

RBC Dominion Securities Inc.

Macro Perspectives

Canadian Investment Committee

March 2021

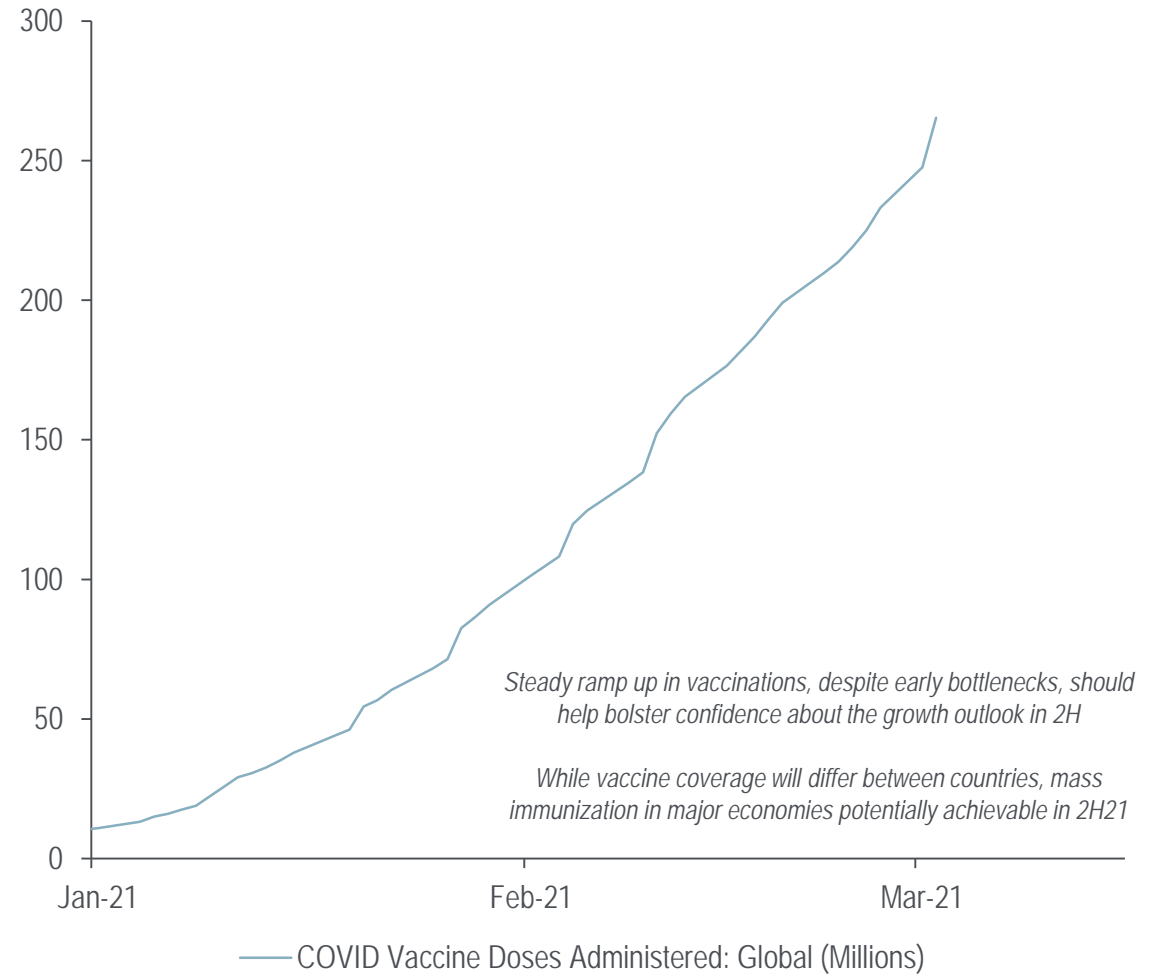
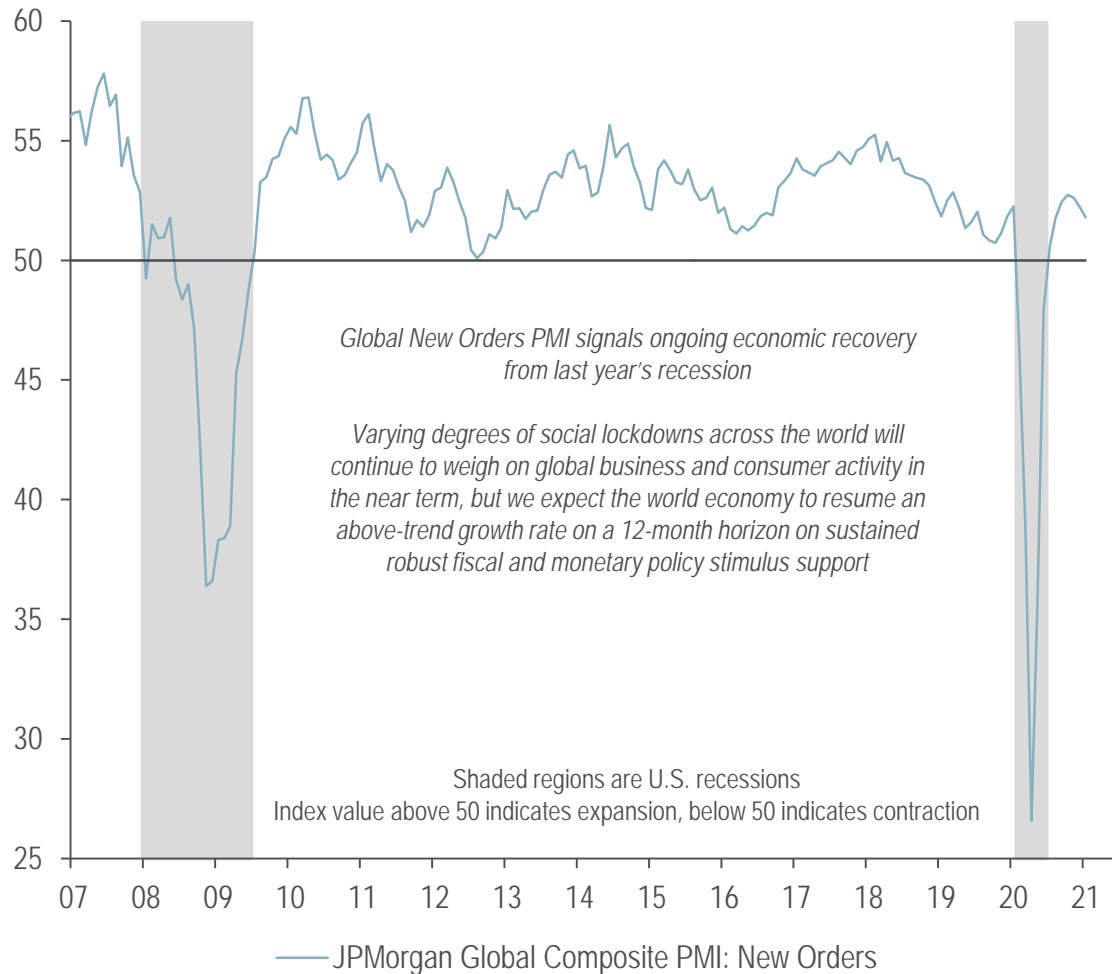
Portfolio Advisory Group

