

2024: Coming into Focus

Janet Engels — Head, Portfolio Advisory Group U.S.

September 2023

RBC Capital Markets, LLC / Portfolio Advisory Group – U.S. Equities
All values in U.S. dollars and priced as of market close on September 15, 2023, unless otherwise noted

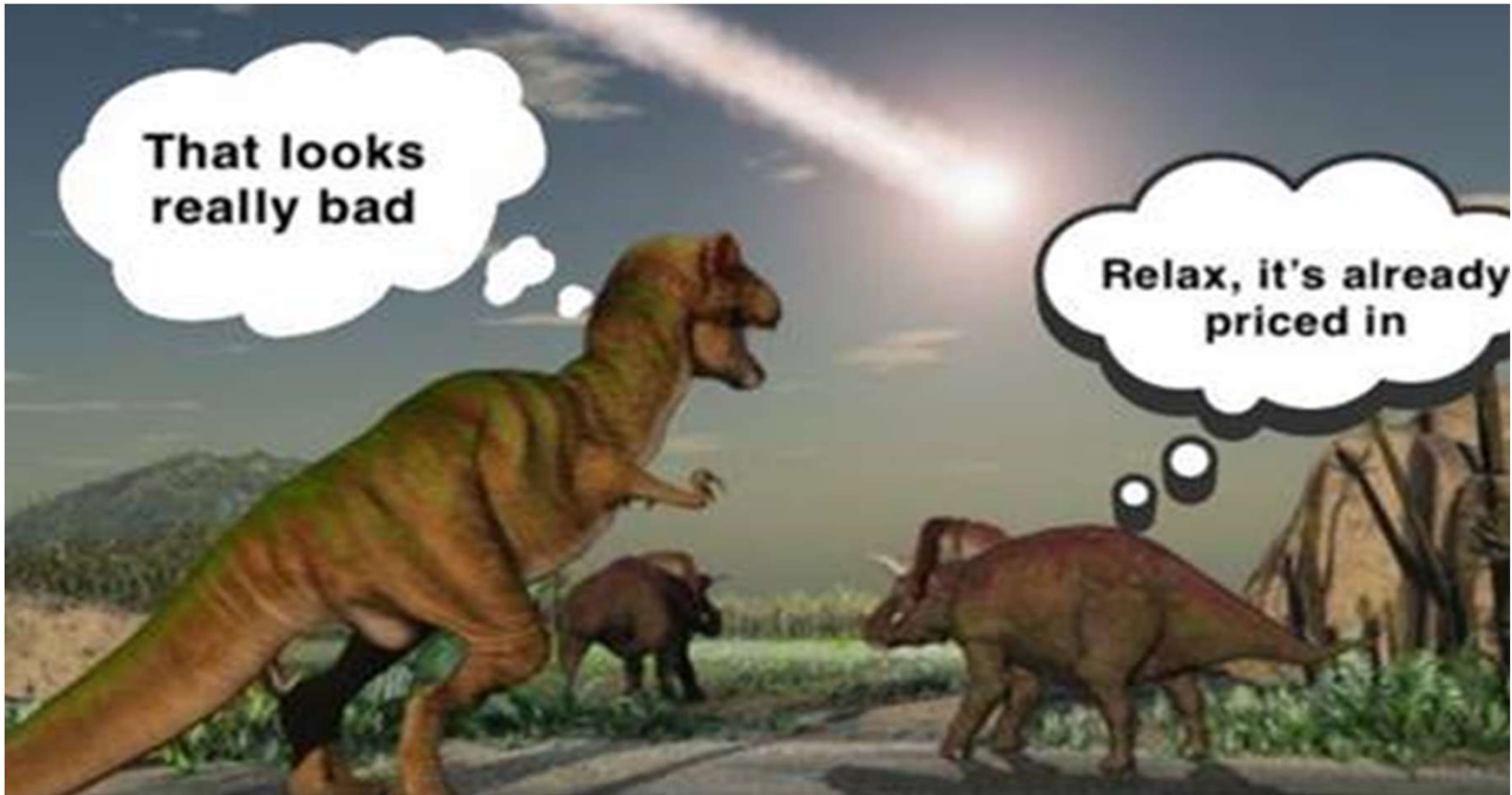
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Produced: September 21, 2023,

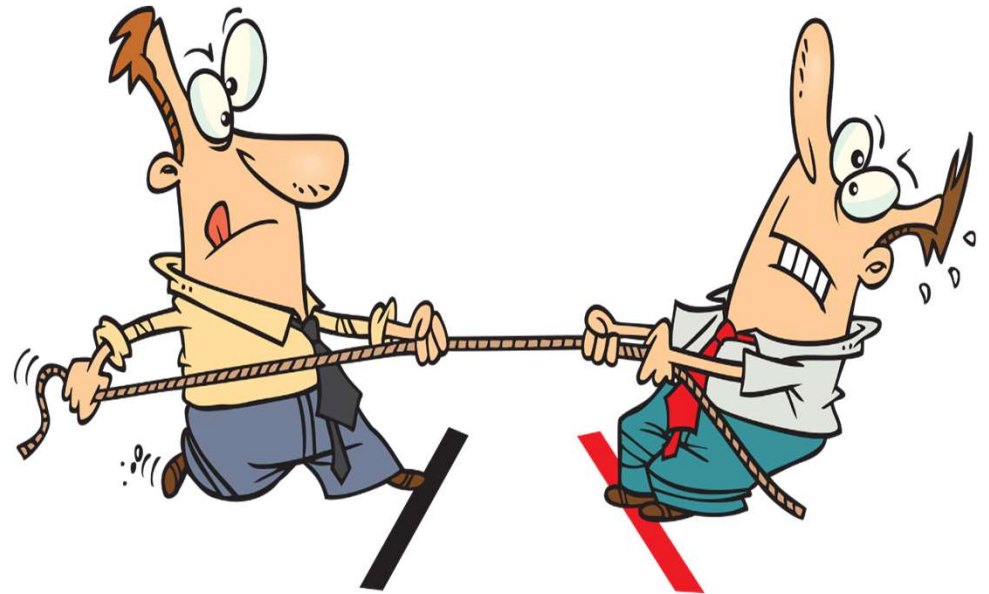


What's priced in?



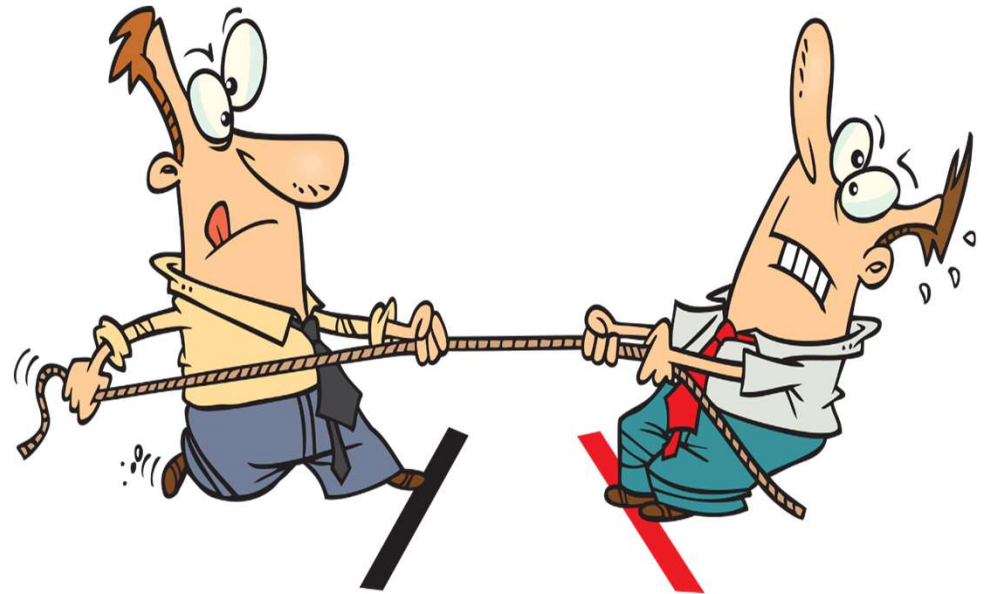
It's Been Quite a Year

- Inflation – remains “sticky”
- Fed – continued hiking rates
- Third consecutive quarter of declining earnings
- Regional banking stress
- Debt ceiling drama
- ...but major indices are up....



