GLOBAL
Insight

Wealth Management

Perspectives from the Global Portfolio Advisory Committee

November 2022

China charts its course through turbulence and transformation

As China faces challenges to growth and development, we reflect on the outcome of the 20th Communist Party Congress and what it means for investors.

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Insight

November 2022

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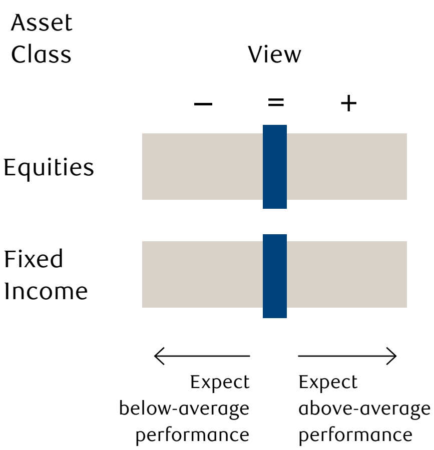

(+/=/–) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

+ 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 think many of this period's unique headwinds have already been priced into equities and there are reasons markets could bounce into the new year. Nevertheless, equity markets will likely have to contend with lingering threats in 2023. The UK and EU are increasingly flashing recessionary impulses, and the U.S. and China are not out of the woods.
- Consensus corporate earnings estimates for most markets have drifted down further, and we expect more trimming at least into early next year as management teams roll out their 2023 forecasts. If the U.S. economy ultimately succumbs to recession—as our economic indicators are suggesting—we would expect the downward revisions process to take longer and the cuts to be deeper.
- Our Market Weight (neutral) recommendation for U.S. and global equities is designed to balance corporate earnings and recession risks with the possibility that ebbing inflationary pressures and slowing growth could provoke a change of heart on the part of the Fed and other central banks sometime next year. We have downgraded Asia ex Japan to Market Weight from Overweight as we believe the region's economic challenges and policy uncertainties will likely take time to resolve.

Fixed income

- Government bond yields remain on the move higher as markets struggle to get a grip on just how high the Fed will have to raise rates to combat inflation. As a result, the 2-year Treasury yield has hit a fresh multi-year high of 4.7% in November, the highest level since 2007, while the 10-year Treasury yield is holding just north of 4%. The net result is that yield curves remain deeply inverted on risks the Fed overtightens monetary policy, thus raising recession risks in 2023. The central banks of Canada, England, and Europe appear set to take a more-cautious approach from here, with all delivering policy meetings and outlooks that were more dovish than expected.
- We remain Market Weight U.S. fixed income with yields at multi-year highs with a positive outlook for bank-issued preferred shares on the attractive yields and defensive nature of bank balance sheets. We have upgraded U.S. credit to Market Weight as yields have reached 20-year highs, with dollar prices on bonds historically low—offering a cushion should recession and default risks materialize.
- We maintain our Market Weight in global fixed income, with a Market Weight allocation to credit.

MONTHLY
Focus

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China charts its course through turbulence and transformation

The Communist Party of China recently wrapped up its twice-a-decade congress where it set the future policy agenda to confront sagging growth and nurture high-quality development. We reflect on the outcome of the 20th Party Congress and what it means for investors.

Key points

- **The new leadership team is viewed as more ideologically and politically oriented, while those retiring are perceived as more pro-growth and market-oriented. We think it's too early to draw such conclusions.**
- **Western media highlighted that China could be moving away from its decades-long trend of opening up its economy. We don't think this is the case. To achieve its development goals, China will likely need to attract more outside investors while expanding trade ties.**
- **National security and social stability became more important in President Xi's speech this time. To us, this makes sense. But there is much more to "security" than meets the eye.**
- **In China's quest for "Common Prosperity," we expect more tax policies to regulate the rich and to support the poor, and to bolster the social welfare safety net.**
- **Lifting the zero-COVID policy would likely be a key catalyst for China's near-term stock market performance. While we don't think this is imminent, we anticipate a gradual reopening will occur.**
- **We think market volatility could persist in the short term as investors debate the focus of future policy and look for signs to justify their own interpretation of the Party Congress messages.**

The recent conclusion of the 20th National Congress of the Communist Party of China (CPC), known as the Party Congress, and the subsequent unveiling of the 20th Politburo Standing Committee took place at a time when the world is experiencing profound changes. China itself is facing a number of challenges to its economic outlook due to the zero-COVID policy, property market turmoil, as well as trade and technology decoupling with the U.S., its largest trading partner. For investors, how China sets its policy agenda to address these challenges, and the degree to which it can contribute economic growth and mitigate uncertainty have become key points of focus.

Why is the 20th Party Congress important?

