November 2020

RBC WEALTH MANAGEMENT

Global Insight

Perspectives from the Global Portfolio Advisory Committee

U.S. ELECTIONS & MARKET MATTERS

The changing and unchanging shape of things

What would a Biden presidency and a status quo Congress mean for the equity market and economy?

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RBC Wealth Management

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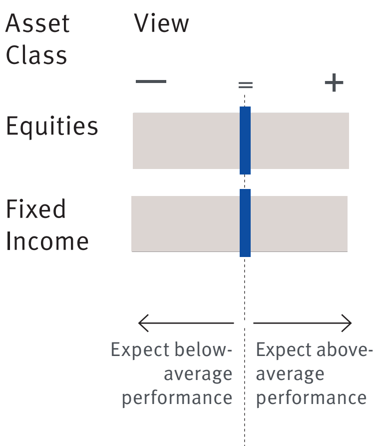

See "Views explanation" below for details

Source - RBC Wealth Management

Equities

- With COVID-19 infection rates rising in advanced economies, U.S. fiscal stimulus delayed, and conflicting economic forces playing out, equity markets have been understandably jittery. But over the coming 12 months, we expect the stock market will gain more ground as COVID-19 infection levels subside and as the global economy eventually normalises thanks to further fiscal and monetary stimulus. In our view, valuations in most countries are not unreasonable, given the ultralow rates environment; they are even substantially below historical averages in some, including the UK.
- With a one-year horizon, we would hold a Market Weight or up to an appropriate benchmark position in global equities, as well as in the U.S., continental Europe, and Japan, and also in the UK which we recently upgraded. We would maintain an Overweight position in Asia ex Japan and an Underweight position in Canada.

Fixed income

- With the U.S. elections having come to a close, the prospects of greater political gridlock and lower fiscal aid should ultimately limit the ability of U.S. Treasury yields to move materially higher over the near term. As a result, we think monetary policy will again be relied upon to support the economic recovery, and that will likely mean lower rates for longer and increased reliance on other policy tools such as quantitative easing. Though risks remain, we believe current market valuations still offer decent risk/reward profiles in certain fixed income sectors, specifically in corporate credit.
- We maintain our Market Weight in global fixed income. Global demand for assets viewed as safe remains robust, and with markets continuing to price in a strong economic recovery, along with central bank support, we maintain a broad Overweight to corporate credit.

Views explanation

(+/=/–) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

\+ Overweight implies the potential for better-than-average performance for the asset class or for the region relative to other asset classes or regions.

= Market Weight implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

– Underweight implies the potential for below-average performance for the asset class or for the region relative to other asset classes or regions.

Focus article

U.S. ELECTIONS & MARKET MATTERS

The changing and unchanging shape of things

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While Joe Biden is projected to win the election, it appears he'll have to work with a status quo, i.e., divided, Congress. This ongoing balance of power should check the more far-reaching policy proposals of the Biden agenda while largely keeping in place the Trump tax cuts for now. We look at what a Biden presidency combined with a divided Congress would mean for the equity market and economy.

It should be no surprise that a very difficult year has brought forth a very contentious and controversial U.S. presidential election, and that some of the drama is ongoing.

As of this writing, and following an extended period of vote counting and with recounts and lawsuits already a certainty, former Vice President Joe Biden has been projected as the winner. Thus far, President Donald Trump has vowed to keep challenging the results.

