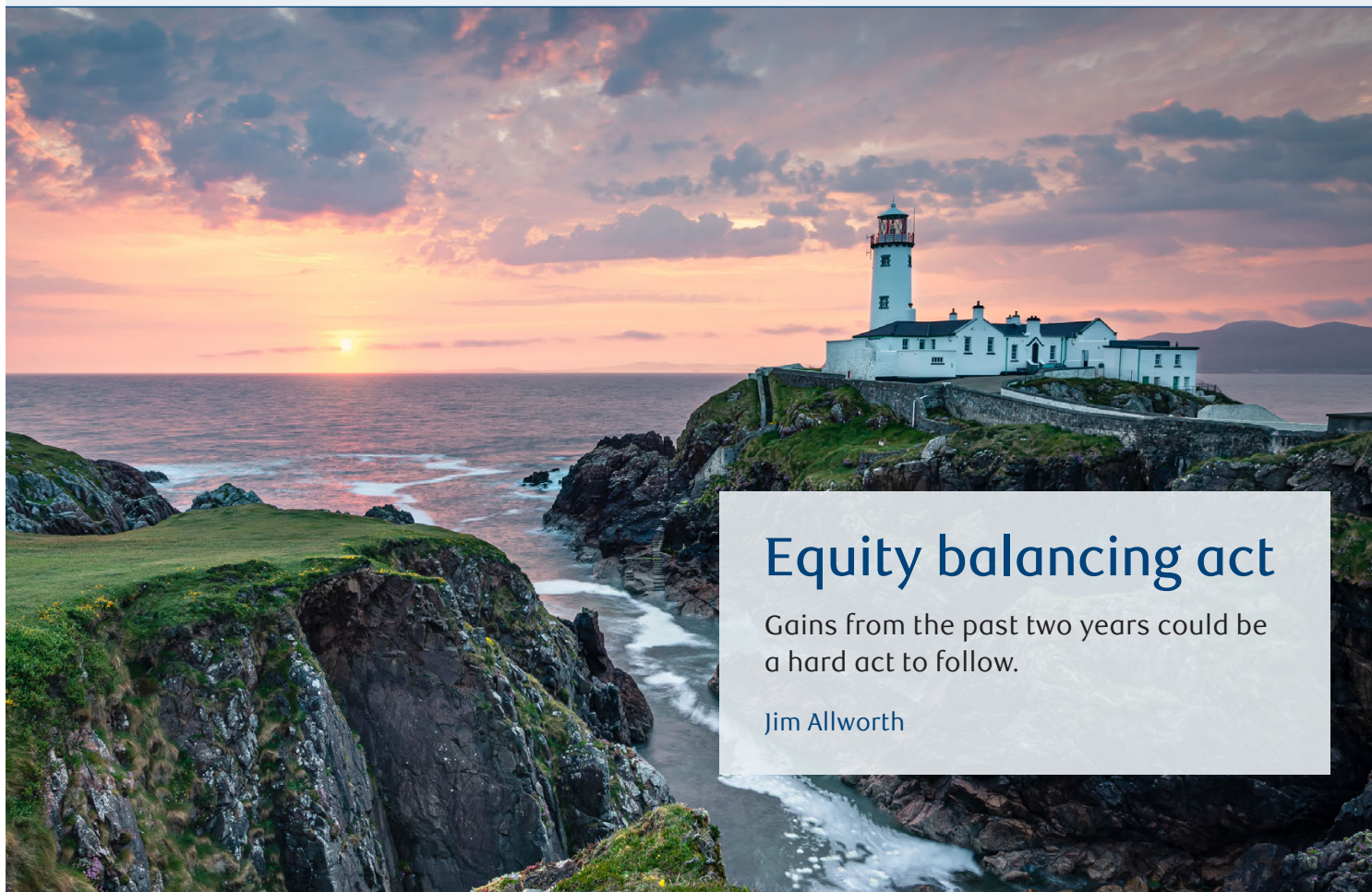




GLOBAL Insight 2025 Outlook



Equity balancing act


Gains from the past two years could be a hard act to follow.

