

Four for 2024: Key things to know about U.S. elections

As presidential elections have become more contentious, perceptions have risen that the stock market's fate can hang in the balance depending on who wins. There are four principles investors should keep in mind.

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A worldwide wave of elections



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Not so fast



U.S. RECESSION SCORECARD
Defying the odds, for now

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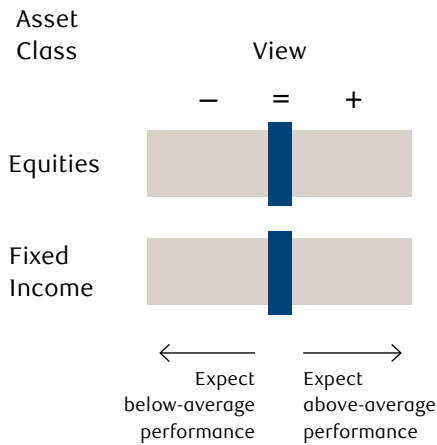
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RBC'S INVESTMENT Stance

Global asset class views



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

+ Overweight implies the potential for better-than-average performance for the asset class or for the region relative to other asset classes or regions.

= Market Weight implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

- Underweight implies the potential for below-average performance for the asset class or for the region relative to other asset classes or regions.

Source - RBC Wealth Management

Equities

- Developed equity markets have continued to rally with indexes in the U.S., Japan, and Europe reaching new all-time highs. Solid Q4 earnings results combined with optimism about 2024 profit growth helped fuel the rally. Markets were also supported by sturdy U.S. economic data and declining inflation in most major economies.
- We remain committed to equities but are watchful. Markets are exhibiting sustained upward momentum that may deliver further new highs in the coming weeks and months. Corrections can't be ruled out, but some important precursors of bear markets—very high investor sentiment and declining market breadth—are not yet in evidence.
- While the probability of a U.S. recession has diminished recently, some leading economic indicators are still signaling that a recession can't be ruled out. We think this risk should be reflected in stock selection by tilting portfolios toward higher-quality equities. We would maintain Market Weight positioning in U.S. and global equities overall.

Fixed income

- Global yields have been volatile to begin 2024 with the average yield on the Bloomberg Global Aggregate Bond Index as high as 3.85% and as low as 3.50%, ending February at 3.8%. Global inflation indicators have continued to improve, but concerns that progress has stalled of late has caused markets to price out near-term interest rate cuts, though modest cuts from major central banks are still expected later this year. Though yields on offer have dropped dramatically from the highs of late 2023, they remain well above the averages of the past 20 years, and we think there are relatively attractive entry points. However, we continue to exercise caution and patience over the near term as yields could retrace higher until the timing and magnitude of central bank policy easing comes into greater focus.
- We remain Market Weight U.S. fixed income with yields remaining above multi-decade averages. While economic risks have subsided in the U.S., global recession risks remain elevated and credit valuations remain rich, in our view. Therefore, we broadly remain Underweight corporate credit with a slight bias toward government bonds.

 MONTHLY
Focus


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Four for 2024: Key things to know about U.S. elections

As presidential elections have become more contentious, perceptions have risen that the stock market's fate can hang in the balance depending on who wins. We think this gives election outcomes too much weight. There are four principles to keep in mind during this controversial election season.

Key points

- **The market has performed well under various combinations of party control—including both controversial and plain vanilla presidencies.**
- **In terms of hot-button campaign issues, Wall Street's priorities often differ from Main Street's. And among the policy issues that catch Wall Street's attention, very few end up being primary drivers of stock market or sector returns—especially long-term returns.**
- **The Fed, economy, innovation, and profits tend to matter more to stock market performance than politics and election outcomes. Developments at the White House and on Capitol Hill usually don't make or break America's \$28 trillion economy or the profits of most S&P 500 companies.**
- **Stock market returns in past elections are useful to consider as there are some persistent and interesting patterns, but there are caveats.**

Polls indicate that most Americans view the forthcoming U.S. presidential election on November 5 with great apprehension for a variety of reasons—and very different reasons depending on political party affiliation and ideology.

Over the years we've discovered that investors often apply their political anxieties to their views about prospects for the stock market and economy.

Republicans and populist conservatives tended to be rather concerned about the stock market's outlook when Barack Obama and Joe Biden came to power, whereas Democrats and progressives were very nervous when Donald Trump was elected. Heading into this election, and given the stark divisions within the country, we sense that anxieties are even higher.

Yet the U.S. equity market rose meaningfully under the leadership of Obama and Trump and has risen thus far during the Biden administration.

We contend that the market's strength during these and other periods—and its periods of weakness—had less to do with who or which party occupied the White House, or which party controlled the House of Representatives and Senate and had more to do with other factors.

As the election approaches and campaign rhetoric fans the flames even more, we think investors should keep in mind four guiding principles when it comes to financial markets.

FOUR FOR 2024

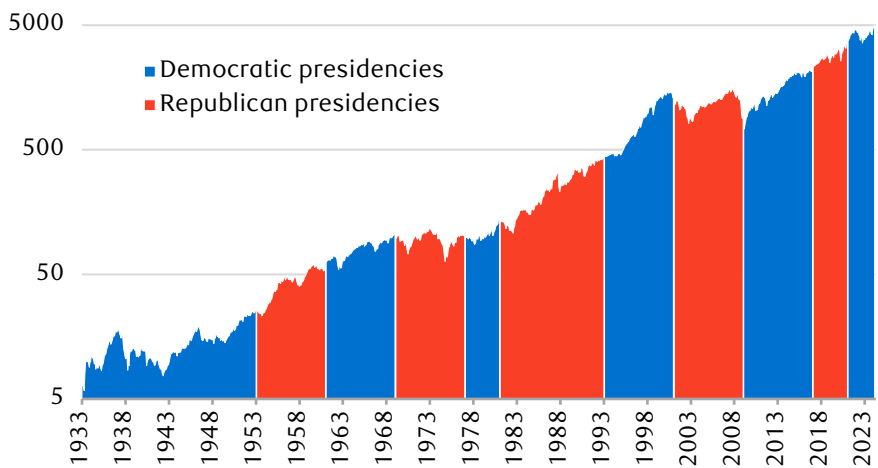
#1 – The market has performed well under various combinations of party control

The U.S. stock market has risen during Republican and Democratic presidencies—including during both controversial and plain vanilla presidencies, as the chart below illustrates.

There were a couple lengthy periods when the S&P 500 struggled, such as during the 1970s when Presidents Richard Nixon and Gerald Ford (shown in red in the chart) and Jimmy Carter (in blue) served. But by and large, when we consider from 1933 onward, the market rose during a number of Republican and Democratic presidential periods, and substantially so at times.

Market gains have occurred under both parties

S&P 500 performance since 1933 by presidential party control (log scale)

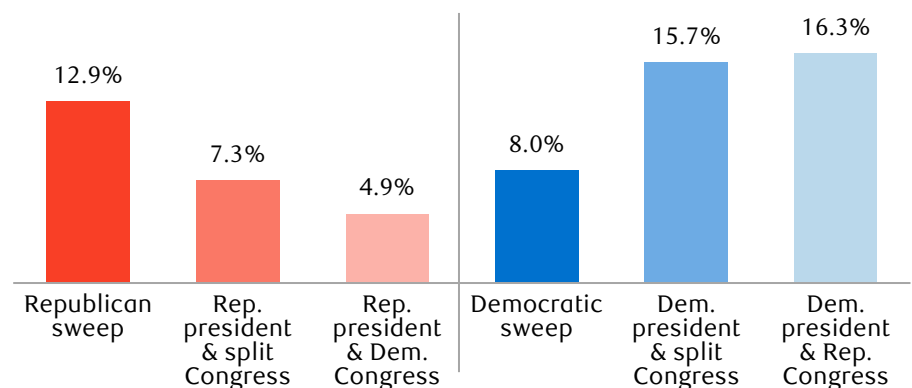


Source - RBC Wealth Management, Bloomberg; monthly data through 2/20/24 shown on a logarithmic scale. Categories separated by inauguration dates when a party change occurred

Since 1953, S&P 500 returns have tended to be highest when the Democratic Party has controlled the presidency and Congressional control has been either divided between the two parties or firmly in Republican control. It also performed well when there was a Republican sweep.