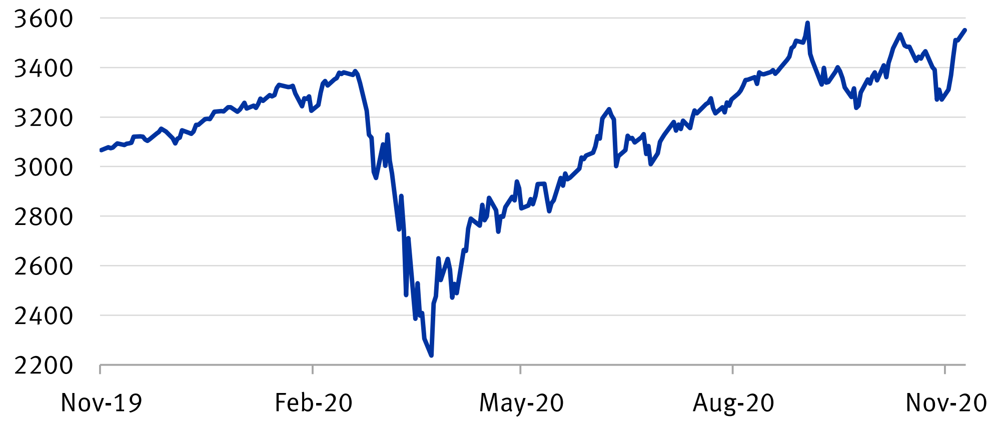
Control of Congress still seems headed for gridlock—where each party controls one chamber—but the situation will take more time to resolve. As things stand, Republicans are projected to win 50 seats in the Senate and the Democrats 48, with the final two seats to be decided by runoff elections in Georgia on January 5. This could determine which party controls the upper chamber (with Biden as president, a tie goes to the Democrats as the vice president would cast any tie-breaking Senate votes). Democrats face a high hurdle to take both Georgia seats, in our view. In the House of Representatives, Democrats are expected to retain control, albeit with a smaller majority.

The market is starting to look ahead. The S&P 500 rose 4.2 percent in the three sessions following the election, and so far is unfazed by the various twists and turns with recounts and court challenges.

Good gridlock, bad gridlock

Barring some dramatic legal developments regarding the vote counts, institutional investors seem focused on what a Biden presidency combined with a divided Congress would mean for the equity market and economy.

The S&P 500 has pushed up to the top end of the recent range



Source - RBC Wealth Management, Bloomberg; data through 11/9/20

For starters, this balance of power would likely keep the Trump tax cuts of 2017 largely in place for individuals and corporations for at least the next two years of this legislative session. We think this is a key reason the market rallied in the days following the election. Some investors had feared higher capital gains tax rates on wealthier individuals, along with other tax increases and tax hikes on corporations. These now seem off the table.

Divided government would also mean that far-reaching fossil fuel, health care, and financial industry regulations would be much less likely. These sectors have been held back by election headwinds because market participants believed that all three would face challenges under a "blue wave" scenario. Gridlock would relieve pressure in these areas. However, RBC Capital Markets' commodity team points out Biden could implement some tighter fossil fuel regulations and green energy initiatives through administrative actions such as executive orders and directives via federal agencies.

We also doubt the Tech and Communication Services sectors at large would face serious regulatory challenges, although select companies could continue to face scrutiny in the near term. The strong rally in these sectors right after Election Day indicates to us that market participants largely agree with this thesis.

Appointments for the presidential cabinet and key posts are another area affected by divided government because Senate approval will be required for most positions. For financial markets, the areas of greatest interest are the secretary of the Treasury and secretary of State (impacts relations with China, including on trade), and any hints about all-important future Federal Reserve nominations.

While the U.S. equity market typically embraces gridlock, there are almost always drawbacks. At times the market wants Washington to move forward on key issues, but it can't or won't when power is divided between parties.

For example, market participants have been clamoring for another large COVID-19 fiscal stimulus package, and have also begun to get their hopes up for an infrastructure spending package. These bills would probably be more modest in size and scope with a divided Congress. Fiscal stimulus could be delayed until after the inauguration, and an infrastructure package is no guarantee.

Traditional foreign policy makes a comeback

In foreign affairs, it would likely be back to business as usual. We think a Biden administration would take a more activist approach than Trump, similar to the Obama, Bush, and Clinton administrations.

We believe trade policy would shift back to multilateral rather than bilateral trade deals, but the initial focus would be on shoring up and reforming World Trade Organization rules rather than initiating new trade agreements or resurrecting those that Trump shelved. New trade deals will take time, probably well beyond the first 100 days in office in which there is usually a flurry of activity. But we would expect trade frictions with Europe to diminish at the outset. Progress with China would likely take longer. We doubt the Trump tariffs on China will be lifted in the near term.

