GLOBAL Insight

Wealth Management

Perspectives from the Global Portfolio Advisory Committee

April 2024

High expectations

Most major equity markets have moved to new high ground, propelled by expectations for interest rate cuts. But we are not out of the woods yet.

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GLOBAL

Insight

April 2024

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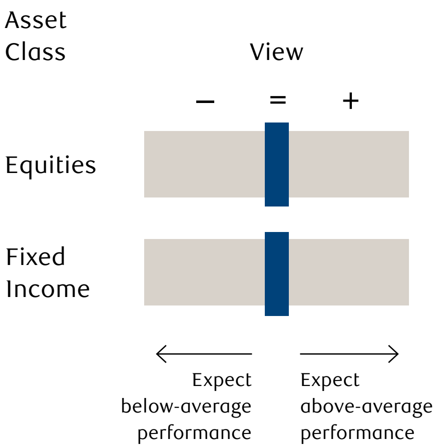

(+/=/–) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

+ 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.

Source - RBC Wealth Management

Equities

- We remain committed to equities and would assign a Market Weight position to global equities in a balanced portfolio. The S&P 500's valuation of 23x last twelve-month earnings is elevated, but that doesn't mean there won't be more new highs to come in the months ahead, in our view. Valuations could become even richer. While a correction can never be ruled out, some of the usual precursors of bear markets, especially a deterioration in market breadth, are not yet in evidence.
- While we remain constructive, we are also watchful as some leading economic indicators suggest the probability of encountering a recession remains uncomfortably high. Investors should probably not regard the first Federal Reserve interest rate cut, when it eventually arrives, as an "all clear" signal for the economy. With this in mind, we would tilt portfolios toward higher-quality equities.

Fixed income

- Global bond yields have been volatile to begin 2024, with the average yield on the Bloomberg Global Aggregate Bond Index trading as high as 3.85% and as low as 3.50%, ending March at 3.70%. Global inflationary pressures continue to improve, but concerns that progress has stalled of late has caused markets to price out near-term rate cuts; however, modest cuts from major central banks are still expected by this summer. Though yields today have dropped dramatically from the highs of late 2023, they remain well above the averages of the past 20 years and continue to present relatively attractive entry points. Still, we continue to exercise caution and patience over the near term as yields could retrace higher until the timing and magnitude of central bank policy easing come into greater focus.
- We stay Market Weight U.S. fixed income with yields remaining above multi-decade averages. While economic risks have subsided in the U.S., global recession risks remain somewhat elevated and credit valuations remain rich, in our view. Therefore, we broadly remain Underweight corporate credit with a slight bias toward government bonds.

MONTHLY
Focus

High expectations

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Key points

- **The major stock indexes have moved to new high ground accompanied by measures of market breadth suggesting this advance has further to run.**
- **At 23x earnings, the S&P 500 has already made a sizable downpayment on several Fed rate cuts.**
- **Central banks will have to balance policy for some time yet to push inflation sustainably lower without tipping the economy into recession.**

It appears equity investors see clear sailing ahead. The S&P 500 and most other major indexes are at or have recently set new highs. And market "breadth" has led the way. Both the S&P 500 unweighted index and the S&P 500 advance-decline line have also reached all-time new high ground indicating that most stocks in the index have been moving in the same direction as the index. In other words, it's not just the so-called "Magnificent 7" that has been driving the large-cap index higher.

This is also good news from a "major trend" point of view. Breadth typically deteriorates and turns lower months before the stock market hits its final peak and rolls over into a bear market. No such negative divergence has appeared yet.

While S&P market valuation at 23x last-twelve-months earnings—the same multiple that prevailed at the previous new high in early 2022—is elevated, there is nothing to say that stocks couldn't get even more richly priced in the coming months. There are plenty of examples where market P/E multiples moved well beyond most investors' comfort zone.

In our view, one of the prime driving forces behind the broad market up-leg underway since the October lows has been a growing conviction the first Federal Reserve rate cut would arrive some time in the first half of this year. Recently the idea rate cuts are coming within a few months has been endorsed by the Fed itself. The stock market usually pays ahead of time for conditions it is confident will prevail over the coming six to 12 months. But it rarely pays a second time once the anticipated policy change or earnings growth arrives.

Meanwhile, it is possible the Fed will have to change its mind between now and summer. We note that cold water has been dashed on expectations for a Fed rate cut several times in this cycle, adding to the considerable prior evidence that financial markets are poor forecasters of where the Fed will take rates six to 18 months ahead, as is the Fed itself.

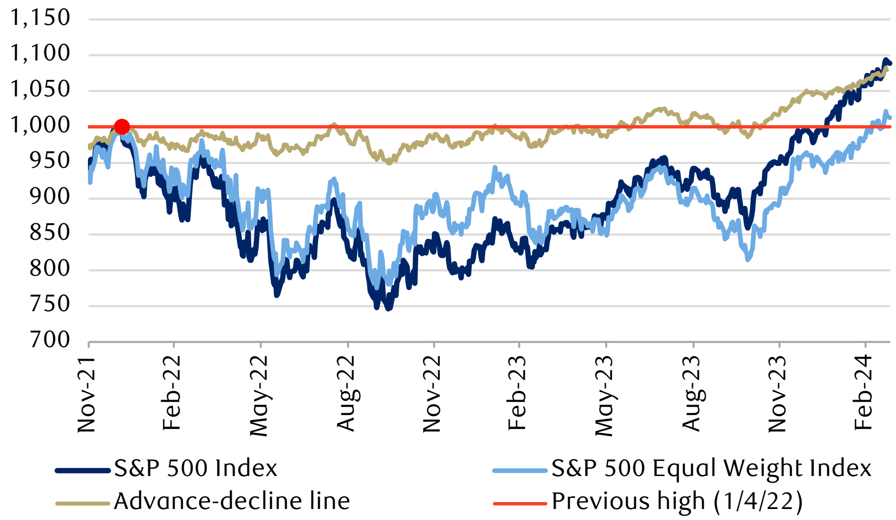
What the Fed needs to see

The non-negotiable condition, in our view, would be that the inflation rate moves closer to the Fed's two percent target and appears capable of sustaining or bettering that level. Most forecasts reflect that happening

HIGH EXPECTATIONS

All together now

It's more than just "magnificent"



Not only has the market-capitalization-weighted S&P 500 Index reached a new all-time high, so too have the S&P 500 Equal Weight Index and the advance-decline line.

Note: Data series indexed to 1,000 on 1/4/22, the date of the previous S&P 500 high.

