

New normal, new opportunities



Nesting: Homebodies for now

This report is part of the “New normal, new opportunities” series, in which we examine secular trends in a post-COVID-19 world. The series will cover a range of themes that are emerging as a result of social distancing, the work-from-home imperative, health care developments, corporate implications, and broader societal change. We believe identifying these trends and understanding their investment implications will be critical to navigating the road ahead. Additional reports will be released over the next few months.

The weight of COVID-19

It seems likely that people all over the world have cabin fever and are eager to get out and about. But for the most part, individuals remain homebound with prior shelter-in-place restrictions and social-distancing rules and guidelines to combat and contain COVID-19.

As winter passed by, puzzles, toilet paper, and sanitizer were flying off physical and virtual shelves, and cooking, baking, and food products were likely stockpiled at an unprecedented rate as well, as comfort food was likely craved in newfound relative isolation. This pantry stocking seems to have produced at least one broad consequence—extra food at home resulted in extra consumption. In a poll of 2,000 adults, Nutrisystem found that 76 percent of adults admit they have gained up to 16 pounds since the COVID-19 precautionary measures began. There seemed to be a double-whammy—it was winter and harder to get outside, and gyms were closed, many mandated by COVID-19 restrictions. Many have reopened, but the fear of germs has kept many consumers from renewing their memberships. On July 23, TD Ameritrade released the results of a survey of 2,009 adults ages 24 and older that found 59 percent don’t plan on renewing their gym membership once the pandemic is over. Of those surveyed, 56 percent said that the pandemic helped them discover cheaper ways to exercise and live healthier.

Although there are many exercise apps available on smartphones and streaming workouts on other screen devices, equipment usage at home has also grown in

popularity. New companies are cropping up, and even athleisure company lululemon athletica inc. has become more serious about the trend, as the company completed the acquisition of the subscription-based in-home, interactive fitness company MIRROR on July 7. According to lululemon, 64 percent of its customers participated in digital workouts at home prior to the pandemic, while 75 percent did so during the pandemic, and 86 percent used at-home equipment, saying they intend to use it the same or more than they did prior to the COVID-19 outbreak. With a similar business model, Peloton Interactive, Inc. has amassed 886,100 connected fitness subscribers.

Nesting and COVID-19 gardens

Outside of working and working out, individuals appear to be focusing on both old and new hobbies, with many of these centered in and on the home.

The current interest in gardening is likely unprecedented, or at the very least, at a recent historical peak. Scotts Miracle-Gro Company recently reported results that showed the U.S. Consumer segment with a sales increase of 21 percent year over year in its fiscal Q3 (ended June 27) and 50 percent year-to-date. Management noted that “30 percent of edible gardening activity came from consumers who are either new to the category or returned after being away.” The CEO reminded investors that “what our category does for people’s emotional and physical well-being has never been more evident than it has been in 2020.” Reuters quoted the chairman of seed company W. Atlee Burpee & Co. as saying the company sold more seed this past March than at any time in its 144-year history. U.S. Census Bureau data shows building materials, gardening equipment, and supplies dealers enjoyed sales growth of 7.1 percent year over year from January through May 2020, while total retail and food services suffered a decline of 4.6 percent.

Other companies catering to do-it-yourself home projects, decorating, and repair and remodeling continue to deliver solid results, as many people are at home staring at their surroundings with an eye for improvement. The

Click [here](#) for author’s contact information. Priced (in USD) as of 8/17/20 market close, ET (unless otherwise stated).

For important disclosures see [page 3](#). Produced: Aug. 18, 2020 10:18ET; Disseminated: Aug. 18, 2020 10:55ET

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

Home Depot, Inc. posted seven percent year over year sales growth in the most recent quarter, while Lowe's Companies, Inc. delivered growth of approximately 11 percent.

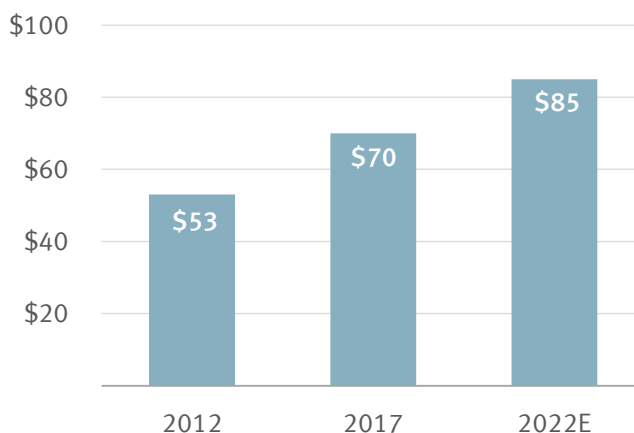
Man's (woman's) best friends in high demand

With more time at home, many individuals have embraced pet ownership. The Wall Street Journal published an article on April 10 entitled "Coronavirus Panic Buying: Puppies" stating pet fostering demand is "through the roof." The American Veterinary Medical Association estimates that over 48 million households own at least one dog, and 32 million own a cat, according to a 2017-2018 U.S. Pet Ownership & Demographics Sourcebook. Although that's a warm and fuzzy topic, pet ownership and spending has been a growing category for years, and is fairly recession-resistant.