Biden said that on day one of his administration the U.S. will rejoin the Paris climate agreement, an international accord that attempts to mitigate greenhouse gas emissions and allows members to set carbon emission targets and restrictions for their economies. This does not require Senate ratification.

We think economic sanctions would continue to be imposed in response to perceived national security threats. But they would be less tied to the corporate sphere, as Trump often sought market share wins for U.S.-based multinationals with his sanctions. The Biden administration would confront China in a more targeted way, including in the technology arena, in our assessment.

While the Trump administration focused on developing ties with NATO countries in Eastern and Central Europe and the Baltics, we think Biden would shift back to reestablishing deeper ties with Europe's major powers, Germany and France. We think NATO's expansionist agenda would persist.

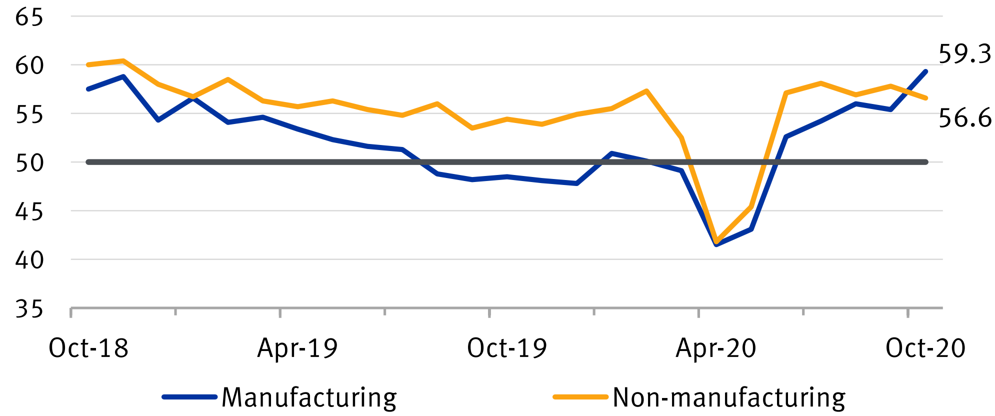
The market has other catalysts on its mind

The equity market is already beginning to shift its attention to other pressing issues, such as the path of the COVID-19 second wave and the progress of the economic recovery.

Biden stated he will soon lay out an approach to tackling the pandemic, although much of the power will continue to be in the hands of state and county officials.

Economic activity continues to expand in the U.S.

Institute for Supply Management Purchasing Managers' Indexes



Note: Readings above 50 indicate an expansionary economy, those below 50 indicate a contractionary one

Source - RBC Wealth Management, FactSet

Even though U.S. infection rates have spiked, health officials now have a better handle on how to treat those who are sick. More effective treatment regimens are being implemented, new therapeutics are coming, and vaccine progress is being made. The vaccine developed by Pfizer and BioNTech showed positive results in the first interim analysis of Phase 3 trials, as of November 8. According to RBC Capital Markets, these data indicate the vaccine is on track to be submitted to the FDA for approval in the third week of November and, if approved, could start to be rolled out before year end. There are other vaccine candidates in the U.S. and around the world as well.

The economy and corporate profits have substantially improved since the COVID-19-induced recessionary lows of last spring. The manufacturing and services sectors are expanding, and unemployment has dropped below seven percent. We think GDP and corporate earnings have scope to grow further in the next 12 months as the recovery becomes sturdier and COVID-19 is ultimately tamed.

We would stick with long-term investment plans, even in the face of any lingering post-election-related volatility. The U.S. economy could reach its pre-pandemic level by the end of 2021 or by the first half of 2022 at the latest, in our view—a much shorter time frame than it took following the global financial crisis.

A constructive outlook

To focus solely on equity markets for the moment: all the major global stock market averages have done little more than consolidate in a tight range since June: the S&P 500 mostly at or above its pre-pandemic high, and all the rest well below their own high-water marks.

