

North American Focus List

Quarterly report



Wealth Management
Dominion Securities

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Portfolio Advisory Group – Equities

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Politics, policy, and diverging economies

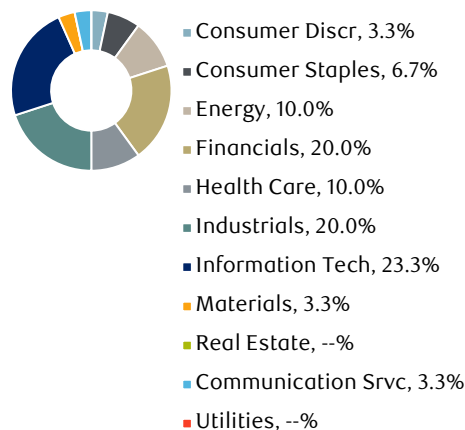
Easing monetary policy and a political power shift in the United States were in focus for North American investors during the quarter. The run-up to the September U.S. Federal Reserve meeting saw investors vacillating between expectations for 25 and 50 basis points (bps) of interest rate cuts. The ultimate move was the latter, with Fed Chair Jerome Powell pointing to soft employment reports and improving inflation to support the decision. But Powell noted that 50 bps would not be the norm, and this was borne out by the 25 bps cut in October. The U.S. policy rate now stands at

a range of 4.50%–4.75%, compared to 3.75% in Canada following four consecutive interest rate cuts. As 2025 begins, RBC Economics expects further easing from both the Fed and the Bank of Canada as inflation continues to cool and central banks remain focused on a soft landing. That said, it could be argued Canada would require more rate cuts than the U.S. from current levels to achieve that soft landing.

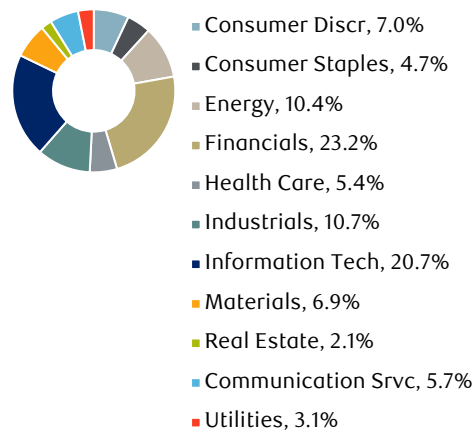
Canada has experienced a dramatic slowdown in productivity relative to the U.S. over the past couple of decades, which has constrained its

Sector weightings: North American Focus List vs. benchmark

North American Focus List



Benchmark



For an overview of the Portfolio, please [click here](#).

All values in Canadian dollars and priced as of Nov. 25, 2024, market close, unless otherwise noted.

For important disclosures and authors' contact information, see [page 5](#).

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Percentages may not total 100% due to rounding.

Source - RBC Wealth Management, FactSet; data as of market close 11/25/24

relative growth. In our view, the Canadian economy is likely to be more sluggish than the U.S. economy in 2025 if these productivity issues do not improve. Furthermore, the recently announced reductions in immigration targets, while potentially helpful in rebalancing the housing market, could subtract nearly one percentage point in total from Canadian GDP forecasts over the next three years, according to RBC Economics. Finally, we are mindful of possible headwinds to the Canadian economy from Donald Trump’s return to the White House (e.g., blanket tariffs, renegotiation of trade agreements, and increased U.S. domestic oil production).

While policy uncertainty on the back of the Trump presidency remains high and the potential economic implications vary (likely neutral to positive for the U.S., but likely negative for Canada, in our view), the Focus List remains aptly positioned to balance potential risks and rewards on both sides of the border.

North American Focus List changes

High-grading our bank positioning

We are making one change to the North American Focus List this quarter, removing our position in Toronto-Dominion Bank (TD) and using the proceeds to introduce National Bank of Canada (NA). Toronto-Dominion shareholders have paid a steep price for management’s failure in its Anti-Money Laundering (AML) responsibilities, with TD by far the worst performing bank stock in 2024. In our view, there is a risk that shares will continue to underperform due to slower loan growth under new regulatory restrictions as well as the burden of higher regulatory and compliance spending. These conditions (which have no specified timeline for resolution) put the onus on the approximately 70% of the bank’s business that is not U.S. retail to generate the earnings growth needed to deliver on management’s 7%–10% medium-term target.

National Bank of Canada, on the other hand, continues to be a high-quality bank with strong credit quality, capital, and cost control, as well as attractive returns on equity. While the stock carries a significant valuation premium to the bank group, we believe it is justified. Furthermore, with the potential for further credit improvement, accelerating loan growth, and stronger capital markets activity, we view the bank group as well positioned heading into 2025. We believe a rising tide will lift all boats, and therefore we have decided to leave the overall weighting of banks in the Focus List unchanged.

