

Taking Stock

Evaluating opportunities in a rapidly changing world

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Portfolio Advisory Group

November 2020 | RBC Dominion Securities Inc.

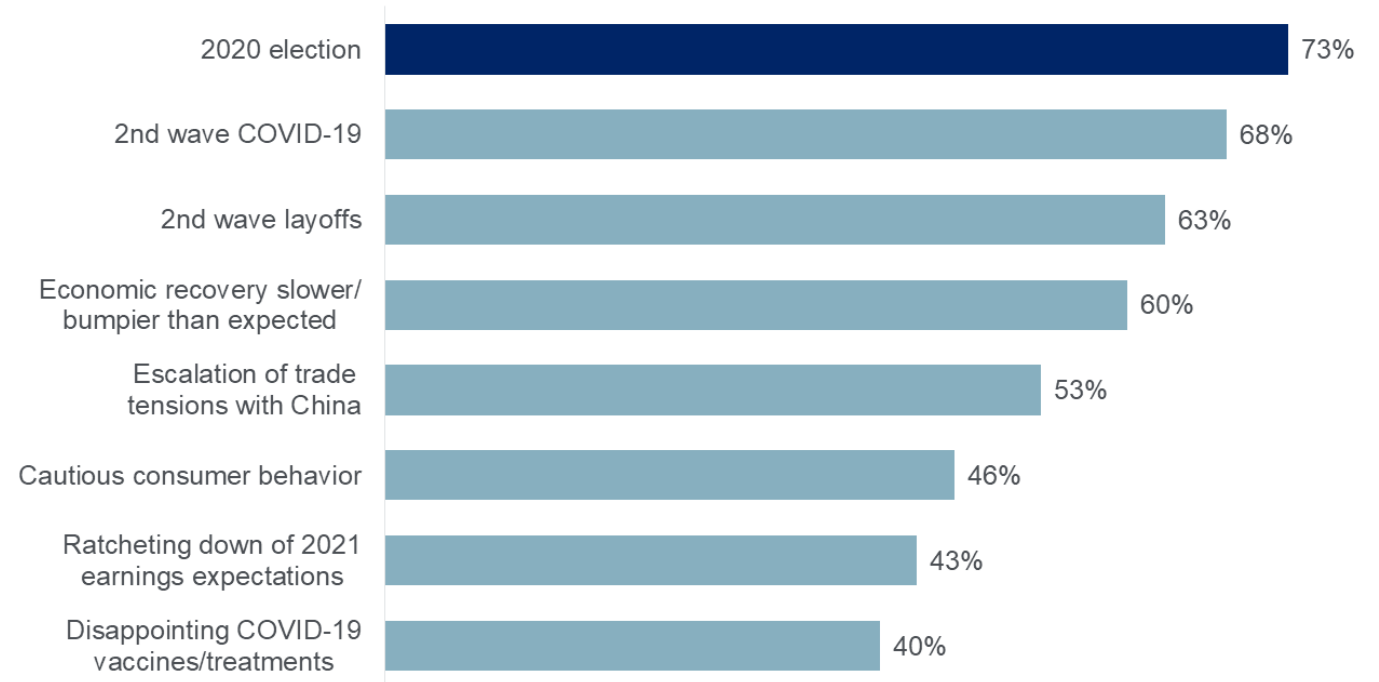


Wealth Management
Dominion Securities

S&P 500 Up 5% Over the Last Week

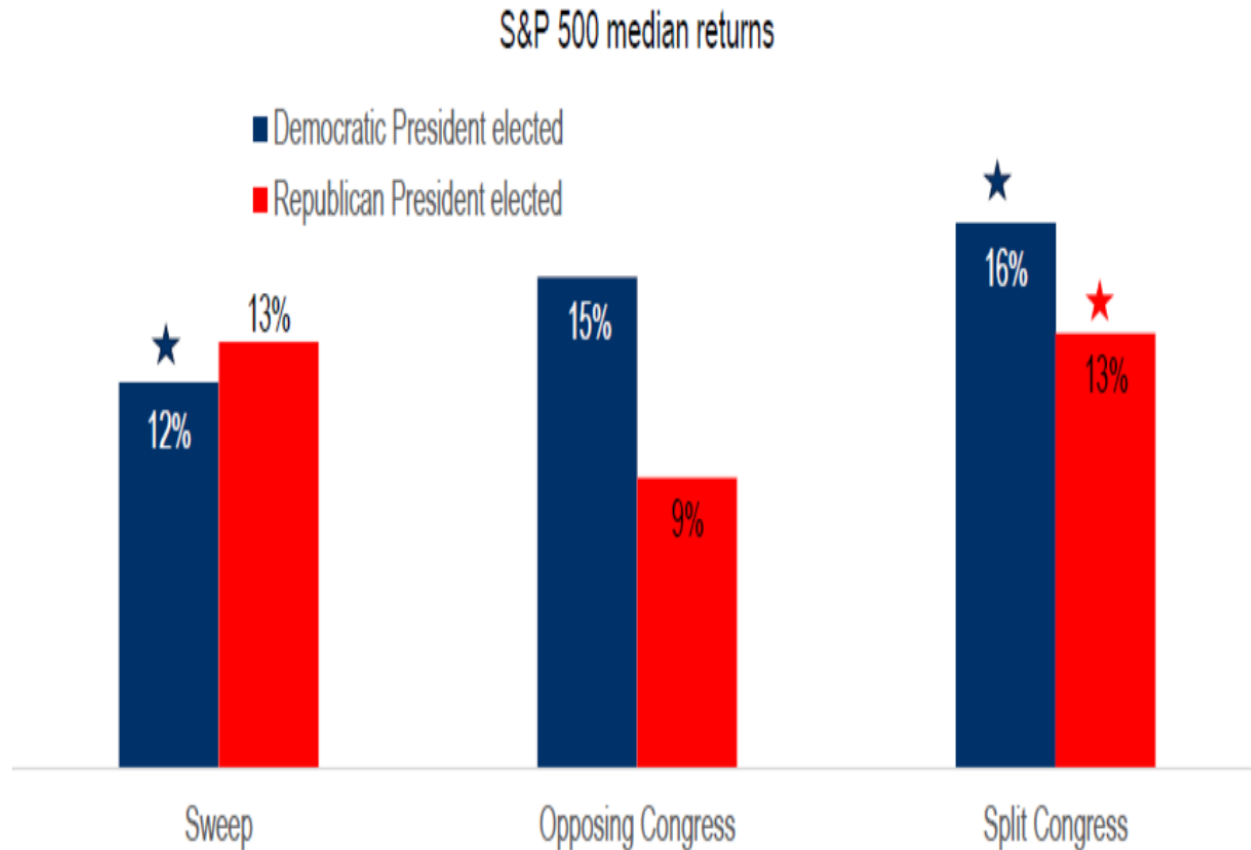
Equity markets have shrugged off worries of “contested” election

- Vociferous market rally despite the fact that the next President has not been confirmed.
- **Reason 1:** “Relief Rally” – regardless of preference between the two candidates, voters overwhelmingly “just want it to be over”
- **Reason 2:** Contested election was already part of the narrative heading into the election so not a negative surprise for markets, and not without precedent



Source - RBC Capital Markets U.S. Equity Strategy, RBC Wealth Management, Haver; Returns since 1933. Past performance is no guarantee of future results.

Senate race is key to policymaking – expect gridlock

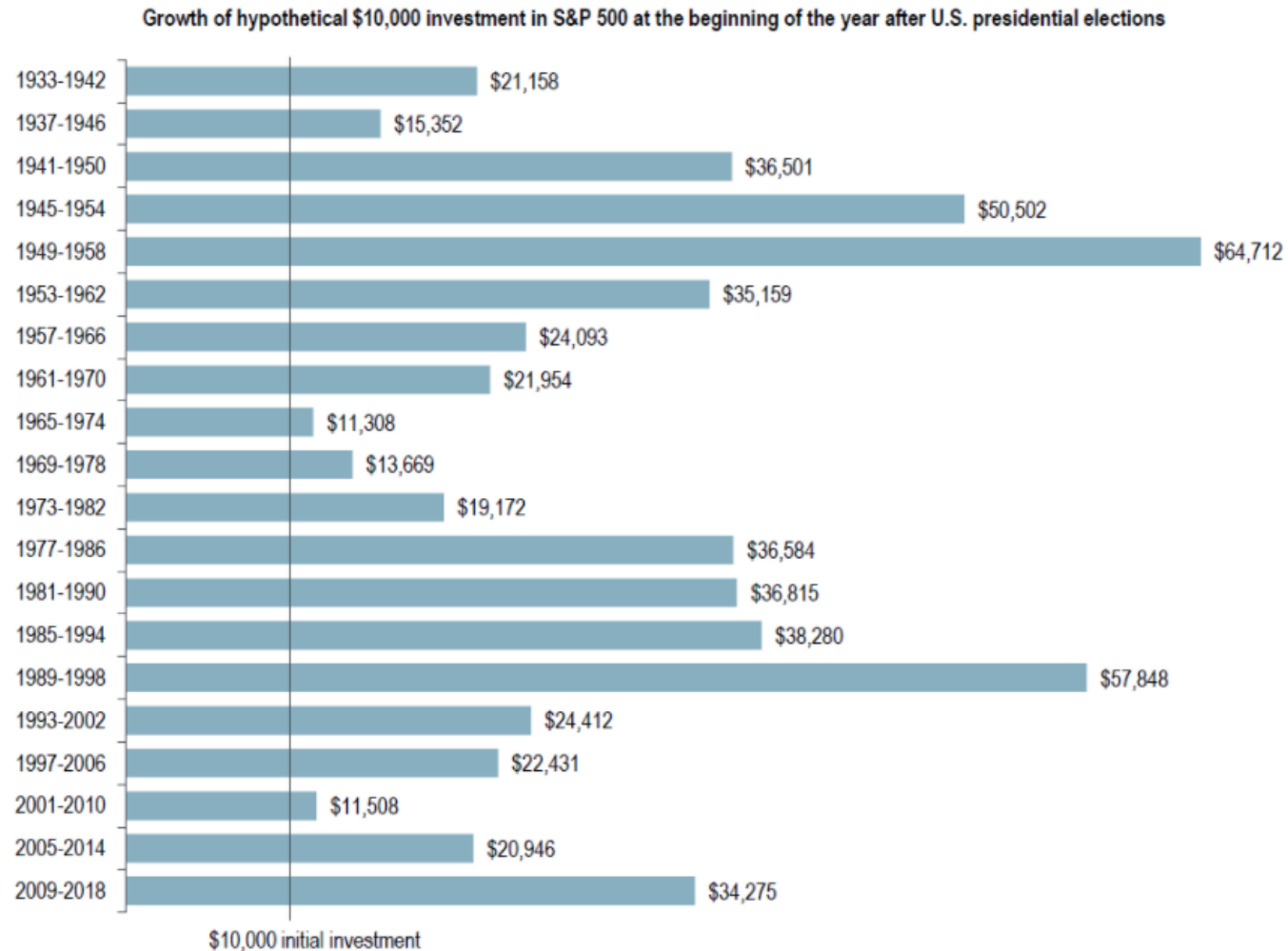


Source: RBC GAM, Bloomberg. S&P 500 return (USD) November 6, 1928 to October 6, 2020. Returns attributed to governments immediately after election and accounts for changes in government control following mid-term elections. Sweep accounts for period where president's party controls congress. Opposing Congress accounts for period where the opposing party of the president controls congress. Split congress accounts for periods where Democrats and Republicans each have control of one of the House of Representatives or the Senate.