While this period of consolidation/correction may have further to run, we expect it should eventually resolve to the upside as further progress is made mitigating the effects of the COVID-19 virus and ultimately taming it.

The V-shaped, reopening recovery phase for both the market and the economy is largely behind us. From this point onward, we look for a stretch of more grudging, uneven growth which enables the U.S. and Canadian economies to regain all the GDP ground lost in the recession by late 2021/early 2022. For Europe and the UK, we estimate the wait will be several quarters longer. China's economy is already at new high ground.

As well as commitments by the central banks in the developed economies to suppress short-term and long-term interest rates for an extended period, there are, in our view, at least three tailwinds that should keep the U.S. and developed economies on a recovery/expansion track through the next two years.

Progress in taming the virus

From the outset, epidemiologists told us to expect a second wave in the fall. Unsurprisingly, it has arrived. To the extent the number of new deaths has risen to a much lesser extent than the number of new cases speaks at least in part to an improved ability to treat the more severely afflicted patients and to protect the most physically vulnerable.

Equity views

Region	Prior	Current
Global	=	=
United States	=	=
Canada	–	–
Continental Europe	=	=
United Kingdom	–	↑=
Asia (ex-Japan)	+	+
Japan	=	=

+ Overweight = Market Weight – Underweight
Source - RBC Wealth Management

With a handful of existing therapies already proving useful and cutting mortality rates, hundreds more being evaluated, and almost two hundred potential vaccines in development, it seems reasonable to expect there will be more progress on this front over the coming year—perhaps dramatic, perhaps only incremental. The recent Pfizer announcement of a vaccine trial indicating 90%+ effectiveness suggests "dramatic" is a real possibility. More progress equals more normalisation of the economy and society.

China's economy is open and growing

China's Q3 GDP growth at 4.9% y/y was enough to push the latest 12 months GDP up into new high ground, a mark that we don't expect will be reached by the U.S. and Canada before late 2021, or by Europe and the UK before well into 2022. China's rebound is already having positive knock-on effects across Asia—Japan, South Korea, and Taiwan have all enjoyed

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a notable surge in exports to their largest trading partner.

China/Asian economic health holds positive implications for European, especially German, trade and for the global economy generally. China's manufacturing and services Purchasing Managers' Indexes (activity indexes), which have both been rising faster than expected, typically lead those of the developed world by about three months.

Policy implications from the U.S. election

Some degree of congressional gridlock will probably mean that any additional COVID-19-related fiscal stimulus will be smaller than previously proposed and more targeted, leaving more of the heavy lifting to the Fed. We expect "lower for longer" on the policy rate front (see "[Global fixed income: Doing more with less](#)" on page 11). This together with quantitative easing should also keep both Treasury and corporate bond yields lower than they otherwise would be, which in turn should reduce the risk of slipping back into recession while supporting price-to-earnings multiples and stock valuations generally.

Infrastructure spending is likely to be on the agenda, in our view, but may fall victim to congressional gridlock arithmetic. For the same reason, rolling back half of the previous administration's corporate tax cuts, a Democratic platform plank, is likely a non-starter (see "[The changing and unchanging shape of things](#)" on page 4).

We think protectionism will remain a prominent policy feature. The president-elect's "buy American" proposals, if implemented, should further encourage a trend already in evidence for several years—the building of new manufacturing facilities in the U.S., whether by foreign companies wanting to ensure access to the U.S. market or by domestic companies who have watched the cost gap between U.S. and China-based production narrow dramatically over the past decade. Both would like to burnish their "made in America" bona fides.

Whatever the concerns about potential long-term misallocation of capital or the undercutting of free markets, in this case, at least for a few years, we believe the "buy American" policy tilt will likely provide

Low corporate bond yields stimulate capital spending

Moody's Baa Corporate Bond Yield

Very low corporate bond yields are supportive of economic growth and P/E multiples.

Source - RBC Wealth Management, Moody's; data through 11/5/20 a welcome boost to capital spending, to employment, and to productivity.

