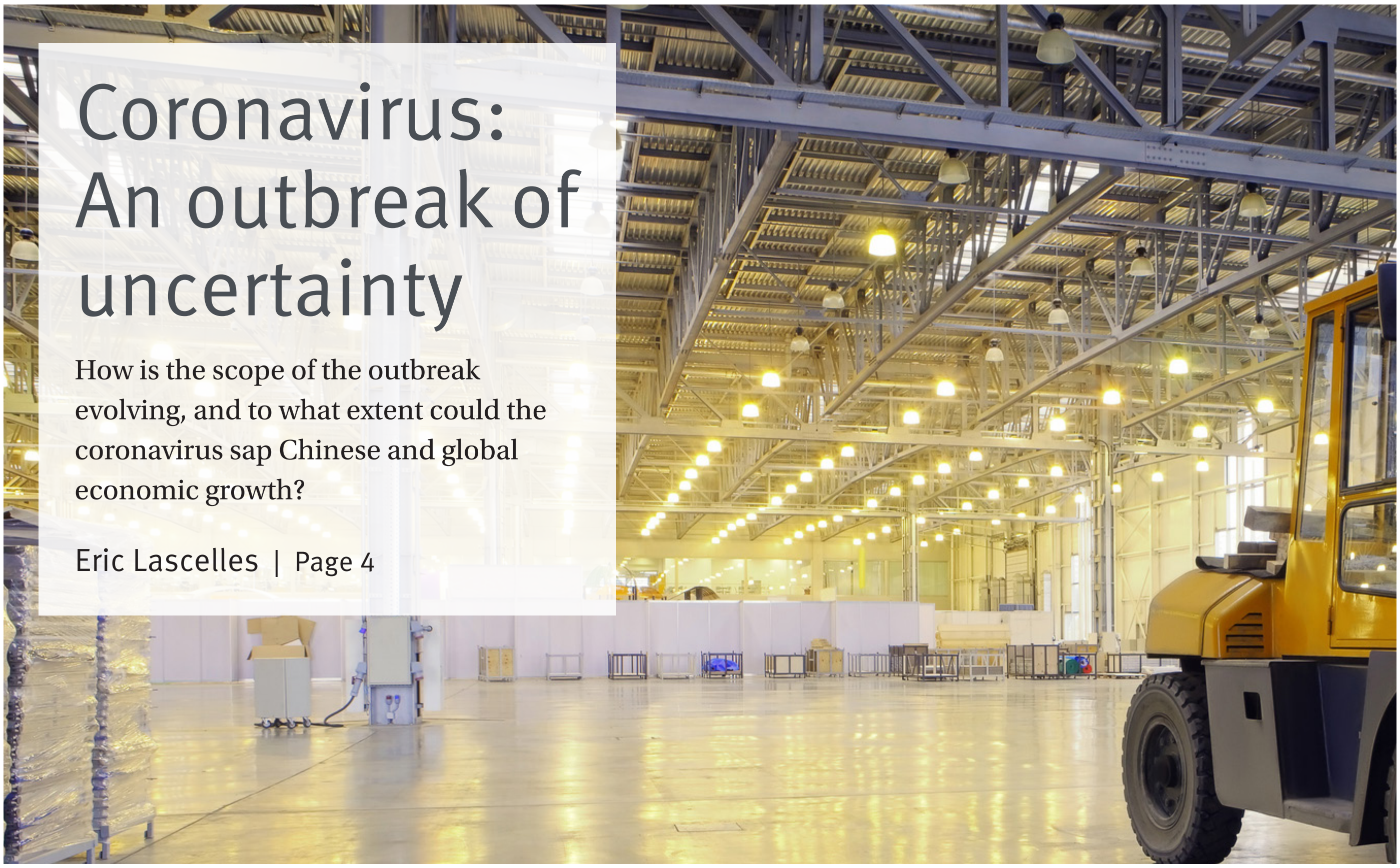
RBC WEALTH MANAGEMENT

Global Insight

Perspectives from the Global Portfolio Advisory Committee



Coronavirus: An outbreak of uncertainty

How is the scope of the outbreak evolving, and to what extent could the coronavirus sap Chinese and global economic growth?

Eric Lascelles | Page 4

Focus article
And then there were 27

Global equity
Under pressure

Global fixed income
Do central banks have a vaccine?

Key forecasts

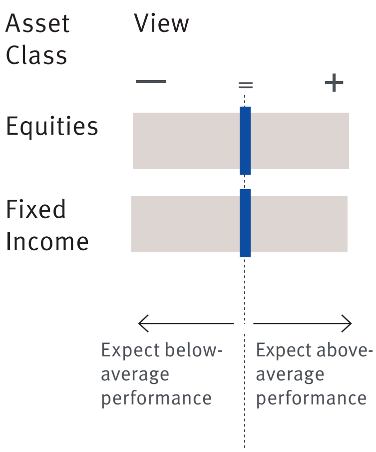
For important and required non-U.S. analyst disclosures, see page 19.
Produced: Mar 3, 2020 16:10ET; Disseminated: Mar 3, 2020 16:15ET

Table of contents

All values in U.S. dollars and priced as of market close, February 28, 2020, unless otherwise stated.

RBC’s investment stance

Global asset views



See “Views explanation” below for details

Source - RBC Wealth Management

Equities

- After sprinting out of the gate in the beginning of the year, the coronavirus has stopped equity markets in their tracks. There is little doubt that Chinese GDP growth has taken a big hit in Q1, and other Asian countries could slow down meaningfully. We expect global growth to absorb a more moderate impact. The magnitude will depend on how long supply chains are hobbled, the degree to which the coronavirus jolts countries outside of Asia, and the amount of time it takes for this health crisis to run its course.
- We still anticipate most equity markets will finish the year higher than today’s levels, but more volatility and a period of consolidation could be in store in the months ahead.

Fixed income

- The benchmark 10-year U.S. Treasury yield has reached record low levels, and is on the cusp of falling below one percent for the first time on record. A trifecta of growth fears, demand for safety, and a surprise 0.50 percent rate cut from the Federal Reserve, paired with market expectations of other stimulus measures from global central banks in March are driving global yields lower. Though most other major central banks don’t meet until the middle of March, markets are increasingly looking for emergency actions before then.
- We maintain our Market Weight stance in global fixed income. Though global yields remain historically low, there’s still scope to move even lower. As broad market volatility is on the rise, we look to fixed income to provide defense and stability for portfolios.