March 2021 | RBC Dominion Securities Inc.



Wealth Management
Dominion Securities

Global economy: Growth momentum should improve as vaccinations ramp up



Source: RBC Wealth Management, J.P. Morgan, Bloomberg; data through 3/2/21

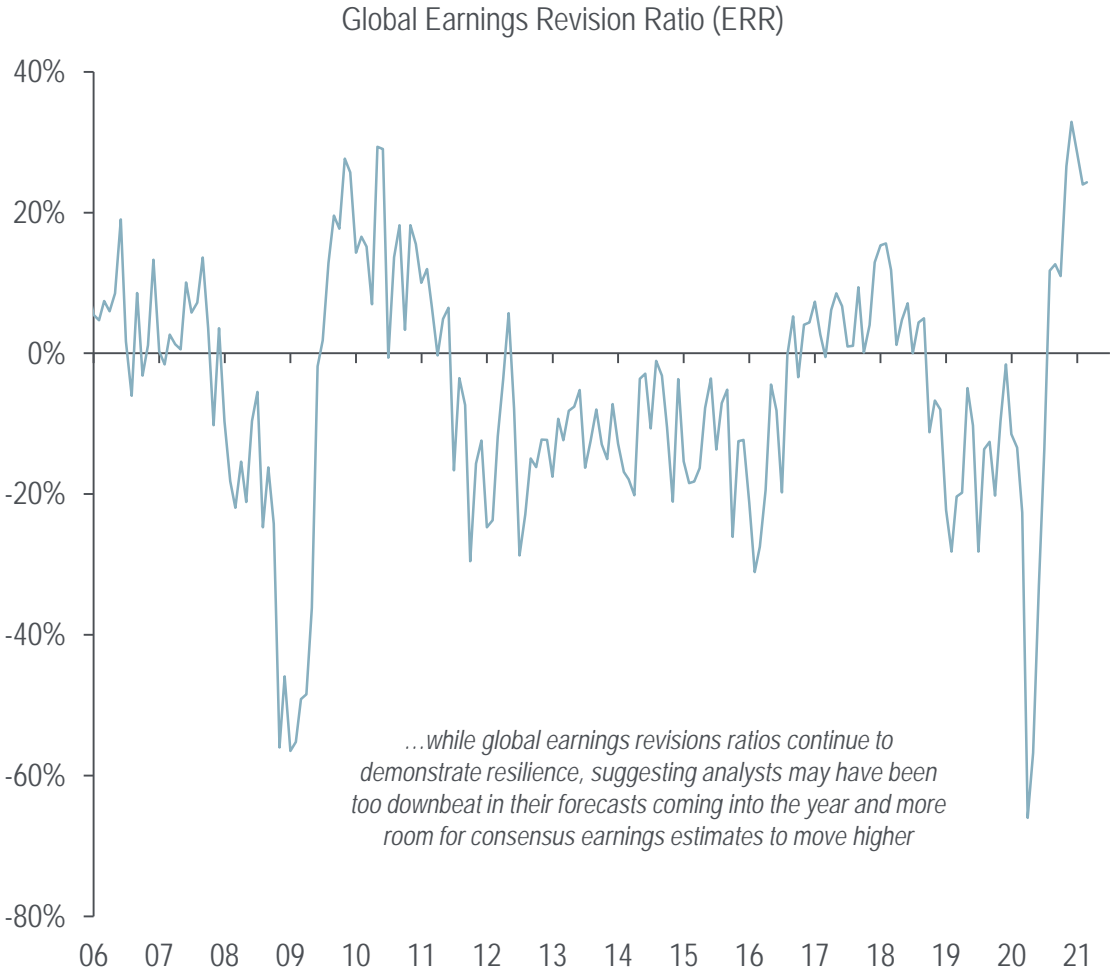
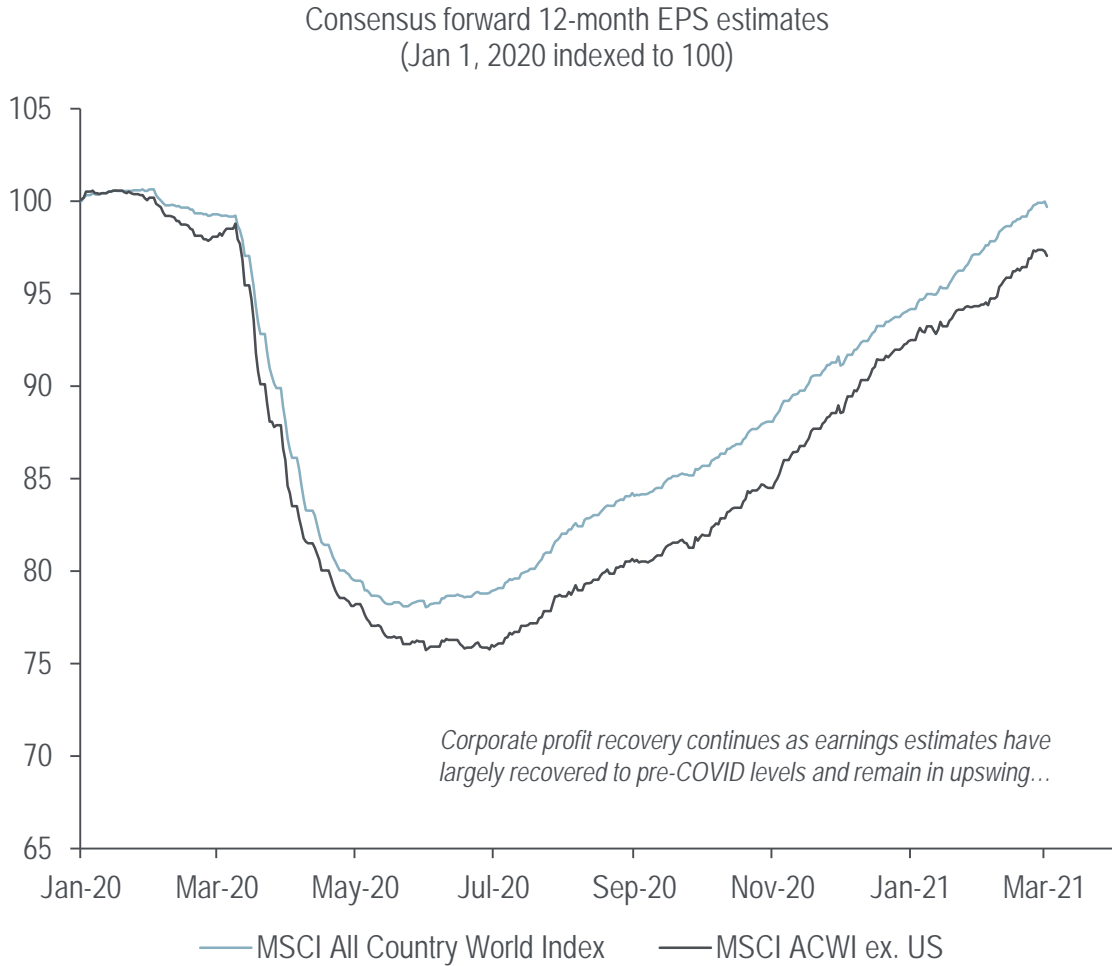
U.S. business cycle scorecard: Most likely “Early cycle”

	Start of cycle	Early cycle	Mid cycle	Late cycle	End of cycle	Recession
Sentiment						
Bonds						
Corporate profitability						
Economic trend						
Cycle age						
Prices						
Leverage						
Monetary policy						
Consumer						
Housing						
Business investment						
Inventories						
Economic slack						
Employment						
Equities						
Volatility						
Credit						
Allocation to each stage of cycle	11%	62%	12%	4%	2%	8%

Source: RBC GAM; data through 2/15/21. Darkness of shading indicates the weight given to each input for each phase of the business cycle.