Source - RBC Wealth Management, FactSet, stockcharts.com; data through 3/25/24

despite some recent price "stickiness" and the rebound in energy prices. RBC Global Asset Management estimates U.S. inflation will come in at 2.8 percent this year and 2.3 percent next.

Housing costs comprise the largest weight in the U.S. inflation equation where they tend to lag actual rents by roughly a year. The Zillow Observed Rent Index fell sharply for 16 months into August 2023, suggesting the housing contribution to the overall inflation rate could go on shrinking into this summer. As of February 2024, the U.S. Consumer Price Index ex Shelter was running at just 1.8 percent year over year.

Also welcome would be the emergence of some excess capacity in the economy, especially in the labour market, enough to give the Federal Open Market Committee confidence that cutting interest rates wouldn't quickly re-ignite another inflation surge. Some economic series have been pointing to a weakening overall employment picture:

- Temporary employment in the U.S. has been falling steadily for 24 months. Weakness in temporary employment usually precedes a downturn in permanent employment. Faced with more workers than they need, employers shed temporary workers before permanent ones;
- Notwithstanding the point above, the number of unemployed persons who lost permanent positions is up 23 percent over the past year;
- Average hours worked per employee in the private sector has trended lower for almost three years and is now at levels last seen in the pandemic collapse and before that in the global financial crisis;

HIGH EXPECTATIONS

- The National Federation of Independent Business reports that its small-business-plans-to-hire sub-index, in a downtrend for two-and-a-half years, slumped to another new cycle low in February; and
- While the closely watched Nonfarm Payroll additions apparently pushed total employment up by a robust 2.8 million (+1.8 percent) over the past 12 months, the Household Survey, which includes the self-employed and other under-reported categories, estimated total employment increased by a much more subdued 667,000 (+0.4 percent) over the same period.

What is the Fed likely to do? In our view, if inflation resumes its downward path, as most expect, then a rate cut should arrive by early summer. And if the economy and employment picture weaken enough to produce a sustained rise in unemployment claims and the unemployment rate, additional rate cuts will likely follow.

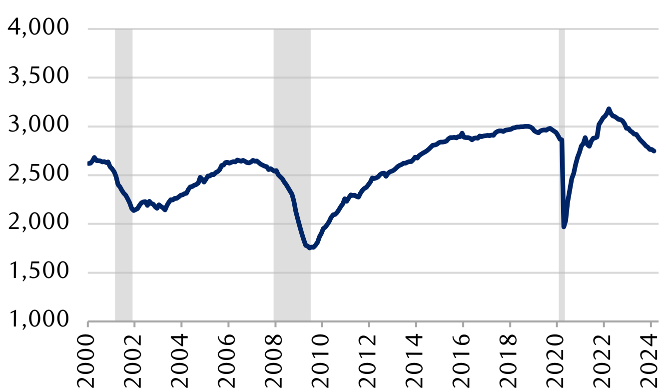
This leaves investors watching while the Fed and other central banks try to balance policy in a way that simultaneously weakens the economy enough to bring inflation down further and keep it there but not enough to set off a job-destroying recession. It is a tough ask—even if monetary policy shifts produced their intended results immediately, which they don't.

Selected U.S. employment data

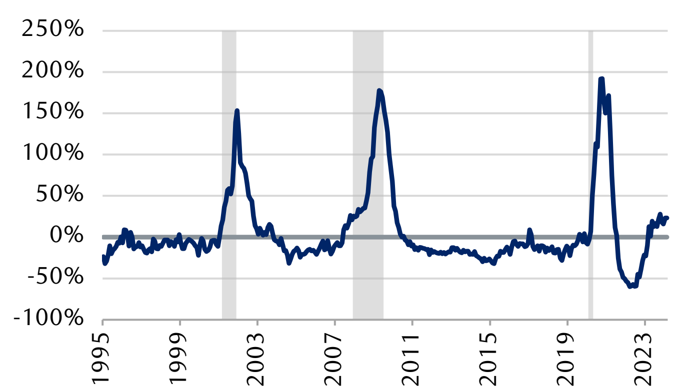
Note: Shaded areas in the charts below indicate U.S. recessions; seasonally adjusted monthly data through February 2024, except percentage of workforce leaving jobs voluntarily through January 2024.

Source - U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

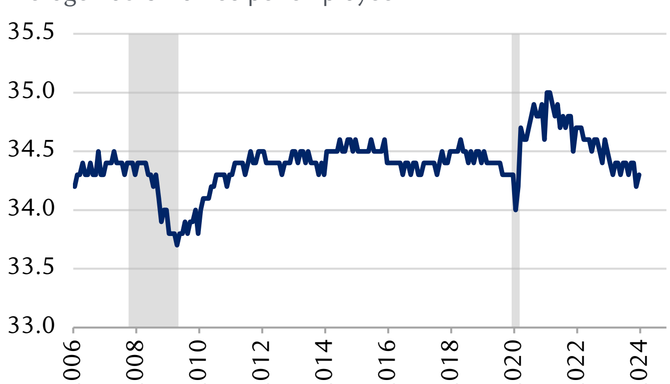
Temporary employment (thousands)



Year-over-year percentage change in number of unemployed persons who have lost permanent positions



Average hours worked per employee



Percentage of workforce leaving their jobs voluntarily

HIGH EXPECTATIONS

Changes in policy interest rates are thought to take six to 18 months to show up fully in economic activity. Arguably the U.S. economy is still contending with the depressive effects of the 100 basis points of rate increases put in place in the first half of last year. Correspondingly, any positive impact of cuts made later this year wouldn't be expected to fully show up much before mid-2025 or later.

Aside from the fact that at 23x earnings the market has already made a big down payment on the first few Fed rate cuts, investors should probably not regard the first cut, when it eventually arrives, as an "all clear" signal for the economy. In eight of the 10 recessions since the early 1950s the Fed had already started cutting the fed funds rate before the recession began.

Go with the "Mo"

The fact that all major equity markets (except China's) have made it into new high ground and that U.S. price-to-earnings multiples, in particular, are elevated doesn't mean there won't be more new highs to come in the months ahead. It is always the case that a correction could arrive unannounced. But approaching bear markets are usually signaled ahead of time by a breakdown in breadth where a smaller and smaller number of large-cap favorites push the index higher even as more and more stocks fall into downtrends.

We remain committed to equities but are watchful. Equity markets are exhibiting sustained upward momentum that may deliver further new highs in the coming weeks and months. Corrections cannot be ruled out, but some important precursors of bear markets are not yet in evidence.

We still regard the probabilities of a recession arriving as high enough that they should be reflected in stock selection.

