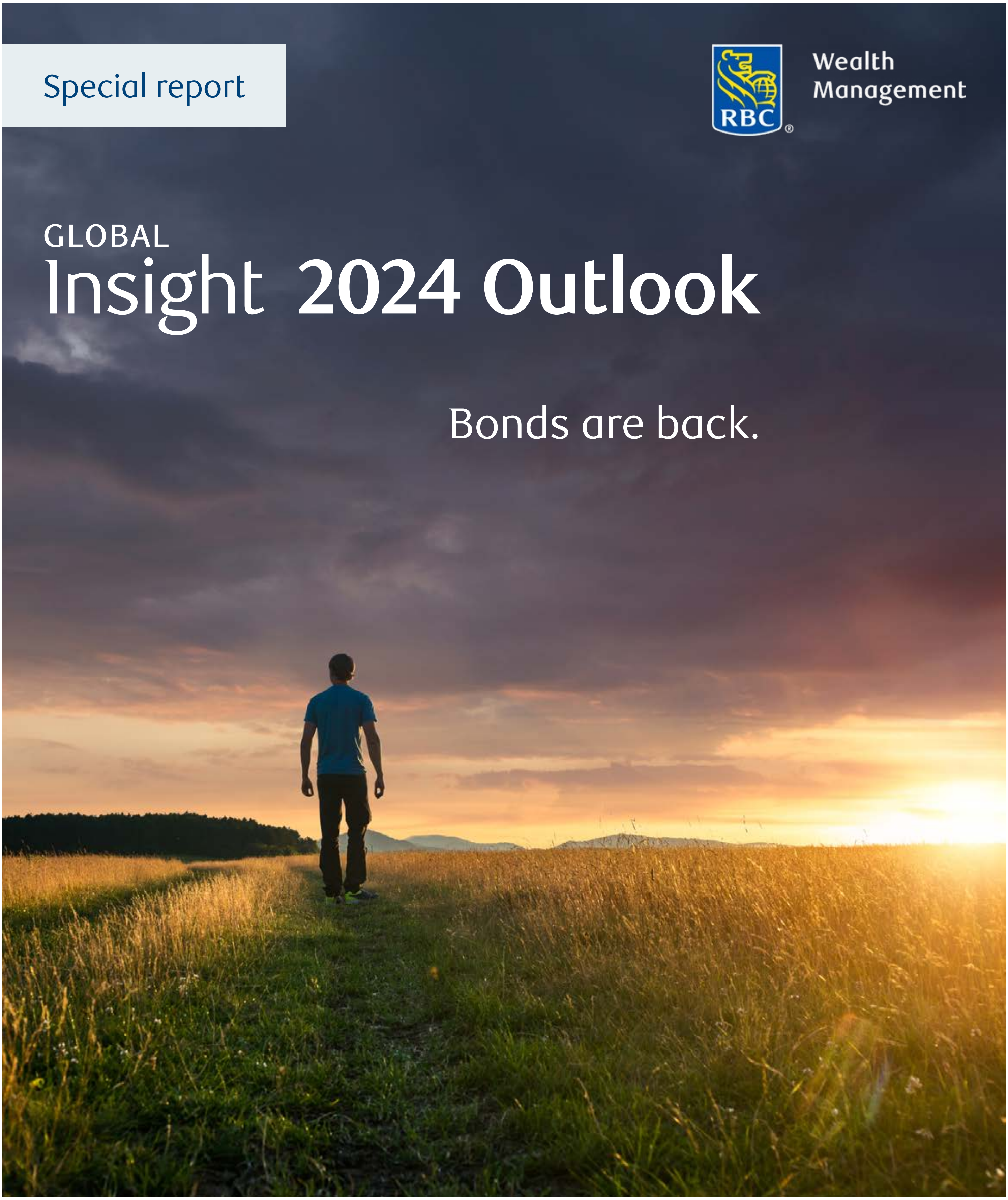
Special report

GLOBAL Insight 2024 Outlook

Bonds are back.



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For important and required non-U.S. analyst disclosures, see page 36.

All values in U.S. dollars and priced as of market close, Nov. 20, 2023, unless otherwise stated.

Global Insight 2024 Outlook

Market overview

A new reality

Jim Allworth
Vancouver, Canada

Sideways stock markets and surging bond yields, set against a backdrop of a possible economic downturn, leave investors entering 2024 faced with a number of continuing challenges but newly rearmed with a traditional, reliable tool to enhance returns and manage risk. We look at how the return of bonds as a valuable complement to stocks in a balanced portfolio has changed the equation, and how investors can adapt. And while today's financial conditions seem to be a recipe for recession, we remain sufficiently committed to equities to take advantage of a realistic possibility large-cap indexes could post new highs in the coming months.

Key points

- **In the wake of central banks winding up their bond buying programmes, (quantitative easing), bond yields for the first time in more than a decade have moved back to levels that make fixed income a fully useable and desirable adjunct to equities in a balanced portfolio.**
- **But much higher bond yields are also adding to costs for businesses, pressuring profit margins, while reducing the spendable income of consumers. Added to already restrictive credit conditions, these raise the probability of recession in the coming year, in our view. But the hard/soft landing debate won't be over for a while—we believe both remain plausible outcomes.**
- **The prospect the Fed and other central banks have finished with rate hiking has raised investor hopes that rate cutting may be on the agenda sooner than expected. This has fueled a stock market rally that could set new highs for some of the large-cap indexes before it's done.**

Up and down ...

... pretty much describes the last two years in major global equity markets. After what can only be described as dramatic advances off the pandemic lows of spring 2020 (see table), most indexes peaked some 21 months thereafter and have been doing not much more than digesting those hefty gains ever since.

A very large move higher for stock markets ... followed by a rest

Index performance in local currency

Index	March 2020 to December 2021	December 2021 to November 2023
S&P 500 (U.S.)	120%	-6%
S&P/TSX Composite (Canada)	99%	-9%
MSCI Europe	82%	-9%
FTSE All-Share (UK)	49%	2%

Source - FactSet; data through 11/20/23

The overwhelming predominance of equity index gains in 2023 has come from the so-called "Magnificent 7" tech and tech-related stocks in the S&P 500 (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla). Indexes which contain none of those stocks (Canada's TSX, the MSCI Europe, and the UK's FTSE All-Share) are trading at much lower valuations and have underperformed the S&P 500.

Where the action is

As much as stock indexes have stagnated and gone nowhere over the past couple of years, bond yields have surged higher to levels not seen since prior to the global financial crisis. For the first time in more than 15 years, an investor faced with a maturing bond security in a portfolio does not have to hold their nose and reinvest the proceeds at a much lower and unappealing rate, or hold it even tighter and perhaps shift to high-risk debt or high-yielding stocks to fill the gap in current income.

Today, a combination of government and investment-grade corporate bonds is yielding north of five percent. We believe that makes bonds once again a valuable adjunct to equities in a balanced portfolio, providing, as they have traditionally done, a combination of reduced volatility, more predictable returns, and the comfort of a maturity value.

This new, higher level for fixed income yields has arrived because central banks, led by the U.S. Federal Reserve, have abandoned the massive bond purchase programmes (aka quantitative easing) that were in operation throughout much of the past 15 years. These were designed to push bond yields much lower than market forces would have taken them as a support

Expected returns from a bond portfolio balanced 50/50 between U.S. Treasury bonds and investment-grade corporates

Source - Bloomberg, California Public Employees Retirement System (CalPERS); data through 11/17/23

for the developed economies in the wake of the global financial crisis, the European sovereign debt crisis, and the pandemic.

What does this new higher bond yield environment mean for equities?

First, it reduces the need to buy equities for income in order to make a long-term financial plan work.

At one point in the post-pandemic period, more than 60 percent of the stocks in the S&P 500 sported dividend yields in excess of the 10-year U.S. Treasury bond yield. Rather than make a multiyear commitment to a bond paying an artificially low rate, an investor was able to acquire the shares of a seasoned, probably well-known company with a higher-yielding dividend and offering the prospect that the dividend might be raised periodically.

As a consequence, fueled by the need to boost portfolio income, equity exposure in individual investors' portfolios crept higher over that stretch when bond yields were deeply supressed by extreme central bank policies. The same trend toward higher equity exposure could be seen in some balanced funds and pension funds.

Today, no such obvious income pick-up advantage is widely available, in our view. Companies possessing dividend yields competitive with or better than bond yields often have other issues attending them.

If individual investors and pension funds find themselves able to achieve their long-term targeted returns and take less risk in the process, many may choose to do so. Lowering equity exposure by a few percentage points and redeploying the funds into fixed income is likely to be a feature of the coming months and quarters.

Second, the need for companies to refinance old loans and take on new ones in this higher-rate world means corporate interest costs are likely to rise, squeezing profit margins if those costs can't be fully passed on to customers.

Only the largest, most seasoned businesses were able to use the pandemic interlude of ultralow interest rates to issue long-term bonds. Many others had to accept shorter maturities. Some 20 percent of high-yield bonds (i.e., bonds of low-quality issuers) will mature in the next 18 to 36 months and will have to be refinanced at higher rates, which for some will likely be difficult. Even more companies are already being squeezed by the fast-rising cost of floating-rate debt. This latter category includes many small-cap companies, which we think goes some way to explaining their persistent underperformance in the stock market over the past year.

And finally, sharply rising borrowing costs reduce the spendable income of customers—both individuals and businesses. U.S. consumers are contending with higher rates for mortgages, auto loans, and credit cards. At the same time, 44 million Americans are back making monthly payments on student loans.

Debate still on

Meanwhile, the hard versus soft landing debate about the likely course of the U.S. economy carries on. It won't be settled definitively until the Business Cycle Dating Committee at the National Bureau of Economic Research decides on the official start date of any recession that arrives. That announcement usually comes about a year after the recession has begun—making the proclamation itself not very useful for investors.

For our part, we are persuaded that the combination of high rates and restrictive bank lending standards in place today is a recipe for recession, just as it has been in the past. Soft landings, on the other hand, have historically featured rising interest rates but no overt tightening of lending standards.

