GLOBAL
Insight
WEEKLY

Perspectives from the Global Portfolio Advisory Committee

November 7, 2024

Back to the future

Kelly Bogdanova – San Francisco

In a historic political comeback, Donald Trump won the presidency for a second time, and we look at the key policies like taxes and tariffs that will shape the investment climate. But given the heated discourse across the political spectrum, it's critical to not let emotions get in the way of sound investment decisions. While Washington can influence the business cycle for good or for bad, it doesn't control it.

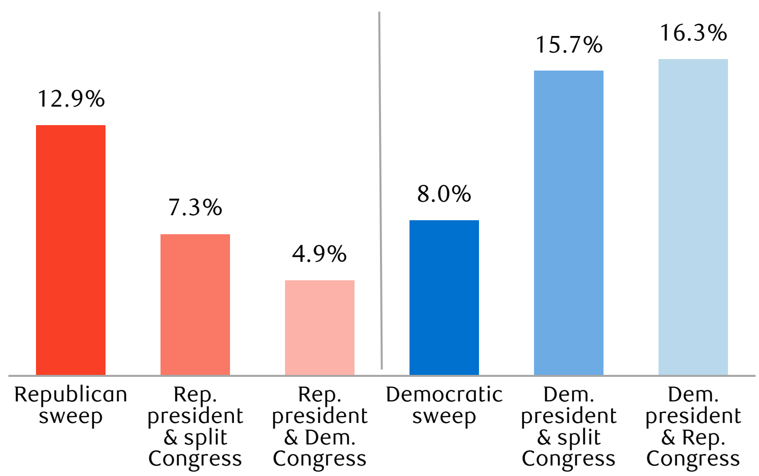
The S&P 500 rallied to another new all-time high and other major U.S. indexes jumped as well following news that Donald Trump was once again elected president of the U.S. and Senate control flipped to the Republicans. Trump is only the second person in American history elected to two non-consecutive presidential terms, the other being Democratic President Grover Cleveland in the late 19th century.

The fact that there was a clear winner just hours after West Coast polls closed was a relief to equity market participants.

While vote counting is ongoing in some House of Representatives races as of this writing, it's looking to us like Republicans will retain control of the lower chamber of Congress by a slim margin, which would usher in a Republican sweep. Decision Desk HQ, a firm leveraged by *The Hill*, a news agency that covers Congress closely, estimates that Republicans have an 85 percent likelihood of retaining House control based on the results of very competitive races and vote counting in others as of midday Thursday.

The U.S. stock market has historically performed well during a Republican sweep configuration, rising 12.9 percent on average, as the chart shows.

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)

For perspectives on the week from our regional analysts, please see pages 4–5.

For important disclosures, required non-U.S. analyst disclosures, and authors' contact information, see page 7.

Priced (in USD) as of 11/6/24 market close (unless otherwise stated). Produced: 11/7/24, 17:14 ET; Disseminated: 11/7/24, 17:25 ET

The market's focus on the pro-growth agenda

From our vantage point, market participants seem optimistic about three important factors:

Tax rates on individuals have the potential to stay low and some provisions could be lowered further. If Republicans win control of the House, we think Congress would pass and Trump would sign a new tax package to extend much or all of the low-tax provisions which became law during his first term. This would impact individual income tax rates, and taxes on estates, gifts, capital gains, and dividend income, among other provisions. Trump's additional campaign proposals for "no tax on tips" and to eliminate taxes on Social Security retirement benefits could be added to any new tax legislation that would extend the existing low-rate provisions. (For more about Trump's tax proposals and the tax legislation process, see pages 2–5 of this report.)

Tax rates on corporations will likely remain at the low 21 percent rate, at most, and some domestic manufacturers could see their tax rates cut to 15 percent. Also, other business-friendly tax incentives could be written into the tax code if the Republican sweep plays out.

Trump's goal of aggressive deregulation is being embraced—for now. On this score, we think the market's enthusiasm may be getting ahead of itself. As they say in the great state of Missouri, "show me."