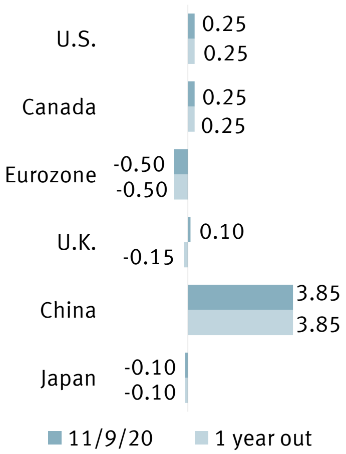
Higher ground

Over the coming 12 months, we expect the stock market will gain more ground as COVID-19 infection levels subside, more progress arrives on the vaccine front, and the global economy eventually normalises thanks to further fiscal and monetary stimulus. Valuations in most countries are not unreasonable given the ultralow rates environment.

To position a global portfolio for the coming 12 months, we would hold a Market Weight or up to an appropriate benchmark position in global equities.

Doing more with less

Central bank rate (%)



Source - RBC Capital Markets

Global yields have largely remained in a holding pattern of late, trading in some of the lowest—and tightest—ranges of the year as central bank policies around the world have taken hold. But as prospects for further significant fiscal support wane as the U.S. elections come to a close with all signs pointing to political gridlock, monetary policy will once again be relied upon to support the economic recovery, both in the U.S. and abroad. As a result, global yields are moving lower as markets brace for another prolonged period of easy central bank policies, while questions linger over what more can even be done.

In the U.S., the so-called "blue wave" failed to materialize as Republicans appear set to retain control of the Senate, and Democrats control of the House. Prospects for greater political gridlock and reduced chances of further fiscal stimulus have sent U.S. Treasury yields sharply lower from pre-election levels. We expect the 10-year Treasury yield to hold the range of approximately 0.6%–0.8% where it has traded since April, and with few catalysts on the horizon to move yields higher, we once again view 1% as the effective ceiling for the rest of the year.

The Fed was already expected to keep policy rates at 0% for a number of years, but without the expectation of help from fiscal aid, the market has pushed back the timing of any potential rate hike to 2024 at the earliest.

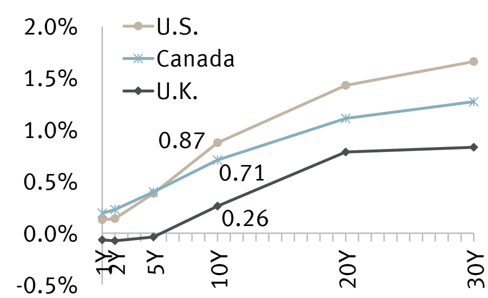
In Europe, yields have been falling as the European Central Bank (ECB) has turned more dovish by laying the groundwork at its October meeting for yet another

Fixed income views

Region	Gov't Bonds	Corp. Credit	Duration
Global	=	+	5–7 yr
United States	=	+	7–10 yr
Canada	=	+	3–5 yr
Continental Europe	=	+	5–7 yr
United Kingdom	–	=	3–5 yr

+ Overweight = Market Weight – Underweight
Source - RBC Wealth Management

Sovereign yield curves



Source - Bloomberg; data through 10/30/20

large stimulus package, which is likely to be delivered in December. RBC Capital Markets expects a €500 billion increase in the Pandemic Emergency Purchase Programme paired with an extension to December 2021, and while the market is increasingly pricing rate cuts even deeper into negative territory next year, our RBC Capital Markets counterparts continue to believe that the ECB will pursue other policy measures such as lower longer-term refinancing rates that will have a

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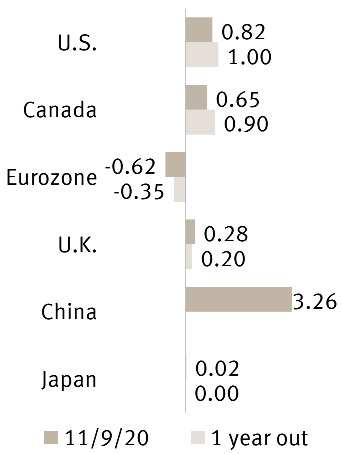
more direct impact on the economy at that stage.