And the presence of similar conditions, i.e., high rates and restrictive lending, is already taking a toll in Canada, the UK, and the eurozone. GDP growth in all three has been no more than a shadow of U.S. growth over the first nine months of 2023.

Of course, our expectations for a U.S. recession could be misplaced. The pandemic abruptly ended what had been the longest uninterrupted economic expansion in U.S. history. And policy reactions to that public health crisis kick-started a new economic advance just as quickly. Big, decisive shifts in both fiscal and monetary policy over the past few years continue to have lingering effects on the course of the economy, which could persist in 2024. Instead of an outright multi-quarter decline in GDP, the headwinds alluded to above may do no more than keep growth on the slow side in 2024.

That could be enough to keep S&P 500 earnings growing, although probably not by as much as the current consensus estimate for 2024 ($245 per share, up 11.4 percent from 2023's expected $220) would suggest. In our opinion, any growth in earnings would leave room for share prices to advance between now and the end of 2024, even if the path for getting there remains in debate.

Stock markets have been rallying recently, after inflation data improved further and the Fed paused its rate hikes, and presumably on the strength of

Q3 GDP and earnings growth that was ahead of consensus expectations. It looks to us like the rally could have legs into the new year.

For now, we recommend remaining sufficiently committed to stocks to take advantage of the distinct possibility of some large-cap indexes led by the S&P 500 reaching new all-time highs in the coming few months. However, we believe investors should consider limiting individual stock selections to companies they would be content to own through a recession, which, in our view, is the most probable economic outcome in the coming quarters. For us, that means high-quality businesses with resilient balance sheets, sustainable dividends, and business models that are not intensely sensitive to the economic cycle.

Perhaps the most compelling reason for focusing on resilient, high-quality businesses is that the economic headwinds which have been gathering will, in our view, run their course and probably fully dissipate later in 2024. Equity markets typically have anticipated the start of a new economic expansion several months before it gets underway. In our opinion, portfolios that have held their value to a better-than-average degree will be best-equipped to take advantage of the opportunities that are bound to present themselves when a stronger pace of economic growth reasserts itself.

At some point if a more defensive structuring for a balanced portfolio is called for, having bonds back as a reasonable alternative for an investor looking to take some risk out is a welcome development.

Global Insight 2024 Outlook

United States

Elevated U.S. bond yields are now presenting investors with a wider range of investment options than they've had in many years, which means stocks and bonds are competing for investment dollars. The S&P 500's above-average valuation and Wall Street's rosy corporate profit outlook leave little wiggle room for economic disappointments. We think the bond market could potentially deliver strong returns, particularly in certain sectors that have lower credit risk.

U.S. equities

Kelly Bogdanova
San Francisco, United States

A wide range of potential economic outcomes calls for nimble positioning.

Long-term investors should be used to the U.S. stock market typically wading through multiple economic and policy crosscurrents at any given time. But for 2024, we think there are more crosscurrents than usual.

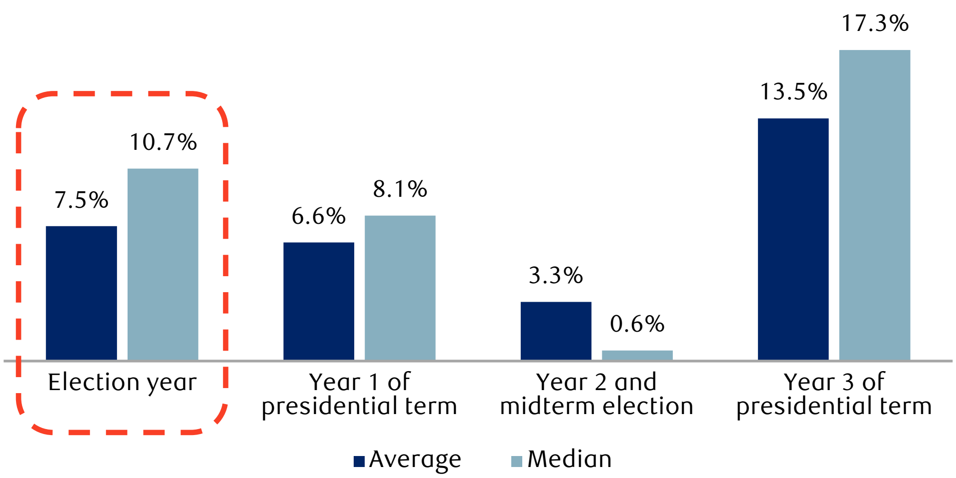
First, the range of potential economic outcomes is unusually wide. There are plausible scenarios in which the Fed could achieve a much-coveted soft landing—in other words, avoid a recession—and even for above-trend growth. But investors should leave open the possibility the economy may succumb to recession. RBC economists anticipate the Fed's aggressive rate hike cycle will ultimately constrain GDP growth, pushing the economy into a mild recession in 2024.

Second, the market seems positioned for a rosy scenario. Currently, we don't think the S&P 500 is calibrated for economic headwinds or turbulence. Following the rally in 2023, there is evidence the market is set up for a smooth, soft-landing scenario. Industry analysts' S&P 500 consensus earnings forecast of $245 per share in 2024 represents 11.4% year-over-year growth. This forecast, combined with the market's 18.4x above-average price-to-earnings ratio, leaves little wiggle room for economic disappointments. When recessions play out, consensus estimates typically come down and profits contract for at least a couple of quarters.

Third, the election will likely generate noise. On the heels of controversial elections in 2016 and 2020, the 2024 campaign season could generate more angst for investors. As news headlines and social media posts fan the flames, investors should keep their cool because the market has historically performed well during presidential election years. Since 1928, the S&P 500 rose 7.5% on average and ended the presidential election year in positive territory almost 75% of the time. We believe Fed policy and the economic cycle play greater roles in shaping market returns than political party control in Washington.

The U.S. stock market has historically traded in a four-year pattern associated with elections

S&P 500 performance during presidential election cycles since 1928



Source - RBC Wealth Management, Bloomberg; based on annual data through 2022

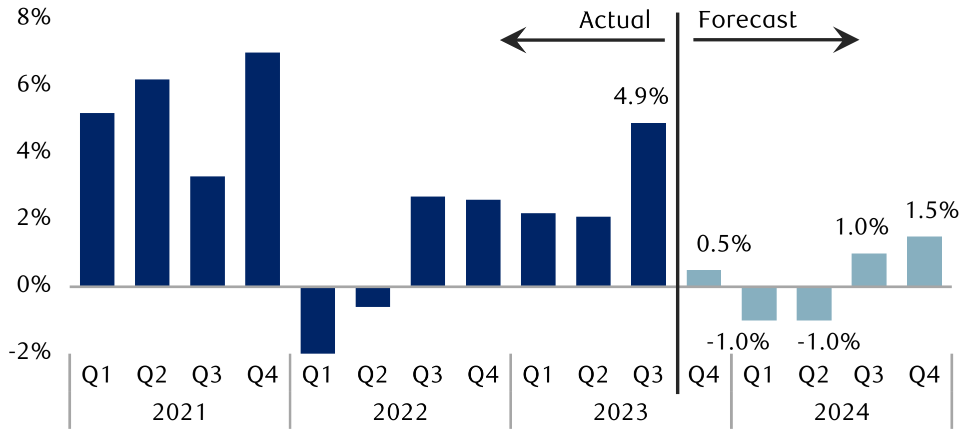
Fourth, the stock market has competition. For years, the stock market had an advantage over the bond market. Bond yields were unusually low, so more money flowed into stocks than would have otherwise. But now interest rates are elevated, and the Fed could potentially start cutting rates in 2024 which would be a catalyst for bond prices to increase. Therefore, we think a greater proportion of incremental cash could flow into bonds instead of stocks in 2024. This would not preclude the stock market from rising. It's just that investors now have a wider range of options than they did in the past 10 years, and the stock market will need to adjust to this competition.

There are a bevy of other factors that could confront the market in 2024 including uncertainty about the timing and magnitude of Fed rate cuts, ongoing budget dysfunction in Washington, the potential widening out of existing military conflicts, and other geopolitical risks.

But we think S&P 500 returns for the next 12–18 months will largely depend on whether a U.S. recession materializes—to us, this is the biggest crosscurrent. The good news is that even if a recession occurs and sets a correction in

Economic growth expected to pull back in 2024

U.S. real Gross Domestic Product (GDP) growth and RBC forecasts



Source - Bloomberg (actual results), RBC Economics (estimates); data as of 11/13/23

motion, the market typically bounces back and establishes a new uptrend partway through recession periods. Long-term investors have historically benefited by using such corrections as opportunities to add market exposure.

Heading into 2024, we recommend holding Market Weight exposure to U.S. equities, a stance intended to balance the risk of a recession against the possibility that one may be averted. The wide range of potential economic outcomes call for nimble sector and industry positioning. We anticipate market performance will broaden out beyond the seven technology-oriented stocks and three sectors that led the rest of the market by a wide margin, contributing significantly to S&P 500 gains for much of 2023. We would tilt portfolio holdings toward reasonably valued stocks of high-quality companies with reliable cash flow generation, sustainable and growing dividends, lower debt levels, and strong management teams. We also view small-capitalization stocks favorably, as their unusually low absolute and relative valuations seem to us like they are already pricing in a recession.