Elephant or donkey—or both?

Average annual S&P 500 returns since 1953 by party control



Source - RBC Wealth Management, Bloomberg; data through 12/31/23; data based on price returns (does not include dividends)

FOUR FOR 2024

We think it's most relevant to evaluate party control data from 1953 onward because at that time a major shift took place.

In the first half of the 20th Century, it was very common to have united, one-party control with either the Democratic or Republican Party holding all three levers of power: the presidency, Senate, and House. This happened in 85 percent of those years.

But beginning with the swearing in of Republican Dwight D. Eisenhower as president in 1953 through today, one-party control has been rarer, happening in only 37% of those years.

#2 – Wall Street’s priorities often differ from Main Street’s

There are a bevy of election issues that we think markets will be paying attention to during this campaign season and soon after the election related to economic policy, foreign policy, and sectors and industries.

Wall Street’s priorities, which are shown in the lists below, can differ from what large portions of the electorate prioritize. The market often ignores important social issues that help determine election outcomes. For example, this election season various voter groups are focused on crime, border security, homelessness, the fentanyl and opioid crises, abortion, etc. But, historically, social issues have had little direct, immediate, or discernable impact on corporate profit growth of large companies that make up the S&P 500, which is Wall Street’s primary focus.

A bevy of election issues for markets to focus on

Economic policy	Foreign policy	Sectors & industries
<ul style="list-style-type: none"> inflation tax policy federal spending federal debt & deficit immigration student loan debt Treasury/Fed appointments Washington gridlock 	<ul style="list-style-type: none"> tariff & trade policies sanctions U.S.-China rivalry onshoring, near-shoring friend-shoring deglobalization de-dollarization U.S./NATO-Russia risks a wider Middle East conflict? multipolar world 	<ul style="list-style-type: none"> energy policy energy transition green initiatives infrastructure spending tech subsidies tech & AI regulations health care policy FDA rules defense spending banking regulations

Source - RBC Wealth Management

This election cycle, we think three issues on the list above will stand out for Wall Street:

- Tax rates on individuals,
- tariff and trade policies, and
- the U.S.-China rivalry.

The presumptive Democratic and Republican nominees, Biden and Trump, seem to have very different ideas about taxation and tariff policies, and their detailed policy proposals will likely be clearer in the months ahead.

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We think tax provisions will be front and center not only during the heat of the election campaign but even more so after the next president and Congress take office in 2025.

Many of the tax cuts for individuals that were passed in the Tax Cuts & Jobs Act (TCJA)—known as the “Trump tax cuts”—are scheduled to automatically sunset (expire) at end of 2025. If nothing is done to address some or all of the provisions, they would revert back to higher, pre-TCJA levels.

Tax issues likely to be front and center

Many of the Tax Cuts and Jobs Act (TCJA) provisions that benefited individual taxpayers starting in 2018 are scheduled to sunset at the end of 2025:

- The reduction of **individual income tax rates** and the restructuring of the tax brackets will expire
- The increase in the **standard deduction**, elimination of the **personal exemption**, and doubling of the **child tax credit** will expire
- Limits on the **state and local tax deduction** and the **mortgage interest deduction** will expire
- The decoupling of the income threshold for **capital gains** from ordinary income will expire
- The reduction of the **alternative minimum tax** will expire
- The reduction of the **estate tax** will expire
- The higher lifetime thresholds for **gifts** will expire

Source - Tax Foundation, Kiplinger, RBC Wealth Management. Items impacted by TCJA sunset provisions are not limited to this information. This information does not construe tax advice.

There are no sunset provisions for the corporate tax rate reductions that were included in the TCJA, but corporate rates could change if the next president and Congress agree on tax hikes or cuts.

We think foreign policy issues are more important to Wall Street this election than in recent ones. This is not only due to the high-profile military conflicts in Eastern Europe and the Middle East, but also because tariff and economic sanctions policies have played greater roles in the current and previous two presidential administrations. This will likely continue regardless of who is elected president in 2024. From our vantage point, sanctions and trade restrictions, rather than good old-fashioned diplomacy, have become fixations of the U.S. foreign policy establishment—even though they quite often don’t work.

We intend to evaluate the two leading candidates’ tariff, trade, sanctions, and tax proposals in the future as the policies become more specific and formalized.

Aside from trade issues, among the long list of issues above that will likely attract the attention of equity market strategists and economists, most are unlikely to be key drivers of stock market or sector returns, in our view—especially long-term returns. Policymaking in Washington involves many different checks and balances including corporate lobbying, and we think other factors have primarily driven profits and stock market performance.

FOUR FOR 2024

#3 – The Fed, economy, innovation, and profits tend to matter more than Washington policies

Developments at the White House and on Capitol Hill usually don't make or break America's \$28 trillion economy or the profits of most S&P 500 companies, in our assessment.

Rather, the Fed's monetary policies have historically influenced the economy, inflation, bank lending, and credit availability much more. The Fed's decisions tend to help shape the business cycle, which in turn highly influences corporate profit growth—the latter of which is the mother's milk of the stock market.

Likewise, Fed policies also have tended to be major determining factors of U.S. bond market performance and have increasingly influenced policies of other developed-market central banks and performance of those bond markets.

The natural movement of U.S. economic activity—from the start of a new growth cycle, to midcycle, to recession, and back again—has also historically been a major determinant of U.S. financial market returns.

And innovation has been a key factor. Think back to the previous major leaps in technology—from the advent of personal computers, to wide usage of the internet, and more recently to artificial intelligence—and it becomes apparent that innovation often drives profit growth and stock prices.

This is not just applicable to technology-related stocks. Many sectors and industries ranging from health care, to industrials, energy, utilities, transportation, shipping, financial services, and more, have benefitted greatly from innovation—and we think their stock prices have too.

Washington policy decisions have at times spurred on and incentivized innovation, but more often than not it occurred naturally within the competitive U.S. and global free enterprise system.

#4 – Historical election data are useful to consider, but there are caveats

An interesting pattern has developed over many years. When we divide time into four periods—the election year, then year one of the presidential term, then year two of the presidential term (which is also the midterm election year), and then year three—we see a persistent pattern of performance stretching back to 1928.

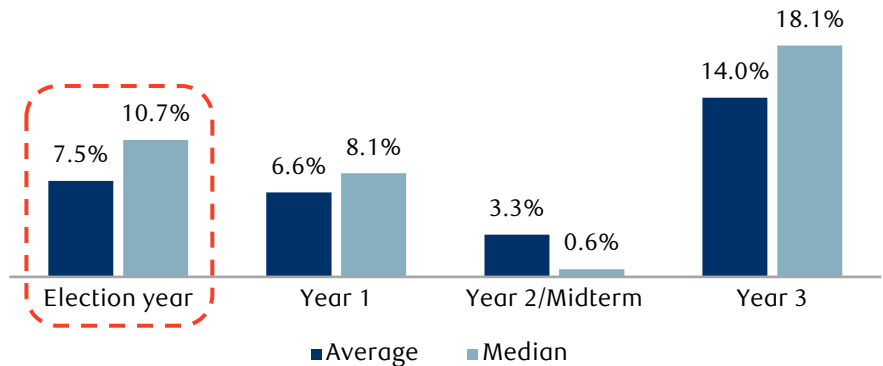
The S&P 500 was strongest in year three, and second-strongest during the presidential election year, as the top chart on the following page shows.