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

Coronavirus: An outbreak of uncertainty

Eric Lascelles
Toronto, Canada
eric.lascelles@rbc.com

As new clusters of coronavirus cases pop up around the world, an outburst of volatility and concerns are running through markets. RBC Global Asset Management's Chief Economist Eric Lascelles looks at how the scope of the outbreak is evolving and to what extent the coronavirus could sap Chinese and global economic growth.

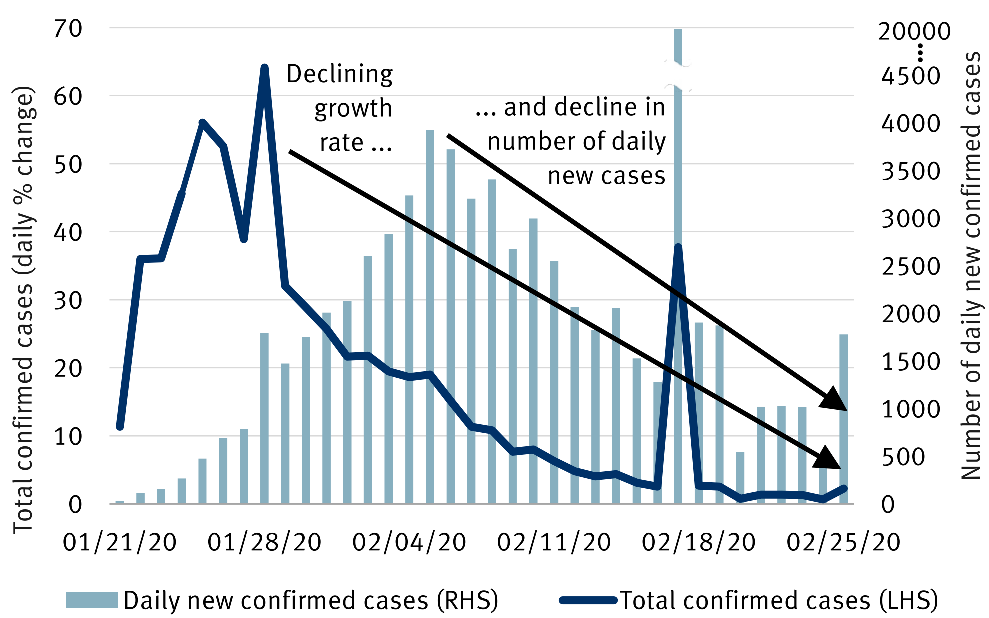
- The coronavirus is straining supply chains of companies worldwide as Chinese factories continue to operate well below normal capacity.
- China seems set to absorb the bulk of the economic impact from the coronavirus, followed by the Asia region. But virus-related disruptions will slow global growth, and the spread of the disease outside of China is raising additional risks.

The coronavirus (COVID-19) has again put fear into the heart of financial markets as the focus shifts from what appear to be diminishing risks within China to rapidly rising risks outside of the country, including to other major economies.

New cases in China are shrinking …

The daily growth rate of COVID-19 cases has shrunk to just 579 on Mar. 1 in China, almost seven times less than the Feb. 5 peak. The daily growth rate in percentage

The spread of COVID-19 within China is slowing



Note: The spike on 2/17/20 is due to a change in reporting methodology.
Source - WHO, RBC Global Asset Management; data as of 2/25/20

Eric Lascelles is the Chief Economist for RBC Global Asset Management Inc. He maintains the firm's global economic forecast and advises its portfolio managers on key themes and risks. He is also a frequent media commentator on global economic and financial trends, appearing regularly on CNBC, Bloomberg, and other networks.

terms has declined to just 0.7 percent (the peak was a gargantuan 85 percent in late January).

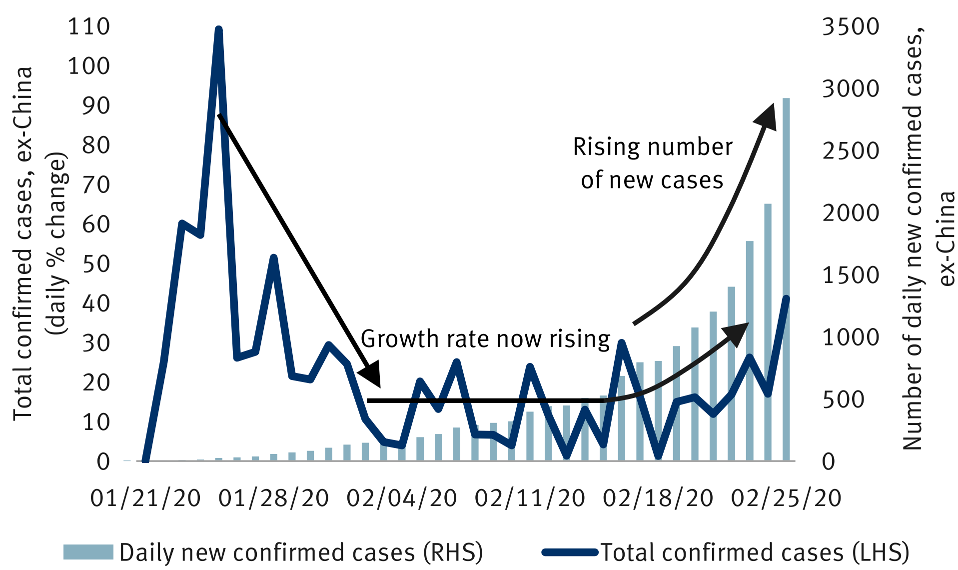
In fact, on a net basis, there are now more Chinese each day being declared newly free of the disease than are acquiring it. Fully 29 Chinese provinces and other administrative divisions—including Shanghai—reported no new cases in the latest data. President Xi Jinping has now called for a resumption of economic activity. Of course, it is possible that this tentative reset could drive the infection rate back up.

… but are things just getting started outside of China?

In contrast, the growth rate outside of China is still far from tamed. The number of new cases in the rest of the world jumped recently, with 3,505 added during the three days ending Mar. 1. Those new cases represent almost 50% of the total confirmed cases outside of China.

Granted, the disease made its way outside of China with a lag, so it makes sense that it is yet to be resolved in other countries. Furthermore, China is still host to the great majority of the overall cases. But China's caseload growth was already beginning to slow after two weeks, whereas there is no sign yet of a peak in the rest of the world.