U.S. fixed income

Thomas Garretson, CFA
Minneapolis, United States

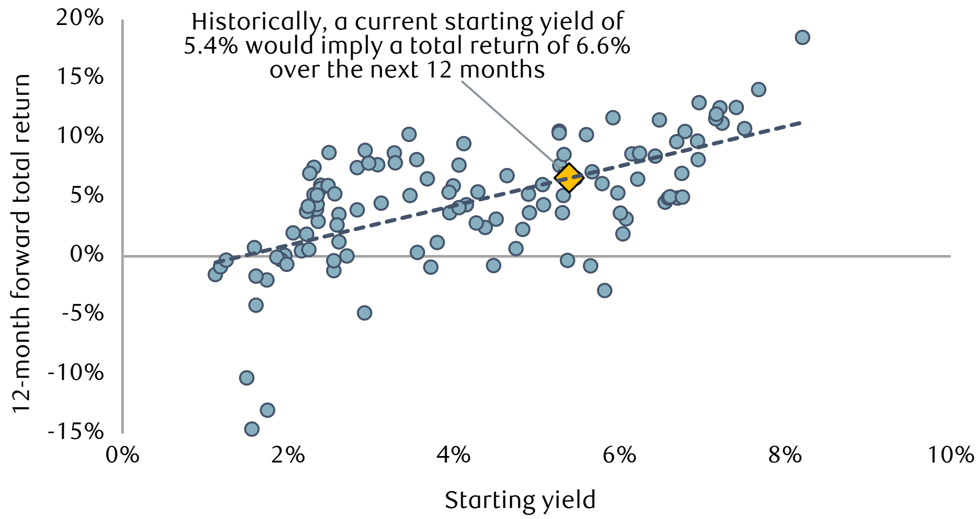
After a long and rough road, bonds look poised to bounce back in 2024.

Overcoming adversity. U.S. bond markets have faced considerable adversity in recent years. Prior to 2021, the Bloomberg U.S. Aggregate Bond Index (often referred to simply as “the Agg”) had only posted three years of negative total returns since its inception in 1976, and never in back-to-back calendar years. As of Nov. 12, it remains on track to deliver its third year of negative returns in a row.

But just as some people perform best under pressure, the same is often true of bonds, and we expect a strong bounce-back year to play out over the course of 2024.

Starting off on the right foot

High starting yields suggest a return to positive total returns for bonds in 2024



Source - RBC Wealth Management, Bloomberg US Aggregate Bond Index; based on quarterly data, 12/31/93 to 9/30/22

The primary reason that bonds have had a storied track record of delivering steady performance for investors is simply the income they provide. When yields are high, the income earned is often enough to offset most price fluctuations. As the chart above shows, there is a strong correlation between the starting yield that investors can expect to earn over the following year and subsequent total returns. With this in mind, it's no surprise that 2022 was the worst year on record for bonds, as the starting yield was just 1.75%. The rise in yields—and the decline in bond prices, which move inversely to them—didn't even come close to being offset by coupon payments.

As 2023 comes to a close, the Agg now yields nearly 5.5%, among the highest levels of the past 20 years. From this elevated starting point, history suggests bonds are poised to return 6.6% in 2024. That's a solid number, but we think bonds could do even better. Yield only explains about 40% of the bond market's performance in any given year; the rest comes from price movements, and that's where additional performance could come from.

The benchmark 10-year Treasury yield largely underpins our performance expectations for the rest of the bond market. RBC Capital Markets forecasts the current yield of 4.6% fading to 3.95% by the end of 2024. That would drive a gain of approximately 5% in the price of the bond on top of the 4.6% yield earned over the year, for a total return of nearly 10%.

But what if yields keep rising? After nearly three years of negative bond performance, that's a fair question. For the 10-year Treasury to deliver a negative return in 2024, the yield would have to rise to 5.3%. While this is not out of the question, it is a high bar, and relatively unlikely in our view. And that's because we expect the Fed to begin cutting interest rates earlier than the Q4 2024 consensus expectation based on recent Bloomberg analyst surveys.

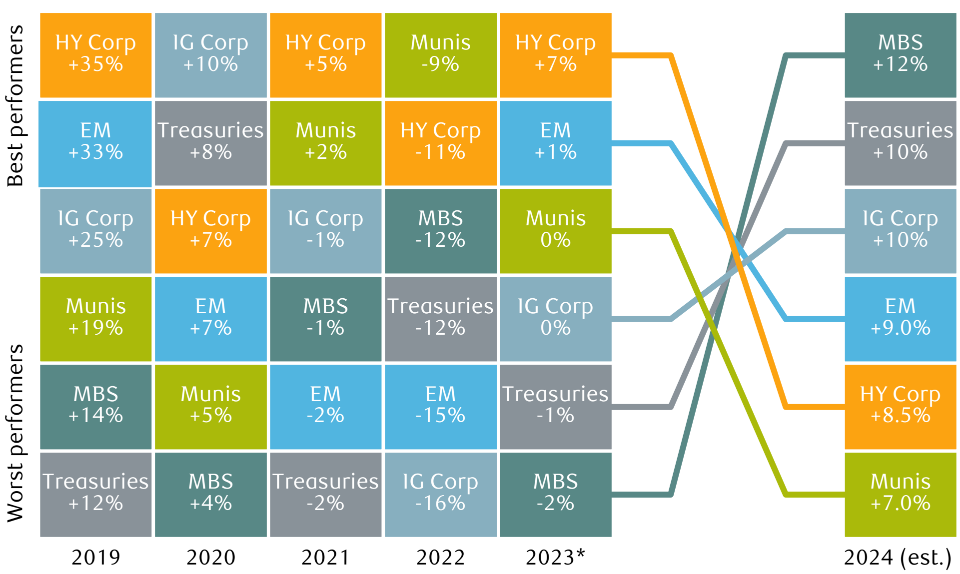
The Federal Reserve outlook. By the Fed's own admission, interest rate hikes to this point have only just started to bite into the U.S. economy. We think this situation will play out as a mild recession in the first half of 2024, and the Fed is then likely to embark on a series of modest rate cuts beginning next summer.

We think the bond market's repricing of rate cut expectations will be seen most dramatically at the short end of yield curves. RBC Capital Markets sees the 3-month Treasury Bill yield fading to just 3.9% next year, from 5.4% recently. Given this forecast, we believe investors should be proactive in rotating out of cash and/or cash-equivalent products, and into longer-dated securities, in order to lock in yields for longer—and before they fade away.

Sector strategy. The graphic below lays out our performance expectations for 2024. Most sectors are likely to perform strongly, but those with lower credit risks—such as Treasuries, mortgage-backed securities, and investment-grade corporate bonds—should outperform. High-yield corporate bonds and municipal bonds are currently too rich relative to Treasuries, in our view. We expect those valuations to return to more normal levels in 2024 as economic growth slows, and as a result, returns could modestly lag the rest of the market.

2024 should see a return to form for bond market performance

Historical and projected returns from U.S. fixed income asset classes



EM = emerging markets; HY Corp = high-yield corporate debt; IG Corp = investment-grade corporate debt; MBS = mortgage-backed securities; Munis = municipal bonds.

Source - RBC Wealth Management, Bloomberg Barclays Bond Indexes; *2023 returns through 11/09/23

Global Insight 2024 Outlook

Canada

The Canadian economy is not yet out of the woods, but we think the Bank of Canada is near the end of its rate hike cycle and the pressure on household balance sheets should subside over time. We see opportunities in Energy, while long-term investors can find value in bank stocks. The fixed income market is the most attractive in 16 years, in our view, and this calls for shifting exposure from short-term bonds to those with longer durations.

Canadian equities

Sunny Singh, CFA
Toronto, Canada

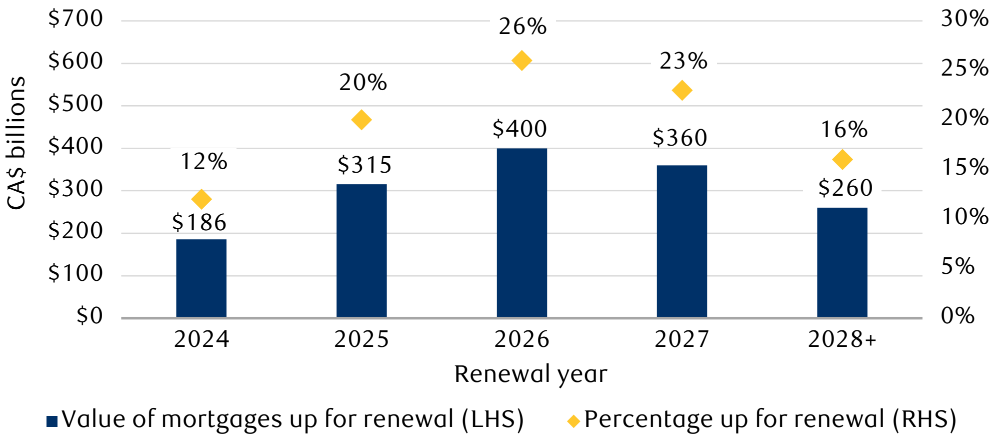
Consumer spending shows clear signs of softening.

The Canadian consumer should remain in focus in 2024 as restrictive monetary policy and its impact on consumer finances continue to work their way through the Canadian economy. The idiosyncratic risks of elevated household debt levels, coupled with the housing sector's outsized impact on the economy, have translated into a weaker economic environment in Canada relative to its less-levered neighbour to the south. Household budgets are beginning to feel the pinch of higher interest rates with consumer spending showing clear signs of softening. According to RBC Economics, Canadians are spending nearly 10% more on essential items than they were just one year ago. At the same time, the surge in discretionary spending has slowed with a downtrend in restaurant and travel spending. After a strong start to 2023, the Canadian housing market also appears to be stagnating, with the psychological impact of a lower net worth adding further pressure on Canadian households.

What is the silver lining? Evidence continues to build that inflation risks are easing as the economic backdrop softens. RBC Economics does not expect additional interest rate hikes from the Bank of Canada if that continues. This would bring a sigh of relief to Canadians with variable rate mortgages, as each rate hike has resulted in either higher payments or a lower proportion of

Canadian mortgage renewals expected to rise substantially through 2026

Estimated residential mortgages up for renewal at Canadian chartered banks



Note: Distributions do not total 100% as renewals for the remainder of FY2023 are not shown.

