THE RBC MACROSCOPE

Our Monthly US Equity Market Deep Dive, Featuring Our 2020 Outlook

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For required conflicts disclosures, please see page 188.

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Thanks to everyone who voted for us in the 2019 All America Research survey by Institutional Investor!

Lori was honored to rank #5 (Runner-Up) in Portfolio Strategy.

We appreciate your support!

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This report is priced as of market close November 26, 2019 ET.
All values in U.S. dollars unless otherwise noted.

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Executive Summary

Key Calls

Capital Markets

The Top 10 Things You Need to Know Heading Into 2020

What's New, What Jumps Out, What's Changed, What's Resonating, and What We're Watching

1. **We expect 2020 to be a year of moderation, turbulence, and transition in the US equity market.** We outline our thoughts on the path of the S&P 500 in the year ahead. Through the first 11 months of 2019, the S&P 500 has risen 25% YTD, a powerful recovery off of the growth scare low of December 2018. Down years are rare in the US equity market, outside of periods associated with growth scares, recessions, or Financial market bubbles (see page 17). With those scenarios unlikely in the year ahead, we expect 2020 to be another positive year for the US equity market. But we do think full year returns will be less robust than 2019 and that the year will end up being closer to trend. Our new year-end 2020 S&P 500 target is 3,350, representing a gain of 6.7% from the November 26th close. Risk of a pullback near-term is quite high in our opinion (if a pullback doesn't occur by the end of 2019, as we've anticipated, then we suspect it will come in 1Q20). In terms of positioning, we are maintaining a mild preference for Value over Growth for the year as a whole, but think it is a very close call and acknowledge that Growth leadership seems likely to persist in the very near-term. We remain overweight Financials and Industrials (undervalued cyclicals) along with Utilities (a reasonably valued defensive with low policy risk). Market weight sectors of note, which we think are the best ways to keep some exposure to the Growth trade in the very near-term, are Health Care (an ongoing call) and Tech (an upgrade).
2. **Our 3,350 year-end S&P 500 target is the median of seven scenarios that could reasonably explain 2020 returns.** We walk through the math behind our price target on page 10. Most of the tests we applied anticipate mid single digit returns in the year ahead. The most bullish test argues for an 18% return (the average 12 month forward move in the S&P 500 when more than half of its companies have a dividend yield above the 10 year Treasury yield, as is the case until the 10 year Treasury yield reaches 1.85%, see page 28). The most bearish tests argue for a -6.7% return (as we highlight on page 11, if the S&P 500 forward P/E falls to its post 2013 average of 15.9x on our 2021 EPS estimate of $184, the index would fall to 2929) or a flat market (when real GDP is in the 0-2% range, the average and median S&P 500 return is 0%, page 66). The most interesting tests are our Election Cycle analysis (the average S&P 500 return in a Presidential election year is 7.1%, as we highlight on page 77) and our Max P/E analysis (as we highlight on page 11, the S&P 500 forward P/E – based on next year EPS -- has been stuck in a narrow range since 2013, and a peak multiple of 18x on 2021 EPS of $184 would take the S&P 500 to 3321).
3. **We expect S&P 500 EPS of $174 in 2020 (unchanged) and $184 in 2021 (new).** We remain below the bottom up consensus for 2020, which is currently tracking at $177.50 (it's too early to identify a true consensus for 2021). We walk through the math behind our EPS forecasts on pages 12-14. For both years, we are baking in ~4% revenue growth, moderating buyback activity (a 1% net share count reduction, less robust than the 1.9% pace we anticipate for 2019 as a whole and 1Q19's level of 2.2%), very modest margin expansion, flat interest expense, no Fed cuts or hikes, and a flat tax rate. It's fair to say our EPS forecast is somewhat conservative as it bakes in sluggish GDP growth (1.8% for 2020 and 1.9% for 2021). In our model, we are assuming that the US avoids a recession over the next two years, that industrial production rebounds modestly, and that the 10 year yield moves up a bit to 1.9% in 2020 and 2.2% in 2021 with some slight steepening in the yield curve.
4. **Our positioning and bottom-up valuation analysis keep us on guard for a pullback in the months ahead.** As we've discussed in our last few *EPS Report Cards*, positioning in the US equity market among institutional investors has turned euphoric and highlights the extent to which FOMO (fear of missing out) has gripped the institutional equity investor community. As we highlight on page 50, in late November positioning in US equities in the futures market among asset managers has been slightly above its July 2019, September 2018, January 2018, and 2007 highs, which all marked major peaks in the US equity market, resulting in pullbacks that ranged from 7% to 20% over the past few years. This keeps us on guard for a period of significant consolidation near-term, and will be an overhang on 2020 performance if not resolved before year end. When we look at stock market valuations from the perspective of a stock picker (page 60), we also see signs of froth in the US equity market. Our combo model (which incorporates P/E's as well as other metrics such as price/book, price/sales, and price/cash flow, using both weighted and unweighted multiples) was +1.3 standard deviations above its long-term average as of late November and in line with its December 2017 and September 2018 highs. 12-month forward returns have been in the low single digits, on average, from these levels.

The Top 10 Things You Need to Know Heading Into 2020 (Continued)

What's New, What Jumps Out, What's Changed, What's Resonating, and What We're Watching

5. **The stock market has gotten a little too excited about the economy and the Fed recently.** Over time, moves in the S&P 500 tend to reflect economic fundamentals. Year-over-year moves in the S&P 500 generally move in line with year-over-year trends in real GDP (page 67). The sharp year-over-year gain in the stock market for 4Q19 is something that would normally be seen when the US economy is rapidly accelerating – something that has not been manifest in recent economic data, and something that is not anticipated by sell-side economists (including RBC's) in coming quarters. Realization by equity investors that the US is likely to see moderate as opposed to rapid economic growth in the year ahead could be a catalyst for profit taking. On this point, it's also worth noting that the widely tracked Citi Economic Surprise index for the US is no longer in positive territory, as was the case in September and October when stocks were on a tear (page 97). Similarly, realization that the Fed's balance sheet management program is not QE (see page 76) could also pull some of the froth out of the stock market.
6. **The stock market is also starting to bake in a favorable outcome in the 2020 Presidential election.** The US equity market has been surprisingly resilient to wobbles in the outlook for the phase 1 trade deal with China over the past few weeks. We think that's because equity market participants have already begun to focus on the next big potential policy hurdle for stocks – the 2020 Presidential election in the US. Some of the charts that jumped out to us the most this month illustrate how the recent surge in the S&P 500, the fierce bounce back in Large Cap Health Care stocks, and the sharp rotation out of Utilities and REITs (the only two true safe havens in a Warren win/Democratic sweep scenario) over the past few months have occurred alongside a sharp decline in expectations for a Warren victory in the betting markets, as well as a pick up in expectations for a win by Buttigieg and a modest move up in expectations that Trump will be re-elected (see pages 84-85, plus 131-133). We continue to think that it's too early to call the outcome of the 2020 race, which is just under a year away. We expect a close race in the general election, and note that the Democrats only need to recapture 3 states (Pennsylvania, Michigan, and Wisconsin - which voted in favor of Trump by a margin of ~1.2% or less in 2016 and elected Democrats to the Senate in 2018) in order to reclaim the White House (page 82). The election could adversely impact the stock market as early as 1Q20, when 68% of the Democratic delegates in the primaries/caucuses will be assigned (page 86), if a progressive candidate appears poised to take the nomination. Despite the big shifts in momentum which have captivated markets recently, it's worth keeping in mind that both the polling averages and the betting markets reflect a close Democratic primary contest (pages 80-81).
7. **If the shift to Value within the US sticks, the S&P 500 is likely to lag its global peers.** In the late summer and early Fall, when Growth/momentum briefly ceded leadership to Value within the US equity market, the S&P 500 also lagged non-US equities briefly. Over the past few weeks, as the Growth/momentum trade has reasserted its leadership, the US has begun to outperform again (see page 21). This is a reminder that the US/non US and Growth/Value trades have been one big trade. As we highlight on page 92, since the Financial Crisis US leadership relative to non-US equities has dovetailed with the outperformance of Growth over Value within the US. In recent months, the correlation between these two pair trades has also skyrocketed. Generally, we think the stage has been set for a rotation out of US equities into non-US equities for quite some time, and that this rotation can continue if the catalysts for the recent shift (the move up in 10 year yields and the improved outlook for the global economic backdrop) persist. The S&P 500 is highly overvalued relative to non-US equities – much more so than usual (see page 95). US equities also look over owned in Global Large Cap equity funds, with stakes still hovering around all time highs at the end of 3Q (page 94). Europe (both the UK and Continental Europe) look under owned in Global Large Cap equity funds (page 94), while Japan looks under owned in CFTC's data on equity futures positioning (page 93). Funds flows, while still negative for US equities, have also started to improve for Europe, China, and EM (page 99).

What's New, What Jumps Out, What's Changed, What's Resonating, and What We're Watching

8. **Within the US, we are maintaining our slight preference for Value over Growth, on a longer-term view.** We've argued over the past few months that the shift from Growth to Value can keep going as long as economic angst continues to recede. Improving perceptions of the economic backdrop, both domestically and globally, and the pick up in 10 year Treasury yields and steepening of the yield curve since August (also positive for Financials, an important component of the Value trade) were the catalysts for the style rotation that began late in the summer. Beyond that trigger, the stage has been set for a rotation in style leadership for quite some time. Growth no longer has a major advantage relative to Value in terms of forward looking EPS growth expectations on the sell side (page 113). Growth also looks overvalued relative to Value, a reversal of conditions seen over the past decade when Growth looked deeply undervalued (page 116). Additionally, style leadership tends to flip late in bull markets (page 121), either when the stock market itself peaks (and old leaders see the most profit taking, as was the case in 2000) or when the opportunity in the old leadership areas is exhausted (as was the case in 2006). In the very near-term, however, we wouldn't be surprised to see Growth perform a bit better than Value. After a fierce few weeks of Value leadership in late summer/early Fall, the style trade has been moving sideways within the Russell 1000 universe (page 101). And various factors that we track (including Bloomberg's momentum factor – page 180, and the performance of crowded hedge fund stocks – page 184) indicate that the old leadership in the stock market is attempting to reassert itself. In this context, ETF flows have suddenly started to shift (page 124). The inflows that were in place for Value in the late summer /early Fall have faded in November, while inflows have returned to Growth ETFs.
9. **Keeping a Value bias in our S&P 500 sector recommendations, but now tilting more towards cyclicals.** Our latest S&P 500 sector scorecard can be found on page 127, with one pagers highlighting key charts and conclusions on each of the 11 GICS sectors (plus two of our own regroupings) on pages 130 – 142. We are maintaining our over weights on Financials and Industrials (pages 136-137), two sectors that are deeply undervalued relative to the S&P 500, tend to outperform when Value leads Growth, have outperformed since the post Financial Crisis when ISM new orders rise (meaning they have a cyclical trading bias), and have seen ETF flows improve in recent months. Of the two, the case for Financials is a bit stronger, as ETF flows have made more of a positive turn, the sector's dividend profile is more clearly appealing relative to other sectors, earnings revisions trends have been strong, and the sector has been deeply out of favor with deep underweights in place among hedge funds at the end of 3Q. Given our concerns about a pullback in the stock market in the near-term and the risks to the stock market from the 2020 election, we aren't ready to completely give up our defensive exposure, and are sticking with our over weight on Utilities (page 131). Beyond its dividend appeal, the sector is one of only two safe haven sectors if Warren wins and Democrats sweep, valuations look neutral again on our model relative to the broader market, and the sector also tends to outperform when the Value trade is leading. In terms of changes to our previous over weights, we are lowering REITs to market weight. There's been no real change in our models for this sector (highlighted on page 132), and it shares many of the positive attributes that we see for Utilities. But REITs look more problematic on our valuation work than Utilities. They also tend to underperform when ISM new orders rise (meaning it has functioned as a defensive sector in the market in terms of how it trades).
10. **How we'd maintain some exposure to the Growth trade for the very near-term.** Our favorite ways to keep some exposure to the Growth part of the market are Health Care (which we remain market weight) and Technology (which we are upgrading to market weight). Both sectors tend to outperform when Growth is leading, and underperform when Growth is lagging. The risk/reward also looks fairly balanced for both sectors on our scorecard (page 127). For Health Care (page 133), the positives that we see are strong earnings revisions, attractive valuations relative to the S&P 500, and low China trade war risk, offset by ETF outflows, high 2020 election risk (should a progressive win and Democrats sweep), and crowding in hedge funds. For Tech (page 140), the positives that we see are the re-emergence of ETF inflows and strong EPS revisions, offset by high policy risk (both the China trade war and the 2020 election) and expensive valuations relative to the S&P 500. Note that we are keeping our underweights on two other sectors that tend to trade in sync with the Growth trade, Communication Services (no positives on our scorecard aside from low China trade war risk – see page 139) and Consumer Discretionary (the sector lacks valuation appeal, EPS revisions have been weak, and ex Internet it tends to underperform when ISM new orders rise – see pages 138 and 141).

DRIVERs Scorecard for the Broader US Equity Market and Large Cap Style Trade

Deals & Cash Deployment **(buybacks, dividends) is the primary tailwind that we see for the broader US equity market, while *Valuation*, *Investor Sentiment & Positioning* (new this month), *Policy*, and *Retail Money Flows* are the main headwinds. Three of our DRIVERs favor Value, though most only modestly so.**

		S&P 500	Large Cap Growth vs. Value
D	Deals and Cash Deployment	✔	Value
R	Revisions/Earnings Trends	=	Neutral
I	Investor Sentiment and Positioning	✘	Growth
V	Valuation	✘	Value
E	Economy and Policy	= / ✘	Value
R	Retail Money Flows	✘	Neutral

Source: RBC US Equity Strategy

Large Cap Sector Calls

Overweights	Market Weights	Underweights
Financials	Energy	Materials
Industrials	Consumer Staples	Consumer Discretionary
Utilities	Health Care	Communication Services
	REITs *(downgrade)*	
	Technology *(upgrade)*	

Source: RBC US Equity Strategy

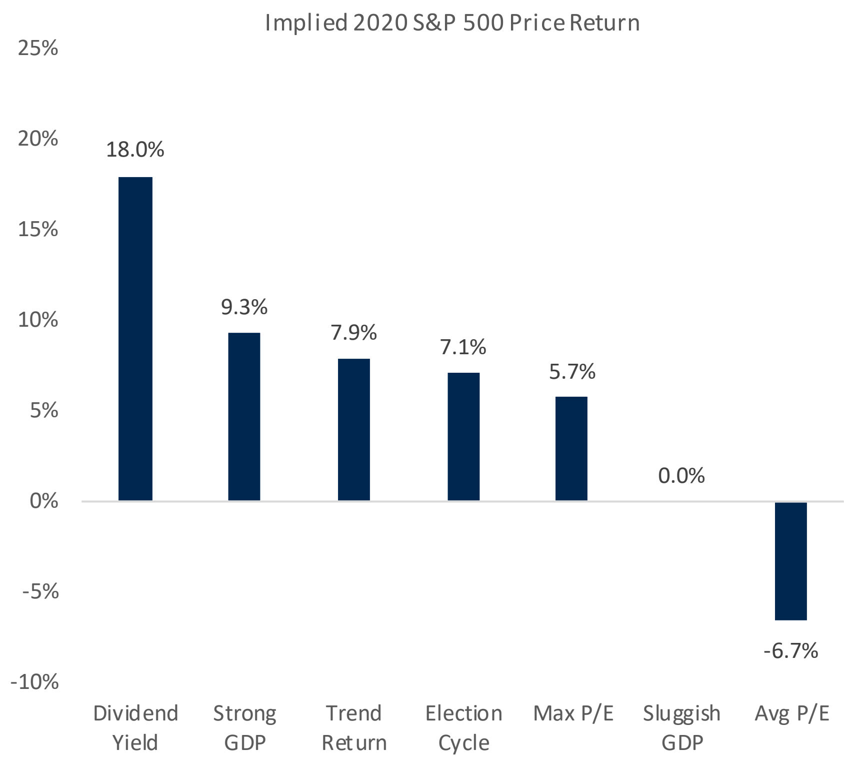
S&P 500 Targets

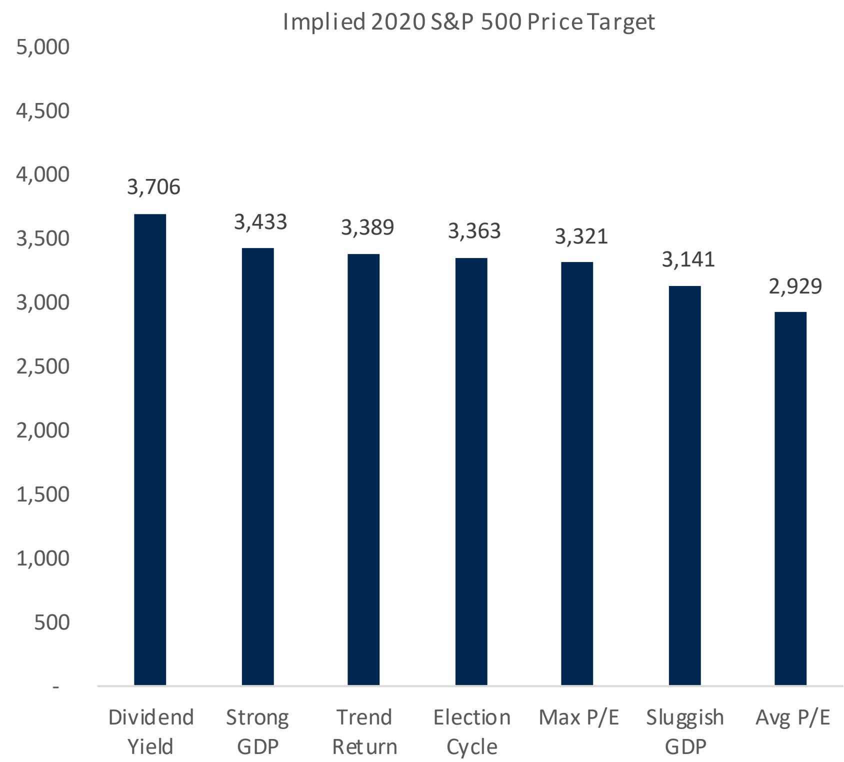
The Math Behind Our Forecasts

Our 3,350 S&P 500 Price Target for 2020 is the Median of 7 Realistic Scenarios

Key Takeaways

- **Our 3,350 price target for 2020 is the median of 7 scenarios that we think could reasonably explain the stock market's return for 2020 as a whole.** The scenarios we considered are:
  - **Dividend Yield:** Average 12 month forward return when 50-60% of S&P 500 names have dividend yield above the 10 Year Treasury (53% as of late November 2019)
  - **Strong GDP:** Average full year return when real US GDP is 2-4% (*RBC Economics* forecasts 2%)
  - **Trend Return:** Average annual S&P 500 return since 1931
  - **Election Cycle:** Average annual S&P 500 return in a Presidential Election year
  - **Max P/E:** A return to post Financial Crisis peak P/E based on next year's EPS (18.0x on $184 2021 EPS)
  - **Sluggish GDP:** Average return when real GDP is 0-2% (consensus forecast is 1.8%)
  - **Avg P/E:** Average post Financial Crisis P/E based on next year's EPS (15.9x on $184 2021 EPS)



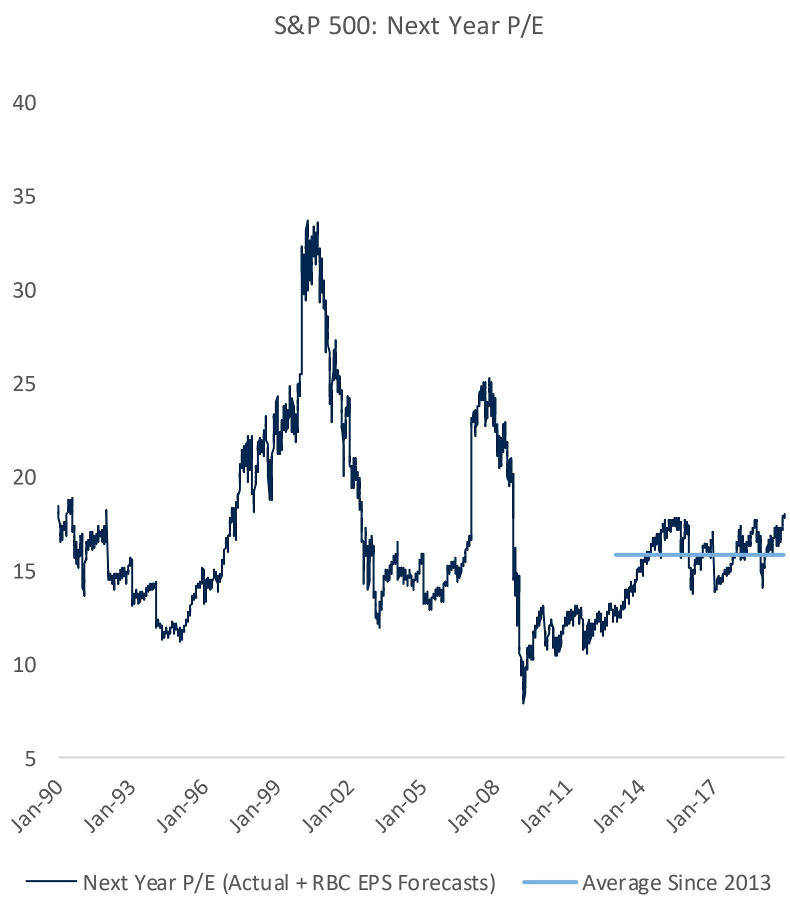


Source: RBC US Equity Strategy; implied returns and targets based on November 26th close

We Aren't Looking For Much Multiple Expansion In 2020

Key Takeaways

- The S&P 500 forward P/E (based on next year's EPS) has been moving in a tight range in recent years.
- As of November 26th, the S&P 500 was trading at 18.0x on our 2020 EPS target ($174) - in line with the peak multiple in the current cycle using next year's EPS.
- If the multiple stays flat in 2020, the S&P 500 should reach 3321 next year (using a 18.0x P/E and our preliminary 2021 EPS target of $184). If the P/E reverts to the recent average, the S&P 500 could fall to 2929.



S&P 500 Next Year P/E Levels	P/E
Next Year P/E as of November 26th	18.0
Average Since 2013	15.9
Max Since 2013	18.0
Min Since 2013	13.2

** Based on RBC's 2020 EPS Forecast of $174*

Price Level Scenarios *Using RBC's 2021 EPS Forecast of $184*	Price Level
Current P/E Level	3321
Average P/E Level	2929
Max P/E	3321
Min P/E	2429

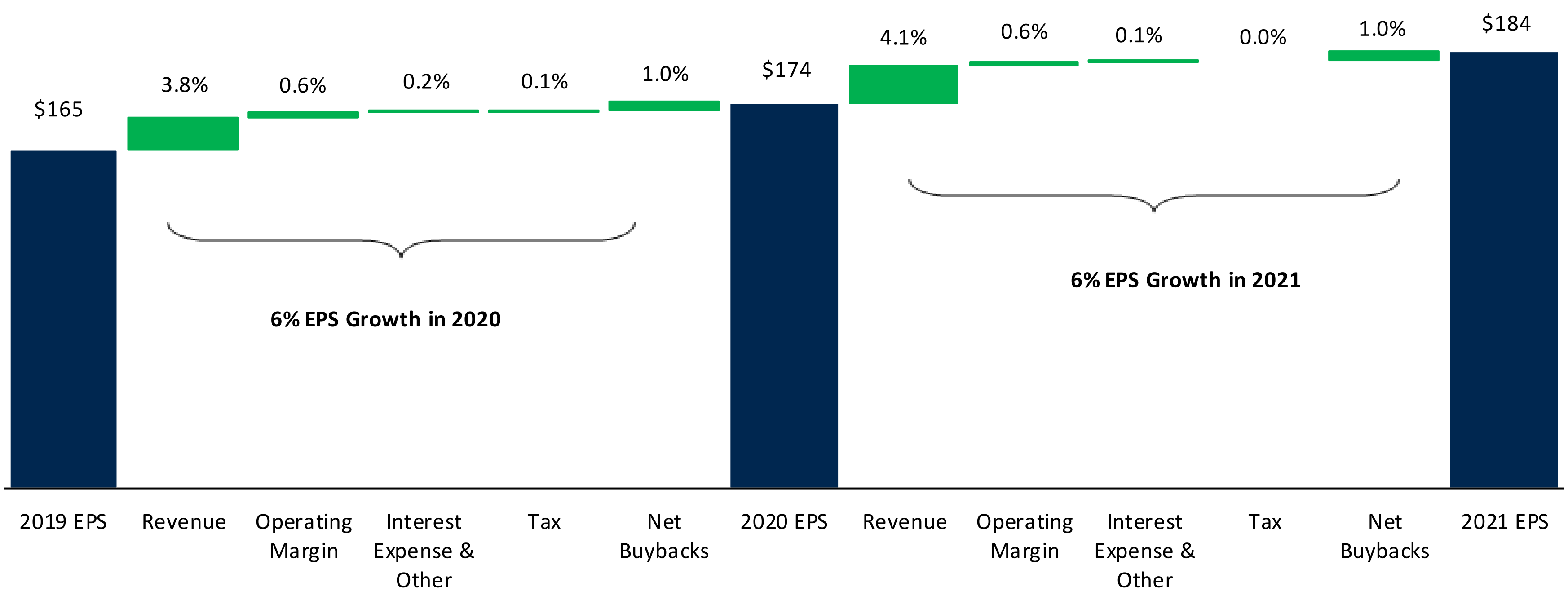
Source: RBC US Equity Strategy, Bloomberg, FactSet, Thomson Reuters

Our S&P 500 EPS Forecast for 2020 is $174, Our Preliminary 2021 EPS Forecast is $184

Key Takeaways

- **We have made no changes to our 2020 S&P 500 EPS forecast of $174 (6% growth rate, based on 2019 EPS of $165). We have introduced a preliminary 2021 EPS estimate of $184 (6% growth).**
- **Revenue Growth Assumptions:** We are modeling in ~4% revenue growth in 2020 and 2021. We are baking in consensus economic forecasts which are calling for sluggish, but positive real GDP growth (1.8% in 2020 and 1.9% in 2021), ~2% inflation (slightly higher than 2019 levels), a mild rebound in IP, contained oil prices (WTI in mid to high 50's), a weaker DXY (with the DXY at 94 by 2020 YE and 92 by 2021 YE) and some steepening in the yield curve (with the 10 year at 1.9% by 2020 YE and 2.2% by 2021 YE). We are also assuming no Fed moves in 2020 and 2021.
- **Operating Margin Assumptions:** We are modelling in very modest margin expansion in both 2020 and 2021. We are assuming that headwinds from wage inflation are offset by tailwinds from commodity prices, a weaker DXY, and effective cost management practices (an issue that has been highly in focus during recent reporting seasons).
- **Other Forecast Assumptions:** (1) Flat interest/expense relative to sales vs. 2018 & 2H19 levels. After briefly moving higher in 1H19, interest expense/sales came in lower again in 3Q19. Companies have been closely managing their debt burdens, refinancing debt to take advantage of lower rates. (2) Modest buybacks in 2020 & 2021. The net share count reduction for the S&P 500 has continued to moderate through 2019. (3) A flat tax rate in 2020 & 2021.

Contribution to 2020 & 2021 EPS Growth By Component



Source: RBC US Equity Strategy

Details on the Key Assumptions Driving Our 2020 & 2021 EPS Growth Forecasts and Price Target

S&P 500 Price Target & P/E Multiples

	Price Level	% Ch	Trailing P/E	Forward P/E	Notes
Year End 2016	2239	9.5%	18.8	16.8	
Year End 2017	2674	19.4%	20.1	16.4	We have introduced a 2020 YE S&P 500 price target of 3350, which is the median of 7 scenarios that we think could reasonably explan the stock market's return for 2020 as a whole. We are assuming that the majority of next year's return will come from earnings growth and that multiple expansion will be limited in 2020.
Year End 2018	2507	-6.2%	15.4	15.2	
Year End 2019*	3141	25.3%	19.0	18.0	
Year End 2020	**3350**	**6.7%**	**19.3**	**18.2**	

**Based on Nov 26th, 2019 pricing*

S&P 500 Annual Income Statement Forecasts & EPS Target

	2016 Act	2017 Act	2018 Act	2019 Est	2020 Est	2021 Est	Notes
Yr/Yr Revenue Growth Rate	1%	6%	7%	2%	4%	4%	Our revenue growth model is baking in consensus 2020 & 2021 economic views of sluggish, but positive real GDP growth, ~2% inflation (slightly higher than 2019), a mild rebound in IP, contained oil prices, a weaker DXY, and some steepening in the yield curve. We are also assuming no Fed moves in 2020 and 2021.
Operating Margin	15.6%	16.0%	16.4%	16.3%	16.4%	16.5%	We are modelling in very modest margin expansion in 2020 & 2021. We are assuming that wage inflation is offset by lower commodity prices, a weaker DXY, and effective cost management practices.
Interest Expense Rel to Sales	2.0%	2.0%	2.1%	2.1%	2.1%	2.1%	We are assuming flat interest expense/sales vs. 2018 and 2H19 levels.
Effective Tax Rate	26.8%	24.8%	18.9%	19.4%	19.4%	19.4%	We are assuming the trailing 4 quarter average tax rate holds going forward
Yr/Yr Divisor Growth	-1.8%	-1.1%	-1.3%	-1.8%	-1.0%	-1.0%	We are assuming modest buybacks in 2020 and 2021.
Actual EPS/RBC Target	**$119**	**$133**	**$163**	**$165**	**$174**	**$184**	We have made no changes to our 2020 EPS target of $174 (6% growth). We have introducted a preliminary 2021 EPS estimate of $184 (6% growth).
Yr/Yr EPS Growth Rate		**12%**	**23%**	**1%**	**6%**	**6%**	
Thomson/FactSet Bottom Up Consensus S&P 500 EPS				164	178	N/A	Our 2020 EPS forecast is well below the bottom up consensus EPS estimate.
Yr/Yr EPS Growth Rate				1%	9%	N/A	

Bloomberg Consensus Economic Forecasts (ex Fed Funds Rate)

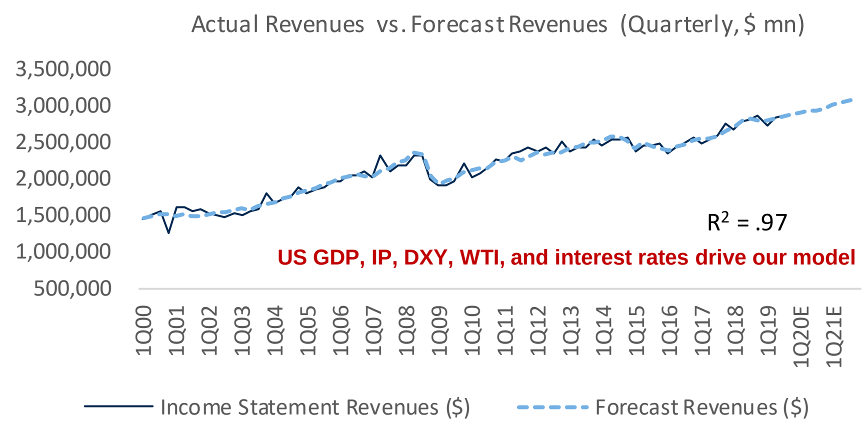
	2019 Est	2020 Est	2021 Est	Notes
US Nominal GDP	4.1%	3.9%	3.9%	Based on 1.8% and 1.9% real GDP forecasts in 2020 and 2021 respectively.
Industrial Production	109.5	110.8	112.6	Our model is baking in a mild rebound in IP.
WTI $/bbl	57	57	59	Our model is baking in contained WTI prices in the mid to high 50's.
Fed Funds	1.75%	1.75%	1.75%	Our model is baking in no Fed moves through 2021.
10 Year	1.7%	1.9%	2.2%	Our model is baking in some steepening in the yield curve through 2021.
DXY	97.50	94.00	91.80	Our model is baking in a weaker DXY through 2021.

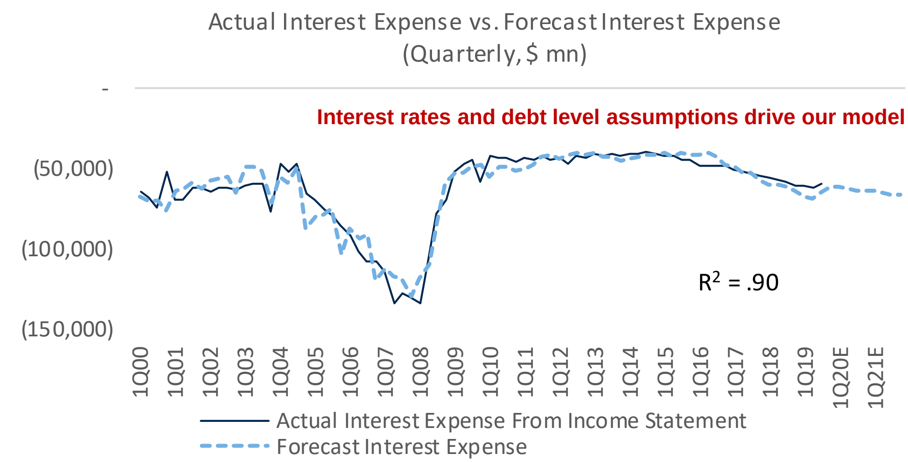
Source: RBC US Equity Strategy, RBC Capital Markets estimates; Bloomberg, FactSet

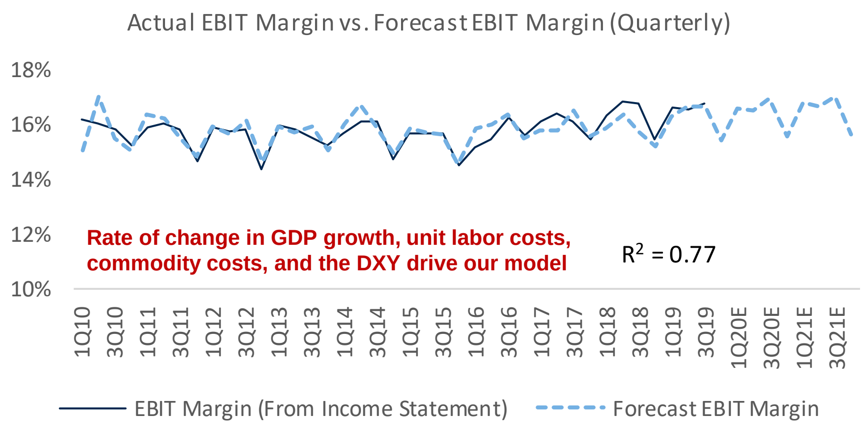
Details on the Key Assumptions Driving Our 2020 & 2021 EPS Growth Forecasts

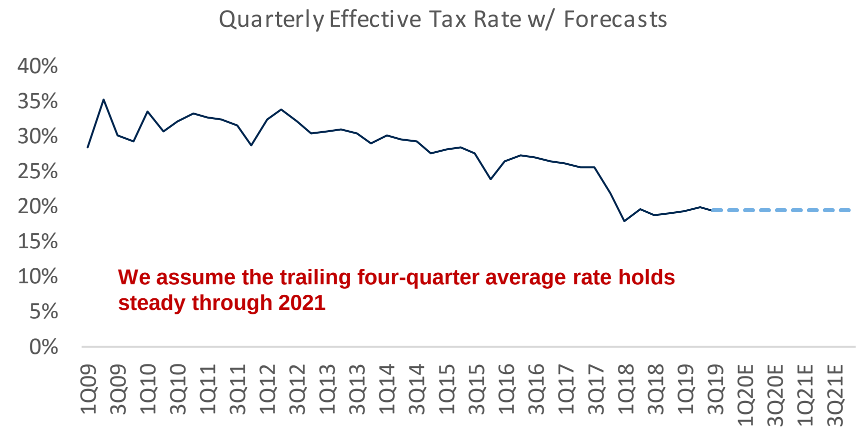
Key Takeaways

- Our revenue, interest expense, and EBIT margin models drive our assumptions on revenue growth, interest expense relative to sales, and EBIT margins.
- On tax, we assume that the trailing four-quarter effective tax rate holds steady through 2021. While tax is always difficult to forecast, we think there will be more stability in the tax rate going forward now that companies have digested the new tax laws.







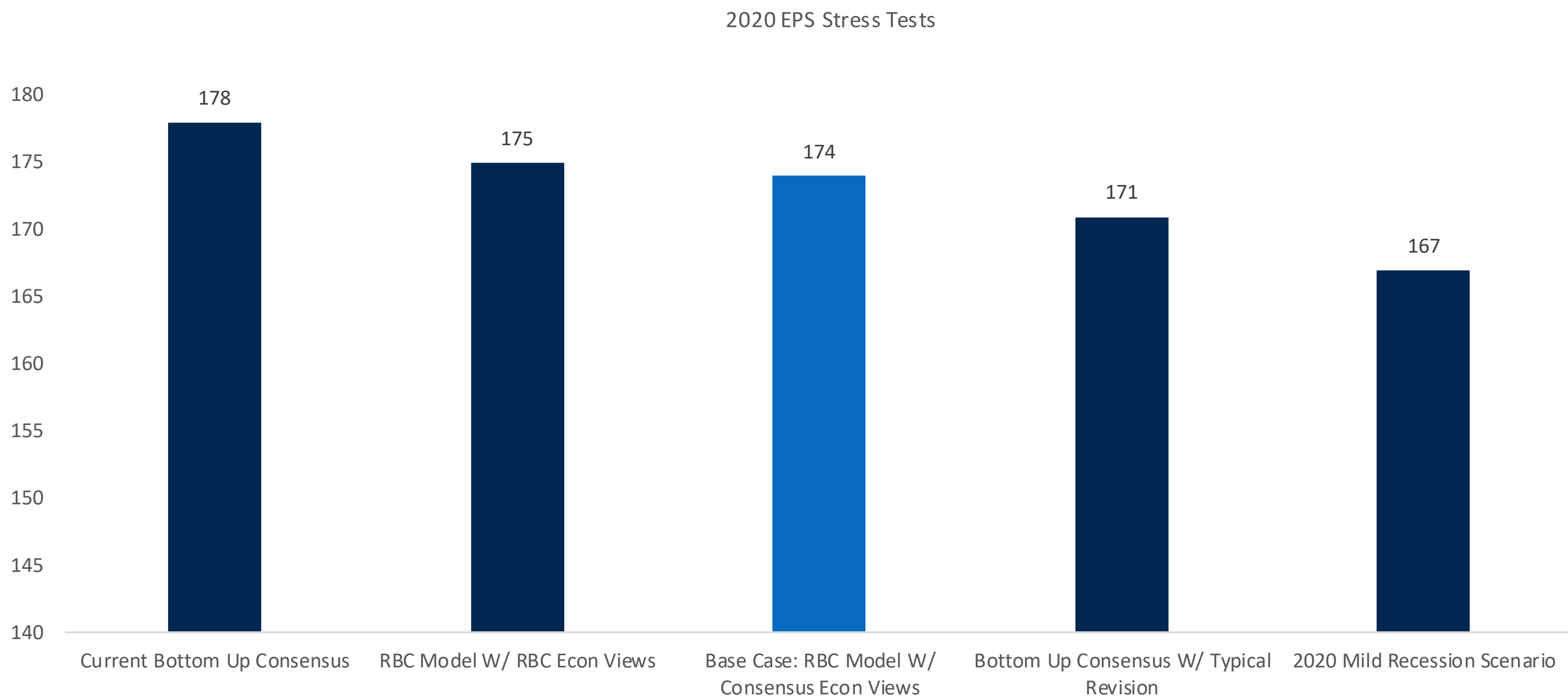


Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; actual is through 3Q19, forecasts are through 4Q21

Stress Tests on Our 2020 S&P 500 EPS Growth Estimate

Key Takeaways

- Our 2020 $174 S&P 500 EPS estimate is below the current bottom-up estimate ($177.50). It's above when the typical downward revision is factored in ($171).
- Substituting in RBC house economic views would add $1 to our EPS number.
- Adjusting for a 2020 mild recession scenario (assuming it starts in 2Q20, followed by a quick recovery in late 2020, 125 bps of Fed cuts in 2020, and average WTI of ~$46 in /2020) would take our number to $167 (1% growth).



Source: RBC US Equity Strategy, Bloomberg, FactSet, Thomson Reuters

Details on the Key Assumptions Driving 2020 EPS Stress Tests

RBC Base Case Scenario (Bloomberg Consensus ex Fed Funds)	4Q19	1Q20	2Q20	3Q20	4Q20
US Real GDP (% Q/Q SAAR)	1.6%	1.7%	1.9%	1.8%	1.8%
US Nominal GDP (% Q/Q SAAR)	3.6%	3.9%	3.9%	3.8%	3.8%
10 Year Yield	1.71%	1.75%	1.82%	1.90%	1.93%
Fed Funds Target (upper)	1.75%	1.65%	1.75%	1.75%	1.75%
Industrial Production (SA, 100=2012)	109.51	110.91	111.21	110.39	110.82
DXY	97.5	96.1	95.6	95.0	94.0
WTI	56	55	56	56	57

RBC House Views Scenario	4Q19	1Q20	2Q20	3Q20	4Q20
US Real GDP (% Q/Q SAAR)	1.9%	2.0%	2.0%	2.0%	2.0%
US Nominal GDP (% Q/Q SAAR)	3.9%	3.7%	4.0%	4.2%	4.0%
10 Year Yield	1.90%	2.00%	2.10%	2.10%	2.10%
Fed Funds Target (upper)	1.75%	1.75%	1.75%	1.75%	1.75%
Industrial Production (SA, 100=2012)	109.51	110.91	111.21	110.39	110.82
DXY	99.9	100.2	98.8	98.7	97.3
WTI	57	59	55	61	58

2020 Mild Recession Scenario	4Q19	1Q20	2Q20	3Q20	4Q20
US Real GDP (% Q/Q SAAR)	1.9%	1.0%	-0.5%	-0.5%	2.5%
US Nominal GDP (% Q/Q SAAR)	3.9%	2.5%	0.0%	0.0%	4.5%
10 Year Yield	1.90%	1.25%	1.00%	1.00%	1.25%
Fed Funds Target (upper)	1.75%	1.50%	1.00%	0.50%	0.50%
Industrial Production (SA, 100=2012)	109.51	109.80	108.43	107.63	111.37
DXY	99.9	100.2	98.8	98.7	97.3
WTI	57	49	46	45	44

Source: RBC US Equity Strategy, Bloomberg

Down Years In The S&P 500 Are Rare

Key Takeaways

- Since 1979, the S&P 500 has experienced 31 years of positive returns, and just 10 years of negative returns.
- In only 4 instances has the S&P 500 experienced annual calendar losses of greater than -10% in magnitude, all associated with the Tech bubble or Great Financial Crisis. Most down years (which have involved growth scares or recessions) are in the 0 to -10% range.

S&P 500 Returns Distribution Since 1979

					2014		
					1979	1996	
					1988	2019*	
				1984	2010	2009	
				1987	2012	1980	
			1981	2005	2006	1991	
			1990	2007	1986	1985	
			1994	1992	1982	2003	
			2011	1993	1983	1998	
		2001	2015	2004	2017	1989	1997
2008	2002	2000	2018	2016	1999	2013	1995
1 Year	1 Years	2 Years	6 Years	8 Years	11 Years	10 Years	2 Years
-40% to -30%	-30% to -20%	-20% to -10%	-10% to 0%	0% to 10%	10% to 20%	20% to 30%	30% to 40%

*Source: RBC Wealth Management, Bloomberg, *2019 return as of November 26, 2019*

S&P 500 Outlook

Our Latest Thoughts on the DRIVERs of
the Broader US Equity Market

RBC Capital Markets®

DRIVERs Rundown for the S&P 500 (Broader US Equity Market Outlook)

Deals and Cash Deployment	***Mildly Positive*** ▪ We expect buyback and dividend activity levels to remain supportive of US equities in the year ahead, though we do view buybacks as a moderating positive. We also remain concerned about trends in business confidence and capex. ▪ On the negative side, CEO/CFO confidence in general and capex intentions in particular have eased back sharply, with the Conference Board's CEO confidence indicator back to recessionary lows. We worry that a phase 1 trade deal with China, if it happens, won't be substantive enough to repair the severe damage done to corporate confidence, and that corporate behavior will remain cautious for the time being. ▪ Capex has clearly been adversely impacted by the deterioration in corporate confidence, with spend remaining flat year-over-year in 3Q. ▪ One of the things that keeps this DRIVER in positive territory for us is the strong buyback activity that we continue to see, but even here there's evidence that the deterioration in confidence is taking a toll. New buyback announcements, the Dollar value of repurchases, buyback yield (repurchases relative to market cap), and the percentage of companies doing buybacks have all moved lower in recent quarters. Additionally, the net share count reduction in the S&P 500 has moderated significantly, falling to 1.6% at the end of 3Q19, well below the 1Q19 level of 2.2%. ▪ Dividend trends are also mixed. The dividend yield on the S&P 500 is high but admittedly has slipped. The percentage of companies in the S&P 500 growing their dividends has been stable near 2014–15 highs and dividends have become more in focus (on par with buybacks) in earnings calls in recent quarters. Importantly, the dividend profile of the S&P 500 has made stocks looks attractive relative to bonds, with over half of companies still having a dividend yield in excess of the 10-year despite the recent rise in bond yields —a point in favor of strong stock returns going forward, for now. ▪ We aren't overly worried about debt levels at this time. Debt levels are high, but the increase has been fueled by long-term and fixed-rate debt as opposed to short-term and variable-rate debt. Interest expense is being managed (below average on a weighted basis, and falling on average).
Revisions/ Earnings Trends	***Neutral*** ▪ We forecast S&P 500 EPS growth to come in at $174 (6%) in 2020 and $184 in 2021 (6%). We are below the bottom up consensus for 2020. For both years, we are baking in ~4% revenue growth, moderating buyback activity, very modest margin expansion, flat interest expense, no Fed actions, and a flat tax rate. It's fair to say our EPS forecast is conservative and bakes in sluggish GDP growth, but we are not anticipating a recession. ▪ Earnings sentiment appears to have bottomed, assuming no recession is on the horizon. After briefly turning positive in 2Q19, the percentage of sell-side EPS estimate revisions for the S&P 500 fell back to the 30% level that tends to mark the low outside of recessions in 3Q19. We are keeping a close eye on trends in ISM and the US dollar. The rate of upward revisions tends to improve when ISM moves higher or the USD weakens yr/yr. ▪ EPS beats have been plentiful in 2019, but the quality has been poor, with low rates of revenue beats and a high emphasis on cost cutting. Negative pre-announcements have also been tracking around 2014-2016 highs.
Investor Sentiment and Positioning	***Negative*** • On the institutional side, positioning has turned euphoric again when viewed through the lens of CFTC's US equity futures data. As of late November, this indicator was slightly above its July 2019, September 2018, January 2018, and 2007 highs (which all marked major peaks in the US equity market). This keeps us on guard for a pullback near-term, and will be an overhang on early 2020 performance if not resolved before year end. • Retail investor sentiment is turning bullish on the AAII survey again, but is not yet back to prior peaks. • Equity stakes have been elevated in US households, and cash levels have been low. • US equity stakes have also been elevated in tactical asset allocation funds, where bond stakes are at peak. Non-US equity allocations have room to run. • US equity stakes were still near all-time highs as of 3Q19 in Global Large Cap equity funds, another sign of crowding into US equities.

Source: RBC US Equity Strategy

DRIVERs Rundown for the S&P 500 (Broader US Equity Market Outlook) – Continued

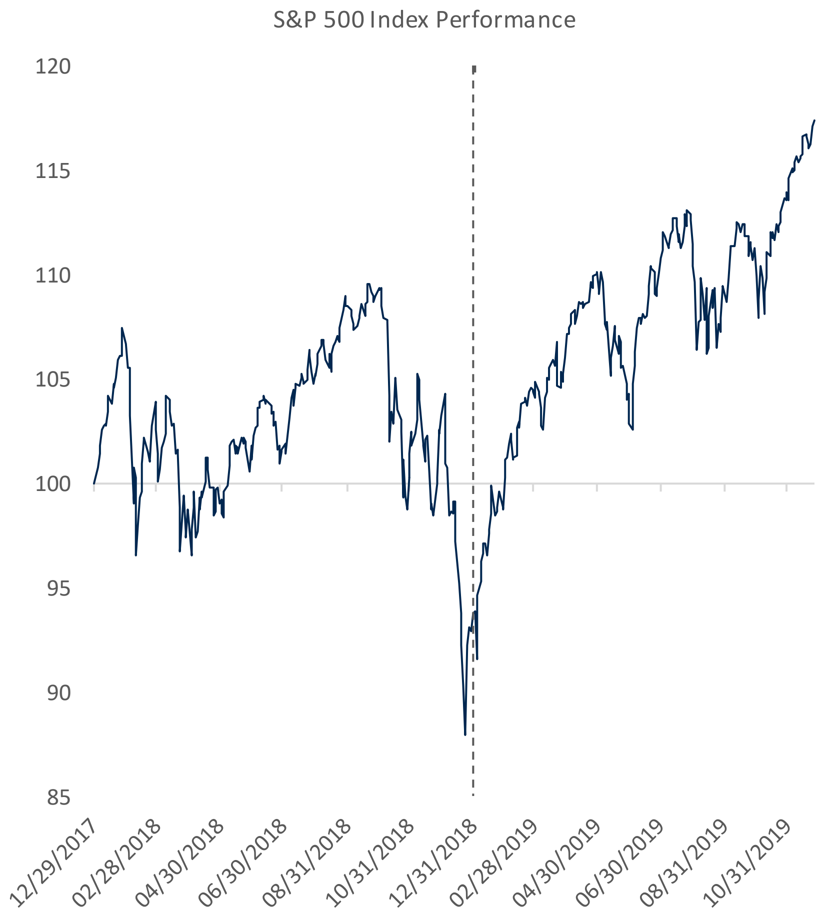
Valuation	***Negative*** ▪ With QT coming to an end and the Fed cutting rates, 2019 has been a year of significant multiple expansion for the S&P 500. But we don't expect any additional cuts in 2020 (which is an election year) and don't view current balance sheet management efforts as QE. As a result we don't expect much P/E expansion in the year ahead. At its highs in 4Q19, the S&P 500 has been trading around 18x vs. our 2020 EPS forecast (the high post Financial Crisis). We expect a multiple of 18.2x to be in place in Dec 2020 (based on our 3,350 S&P 500 2020 price target and 2021 EPS forecast of $184). ▪ When we look at valuations from a different angle, using bottom-up consensus forecasts, we also find an argument for more modest stock market gains in 2020. Our combo model (which incorporates P/E's as well as other metrics such as price/book, price/sales, and price/cash flow, using both weighted and unweighted multiples) was +1.3 standard deviations above its long-term average as of late November and in line with its Dec. 2017 and Sept. 2018 highs. 12-month forward returns have been in the low single digits, on average, from these levels arguing for some volatility in the market. ▪ The US remains highly overvalued relative to non-US equities. ▪ Stocks still look attractive vs. bonds when we compare earnings yield to the 10-year Treasury, but less so than the first few years after the Financial Crisis.
Economy and Policy	***Economy – Neutral*** ▪ Consensus forecasts for US real GDP are tracking at 1.8% for 2020 and 1.9% for 2021, down from 2.3% in 2019. This suggests that a recession will be avoided but that economic growth will continue to moderate. Even if a recession isn't looming, the set-up for stocks in 2020 gives us pause from an economic perspective. When real GDP is in the 0–2% range, the equity market is more often that not flat or down for the year. ▪ We are concerned that recent price action in the S&P 500 is anticipating a sharp acceleration in GDP in coming quarters, which if it doesn't come through could generate some short term volatility/downside in the equity market. ▪ If a recession is looming (not our base case), the S&P 500 could fall significantly in the months ahead (a drop of 24–32% from its latest high, based on the historical playbook). A growth scare would likely take the stock market down 10–20% peak to trough. ▪ We are keeping a close eye on weekly jobless claims, consumer confidence (which has started to level out on the University of Michigan time series), the Citi US economic surprise index, the 10 year-Treasury yield, and the yield curve, as well as the Fed's balance sheet management program. ***Policy – Negative*** ▪ Our work suggests that a phase 1 trade deal with China has been baked into stocks, and we are skeptical that it will repair corporate confidence. ▪ We also view the 2020 Presidential election in the US as a challenge for the stock market in the year ahead. While year 3 of a Presidential cycle tends to see powerful returns, year 4 (the Presidential election year) tends to see S&P 500 gains closer to trend. The outcome matters a great deal to the market as well. In our investor surveys (taken before Buttigieg's improvement in the polls), most have viewed a Trump victory as a bullish outcome for stocks, a Biden victory as neutral, and victory by another Democrat as negative. A victory by Warren would be extremely challenging for the market from a bottom up perspective, as 64% of RBC's US equity analysts said that a Warren win/Democratic sweep would be bearish or very bearish for their industries. The election could adversely impact stocks as early as 1Q20, when 68% of the delegates in the Democratic primaries/caucuses are assigned. We think that shifting views on the outcome of the race have boosted the S&P 500 in 4Q19. The recent surge in the S&P 500, bounce back in Health Care, and rotation out of Utilities and REITs (the only two safe havens in the Warren win/Democratic sweep scenario), have all occurred alongside a decline in expectations for a Warren victory in the betting markets, an improvement in expectations for a Buttigieg win, and a stabilization in expectations for a Trump win. We think the race is too early to call (both the primary and the general) and think the path is easier for Democrats than most investors realize.
Retail Flows	***Negative*** ▪ Outflows have been in place for US equity funds in 2H19, while Europe, Japan and China have all see flows improve to flat or slightly positive.

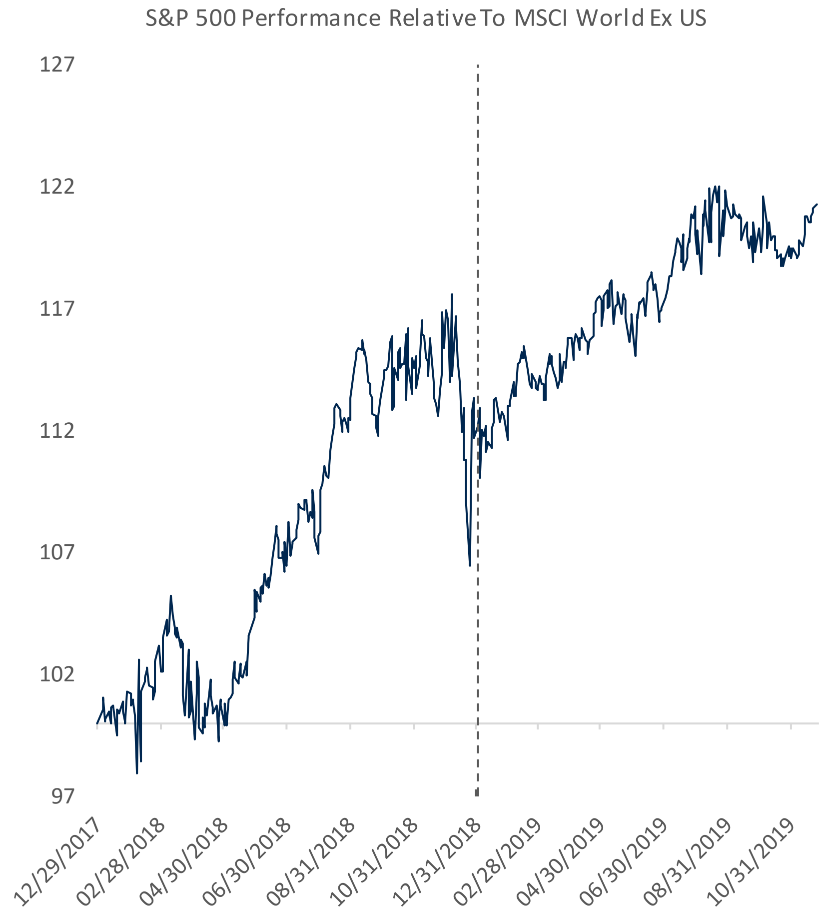
Source: RBC US Equity Strategy

The S&P 500 Has Broken Out, Leading Non-US Stocks Again

Key Takeaways

- Fluctuating expectations regarding a trade deal with China and perceptions of where the domestic economy is headed kept the S&P 500 range bound in most of 2019. Anticipation of a phase 1 trade deal and receding recession fears helped the index break out of that range during 4Q19.
- The US market lagged non US equities in late 3Q/early 4Q, as the market was initially shifting from momentum/Growth to Value, but in recent trading the US is regaining its leadership.



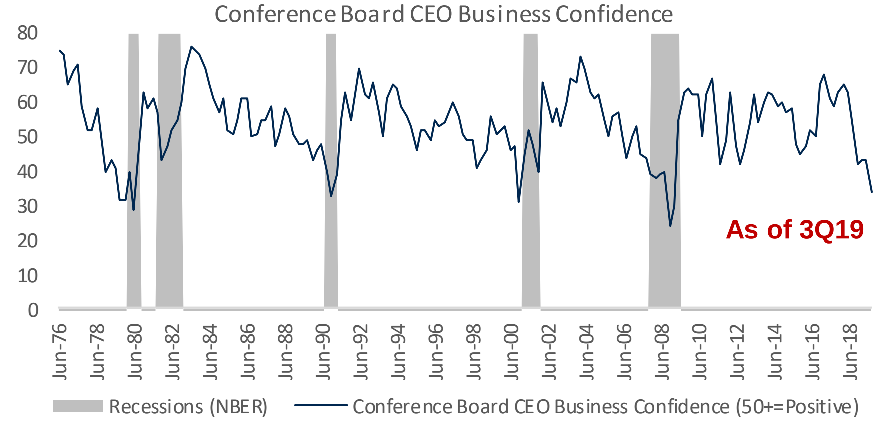


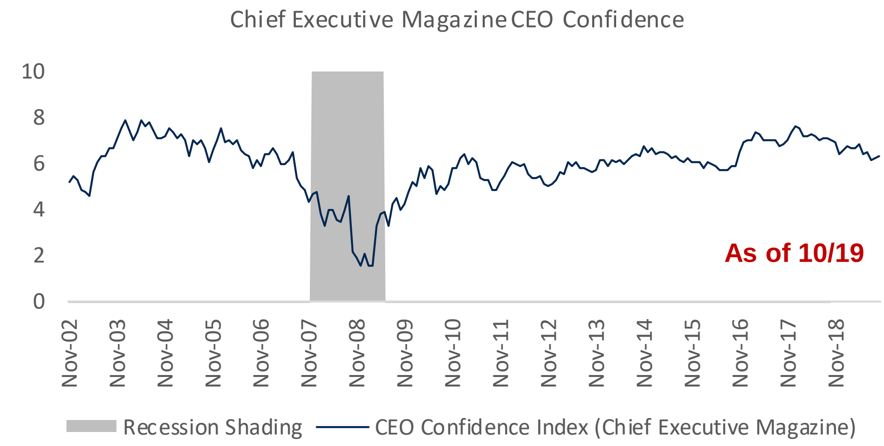
Source: RBC US Equity Strategy, Bloomberg

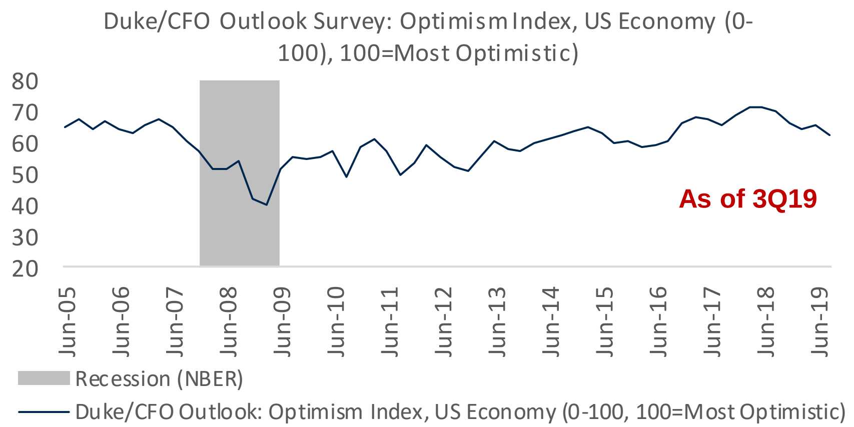
Business Confidence Has Deteriorated Sharply

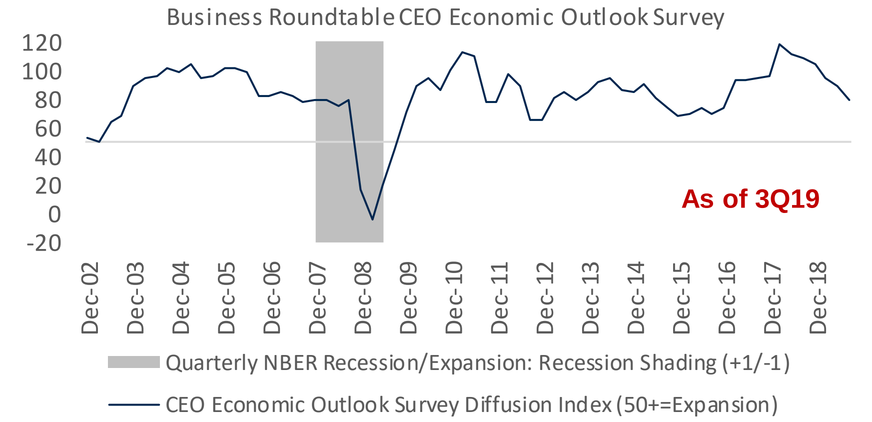
Key Takeaways

- Corporate confidence surged following the 2016 election, supporting the outlook for M&A, buybacks, capex, and dividends, but fell sharply in late 2018.
- Overall, levels of confidence have been trending lower and are well below the highs of the current cycle. The most noteworthy deterioration has occurred in the Conference Board CEO gauge, which is actually nearing levels typically seen in recessions. As developments on trade talks with China continue to emerge, we think the key question to consider is whether the terms will provide enough clarity to repair the severe damage done to business confidence.