Trump aimed to deregulate during his first term and achieved this in certain areas, particularly the energy sector. Also, the number of *new* regulations during Trump's presidency was initially lower than the first three years of the Biden, Obama, and Clinton administrations, and was even slightly below the George W. Bush administration. But in the fourth year of Trump's term, the number of regulations surged, perhaps partly due to the pandemic. In total, his administration ended up implementing more economically significant new regulations than Obama did in his first term (see chart on page 9 of this report).

While Trump genuinely seeks to cut red tape and drastically reduce regulations in his second term—as do his key advisors and many Republicans in the House and Senate—we think there will be obstacles:

- Federal agency rulemaking can be laborious and tedious, and "deregulation" often requires new regulations;
- Career federal agency employees, who have historically been more aligned with the Democratic Party, could slow the process or put a spoke in the wheel;
- Lawsuits will likely challenge certain deregulation provisions and could come from various and well-funded interest groups, including those tied to the Democratic Party and progressive organizations;
- Federal court rulings could stall or halt specific deregulatory efforts; and
- We think the Supreme Court's so-called Chevron ruling tilts authority back to the judicial branch, specifically regarding the interpretation of ambiguous legislation.

Tariff worries are lurking

So far, the U.S. equity market seems to be looking past the economic risks associated with Trump's tariff proposals.

Perhaps market participants are waiting to gauge whether the actual implementation of tariffs could be as aggressive as his original campaign proposals for 10 percent across-the-board tariffs on all goods imports, including from allied countries, and 60 percent tariffs on Chinese imports.

We tend to view tariffs and other trade barriers as mostly lose-lose propositions. RBC Global Asset Management Inc.'s Chief Economist Eric Lascelles has pointed out that while tariffs undeniably hurt the country that has tariffs levied against it, they usually also hurt the country levying them.

Even so, Lascelles forecasts that the drag on economic growth and the impact on inflation could be manageable for the U.S. economy in both the "original tariffs" and "partial tariffs" scenarios.

In the original tariffs scenario (10 percent on all goods and 60 percent on Chinese goods), he estimates that after two years of implementation, U.S. GDP would be 1.5 percent smaller than it otherwise would have been, and inflation would be 0.8 percent higher than it otherwise would have been.

Economic implications of potential tariffs

Deviation in GDP and consumer inflation from normal trend after two years from the implementation of Trump's original 10% global and 60% Chinese tariffs proposals

	Real GDP		Consumer price inflation	
Country	Original tariffs	Partial tariffs	Original tariffs	Partial tariffs
U.S.	-1.5%	-0.2%	0.8%	0.2%
China	-1.6%	-0.3%	0.0%	-0.1%
Canada	-2.5%	-0.3%	0.8%	-0.1%
Mexico	-2.3%	-0.3%	-0.4%	-0.1%
Eurozone	-1.0%	-0.2%	-0.4%	0.0%
UK	-0.7%	-0.1%	-0.4%	0.0%
Japan	-0.7%	-0.1%	-0.6%	-0.1%
India	-0.3%	0.0%	-0.9%	-0.2%
South Korea	-1.6%	-0.2%	-0.7%	-0.2%
World	-1.1%	-0.2%	-0.3%	-0.1%

Source - RBC Global Asset Management Inc. Chief Economist Eric Lascelles; data as of 8/5/24

In the partial tariffs scenario, he estimates U.S. GDP would be 0.2 percent smaller, and inflation would be 0.2 percent higher after two years of implementation.

In this video, Lascelles further discusses why he doesn't think the worst-case tariff scenarios will play out and how the other pro-growth measures that Trump is proposing could offset the GDP headwinds from tariffs. However, tariffs could impact Fed policy due to their inflationary impulses, which Lascelles also addresses in the video.

At a minimum, we think tariff policy has the potential to generate volatility for the U.S. and other equity markets in the months ahead.

How to factor industry beneficiaries into portfolio allocations

On the first day after the election, four S&P 500 sectors outperformed—Financials, Industrials, Consumer Discretionary, and Energy. Small-capitalization stocks also rallied strongly. We think this has become the consensus "Trump presidency/Republican sweep trade" for the time being.