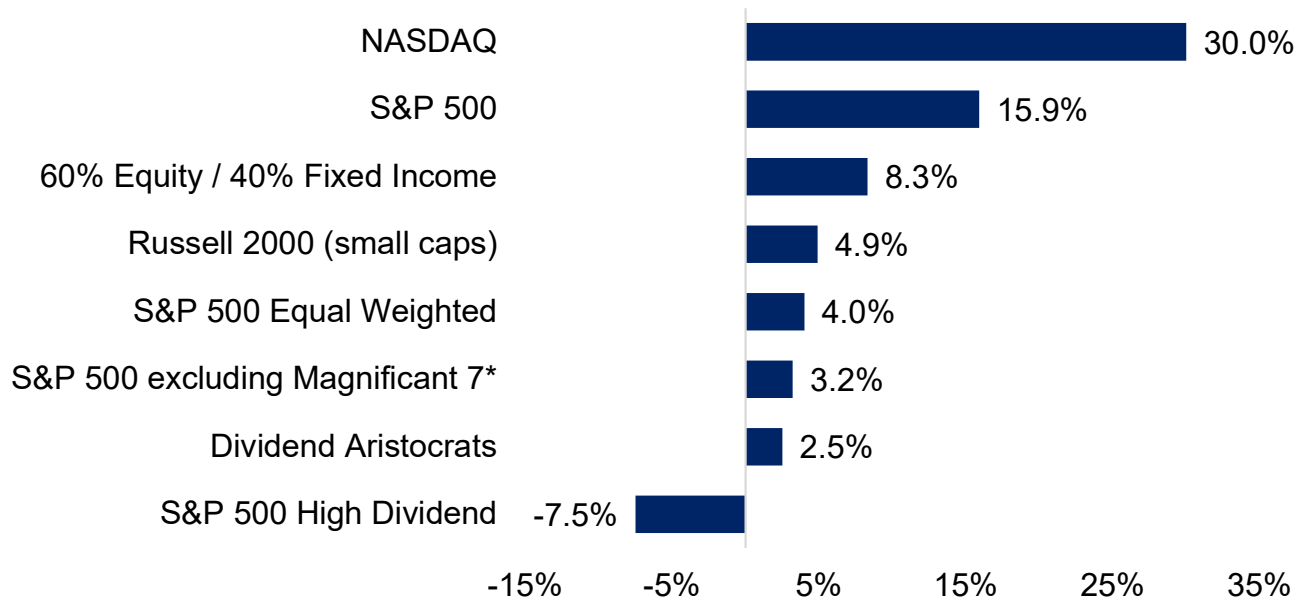
The Outlook – Where we stand

- Recession remains a BIG ?
- Fed cycle – done?
- Interest rates are close to peaking
- Markets face a series of Crosscurrents
 - Narrow Market Leadership
 - Bond market is are Back
 - Inflation is down but not quite out
 - Is a Recession on the Horizon



Crosscurrent #1 – Narrow stock market

Year-to-date total returns

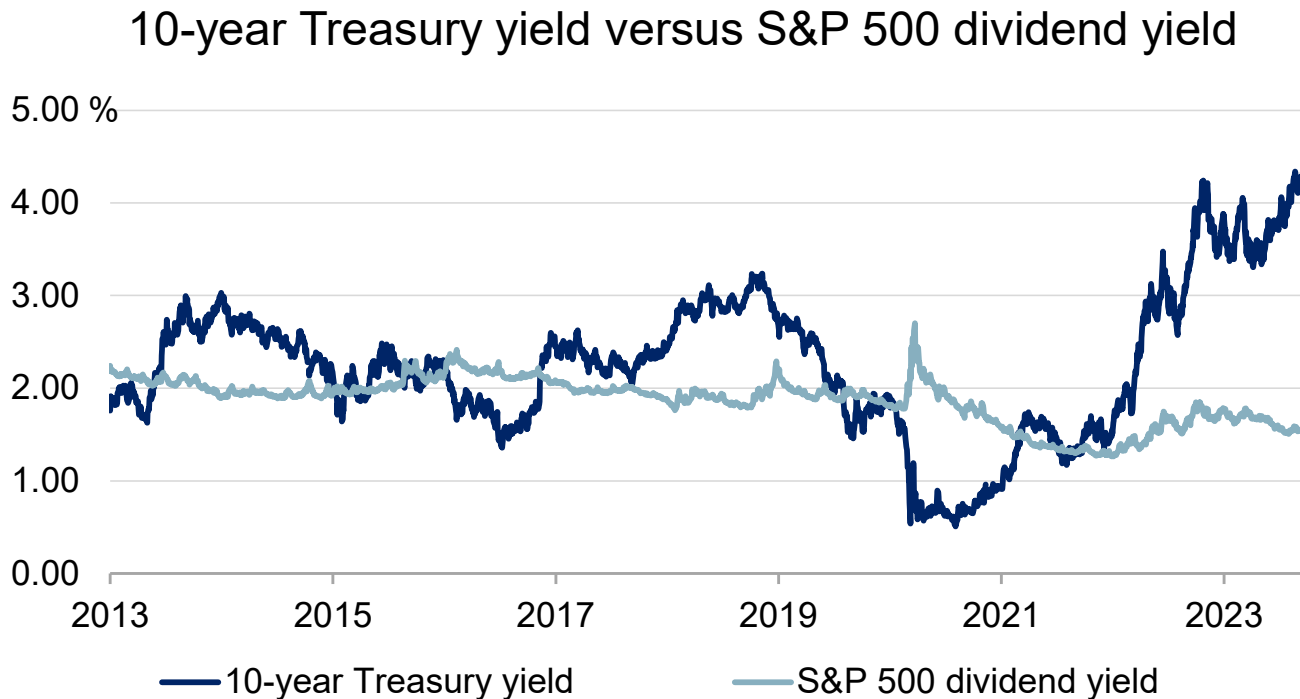


- The bulk of S&P 500 returns have come from seven large tech-oriented stocks with exposure to artificial intelligence.
- In our view their valuations now look pricey; much of the rest of the S&P 500 seems more reasonably valued.
- We think bonds are attractive.

Source – RBC Wealth Management, Bloomberg; FactSet; year-to-date data through 9/15/23

* “Magnificent 7” stocks by % of S&P 500 market capitalization – Apple 7.0%, Microsoft 6.6%, Alphabet 4.1%, Amazon.com 3.4%, NVIDIA 2.9%, Tesla 2.0%, and Meta Platforms 1.8%; total 27.8%.