Political pundits and market strategists have their theories as to why this four-year pattern has persisted—some of which involve higher federal spending in year three, and there is some data that points to Fed policy patterns in the various years. But we have yet to find reliable, concrete explanations.

FOUR FOR 2024

Four-year presidential cycle track record

S&P 500 performance during U.S. presidential election cycles since 1928



Note: “Year 1” is the first year of the presidential term, “Year 2” is the second year and so forth.

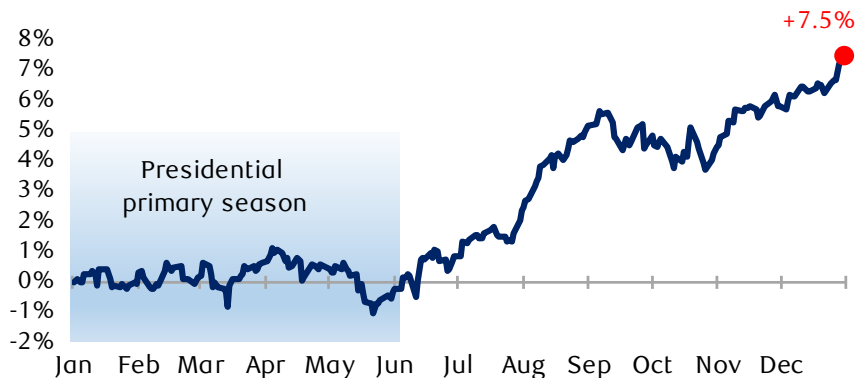
Source - RBC Wealth Management, Bloomberg; annual data through 2023; data based on price returns (does not include dividends)

The market has also tended to follow a similar pattern during the presidential election year. The gains tend to come during the summer and later in the year.

For example, when we combine all of the presidential election years since 1928 and average them together, the chart below shows that the market treaded water during the primary season, but then rose in the summer, and posted nice gains after the November election.

Gains typically came later in the year

Average path of S&P 500 during presidential election years since 1928



Source - RBC Wealth Management, Bloomberg; data through 2020 election; data based on price returns (does not include dividends)

But what about the controversial election years in recent years and decades?

When Hillary Clinton and Donald Trump faced off in 2016 and Trump and Biden competed in 2020, the market corrected during the spring (for reasons unrelated to the election) and rallied toward year end, closing near the highs of the year. The S&P 500 finished 2016 and 2020 up 9.5 percent and 16.3 percent, respectively. Controversies and all, in each case the market beat the 7.5 percent long-term average gain during election years.

FOUR FOR 2024

However, not all controversial presidential election years ended in rallies.

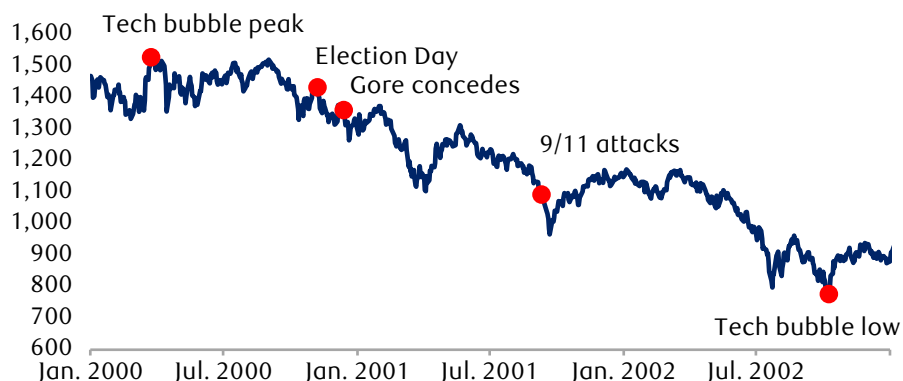
When George W. Bush and Al Gore faced off in 2000, the S&P 500 was particularly weak during the “hanging chads” Florida recount and pivotal court proceedings which lasted for over one month. The market didn’t like the uncertainty associated with the recount and unprecedented legal issues.

The S&P 500 fell nearly 12 percent from the close on Election Day to the December low, and it dropped 10.1 percent for the full year—well below the average 7.5 percent election year gain.

Performance that year was also greatly impacted by the bursting of the Tech bubble, which began in March 2000 and stretched all the way into 2002. Florida recount uncertainty was a factor, but not the sole driver of poor equity returns in 2000 or during that longer period, as the chart shows.

Bigger issues than the Bush vs. Gore recount

S&P 500 from 2000–2002 mainly impacted by the bursting of the Tech bubble



Source - RBC Wealth Management, Bloomberg; data from 1/1/00–12/31/02

This is yet another illustration which underscores our view that it’s important to remember other factors tend to influence the stock market much more than election outcomes.

Furthermore, one should also keep in mind there are caveats to historical market-related election data. Even when we track S&P 500 data and trends going back to 1928, there are not a lot of datapoints, especially when they are sliced and diced into various categories. One big rally year or one big selloff year can change the averages notably, and there tend to be wide variations around the averages.

Focus on the bigger picture

Americans and observers outside the country who are interested in politics and public policy rightly assign high importance to U.S. election outcomes. But we think U.S. financial markets are typically more influenced by Fed policies in the short run and by economic trends, innovation, and profit growth over a longer time frame.

As the campaign season progresses, stay tuned for more of RBC’s election-related insights which will dig into policy issues that are most relevant for the economy, markets, sectors, and industries.

MONTHLY
Focus



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A worldwide wave of elections

2024 marks a case of rare planetary alignment, with the biggest election cycle in history. More than 75 countries home to 4.2 billion people, or close to half the world's population, will head to the polls this year.

While the brightest spotlight will certainly fall on the U.S. election, this article focuses on elections beyond the U.S. and why they matter to investors. We assess the factors that have historically made electoral outcomes momentous for economies and financial markets, zeroing in on several pivotal elections that could have repercussions for investment portfolios.

Key points

- **Historically, elections that significantly impacted a country's economy and financial markets were those where the elected government implemented a sweeping structural reform programme, modified fiscal or monetary policies, or refashioned international relations.**
- **In emerging markets, we believe the outcomes of this year's elections will have important implications for ongoing reforms and economic stability. For some, how the elections play out may accelerate the breakdown of the post-Cold War world order.**
- **In developed markets, at this juncture a centrist government appears likely, in our view, to win the next UK general election, while voting for the European Parliament may give populist nationalists a greater voice, further threatening the cohesion of the EU.**

Elections as game changers?

Every now and then, elections have deep, long-term implications for economies and financial markets. In particular, those where an elected government has promised wide-ranging economic changes, such as:

- The 1979 UK election of Prime Minister Margaret Thatcher brought privatization of state-owned companies, financial system deregulation, and labour market reform that initially worsened the UK's long economic downturn but ultimately reshaped its economic structure.
- Brazil's 1994 election led to a transformation of monetary policy orthodoxy for its central bank, which helped tame the hyperinflation that had gripped the country for years.

The subsequent improvement in both economies paved the way for lasting bull markets in their respective domestic equity markets.