The Party Congress is held every five years and is one of the most important political events in China. This year, close to 2,300 delegates were elected to attend the meeting, representing more than 96 million Party

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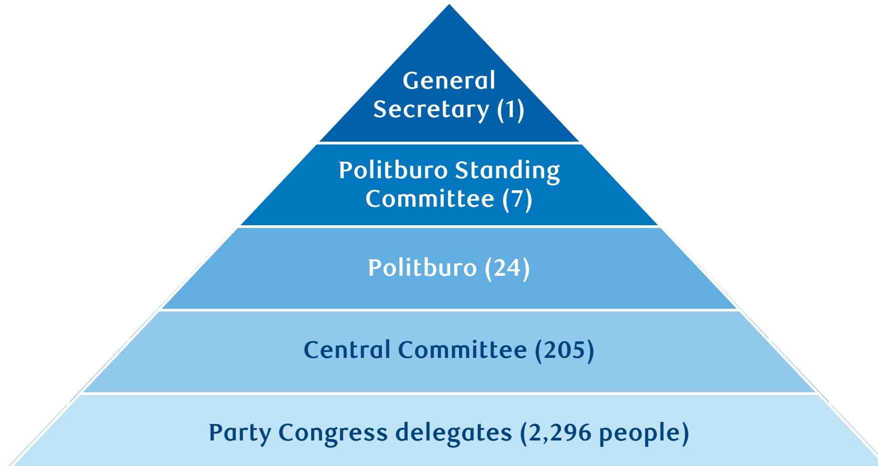
The election process of the 20th Party Congress



Source - RBC Wealth Management, Xinhua

members. During the meeting, the work of the Party over the past five years was reviewed, and the new Central Committee was elected, followed by the election of the political bureau (Politburo) and its Standing Committee, the latter of which represents the most senior Party leaders in China.

The most significant aspect of the 20th Party Congress, according to the CPC, is the fact that it falls during an important time in China's progress to achieving what are called the Two Centennial Goals:

- The first Centennial Goal was to "build a moderately prosperous society in all aspects" by 2021, which China has stated has already been achieved. This had a lot to do with the alleviation of absolute poverty, the increase in people's quality of life, and a significant rise in GDP.
- The focus is now on achieving the second goal, which is to "build a modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious and beautiful." How the country moves forward to achieve this goal will largely depend on forthcoming decisions made by the new Party leadership. This includes preventing and controlling major risks and deepening reforms to ensure that China moves ahead with healthy economic and social development.

This is a pivotal time as China switches gears from achieving the First Centennial Goal to preparing to make the Second Centennial Goal a reality by 2049, which is a symbolic date—the 100th anniversary of the founding of the People's Republic of China.

New leadership team

President Xi Jinping was reelected as the Party's general secretary and chairman of the Central Military Commission. He should also keep his government position as the president of the country, which will be confirmed at the National People's Congress in March 2023.

The total number of Politburo Standing Committee members remains unchanged at seven. Four of these are newly appointed members (Li Qiang,

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Cai Qi, Ding Xuexiang, and Li Xi), among which the first three had worked closely with Xi in the early stages of their careers.

Notable retirees include current Premier Li Keqiang and senior official Wang Yang, both at age 67. Xi broke with the previous personnel appointment rule of "seven up, eight down," which refers to an implicit convention since the 1990s that officials can remain on or join the Standing Committee if they are 67 years old or younger, but need to retire if they are 68 or older.

We think newly appointed leaders are generally viewed by market participants as more ideologically and politically oriented, while those retiring are perceived as more pro-growth and market-oriented. However, it may be too early to draw such conclusions. Policy directions and the management style of the new leadership team will be closely watched.

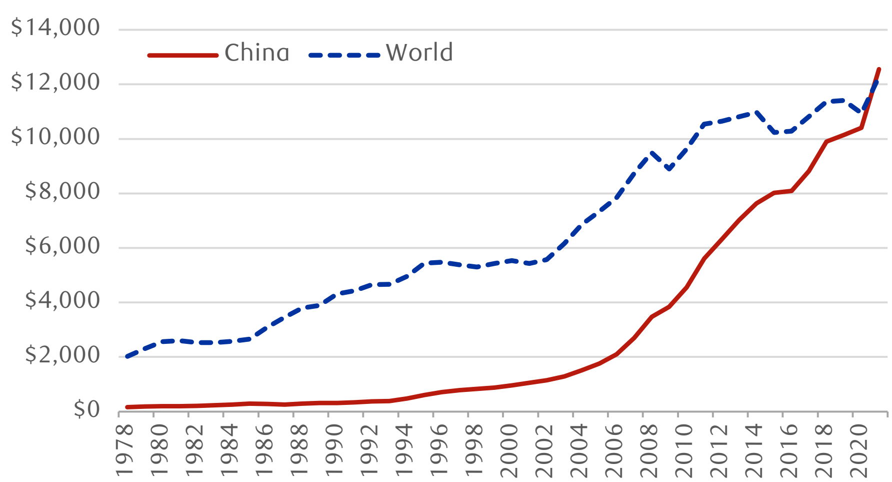
"High-quality development" still the top priority

President Xi's speech at the opening ceremony of the Party Congress reviewed the Party's work in the last five years and set a long-term blueprint for the economy.

Xi reiterated that the overall development objectives for 2035 are to substantially grow per capita GDP to be on par with that of a mid-level developed country. Previously, a Ministry of Finance official had defined "mid-level developed country" as meaning that per capita GDP would reach $20,000 in 2035. China's per capita GDP in 2021 was around $12,500, as the chart below shows. To achieve this goal China's economy will need to grow by four percent to five percent per annum from now until 2035.

China has made great economic progress over the past four decades

China's GDP per capita vs. the world average (current U.S. dollars)



Source - RBC Wealth Management, Bloomberg; annual data through 2021

To achieve such a target, we believe China will need to reopen its economy and lift the zero-COVID restrictions, as well as reengage with the world. The longer this process is delayed, the more stimulus measures may be required; these may not be as effective as in the past several decades due to the lack of credit and consumer demand and diminished confidence of businesses and consumers.