- **Reason 3:** Blue wave scenario put to rest
- Senate likely to remain in GOP hands, while Dems keep control of House of Representatives
- If confirmed, Congressional “gridlock” likely to thwart the passage of any transformative legislation being passed
- Split government → inaction → positive for equity returns in the past

Don't overthink it: Markets trend higher regardless of which party in White House

Growth of a hypothetical \$10,000 investment in the S&P 500



Source: Portfolio Advisory Group

Vaccine Update

You Get a Vaccine! And You Get a Vaccine! YOU ALL GET VACCINES!

Current Covid-19 Vaccine
Status By Leading
Manufacturer – Trial Phase +
Commercialization Status

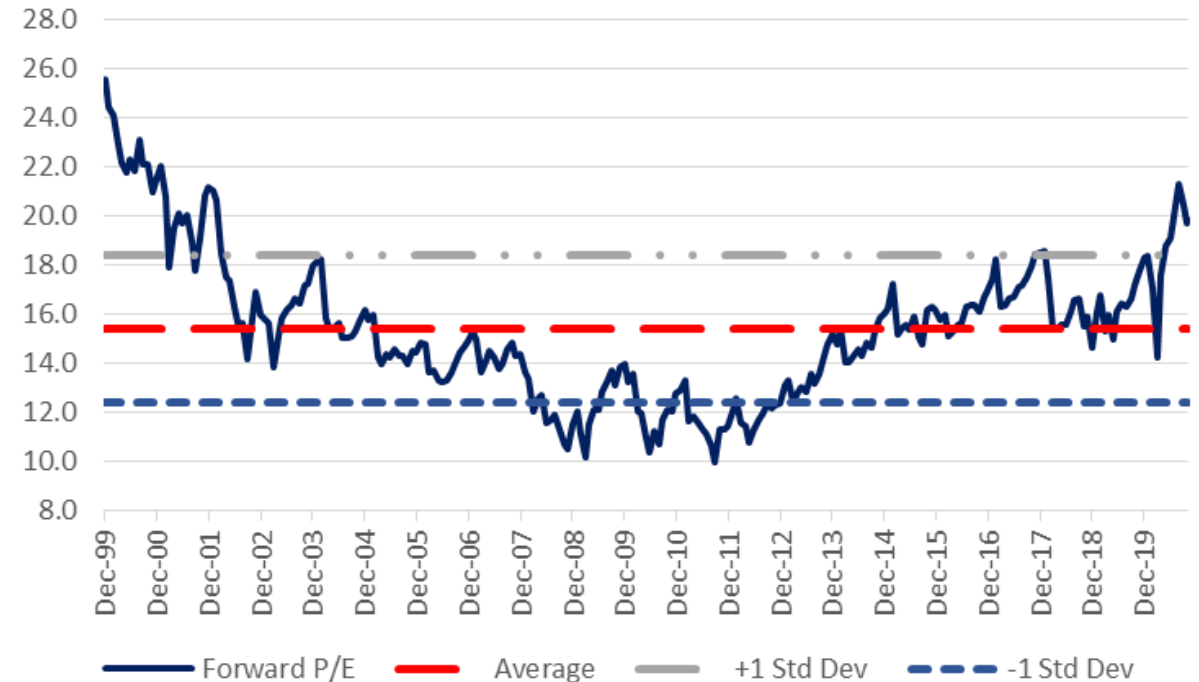
Developer	Candidate	Clinical Trial Status	Commercialization
Pfizer/ BioNTech	BNT162b2	Phase 2/3: over 23K of 30K patients enrolled	Regulatory review as early as October 2020; plan to supply up to 100 million doses worldwide by the end of 2020 and approximately 1.3 billion doses by the end of 2021
Moderna	mRNA-1273	Phase 3: 21,411 of 30K patients enrolled	Anticipated launch in YE20/early 2021 (est)
Johnson & Johnson	Ad26.COV2.S	Phase 3: Starting 60K patient trial end of Sept	Supply 1 billion vaccines worldwide for emergency pandemic use
AstraZeneca/ Oxford	AZD1222	Phase 3: Currently enrolling 30K patient trial	Supply announcements with Russia, South Korea, Japan, China, LA, and Brazil take global supply capacity towards 3 billion doses
Novavax	NVX-CoV2373	Phase 3: Plans to initiate in Sept	NVAX expects to file for FDA approval in December and deliver 100 million doses by late 2020. NVAX + Takeda partnering to supply 250 million doses in Japan
GlaxoSmithKline/ Sanofi	Undisclosed	Initiated 1/2 trial in Sept with approval in 1H2021	Company aims for EUA in Jan 2021, with up to 100 million doses and for approval in June 2021 with the capacity of 1 billion doses in 2021
CureVac	CVnCoV	Phase 2a trial registered, not yet enrolling	German manufacturing facility can potentially supply several hundred million doses per year

Source: Company data, RBC Capital Markets estimates

Market Valuation Elevated

- Valuation currently at 21x P/E – more than 1 standard deviation above the average
- Low interest rates → Higher Valuations as Market is Inherently a Discounting Mechanism (but how much higher?)
- Fixed Income returns dwindling
- Still with the market up 11.5% YTD, and valuation near all-time highs – not much room for disappointment.

Market Valuation over 1 Std Dev vs. Average

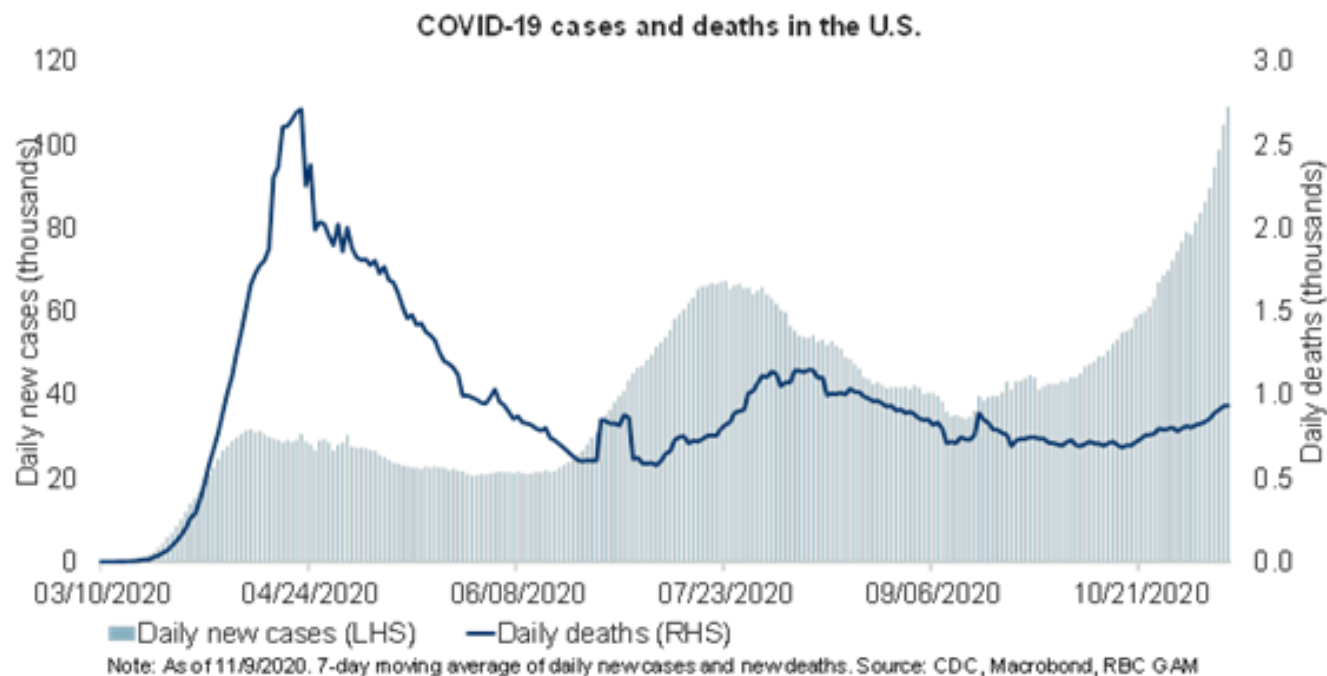


Source: FactSet, PAG

State of COVID-19 – Universally Challenging

Globally, the world now records ~500k new infections per day, and ~8k deaths

- Both infection rate and fatality trends ticking up slightly
- 9% of U.S. Covid-19 tests now register positive, alongside 8% in the U.K., 5% in Canada & 2% in France.
- US now records more than 100k new infections per day, having roughly doubled its daily tally over the past several weeks, and is seemingly on track to double again over the coming weeks