Jim Allworth

Produced: Nov. 25, 2024, 16:57 ET; Disseminated: Dec. 2, 2024, 15:00 ET
All values in U.S. dollars and priced as of market close, Nov. 15, 2024 unless otherwise stated.

For important and required non-U.S. analyst disclosures, see [page 6](#).

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.



Global Insight 2025 Outlook

Market overview

Equity balancing act

Jim Allworth
Vancouver, Canada

In 2025, global equity markets may be able to add to the remarkable gains of the past two years. We believe that will require economic and earnings pictures that don't falter.

- **Enthusiasm for AI and the future economic growth it may be promising, together with central bank cutting, pushed the majority of stocks to new highs this year. There may be more of that to come in 2025, but we believe optimism about the future will need to be buttressed by a continuation of positive economic growth.**
- **Already-stretched valuations and increasingly frothy investor sentiment readings argue for a cautious, considered approach to equity selection.**

The last washed-out low for global equity markets was in fall 2022. Investor sentiment had swung from enthusiastic optimism in January of that year to concerned pessimism at the October lows. From that point, markets turned abruptly higher and never looked back.

All the major equity markets over the intervening 25 months (China's aside until recently) advanced sharply, led by the S&P 500 up a remarkable 68 percent.

This steep path higher for the S&P was, to a great degree, forged by the performance of a handful of mega-cap technology stocks whose substantial spending commitments to the development of artificial intelligence (AI) raised the prospect of those companies delivering outsized sales and earnings growth in the years ahead.

Enthusiasm for AI fostered optimism about future economic growth bolstered by central bank cutting, pushing the majority of stocks to a succession of new highs. That can be seen more clearly in the performance of the "unweighted" version of the S&P 500, which removes much of the distortion introduced by the strong-performing, mega-cap Magnificent 7. This equally-weighted index was up a less remarkable but still surprising 48 percent.

The gains posted by the non-U.S. indexes were well above average but more subdued. None contained any of the Magnificent 7 stocks and generally had much less exposure to the Tech sector.

Valuations have changed materially as markets have moved higher over two years: the S&P 500 rose by 68 percent but the index earnings per share was up by a comparatively meager 12 percent. That leaves the price-to-earnings (P/E) multiple at 24.7x (trailing 12 months), up by half from the 16.4x at the October 2022 low.

There is no convincing line in the sand beyond which equity valuations cannot venture. With consensus earnings forecast to rise by 14.6 percent to \$276 in 2025, we think it would not be unreasonable to look for new index highs again next year nor out of the question for the P/E multiple to move beyond the almost 25x (trailing) touched this year.

Recession realities

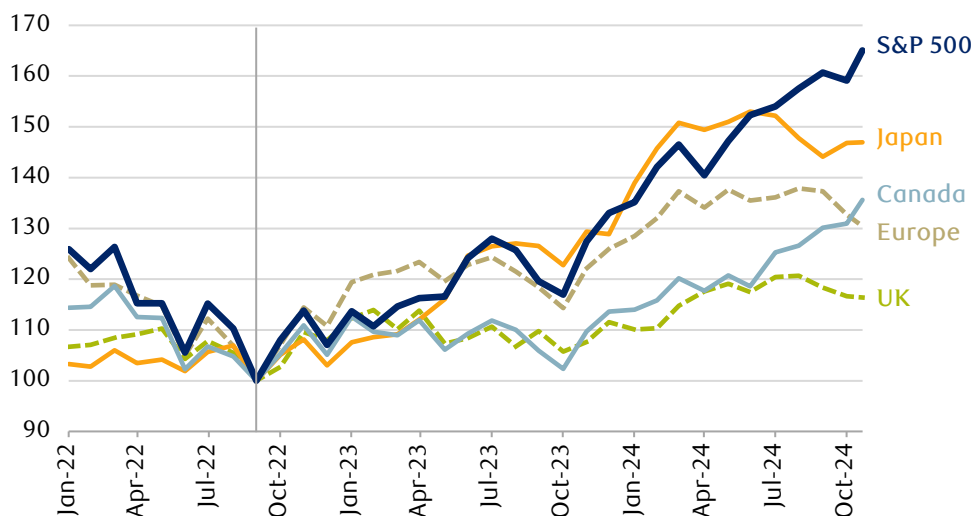
Equity markets tend to keep moving in the prevailing direction until something forces a turn. Corrections come and go unpredictably and usually don't last too long, with the market recovering any lost ground quickly. Bear markets, on the other hand, take longer to play out and entail deeper (albeit temporary) price declines. For more than a century, these deeper downturns have always been associated with a U.S. recession.