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The concept of "opening up" doesn't just apply to lifting COVID restrictions over the near term. In order for China to achieve four percent to five percent growth over the medium and long term—which a number of Wall Street economists are skeptical about—we believe China will need to further open up its economy to outside investors while developing and deepening trade ties with other nations. "Opening up" will be critical for China's future growth, in our opinion.

Self-sufficiency doesn't mean development behind closed doors

In his speech, Xi also said China will promote "high-standard opening up" and "accelerate efforts to foster a new pattern of development with domestic circulation as the mainstay and domestic and international circulations reinforcing each other." (The term "circulation" loosely refers to economic activity.)

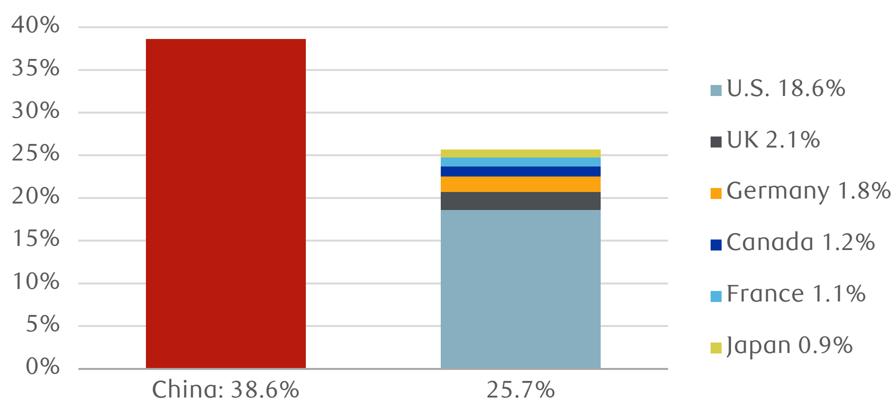
While some of the press coverage of Xi's speech and the Party Congress in Western news outlets highlighted that China could be moving away from its decades-long trend of opening up its economy, we don't think this is the case. Zhao Chenxin, a deputy director of the National Development and Reform Commission (NDRC), pointed out that it is wrong to think that China will scale back its efforts to open up its economy to the rest of the world. He said President Xi has stressed repeatedly that the globalization trend is irreversible and that no country can engage in economic development behind closed doors.

Zhao revealed that China utilized 893 billion yuan (around $124 billion) of foreign capital in the first eight months of 2022, an increase of 16.4 percent year over year in comparable terms. Foreign capital heading into high-tech industries increased by 33.6 percent year over year.

We think China seeks to maintain its ability to engage globally in trade, finance, and technology, while strengthening domestic demand, and boosting production and technological capabilities to prevent disruptions in the global marketplace. Its leadership in the Shanghai Cooperation Organization and the BRICS association (Brazil, Russia, India, China, and South Africa), both of which are growing in membership or considering expansion, are cited as two examples of this.

China's economy is a major contributor to global growth

Contributions to world economic growth (2013–2021)



Source - RBC Wealth Management, World Bank WDI database, China Ministry of Foreign Affairs

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National security has become more important

National security and social stability appear to have become more important in Xi's speech this time. Some textual analysis suggests the frequency of the use of the word "security" increased notably versus five years ago.

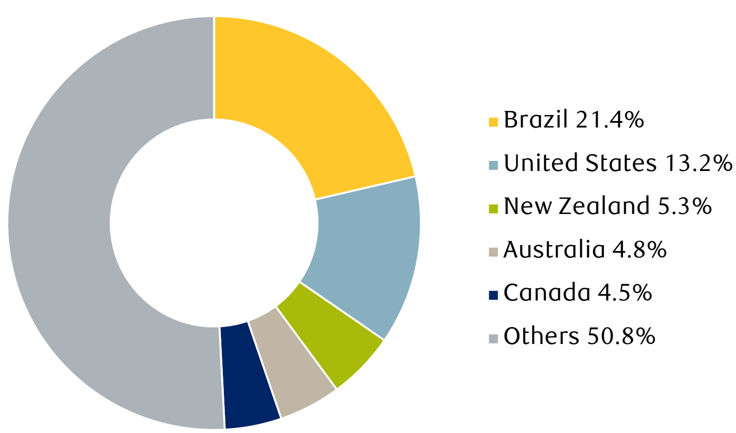
There is concern the focus on security will replace economic development as the top priority of the country. However, compared with the last Party Congress in 2017, the macro environment and geopolitical situation have changed significantly. We think it is reasonable to address "security" a bit more to respond to the challenges that China is facing domestically and internationally.

Looking closer at Xi's speech, the use of the term "security" was very broad. It included "people's security as our ultimate goal, political security as our fundamental task, economic security as our foundation, military, technological, cultural, and social security as important pillars, and international security as a support." There was also emphasis on ensuring and safeguarding food security, energy security, and supply chain security. These concepts are nothing new and have been frequently mentioned by government officials in the past few years.

For example, food security now has an important place in policy decisions as China is concerned that it is very vulnerable because of its reliance on food imports from the U.S. China imported more than 96 million tonnes of soybeans in 2021, accounting for about 83 percent of its domestic consumption that year and about 60 percent of global soybean trade volume. Most of the imports came from Brazil (60 percent) and the U.S. (33 percent). Soybeans has been one of the key items in the U.S.-China trade negotiations in recent years. China believes that reducing food reliance on the U.S. will allow it to take a proactive position when dealing with decoupling—the process by which linkages between the two countries could diminish, resulting in greater independence.