Crosscurrent #2 – The bond market is back

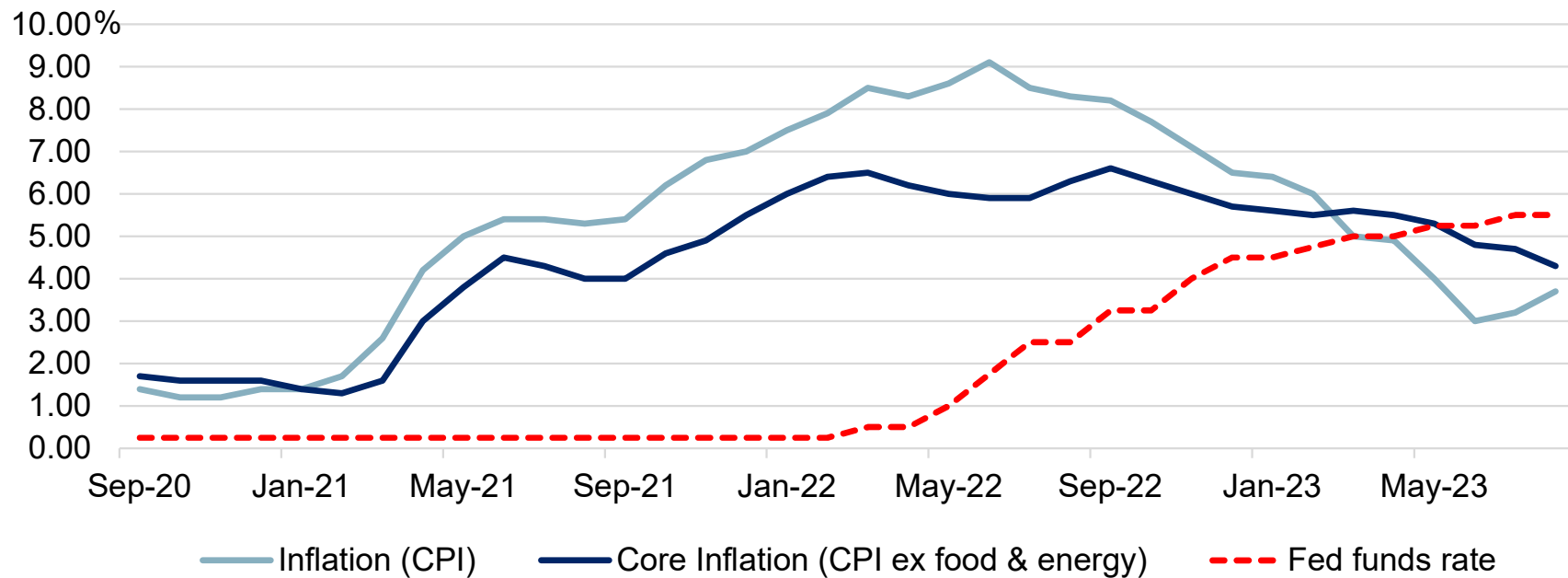


Source – RBC Wealth Management, Bloomberg; daily data through 9/18/23

- For many years, due to relatively low bond yields, the mantra among a lot of fund managers was “there is no alternative” to the stock market– aka the acronym TINA.
- But lately bond yields have climbed while the S&P 500 dividend yield has drifted slightly lower.
- TINA has competition; the bond market is back.

Crosscurrent #3 – Inflation is down, but not quite out

As the Fed has hiked interest rates, inflation has cooled off

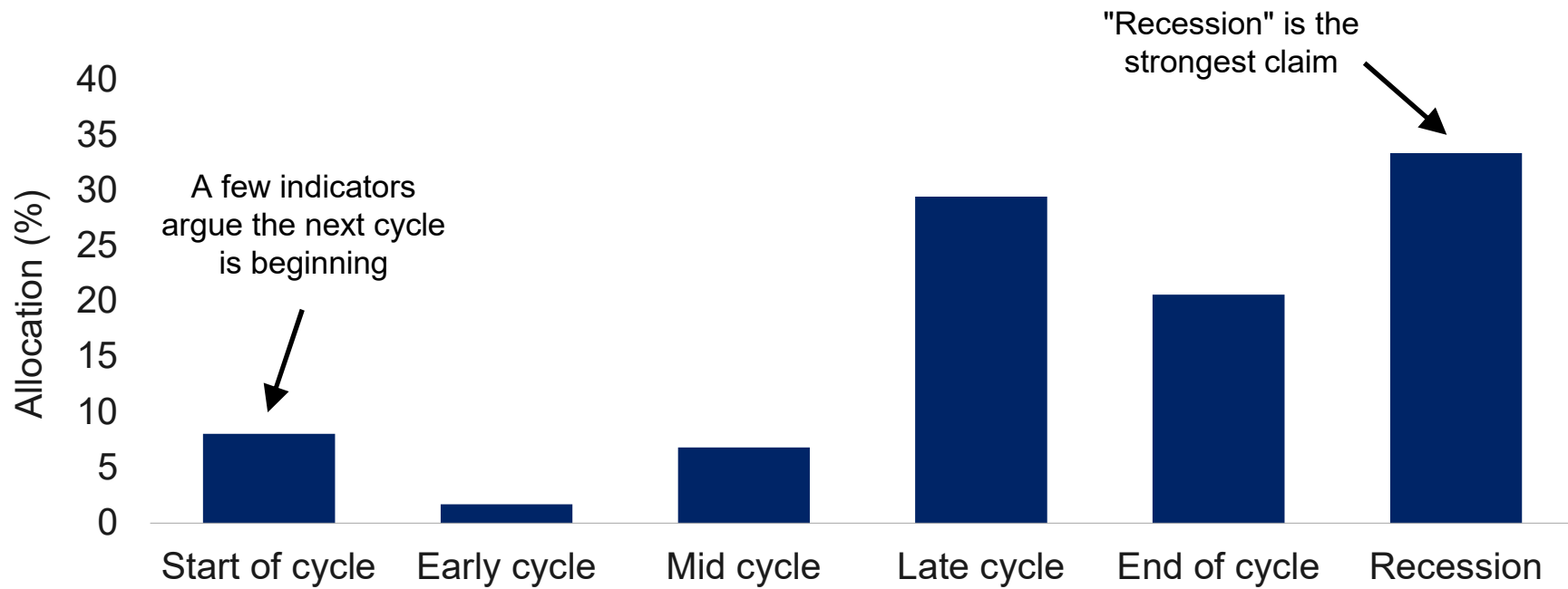


Source – RBC Wealth Management, Bloomberg; monthly data through 8/31/23. “CPI” represents the Consumer Price Index



Crosscurrent #4 – Is a recession on the horizon?

Six stages of the business cycle: What the economic indicators are signaling



Source – RBC Global Asset Management; calculated via the scorecard method as of 7/31/23



Consumer – Walking a Tight Rope



election housing quietquitting
electrication creditcards
barbenheimer studentloans
workfromhome healthcare travel
interestrates normalizing
wages laborstrikes
returntooffice autoloans
gasolineprices layoff
tradedown swiftonomics
inflation savingsrate
retailshrink jobs wellness

Source - RBC Wealth Management

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Employment: Still Resilient but Signs of Slowing

Ratio of job openings to total unemployed

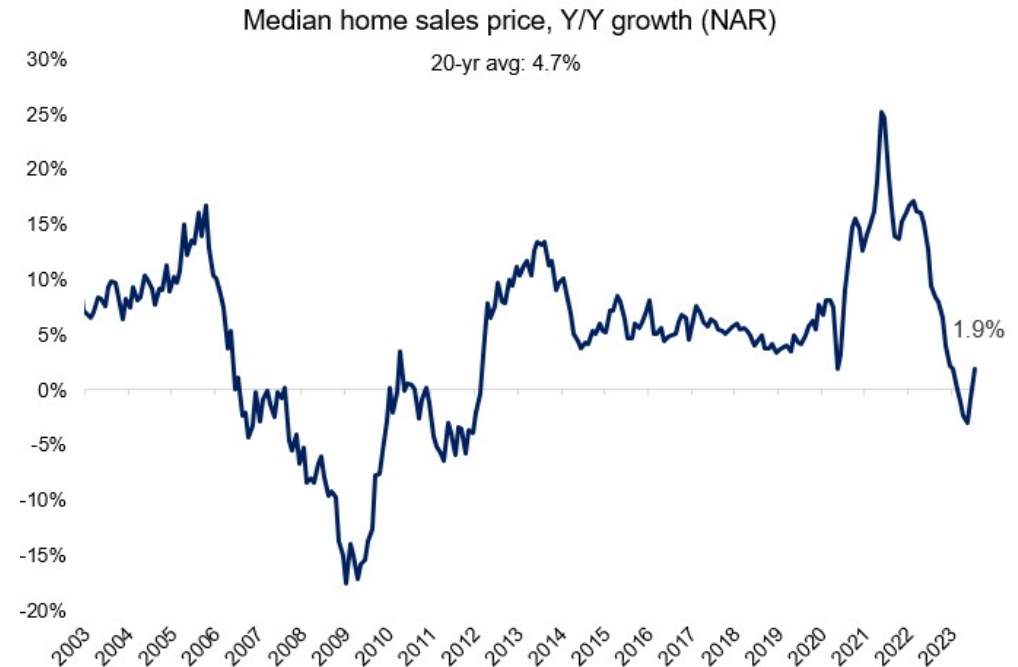
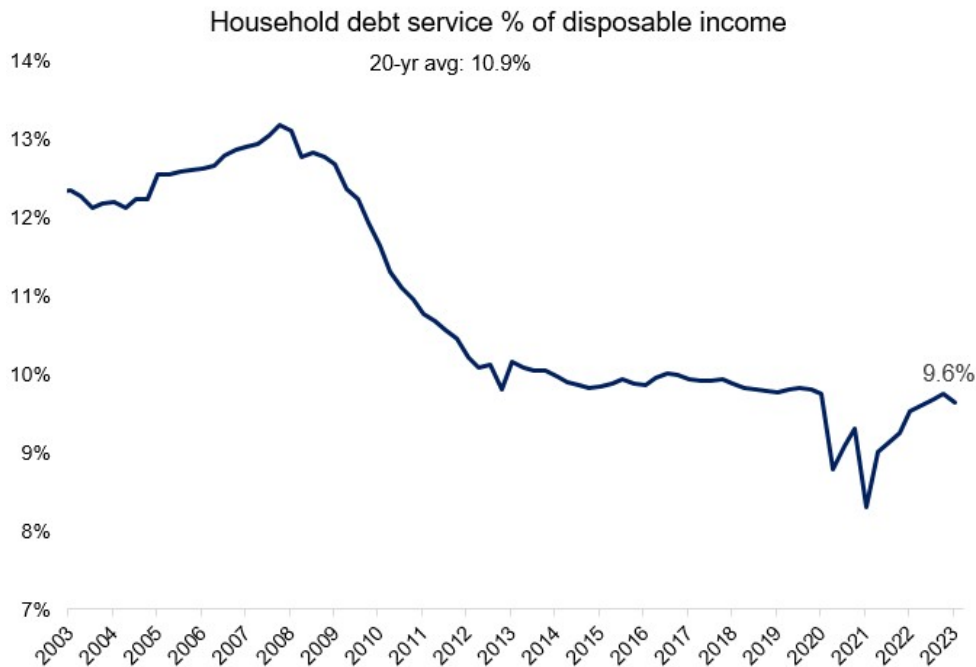