The window can't yet be closed on the possibility of a recession arriving as a consequence of the Fed tightening cycle. Recessions have started an average of 10 quarters after the first Fed rate hike. We are now in the 11th. In more than half the recessions, the first-hike-to-recession gap was longer than the 10-quarter average.

Of course, it's also possible no recession arrives, which would leave the bull market with further to run. There are two market-related measures in

Major indexes have seen two years of “up”

Equity index performance relative to September 2022



Source - FactSet; Japan is represented by the TOPIX Index, Canada by the S&P/TSX Index, Europe by the MSCI Europe ex UK Index, and the UK by the MSCI UK Index

particular we are monitoring to gauge whether or not the market is running out of steam.

One is market breadth—are the majority of stocks moving in sync with the broad averages? The answer to this continues to be yes. New highs in the S&P 500, the Dow Jones Industrial Average, and the NYSE Composite, including those set in early November, have all been matched by new highs in their respective advance-decline lines and associated “unweighted” versions of the S&P 500 and Dow. Historically, market breadth has usually turned lower before the capitalization-weighted indexes have reached their final peaks in a bull market. No such negative divergence has appeared. As long as breadth measures and major market indexes remain in sync, we would expect to see more new highs for equity markets.

We are also paying attention to investor sentiment, which has been no more than moderately optimistic over the past year. Recently, however, some sentiment indicators have been giving frothier readings. For example, a measure of bullish positioning in the stock futures market, compiled by RBC Capital Markets’ U.S. Equity Strategy team, has recently set new all-time highs while in The Conference Board’s October Consumer Confidence Survey, 51.4 percent of respondents “expected stock prices to increase over the year ahead,” the highest reading since the question was first asked in 1987.

Some of this elevated investor enthusiasm could be U.S. election-related and might recede in the coming months. If it doesn’t, the combination of persistent excessive optimism and the one-sided positioning noted above might suggest that those who want to be in are in. New buyers will be needed, and that often requires a period of lower prices and more compelling valuations.

Much depends on the consensus 2024 S&P 500 earnings forecast of \$241 per share and 2025 forecast of \$276 per share holding together. As RBC Capital Markets, LLC’s Head of U.S. Equity Strategy Lori Calvasina notes, “there is room for market valuations (P/Es) to expand somewhat further but not a ton.” It is our view that investors have already paid once, and generously, for these earnings prospects and may well balk at paying again.

In our view, even if more serious downside and a recession that would put that downside into play can be avoided, the road to higher equity prices from here will require some threading of the needle while leaving investors to contend with occasional pullbacks along the way.

Watchful, cautious, invested

We expect breadth and sentiment will help us determine which path prevails in the coming months. In our view, the appropriate positioning for the year ahead in a global balanced portfolio would have equities at, but not above, the long-term target exposure. Our mantra has been and continues to be “watchful, cautious, but invested.”

Beyond the outlook for 2025, powerful trends will likely continue to play out in the global economy and could have important portfolio implications. For more on this topic, see our other focus article, [“The ‘Unstoppables’](#).”

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.

Global Portfolio Advisory Committee members

Jim Allworth – Co-chair
Investment Strategist, RBC Dominion Securities Inc.

Kelly Bogdanova – Co-chair
Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

Frédérique Carrier – Co-chair
Managing Director & Head of Investment Strategy, RBC Europe Limited

Mark Bayko, CFA – Head, Portfolio Management, RBC Dominion Securities Inc.