Regional equity perspectives

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We remain committed to equities but are watchful. They are exhibiting sustained upward momentum that may deliver further new highs in the short term. Yet given the strength of the recent rally, corrections can't be ruled out. For a full account of our thinking, see this month's focus article, "High expectations."

United States

- While technology-oriented stocks rallied again in Q1, S&P 500 performance has broadened out since the low in late October 2023. Financials, Industrials, and Materials—diverse economically sensitive sectors—have risen 24% or more since then. As the chart shows, their gains are up there with the three sectors boosted by the so-called Magnificent 7 stocks: Information Technology, Communication Services, and Consumer Discretionary. We view this as a healthy sign.

- Since late October, in addition to enthusiasm for the prospects of artificial intelligence, the market has been driven by solid Q4 earnings results combined with optimism about 2024 profit growth. It also has been supported by sturdy economic data and declining inflation, along with investor anticipation that the Federal Reserve will start cutting interest rates at some point this year.

Equity views

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

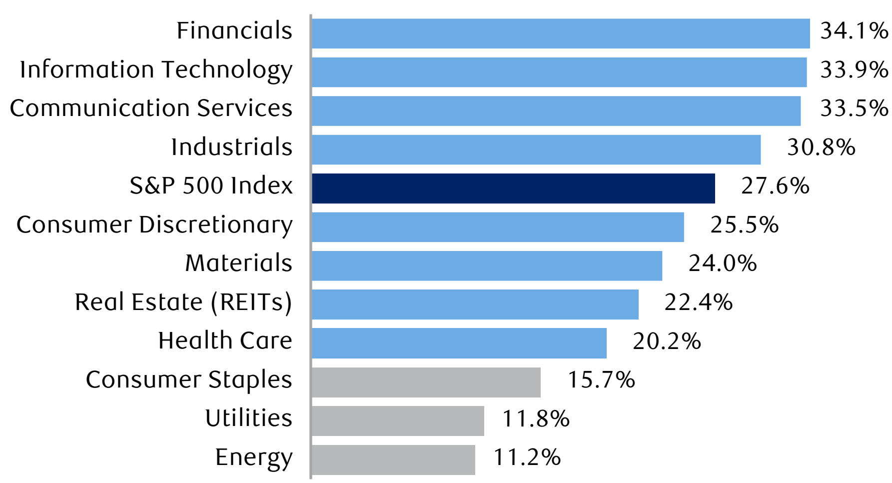
+ Overweight; = Market Weight; – Underweight
Source - RBC Wealth Management

- But we think this is no reason to throw caution to the wind. The S&P 500's recent surge ranks with some of the biggest moves within a short time frame in market history. Valuations are above average and stretched, in our assessment, and typically don't stay at such levels for long periods of time. A pullback can't be ruled out. But precursors of bear markets—lofty investor sentiment and declining market breadth—are not yet in evidence.

- We think these factors, in addition to lingering recession risks, should be reflected by maintaining Market Weight positioning in U.S. equities with a watchful eye on market trends.

A broad group of sectors has delivered 20%+ returns

S&P 500 Index and sector returns since the 10/27/23 market low



Source - RBC Wealth Management, Bloomberg; data through 3/31/24; price returns (not including dividends)

REGIONAL EQUITY PERSPECTIVES

Canada

- Recession remains our base-case scenario over the next 12 months as higher rates impact housing, business investment, and consumer spending. Government bond yields have retreated from their October peak, while ongoing disinflation should permit the Bank of Canada to consider rate cuts in the second half of the year. Lower rates would help cushion the payment shock for indebted households, in our opinion.

- Nowhere is the cautious outlook more apparent to us than in bank stocks, which have underperformed the broader equity market over the past two years as loan growth has slowed, margins have compressed, and consensus expectations for credit losses have mounted. We have suggested in the past that income-focused investors with a long-term horizon might find an opportunity in banks. We believe we may be approaching an inflection point where an outlook that starts to look "less bad" coupled with attractive valuations may likewise present opportunities for total-return-oriented investors.

- Canadian energy producers continue to return a substantial portion of their free cash flow to investors via dividends and share buybacks, a trend we expect to continue for the remainder of the year. A protracted recession would pose a risk to energy prices, in our opinion, but we believe Canadian producers are better positioned than ever to navigate a period of depressed commodity prices thanks to their lower debt loads and capital discipline.

United Kingdom

- We downgraded UK equities to Underweight from Market Weight in March despite the low valuation, as it is difficult for us to see a catalyst that can sustainably unlock this value.

- General elections to be held sometime this year could provide much needed political stability, in our view, and lead to a more constructive relationship with Europe, including cooperation in areas of mutual interest. But the latter would take many months—perhaps years—to achieve.

- UK equities have suffered severe outflows since the 2016 Brexit vote, and this looks unlikely to reverse, in our assessment. Domestic retail investors now have access to high-interest savings accounts and tax-free Gilts. The share of domestic equities held in UK pension funds has decreased to 10%, down from more than 35% 20 years ago.

- Private equity firms and the corporate sector, attracted by the low valuations, have stepped up their acquisitions of UK businesses, but that has paradoxically diminished the number of UK-listed companies on offer to investors. The share of UK equities in the MSCI All Country World Index has dwindled to less than 4%, versus 11% two decades ago.

- Given depressed valuations, the market could experience a bounce—perhaps once the Bank of England cuts interest rates. But overall, we see more attractive opportunities elsewhere, in markets which provide a better balance of growth and value stocks compared to the UK's bias to value and defensive sectors, or those where positive structural change is taking place, such as Japan.

Continental Europe

- We upgraded European equities to Market Weight from Underweight in March. The region narrowly avoided a recession in the second half of last year and economic activity seems to have troughed. The European Central Bank's (ECB) recent Bank Lending Survey points to lending conditions becoming much less tight, while real wage growth is improving amid falling inflation, though this hinges on labour markets remaining tight. With markets widely expecting the ECB to cut rates in June, we anticipate the region's economy to continue to stabilise in the coming months.

REGIONAL EQUITY PERSPECTIVES

- We note that the profile of the European equity market has changed significantly over the past decade. Higher-quality and higher-growth-oriented sectors, such as Technology, Health Care, Industrials, and Consumer Discretionary, now represent close to 60% of the MSCI Europe ex UK Index. As a result, the index's profitability, return on equity, earnings, and cash flow profiles have all improved.

- Valuations are not stretched, in our view, with European equities trading just above their long-term median forward PE ratio of 13.4x. Moreover, the region's P/E ratio relative to that of the U.S. ex Tech is at its lowest level since the EU sovereign debt crisis in 2011.

- Given the macro backdrop is tentatively improving, we continue to argue for a balanced approach to stock picking, pairing high-quality secular growers with selective exposure to more cyclically sensitive names.