Source - RBC Capital Markets, RBC Wealth Management, company reports; data as of 10/31/23

principal paid. For those renewing their mortgages over the next few years, the eventual easing of monetary policy (i.e., lower interest rates) is of greater importance. RBC Capital Markets estimates that 20%, 26%, and 23% of Canadian-bank-originated residential mortgages will be up for renewal in 2025, 2026, and 2027, respectively.

The trajectory of interest rates and the ultimate impact on the Canadian consumer will have clear implications for the Canadian banks, in our opinion. Several Canadian banks recently cited the risk of "higher for longer" rates when provisioning for future credit losses. Bank valuations continue to reflect the uncertain environment with the group trading at a steep discount relative to its long-term average and close to trough-like levels previously seen during the Global Financial Crisis and the early days of the pandemic. While it is hard to identify a catalyst for why valuations should improve at this stage of the credit cycle, we believe income-oriented investors with a long-term view can find opportunities in Canadian bank stocks.

We expect Energy sector performance will be largely influenced by commodity prices. We would highlight energy investors' ability to reap meaningful cash returns via buybacks and dividends in a constructive economic environment. But, even if the challenging economic backdrop persists, Canadian energy companies are now better equipped to navigate this due to their fortified balance sheets and reasonable capex needs. We continue to suggest owning the best-of-breed Canadian energy producers in 2024, particularly for those investors with an income focus.

On balance, we believe the Canadian equity market should be supported in 2024 by its discounted valuation relative to history, while its exposure to the resource complex provides a hedge of sorts if inflation pressures persist.

Canadian fixed income

Luis Castillo
Toronto, Canada

Interest rate risks are becoming more two-sided.

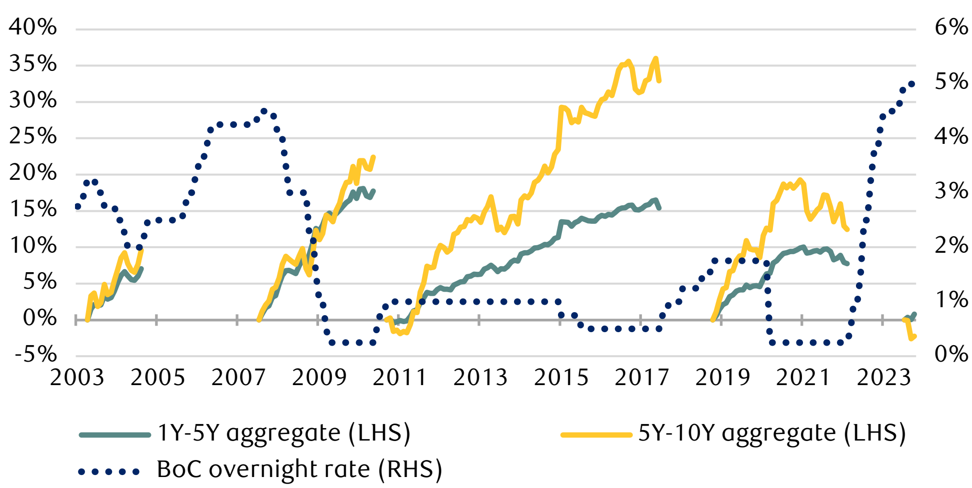
The sharp increase in bond yields seen throughout most of 2023 is beginning to abate as the Bank of Canada (BoC) appears more firmly positioned on the sidelines, opting to put further policy rate increases on hold while it assesses the cumulative economic impact of the string of rate hikes it has already delivered. Despite inflation remaining much higher than the BoC would prefer, economic momentum is softening, as evidenced by decelerating month-over-month GDP growth numbers; this relieves some of the pressure on the central bank to continue hiking at the same aggressive pace. That being said, the BoC remains on guard against upside inflation data surprises, leaving the door open for additional hikes if necessary. With the BoC likely approaching the end of its policy-tightening regime, and monetary policy strongly dependent on month-over-month economic data, we view the risks of interest rates moving in only the upwards direction as diminishing. In other words, we see the interest rate outlook as becoming more two-sided, strengthening the case for extending duration within our fixed-income portfolios.

Looking back at the history of recent monetary policy cycles reveals that adding duration to portfolios following the last BoC rate hike has led to higher total returns relative to short-duration strategies. For example, as the chart shows, the Bloomberg Canada Aggregate 5–10 Year Index has consistently outperformed the shorter-duration 1–5 Year Index following the final BoC rate hike in a cycle.

After spending three years sheltering in short-duration securities while the BoC rolled out nearly 500 basis points worth of interest rate increases, **it is now reasonable, in our view, to consider lengthening duration in portfolios**. However, despite the more attractive risk-reward profile of duration at this time, we think it is prudent for investors to lean in cautiously

Longer-duration bonds tend to outperform following policy rate peaks

Total returns after the Bank of Canada's final interest rate increase in hiking cycles



Source - RBC Dominion Securities, Bloomberg; data through 10/31/23 and calibrate their exposure to their rate volatility tolerances. This view on duration can be expressed in portfolios while still maintaining a degree of duration diversification by extending maturities through laddering, exposing the portfolio to a higher degree of rate sensitivity while minimizing return volatility, which should lead to a smoother path of returns.

In today's rising-rate environment, companies are being forced to pay up to issue new debt and refinance old debt, in many cases at costs that are three times higher than 2020 levels. Yet despite tighter conditions for corporations and a more difficult operating environment, the extra yield compensation demanded by investors for the risk of default on corporate bonds remains range-bound, and in our view is far from levels that would suggest economic trouble ahead.

On the other hand, we continue to expect some level of corporate pain, as well as some degree of negative credit repricing over the near term. **We have therefore reduced our preference for corporate credit, while maintaining a bias towards higher quality** (i.e., an investment-grade rating) within our corporate bond allocations. Nonetheless, we see bond yields as broadly attractive from a historical perspective, with higher starting yields providing some cushion against further rate increases and/or credit spread widening.

Regardless of one's approach to bond investing—buying and holding to maturity, or trading in and out opportunistically—higher base rates make bond investing more attractive today than during any other period over the last sixteen years, in our view. We believe the past three years of surging yields, though painful for existing bond holdings, have increased the likelihood of achieving equity-like returns via credit instruments going forward.

Global Insight 2024 Outlook

United Kingdom

Subdued economic growth and troublingly persistent inflation suggest the UK may well fall victim to stagflation in 2024 if the labour market deteriorates further. The Bank of England is unlikely to be willing to cut interest rates before the second half of the year, in our view. Despite the unpalatable macroeconomic backdrop, we see opportunities for patient investors. UK equities are attractively valued, largely unloved, and offer defensive characteristics. As for UK bonds, we have a bias towards adding further to Gilts and increasing duration in the near term.

UK equities

The UK's challenges continue but its unloved equities offer opportunities.

Frédérique Carrier
London, UK

Thomas McGarrity, CFA
London, UK

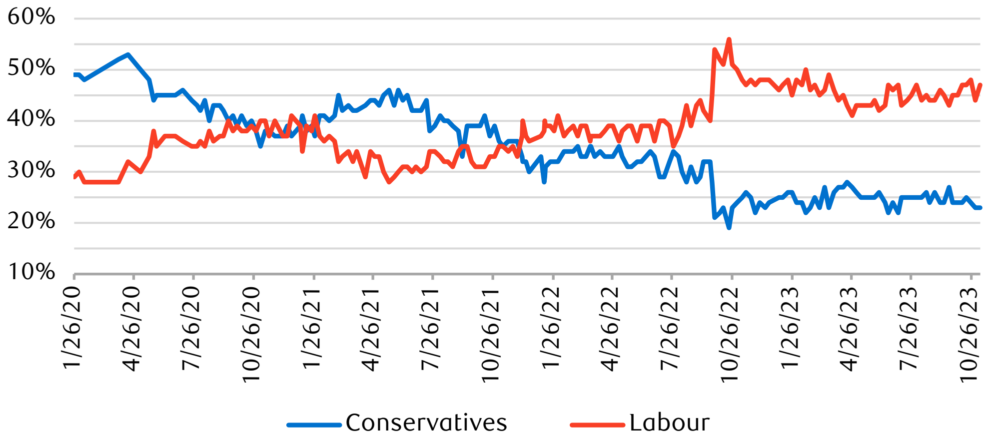
A changing of the guard? The next UK general election is likely to be held in 2024. Given that the traditionally left-wing Labour Party has consistently held a large lead in the polls for more than a year, it is worth considering how the party would govern once in power.

Under its leader Sir Keir Starmer, Labour has changed its spots. The policies of its radical left-wing faction, such as imposing higher taxes on high earners and nationalizing utilities, have been abandoned. The party seems to have transitioned towards the center and has markedly improved ties with the corporate sector. Overall, we do not think a Labour win would incite a strong negative reaction in financial markets.

Labour also aims for a closer relationship with the EU, including a regulatory alignment of "certain sectors" and accepting some oversight by the European Court of Justice. Labour is also looking to deregulate the planning rules for new homebuilding, strengthen employment rights, and forge ahead with the transition to a low-carbon economy.

The Labour Party has outperformed the Conservatives for two years

YouGov Westminster Voting Intention Tracker



Source - YouGov; data through 11/8/23

Some of these aims may be difficult to achieve, in our view. The EU is unlikely to accept this "cherry picking" approach, and reforms to national planning policy may well continue to meet fierce domestic opposition as they threaten to change the landscape. Importantly, Labour would inherit governorship of a country with deep scars—not only from Brexit but also from the fastest spree of monetary policy tightening by the Bank of England (BoE) in three decades—and one that is heavily indebted with gross debt to GDP approaching 100%. All of this may limit a new government's ability to reboot the economy.

A struggling economy. Economic data, which softened throughout 2023, is likely to slip further as the full impact of much higher interest rates increasingly filters through the economy. We think this will likely be partly offset by an improvement in real wages as inflation has declined. But much depends on the labour market. The risk is that it could weaken should the impact of higher rates exert pressure on corporate profit margins. Unemployment increased from 3.7% in January to 4.3% of late. Overall, a consensus group of economists expects GDP growth of a mere 0.4% in 2024, on par with the level in 2023.