For long-term investors, is it worth making big adjustments in portfolios to tilt more toward these areas of the market?

While these areas may have further near-term outperformance, we think it's important to keep in mind that over the course of a full four-year presidential term, things don't always pan out according to the president's policy preferences.

Just because a president tends to favor (or disfavor) certain industries doesn't mean market performance will follow suit. One example: The Energy sector performed well soon after Trump was elected in 2016 and had other spurts of outperformance during his presidency. But in the latter part of 2018 the sector began to struggle, and during his full four-year term it badly underperformed the S&P 500 for a variety of reasons. There are other examples associated with the Biden administration.

Regarding Industrials, RBC Capital Markets LLC's Head of U.S. Equity Strategy Lori Calvasina points out that she currently views this sector as being expensive from a valuation standpoint and it underperformed when Trump imposed tariffs on China in 2018.

Regarding small-cap stocks, Calvasina thinks they look "a bit stretched" at this stage, and notes that moves associated with the last two elections were short-lived. We think the direction of interest rates, inflation, and Fed policy will be much greater determinants of small-cap performance in the coming months and years.

The bottom line is that other factors tend to dictate stock performance more than who sits in the Oval Office and which political party controls Congress. Industry and sector tilts in portfolios should be evaluated according to a range of factors, not solely political ones.

Furthermore, well-balanced equity portfolios should already have exposure to these areas of the market.

Elections come and go: Don't deviate from long-term investment plans

There is little doubt in our minds that market participants will pay more attention to Washington than they have under Biden, as we expect Trump's policies to be accompanied by dramatic rhetoric and his actions to be bolder. This could generate some equity market volatility at times.

For long-term investors, we think the most prudent strategy vis-à-vis elections is to:

- Give deference to the long-term investment strategy that you already have in place; and
- Avoid the temptation of making drastic asset class or sector changes based on the election outcome.

If you're enthusiastic about Trump retaking the White House, don't get out over your skis.

If you're concerned about another Trump presidency, don't let emotions get in the way of sound investment decisions. Markets have risen under both Republican and Democratic presidents.

Ultimately, over the course of the next four years, we think the U.S. equity market will be impacted more by the business cycle, Fed policy, and innovation. Washington can influence the business cycle for good or for bad, but it doesn't control it.

For more post-election analysis, watch this video by RBC Global Asset Management Chief Economist Eric Lascelles.

UNITED STATES

Thomas Garretson, CFA – Minneapolis

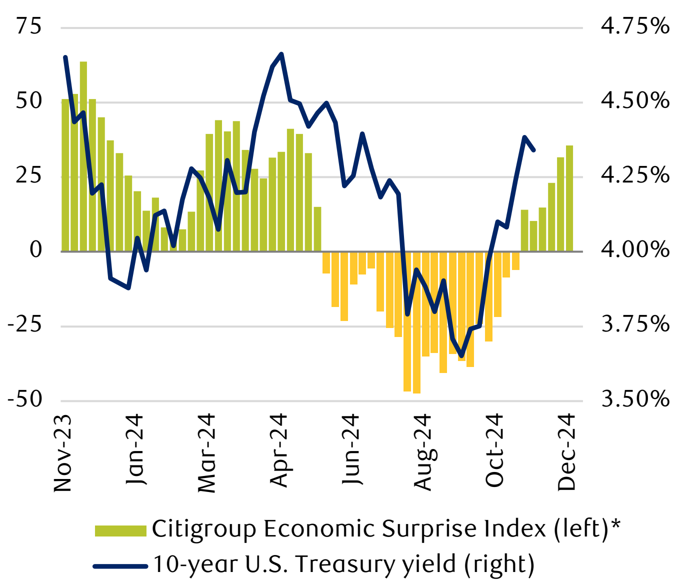
■ **The Federal Reserve followed up its 50 basis points (bps) rate cut in September with another 25 bps reduction this week,** as was widely anticipated, to bring its target rate to 4.50%–4.75%. The Fed cited generally cooler labor market conditions while judging inflationary risks to now be roughly "in balance." While Fed Chair Jerome Powell acknowledged the strong economic backdrop, he continued to characterize these rate cuts as a "recalibration" of policy rates toward a more neutral setting.