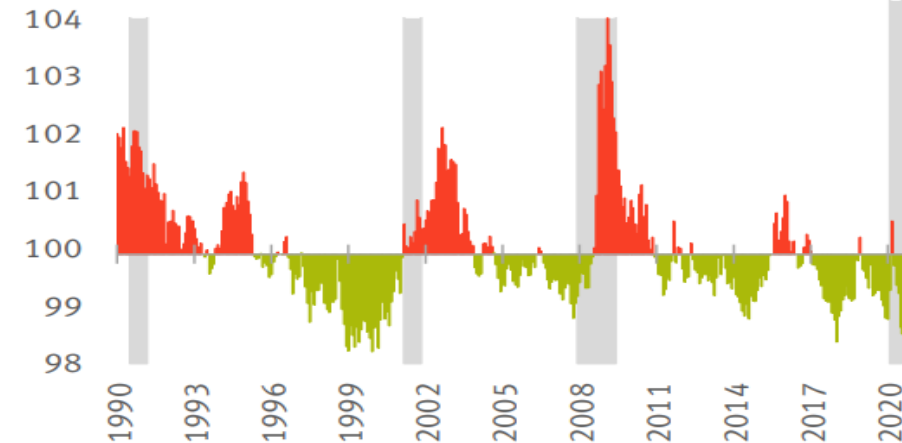
Source: RBC GAM

Fed Remains Accommodative / 2nd Round of Fiscal Stimulus in flux

Stimulus can go a long way toward mitigating the damage to the economy

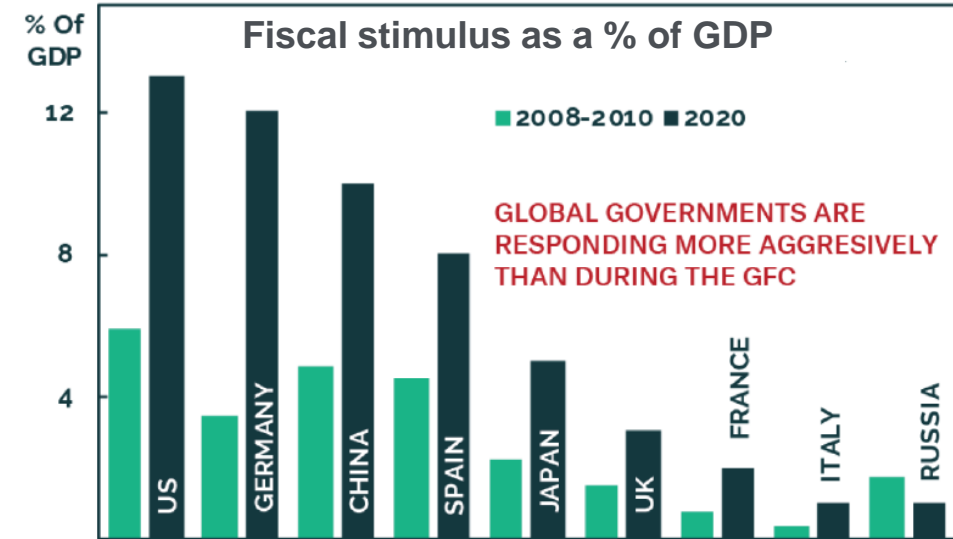
Breaking with past cycles, financial conditions remain historically easy

Goldman Sachs Financial Conditions Index



Note: shaded areas indicate U.S. recessions

Source - RBC Wealth Management, Bloomberg, Goldman Sachs



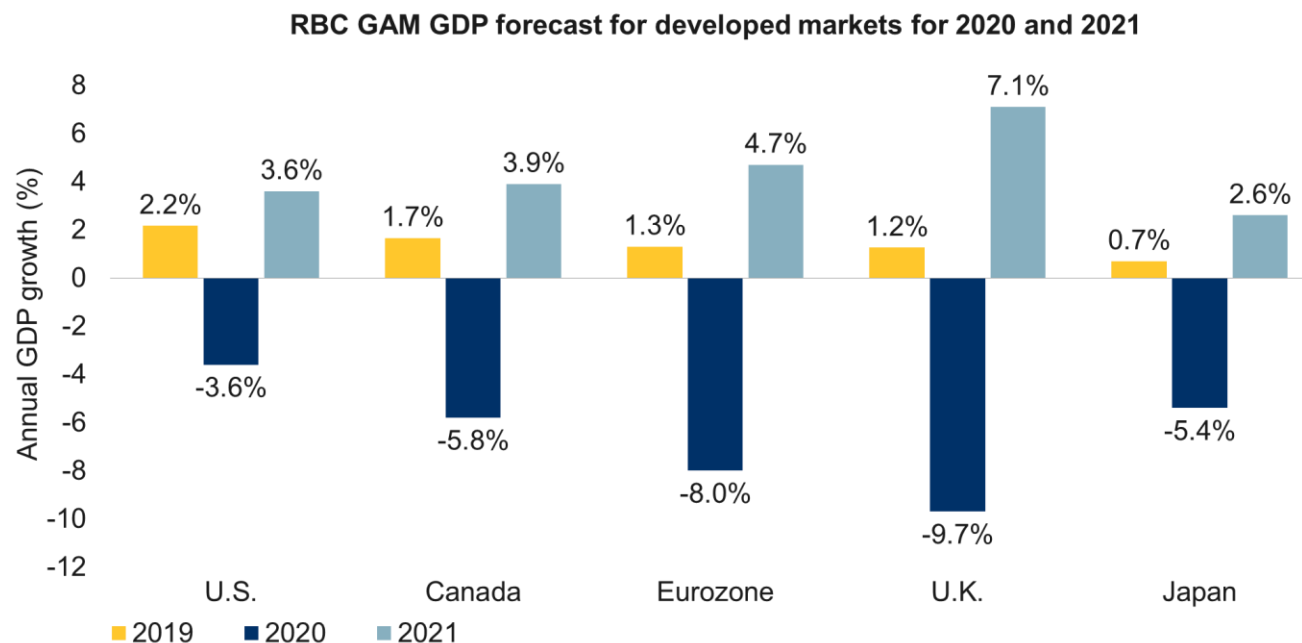
- Fed has not disappointed the market so far - Chart indicates that financial conditions remain not only near the easiest levels on record, but the stress typically seen during U.S. recessions never really materialized.
- New approach to achieving price stability as part of the Fed's dual mandate: **Essentially → lower rates for longer**

- \$2.1 Trillion CARES Act (passed in March, but expired end of July)
- While a 2nd relief bill is sure to be released under either administration, the timing and the amount is uncertain

Global GDP growth on a negative trajectory for 2020

Thought estimates have improved since the start of the pandemic

- RBC GAM is forecasting U.S. GDP decline of -3.6% for 2020, better than Canada (-5.8%) and the Eurozone (-8%), due to.
- Recently upgraded forecasts for Canada and US driven by faster-than-expected recovery so far, despite the fact that only minimal economic growth expected over the next few months.



Note: As of 10/30/2020. Source: RBC GAM

Source: RBC GAM; estimates as of July 27, 2020

RBC GAM Estimates for 2021 Global GDP Recently Downgraded

Larger fraction of recovery already expected to occur in 2020...

Global growth forecast 2021
Base case scenario
Annual average % change

U.S.	3.6
Canada	3.9
Eurozone	4.7
U.K.	7.1
Japan	2.6
China	9.0
Developed	3.3
Emerging	7.4
Global	5.1

Note: As at 2020-11-06
Source: RBC GAM

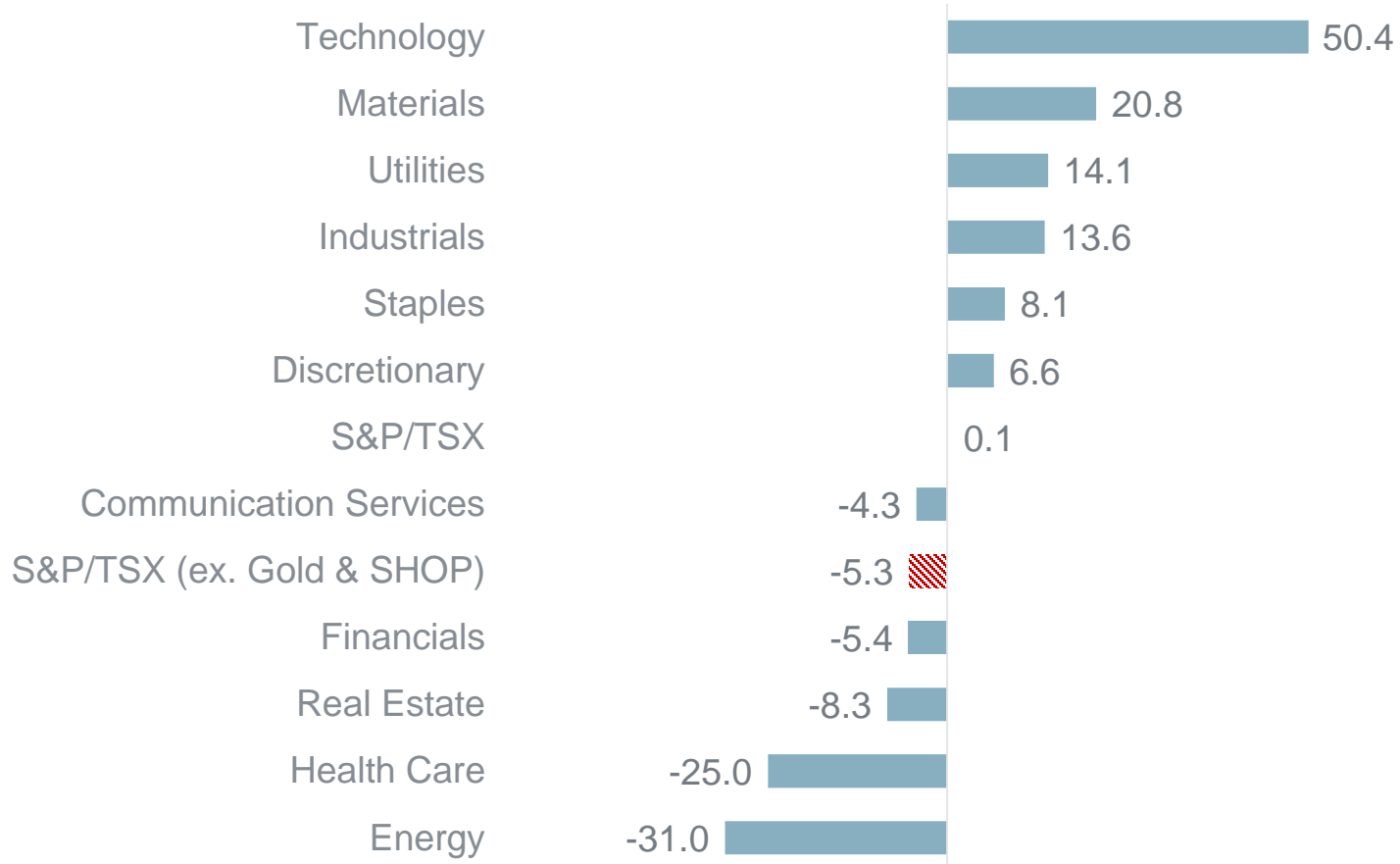
- Possibility that 2nd wave will trickle into New Year
- Third wave could arrive next spring
- Fiscal stimulus may prove somewhat smaller than first envisioned when a Blue wave was possible
- Herd immunity achievement unlikely till 2022 with rollout of vaccine across the globe, even with 90% efficacy rate

Canadian Equities

S&P/TSX Performance

Flat return for the benchmark belies elevated volatility and varied sector-level fortunes

YTD S&P/TSX Sector Performance (%)