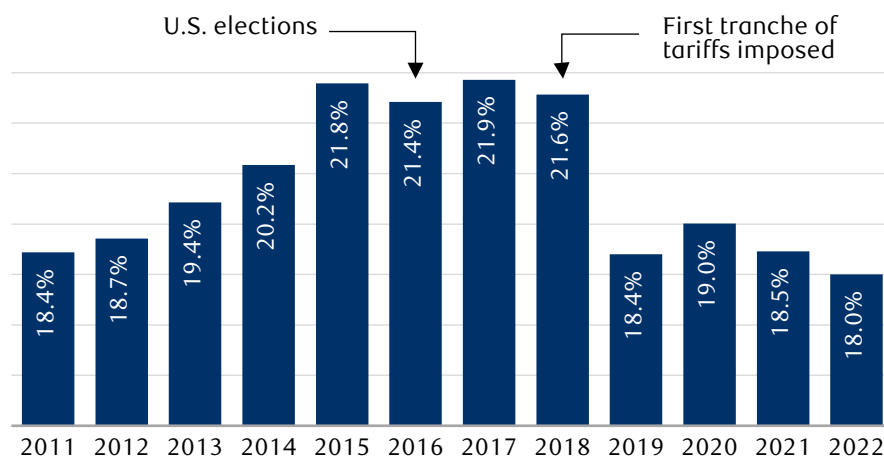
A WORLDWIDE WAVE OF ELECTIONS

We've also seen how elections have upended international relations, be it foreign policy or trade:

- After the election of Donald Trump as U.S. president in 2016, his administration imposed a series of tariffs starting in 2018 that kicked off a trade war with China and contributed to the [fracturing of the post-Cold War world order](#). A frostier geopolitical backdrop, among other factors, may have contributed to the underperformance of Chinese equities relative to U.S. equities since then.

After tariffs were imposed, the contribution of imports from China fell

U.S. imports from China as a percentage of total



Source - World Bank

Campaign promises of change, though, do not mean an election outcome will be momentous enough to fundamentally alter the economy and markets. Governments typically need the ability to implement these changes via a legislative majority. It's far easier to accomplish this in countries with only two major political parties, such as the U.S., the UK, and India.

Countries where several parties vie for the electorate often end up with coalition governments, the norm for many European countries. To successfully and efficiently implement changes, it's best if the coalition shares common political ideologies. Coalitions that hold divergent views and/or are cobbled together mainly to topple the incumbent tend to be unstable and have a poor track record at bringing about meaningful changes.

Absent the means to effect change, grandiose proposals can be watered down or never become reality:

- Javier Milei, the self-described "anarcho-capitalist" elected president of Argentina in November 2023, is a case in point. He promised drastic economic measures including cutting public spending by 15 percent, abolishing the country's central bank, and making the U.S. dollar the country's legal currency. But his party only controls about a quarter of the seats in each house of Congress, making it difficult to pass legislation.

A WORLDWIDE WAVE OF ELECTIONS

Will the 2024 election cycle herald big changes?

Few of the 2024 elections are likely to be as pivotal as the ones outlined above—after all, many countries have already introduced sweeping reform programmes, and most central banks are now independent and have demonstrated their usefulness by taking dramatic action to lower inflation. Nevertheless, how this year’s elections shake out will have crucial ramifications for ongoing reform programmes, economic stability, and international relations, in our view.

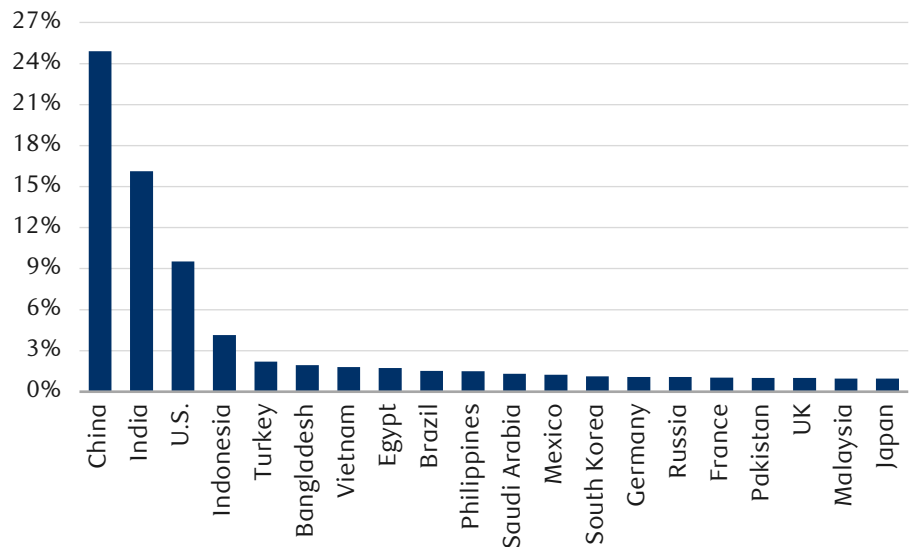
The ones to watch

Emerging markets

According to the IMF, emerging economies will generate more than 60 percent of global GDP growth over the next five years. So, we think it is more important than ever to understand how some of this year’s elections may influence emerging economies’ prospects.

China and India are anticipated to be the main GDP growth drivers over the next five years

Share of world GDP growth from 2023 to 2028



Note: Based on IMF forecast from 2023 to 2028

Source - International Monetary Fund (IMF) World Economic Outlook October 2023, Macrobond, RBC Global Asset Management

Many countries, such as Indonesia and India, have introduced reforms relatively recently, but we think they still have much to do. Whether elected governments remain committed to such efforts will likely determine if countries can maintain a growth trajectory, in our opinion.

For some nations, such as Pakistan and Sri Lanka, which recently signed financing agreements with the International Monetary Fund (IMF), we believe maintaining economic orthodoxy is key to promoting economic stability.

Finally, electoral results in Taiwan, Bangladesh, Mexico, and Venezuela will have consequences for international relations.

A WORLDWIDE WAVE OF ELECTIONS

Below, we focus on two countries, India, given its increasingly large role in the global economy, and South Africa, as the ruling African National Congress potentially losing its majority could cause ripples in financial markets.

India – Will it remain the darling of EM investors?

India is likely to be the second-largest contributor to global economic growth after China over the next five years, and it has gradually opened its economy to foreign investors. Meanwhile, Indian government bonds have recently been incorporated into the Emerging Markets Global Diversified Bond Index, a key benchmark.

Polina Kurdyavko, head of RBC BlueBay Emerging Markets, attributes India's newfound role in the global economy to several factors:

- *The country's relative neutrality amidst global conflicts; India is a member of both the BRICS bloc (along with Brazil, Russia, China, and South Africa) and the U.S.-led Quadrilateral Security Dialogue, commonly known as the "Quad," along with Japan and Australia.*
- *Relative political stability.*
- *Proximity to the Middle East, as well as improved relations with Saudi Arabia, the United Arab Emirates, and Egypt, all of which contributed to helping India become a new regional power.*
- *High levels of employment with 70 percent of the population working and labour costs now lower than those in China. This enables India to offer solutions to countries facing recent workforce shortages by increasing its manufacturing capacity, easing supply chain bottlenecks, and bridging labour gaps.*

Between April and June, as many as 945 million eligible Indian voters will head to the polls, the largest-ever democratic event. The central government will be formed by the party—or parties—that achieves a majority in the 543-seat lower house of parliament (the Lok Sabha). The election appears likely to provide the country with leadership continuity.

Prime Minister Narendra Modi enjoys an approval rating of 77 percent, the highest level of any democratically elected leader in the world despite having already served two terms, according to Morning Consult, a market research firm.

Modi's humble background and economic track record are appealing to the electorate. His government oversaw a wide-ranging supply side reform programme which included:

- A broad bank recapitalization package and a new bankruptcy code (in Modi's first term).
- Labour reforms and a new digital identification system that enabled digital payments and data-management platforms (in the second term). These initiatives gave most Indians access to public services and facilitated the receipt of popular government cash transfers.