Source - RBC Wealth Management, FactSet, U.S. Bureau of Labor Statistics; most recent data as of 9/15/23



Consumer is in good shape, but impulse will wane

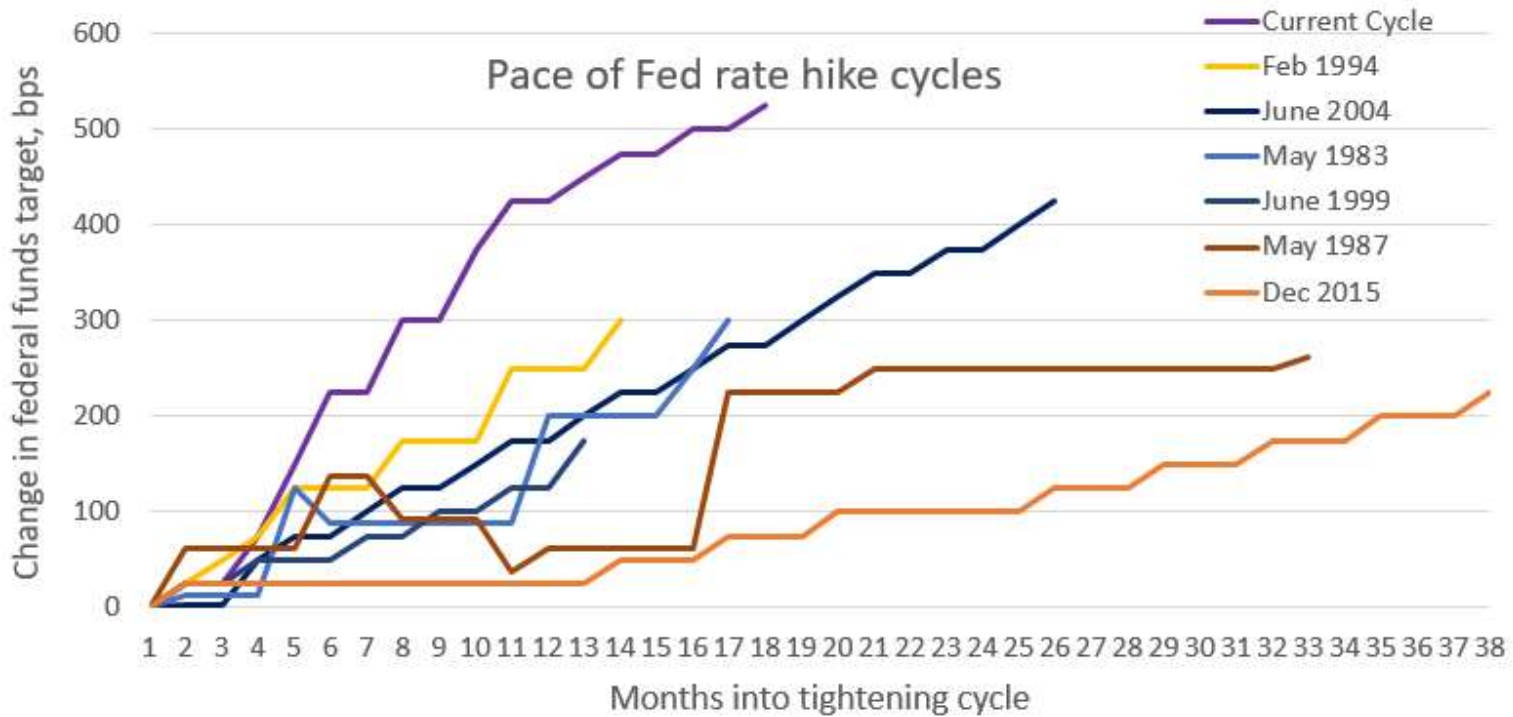
- Household debt & home prices



Source - FactSet, Federal Reserve, Standard & Poor's, National Association of Realtors (NAR); most recent data through 9/15/23



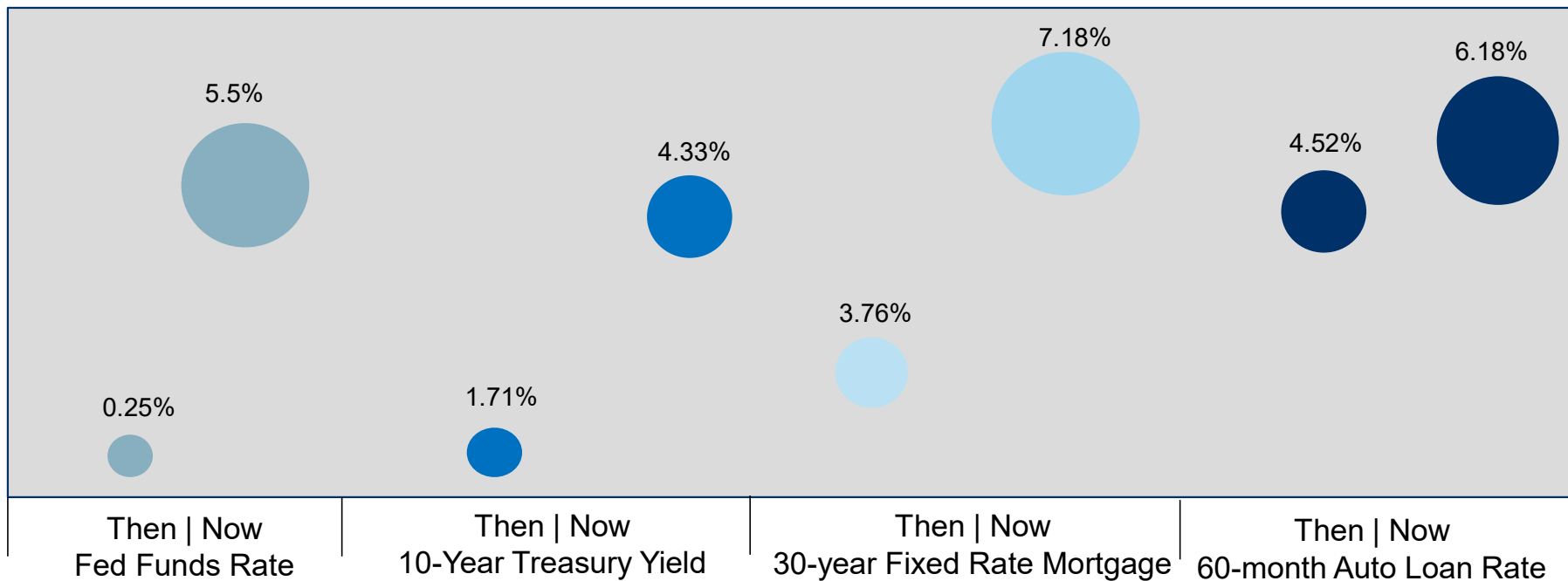
Fed Cycle in Context - Rapid



Source - Federal Reserve Bank, RBC Wealth Management. Data through July 31, 2023.

