February 2020

RBC WEALTH MANAGEMENT

Global Insight

Perspectives from the Global Portfolio Advisory Committee

A time of transition

With U.S. equities facing a year of moderation, turbulence, and change, what does this mean for investment strategy?

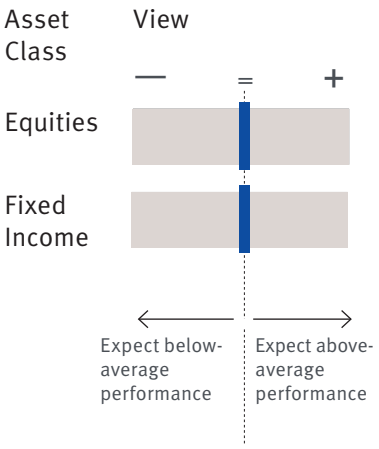
For important and required non-U.S. analyst disclosures, see page 29.
Produced: Feb 4, 2020 12:29ET; Disseminated: Feb 4, 2020 13:30ET

Table of contents

All values in U.S. dollars and priced as of market close, January 31, 2020, unless otherwise stated.

RBC's investment stance

Global asset views



See "Views explanation" below for details

Source - RBC Wealth Management

Equities

- Following record gains in 2019 amid signs the global economy was recovering thanks to central banks loosening monetary policy and an easing of trade tensions, the arrival of the coronavirus in late January gave global equity investors an excuse to take profits.
- But it is far from clear the epidemic will have more than a temporary impact on global growth. The U.S. consumer remains strong, corporate earnings released so far are encouraging, and signs European growth is stabilizing continue to come through. We would expect any weakness in China's economy to be met with more stimulus.
- As such, so long as recession risks remain in the distance, we maintain a Market Weight allocation to equities, for which we expect moderate returns in 2020.

Fixed income

- The benchmark 10-year U.S. Treasury yield has held the 1.5%–2.0% range for approximately six months, but another round of global growth fears and a flight to safety have pushed yields back to the bottom of that range. We believe there's a chance the 10-year yield could fall below the all-time low of 1.36% from 2016. While the recent downdraft in global yields may be more short-term in nature given all of the economic uncertainty around the coronavirus outbreak, it is important to remember that the decline in U.S. Treasury yields, and yields globally, has been going on for over a year now, an established trend since yields broadly peaked in 2018.
- We maintain our Market Weight stance for global fixed income. Though global yields remain historically low, so too do their ceilings. As we expect broad market volatility to be higher in 2020 than it has been recently, 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.

A time of transition

Lori Calvasina
New York, United States

While U.S. equities have powered forward for more than a year, RBC Capital Markets, LLC's Head of U.S. Equity Strategy Lori Calvasina tells us why the market should throttle back and deliver gains that hew closer to historical averages. She gives her thoughts on the U.S.'s vexing valuation, whether prospects are better in other markets, and where to find opportunities as shifts in the U.S. market play out.

***Global Insight:* Until just recently, the market methodically marched higher for months. How do you think the year will unfold?**

Lori Calvasina: We expect 2020 to be a year of moderation, turbulence, and transition in the U.S. equity market. Risk of a near-term pullback is quite high, in our view, largely due to stretched valuations and euphoric positioning among institutional investors.

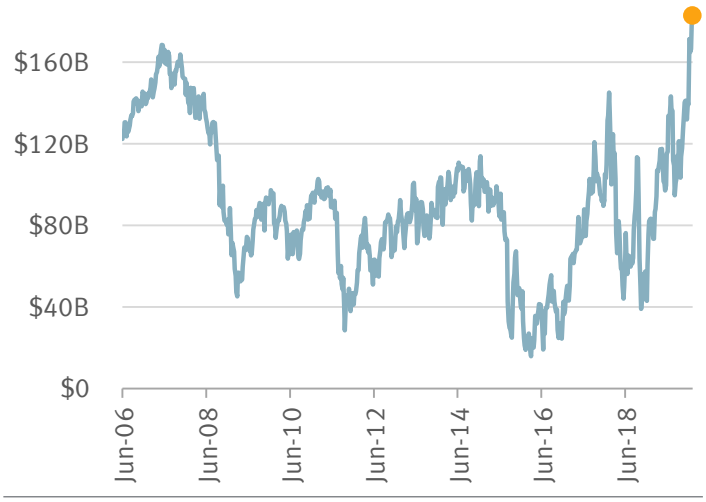
But down years are rare for the S&P 500 outside of periods associated with growth scares, recessions, or financial market bubbles. Those scenarios are still unlikely, and 2020 should be another up year for the market, just one that delivers returns closer to the long-term average and with greater volatility.

Our year-end 2020 S&P 500 target is 3,460, a full-year gain of 7.1 percent. This target assumes modest profit margin expansion, roughly four percent revenue growth, and six percent earnings growth ($174 per share) compared to 2019. We expect stock buyback and dividend activity to remain supportive of U.S. equities this year.

Lori Calvasina is a Managing Director and Head of U.S. Equity Strategy at RBC Capital Markets, LLC. She focuses on positioning within the U.S. equity market in terms of size, style, sectors, and stocks. Lori has spent nearly two decades as an equity strategist at major investment banks, and the financial media, such as CNBC and Bloomberg, frequently taps her expertise of the U.S. stock market.

A proxy for market sentiment

Asset managers' notional net long position for S&P futures (USD)



Institutional investor positioning turned euphoric recently, making the stock market vulnerable to bad news.

Source - RBC Capital Markets U.S. Equity Strategy, RBC futures desk, Commodity Futures Trading Commission; data through 1/21/20

What could be the catalysts for a market pullback?

Potential catalysts include the realization by investors that U.S. economic growth is likely to be moderate rather than rapid, and reductions in corporate earnings forecasts.

We think coronavirus fears could contribute further to U.S. equity market volatility in the short term if they continue to build, since this poses a risk to the modest improvement in corporate optimism that has resulted from the completion of the Phase 1 trade deal with China. The bigger issue here is that investors could at least temporarily start to doubt the "hope trade" that has propelled U.S. equities higher since last fall. That market move was driven by the anticipation of a positive inflection in global economic conditions.

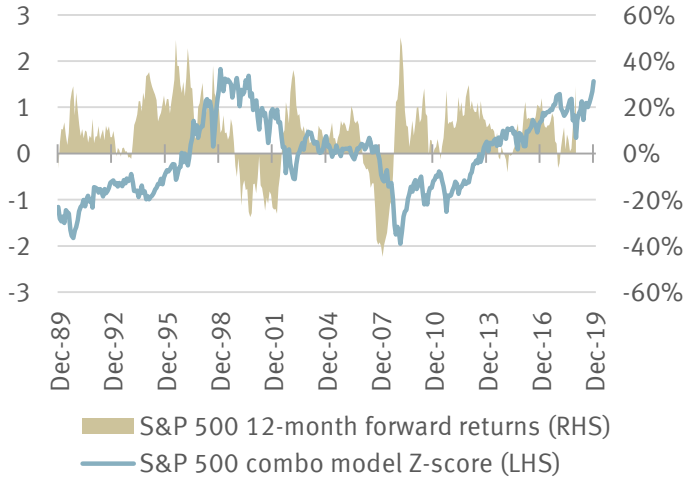
Additional geopolitical flare-ups could also challenge the market, whether between the U.S. and Iran or further drama in the trade conflict with China as Phase 2 negotiations get underway. We suspect the Phase 1 deal will not be substantive enough to restore the severe damage done to business confidence.

The U.S. election also has the potential to trip up the market. We think institutional investors have become too complacent by assuming outcomes that are positive for the market in both the primaries and general election. The Democratic primary season, which begins with the Iowa caucuses on February 3, and will largely play out by the end of March, could rattle equity markets.

You describe the S&P's valuation as "vexing"—why?

With the Fed cutting interest rates, 2019 was a year of significant valuation expansion for the S&P 500, which closed the year on a high of 19.8x forward earnings (based on consensus estimates from two fiscal years from now). We don't expect much expansion in price-to-earnings ratios in 2020 nor any additional rate cuts, and we don't view the

RBC Capital Markets' combo model points to a stretched S&P 500 valuation



The value of our combo model is at its highest of this bull market cycle, and is approaching the peak of 1999.

Note: The combo model uses 34 different measures, including various flavors of price-to-earnings, price-to-book, and price-to-cash flow

Source - RBC Capital Markets U.S. Equity Strategy, S&P Capital IQ/Clarifi estimates, Refinitiv I/B/E/S estimates; data through 1/24/20

Fed's current balance sheet management efforts as quantitative easing. This supports our expectation that stock gains will be more modest in 2020.

