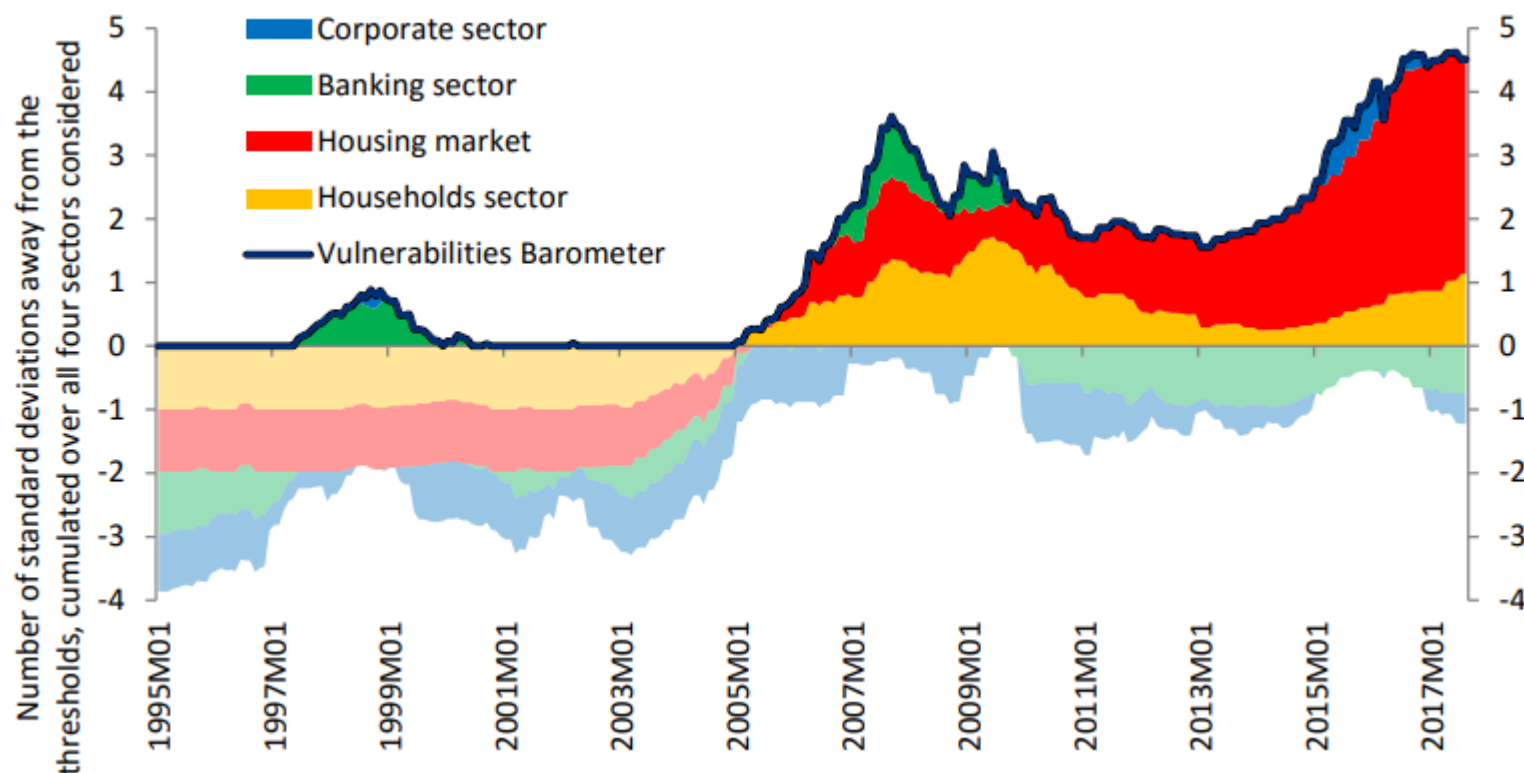
Canadian investment flow turned negative after oil collapse