China has an appetite for imported foods

China's food imports by country of origin (2020)



Source - RBC Wealth Management, World Integrated Trade Solution; the "Others" category represents more than 170 countries

In his speech, Xi made it clear that China should ensure its "food supply remains firmly in its own hands." To achieve this goal, its total area of farmland should not fall below the 120 million hectare threshold. It also has plans to develop all permanent basic cropland into high-standard cropland as well as support the development of the seed industry and agricultural science, technology, and equipment. The thought is that agriculture development can also boost the incomes of rural populations and help achieve the goal of "Common Prosperity."

"Common Prosperity" likely to strengthen

The emphasis on and pursuit of "Common Prosperity" will likely strengthen under the new leadership. Xi reiterated the importance of increasing the incomes of low-income groups, promoting fairness, and better balancing development across different regions of China. Also, he pledged to reasonably regulate excessively high incomes, and to encourage high-income people and enterprises to return more to society.

Xi introduced a new concept of "regulating wealth accumulation mechanisms." Su Hainan, labor researcher from the China Association for Labour Studies, later said in an interview with The Beijing News that some people in society have been getting rich "too quickly" through income from investments, especially in the finance and internet sectors. Su also said the public expects the country to utilize taxation and regulation to deal with the situation. We believe it is likely that there will be more tax policies to regulate the rich and to support the poor, and to bolster the social welfare safety net.

Zero-COVID policy still a drag

We believe the consensus view of market participants is that lifting the zero-COVID policy will be one of the biggest near-term catalysts for the Chinese stock market. Some investment analysts in the West were disappointed this issue was not addressed at the Party Congress. However, this reflects misunderstanding of the purpose of the meeting. It is used to convey medium- and long-term goals, not to address the country's short-term challenges.

Interestingly, before the Party Congress, state media published articles for a few consecutive days to defend the government's zero-COVID approach. Despite these reports, we still expect a gradual reopening to occur. Before there is an official policy change, state media typically justifies the current policy, and from our perspective this justification does not serve as forward-looking guidance. Information about policy changes in China is typically not telegraphed ahead of time in the media. Regardless, we don't think there will be an immediate change to the zero-COVID policy after the Party Congress, as reopening preparations could take a few months to develop as China needs to come up with a clear exit roadmap to ensure that the health care system and public are ready.

Equity market implications

We think the Party Congress messages have shown policy continuity as the focus remains on development, specifically on advanced technologies,

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China charts its course through turbulence and transformation

new energy, and domestic consumption, among other areas that have been emphasized in the past. We don't think the meeting represents an immediate inflection point for the equity market as the objectives of the Party Congress are typically on new leadership appointments and long-term goals—there are no major near-term policy implications, in our view.

However, the sharp and rapid negative market reaction after the Party Congress may have revealed investors' divergent views on the new leadership team and its policy agenda. Some market participants seem to be skeptical that growth will be a focus and are concerned that "Common Prosperity" could mean policy uncertainties for some sectors and companies. We think market volatility could persist in the short term as investors debate the focus of future policy and look for signs to justify their own interpretation of the Party Congress messages.

But investors' attention could soon be drawn back to corporate fundamentals as many Chinese companies will report Q3 earnings results in November. We think this earnings season could be disappointing again and profit estimates could be revised down further. In our view, the consensus estimates are still too high, with earnings growth for the MSCI China Index for 2022 and 2023 standing at nine percent and 15 percent, respectively. The index is trading at a price-to-earnings ratio of 8.4x the 12-month forward consensus estimate, almost at the historical trough level. If there are more downward earnings revisions during and after the results season, valuations could drift up slightly.

In the months ahead, we will be watching the following key events:

- **The U.S.-China audit dispute results:** This long-standing dispute is an overhang for Chinese companies listed on U.S. stock exchanges. If regulators of the two countries reach an agreement, it could prevent around 200 Chinese firms from being delisted from American exchanges.
- **The Nationwide Financial Work Conference toward year end:** This will address financial reforms and regulations, which are important topics for investors.
- **The Central Economic Work Conference (CEWC) in mid-December:** The CEWC is a key meeting that outlines the country's top economic policy

Upcoming events

Dates	Events	Agenda
End 2022	6th Nationwide Financial Work Conference	Set the tone for financial reform and financial regulation for the next five years
Mid-December 2022	Central Economic Work Conference	Outline the country's economic policy agenda for next year and set (but not reveal) the 2023 growth target
March 2023	Yearly plenary meetings of National People's Congress (NPC) and the National Committee of the Chinese People's Political Consultative Conference (CPPCC)	Appoint new government officials and announce economic growth target

Source - RBC Wealth Management

priorities for 2023, which should provide investors with some hints on the future policy direction.

- **In March 2023, there will be two important state meetings, known as the Two Sessions**, which will appoint new government officials and announce the economic growth target.

In terms of investing in Chinese equities, we would continue to focus on thematic ideas such as high-end manufacturing and new energy, for example, the solar energy value chain. If China gradually lifts its strict zero-COVID policies next year, reopening plays such as airlines, travel agencies, restaurants, and some domestic consumer stocks should benefit, in our view.

Over the longer term, whether China is able to boost its economy back toward growth rates that are above developed-country economies, and if so, the process by which it achieves this goal will be the focus of investors, in our view. This will likely largely affect fund flows into the market, and the risk premiums and valuations that investors will apply to Chinese equities.