A WORLDWIDE WAVE OF ELECTIONS

Underpinned by the reforms, India's economy has grown at enviable rates of close to six percent annually on average during his tenure. The stock market has similarly been on an uptrend, gaining more than 200 percent since his election in 2014.

Additional gradual structural reforms are needed for India to maintain its economic momentum, in our opinion. Job creation remains low, with a large percentage of the population underemployed. Education levels are still inadequate for an aspiring economic power.

We believe it's important that a stable government with a working parliamentary majority emerges from the election, be it a single-party majority or a sturdy coalition. This would heighten the prospects that reforms face few obstacles in the Lok Sabha, are implemented efficiently, and have a greater likelihood of resulting in healthy economic growth over the coming years. Failing this, we think foreign investor confidence might be shaken and could result in capital outflows.

South Africa – Unsolid ground

With its general election approaching in May, South Africa is facing many challenges, and we think the outcome could generate more turmoil. In particular, with the spread on South African 10-year government bonds versus U.S. Treasuries reaching a 20-year high in 2023, we are keeping an eye on this election. An outcome that leads to abandoning fiscal and monetary rectitude could rattle financial markets, in our view.

Following a crippling energy crisis, the ruling ANC under President Cyril Ramaphosa could lose its majority for the first time in 27 years. In 2023, the state-owned power utility was unable to supply close to half of its potential generation capacity to consumers, setting off blackouts that continue to plague the country.

Should the ANC form a coalition with the left-wing Economic Freedom Fighters, it could pressure the South African Reserve Bank, one of the few central banks which is not independent, to abandon its arduous fight against inflation. Moreover, what we believe is much-needed fiscal consolidation to rein in budget deficits would be less likely to be implemented. With both monetary and fiscal policy loose, concerns regarding national sovereign debt risks, already high, could mount and spreads could widen further, setting off jitters across financial markets.

South Africa's debt levels soared from less than 30 percent of GDP before the global financial crisis to 70 percent of late. This debt load is even higher once state-owned enterprises are included.

The table in the appendix highlights some other key elections taking place in emerging economies over 2024.

Developed markets

Among the developed economies (apart from the U.S.), the UK general election and European parliamentary elections should attract the most attention. Having flirted with populist and nationalist sentiment since the Brexit referendum, we think the UK seems poised to embrace a more centrist government.

A WORLDWIDE WAVE OF ELECTIONS

UK – Winds of change?

In the UK, polls have been decidedly pointing to a Labour government, with the party sustaining a 20 percent lead over the incumbent Conservatives for more than a year.

Labour leader Sir Keir Starmer has made much of wanting to return the UK economy to a growth path. Still, with fiscal and monetary policy being tight, any new government will have little room to maneuver, in our view, given the UK deficit is running at over five percent of GDP and the Bank of England's ongoing fight against inflation. If elected, one area Starmer could tackle is the relationship with the EU, which continues to be the country's largest trading partner.

Over the past few months, the EU has shown willingness to engage with the UK in a more flexible manner—that is, without requiring discussions about rejoining the single market or the EU Customs Union. In July 2023, cognizant that the geopolitical context had darkened substantially over the past few years, EU officials raised the idea of a formal collaboration on global issues with its former member.

As the engineer of Brexit, the Conservative government declined that offer. But a Labour government may well be more open to greater collaboration in areas of mutual interest. For example, agreements such as one covering freedom of movement between the UK and EU could be a boon to the struggling UK economy and stock market, which has suffered significant outflows since the Brexit referendum.

European Parliament elections – Louder radical right and anti-establishment populist voices

Over three days from June 6, 450 million Europeans will elect 750 representatives for the bloc's next Parliament. The European Parliament's main role is to consider budgets and legal proposals made by the European Commission in Brussels.

At stake are Brussels' support for Ukraine, the bloc's ambitious measures to tackle climate change (including targets for cutting carbon emissions), and immigration. The extent of Brussels' involvement in national economic, fiscal, and regulatory policies is also in the balance.

The European Council on Foreign Relations (ECFR), a think tank, suggests a more populist, right-leaning European Parliament is likely to emerge from the elections, based on recent polls and its own assessment of potential coalitions. Such an outcome may hinder the passing of legislation necessary to implement the next phase of the European Green Deal and lead to a harder line on migration, while support for Ukraine and EU enlargement may soften over time. Overall, this scenario could amplify dissent within the bloc.

A right-leaning European Parliament would also influence national governments' domestic politics. For instance, if citizens in a particular country were to vote in the European Parliament elections for a party that does not support the Green Deal agenda, we think it would very likely affect the position that country's government may feel able to take when formulating its own national policies on curbing carbon emissions.

A WORLDWIDE WAVE OF ELECTIONS

Meanwhile, the outcome of the U.S. election will also influence the bloc's policies, economy, and industries. If he returns to the White House, Trump plans to impose a broad minimum 10 percent tariff on all imported goods, as well as to likely retaliate against European digital services taxes that target U.S. tech leaders. It would also mean Europe's ally would be less engaged. Some European leaders, such as French President Emmanuel Macron, may increase calls for the Continent to depend less on America for defense. However, the rise of populist, anti-establishment parties, some of which are more sympathetic towards Russia, would make this aim more difficult to achieve, in our view.

In a nutshell

The results from this year of elections will shape the economic landscape for a number of nations, in our opinion. Where new governments put reform programmes at risk, financial market volatility may increase. Where voters embrace reform efforts, those countries may be able to continue on a growth path. Elsewhere, anti-establishment voices holding more sway may result in increased difficulty in effectively setting and implementing policies.

Overall, we believe the breakdown of the post-Cold War world order is likely to continue. Much will be decided by an outside factor, in our view, as the outcome of the U.S. election will also be a key driver and could shift prospects significantly for many nations.