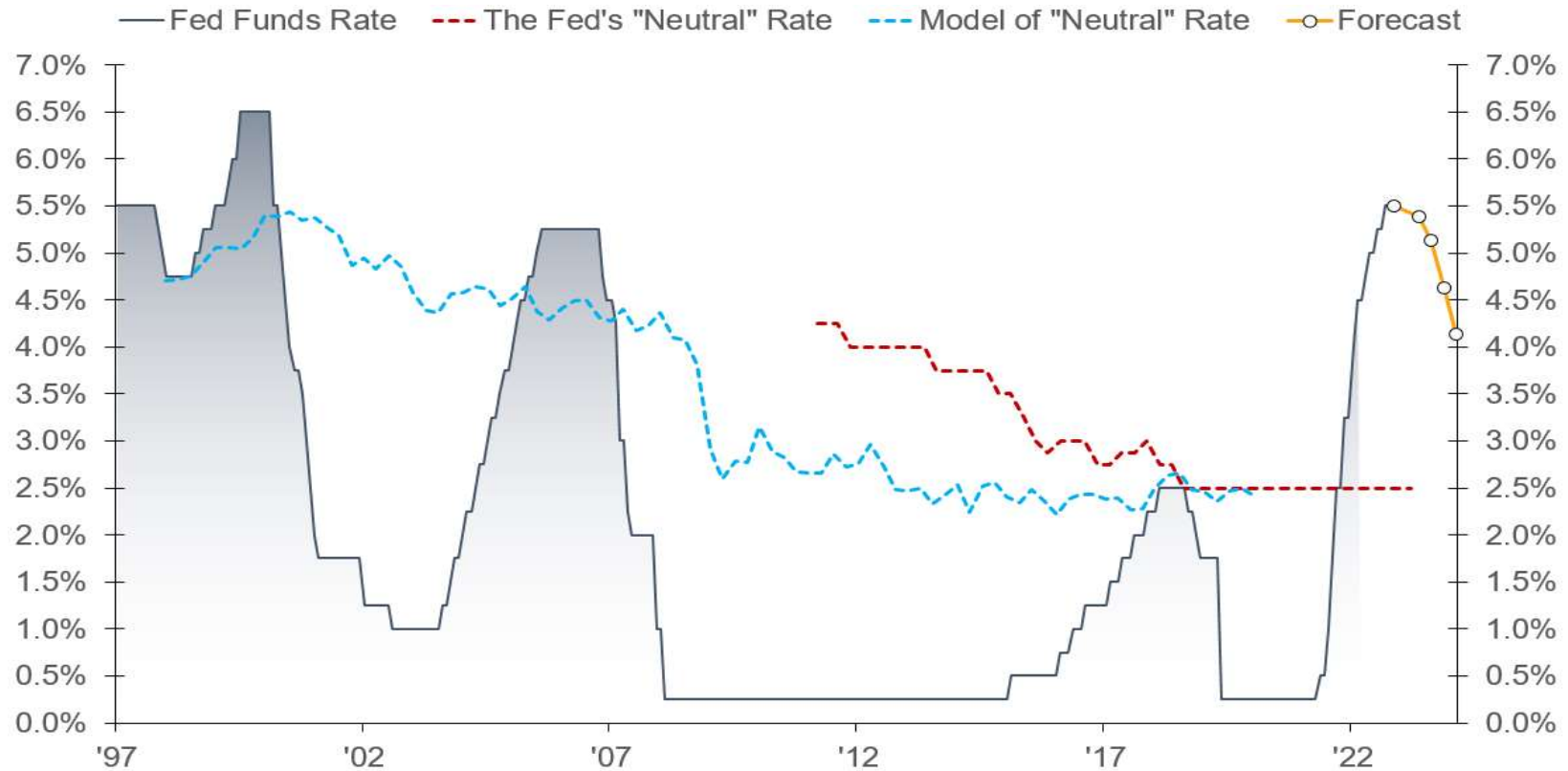
Impact of the Fed

Rates Have Shifted Since the Fed's First Hike



Source - RBC Wealth Management; FactSet; Federal Reserve; Bankrate.com; Auto loan rates vary based on loan amount and credit score, with a wide range and 6.18% the low-end of the range; data from 3/1/22 through 9/15/23

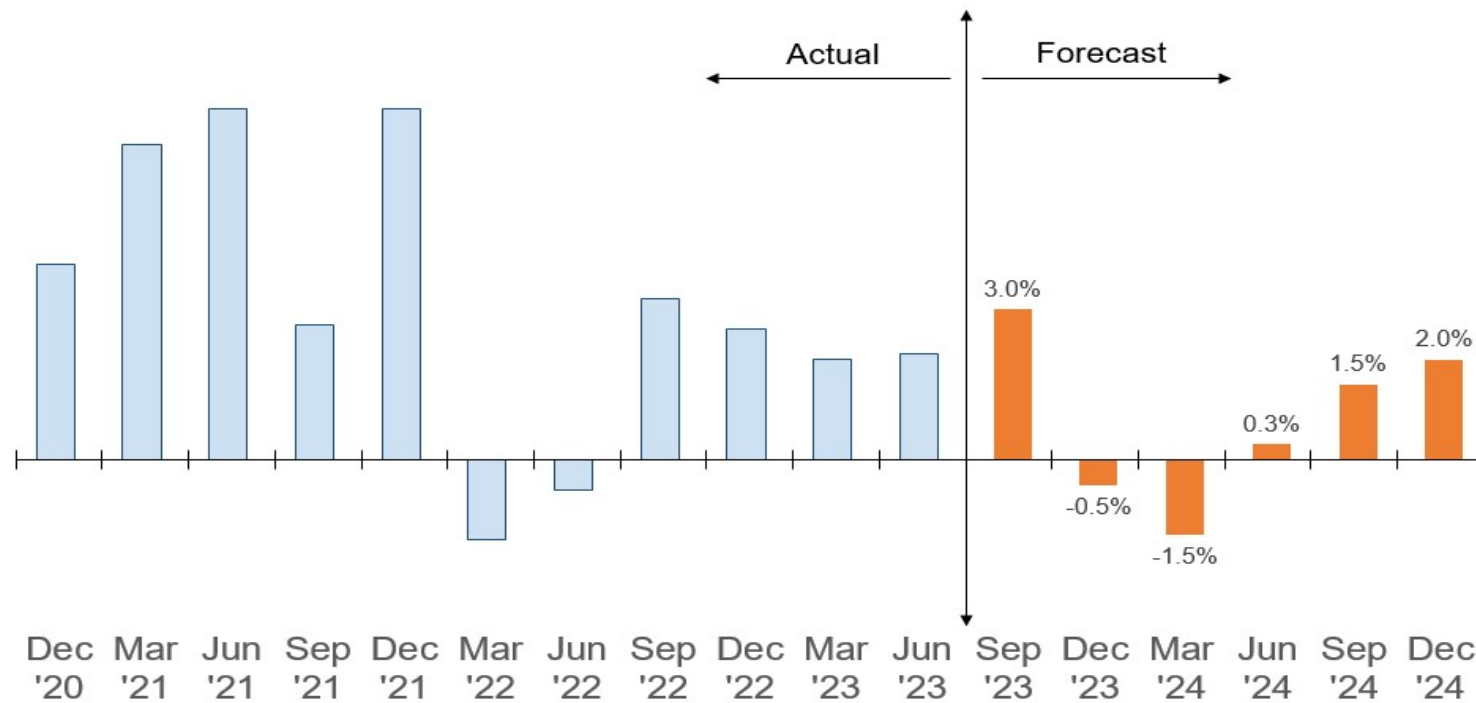
The Fed: Done?