U.S. RECESSION

Scorecard

Recession probabilities moving higher

Three of our seven leading indicators of U.S. recession have unequivocally signaled a U.S. economic downturn is on the way. The Conference Board Leading Economic Index joined the recessionary grouping at the end of Q3. Three others are still firmly in expansionary territory but are moving (slowly) in the wrong direction, and the last—the unemployment rate—is sitting at a 53-year low with no immediate prospect of generating a negative signal.

The indicators that have flipped to recessionary status so far, together with the most recent low in unemployment claims (March 2022), point toward a recession getting underway by Q2 2023, in our view.

Yield curve (10-year to 1-year Treasuries)

The position of short-term interest rates relative to long-term rates—a.k.a. the shape of the yield curve—has been the most reliable leading indicator of a U.S. recession. Before the start of every recession for the past 75 years, the 1-year Treasury yield has risen above the 10-year yield, indicative of the arrival of tighter credit conditions. About a year after this crossing occurs, on average, a recession begins.

The 1-year yield rose above the 10-year yield decisively in July. The negative gap widened further in October. Thus, history suggests the U.S. economy will be in recession by next summer.

A majority of U.S. banks have begun raising lending standards, corroborating the yield curve's signal that credit conditions are becoming more restrictive. However, loan payment delinquencies and default rates remain very low; therefore, credit could remain accessible, albeit more expensive, for some time yet.

ISM New Orders minus Inventories

The difference between the New Orders and the Inventories sub-indexes of the ISM Purchasing Managers' Index has turned negative near the start of most U.S. recessions. But it has also registered occasional false positives—signaling a recession was imminent when none subsequently arrived. Moreover, this indicator only relates to activity in the manufacturing sector (some 15% of the U.S. economy) and is

U.S. recession scorecard

Indicator	Status: Expansionary	Status: Neutral	Status: Recessionary
Yield curve (10-year to 1-year Treasuries)			✓
Unemployment claims	✓		
Unemployment rate	✓		
Conference Board Leading Economic Index			✓
Free cash flow of non-financial corporate business	✓		
ISM New Orders minus Inventories			✓
Fed funds rate vs. nominal GDP growth	✓		

Source - RBC Wealth Management

U.S. RECESSION SCORECARD

derived from a survey rather than hard data. Therefore, we view this as a corroborative indicator—one to pay attention to if other longer-term indicators are implying a recession is on the way. It has been negative since May.

Conference Board Leading Economic Index

Historically, this series has given reliable early warnings of recession. When the index has fallen below where it was a year earlier, a recession has always followed—usually two to three quarters later.

This indicator turned negative in Q3, shifting it to the red column on our Scorecard. It now indicates a U.S. recession will likely be underway by Q2 of next year.

Unemployment claims

This series set its low, so far, for this cycle back in March at 178,000. The cycle low for claims has typically been registered about 12 months before the start of the next recession. So, if no lower reading is posted in the coming months, its history would suggest a recession could get underway by spring of next year.

After setting that low in March, the number of claims rose steadily to a peak of 245,000 in July. Since then, new monthly claims have fallen all the way back to 208,000. A new low for the cycle in the coming months can't be entirely ruled out, in our view.

Unemployment rate

The unemployment rate ticked back down to equal a multi-decade low of 3.5% in September. It would need to climb to almost 4.5% by December to signal a recession is definitely on the way. Once that signal is given, on average it has been eight to nine months from the lowest monthly reading until a recession gets underway, although there have been several instances where the time gap was only two to three months.

As for the rest …

Neither the **free cash flow of non-financial corporate business** nor the **federal funds rate vs. nominal GDP growth** appear remotely close to crossing the threshold into a recessionary reading, although in both cases the positive gap is narrowing.

Weighing up the current positioning of all seven indicators and projecting their likely paths over the next couple of quarters continues to point to a growing probability the U.S. will enter recession sometime late in the first half of 2023, in our view.

GLOBAL

Equity

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Room (for now) for some upside

After setting new correction lows in September and early October, most major equity markets—Asian markets excepted—rallied convincingly into November.

However, our U.S. Recession Scorecard suggests a U.S. recession is on the way, and will probably arrive around the middle of 2023. This implies the rally which appears to be getting underway will eventually give way to another period of falling share prices reflecting the worsening earnings expectations that usually accompany an economic downturn.

In our view, though, that challenging turn in fortunes for the economy and for equity markets lies a quarter or more down the road. In the meantime, a number factors persuade us the current advance could have legs into the new year:

1. The possibility of a Fed pivot is back on the table. Inflation accelerated and streaked higher from this point last year, and therefore even moderately slower inflation in the coming months could show up as a pronounced slowdown in the year-over-year rate. The Fed's preferred measure—the Personal Consumption Expenditures Price Index—faded to 6.2% in September from 7.0% in June. Over the past three months, U.S. headline inflation has been running at an annualized rate of just 1.9%.

The prices of many commodities, as well as shipping costs, have declined markedly, and this should start showing up in related consumer prices. Even the Employment Cost Index has shown some tentative signs of flattening out. Another benign month-over-month CPI number for October could permit a softening of Fed rhetoric and might signal an impending end to outsized rate hikes. The lower bond yields and weaker U.S. dollar that could accompany such a change in expectations would help keep the equity rally alive, in our view.

