One-minute market update – Summer 2017

Economy

- The economic uptick that began in the summer of 2016 has continued to grow and a synchronized global economic expansion underway, with leading indicators pointing to a faster-than-normal clip across much of the world.
- We budget for a bit more economic growth over the next few years than was achieved over the past several, and the downside risks to our outlook – threat of protectionism, an aging business cycle and precarious international relations – appear manageable.
- There are still plenty of reasons why the sustainable growth rate is notably lower than it was a decade or two ago, and these are rooted in deteriorating demographics and a changing economic structure.

Fixed Income

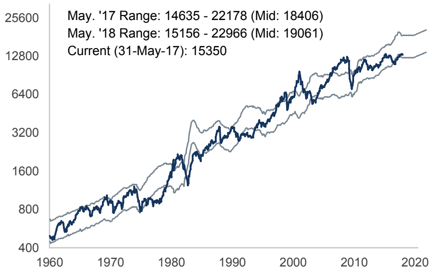
- Central banks are leaning toward tighter, if less accommodative, monetary policies in response to improving economic conditions.
- The Fed is again setting the pace with a handful of rate increases already delivered, and more on offer. China has also been raising rates and other major central banks are considering the next steps for dialing back stimulus.
- We expect the long-term direction for bond yields is higher and our models confirm this view. But receding enthusiasm about Trump's policies has weighed on yields, reintroducing the fixed-income valuation risk that had been alleviated shortly after the election.

Equity Markets

- Global equities have reached new highs and valuations may no longer be a driving force for stocks, at least in the U.S.
- Fortunately, U.S. profits have recovered from their two-year swoon and, if earnings continue to rise as analysts expect, the total-return potential for stocks remains quite positive.
- We trimmed our equity overweight by one percentage point due to the aging business cycle, less compelling valuations and concern that complacency is beginning to seep into markets.

CANADIAN EQUITIES – Fair value range

S&P/TSX Composite Index

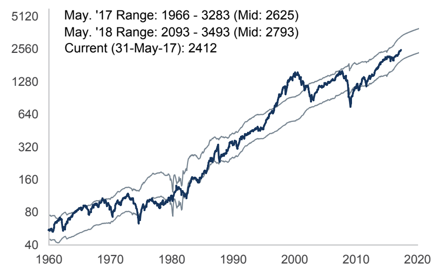


Over the three-month period ended May 31, the index increased by 0.43%. Valuations remain at the lower fair value band.

Source: RBC GAM

U.S. EQUITIES – Fair value range

S&P 500 Index

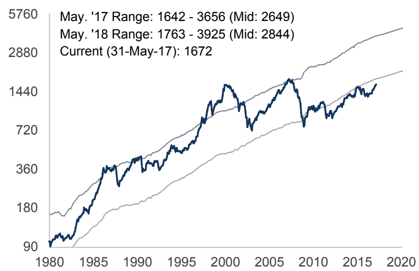


The U.S. stock market made progress over the three-month period ended May 31, rising 2.6% in local currency terms as the economic expansion continued. While valuations have increased, they are still below the midpoint of the fair value range.

Source: RBC GAM

EUROPEAN EQUITIES – Fair value range

Eurozone Datastream Index

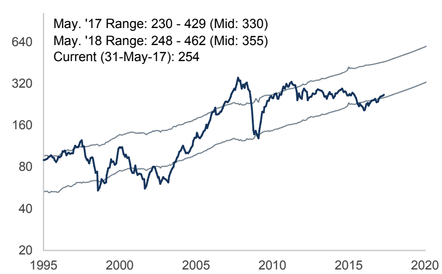


The MSCI Europe Total Return Index (USD) was up 12.9% for the three months ended May 31, and valuations sit just above the lower limit of the fair value band.

Source: Datastream, Consensus Economics, RBC GAM

EMERGING MARKETS – Fair value range

Emerging Markets Datastream Index



Emerging-market equities extended their recovery, surging 7.9% (USD) in the three months ended May 31, 2017. With significant gains over the past year, valuations continue to move above the lower limit of the fair value band, but are still well below the midpoint.

Source: Datastream, RBC GAM

* Fair value estimates are for illustrative purposes only. It is not possible to invest directly in an unmanaged index.

Global Asset Management

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