RBC Strategic Asset Allocation

Capital Market Assumptions

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Wealth Management

The 2024 edition of RBC Wealth Management's – U.S. (RBC WM) Long-Term Capital Market Assumptions (LTCMA).

At RBC WM our LTCMA and Strategic Asset Allocations (SAAs) provide the underpinnings that help form our investment advice.

Our LTCMA development process draws on the best thinking of investment professionals from RBC Global Asset Management (RBC GAM). RBC GAM employs multiple independent forecasting models from different investment teams within its organization. The various models incorporate valuation, macroeconomic scenarios, interest rate expectations, and capital asset pricing forecasts. The results from the models are collected, reviewed, and discussed by the RBC GAM Long-Term Returns Committee to arrive at the expected return assumptions. This methodology combines both objective and subjective elements to use dependable aspects of a data-driven approach and enable us to overlay our expert judgement in the process.

U.S. — 20 Year Capital Market Assumptions (%)

Asset classes	Expected return (geometric)	Expected return (arithmetic)	Standard deviation
US Inflation	2.5	2.5	-
U.S. Cash & Cash Alternatives	2.7	2.7	0.5
U.S. Government Fixed Income	4.3	4.4	4.0
U.S. Tax Exempt Fixed Income	4.1	4.2	4.5
Tax Equivalent (rate assumes a 24% Federal tax rate)	5.4	5.5	4.5
U.S. Corporate Investment Grade Fixed Income	5.3	5.5	6.3
U.S. Corporate High Yield Fixed Income	6.5	6.9	9.3
International Fixed Income	3.8	3.9	4.5
Emerging Markets Fixed Income	6.1	6.6	10.5
Alternative Fixed Income	4.7	4.8	5.0
U.S. Large Cap Equity	7.7	8.8	15.0
U.S. Mid Cap Equity	9.6	11.2	18.0
U.S. Small Cap Equity	10.8	12.8	20.0
International Equity	8.1	9.6	17.0
Emerging Markets Equity	9.9	11.9	20.0
Alternative Equity	6.0	6.3	8.0
Real Assets	7.2	8.0	13.0

Asset class definitions

Cash & Cash Alternatives

Cash & Cash Alternatives — Investments of high liquidity and safety with a known market value and a very short-term maturity. Examples are Treasury bills and money market funds. Money markets are not federally guaranteed, and you may lose money. If Treasury bills are sold prior to maturity, you may lose money.

Fixed Income

U.S. Government Fixed Income — Federal, State and Municipal, and Government Agency bonds rated Baa3 (Moody's) or BBB- (Standard & Poor's) or higher.

U.S. Tax Exempt Fixed Income — A sector of fixed income market in which the income produced is not subject to federal, state, and/or local taxes.

U.S. Corporate Investment Grade Fixed Income — Taxable bonds rated Baa3 (Moody's) or BBB- (Standard & Poor's) or higher. Considered to have adequate to high ability to pay principal or interest. These bonds may also be called investment grade bonds.

U.S. Corporate High Yield Fixed Income — Bonds rated Ba1 (Moody's) or BB+ (Standard & Poor's) or lower. These are considered to have a greater default risk than investment grade bonds and offer enhanced interest payments to compensate for the greater risk. These bonds may also be called speculative grade bonds, junk bonds, or non-investment grade bonds.

International Fixed Income — Government and corporate bonds invested in developed countries throughout the world. Requires an investor to be alert to trends in foreign currencies as well as movements in foreign markets.

Emerging Markets Fixed Income — Government and corporate bonds from developing (emerging) countries throughout the world. Requires an investor to be alert to illiquid markets and movements in foreign currencies.

U.S. Equity

U.S. Large Cap Equity — Equity securities of large capitalization companies. Value and growth characteristics are similar in strength.

U.S. Mid Cap Equity — Equity securities of medium-sized capitalization companies. Value and growth characteristics are similar in strength.

U.S. Small Cap Equity — Equity securities of small capitalization companies. Value and growth characteristics are similar in strength.

International Equity

International Equity — Equity securities invested in developed countries throughout the world. This requires an investor to be alert to trends in foreign currencies as well as movements in foreign markets.

Emerging Markets Equity — Equity securities invested in developing (emerging) countries throughout the world. Requires an investor to be alert to illiquid markets and movements in foreign currencies.

Alternative investments

Real Assets — Examples include metals, commodities, real estate, REITs, agricultural land, and oil. Real assets often get their value from physical assets; however, commodity exposure is commonly made through futures contracts, whereby the buyer of the contracts agrees to purchase a commodity on a certain date for a specified price. Real assets may have liquidity restrictions and other risks.

Alternative Fixed Income — Investments in alternative strategies that target lower-volatility returns similar to traditional fixed income strategies. Examples may include diversified funds of hedge funds, arbitrage, relative value, and credit strategies. Alternative strategies often have liquidity restrictions and other risks that may not be reflected in their return volatility.

Alternative Equity — Investments in alternative strategies that target higher-volatility returns similar to traditional equity strategies or that are deemed to be higher risk. Examples may include long-short equities, managed futures, global macro and leveraged strategies. Alternative strategies often have liquidity restrictions and other risks that may not be reflected in their return volatility.

Key terms

Asset class — A standard term that broadly defines a category of potential investments.

Standard deviation — In statistics, standard deviation is a measure of the amount of variation or dispersion of a set of values. A low standard deviation indicates that the values tend to be close to the mean of the set, while a high standard deviation indicates that the values are spread our over a wider range. In finance, when applied to the annual rate of return of an investment, sheds light on the historical volatility of that investment. The greater the standard deviation the more volatility the investment.

Expected return (geometric) — The expected return (geometric) rates are forward-looking projection based on methodology that combines both objective and subjective elements to use dependable aspects of a data-driven approach and enable us to overlay expert judgment in the process. Geometric differs from arithmetic in how it's calculated because it takes into account the compounding that occurs from period to period. Geometric returns are influenced by volatility of the investment; whereas arithmetic are not.

Expected return (arithmetic) — The expected return (arithmetic) rates are forward-looking projections based on methodology that combines both objective and subjective elements to use dependable aspects of a data-driven approach and enable us to overlay expert judgment in the process. Arithmetic differs from geometric in how it's calculated because it does not take into account the compounding that occurs from period to period. Geometric returns are influenced by volatility of the investment; whereas arithmetic are not.

These capital market assumptions are subject to change. While historical returns have been used as part of the input to generate these assumptions, past performance may not reflect and does not guarantee future performance. Estimated expected return rates should not be construed as projecting actual returns of your specific investments.

This information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor.

Any analysis is based on assumptions that can change. You and your Financial Advisor should periodically review your financial situation to take into account changes in your objectives and your expectations of general economic conditions.

International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

Investing in high yield bonds can involve significant credit risk, default risk and price volatility and may not be suitable for all investors. Payment of interest and principal is not assured. Therefore, when appropriate, these bonds should only comprise a modest portion of your portfolio.

Investing in alternative investments may be speculative and not suitable for all clients and intended for investors who are willing and able to bear the unique risks of the investment. Investors should consider whether such investments are suitable in light of their individual financial situation.

Some of the investments discussed herein involve substantial risk and may not be suitable for everyone. Investors should seriously consider whether such trading is suitable in light or their individual financial situation. The valuation of these investments may fluctuate, and as a result, you may lose more than your original investment.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the funds. Prospectuses containing more complete information, including investment objective, risks, fees and expenses, are available by calling your Financial Advisor. Please read it carefully before investing or sending money.

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