- We favour the Technology sector—particularly mission critical software and semiconductor manufacturing equipment—Health Care, and Industrials names with exposure to the capital expenditure supercycles related to the themes of decarbonisation, deglobalisation (e.g., reshoring), and higher defence spending.

Asia Pacific

- China's economic data for January and February is tracking slightly better than consensus expected. Industrial production and fixed-asset investment growth have beaten consensus estimates thanks in part to two extra working days. Retail sales benefited from the Chinese New Year holiday travel. Without those additional days and after the holiday period, data strength could wane. We believe investors' concerns over the longer-term economic outlook remain.

- We suggest a Market Weight position in Chinese equities. We believe that stock selection and sector positioning are vital given current market conditions. The "state-owned enterprise (SOE) reform" theme and high-yield dividend stocks look attractive, in our view.

- Japan's Nikkei 225 Index posted new highs after three decades. We believe it was a symbolic moment together with the end of deflation. The Bank of Japan lifted interest rates for the first time in 17 years.

- We continue to favor Japan equities and suggest an Overweight position for several reasons. A sustainable 2% inflation target is in sight, which should enable companies to raise prices; renewed investment from friendshoring and onshoring should underpin economic activity; return-on-equity and shareholder returns are improving thanks to corporate governance reforms; domestic demand should recover thanks to high savings and further wage hikes; inbound tourism is strong thanks to the weak yen; and domestic retail inflows into the stock market should improve following the revamping of the Nippon Individual Savings Account scheme.

- MSCI Japan valuations remain undemanding when compared to other developed markets. Risks to our constructive views include slowing exports and a volatile yen.

GLOBAL

Fixed income

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The stage is set

Fixed income views

Region	Gov't bonds	Corp. credit	Duration
United States	+	–	3–7
Canada	+	=	3–7
Continental Europe	+	=	3–7
United Kingdom	+	–	3–7

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

Global central banks took center stage in March amid a flurry of highly anticipated policy meetings, but the U.S. Federal Reserve, for a change, largely took a backseat to it all.

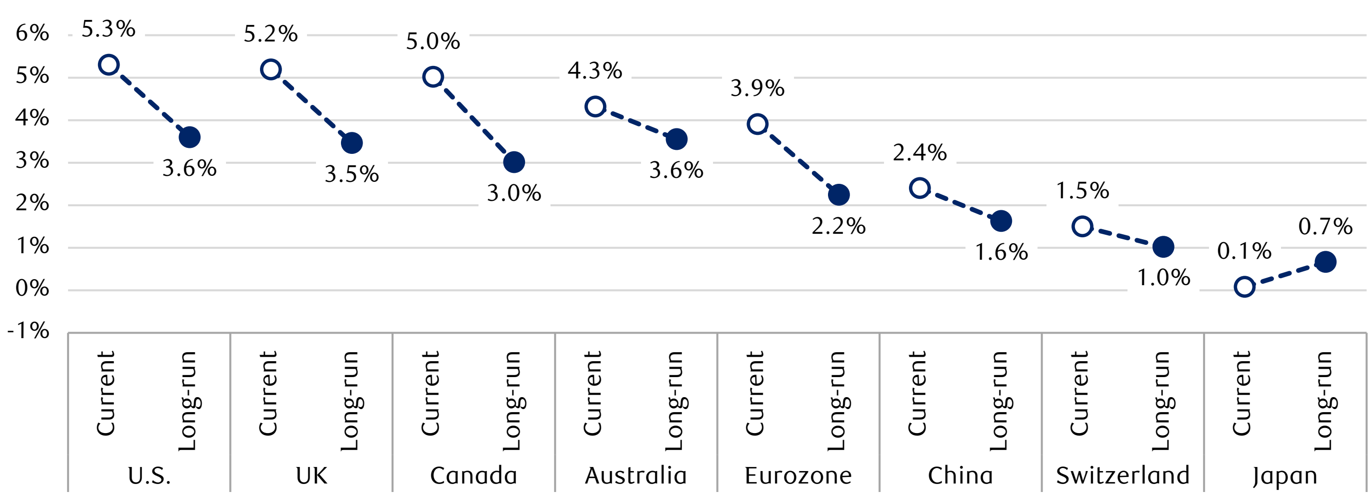
The Bank of Japan (BoJ) was first out of the gates, finally raising rates modestly and back into positive territory for the first time since negative interest rate policy was employed back in early 2016. That was paired with a curtailment of its yield curve control program, whereby the BoJ previously intervened in order to place a ceiling above longer-term yields—though policymakers noted that they stand ready to buy sovereign bonds as needed. A dovish hike if ever there was one. But the BoJ is almost alone in moving in a hawkish direction, even if only modestly so, as other central banks took surprising steps in the opposite direction.

The Swiss National Bank (SNB) caught markets off guard with a rate cut, the first G-10 central bank to do so, in an effort to ease pressure on its currency. While the SNB may be a smaller, and more insular, central bank, the Bank of England (BoE) also surprised with a dovish meeting. The remaining two BoE policymakers calling for rate hikes dropped their view, likely setting the stage for a first cut by August, in our view.

Similarly, the European Central Bank and the Fed both remain on track for June rate cuts, in our assessment. Investors' primary fear around the Fed's March meeting was that elevated U.S. inflation data in January and February could knock the central bank off its rate cut course. But we think policymakers largely delivered a message that recent data is likely just noise, keeping the focus on the significant progress made thus far on inflation.

As central banks edge closer to rate cuts, how far might they cut this cycle?

Current and market-implied future policy interest rates



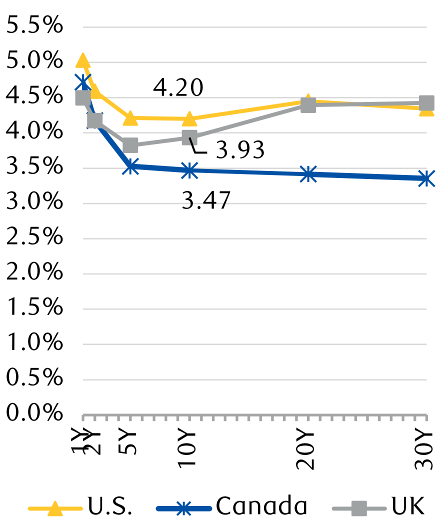
Source - RBC Wealth Mangement, Bloomberg; long-run market-implied policy rate based on 3-year forward contract data

GLOBAL FIXED INCOME

Though much of the market's focus remains on when rate cuts start, we see the issue of when they stop as of increasingly greater importance. The Fed's March meeting highlighted this topic. Policymakers at the Fed have long thought the so-called neutral rate of interest for the U.S. economy is 2.5%. But that projection ticked higher to roughly 2.75% in March. Though modest, we think that's the start of the Fed gradually raising its view that policy rates could remain higher on a longer-term basis. While Fed policymakers see cuts to around 2.75%, markets think it could be closer to 3.75%. Globally, this is also a theme. The chart on the previous page shows where market pricing suggests longer-term rates could be for major central banks at the end of cutting cycles, with most expected to finish above 3%.