■ **But the big question investors still want answered is where is that "neutral" level?** While Powell wouldn't dip into those waters as there was no update to the Fed's rate projections, markets have now priced it to be around 3.75%, considerably higher than the 2.75% level markets were pricing in September.

■ **The last question is how long will the Fed take to get there?** Given recent economic data, there has been a growing sentiment that the Fed could "skip" a rate cut as soon as the December 17-18 meeting. We think another cut in December remains more likely than not, but will depend on the economic data until then. We maintain our view that the Fed will continue to gradually ease rates through H1 2025, before pausing somewhere around 3.75%–4.25%.

■ **Despite the cut to short-term policy rates, Treasury yields have broadly continued their ascent in the aftermath of the election,** with the benchmark 10-year Treasury yield trading as high as 4.5% this week, up from a low of just 3.6% in September. While the market has repriced risks of higher inflation and bigger budget deficits with respect to the potential policy plans of the incoming administration, it remains the case that the primary driver has simply been a better-than-previously-feared economic backdrop.

Back to basics: Treasury yields simply tracking better economic data



*Economic Surprise Index advanced by four weeks.

Source - RBC Wealth Management, Bloomberg

■ **Powell was also asked about rising Treasury yields and the negative implications for mortgage and other lending rates,** but noted that it's "too early to say where [10-year Treasury yields] settle." But, in our view, the bulk of the rise in yields has passed. Essentially, we are close to the near-term ceiling for yields, but based on recent data, the floor for yields may also be higher.

CANADA

Claudia Humbert, CFA – Toronto

■ **On Nov. 5, the Bank of Canada published a summary of its deliberations leading to last month's 0.50% interest rate cut.** The summary highlighted policymakers' growing confidence that inflation pressures are easing. They noted that core measures had dropped below 2.5%, and that inflation pressures had become less broad-based, with the proportion of items with price growth exceeding 3% falling below historical averages. Furthermore, both consumer and business expectations for inflation were in line with easing price pressures. Policymakers also acknowledged some upside risks to inflation—particularly from housing, as lower interest rates could stimulate demand, and from wage growth, which remains elevated relative to productivity. While officials considered the merits of a smaller 0.25% move, they ultimately settled on a 0.50% cut due to continued labour market softness and a need to stimulate economic growth.

■ **Activity in Canada's manufacturing and services sectors picked up in October as interest rate cuts by the central bank added to business and consumer optimism.** Canada's Manufacturing Purchasing Managers' Index (PMI), which reflects trends in production, inventory, hiring, and new orders, rose to 51.1 from 50.4 in September, its highest level in nearly two years. (Readings below 50 indicate contraction, while readings above 50 indicate expansion.) The increase was driven by both higher employment and output as companies boosted production in anticipation of an improvement in economic growth. Although underlying demand is stabilizing, it remains soft, highlighting that the sector has yet to achieve a sustainable recovery. Meanwhile, Canada's services PMI rose to 50.4 from 46.4 in the previous month, returning to expansion for the first time in five months. Services account for roughly two-thirds of the Canadian economy. Confidence also improved, with firms anticipating that further rate cuts and greater political stability would support future business activity.

EUROPE

Frédérique Carrier – London

- **Former President Donald Trump's return to the White House brings considerable uncertainty** in terms of trading policy and geopolitics for Europe. He has proposed a 10%–20% blanket tariff on all imports from the region, which would be detrimental for European economic growth even if not applied in their entirety. Europe is a very open economy where exports represent 51% of GDP, compared to less than 12% for the U.S. in 2023.

- **Tariffs would be a headwind to already meager euro area growth,** with Germany and Italy most affected as their exports to the U.S. represent more than 4% and 3% of their respective national GDP. Sectors that export heavily to the U.S., such as autos, capital goods, and chemicals, would suffer most, in our view.

- **There may also be secondary effects from broader U.S. protectionism.** Should Trump proceed with imposing 60% tariffs on China, the latter may redirect its exports to other countries, potentially increasing competition further for Europe in these markets.