Appendix: Key emerging market elections in 2024

<p>Bangladesh</p> <p>Election date: January 7</p> <p>Type: Parliamentary</p> <p>At stake: International relations</p>	<ul style="list-style-type: none"> The government's shift towards autocracy is straining relations with the EU and the U.S., the country's main export markets. Sanctions on the key textile export sector remain likely, and could push the country towards China's orbit. Outcome: Prime Minister Sheikh Hasina secured a fourth consecutive five-year term.
<p>Taiwan</p> <p>Election date: January 13</p> <p>Type: Presidential</p> <p>At stake: International relations</p>	<ul style="list-style-type: none"> The island's relationships with the U.S. and China are key issues. Outcome: Pro-independence candidate William Lai was elected president, but his Democratic Progressive Party failed to take a majority of seats in the legislature.
<p>Pakistan</p> <p>Election date: February 8</p> <p>Type: General</p> <p>At stake: Economic stability</p>	<ul style="list-style-type: none"> Terms of a new long-term loan from the IMF will likely require tight monetary and fiscal policies. Outcome: After inconclusive results and accusations of vote rigging amid a deep economic crisis, two major political parties will form a coalition. The agreement between the Pakistan People's Party (PPP) and the Pakistan Muslim League-Nawaz (PMLN) will effectively shut out the Pakistan Tehreek-e-Insaf (PTI), which gained more votes than either coalition party but failed to secure a majority. A tilt towards China is possible.
<p>Indonesia</p> <p>Election date: February 14</p> <p>Type: Presidential & parliamentary</p> <p>At stake: Reforms</p>	<ul style="list-style-type: none"> The election served, in part, as a referendum on continuing the economic policies of former President Joko Widodo (Jokowi), during whose tenure the country's GDP increased by more than 40%. Outcome: Prabowo Subianto, Jokowi's defence minister and a former military officer, claimed victory alongside Jokowi's son Giban Rakabuming Raka as vice president. Despite promises to continue "Jokowinomics," it remains to be seen whether Subianto will follow through. His government could maintain Jokowi's approach of balancing relations to favour China economically and the U.S. strategically.
<p>South Korea</p> <p>Election date: April 10</p> <p>Type: Parliamentary</p> <p>At stake: Reforms</p>	<ul style="list-style-type: none"> Labour market and service sector reforms could lift the struggling economy. A recent assassination attempt against the leader of the opposition Democratic Party (DP) may lead to a sympathy vote that would help the DP preserve its parliamentary majority and enable it to block President Yoon Suk Yeol's domestic policy agenda, which is focused on waning growth and a cost-of-living crisis. The country is due to hold presidential elections in 2027.
<p>India</p> <p>Election date: April – June</p> <p>Type: General</p> <p>At stake: Reforms</p>	<ul style="list-style-type: none"> Further economic reforms could unlock the country's growth potential. Prime Minister Narendra Modi and his right-wing Hindu nationalist Bharatiya Janata Party (BJP) are leading in recent polls. An electoral win would empower them to continue the policy initiatives of the past two terms.
<p>South Africa</p> <p>Election date: May 24</p> <p>Type: General</p> <p>At stake: Economic stability & reforms</p>	<ul style="list-style-type: none"> The unpopular incumbent government risks losing its majority. Because the country's central bank is not independent, a potential coalition with a left-wing party would likely lead to looser monetary policy, while fiscal consolidation may be elusive. This could worsen the country's sovereign debt issues.
<p>Mexico</p> <p>Election date: June 2</p> <p>Type: General</p> <p>At stake: International relations</p>	<ul style="list-style-type: none"> Bilateral relations with the U.S. are a key issue, particularly since Mexico became the U.S.'s largest trading partner in 2023. The future course of this relationship also depends on the outcome of U.S. elections. Claudia Sheinbaum, former mayor of Mexico City and protégé of President Andrés Manuel López Obrador, is a leading candidate for the presidency.
<p>Sri Lanka</p> <p>Election date: Before September</p> <p>Type: Presidential</p> <p>At stake: Economic stability</p>	<ul style="list-style-type: none"> After the previous government collapsed, the country reached an agreement with the IMF based on economic orthodoxy that included significant tax increases. At issue is whether a new government will continue to abide by those terms. President Ranil Wickremesinghe appears committed to sticking to the plan, though some fiscal policy changes may be inevitable ahead of elections.
<p>Venezuela</p> <p>Election date: Unknown</p> <p>Type: Presidential</p> <p>At stake: International relations</p>	<ul style="list-style-type: none"> Uncertainty is high, as leading candidates including opposition leader and former lawmaker María Corina Machado have been barred from participating. The incumbent Maduro government agreed to hold free elections in late 2024 in exchange for the U.S. lifting sanctions on the country's oil sector. The conduct and timing of this election could affect whether the U.S. continues to apply sanctions.

Note: There are also presidential elections in Russia, Mozambique, and Tunisia; parliamentary and presidential elections in Romania; and general elections in Ghana.

Source - Foreign Policy, national election commissions

GLOBAL Equity



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Waiting room

We have been waiting for the arrival of two things: the U.S. recession that reliable leading indicators have been saying is coming and new all-time highs for the major equity markets.

A recession remains a plausible outcome despite the expectation voiced by many that U.S. GDP will continue along an uninterrupted growth path for this year and next. As for new equity market highs, our wait is mostly over: the S&P 500, the Dow Jones Industrial Average, and Japan's TOPIX have all reached new high-water marks in style; Europe and UK markets have done so in a less dynamic fashion; and the Nasdaq and Canada's TSX are not quite there yet. We expect more to come.

Of course, corrections can arrive anytime and usually do unannounced. But there is no valuation "line in the sand" that triggers one or makes a pullback inevitable. Nor is there any reliable timing measure of "overdoneness." Rather it's most often a case of buyers leaving the field, sellers coming to dominate, and market averages moving down for a while.

Often, the market reversal to down from up can be abrupt, perhaps triggered by a worrying development—think last spring's bank failures—or a policy shift. We have no idea when the next such retrenchment will arrive, but we think one surely will.

However, major tops, those turning points ushering in more prolonged, deeper market declines (bear markets), often present a couple of precursor hallmarks, neither of which are present today. The first is investor sentiment, which typically goes through a stretch of weeks or months at very high levels before a bull market expires. Fear of missing out dominates investor attitudes in those final months. So far, while there are definitely more bulls than bears out there, an overwhelming majority

Equity views

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

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

conviction that further new highs lie immediately ahead is missing.

The second concerns market "breadth." Are most stocks moving directionally in sync with the market averages? We think the answer is yes for the important large-cap segment of the stock market. The so-called "advance-decline line" for the S&P 500 stocks moved to a new high in December, followed by the index itself in January.

However, prior to the start of past bear markets a very different sequence of events emerges. The advance-decline line typically rolls over into a downtrend months before the market itself peaks. No such negative divergence is in evidence as of yet.

Over and above these internal market factors, it's the economy that determines where corporate earnings are headed. And share prices are pushed up and down in large part by changes in future consensus earnings expectations. Recessions pressure near-term earnings estimates low enough to shake investors' confidence in long-term corporate earnings power. That in turn can take a temporary heavy toll on share prices.

So, is there a recession in the offing that investors should be wary of? Arguably the answer is yes for Europe, the UK, and Canada where GDP

GLOBAL EQUITY

growth has been decidedly weaker than for the U.S. for several quarters running. However, historically it's been U.S. recessions that have been hardest on major global equity markets. As to whether there is one on the way, the majority opinion has swung back and forth repeatedly over the past 18 months.

RBC Global Asset Management Inc. Chief Economist Eric Lascelles recently raised his estimated probability the U.S. economy will experience a soft landing (i.e., no recession) to 60% from 40%, although he notes that both his prior projection and the new one aren't materially different than a coin flip. The door is still open to both outcomes.

We agree with that view but would argue that investor watchfulness is all the more called for. One hurdle the soft landing argument will need to get past is that there has never been such a benign outcome when Fed tightening has been accompanied by overt raising of lending standards by banks. In this instance the majority of U.S. banks have been doing just that for six consecutive quarters for almost every category of loan.

Many soft landing advocates have been saying for some time that this whole tightening process has gone on too long without a recession arriving, concluding as a result that one won't. However, looking at all

the recessions that have played out from the early 1950s onwards, on average each began 25 months after the first Fed interest rate increase. In this case that would target April of this year, keeping in mind that in more than half the instances the wait time was longer than the average. It's premature, in our view, to assert the timing window for a recession is closed.

There is also a widespread view that the good Q4 GDP report and the Atlanta Fed's GDPNow forecast for something close to a 3% annualised growth rate for Q1 make it unlikely a recession could start any time soon. But history doesn't support that notion. Again, looking back at past occurrences, the GDP growth rate delivered in the quarter immediately before each recession began averaged 2.4% but in fact was all over the map, ranging between minus 2.7% and plus 9%.

We remain committed to equities but are watchful. Equity markets are exhibiting sustained upward momentum that may deliver further new highs in the coming weeks and months. Corrections can't be ruled out, but some important precursors of bear markets are not yet in evidence.

We are keeping in mind that the probabilities of a recession arriving remain uncomfortably high and should be reflected in stock selection.

GLOBAL
Fixed income



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Not so fast

When trying to assess market moves, and market signals, context is always important. 2024 has gotten off to a rocky start, but that has largely been as we had expected following the historic rally in U.S. and global bond markets that closed out 2023.