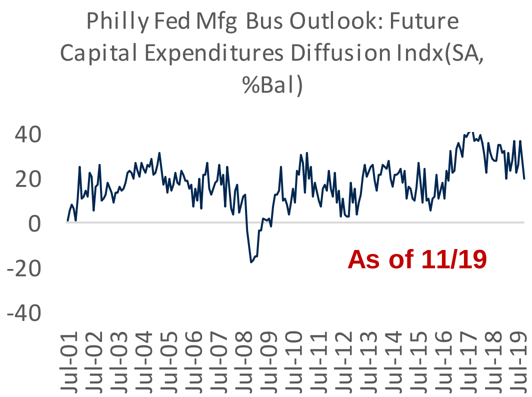


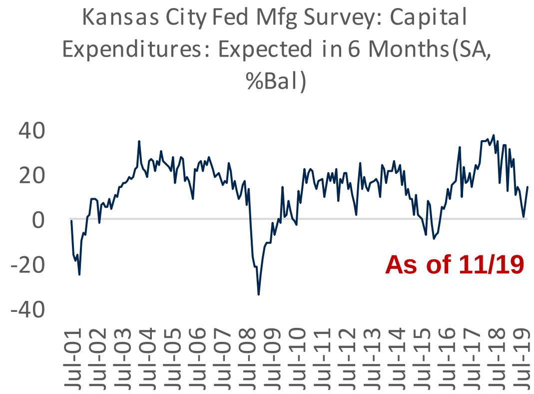
Source: RBC US Equity Strategy, Haver Analytics

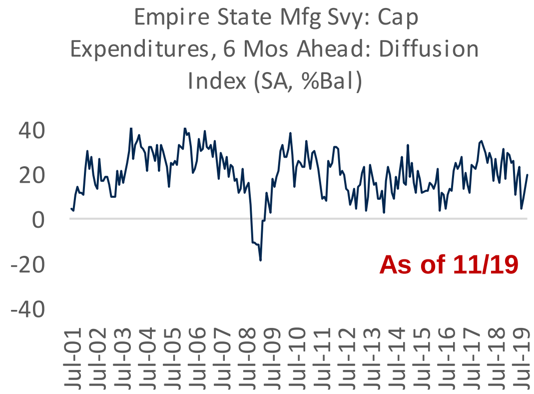
Capex Expectations Have Taken A Hit

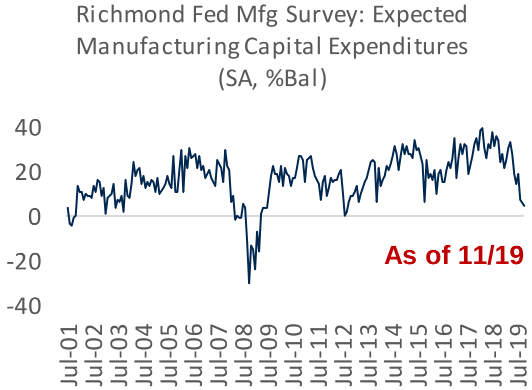
Key Takeaways

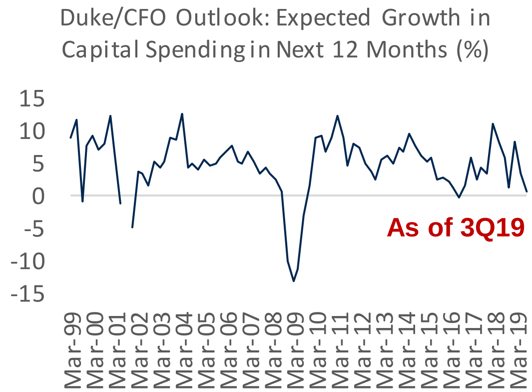
- Capex expectations in most of the regional Fed/CEO/CFO surveys have been easing back from extremely elevated levels in recent quarters/months.
- The Empire, Richmond, Duke, Philly and Kansas City surveys have all deteriorated sharply from peak, though the Empire and Kansas City surveys have shown some stabilization in their most recent updates.

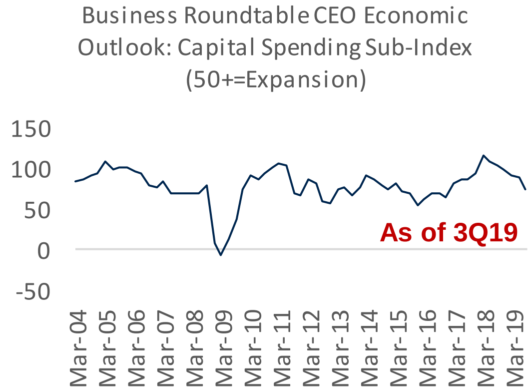










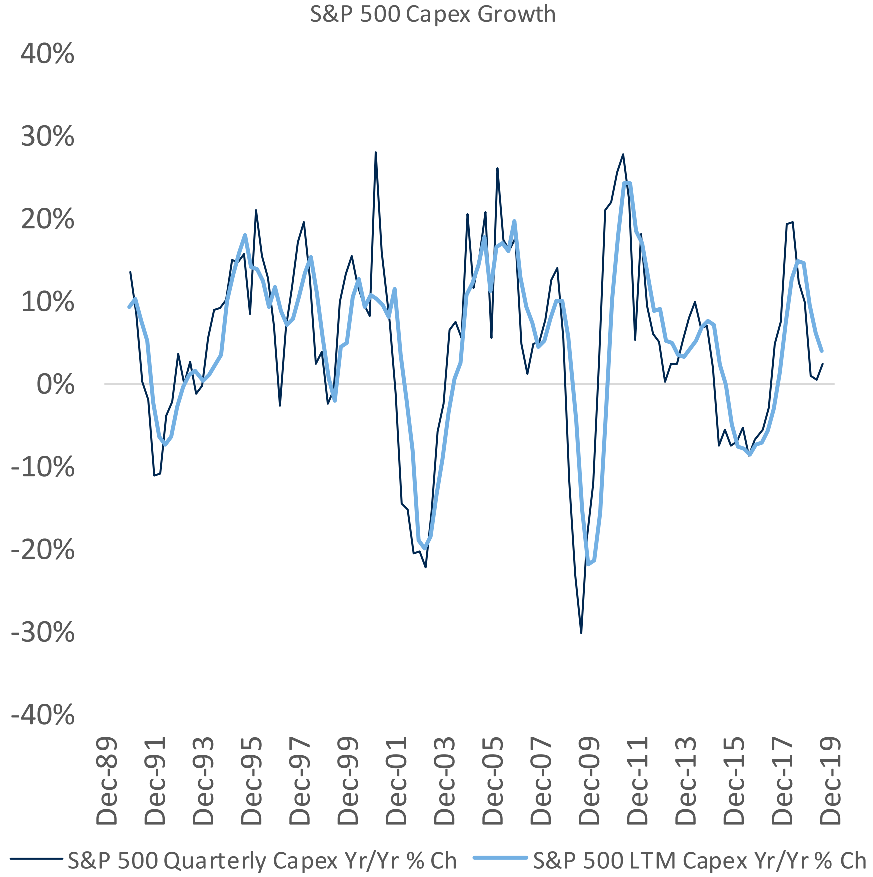


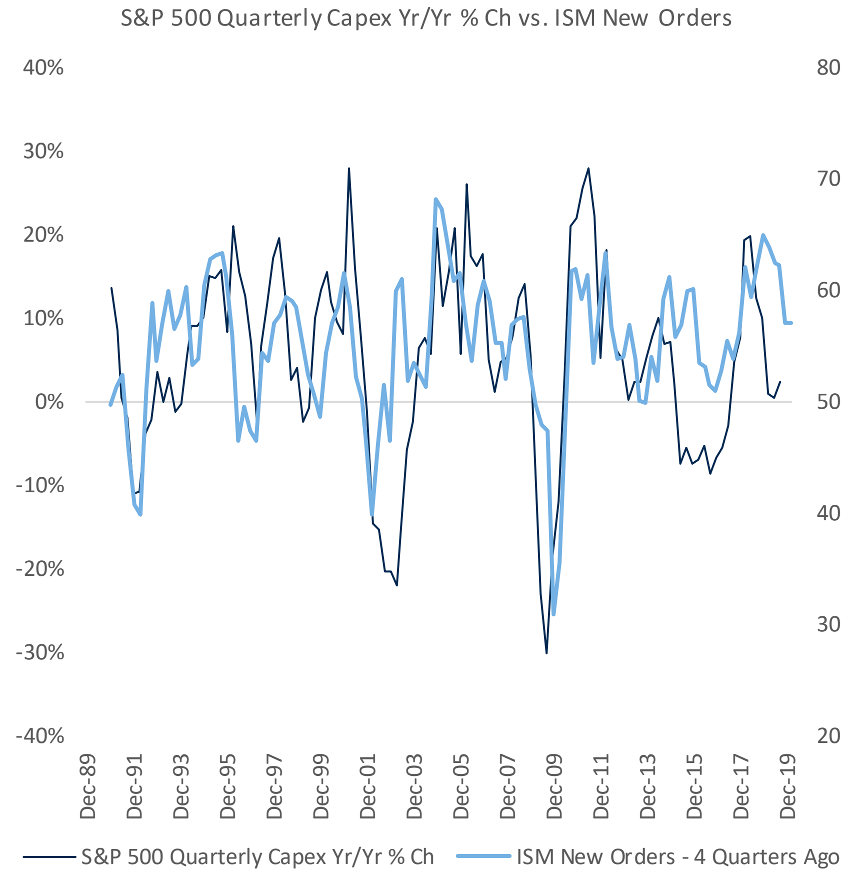
Source: RBC US Equity Strategy, Haver

Capex Trends Have Weakened

Key Takeaways

- Capex growth rebounded in 1H18, but the rate of growth slowed in 2H18. In recent quarters, spend has essentially been flat year-over-year.
- Historically, ISM new orders tends to lead actual capex spend by a year. 2019's deterioration points to further moderation in coming quarters.



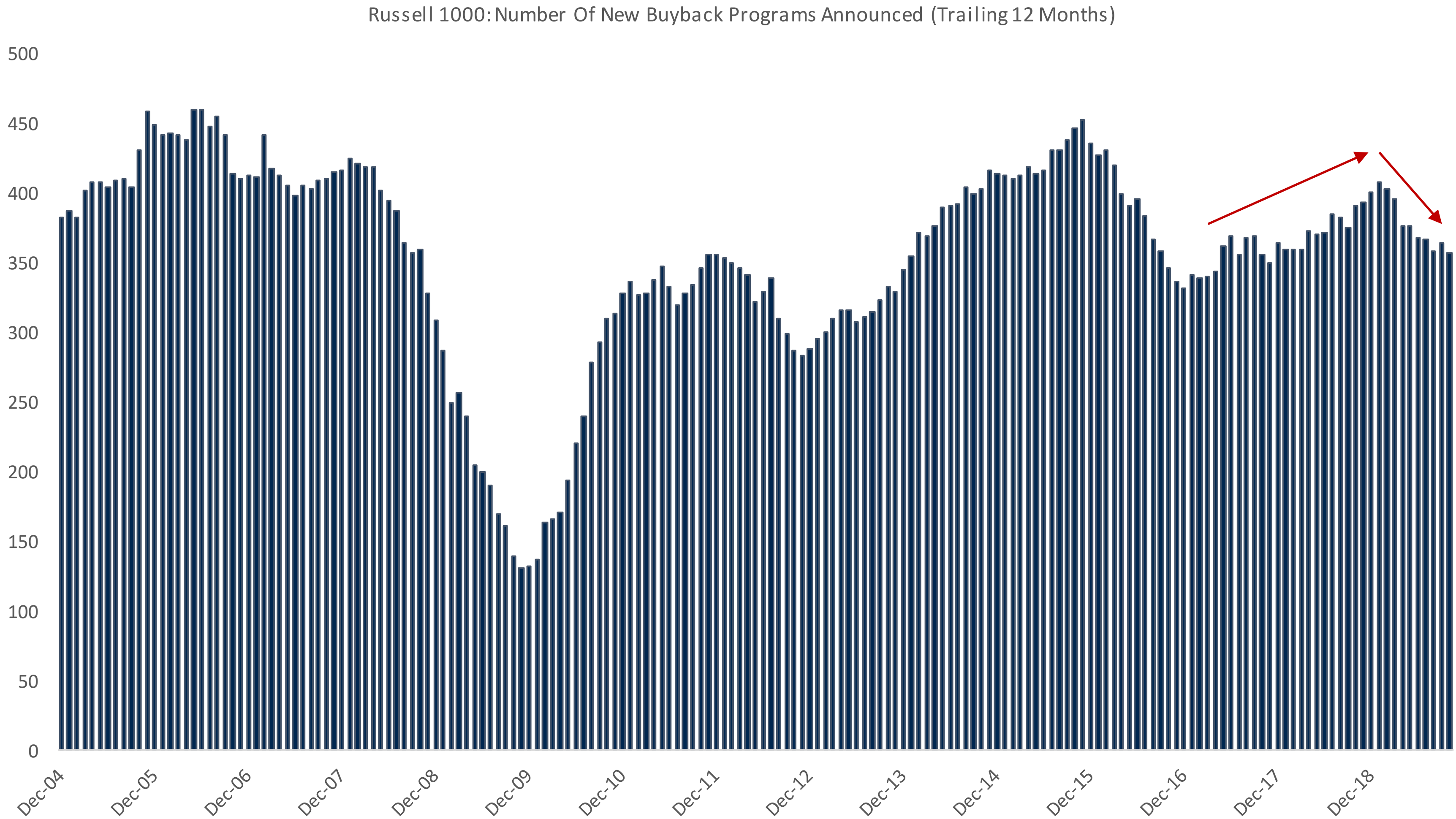


Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Haver, Compustat. Latest data point is as of 3Q19 (preliminary).

Buyback Announcements Are Slipping

Key Takeaways

- New buyback announcements had been pointing to a strong pipeline of share repurchases through year-end 2018.
- They've started to slip in 2019 and suggest that activity will continue to moderate.

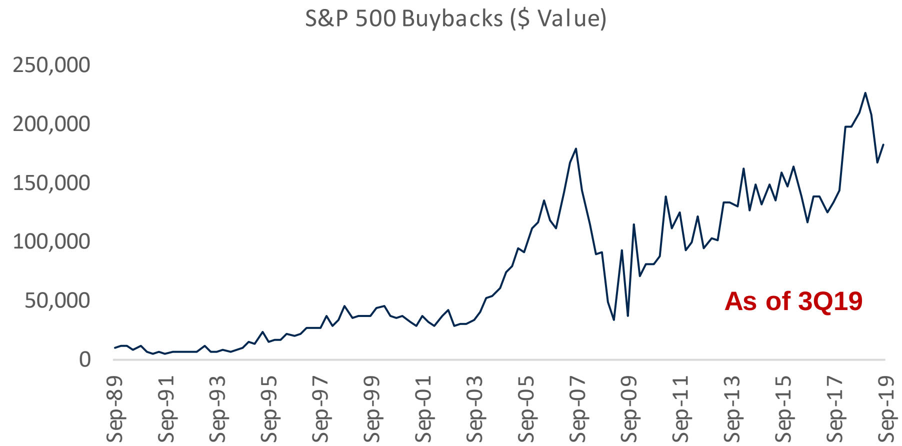


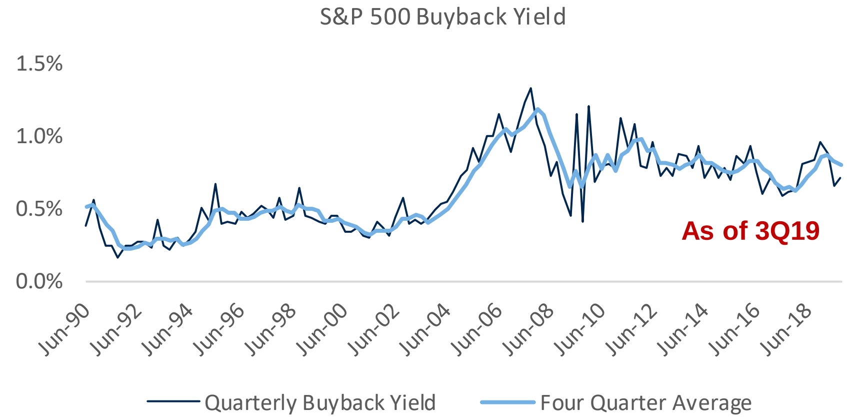
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ Key Developments, Russell

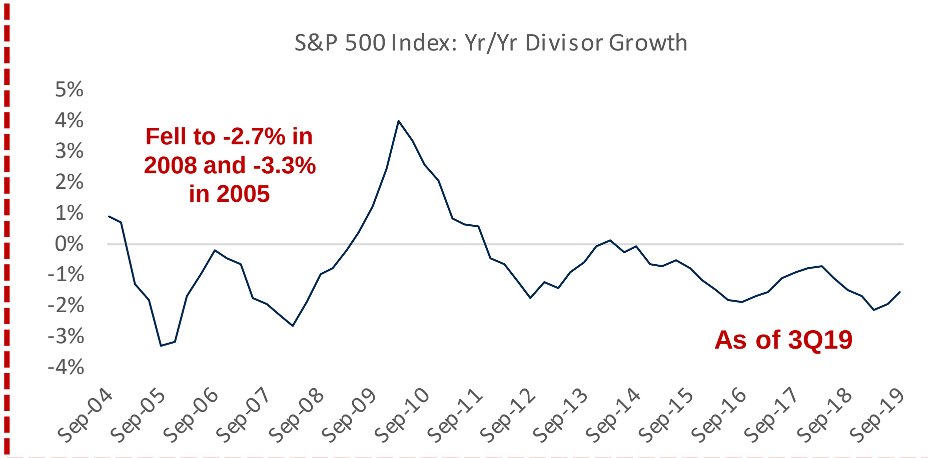
Buyback Activity Has Moderated in 2019

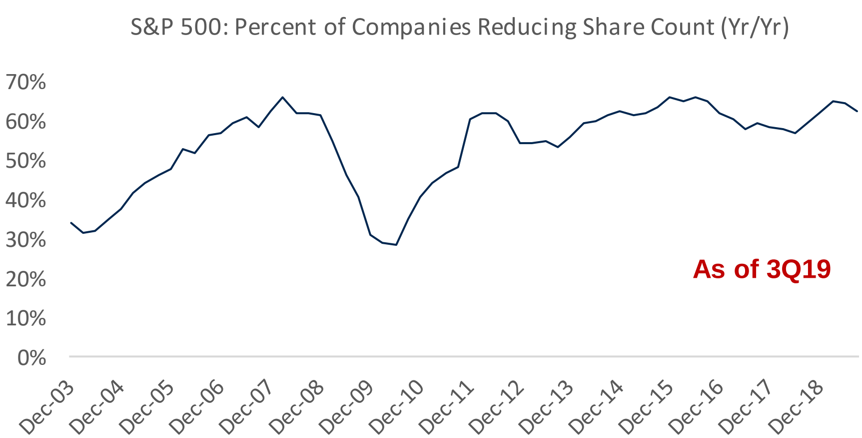
Key Takeaways

- The dollar value of share repurchases soared in 2018, hitting a new high at the end of the year. Buyback yield (the dollar value of share repurchases relative to market cap) also picked up sharply in late 2018. Both eased significantly in 1H19, before stabilizing in 3Q19. On balance we still see strong buyback trends, but less powerful ones than 2018.
- In 3Q19 the net share count reduction in the S&P 500 fell to 1.6% (similar to 2012 & mid 2016), from 2% in 2Q.
- The percentage of companies doing buybacks has also slipped after touching typical highs.







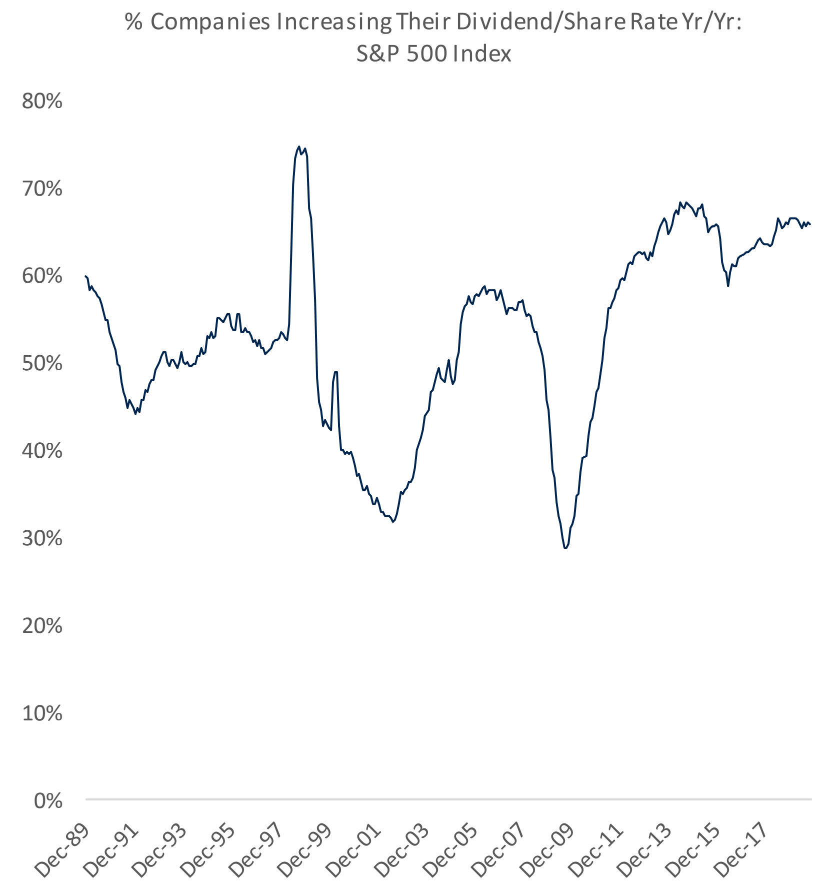


Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Compustat. Latest data point is as of 3Q19 (preliminary).

Mixed Dividend Trends for the S&P 500

Key Takeaways

- The S&P 500's weighted average dividend yield had been on the rise, but has slipped a bit as of late November.
- The percentage of S&P 500 companies increasing their dividend/share rate has been climbing and is stable near its 2014–15 highs.

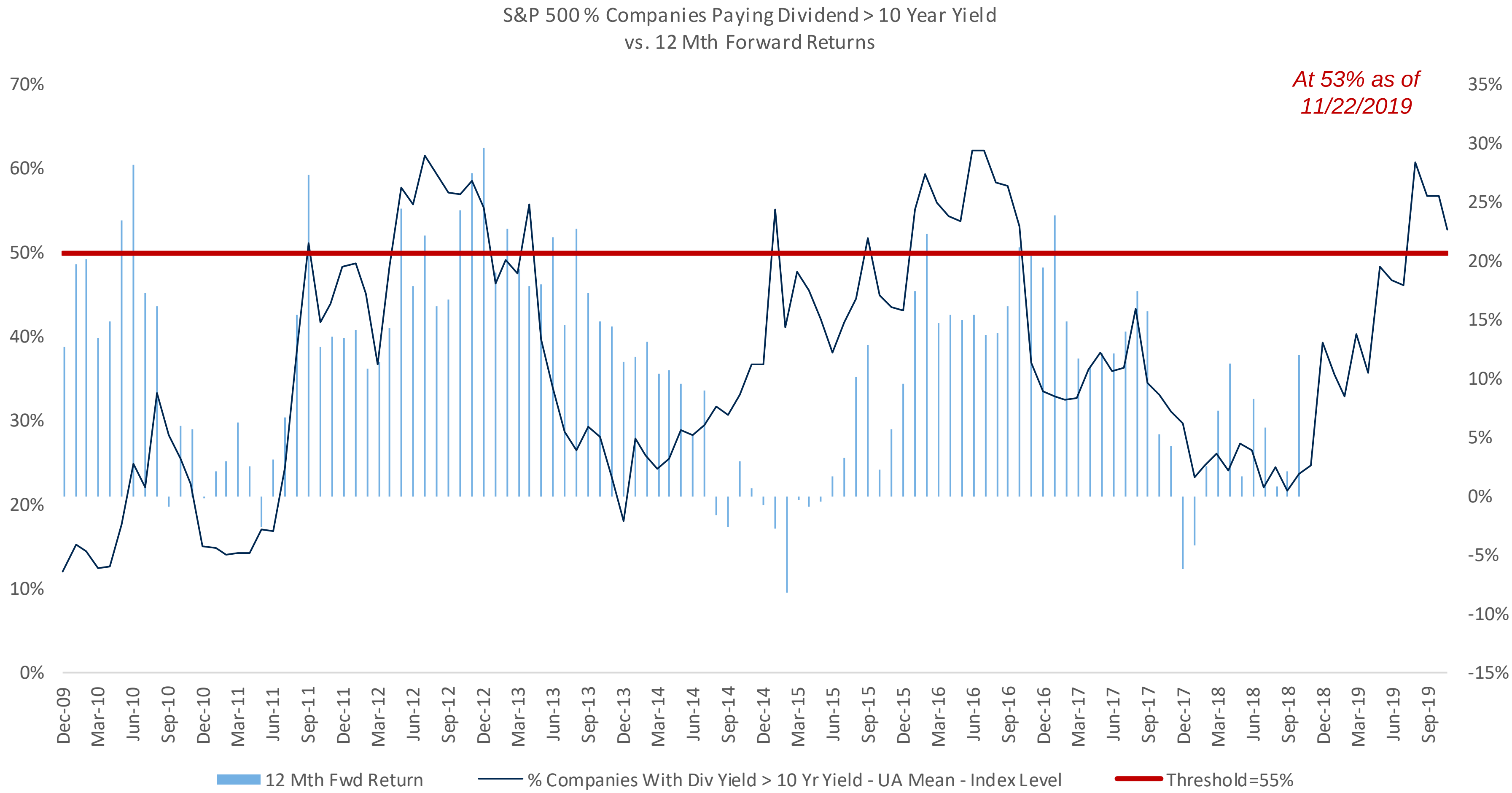


Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi

Dividend Yield Still Making A Case For The Stock Market

Key Takeaways

- Since the Financial Crisis, it's generally been a good time to buy US stocks when the percentage of S&P 500 companies with dividend yields above the 10-year Treasury yields has been high, as it has been recently.
- Historically when our indicator has crossed the 50% threshold mark (which it did in August), the S&P 500 has been up 95% of the time on a 12-month forward basis with average returns of 18%. Below 50%, forward returns tend to be closer to trend.
- The 10 year yield would have to climb to above 1.85% for this indicator to break below 50% (assuming constant dividend yields).

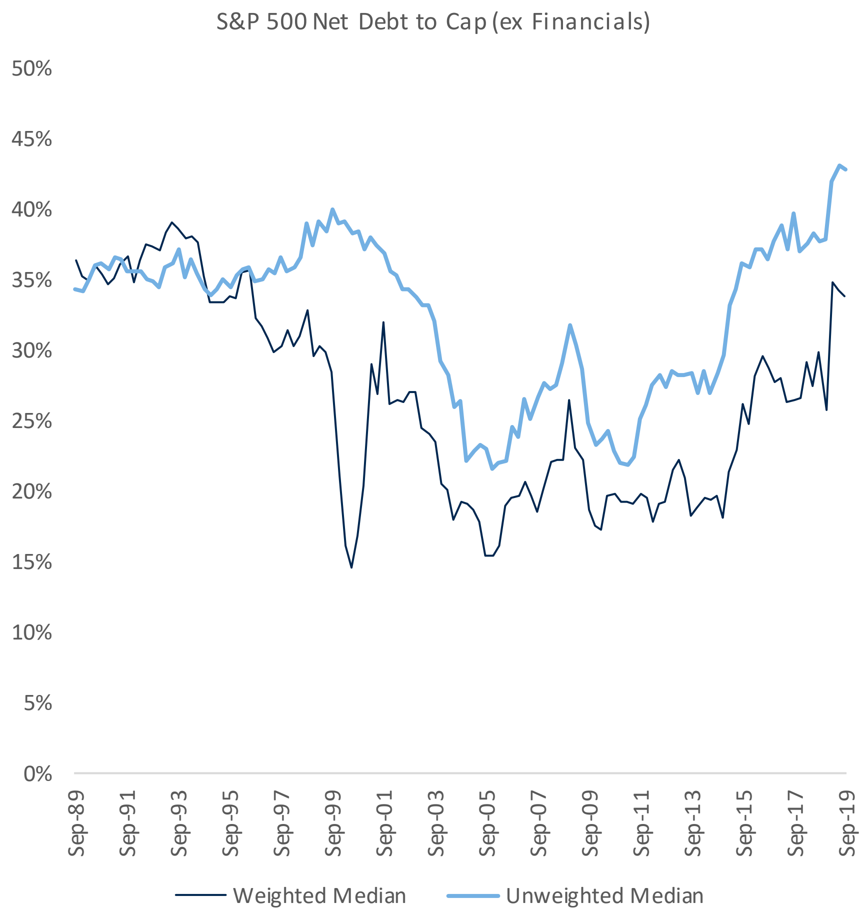


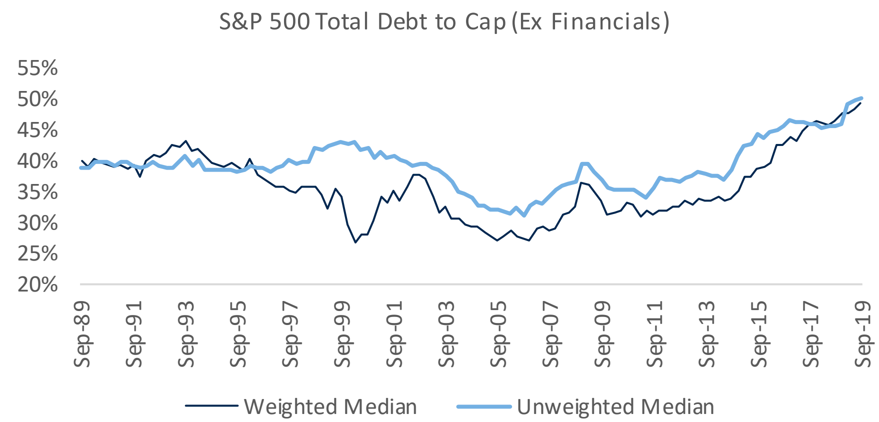
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Bloomberg

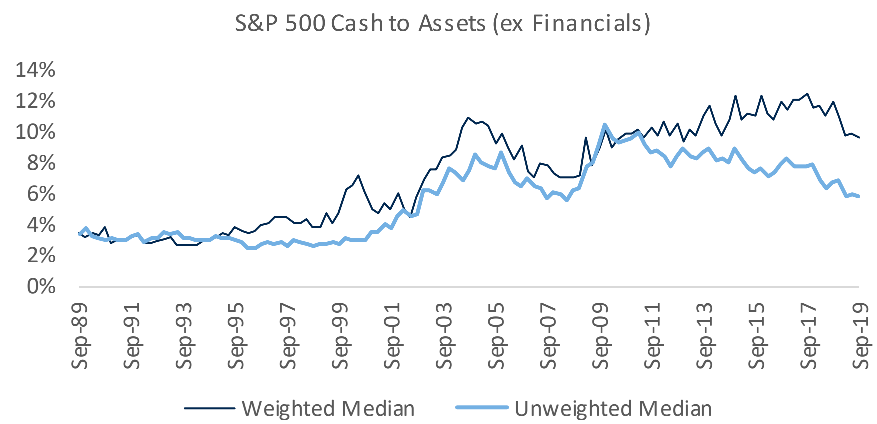
Net Debt Moved Up in 1H19, as Total Debt Rose and Cash Levels Fell

Key Takeaways

- Net debt to cap has been near historical peak for the median S&P 500 company in recent years. It had been falling in 2018 but moved up in 1Q19 and started stabilizing in 2Q19. This stabilization continued in 3Q19, despite companies' ability and willingness to issue more debt at lower interest rates during the quarter.
- The 1H19 spike indebt levels occurred as total debt rose and cash levels fell. Cash for the median company is close to 2007 lows but remains elevated for the S&P 500 on a market cap weighted basis.





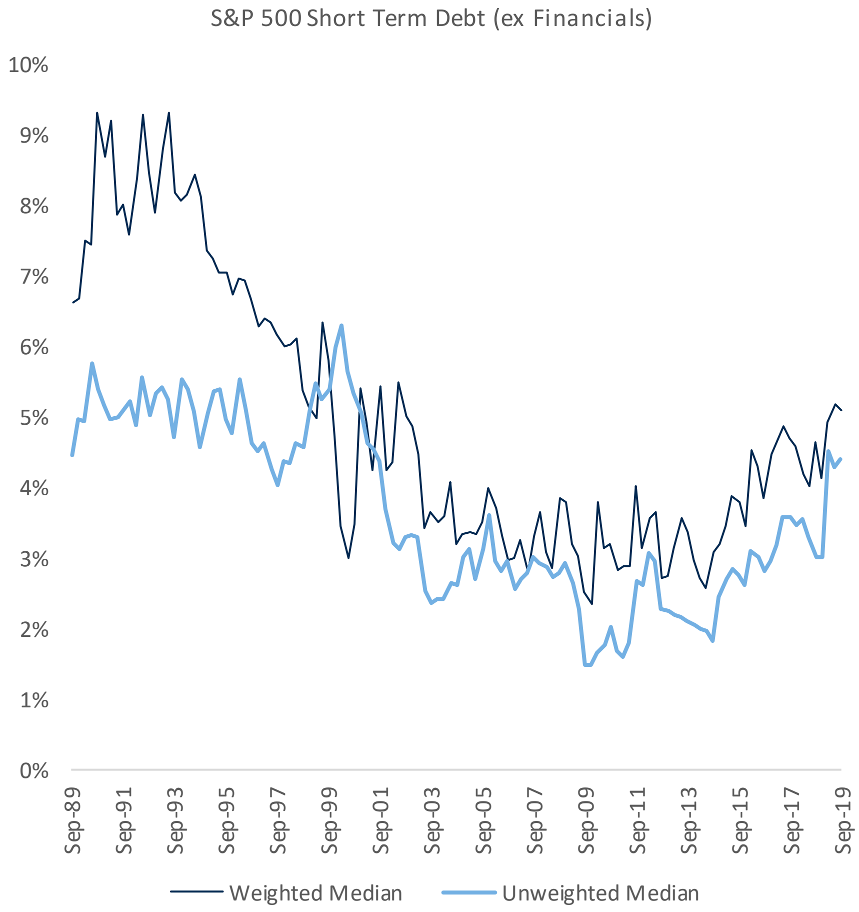


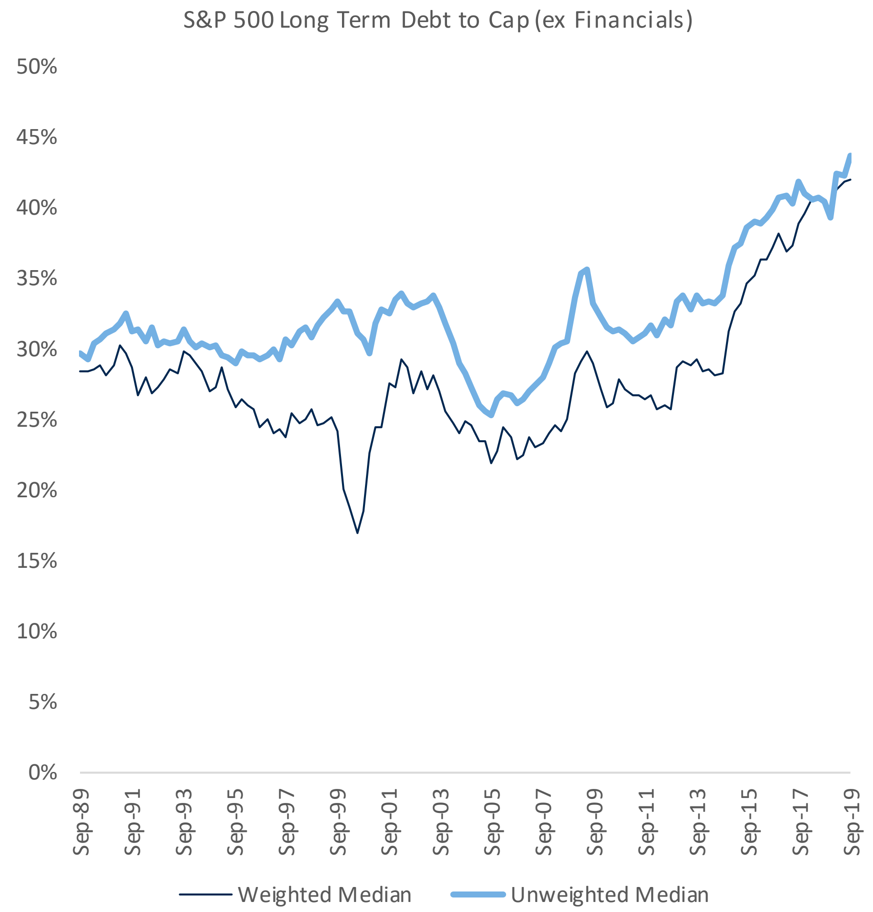
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Compustat. Note that changes to lease accounting procedures took effect in 1Q19. Latest data point is as of 3Q19 (preliminary).

Short-Term Corporate Debt Levels Have Been Low, Long-Term Debt Has Been Elevated

Key Takeaways

- Short-term debt (due within a year) remains low relative to history, which hints at corporate debt being manageable. Long-term debt has been elevated on a median and weighted median basis and has been driving the increase in leverage.
- Data reported for 3Q19 shows that both have moved up a bit recently, helping to drive the overall uptick in debt.



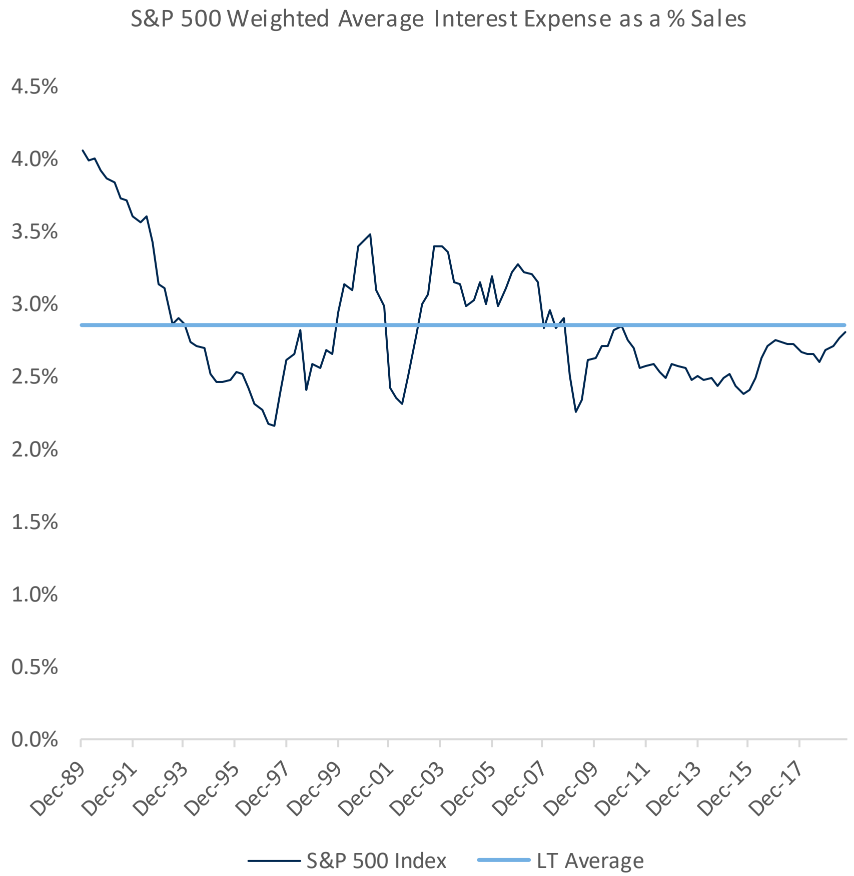


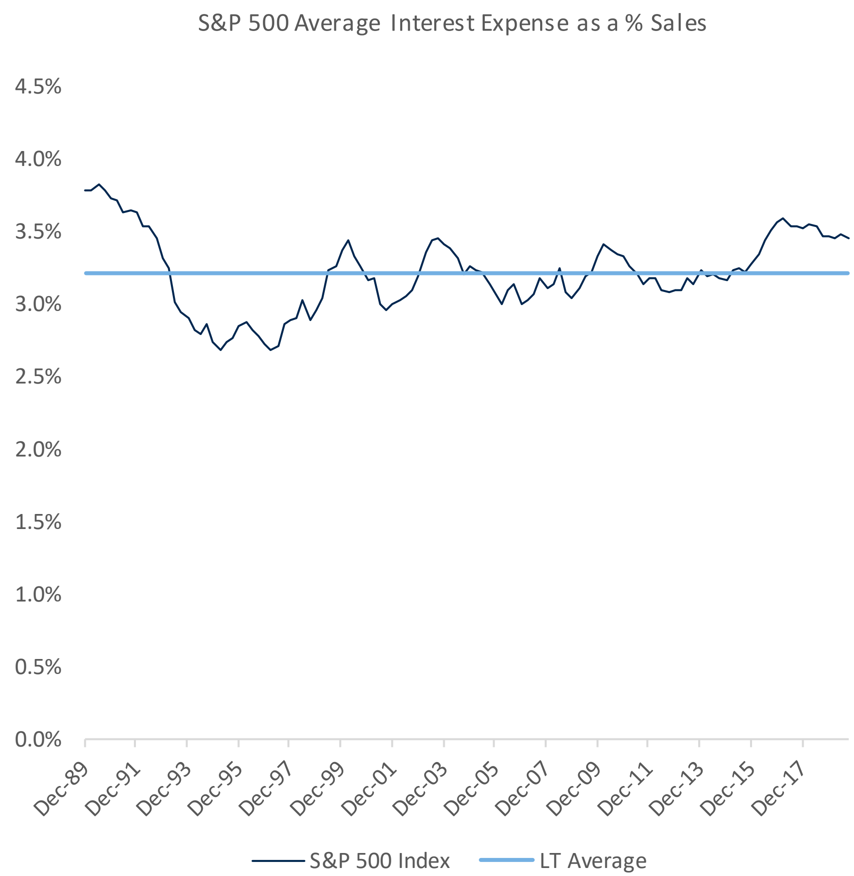
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Compustat. Note that changes to lease accounting procedures took effect in 1Q19. Latest data point is as of 3Q19 (preliminary).

Interest Expense Hasn't Become a Problem Yet

Key Takeaways

- Interest expense relative to sales has moved up a bit but is still close to average on a weighted basis.
- On average, it's actually been declining for the S&P 500, though it's still a bit above average.





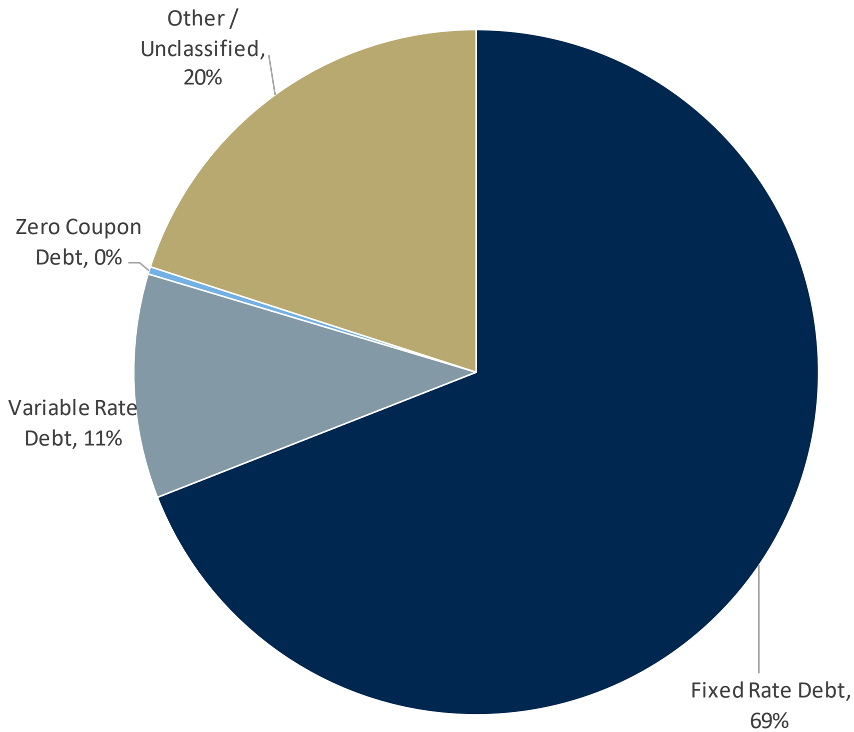
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Compustat. Latest data point is as of 3Q19 (preliminary).

Most Debt on Corporate Balance Sheets Is Fixed-Rate

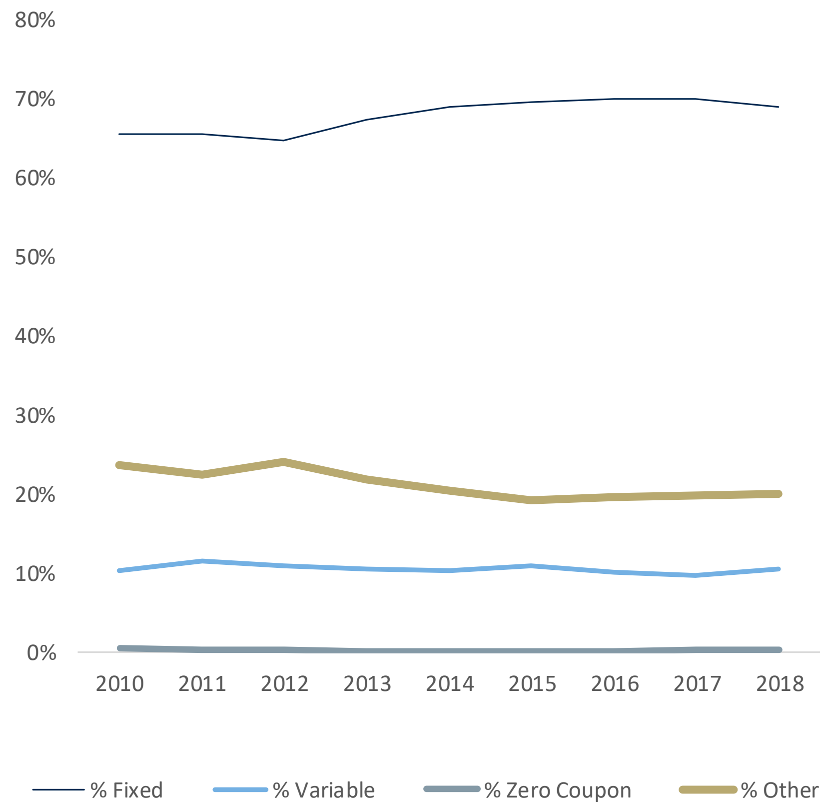
Key Takeaways

- We have continued to field questions on the composition of companies' debt capital structures. Below we highlight the current breakdowns by type of debt as well as fixed vs. floating rate.
- The percentage of debt that's variable/floating (what we're able to capture, as determined by Capital IQ) has been relatively stable since 2010. Note that the charts below are based on current S&P 500 constituents.

S&P 500 ex Financials/Auto Manufacturers/GE/REITs: Breakdown of Total Principal Due By Fixed vs. Floating Debt (Latest Quarter)



S&P 500 ex Financials/Autos/GE/REITs: Breakdown of Total Principal Due - Fixed vs. Variable/Floating Rate

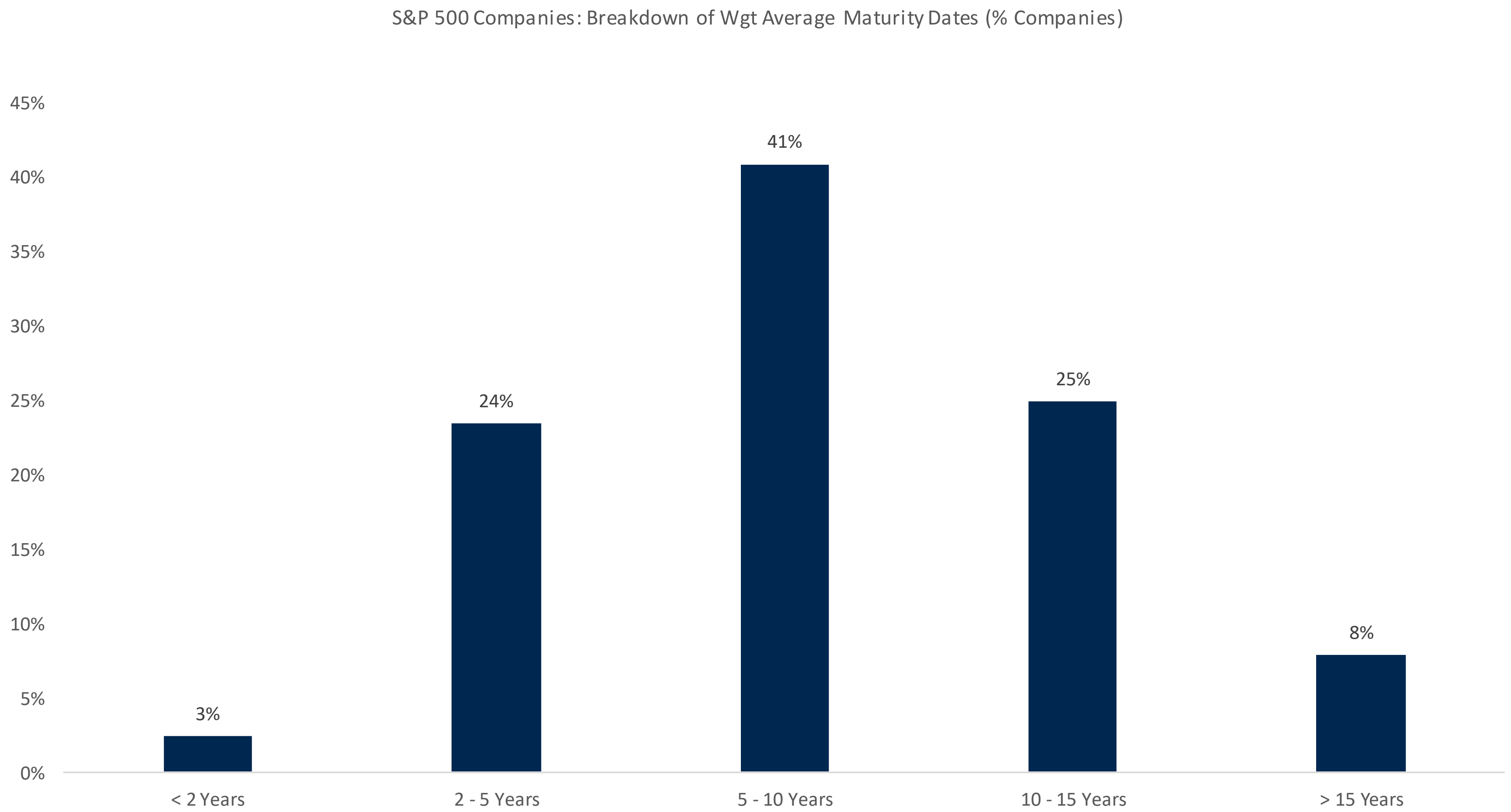


Source: RBC US Equity Strategy, S&P Capital IQ. Other/unclassified is any portion of the total principal due that has not been classified as variable/zero/fixed rate debt by Capital IQ; as of 2018

Most Companies Have Long Leads on Repayment

Key Takeaways

- On average, the weighted average maturity date for S&P 500 companies is approximately eight years out.
- 33% of S&P 500 companies have a weighted average maturity 10-plus years out.

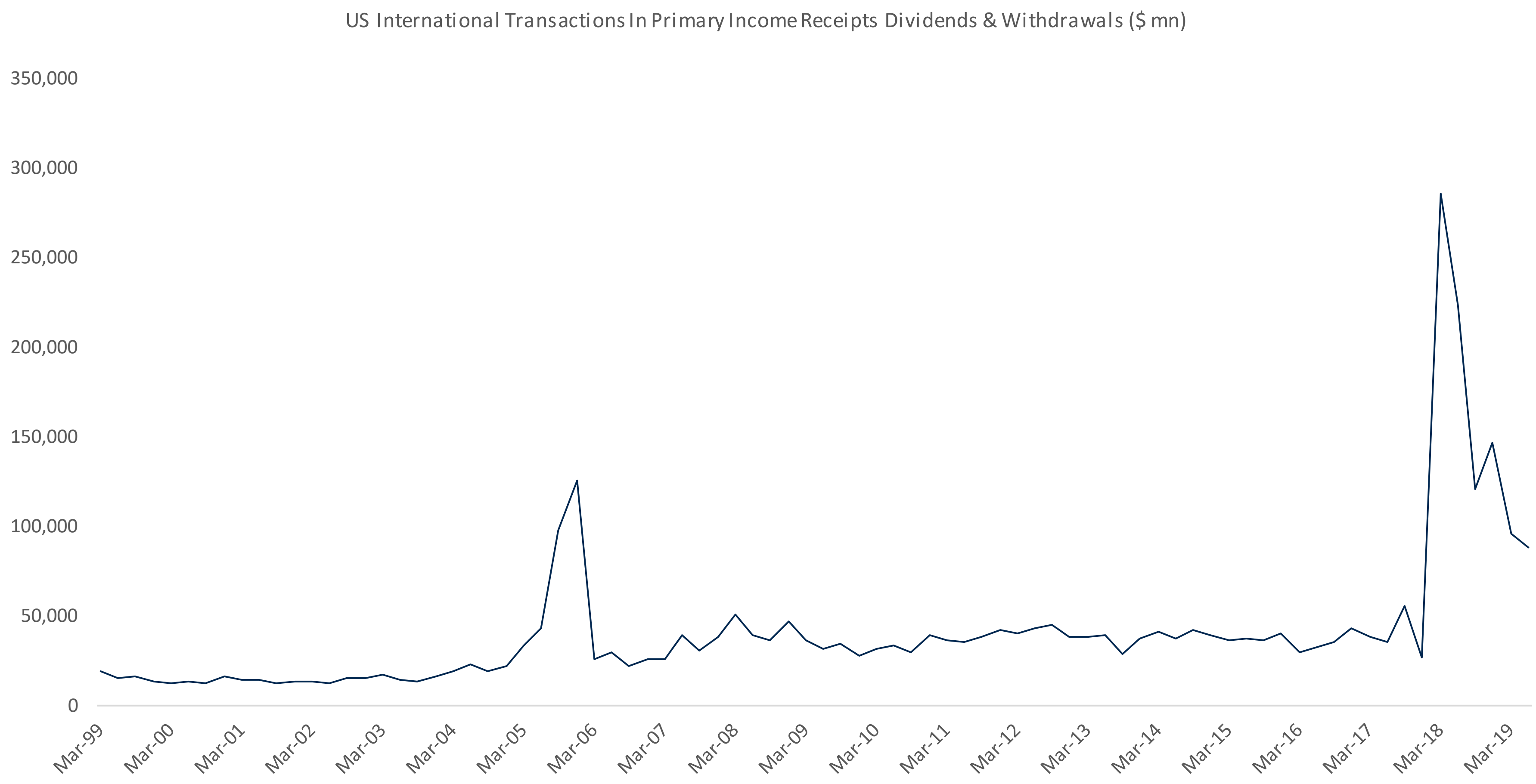


Source: RBC US Equity Strategy, Bloomberg. Frozen as of November 25th, 2019

Repatriated Cash Peaked in 1Q18

Key Takeaways

- The amount of overseas cash brought back to the US spiked in 1Q18 after new tax reform laws were enacted.
- However, it slipped meaningfully over the last year. Updated through 2Q19.

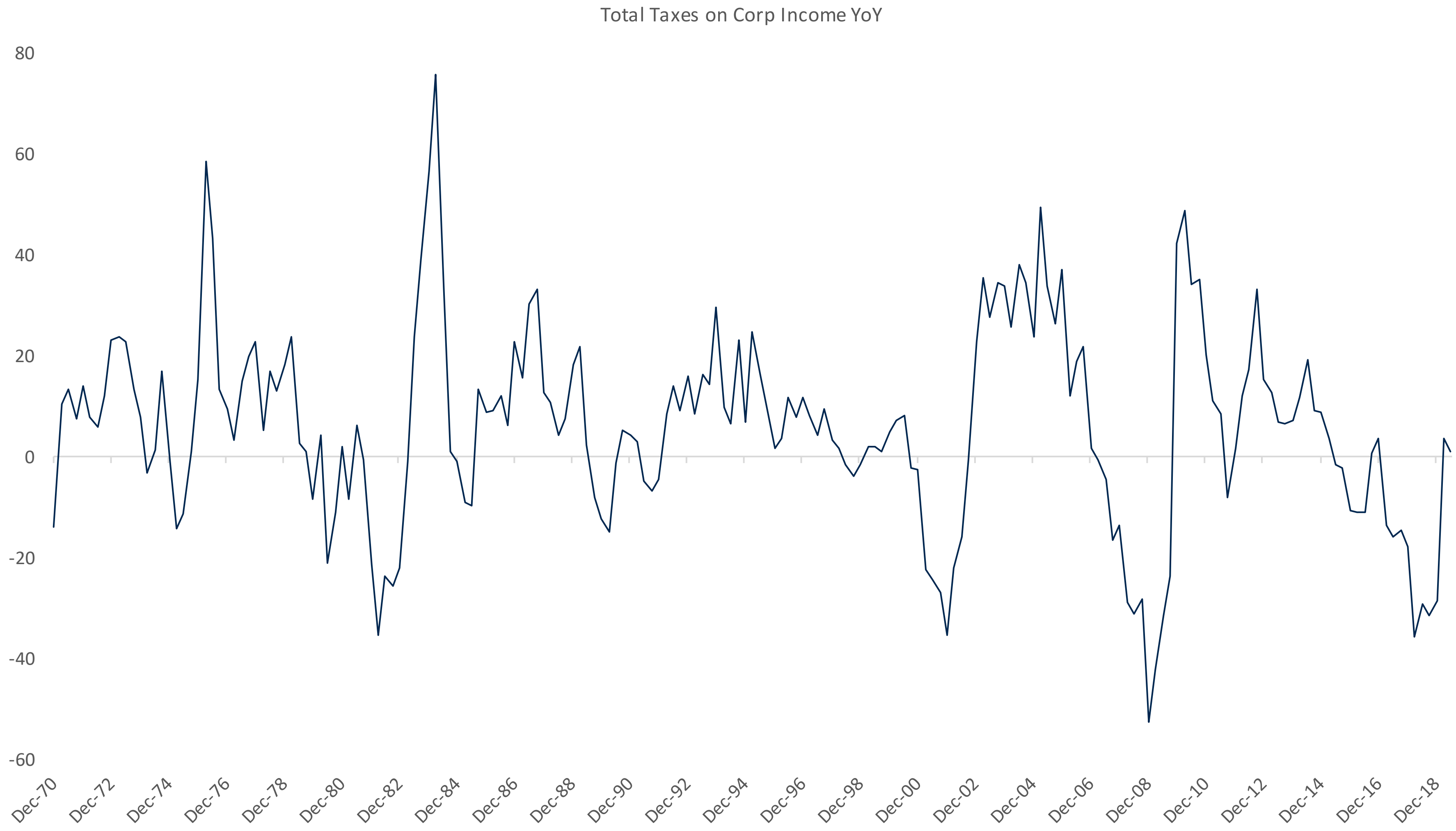


Source: RBC US Equity Strategy, Bloomberg, Bureau of Economic Analysis

Tax Tailwind Was Meaningful in 2018, Dissipated in 2019

Key Takeaways

- Corporate taxes paid were down substantially in 2018 due to the Tax Reform and Jobs Act. These kinds of declines are typically seen in recessions.
- In 2019, the amount of taxes paid has been flat year over year.

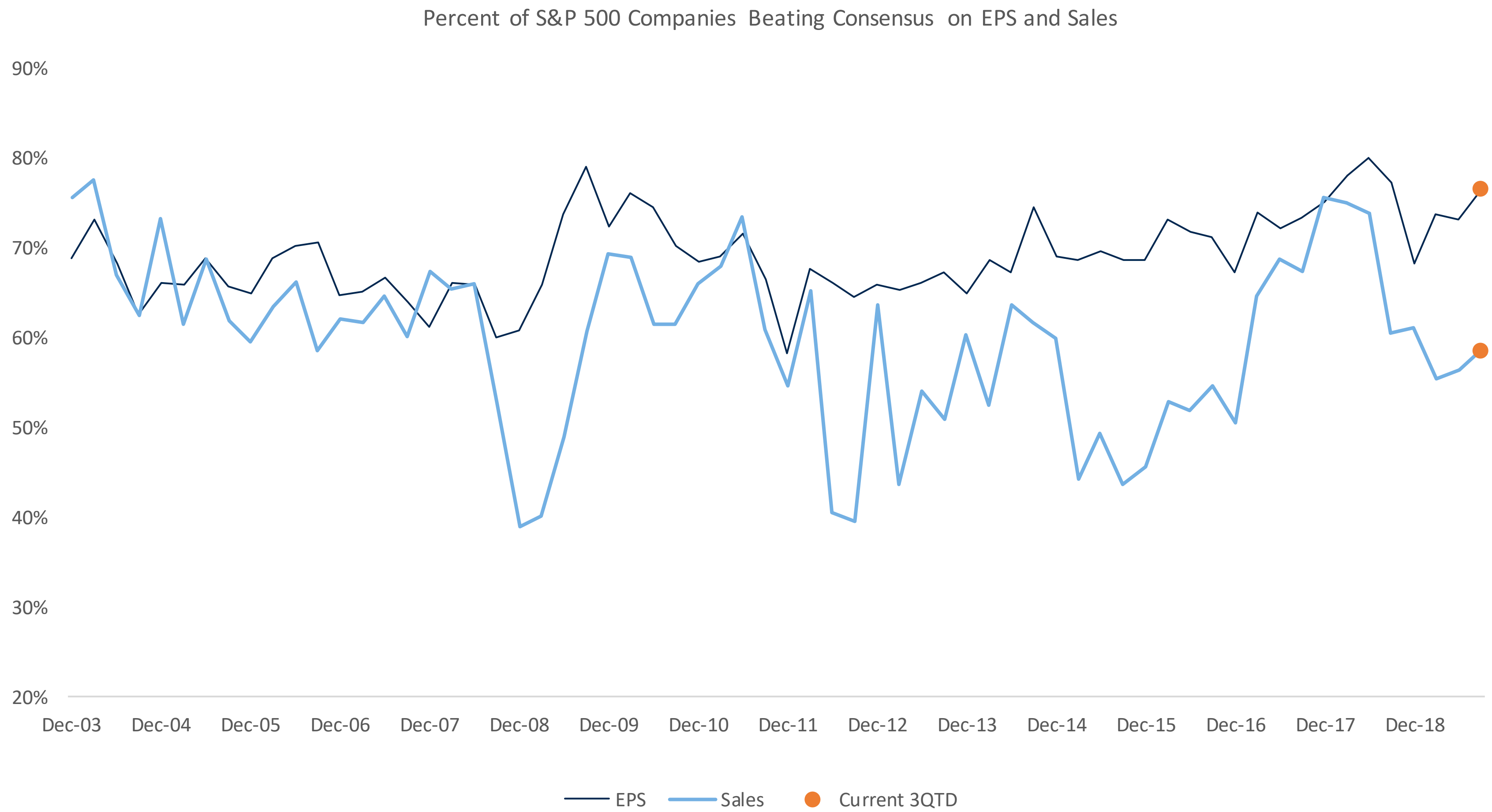


Source: RBC US Equity Strategy, Bloomberg, Bureau of Economic Analysis

Historical Trends in EPS and Sales Beat Rates for the S&P 500

Key Takeaways

- Generally, companies have been more prone to beating consensus on EPS than sales post-Financial Crisis, a testament to the efforts of companies to enhance earnings through buybacks, managing their tax rates, and cost controls.
- In 3Q19 EPS beats came in well above 2Q19 levels and well above their LT average. Sales beats also came in above 2Q19 levels and near their LT average.
- Charts below are frozen as of 11/22/19 when 95% of S&P 500 companies had reported results.