Luis Castillo – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Rufaro Chiriseri, CFA – Head of Fixed Income, British Isles, RBC Europe Limited

Janet Engels – Head, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

Thomas Garretson, CFA – Fixed Income Senior Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Patrick McAllister, CFA – Manager, Equity Advisory & Portfolio Management, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Josh Nye – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Alan Robinson – Senior Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – U.S. Equities, RBC Capital Markets, LLC

Michael Schuette, CFA – Multi-Asset Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

David Storm, CFA, CAIA – Chief Investment Officer, British Isles & Asia, RBC Europe Limited

Yuh Harn Tan – Head of Discretionary Portfolio Management & UHNW Solutions, Royal Bank of Canada, Singapore Branch

Joseph Wu, CFA – Portfolio Manager, Multi-Asset Strategy, RBC Dominion Securities Inc.

Required disclosures

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets. This report has been prepared by RBC Capital Markets which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

Non-U.S. Analyst Disclosure

One or more research analysts involved in the preparation of this report (i) may not be registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Wealth Management and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2> to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 250 Nicollet Mall, Suite 1800, Minneapolis, MN 55401-1931.

RBC Capital Markets Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories – Buy, Hold/Neutral, or Sell – regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because RBC Capital Markets' ratings are determined on a relative basis.

Distribution of ratings – RBC Capital Markets Equity Research

As of September 30, 2024

Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Outperform]	858	57.39	290	33.80
Hold [Sector Perform]	599	40.07	153	25.54
Sell [Underperform]	38	2.54	3	7.89

Explanation of RBC Capital Markets Equity Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Outperform (O): Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. **Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

Risk Rating: The Speculative risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Risks to Rating and Price Target

When RBC Capital Markets assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Risks to Rating and Price Target", respectively.

The analyst(s) responsible for preparing this research report have received (or will receive) compensation that is based upon various factors, including total revenues of RBC Capital Markets, and its affiliates, a portion of which are or have been generated by investment banking activities of RBC Capital Markets and its affiliates.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management or a designated third party will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our website at <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2>. Conflicts of interests related to our investment advisory business can be found in Part 2A Appendix 1 of the Firm's Form ADV or the RBC Advisory Programs Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part 2A Appendix 1 of the Form ADV, or the RBC Advisory Programs Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; RBC

Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; Royal Bank of Canada, Hong Kong Branch, which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ("SFC"); Royal Bank of Canada, Singapore Branch, a licensed wholesale bank with its principal office located in Singapore; and RBC Europe Limited, a licensed bank with principal offices located in London, United Kingdom.

Third-party Disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of Royal Bank of Canada in each instance. In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets,

LLC. This report has been prepared by RBC Capital Markets, LLC. Additional information is available upon request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. * Member Canadian Investor Protection Fund. ® Registered trademark of Royal Bank of Canada. Used under license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

RBC Wealth Management (British Isles): This publication is distributed by RBC Europe Limited and Royal Bank of Canada (Channel Islands) Limited. RBC Europe Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FCA registration number: 124543). Registered office: 100 Bishopsgate, London, EC2N 4AA, UK. Royal Bank of Canada (Channel Islands) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business in Jersey. Registered office: Gaspé House, 66-72 Esplanade, St Helier, Jersey JE2 3QT, Channel Islands.

To persons receiving this from Royal Bank of Canada, Hong Kong Branch: This document is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch which is regulated by the Hong Kong Monetary Authority and the SFC. This document is not for distribution in Hong Kong, to investors who are not “professional investors”, as defined in the Securities and Futures Ordinance (Cap. 571 of Hong Kong) and any rules made under that Ordinance. This document has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Past performance is not indicative of future performance. **WARNING:** The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Investors are advised to exercise caution in relation to the investment. If you are in doubt about any of the contents of this document, you should obtain independent professional advice.

To persons receiving this from Royal Bank of Canada, Singapore Branch:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This publication is not for distribution in Singapore, to investors who are not “accredited investors” and “institutional investors”, as defined in the Securities and Futures Act 2001 of Singapore. This publication has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch.

© 2024 RBC Capital Markets, LLC – Member NYSE/FINRA/SIPC
© 2024 RBC Dominion Securities Inc. – Member Canadian Investor Protection Fund
© 2024 RBC Europe Limited
© 2024 Royal Bank of Canada
All rights reserved
RBC1524



**Wealth
Management**