Performance

The North American Focus List performed well during the quarter, with weakness driven by a select few holdings. The Focus List produced a total return of 8.32%, underperforming the benchmark by 267 bps. Underperformance was largely driven by stock selection within the Industrials and Information Technology sectors.

Total return for the fall quarter (9/1/24–11/29/24)

	Total return
North American Focus List	8.32%
Blended benchmark	10.99%
Relative	-267 bps

Note: Past performance is no guarantee of future results and should not be viewed as an indicator of future results.

Source - FactSet

Focus List positions

Symbol	Company name	Price 11/25/24	52-wk range	EPS (calendar year)			P/E		Div. yield	Market cap (B)
				2023A	2024E	2025E	2024E	2025E		
Communication Services										
META*	Meta Platforms Class A	\$565.11	603 - 314	\$20.21	\$25.38	\$28.49	22.3x	19.8x	0.4%	\$1,231.9
Consumer Discretionary										
AMZN*	Amazon.com	\$201.45	216 - 143	\$2.91	\$5.42	\$6.50	37.2x	31.0x	0.0%	\$2,118.2
Consumer Staples										
ATD	Alimentation Couche-Tard	\$77.82	87 - 71	\$3.94	\$4.09	\$4.56	19.0x	17.1x	0.9%	\$73.8
COST*	Costco	\$960.89	976 - 583	\$14.95	\$17.01	\$18.45	NM	NM	0.5%	\$425.7
Energy										
CNQ	Canadian Natural Resources	\$47.59	56 - 40	\$3.87	\$3.47	\$3.71	13.7x	12.8x	4.4%	\$100.4
SU	Suncor Energy	\$56.93	58 - 40	\$5.10	\$5.19	\$4.57	11.0x	12.5x	4.0%	\$71.6
TRP	TC Energy	\$68.60	70 - 44	\$4.12	\$4.13	\$3.79	16.6x	18.1x	4.8%	\$71.2
Financials										
BAM	Brookfield Asset Mgmt Class A	\$78.42	81 - 45	\$1.85	\$2.00	\$2.37	39.2x	33.1x	2.3%	\$32.9
IFC	Intact Financial	\$267.00	275 - 198	\$11.70	\$13.58	\$16.42	19.7x	16.3x	1.8%	\$47.6
MA*	Mastercard Class A	\$526.60	534 - 404	\$12.26	\$14.49	\$16.30	36.3x	32.3x	0.5%	\$479.6
NA	National Bank of Canada	\$137.39	139 - 88	\$9.72	\$10.44	\$10.88	13.2x	12.6x	3.2%	\$46.8
RY	Royal Bank of Canada	\$173.77	176 - 116	\$11.49	NA	NA	NA	NA	3.3%	\$245.4
SPGI*	S&P Global	\$520.51	533 - 408	\$12.60	\$15.28	\$16.85	34.1x	30.9x	0.7%	\$161.5
Health Care										
JNJ*	Johnson & Johnson	\$155.78	169 - 143	\$8.15	\$10.18	\$10.71	15.3x	14.5x	3.2%	\$375.1
TMO*	Thermo Fisher Scientific	\$514.20	628 - 481	\$21.55	\$21.69	\$23.55	23.7x	21.8x	0.3%	\$196.7
UNH*	UnitedHealth Group	\$605.83	631 - 436	\$24.17	\$26.05	\$28.97	23.3x	20.9x	1.4%	\$557.5
Industrials										
CP	Canadian Pacific Kansas City Ltd.	\$107.78	123 - 94	\$3.84	\$4.24	\$5.00	25.4x	21.5x	0.7%	\$100.6
EFN	Element Fleet Management	\$30.20	30 - 21	\$1.29	\$1.58	\$1.73	19.1x	17.4x	1.7%	\$12.2
HON*	Honeywell International	\$230.60	243 - 190	\$9.16	\$10.18	\$11.03	22.7x	20.9x	2.0%	\$149.9
TRI	Thomson Reuters	\$224.36	243 - 186	\$4.73	\$5.14	\$5.56	43.7x	40.3x	1.3%	\$100.9
TIH	Toromont Industries	\$116.61	136 - 110	\$6.38	\$5.95	\$6.25	19.6x	18.7x	1.6%	\$9.6
WCN	Waste Connections	\$269.43	270 - 180	\$5.68	\$6.77	\$7.57	39.8x	35.6x	0.7%	\$69.5
Information Technology										
ACN*	Accenture Class A	\$361.29	388 - 279	\$11.75	\$12.26	\$13.25	29.5x	27.3x	1.6%	\$225.8
ADBE*	Adobe	\$518.73	638 - 434	\$12.40	\$13.82	\$15.69	37.5x	33.1x	0.0%	\$228.3
AAPL*	Apple	\$232.87	237 - 164	\$6.28	\$6.91	\$7.61	33.7x	30.6x	0.4%	\$3,520.0
CSU	Constellation Software	\$4,608.28	4670 - 3149	\$79.81	\$99.00	\$125.31	46.5x	36.8x	0.1%	\$97.7
MSFT*	Microsoft	\$418.79	468 - 363	\$10.80	\$12.47	\$14.11	33.6x	29.7x	0.8%	\$3,113.7
NVDA*	NVIDIA	\$136.02	153 - 45	\$1.21	\$2.71	\$4.14	NM	32.8x	0.0%	\$3,331.1
NOW*	ServiceNow	\$1,052.71	1069 - 638	\$2.98	\$9.46	\$11.57	NM	NM	0.0%	\$216.9
Materials										
CCL.B	CCL Industries Class B	\$77.26	85 - 55	\$3.76	\$4.36	\$4.55	17.7x	17.0x	1.5%	\$12.8