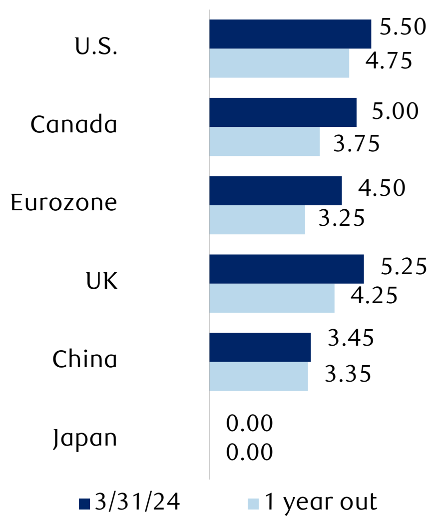
This idea of earlier but shallower rate cuts should raise the floor for how low sovereign yields could fall this cycle. But with rate cuts still in the offing, the ceiling for how far yields could rise from here is also likely lower.

Sovereign yield curves



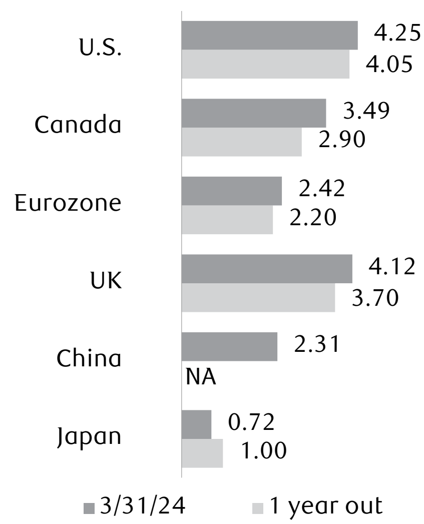
Source - Bloomberg; data through 3/31/24

Central bank rates (%)



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

10-year rates (%)



Note: Eurozone utilizes German Bunds.
Source - RBC Investment Strategy Committee, Global Portfolio Advisory Committee, RBC Global Asset Management

Regional fixed income perspectives

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United States

- The Federal Reserve remains on track to begin the process of dialing back policy rates as early as this summer, largely due to the progress made on the inflation front over the past year even if recent inflation data has been slightly higher than the Bloomberg consensus expectation. At its March meeting, the Federal Open Market Committee continued to project three 25 basis point rate cuts this year, and three in 2025.

- While much of the recent focus has been on when the Fed might start cutting rates, more important, in our view, is the level at which the Fed stops cutting rates this cycle. Here there remains a rather large disconnect. In the Fed's view and based on its March projections, that level could be around 2.75% this cycle; market-based expectations are closer to 3.75%; RBC Capital Markets' forecasts suggest it could be just north of 4.00%.

- If Fed rate cuts prove to be shallower than in recent economic cycles, that could place a floor under longer-term Treasury yields. The benchmark 10-year Treasury yield, which is sensitive to economic growth and inflation expectations, is seen by RBC Capital Markets rising gradually through 2025 from current levels, and in the opposite direction of short-term rates, to 4.30%. Rate cuts this year and next should support a better economic outlook, and fuel a longer economic expansion, driving longer-term yields higher even as the Fed lowers rates.

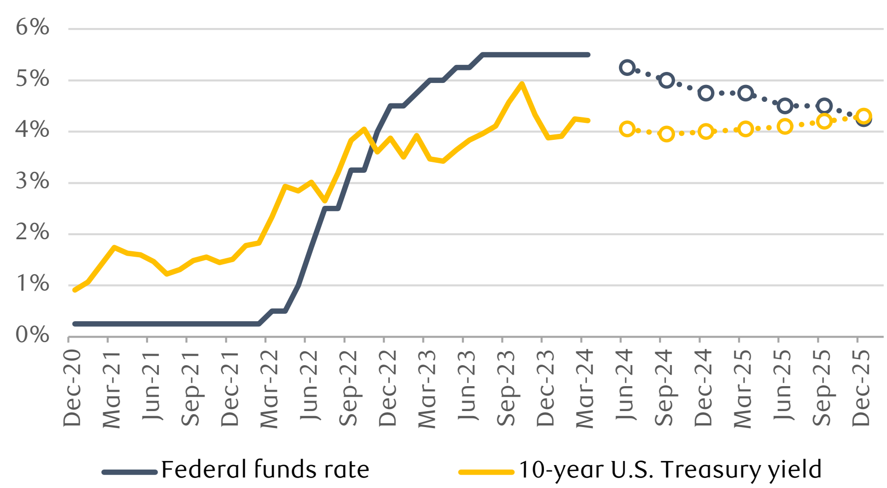
- Amid looming potential Fed rate cuts, and the related economic optimism, pricing in credit markets is now at historically rich levels. Corporate bonds, preferred shares, and municipal bonds offer yields that are atypically low relative to Treasury yields. Absolute yields on offer are still attractive, but we think investors should be wary of valuations. We would continue to upgrade quality in portfolios.

Canada

- Canada's economy is feeling the effects of higher interest rates with per capita real GDP trending lower and the unemployment rate rising by nearly one percentage point from its cycle lows. Inflation has been slow to respond to softening economic conditions, but the Consumer Price Index releases in the first two months of 2024 have been more encouraging. The Bank of Canada (BoC) believes monetary policy is sufficiently

Four may be the floor

RBC Capital Markets forecasts suggest key rates and yields could hold above 4% this cycle



Note: Dotted lines represent RBC Capital Markets forecasts as of March 2024.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg

REGIONAL FIXED INCOME PERSPECTIVES

restrictive but needs more time to have its full effects and get inflation back to 2% on a sustained basis. The BoC has suggested it is too early to begin discussing lowering interest rates, but we think the conversation will shift in that direction given recent inflation data, with rate cuts potentially beginning around midyear.

- Longer-duration bonds typically perform well during a monetary easing cycle, although a relatively shallow path for rate cuts and the end of a multi-decade secular decline in long-term yields make the case for duration less clear cut. We still see some value in locking in today's cyclically high yields for longer, and duration could outperform if the economy slows by more than we expect.