Over the first two months of 2024, the Bloomberg Global Aggregate Bond Index has declined by 3.8% to mark one of the roughest starts to a year in recent memory. However, over the last two months of 2023 the index had gained over 10.0%. Context is important.

With that in mind, what has actually changed from a longer-term perspective? As the chart shows, at the end of last year markets had perhaps gotten ahead of themselves with respect to central bank rate cuts this year. In the U.S., markets were primed last December for nearly seven rate cuts from the Fed this year, to approximately 3.75% from 5.33% currently. Markets have since pared those expectations back to a more-modest four rate cuts this year to roughly 4.50%, with similar dynamics playing out globally.

Fixed income views

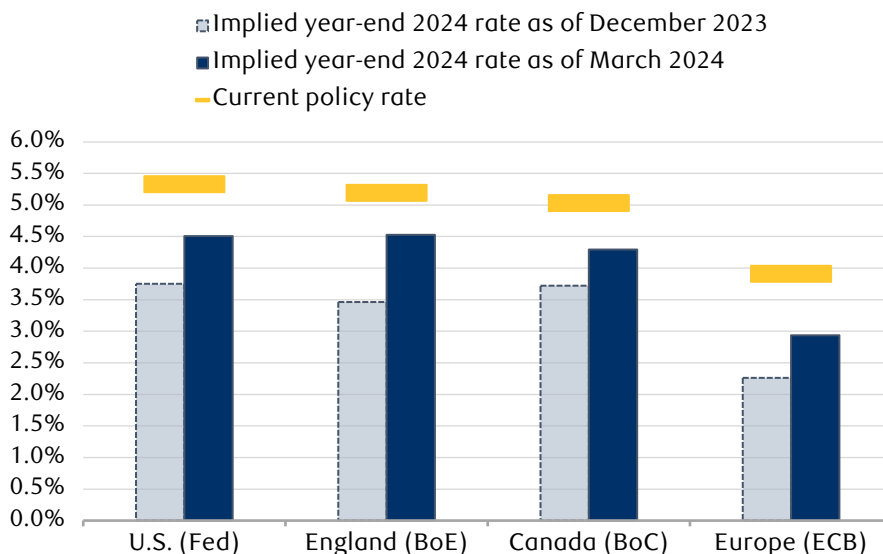
Region	Gov't bonds	Corp. credit	Duration
United States	+	-	3-7
Canada	+	=	3-7
Continental Europe	=	=	3-7
United Kingdom	=	=	3-7

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

Despite market volatility amid evolving repricing of central bank rate expectations, our 2024 outlook remains broadly unchanged: inflationary pressures are continuing to fade even if the road along the way is bumpy and central banks will need to carefully calibrate policy rates as a result.

In the U.S., incoming inflation data has been mixed. Official statistics showed slower progress on inflation in January than Bloomberg consensus survey estimates had expected, but small business and purchasing manager surveys showed fewer

Markets still pricing rate cuts this year, just not as many



Source - RBC Wealth Management, Bloomberg; implied rates based on overnight index swap rates for December 2024, data as of 2/22/24

GLOBAL FIXED INCOME

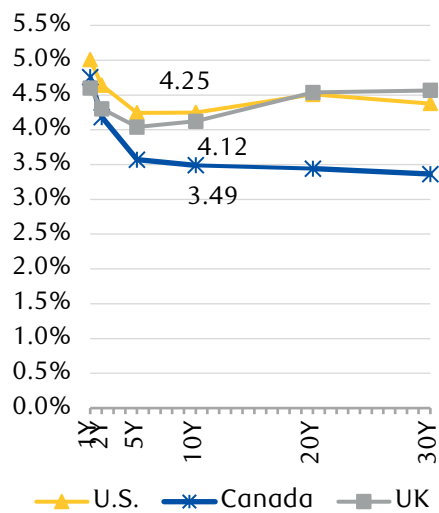
firms raising prices in February— suggesting that disinflationary pressures remain in the pipeline. Fed policymakers, rightly so, in our view, pushed back against the market’s hopes for an earlier start to rate cuts, wanting to see more evidence that inflation remains on the road back to 2.0%. We continue to believe the Fed will have that confidence by this summer, when the first 25 basis point rate cut, with more to follow, is expected.

It’s a similar story in Europe and the UK. Inflation continues to trend in the right direction, but policymakers simply want a bit more time and

data to confirm that to be the case. We now see the first cut from the Bank of England in August, while the European Central Bank is seen teeing up the first rate cut by June.

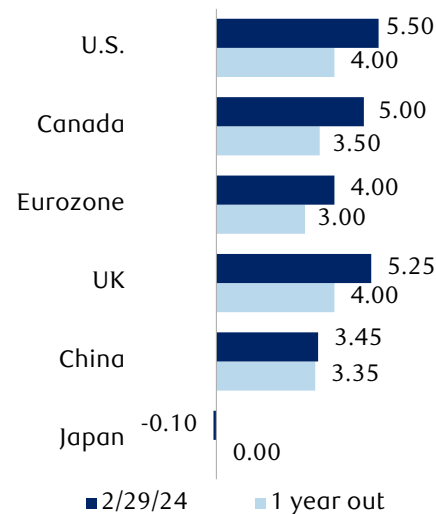
While we dialed back duration exposures through January and February following the drop in yields at the end of 2023, we would continue to stay cautiously patient. That said, we would strongly advise investors to stay at the ready. While yields arguably fell too far last year, there’s risk that they now move too far to the upside. We would focus on trying to take advantage of near-term volatility for long-term gains.

Sovereign yield curves



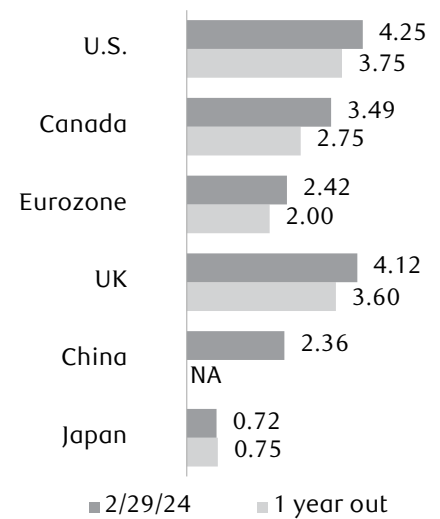
Source - Bloomberg; data through 2/29/24

Central bank rates (%)



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

10-year rates (%)



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

U.S. RECESSION Scorecard

Defying the odds, for now

With some data still to come, there have been no sufficient changes recently necessitating adjustments to the positioning of our seven U.S. recession indicators on the Scorecard.

“The most anticipated recession ever” has been an overused phrase for more than a year now. The implication has been that because a recession is expected by “everybody” it won’t arrive, or at the very least it is wildly overdue. Neither view holds much water, in our opinion.

There is no evidence that a “rate of anticipation,” if one could be measured, would tell you anything about the likelihood of a recession starting. And we see little to no evidence that one is overdue. The most straightforward recession-start-time clock is the elapsed interval since the first Federal Reserve rate hike. On average, recessions have arrived 25 months following that first increase—which would target this April. Nor would April be a “drop-dead” line in the sand. In half the instances measured, the wait time was longer than 25 months.

Our two most reliable leading indicators of U.S. recession are in the outright negative column. While the “average” experience of both

pointed to last summer as a recession kick-off date, both have histories with instances of much longer signal-to-recession intervals. Note that the official start date of any recession may not be announced until many months or quarters after the fact, so the soft vs. hard landing debate won’t be settled for some considerable time yet.

Three indicators are in the “cautionary” yellow column, while the other two, still green, continue to suggest there is further to go in the economic expansion.

