RBC Global Asset Management

One-minute market update

NEW YEAR 2022

Moderating growth, the new Omicron virus variant and fading monetary stimulus have agitated financial markets. Underlying economic conditions remain good by historical standards and corporate profit growth has been stellar, but the backdrop is shifting and enthusiasm for the recovery has diminished.

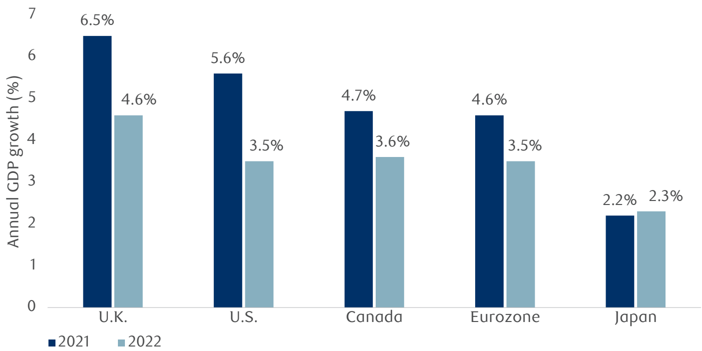
Economy

- A new coronavirus variant, problematically high inflation, supply chain challenges and China's property-market slowdown are among the main headwinds facing economies.
- Policy makers are acknowledging that the recovery is well-advanced, allowing for a gradual dialing back of monetary accommodation and less generous fiscal support.
- Strong consumer finances and increased business capital expenditures could continue to support the expansion.
- We look for 3.5% growth for most developed nations in 2022, which is nearly twice the pre-pandemic norm but diminished relative to 2021 and somewhat below consensus.

Fixed Income

- Sovereign bond yields began the year on a rapid upward trajectory but declined toward the end of the period as slowing growth and mounting concerns about the Omicron variant boosted the appetite for safe havens.
- Our models continue to suggest that yields are too low and that the key to higher yields lies in the eventual normalization of real interest rates to levels at or above zero.
- Real rates are currently deeply negative, meaning sovereign-bond investors are accepting a guaranteed loss in purchasing power after adjusting for inflation, and we don't think this situation is sustainable.
- Our own forecast is 1.80% for the U.S. 10-year yield over the next 12 months.

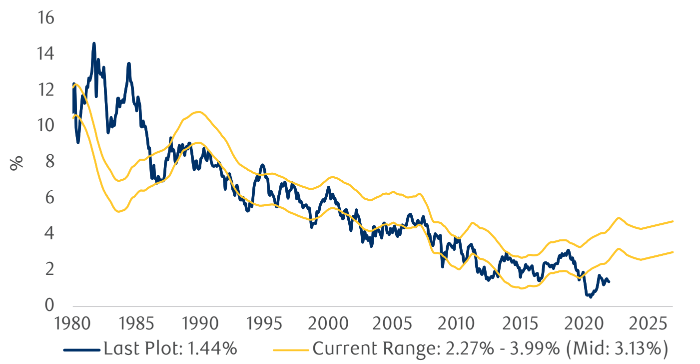
RBC GAM GDP forecast for developed markets



Note: As of November 30,, 2021. Source: RBC GAM

U.S. 10-year T-bond yield

Equilibrium range



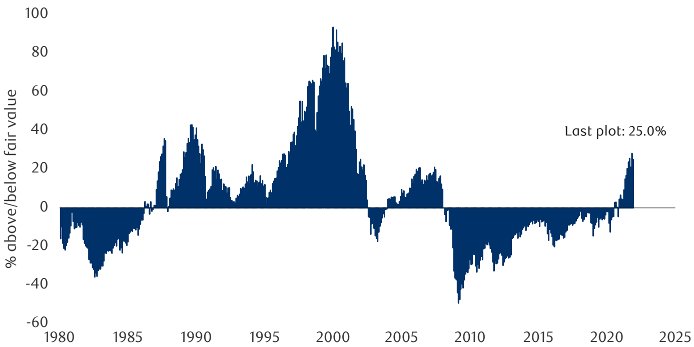
Note: As of November 30, 2021. Source: RBC GAM, RBC CM

Equity markets

- Global equities extended gains from 2020 to record another strong year in 2021, and the rally has pushed our global composite of equity markets to 25% above fair value.
- Continued strong gains in corporate profits will be critical to supporting higher stock prices and earnings have indeed been spectacular.
- Our expectation for nominal GDP growth, even if slower from last year, could continue to support double digit gains in profits next year.
- Stocks could continue to deliver mid-single-digit to low-double-digit gains over the next couple years as long as earnings growth remains solid and investors remain optimistic in a low interest rate and normal inflation environment.

Global stock-market composite

Equity-market indexes relative to equilibrium



Note: As of November 30, 2021. GDP-weighted average of RBC GAM fair value models for a variety of countries. Fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

Disclosure

This document is 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 GAM or its affiliated entities listed herein. This document does not constitute an offer or a solicitation to buy or to sell any security, product or service in any jurisdiction; nor is it intended to provide investment, financial, legal, accounting, tax, or other advice and such information should not be relied or acted upon for providing such advice. This document is not available for distribution to investors in jurisdictions where such distribution would be prohibited.

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

In Canada, this document is provided by RBC Global Asset Management Inc. (including PH&N Institutional) which is regulated by each provincial and territorial securities commission with which it is registered. 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 Global Asset Management (Asia) Limited, which is registered with the Securities and Futures Commission (SFC) in Hong Kong.

Additional information about RBC GAM may be found at www.rbcgam.com.

This document has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate and permissible, be distributed by the above-listed entities in their respective jurisdictions.

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.

Opinions contained herein reflect the judgment and thought leadership of RBC GAM and are subject to change at any time. Such opinions are for informational purposes only and are not intended to be investment or financial advice and should not be relied or acted upon for providing such advice. RBC GAM does not undertake any obligation or responsibility to update such opinions.

RBC GAM reserves the right at any time and without notice to change, amend or cease publication of this information.

Past performance is not indicative of future results. With all investments there is a risk of loss of all or a portion of the amount invested. Where return estimates are shown, these are provided for illustrative purposes only and should not be construed as a prediction of returns; actual returns may be higher or lower than those shown and may vary substantially, especially over shorter time periods. It is not possible to invest directly in an index.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future results or events. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Do not place undue reliance on these statements because actual results or events may differ materially from those described in such forward-looking statements as a result of various factors. Before making any investment decisions, we encourage you to consider all relevant factors carefully.

Publication date: December 15, 2021

100757 (12/2021)