One of our favorite ways to assess valuations for the S&P 500 is our "combo model." It summarizes how the index's valuation looks on 34 different measures, including various flavors of price-to-earnings, price-to-book, and price-to-cash flow. Based on this model, the S&P 500's valuation is very stretched compared to its long-term average. Furthermore, such a valuation has historically been consistent with flat-to-low single-digit returns in the stock market over the subsequent 12 months.

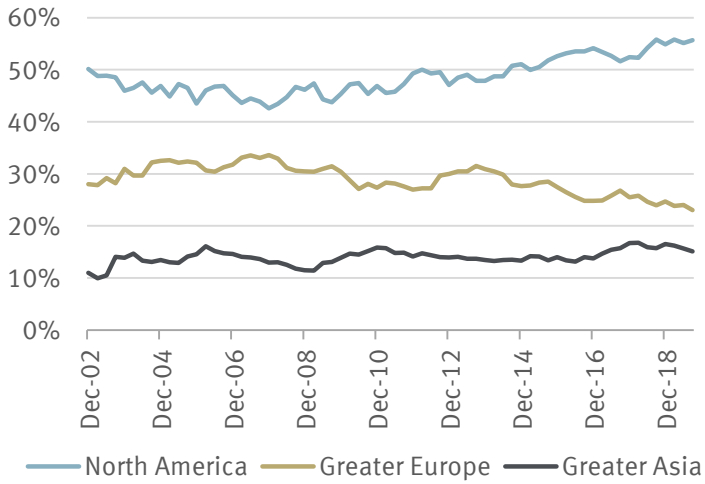
The S&P 500's stretched valuation adds to our suspicion that U.S. equities have already priced in any benefits of a Phase 1 trade deal with China, the same way that the market priced in the benefits of corporate tax cuts in Q4 2017 before they were implemented in January 2018.

With moderate returns expected in the U.S., are prospects better elsewhere?

We are starting to see opportunities in other markets. Valuation, economic trends, and Fed policy are key reasons. The U.S. market remains overvalued relative to most major regions. Positive surprises in domestic economic data have faded, but are returning for Europe and China. U.S. equities tend to outperform non-U.S. equities when the Fed is easing. Our economists think the Fed will pause in 2020 due to the resilience of the economy, de-escalation in the trade war with China, and the presidential election. That would remove one of the tailwinds for U.S. equity leadership.

Since the global financial crisis, the performance of the U.S. compared to other markets has been loosely tied to the performance of U.S. growth stocks (such as the Technology sector) versus value stocks (such as Financials and Industrials). Non-U.S. stock markets are less exposed to growth sectors and are more value-oriented. If the recent shift toward U.S. value stocks has staying power, non-U.S. stock markets could outperform the S&P 500.

Trends in global large-cap equity funds' regional allocations (% of holdings)



Allocations to North America have surged while positions in Europe and Asia have retreated; these trends could begin to reverse.

Source - RBC Capital Markets U.S. Equity Strategy, Morningstar; data through Q3 2019

Money has flowed out of U.S. equity funds recently, while Europe, Japan, and China have all seen inflows. After many meetings with institutional investors, we are left with the impression that global investors are more open to reallocating assets from the U.S. to non-U.S. than they have been in some time.

Lori, where do you see the most attractive sector opportunities in the U.S.?

We continue to favor Financials and Industrials. Both sectors are deeply undervalued relative to the S&P 500, and they tend to outperform when the ISM Manufacturing New Orders Index is rising, and when value is beating growth. These sectors have seen a stabilization in exchange-traded fund flows recently.

We also have an ongoing Overweight in Utilities as an "insurance policy" for volatile periods. The sector has low policy risk regarding the presidential election, and it tends to outperform when the ISM Manufacturing New Orders Index is falling, which provides some protection should economic data disappoint. This is not our base-case forecast but could happen given we are in the late stage of the business cycle. The Utilities sector no longer looks overvalued versus the S&P 500.

Thank you for all these insights, Lori.

Davos 2020: The race for global scale

Dave McKay
RBC President & CEO
Toronto, Canada

The 50th World Economic Forum presented the concept of trust as a definitive principle in uniting an increasingly divided world. RBC CEO Dave McKay shares 10 lessons learned from Davos 2020.

When business leaders first met in Davos in 1971, their world was deeply divided, and it wasn't entirely clear capitalists would hold the day. The U.S. was losing to communists on the battlefield, socialism was winning in the streets, monetary policy was fighting for credibility, and young people were challenging the multinationals that had come to define global commerce.

Capitalism did win out, and for the vast majority of people, the world became a better place – more open, more educated, more innovative, and by most measures more prosperous. But at the 50th World Economic Forum in Davos last week, a new global divide became apparent. After a half-century of globalization, of rules and ambitions that carried the world through the end of the Cold War, the rise of the Internet and the explosion of mobile computing, the world is facing new challenges, and new questions. And once again, a new generation is demanding action. Can capitalism again rise to the challenge?

This was my fifth trip to the Forum, and the first where I began to see the emergence of geopolitical systems and their economies as platforms competing for the transformation that lies ahead – and the deep implications that this holds. The 2020s may see a reordering of economies and industries, as societies respond to the threats of climate change and sectors tap the potential of smart technologies. But who defines that change remains to be seen. More than ever, business will have to step up.

Here's some of what I learned at WEF 50:

1. Superpowers as the new super platforms

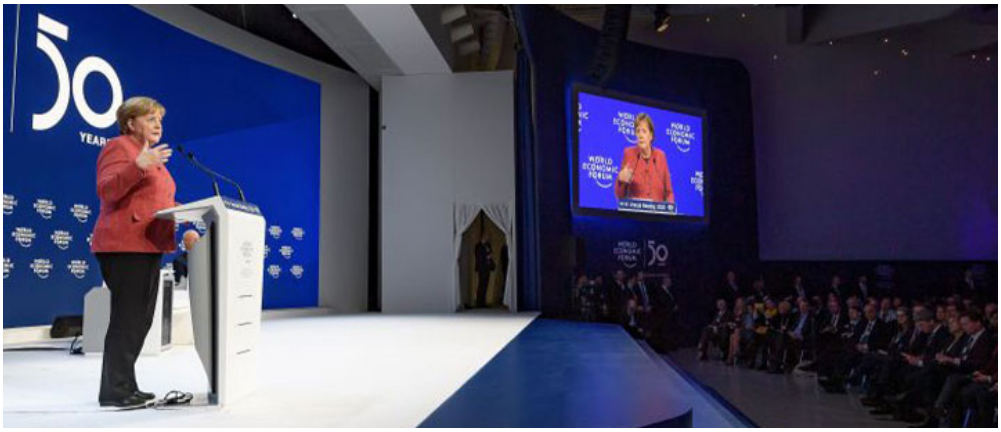
Every January, the shops along Davos' main street are converted into showcases for far-flung markets from around the world, from Karnataka to the Caspian, with nods this year to Saudi Arabia, Ukraine and Canada's cannabis industry. The Disneyesque displays always capture the diversity of our global economy, but the loudest messages this year came from those that didn't have much of a visible presence: the United States and China. The two powers control 40% of global GDP, and as their trade conflict shows, they're each trying to position themselves as a platform for global growth. That's critical to everyone looking for global scale to solve problems, whether it's to cure diseases, reduce carbon emissions or find new markets. It's not just a race for scale; it's a competition between operating systems for business, between America's shareholder capitalism and China's state capitalism.

I was with a group of CEOs who met with President Trump and members of his administration whose confidence was palpable. They felt their economic policies had exceeded expectations and their approach to a new trading order, based on regional and bilateral deals, would ensure the global economy continues to revolve around the American platform of capitalism, rooted in the capital markets of New York, the innovation labs of Silicon Valley and a manufacturing renaissance in between. China was less visible at this Forum, but the trade war hadn't diminished the confidence of the Chinese leaders I met. In fact, their resolve seemed to be growing. As one regular Davos-goer noted, the absence this year of many world leaders – none of the BRIC leaders, for instance – could reflect the draw of China's Belt and Road summit, which is held every April (Beijing last year, Dubai in 2020) and may be the new Davos. China's rise is about more than summits and sales, however. Its approach to state capitalism is about scale, using technology and an expanding reach across Asia into Europe to create data fields that could become the OPEC of the digital age. Which platform prevails in the 2020s will be critical to every business, and country, looking for growth.

2. Government, redirected

Across the aging, slow-growth West, governments are asserting themselves with a conviction not seen since the financial crisis. Nowhere is this truer than Europe, where governments are vexed by negative interest rates and the imminent departure of Britain from the European Union, a move that could further fray the world's biggest common

market. Into this valley of uncertainty, the EU leadership came in force to Davos to make the case for a more activist state. Ursula von der Leyen, the German president of the European Commission, made clear the continent isn't going to compromise on regulations to compete with Britain. She's ready to impose trade measures against any country that doesn't meet environmental, social and labour standards. The Europeans are even planning to mobilize €1 trillion over the decade for a "green investment wave" that could rival the Democrats and their Green New Deal.