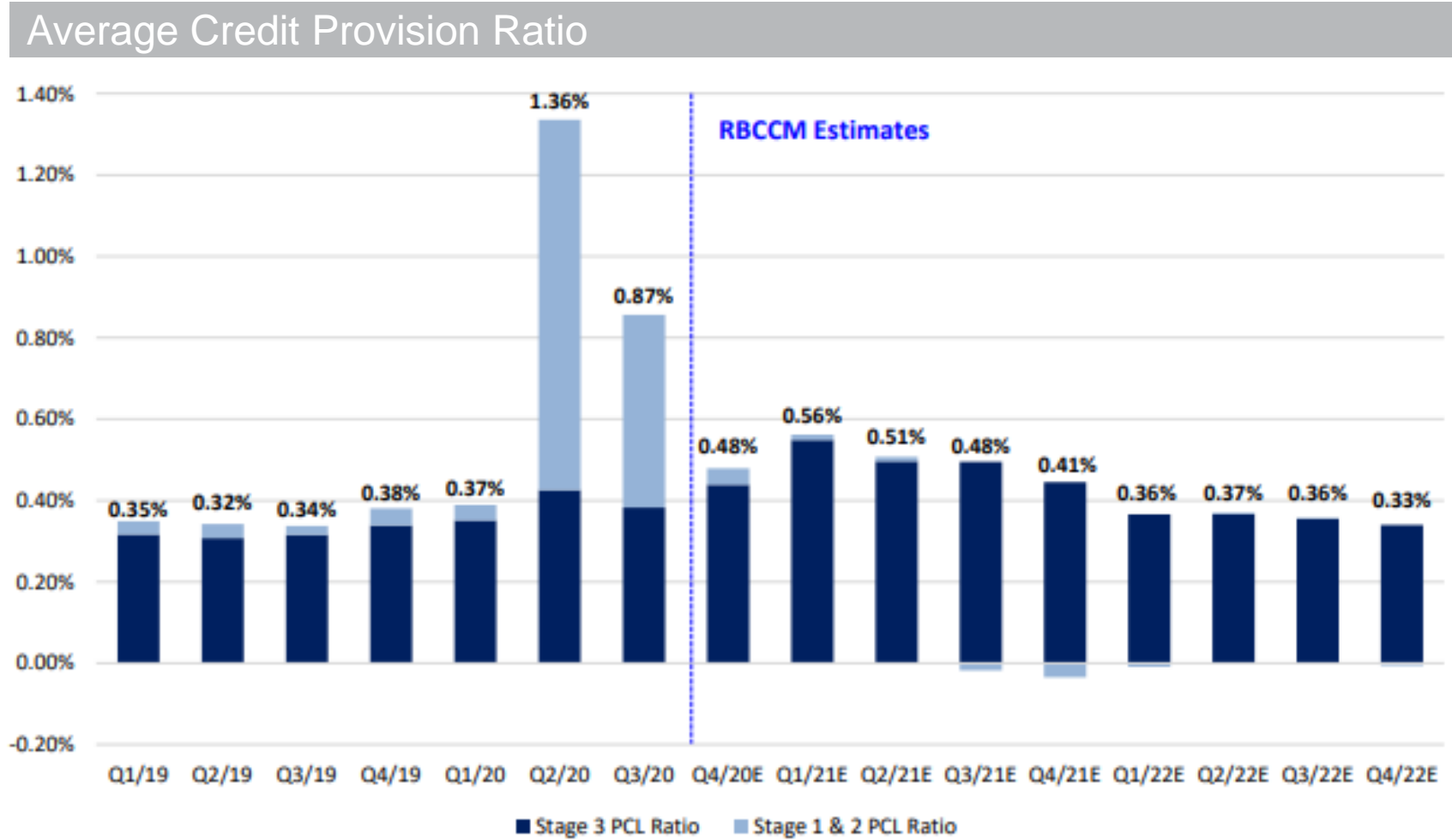


- Peak-to-trough-to-current:
 - Feb 20 to Mar 23: -37.4%
 - Mar 23 to Nov 10: +48.0%
- Technology and Gold have materially outperformed
- Dividend-paying sectors have struggled

Source: FactSet; Priced as at November 10th

Canadian Banks: Focus On Credit Health

Banks have estimated their future credit losses at a time of tremendous uncertainty



- Nearly \$18bn in credit loss provisions booked in Q2/Q3
- Mortgage and loan payment deferral schemes set to expire
- On balance, banks appear conservatively provisioned and well-capitalized

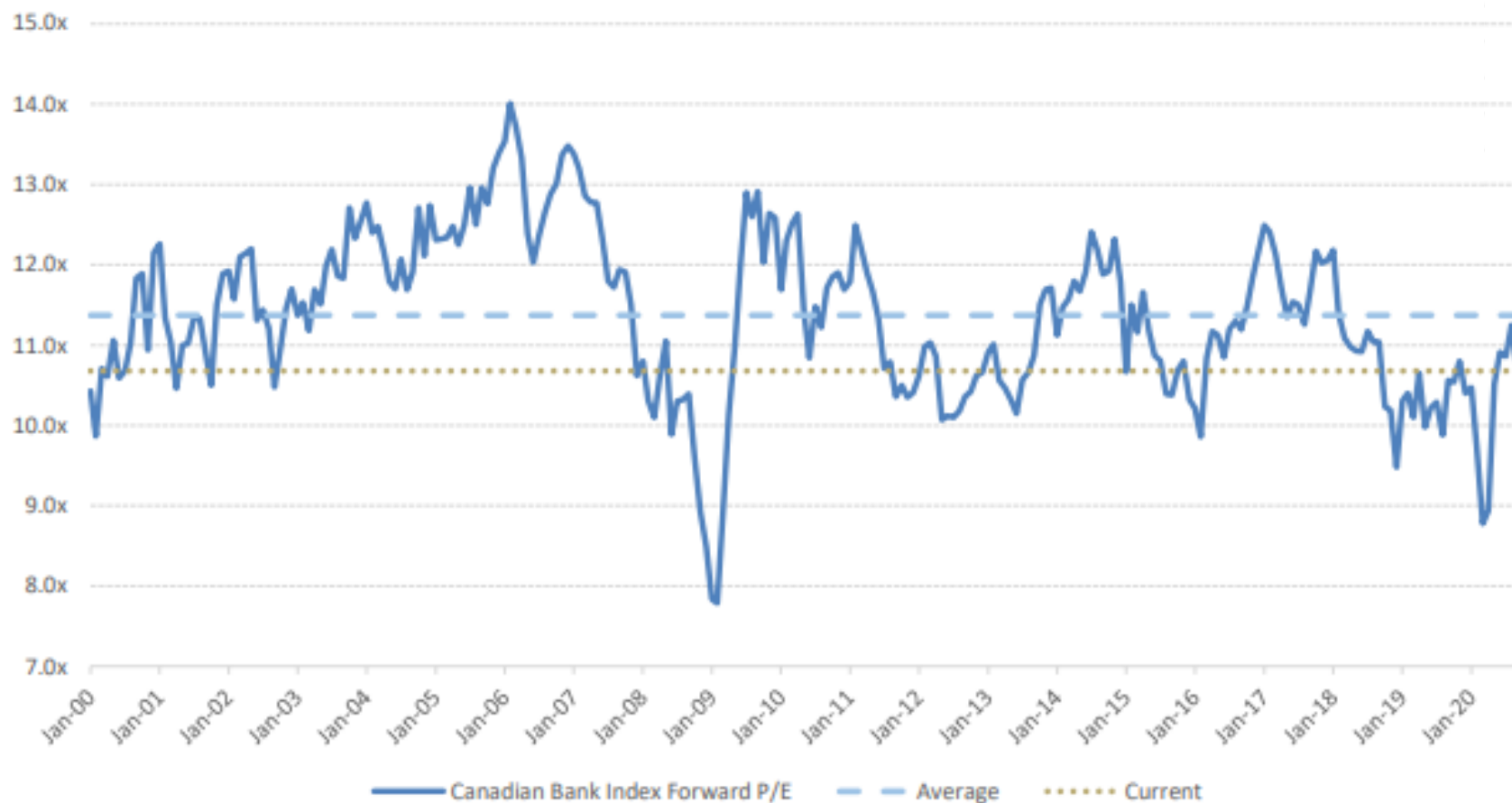
Source: RBC Capital Markets, Company Reports



Canadian Banks: Valuations Discounted to Long-Term Average...

But earnings growth prospect look similarly “discounted”

Forward Price-to-Earnings Valuation



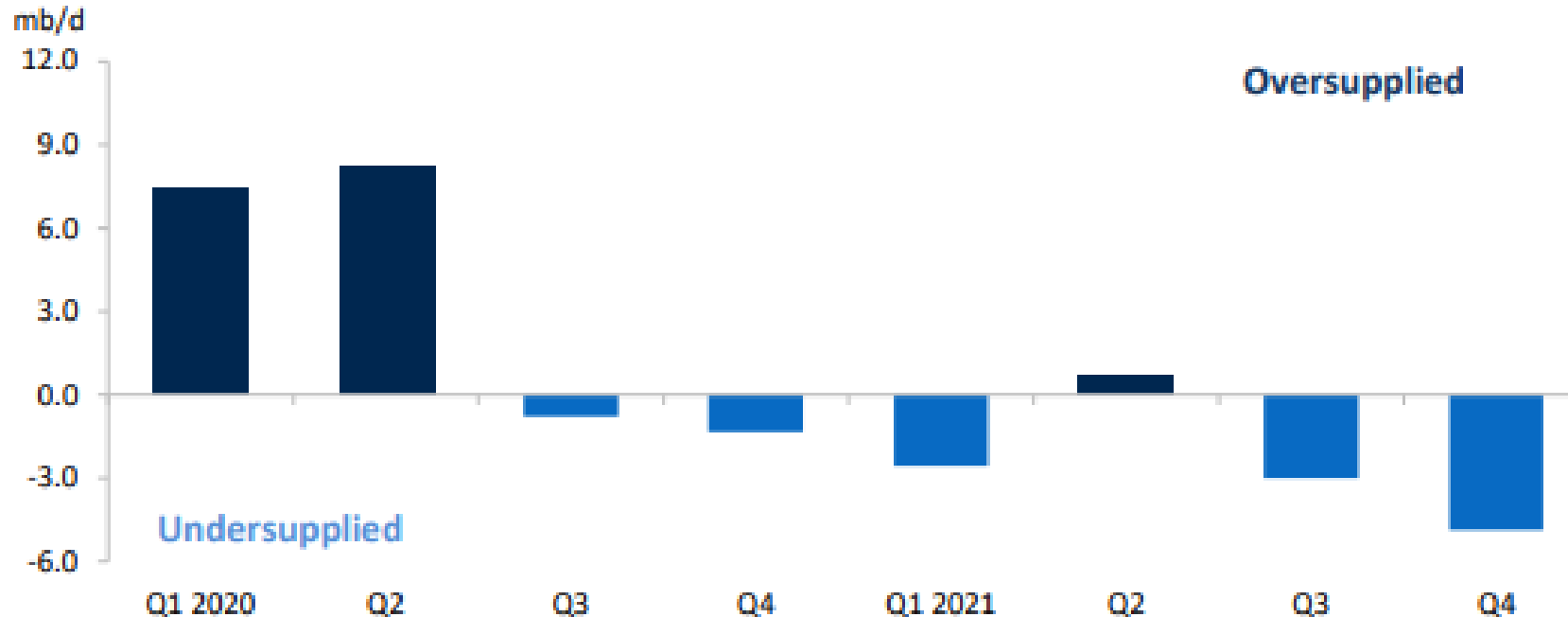
- Banks trade at 10.8x earnings; below 11.5x historical average
- Earnings growth prospects likewise below historical levels
- We believe banks are presently more attractive as income vehicles than growth vehicles

Source: RBC Capital Markets, Bloomberg; Priced as at October 2nd

Energy: Has Oil Price Outlook Ever Been Less Certain?