In our view, global economies will remain at the whim of COVID-19, and central banks will need to keep policy rates low for years to come, ultimately keeping the broad yield environment at historically low levels. Investors will need to remain nimble, taking advantage of any yield volatility to put money to work in a low-rate world.

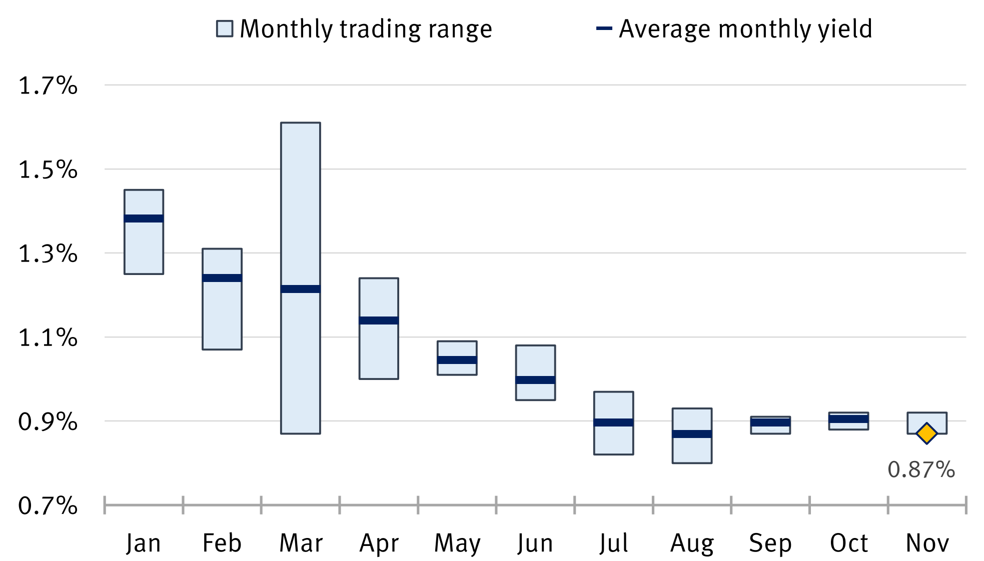
10-year rate (%)



Note: Eurozone utilizes German Bunds.

Source - RBC Capital Markets

Global yields have recently traded in tight ranges, but open November moving lower

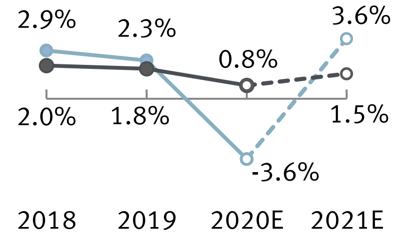


Source - RBC Wealth Management, Bloomberg Barclays Global-Aggregate Yield to Worst; 0.87% as of 11/4/20

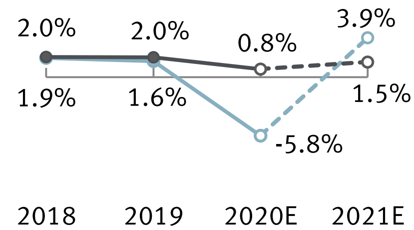
Key forecasts

Real GDP growth   Inflation rate

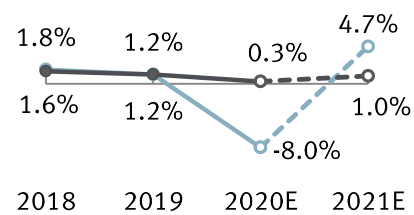
United States – Best GDP reading in modern history
After Q2's worst GDP reading in modern history, Q3's up 33.1% was the best. The unemployment rate continues to fall as do jobless claims. Housing starts remain robust as a lack of inventory is constraining sales. Strong retail sales indicated consumers were ready and willing to spend as businesses reopened. The Fed has added conventional 30Y 1.5% U.S. mortgage-backed securities to its eligible purchases.