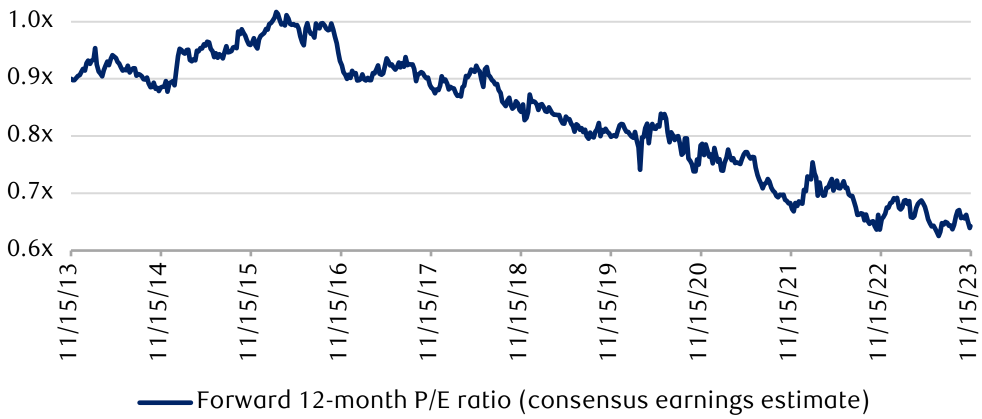
Despite this weak growth outlook, we think the BoE will likely keep the Bank Rate, currently at 5.25%, elevated for much of 2024. Core inflation has waned but remains sticky, at 5.7%.

We see risk of stagflation in the UK, a state characterized by relatively high inflation together with slow economic growth and rising unemployment.

Opportunities in an unloved market. We acknowledge the challenging domestic economic prospects but continue to recommend a Market Weight position in UK equities. We believe the FTSE 100 Index's defensive qualities should hold it in good stead given the more volatile backdrop we are expecting for the global economy and global equities in 2024. The UK's blue-chip equity index, the FTSE 100, has relatively large exposure to defensive sectors (e.g., Health Care and Consumer Staples). Moreover, it has a bias to

UK equities are at the cheapest level relative to global equities in 10 years

Valuation of FTSE All-Share Index versus FTSE World Index



Source - RBC Wealth Management, Bloomberg

"old economy" industries, including Energy (approximately 14% of the FTSE 100), a sector where the risk-reward is favourable at present, in our view, given the tight supply-side dynamics, inexpensive valuations, and improving earnings momentum. Importantly, UK equity valuations appear undemanding, with almost every sector trading at an abnormally high discount relative to history.

Given the challenging domestic economic prospects, we remain cautious on companies with UK-centric revenues. We continue to recommend maintaining a bias for globally diverse, high-quality businesses. Across the market, the valuation multiples of many leading UK-listed global companies remain at a notable discount to their international peers listed in other markets. We view this as an unwarranted "UK market discount" on these global companies, and think this presents an opportunity for long-term investors in these stocks.

UK fixed income

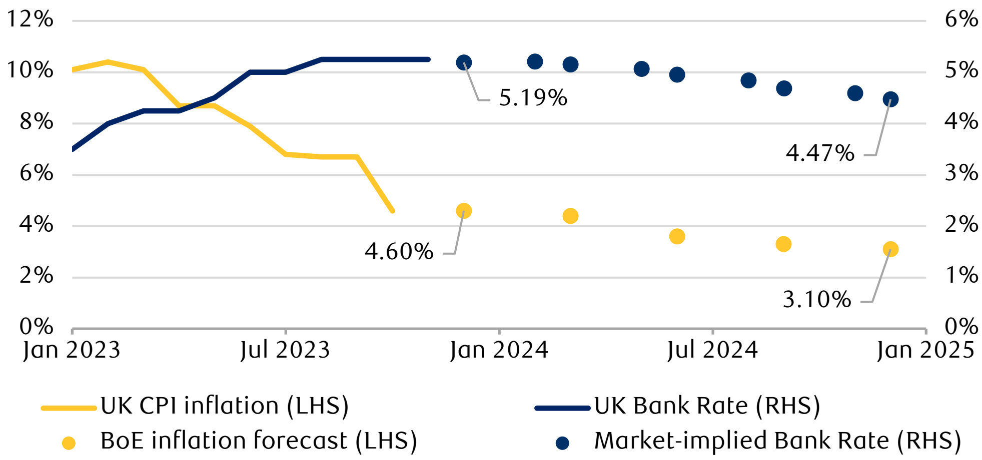
Rufaro Chiriseri, CFA
London, UK

The window of opportunity in fixed income appears fully open.

The question for bond investors is not how much more will the Bank of England (BoE) hike interest rates, but rather when will the first rate cut come through to propel bond returns. **Our base case is no rate cuts through H1 2024 due to still stubbornly high inflation and wage growth.** The Monetary Policy Committee (MPC) is likely to keep its hiking optionality, but we think the bar remains high for further hikes and 5.25% is likely the peak for this cycle. The market currently expects around 75 basis points (bps) worth of cumulative cuts to reach 4.56% in Q4 2024.

Inflation will likely meet the BoE's Q4 2023 estimate, but this is still far from its 2% target. The November Monetary Policy Report utilised the market pricing in October which showed the Bank Rate at 5.25% throughout 2024. In this scenario, inflation only falls below target in Q4 2025, with a

Markets defy Bank of England's higher-for-longer narrative



Note: CPI = Consumer Prices Index; projections show Bank of England (BoE) November 2023 staff forecast; data as of 11/15/23.

Source - RBC Wealth Management, Bloomberg, Bank of England

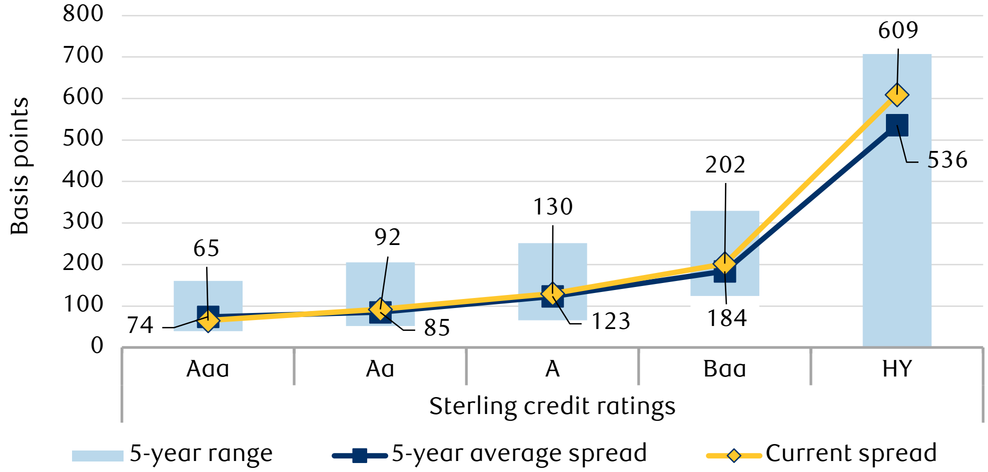
caveat of upside risks to this estimate—this heightens our conviction of no rate cuts in H1 2024. If there are any large and persistent surprises in inflation or wage data which exceed the MPC's forecasts, the policy reaction would likely be to keep rates elevated for longer to maintain restrictive financial conditions, albeit at the expense of economic growth. The risk to our view of no rate cuts in H1 stems from the deteriorating growth outlook and the mortgage refinancing headwinds further hampering consumer demand, which could cool inflation faster than we expect.

Though the UK economy has fared slightly better than we anticipated, the outlook for growth is broadly flat for the next 12 to 18 months and the risks of a recession remain high, in our view. RBC Capital Markets is forecasting growth to stall in Q1 2024 at 0% q/q and mildly recover in the following quarters to reach a meagre 0.1% y/y in 2024.

Turning to Gilt supply, officials are reducing the BoE's balance sheet (otherwise known as quantitative tightening) at a pace of £100 billion over a 12-month period, which has been priced in by markets. According to a recent government report, public finances have performed better than initially forecast in March, resulting in a lower borrowing requirement this fiscal year. RBC Capital Markets expects a £20 billion reduction in Treasury Gilt issuance to reach around £218 billion in gross supply this fiscal year. Gilt demand remains robust, but we are monitoring for signs of waning demand at future bond auctions, which could send yields higher. **We have a bias towards adding further to Gilts and increasing duration in the near term.**

Credit markets held up better than we expected in 2023, but it is not clear to us how much longer this "goldilocks" period will last. On a one-year basis credit spreads look wider, but they are nearer to fair value over a five-year period. Consequently, **the risks that spreads will widen are still high**, in our view. Corporate default rates remain low, but credit fundamentals are worsening. Non-financial issuers' debt leverage ratios have increased due to weaker corporate earnings. Furthermore, higher interest rates have led

Lower-quality credit spreads are above their five-year averages



Source - RBC Wealth Management, Bloomberg; data through 11/10/23

interest coverage—the measure of how many times a company's earnings can pay interest costs—to also worsen.

Nevertheless, **we see pockets of opportunity in non-cyclical issuers, as well as opportunities in senior-ranking bank bonds**. We remain cautious and favour higher quality, short-duration investment-grade bonds over high-yield bonds as the balance of risks is tilted to the downside.

A barbell approach presents the most attractive opportunities, in our view, as we would balance risks in corporate credit with higher-quality allocations in government bonds.

Global Insight 2024 Outlook

Europe

With the regional economy struggling, the reforms agenda has been given new impetus. Recommendations to improve the effectiveness of the single market are due in the spring; it will be up to the new European Parliament, which will be elected midyear, to implement them. For equities, weakening macro and earnings momentum remain headwinds. We would become more positive when signs that the region's relative economic growth momentum is improving become apparent. Our bias is to add to sovereign fixed income positions and increase duration given the weak economic environment.