Increasing COVID-19 global cases (ex-China)



Source - WHO, RBC Global Asset Management; data as of 2/25/20

Outside of China, several countries are capturing particular attention:

- **South Korea:** The country suddenly exploded to 3,736 cases, with 18 fatalities as of Mar. 1. The bulk of the cases have been acquired domestically, rather than via direct travel to China. The country placed some 7,000 soldiers under quarantine after a handful tested positive for the disease. We assume significant near-term economic damage to South Korea.

- **Japan:** Until recently, Japan had the highest caseload outside of China, though much of this was from a quarantined foreign cruise ship (695 cases). Nevertheless, even without that group the country maintains 239 cases and is especially vulnerable not merely by virtue of its proximity to China but also due to its large elderly population (the disease disproportionately targets the old and infirm). We assume modest near-term economic damage to Japan.
- **Iran:** The country has been a source of concern since a Canadian was reported to have contracted the disease in Iran rather than China, and the country has since admitted to 593 cases (though the official tally of 43 deaths suggests a considerably larger overall pool of infected). Schools, theaters, and sporting events have been reportedly shut down.
- **Italy:** Lastly, and further hinting at the highly contagious nature of the disease and its ability to seemingly pop up nearly anywhere, Italy has suddenly leaped from three cases on Feb. 21 to 1,128 cases on Mar. 1, with 29 deaths reported. These cases are clustered within a region of 10 towns not far from Milan. Italy is attempting to impose a strict quarantine.

While wealthy countries have stronger health care systems, they also tend to be older—a predictor for the severity of infection. The U.S. and Canada find themselves slightly better off in this regard than Europe and Japan.

Coronavirus context

COVID-19 continues to progress according to our initial expectations: the fatality rate remains low, about 3.5 percent (2,977 deaths out of 87,137 confirmed cases globally), and the disease has proven highly contagious, as evidenced by the aforementioned cross-section of affected nations.

Perhaps the only twist is the extent to which the fatality rate has thus far proven highly variable. Outside of China's Hubei province, the epicenter of the epidemic, the fatality rate appears to be considerably less.

Furthermore, the virus appears to discriminate aggressively based on age. The fatality rate so far is zero percent for young children, just 0.2 percent for those aged 10–39, and then incrementally rises to a large 14.8 percent for those aged 80-plus. For those below middle age, thus far it is arguably no more dangerous than the ordinary flu. For the elderly, it can be deadly.

All of this said, a point of comparison provides some calming context. The U.S. alone expects roughly 18 million cases of the flu this season. Even with a tiny fatality rate, this adds up to 14,000 anticipated deaths. Last year was unusually bad, with roughly 80,000 deaths in the U.S. alone. It would take a remarkable surge for the coronavirus to induce death on that scale, and yet we accept the annual fatalities associated with the flu with barely a remark.

China's economy in quarantine

Even as the caseload growth in China has slowed, businesses have remained shuttered to an even greater extent than we had initially envisioned. Surveys suggest Chinese businesses continue to operate well below their normal capacity a full five weeks since the virus began to significantly impede economic activity.

Even though we assume an incremental return to business over the coming weeks, it is hard for us to see Chinese GDP growth operating much above 5.0 percent in 2020. This is down from our prior forecast of 5.6 percent. Absent the virus, we would have forecast 5.9 percent growth for the year, slightly lower than the 6.1 percent rate in 2019.

At a more detailed level, it seems nearly certain to us that Chinese Q1 GDP growth on a quarterly basis will be substantially negative, and there is a good chance that year-over-year GDP growth will also be temporarily negative for the quarter before rebounding in later quarters. The monthly data in January and February will likely be particularly dismal, with property sales down by more than 90 percent already.

The Chinese government has already leaped into action with monetary stimulus and improved credit growth. One reason that our forecast has an uncertain tinge is that the Chinese government may not reveal the true depth of the economic weakness.

Infecting the global economy?

China seems set to absorb the bulk of the economic impact from the coronavirus, followed by the Asia region, but virus-related disruptions also will slow global growth.

We have shaved a cumulative 0.4 percentage points off our global growth forecast—0.2 percentage points more than the prior estimate. This would leave global growth expanding at a meek 2.9 percent in 2020.

A worst-case scenario would have COVID-19 ping-ponging around the world, forcing companies to shutter and impacting supply chains on a nearly worldwide basis. It is unlikely to be quite that extensive, in our view, but the coming weeks will reveal much and containment is no easy task.

Scenarios abound as to how the virus may ultimately be contained, be it warmer spring weather naturally dampening the disease, the possibility of lower fatality rates in the developed world that render it merely a super flu, or the eventual development of a vaccine.

Focus
article

And then there were 27

Impact of the UK’s departure on the EU

Frédérique Carrier
London, United Kingdom
frederique.carrier@rbc.com

Dawn is breaking for a new Europe with the UK’s irrevocable separation from the EU at long last complete. Challenges will test the EU’s resolve, such as how to prop up the ailing economy. But as a caretaker of peace and prosperity unmatched in European history, we believe the bloc can evolve with the times. We look at what awaits this new Europe and what it holds for investment strategy.

- The departure of the influential UK from the EU is the first setback for the bloc’s integration experiment. But paradoxically, it seems to have rallied support for the EU within the remaining 27 countries.
- The loss of the UK’s contribution to the EU economy and its budget is unfortunate but should be manageable.
- Calls for a larger role for fiscal policy continue. Fiscal rectitude remains the order of the day but increasingly appears to be an antiquated model. Change may be afoot.

The departure of the influential UK from the EU will be felt in the bloc, but this episode has also increased the union’s resolve and we expect it to adapt to the new state of affairs. After a weak 2019, the EU appeared to be turning the corner as 2020 began, but the manufacturing shutdowns in China brought on by the coronavirus outbreak are likely to push any European recovery into the second half of the year. Some anticipated fiscal stimulus should help matters on the continent, and we continue to see selective opportunities for investors.

The first setback

The EU began in 1951 as a coal and steel trading bloc comprised of Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany. Initially, the main purpose was for West Germany to expiate its role in World War II. By partly giving up its national sovereignty and integrating into a larger, demilitarized trading group with strict procedures, West Germany hoped for rehabilitation.