- In recent months, credit spreads have become tighter than their long-term average despite a still-challenging economic outlook. We have become more cautious on credit exposure with a preference for higher-quality names and reduced spread duration to mitigate any potential losses on spread widening. Tighter spreads have supported the Canadian preferred share market, where we continue to see good medium-term value.

Continental Europe

- The European Central Bank's (ECB) next monetary policy move is highly dependent on the outcome of the Q1 wage data to be released at the end of April. Our base case calls for the first interest rate cut to occur in June and for the deposit rate to reach 3.25% by year's end, compared to the market expectation of 3% for the same period. Though there are signs the eurozone's economic activity is bottoming out, risks of a prolonged slowdown remain, in our view. RBC Capital Markets forecasts flat growth in Q1, before modestly recovering to a 0.2% q/q uptick in Q2. If growth deteriorates, we expect the ECB to deliver more cuts to stimulate the economy. Conversely, if the wage and inflation data persistently surprise to the upside, the central bank may hesitate to deliver the 75 basis points of cuts we currently forecast in 2024.

- We maintain a Market Weight position in euro area sovereign bonds, albeit with a near-term Overweight bias. Among the lower-rated periphery nations, we see value in Greece and Spain, while for higher-rated issuers we favour Ireland and the European Union.

- On a one-year basis, spreads on the overall European corporate credit index look tight, though the spread compression has been dominated by financials, which constitute around 50% of the index. We prefer nonfinancial corporate debt as spreads in a majority of these sectors are at or near the top of the one-year range, thus offering more attractive opportunities, in our view. That being said, we remain cautious and selective, with a Market Weight stance in 3- to 5-year corporate bonds.

United Kingdom

- The Bank of England's (BoE's) narrative is that all "meetings are in play" and policy will "remain restrictive" even if cuts commence. To start to cut rates, BoE Governor Andrew Bailey has stated that the Monetary Policy Committee (MPC) just needs to have "confidence" of progress in the three key areas of focus: services inflation, wage growth, and labour market tightness. Targets do not necessarily need to be met.

- We think the MPC needs a few more inflation and labour data sets to chew on before easing policy, thus May seems too soon and our base case is for the first cut to be delivered in August. That being said, we think June remains a real possibility for an initial cut given the quick pivot from the hawks in March and subsequent removal of their hiking bias, paired with the data evolution against the BoE's forecasts. Markets have priced in a 50% and 58% chance of a cut in June and August, respectively, and for the Bank Rate to reach around 4.50% at year's end.

REGIONAL FIXED INCOME PERSPECTIVES

■ Despite an increase in Gilt issuance following the fiscal budget, demand at auctions remains robust, and we maintain our modest overweight in Gilts. Credit spreads have not been immune to the "sugar rush" in assets with higher risk. They have compressed and are at the bottom of the one-year range. At current spread levels, the risk of mean-reversion and widening is high. Consequently, we prefer higher-quality non-cyclical issuers.

Asia Pacific

■ China's housing market has turned weaker since the start of the year. Persistent weak home demand potentially spreading towards sizable developers, which have so far enjoyed better credit quality, remains a major concern. Property sales for surviving property developers (those that have yet to default on their bonds) fell by 60% y/y on average in February, and an equally worrying trend has been observed for state-backed property developers. Though some of the fall could be attributed to the timing of the Chinese New year, the People's Bank of China recently announced the largest ever cut made to the five-year loan prime rate to help improve housing affordability. However, this is unlikely to spur a turnaround in property sales. A sustained recovery in the housing sector requires demand to recover, which in turn requires a constructive view on property prices. This remains elusive as property prices continue to fall.

■ We take comfort in the knowledge that the damage to Asia credit fundamentals is highly concentrated in select sectors such as China real estate. We believe this is likely to remain the case for the remainder of the year. We have a more constructive view for the rest of the Asia credit universe and expect credit spreads to remain supported by robust net redemptions and improving credit profiles.

Commodities

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Crude oil

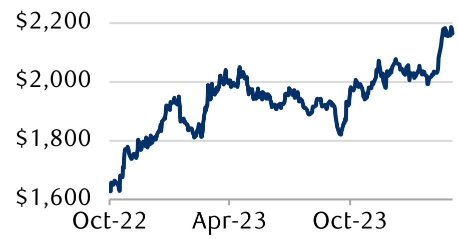
Chinese crude imports were tepid in early 2024 but rose significantly in March, marking the strongest shipments since December. In conjunction, improving Chinese economic stability and increased prospects of a soft landing for the U.S. economy present upside to global crude prices, in our view. RBC Capital Markets is projecting a balanced market in 2024.

Natural gas

Natural gas prices have fallen over 25% on a trailing one-year basis. A few producers have pointed to production cuts. This could assist in working through existing U.S. inventories, which remain above five-year averages. Furthermore, the potential for warmer-than-expected summer months could drive demand and be a near-term catalyst on price, according to RBC Capital Markets.

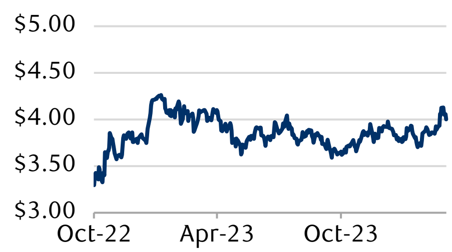
Gold

Gold prices climbed year to date supported by strong demand from central banks, which pushed global net purchases near the 2022 records. Additionally, RBC Economics believes interest rates have peaked and projects them to be lower in the second half of 2024. Overall, we see this as supportive of higher prices due to gold's negative correlation to real interest rates.



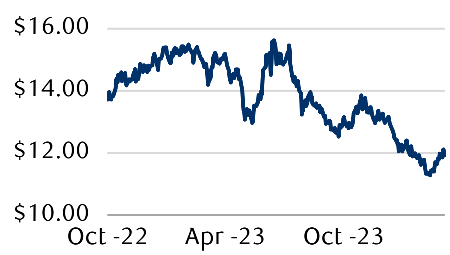
Copper

Copper prices have bounced off their one-year lows but remain off the highs seen in 2022. The bounce was driven in part by tighter global supplies, which should support near-term prices, in our view. We believe a pullback in the U.S. dollar and improving Chinese economic data could be catalysts for the balance of the year.