Unprecedented demand destruction met by unprecedented supply intervention

Global Oil Supply and Demand Balance



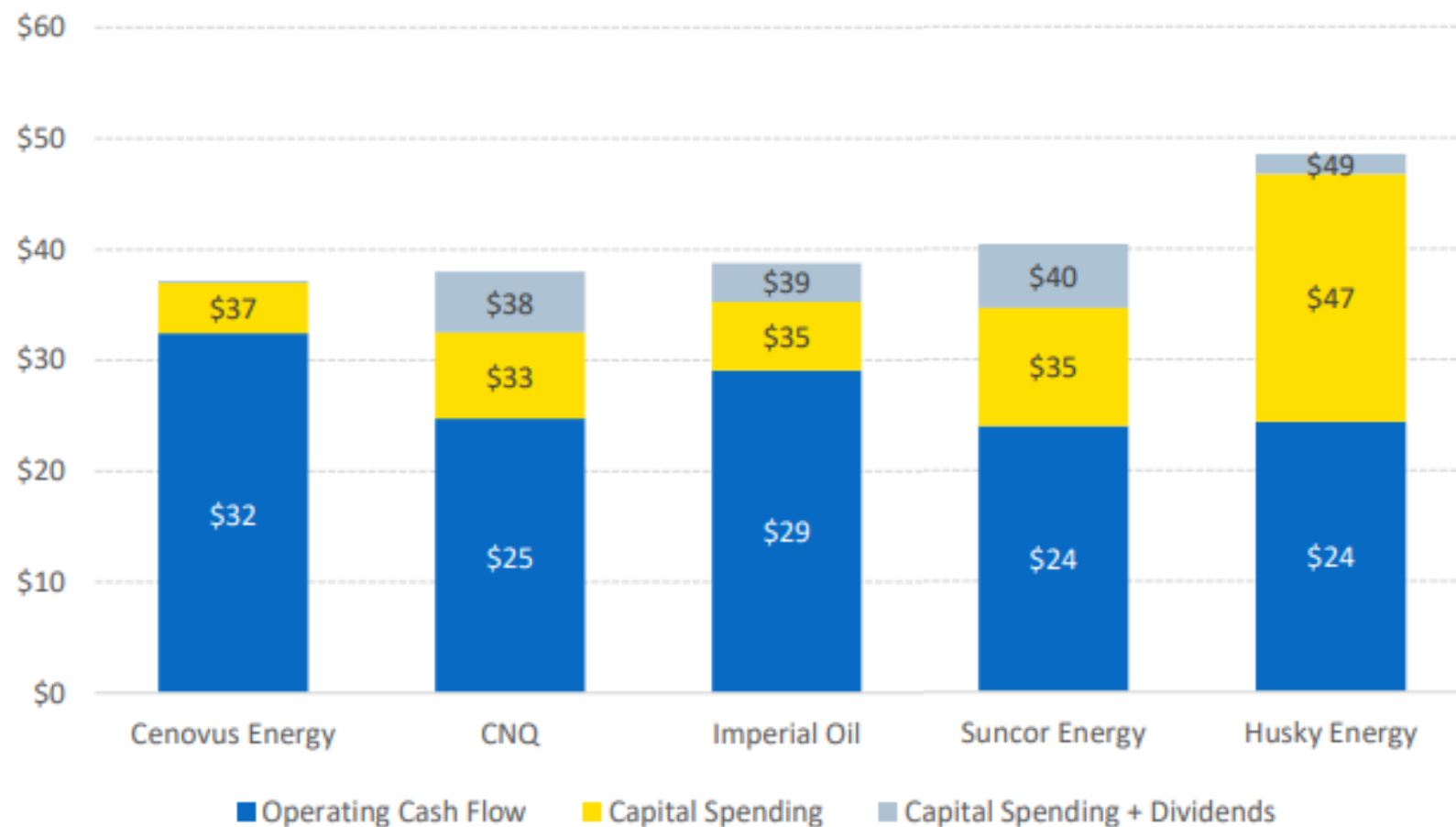
- RBC CM WTI Forecast:
 - 2021: ~US\$46/bbl
 - 2022: ~US\$50/bbl
 - Long-Term: US\$50/bbl
- Higher refined product margins needed to boost oil prices
 - Translation: Life needs to return (closer) to normal

Source: RBC Capital Markets, Petro-Logistics SA, IEA, IEA, JODI, Company Sources, Government Sources

Energy: US\$40 Per Barrel is a Critical Level

Most Canadian producers require US\$40 to cover operating expenses, investments and dividends

2020 WTI Crude Breakeven Levels



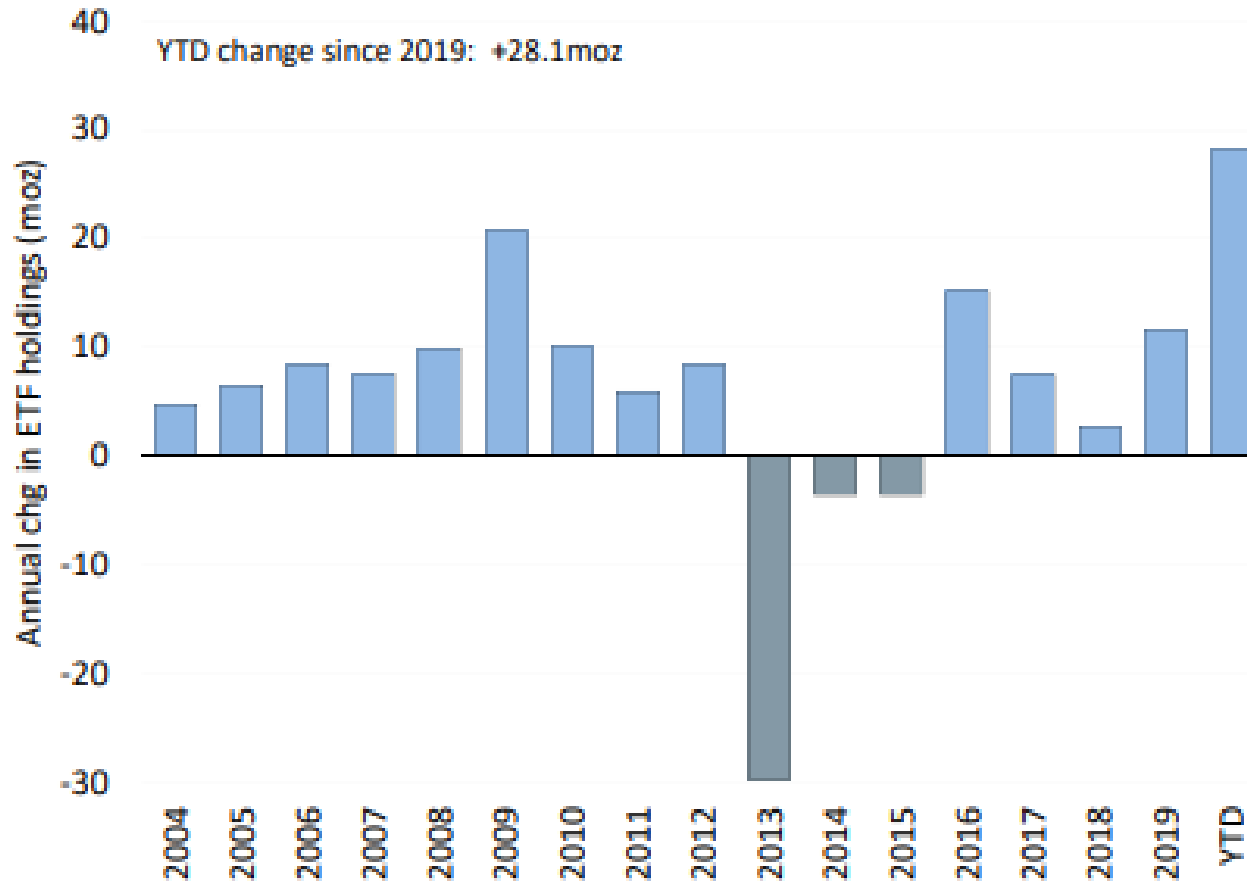
- Cash generation capacity looks dramatically different under modest deviations from current oil price
- Balance sheet strength remains an important consideration

Source: RBC Capital Markets

Gold: Soars to New Highs in 2020

Accommodative monetary policy and ongoing uncertainty support gold prices

Physical Gold ETF Position Changes

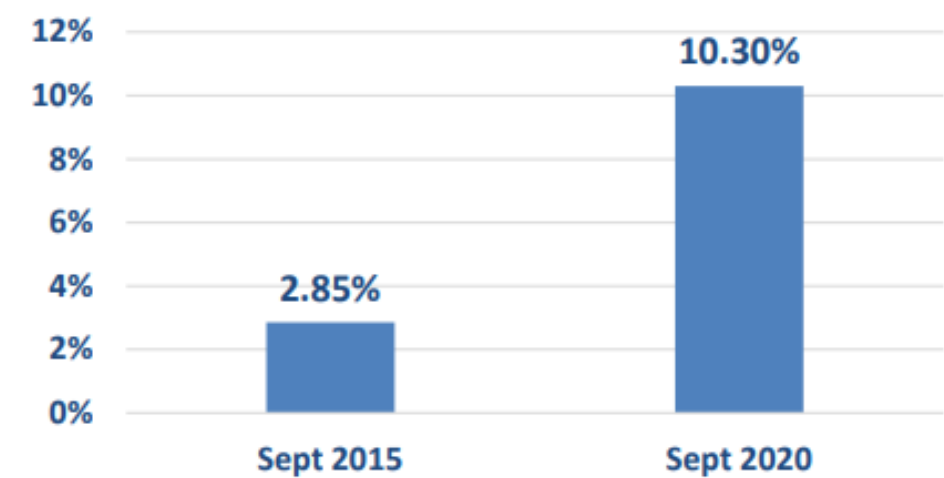


- RBC CM Gold Forecast:
 - 2021: ~US\$1,900/oz
 - 2022: US\$1,800/oz
 - Long-Term: US\$1,500/oz
- Bloated government budgets and accommodative monetary policy support higher medium-term prices...
- Record ETF flows suggest gold could be vulnerable to short-term pullbacks