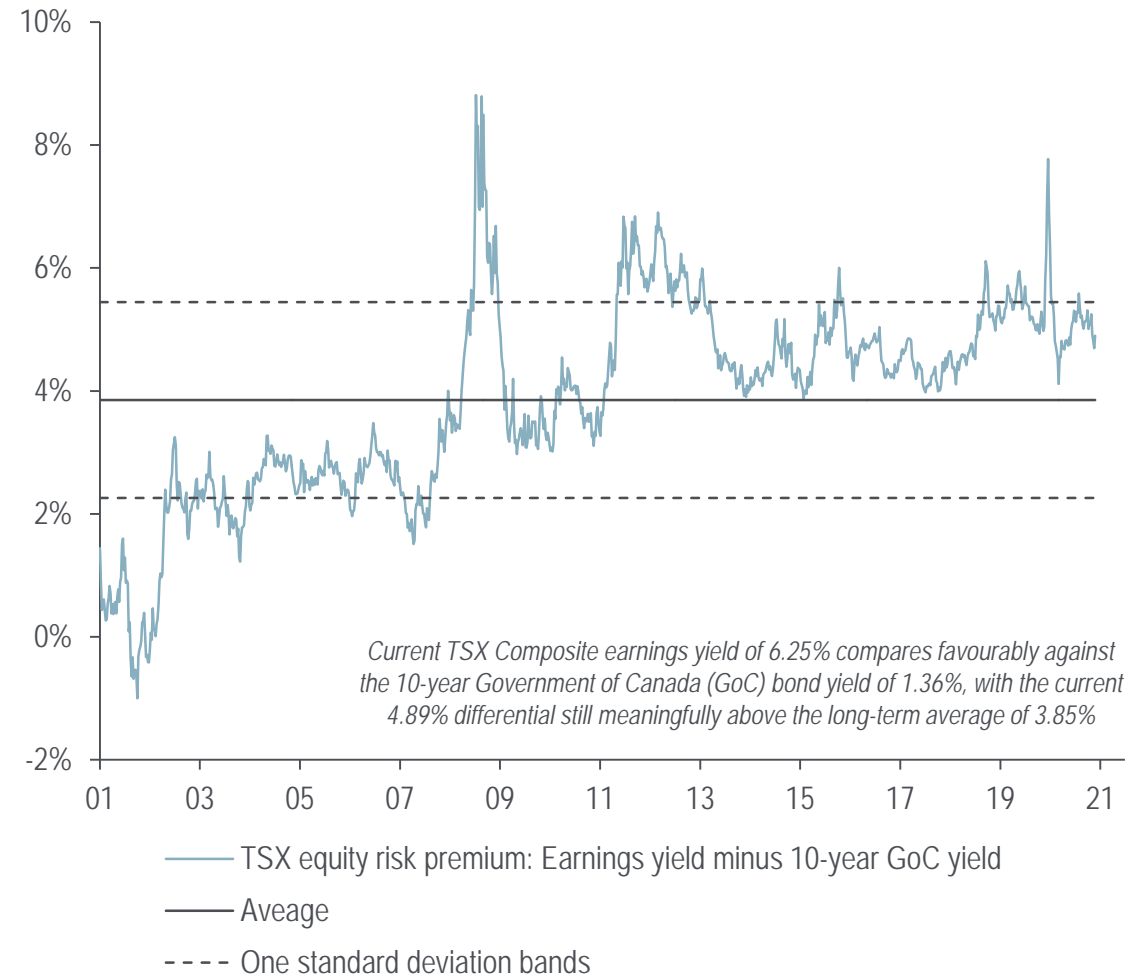
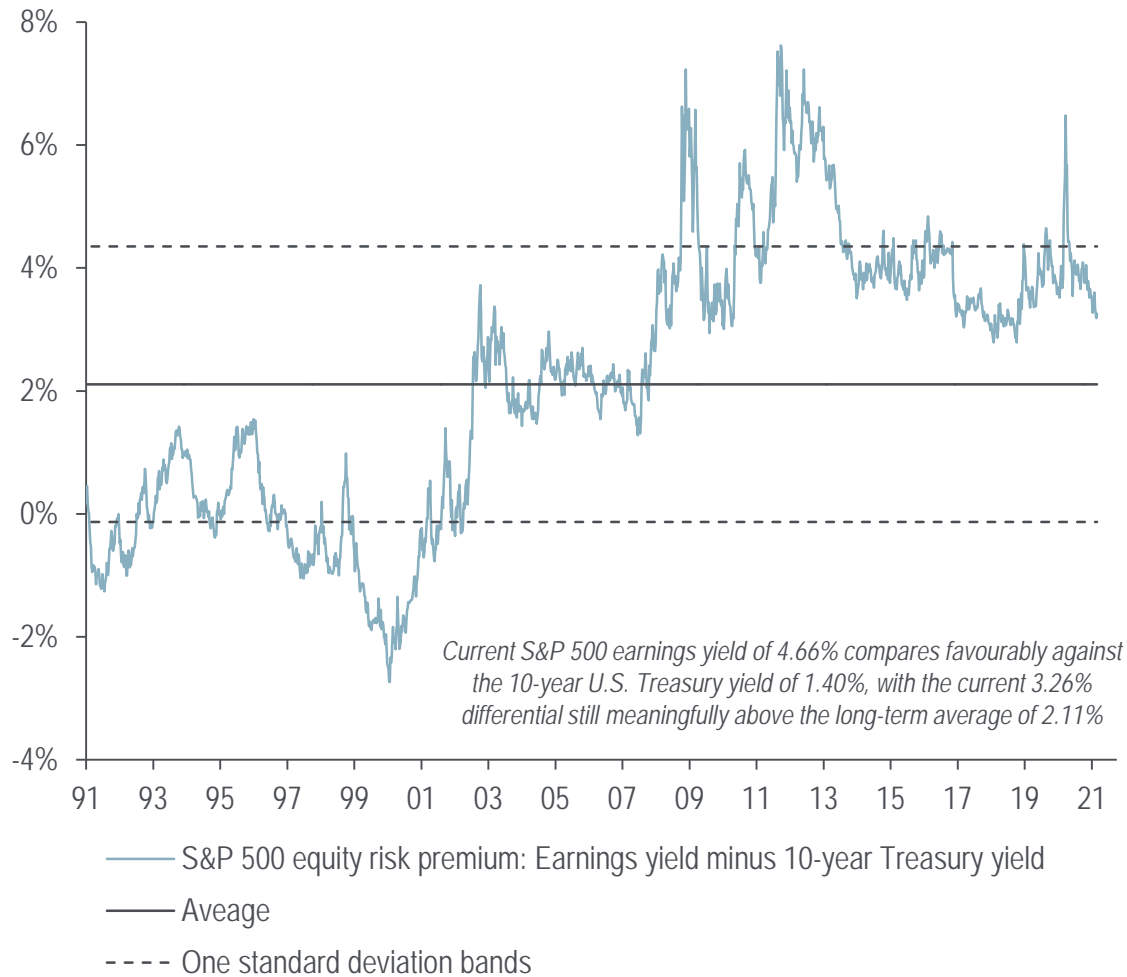