Equity views

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

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

2. Some Ukraine-related crisis elements have subsided. Europe, aided by a warmer-than-average autumn, has managed to build its natural gas reserves to unexpectedly high levels—94% of capacity recently. This has dramatically lowered near-term natural gas prices in both Europe and North America, and allayed fears of a runaway price spiral immediately ahead. It's good news for both consumer and government finances in Europe and the UK, as well as for North American electricity and heating costs.

3. History is on the side of an equity market rally. In the September Global Insight, we pointed out that the S&P 500 has almost always delivered worthwhile positive returns following U.S. midterm elections.

4. Pessimism remains the dominant mentality for both market participants and corporate management teams. As equity markets were peaking late last year, investor sentiment readings showed excessive optimism and commensurately low levels of pessimism. The opposite has been true over the past several weeks. Usually, such extreme pessimism as we have seen recently is not sustainable for long, and is followed by a multi-month upswing to a more decidedly bullish majority view, accompanied along the way by rising share prices.

GLOBAL EQUITY

Tempered optimism

Whether any unfolding equity rally is something more than an upside interlude in a longer-term downtrend remains to be seen. However, for the reasons laid out above, we think the major indexes could regain enough of the ground lost to the January–October decline, and take enough time doing it, that “wait and see” is the right approach for now.

However, our U.S. Recession Scorecard suggests a recession is on the way and will arrive sometime in 2023—probably around mid-year. It also suggests the point of no return may already have been passed. Since all previous U.S. recessions have been associated with equity bear markets, we expect the advance in equity prices that appears to be getting underway, no matter how far it goes, eventually will give way to another period of falling share prices reflecting the declining expectations for earnings and eroding confidence in the future that typically come with a period of economic retrenchment.

GLOBAL

Fixed income

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Are we there yet?

Markets were once again caught slightly off guard by a Federal Reserve that remains steadfast in its intent to keep raising rates until there are clear signs that inflation is on the way down—seemingly regardless of any economic damage that may come as a result.

The latest Fed meeting did acknowledge that policymakers will take into consideration the cumulative effect of rate hikes to this point—375 basis points and counting since the first move in March—and the long lead time between rate hikes and the actual impact on the economy when taking the next steps, suggesting a more-cautious approach. But the Fed also signaled that where it previously saw rates rising to 4.75% this cycle, the actual level may now be even higher given the lack of progress on inflation and a still-tight labor market.

So once again, markets were left wanting for the long-awaited dovish pivot from the Fed. Even if the pace of rate hikes slows to 50 basis point increments at upcoming meetings, which we expect, the end of this rate hike cycle might now be pushed back to March of next year, and at a level of around 5.25%, from 4% currently following the November meeting.

Fixed income views

Region	Gov't bonds	Corp. credit	Duration
Global	=	=	5–7 yr
United States	=	=	7–10 yr
Canada	+	+	5–7 yr
Continental Europe	=	=	5–7 yr
United Kingdom	–	=	5–7 yr

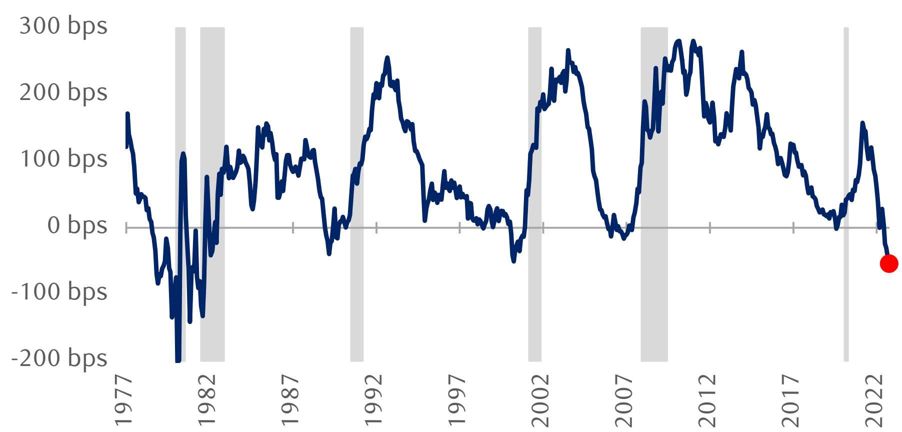
+ Overweight; = Market Weight; – Underweight
Source - RBC Wealth Management

And as the Fed pushes on, yield curves continue to suggest heightened economic risks ahead. With the Fed seen taking rates north of 5%, the 2-year Treasury yield has climbed to 4.7%, while the 10-year Treasury yields has held closer to just 4.1%, that gap of negative 60 basis points is now the deepest yield curve inversion since the 1980s.

But other major global central banks appear set to diverge from the Fed. The Bank of Canada actually

Yield curves have reached their most inverted levels since the Fed's last inflation battle in the 1980s

Two-year Treasury yield minus 10-year Treasury yield



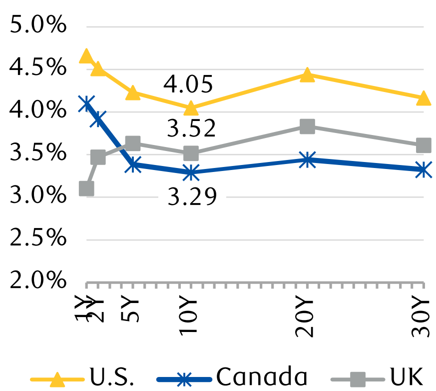
Source - RBC Wealth Management, Bloomberg

GLOBAL FIXED INCOME

delivered a 50 basis point rate hike in October to 3.75%, below consensus expectations, suggesting to us that the end is near. The European Central Bank (ECB) raised doubts about whether rates even needed to move much beyond "neutral" levels for the economy, again suggesting that the ECB may be nearing an end point.