Even just a year ago, many Davos-goers thought rising global frustrations might spark a return to socialism. That may still happen. But at the forefront of the resurgent state are pragmatists like Germany's Angela Merkel, who laid out an economic model that is neither left nor right: it's a new economic model rooted in sustainability. "The whole way we do business will have to change," the Chancellor said at her 12th Davos Forum. Europe's more balanced approach to markets has carried into the cyber-economy, where its governments appear happy with their new, more onerous data regulations, and are determined to impose a digital tax on the Internet giants, for the sake of fairness and revenue. Global trade tensions won't help, and indeed may worsen as Britain tries to cut deals with the U.S. and, eventually, China, in a race to bridge the two platforms.

3. Capitalism, repurposed

The Forum's theme was "stakeholder capitalism," an unfortunately anodyne description of a smart and sustainable approach to business that strikes a balance between communities, customers, employees and shareholders. Simply put, it puts purpose ahead of profit. Over the past 50 years, business has largely expected government to set rules and levy taxes to serve the public good. As trust in governments wanes, and the complexity of society's problems grows, companies are charting their own course on environment, social and governance issues, to maintain public confidence in business and ensure the prosperity of communities that business serves. The challenge is serious. According to this year's Edelman Trust Barometer, more than half of respondents worldwide feel capitalism does more harm than good – a sentiment driven largely by income stagnation. "Capitalism as we've known it is dead," declared Marc Benioff, the founder and CEO of Salesforce.com.

In some ways, European and Canadian companies have already developed a purpose-driven approach to business that their American and Asian peers are only now pursuing in earnest. Microsoft CEO Satya Nadella made the case for this repurposing

of capitalism, describing our economic model as the world's most powerful economic learning system, rooted in discovery and testing. That learning system is needed more than ever to solve the world's increasingly complex challenges, he argued. Mastercard CEO Ajay Banga suggested business can build the partnerships and networks needed to solve those problems. He came back to that word, scale, which may be the most important force of the 2020s. Business has proven to be the most effective model for scale anywhere, and is proving that again with global platforms. But this repurposed capitalism, and its complex web of relationships, will put ever-greater pressure on CEOs to reach beyond their walls and sectors, to delve into foreign subjects and work with unlikely allies, using the strength and spirit of their organizations to take solutions to a global scale. As Banga told the Forum, "there's not enough philanthropic money or government money to solve these problems."

4. Accountability, redefined

If business is to play a leading role in the 2020s, it will need more acceptance from society than ever, and that will require a more active role in developing national and international standards for a company's performance on environmental, social and governance issues. We can't wait for government. This year the Forum and 140 global companies launched an initiative to measure and show the progress of business across four pillars – principles, people, planet and prosperity – with 22 measures developed by the world's major accounting firms. Properly adopted, the index can help communities, environmental groups, regulators, even employees, hold companies to account on their performance beyond the financial bottom line. And in turn, this model can help business transparently measure its progress and outcomes, as we continue to strive to earn our social license to operate in society.

Such measurement tools carry risks, especially when they lose a sense of balance among their many variables. The risk was evident at this year's Forum when environmental concerns overwhelmed the social and governance components of ESG. It's important to remember how the failure of authorities, in business and government, to restore social inclusion after the financial crisis led to the rise of populism in the last decade. The governance failures of the Internet have been equally damaging. If the new capitalism is to find balance, it will need to ensure it continues to see the concerns of society as an integrated system rather than an itemized scorecard.

5. The new math of net zero

If two words defined this Forum, they were "net zero" – the idea that companies, even countries, can strive to reclaim more carbon from the atmosphere than they emit. The snowless pastures in the lower valleys around Davos this winter illustrated the realities of climate change and the urgency that Greta Thunberg brought to the Forum with her message that history is watching and a new generation is judging. She wasn't alone. The world's biggest asset manager, BlackRock, announced it would hold companies to a higher standard on all measures of sustainability, including their role in reducing global emissions. Microsoft set its own bar higher with a net-negative carbon policy that commits the software giant to offset all the carbon it has ever emitted. Few companies have done the hard math that Microsoft did, to calculate new emissions that can be attributed to its existence. If we're serious about net-zero concepts, a lot of homework remains.

While much of the focus was on emissions reduction, more attention is going to offsets, especially nature-based ones that could allow our seas, land and forests to absorb more carbon, more quickly, as we work to transition industrial practices and consumer preferences. The Forum announced a bold commitment to help the world plant 1 trillion trees, increasing the global total by a third. That won't be easy or cheap. The world's leading financial institutions – banks, pension funds and asset managers – are also working to ensure more capital flows to carbon-reducing companies and technologies, and gradually away from major net emitters. In my conversations with finance officials and other global bank CEOs, it was clear governments need to do more – to set the rules of sustainable finance, and set clearer prices for risks, including carbon, so capital markets and business operators can get on with what they do best: optimizing the allocation of scarce resources, driving change and scaling innovation.

6. The messy math of energy

The most difficult conversations at Davos were also the most important. They were around how we plan for the next-quarter century of energy production and consumption, allowing investors and consumers to make economically rational choices that don't lead to ecological catastrophe or social upheaval. To get there, we need more math and less emotion, because right now the math doesn't add up. The Saudis, with low costs and low emissions, covered Davos with billboards and tea huts to burnish their image as they continue to export a good chunk of the world's oil. They're well positioned for any transition. The Americans, with a proven track record of innovation that's made them the world's Number One oil producer, show no signs of pulling back either. And then there's China, whose ambitions could upend the world's carbon math. As one China expert told us, the country is on course to open two new coal plants a month for the next 12 years.

I met with the world's leading energy CEOs to better understand what they're up against, and what they're doing to reduce emissions. We need them to succeed. Our transition to a greener economy, with a more diverse energy mix, will take decades if it's to avoid massive economic disruption. But it also needs to be more deliberate if it's to avoid large-scale dispersion of capital away from some of our best innovators – the oil and gas companies that are using artificial intelligence, drone surveillance and advanced chemistry to reduce emissions. Some of those producers fear they'll be cut off from investors who make unilateral decisions to adhere to the new carbon math. It may be short-sighted. Without a clearer plan to replace fossil fuels, we risk seeing producers hoard cash – or give it back to shareholders -- rather than invest in new technologies. Any resulting decline in production, especially without a visible change in consumer behavior, might lead to a run-up in oil prices, something that could spark economic shocks and a political backlash.

7. The return of Malthus

When the Forum began in 1971, the world's population was 3.8 billion, and plenty of Malthusian doomsayers warned we didn't have enough land, water or food to cope. Instead, technology and trade triumphed, allowing roughly 7.8 billion people today to enjoy access to more food than the planet has ever produced. Can it continue as our population heads to 10 billion by 2050? With the world adding 80 million people a year, increasingly in Africa, the Middle East and other food-challenged regions, Davos renewed its focus on food security and the need to see global food production grow by 60% by the middle of the century.

The Forum brought together food innovators from around the world to showcase how technology may save us again. Cell-based meat production, pea proteins, vertical farming: there are plenty of ideas being developed. They will require new supply chains, changes to consumer behaviour and much more public and private investment. To show what individuals can do, the Forum launched a Future Food Day, serving locally sourced dishes, with smaller servings. Can such nudges make a difference? Not without large-scale investments in public research and the private scaling of innovation. Ramon Laguarta, the CEO of PepsiCo, suggested the world needs half a dozen Silicon Valleys of food innovation, in which universities, entrepreneurs and major producers can work with farmers of all sizes to transform how they produce food. The United Nations did just that in the 1960s and '70s, fostering a Green Revolution that helped avert a Malthusian mess. If we can make a renewed commitment to multilateralism, and allow for more business leadership, we might be able to do it again.

8. Currencies 2.0

The first Davos Forum inspired conversations around the dismantling of the gold standard, and emergence of the U.S. dollar as the world's reserve currency. Fifty years later, the Forum is working with central banks and financial institutions to talk about currencies for the digital economy. A group of financial executives met with Bank of England governor Mark Carney to discuss the next frontier in payments, knowing there is a complex problem to solve: How can we reduce the friction of digital payments without undermining the financial system that is a foundation block of our economy? We've weathered financial crises since the end of the gold standard because our financial system doesn't separate the storing, lending and movement of money into isolated channels. In fact, the confluence of these channels has ensured liquidity and an efficient matching of short-term savings (deposits) with long-term investments (loans). While digital currencies could make transactions easier, they risk diverting the lifeblood of our financial system to sources outside the system, like the big tech platforms that want the economic value of payments without the regulatory costs.