Corporate fundamentals: Still moving in the right direction



Source: RBC Wealth Management, J.P. Morgan, Bloomberg; data through 3/2/21. ERR measures the number of analyst earnings forecast upgrades minus the number of downgrades divided by total estimate changes.

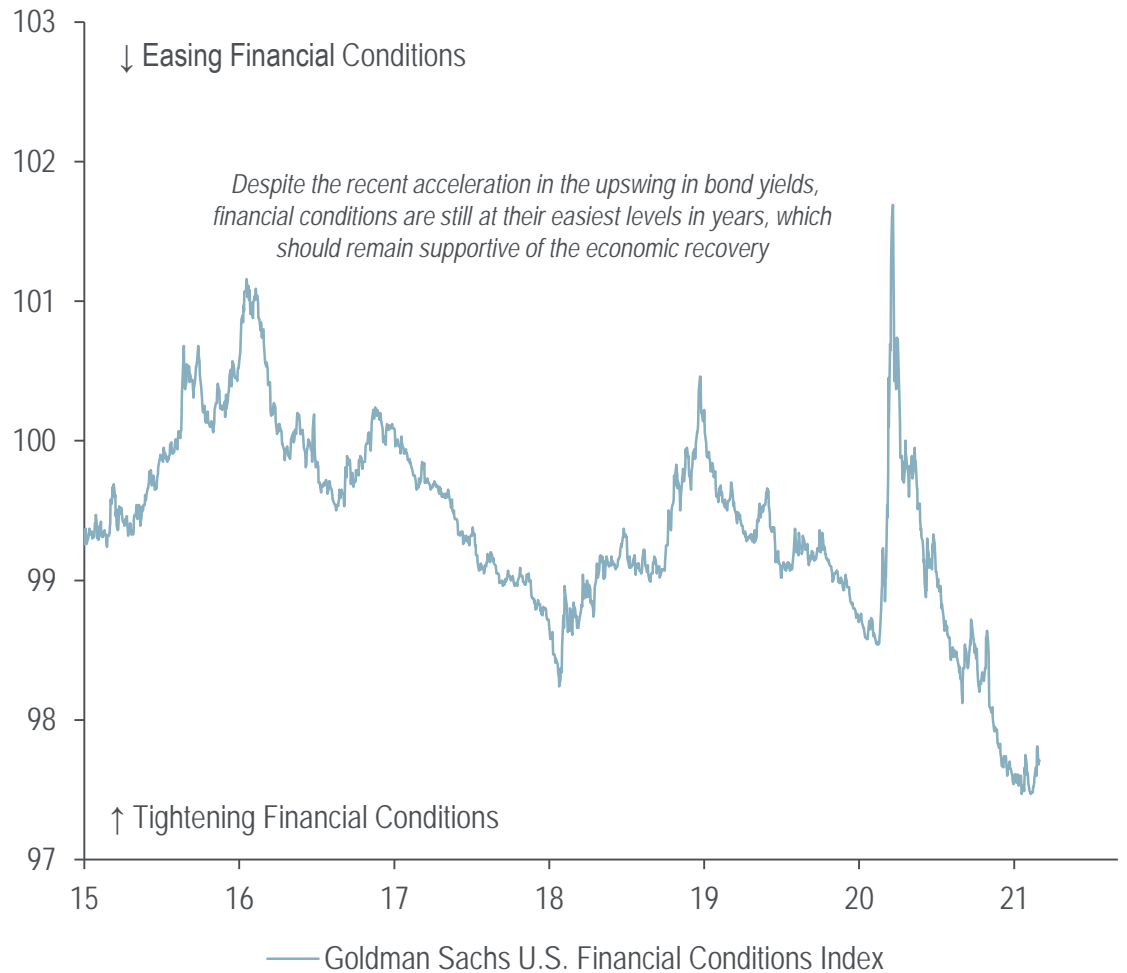
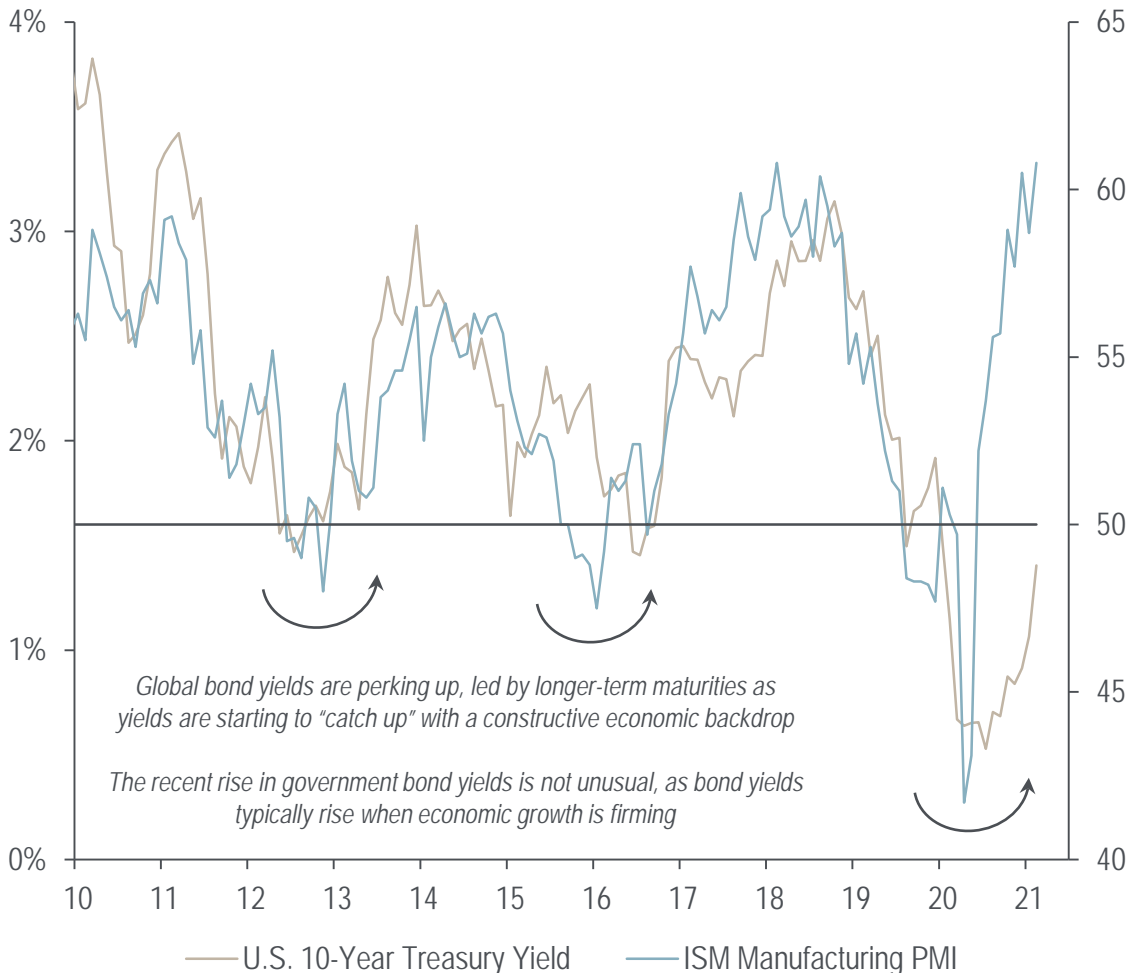
Equities maintain a reasonable valuation edge versus low bond yields