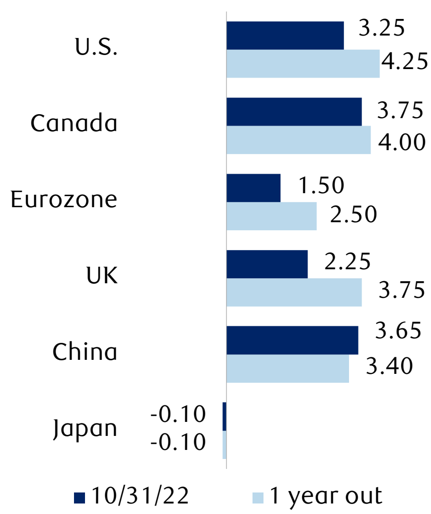
And finally, the Bank of England (BoE) took the most forceful approach, explicitly pushing back against market expectations that had priced rates exceeding 5% next year, stating that such an outcome would spark a two-year recession. We share the BoE's view that excessively high rates carry too much economic risk, and continue to see the BoE ending rate hikes at a level of just 3.75% early next year, from 3% currently.

Sovereign yield curves



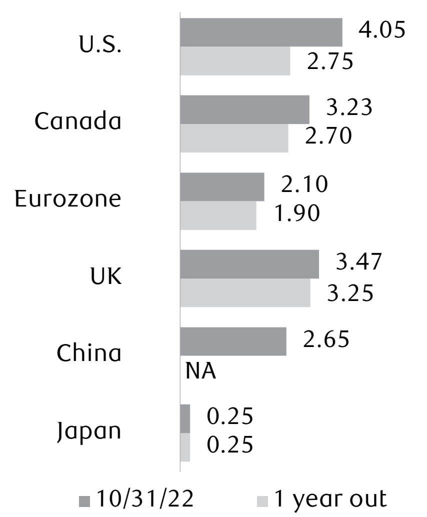
Source - Bloomberg; data through 10/31/22

Central bank rate (%)



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

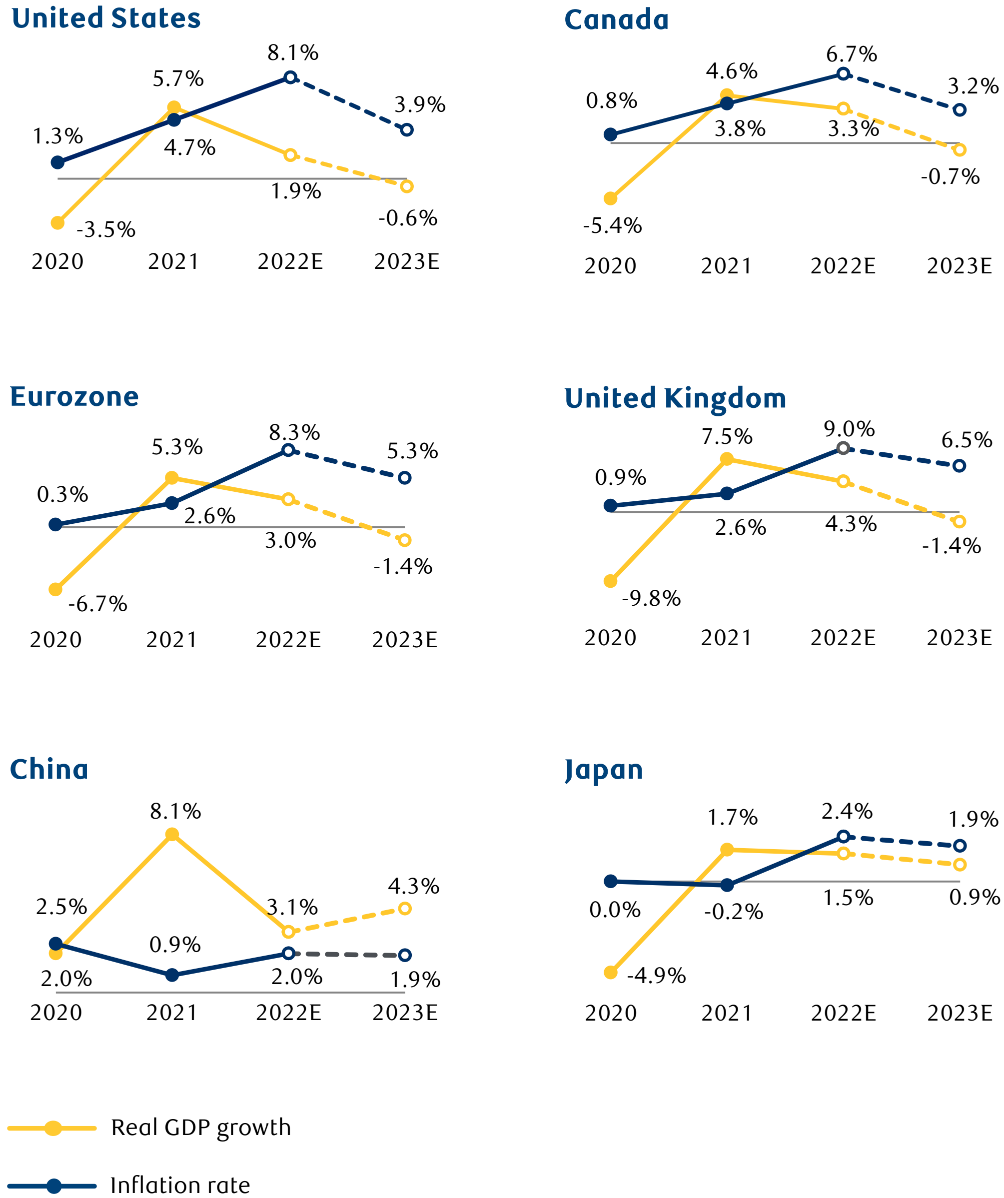
10-year rate (%)