European equities

Frédérique Carrier
London, UK

Thomas McGarrity, CFA
London, UK

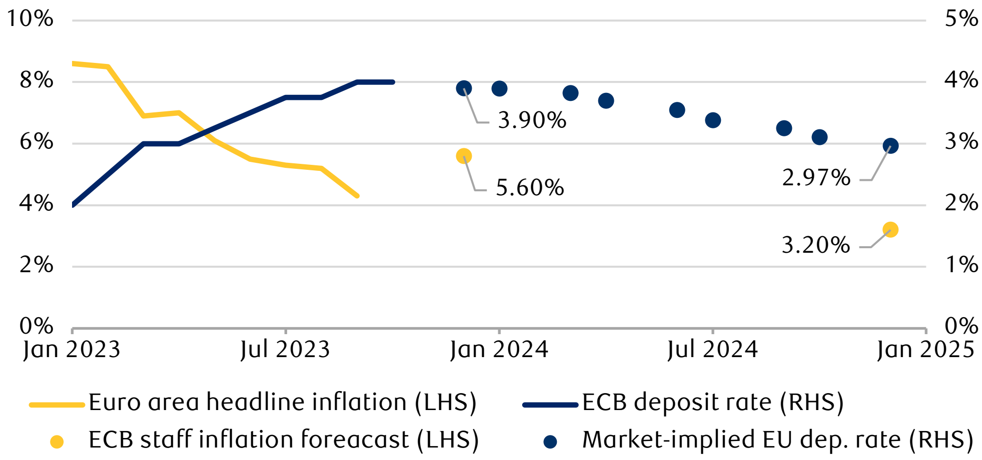
Reforms in focus; we remain cautious until the next economic upcycle.

Weak momentum. After the recent sharp weakening in eurozone manufacturing and services activity, stabilization is possible over the next few months. The Industrials sector needs to rebuild depleted inventories, and consumer confidence could improve now that pricing pressures are abating. Nevertheless, we expect elevated interest rates to increasingly force belt tightening on the corporate sector.

The European Central Bank will likely keep interest rates on hold well into 2024. Though inflation has decelerated sharply to 2.9% and bank lending has waned markedly, wages are still growing at 4% year over year, a level inconsistent with the 2% inflation target. Slightly higher unemployment is likely necessary for wage growth to decelerate further.

Only once rates are cut can a sustainable economic recovery take hold. A consensus group of economists expects real GDP growth of 0.7% in 2024, marginally up from 2023's 0.5% estimate. The potential for a muted recovery is due to the region's increasing lack of competitiveness and the reining in of fiscal stimulus.

European markets expect around 100 basis points of policy easing in 2024



Note: Inflation projections show European Central Bank (ECB) September 2023 staff forecast.

Source - Bloomberg, European Central Bank (ECB); data as of 11/14/23

Structural issues need tackling. The pandemic and the war in Ukraine have compounded the bloc's long-standing structural issues such as its heavy regulatory burden, and the lack of cooperation among EU innovators and companies. These issues conspire to undermine the effectiveness of the EU single market, in theory a seamless amalgamation of 27 national markets with 450 million people.

In her 2023 September State of the Union speech, European Commission President Ursula von der Leyen identified competitiveness as a key priority. Task force recommendations are due in March 2024. The challenge is to preserve the freedoms of movement of capital, goods, and services while competing with the U.S. and China.

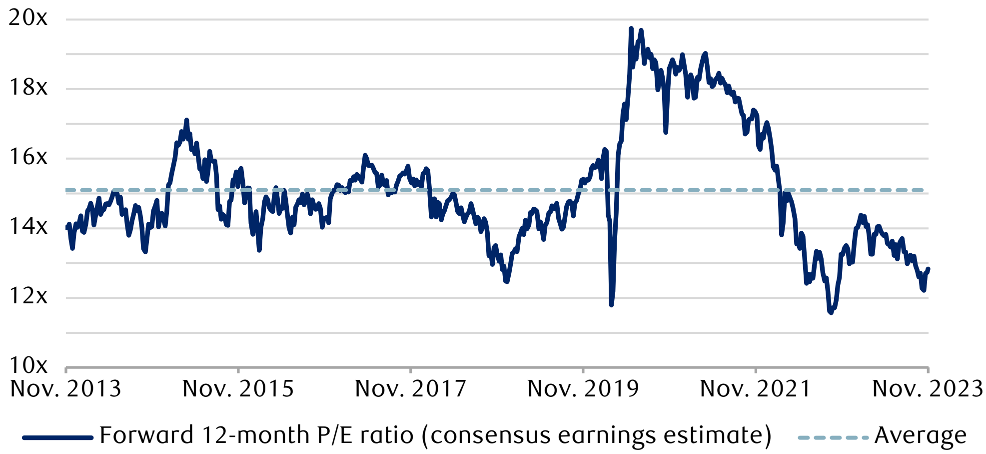
Following the June 2024 European Parliamentary elections, it will fall on the next European Commission to implement any recommendations to improve competitiveness and the state of the internal market. The buy-in of national governments will be an important test of their commitment to improve competitiveness.

Fiscal reforms. Moreover, previous EU rules limiting national budget deficits and indebtedness were suspended over the past three years. This was to facilitate financial support for the corporate sector from Brussels and national governments. Financial aid was aimed at supporting the economy reeling from the pandemic and the war, and at accelerating the green transition for domestic reasons and as a response to both the U.S. Inflation Reduction Act subsidies and China's generous support of its industries.

Discussions to reform the fiscal rules have been ongoing as there is a broad consensus within the EU that more fiscal flexibility is required. Those discussions are likely to drag into 2024. We believe the rules will eventually be watered down though they will likely still require some fiscal tightening for most countries.

European equities are trading below long-term average valuations

STOXX Europe ex UK Index 12-month price-to-earnings ratio



Source - Bloomberg

Remaining Underweight, for now. We continue to recommend an Underweight position in European equities as weakening macro and earnings momentum remain headwinds for the region's ability to outperform. Consensus earnings forecasts are at risk of being downgraded, particularly among cyclical stocks and sectors.

However, we are watchful for any green shoots and signs that the euro area's relative economic growth momentum is improving. This would be a key catalyst to increase allocations. The combination of inexpensive valuations and an eventual improving economic backdrop could prove an attractive combination in the months ahead for European equities, especially given their out-of-favour status.

Until then, against the backdrop heading into 2024, we would remain highly selective. For the patient investor, we believe particularly attractive opportunities exist in Industrials supported by structural tailwinds such as decarbonization, semiconductor equipment manufacturer and mission-critical software providers within Technology, and luxury goods stocks that have pulled back in recent months to more attractive valuation levels. Health Care remains our preferred defensive sector, relative to Consumer Staples and Utilities.

European fixed income

Opportunities exist beyond the cloudy macroeconomic outlook.

Rufaro Chiriseri, CFA
London, UK

The European Central Bank (ECB) thinks that, if interest rates are maintained at 4% for a long enough time, inflation will be brought back to target. Though ECB President Christine Lagarde has labelled rate cut discussions as "premature," the market is pricing in about 100 basis points of policy loosening commencing next March through December 2024.

Our base case is no cuts in H1 2024. The risk to our view is an uptick in inflation from rising energy prices, which could prompt the ECB to hold rates at 4% for longer. Alternatively, a further deterioration in economic activity could ultimately cool inflation faster than the central bank expects, bringing rate cuts into view sooner that we anticipate.

The risk of a recession in the eurozone has increased, in our view, with economic activity data pointing to stagnation. All measures across manufacturing and services have fallen further into contraction territory. RBC Capital Markets forecasts 2024 growth in the region to teeter on the edge of recession and to reach a paltry 0.1% year-over-year growth.

The ECB's process of reducing assets on its balance sheet, also known as quantitative tightening (QT) of the Asset Purchase Programme (APP) is underway with no reinvestments of maturities, while reinvestments from the Pandemic Emergency Purchase Programme (PEPP) are set to continue through the end of 2024. Under the scenario of PEPP reinvestments continuing, we expect the demand for European government bonds to absorb supply next year given the attractive level of yields.

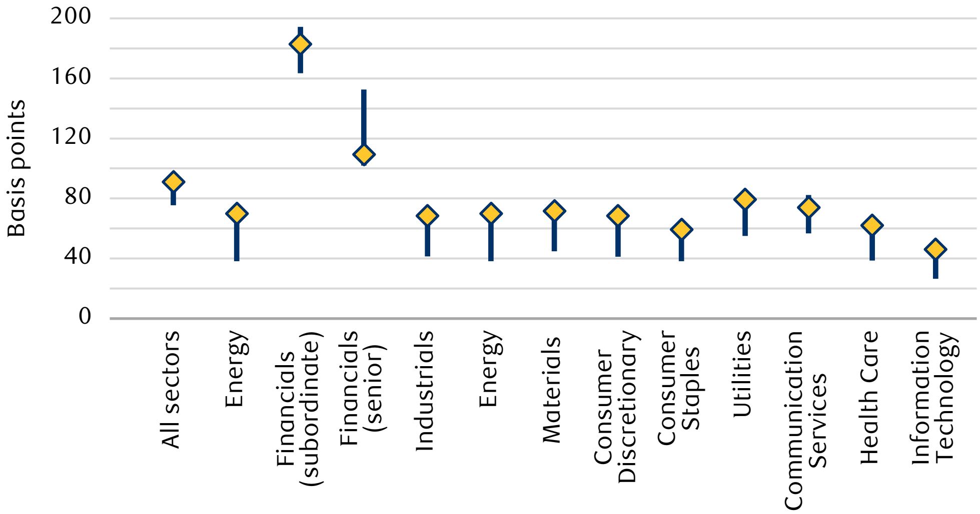
The high allocations in Italian and Spanish bonds within the purchase programme have supported spreads thus far. However, Italian bond spreads have widened recently against German Bunds due to an increase in QT, the growing risk of a rating agency downgrade, and fiscal deficit concerns. The International Monetary Fund forecasts debt will be around 140% of GDP in 2028—worsening by more than 8% from its prior forecast. The European Union's fiscal deficit rules are supposed to be back in force in January 2024, and discussions about reforming these rules are ongoing. The return of fiscal rules, which had been suspended since the onset of COVID-19, could increase bond volatility in nations that are close to or above the fiscal limits. Against this backdrop, we prefer Greece over Italy for lower-rated nations, and we balance the allocations across core nations such as Germany, Belgium, and Netherlands. We are biased to add to sovereign positions and duration as the economic outlook is set to deteriorate further, thus benefiting longer duration and sovereign positions.