Source: RBC Wealth Management, Bloomberg; data through 3/2/21



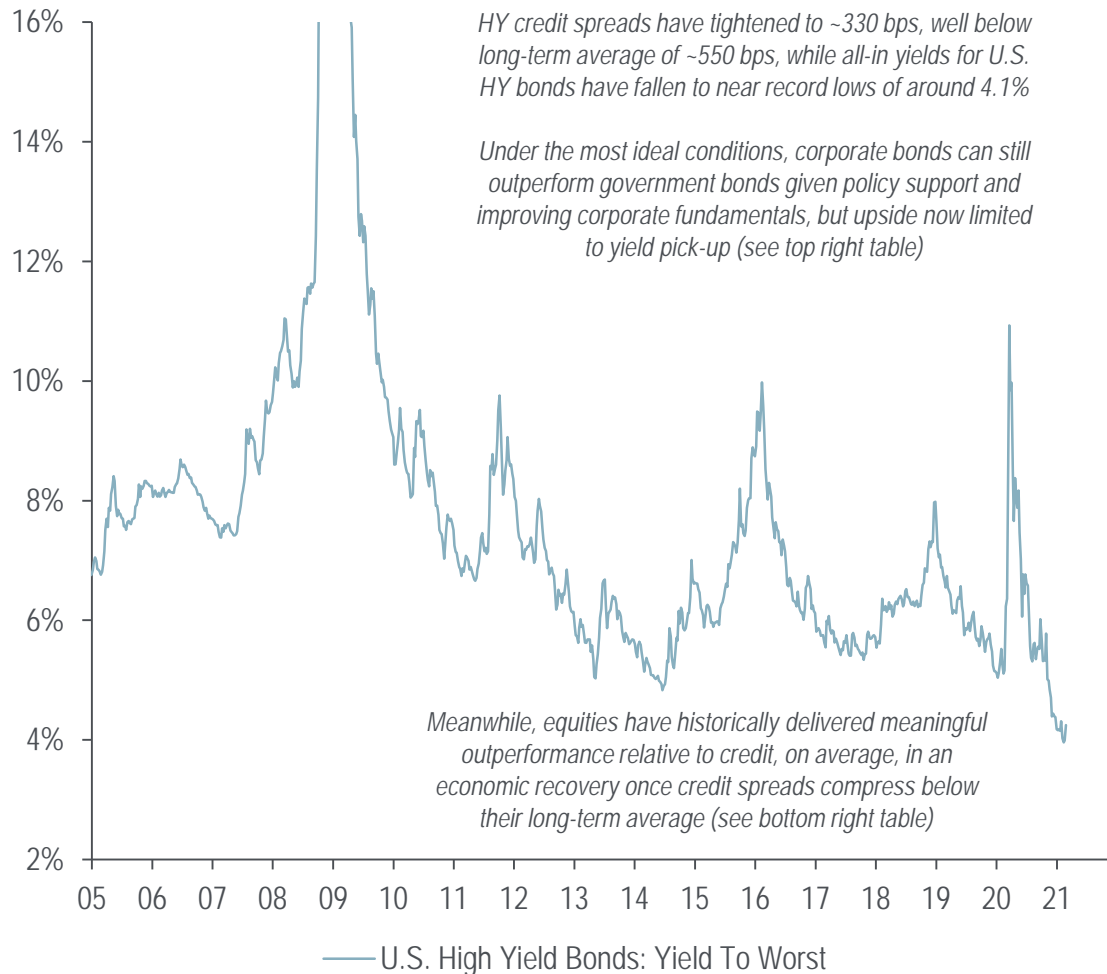
Global bonds: Yields catching up to solid economic fundamentals