Source - RBC Wealth Management, Bloomberg, Federal Reserve, RBC Economics. Most recent data as of 9/15/23

Recession Obsession

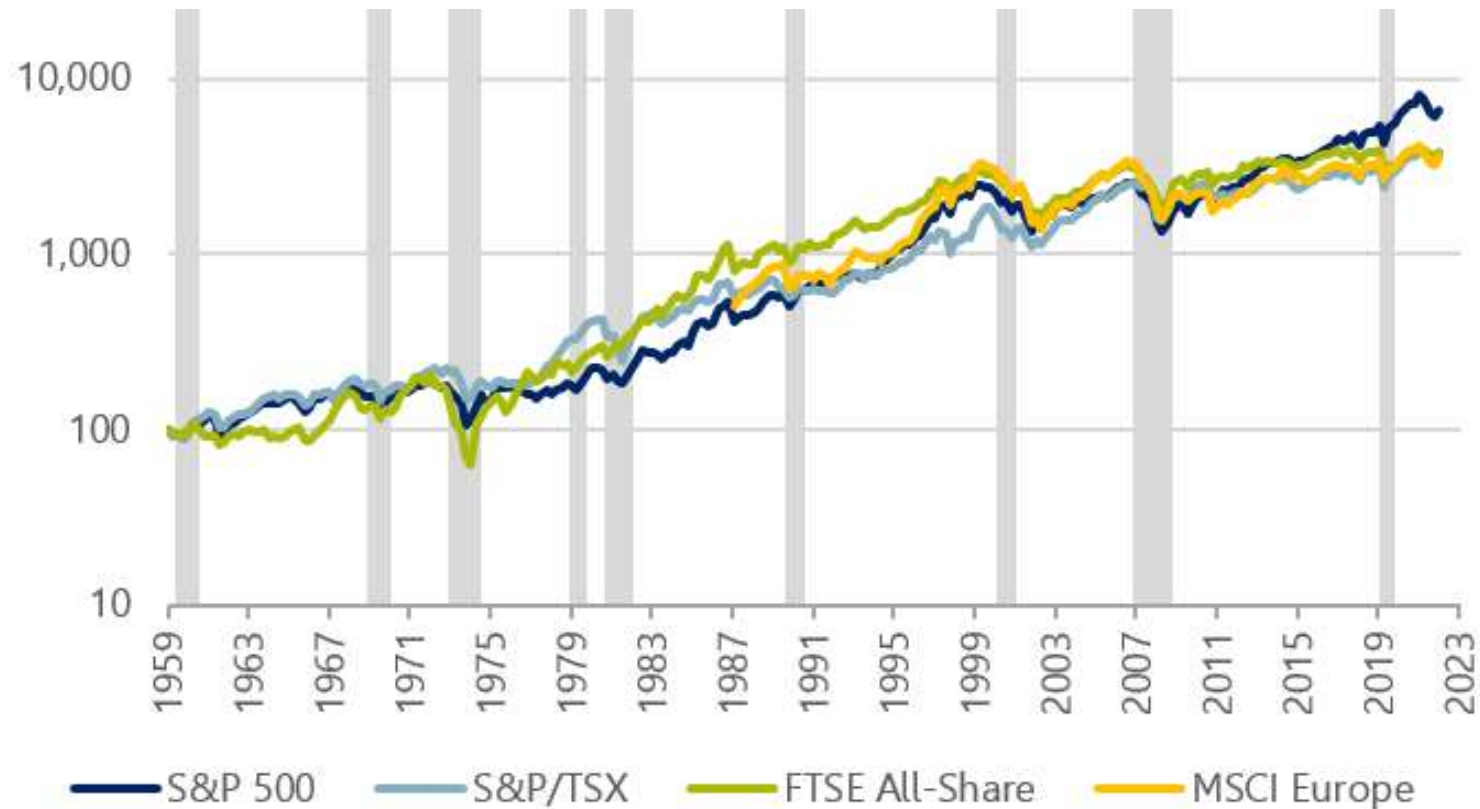
Real Gross Domestic Product (GDP) & RBC Forecasts



Source - RBC Wealth Management, FactSet, RBC Economics; shows the Q/Q SAAR of Real GDP. Most recent data as of 9/15/23



Why do we care? U.S. recessions and impact on stocks

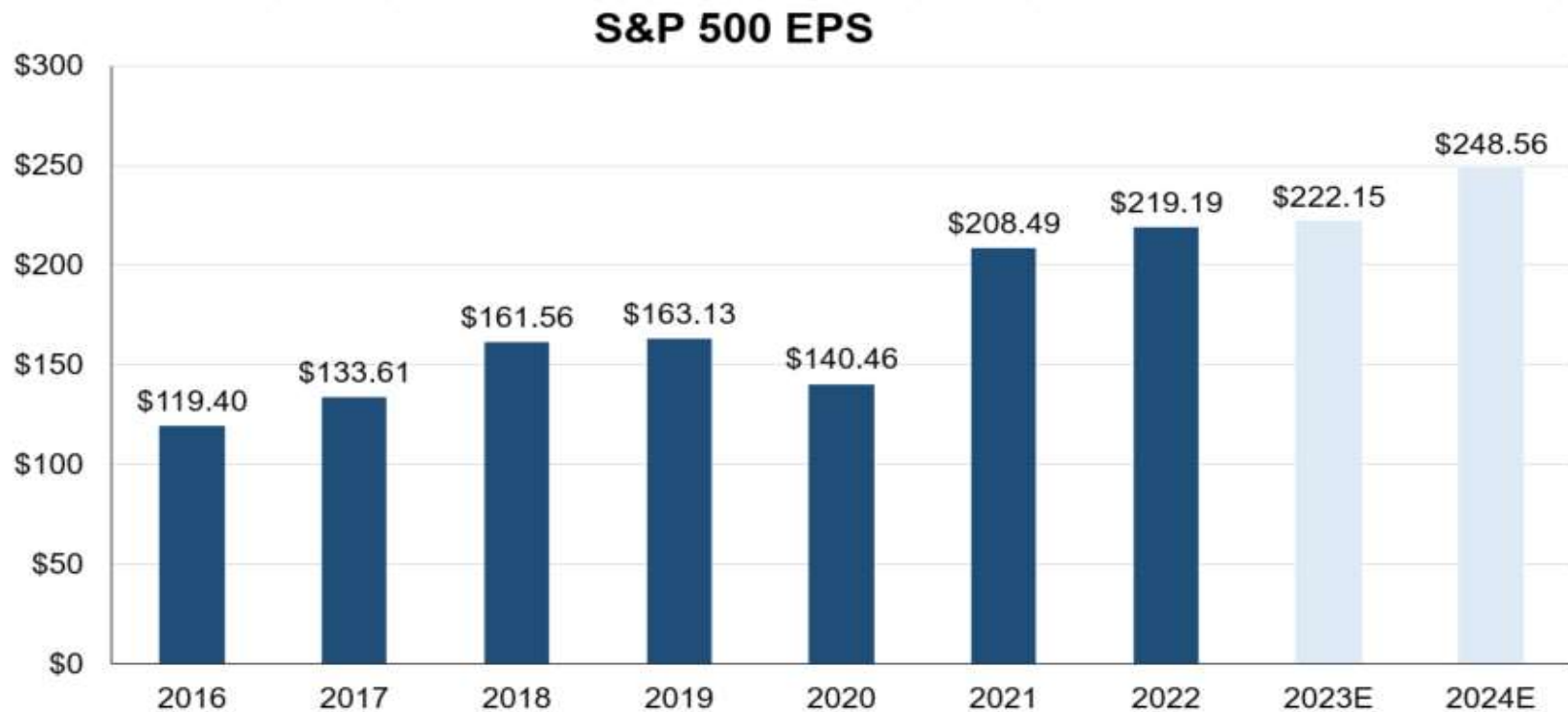


Source - Standard & Poor's, Toronto Stock Exchange, FactSet; quarterly data through 12/31/22, shown on a logarithmic scale, indexed to December 1959 = 100