Source: Statistics Canada, Haver Analytics, RBC GAM

Housing is Canada's weak financial link

The Vulnerabilities Barometer around record high

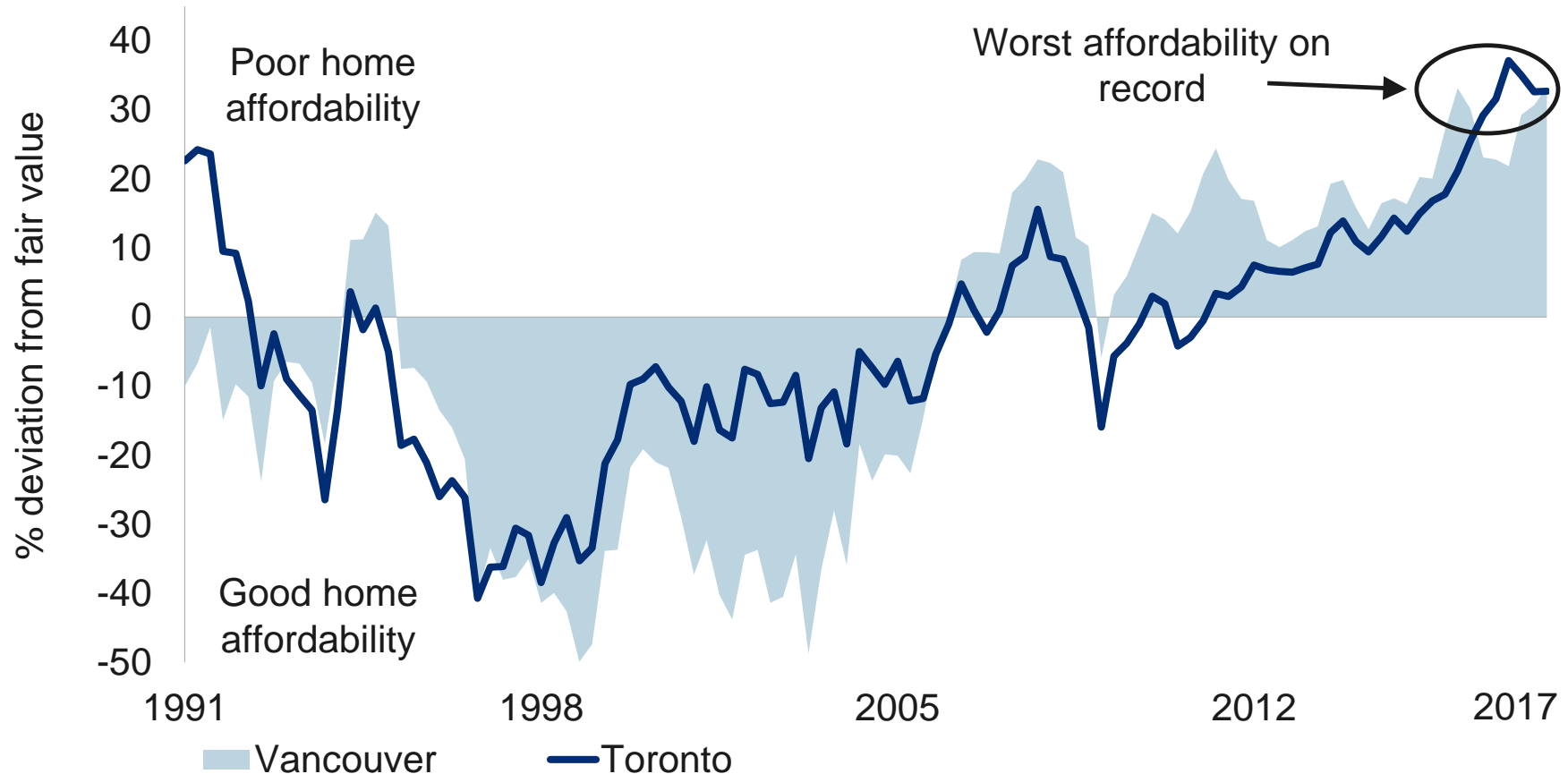


Notes: The areas below zero show the evolution of the indicators for each sector before they breach the vulnerability threshold. The barometer is restricted to be positive. However, each sectoral measure is bounded below at -1 since no individual indicator is allowed to be lower than one standard deviation away from the warning threshold.