The category grew during the last recession, when many spending categories declined. An annual filing from online pet retailer Chewy supports this resiliency, stating, "In 2010 alone, spending in the United States on entertainment fell 7.0 percent, food fell 3.8 percent, housing fell 2.0 percent and apparel and services fell 1.4 percent, according to the U.S. Bureau of Labor Statistics, while spending on pets rose 6.2 percent, according to the American Pet Products Association." According to the S-1 Chewy filed with the SEC prior to going public, in 2017, the pet industry in the U.S. saw \$70 billion in total dollars spent, and is projected to grow at a compound annual growth rate of 4.2 percent from

Total U.S. annual spending on pets

Billions of dollars



Source - RBC Capital Markets, Chewy S-1, Packaged Facts

2017 to 2022. About 42 percent of spending is on pet food and treats, about 25 percent for veterinary costs, and the remainder on other categories such as grooming, boarding, and insurance (only two to three percent of U.S. pets are insured, according to animal health company Zoetis).

New normal

Sudden disruptions in our lives can lead to enduring changes. Although some parts of our lives that we have all been missing will inevitably return over time, we expect the changes discussed above could have an enduring time horizon going forward, even in a hopeful world with COVID-19 vaccines and treatments.

Author

Lindsay Strickland – Senior Portfolio Advisor, Minneapolis, United States
lindsay.strickland@rbc.com; RBC Capital Markets LLC

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC, which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2> to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 60 South Sixth St, Minneapolis, MN 55402.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation ‘RL On’ means the date a security was placed on a Recommended List. The abbreviation ‘RL Off’ means the date a security was removed from a Recommended List.

Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm’s own rating categories. Although RBC Capital Markets’ ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Explanation of RBC Capital Markets, LLC Equity Rating System

An analyst’s “sector” is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst’s

Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Outperform]	776	51.63	238	30.67
Hold [Sector Perform]	635	42.25	130	20.47
Sell [Underperform]	92	6.12	12	13.04

view of how that stock will perform over the next 12 months relative to the analyst’s sector average.

Ratings:

Outperform (O): Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. **Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

As of March 31, 2020, RBC Capital Markets discontinued its Top Pick rating. Top Pick rated securities represented an analyst’s best idea in the sector; expected to provide significant absolute returns over 12 months with a favorable risk-reward ratio. Top Pick rated securities have been reassigned to our Outperform rated securities category, which are securities expected to materially outperform sector average over 12 months.

Risk Rating:

The **Speculative** risk rating reflects a security’s lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Risks to Rating and Price Target

When RBC Wealth Management assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled “Valuation” and “Risks to Rating and Price Target”, respectively.

The analyst(s) responsible for preparing this research report have received (or will receive) compensation that is based upon various factors, including total revenues of RBC Capital Markets, LLC, and its affiliates, a portion of which are or have been generated by investment banking activities of RBC Capital Markets, LLC and its affiliates.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party

correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management or a designated third party will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our website at <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2>. Conflicts of interests related to our investment advisory business can be found in Part 2A Appendix 1 of the Firm's Form ADV or the RBC Advisory Programs Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part 2A Appendix 1 of the Form ADV, or the RBC Advisory Programs Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; and by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

Research Resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC WM Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's Investment Advisors / Financial Advisors who are engaged in assembling portfolios incorporating individual marketable securities. The Committee leverages the broad market outlook

as developed by the RBC Investment Strategy Committee, providing additional tactical and thematic support utilizing research from the RBC Investment Strategy Committee, RBC Capital Markets, and third-party resources.

Third-party disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of Royal Bank of Canada in each instance. Additional information is available upon request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in,

any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. ®Registered trademark of Royal Bank of Canada. Used under license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

RBC Wealth Management (British Isles): This publication is distributed by RBC Europe Limited and RBC Investment Solutions (CI) Limited. RBC Europe Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FCA registration number: 124543). Registered office: 100 Bishopsgate, London, EC2N 4AA, UK. RBC Investment Solutions (CI) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business in Jersey. Registered office: Gaspé House, 66-72 Esplanade, St Helier, Jersey JE2 3QT, Channel Islands, registered company number 119162.

To Hong Kong Residents: This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ('SFC'), and RBC Investment Services (Asia) Limited, which is regulated by the SFC.

To Singapore Residents: This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

© RBC Capital Markets, LLC 2020 – Member NYSE/FINRA/SIPC
© RBC Dominion Securities Inc. 2020 – Member Canadian Investor Protection Fund

© RBC Europe Limited 2020
© Royal Bank of Canada 2020
All rights reserved