Source: RBC Capital Markets, Bloomberg

Canadian Technology: Now Accounts for 10% of the Market

Technology Weight in S&P/TSX



5-Year Returns

Company	5-year CAGR
TSX Tech	33.3%
TSX Tech (ex-SHOP)	15.1%
S&P 500 Tech	26.6%
NASDAQ	20.0%
FAANGM	32.2%

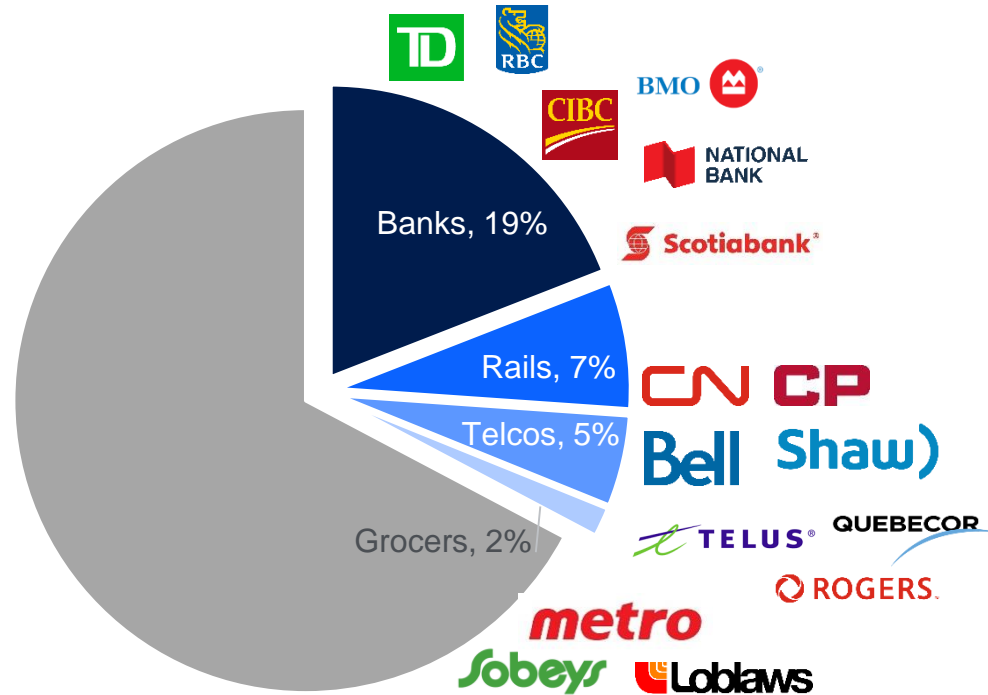
Source: FactSet; Priced as at September 30th



Select Canadian Industries Compare Very Favourably to U.S. Peers

Oligopolistic industries make up >30% of the TSX

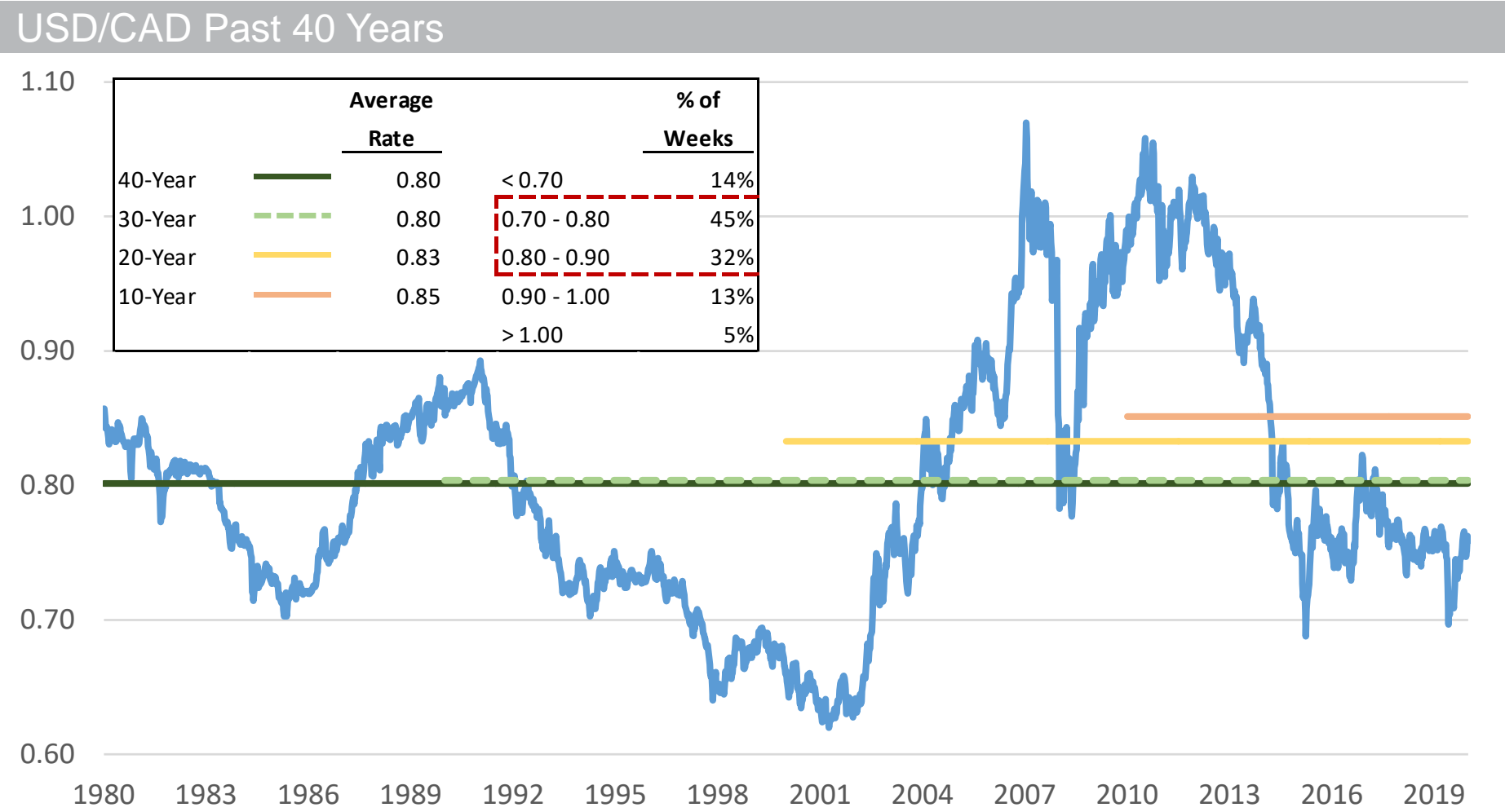
Oligopolies Make Up a Sizeable Portion of the TSX



- Characteristics:
 - Barriers to entry (network, brand, regulatory, etc.)
 - Pricing power
 - High returns on equity
- Record:
 - Share price outperformance
 - Lower volatility

Canadian Dollar

Don't allow recency bias to dissuade you from investing in the U.S.



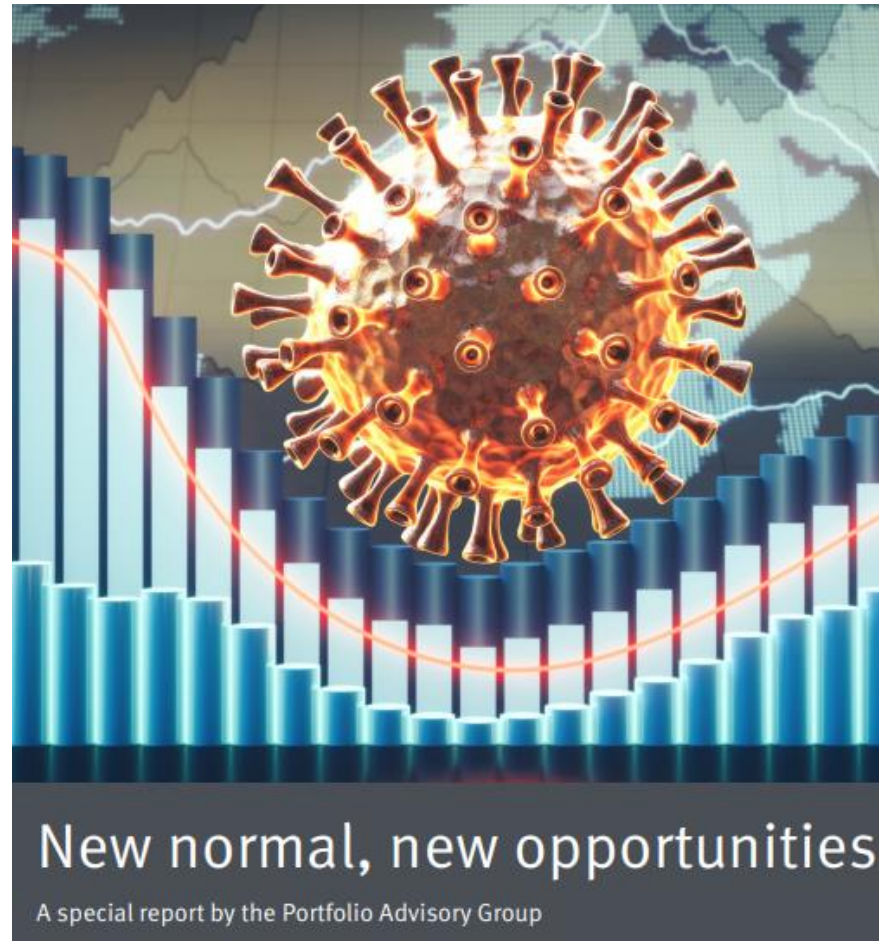
Source: Bloomberg



New Normal New Opportunities: Post-Covid-19 Winners

Long-term investment themes for post COVID-19 “new normal”