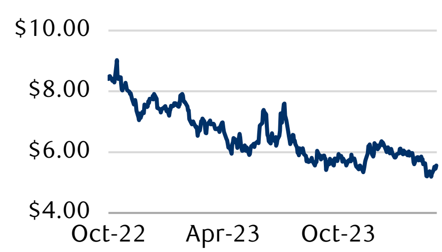
Soybeans

Unfavorable weather conditions in Brazil and increased export demand are placing downward pressure on global ending inventories for the 2023/24 season. While stocks have been depleted, they remain the second largest on record. The USDA has increased its estimate of Chinese imports and this should, in turn, provide a stronger floor to soybean prices through year's end, in our view.



Wheat

The U.S. Department of Agriculture's (USDA) global wheat outlook is calling for greater supply and consumption. Despite recent estimates of near record output thanks to rising global production, ending stocks will likely remain at multiyear lows due to increased global consumption forecasts. We believe this should be supportive of higher year-end wheat prices.



Commodity forecasts

Commodity	2024E	2025E
Oil (WTI $/bbl)	79	75
Natural gas ($/MMBtu)	2.93	3.48
Gold ($/oz)	2,020	2,140
Copper ($/lb)	4.25	4.50
Soybeans ($/bu)	12.80	13.00
Wheat ($/bu)	6.15	6.15

Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (soybeans and wheat); data as of 3/21/24

Chart source - RBC Wealth Management, Bloomberg; data range 10/19/22–3/22/24

Currencies

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U.S. dollar: Range-trading with an upside bias

The U.S. dollar rose in the first two months of 2024, as investors pared back their expectations of an early interest rate cut from the Federal Reserve. Hints of softness in the labour market weakened the dollar at the start of March, but the greenback recovered after the Consumer Price Index report in mid-March showed inflation remaining sticky. We expect the U.S. Dollar Index to trade within its recent 102–105 range in Q2, with a bias to end H1 at the upper end of the range.

Euro: ECB likely to cut rates in June

Improving economic data in the eurozone appears to have diminished some of the bearish views held by many market observers at the start of 2024. RBC Economics expects both the European Central Bank and the Fed to cut interest rates in June, leaving the EUR/USD pair in a neutral 1.07–1.11 range.

Canadian dollar: Range-bound around 1.35

The Bank of Canada's March policy meeting offered no surprises, with the overnight rate left at 5% despite Canada's inflation rate in January slowing more than the BoC expected. We expect the USD/CAD pair to trade sideways in Q2, with RBC Capital Markets strategists expecting a 1.31–1.36 range and broad USD moves as a key driver on the pair.

British pound: BoE to cut after the Fed

The pound has been the top performer among G-10 currencies in Q1 so far, helped by positive economic data surprises in the UK in January. RBC Economics expects the Bank of England to start cutting rates in August, a later start than expected for the Fed, which should potentially give some support to the GBP/USD pair. RBC Capital Markets notes, however, that the pound is vulnerable to a deterioration in UK economic data, which has come in more mixed lately, and expects GBP/USD to ease to 1.24 towards the end of the year.

Japanese yen: Weaker on interest rate differentials

The Bank of Japan ended its negative interest rate policy at its March meeting, setting a new policy rate range of 0%–0.1%, up from -0.1%. Though this is the first hike in 17 years, BoJ officials pledged to keep buying long-term government bonds as needed. We look for USD/JPY to trade around 150 until the end of Q4, supported by the wide yield differentials between U.S. and Japanese bonds.

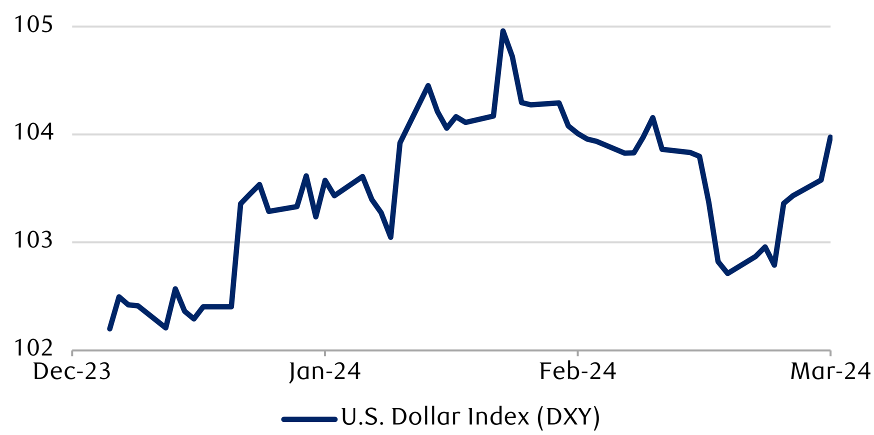
Currency forecasts

Currency pair	Current rate	Forecast Mar. 2025	Change
Major currencies			
USD Index	104.00	102.89	-1%
CAD/USD	0.74	0.76	3%
USD/CAD	1.35	1.31	-3%
EUR/USD	1.08	1.10	2%
GBP/USD	1.27	1.24	-2%
USD/CHF	0.89	0.95	7%
USD/JPY	150.00	146.0	-3%
AUD/USD	0.65	0.68	5%
EUR/JPY	163.00	161.0	-1%
EUR/GBP	0.86	0.89	4%
EUR/CHF	0.96	1.04	8%
Emerging currencies			
USD/CNY	7.20	7.15	-1%
USD/SGD	1.34	1.32	-1%

Change is defined as the implied appreciation or depreciation of the first currency in the pair quote.

Source - RBC Capital Markets forecasts, Bloomberg

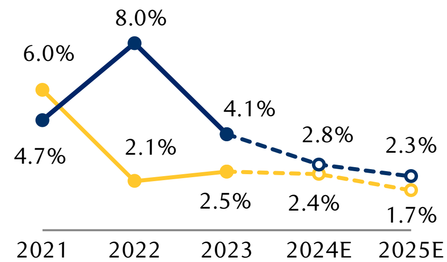
The U.S. Dollar Index rose in early Q1 2024 as investors pushed back the possibility of an early interest rate cut by the Fed



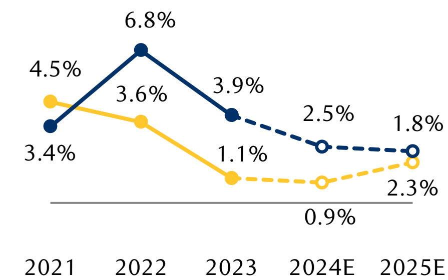
Source - Bloomberg, RBC Wealth Management; data through 3/19/24

