RBC WEALTH MANAGEMENT

Global Insight

Asset Allocation Guide

In conjunction with the *Global Insight* publications, following is an updated view on strategic asset allocation from the Global Portfolio Advisory Committee, including region, sector, and thematic preferences.

Fixed Income: Europe's influence is key

- Treasury yields spiked recently, with the 10-year yield breaking out above its seven-month trading range on improved economic data and hawkish central bank rhetoric.
- But as important as the Treasury market is, Europe could set the pace for fixed income. Even though the European Central Bank plans to halve its bond purchases in January and perhaps eliminate them in late 2018, it seems unlikely to raise interest rates anytime soon. This should help keep a lid on longer-term Treasury yields over the medium term

Equities: Durable economic upswing intact

- While a consolidation period or pullback would be normal following double-digit year-to-date rallies in most equity markets, we believe a moderately Overweight position in global equities is still warranted as our positive long-term thesis remains intact.
- Corporate revenues, earnings, and estimates should continue to drift higher so long as the U.S. and global economies expand at least at an average pace and major central banks continue to normalize rates rather than restrict credit outright. We expect favorable conditions to persist in 2018.

For a description of how the Asset Allocation Guide ties together RBC Wealth Management's investment views and asset allocation models, please see *page 3*.

Click here for authors' contact information.

For important and required non-U.S. Analyst disclosures, see page 5.

Wealth Management

The following pages outline the RBC Wealth Management Global Portfolio Advisory Committee's view on asset allocation. The strategic weight is our long-term strategic asset allocation; the current view shows the direction and allocation recommended by the Committee. The prior weight represents last month's recommended weighting.

	Strategic	Prior	Current	
Cash	2	4	4	**Reiterate Overweight.** Hold some dry powder in case an equity pullback or fixed income opportunities emerge.
Fixed Income	**43**	**38**	38	**Maintain Underweight.** All signs point to a Fed rate hike in December and its forecasts project three more in 2018. With inflation likely to stay below 2%, yield curves should remain flat—extending this challenging investment environment.
U.S. - Government Bonds	10	7	7	**Maintain Underweight.** The European Central Bank is expected to begin its own quantitative easing tapering in early 2018, which could exert upward pressure on 10-year German Bund yields. 10-year Treasury yields could follow their lead, but we still believe the high for the year (2.62% in March) is in.
Corporate - Investment Grade	15	16	16	**Reiterate Overweight.** IG credit spreads remain near historical lows and, as a result, investors are best rewarded by moving up the credit rating scale. We view the recent rise in 10-year Treasury yields as providing an entry point to longer-duration securities.
Corporate - High Yield	4	3	3	**Maintain Underweight.** We continue to see a poor risk/reward setup for speculative-grade investors, justifying our current position, and continue to favor interest rate risk over credit risk via IG corporates in this environment.
International	9	6	6	**Stay Underweight.** The ECB's expected tapering announcement should confirm that it will only gradually remove stimulus. In general, and mirroring the Fed, global central banks will be data-dependent, such that forecasts for slow growth and low inflation mean policy normalization will likely be slow and deliberate.
Emerging Markets	5	6	6	**Reiterate Overweight.** Heightened Fed rate hike expectations continue to buoy the dollar, but the currency's sharp dip on weak September Consumer Price Index data shows the headwinds to a sustained dollar bull rally. We see the EM space continuing to benefit from the prospects of a weaker dollar amidst encouraging global economic fundamentals.
Equities	**55**	**58**	**58**	**Maintain Overweight.** Global economic and corporate earnings trends remain positive, and monetary policies of major central banks are supportive. Geopolitical tensions linger.
U.S. Large Cap	22	22	22	**Stay Market Weight.** U.S. GDP and earnings are likely to keep growing for the next year, at least. Prospects for the long-term bull market remain bright, but the pace of gains won't continue unabated and a temporary pullback could unfold.
U.S. Midcap	8	8	8	**Reiterate Market Weight.** Midcap valuations are on par with large caps based on forward consensus price-to-earnings ratios. Earnings momentum is lagging large caps, but is ahead of small caps. Revenue trends solid.
U.S. Small Cap	3	3	3	**Remain Market Weight.** Small-cap valuations are cheaper than large based on our multifactor model. However, earnings momentum continues to lag large caps. Revenue trends roughly on par with large caps, behind midcaps.
International (EAFE)	18	20	20	**Maintain Overweight.** Tilt exposure toward Europe ex-U.K. The region's economy and corporate earnings are relatively sturdy, but further euro strength could be a headwind. Maintain U.K. at Underweight.
Emerging Markets	4	5	5	**Maintain Overweight.** EM economic and earnings growth seem likely to persist in coming months; equity and currency valuations are inexpensive. Markets should benefit from tech disruption/digitization and policy flexibility.

The models below provide a detailed view of our current asset allocation recommendations across the major asset classes for U.S. investors. "Strategic" is the recommended long-term asset allocation, while "current" represents our view over the next 12 months.

	Very conservative		Conservative		Balanced		Growth		Aggressive growth	
	Strategic	Current	Strategic	Current	Strategic	Current	Strategic	Current	Strategic	Current
Cash	**2**	**6**	**2**	**5**	**2**	**4**	**2**	**3**	**2**	**2**
Fixed Income	**78**	**73**	**63**	**59**	**43**	**38**	**28**	**25**	**NA**	**NA**
U.S. - Government Bonds	30	26	21	18	10	7	5	4	–	–
Corporate - Investment Grade	36	38	25	27	15	16	10	12	–	–
Corporate - High Yield	3	3	4	3	4	3	4	3	–	–
International	9	6	9	6	9	6	4	-	–	–
Emerging Markets	–	–	4	5	5	6	5	6	–	–
Equities	**20**	**21**	**35**	**36**	**55**	**58**	**70**	**72**	**98**	**98**
U.S. Large Cap	12	12	16	16	22	22	28	28	38	37
U.S. Midcap	–	–	5	5	8	8	9	8	13	12
U.S. Small Cap	–	–	–	–	3	3	5	5	7	7
International (EAFE)	8	9	14	15	18	20	23	25	33	34
Emerging Markets	–	–	–	–	4	5	5	6	7	8

The Asset Allocation Guide (AAG) is a monthly document published by the U.S. Investment Committee (USIC) that brings together the investment views of the firm's global strategy team with asset allocation models.

Specifically, this document includes five traditional Strategic Asset Allocation (SAA) Models. In addition to these strategic (longer-term) recommendations, the AAG provides a recommended current weighting with a 12-month time horizon across each asset and sub-asset class. These current weightings reflect the USIC's interpretation of the investment views of the firm's global strategy team, the Global Portfolio Advisory Committee (GPAC), for a U.S.-based investor. In other words, the USIC distills the GPAC's views and puts them on the SAA framework with the goal of quantifying recommended Overweights and Underweights. The current views in the AAG are a starting point for allocating portfolio assets.

The AAG is updated monthly as changes may be made to reflect current GPAC views. It is not intended to be used as a rebalancing tool, but rather as a framework for discussing portfolio positioning.

Furthermore, the AAG will be used as a driver of top-down asset and sub-asset class decisions within any RBC Discretionary Portfolios that employ a more dynamic approach to asset allocation.

Research resources

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