Pricing in the above table is determined by the ticker. Data for companies using U.S. tickers (designated by * in the table) are in U.S. dollars (and for subsequent mentions in the report); data for companies with Canadian tickers are shown in Canadian dollars.

Source - FactSet

Methodology

The North American Focus List (the List) provides exposure to some of the highest-quality companies across the continent, allowing greater flexibility to add exposure within sectors where either the Canadian or U.S. market independently may lack adequate breadth or depth of quality investment opportunities.

The North American Focus List was formerly called the Global Equity Focus List from inception up to May 31, 2021.

The model will be largely based on a bottom-up search for quality companies trading at attractive valuations, with considerable flexibility around sector allocations. This point is particularly important to help determine the suitability of this List for specific investors. We have chosen a quality- and value-oriented strategy focused on long-term absolute returns best-suited for patient investors who are not particularly concerned with short-term fluctuations relative to a benchmark.

That being said, we recognize that a thorough understanding of underlying macro conditions is a necessary component of any portfolio management framework, and are committed to ensuring that the companies we choose are well positioned in the current environment and diversified reasonably across sectors.

The List will have 30 stocks that are assumed to be equally weighted positions. Typically half will be Canadian and half will come from the U.S.

Each constituent must meet certain criteria to be eligible, including: (1) minimum fundamental research coverage ratings from RBC Capital Markets and/or our third-party research providers and (2) minimum liquidity requirements to ensure investors can easily buy and sell shares without having any significant impact on pricing.

We expect turnover to remain low in typical market conditions, which reflects the nature of the companies included on the List (well-established, quality businesses with solid track records of creating value for shareholders). Changes will be communicated on a dynamic basis, while quarterly updates on the List will be published.

The List is compiled, monitored, and updated by the Investment Committee that includes members of the Portfolio Advisory Group's Canadian and U.S. equity teams within Canada.

NOTE: Past performance is no guarantee of future results and should not be viewed as an indicator of future results.

Disclosures and disclaimers

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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
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Sell [Underperform]	38	2.54	3	7.89

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 Alimentation Couche-Tard Inc. (ATD; Outperform; \$77.82)
 Amazon.com Inc. (AMZN; Outperform; \$201.45)
 Brookfield Asset Management Ltd. (BAM; Outperform; \$78.42)
 Canadian Natural Resources Ltd. (CNQ; Outperform; \$47.59)
 Canadian Pacific Kansas City Ltd. (CP; Outperform; \$107.78)

CCL Industries Inc. (CCL.B; Outperform; \$77.26)
 Constellation Software Inc. (CSU; Outperform; \$4,608.28)
 Honeywell International Inc. (HON; Sector Perform; \$230.60)
 Johnson & Johnson (JNJ; Outperform; \$155.78)
 Mastercard Inc. (MA; Outperform; \$526.60)
 Meta Platforms Inc. (META; Outperform; \$565.11)
 Microsoft Corp. (MSFT; Outperform; \$418.79)
 National Bank of Canada (NA; Sector Perform; \$137.39)
 S&P Global Inc. (SPGI; Outperform; \$520.51)
 ServiceNow Inc. (NOW; Outperform; \$1,052.71)
 Suncor Energy Inc. (SU; Outperform; \$56.93)
 TC Energy Corp. (TRP; Outperform; \$68.60)
 Thermo Fisher Scientific Inc. (TMO; Outperform; \$514.20)
 Thomson Reuters Corp. (TRI; Sector Perform; \$224.36)
 Toromont Industries Ltd. (TIH; Outperform; \$116.61)
 Toronto-Dominion Bank (TD; Sector Perform; \$77.81)
 UnitedHealth Group Inc. (UNH; Outperform; \$605.83)
 Waste Connections Inc. (WCN; Outperform; \$269.43)

Our third-party research providers have fundamental research of:

Apple Inc. (AAPL; Overweight; \$232.87)
 Costco Wholesale Corp. (COST; Overweight; \$960.89)
 Element Fleet Management Corp. (EFN; Sell; \$30.20)
 Intact Financial Corp. (IFC; Reduce; \$267.00)
 NVIDIA Corp. (NVDA; Overweight; \$136.02)

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