Constructive on secular growth or mega-trends



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Work-from-home

- 3 E-commerce: Stuck at home? Some online retail therapy always helps!
- 5 Placing more irons in the fintech fire
- 7 Cloud computing: Cloud genie is accelerating out of the bottle
- 9 5G communications networks: Enabling next-generation technology
- 11 Video streaming: Cord-cutting in the time of COVID-19
- 13 Nesting: Homebodies for now

Corporate implications

- 15 Cybersecurity and digital content: A digital defense is the best corporate offense
- 17 Automation: Technology advancements lead to new products and higher productivity
- 20 The importance of resilient companies in portfolio construction

Healthcare

- 22 Drug discovery & diagnostics: They might be just what the doctor ordered
- 24 Telemedicine: Stepping out of the shadows to take centre stage

Societal themes

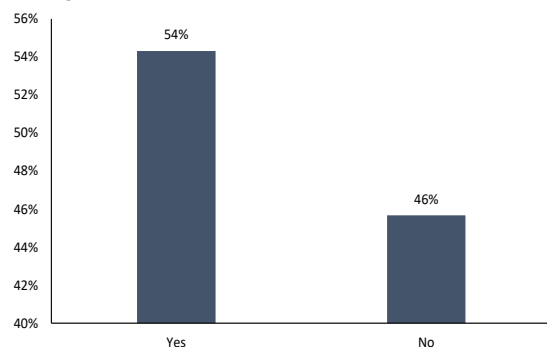
- 26 How will COVID-19 impact the fading globalization theme?
- 28 Surging government debt and deficits
- 30 Speed bump in the secular growth of the sharing economy
- 32 Ground zero in the COVID-19 upheaval: The future of travel and leisure

New Normal, New Opportunities – E-commerce Wins Powered by Digital Payments

Stuck at Home? Some Online Retail Therapy Always Helps!

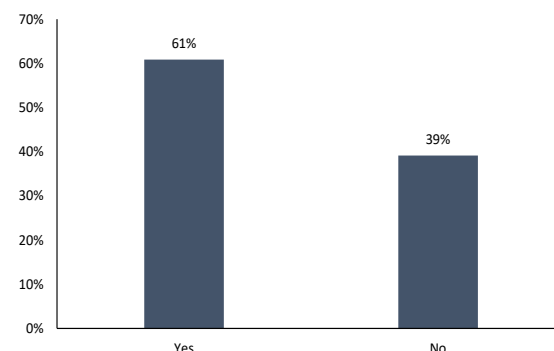
- The “conversion rate” of households from physical to digital shopping channels should not be underplayed.
- Growing pie / Expect structural gains in market share for leading e-commerce players
- This was corroborated by RBC CM’s 8th annual U.S. Online Shopping Survey (June 2020)
- As of FY18, there was ~\$18T of global personal consumption expenditures (PCE) still accounted for by cash & checks

Exhibit 3: Do you believe the COVID-19 crisis will lead you to permanently increase your willingness to purchase online versus in-store?



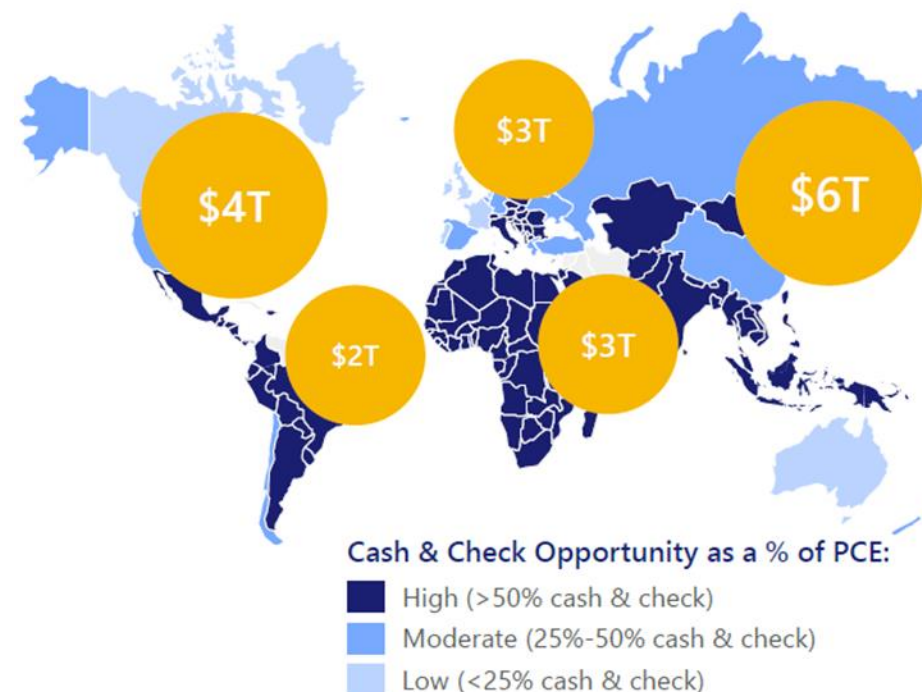
Source: RBC Capital Markets; Proprietary survey of 2,730 respondents

Exhibit 4: Has COVID-19 increased your online retail spend?



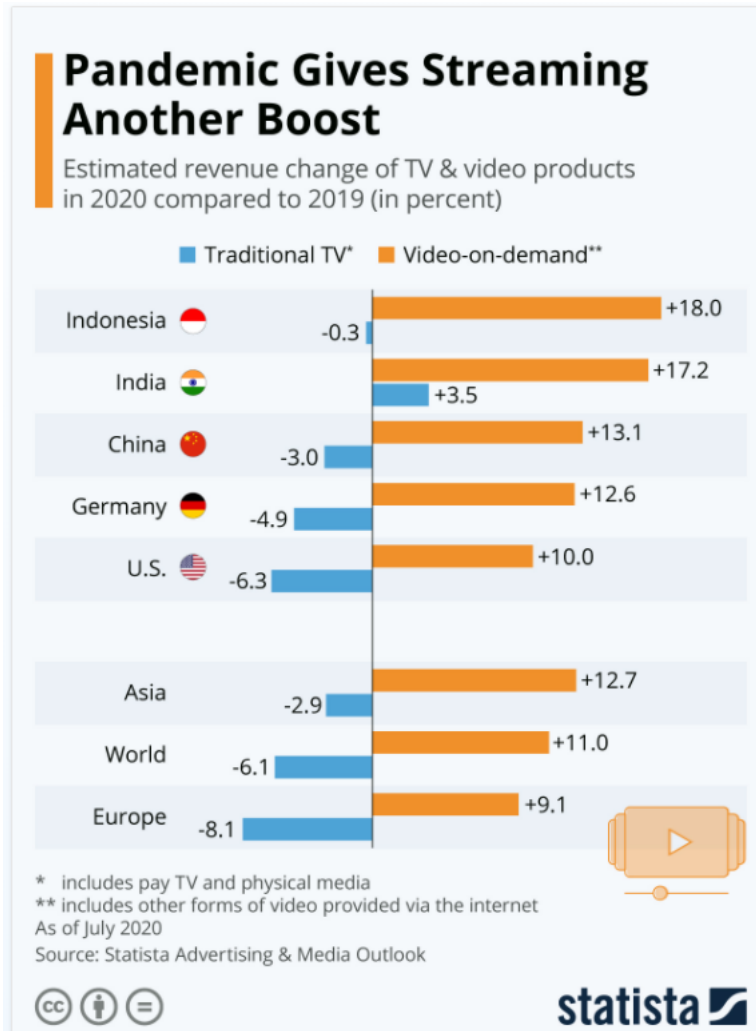
- Growing affluence, double-income households, growing value of leisure time, and still low penetration suggests sizeable runway

Cash & Check Opportunity by Region



New Normal New Opportunities – Cord Cutting in the Time of Corona

Cord-Cutting and Cord-Shaving on the Rise as More People Stay at Home and Households Prioritize Value



- We believe pandemic has magnified value proposition of video streaming
- In the U.S., vast majority of households with cable end up with too many channels that they don't watch, and pay too much for.
- We believe that households that cut the cord can economically redirect those savings towards multiple streaming subscriptions.

Exhibit 1: Potential Savings from Cord-Cutting & Switching to Multiple Streaming Subscriptions

Streaming Provider	Cost per Month
Netflix *	\$15.99
Amazon Prime Video**	\$12.99
Disney+	\$6.99
AppleTV+	\$4.99
Total	\$40.96
Average Cost of Pay-TV	\$100
Cord-Cutting Savings	-59%

* Premium subscription cost. Basic subscription is \$8.99/month;

**Cost is for non-Prime members. Amazon Prime members get access to Prime Video for free

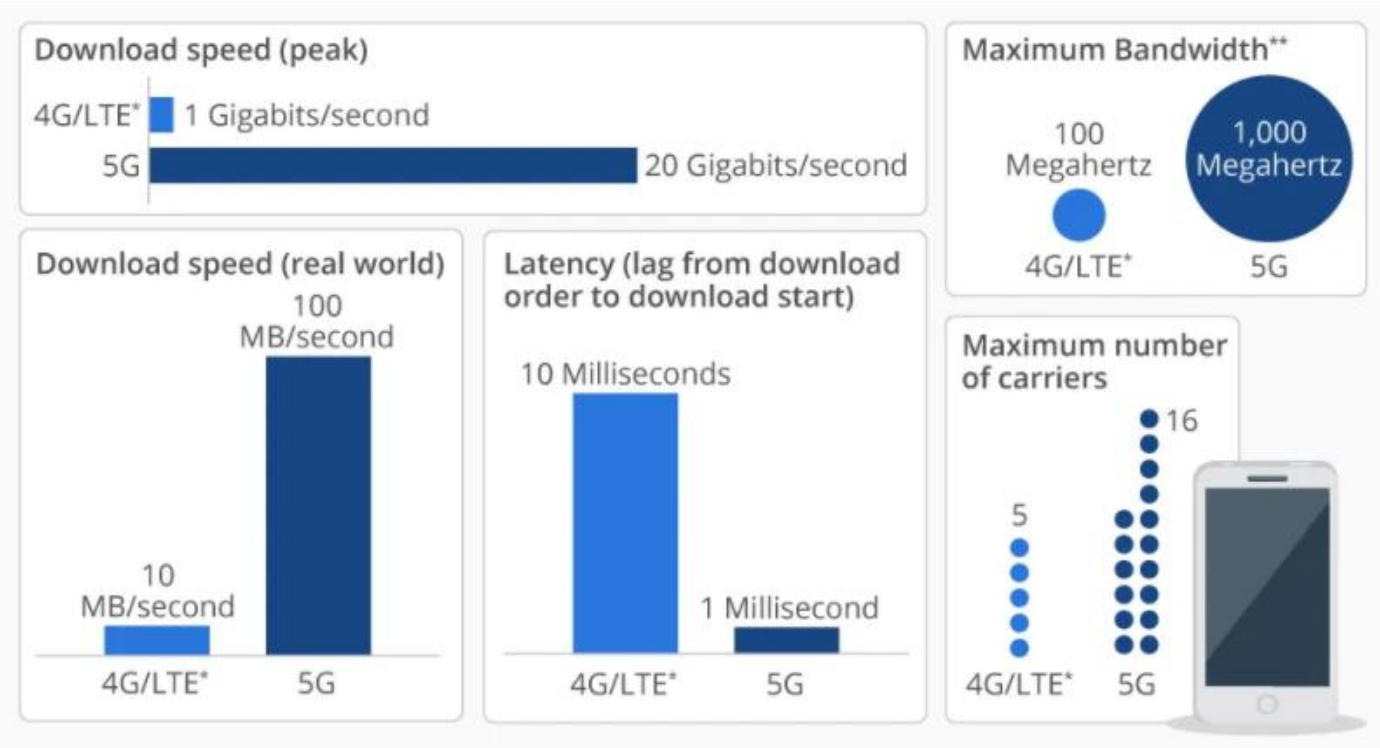
Source: Company websites; RBCDS Portfolio Advisory Group

- Ample runway for cord-cutting over the next several years.