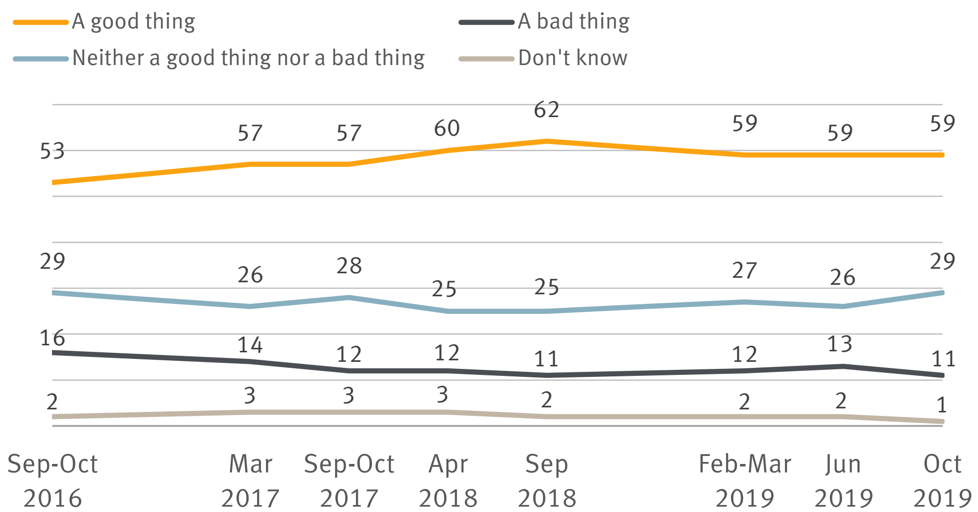
The other five founding members saw an opportunity for reconciliation and sought security in numbers, while France also viewed the group as a potential counterweight to UK and U.S. influence. Since its formation, the bloc has ushered in a period of peace and prosperity unseen in the continent’s history.

The UK was the first member to depart the group, which had grown to 28 nations. Despite being a late joiner in 1973, the UK became an influential EU member, given the size of its economy (second only to Germany) and penchant for free market practices. Along with the Netherlands, Sweden, Denmark, Finland, and Ireland, it formed a group known as the Nordic Alliance, which offset French policies favouring state intervention. The Netherlands, which has tended to keep a low profile despite being the EU's fifth-largest economy, is likely to fill the vacuum left by the UK, though the Nordic Alliance may see its influence wane minus the UK.

However, the UK's departure seems to have rallied support for the EU within the remaining countries as the political chaos that has engulfed the UK since the June 2016 Brexit referendum has not gone unnoticed.

Support for the EU within member states has increased since the Brexit vote

Percentage of survey respondents who believe their country's EU membership is:



Source - RBC Wealth Management, Parlemeter 2019 (92.2), QB12

In fact, many anti-establishment populist parties across EU countries have mellowed their EU skepticism, instead railing against immigration to win votes. Populist parties in Italy, Austria, and Hungary all suffered electoral setbacks in 2019—though admittedly their poor showings could reverse if immigration concerns return to the limelight. As a sign the danger of a populist government in Italy seems to have passed, the spread of Italian government bond yields over German Bund yields has recently fallen from a peak of 324 basis points (bps) back to the March 2018 level of just 135 bps.

Modest economic consequences

Now with 27 members, the EU will remain one of the top three economies in the world, though its share of global nominal GDP will fall from 16 percent to 14 percent, according to the International Monetary Fund.

Should the EU lose complete access to the UK market due to the breakdown of negotiations over a new trade agreement, we believe the impact would be modest as EU exports to the UK represent only three percent of EU GDP. Moreover, the damage would be partially offset by some diversion of trade, investment, and skilled migrants away from the UK to the EU.

Similarly, the fiscal consequences of losing the UK's contribution to the EU budget should not be exaggerated. First, the EU budget is a mere one percent of the total value of the EU economy—versus the U.S. federal budget at some 20 percent of GDP and UK government spending of close to 40 percent of GDP—as most of the fiscal spending in the EU is done by national governments.

Second, the loss of the UK's net contribution to the EU budget, which amounted to some £9 billion ($11.5 billion) in 2018, will be felt in Brussels, but only over time. The UK will honor its legacy financial obligations of more than £30 billion ($43 billion) per the terms of the Brexit Withdrawal Agreement.

Yet negotiations for the EU's next seven budget years (2021–27) are particularly tricky given Britain's departure, as EU members have to agree how to split the bill.

Challenges for the short term

For now, the EU faces other challenges. After a difficult 2019, economic activity at the start of 2020 had pointed to a healthy pickup in growth, but this improvement is now being threatened by the coronavirus outbreak. Factory shutdowns in China are affecting not only the EU's export demand but also some of the supply chains of European companies. Eric Lascelles, chief economist for RBC Global Asset Management Inc., estimates the outbreak may reduce EU economic activity by some 0.2 percent, though the magnitude of the impact will likely depend on the duration and severity of the shutdowns. RBC Capital Markets expects 2020 GDP growth of one percent.

Calls on national governments for more fiscal stimulus are coming from many quarters, including European Central Bank President Christine Lagarde, who is aware that there are limited monetary policy maneuvers available with interest rates already in negative territory. Moreover, the region has considerable spare fiscal capacity, and with borrowing costs low, fiscal stimulus would not only be appropriate but also affordable. Indeed, France, Italy, and the Netherlands already dipped into government coffers a little in 2019, the former to appease the Yellow Vest protests against fuel tax hikes.

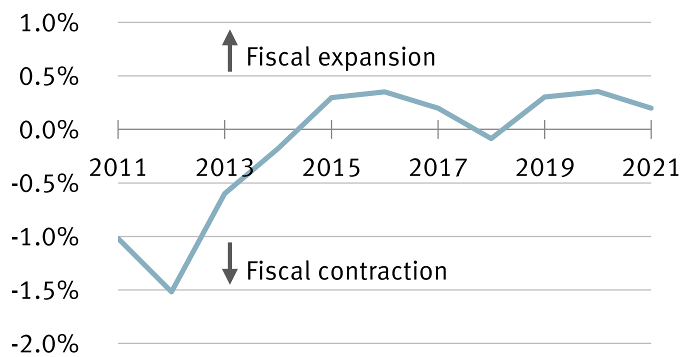
However, Germany is resisting these calls so far. Its constitution bans structural deficits of more than 0.35 percent of GDP. As a result, Germany has run a fiscal surplus since 2014, which peaked at 1.9 percent of GDP in 2018. German officials say they will do away with that constitutional rule if conditions warrant it. But with the economy at full employment, Chancellor Angela Merkel's government feels the current slowdown isn't sharp enough yet to justify a major one-off fiscal boost.