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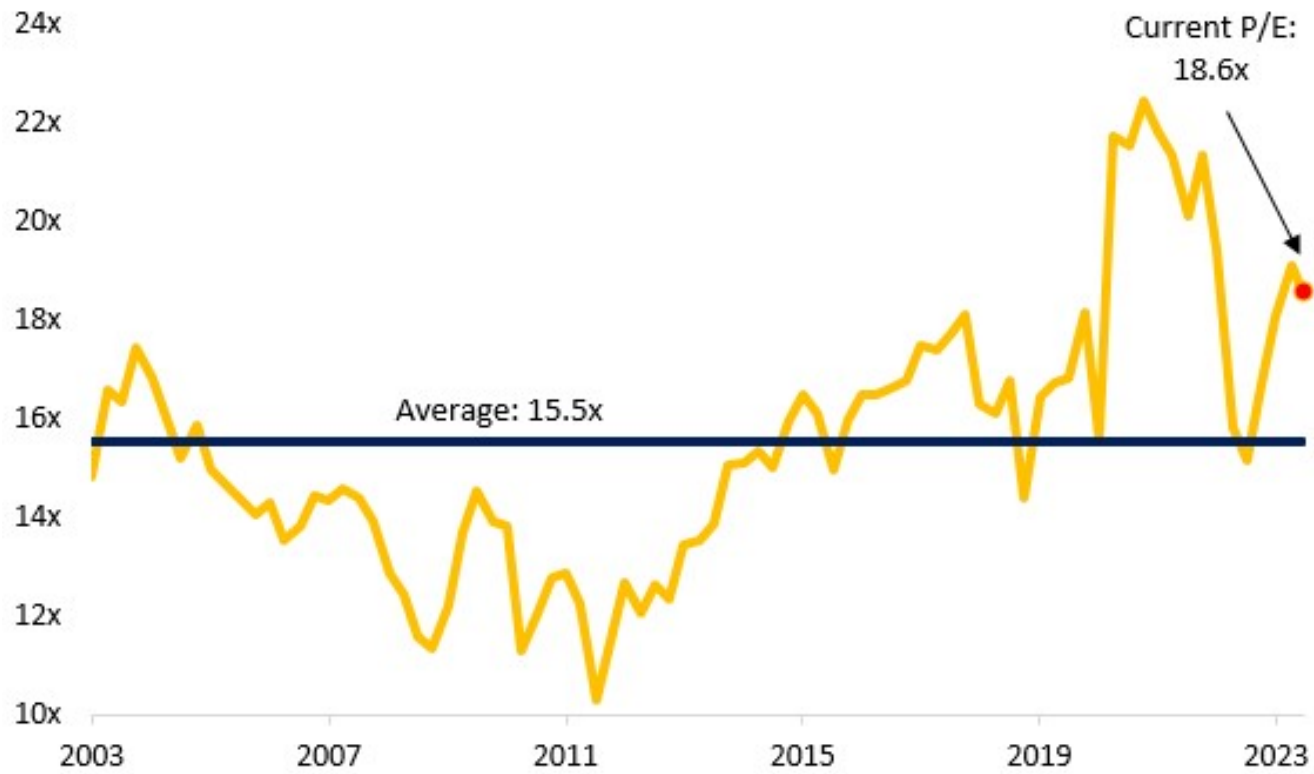
Earnings expectations: A Turning Point?



Source - RBC Wealth Management, FactSet; data as of 9/15/23

Market valuation – Stretched

S&P 500 price-to-earnings ratio based on forward 12-month consensus estimates



Source - RBC Wealth Management, FactSet; quarterly data except for the final data point that is from 9/18/23. "STD" stands for "standard deviation."

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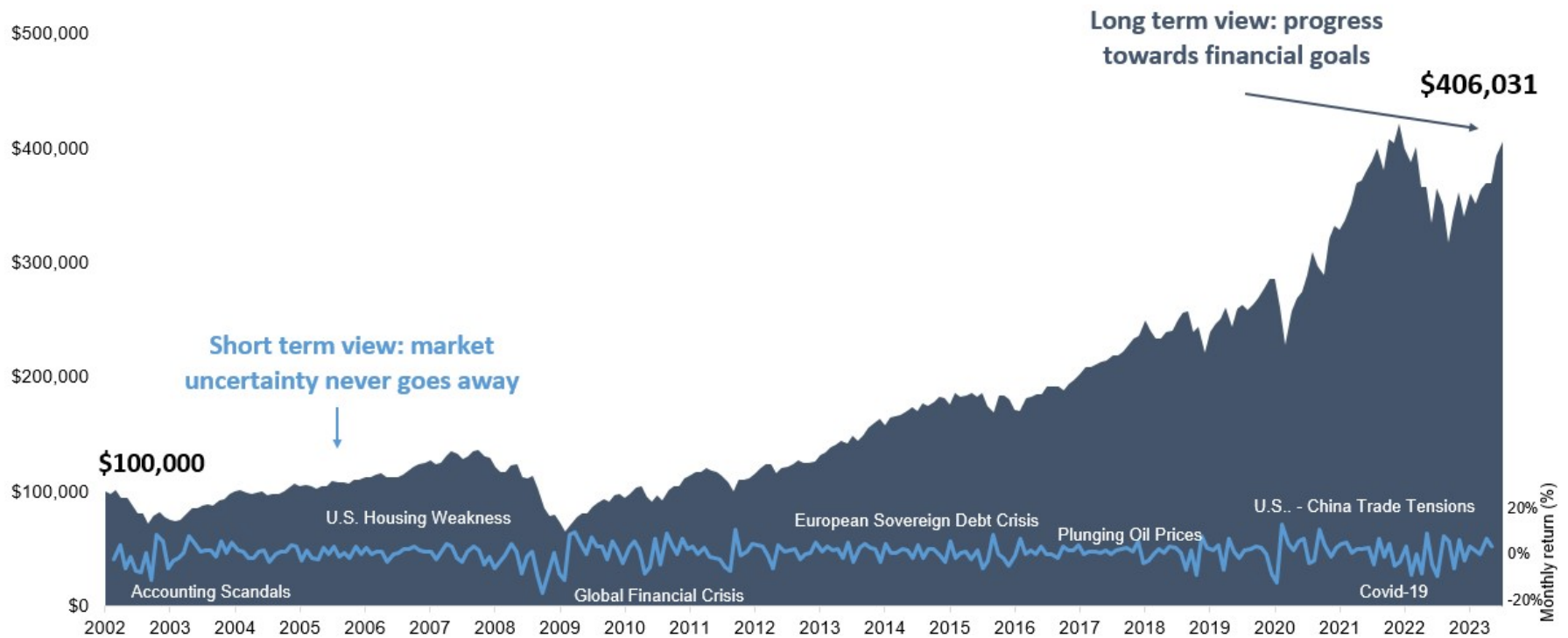
Equities: Perspective is important