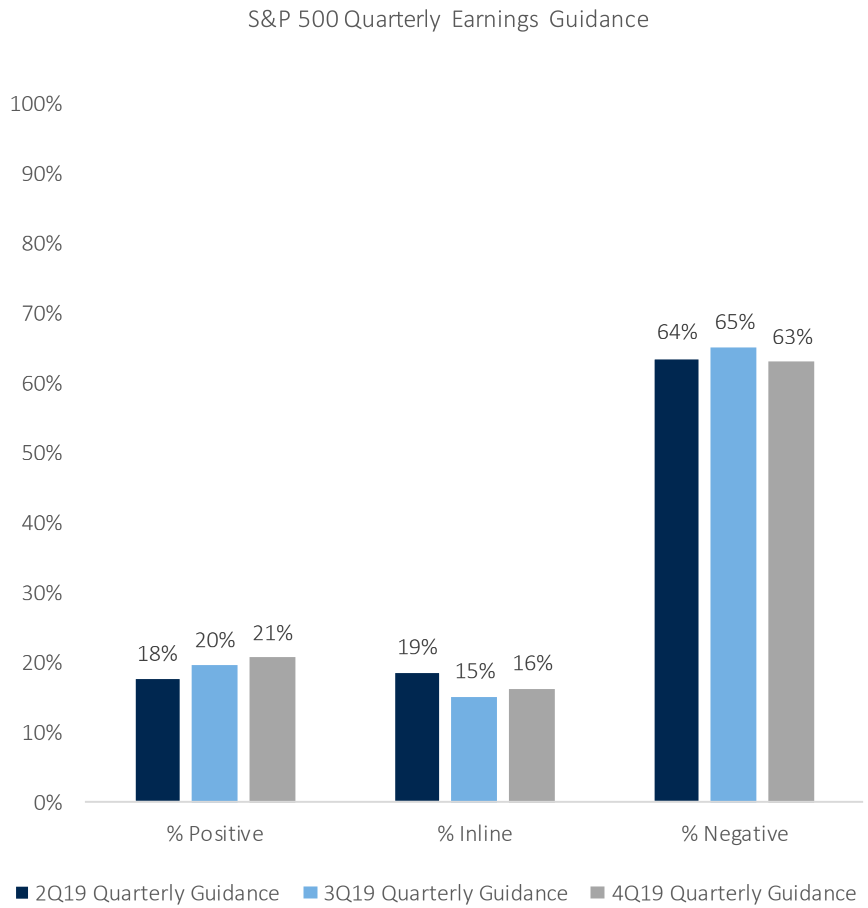


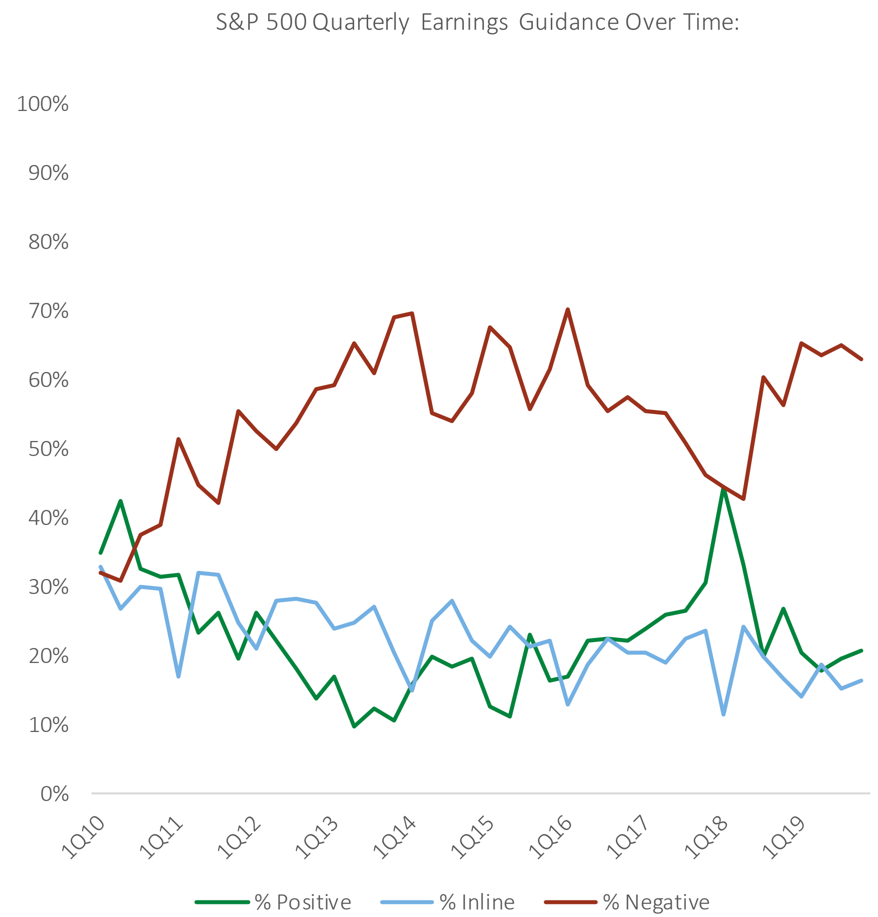
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates

Negative Preannouncements Are Elevated

Key Takeaways

- As of November 22nd, 18% of S&P 500 companies had issued 4Q guidance. Of those, 63% have been negative, 19% have been positive, and 16% have been in line, all tracking a bit better than levels seen last reporting season.
- Negative preannouncements have been on the rise since early 2018. Note that they remained elevated for an extended period in 2014-2016.



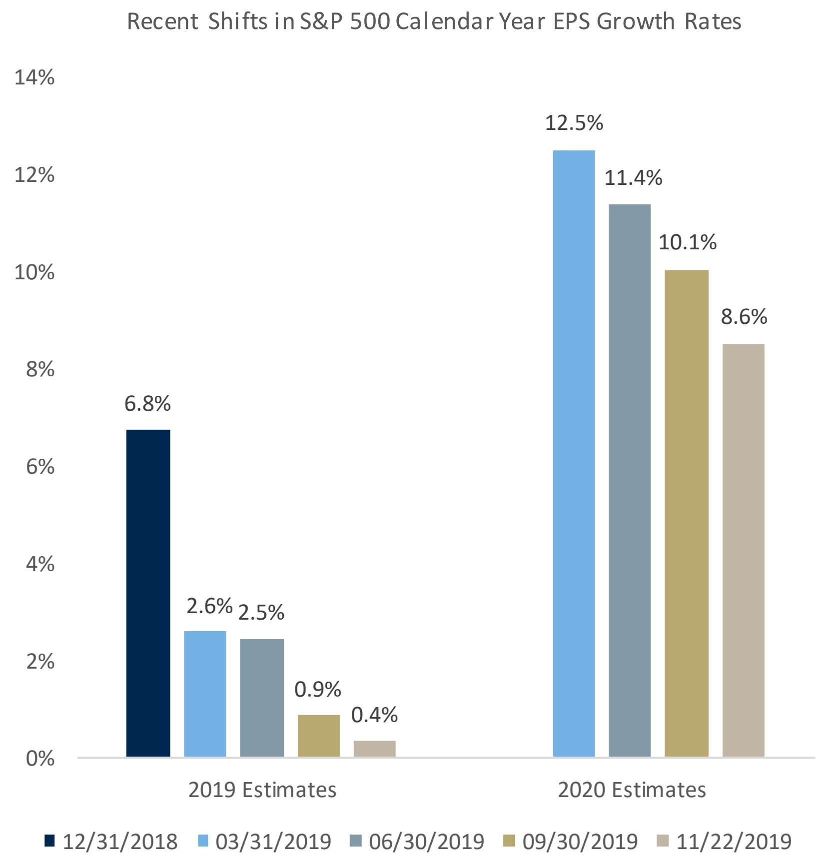


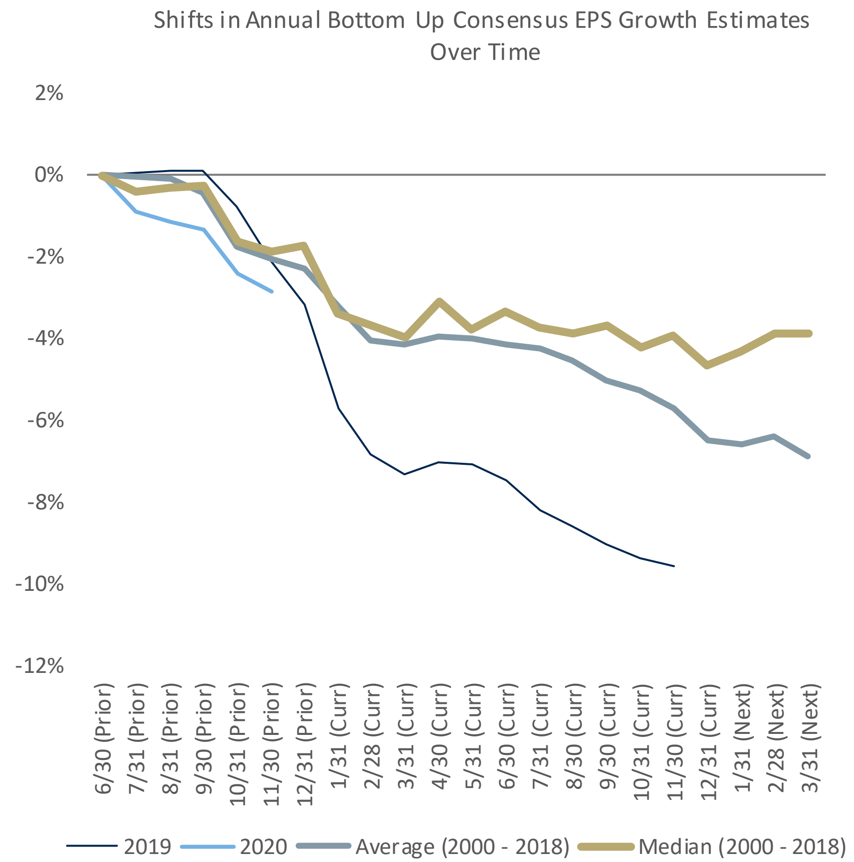
Source: RBC US Equity Strategy, FactSet

Consensus 2019 & 2020 EPS Growth Forecasts Have Been Slipping

Key Takeaways

- 2019 EPS growth estimates have been slipping since mid-2018, at a rate that is worse than has occurred historically. Estimates stabilized in April and May but slipped again in the summer. 2019 bottom-up EPS is currently tracking at $163.50, a bit below RBC's top-down forecast of $165.
- 2020 EPS growth is tracking at 9% or $177.50 for the year. If the typical downward revision from this point in time were applied, it would come in at $171, slightly below RBC's top-down forecast of $174.



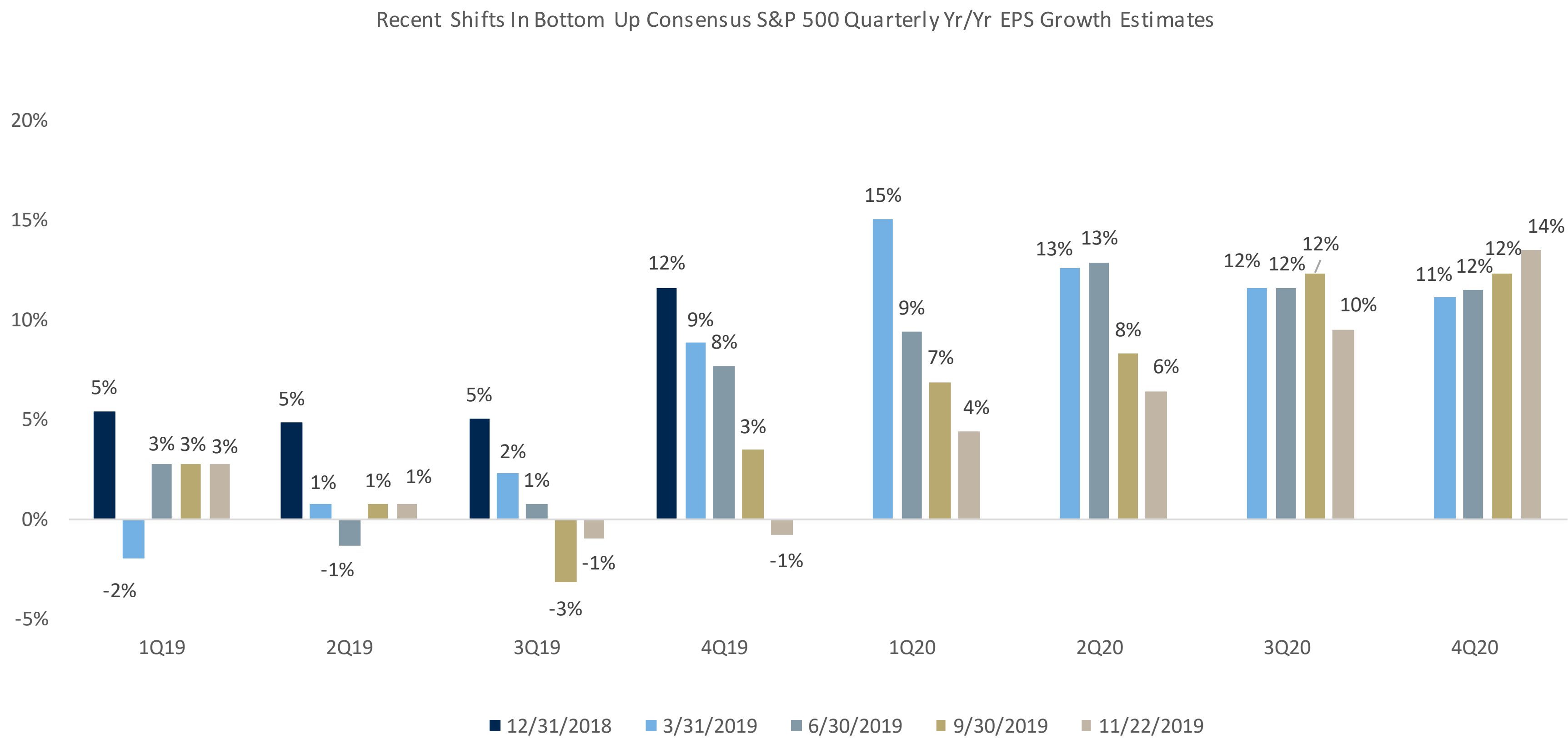


Source: RBC US Equity Strategy, FactSet, Thomson

4Q19 EPS Estimates Have Fallen Into Negative Territory

Key Takeaways

- The 2Q19 growth rate moved up through reporting season last quarter and ended in slightly positive territory (+0.8%).
- 3Q19 yr/yr growth estimates improved through reporting season and are now tracking at -1.0%.
- 4Q19 yr/yr growth estimates have continued to slip and are now in negative territory (-0.8%).
- Looking out to 2020, 1H20 and 3Q20 growth estimates have moved lower. 4Q20 estimates have continued to edge up.

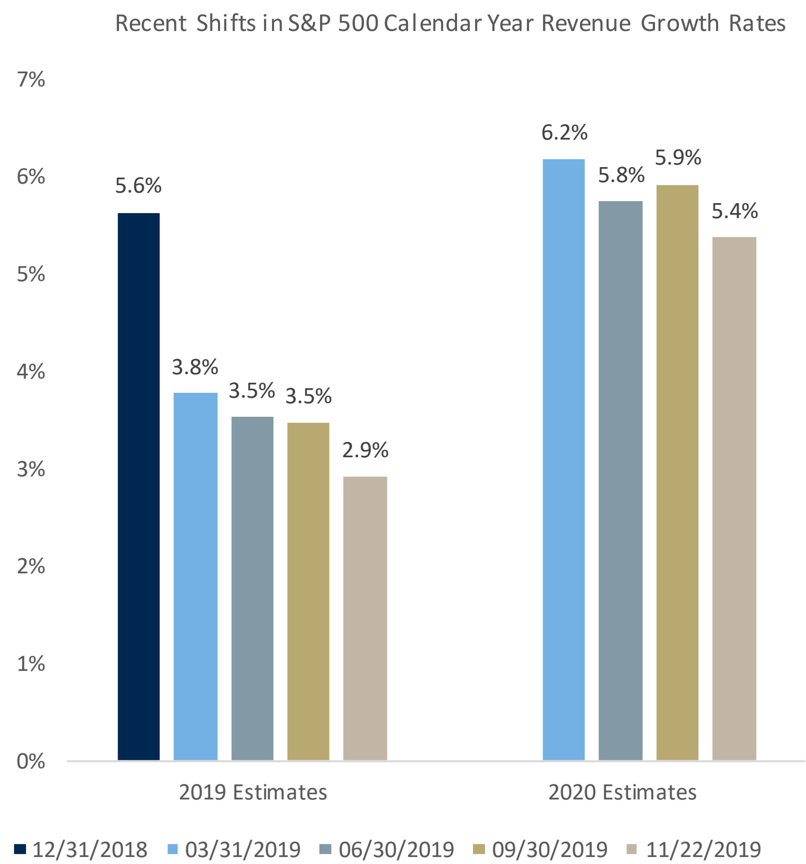


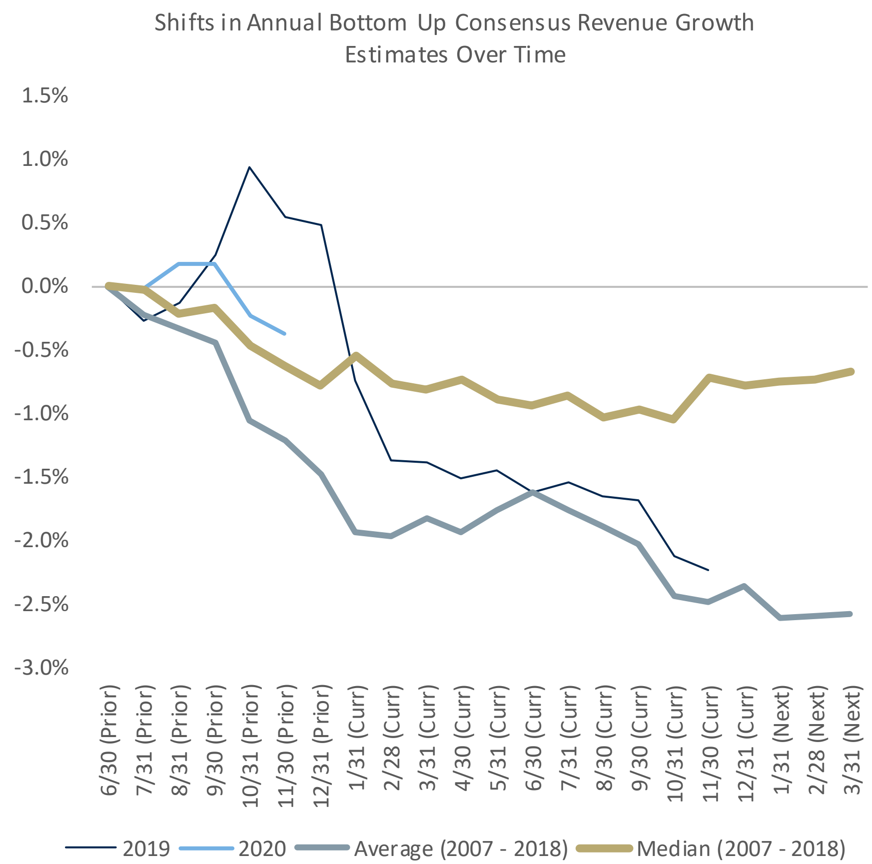
Source: RBC US Equity Strategy, FactSet, Thomson

Revenue Growth Estimates Have Been Moving Lower

Key Takeaways

- 2019 revenue growth estimates were rising through 3Q18 but fell sharply in 4Q18/1Q19. They are now well below the levels anticipated in the summer of 2018, tracking at 2.9%.
- 2020 revenue growth estimates had been stable, but they too have moved lower in recent months.
- Risk skews to the downside from trade uncertainty/damaged business confidence.



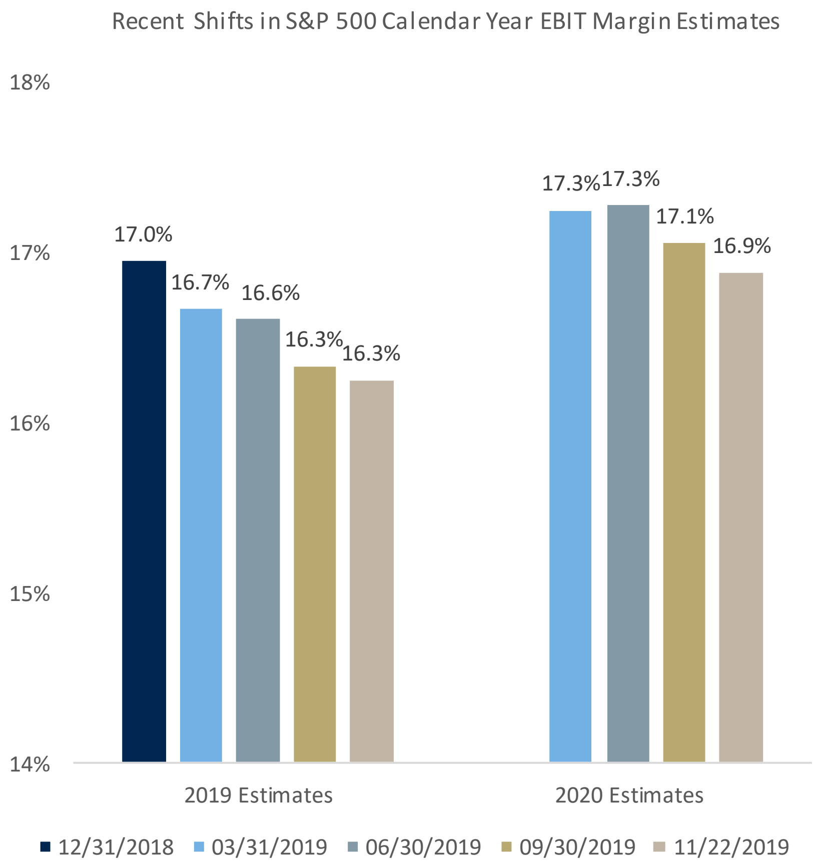


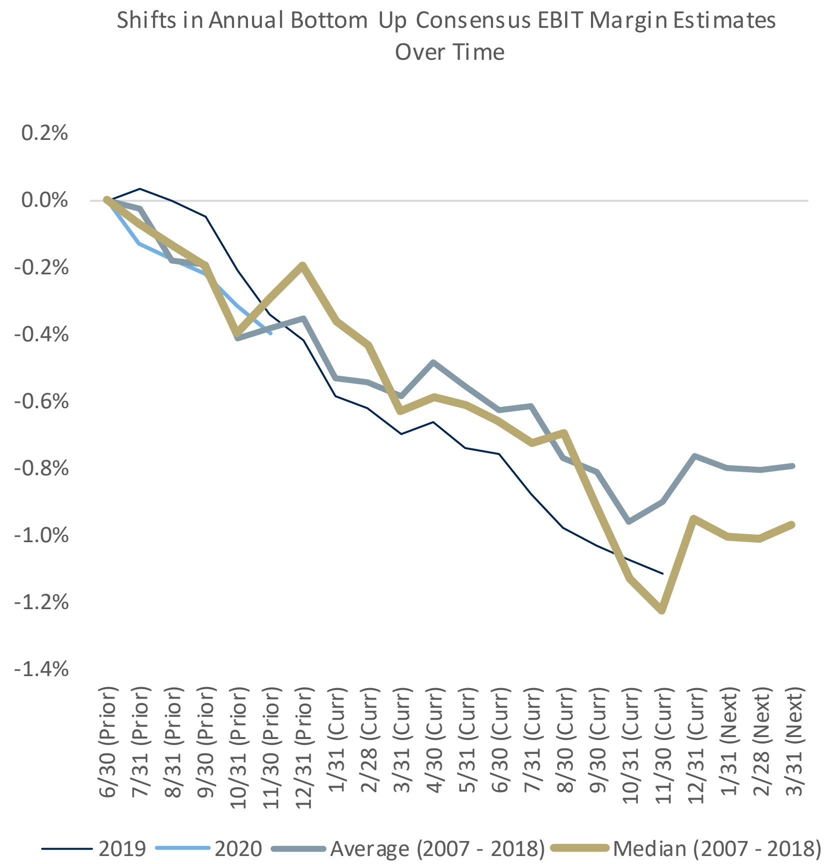
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, Capital IQ estimates

EBIT Margin Estimates Have Been Moving Lower

Key Takeaways

- 2019 sell-side EBIT margin expectations have been slipping. They are now tracking at 16.3% and implying some minor margin contraction vs. 2018 levels.
- 2020 EBIT margin estimates have also eased since the end of June, currently tracking at 16.9%. They are still embedding a high degree of margin expansion vs. 2019 levels.
- Further downward revisions are possible due to trade war effects.



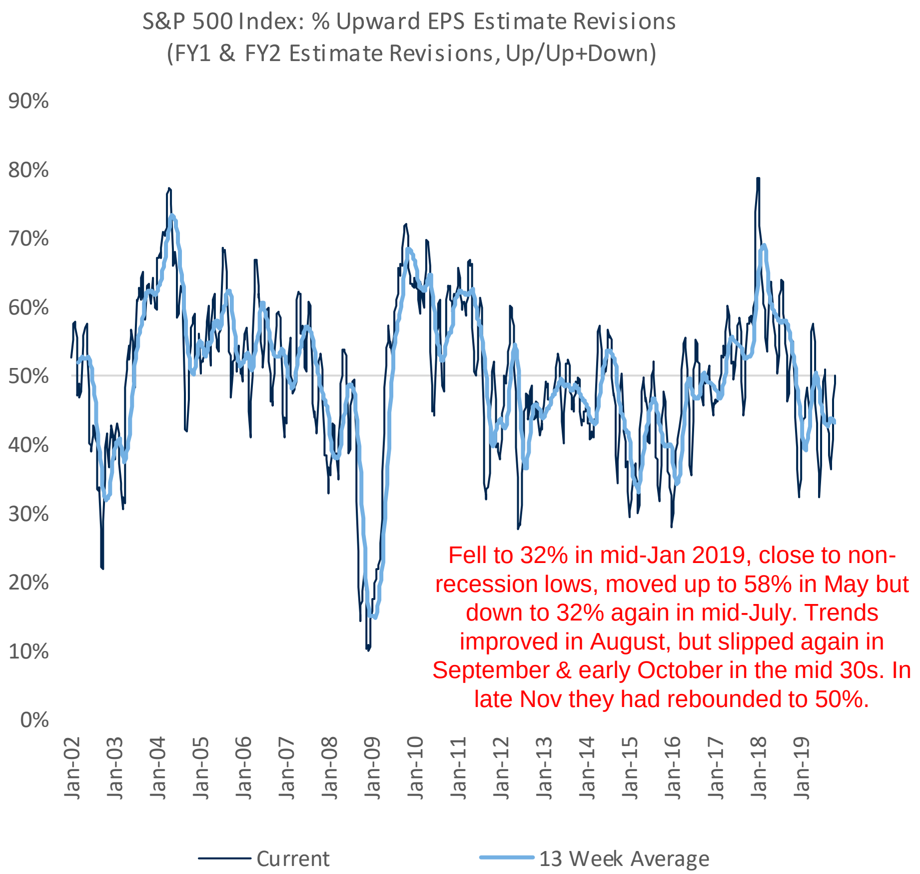


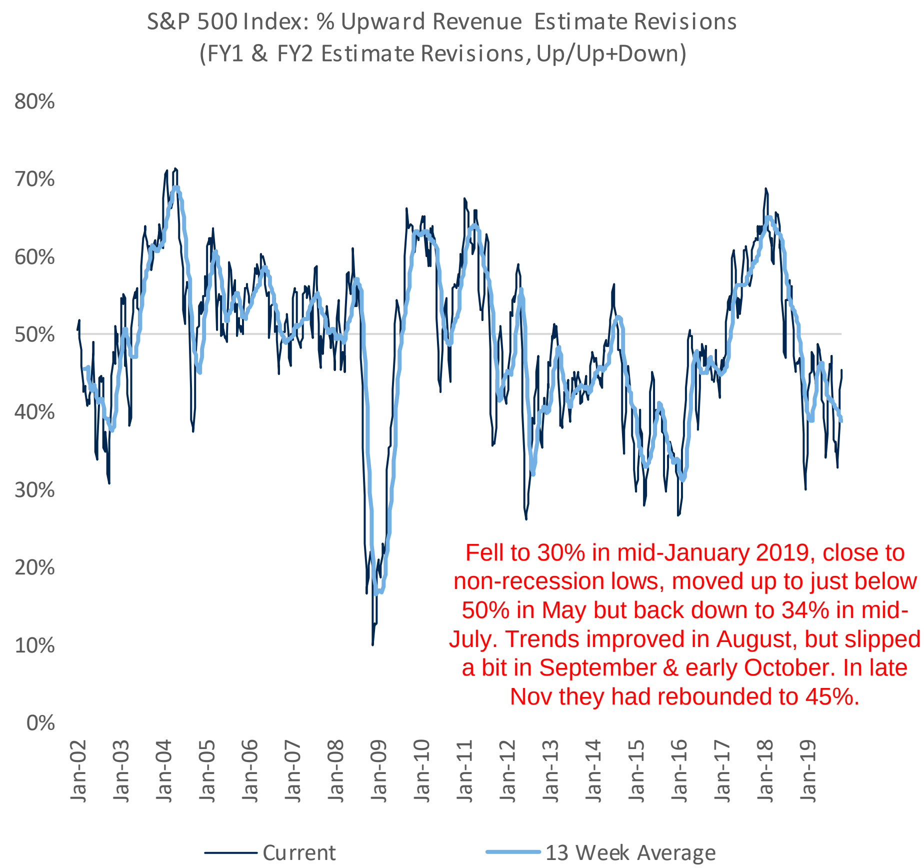
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, Capital IQ estimates

Earnings Sentiment Appears To Have Bottomed

Key Takeaways

- The percentage of upward EPS and revenue revisions was strongly positive for the S&P 500 in early 2018 but had fallen deeply into negative territory in late 2018 and January 2019. By the time the bottom was found, the percentage of revisions was down to the low 30s for both EPS and sales, in line with levels that tend to mark the bottom outside of recessions.
- The recovery in EPS revisions trends in late 1Q19/early 2Q19 was strong, reaching 58% in May. But in June/early July, momentum faded and the rate of upward EPS revisions fell below 50% again. Revisions trends have been choppy since.
- Recent price action in the S&P 500 appears to anticipate a bottom in earnings sentiment and avoidance of recession. But if recession risks start to rise again, history suggests this indicator could make another move lower.



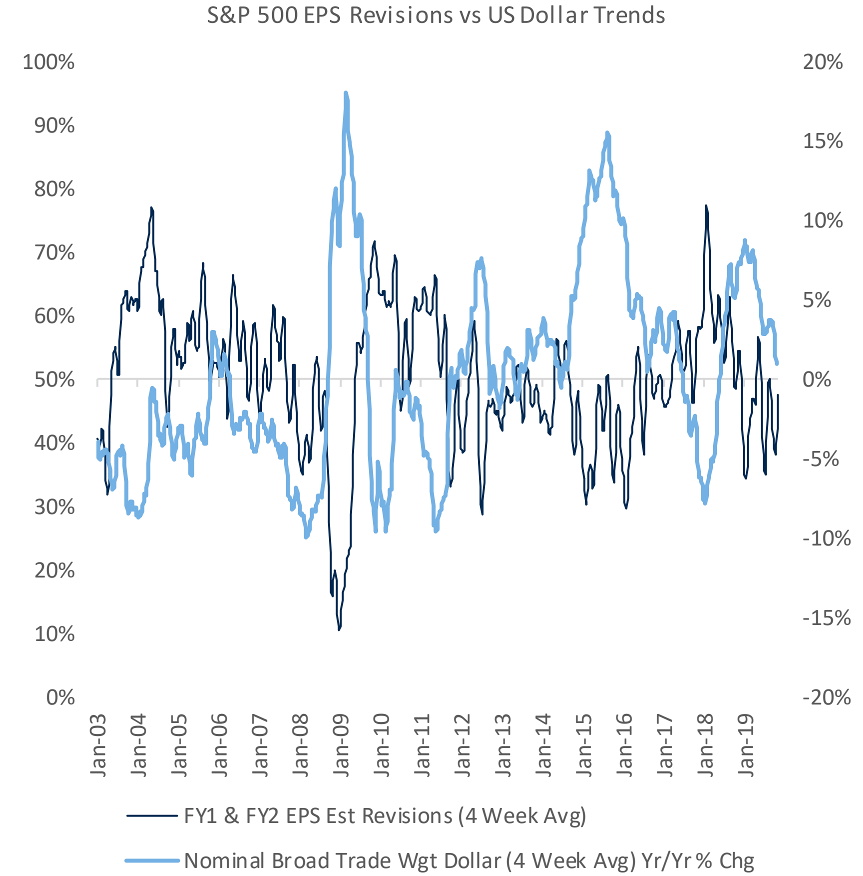


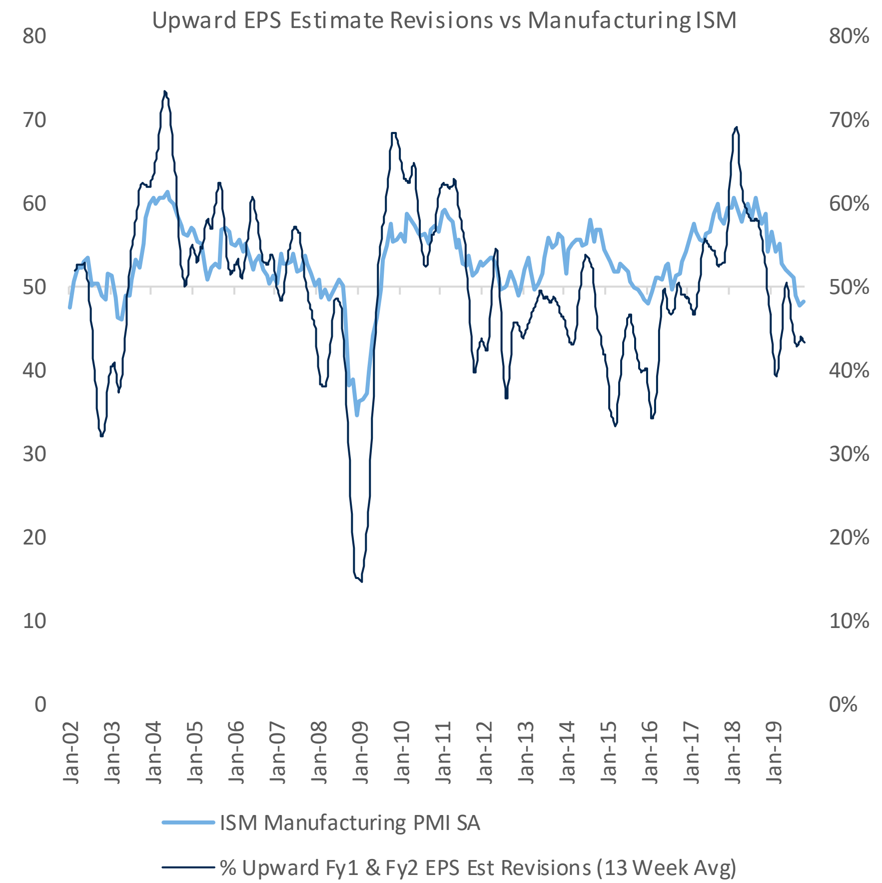
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates. For REITS, FFO/share revisions are used instead of EPS revisions.

The USD and ISM Are Historically Key Drivers of EPS Revisions Trends

Key Takeaways

- Revisions and USD trends move inversely: a weaker USD tends to be accompanied by an acceleration of upward revisions, a stronger USD by deceleration, and ultimately downward revisions. When the Dollar was range-bound in early 2019, companies were highlighting how Dollar headwinds would abate in the second half of the year. In 3Q19 reporting season, we noticed that while many companies were highlighting FX headwinds in 3Q, a few also mused that this headwind may moderate in 4Q.
- Revisions trends also tend to be linked with the ISM. When domestic economic conditions slip on this gauge, earnings expectations tend to come down. If ISM has bottomed, earnings revisions are likely to get less negative and eventually make a return to positive territory.



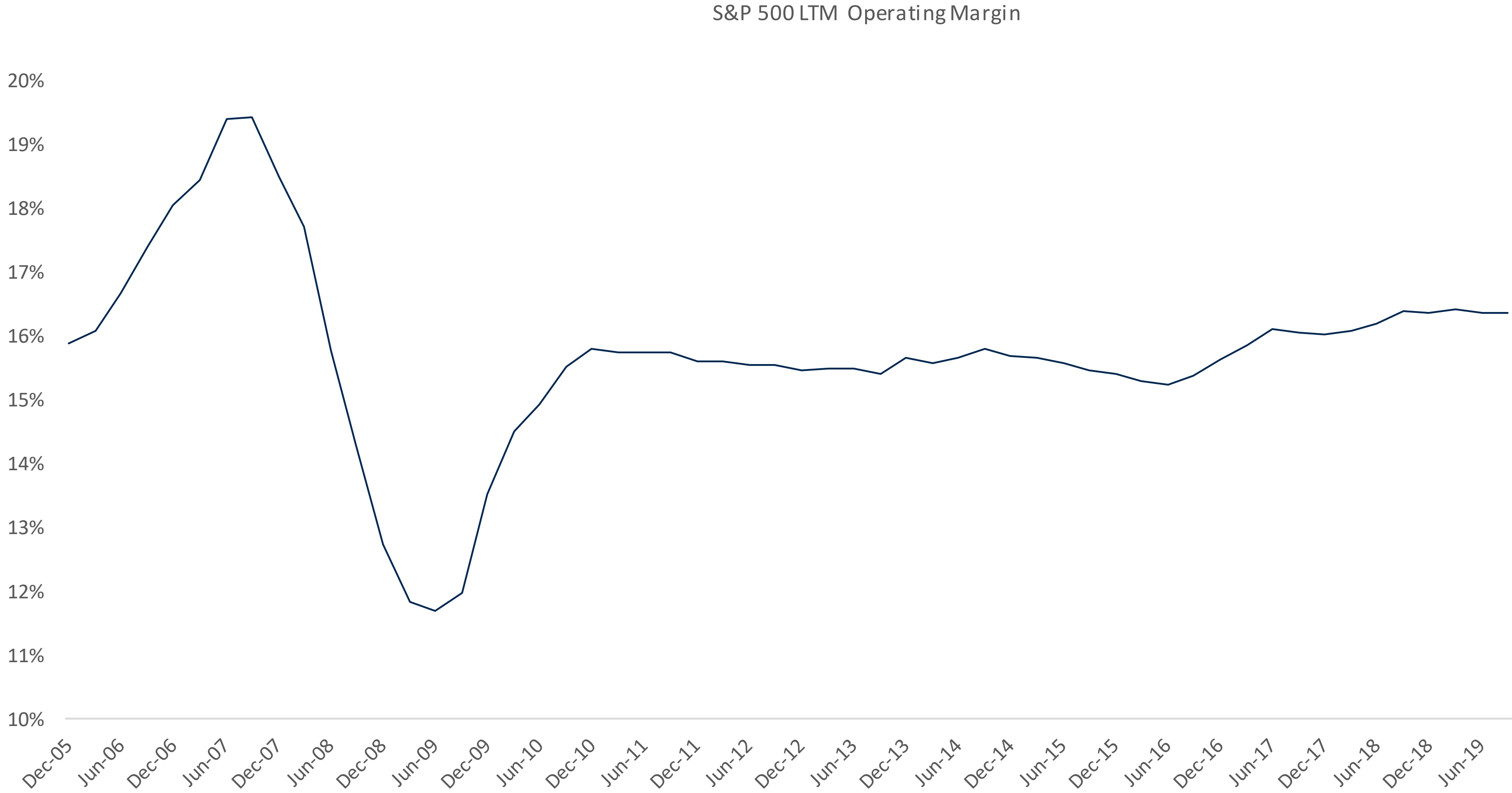


Source: RBC US Equity Strategy, CIQ estimates, S&P Capital IQ/Clarifi, Bloomberg

Operating Margins Are Sitting at Post-Financial Crisis Highs

Key Takeaways

- Preliminary data for 3Q19 shows that LTM EBIT margins have stalled at post-Financial Crisis highs.

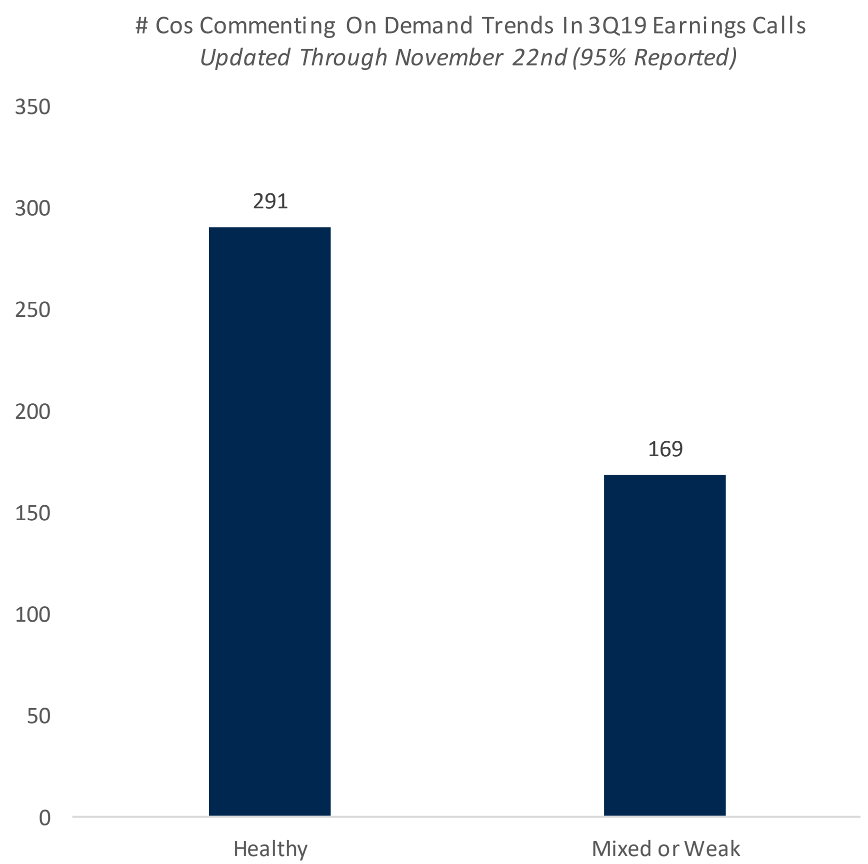


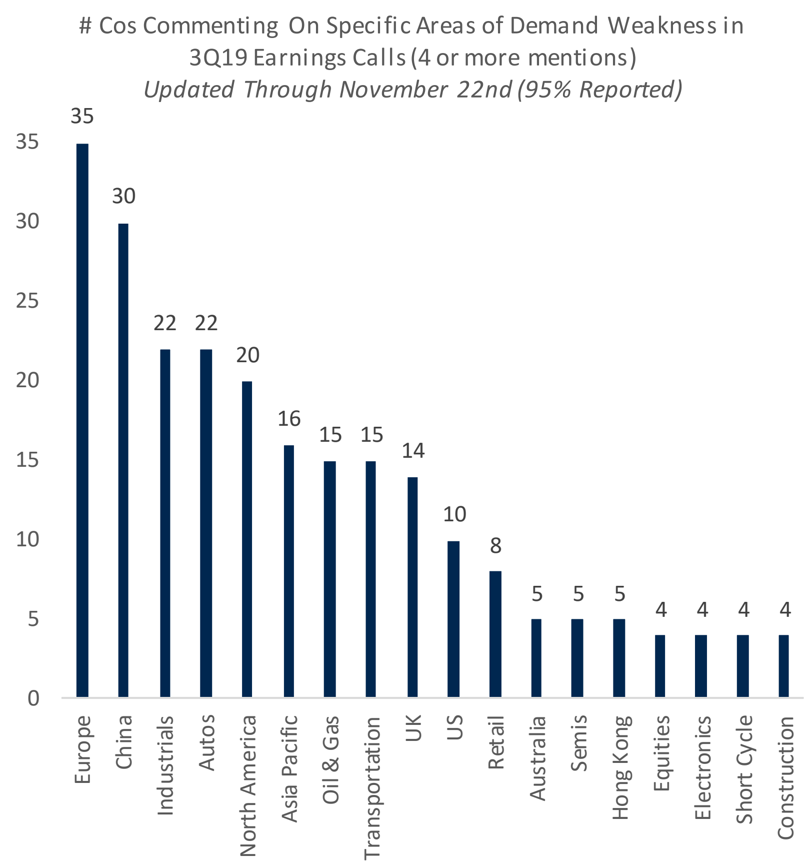
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi. Latest data point is as of 3Q19 (preliminary).

Reporting Season Snapshot: Demand Commentary

Key Takeaways

- The tone around demand and the underlying backdrop has been constructive for most (63% by our count) during 3Q19 reporting season. Trends are in line with what we saw in 1Q19 & 2Q19.
- Europe, China, and various Industrials end markets were highlighted the most as specific areas of weakness.



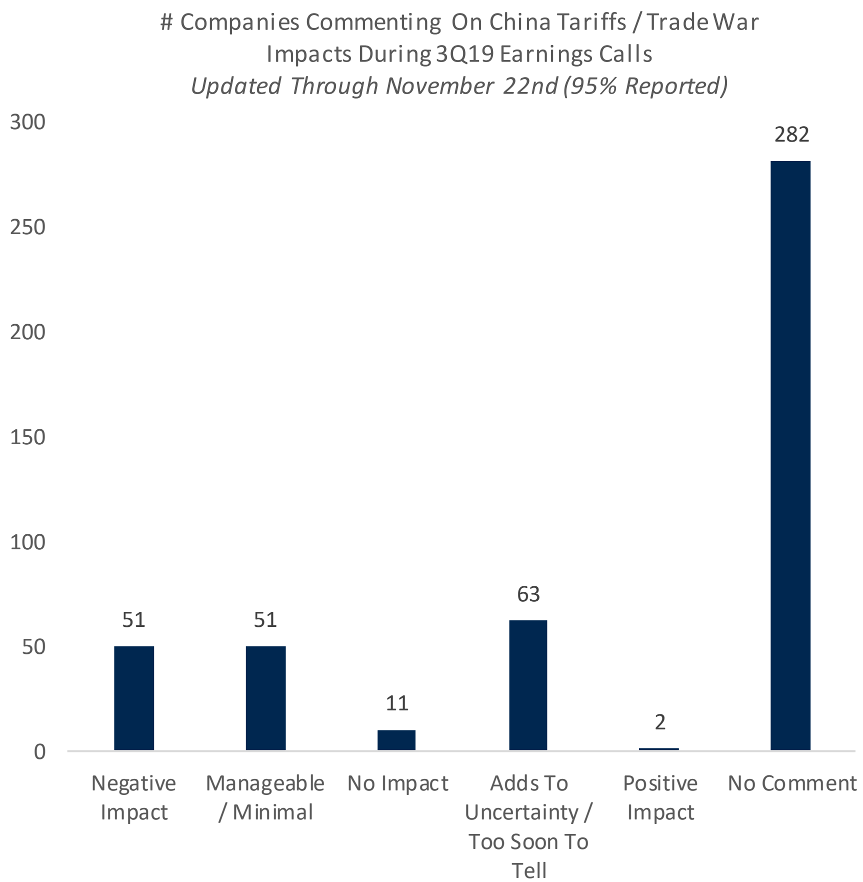


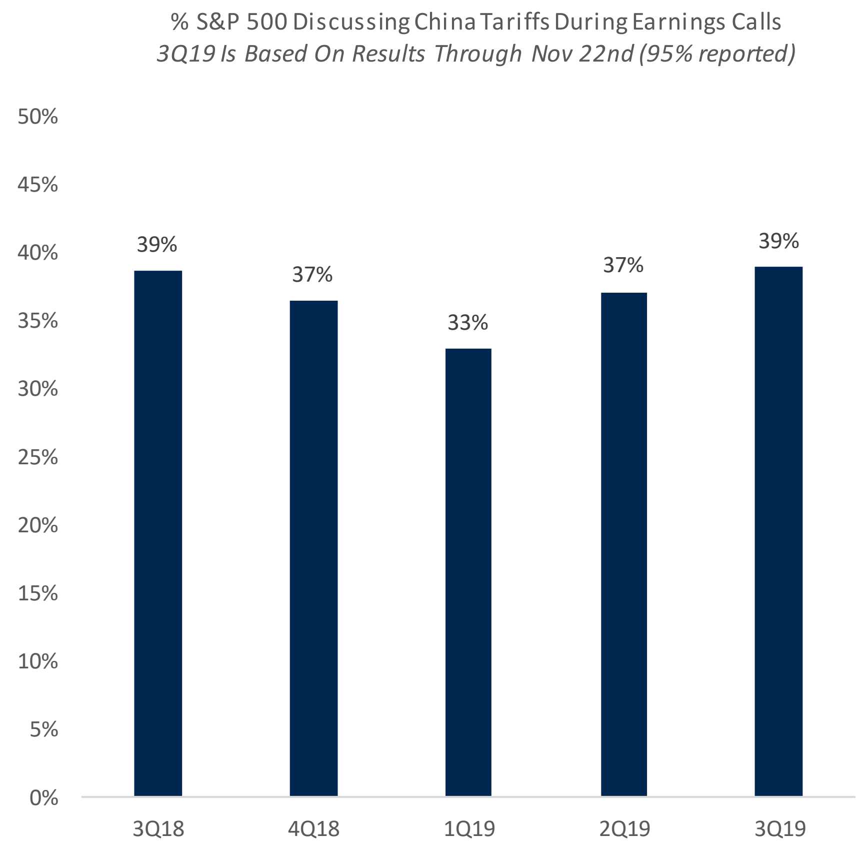
Source: RBC US Equity Strategy, Alphasense

Reporting Season Snapshot: Tariffs and China Trade War Commentary

Key Takeaways

- 39% of 3Q reporters to date have discussed tariff impacts on their earnings calls, a bit above levels seen last reporting season and inline with the highs seen in 3Q18.
- Among the 178 companies that have discussed tariff impacts, 63 have said that trade has added to uncertainty in the macro environment / among their customers. 51 have said that the impacts have been manageable/minimal and another 51 have said they've seen clear negative impacts to demand or margins. A handful have said they've seen no impacts or a benefit.



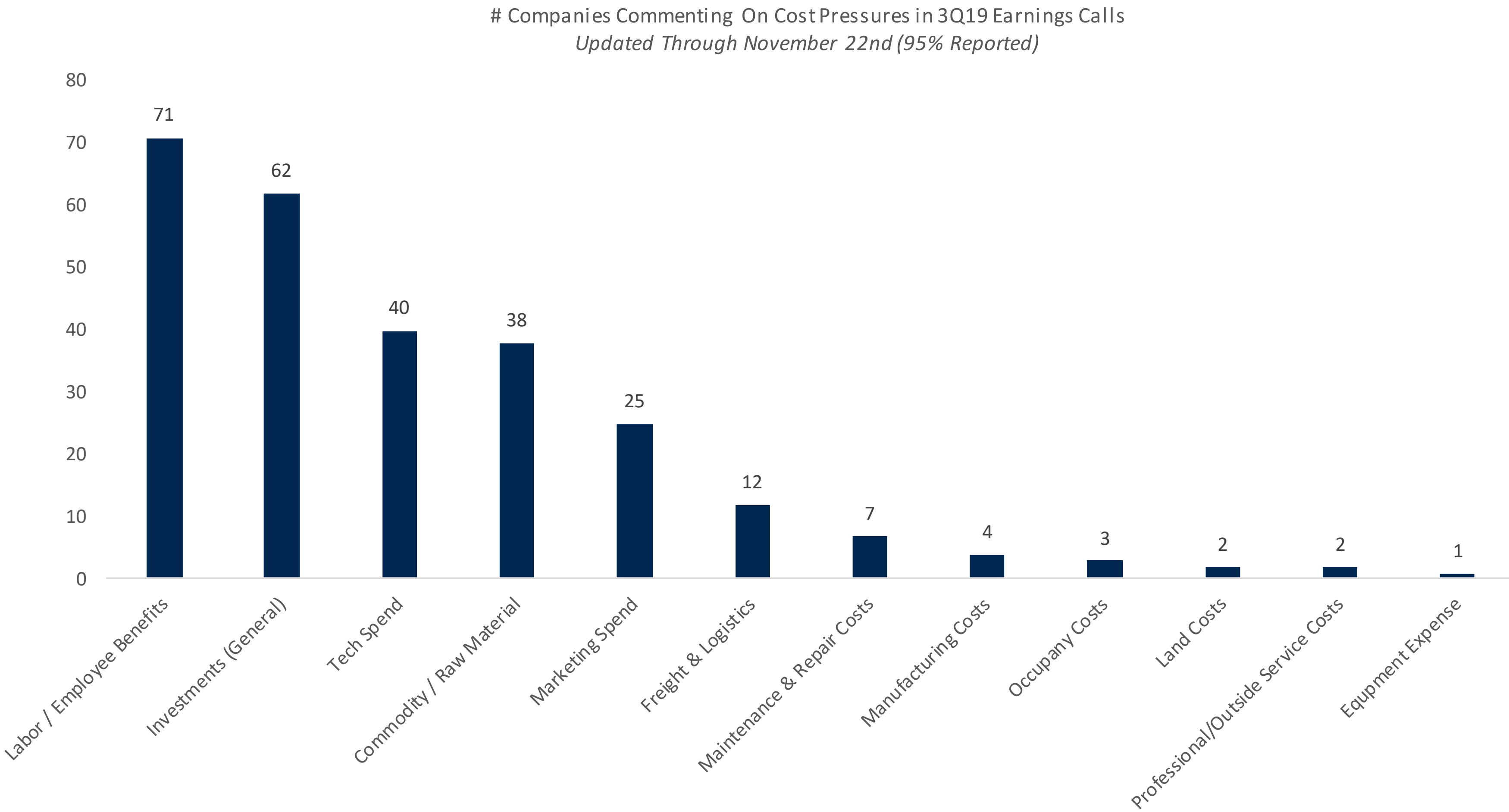


Source: RBC US Equity Strategy, Alphasense

Reporting Season Snapshot: Margin Headwinds/Cost Pressures Commentary

Key Takeaways

- Similar to last reporting season, labor/wages, tech spend, and investments have been the top issues cited when companies discuss cost headwinds in 3Q19 reporting season. Commodity/raw materials costs are no longer near the top of the list. We've actually noticed that a number of companies have been referring to an easing of commodity pressures. A lot of the commentary on labor continues to revolve around the tight labor market and difficulty finding workers. Several companies have emphasized higher marketing spend. The overall tone on margins seems to have improved this reporting season.

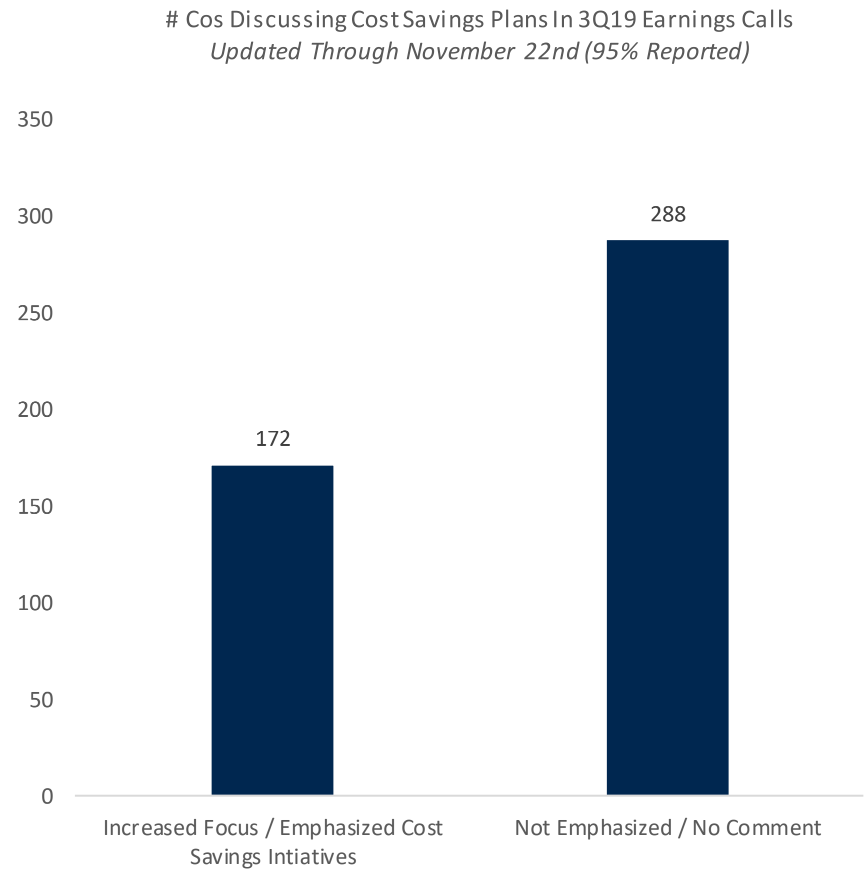


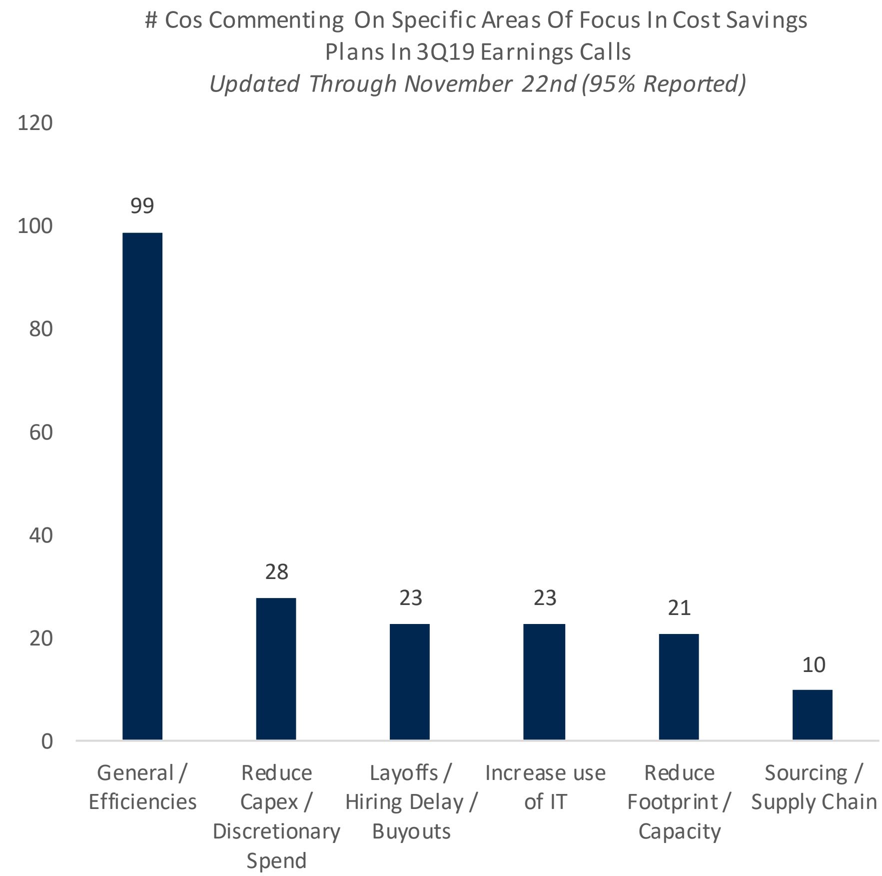
Source: RBC US Equity Strategy, Alphasense

Reporting Season Snapshot: Cost-Savings and Restructuring Plans Commentary

Key Takeaways

- We've been monitoring what companies have been saying about their cost-savings plans.
- 37% of companies have emphasized cost savings on their earnings calls so far and the success of those efforts. Most of the mentions have been general references to cost savings / cost management. When companies discuss specific initiatives, reducing capex/discretionary spend, layoffs / hiring delays / employee buyouts and increased use of tech have been cited most often. Those mentioning layoffs have generally been coming from Industrial-related industries.