But it can devise strategies to work around, such as off-balance sheet vehicles issued by public bodies which can tap financial markets without appearing on the central government's books. Recent incentives to speed up the conversion to cleaner energy were partially financed in this manner and could soften the impact of the slowdown.

For now, RBC Capital Markets expects fiscal stimulus of 0.4 percent of GDP for the EU as a whole in 2020.

A bit more spending expected in 2020

EU member states' fiscal surpluses/deficits as a percentage of regional GDP



Fiscal spending could be more generous but it would require changing the fiscal framework.

Source - RBC Capital Markets; excludes interest payments

Lagarde is also trying to push the EU Commission, the executive branch of the EU, for changes to fiscal policy. The commission is looking to loosen the current EU fiscal framework, which targets a debt-to-GDP ratio of 60 percent and a deficit of no more than three percent of GDP. These simple rules seem dated and too restrictive for a time of record-low borrowing rates and meager growth. The EU Commission intends to propose changes by year end.

Investment strategy

Now a bloc of 27 members, we believe the EU will evolve, guided by its culture of consensus that was able to produce the desired outcome in the divorce negotiations with the UK. With resilient domestic demand underpinned by some fiscal support, we would expect the eurozone's economy to eke out enough growth to generate mid-to-high single-digit corporate earnings growth.

With the STOXX Europe 600 ex UK Index's undemanding price-to-earnings valuation of 12.9x based on 2021 consensus estimates and a dividend yield above three percent, there is room in portfolios for an allocation to well-managed European companies with strong business models and leading market positions, in our view. For example, we believe investors can find opportunities in the consumer spaces or the Industrials sector from companies positioned to benefit from structural trends, such as increased infrastructure spending, urbanization, and digitalization.

Under pressure

Over the past few weeks there have been several things worth worrying about—chief among them the impact of the coronavirus and growing uncertainty around U.S. electoral politics. For the first eight weeks of the year investors didn't seem to care about either until, abruptly, they did. Now uncertainty has taken hold, sending global stock markets into the ditch.

Whatever the eventual outcome of the virus crisis, it will have already blown a large hole in Q1 GDP growth for China, with knock-on effects of varying degree across Asia. The impact in North America and Europe should be much smaller, in our view, but that can't be quantified with any certainty at this point.

Management guidance accompanying Q4 2019 earnings releases in January and February mostly took the form of "too early to tell." Q1 comments beginning in mid-April are likely to continue painting a cautionary and indeterminate picture. Even assuming the outbreak peaks and begins receding by early summer, clarity around the sales and earnings costs of this health catastrophe will be a long time coming.

What is likely to arrive sooner will be more fiscal stimulus from governments. From China first and foremost, but also from Japan where domestic demand was dealt a body blow by a Q4 sales tax hike that has been exacerbated by China's abrupt slowdown. In the UK and Europe, plans were already afoot for additional government spending to offset trade concerns as the final Brexit deal is negotiated and weak exports into China take a further toll on the German economy. These efforts are likely to be advanced and probably entail greater-than-previously contemplated sums.

Equity views

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

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

In North America, Canada has plenty of budgetary capacity to boost spending, while in the U.S., both the Republicans and Democrats will be eager to establish their bona fides as the "economy-friendly" choice in the lead-up to a hotly contested election in the fall.

As things stand today, we expect no recession in the U.S. or Canada in 2020, but with GDP growth rates hovering around two percent, an occasional negative quarter can't be ruled out. It is also possible the coronavirus impact turns out to last longer and cut more deeply into the U.S. economy, pushing it into outright recession. That is not our base case, but the probability of this happening is certainly markedly higher than when the year began.

A weaker GDP profile could be expected to produce weaker-than-anticipated corporate earnings. And earnings estimates for 2020 have been falling, from a wildly optimistic $187 per share for the S&P 500 early last year all the way down to a recent $175 per share, which is still above the long-held, below-consensus

Jim Allworth
Vancouver, Canada
jim.allworth@rbc.com

call of RBC Capital Markets' Head of U.S. Equity Strategy Lori Calvasina for $174.

Calvasina estimates the potential cost of the virus on earnings at $4 per share, which could bring her estimate down to $170. Her estimate would fall to $167 per share if the U.S. were to endure a mild recession. Clearly, even lower numbers are possible. So, at the very least, we expect Street conviction around what earnings figure to use to calculate forward price-to-earnings (P/E) ratios will be in flux for at least the next quarter, probably longer.

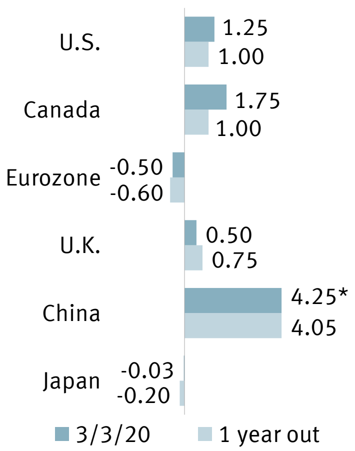
In the big and unsettling stock market retrenchment of late 2018, the S&P 500 slumped from a summer peak of better than 18x forward earnings in August down to something less than 15x at the Christmas Eve low. But that happened against a backdrop of (sharply) rising bond yields. The 10-year Treasury yield jumped from 1.50 percent in August to 1.90 percent in December that year, while corporate bond yields (BBB rated) rose by 120 basis points to 4.70 percent over the full year. Since those peaks, the Treasury yield has fallen to a new all-time low at 1.15 percent while BBB corporate yields have collapsed down to 2.70 percent.

Low and falling bond yields not only potentially stimulate growth, they also support P/E ratios. At the end of the day, we don't expect the P/E damage of this correction will be as big as that endured in 2018. But we also think it will take some time to fully play out, probably months, conceivably quarters. The damage to all equity markets globally is likely to be directly related to the damage done to the U.S. economy in particular, in our view.

In the February edition of Global Insight, our parting thoughts in the "Global equity" commentary were: "… concerns around the coronavirus outbreak will probably go on suppressing investor attitudes for some months to come. As well, American politics will likely deliver occasional market volatility from the start of the primary season in February through at least to the Democratic convention in mid-July." That volatility has driven share prices down further and more rapidly than we expected. If the U.S. economy avoids a recession in 2020, by year end, we expect most stock markets will have advanced meaningfully from today's levels.