The next generation of payments will present another critical question: will digital currencies ever replace King Dollar? Not any time soon. Facebook's Libra project has struggled to gain acceptance. And China's initiative to build a digital yuan faces some fundamental problems. Beijing hasn't explained which currencies (if any) might backstop the concept, which would be essential if a digital yuan is to facilitate trade such as an Alibaba purchase from Europe or Russian oil sales to China. The consequences are equally unclear if such a currency were to be adopted by rogue actors seeking to evade

U.S. financial sanctions. The Trump administration's active use of sanctions has already pushed many countries, notably Russia and Iran, to pursue new financial channels with Europe, the Middle East and Asia, making the notion of a new digital currency all the more appealing to them. The biggest challenge for the next generation of currencies will be to earn the trust of consumers, producers, sellers and lenders – and scale that trust. Through financial crises, wars and recessions, the U.S. dollar has done that, which is why the world continues to flock to it. For all the frustrations they can cause, America's legal and regulatory systems remain the gold standard of global finance. Which is why the dollar is backstopped by the most valuable currency of all: trust.

9. Organizations 3.0

Businesses were first built around people. Over the last 50 years, they've been built around technology, too. We're moving into an age when they'll need a bionic blend, in which the interoperability of people and technology will be a critical success factor. I was part of a Davos panel on the "bionic organization," led by the Boston Consulting Group and featuring Belén Garijo, the CEO of Merck's Healthcare division, and Penny Pritzker, the former U.S. commerce secretary and founder of the investment company PSP Partners. We talked about how organizations can ensure their employees work effectively with smarter technologies, and how those technologies can be developed and refined to take advantage of the enormous human skills found in successful companies. Think of it as "intelligent augmentation" – the IA that can be just as powerful as AI to an organization. In the case of Merck, such an approach has increased demand for employees who can work across cultures as comfortably as they work across data platforms, blending tech and social skills. It's one reason the company restated its purpose as "curious minds devoted to human progress."

Bionic organization panel, Dave McKay (center)

This blend of skills will be critical to legacy organizations trying to create 3.0 versions of themselves, using smart technologies and data pools to build their own platforms. One example: Yara International, the Norwegian fertilizer company, has built a digital platform with IBM that gives users the tools, data, networks and products they need for sustainable farming. Trouble is, such efforts rarely succeed without a diverse human mindset driving a platform. Pritzker told our session she looks for openness, authenticity and permission in companies she buys. "Innovation takes risk," she's found – and risk is rare if people don't feel safe to speak their minds. She said a strong culture

of diversity is critical to the bionic organization – something she didn't appreciate until she worked in government and saw diversity as more than representation. "It's also the difference in where you come from," she said.

10. Education 4.0

Leave it to Yuval Noah Harari to rattle the sapiens of Davos. The Israeli author is one of my favourites, and he didn't disappoint when he told the Forum about the disruptions coming at humanity through automation. "How do you teach a 50-year-old truck driver to be a software engineer, or teach yoga to software engineers?" he asked. Even more than job loss, the historian and author of Sapiens worries the greatest threat to progress will be the loss of our sense of relevance as machines do more of what we thought we were good at. Offering advice. Giving directions. Telling a story. "It's much worse to be irrelevant than to be exploited," he warned, suggesting a new "useless class" will be our great challenge in the decade ahead.

Over to you, educators, and that could soon include all of us. The Forum launched an initiative this year to provide 1 billion people with better education, skills and jobs by 2030, which will require educators, government and business to develop new learning models together. As Suzanne Fortier, the Principal of McGill University, told the Forum, we need to be ready for a revolution in lifelong learning, which will run from early childhood until we're 100. We'll need a lot more such innovations if the Forum is correct in its projection that technology investments will create 133 million new jobs over the next three years. Many of those jobs will require specialized tech skills. Many will demand trade skills, which the world over aren't attracting enough young people. But everywhere, the greatest demand will be for critical thinking and communications, the power skills of the 2020s. There's just too much information out there for humans to cope with. Indeed, over the next 50 years, our greatest challenge may be to ensure we're always learning. As Harari knows, it's what defines us as sapiens.

I left Davos with a sense of concern for our increasingly divided world, and a sense of hope for the human spirit at the root of progress. The balance may rest in the concept of trust. It could, as IBM CEO Ginni Rometty told the Forum, define the decade. There's so much change happening, so quickly, that trust is the new glue, for communities and companies. Unfortunately, as the Edelman Trust Barometer shows, our trust in governments and media is limited. Companies face a fair degree of scepticism too – but business still enjoys more trust than other institutions. We will need to honour that trust, by investing in the concerns that have divided so many, and by ensuring that the positive power of technology isn't hampered by lack of trust. Our ability to learn, share and resolve has never been more important. As is our willingness to listen. Angela Merkel put it well when she said "the fact that people aren't willing to talk with each other fills me with grave concern."

It's why forums like Davos are more critical than ever, to bring people together at a time when we're easily pulled apart. If there was any confidence to bring home, it was in the messages from scores of youth leaders who represent a new generation – one that's creating a more positive sense of change, and an impatience in those who can't deliver. As Natasha Wang Mwansa, a 19-year-old girls' rights activist from Zambia, told the Forum, "It's not about being young or old. How will you be part of the change we need?"

This article was originally published on RBC Thought Leadership.

Upwardly mobile

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

Kelly Bogdanova
San Francisco, United States
kelly.bogdanova@rbc.com

Patrick McAllister, CFA
Toronto, Canada
patrick.mcallister@rbc.com

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

Nicholas Gwee
Singapore
nicholas.gwee@rbc.com

Back at the beginning of last October, very few were characterizing 2019 as likely to be an outstanding year for equities. Yes, markets were well up off their Christmas Eve 2018, deeply distressed lows, but except for the S&P 500 and Canada's TSX they had not yet made it back to their summer of 2018 high-water marks. (The UK, Hong Kong, and Tokyo markets still haven't.) But from October to year-end all the major markets tacked on big gains: the TSX finished the year up 19%, Europe up 23%, UK stocks up 13%, and Japan's TOPIX up 15%. The big winner, the S&P 500, was ahead by 29%, the seventh-best yearly gain since World War II.

It wasn't just price that shifted in the markets, so did investor sentiment—and in a big way. In the U.S., responses to the American Association of Independent Investors' weekly sentiment survey in the first week of last October revealed that just 20% of investors were bullish about the stock market's prospects, while an unusually large 45% were bearish. Bears outnumbering bulls by more than two-to-one revealed a degree of intense bearishness previously present usually only at major lows, such as at the bottom of the financial crisis.

By the third week of January, those numbers turned upside down with bulls at an above-average 45% and bears well below their average reading at just 24%. (Since then, coronavirus concerns have reduced the gap between the two camps to effectively zero.)

At its peak a few weeks ago, that newfound bullishness never got to the extremes often present around end-of-cycle market tops. Neither did valuations. The peak forward price-to-earnings multiple for the S&P 500 was 19.3x our 2020 estimate of $174 per share: not cheap, in fact "stretched" in the view of RBC Capital Markets, LLC Head of U.S. Equity Strategy Lori Calvasina (see "A time of transition" on page 4), but not inevitably unsustainable either. That's all the more true with government and corporate bond yields reaching down near cycle lows.

Canadian stocks at 16x forward earnings estimates, not to mention European, UK, and Japanese shares even more cheaply valued, underline the point that valuations have not, by themselves, presented any fatal obstacle to a constructive outlook for equity returns in 2020.

What would present such an obstacle, in our view, would be a high-conviction call that a U.S. recession would arrive later this year or in early 2021. We don't have such conviction. Most of our recession indicators are continuing to give the economy a green light albeit not by such a comfortably wide margin as they did a year or two ago. A growing U.S. economy should improve the outlook for other economies, both developed and emerging, as well as support market expectations for growing earnings, dividends, buybacks, and, ultimately, share prices.

Equity views

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

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

For now, 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. By year-end, we expect most stock markets will have advanced from today's levels, providing positive all-in returns in the process.