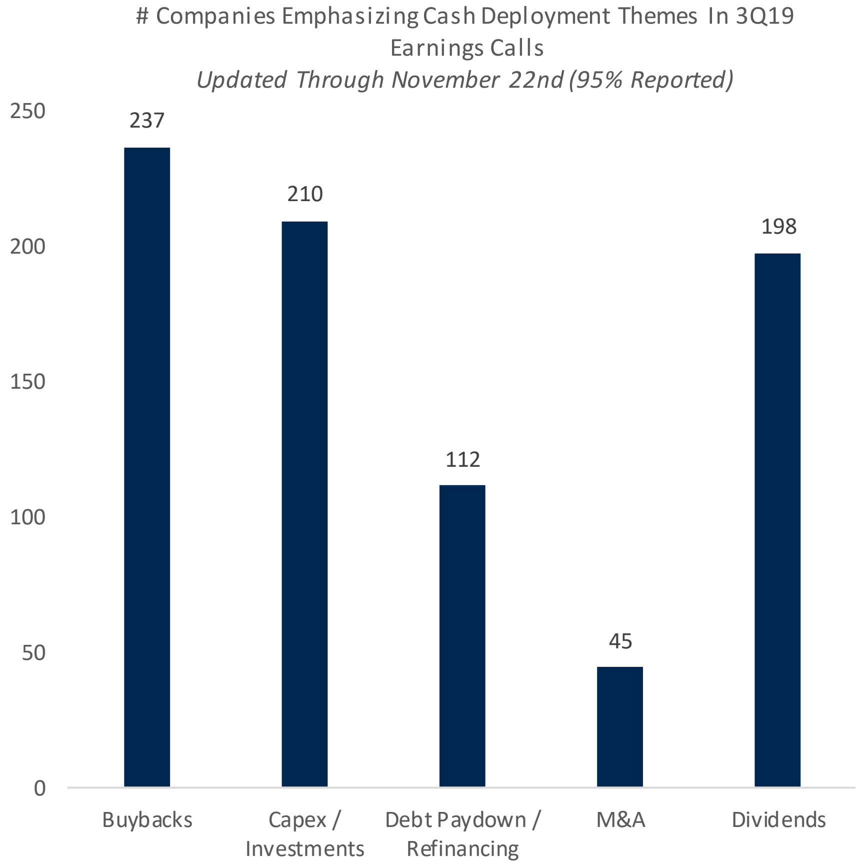


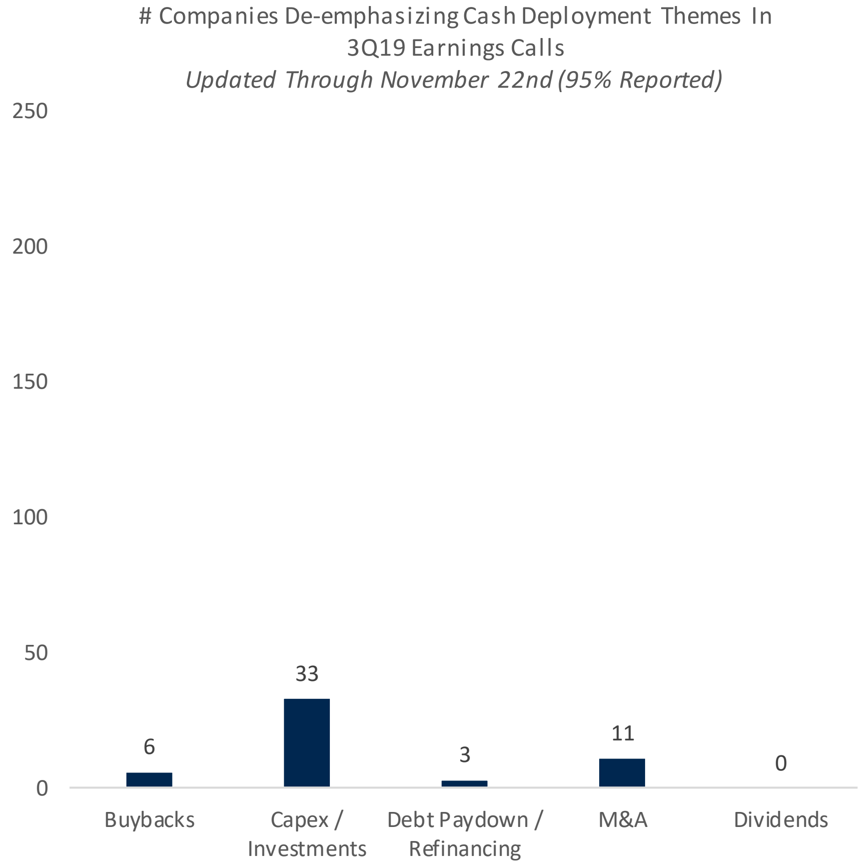
Source: RBC US Equity Strategy, Alphasense

Reporting Season Snapshot: Cash Deployment Commentary

Key Takeaways

- We've been monitoring what companies have been saying about their cash deployment strategies. So far in 3Q19 reporting season, we have found more companies emphasizing increased use of buybacks, capex, debt pay-down, and dividends, than those scaling back.
- Dividend emphasis is on par with that of buybacks and capex, similar to what we saw in 2Q19 but different than prior quarters where emphasis on buybacks and capex was much higher.
- We noticed a number of companies discussing that they have taken advantage of the low interest rate environment to refinance debt.



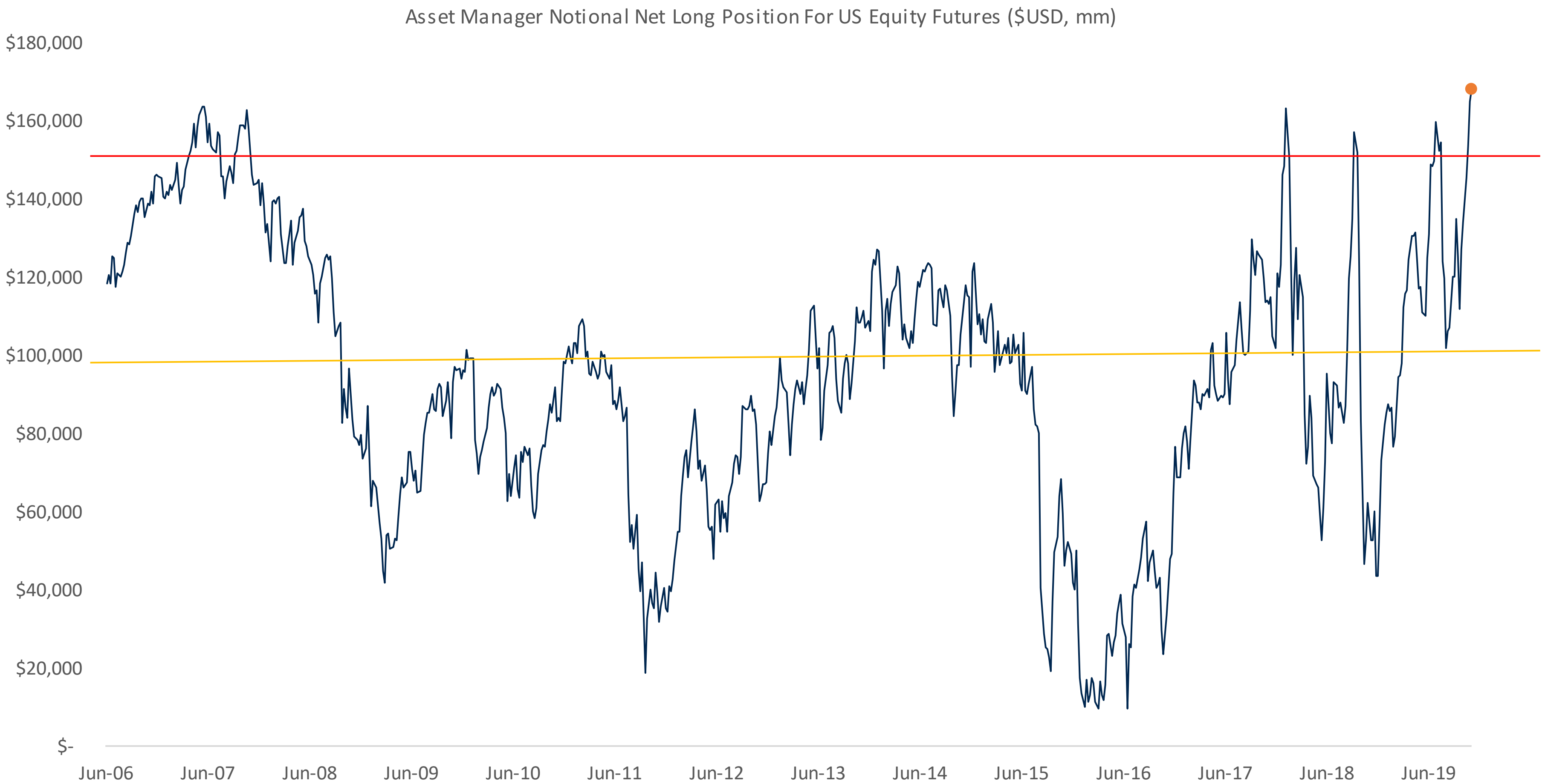


Source: RBC US Equity Strategy, Alphasense

US Equity Stakes Slightly Above Past Peaks In The Futures Market

Key Takeaways

- In July 2019, CFTC data on US equity futures positioning returned to the highs of January 2018 and September 2018, which in turn were in line with pre-Financial Crisis highs. This told us that institutional investor positioning was euphoric and that the US stock market was vulnerable to bad news. In August, positioning on this indicator fell sharply, getting about halfway back down to the May and December 2018 lows before stabilizing.
- This indicator has moved up again in 4Q19, and as of November 19h (the latest data available) was slightly above the levels that have marked significant peaks in the stock market over the past few years.

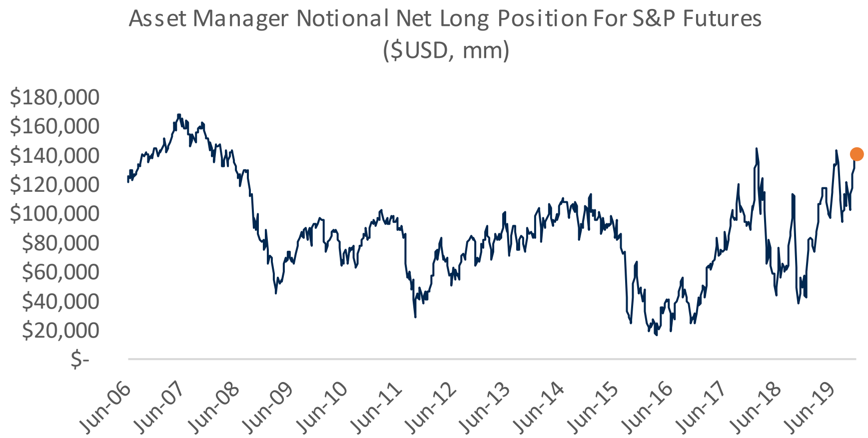


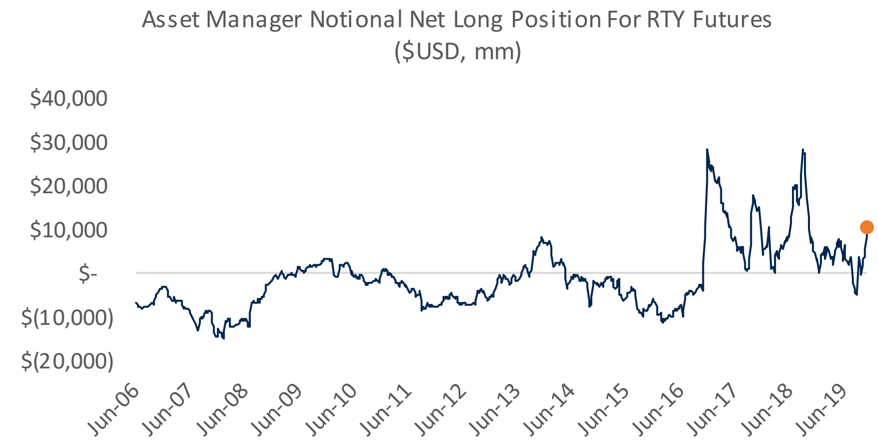
Source: RBC US Equity Strategy, RBC Futures Desk, CFTC. Asset Manager/Institutional: These are institutional investors, including pension funds, endowments, insurance companies, mutual funds, and those portfolio/investment managers whose clients are predominantly institutional.

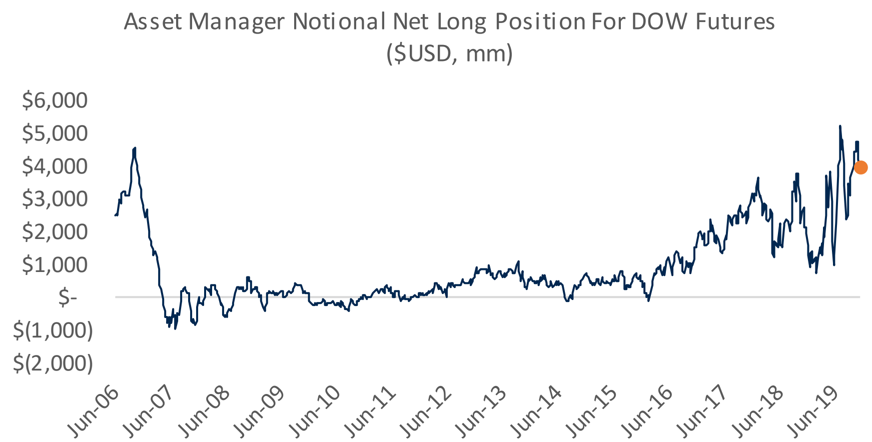
S&P 500, Dow, and Nasdaq Futures At or Near Peak, But Not Small Cap Futures

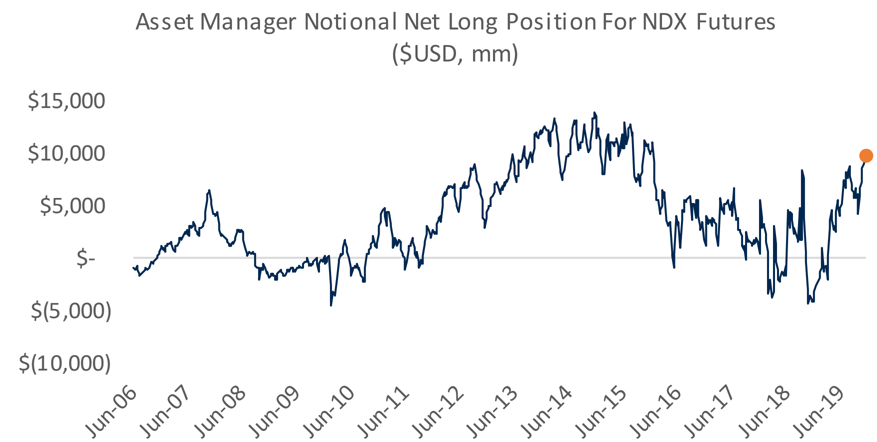
Key Takeaways

- Futures positioning in S&P 500 contracts are back to their mid 2019 and 2018 peaks while Nasdaq futures are slightly above them. Dow futures positioning hit a new high in mid 2019, which they returned to in early November before slipping mid month.
- Russell futures sat out the early/mid 2019 re-engagement, with slight short positions seen over the summer (the first since the summer of 2016), as doubts about the health of the US economy lingered. This explains why Small Caps have lagged in 2019, and also tells us that Small Caps currently have less positioning risk than other segments. Re-engagement has been seen recently, but the peals of September 2018 and December 2016 are still far off.







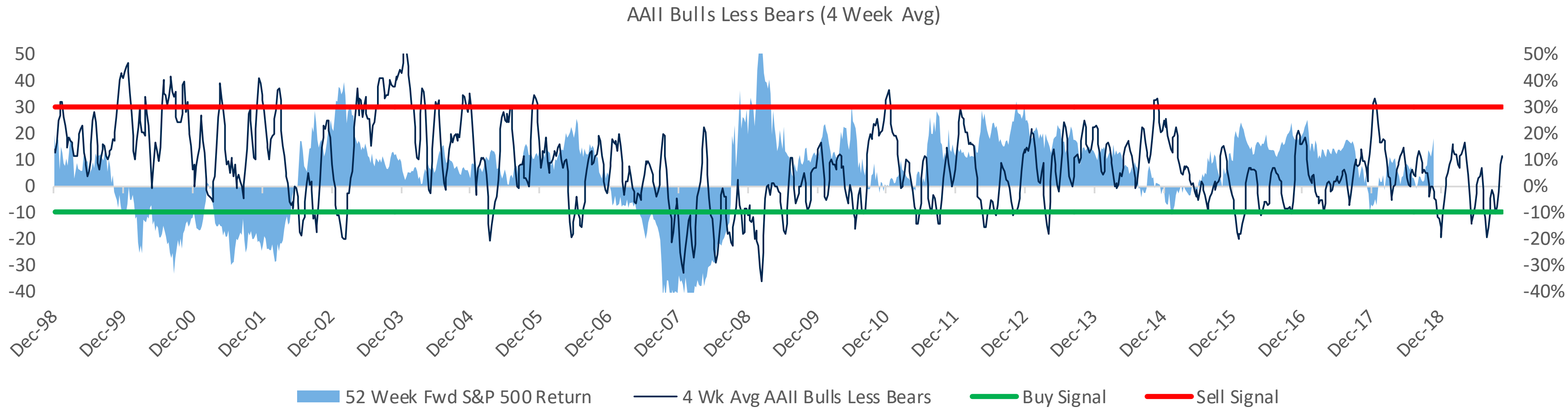


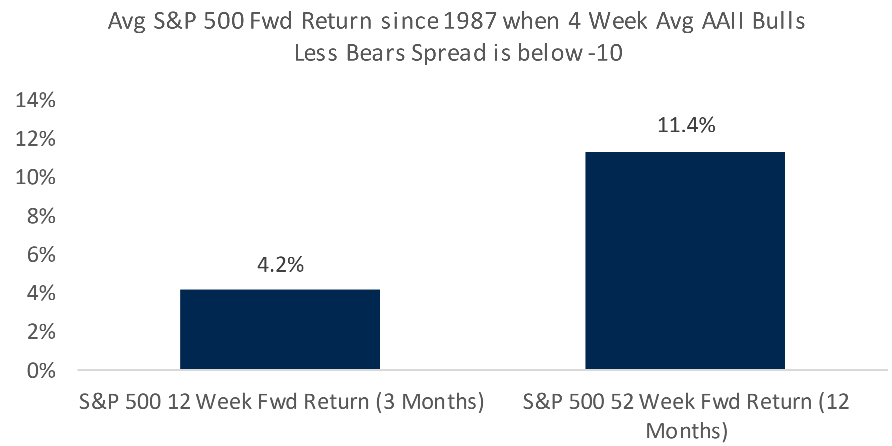
Source: RBC US Equity Strategy, RBC Futures Desk, CFTC. Asset Manager/Institutional: These are institutional investors, including pension funds, endowments, insurance companies, mutual funds, and those portfolio/investment managers whose clients are predominantly institutional.

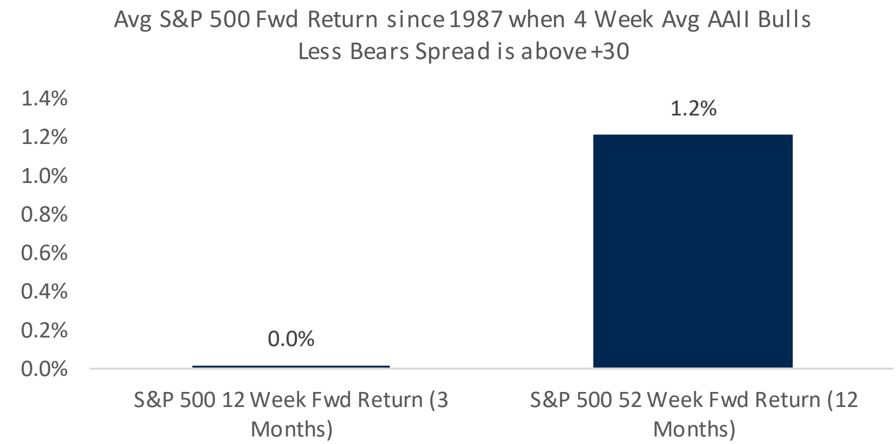
Individual Investor Sentiment Is Turning Bullish on AAII Again

Key Takeaways

- Historically, when the bear/bull gap (4-week average) has surpassed 10% in favor of the bears, the S&P 500 has been higher 3 and 12 months later. This indicator has hit the -10% mark several times over the past year, including Dec 2018/Jan 2019, as well as June 2019 (-14%) and August (-19.3%). The gap on the 4-week average was roughly -10.8% as of mid October, indicating that sentiment had turned deeply bearish.
- But it has since rebounded sharply and now stands at 5.2% in favor of the bulls. The level to watch for is 30%. When net bullishness is 30% or more, stocks tend to be flat over the next 12 months.





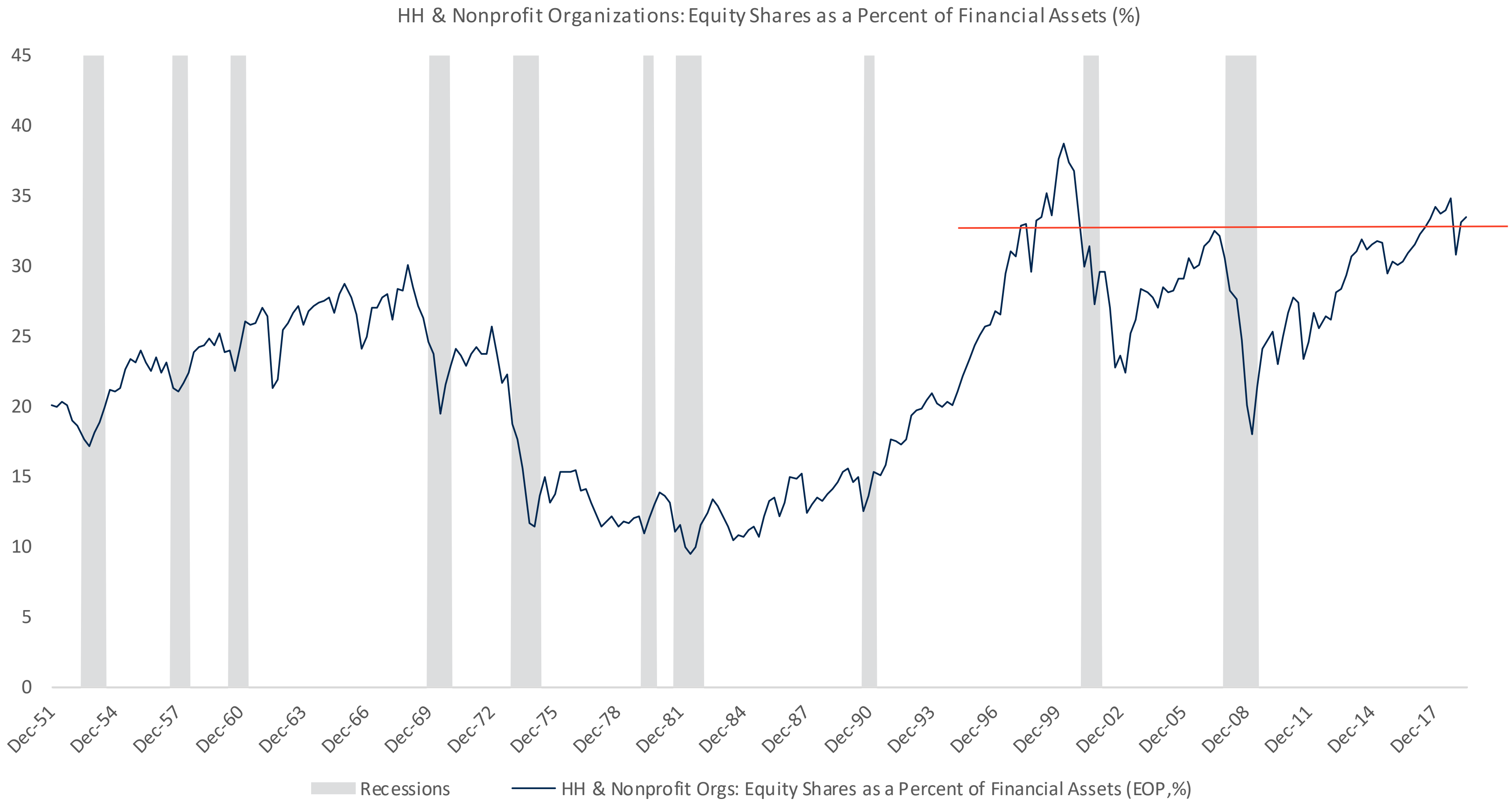


Source: RBC US Equity Strategy, AAII, Bloomberg

Equity Stakes in US Households Have Been Elevated

Key Takeaways

- As of 3Q18, total exposure of US households to equities (direct and indirectly held) was above 2006–07's peak. During 4Q18, US households pulled back their equity holdings sharply, but only to levels that were slightly below the historical average and well above the lows of past cycles. In 1Q19 and 2Q19 exposure increased, getting back above its long-term average.

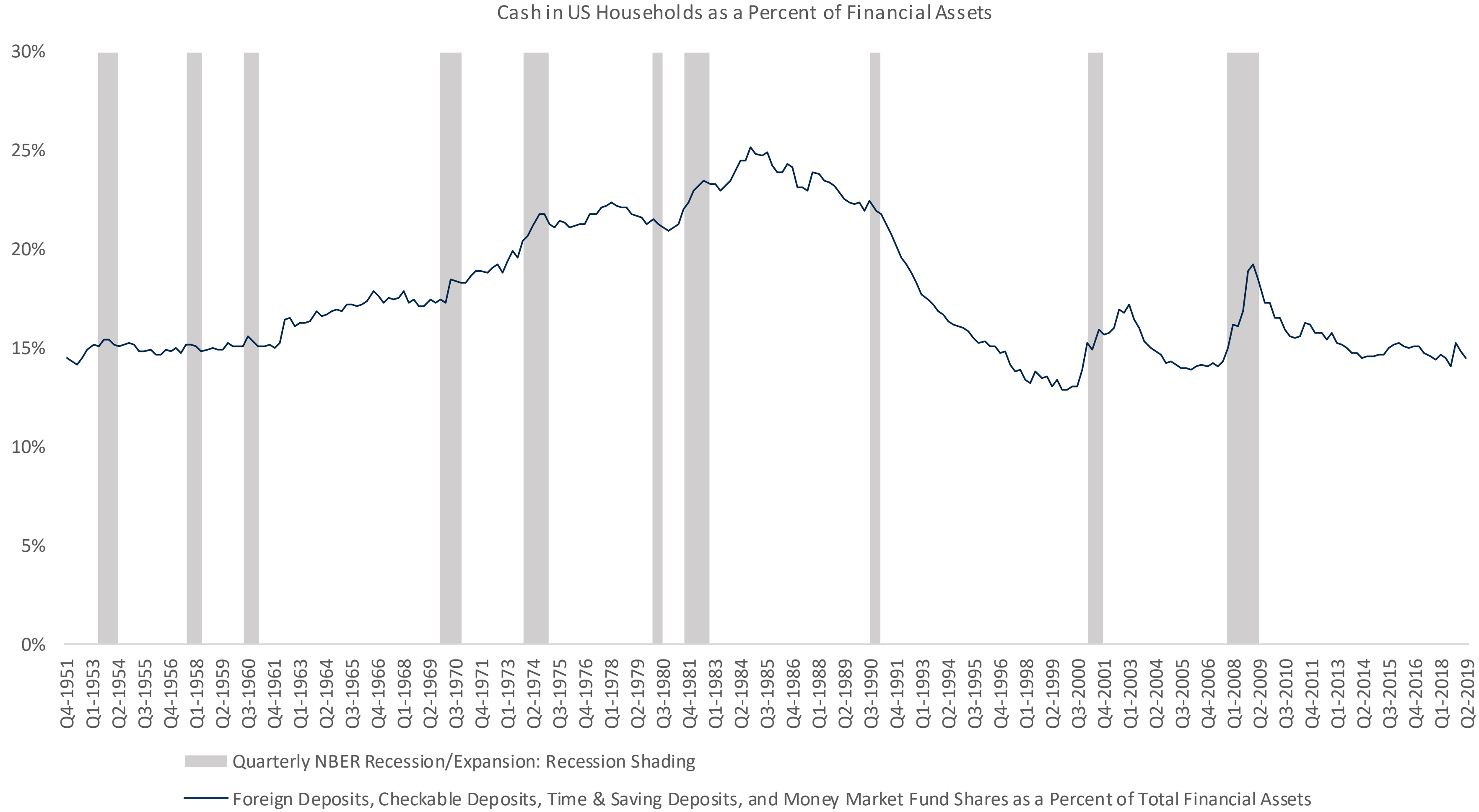


Source: RBC US Equity Strategy, Federal Reserve Flow of Funds, Haver

Cash Levels in US Households Haven't Looked Particularly High Either

Key Takeaways

- As markets sold off toward the end of 2018, US households' cash as a percentage of total financial assets increased. The uptick was modest and counters the idea that there has been a wall of money waiting to return to the US equity market. Cash levels were much higher in 2003 and 2008–09.

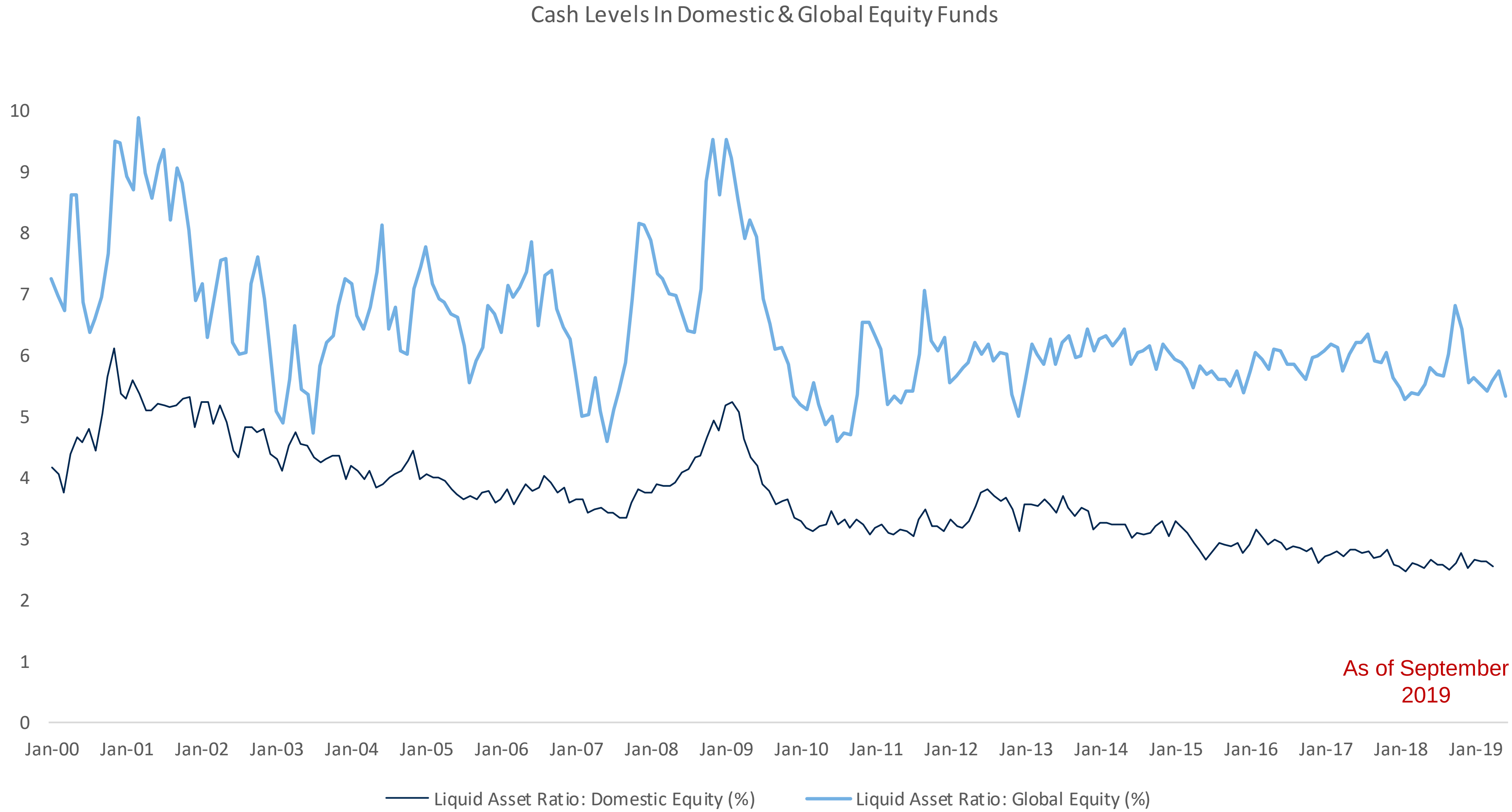


Source: RBC US Equity Strategy, Federal Reserve Flow of Funds, Haver

We Don't See a Lot of Cash Sitting on the Sidelines in Domestic and Global Equity Funds

Key Takeaways

- As markets peaked in 3Q18, global equity funds (long-onlies) raised cash, and we saw a spike in the liquid asset ratio for these funds. As of September 2019, cash levels were back down toward the low end of their historical range. The liquid asset ratio of domestic equity funds has also been at the low end of the historical range.

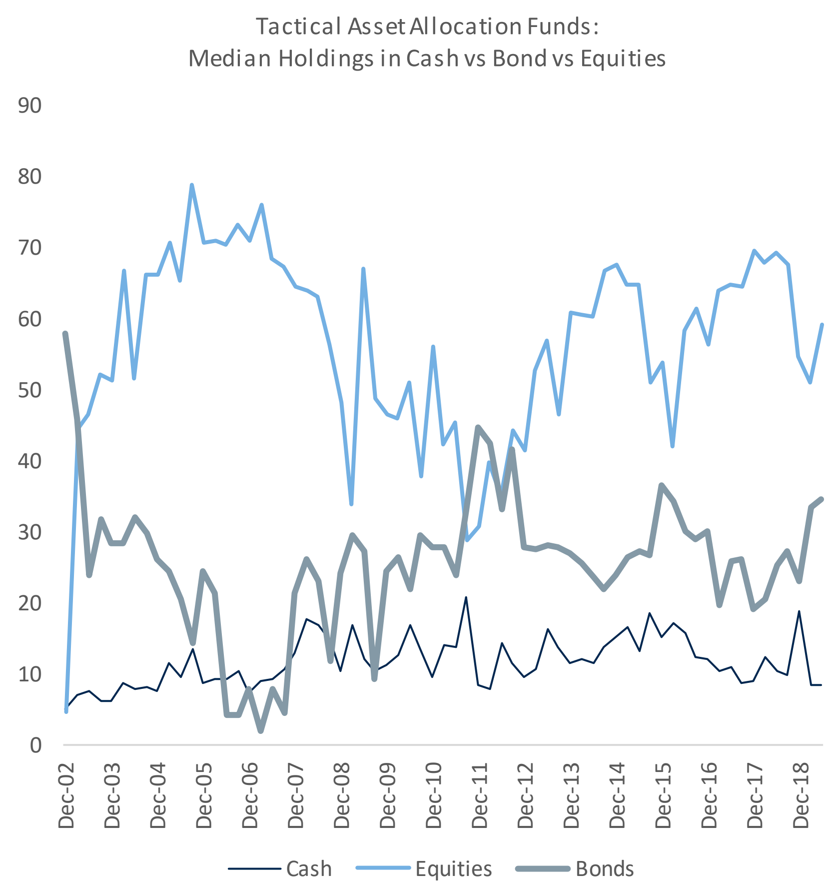


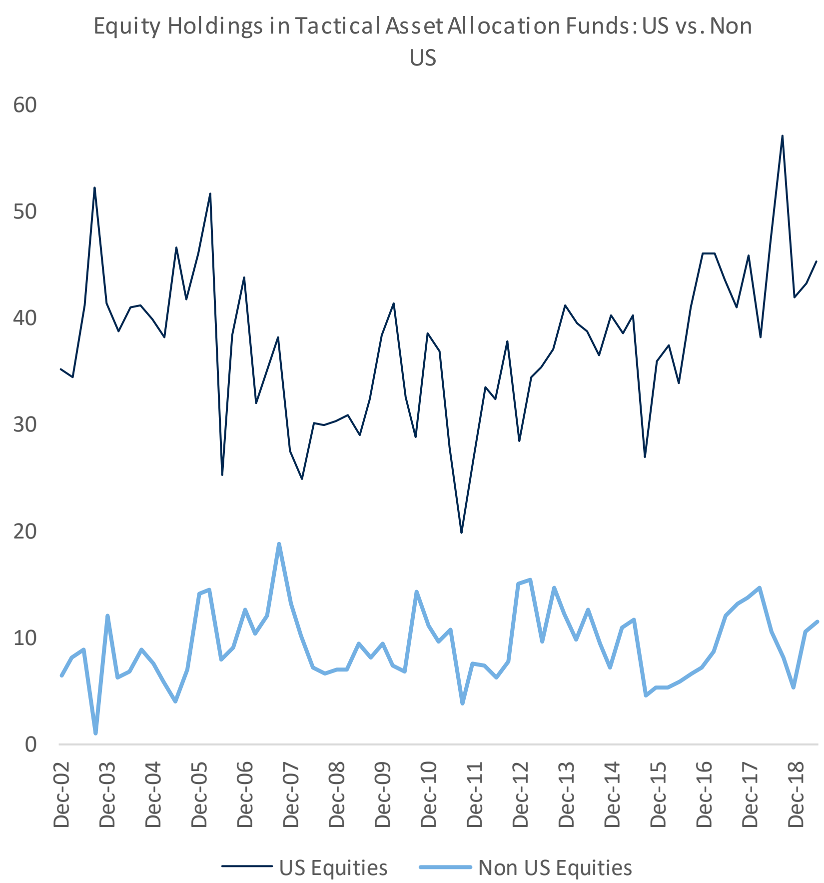
Source: RBC US Equity Strategy, Federal Reserve Flow of Funds, Haver

Bond Stakes Are Still High In Tactical Asset Allocation Funds, Non US Equity Stakes w/Room To Run

Key Takeaways

- Across all regions, equity stakes were at peak levels in 3Q18, and fell back sharply in 4Q18 as these funds moved into bonds and cash. Equity exposure has started to move up again, but remains well below last year's highs. Bond allocations are still extremely high, while cash levels are low. Within the equity bucket, there's been some rotation from US to non-US. US allocations are below last year's peak, but remain high. Non- US allocations are rising but are still well below past peaks.



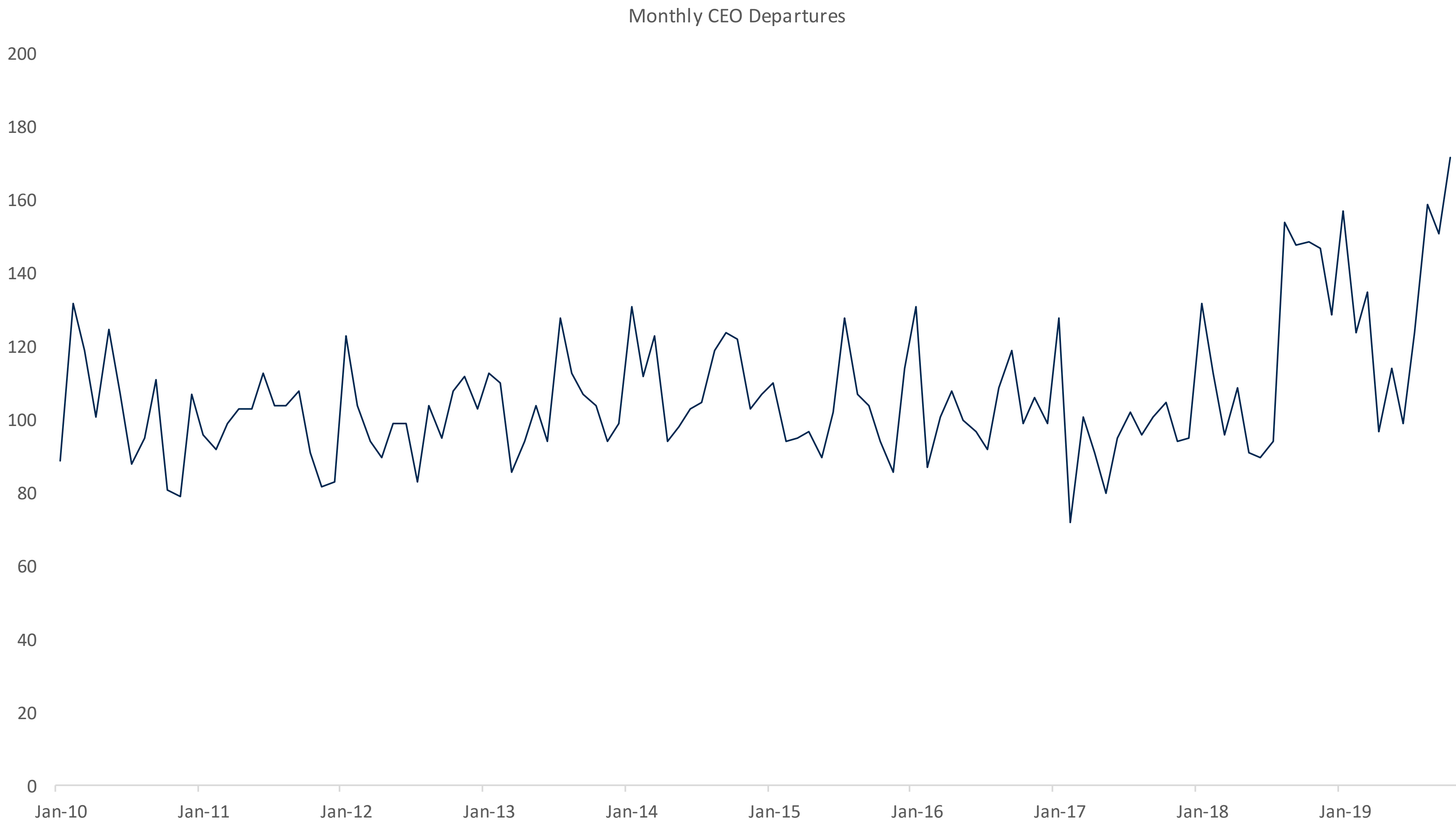


Source: RBC US Equity Strategy, Morningstar

CEO Departures Have Hit a New High

Key Takeaways

- According to Challenger, Gray, and Christmas, CEO departures hit a new record in October 2019.

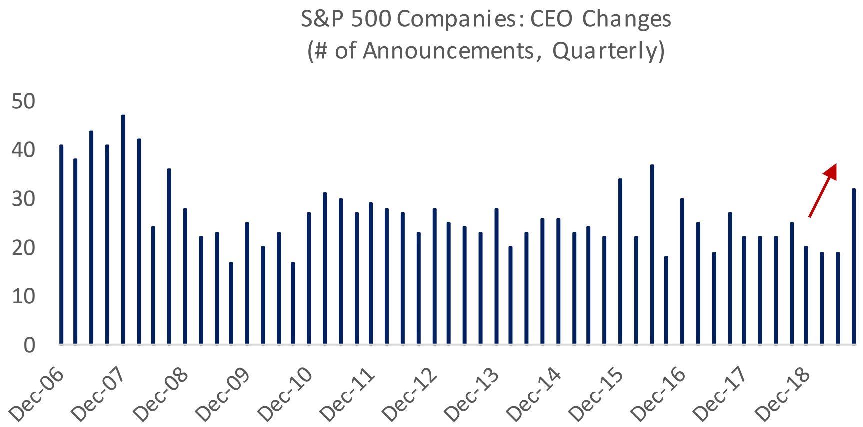


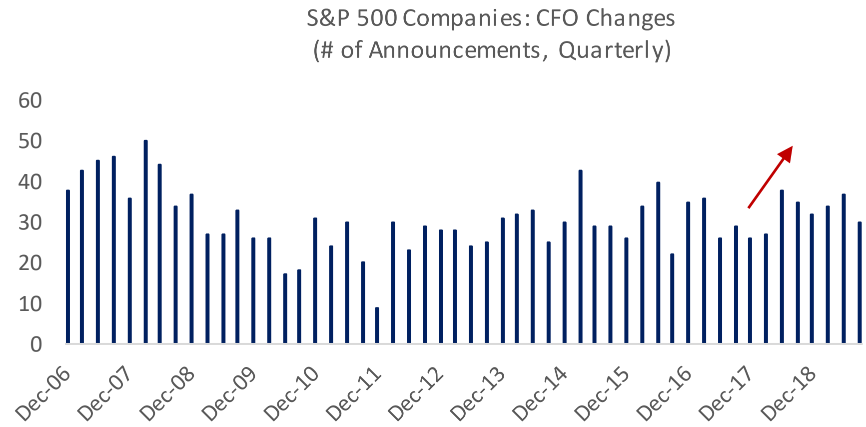
Source: RBC US Equity Strategy, Challenger, Gray, and Christmas, Inc CEO Turnover Report

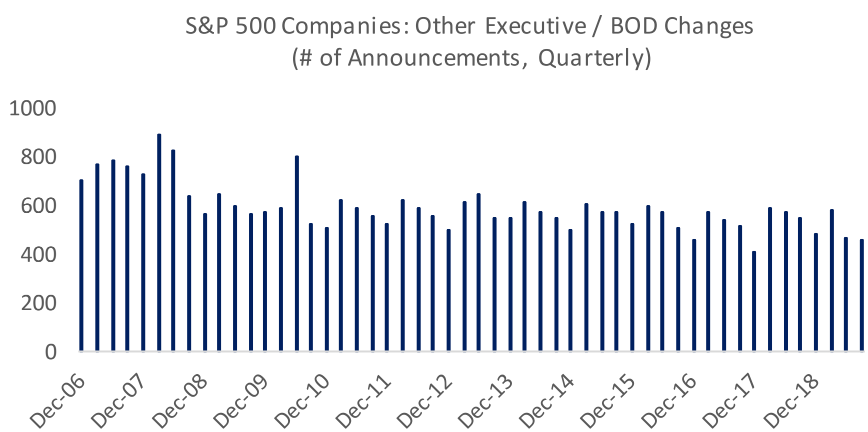
Among S&P 500 Companies, CEO Turnover Has Picked Up

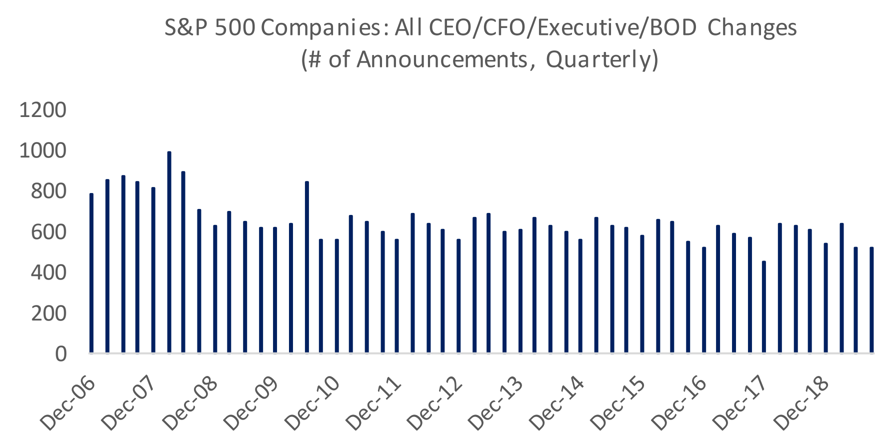
Key Takeaways

- CFO turnover started to pick up in mid 2018 and has stayed elevated.
- CEO turnover climbed in 3Q19.
- Both are below Financial Crisis highs.







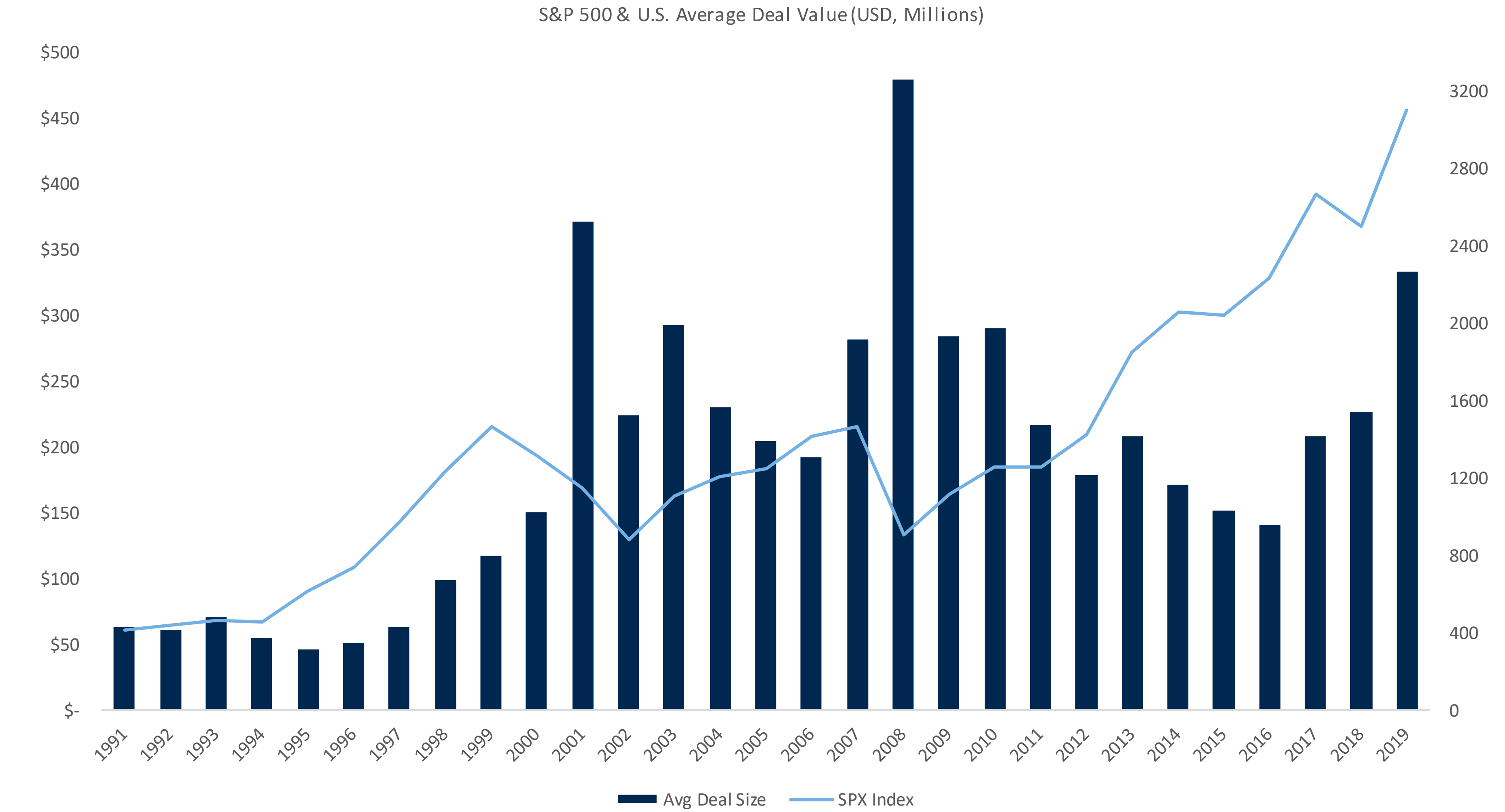


Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi

The Surge In Bigger IPO's Has Been A Negative Signal For Stocks In The Past

Key Takeaways

- The average deal value of U.S. IPOs has surged since 2017, as the number of deals has shrunk, but the size of the deals has been increasing. We suspect this is being driven by private companies going public when they are more mature and larger. The market may also be assigning a higher value due to supply/demand dynamics in the IPO market. This kind of spike has confirmed major peaks in the S&P 500 in the past.

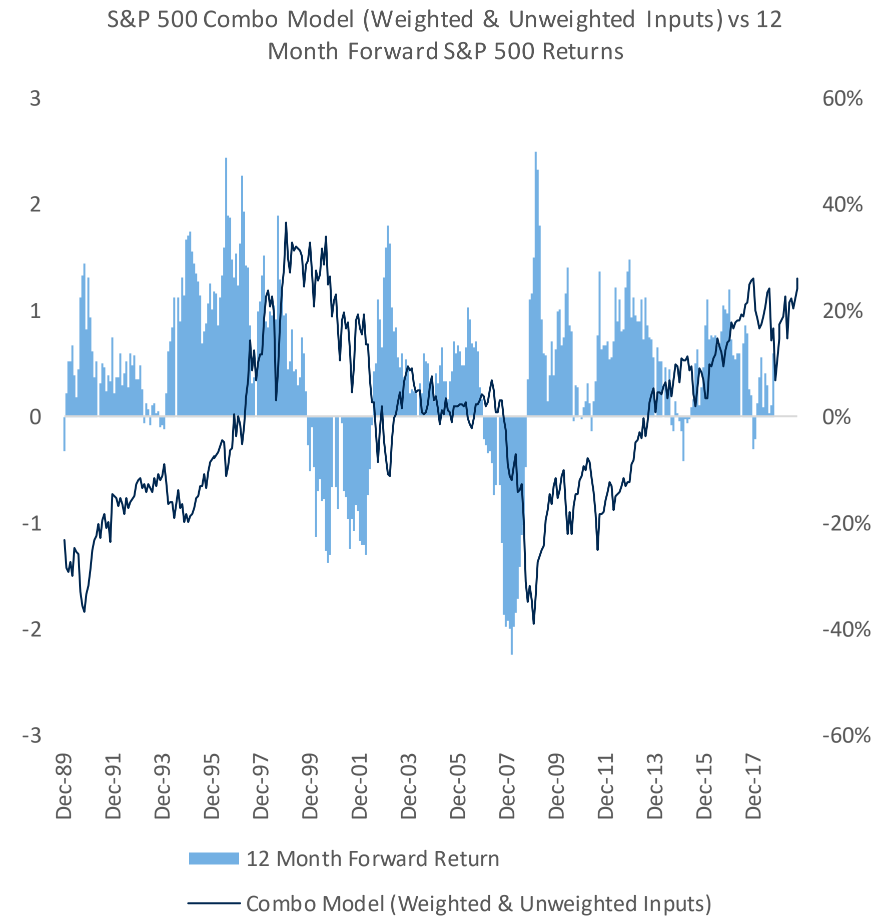


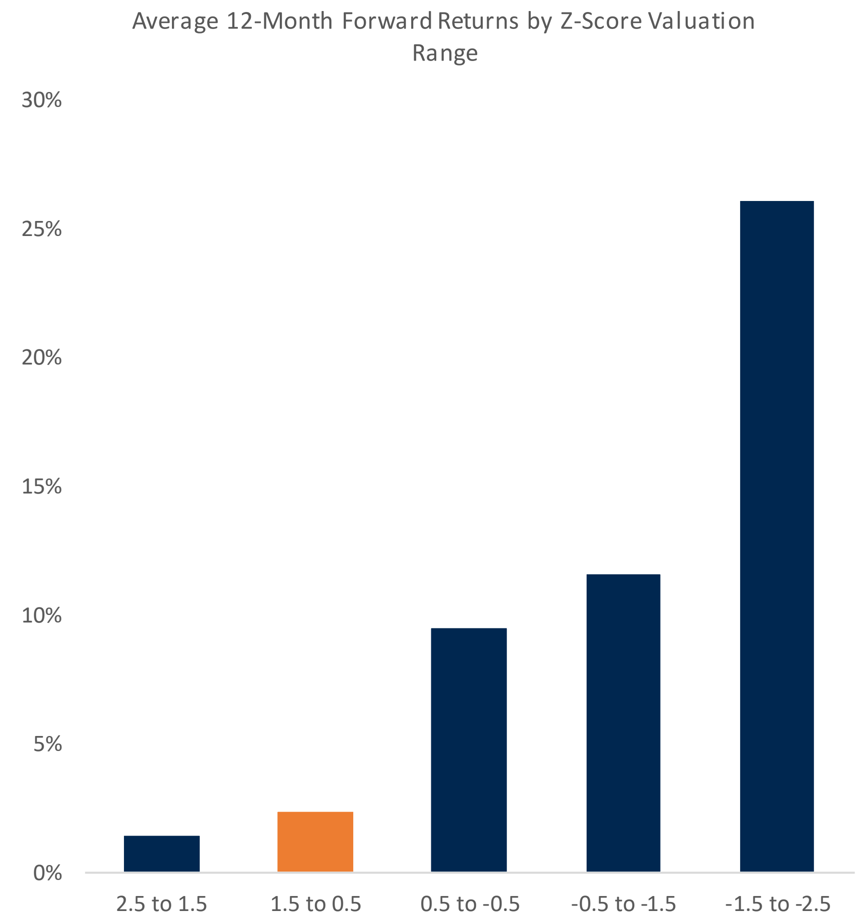
Source: RBC US Equity Strategy, Bloomberg, US IPOs timeline based on Trading Date, Average Deal Value is calculated as the total aggregate deal value divided by the total aggregate deal count in that same year

S&P 500 Valuations Back to the Peaks of the Current Cycle on Our Combo Model

Key Takeaways

- To take into account all weighted and unweighted median metrics, we use our S&P 500 Combo Model.
- This model has recently been close to the highs of the late 1990s and has pointed to less valuation appeal in the broader market than our other models.
- At 1.31 standard deviations as of November 22nd, this gauge remained above average and was in line with its January 2018 peak, a level that has marked the ceiling in the current cycle on a number of occasions. It is also in a range historically associated with 12-month forward returns in the low single digits.





Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates, IBES estimates

The S&P 500 Is Overvalued on Most Major Metrics

Key Takeaways

- On both a weighted and unweighted basis, stock market valuation metrics look more onerous on non-P/E metrics than on P/E's. Median multiples are more problematic than weighted median multiples.

S&P 500 Large Cap

Unweighted Medians	LTM P/E ex neg EPS	Norm P/E ex neg - 5 Yr Avg	Norm P/E ex neg - 10 Yr Avg	LTM P/S	LTM EV/S	LTM EV/EBITDA ex neg	LTM P/EBITDA ex neg	LTM EV/EBIT ex neg	LTM P/EBIT ex neg	LTM P/OCF ex neg	LTM P/FCF ex neg	NTM P/E ex neg EPS	FY1 P/E ex neg EPS	FY2 P/E ex neg EPS	NTM P/S	NTM P/CF ex neg CF	FY2 PEG ex neg	Price/ Book
Current	**22.2**	**27.9**	**32.3**	**2.6**	**3.4**	**12.8**	**10.5**	**18.2**	**14.5**	**14.0**	**20.3**	**18.2**	**19.0**	**17.6**	**2.6**	**12.6**	**2.1**	**3.1**
Z Score	1.2	1.3	1.2	2.0	2.4	2.1	1.9	2.5	2.2	1.5	0.1	1.1	1.1	1.5	1.7	1.0	3.8	1.2
Avg	19.0	23.0	27.1	1.5	2.0	9.5	7.5	13.2	10.5	11.1	19.7	16.1	16.8	14.7	1.9	10.2	1.3	2.6
Median	18.9	24.0	28.1	1.5	2.0	9.5	7.5	13.2	10.4	11.3	19.8	16.1	17.1	14.9	1.9	10.8	1.3	2.6

S&P 500 Large Cap

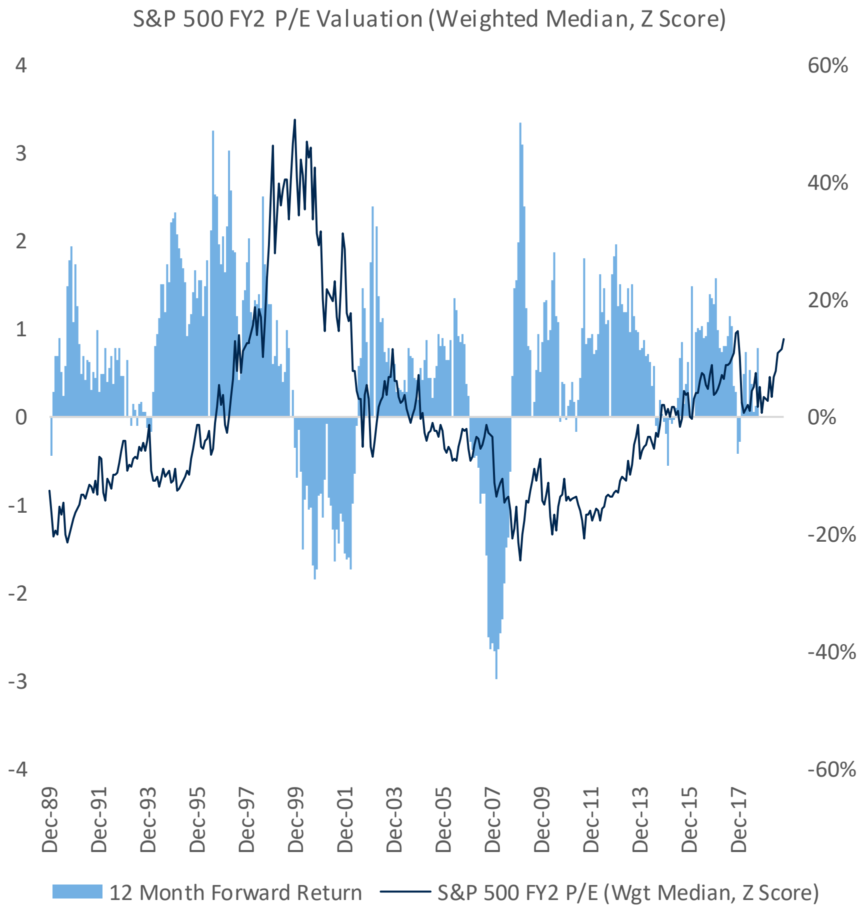
Weighted Medians	LTM P/E ex neg EPS	Norm P/E ex neg - 5 Yr Avg	Norm P/E ex neg - 10 Yr Avg	LTM P/S	LTM EV/S	LTM EV/EBITDA ex neg	LTM P/EBITDA ex neg	LTM EV/EBIT ex neg	LTM P/EBIT ex neg	LTM P/OCF ex neg	LTM P/FCF ex neg	NTM P/E ex neg EPS	FY1 P/E ex neg EPS	FY2 P/E ex neg EPS	NTM P/S	NTM P/CF ex neg CF	FY2 PEG ex neg	Price/ Book
Current	**23.7**	**30.3**	**36.4**	**3.7**	**4.4**	**15.3**	**13.3**	**18.7**	**17.3**	**16.8**	**24.3**	**20.2**	**20.7**	**19.0**	**3.5**	**15.2**	**1.9**	**4.6**
Z Score	0.7	0.9	0.7	2.2	2.2	1.8	1.7	1.3	1.5	1.1	0.2	0.7	0.6	0.9	0.7	0.4	2.4	1.0
Avg	20.4	24.8	30.2	2.1	2.7	10.7	9.0	14.4	12.3	12.8	22.8	17.3	18.0	15.9	2.8	12.4	1.4	3.5
Median	19.0	24.0	28.0	2.0	2.7	10.4	8.8	13.5	11.6	12.1	20.7	16.3	17.0	15.1	2.5	12.0	1.4	3.2

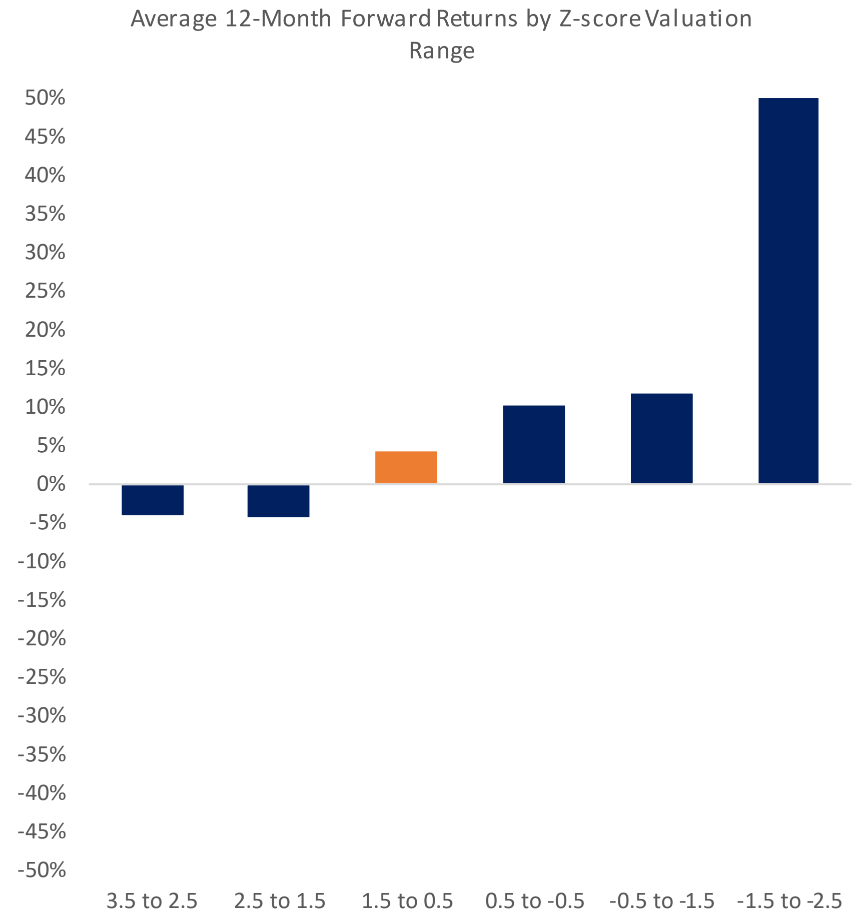
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates, IBES estimates

The S&P 500 Is Near 2018's Peak on a Bottom-Up, Market Cap Weighted Forward P/E

Key Takeaways

- The S&P 500 FY2 P/E had risen to 19x on November 22nd, 2019, well above its long-term average of 15.8x.
- It's closing in on the January 2018 high of 19.4x, and is at a level historically associated with only 4% stock market gains on a 12-month forward basis.