Credit markets have been resilient despite QT and the ECB holding nearly 33% of the eligible corporate bond universe. However, if the pace of corporate bond reduction increases, spreads could widen. On a one-year basis, credit spreads look wider, but nearer fair value over a five-year period. While spreads look compelling, we are loath to chase these levels as higher financing costs as well as lower corporate earnings are impairing corporates' fundamentals.

Thus, we remain cautions and maintain our up-in-quality bias, preferring investment-grade over high-yield credit for now. The yield compensation for interest rate risk in high-yield versus investment-grade debt has narrowed meaningfully and is close to decade lows. Therefore, on a risk-reward basis, we favour investment-grade bonds given the recession risks. Yet, we acknowledge there will likely be an opportunity to allocate to high yield when spreads meaningfully widen.

Most corporate credit sectors are near the top of their six-year ranges

Euro investment-grade all cash bond sector indexes' month-end option-adjusted spreads



Source - RBC Wealth Management, Bloomberg; data as of 11/14/23

We believe the theme for 2024 is to remain selective and defensive and focus on issuer fundamentals. In particular, we favour non-cyclical over cyclical issuers, senior ranking bonds issued by banks, the Utilities sector, and Telecommunication Services industry.

Global Insight 2024 Outlook

Asia Pacific

As the Chinese economy stabilizes and regains its footing, we see opportunities in key segments of China's equity market. But heading into 2024, we view Japan's equity market more favorably due to the Japanese government's incentives for domestic investors to increase exposure and a range of other structural drivers and catalysts. In fixed income, we prefer Asian investment-grade corporate bonds, as the lower U.S. Treasury yields that we expect in 2024 should provide a tailwind for the sector.

Asia Pacific equities

We are cautiously optimistic on China and remain Overweight Japan.

Jasmine Duan
Hong Kong, China

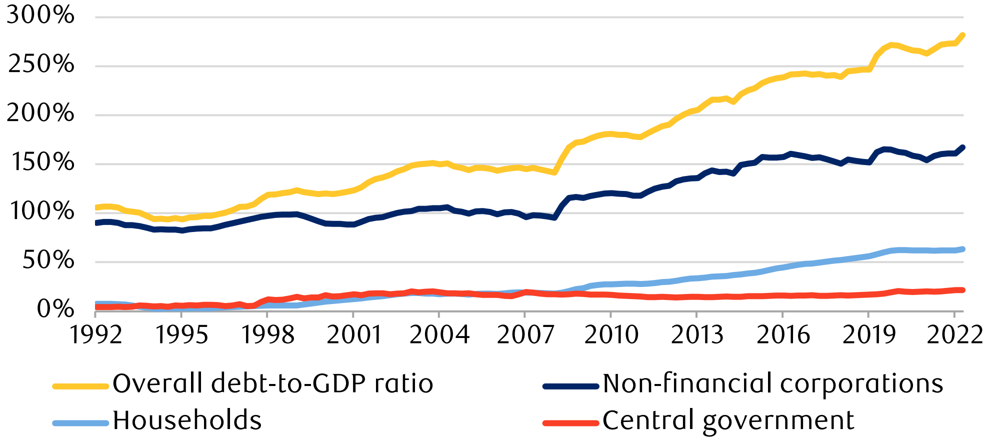
Nicholas Gwee, CFA
Singapore

The Chinese economy appears to be stabilizing and is showing signs of recovery. Industrial profits are improving, the inventory destocking cycle appears to be nearing its end, credit growth is speeding up, and the decline in exports is slowing. In an encouraging step, the central government recently launched additional fiscal stimulus in the form of new bond issuance totaling RMB 1 trillion (US$137 billion). This action indicates readiness to decrease the fiscal burden on local governments and shift more fiscal responsibility to the central government, which has room to take on more debt to support the economy due to its low-debt balance sheet.

However, we believe the recovery is not yet on a firm foundation as not all economic indicators are turning positive. Economic data may fluctuate in the coming months as policy stimulus gradually takes effect, and as consumer and corporate confidence gradually recover. The state of the property market is still a significant concern for investors, as housing transactions remain soft despite recent policy easing measures. We concur that the housing market slowdown continues to pose challenges to China's economy, but in our view, it's important to note that its negative impact will likely be less in 2024 compared to the past few years.

Beijing has room to increase its debt level to support the economy

China debt-to-GDP ratio breakdown



Source - China Center for National Balance Sheet, RBC Wealth Management; quarterly data through March 2023

We think the combination of economic recovery and policy stimulus could offer some downside protection against further declines in Chinese equities. However, investor sentiment is still fragile, and many foreign investors are hesitant to commit long-term assets to the Chinese market. Therefore, Chinese equities may continue to trade within a limited range until the arrival of major catalysts such as the end of the U.S. interest rate hiking cycle, strong fiscal and monetary stimulus, or confirmed improvement in corporate earnings.

Despite these uncertainties, we believe there will be opportunities to earn excess returns ("alpha") in Chinese equities in 2024, particularly in industries where China has competitive advantages or which can benefit from policy tailwinds, such as advanced manufacturing and health care.

Overall, we think the outlook for Japan equities is brighter, and two factors should keep fund flows into the Japanese market resilient in 2024. First, the launch of the revamped Nippon Individual Savings Account program (a tax-exempt investment scheme for residents) will see the annual per-resident cap on investment increase to JPY 1,200,000 by January 2024, from the current limit of JPY 400,000. Second, corporate pension reforms set to be finalized by the end of 2023 could lead to increased equity allocations.

RBC Global Asset Management expects that Japanese real GDP growth will moderate to 0.7% y/y in 2024 from an estimated 2.0% y/y in 2023, and that inflation will moderate as well, to 1.5% y/y in 2024 from an estimated 3.1% y/y in 2023. Meanwhile, the yen, which has been one of the worst-performing developed-market currencies against the U.S. dollar in 2023, is expected to strengthen towards the 145 level from its current range around 150 by the end of 2024 according to the RBC Capital Markets forecast.

Additional reasons we continue to like Japan equities include both positive structural changes and short-term catalysts. On the structural end, we view the end of the deflation era, the ongoing friend-shoring and onshoring trends, and efforts by the Tokyo Stock Exchange to encourage companies to raise return on equity and expand shareholder returns as positive developments. Japan stands to benefit in the near term from its relative economic stability as recession risks linger for the U.S. and EU, as well as from heightened interest in the country as a proxy investment for Chinese stocks and as a value play. A post-pandemic resurgence of tourism from China should also benefit the economy. Finally, it is worth highlighting that Japan is one of the last developed economies with relatively easy monetary policy. We remain Overweight Japan equities and prefer this market to other developed equity markets in the region. Risks to our thesis include the potential for weak external demand and volatility in the yen.

Asia Pacific fixed income

Kennard Ling
Singapore

Shawn Sim
Singapore

Investment-grade credit remains resilient; sector selection is key.

Persistently tight Asia investment-grade spreads. Asia investment-grade (IG) credit spreads relative to U.S. Treasuries are tight, around 169 basis points, underscoring fixed income investors' flight to quality. This is likely to persist over the next few quarters, in our view, and reflects investor confidence in the resilience of Asia IG securities into 2024, as well as overall institutional credit investors' continued overweight Asia IG positioning versus underweight in Asia high-yield credit.

Lingering concerns in China, but also bright spots. The collapse of China's high-yield (HY) property sector has rippled through the domestic economy, as well as both onshore and offshore China property bond markets. Since China's full reopening in early 2023, the economic recovery has been uneven, hampered by geopolitical risks and weak investor confidence. Policy support has so far been insufficient to stem the liquidity crisis that many real estate developers with high-yield credit are facing. While the overall macroeconomic backdrop is subdued, we view some sectors within China as attractive from

China property high-yield USD index has declined for most of the year

Year-to-date non-annualized total return

Source - RBC Wealth Management, Bloomberg; data through 11/8/23 a credit perspective. One such bright spot is the internet sector. China's tech giants still enjoy resilient cash flow generation, and strong liquidity positions underpin their solid credit profiles. We believe strong standalone fundamentals should position these companies to capture the growth upside of a regulatory environment that is becoming less strict. This is already evident in recent strong operating momentum in the sector.

Potential opportunities in Korea Financials. Korea's financial sector has been facing pressure from high domestic inflation, rising interest rates, a growth slowdown, and a cooling property market. These factors have caused Korean Financials-sector USD-denominated bonds to underperform Asia peers. The Korean government's support measures have eased some of these problems to a certain extent, and we view the Korean banks' capitalization levels as strong enough to withstand losses even if they face a spike in nonperforming loans. We see the underperformance of Korean Financials sector USD bonds as an opportunity to buy on weakness, especially for strongly capitalized banks. In particular, we favor the subordinated bonds, which provide higher spreads to senior bonds.

Emerging Market Asia corporate bond issuance likely to remain subdued in 2024. We expect 2024 new issuance in Emerging Market (EM) Asia corporate debt to be similar to 2023 levels, which have been around decade lows. This is due to external deleveraging, which is most pronounced in Asia within the EM corporate universe. These corporations' large-scale funding needs remain muted as macro uncertainty is holding back large capex and investment plans. At the same time, domestic funding channels such as banks and local bonds are accessible at more attractive levels; this is especially true for China corporates. We further expect new issuance to be skewed toward investment-grade securities, reflecting overall market risk aversion. In our view, 2024 should be another year in which EM Asia corporates' redemption of outstanding bonds outstrips new issue supply, and this dynamic should continue to underpin the market.