Source: Bank of Canada

Canadian housing market – overheated

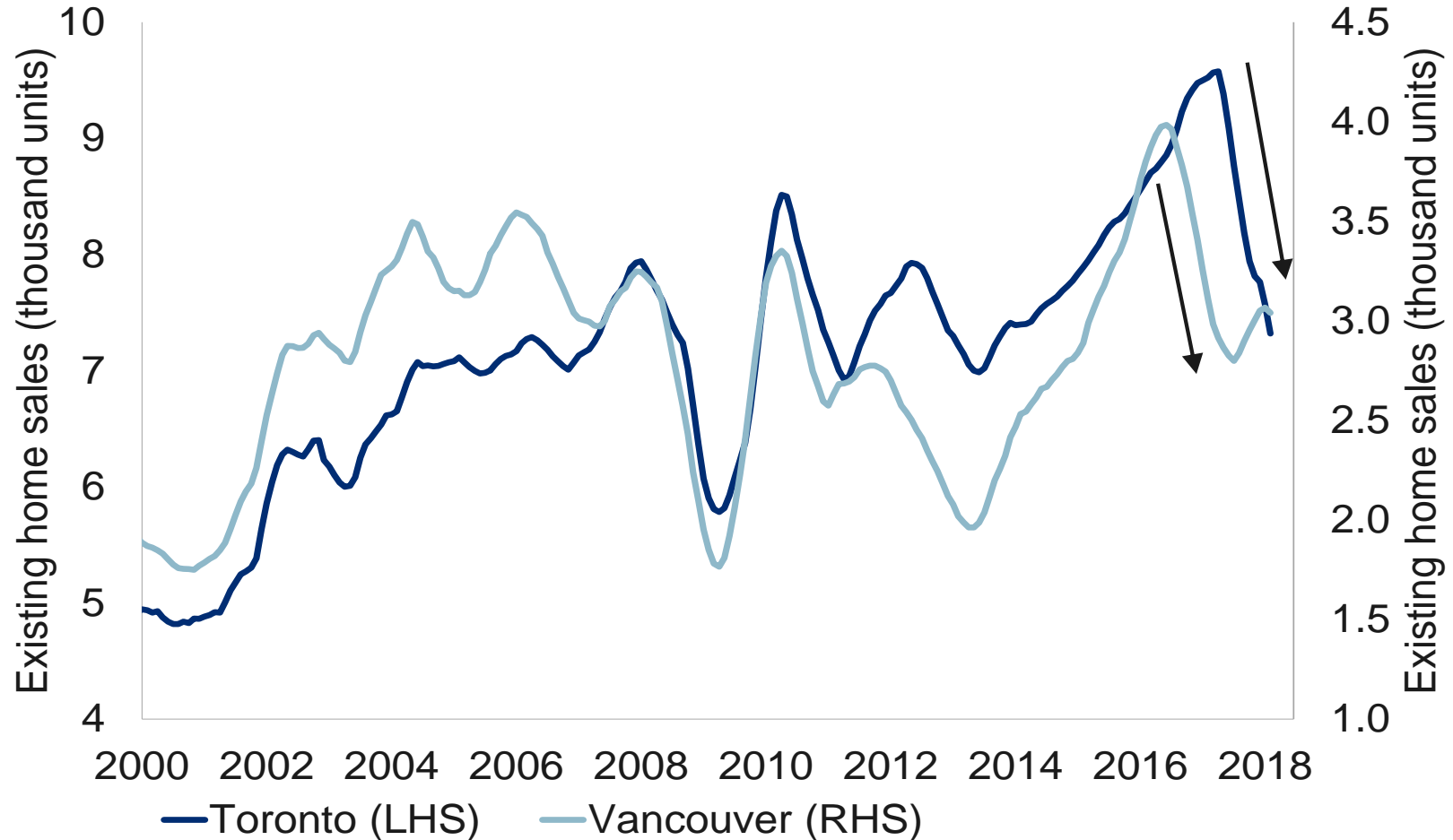
Toronto and Vancouver housing affordability gap



Note: Current carrying cost of a home versus the historical norm.
Source: CREA, Statistics Canada, Haver Analytics, RBC GAM

Canadian housing activities cooled in hot markets

Existing home sales plummeted



Note: 12-month moving average of monthly existing home sales.
Source: CREA, Haver Analytics, RBC GAM

Follow us on social media



@RBCGAMChiefEcon



www.linkedin.com/in/ericlascelles

Disclosure

This document has been provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC Global Asset Management Inc. (RBC GAM Inc.). In Canada, this document is provided by RBC GAM Inc. (including Phillips, Hager & North Investment Management). In the United States, this document is provided by RBC Global Asset Management (U.S.) Inc., a federally registered investment adviser. In Europe, this document is provided by RBC Global Asset Management (UK) Limited, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC Investment Management (Asia) Limited, which is registered with the Securities and Futures Commission (SFC) in Hong Kong.

RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC GAM Inc., RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited, the asset management division of RBC Investment Management (Asia) Limited, and BlueBay Asset Management LLP, which are separate, but affiliated subsidiaries of RBC.

This document has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the above-listed entities in their respective jurisdictions. Additional information about RBC GAM may be found at www.rbcgam.com.

This document is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. The investment process as described in this document may change over time. The characteristics set forth in this document are intended as a general illustration of some of the criteria considered in selecting securities for client portfolios. Not all investments in a client portfolio will meet such criteria. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when printed. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

Any investment and economic outlook information contained in this document has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions.

All opinions and estimates contained in this document constitute RBC GAM's judgment as of the indicated date of the information, are subject to change without notice and are provided in good faith but without legal responsibility. Interest rates and market conditions are subject to change.

Return estimates are for illustrative purposes only and are not a prediction of returns. Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods. It is not possible to invest directly in an unmanaged index.

A note on forward-looking statements

This document may contain forward-looking statements about future performance, strategies or prospects, and possible future action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties about general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events. The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

© / TM Trademark(s) of Royal Bank of Canada. Used under licence.

© RBC Global Asset Management Inc., 2018

Publication date: March 29, 2018