Source - RBC Wealth Management, Bloomberg; data through 9/15/23

Note: FAANGM represents Meta, Apple, Amazon, Netflix, Google, & Microsoft

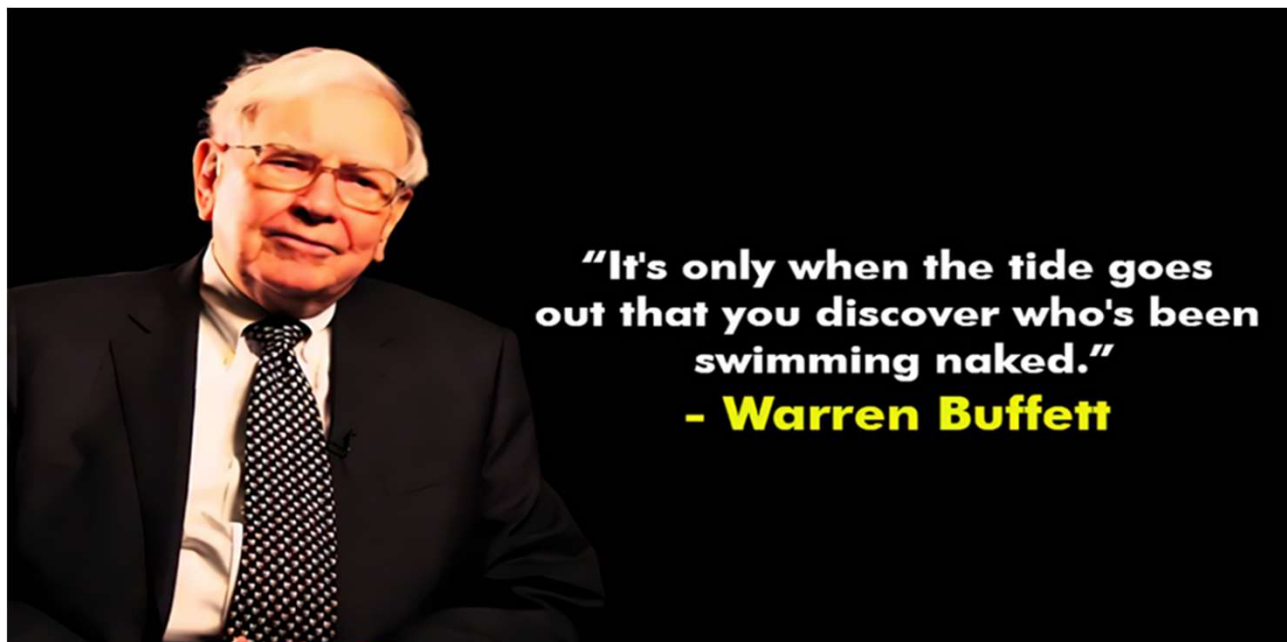
Long-term view outweighs short-term volatility



Source - RBC Wealth Management, FactSet data as of 7/31/23



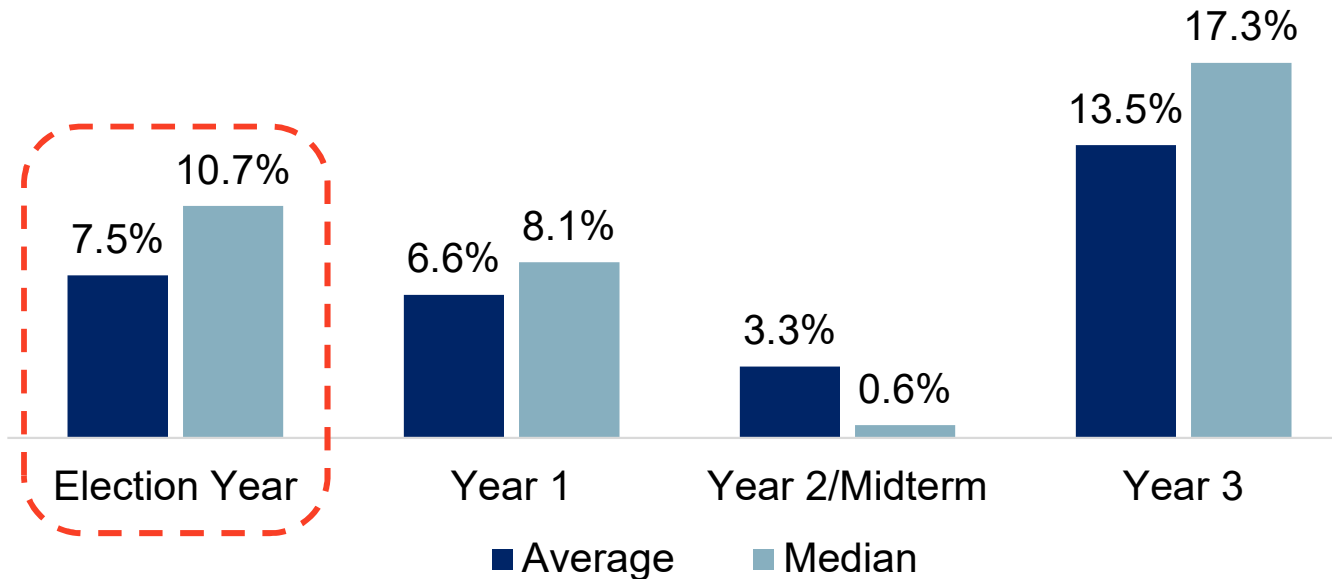
What else is lurking in the water?



Presidential Election ...Another Crosscurrent?

Presidential cycle track record

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



Additional issues for markets to digest

- Lingering regional banking sector challenges
- Geopolitical & trade risks
- 2024 U.S. elections: Historically, S&P 500 returns have been good during election years; much of the gains have come later in the year

Source – RBC Wealth Management, Bloomberg; annual data through 2022

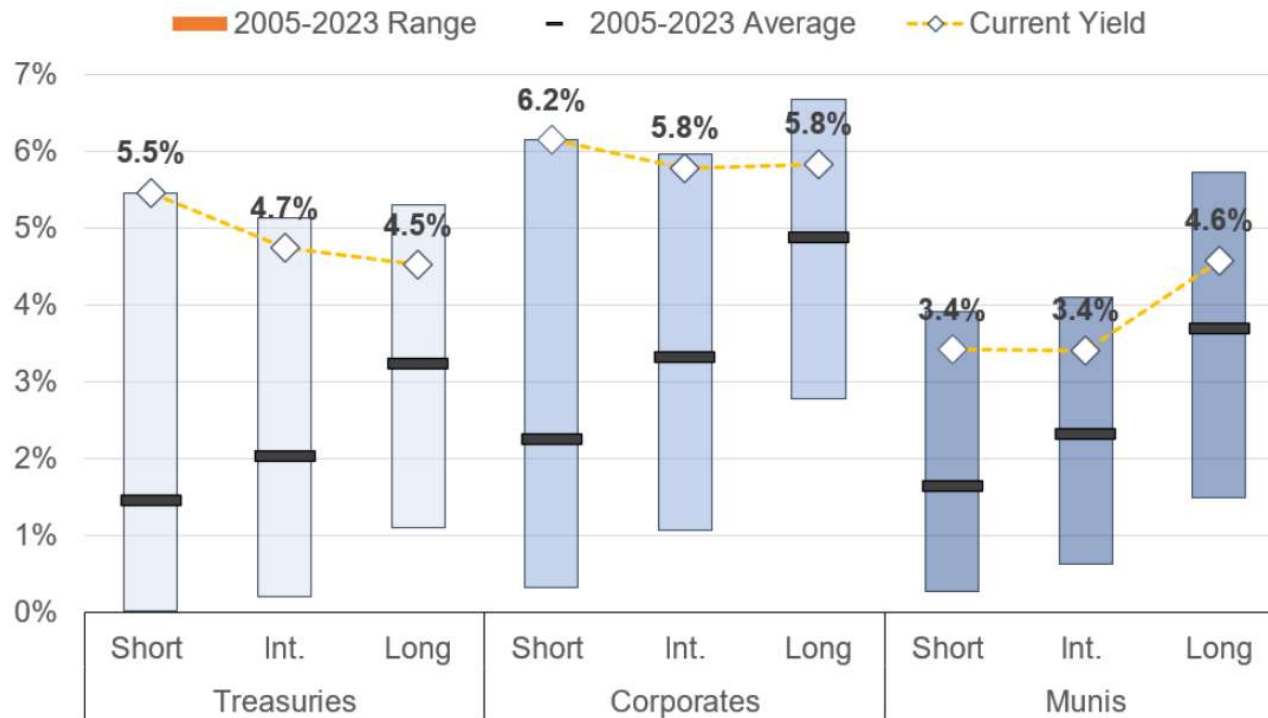
Key takeaways



- U.S. stock market returns for the next 12-18 months will likely depend on whether a recession materializes.
- We think the economic uncertainties argue for focusing equity holdings on higher-quality companies, which include dividend growers.
- Given the yield advantage, we recommend taking a close look at bond opportunities.

Fixed Income: The yield landscape has rarely looked better

The yield landscape has rarely looked better for investors



Source - RBC Wealth Management, Bloomberg Bond Indexes, Excludes Recessionary Periods; Munis do not reflect taxable-equivalent yields. Data as of 9/18/23



Thank You



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As of June 30, 2023				
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			Count	Percent
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Hold [Sector Perform]	573	39.41	138	24.08
Sell [Underperform]	49	3.37	3	6.12



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