Regional highlights

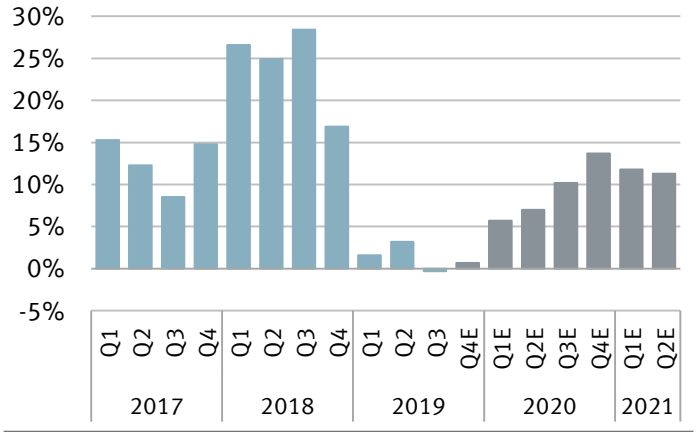
United States

- We have a constructive bias for U.S. equities. The domestic economy is firing on most cylinders and should continue to do so this year, at least, according to our forward-looking economic indicators. But we anticipate equity returns will be less robust than in 2019, and some volatile periods could be in store as the 10-year-old business cycle ages.
- The S&P 500's strong rally in recent months, combined with a lack of upward consensus earnings revisions, has lifted the market's valuation even further above average, as RBC Capital Markets' head of U.S. equity strategy has pointed out.
- With almost half of companies reporting Q4 results thus far, the rate of earnings surprises has exceeded the long-term average; however, overall earnings growth has been nearly non-existent compared to the same period in 2018. We expect growth to pick up modestly as the year progresses, and average 6.0%, a few percentage points below the consensus forecast.
- We think a consolidation period or pullback would be healthy for the market, and more tactically-oriented investors should consider trimming positions. For investors with long-term time horizons, we are comfortable holding U.S. equities at the benchmark level in portfolios as long as most of our recession indicators continue to signal that the expansion will persist and the global economy is not materially threatened by extraneous factors.

Canada

- The S&P/TSX Composite has started 2020 on a positive trajectory with an advance of 1.5% year to date. Information Technology has been the best-performing sector, but the real engine of the benchmark's gain has been the advance in the heavily-weighted Financials sector, which

S&P 500 quarterly EPS growth rates



Source - RBC Wealth Management, Refinitiv I/B/E/S estimates; data as of 1/30/20

After a dismal 2019 for earnings growth, 2020 appears to be on track for a better year.

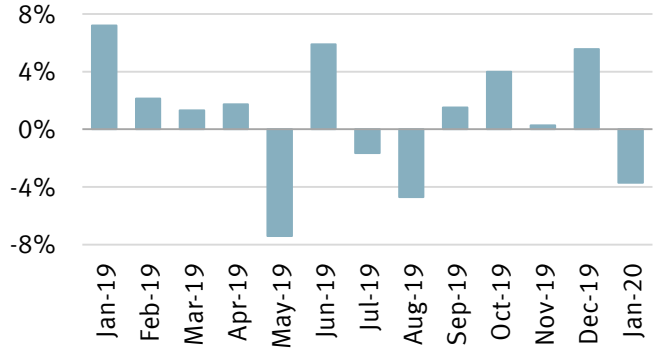
has helped offset declines in Energy and Materials. Within Financials, the Diversified Banks sub-industry has charted a positive return but is lagging the Composite after underperforming the benchmark in 2019 for the first time since 2010.

- Shares of Canadian banks continue to trade at a notable discount relative to their long-term average. We believe there is little impetus for material valuation expansion given our outlook for slower earnings growth, the late-stage nature of the economic expansion, and the potential for a material increase in credit provisions in an economic downturn. Facing a more challenging interest rate environment and slower loan growth prospects, we expect the Canadian banks to be highly focused on cost control in an effort to engineer earnings growth.
- The Canadian equity market has recently experienced some dislocation due to concern surrounding the coronavirus outbreak; however, it has been appropriately localized to industries and businesses that would be most impacted by a potential near-term hit to Chinese economic growth. To that end, we have seen share prices in the resources, discretionary retail, and air travel spaces come under some pressure. The experience of prior outbreaks suggests to us that this pressure could persist as long as the number of confirmed cases remains in an uptrend.

Continental Europe & UK

- The UK has officially left the European Union and entered an 11-month transition period where the status quo in terms of the trade relationship, jurisdiction of the European Court of Justice, fiscal contributions to Brussels, and freedom of movement prevails. For the time being, Brexit headlines will take second stage and equities will take their cues from the signs of improving economic data, the government's expansionary fiscal policy, and the Bank of England's accommodative monetary policy.
- We expect the issues surrounding trade with the EU, the UK's single largest trade partner, will come back to the fore this summer if the government sticks to its stated policy not to extend trade talks beyond the self-imposed December 2020 date. Should a free trade arrangement not be in place by then, the UK would fall back on unfavourable World Trade Organization terms. We remain Market Weight UK equities, with a balanced approach to domestic and internationally focused stocks.

MSCI Asia Pacific ex-Japan monthly returns since Jan. 2019



Asian equities had their third-worst month since the beginning of 2019 on coronavirus-related concerns.

Source - RBC Wealth Management, Bloomberg; data through 1/31/20

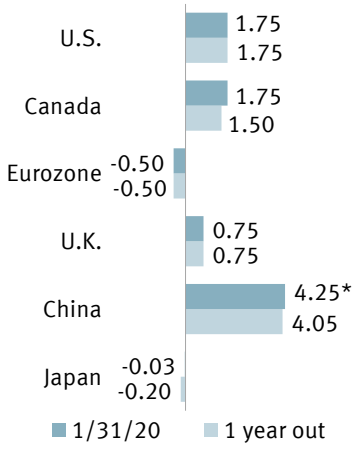
- With Brexit uncertainty on the back burner for now, the thawing of U.S.-China trade tensions, and no additional U.S. car tariffs, the European economy is showing signs of bottoming. Valuations remain undemanding and the region, whose index is more heavily weighted towards value stocks, could benefit should global equity leadership continue to shift away from growth. We find opportunities in the Industrials and Consumer sectors in particular.

Asia

- The U.S. and China signed the "momentous" partial trade deal on January 15, putting the brakes on an 18-month-long trade dispute. While the worst (further escalation) appears to be behind us, we continue to expect the road ahead to be bumpy, with thornier Phase 2 negotiations on the table and risks of the U.S. imposing fresh levies in the event of Chinese non-compliance.
- The outbreak of the coronavirus in Wuhan currently does not appear to be as severe as SARS in 2003, and authorities are more prepared this time. The Chinese government began mass disease control before Chinese New Year. The latest measures include: quarantining 16 cities; extending the public holiday; and closing public places such as movie theaters, amusement parks, and museums.
- We caution that we may not have seen the worst of the equity market pullback. The limited history of outbreaks suggests that markets tend to bottom with the peak in new cases and news flow. The number of new cases is still on the rise. We think services-related sectors will be the hardest hit, putting pressure on China's GDP growth this year.
- That said, we believe the Chinese government will step up its accommodative policies to support growth and ensure economic stability in the near term. While we expect pressure to remain on Chinese equities, valuations are less demanding compared to the 2003 SARS episode, and we believe the likelihood of a very sharp contraction like the one that occurred during that period remains low at this point.

The best laid plans often go awry

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

Global central banks moved decisively in 2019 to ease policy rates in the face of slowing global growth, hoping to create a more stable foundation for 2020. However, the first month of the new year was anything but a model of stability. January opened with a reminder of geopolitical risks with the short-lived Iran conflict, and closed with even greater risks and uncertainty around the ongoing coronavirus outbreak.

In the U.S., not only has the risk-off environment pushed 10-year and 30-year Treasury yields within shouting distance of new all-time lows, one of the benchmark yield curves—the spread between 3-month Treasury bills and 10-year Treasury notes—has once again inverted for the first time since last October when the Fed delivered the last of its three successive rate cuts, putting recession fears back in focus.

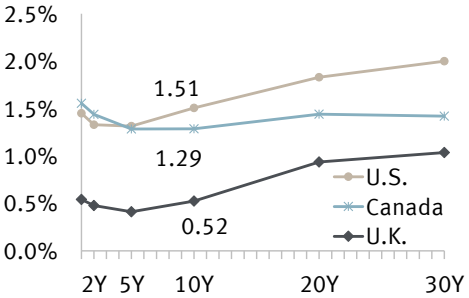
As a result, markets are now pricing at least two more rate cuts by the end of the year, from zero at the end of 2019. So will the Fed once again play along with market expectations and cut rates in the face of inverting yield curves? The Fed doesn't meet again until March 17–18, so officials have time to assess any economic impact as the situation develops. But they may also see limited scope for easier monetary policy given that any weakness may emanate out of China, particularly if they expect any slowdown to be largely short-term and global in nature. Regardless, we believe the bias remains toward further rate cuts this year.

Fixed income views

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

At a global level, the outbreak will undoubtedly cloud the outlook for the time being just as economic green shoots were beginning to sprout. The UK finally exited the EU on January 31, and arduous trade negotiations are now set to commence. We continue to expect fiscal stimulus amid the process to gradually send the UK 10-year Gilt north of 1%, global events notwithstanding.