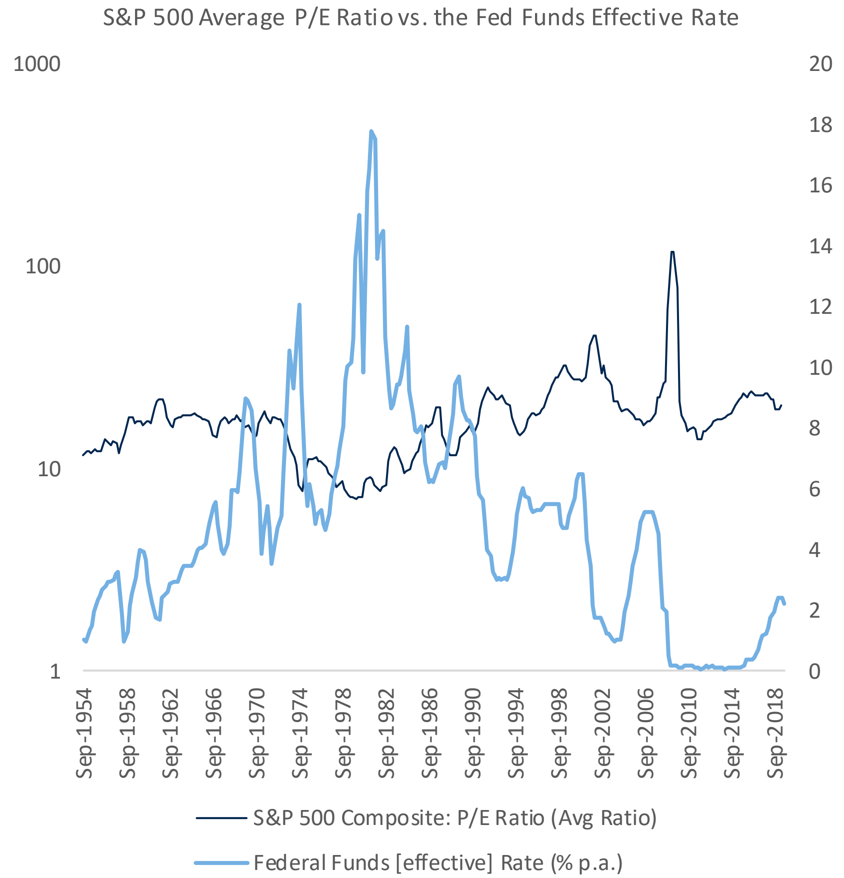


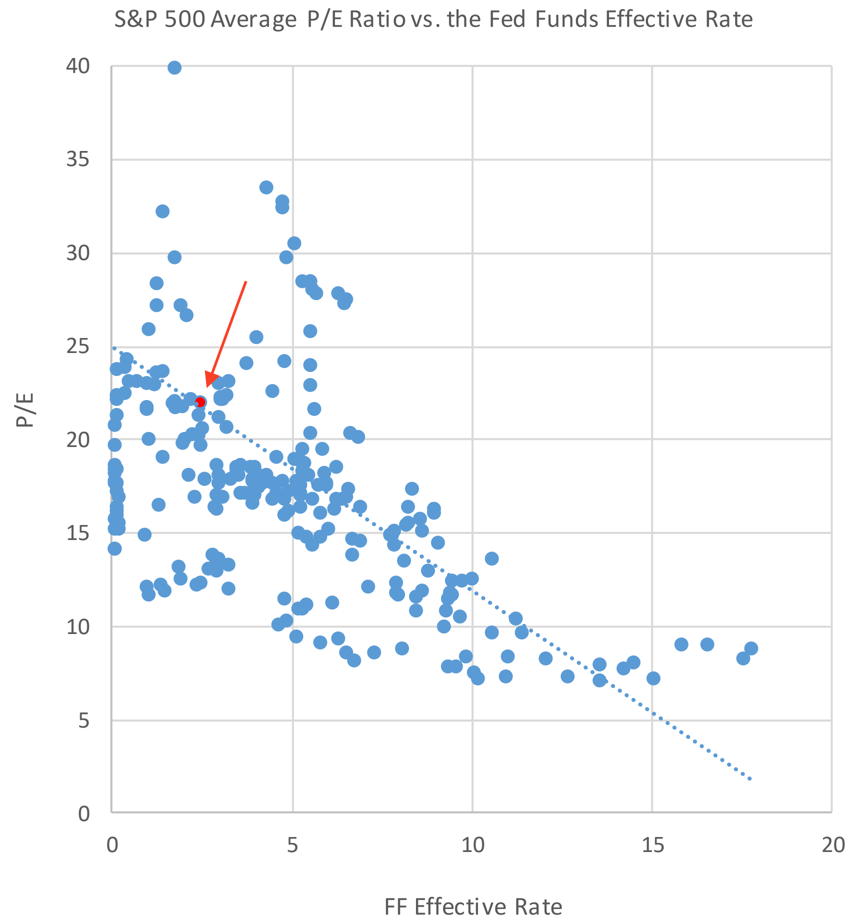
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates, IBES estimates

Historically, Average P/E's and Short-Term Interest Rates Move Inversely

Key Takeaways

- Over time, there's been an inverse relationship between the average P/E for the S&P 500 and levels of short-term interest rates. While this relationship broke down around the Financial Crisis, in recent years the P/E has been close to where levels of rates argued that it should have been. Higher rates from the Fed also clearly contributed to contraction in the multiple in 2018. Going forward, low rates should keep multiples elevated, but actual expansion doesn't seem called for unless rates actually move lower.



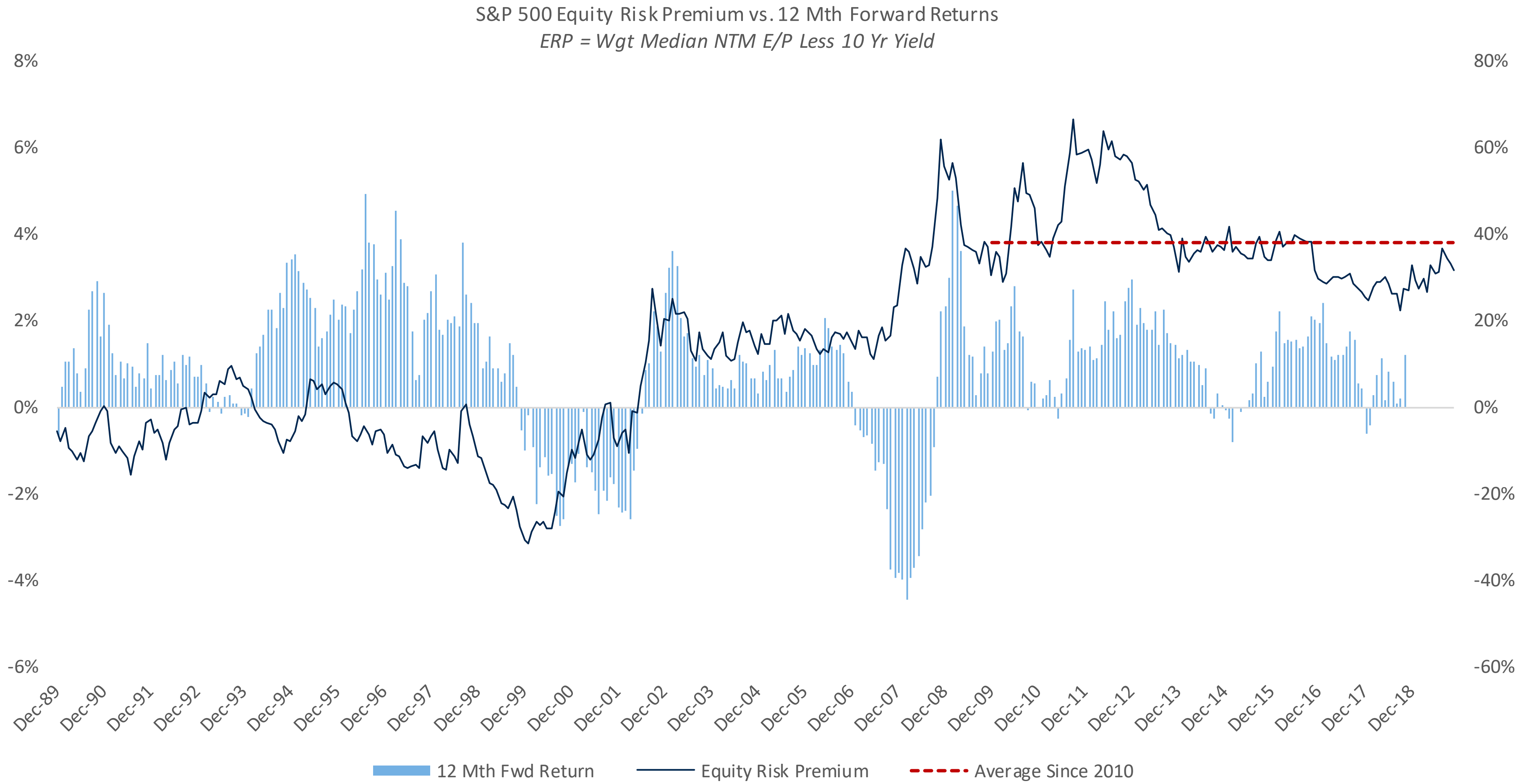


Source: RBC US Equity Strategy, Haver Analytics, S&P

US Equities Generally Look Attractively Valued Relative to Bonds

Key Takeaways

- When we compare the S&P 500 earnings yield to the 10 year Treasury yield, stocks look attractive relative to bonds.
- This has generally been the case since the Financial crisis, and since the Tech bubble.
- The attractiveness of equities relative to bonds is a bit below its post-Financial Crisis average.

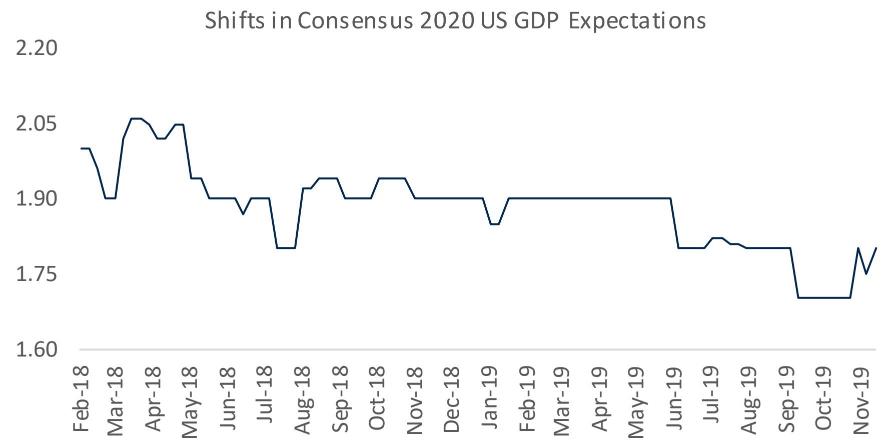


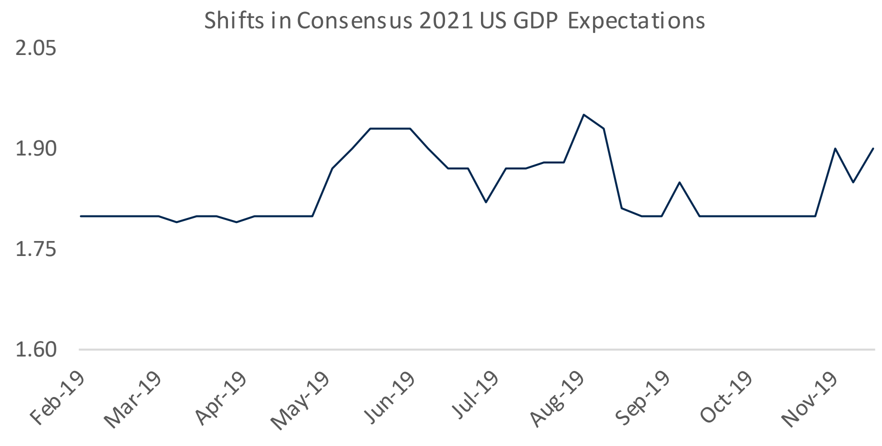
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Bloomberg

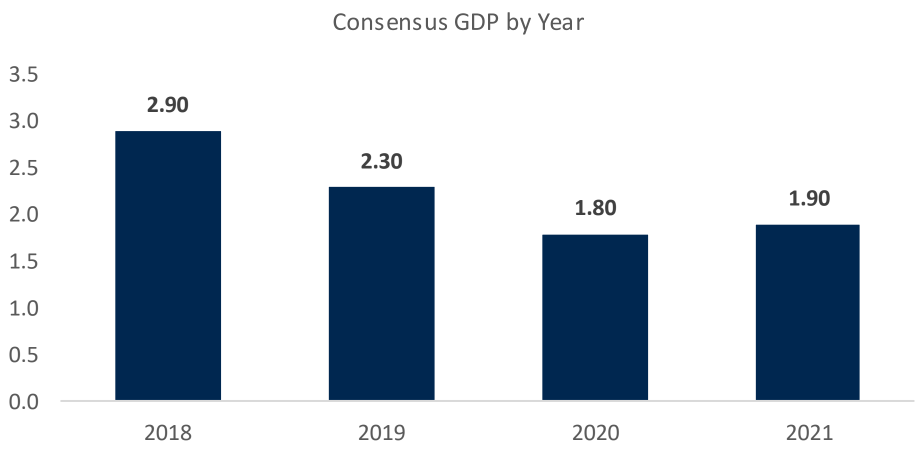
Positive But Sluggish GDP Anticipated For Both 2020 and 2021

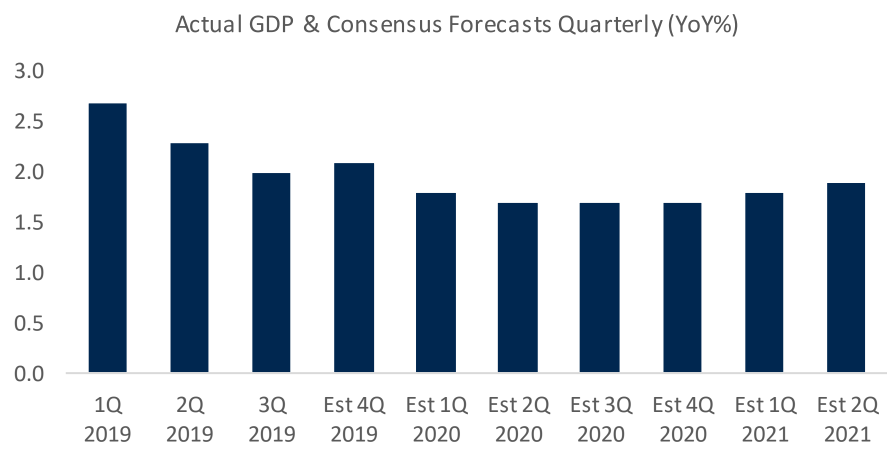
Key Takeaways

- The pace of economic growth for the US is expected to moderate, however, falling below 2% for both 2020 and 2021. 2020 expectations have moved lower since mid 2019, while 2021 expectations have been stable.









Source: RBC US Equity Strategy, Bloomberg

Sluggish Economic Growth is Often A Challenging Backdrop For The US Stock Market

Key Takeaways

- Stocks tend to do well when real GDP is above 2% in any given year.
- Beyond that, history suggests that sluggish economic growth and the fear of tipping into recession tend to be more problematic backdrops for stocks than the onset of recession. In negative real GDP years, stocks are normally up. In the 0–2% range, where 2020 estimates are currently stuck, stocks often struggle.
- 2013 and 2016 were two recent exceptions to this rule. 2013's move was supported by QE3. 2016's move occurred as the US emerged from a growth scare. In the latter, market returns were close to trend.

S&P 500 Returns During Different GDP Environments

Real GDP Range	# Instances	Average Return (Current Year)	Median Return (Current Year)
< 0%	11	13.4%	23.5%
0 - 2%	8	0.0%	0.0%
2 - 4 %	26	9.3%	11.1%
> 4%	27	8.6%	11.8%
All Years (1947-2018)	*72*	*8.6%*	*10.5%*

Sluggish GDP Years (Real GDP Between 0-2%)

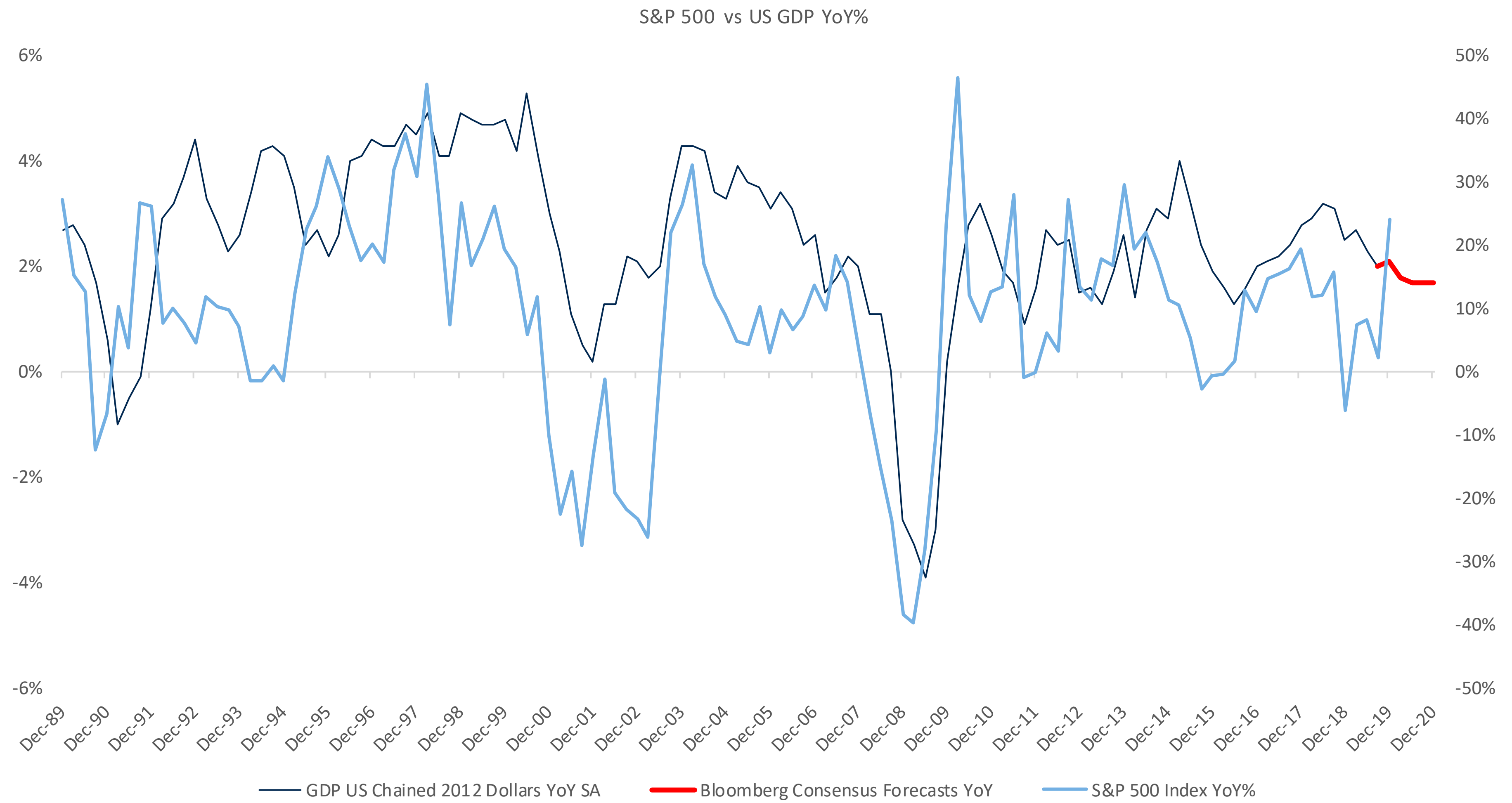
Year	Real GDP	Current Year Return
1970	0.2	0.1%
1990	1.9	-6.6%
2001	1.0	-13.0%
2002	1.7	-23.4%
2007	1.9	3.5%
2011	1.6	0.0%
2013	1.8	29.6%
2016	1.6	9.5%
% Times Down or Flat		**63%**

Source: RBC US Equity Strategy, Haver, S&P

Recent Price Action Anticipates A Strong Reacceleration In GDP, Out of Sync With Forecasts

Key Takeaways

- Real economic growth is a key driver for equity market returns in the long term, as it captures an economy's labor, capital and productivity factors, which all affect corporate profits. Currently, quarterly consensus estimates for real US GDP through the end of 2020 are pointing to a softer growth rate going forward than in the last couple of years. The relationship between economic growth and S&P 500 returns has somewhat decoupled in the last couple of quarters. Recent price action implies a sharp economic reacceleration, which is not currently reflected in consensus GDP forecasts.

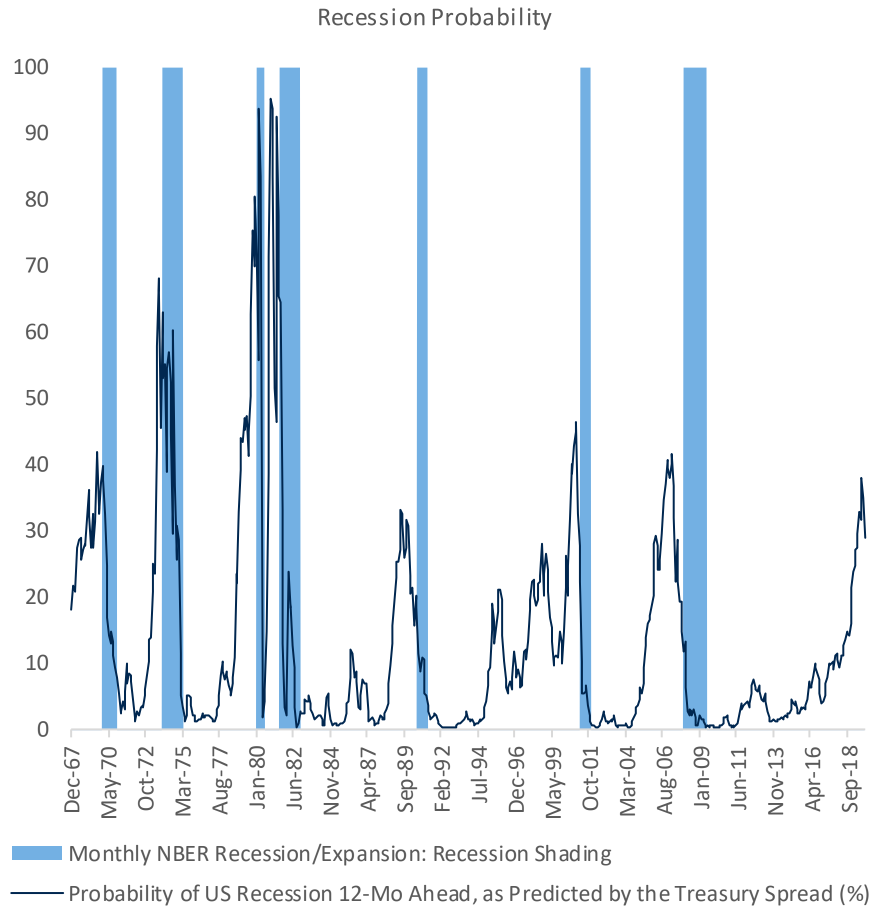


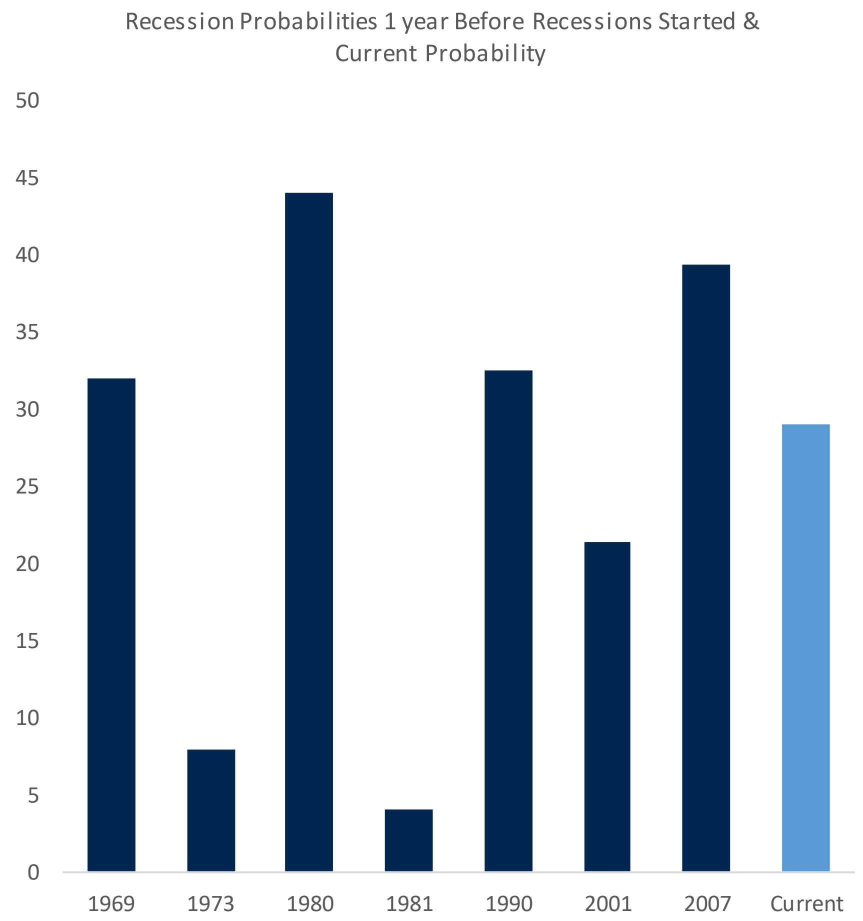
Source: RBC US Equity Strategy, Bloomberg

Recession Risks Have Started To Slip On Yield Curve Based Models

Key Takeaways

- In 2019, the probability of a recession moved up to its highest point since March 2007, according to the NY Fed. This indicator returned to levels near those in place when the past three recessions began.
- Very recently, this indicator has declined slightly.
- Note that the NY Fed recently revised this historical data series.





Source: RBC US Equity Strategy, Haver Analytics. Recession Probability in 12 months ahead is predicted by the Treasury Spread, computed by the Federal Reserve Bank of New York

If a Recession Is Looming, We'd Expect a Drop of 24–32% In The S&P 500 From Peak

Key Takeaways

- The median and average recession drops in the S&P 500 in recessions dating back to the 1930s have been 24% and 32%, respectively, not too far off from the 20% drop in the index that occurred between September and December 2018.
- We think the median stat is the more useful barometer of downside risk if a recession is looming, as the market declines associated with the Financial Crisis and Tech Bubble related recessions were much steeper than most of those in the past.
- The 20% downturn in the S&P 500 in 4Q18 essentially priced in a mild recession that didn't end up happening in 2019. If a recession is looming in 2020 or 2021, we think the stock market would need to price in that risk again – the 4Q18 drawdown was too early to count as pricing in a downturn in either of those years.

S&P 500 Peak To Trough Declines Around Recessions

Recession Dates	S&P 500 Peak Date	S&P 500 Trough Date	S&P 500 Peak Level	S&P 500 Trough Level	S&P 500 Peak To Trough Decline (% Chg)	S&P Pullback Duration (# Calendar Days)
May 1937 - June 1938	03/10/1937	03/31/1938	19	9	-54%	386
Nov 1948 - Oct 1949	06/15/1948	06/13/1949	17	14	-21%	363
July 1953 - May 1954	01/05/1953	09/14/1953	27	23	-15%	252
Aug 1957 - April 1958	07/15/1957	10/22/1957	49	39	-21%	99
April 1960 - Feb 1961	08/03/1959	10/25/1960	61	52	-14%	449
Dec 1969 - Nov 1970	11/29/1968	05/26/1970	108	69	-36%	543
Nov 1973 - Mar 1975	01/11/1973	10/03/1974	120	62	-48%	630
Jan 1980 - July 1980	02/13/1980	03/27/1980	118	98	-17%	43
July 1981 - Nov 1982	11/28/1980	08/12/1982	141	102	-27%	622
July 1990 - Mar 1991	07/16/1990	10/11/1990	369	295	-20%	87
Mar 2001 - Nov 2001	03/24/2000	10/09/2002	1527	777	-49%	929
Dec 2007 - June 2009	10/09/2007	03/09/2009	1565	677	-57%	517
Average					**-32%**	**410**
Median					**-24%**	**418**

We excluded the 1945 recession as there was no clear stock market pullback around it

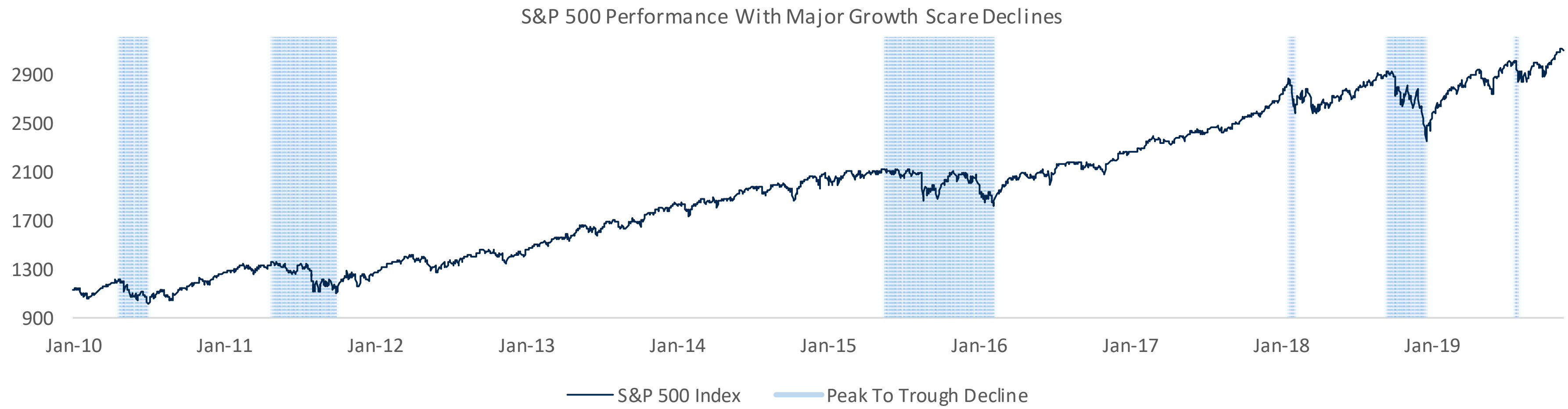
2001 recession pullback stats are based on March 2000 peak / Oct 2002 low

Source: RBC US Equity Strategy, Haver, S&P

Post-Financial Crisis Growth Scares Have Taken the S&P 500 Down 10–20%

Key Takeaways

- The major pullbacks seen in mid 2010, mid 2011, late 2015/early 2016, and 4Q18 totaled 14–20% while the 1Q18 drop totaled 10%.



S&P 500 Major Pullbacks Post 2010: Peak To Trough Declines & Performance Post Trough

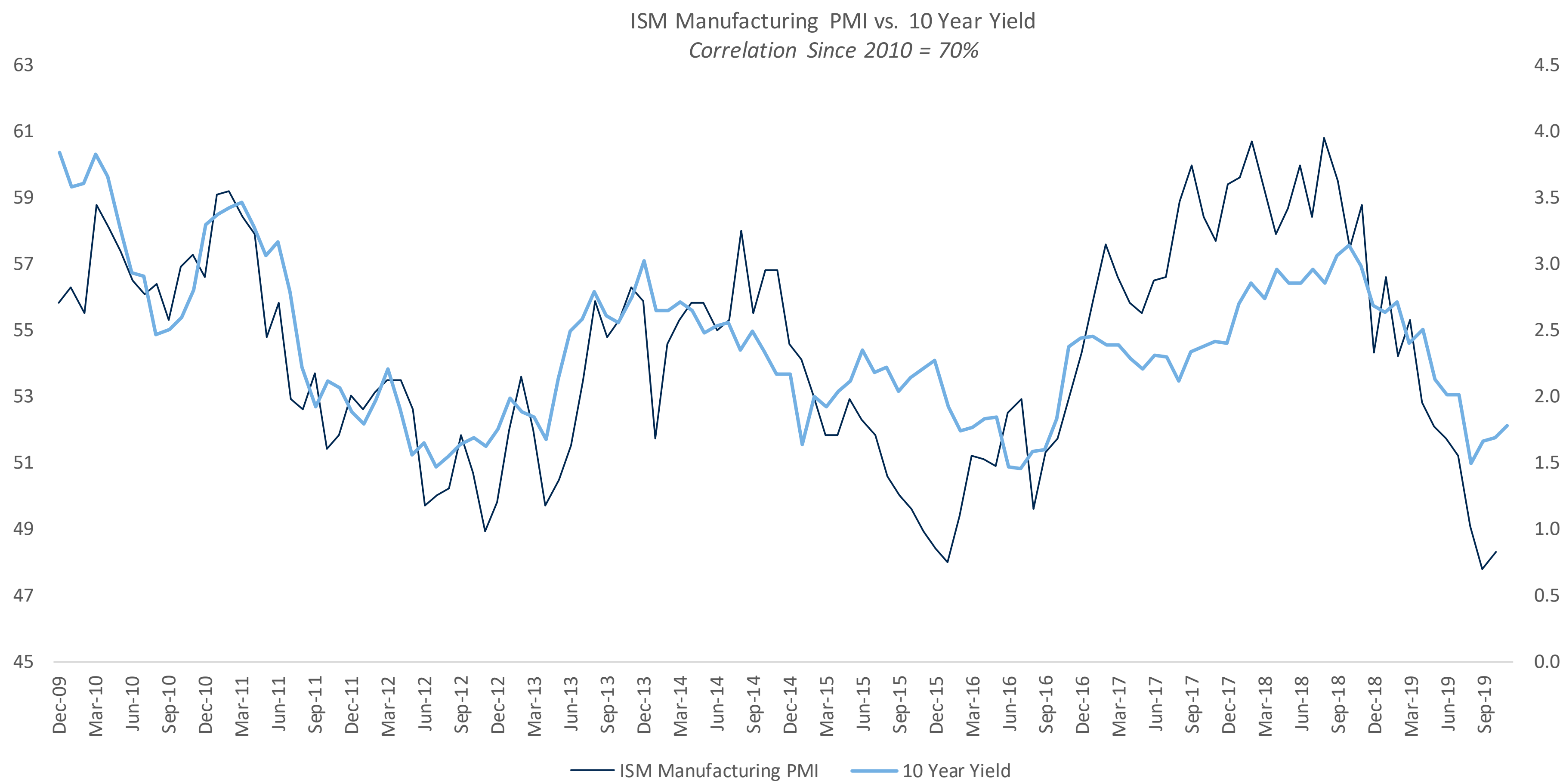
Decline Details						Performance Post Trough				
Peak Date	Trough Date	Peak Level	Trough Level	# Calendar Days	% Decline	5 Trading Day Return	1 Month Return	3 Month Return	6 Month Return	12 Month Return
04/23/2010	07/02/2010	1217	1023	70	-16.0%	5.5%	10.1%	12.1%	23.0%	31.0%
04/29/2011	10/03/2011	1364	1099	157	-19.4%	8.7%	14.7%	16.2%	28.6%	28.7%
05/21/2015	02/11/2016	2131	1829	266	-14.2%	4.8%	10.6%	12.9%	19.5%	26.6%
01/26/2018	02/08/2018	2873	2581	13	-10.2%	5.8%	6.1%	3.5%	10.7%	6.3%
09/20/2018	12/24/2018	2931	2351	95	-19.8%	6.8%	12.4%	19.0%	25.3%	
Median				**95**	**-16.0%**	**5.8%**	**10.6%**	**12.9%**	**23.0%**	**27.6%**
Average				**120**	**-15.9%**	**6.3%**	**10.8%**	**12.7%**	**21.4%**	**23.1%**
% Times Up						**100%**	**100%**	**100%**	**100%**	**100%**

Source: RBC US Equity Strategy, Bloomberg

10-Year Yields Reflect Hope that ISM Has Bottomed

Key Takeaways

- Since the Financial Crisis, 10-year Treasury yields have more or less moved in tandem with trends in ISM, a widely watched barometer of the health of the manufacturing sector.
- We think the uptick in yields reflects the fading of recession fears and building optimism that ISM has bottomed.
- While that hope may be premature, it's worth noting that in 2015–16 interest rates stabilized before ISM did.

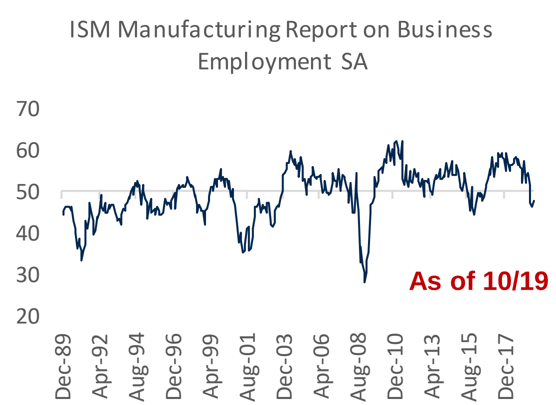


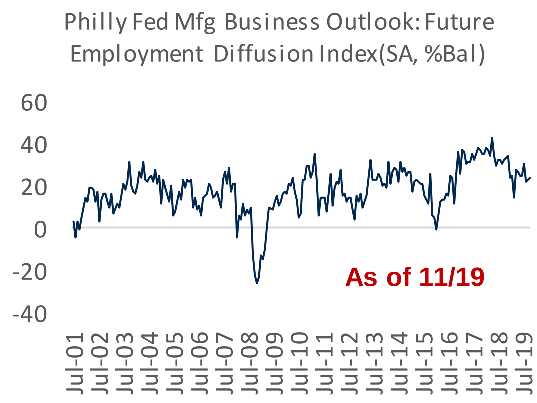
Source: RBC US Equity Strategy, Bloomberg

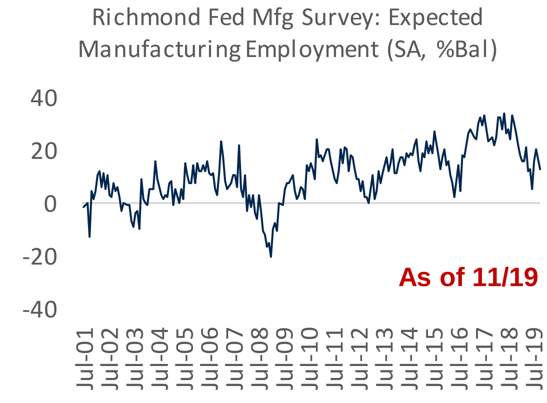
Surveys on Future Employment Trends Have Deteriorated, With Some Hints of Stabilization

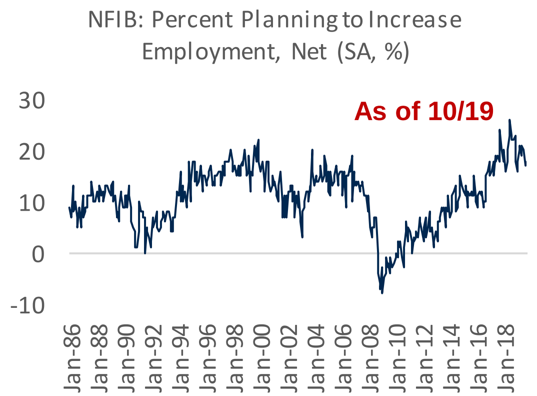
Key Takeaways

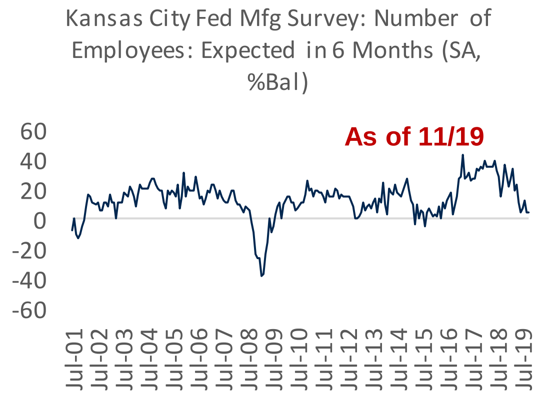
- All of the employment surveys we track have slipped or stalled slightly in recent months. The one with the worst drop has been the ISM Manufacturing Report on Business Employment, which fell below 50 for the first time since September 2016. A few of these – Philly and Kansas City – have stabilized recently.

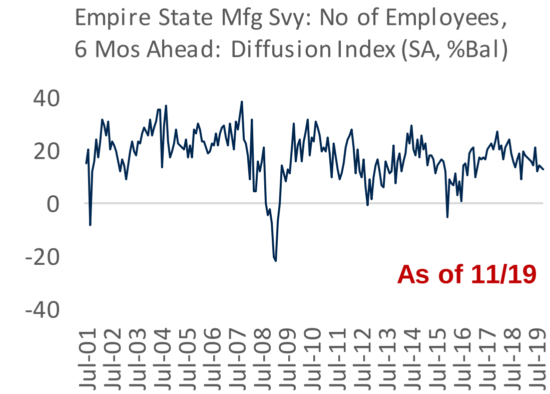










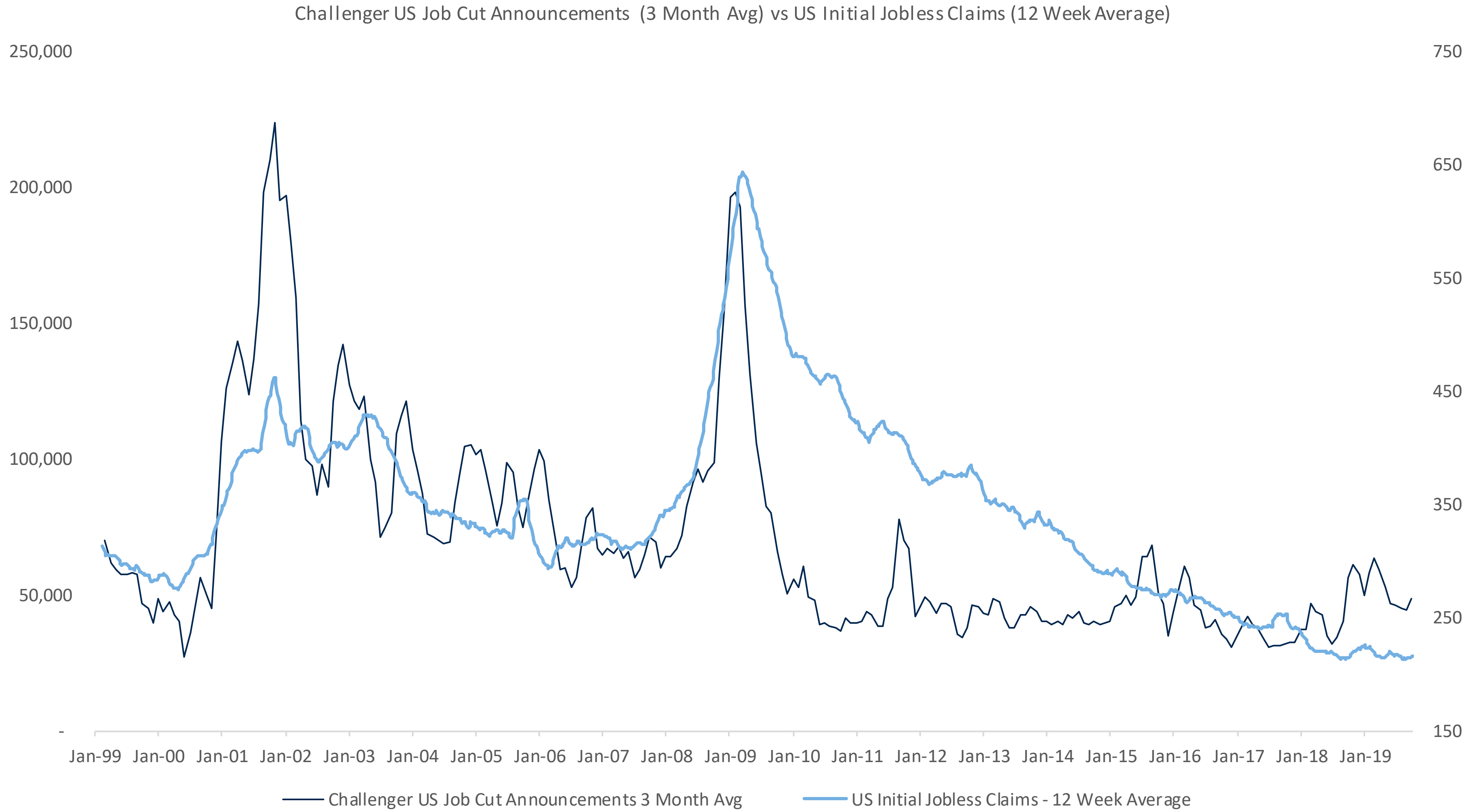


Source: RBC US Equity Strategy, Haver

Layoff Announcements Aren't Alarming Yet

Key Takeaways

- The pickup in layoff announcements has not been accompanied by a spike in jobless claims.
- It's worth noting that the pickup in layoff announcements has been similar to the levels seen in 2011 and 2016—two prior growth scares that did not turn into recessions.

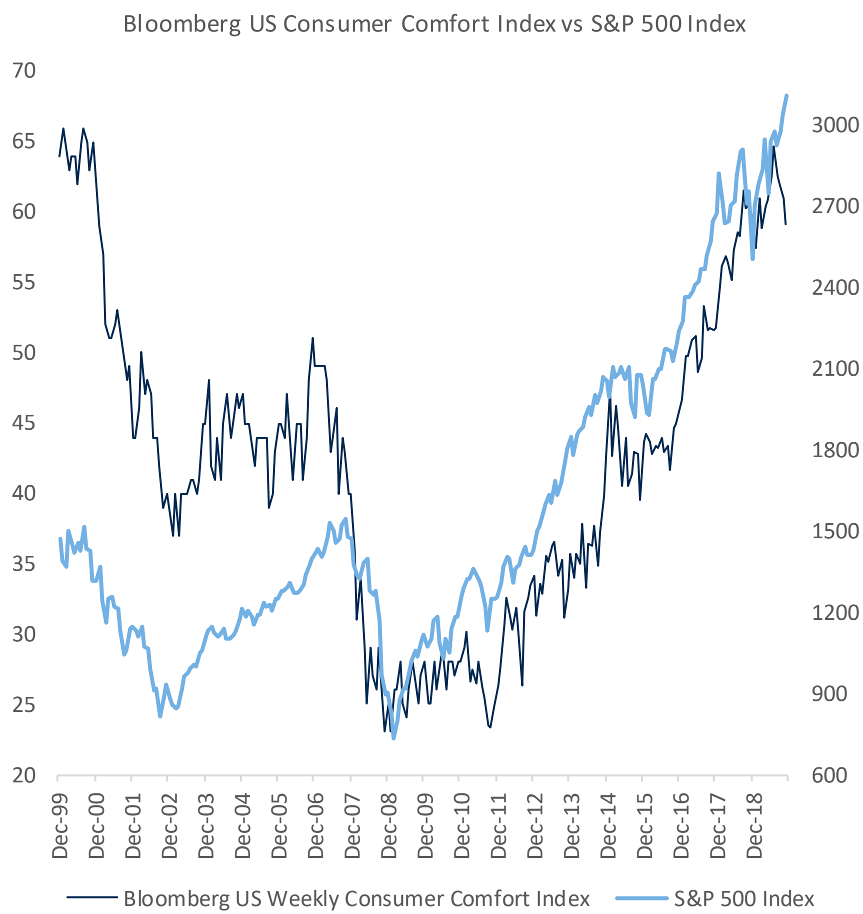


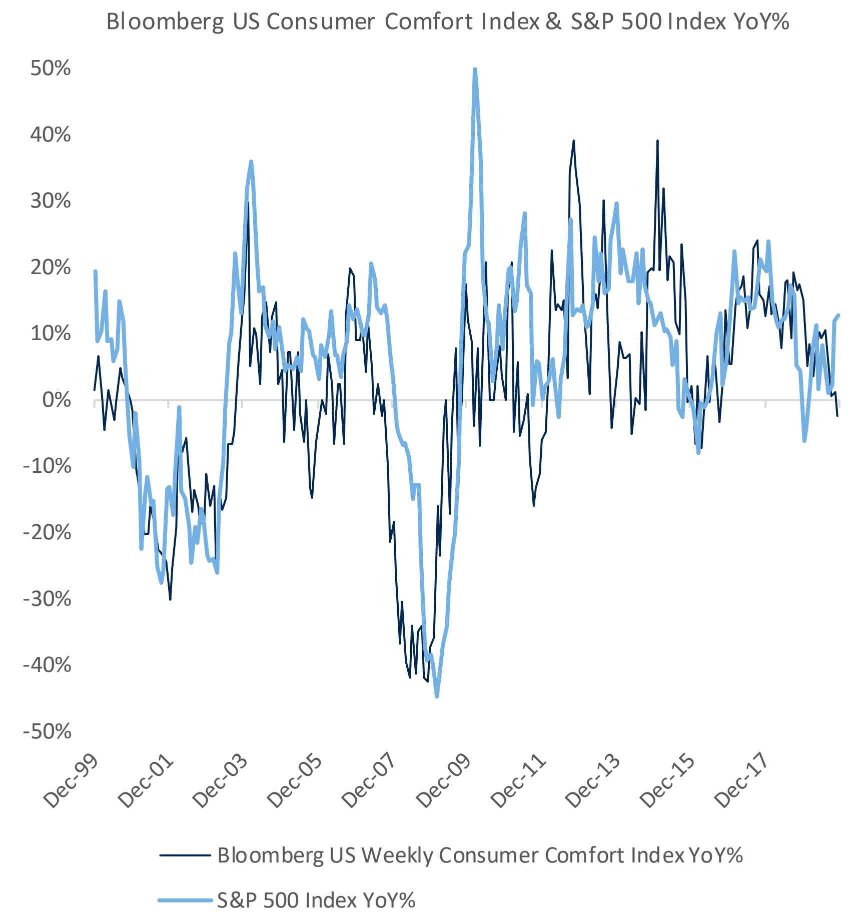
Source: RBC US Equity Strategy, Bloomberg

Trends in Consumer Sentiment & US Equity Market Returns Have Been Linked

Key Takeaways

- The link between the sentiment of the US consumer and equity returns has grown as the US economy has transformed itself a consumer-led economy through the years.
- As of late, this relationship has shown a slight divergence as, relative to last year, consumer sentiment, as measured by Bloomberg's Consumer Comfort sentiment index, is on pace to decline, relative to last year, in November for the first time since 2016. On the other hand, equity market returns are on pace to post their 10th consecutive month of gains relative to last year this November.



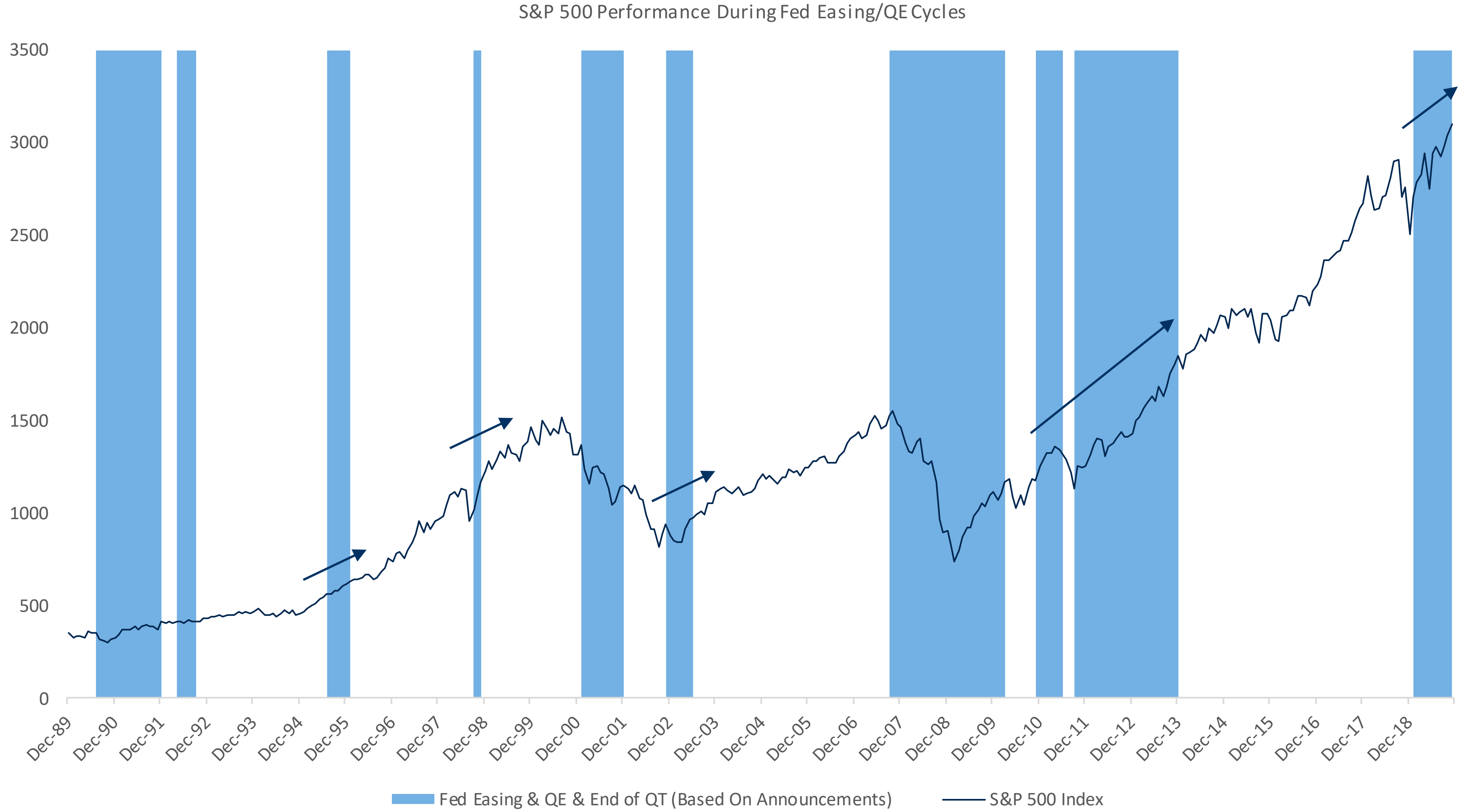


Source: RBC US Equity Strategy, Bloomberg

The Fed Helped Boost US Equities In 2019

Key Takeaways

- Similar to 1995, 1998, 2003, and 2012-2013, a more accommodative Fed helped boost the stock market in 2019.
- Our economists think the Fed will pause in 2020 due to the resilience of the economy, de-escalation in the trade war with China, and the Presidential election. That would remove one of the pillars or support from US equities.

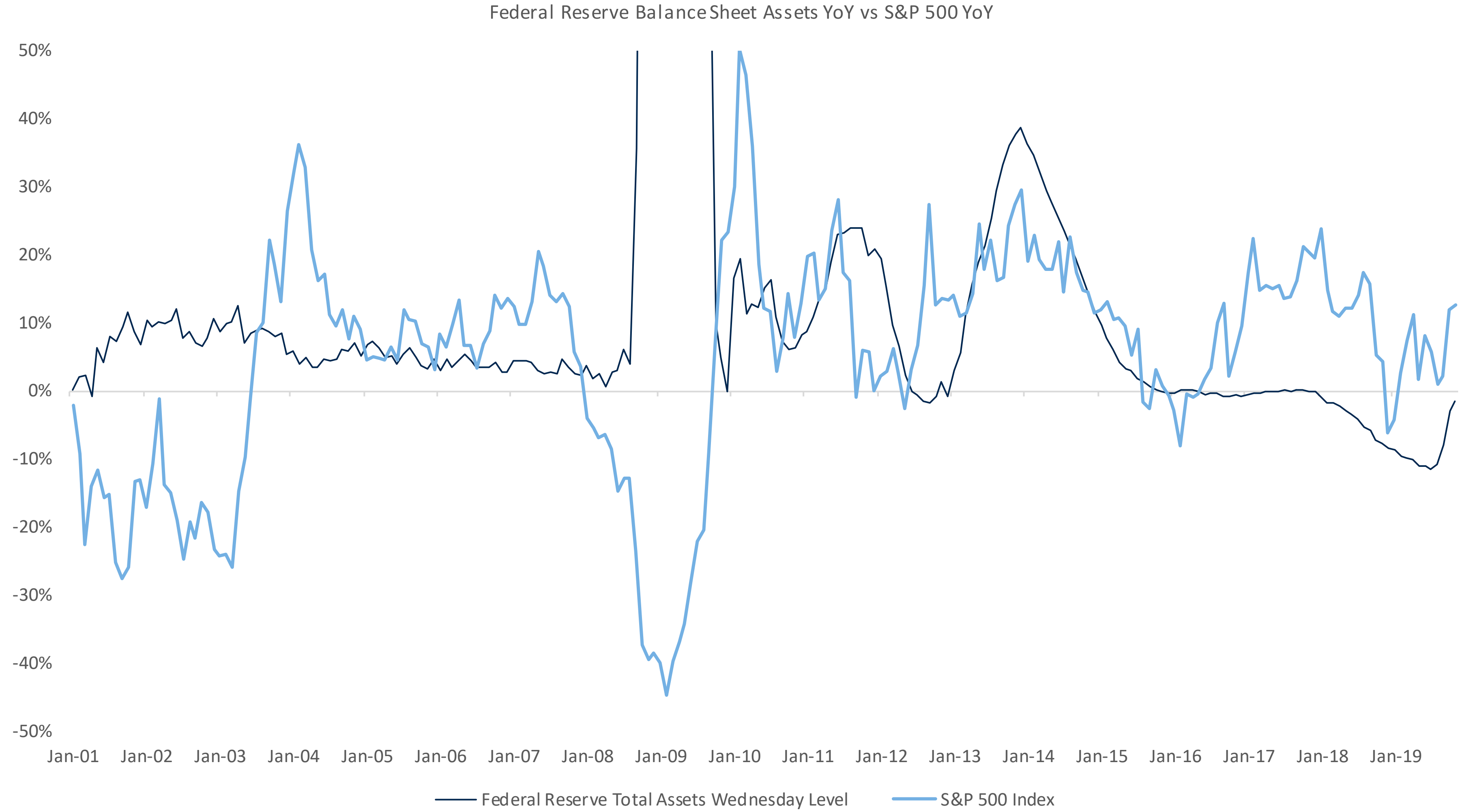


Source: RBC US Equity Strategy, Bloomberg, Haver

Keeping A Close Eye on the Fed’s Balance Sheet

Key Takeaways

- In the aftermath of the Financial Crisis, from 2010-2015, there was a clear link between US stock market performance and the expansion of the Fed’s balance sheet/QE.
- We do not view today’s Fed’s balance sheet management efforts as a QE program, and note that prior to the Financial Crisis, the mild expansion of the Fed’s balance sheet had no impact on stock market performance.