Do central banks have a vaccine?

Central bank rate (%)



*1-yr base lending rate for working capital, PBoC

Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management

As is usually the case in the face of most periods of economic fear and uncertainty, markets look to central banks to ride to the rescue. However, with the global uncertainty pertaining to the coronavirus outbreak, it seems that markets are instead looking to central banks and asking if there is even anything they can do.

Regardless, the Federal Reserve was the first to act on Mar. 3, delivering a surprise 0.50 percent rate cut ahead of its Mar. 17–18 meeting, which brings the Fed's target rate to a range of just 1.00 percent to 1.25 percent. This move now sets the stage for other global central banks to act.

Of course, the biggest risk during these types of events is from a pullback in spending from both consumers and businesses amid heightened uncertainty, but if both sectors are reluctant to spend, travel, and borrow, no amount of cheap money is likely to help.

That's not to say that rate cuts can't help. Beyond reducing interest rates, changes in monetary policy can also serve to support markets through the sentiment channel, or via the belief that central banks stand ready and willing to act.

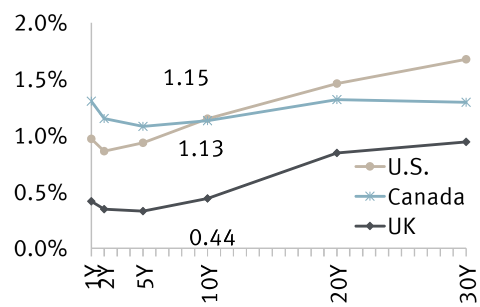
The Fed's actions certainly showed a willingness to act, and the Bank of Canada is likely the next to do so at its Mar. 4 meeting, followed by the central banks of Europe and Japan, which are set to meet in mid-March, assuming they don't also take preemptive action. The Fed's 0.50 percent rate cut was both earlier and somewhat larger than expected, and while the market is still looking for even more easing to follow, perhaps this move will buy the Fed some time to assess the global situation around the coronavirus outbreak. As it stands, the market expects the fed funds rate to end the year in the range of 0.50 percent to 0.75 percent. However, we think the Fed is past the point of policy "tweaks" or "insurance cuts." In a scenario where it is cutting rates below one percent, we believe the Fed would simply take rates back to the zero percent lower bound and hope to fight another day.

Fixed income views

Region	Gov't Bonds	Corp. Credit	Duration
Global	=	+	5–7 yr
United States	=	=	7–10 yr
Canada	=	=	4–6 yr
Continental Europe	=	+	5–7 yr
United Kingdom	–	=	3–5 yr

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

Sovereign yield curves

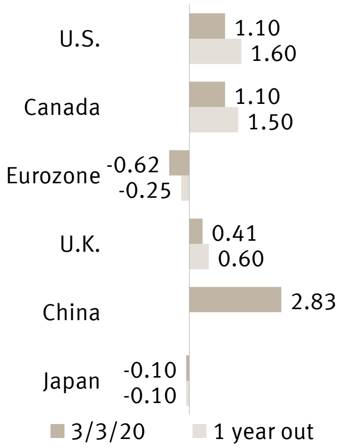


Source - Bloomberg; data through 1/31/20

Thomas Garretson, CFA
Minneapolis, United States
tom.garretson@rbc.com

Global fixed income

10-year rate (%)



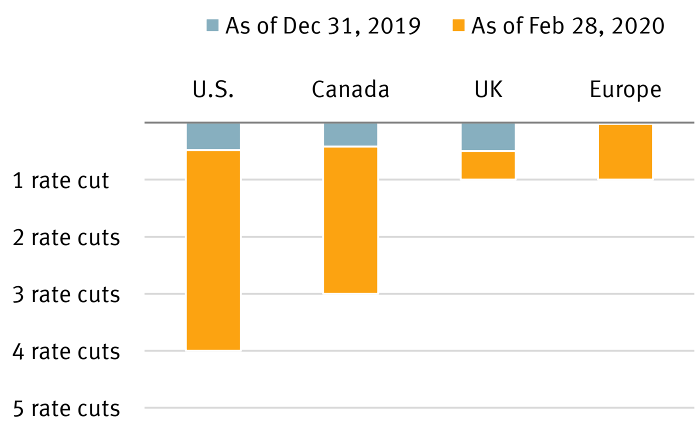
Note: Eurozone utilizes German Bunds.

Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management

In the U.S., global growth concerns and rate cut expectations have driven Treasury yields to fresh all-time lows, with the benchmark 10-year Treasury yield falling to just 1.03 percent on Mar. 3. We now see scope for the U.S. 10-year Treasury yield to fall below one percent in the weeks and months ahead. In Europe, the entire German sovereign Bund curve is back below zero percent, increasing the global stock of negative-yielding debt back to $14 trillion.

The answer then to the coronavirus conundrum is a combination of monetary and fiscal policy, in our view. China has already announced significant plans to support local businesses, and we expect that global governments will step up to offset any economic weakness, which broadly is still expected to be temporary. While uncertainty is unlikely to dissipate in short order, we look for central banks and governments to continue to take decisive action if needed, as it will require a coordinated effort.

Rate cut expectations by the end of 2020



Source - RBC Wealth Management, Bloomberg; rounded estimates based on market probabilities

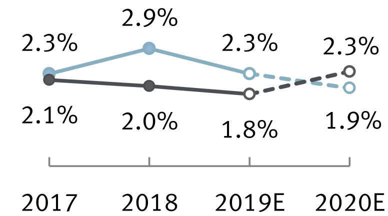
Compared to the start of the year, markets are now looking for significant action from global central banks to fight growth fears.

Key forecasts

Real GDP growth   Inflation rate

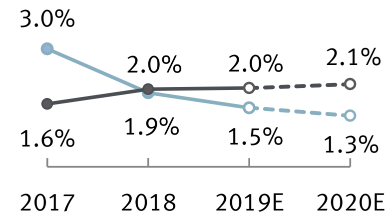
United States – Lower for longer

The U.S. yield curve inversion has become entrenched despite the Fed's 50 basis point cut. So far the economic impact of the virus has been minimal, but supply chain disruptions are expected to begin taking a toll this month. Consumer confidence and employment have held up so far. Housing dynamics, already improving over the past several months, should get more support from the 120 basis point decline in mortgage rates. Refinancings are very strong.