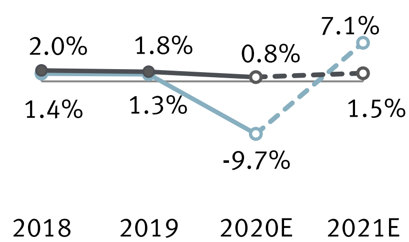
Canada – Historically low interest rates to stay
Unemployment fell to a seven-month low of 8.9%. The labor force participation rate rose again to 65.2%. Manufacturing and housing data have leveled off near pre-COVID-19 levels. The BoC says the overnight rate will likely be kept at 0.25% until at least 2023. The central bank also declared it will be reducing its purchases of government bonds to a minimum of CA$4 billion/wk from CA$5 billion/wk.



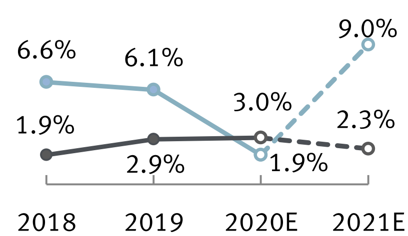
Eurozone – Threat of double-dip recession
Q3 GDP growth exceeded expectations; however, the latest IHS Markit composite index fell below 50.0—the marker for contraction vs. expansion—to 49.4, with the services sector (roughly 75% of employment) the largest drag. Economic confidence has been improving, but remains subdued as second-wave COVID-19 cases provoke shutdowns. ECB President Christine Lagarde says a new, supportive monetary package will arrive in December.



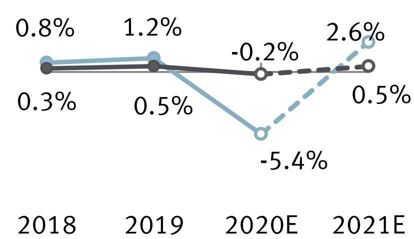
UK – Recovery stalling
After a brisk start to Q3 in July, August GDP slowed noticeably while September PMIs point toward further weakness to come. Subsequent COVID-19-related shutdowns and rising unemployment suggest a weaker-than-forecast outcome for the full year. Mounting concerns around the possibility of a no-deal Brexit are not adding to consumer or business confidence.



China – Strong October
Manufacturing PMI held its own in October despite the Golden Week holiday, while the services PMI (60% of the economy) moved further into expansionary territory. China's export trade faces headwinds as a new wave of COVID-19 hits Europe, and U.S. housing, autos, and capital spending are all rising on the back of strong consumer pent-up demand and business confidence. Positive knock-on effects are evident across much of Asia.



Japan – CPI to decline in October
The inflation rate has fallen to zero as the pandemic has dampened consumption. Retail sales slowed following a sales tax increase, despite rising consumer confidence. Exports surged to just below pre-pandemic levels, mostly to China. Business confidence is gradually improving along with industrial production, led by autos and production machinery.



Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management (RBC GAM), Bloomberg consensus estimates