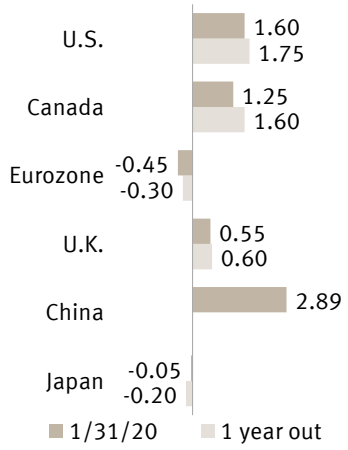
Thomas Garretson, CFA
Minneapolis, United States
tom.garretson@rbc.com

Christopher Girdler, CFA
Toronto, Canada
christopher.girdler@rbc.com

Alastair Whitfield
London, United Kingdom
alastair.whitfield@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

While we had thought that looser monetary policy globally in 2019 would allow central banks to move aside in 2020, another round of global growth fears would almost undoubtedly bring them back into the fray.

Regional highlights

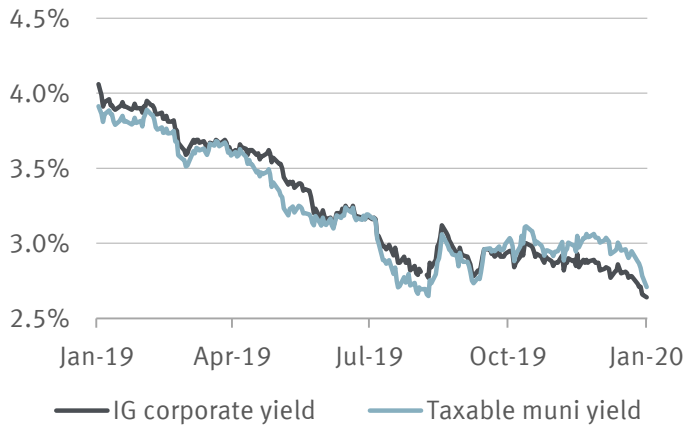
United States

- We have long pegged the ceiling for the 10-year benchmark Treasury yield at around 2.00% in 2020, but what the floor for the 10-year yield might be has been less clear. After opening the year yielding 1.92%, the 10-year has steadily declined to end January at just 1.51%, continuing a downdraft that has largely been in place since November 2018, when yields last peaked, at 3.24%. Once again, Treasury yields find themselves in a place with little technical or even historical support. In our view, the next test might be the 2018 low of 1.46%, but after that, all that would be left in terms of support is the all-time low of 1.36%.
- The risk-on environment of the past six months drove credit markets to some of the richest valuations seen in years, if not on record. The Bloomberg Barclays Baa (BBB) Corporate Bond Index yield dipped below 3% for the first time ever, even as concerns about the growing size of the BBB-rated corporate bond market swell. Recent market volatility may open up better entry points for credit investors to put money to work in the weeks and months ahead, in our view.
- Municipal bond investors, regardless of tax bracket, may find better value in taxable munis than in tax-exempt munis at the moment. Taxable muni issuance has grown markedly on the back of tax reform, helping to boost the yield advantage over traditional tax-exempt munis to 1.16%, somewhat higher than the 0.98% yield pickup investors were being paid just four months ago.

Canada

- Government of Canada yields dropped in January as market expectations for monetary easing returned. The sharp fall in yields, not long after reaching 10-month highs at year end, can be attributed to more dovish messaging from the Bank of Canada (BoC) as well as rising concerns over the global economic implications from the coronavirus. The Canadian bond market now puts at greater than 50% the chances the BoC will cut its policy rate by 25 basis points in April while fully pricing in the cut by July. We believe the current pricing is appropriate given

Taxable munis may offer better value



Taxable municipal bonds are offering more attractive yields as corporate credit spreads continue to fall.

Source - RBC Wealth Management, Bloomberg; data through 1/28/20

challenges remain for the domestic economy, most notably high levels of household debt, and the current slow pace of economic growth may not be transitory.

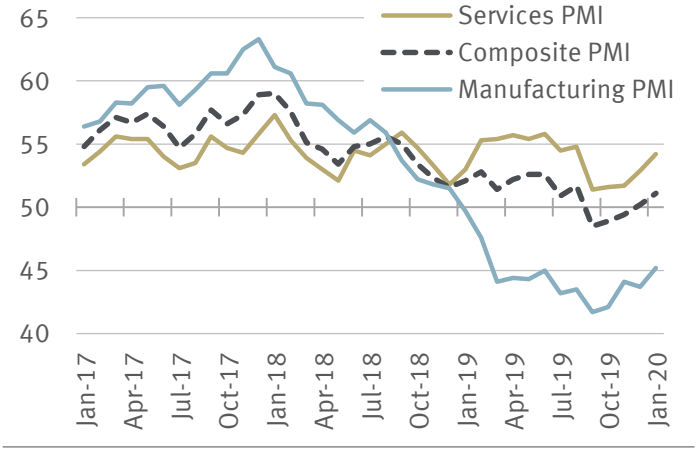
- In our view, it has become clear from the BoC over the past year that the hurdle to reduce rates is a lot lower than the hurdle to hike them. We continue to recommend short- and intermediate-term bonds to owning cash. Inflation-protected bonds remain a good way to source longer-term exposure as market expectations for inflation in Canada remain particularly low despite current above-target inflation. An accommodative policy stance could revive these muted inflation expectations and provide relative outperformance over time.
- Corporate bonds have reached a new milestone by offering the lowest all-in yield since 2017. The lack of compensation for taking on credit risk leads us to prefer short-dated, high-quality corporates. Preferred shares are the one exception to this quality bias as they remain the most attractively valued category in Canadian credit, in our opinion.

Continental Europe & UK

- European fixed income has seen yields rise since the start of the year in response to the overall positive risk sentiment. The European Central Bank (ECB) at its January meeting struck a more optimistic tone on the economic outlook, and flash Purchasing Managers' Index data for the euro area supported the overall improvements, particularly for Germany. Yields retreated somewhat towards the end of the month as the tone has shifted with concerns arising from the coronavirus.
- For now, the ECB can remain on hold while still encouraging those euro area countries with capacity in their fiscal policy to be more accommodative. We remain comfortable with our Market Weight stance on government bonds and our Overweight view on corporate credit for Europe.
- In the UK, the Bank of England's (BoE) January meeting was the last one for Governor Mark Carney, with Andrew Bailey, a former deputy governor of the BoE, taking the helm next month. As we expected, the BoE kept rates on hold with a split vote of 7-2. The messaging from the outgoing governor noted

German services, manufacturing PMIs show improvement

PMI above 50 indicates expansionary conditions



Source - RBC Wealth Management, Bloomberg; data through 1/28/20

Flash PMIs are beginning to reflect economic optimism as the most recent readings have levels climbing out of contraction territory.

that attention would remain on how the economic data develops over the coming weeks and months following the UK's departure from the EU and the start of the transition period.

- We continue to maintain our Underweight on UK government bonds, targeting the 3- to 5-year duration bucket. The Monetary Policy Committee changed its forward guidance, dropping the "limited and gradual" tightening stance. Should the economy recover, underpinned by the government's spending plans, we would expect UK government bond 10-year yields to rise to a level above 1% during the course of the year. We retain our Market Weight on UK corporate credit for the attractive yield pickup relative to government bonds.

Currencies

Currency forecasts

Currency pair	Current rate	Forecast Dec 2020	Change*
Major currencies			
USD Index	97.39	96.83	0%
CAD/USD	0.75	0.75	-1%
USD/CAD	1.32	1.33	1%
EUR/USD	1.10	1.12	2%
GBP/USD	1.32	1.35	3%
USD/CHF	0.96	1.01	4%
USD/JPY	108.35	109.0	0%
AUD/USD	0.66	0.66	-4%
NZD/USD	0.64	0.62	-6%
EUR/JPY	120.17	122.0	1%
EUR/GBP	0.84	0.83	-1%
EUR/CHF	1.06	1.13	6%
Emerging currencies**			
USD/CNY	6.94	7.00	1%
USD/INR	71.35	71.58	0%
USD/SGD	1.36	1.35	0%

* Defined as the implied appreciation or depreciation of the first currency in the pair quote. Examples of how to interpret data found in the Market Scorecard.
** Bloomberg Consensus forecasts
Source - RBC Capital Markets, Bloomberg

Blaine Karbonik, CFA
London, United Kingdom
blaine.karbonik@rbc.com

U.S. dollar: Edging higher

The U.S. dollar has regained nearly all of December's losses, strengthening close to its 2019 average level. Positive developments on the trade front have lifted global growth and reflation prospects, raising speculation that the level of U.S. growth outperformance versus global peers could narrow. This convergence could temper the dollar's strength; however, lingering global geopolitical tail risks should continue to support the greenback.