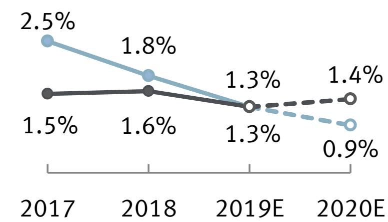
Canada – Labor market strengthens

The labor market picked up steam for a second straight month as the unemployment rate fell to 5.5% and almost 35,000 jobs were added, leaving the BoC free to cut rates but not forced to do so. The flash manufacturing PMI ticked up to 50.6. The housing market is showing strength with building activity jumping 9% as low unemployment and cheap borrowing costs are driving buyers to the market.



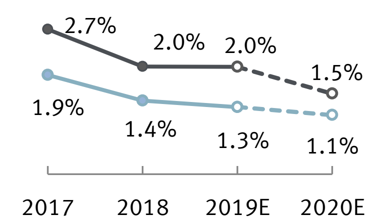
Eurozone – Risks abound

The flash manufacturing PMI posted a 12-month high at 49.1, meaning the sector has been in contraction since February 2019. Services improved to 52.8, but Q4 GDP growth came in at a disappointing 0.0%. Brexit uncertainty, the coronavirus, and weak China trade are pressuring the economy further as doubts persist about Europe's capacity to handle the problems swiftly and decisively.



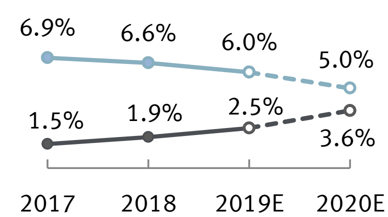
United Kingdom – Uncertainty hasn't left the stage

The Bank of England has reasserted its position that banks seeking to borrow from the central bank will receive haircuts if they do not abandon the LIBOR benchmark. Brexit negotiations with a December deadline are underway. The initial positions of both sides have done little to reassure businesses that a workable trade deal will result.



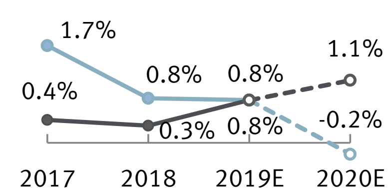
China – Coronavirus effects dominant

China's PMI for February plummeted to a record low, reflecting the damage inflicted by the coronavirus. After dramatic preventative shutdowns, businesses are in the process of reopening with the percentage of operating capacity back online between 65% and 80% at time of writing.Q1 GDP likely to be bleak with recovery beginning in Q2. Our full-year growth estimate has come down to 5.0% from 5.9%.



Japan – Bank of Japan (BoJ) reaches out to banks

The BoJ has reached out to major financial institutions to gauge their preparedness for the spread of the coronavirus, with initial findings indicating large institutions are prepared. Cross-border supply chains within China, South Korea, and Japan have been severely disrupted. Businesses reopening in China is a hopeful sign. Toyota's China plants are back on stream but at well below full throughput.



Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management

Market scorecard

Index (local currency)	Level	1 month	YTD	12 month
S&P 500	2,954.22	-8.4%	-8.6%	6.1%
Dow Industrials (DJIA)	25,409.36	-10.1%	-11.0%	-2.0%
NASDAQ	8,567.37	-6.4%	-4.5%	13.7%
Russell 2000	1,476.43	-8.5%	-11.5%	-6.3%
S&P/TSX Comp	16,263.05	-6.1%	-4.7%	1.7%
FTSE All-Share	3,673.61	-9.5%	-12.5%	-5.5%
STOXX Europe 600	375.65	-8.5%	-9.7%	0.8%
EURO STOXX 50	3,329.49	-8.6%	-11.1%	0.9%
Hang Seng	26,129.93	-0.7%	-7.3%	-8.7%
Shanghai Comp	2,880.30	-3.2%	-5.6%	-2.1%
Nikkei 225	21,142.96	-8.9%	-10.6%	-1.1%
India Sensex	38,297.29	-6.0%	-7.2%	6.8%
Singapore Straits Times	3,011.08	-4.5%	-6.6%	-6.3%
Brazil Ibovespa	104,171.60	-8.4%	-9.9%	9.0%
Mexican Bolsa IPC	41,324.31	-6.3%	-5.1%	-3.5%
Bond yields	**2/28/20**	**1/31/20**	**2/28/19**	**12 mo. chg**
US 2-Yr Tsy	0.913%	1.313%	2.514%	-1.60%
US 10-Yr Tsy	1.149%	1.507%	2.715%	-1.57%
Canada 2-Yr	1.155%	1.431%	1.780%	-0.63%
Canada 10-Yr	1.132%	1.273%	1.942%	-0.81%
UK 2-Yr	0.310%	0.504%	0.827%	-0.52%
UK 10-Yr	0.442%	0.524%	1.302%	-0.86%
Germany 2-Yr	-0.769%	-0.601%	-0.519%	-0.25%
Germany 10-Yr	-0.607%	-0.185%	0.183%	-0.79%
Commodities (USD)	**Price**	**1 month**	**YTD**	**12 month**
Gold (spot $/oz)	1,585.69	-0.2%	4.5%	20.7%
Silver (spot $/oz)	16.67	-7.6%	-6.7%	6.7%
Copper ($/metric ton)	6,486.50	1.2%	-8.6%	-14.3%
Uranium ($/lb)	20.90	-0.5%	-12.6%	-7.7%
Oil (WTI spot/bbl)	44.76	-13.2%	-26.7%	-21.8%
Oil (Brent spot/bbl)	50.52	-13.1%	-23.5%	-23.5%
Natural Gas ($/mmBtu)	1.68	-8.5%	-23.1%	-40.1%
Agriculture Index	273.20	-2.5%	-5.3%	2.8%
Currencies	**Rate**	**1 month**	**YTD**	**12 month**
US Dollar Index	98.1320	0.8%	1.8%	2.1%
CAD/USD	0.7467	-1.2%	-3.0%	-1.6%
USD/CAD	1.3407	1.3%	3.2%	1.8%
EUR/USD	1.1026	-0.6%	-1.7%	-3.0%
GBP/USD	1.2823	-2.9%	-3.3%	-3.3%
AUD/USD	0.6515	-2.6%	-7.2%	-8.2%
USD/JPY	107.8900	-0.4%	-0.7%	-3.1%
EUR/JPY	118.9900	-1.0%	-2.3%	-6.1%
EUR/GBP	0.8603	2.4%	1.7%	0.3%
EUR/CHF	1.0646	-0.4%	-1.9%	-6.2%
USD/SGD	1.3932	2.1%	3.5%	3.0%
USD/CNY	6.9920	0.7%	0.4%	4.5%
USD/MXN	19.6437	4.2%	3.8%	1.9%
USD/BRL	4.4720	4.4%	11.0%	19.0%

Coronavirus fears grew with more cases reported globally, sparking a worldwide selloff that saw all major global indexes fall to negative YTD.