- **These negative effects on economic growth would likely be tempered by a strong U.S. dollar,** while a more subdued economic environment could convince the European Central Bank to accelerate its monetary policy loosening.

- **Geopolitical implications of a Trump presidency are also far-reaching** given his stance on providing less support for Ukraine and pressuring Kyiv to accept an armistice on terms widely seen as favourable to Russia. The EU would not be supportive of such a policy, but would find it difficult to make up for any shortfall in U.S. support, given many national governments' fiscal positions are already strained.

- **Overall, a Trump presidency could prompt EU governments to act with more urgency** to address long-standing structural issues of lack of competitiveness and fragmented foreign policy. However, this comes at a time when governments in France and Germany, which traditionally have led the bloc, are embattled. The hope is that elections in Germany in 2025 will provide a more functional leadership and that the newly appointed EU Commission, as well as other national leaders, will step up to fill the gap and promote unity.

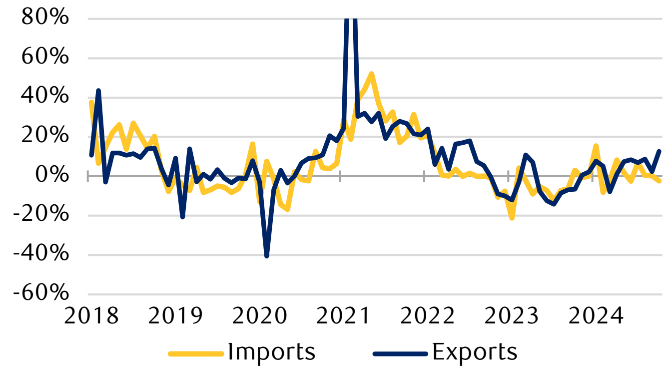
ASIA PACIFIC

Jasmine Duan – Hong Kong

- **Asia equities briefly sold off on Wednesday** as investors assessed the possible implications of higher tariffs during a second Donald Trump presidency. However, by Thursday, many Asian stocks stabilized and rose following the overnight rally of their U.S. counterparts. Attention is now shifting toward the meeting of China's National People's Congress (NPC) Standing Committee on Friday, where top policymakers could announce major stimulus measures.

Chinese export growth surprised to the upside in October

Value change in USD terms, year over year



Source - RBC Wealth Management, Bloomberg; monthly data from January 2018 to October 2024

- **Exports have been a bright spot for the Chinese economy this year,** with the latest export data increasing by 12.7% y/y in October, reaching US$309 billion. The trade surplus jumped to US$96 billion, the third-highest monthly figure on record.

- **Previous tariffs didn't significantly hinder China's exports,** largely due to three factors: 1) China's currency depreciating by over 10%; 2) the U.S. launching a substantial consumer stimulus package during the pandemic which benefited Chinese producers; and 3) Chinese goods gaining market share in Russia, including significant share in the important auto sector.

- **This time, however, we think there is limited room for significant depreciation of the yuan.** A substantial, additional surge in demand from the U.S. and Russia seems unlikely. Therefore, we think it is reasonable to assume a second round of tariffs will have a more pronounced impact on the Chinese economy. Economists project that a 60% tariff on Chinese goods could reduce China's GDP by 2–2.5 percentage points in the 12 months following implementation.

- **Nevertheless, we think the market could end up overreacting to tariff risks,** as it remains uncertain whether Trump will employ tariffs as a negotiation tactic and how they would be implemented. Moreover, Chinese policymakers may introduce larger-than-expected stimulus to offset the impact of tariffs.

- **For the NPC meeting, we think investors should manage their expectations** and not solely focus on the specific scale of potential fiscal stimulus. Given that only two months remain in 2024, a significant increase in fiscal spending may not materialize. **Investors should bear in mind this is just the beginning of what could be a series of policy announcements.** Upcoming events include the Central Economic Work Conference in December and the National People's Congress in March 2025.