We continue to prefer investment-grade credit for 2024. Lower forecasted U.S. Treasury yields into 2024 should provide an overall tailwind for Asia credit, even though the path to lower interest rates is likely to be bumpy, in our view. Asia IG has shown its resilience in recent market volatility. Asia HY is out of favor, and we view the asset class as less attractive amidst macro uncertainties and concerns regarding idiosyncratic risks. We prefer to keep duration short for Asia IG due to spread valuations—we like the attractive coupon carry for this resilient segment, but also seek to limit the potential performance impact should valuations reverse.

Global Insight 2024 Outlook

Commodities

Richard Tan, CFA
Toronto, Canada

Natural gas: Overhang

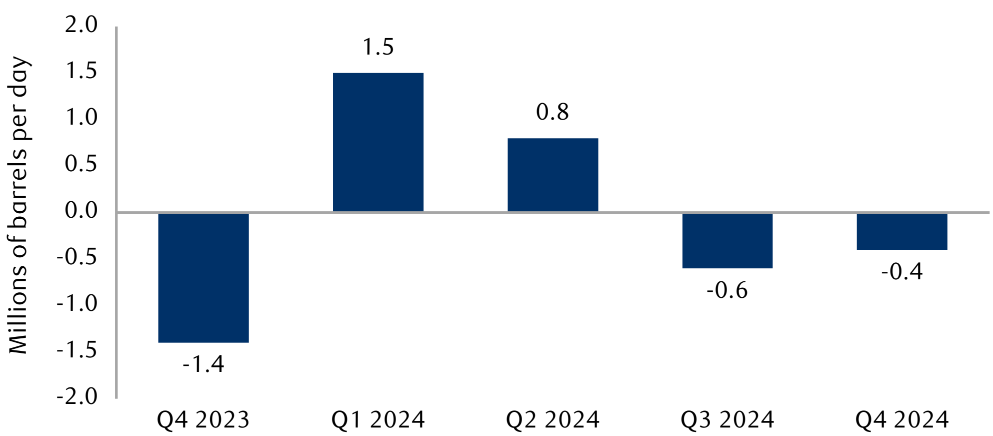
The U.S. Energy Information Administration expects U.S. production to grow by low single digits year over year in 2024 and for consumption to modestly decline. This comes at a time when storage levels remain at the upper end of the five-year historical average. In our view, this overhang will act as a constraint on prices until the market can chew through existing inventories. Growing export demand for liquefied natural gas should help clear excess balances over time.

Crude oil: Geopolitics

Near term, in the view of RBC Capital Markets, any escalation in the Israel-Hamas conflict could drive oil prices higher because global inventories remain tight by historical standards. However, the durability and sustainability of such a rally could be short-lived when one takes into account spare OPEC+ capacity and the possibility a modest supply surplus materializes in the first half of 2024. The rebuild of U.S. reserves and healthy import demand from China should help support net demand through 2024.

Crude oil expected to move between surplus and deficit in 2024

Projected global oil supply & demand balance



Source - RBC Capital Markets, RBC Wealth Management; data as of 11/9/23

Copper: Headwinds

Over the course of next year, we expect copper prices will be constrained by slowing economic growth, growing production, and the prospects of a higher-for-longer interest rate environment. China accounts for roughly 50% of net demand and we expect the Chinese housing market to remain tepid due to inflation, higher borrowing costs, and the travails facing many developers. Furthermore, RBC Capital Markets is projecting a global supply surplus in 2024 that will grow into 2025.

Gold: Surplus

Global uncertainty and geopolitical risks rose in the weeks following the initial attacks in the Israel-Hamas conflict, driving gold prices briefly back up above the $2,000/oz mark. However, we believe slowing economic growth in conjunction with growing production surpluses will be headwinds for higher gold prices in 2024. Higher real interest rates have effectively increased the opportunity cost of owning gold. Therefore, looser monetary policy, if it arrives, could provide some price support, in our view.

Soybeans: Challenging

The U.S. Department of Agriculture (USDA) expects global production and ending inventories to advance to higher levels into the 2023/24 season. All else equal, we believe global soybean prices are biased downward. However, it's important to acknowledge that China accounts for approximately 60% of global imports, and therefore a reacceleration in economic growth there could be the key for soybean prices to break above 18-month lows, in our view.

Wheat: Tight

While wheat prices are near the lower end of the 18-month range, we believe tight global balances could act as a catalyst for higher prices over the medium term. The USDA expects ending inventories to finish at the lowest levels since the 2015/16 season. However, looking into the 2023/24 season, the USDA has projected lower global production, decreased consumption, and reduced export demand on a year-over-year basis.

2024 commodities forecasts

Commodities	Price
Natural gas ($/mmBtu)	$3.50
Oil (WTI $/bbl)	$85.45
Copper ($/lb)	$3.88
Gold ($/oz)	$1960
Soybeans ($/bu)	$13.30
Wheat ($/bu)	$5.97

Source - RBC Capital Markets forecasts for oil, natural gas, copper, and gold), Bloomberg consensus forecasts (soybeans and wheat); data as of 11/7/23

Global Insight 2024 Outlook

Currencies

Nicolas Wong, CFA
Singapore

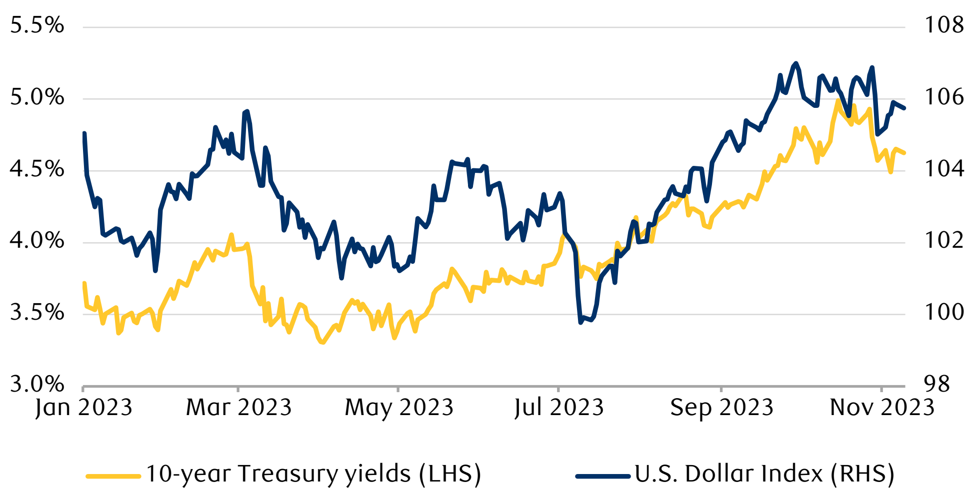
U.S. dollar: Extending strength into H1 2024

U.S. economic data throughout 2023 proved to be surprisingly resilient. Benchmark 10-year Treasury yields touched a 15-year high at 5% in October, helping the U.S. Dollar Index (DXY) to rally 7% after briefly hitting its lowest point of the year. We expect dollar strength into H1 2024, based on relative economic outperformance against other major economies keeping U.S. bond yields the highest within the G10. We look for a weaker greenback in H2 2024, coinciding with the timing of interest rate cuts that the market is expecting from the Federal Reserve. RBC Capital Markets notes that U.S. deficits may weigh on the currency but thinks it would be premature to factor budget deficits into dollar performance for now.

Euro: Weak eurozone economic data

The EUR/USD pair was last seen trading near the middle of its 1.0450–1.1280 range in 2023, weighed by weak economic data in the eurozone and a dovish European Central Bank policy statement in October. We expect the eurozone's

We expect the U.S. dollar to ease in H2 2024 as the Fed potentially starts to cut interest rates



Source - RBC Wealth Management, Bloomberg; data through 11/13/23 economic growth to lag that of the U.S. in 2024 and EUR/USD to drift lower to 1.02 in H1 2024, followed by a recovery to 1.08, mostly on a broadly weaker dollar in H2 2024.

Canadian dollar: BoC signals economic growth outlook concerns

The Bank of Canada (BoC) took a dovish tone at its October meeting, as prior BoC rate increases have led to softer economic growth and jobs data. RBC Economics expects the BoC to remain on hold at 5% and to start cutting rates in Q3 2024. RBC Economics sees the currency weakening somewhat further in H1 2024, followed by some improvement in H2 2024 assuming anticipated Fed rate cuts weaken the dollar.

British pound: Weak fundamentals persist

We look for the pound to underperform in 2024, with the Bank of England potentially cutting interest rates more aggressively than currently priced by investors, while stagflation risks also could weigh on the currency. RBC Capital Markets notes the need for a cheaper pound to balance the twin deficits (fiscal and current account) that the UK is likely facing over the long term. Should the Labour Party win the general election that is likely to occur in 2024, a more constructive attitude towards Europe could strengthen the pound.

Japanese yen: Weaker on interest rate differentials

The USD/JPY rallied from a low near 130, seen during the banking stress in March, to 151 in Q4 2023 driven by monetary policy divergence between the Fed and the Bank of Japan (BoJ). The yen weakened even as the BoJ tweaked its yield curve control policy by removing a cap on 10-year Japanese government bond yields. RBC Capital Markets expects USD/JPY to peak at 154 in H2 2024 before declining to 145 at end-2024. Meanwhile, an important level to watch is 152, the point at which Japanese officials intervened in October 2022.

2024 currencies forecasts

Currencies	Forecast Dec. 2024
U.S. Dollar Index	104.09
EUR/USD	1.08
USD/CAD	1.31
GBP/USD	1.20
USD/JPY	145.00

Source - RBC Capital Markets estimates; data as of 11/13/23

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 Global Portfolio Advisory Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee (RISC), providing additional tactical and thematic support utilizing research from the RISC, RBC Capital Markets, and third-party resources.

The 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.

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Required disclosures

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As of September 30, 2023

			Investment Banking Services Provided During Past 12 Months	
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