Source: RBC Wealth Management, Goldman Sachs, Bloomberg; data through 3/2/21



Corporate bonds: Valuations increasingly constraining return prospects



U.S. HY corporate bonds	Average annualized total returns		Average annualized excess returns vs. U.S. Treasuries		Average annualized excess returns vs. Canadian government bonds	
	1 year	2 year	1 year	2 year	1 year	2 year
Starting credit spread						
First quartile: < 374 bps	5.0%	2.3%	-1.0%	-3.9%	-0.7%	-3.3%
Second: Between 374 - 479 bps	3.6%	4.3%	-0.5%	0.6%	-1.3%	-0.3%
Third: Between 479 - 657 bps	5.6%	6.3%	1.7%	2.4%	1.8%	2.4%
Fourth: > 657 bps	14.6%	14.4%	9.2%	10.0%	9.1%	9.5%

U.S. HY credit spread range	Average forward annualized returns: S&P 500 relative to HY corporate bonds	
	1 year	2 year
Less than 400 bps (bps)	8.3%	6.9%
Between 400 bps and 600 bps	5.5%	3.2%
Between 600 bps and 800 bps	-4.3%	-1.2%
Between 800 bps and 1000 bps	-11.8%	-9.8%
Greater than 1000 bps	-16.2%	-9.1%

Source: RBC Wealth Management, Bloomberg; data through 3/2/21



Portfolio strategy: Favour equities in portfolio risk budget allocation

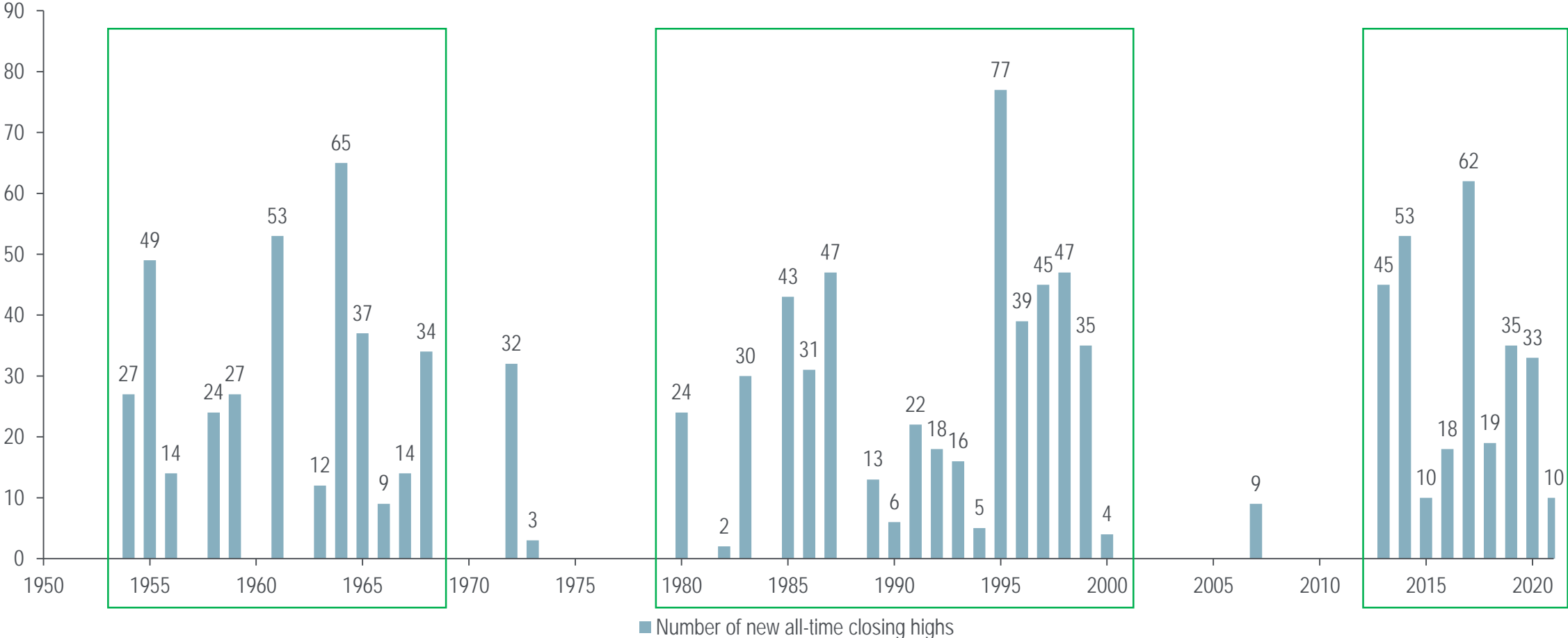
Global Equities: Modest Overweight	Global Fixed Income: Modest Underweight
<ul style="list-style-type: none">• Buoyant sentiment and rising bond yields against the backdrop of elevated valuations suggest equities could be vulnerable to potentially outsized bouts of volatility in the near term.	<ul style="list-style-type: none">• Return prospects in most fixed income market segments remains muted as nearly all developed market government bond yields remain below inflation and credit spreads have narrowed well below their long-term averages.
<ul style="list-style-type: none">• Fundamental outlook remains solid, with fiscal and monetary stimulus continuing to augment the world economy, while broadening vaccine deployment should pave the way for a more durable return to normality and further bolster growth later in the year.	<ul style="list-style-type: none">• Maintain a shorter-than-benchmark duration tilt as the path of least resistance for bond yields remains to the upside amid a resilient global economic outlook.
<ul style="list-style-type: none">• Continued upturn in consensus corporate earnings forecasts could help mitigate the potential downward pressure on equity valuations stemming from higher bond yields and allow equities to deliver worthwhile returns over the next 12 months.	<ul style="list-style-type: none">• Maintain modest preference for corporate credit over government bonds, but shift to a less pronounced implementation of this tilt in portfolios than in past quarters to ensure an adequate layer of safety exists in fixed income to counteract a larger equity weight.