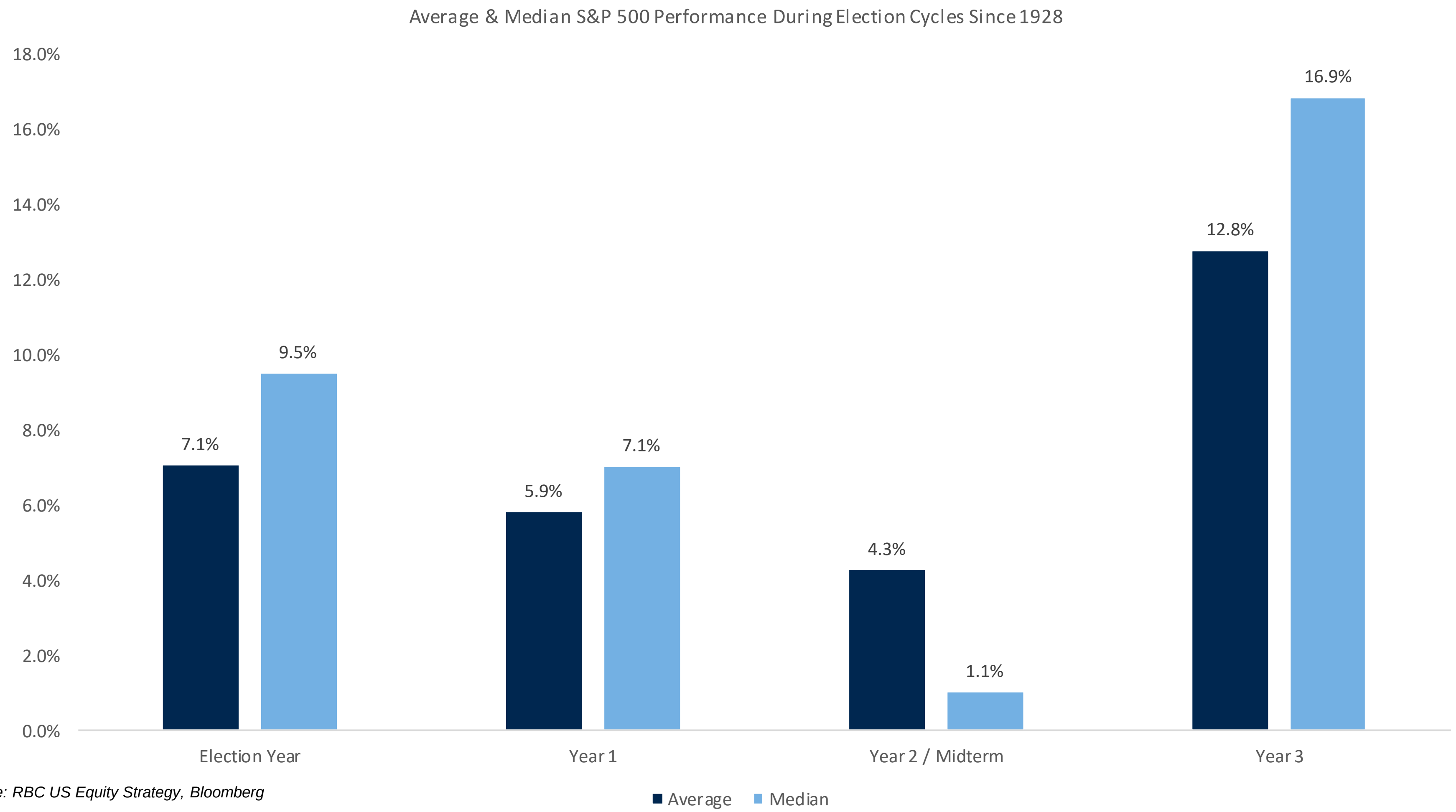


Source: RBC US Equity Strategy, Bloomberg

Presidential Election Years Typically Have Trend Like Returns

Key Takeaways

- Year 3 of the Presidential cycle, the year that precedes the Presidential election, tends to be the stronger in the election cycle for stocks. So far in 2019, the playbook is working. The S&P 500 is up 25% YTD.
- The Presidential election year tends to be solid as well, but less robust than Year 3, with average/median returns that are close to trend.
- Mid term election years (which 2018 was) tend to be the weakest. The playbook also worked that year, with the S&P 500 losing more than 6%.

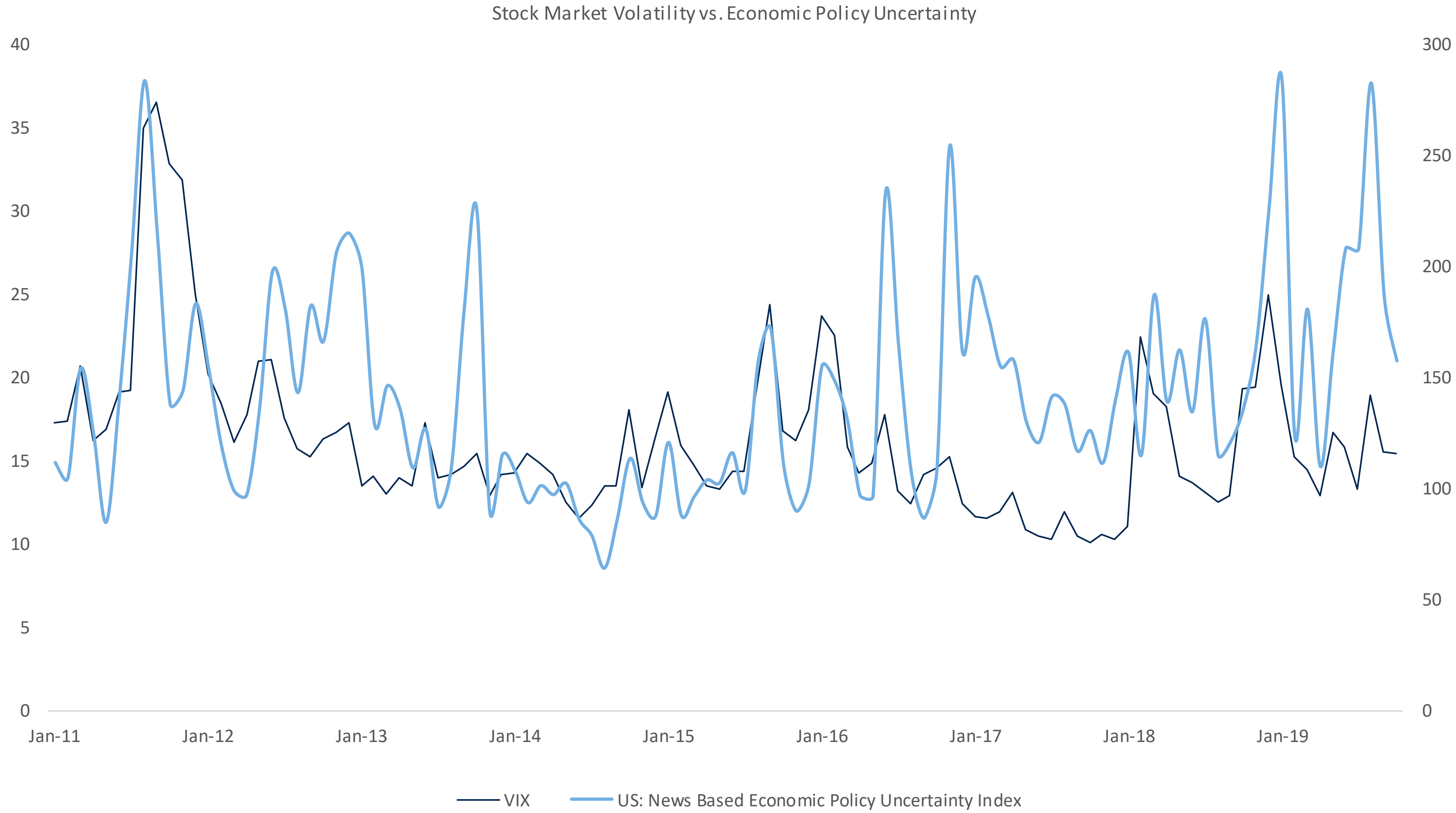


Source: RBC US Equity Strategy, Bloomberg

Heightened Policy Uncertainty Tends To Be Accompanied By Higher Stock Market Volatility

Key Takeaways

- Historically, elevated policy uncertainty has been associated with higher levels of stock market volatility. 4Q18's pullback in the S&P 500 was accompanied by a major spike in policy uncertainty, primarily on trade policy with China. Uncertainty retreated in the first two months of 2019, then picked back up over the summer, helping drive the May and August pullbacks in the market. Policy uncertainty has ebbed in the later months of 2019 as the trade war has deescalated, but seems likely to rise again in 2020 as the Presidential election comes into focus.

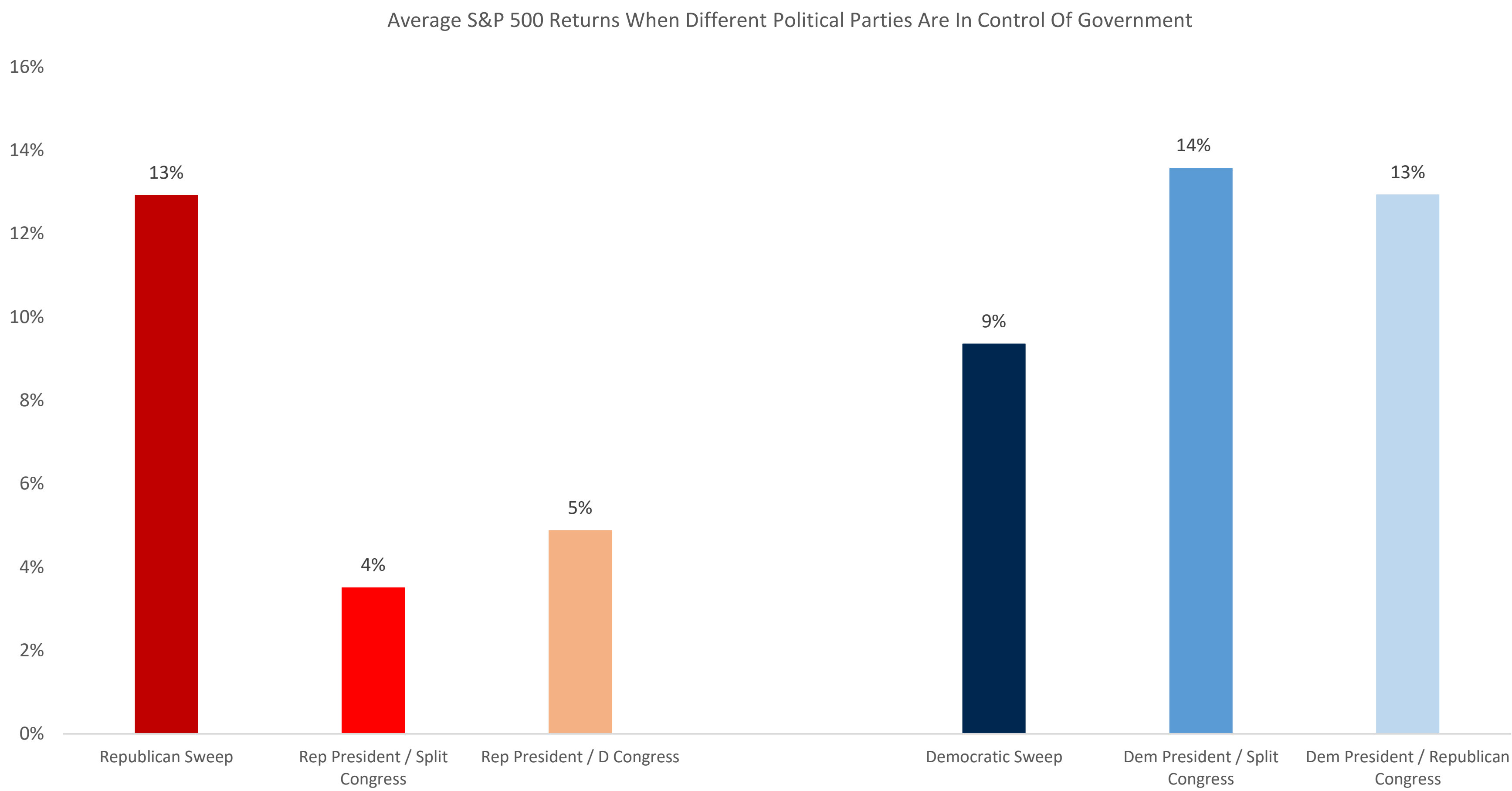


Source: RBC US Equity Strategy, Haver

Historical Stock Market Returns Under Different Political Leadership Environments

Key Takeaways

- A Republican President with a split or Democratic Congress – as is the case today – is often challenging for stocks. Average returns have been best under a unified Republican government or a government with a Democratic President and split or Republican Congress.
- A Democratic President with a Democratic Congress falls in the middle – average returns are close to historical trend.

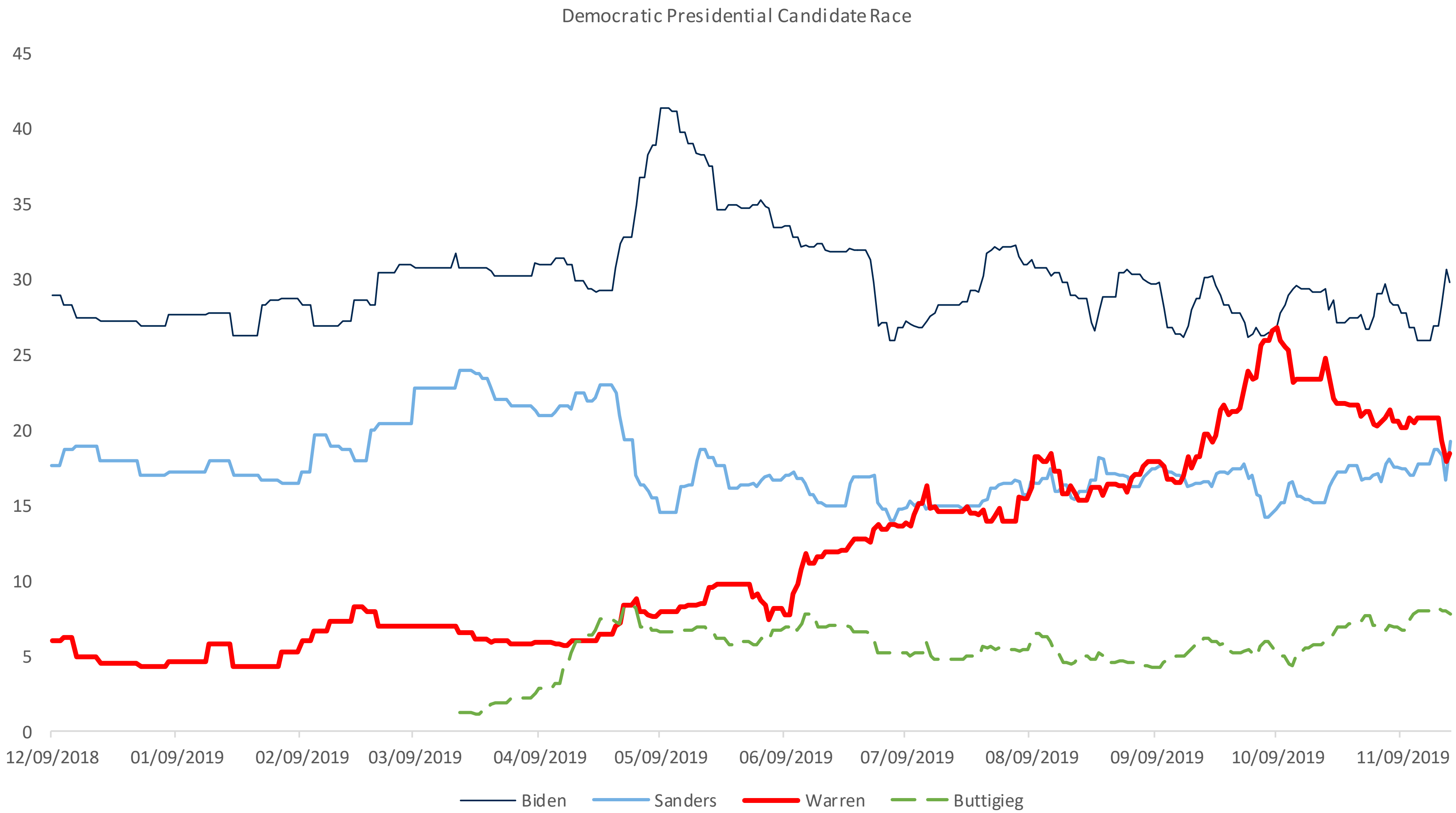


Source: RBC US Equity Strategy, Haver, Includes years since 1933; the 2000 election resulted in a 50/50 tie in the Senate (with a Republican VP acting as the deciding vote after inauguration). However, midway through 2001 one Republican Senator left to become an independent and caucus with the Democrats.

Warren Peaked In The Polls In Early October, Buttigieg Has The Momentum At The Moment

Key Takeaways

- Over the summer, the story in the polls was that Biden faded, Sanders stalled, and Warren gained momentum.
- But Warren's polling numbers peaked in early October, as Buttigieg, who's been pitching himself as more of a moderate, gained ground. Biden and Sanders have been fairly stable since then.
- As of November 21st, 2019.

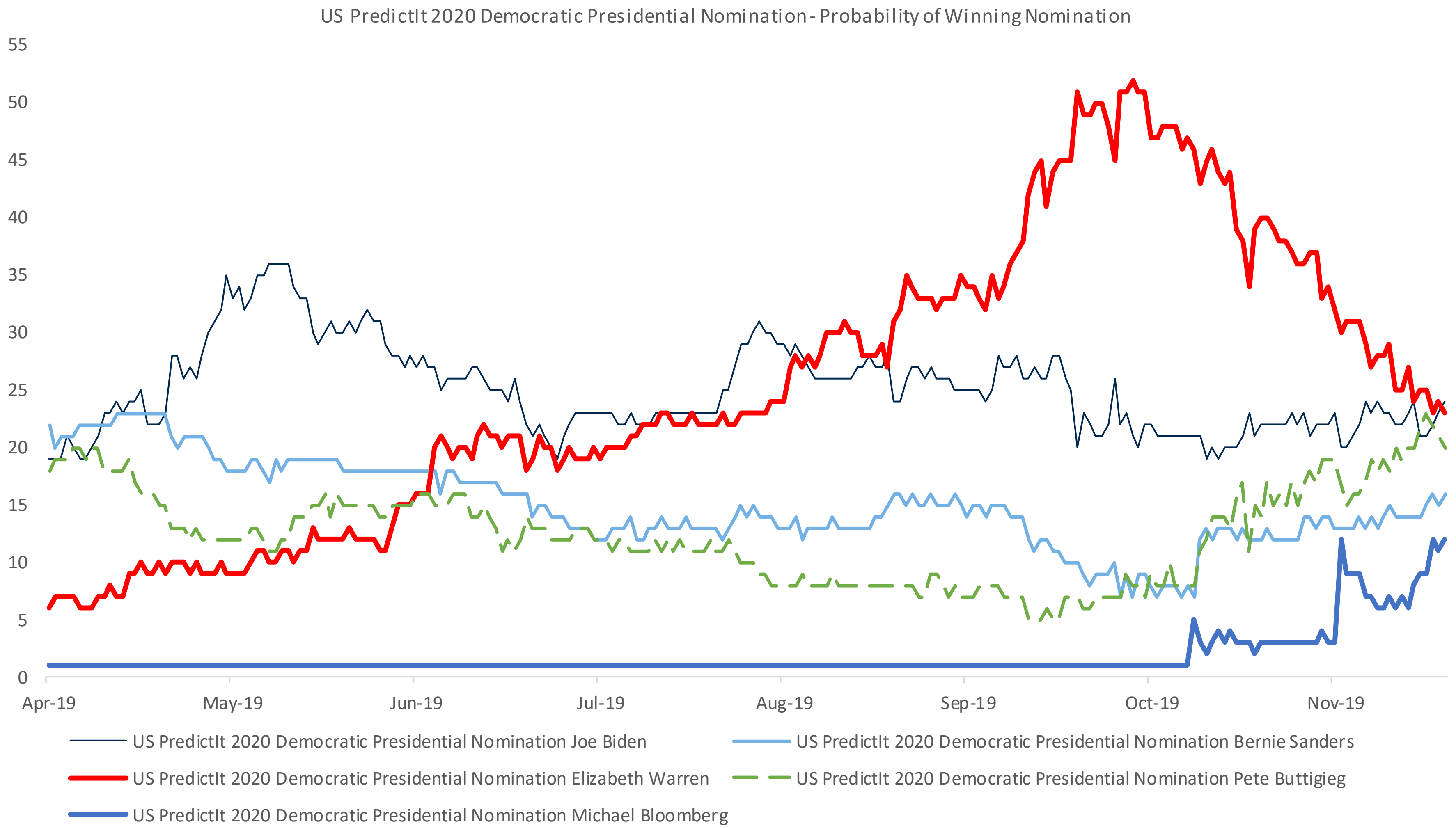


Source: RBC US Equity Strategy, Real Clear Politics. RCP Poll represents the average of the last four 2020 Democratic Presidential Polls

Buttigieg Has Made An Even Bigger Move In The Betting Markets

Key Takeaways

- While still in 4th place in the polling averages, Buttigieg has moved into 3rd place and is challenging Biden in the betting markets. Expectations that he will win have surged since early October.
- Expectations that Warren will take the nomination have also seen a sharp drop there since early October. She's slipped to 2nd place in the betting markets.
- As of November 24th, 2019.



Source: RBC US Equity Strategy, Bloomberg, PredictIt, Probabilities derived by betting markets

The States We're Watching Closely In The 2020 Election

Key Takeaways

- 270 electoral votes are needed to win the Presidency. Trump won 306 in 2016 while Clinton won 232. Assuming they win all of the states that they won in 2016, the Democrats would need another 38 electoral votes to take the White House.
- In the 2016 election, there were 17 states where the margin for Trump was +/-10%. Trump won 10 of those, while Clinton took 7. We don't see any problems for Democrats in the 7 that they took in 2016. The party picked up seats in the House in most of these states in 2018, and Trump's approval is negative and has been deteriorating in all of them.
- But Trump does appear to have problems in the 10 closer states that he won in 2016. Five (representing 75 electoral votes) elected Democrats to the Senate in 2018. Additionally, Trump's net approval rating is negative in all but one of the ten. His net approval rating has also deteriorated in all of the ten we are watching. Democrats gained House seats in most in 2016.
- If the Democrats keep all of their 2016 states, and take Michigan, Wisconsin, and Pennsylvania, they would win in 2020.

States That Voted For Trump in 2016, Margin Less Than 10%

State	Electoral Votes	2016 Presidential Race (Party)	2016 Presidential Margin (Trump)	2018 Senate Race	2018 House Race: Net Gain/Loss For Dems vs. 2016	2018 House Race: Net # Seats For Dems vs. Reps	Trump Net Approval (October 2019)	Net Change In Trump Approval (vs. Jan 2017)
Michigan	16	Republican	0.3	Democrat	2	0	-13	-20
Wisconsin	10	Republican	1	Democrat	0	-2	-13	-19
Pennsylvania	20	Republican	1.2	Democrat	4	0	-9	-19
Florida	29	Republican	1.3	Republican	2	-1	-2	-24
North Carolina	15	Republican	3.8	N/A	0	-6	-3	-20
Arizona	11	Republican	4.1	Democrat	1	1	-4	-23
Georgia	16	Republican	5.7	N/A	1	-4	-3	-21
Ohio	18	Republican	8.6	Democrat	0	-8	-6	-20
Texas	38	Republican	9.2	Republican	2	-10	2	-19
Iowa	6	Republican	9.6	N/A	2	2	-12	-21

States That Voted For Clinton in 2016, Margin Less Than 10%

State	Electoral Votes	2016 Presidential Race (Party)	2016 Presidential Margin (Trump)	2018 Senate Race	2018 House Race: Net Gain/Loss For Dems vs. 2016	2018 House Race: Net # Seats For Dems vs. Reps	Trump Net Approval (October 2019)	Net Change In Trump Approval (vs. Jan 2017)
New Hampshire	4	Democrat	-0.4	N/A	0	2	-20	-21
Minnesota	10	Democrat	-1.5	Democrat	0	2	-14	-17
Nevada	6	Democrat	-2.4	Democrat	0	2	-14	-24
Maine	4	Democrat	-2.7	Independent	1	2	-13	-21
Colorado	9	Democrat	-2.8	N/A	1	1	-18	-19
Virginia	13	Democrat	-4.9	Democrat	3	3	-7	-15
New Mexico	5	Democrat	-8.3	Democrat	1	3	-18	-35

Source: RBC US Equity Strategy, Politico, CNN, Britannica; note that in 2016, 1 of Maine's electoral votes went to Trump while the other three went to Clinton

Biden Has Been Polling Better Against Trump Than Sanders or Warren In Critical Red States

Key Takeaways

- For the states that went to Trump in 2016 by a margin of 10% or less (and where there is polling data available), Biden has mostly been beating Trump in head to head polling in recent months.
- The head to head polling data for Sanders and Warren has been much more mixed.
- For states that have multiple polls, there's been some inconsistency, reinforcing our view that it's too early to make a call on what will happen next November. The shifts in Michigan and Wisconsin make us wonder whether the impeachment process has helped Trump.

Head To Head Match Ups For Key States in August, September & October - States That Voted For Trump in 2016

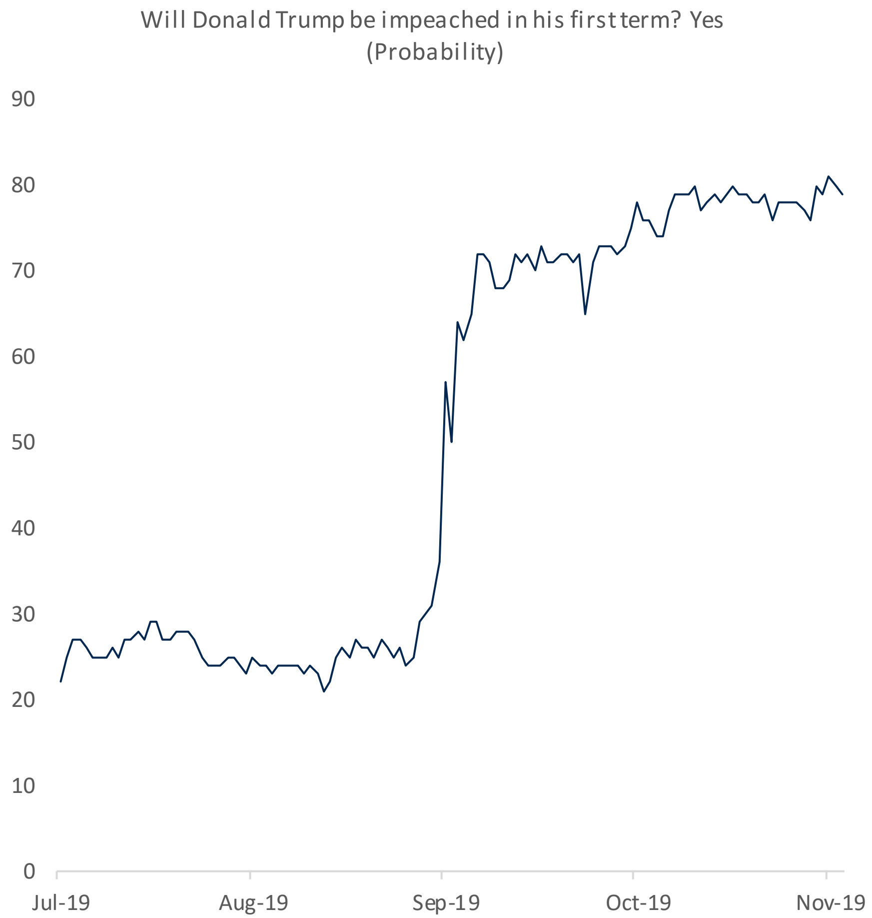
	Trump vs. Biden	Trump vs. Sanders	Trump vs. Warren	Trump vs Buttigieg	Pollster	Date
Michigan	-12	-14	-7		Emerson College	03-Nov
Michigan	0	-2	6		Siena College/NYT Upshot	25-Oct
Michigan	-19				Targte Insyght	26-Sep
Wisconsin	3	3	5	8	Marquette Law School	17-Nov
Wisconsin	-3	-2	0		Siena College/NYT Upshot	26-Oct
Wisconsin	-6	-2	-1	2	Marquette Law School	17-Oct
Pennsylvania	-9	-5	-5		Muhlenberg College	09-Nov
Pennsylvania	-3	-1	0		Siena College/NYT Upshot	25-Oct
Pennsylvania	-4	-2	-2		Firehouse Strategies/Optimus	09-Sep
Florida	-2	1	4		Siena College/NYT Upshot	26-Oct
Florida	-5		-3	1	University of North Florida	20-Oct
Florida	1	1	0		Florida Atlantic University	15-Sep
North Carolina	-2	-1	1	4	Fox News	13-Nov
North Carolina	2	3	3		Siena College/NYT Upshot	26-Oct
North Carolina	-3	-1	1	3	East Carolina University	09-Oct
Arizona	0	3	0		Emerson College	29-Oct
Arizona	-5	1	-2		Siena College/NYT Upshot	23-Oct
Arizona	1	8	0		Bendixen & Amandi International	12-Sep
Ohio	-2	0	0	4	Public Policy Polling	11-Oct
Ohio	-6	-4	-2	0	Climate Nexus	07-Oct
Ohio	-5	-6	-3		Emerson	02-Oct
Texas	5	4	11	13	University of Texas at Tyler	14-Nov
Texas	7	5	7		YouGov	27-Oct
Texas	-2	2	3	9	University of Texas at Tyler	15-Sep
Georgia	-4	-3	-1	4	SurveyUSA	18-Nov
Georgia	-1	2	0	7	Climate Nexus	10-Nov
Georgia	-9	-4	-3	-3	University of Georgia	08-Nov
Iowa	1	3	6	4	Siena College/NYT Upshot	30-Oct
Iowa	1	-1	2		Emerson College	16-Oct

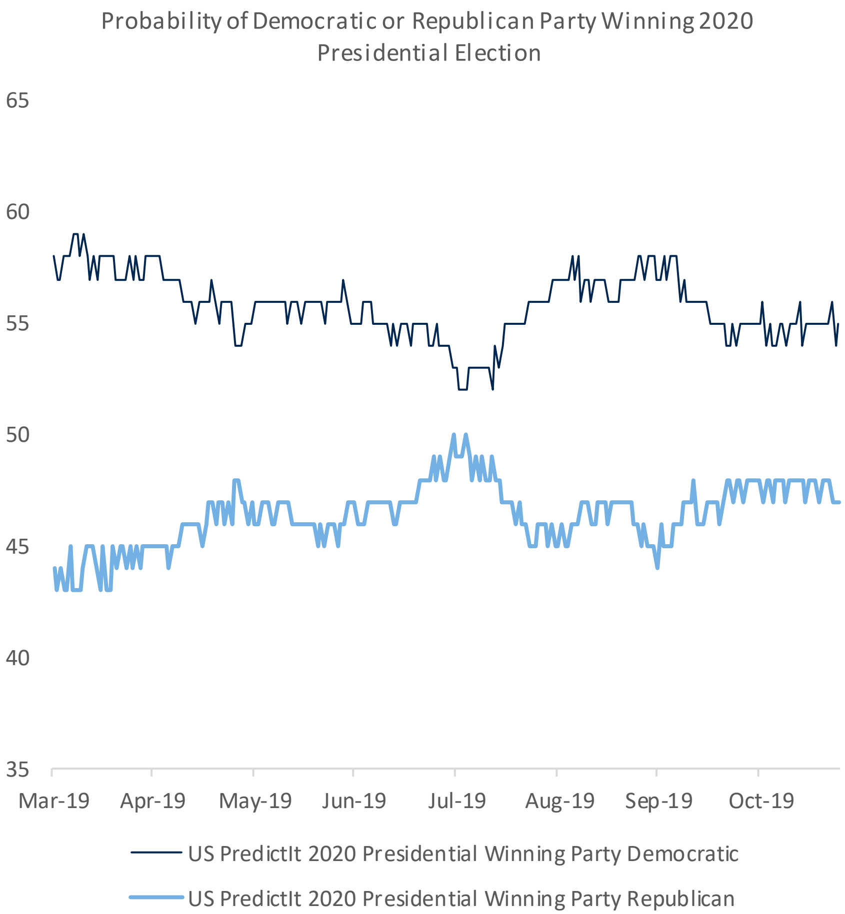
Source: RBC US Equity Strategy, RealClearPolitics.com, FiveThirtyEight.com, Only states shown for which head to head polls are available so far; last three available polls used

Expectations Trump Will Win Again In 2020 Have Improved In The Betting Markets

Key Takeaways

- Expectations that Trump will be impeached are high In the betting markets. Trump is also expected to lose the White House in 2020.
- But expectations that Trump will win the White House have improved a bit since September.
- As of November 24th, 2019.



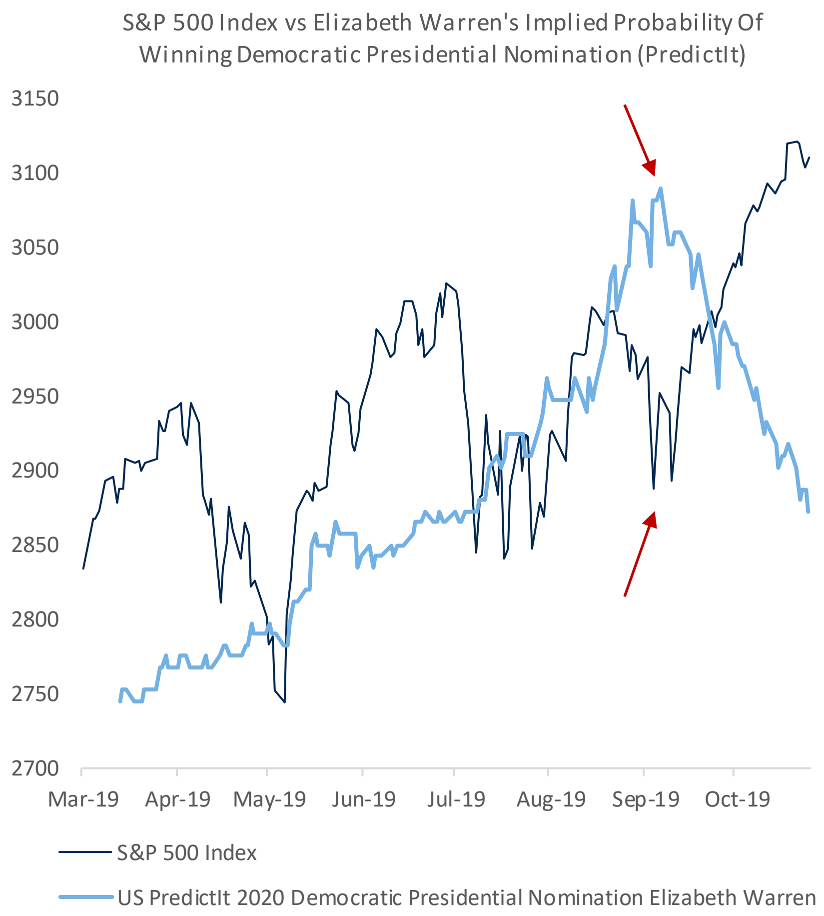


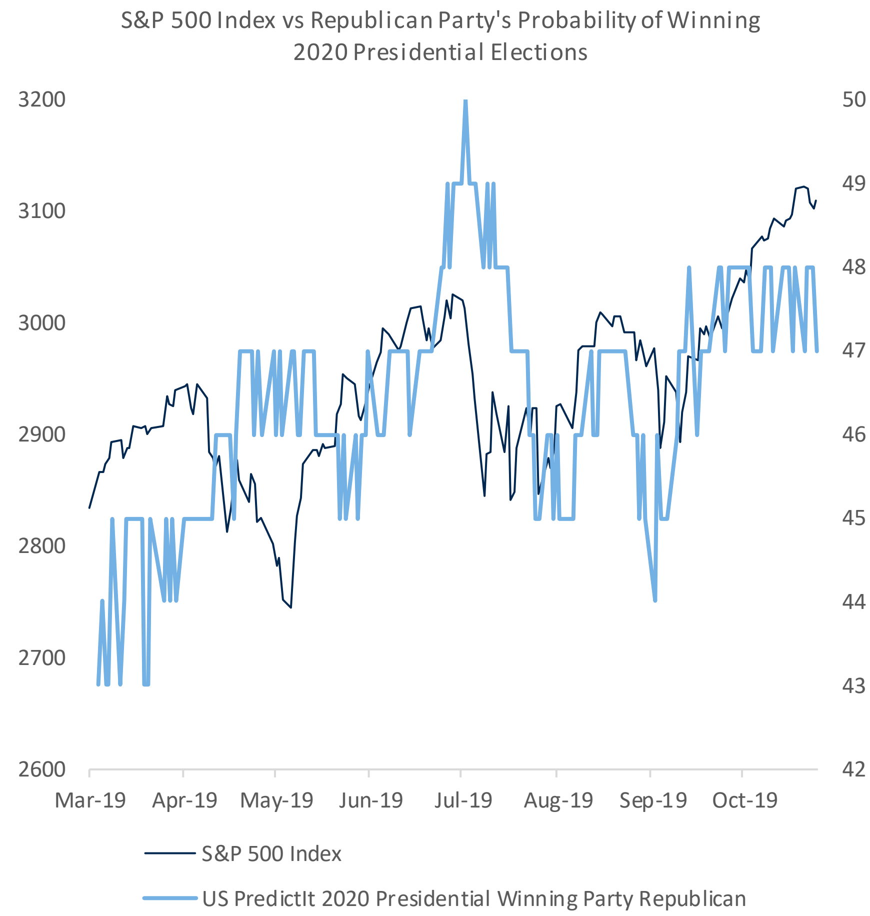
Source: RBC US Equity Strategy, Bloomberg, PredictIt, Probabilities derived by betting markets

Shifting Views on the 2020 Election Have Helped Drive The Latest Upswing In The S&P 500

Key Takeaways

- We suspect that the deteriorating outlook for Warren and the improvement for Trump have contributed to the recent upswing in the S&P 500, since Warren has been the candidate that has been worrying investors the most and a Trump reelection has been viewed as a bullish outcome for stocks. Indeed, the latest upswing in the S&P 500 began as expectations that Warren will win the Democratic nomination in the betting markets started to fall from their early October peak. Around that time, expectations that Trump would get re-elected also improved.





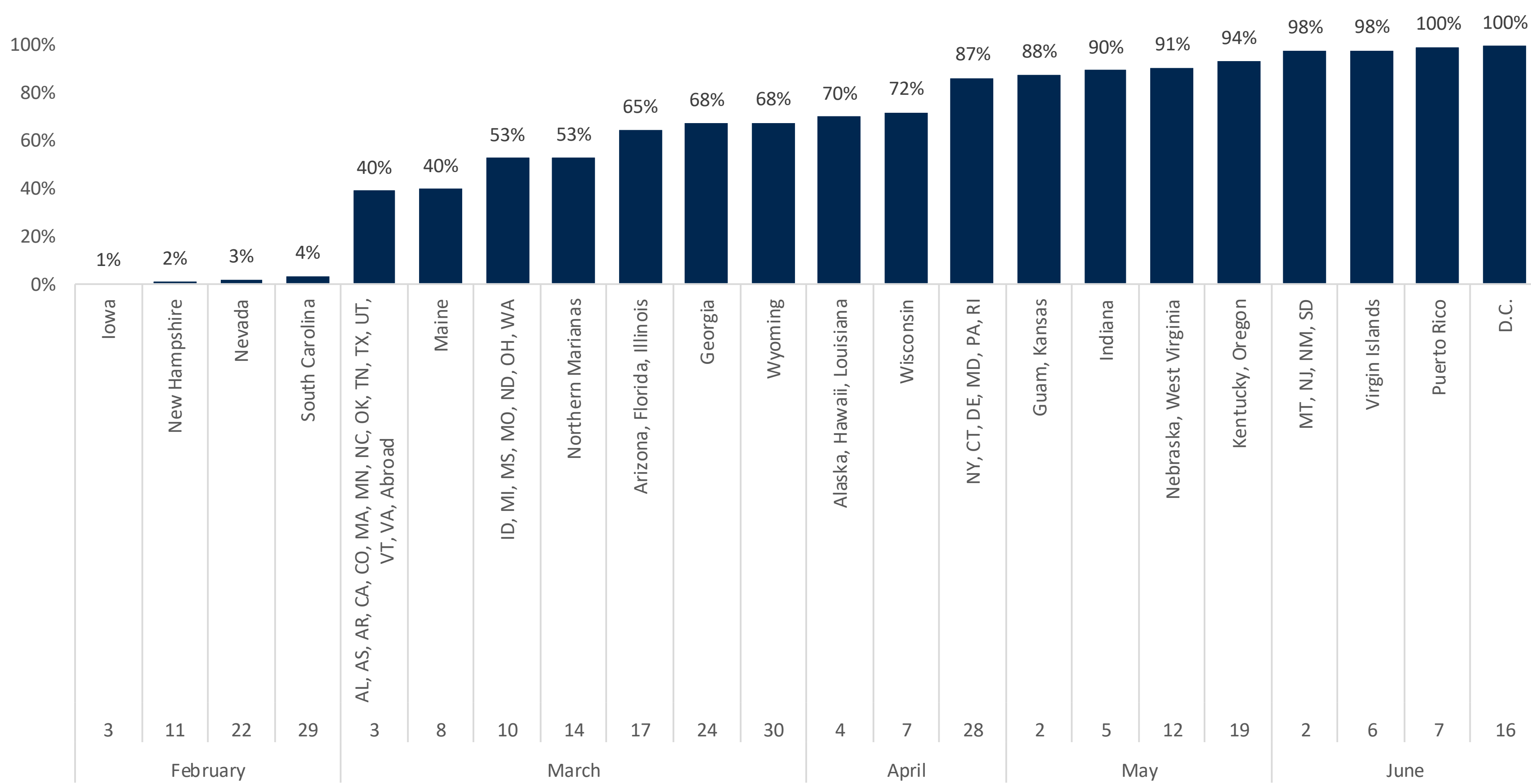
Source: RBC US Equity Strategy, Bloomberg, PredictIt data shows the implied probability of the outcome occurring as predicted by speculators

The Democratic Primary/Caucus Calendar Suggests Late 1Q20 Will Be Key For Investors

Key Takeaways

- To win the Democratic nomination, a candidate must receive support from a majority of pledged delegates (1,885 out of total 3768) on the first ballot at the convention. In each primary or caucus, pledged delegates are proportionally allocated to candidates getting 15% or more votes.
- Primary season kicks off in early February with the Iowa caucus and ramps up in March. By the end of March, more than 2/3's of the ballots will be cast. If a front runner emerges, the nominee could be established by the end of 1Q20. If the race is tight, the nominee may not be determined until 2Q or July (during the convention).

Cumulative Progress In Democratic Primaries (Based On % Delegates)

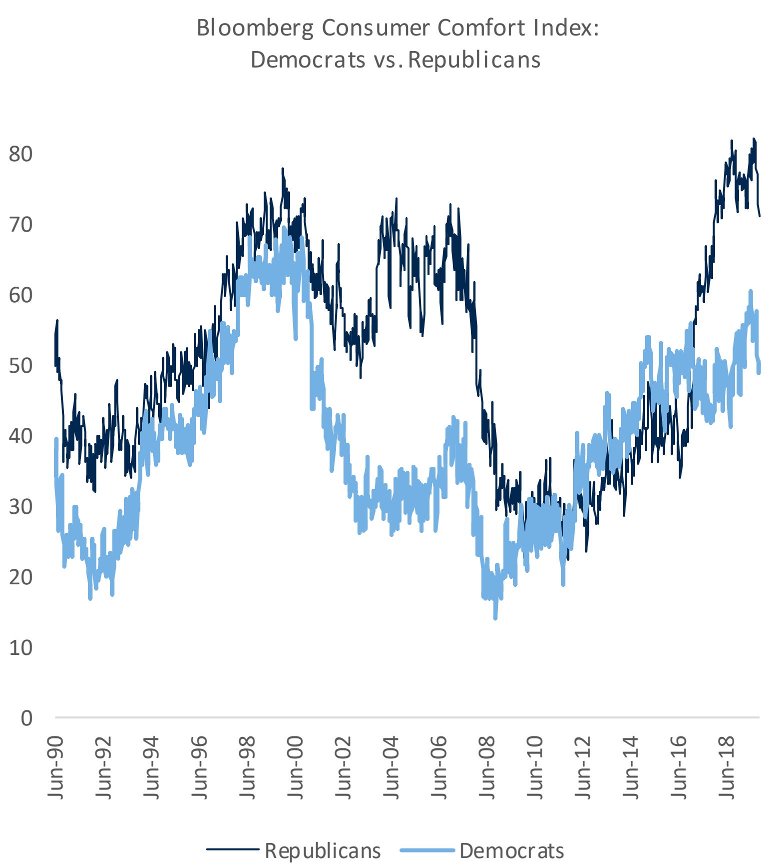


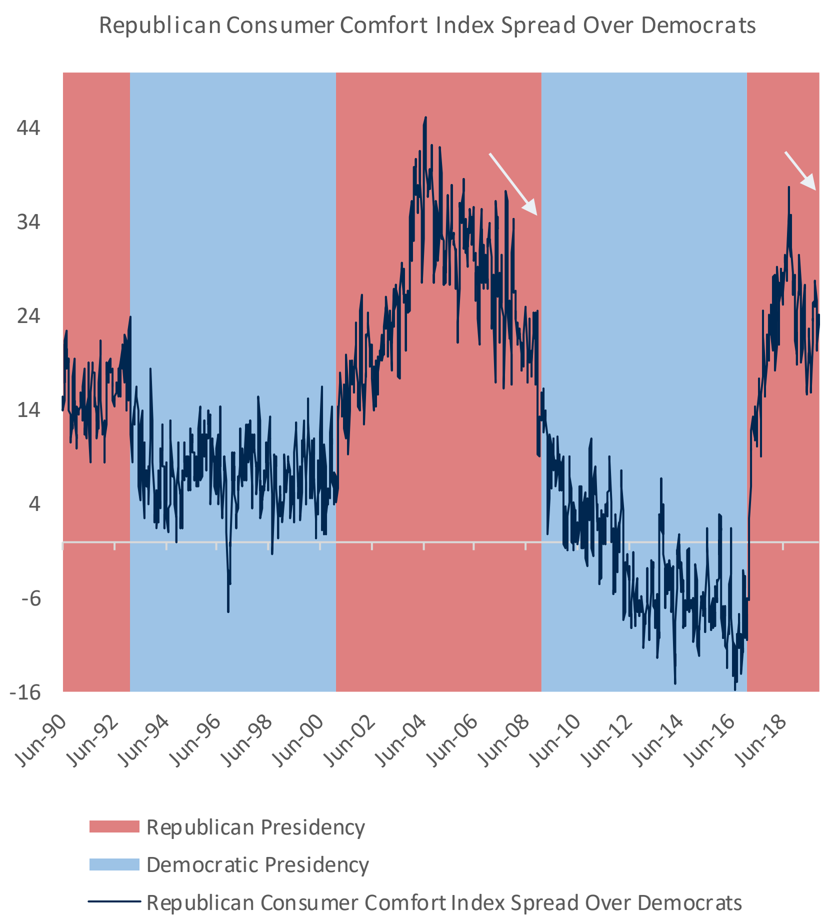
Source: RBC US Equity Strategy, NY Times

Republican Sentiment Is Stalling, While Democratic Sentiment Has Improved

Key Takeaways

- Since the 2016 election, sentiment among Democrats and Republicans has diverged. We are keeping a close eye on Republican sentiment, which has stalled at all time (Tech bubble) highs. Meanwhile, sentiment among Democrats has generally been improving.
- Ahead of the 2008 election, when Democrats took the White House from Republicans, sentiment among Republicans was fading relative to Democrats, similar to what we are seeing today.





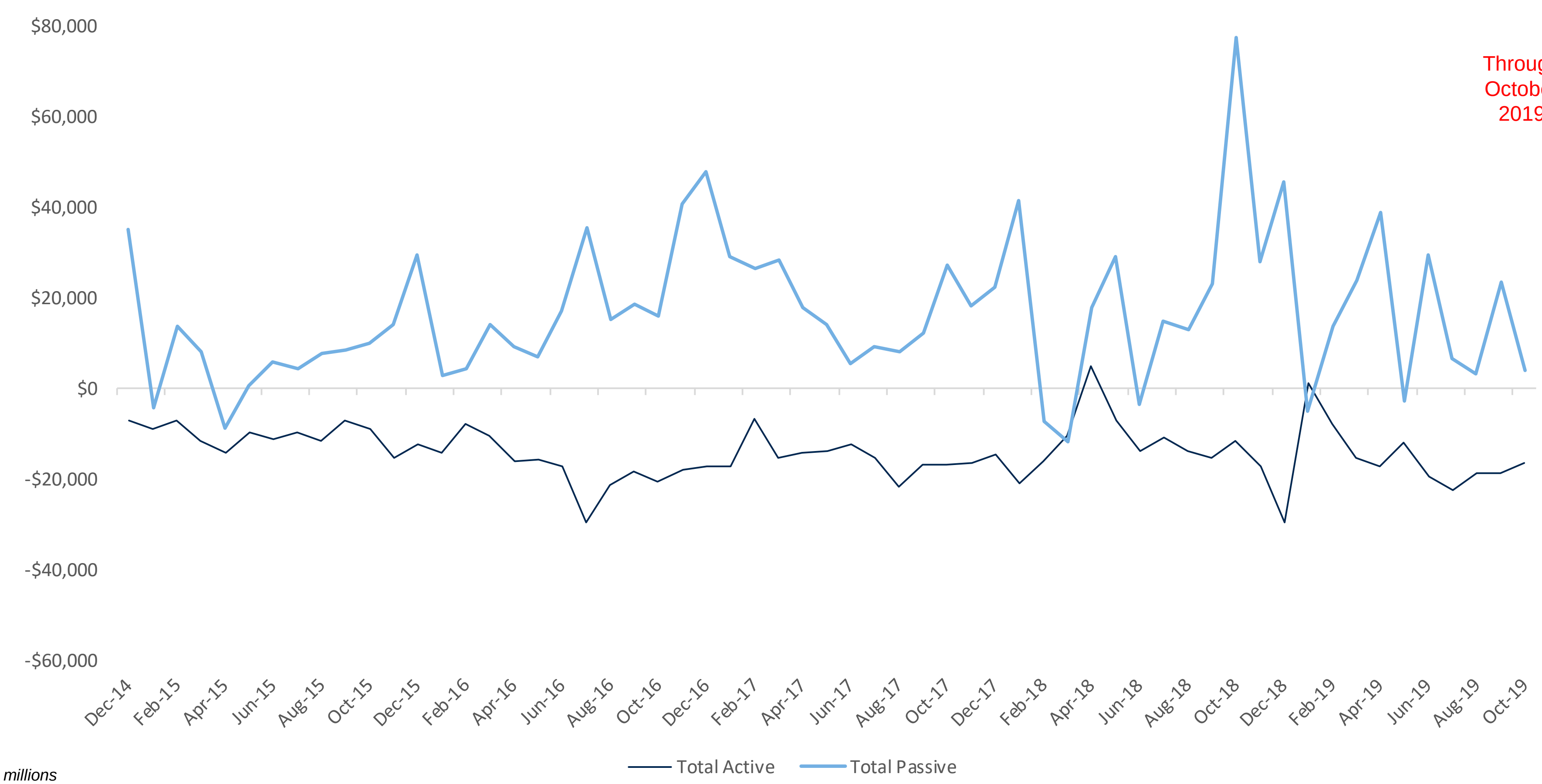
Source: RBC US Equity Strategy, Bloomberg

Passive Inflows Have Persisted For US Equity Funds In 2019

Key Takeaways

- Passive funds have been the driver of inflows to US equities in 2019. For the most part, inflows have been seen this year, but those inflows have been less powerful than the ones seen in 2018.
- Flows to actively managed funds, which briefly turned positive in January, have been negative for most of the year.

Monthly US Equity Flows by Fund Type

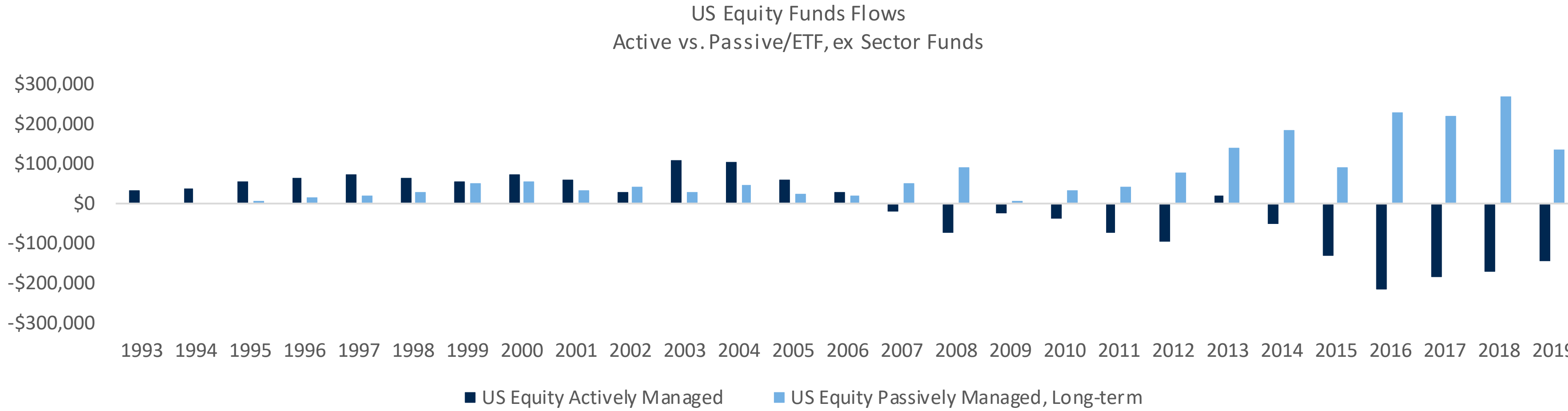


USD millions
Source: RBC US Equity Strategy, Morningstar

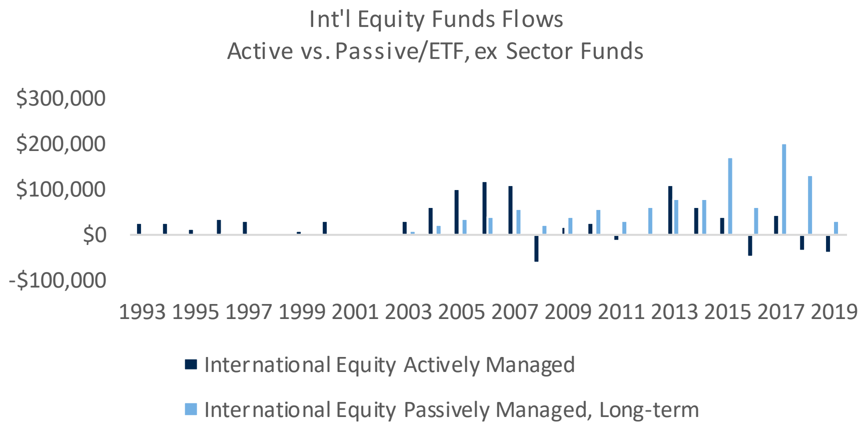
Active to Passive Rotation Has Been Powerful Within US Equities in Recent Years

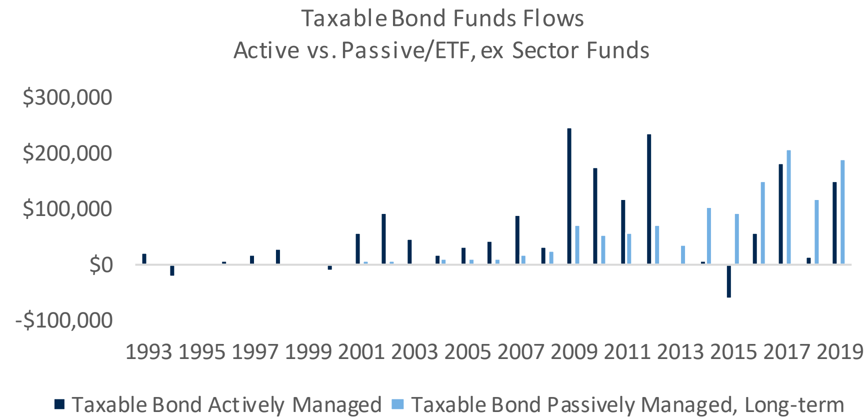
Key Takeaways

- The rotation out of active and into passive has been in place for more than a decade for US equity funds, and this was also seen for International Equity funds in 2018 and 2019.
- While passive money is also flocking to taxable bond funds, an actual rotation has not been seen recently. Actively managed funds saw net inflows for 2018.



Through October 2019, active has seen outflows while passive has seen inflows



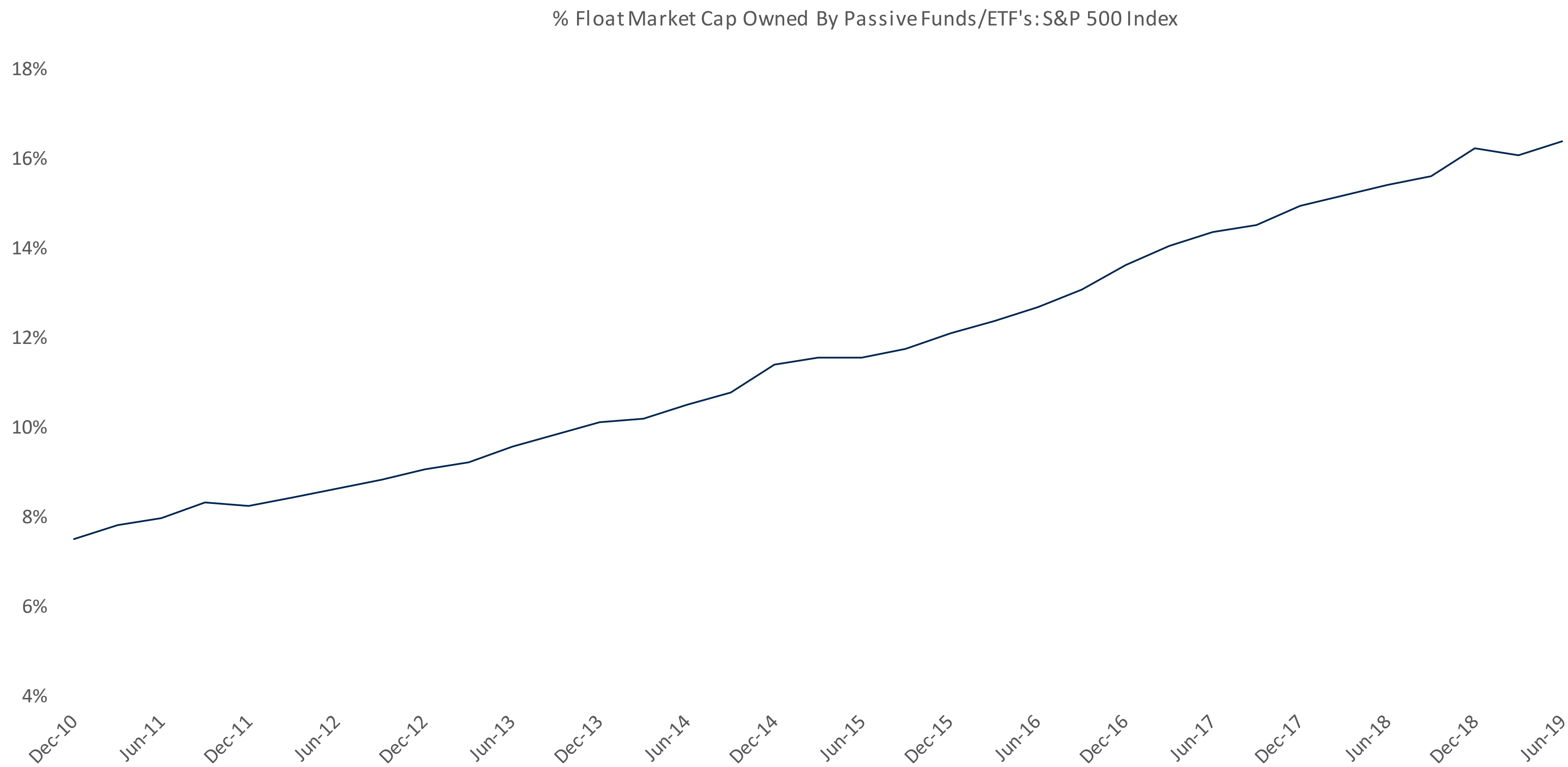


USD millions
Source: RBC US Equity Strategy, Morningstar

ETF/Passive Fund Ownership Has More than Doubled Since 2010 for the S&P 500

Key Takeaways

- By our count, ETF/passive fund ownership of Large Caps has increased from 7.5% as of 4Q10 to 16.4% as of 2Q19.



Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, Russell, Morningstar

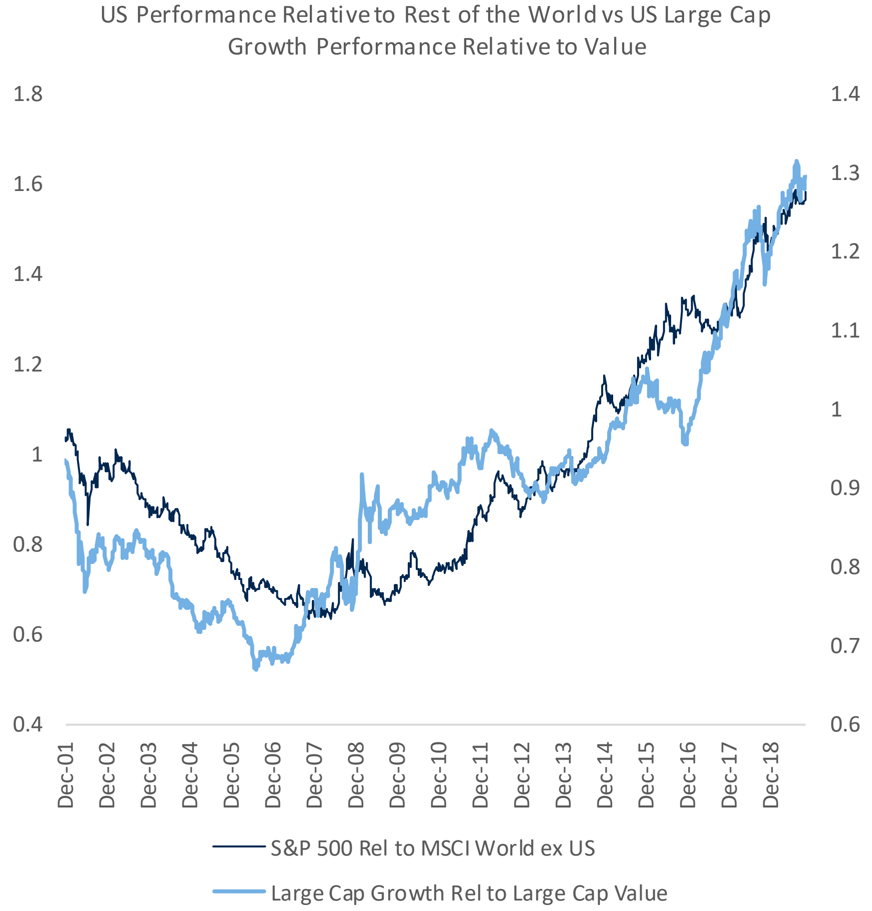
Global Context

How The S&P 500 Compares To Non-US Equities

If The Growth Trade Comes Under Pressure Again, The US Seems Likely To Lag

Key Takeaways

- The outperformance from the US relative to the rest of the world over the past decade has followed the same long term trend that the Growth over Value trade within the US has taken.
- The linear correlation between the 2 pairs has also been picking up since bottoming out in December 2017, and it is currently at its highest point since at least December 2001.
- Recent price action suggests that if Value continues to lead within the US, the US is likely to underperform it's global peers.

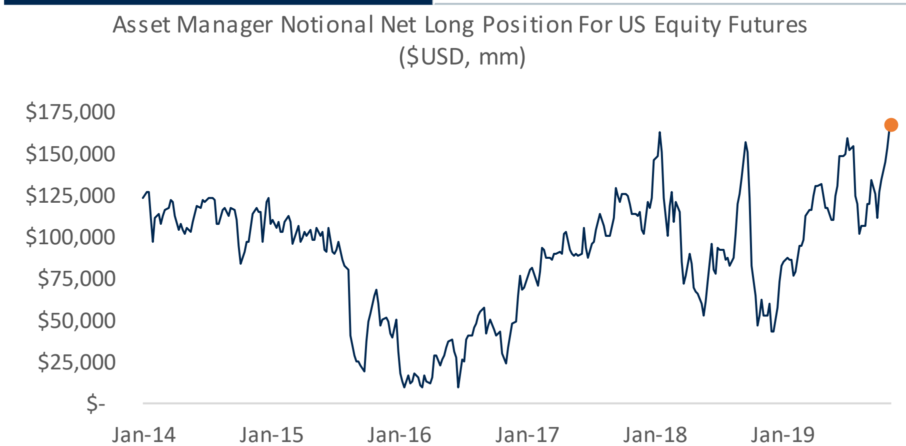


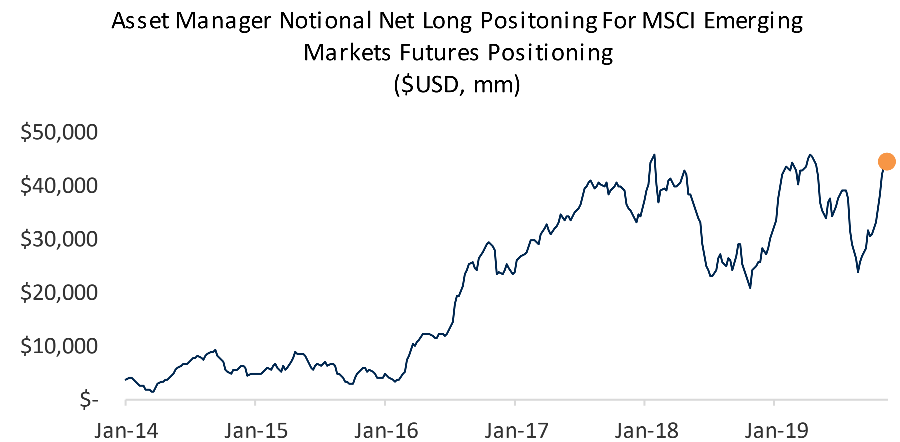
Source: RBC US Equity Strategy, Bloomberg, MSCI

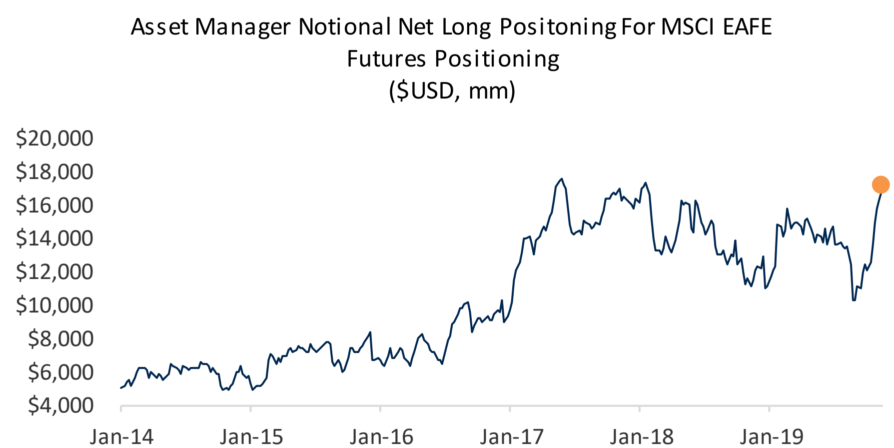
Positioning In Equities Is Also Back to Past Peaks In The Futures Market For EM & Europe

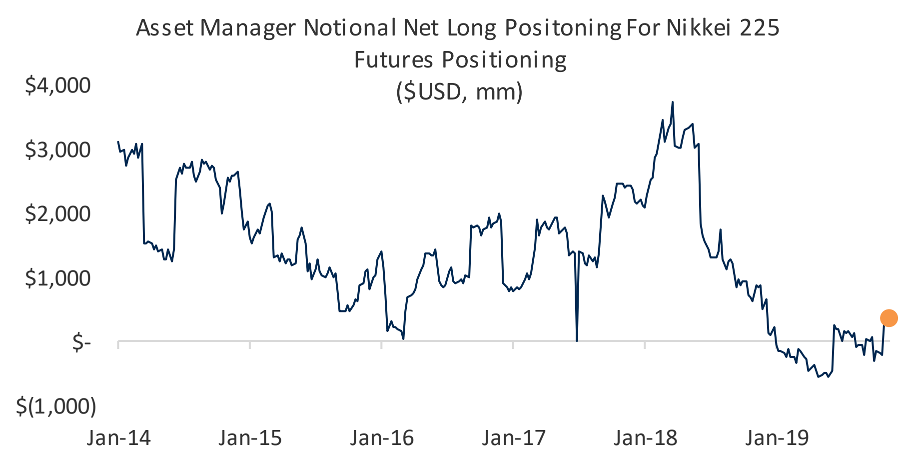
Key Takeaways

- In July 2019, CFTC data on US equity futures positioning returned to the highs of January 2018 and September 2018, which in turn were in line with pre-Financial Crisis highs. This told us that institutional investor positioning turned euphoric and that the US stock market was vulnerable to bad news. This indicator moved up again in 4Q19, and as of November 19th was slightly above the levels that have marked significant peaks in the stock market over the past few years.
- Futures contracts tracking the MSCI Emerging Markets index are also back to levels last seen in May, and in line with January 2018's highs. Similarly, contracts tracking MSCI's EAFE Index are at their highest point since June 2018 and in line with early 2017 highs. This more constructive positioning in both of contracts, representing Emerging and Developed economies outside of the US, hints at a broad based global optimism towards equities. Positioning in the Nikkei is low.







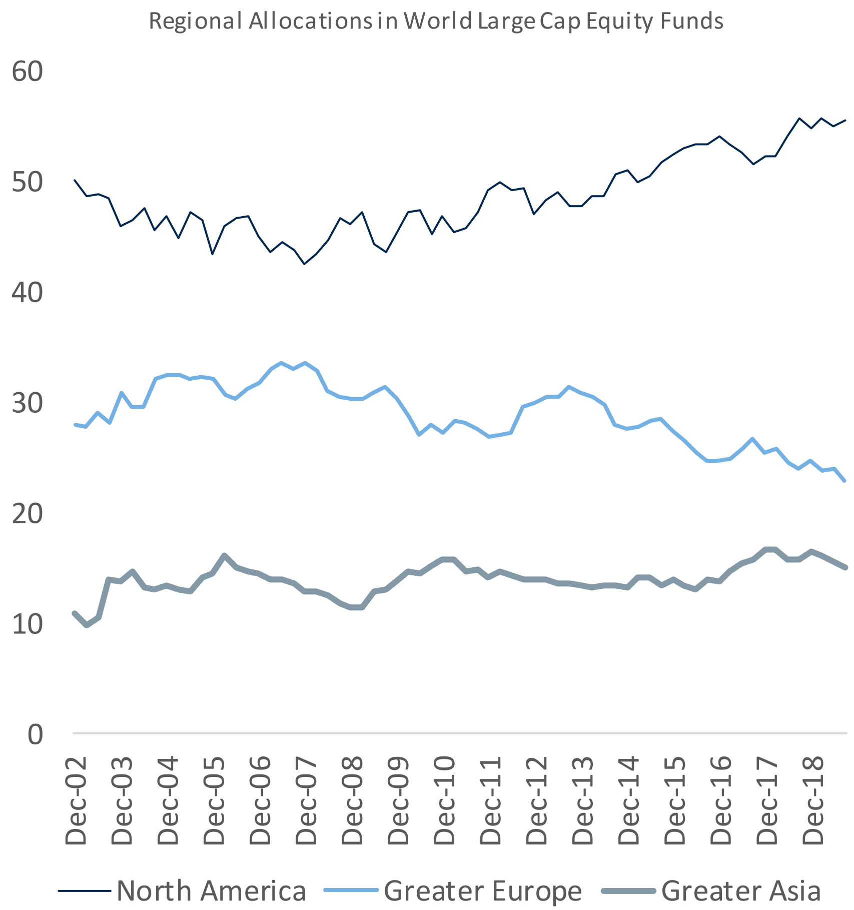


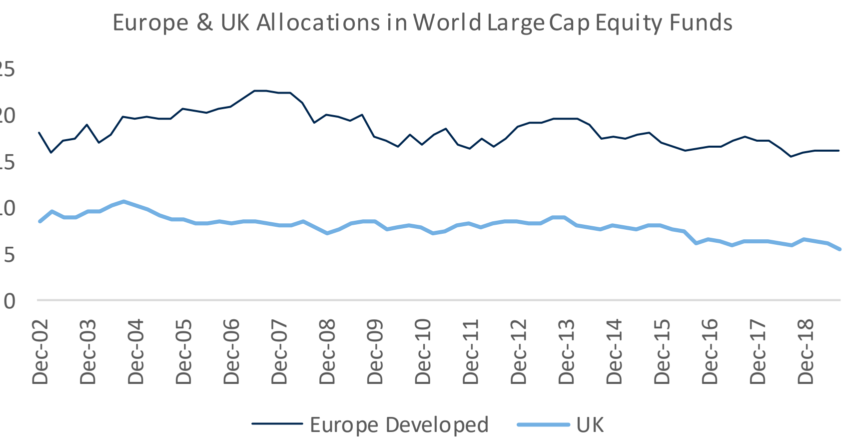
Source: RBC US Equity Strategy, RBC Futures Desk, CFTC. Asset Manager/Institutional: These are institutional investors, including pension funds, endowments, insurance companies, mutual funds, and those portfolio/investment managers whose clients are predominantly institutional; Nikkei 225 Futures Positioning combines JPY & USD based contracts, converting JPY based contracts into USD using as of date JPY/USD FX Spot Prices

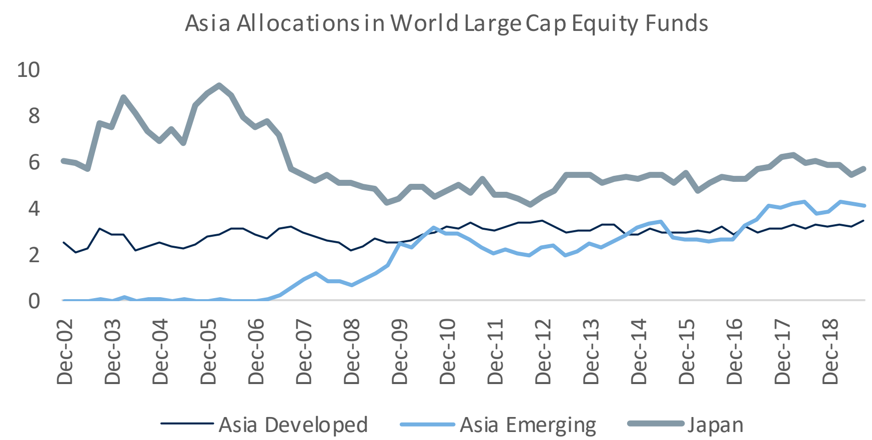
North American Stakes Still Hovering Near All-Time Highs in Global Large Cap Equity Funds

Key Takeaways

- Median stakes in North American equities ended 3Q18 at an all-time high in global large cap equity funds. They've been hovering near those levels ever since (note that our latest data is through 3Q19).
- Stakes in Europe have been hovering near historical lows.
- Stakes in Asia had been near the high end of their historical range but slipped a bit in 2Q19 and 3Q19.





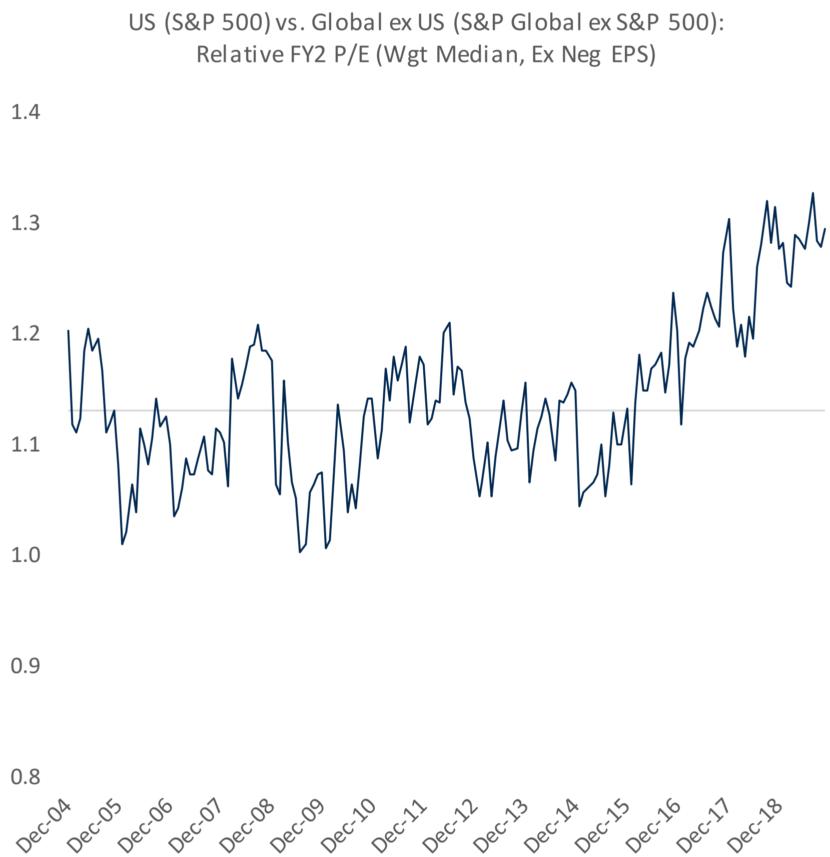


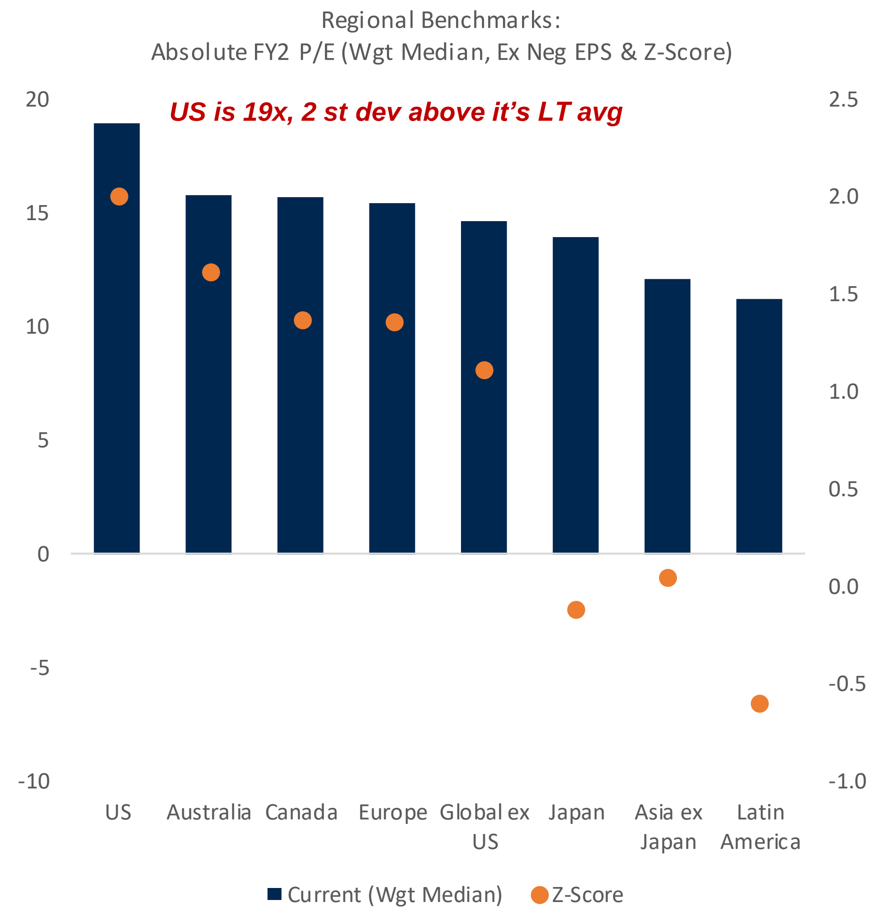
Source: RBC US Equity Strategy, Morningstar

US Equities Remain Highly Overvalued Relative to Non-US Equities

Key Takeaways

- The S&P 500 P/E hit a new high relative to the Global non-US P/E in 2018, before falling sharply in the fourth quarter.
- As of late November 2019, the US continued to look overvalued relative to non-US stocks and all major regions.
- Lat Am looks undervalued on an absolute basis while the US looks most expensive.



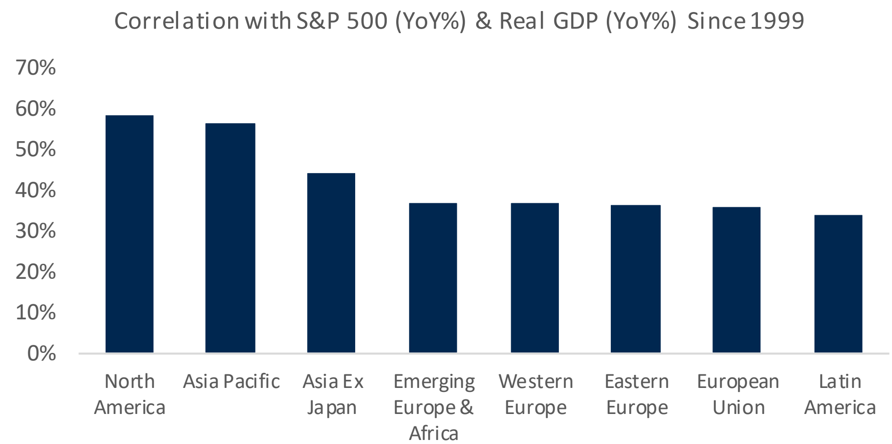


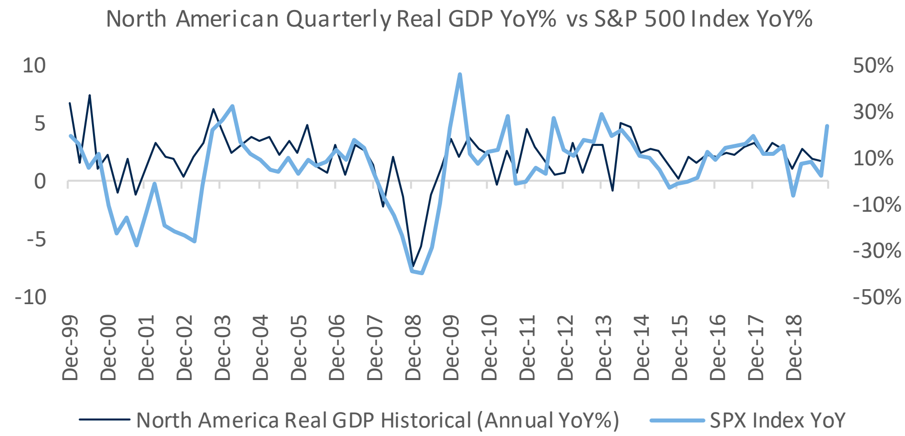
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi. Z-Scores calculated since 2004

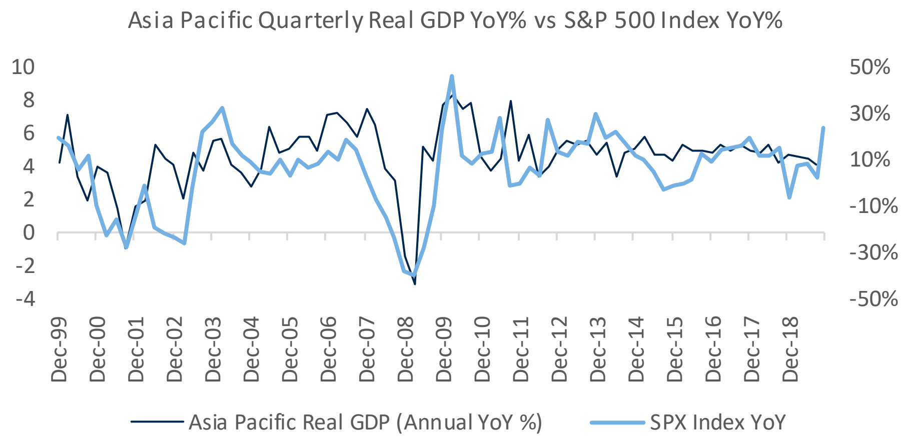
US Equities Driven by Domestic and Asia-Pacific GDP

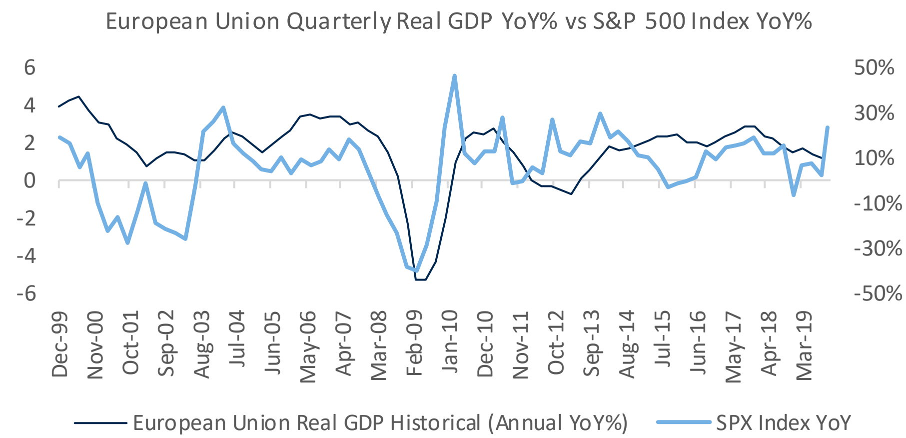
Key Takeaways

- US equity market performance has a strong relationship with North American GDP trends.
- However, it also moves pretty closely with Asia (to a lesser extent with Europe).
- 4Q18's weak performance was consistent with deteriorating economic conditions in both regions. 4Q19's strong performance anticipates a sharp reacceleration.







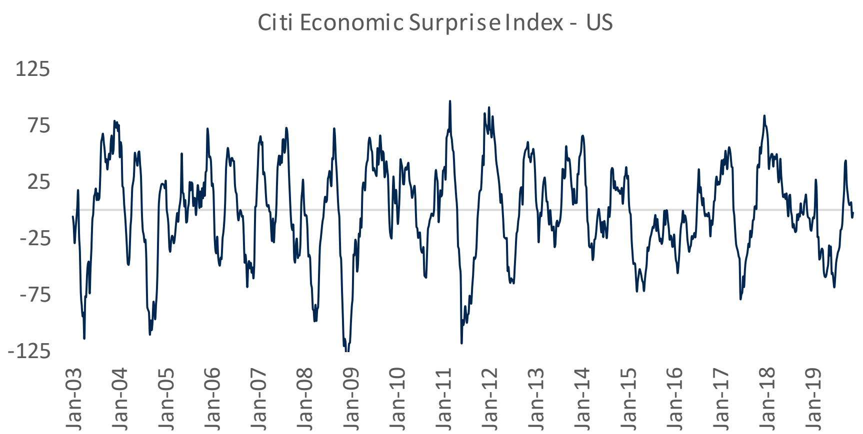


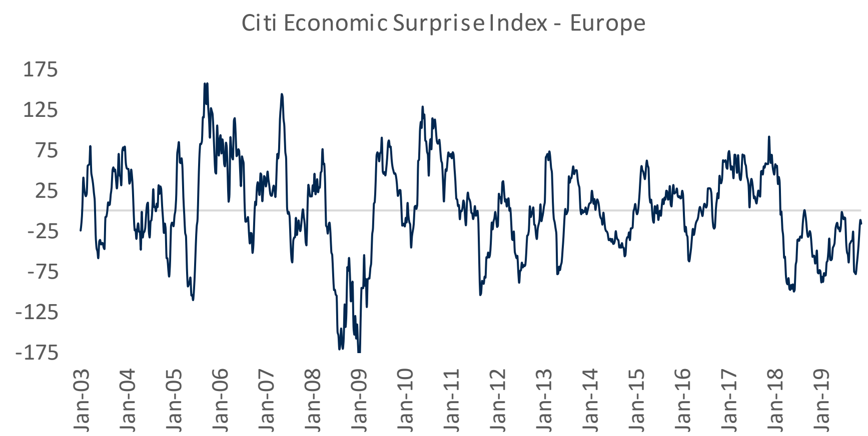
Source: RBC US Equity Strategy, Bloomberg. US GDP as of 2Q19, other regions as of 1Q19; all performance as of 2Q19

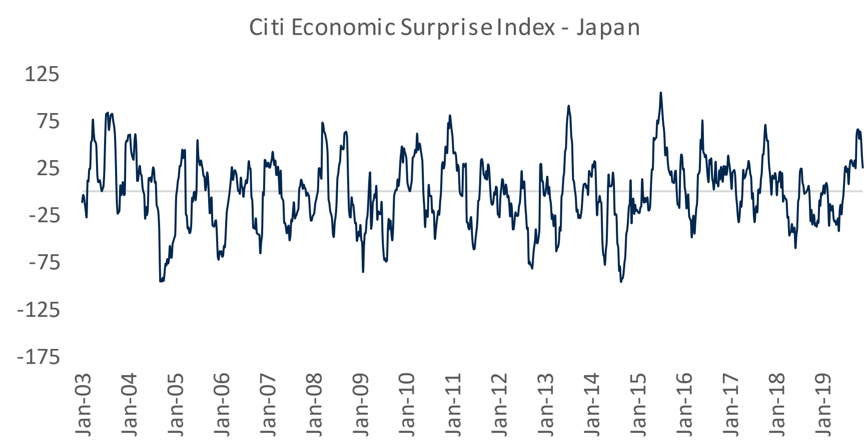
The Return of Positive Economic Surprises to the US Has Been Brief

Key Takeaways

- Upside surprises returned to the US in September, but dissipated.
- Europe is still seeing negative surprises, though at a reduced pace.
- China was seeing upside surprises in early 2019, but those have faded.
- Upside surprises have persisted in Japan.





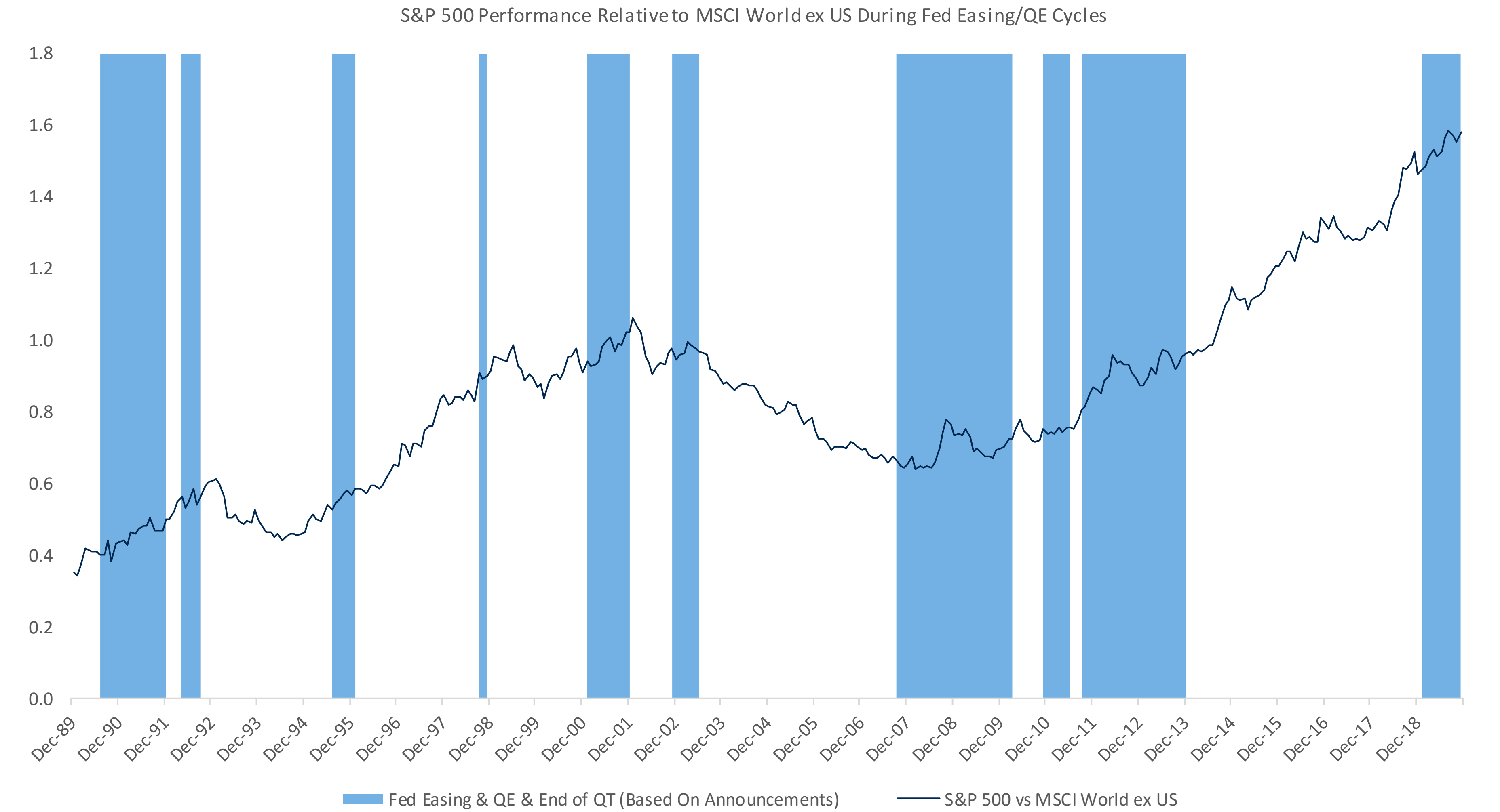


Source: RBC US Equity Strategy, Bloomberg

US Equities Tend To Outperform Non-US Equity When The Fed Is Easing

Key Takeaways

- Amid the cutting/easing of the early 1990s, the mid 1990s, the early 2000s, and the Financial Crisis era, the S&P 500 generally outperformed non-US stocks.
- Our economists think the Fed will pause in 2020 due to the resilience of the economy, de-escalation in the trade war with China, and the Presidential election. That would remove one of the tailwinds for US leadership.

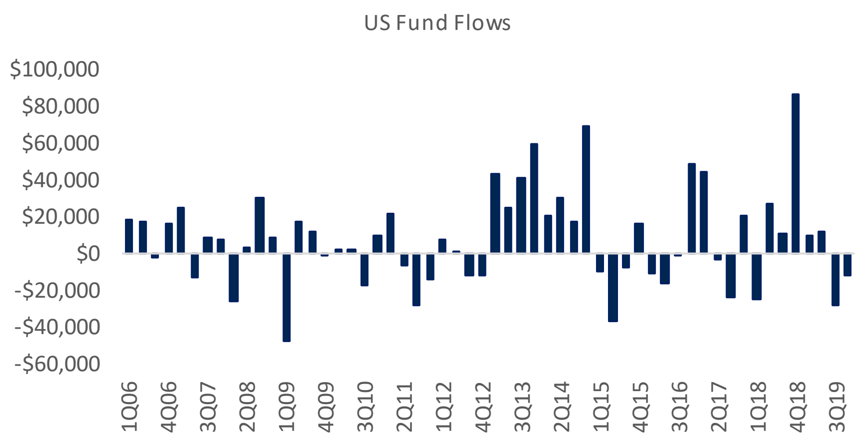


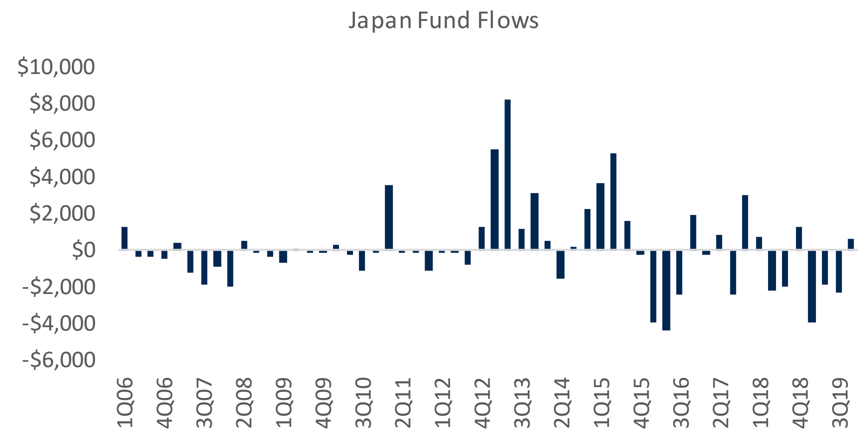
Source: RBC US Equity Strategy, Bloomberg, MSCI, Haver

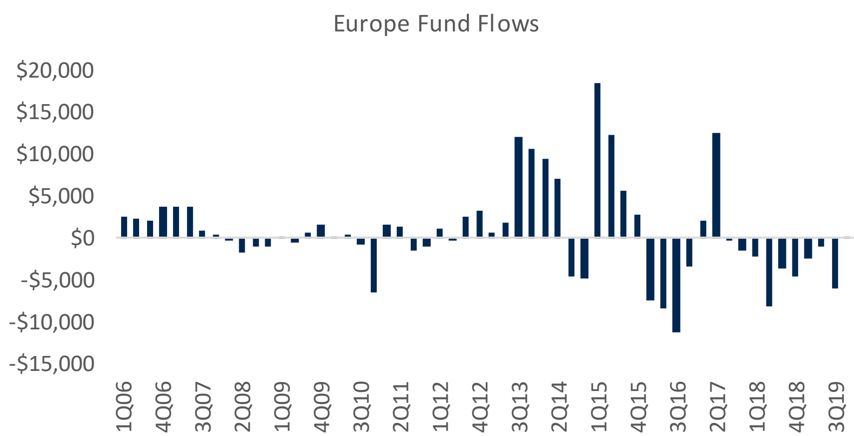
US Equity Funds Have Seen Outflows in 2H19

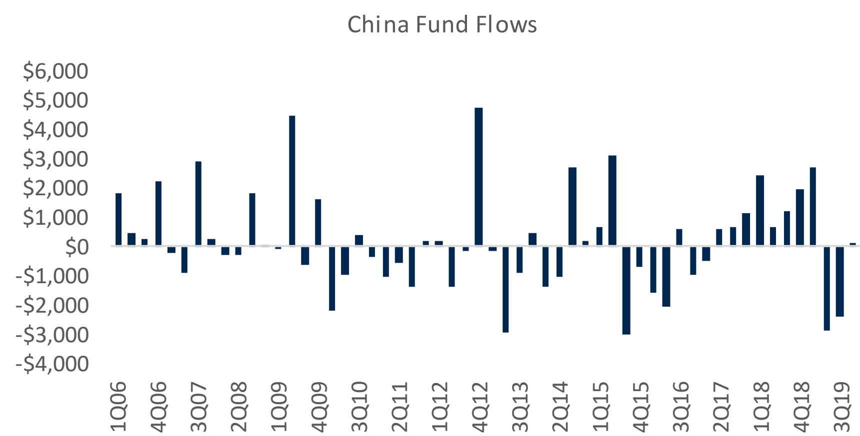
Key Takeaways

- In 3Q19, US funds saw their largest net outflows since 2Q15 on Morningstar's data, which includes both actively managed and passively managed strategies. Outflows have continued in 4Q19 (through October).
- There is some evidence in this data that non-US flows are improving. Funds dedicated to Japan, Europe, and China all saw outflows in 3Q19, but October flows were tracking flat to slightly positive.









Source: RBC US Equity Strategy, Morningstar

Large Cap Growth/ Value Outlook

Our Latest Thoughts on the DRIVERs of the Style Trade

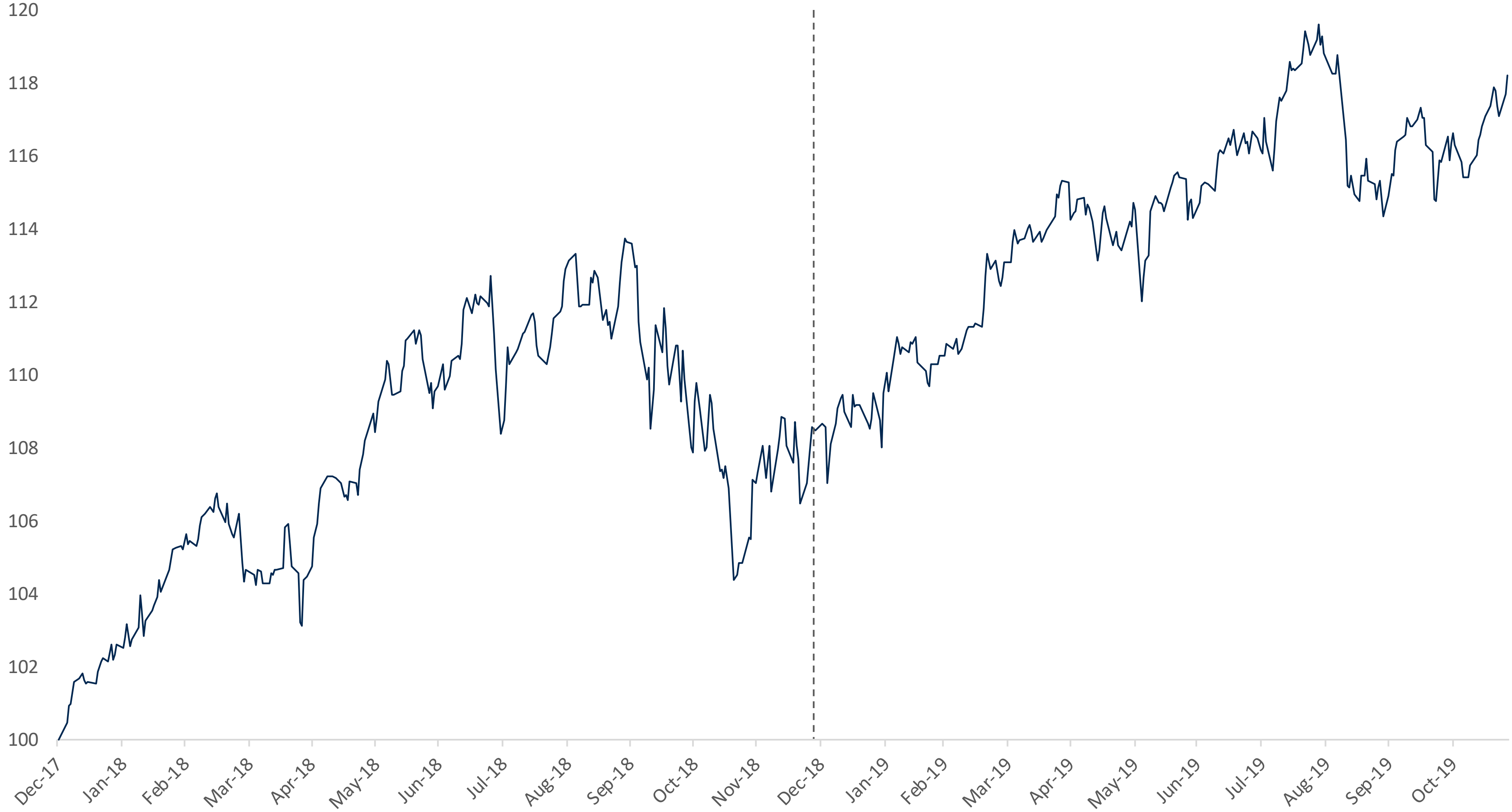
RBC Capital Markets

The Growth Trade Stalled In August & September, Has Been Choppy In 4Q

Key Takeaways

- The Growth trade outperformed Value in 2018 but peaked in September and lagged in 4Q18. In 2018, hedge fund de-risking, mounting economic fears, and profit-taking sparked the late-year rotation out of Growth. Late 3Q19 saw a similar rotation, but for different reasons. This time around, the Growth trade peaked in late August, with underperformance sparked by a rise in bond yields/steepening of the yield curve, which was driven by improving perceptions of the macro backdrop and improving tone around the trade war with China. Growth has been fighting to reassert it's leadership in October and November but there's been no clear direction in the overall trade.

2018 & 2019 YTD Large Cap (R1000) Growth Performance Relative to Value



Source: RBC US Equity Strategy, Russell, Bloomberg

DRIVERs Rundown for the Large Cap Style Trade – A Close Call, Slight Edge to Value

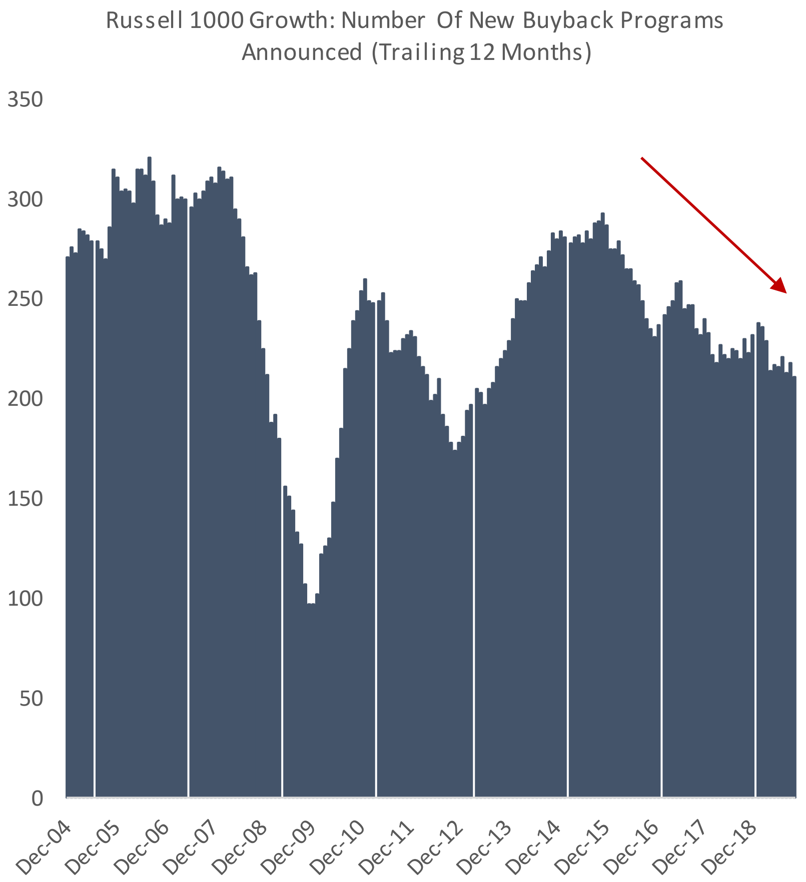
Deals and Cash Deployment	***Slightly Favors Value*** ▪ On balance, a fading positive for both, with a slightly stronger profile for Value. ▪ Buyback announcements and activity levels are strong but slipping in both styles—a more recent development for Value. ▪ Dividend trends look better in Value than Growth, on both yields and percentage of companies growing their dividends. ▪ Capex spend has flattened year-over-year in Value, and has contracted slightly in Growth, preliminary data for 3Q19 shows. ▪ Debt levels and interest expense are higher in Value than Growth, and we see more evidence of debt pay-down in Growth than Value. Meanwhile, debt maturities are shorter in Growth than Value.
Revisions/ Earnings Trends	***Mixed/Neutral*** ▪ Earnings sentiment for Value appears to have bottomed in November, as the percent of revisions to the upside hit non-recession lows. Growth has been stronger than Value on this metric and did not make a similar bottom. ▪ In percentage terms, EPS growth forecasts are fairly similar for Growth and Value (not strongly favoring Growth). ▪ Operating margins have started to slip in Growth but are holding steady in Value.
Investor Sentiment and Positioning	***Slightly Favors Growth*** ▪ Sell-side sentiment (net buy ratings) had been slipping in Growth relative to Value and recently fell to the low end of the historical range, suggesting that Growth has been as out of favor sentiment-wise as it's likely to get. But this indicator has been rebounding in favor of Growth again recently.
Valuation	***Slightly Favors Value*** ▪ The Growth trade lacks the deep valuation appeal relative to Value that has been in place for most of its bull run since the Financial Crisis. We see evidence of this in our Combo model (which incorporates 34 different weighted and unweighted metrics) as well as a simple relative FY2 P/E.
Economy and Policy	***Slightly Favors Value*** ▪ Late-cycle concerns favor Value. The last two major style shifts in the market occurred late in the bull market, at the market peak (the last major Value cycle started in 2000) or a little over a year ahead of it (the latest Growth cycle started in 2006). ▪ Historically, a steeper yield curve (which signals a reinvigoration of economic expectations) is needed to get Value outperforming—recent steepening was interpreted as a bullish vote on the domestic economy and as a signal that it's safe to move back into the cheaper, more economically sensitive parts of the US equity market. We think that economic angst needs to continue to recede, bond yields need to keep moving up, and the curve needs to keep steepening (or at least stay flat) in order for the Value trade to keep working.
Retail Money Flows	***Neutral*** ▪ Both Growth and Value have seen outflows so far in 2019 within the Large Cap segment, when actively managed and passively managed funds flows are combined. ▪ Value saw passive/ETF inflows in late 3Q/early 4Q on both Morningstar and Bloomberg data, while Growth saw passive/ETF outflows. In November, ETF inflows to Value have weakened a bit on the Bloomberg data, while Growth has seen slight inflows return.

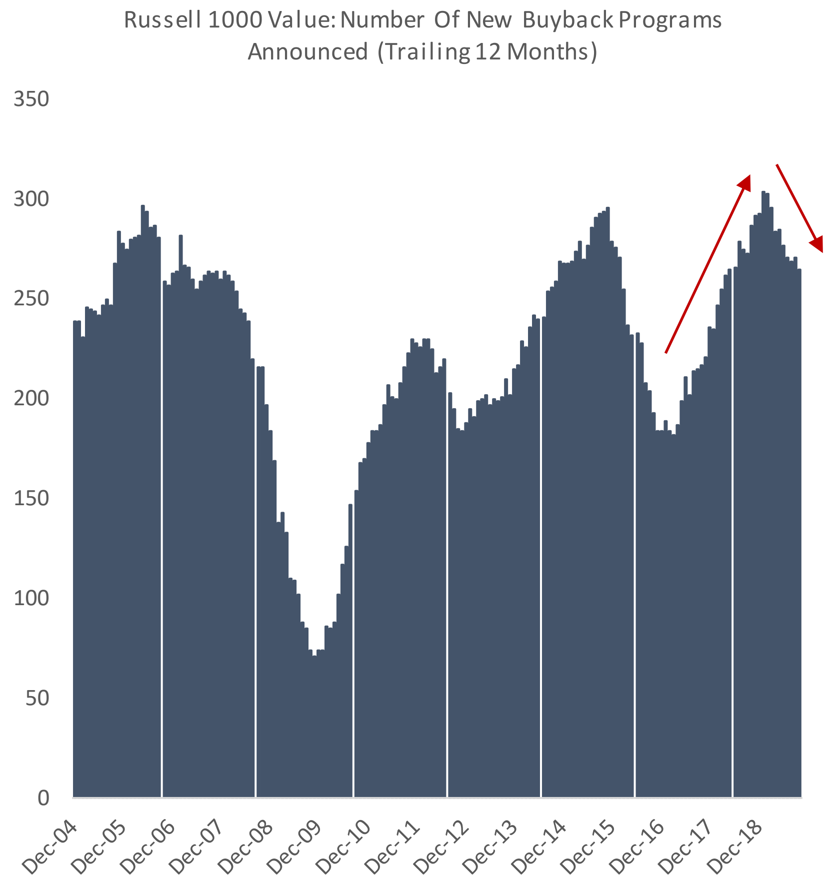
Source: RBC US Equity Strategy

New Buyback Announcements Are Slipping in Both Growth and Value

Key Takeaways

- New buyback announcements have been in a downtrend for Growth.
- Until recently, they were in an uptrend for Value, but they have started to fall there as well.



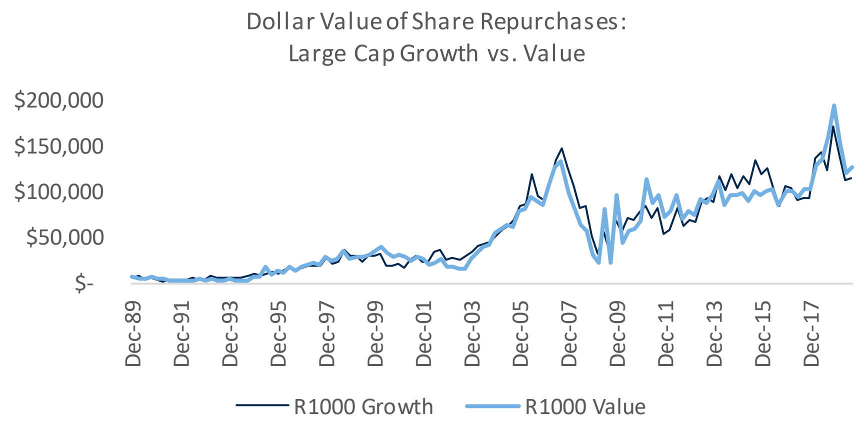


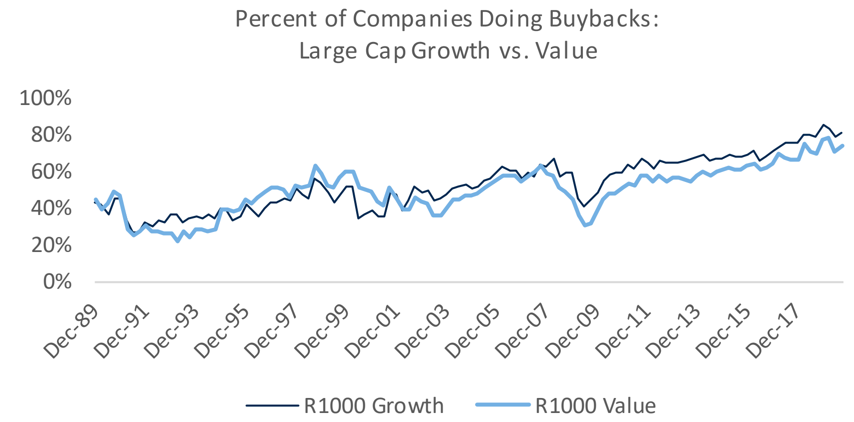
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Russell, Compustat

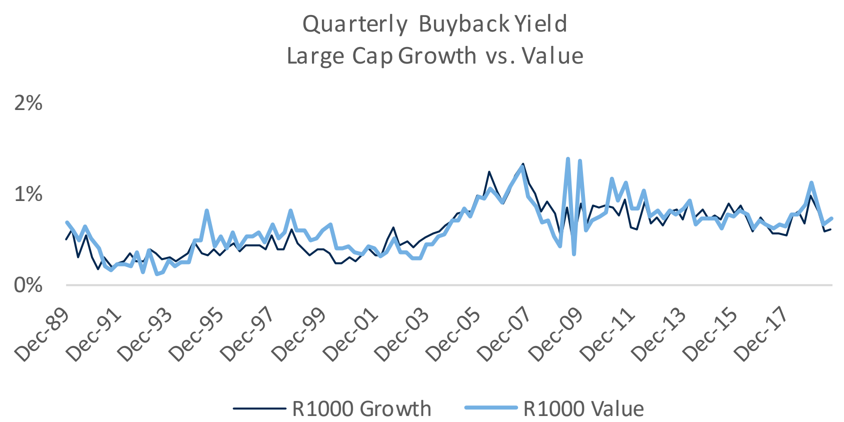
Actual Buyback Activity Slipped in Both Styles in 1H19, Appears To Have Stabilized in 3Q

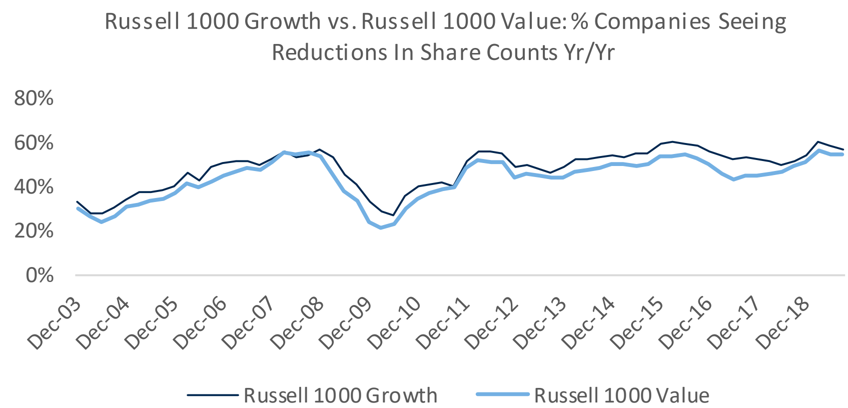
Key Takeaways

- Buyback activity eased back very slightly in both Growth and Value in the first half of 2019 on all of the metrics we track. In 3Q19, all metrics started to show some signs of stabilization.
- Charts below are through 3Q19 (preliminary).







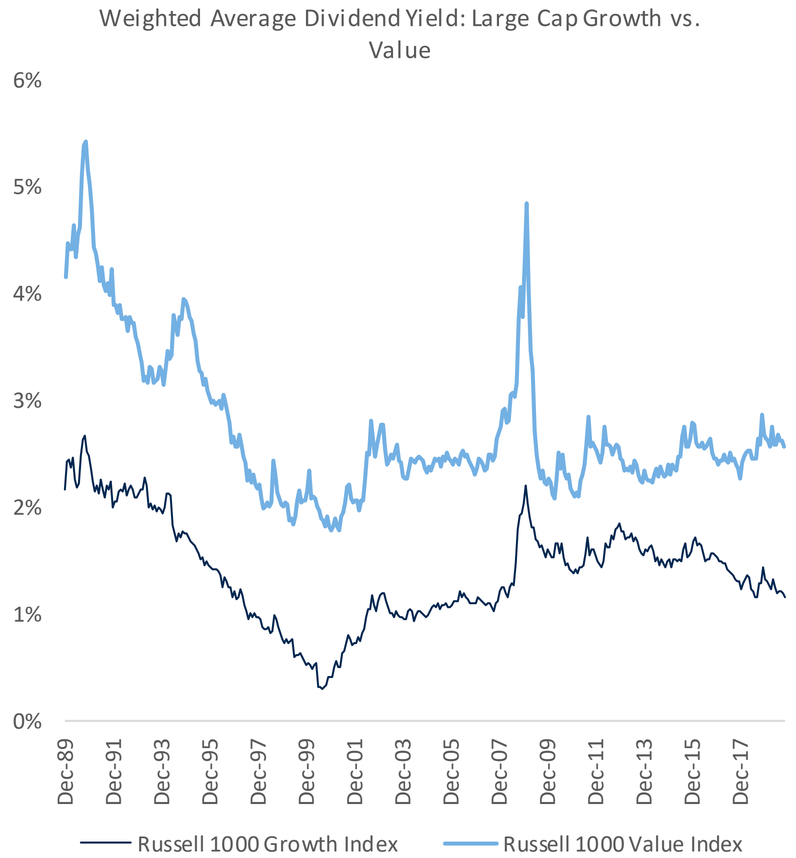


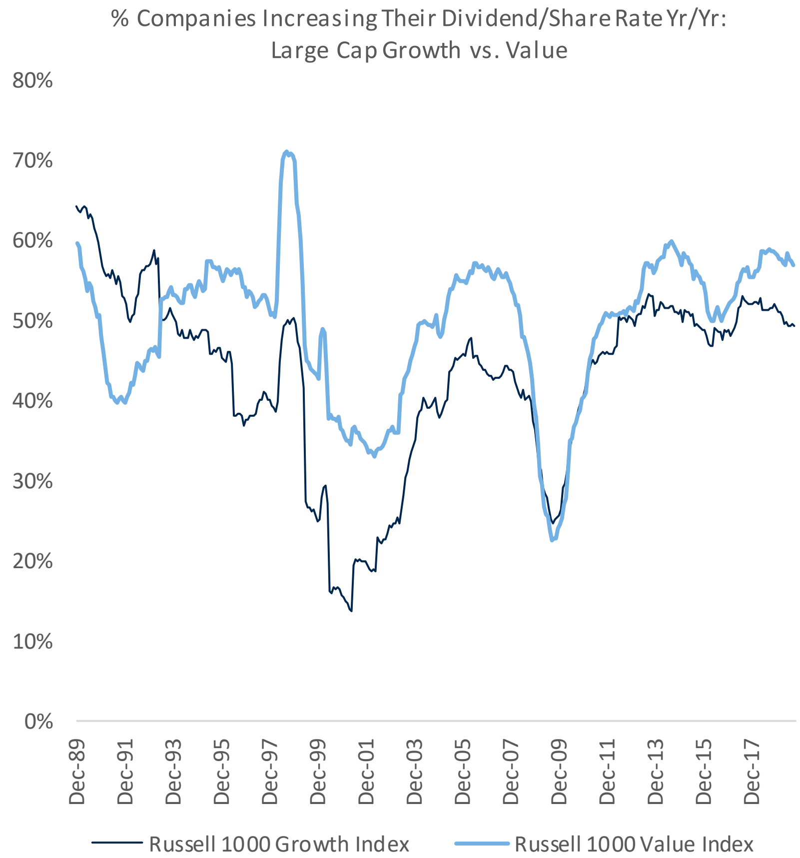
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Russell, Compustat, Latest data point is as of 3Q19 (preliminary)

Dividend Trends Better in Value than in Growth

Key Takeaways

- The weighted average dividend yield is higher for Large Cap Value than for Large Cap Growth. The trend has also been more favorable for Value than Growth — rising in the former (until recently) and slipping in the latter.
- The percentage of companies increasing their dividends has also been stable for Large Cap Value while slipping for Growth.