KEY
Forecasts

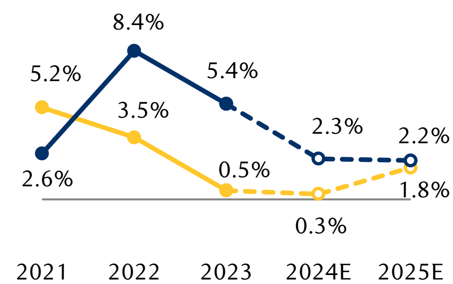
United States



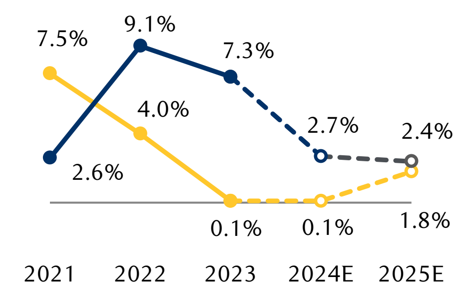
Canada



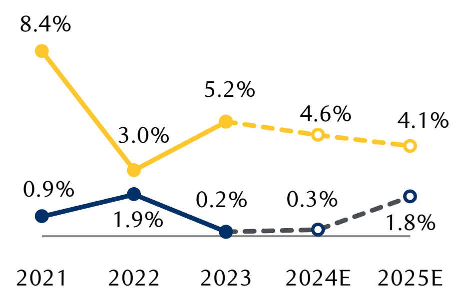
Eurozone



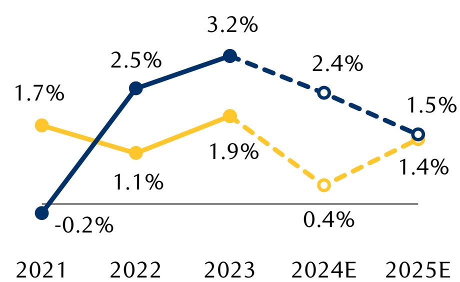
United Kingdom



China



Japan



Real GDP growth

Inflation rate

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

Market scorecard

Data as of March 31, 2024

Equities

Global indexes posted strong gains across the board in March, except for Brazil's Ibovespa, which fell 0.7% and is down 4.5% year to date. The FTSE All-Share and EURO STOXX 50 gained the most, with both rising 4.2%.

Bond yields

Sovereign bond yields declined during March, though current levels remain elevated compared to one year prior.

Commodities

Continued inflation concerns boosted commodity prices, except for natural gas, which declined 5.2%.

Currencies

The U.S. Dollar Index firmed by 0.3% in March. The U.S. dollar lost ground against the Canadian dollar and Mexican peso, which firmed 0.3% and 2.9%, respectively, against the greenback.

Index (local currency)	Level	1 month	YTD	12 month
S&P 500	5,254.35	3.1%	10.2%	27.9%
Dow Industrials (DJIA)	39,807.37	2.1%	5.6%	19.6%
Nasdaq	16,379.46	1.8%	9.1%	34.0%
Russell 2000	2,124.55	3.4%	4.8%	17.9%
S&P/TSX Comp	22,167.03	3.8%	5.8%	10.3%
FTSE All-Share	4,338.05	4.2%	2.5%	4.3%
STOXX Europe 600	512.67	3.7%	7.0%	12.0%
EURO STOXX 50	5,083.42	4.2%	12.4%	17.8%
Hang Seng	16,541.42	0.2%	-3.0%	-18.9%
Shanghai Comp	3,041.17	0.9%	2.2%	-7.1%
Nikkei 225	40,369.44	3.1%	20.6%	44.0%
India Sensex	73,651.35	1.6%	2.0%	24.9%
Singapore Straits Times	3,224.01	2.6%	-0.5%	-1.1%
Brazil Ibovespa	128,106.10	-0.7%	-4.5%	25.7%
Mexican Bolsa IPC	57,369.01	3.5%	0.0%	6.4%
Bond yields	**3/31/24**	**2/29/24**	**3/31/23**	**12 mo. chg**
U.S. 2-Yr Tsy	4.620%	4.619%	4.025%	0.59%
U.S. 10-Yr Tsy	4.200%	4.250%	3.468%	0.73%
Canada 2-Yr	4.176%	4.182%	3.737%	0.44%
Canada 10-Yr	3.468%	3.490%	2.897%	0.57%
UK 2-Yr	4.172%	4.302%	3.444%	0.73%
UK 10-Yr	3.933%	4.124%	3.490%	0.44%
Germany 2-Yr	2.849%	2.901%	2.683%	0.17%
Germany 10-Yr	2.298%	2.411%	2.292%	0.01%
Commodities (USD)	**Price**	**1 month**	**YTD**	**12 month**
Gold (spot $/oz)	2,229.87	9.1%	8.1%	13.2%
Silver (spot $/oz)	24.96	10.1%	4.9%	3.6%
Copper ($/metric ton)	7,886.00	4.3%	3.6%	-2.6%
Oil (WTI spot/bbl)	83.17	6.3%	16.1%	9.9%
Oil (Brent spot/bbl)	87.48	4.6%	13.6%	9.7%
Natural Gas ($/mmBtu)	1.76	-5.2%	-29.9%	-20.4%
Agriculture Index	386.05	3.9%	-0.2%	-16.1%
Currencies	**Rate**	**1 month**	**YTD**	**12 month**
U.S. Dollar Index	104.4870	0.3%	3.1%	1.9%
CAD/USD	0.7386	0.3%	-2.2%	-0.2%
USD/CAD	1.3540	-0.3%	2.2%	0.2%
EUR/USD	1.0790	-0.1%	-2.3%	-0.5%
GBP/USD	1.2623	0.0%	-0.8%	2.3%
AUD/USD	0.6521	0.4%	-4.3%	-2.5%
USD/JPY	151.3500	0.9%	7.3%	13.9%
EUR/JPY	163.3000	0.8%	4.9%	13.3%
EUR/GBP	0.8549	-0.1%	-1.4%	-2.7%
EUR/CHF	0.9731	1.8%	4.8%	-1.9%
USD/SGD	1.3493	0.3%	2.2%	1.4%
USD/CNY	7.2224	0.5%	1.7%	5.1%
USD/MXN	16.5586	-2.9%	-2.4%	-8.2%
USD/BRL	5.0141	0.9%	3.2%	-1.0%

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 pair.

Examples of how to interpret currency data: CAD/USD 0.73 means 1 Canadian dollar will buy 0.73 U.S. dollar. CAD/USD -0.2% return means the Canadian dollar has fallen 2.2% vs. the U.S. dollar during the past 12 months. USD/JPY 151.35 means 1 U.S. dollar will buy 151.35 yen. USD/JPY 13.9% return means the U.S. dollar has risen 13.9% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets

Research resources

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As of March 31, 2024

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
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Sell [Underperform]	46	3.15	4	8.70

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