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

The 1-year Treasury yield rose above the 10-year yield decisively in July 2022, with the negative gap growing further over most of the following year, reaching its widest point in June 2023. The average historical experience of this indicator after crossing into negative territory suggests the U.S. economy would have been in recession by late this past summer. However, while the average time interval between “inversion” of the yield curve and the onset of recession is 13 months, in four instances the gap was longer

U.S. Recession Scorecard

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

Source - RBC Wealth Management

U.S. RECESSION SCORECARD

than average, with the longest being 23 months.

Yield curve inversion is an unequivocal indication that credit conditions are tightening, a fact underscored by the message delivered consistently for seven consecutive quarters by the Fed's Senior Loan Officer Survey (most recent issue released on Feb. 5). A majority of U.S. banks continue to raise lending standards on almost every category of business and consumer loan, including commercial and industrial loans for businesses of all sizes, credit card loans, consumer installment loans, mortgage loans, and commercial real estate loans.

The negative spread between the 1-year yield and the 10-year yield reached its widest point this cycle so far last June at 158 basis points (bps). It has since narrowed dramatically to just 75 bps, strongly suggesting the period of "de-inversion" is underway. The crossover from "inverted" to "normal" tends to occur just as the recession is starting or a few months before. There is also a reasonable correlation between how long the total period of inversion runs and how long the ensuing recession lasts. This latest inversion is at 20 months and counting.

ISM New Orders minus Inventories

The difference between the New Orders and Inventories sub-indexes of the ISM Purchasing Managers' Index has turned negative near the start of most U.S. recessions. But it has also registered occasional false positives—signaling a recession was imminent when none subsequently arrived. Moreover, this indicator only relates to activity in the manufacturing sector (some 15% of the U.S. economy) and is derived from a survey rather than hard data. For those reasons, we look at it as a corroborative indicator rather than a decisive one taken on its own.

After setting its most recent low in September 2022, this series has

steadily moved higher and August 2023 data (we use a three-month moving average) moved back above zero, shifting the indicator back to yellow from red.

Conference Board Leading Economic Index

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

This indicator turned decisively negative in Q3 2022, shifting it to the red column on our Scorecard. As of the February report, the index had fallen for 22 consecutive months moving deeply into negative territory, although the rate of year-over-year decline has slowed over the past six months. The indicator has never fallen this deeply without a recession arriving.

Unemployment claims

The monthly low for this cycle occurred in September 2022. The cycle low for claims has typically been registered about 12 months before the start of the next recession. So far, no lower reading has been posted in the ensuing months, so the history of this indicator would suggest a recession could get underway as early as this fall.

The fact that temporary employment, job openings, average hours worked, and overtime hours worked have all been falling on a year-over-year basis adds to the likelihood the tide may be turning for unemployment claims. While we wait for that shift to be confirmed or for claims to subside once again, we think this ambiguity warrants leaving the indicator's status at yellow.

Unemployment rate

The unemployment rate jumped to 3.8% in August 2023, its highest posting since January 2022. It stayed there for three months before easing to 3.7% through to January. Any move

U.S. RECESSION SCORECARD

above 4.0% in the next few months would turn the smoothed trend of this indicator higher and, in our view, signal a recession is on the way. Once that signal is given, on average, it has been eight to nine months from the lowest monthly posting (which was 3.4% in April last year) until a recession gets underway.

Free cash flow of non-financial businesses

This gives an indication of the ability of such businesses, in aggregate, to internally fund any capital spending they want or need to do. Historically, whenever it has posted a year-over-year negative reading, a decline in corporate capital spending has typically followed, either indicating a recession is coming or deepening one that is already underway. This number declined in both Q4 2022 and Q1 2023 before ticking fractionally higher in Q2, and moving up again in Q3. It remains well above a negative crossing point. There is a long lag time before this data is reported with the Q4 release not coming until March.

Fed funds rate vs. nominal GDP growth

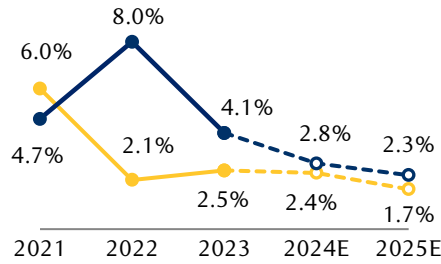
The fed funds rate has risen above the six-month annualized run rate of nominal GDP either before or at the start of every recession in the past 70 years. (Nominal GDP is GDP not adjusted for inflation.) That GDP run rate has been declining since its pandemic reopening high of 23% recorded in Q4 2020. By the end of last year, it had slowed to 7.2% but was still well above the fed funds rate, which at the time had risen to 4.50%. Now the fed funds rate is up to 5.50%, and Q4 GDP data shows the six-month run rate of nominal GDP growth remained marginally above that at 6.1%. We expect nominal GDP growth to slow to something below the 5.5% fed funds rate in Q1, meeting a necessary precondition of a recession. But for now, that line in the sand has not been decisively crossed.

Clock still ticking

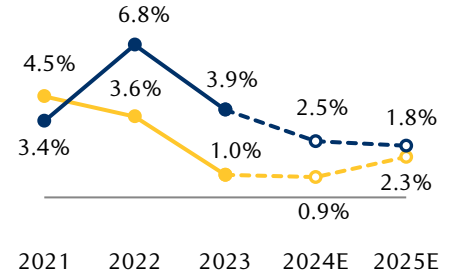
Weighing up the current positioning of all seven indicators and projecting their likely paths points to a growing probability the U.S. will enter a recession this spring, in our view.

KEY Forecasts

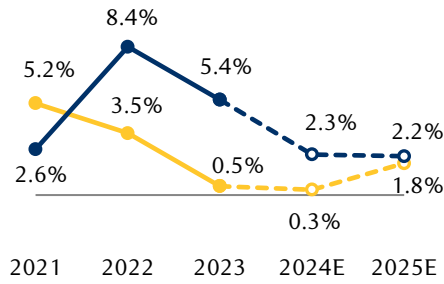
United States



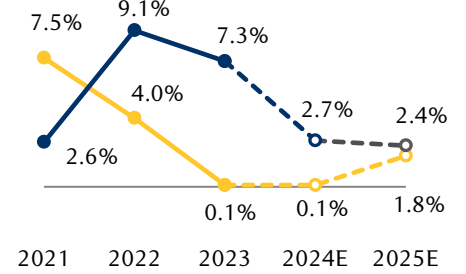
Canada



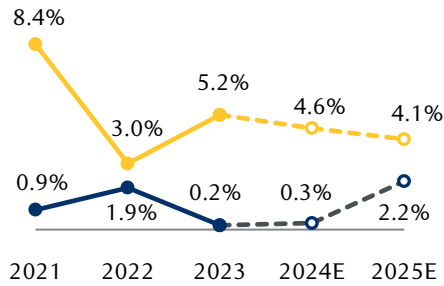
Eurozone



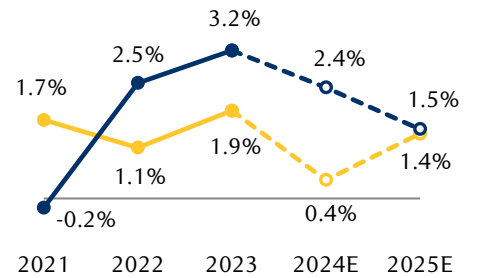
United Kingdom



China



Japan



—●— Real GDP growth

—●— Inflation rate

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

Research resources

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Distribution of ratings – RBC Capital Markets Equity Research

As of December 31, 2023

Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Outperform]	829	57.17	253	30.52
Hold [Sector Perform]	575	39.66	154	26.78
Sell [Underperform]	46	3.17	6	13.04

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