Global selloff sent investors seeking "safe-haven" government bonds as the benchmark 10Y U.S. Treasury hit 1.149%, a record low.

Oil prices have plummeted as questions related to global demand have weighed on prices.

U.S. Dollar Index rallied for a second straight month against all major currencies including the EUR and JPY, which fell 0.6% and 0.4%, respectively, against the dollar.

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 0.74 means 1 Canadian dollar will buy 0.74 U.S. dollar. CAD/USD -1.6% return means the Canadian dollar has fallen 1.6% vs. the U.S. dollar during the past 12 months. USD/JPY 107.89 means 1 U.S. dollar will buy 107.89 yen. USD/JPY -3.1% return means the U.S. dollar has fallen 3.1% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 2/28/20.

Research resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC Wealth Management Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's investment advisors / financial advisors who are engaged in assembling portfolios incorporating individual marketable securities. The Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee, providing additional tactical and thematic support utilizing research from the RBC Investment Strategy Committee, RBC Capital Markets, and third-party resources.

Global Portfolio Advisory Committee members:

Jim Allworth – Co-chair; Investment Strategist, RBC Dominion Securities Inc.

Kelly Bogdanova – Co-chair; Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

Frédérique Carrier – Co-chair; Managing Director & Head of Investment Strategies, RBC Wealth Management, RBC Europe Limited

Mark Bayko, CFA – Head, Portfolio Management, RBC Dominion Securities Inc.

Janet Engels – Head of Portfolio Advisory Group U.S., RBC Wealth Management, RBC Capital Markets, LLC

Thomas Garretson, CFA – Fixed Income Senior Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Christopher Girdler, CFA – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Patrick McAllister, CFA – Canadian Equities Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – Equities, RBC Dominion Securities Inc.

Alan Robinson – Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group – U.S. Equities, RBC Capital Markets, LLC

Michael Schuette, CFA – Multi-Asset Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group – U.S., RBC Capital Markets, LLC

Alastair Whitfield – Head of Fixed Income – British Isles, RBC Wealth Management, RBC Europe Limited

The RBC Investment Strategy Committee (RISC) consists of senior investment professionals drawn from individual, client-focused business units within RBC, including the Portfolio Advisory Group. The RISC builds a broad global investment outlook and develops specific guidelines that can be used to manage portfolios. The RISC is chaired by Daniel Chornous, CFA, Chief Investment Officer of RBC Global Asset Management Inc.

Additional Global Insight authors:

Eric Lascelles – Chief Economist, RBC Global Asset Management Inc.

Required disclosures

Analyst Certification
All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures
In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

Non-U.S. Analyst Disclosure: Jim Allworth, Mark Bayko, Christopher Girdler, and Patrick McAllister, employees of RBC Wealth Management USA's foreign affiliate RBC Dominion Securities Inc.; Frédérique Carrier and Alastair Whitfield, employees of RBC Wealth Management USA's foreign affiliate RBC Europe Limited; Eric Lascelles, an employee of RBC Wealth Management USA's foreign affiliate RBC Global Asset Management Inc.; contributed to the preparation of this publication. These individuals are not registered with or qualified as research analysts with the U.S. Financial Industry Regulatory Authority ("FINRA") and, since they are not associated persons of RBC Wealth Management, they may not be subject to FINRA Rule 2241 governing communications with subject companies, the making of public appearances, and the trading of securities in accounts held by research analysts.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2 to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 60 South Sixth St, Minneapolis, MN 55402.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Distribution of Ratings
For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets, LLC ratings of Top Pick/Outperform, Sector Perform, and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Explanation of RBC Capital Markets, LLC Equity Rating System
An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Distribution of Ratings - RBC Capital Markets, LLC Equity Research
As of December 31, 2019

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Top Pick & Outperform]	765	51.97	225	29.41
Hold [Sector Perform]	625	42.46	127	20.32
Sell [Underperform]	82	5.57	5	6.10

Ratings: Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio. **Outperform (O):** Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. **Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

Risk Rating: The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Risks to Rating and Price Target
When RBC Wealth Management assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Risks to Rating and Price Target", respectively.

The analyst(s) responsible for preparing this research report have received (or will receive) compensation that is based upon various factors, including total revenues of RBC Capital Markets, LLC, and its affiliates, a portion of which are or have been generated by investment banking activities of RBC Capital Markets, LLC and its affiliates.

Other Disclosures
Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management or a designated third party will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our website at https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2. Conflicts of interests related to our investment advisory business can be found in Part 2A Appendix 1 of the Firm's Form ADV or the RBC Advisory Programs Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part 2A Appendix 1 of the Form ADV, or the RBC Advisory Programs Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; by RBC Investment Services (Asia) Limited, a subsidiary of RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Hong Kong, China; by Royal Bank of Canada, Singapore Branch, a licensed wholesale bank with its principal office located in Singapore; and by RBC Europe Limited, a licensed bank with principal offices located in London, United Kingdom.

Third-party disclaimers
The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

Disclaimer
The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including

clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of Royal Bank of Canada in each instance. In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC. Additional information is available upon request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. ®Registered trademark of Royal Bank of Canada. Used under license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

RBC Wealth Management (British Isles): This publication is distributed by RBC Europe Limited and RBC Investment Solutions (CI) Limited. RBC Europe Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FCA registration number: 124543). Registered office: Riverbank House, 2 Swan Lane, London, EC4R 3BF, UK. RBC Investment Solutions (CI) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business in Jersey. Registered office: Gaspé House, 66-72 Esplanade, St Helier, Jersey JE2 3QT, Channel Islands, registered company number 119162.

To Hong Kong Residents: This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ('SFC'), and RBC Investment Services (Asia) Limited, which is regulated by the SFC.

To Singapore Residents: This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.