Euro: Recovery mode

Consecutive quarters of sub-trend growth have kept the euro trading at depressed levels, although recent indicators suggest the data is stabilizing and raises the possibility the worst could be over for the euro area. Resilience in the consumer and services sectors alongside more stimulative fiscal policy in select European countries could generate modest growth improvements in 2020 and a more positive euro outlook throughout the year.

Canadian dollar: Oil price pressure

The Canadian dollar trended lower in January on the back of falling oil prices, an increasingly significant driver of the Canadian dollar in recent months. The Bank of Canada struck a cautious tone at its January policy meeting, teeing up a likely rate cut in Q2 2020, in our view. A cut could usher in some Canadian dollar weakness midyear.

British pound: Data-driven

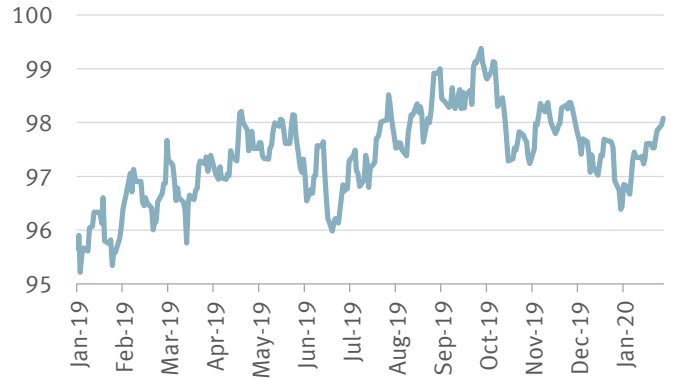
With the risk of an imminent chaotic Brexit disappearing, the pound has taken its cues from economic data instead of Brexit headlines. Business sentiment improved as a result of the Conservatives winning the general election, but economic growth will likely be at the mercy of the UK's new trade relationship with the EU and the possibility of fiscal stimulus. We expect range-bound performance, with volatility to pick up as UK-EU trade negotiations return to the forefront in mid-2020.

Japanese yen: Safe-haven strength

The yen rebounded off the seven-month lows that were touched in mid-January as global concerns about the coronavirus bolstered safe-haven demand for the yen. Prior to that rally, and provoked by deepening negative yields at home, Japanese investors had been selling the yen to seek out higher-yielding foreign investment assets. This dynamic could keep safe-haven gains contained, and underpins our neutral outlook for the currency.

The U.S. dollar rebounded off late December lows

U.S. Dollar Index



Source - Bloomberg, RBC Wealth Management, data through 1/28/20

Safe-haven demand has kept the U.S. dollar strong through January.

Commodities

Commodity forecasts

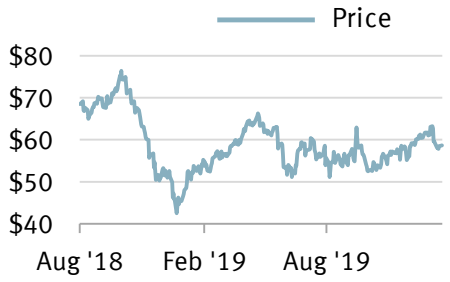
	2020E	2021E
Oil (WTI $/bbl)	$59.32	$59.32
Natural Gas ($/mmBtu)	$2.25	$2.45
Gold ($/oz)	$1,500	$1,450
Copper ($/lb)	$3.00	$2.75
Soybean ($/bu)	$9.31	$9.39
Wheat ($/bu)	$5.12	$4.91

Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (soybean and wheat)

Richard Tan, CFA
Toronto, Canada
richard.tan@rbc.com

WTI – Coronavirus outbreak

Optimism for global energy markets rose following renewed commitments by OPEC to cut supply, expectations for decelerating U.S. oil supply growth, and rising tensions in the Middle East that could increase geopolitical risk premiums. This optimism has been somewhat offset by the coronavirus outbreak, which may cause China tourism to slow and potentially lower oil consumption (e.g., jet fuel). RBC Capital Markets analysts increased their 2020 and 2021 forecasts to $59 per barrel.

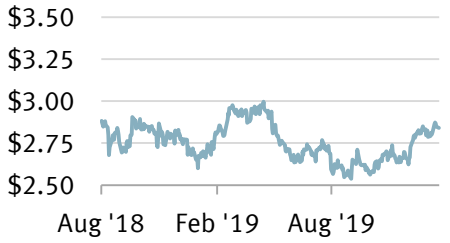


Natural gas – Political uncertainty

As part of the signing of the Phase 1 U.S.-China trade deal, China agreed to purchase an additional $52 billion worth of U.S. energy (includes LNG) over the next 24 months. It is uncertain whether China will remove or reduce its existing 25% tariff on U.S. LNG, which in turn has caused a slowdown in the number of new LNG facilities coming online over the past year. RBC Capital Markets analysts decreased their 2020 forecast to $2.25/mmBtu.

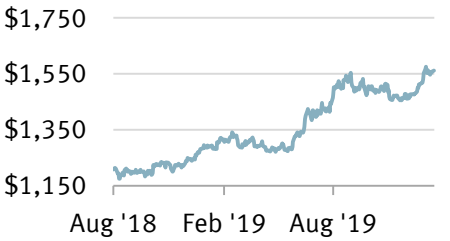
Copper – 5G ramp-up

Copper prices have rallied approximately 7% since the beginning of December 2019, driven by increased optimism for improving relations between the U.S. and China earlier in January. Net short positions also decreased to their lowest levels since April 2019. We believe refined copper demand in China will slow this year due to lower grid investments, partially offset by increased spending associated with 5G communication stations, which require more copper compared to 4G stations.



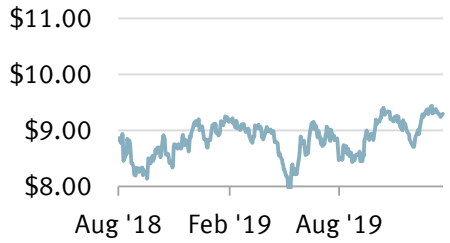
Gold – Centralizing the support

Gold reached a seven-year high and breached the $1,600/oz level following the rising geopolitical tensions in the Middle East in early January. Dovish monetary policy was a key driver for higher gold prices in 2019, but the market expects the rate environment to be less accommodative in 2020, with just one Fed rate cut priced into the market. We believe central banks will continue to be supportive as they increase gold reserves at a relatively high rate in 2020.



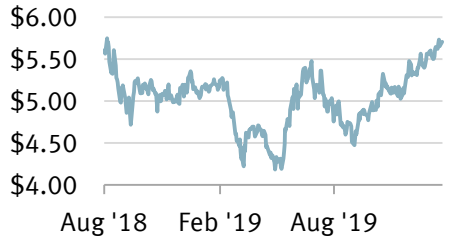
Soybeans – Soy-ing higher

Soybean pricing hit an 18-month high in the weeks leading up to the Phase 1 U.S.-China trade deal but retraced modestly (approximately -1.5%) following higher-than-anticipated ending inventories. The USDA stated that global ending stocks came in at 96 million tonnes, slightly above the market's expectations. We would emphasize that on a relative basis, inventories are about 13 million tonnes lower year over year.



Wheat – Bullish sentiment

Wheat prices are up approximately 5% m/m and are trading near the upper end of the 18-month price range. China's December imports increased about 111% y/y and could signal a ramp-up in U.S. export demand post the signing of the Phase 1 deal. While the agreement is positive for global economies, we believe it is unclear how China will execute on its purchase targets. Global ending inventories were lower on a month-over-month basis.



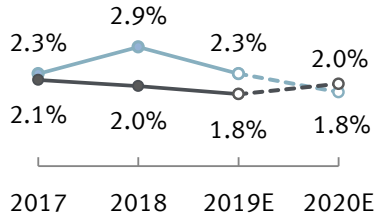
Source - RBC Wealth Management, Bloomberg; date range: 8/1/18–1/20/20

Key forecasts

Real GDP growth — Inflation rate

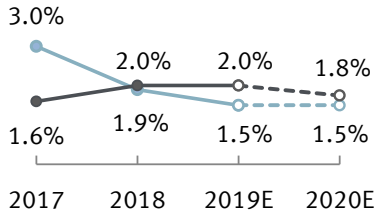
United States – Easing tensions

The December jobs report saw wage growth slow to 3.0%, while the Fed held the funds target range at 1.50%–1.75%. The U.S.-China Phase 1 trade agreement sent major indexes higher. Consumer confidence hit a six-month high amid the de-escalation of tensions in the Middle East. The benchmark 10Y is currently trading at ~1.56% and the 2Y/5Y re-inverted as the coronavirus and Fed Chair Powell's inflation comments weighed on yields in late January.