Market scorecard

Index (local currency)	Level	1 month	YTD	12 month
S&P 500	3,509.44	4.4%	8.6%	14.1%
Dow Industrials (DJIA)	28,323.40	2.0%	-0.8%	3.0%
Nasdaq	11,895.23	6.6%	32.6%	41.4%
Russell 2000	1,644.16	4.2%	-1.5%	3.4%
S&P/TSX Comp	16,282.83	0.3%	-4.6%	-2.8%
FTSE All-Share	3,326.65	-0.3%	-20.7%	-18.2%
STOXX Europe 600	366.40	0.1%	-11.9%	-9.5%
EURO STOXX 50	3,204.05	-0.9%	-14.4%	-13.1%
Hang Seng	25,712.97	7.2%	-8.8%	-7.1%
Shanghai Comp	3,312.16	2.9%	8.6%	11.2%
Nikkei 225	24,325.23	3.8%	2.8%	4.4%
India Sensex	41,893.06	5.9%	1.5%	3.5%
Singapore Straits Times	2,578.68	2.0%	-20.0%	-21.0%
Brazil Ibovespa	100,925.10	5.6%	-12.7%	-6.9%
Mexican Bolsa IPC	38,530.50	4.3%	-11.5%	-12.1%
Bond yields	**11/6/20**	**10/6/20**	**11/6/19**	**12 mo. chg**
US 2-Yr Tsy	0.153%	0.147%	1.609%	-1.46%
US 10-Yr Tsy	0.819%	0.735%	1.828%	-1.01%
Canada 2-Yr	0.256%	0.233%	1.595%	-1.34%
Canada 10-Yr	0.645%	0.564%	1.540%	-0.90%
UK 2-Yr	-0.034%	-0.020%	0.538%	-0.57%
UK 10-Yr	0.274%	0.287%	0.715%	-0.44%
Germany 2-Yr	-0.780%	-0.601%	-0.637%	-0.14%
Germany 10-Yr	-0.621%	-0.185%	-0.333%	-0.29%
Commodities (USD)	**Price**	**1 month**	**YTD**	**12 month**
Gold (spot $/oz)	1,951.35	3.9%	28.6%	30.9%
Silver (spot $/oz)	25.61	11.0%	43.5%	45.2%
Copper ($/metric ton)	6,486.50	6.5%	12.8%	17.8%
Uranium ($/lb)	20.90	-0.5%	-12.6%	-7.7%
Oil (WTI spot/bbl)	37.14	-8.7%	-39.2%	-34.1%
Oil (Brent spot/bbl)	39.45	-7.5%	-40.2%	-36.1%
Natural Gas ($/mmBtu)	2.89	14.6%	31.9%	2.1%
Agriculture Index	273.20	4.4%	7.3%	13.8%
Currencies	**Rate**	**1 month**	**YTD**	**12 month**
US Dollar Index	92.2290	-1.6%	-4.3%	-5.8%
CAD/USD	0.7662	2.0%	-0.5%	1.0%
USD/CAD	1.3050	-2.0%	0.5%	-1.0%
EUR/USD	1.1874	1.2%	5.9%	7.3%
GBP/USD	1.3156	2.1%	-0.8%	2.3%
AUD/USD	0.7258	2.2%	3.4%	5.4%
USD/JPY	103.3500	-2.2%	-4.8%	-5.2%
EUR/JPY	122.7100	-1.0%	0.8%	1.7%
EUR/GBP	0.9025	-1.0%	6.7%	4.8%
EUR/CHF	1.0687	-0.8%	-1.6%	-2.7%
USD/SGD	1.3486	-1.0%	0.2%	-0.8%
USD/CNY	6.6124	-2.6%	-5.0%	-5.5%
USD/MXN	20.6008	-5.2%	8.8%	7.6%
USD/BRL	5.3772	-3.9%	33.4%	32.0%

The first week of November saw U.S. equities posting the largest weekly gain since April amid a strengthening labor market and the winner of the presidential election becoming clearer.

Global bond yields trended mostly higher with the exception of the UK 2-yr and German 2-yr and 10-yr, all of which firmed.

Rising global COVID-19 cases and the threat of renewed lockdowns in several countries contributed to a selloff in oil.

The U.S. Dollar Index tumbled to a two-month low of 92.22 amid election uncertainties and rising COVID-19 fears.

Equity returns do not include dividends, except for the Brazilian Ibovespa. Equity performance and bond yields in local currencies. U.S. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing. Examples of how to interpret currency data: CAD/USD 0.76 means 1 Canadian dollar will buy 0.76 U.S. dollar. CAD/USD 1.0% return means the Canadian dollar has risen 1.0% vs. the U.S. dollar during the past 12 months. USD/JPY 103.35 means 1 U.S. dollar will buy 103.35 yen. USD/JPY -5.2% return means the U.S. dollar has fallen 5.2% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 11/6/20.

Research resources

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Buy [Outperform]	788	52.96	248	31.47
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Sell [Underperform]	81	5.44	11	13.58

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