Source: RBC Wealth Management



S&P 500: New all-time closing highs by year (1950 to 2021)

All-time highs tend to emerge in clusters

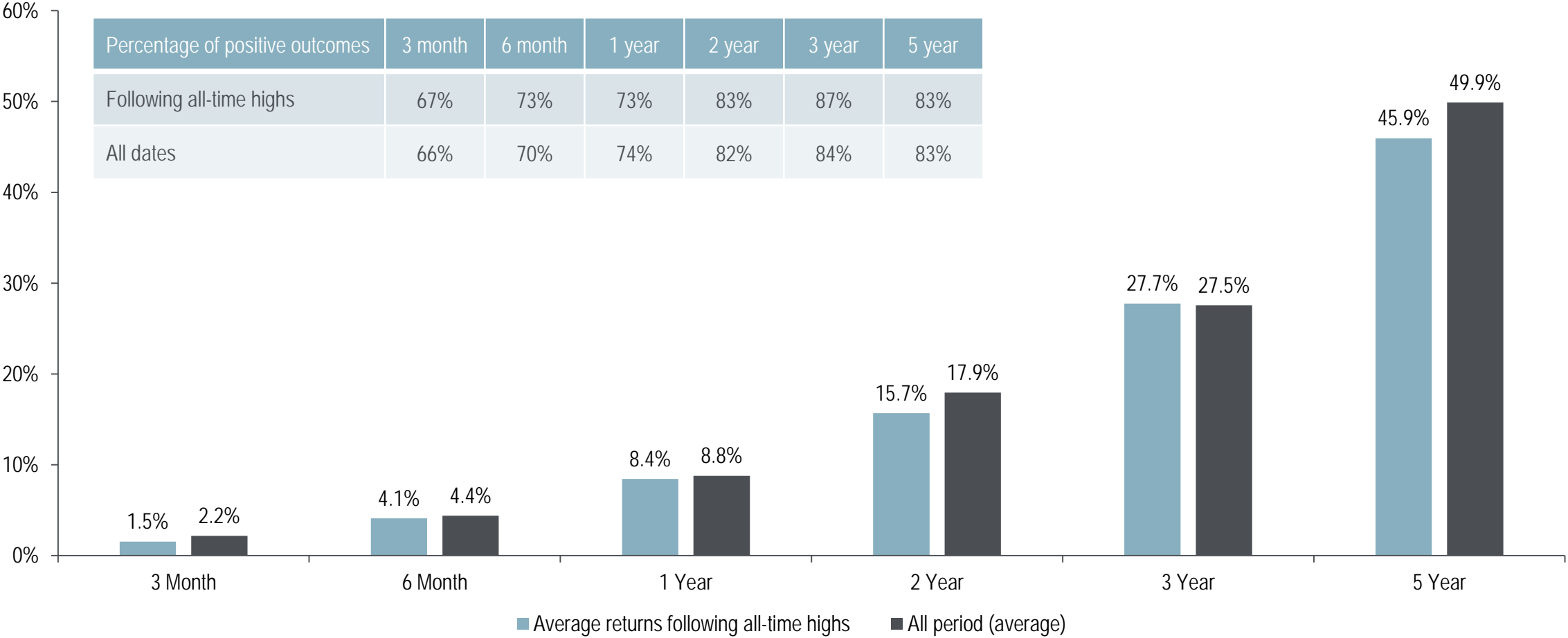


Source: RBC Wealth Management, Bloomberg; data through 3/2/21



S&P 500: Performance following all-time closing highs vs. all dates (1950 to 2020)

Returns have been attractive after reaching record highs



Source: RBC Wealth Management, Bloomberg; data through 12/31/20. Returns based on price index.



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