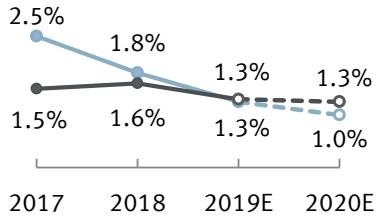
Canada – More jobs added

The BoC left interest rates on hold against expectations for a rate cut but left open a future reduction should a recent domestic growth slowdown persist. Unemployment fell to 5.60% as 35,000 jobs were added. Manufacturing data has softened further towards contraction territory. November GDP ticked up 0.1%, erasing the October 0.1% decline. Nonetheless, the small increase won't be enough to salvage what will likely be a weak end to the year.



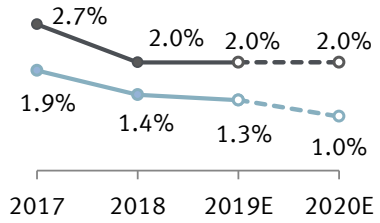
Eurozone – Weak growth keeps rates low

In January the ECB voted unanimously to keep the main deposit rate at a historic -0.5% low. It stated its readiness for all Brexit contingencies and will lend pounds to euro area banks if needed. The January flash manufacturing PMI, while still weak at 47.8, was firmer than December's 46.3. The flash services PMI was worse than expected, just above contraction at 50.2. Aggregate eurozone Q4 GDP rose just 0.1%, the weakest quarter in almost seven years.



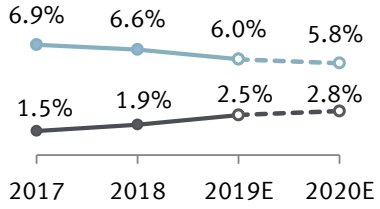
United Kingdom – Brexit arrives

The Bank of England held interest rates at 0.75% in Governor Mark Carney's final meeting, by a vote of 7-2, ahead of the United Kingdom's January 31 departure from the EU, cemented when the European Parliament approved of Prime Minister Boris Johnson's Brexit deal. BoE officials cut their GDP forecast to 0.75% growth, compared with the 1.25% projected in November, signaling some monetary easing may be needed soon.



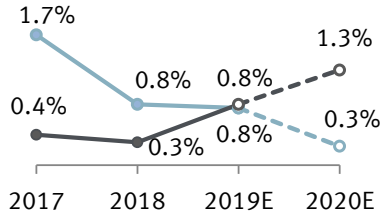
China – Coronavirus fears spread

After a bounce from the trade truce, China's economy is now facing the risks posed by the coronavirus epidemic. While the implications to the Chinese economy remain unclear, a recent article in Bloomberg Economics reported that in a containment scenario, China's Q1 GDP growth could be shaved to 4.5% annually, down 1.5 percentage points from Q4 2019. Hong Kong growth could lose 1.7 percentage points.



Japan – Recession fears ease

Japan's flash manufacturing PMI edged up slightly to 49.3 in January, marking the ninth consecutive month below the 50.0 threshold. Output and new orders contracted for the 13th consecutive month, albeit at a slower pace, signaling factory activity may have bottomed and alleviating recession fears. Complicating the mix is the potential impact the coronavirus may have on the Japanese economy.



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	3,225.52	-0.2%	-0.2%	19.3%
Dow Industrials (DJIA)	28,256.03	-1.0%	-1.0%	13.0%
NASDAQ	9,150.94	2.0%	2.0%	25.7%
Russell 2000	1,614.06	-3.3%	-3.3%	7.6%
S&P/TSX Comp	17,318.49	1.5%	1.5%	11.4%
FTSE All-Share	4,057.47	-3.3%	-3.3%	6.1%
STOXX Europe 600	410.71	-1.2%	-1.2%	14.5%
EURO STOXX 50	3,640.91	-2.8%	-2.8%	15.2%
Hang Seng	26,312.63	-6.7%	-6.7%	-5.8%
Shanghai Comp	2,976.53	-2.4%	-2.4%	15.2%
Nikkei 225	23,205.18	-1.9%	-1.9%	11.7%
India Sensex	40,723.49	-1.3%	-1.3%	12.3%
Singapore Straits Times	3,153.73	-2.1%	-2.1%	-1.1%
Brazil Ibovespa	113,760.60	-1.6%	-1.6%	16.8%
Mexican Bolsa IPC	44,108.31	1.3%	1.3%	0.3%
Bond yields	**1/31/20**	**12/31/19**	**1/31/19**	**12 mo. chg**
US 2-Yr Tsy	1.313%	1.569%	2.458%	-1.14%
US 10-Yr Tsy	1.507%	1.918%	2.629%	-1.12%
Canada 2-Yr	1.431%	1.697%	1.775%	-0.34%
Canada 10-Yr	1.273%	1.702%	1.879%	-0.61%
UK 2-Yr	0.504%	0.545%	0.756%	-0.25%
UK 10-Yr	0.524%	0.822%	1.219%	-0.70%
Germany 2-Yr	-0.670%	-0.601%	-0.564%	-0.11%
Germany 10-Yr	-0.434%	-0.185%	0.149%	-0.58%
Commodities (USD)	**Price**	**1 month**	**YTD**	**12 month**
Gold (spot $/oz)	1,589.16	4.7%	4.7%	20.3%
Silver (spot $/oz)	18.04	1.1%	1.1%	12.3%
Copper ($/metric ton)	6,486.50	-9.7%	-9.7%	-9.8%
Uranium ($/lb)	20.90	-0.5%	-12.6%	-7.7%
Oil (WTI spot/bbl)	51.56	-15.6%	-15.6%	-4.1%
Oil (Brent spot/bbl)	58.16	-11.9%	-11.9%	-6.0%
Natural Gas ($/mmBtu)	1.84	-15.9%	-15.9%	-34.6%
Agriculture Index	273.20	-2.8%	-2.8%	1.4%
Currencies	**Rate**	**1 month**	**YTD**	**12 month**
US Dollar Index	97.3900	1.0%	1.0%	1.9%
CAD/USD	0.7554	-1.9%	-1.9%	-0.9%
USD/CAD	1.3237	1.9%	1.9%	0.9%
EUR/USD	1.1093	-1.1%	-1.1%	-3.1%
GBP/USD	1.3206	-0.4%	-0.4%	0.7%
AUD/USD	0.6692	-4.7%	-4.7%	-8.0%
USD/JPY	108.3500	-0.2%	-0.2%	-0.5%
EUR/JPY	120.1700	-1.3%	-1.3%	-3.6%
EUR/GBP	0.8400	-0.7%	-0.7%	-3.8%
EUR/CHF	1.0689	-1.5%	-1.5%	-6.1%
USD/SGD	1.3648	1.4%	1.4%	1.4%
USD/CNY	6.9426	-0.3%	-0.3%	3.6%
USD/MXN	18.8447	-0.4%	-0.4%	-1.4%
USD/BRL	4.2829	6.3%	6.3%	17.4%

Coronavirus pressured global equities in January, with Hong Kong hit the hardest.

Investors fled to safe havens, driving yields back to recent lows.

Oil fell sharply as coronavirus stoked concerns about demand.

Positive trade developments lifted the dollar against major currencies.

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 0.75 means 1 Canadian dollar will buy 0.75 U.S. dollar. CAD/USD -0.9% return means the Canadian dollar has fallen 0.9% vs. the U.S. dollar during the past 12 months. USD/JPY 108.35 means 1 U.S. dollar will buy 108.35 yen. USD/JPY -0.5% return means the U.S. dollar has fallen 0.5% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 1/31/20.

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:

Lori Calvasina – Managing Director & Head of U.S. Equity Strategy, RBC Capital Markets, LLC

Dave McKay – President & CEO, Royal Bank of Canada

Nicholas Gwee – Equity Specialist, Royal Bank of Canada, Singapore Branch

Blaine Karbonik, CFA – Associate, FX and Structured Products Specialist, RBC Wealth Management, RBC Europe Limited

Richard Tan, CFA – Canadian Equities Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – Equities, RBC Dominion Securities 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: Dave McKay, an employee of Royal Bank of Canada; Jim Allworth, Mark Bayko, Christopher Girdler, Patrick McAllister, and Richard Tan, employees of RBC Wealth Management USA's foreign affiliate RBC Dominion Securities Inc.; Frédérique Carrier, Blaine Karbonik, and Alastair Whitfield, employees of RBC Wealth Management USA's foreign affiliate RBC Europe Limited; and Nicholas Gwee, an employee of Royal Bank of Canada, Singapore Branch 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.