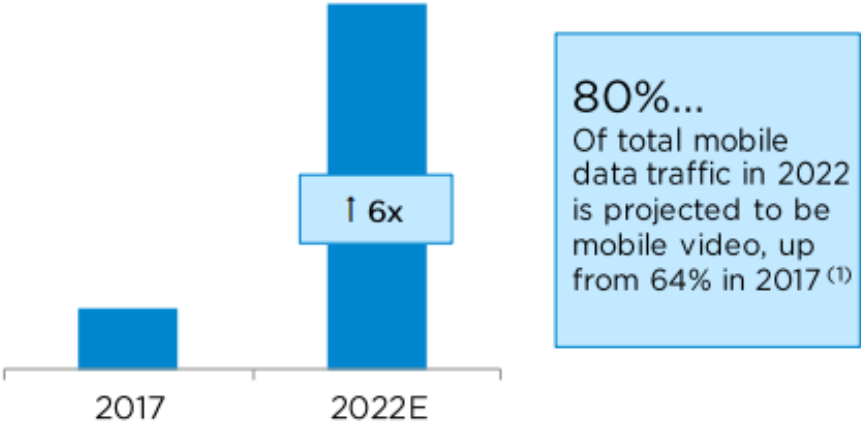
New Normal New Opportunities: 5G

I feel the need...for SPEED!

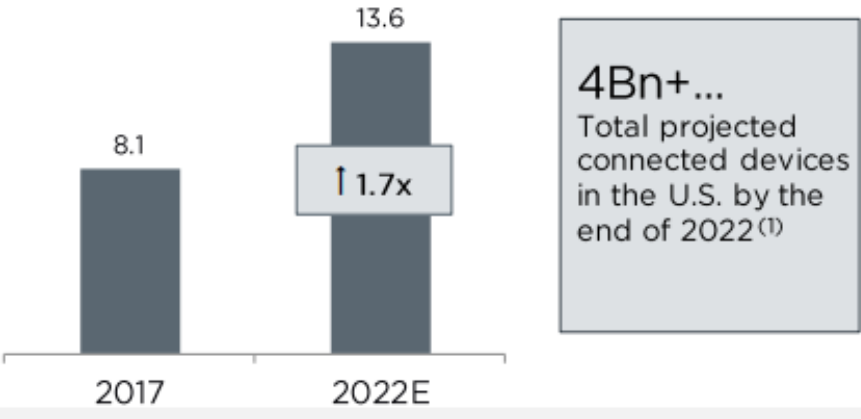
5G dwarfs all of 4G's specifications



Projected U.S. Mobile Video Traffic



Projected Connected Devices per Capita in the U.S.



Source: Company reports, Cisco VNI (2018), Statista

Thank you!

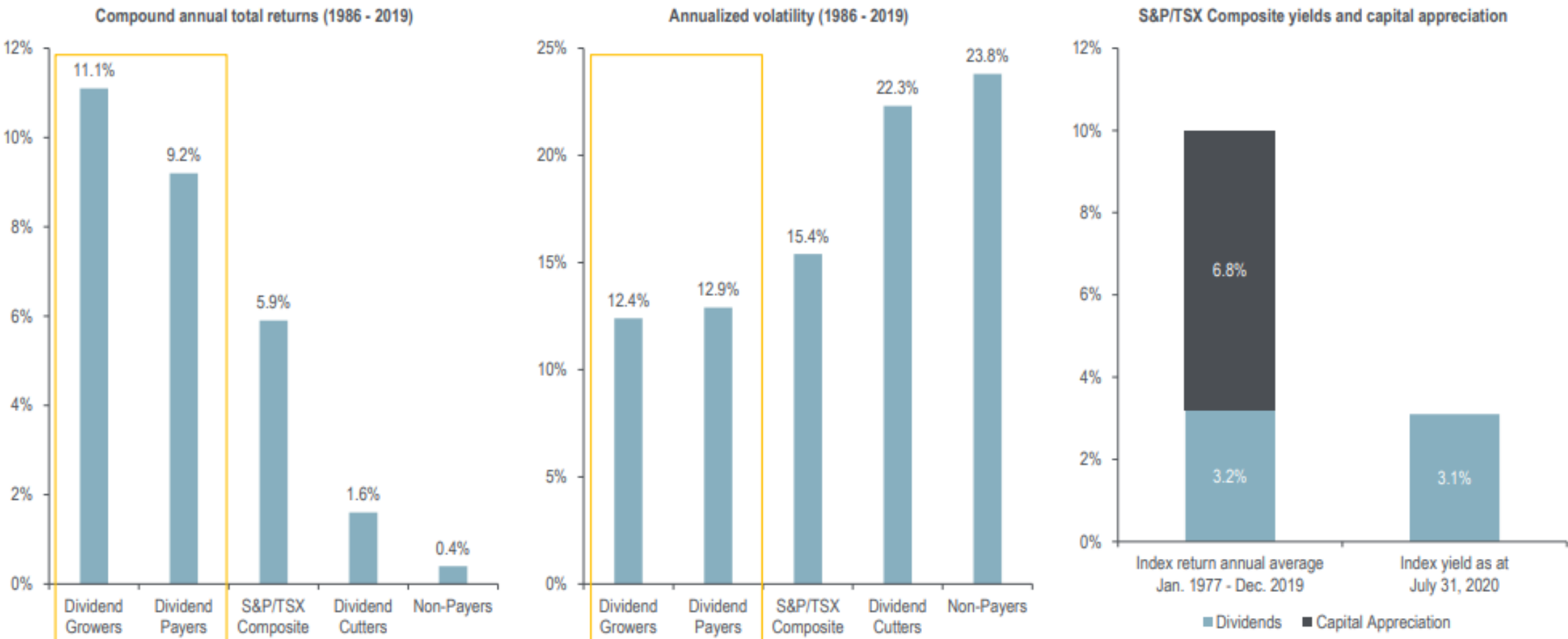
Questions?

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Canadian Dividend Strategies

Long-term success hinges on patience and diversification



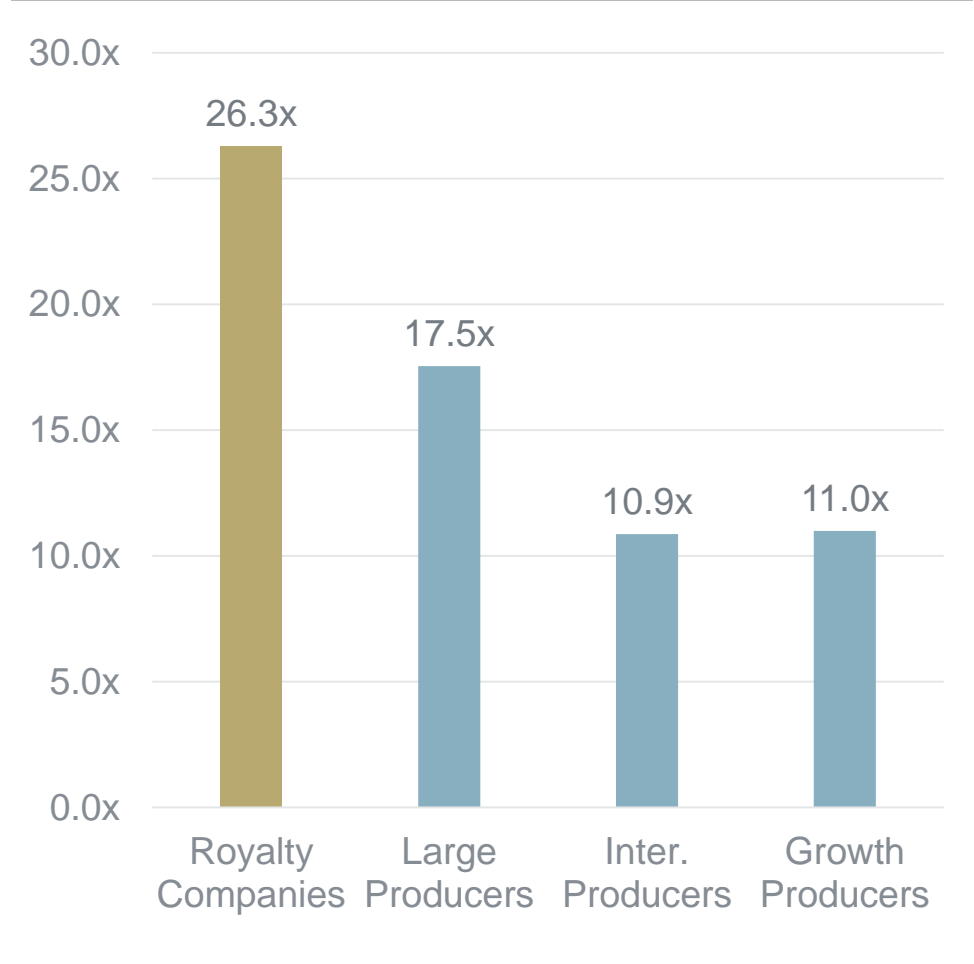
Source: RBC Capital Markets Quantitative Research, data is calculated on an equal weight basis, S&P/TSX Composite Total Return Index, December 1986 – December 2019. Growers, Cutters, Payers and Non-Payers determined yearly.



Gold: Royalty Companies' Premium Valuation Has Expanded

Could this time be different for producers?

Gold Equity Price-to-Free-Cash-Flow



Source: RBC Capital Markets, Company Reports, Bloomberg; Priced as at October 9th

Historical Return on Equity