MARKET
Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	5,929.04	3.9%	24.3%	35.8%	57.2%
Dow Industrials (DJIA)	43,729.93	4.7%	16.0%	28.3%	35.0%
Nasdaq	18,983.46	4.9%	26.5%	40.4%	81.2%
Russell 2000	2,392.92	8.9%	18.0%	37.7%	33.0%
S&P/TSX Comp	24,637.45	2.0%	17.6%	24.8%	26.7%
FTSE All-Share	4,460.03	0.6%	5.4%	10.9%	11.4%
STOXX Europe 600	506.78	0.3%	5.8%	14.3%	21.5%
EURO STOXX 50	4,800.63	-0.6%	6.2%	15.4%	30.2%
Hang Seng	20,538.38	1.1%	20.5%	14.3%	27.1%
Shanghai Comp	3,383.81	3.2%	13.7%	10.6%	10.2%
Nikkei 225	39,480.67	1.0%	18.0%	20.7%	45.2%
India Sensex	80,378.13	1.2%	11.3%	23.7%	31.9%
Singapore Straits Times	3,602.99	1.2%	11.2%	13.3%	15.1%
Brazil Ibovespa	130,340.92	0.5%	-2.9%	10.1%	10.3%
Mexican Bolsa IPC	51,648.27	1.9%	-10.0%	0.0%	0.9%
Gov't bonds (bps change)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. 10-Yr Treasury	4.432%	14.7	55.2	-21.2	27.3
Canada 10-Yr	3.310%	9.1	20.0	-50.0	-19.4
UK 10-Yr	4.563%	11.7	102.6	18.6	102.6
Germany 10-Yr	2.405%	1.5	38.1	-33.4	11.0
Fixed income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	4.72%	0.2%	2.1%	8.8%	11.6%
U.S. Investment-Grade Corp	5.14%	0.3%	3.1%	11.7%	17.5%
U.S. High-Yield Corp	7.31%	0.1%	7.6%	13.9%	24.9%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	2,660.00	-3.1%	28.9%	34.5%	58.2%
Silver (spot $/oz)	31.17	-4.6%	31.0%	35.4%	49.5%
Copper ($/metric ton)	9,598.02	2.4%	13.4%	17.7%	18.0%
Oil (WTI spot $/bbl)	71.99	3.9%	0.5%	-10.9%	-22.3%
Oil (Brent spot $/bbl)	75.11	2.7%	-2.5%	-11.8%	-23.8%
Natural Gas ($/mmBtu)	2.73	1.0%	8.8%	-16.2%	-57.3%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	105.1350	1.1%	3.8%	-0.1%	-5.2%
CAD/USD	0.7175	0.0%	-5.0%	-1.7%	-3.3%
USD/CAD	1.3938	0.0%	5.2%	1.7%	3.4%
EUR/USD	1.0731	-1.4%	-2.8%	0.1%	7.8%
GBP/USD	1.2883	-0.1%	1.2%	4.4%	13.2%
AUD/USD	0.6570	-0.2%	-3.6%	1.2%	1.5%
USD/JPY	154.6100	1.7%	9.6%	3.0%	5.4%
EUR/JPY	165.9200	0.3%	6.6%	3.2%	13.7%
EUR/GBP	0.8330	-1.3%	-3.9%	-4.1%	-4.9%
EUR/CHF	0.9406	0.0%	1.3%	-2.4%	-5.0%
USD/SGD	1.3337	1.1%	1.0%	-1.3%	-5.2%
USD/CNY	7.1753	0.8%	1.1%	-1.3%	-0.1%
USD/MXN	20.0918	0.3%	18.4%	14.5%	2.9%
USD/BRL	5.6774	-1.9%	16.9%	16.2%	12.2%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.71 means 1 Canadian dollar will buy 0.71 U.S. dollar. CAD/USD -5.0% return means the Canadian dollar has fallen 5.0% vs. the U.S. dollar year to date. USD/JPY 154.61 means 1 U.S. dollar will buy 154.61 yen. USD/JPY 9.6% return means the U.S. dollar has risen 9.6% vs. the yen year to date.

Source - Bloomberg; data as of 11/6/24

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As of September 30, 2024

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	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

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