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

KEY

Forecasts



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

Market Scorecard

Data as of Oct. 31, 2022

Equities

Global equity markets posted strong gains in October with the exception of those in China and Singapore.

Bond yields

Sovereign bond yields advanced higher across the globe while UK sovereign yields fell after the Bank of England announced bond-buying plans.

Commodities

Commodity markets mostly gained in October, led by crude up almost 9%.

Currencies

The U.S. dollar lost some ground in October, though the greenback remains strong year to date against most global currencies.

Index (local currency)	Level	1 month	YTD	12 month
S&P 500	3,871.98	8.0%	-18.8%	-15.9%
Dow Industrials (DJIA)	32,732.95	14.0%	-9.9%	-8.6%
Nasdaq	10,988.15	3.9%	-29.8%	-29.1%
Russell 2000	1,846.86	10.9%	-17.7%	-19.6%
S&P/TSX Comp	19,426.14	5.3%	-8.5%	-7.7%
FTSE All-Share	3,876.48	3.0%	-7.9%	-6.1%
STOXX Europe 600	412.20	6.3%	-15.5%	-13.3%
EURO STOXX 50	3,617.54	9.0%	-15.8%	-14.9%
Hang Seng	14,687.02	-14.7%	-37.2%	-42.1%
Shanghai Comp	2,893.48	-4.3%	-20.5%	-18.4%
Nikkei 225	27,587.46	6.4%	-4.2%	-4.5%
India Sensex	60,746.59	5.8%	4.3%	2.4%
Singapore Straits Times	3,093.11	-1.2%	-1.0%	-3.3%
Brazil Ibovespa	116,037.08	5.5%	10.7%	12.1%
Mexican Bolsa IPC	49,922.30	11.9%	-6.3%	-2.7%

Bond yields	10/31/22	9/30/22	10/31/21	12 mo. chg
U.S. 2-Yr Tsy	4.482%	4.279%	0.497%	3.99%
U.S. 10-Yr Tsy	4.048%	3.829%	1.552%	2.50%
Canada 2-Yr	3.897%	3.791%	1.094%	2.80%
Canada 10-Yr	3.251%	3.173%	1.723%	1.53%
UK 2-Yr	3.333%	4.232%	0.710%	2.62%
UK 10-Yr	3.516%	4.093%	1.034%	2.48%
Germany 2-Yr	1.936%	-0.601%	-0.585%	2.52%
Germany 10-Yr	2.142%	-0.185%	-0.106%	2.25%

Commodities (USD)	Price	1 month	YTD	12 month
Gold (spot $/oz)	1,633.56	-1.6%	-10.7%	-8.4%
Silver (spot $/oz)	19.16	0.7%	-17.8%	-19.8%
Copper ($/metric ton)	7,522.00	-2.1%	-22.8%	-23.3%
Oil (WTI spot/bbl)	86.53	8.9%	12.4%	3.5%
Oil (Brent spot/bbl)	94.83	7.8%	21.9%	12.4%
Natural Gas ($/mmBtu)	6.36	-6.1%	70.4%	17.1%
Agriculture Index	472.75	-1.3%	6.2%	9.4%

Currencies	Rate	1 month	YTD	12 month
U.S. Dollar Index	111.5270	-0.5%	16.6%	18.5%
CAD/USD	0.7340	1.5%	-7.2%	-9.1%
USD/CAD	1.3624	-1.5%	7.8%	10.0%
EUR/USD	0.9882	0.8%	-13.1%	-14.5%
GBP/USD	1.1469	2.7%	-15.2%	-16.2%
AUD/USD	0.6399	0.0%	-11.9%	-14.9%
USD/JPY	148.7100	2.7%	29.2%	30.5%
EUR/JPY	146.9700	3.6%	12.3%	11.5%
EUR/GBP	0.8621	-1.8%	2.5%	2.1%
EUR/CHF	0.9898	2.3%	-4.6%	-6.5%
USD/SGD	1.4165	-1.3%	5.0%	5.0%
USD/CNY	7.3050	2.7%	14.9%	14.0%
USD/MXN	19.8110	-1.6%	-3.5%	-3.7%
USD/BRL	5.1797	-4.4%	-7.1%	-8.1%

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 0.73 means 1 Canadian dollar will buy 0.73 U.S. dollar. CAD/USD -9.1% return means the Canadian dollar has fallen 9.1% vs. the U.S. dollar during the past 12 months. USD/JPY 148.71 means 1 U.S. dollar will buy 148.71 yen. USD/JPY 30.5% return means the U.S. dollar has risen 30.5% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 10/31/22

Research resources

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As of Sept. 30, 2022

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
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Hold [Sector Perform]	580	39.30	161	27.76
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