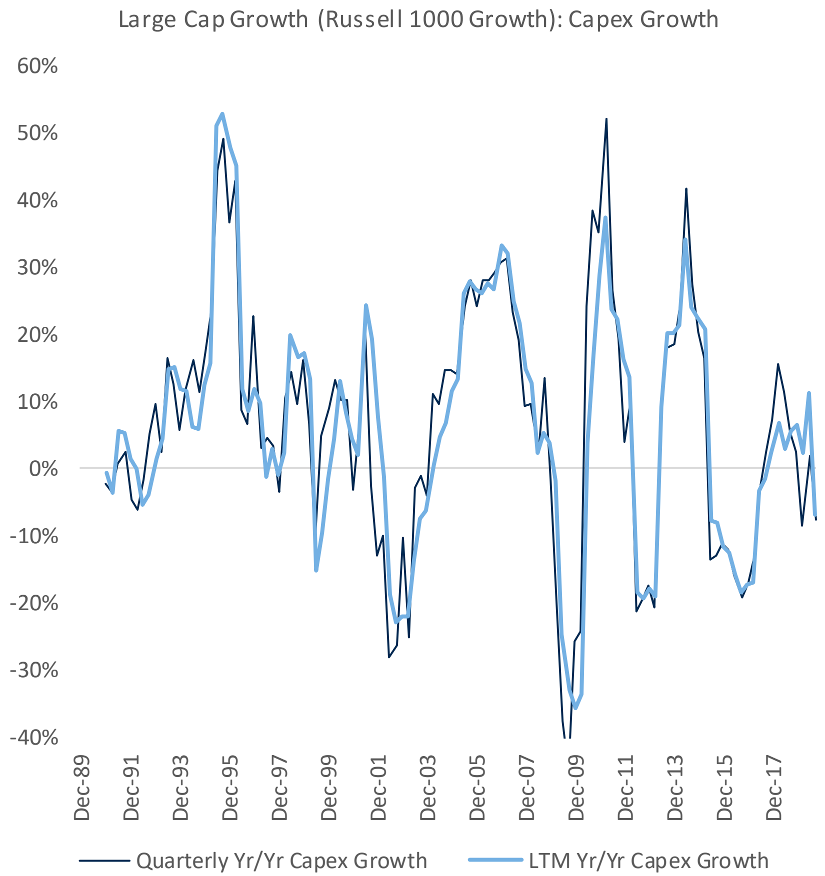


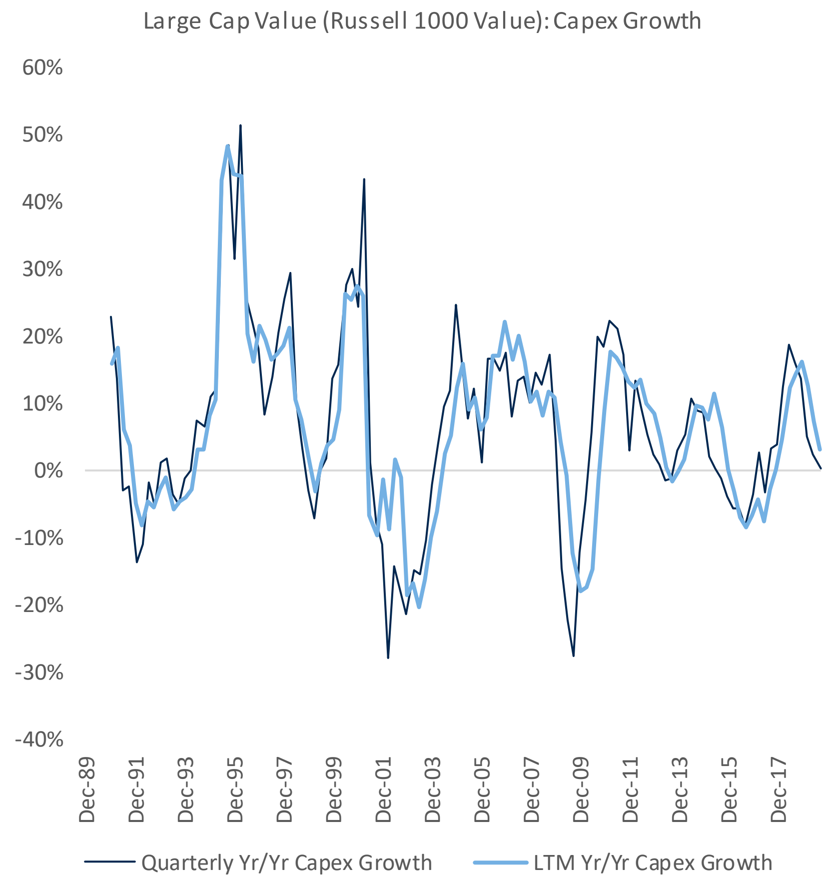
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Russell

Capex Is Deteriorating For Both Styles, Contracting For Growth

Key Takeaways

- Spending during 3Q19 was essentially flat on a year-over-year basis for Value, but turned negative for Growth.



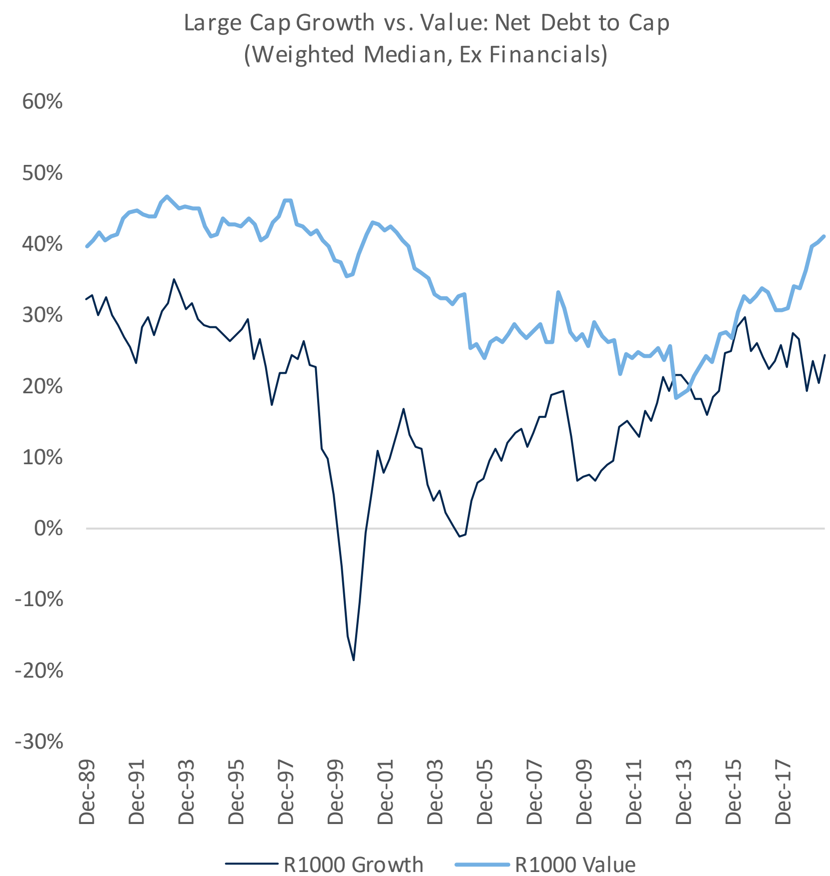


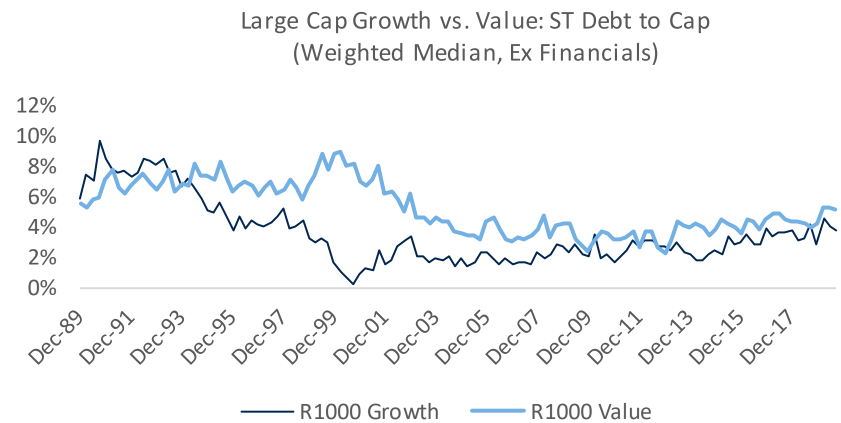
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Russell, Compustat, Latest data point is as of 3Q19 (preliminary)

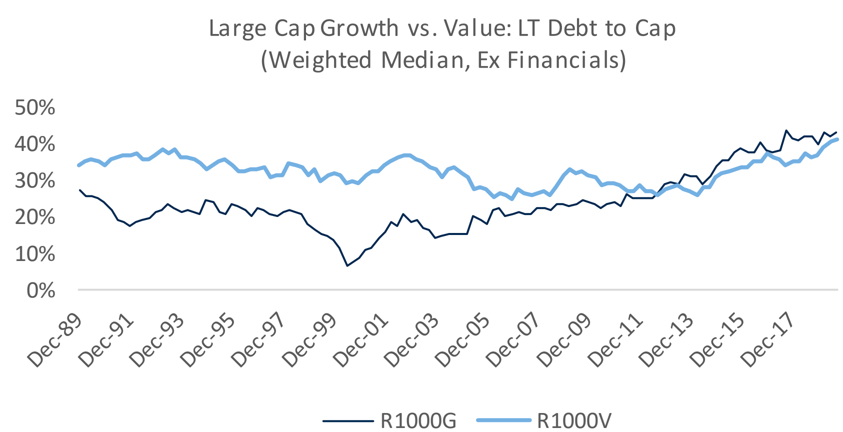
Debt Pay-Down Under Way in Growth

Key Takeaways

- Ex Financials, net debt /cap has been on the rise for Value but is still well below prior peaks. For Growth, net debt to cap has been easing from near-peak levels.
- In both size segments, short-term debt has been low while long-term debt has risen meaningfully





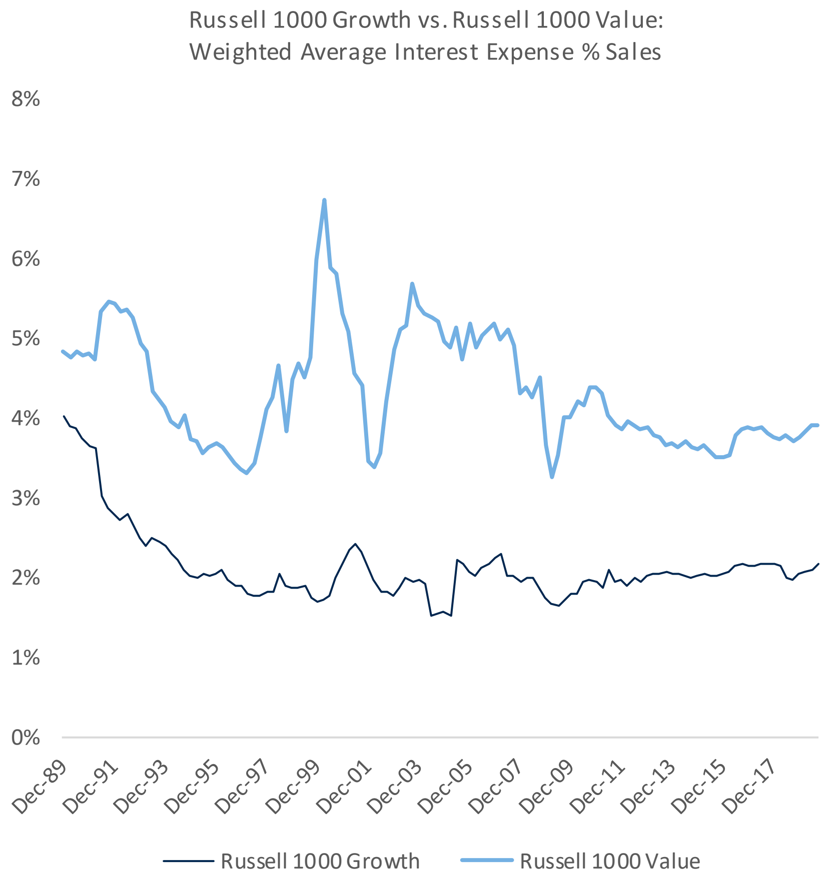


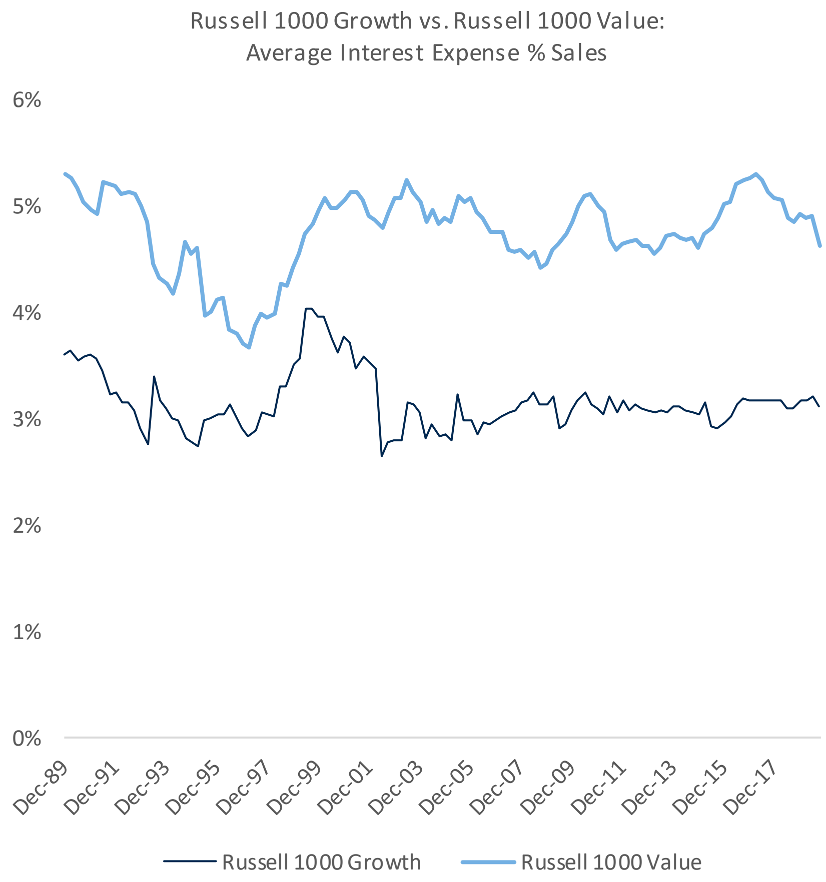
Source: RBC US Equity Strategy, S&P Capital IQ / Clarifi, Russell, Compustat, Latest data point is as of 3Q19 (preliminary)

Interest Expense Relative to Sales Is Higher for Value, But Has Been Declining For Most Companies

Key Takeaways

- Interest expense (relative to sales) is currently higher in Value than Growth on both a weighted average and average basis, but this is typically the case.
- On average, Value companies have been managing interest expense down significantly in recent years while levels for Growth companies have been stable.



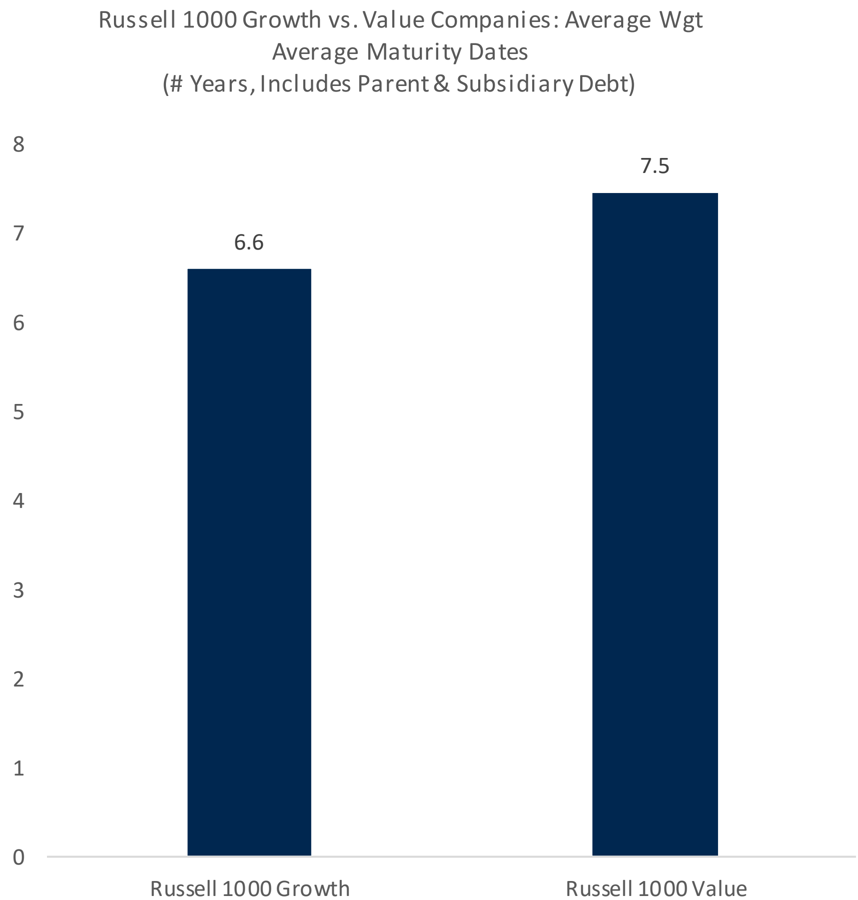


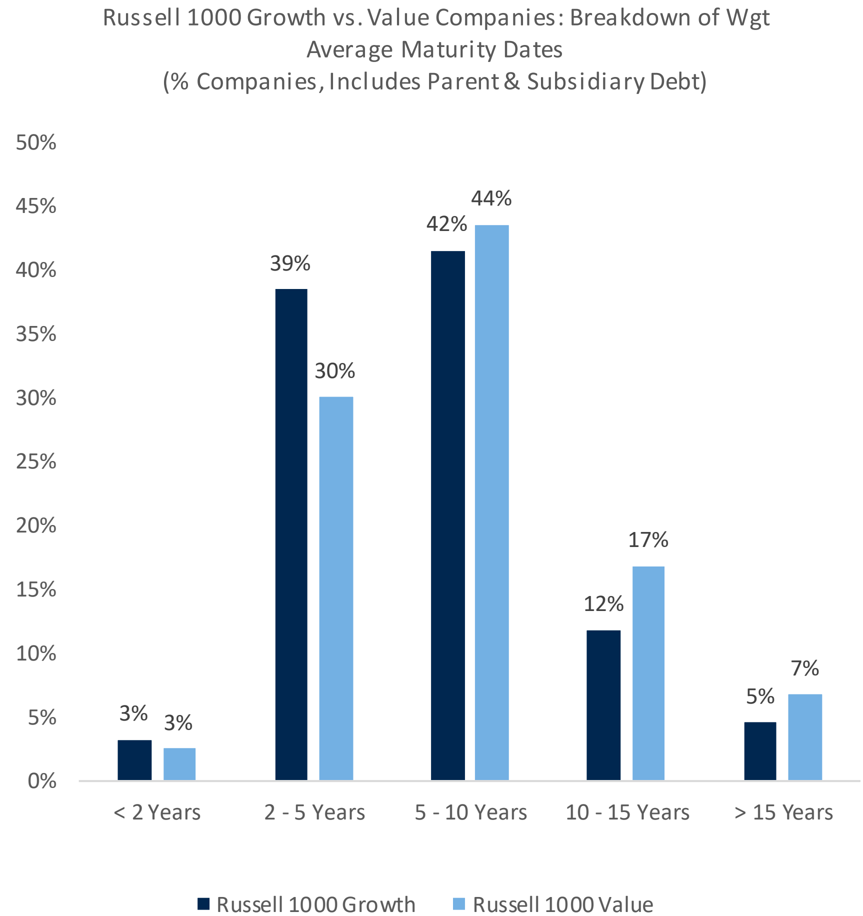
Source: RBC US Equity Strategy, S&P Capital IQ / Clarifi, Russell, Compustat. Latest data point is as of 3Q19 (preliminary).

Growth Balance Sheets Look Slightly Worse than Value Due to Shorter Debt Maturities

Key Takeaways

- On average, Value companies have slightly higher weighted average debt maturities than Growth companies (an advantage for Value companies in the eyes of investors worried about debt burdens).
- Current levels are 7.5 years for Value companies vs. 6.6 for Growth companies.





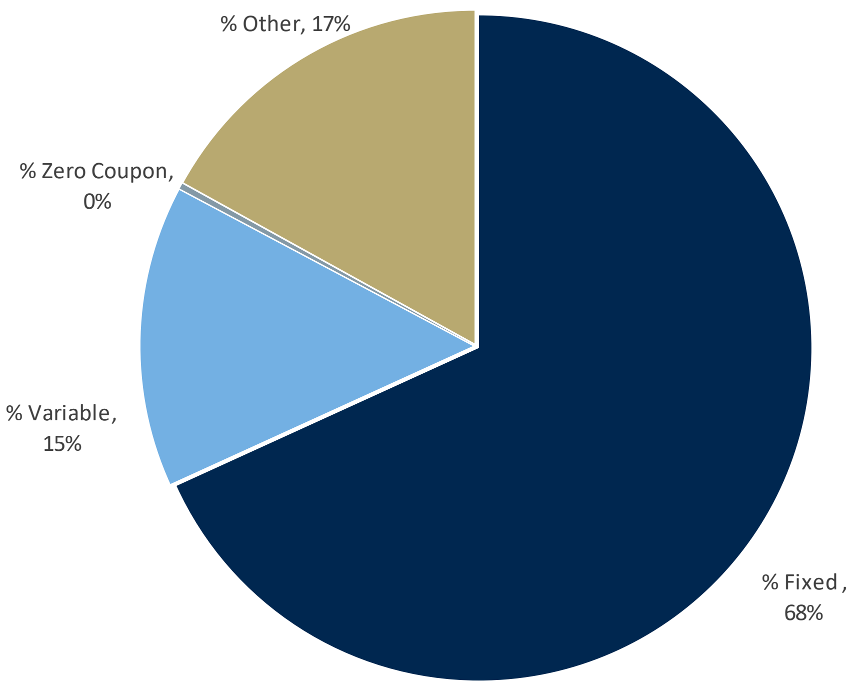
Source: RBC US Equity Strategy, Russell, Bloomberg. Frozen as of November 25th, 2019

Both Growth and Value Have Low Levels of Variable-Rate Debt

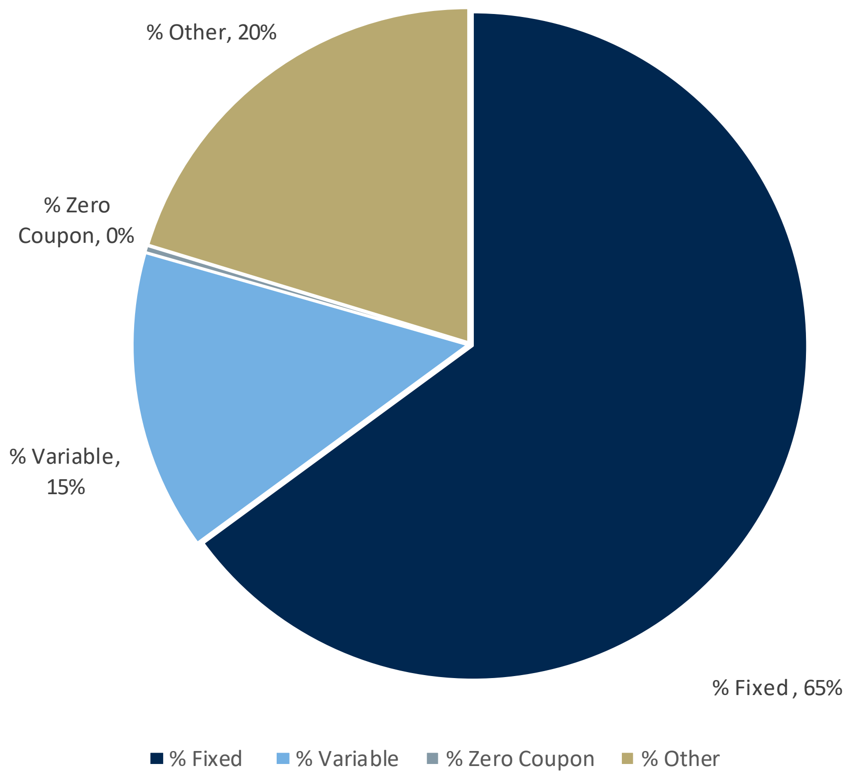
Key Takeaways

- The percentage of debt that's variable/floating (what we're able to capture, as determined by Capital IQ) is low in both style indices. Growth has a slightly higher proportion of fixed-rate debt.

Russell 1000 Growth: Breakdown of Total Principal Due: Fixed vs. Variable/Floating Rate



Russell 1000 Value: Breakdown of Total Principal Due: Fixed vs. Variable/Floating Rate

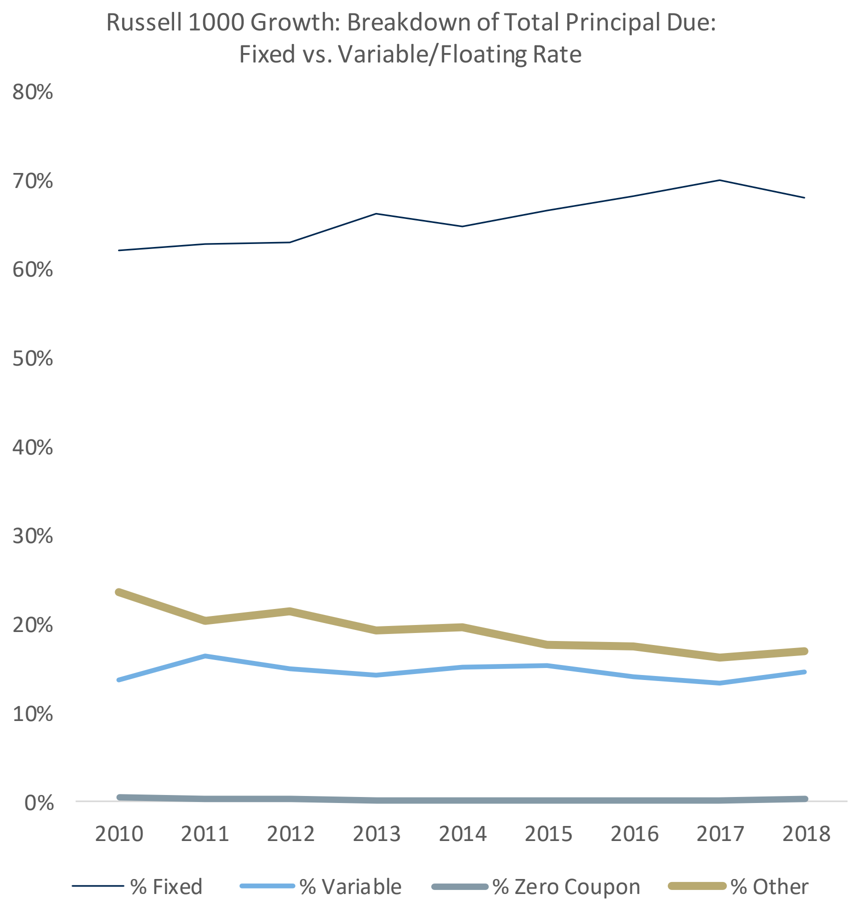


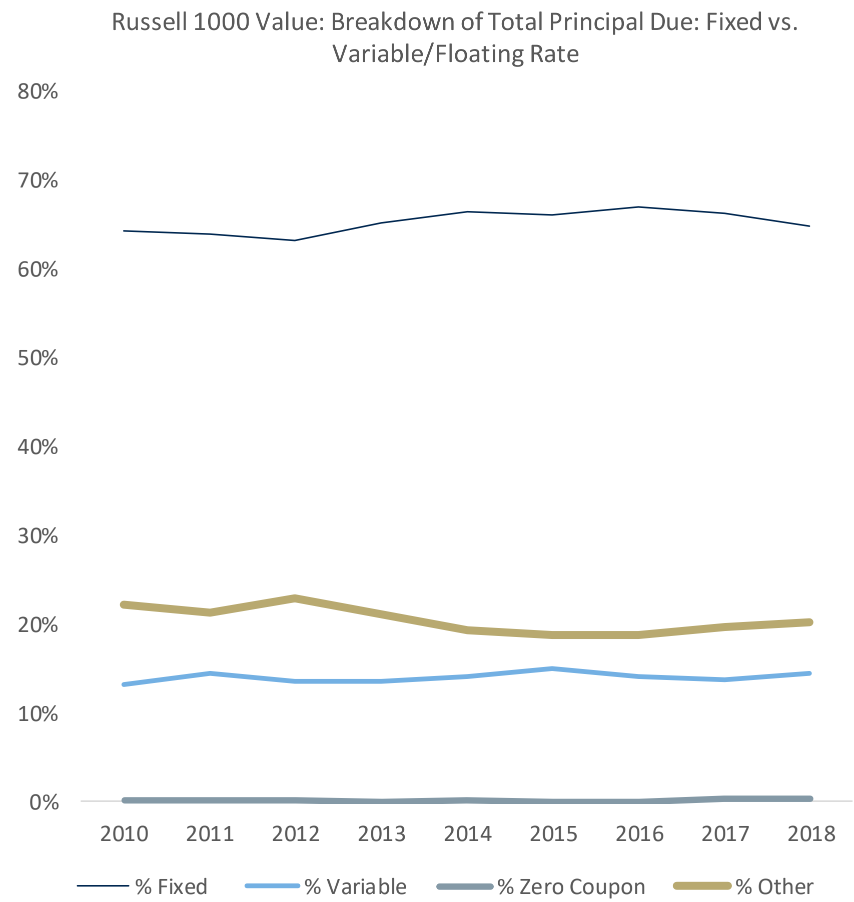
Note: Financials, REITs, GE & Auto Manufacturers are excluded from the data; as of 2018.
Source: RBC US Equity Strategy, Capital IQ, Russell

Floating-Rate Debt Has Been Stable in Both Growth and Value

Key Takeaways

- The percentage of debt that's floating-rate (what we're able to capture, as determined by Capital IQ) has been stable in both Growth and Value companies.



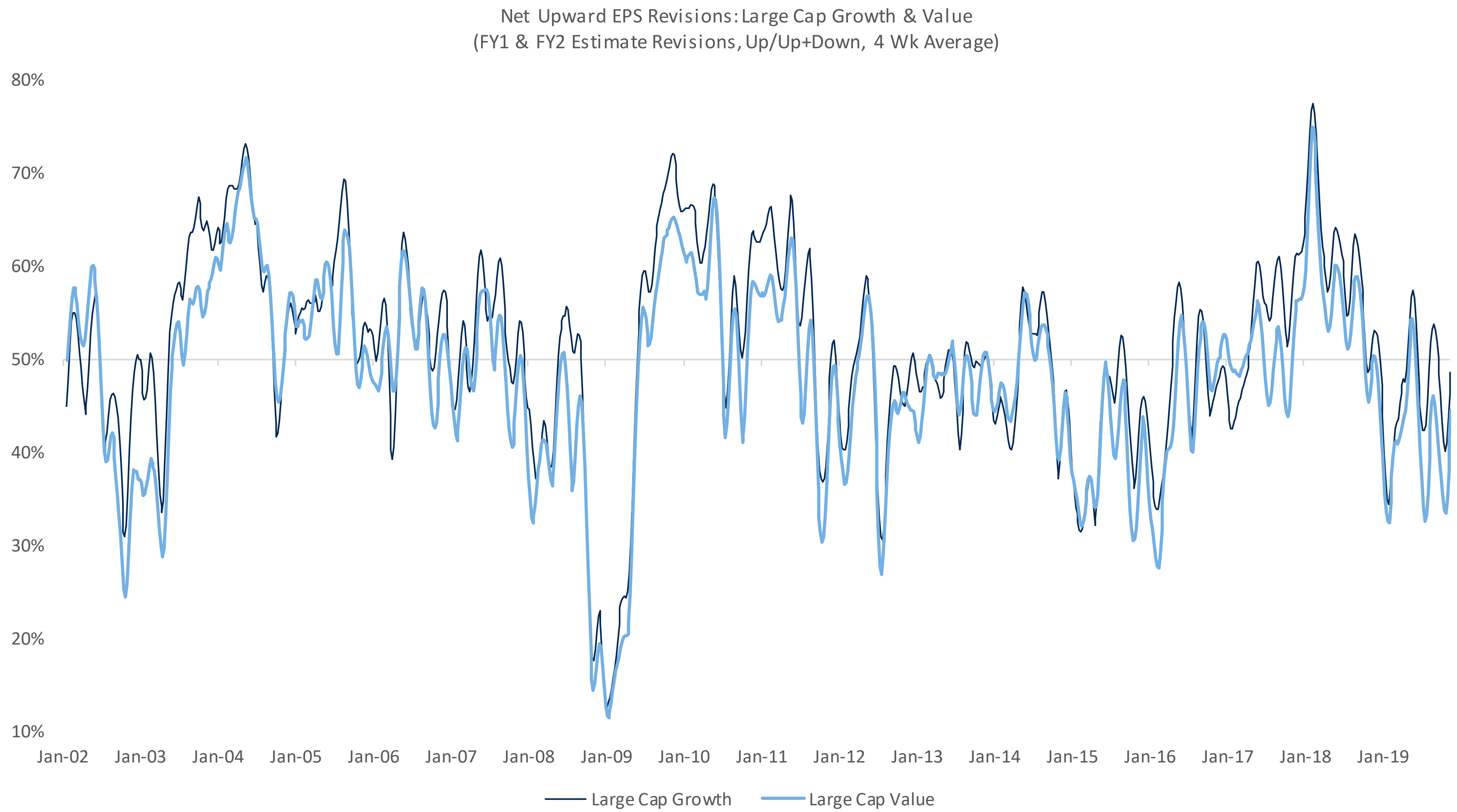


Note: Financials, REITs, GE & Auto Manufacturers are excluded from the data; data is based on current constituents; updated as of 2018.
Source: RBC US Equity Strategy, Capital IQ, Russell

Earnings Revisions Hit Non-Recession Lows In Value

Key Takeaways

- The rate of upward EPS estimate revisions on the sell-side hit non-recession lows for Russell 1000 Value in early November (as well as February and July 2019). Trends have not been nearly as weak in Growth.

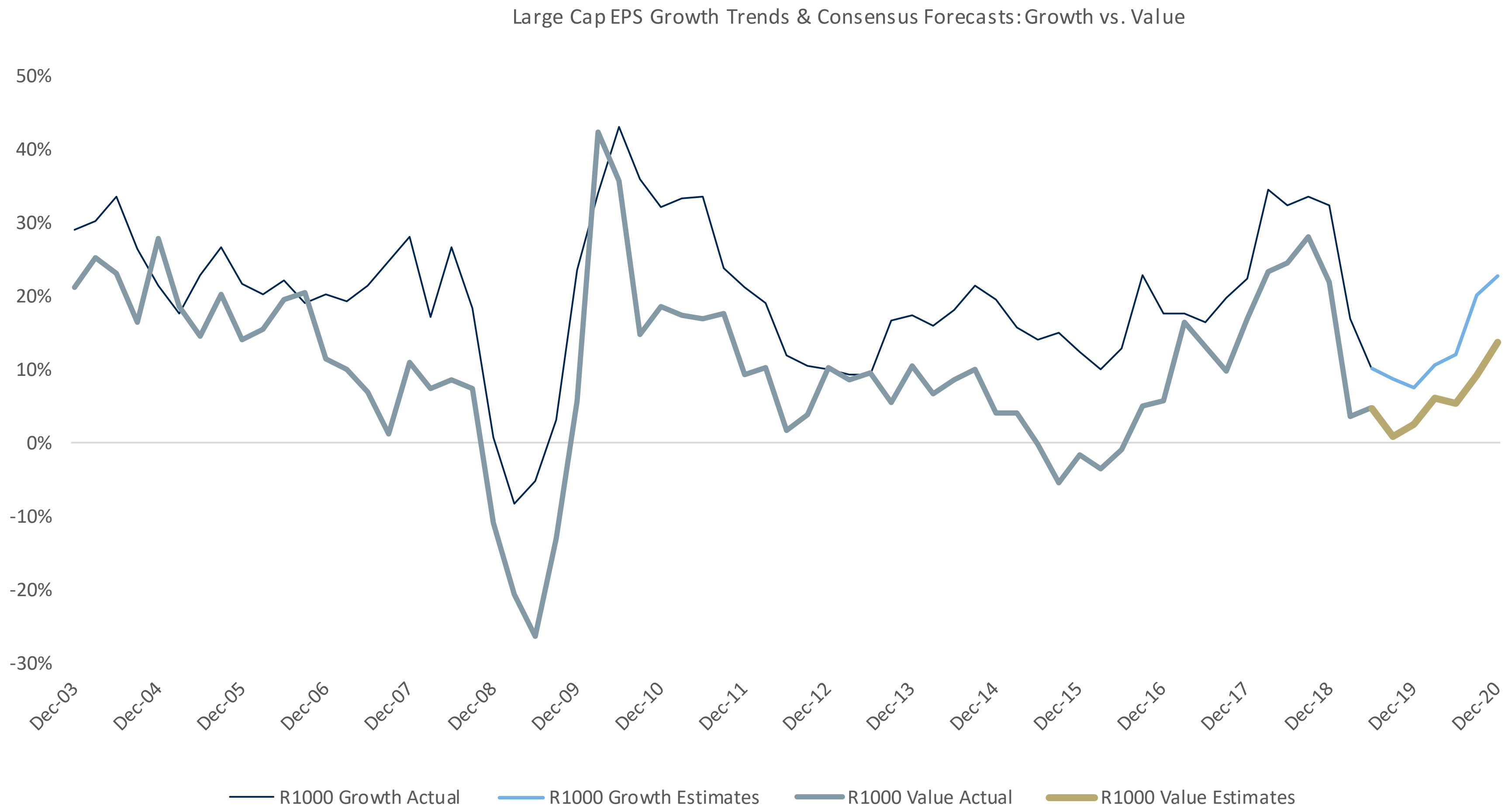


Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates, Russell

Forward EPS Growth Expectations Suggest Growth and Value Headed Down Similar Paths

Key Takeaways

- Growth rates are slightly higher for Growth than for Value but are closer between the two size segments than we have seen in recent years.
- This suggests to us that Growth has lost its superiority to Value on the earnings front.



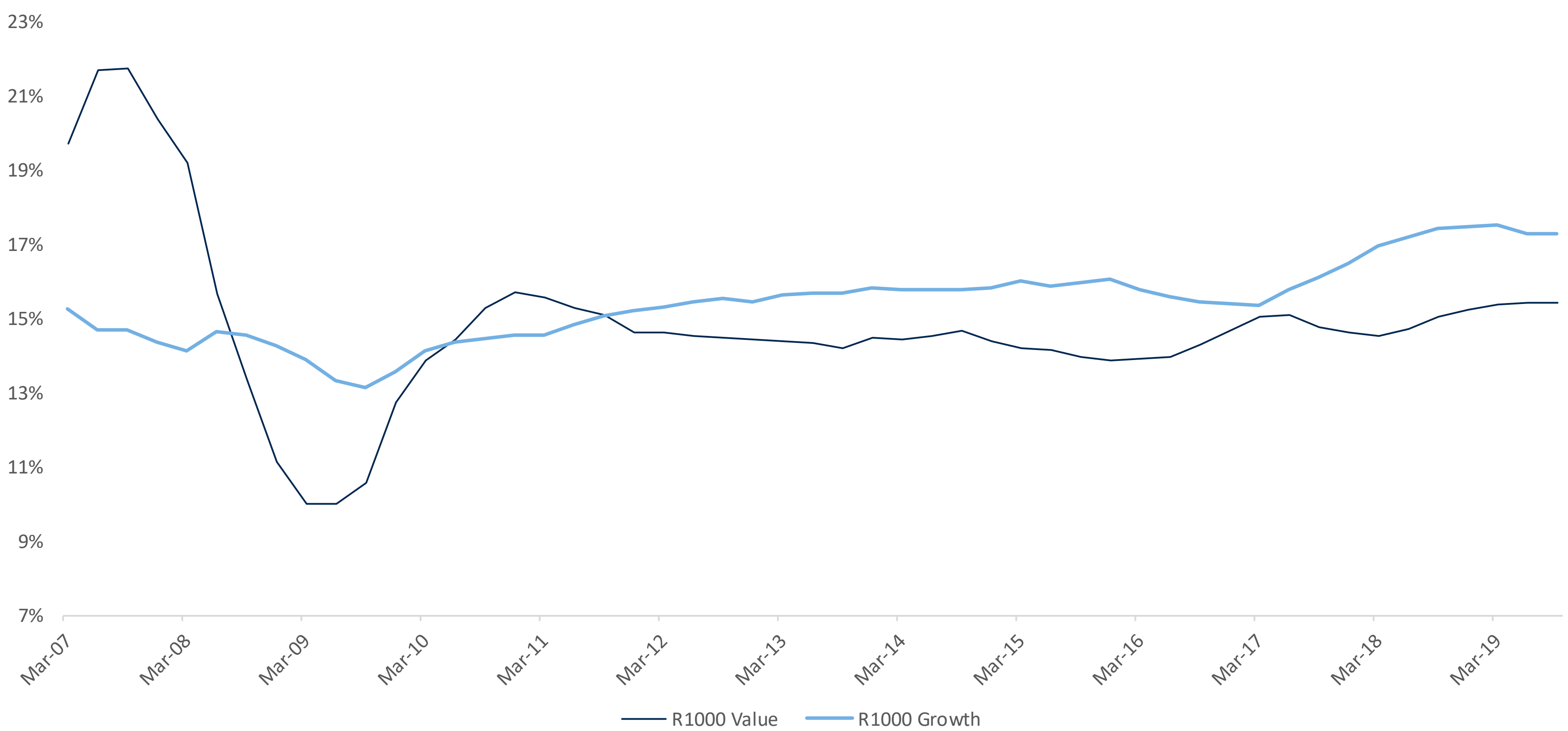
Weighted average of stock-level growth rates; excludes negative earners.
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Russell, CIQ estimates

Margins Have Been Higher in Growth than in Value but Are Starting to Slip

Key Takeaways

- EBIT margins have been higher in Growth than in Value. Value remains in an uptrend while Growth is starting to ease back a bit.
- Growth margins are easing from decade-plus highs. Value margins are at post-Financial Crisis highs but still well below pre-Financial Crisis highs.

Large Cap Growth vs Value: LTM EBIT Margins

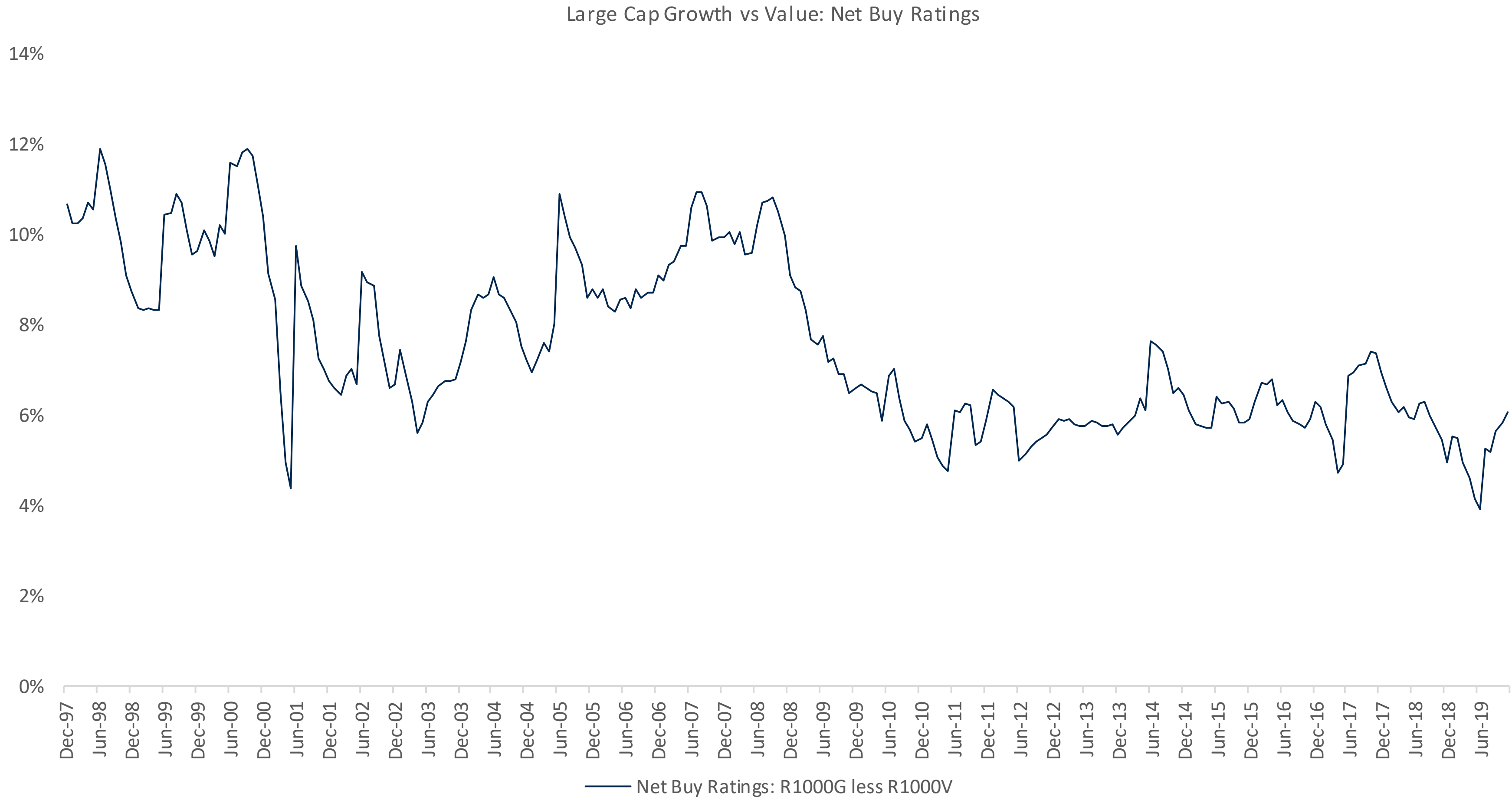


Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Russell. Latest data point is as of 3Q19 (preliminary)

Sell-Side Sentiment Slipped on Growth Relative to Value in 1H19, Is Starting To Rebound

Key Takeaways

- Net buys for Growth slipped in 1H19 relative to Value, pointing to a deterioration in sentiment for the Growth trade.
- In 2Q19, the gap got about as narrow as we've seen over the last two decades, before widening again during 3Q19 and 4Q19.

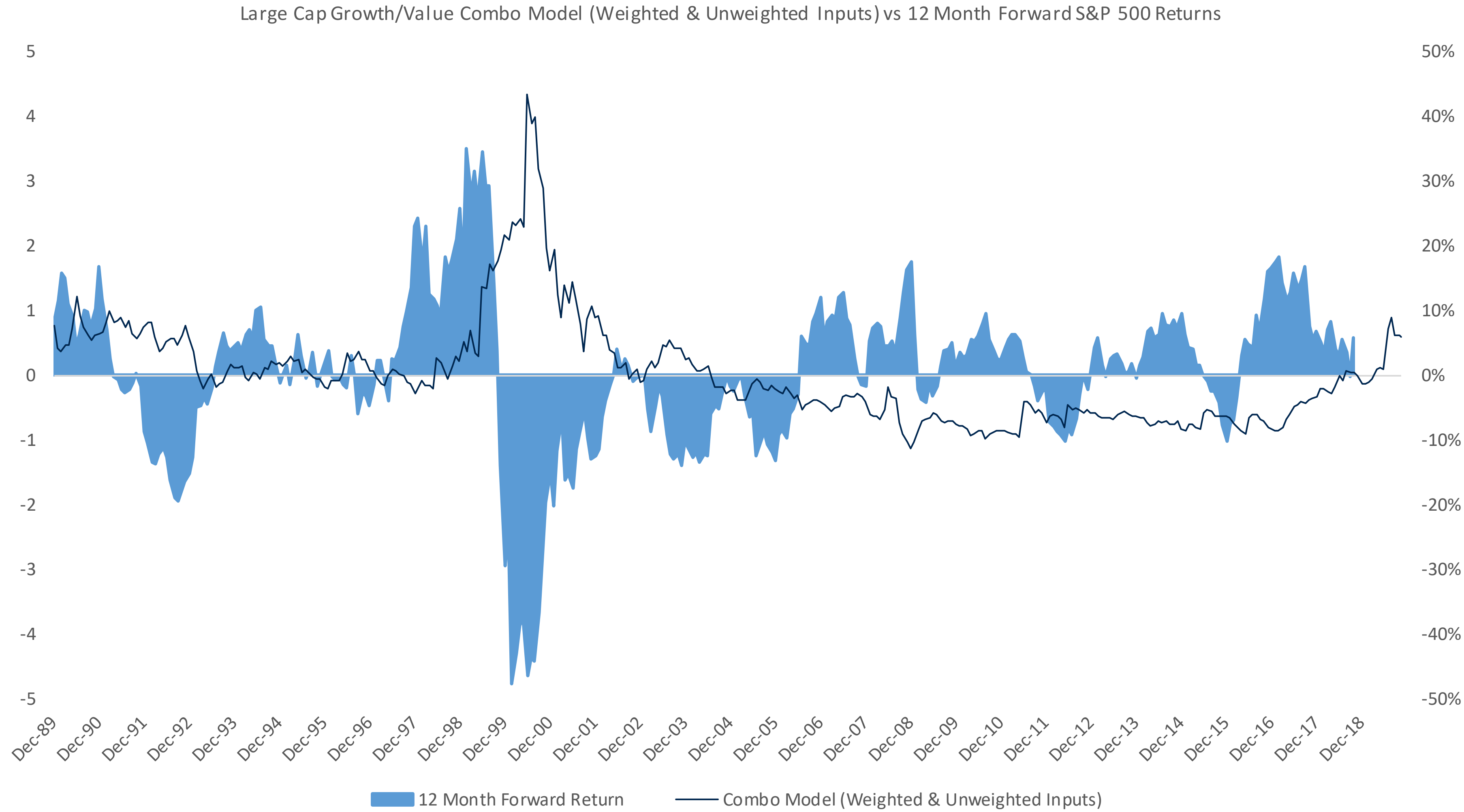


Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Russell, CIQ estimates

Growth Looks Expensive vs. Value on Our Combo Model

Key Takeaways

- To take into account all weighted and unweighted median metrics, we use our Combo Model for the Russell 1000 Growth and Value. Growth looked undervalued vs. Value on this metric from 2006 to 2018, helping to explain its decade-plus of leadership. Growth no longer appears undervalued on this model, however. At 0.59 standard deviations as of late November 2019, this metric is at levels similar to those seen back in early 2002.



Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Russell, Compustat, CIQ estimates, IBES estimates

Growth Looks Expensive vs. Value on a Number of Metrics

Key Takeaways

- Growth looks particularly overvalued relative to Value on EV/Sales and Price/Book, using both weighted and unweighted median multiples.
- On a weighted median basis, Growth also looks pricey relative to Value on NTM P/CF, EV/EBIT, and EV/EBITDA.

Russell 1000 Growth vs. Russell 1000 Value (Relative Multiples)

Unweighted Medians	LTM P/E ex neg EPS	Norm P/E ex neg - 5 Yr Avg	Norm P/E ex neg - 10 Yr Avg	LTM P/S	LTM EV/S	LTM EV/EBITDA ex neg	LTM P/EBITDA ex neg	LTM EV/EBIT ex neg	LTM P/EBIT ex neg	LTM P/OCF ex neg	LTM P/FCF ex neg	NTM P/E ex neg EPS	FY1 P/E ex neg EPS	FY2 P/E ex neg EPS	NTM P/S	NTM P/CF ex neg CF	FY2 PEG ex neg	Price/ Book
Current	**1.3**	**1.5**	**1.5**	**1.7**	**1.5**	**1.4**	**1.8**	**1.3**	**1.5**	**1.6**	**1.4**	**1.3**	**1.3**	**1.3**	**1.6**	**1.5**	**0.9**	**2.5**
Z Score	0.2	(0.2)	(0.3)	0.5	0.9	1.3	0.8	0.9	0.1	0.0	(0.2)	0.1	0.1	0.3	1.0	1.1	(0.0)	2.2
Avg	1.3	1.5	1.6	1.6	1.3	1.3	1.6	1.2	1.5	1.6	1.4	1.3	1.3	1.3	1.4	1.3	0.9	1.9
Median	1.3	1.4	1.5	1.5	1.3	1.2	1.5	1.1	1.4	1.5	1.3	1.2	1.2	1.2	1.3	1.3	0.9	1.9

Russell 1000 Growth vs. Russell 1000 Value (Relative Multiples)

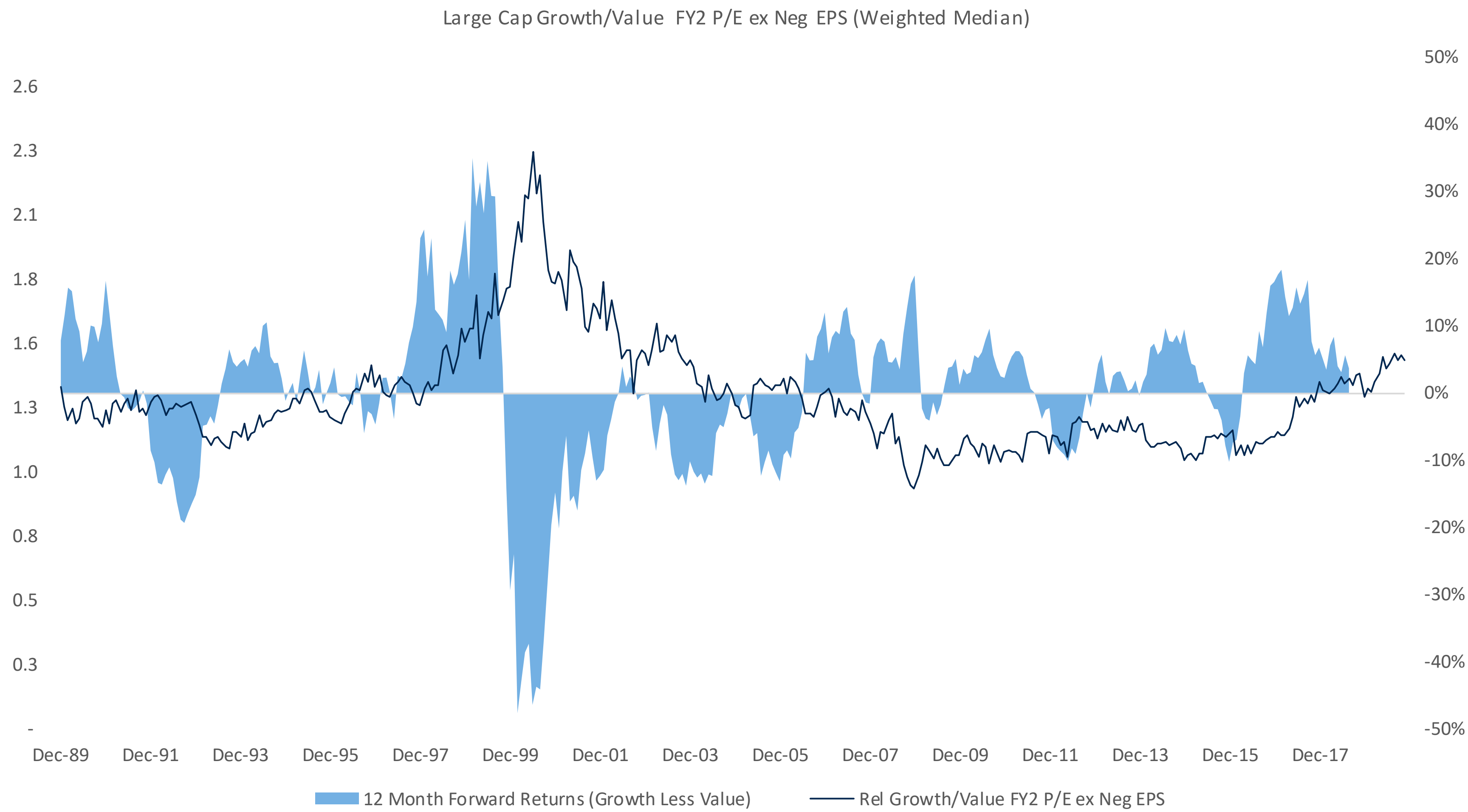
Weighted Medians	LTM P/E ex neg EPS	Norm P/E ex neg - 5 Yr Avg	Norm P/E ex neg - 10 Yr Avg	LTM P/S	LTM EV/S	LTM EV/EBITDA ex neg	LTM P/EBITDA ex neg	LTM EV/EBIT ex neg	LTM P/EBIT ex neg	LTM P/OCF ex neg	LTM P/FCF ex neg	NTM P/E ex neg EPS	FY1 P/E ex neg EPS	FY2 P/E ex neg EPS	NTM P/S	NTM P/CF ex neg CF	FY2 PEG ex neg	Price/ Book
Current	**1.5**	**2.1**	**1.7**	**1.9**	**1.6**	**1.6**	**2.0**	**1.4**	**1.7**	**1.5**	**1.6**	**1.4**	**1.5**	**1.5**	**1.8**	**1.8**	**0.7**	**4.5**
Z Score	0.2	1.7	(0.0)	0.5	0.6	0.8	0.6	0.4	0.1	(0.6)	0.6	0.4	0.4	0.7	0.4	0.5	(1.3)	4.1
Max	2.4	3.2	3.9	3.9	2.5	2.8	4.3	2.6	3.7	3.0	3.4	2.4	2.6	2.3	5.7	4.9	1.5	4.5
Min	1.0	1.2	1.3	1.2	0.9	1.0	1.3	0.9	1.1	1.2	1.1	1.0	1.0	1.0	1.1	0.5	0.6	1.5
Avg	1.4	1.6	1.8	1.8	1.4	1.4	1.8	1.3	1.6	1.7	1.4	1.4	1.4	1.3	1.6	1.5	0.9	2.3
Median	1.4	1.6	1.7	1.7	1.4	1.4	1.8	1.2	1.6	1.6	1.3	1.3	1.3	1.3	1.5	1.5	0.9	2.1

Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Russell, Compustat, CIQ estimates, IBES estimates

Growth Looks Expensive vs. Value on P/E

Key Takeaways

- The Growth/Value relative FY2 P/E was at 1.5x as of late November, slightly above its historical average. This is an important change from conditions of the past decade when Growth looked deeply undervalued vs. Value on this indicator.

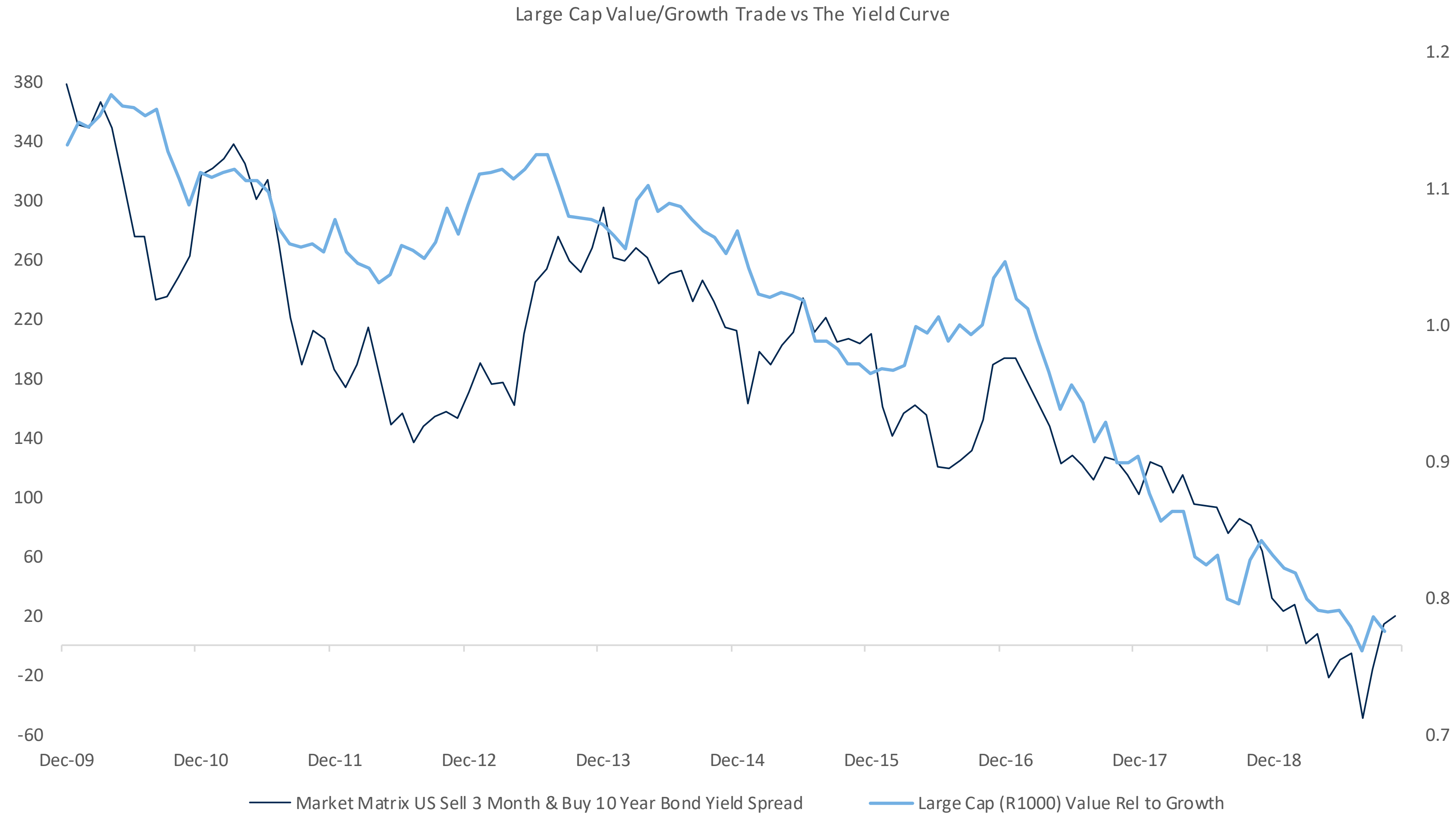


Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Russell, Compustat, CIQ estimates, IBES estimates

Value/Growth Trade Moves in Sync with the Yield Curve; Recent Steepening Helped Value

Key Takeaways

- Since the Financial Crisis, the style trade has moved in tandem with shifts in economic growth expectations, as represented by movements in the yield curve. Value outperforms when the curve is steepening while Growth outperforms when the curve is flattening. The steepening of the curve has helped the Value trade in recent months. That steepening needs to be sustained in order for the shift back to Value to be lasting, in our view.

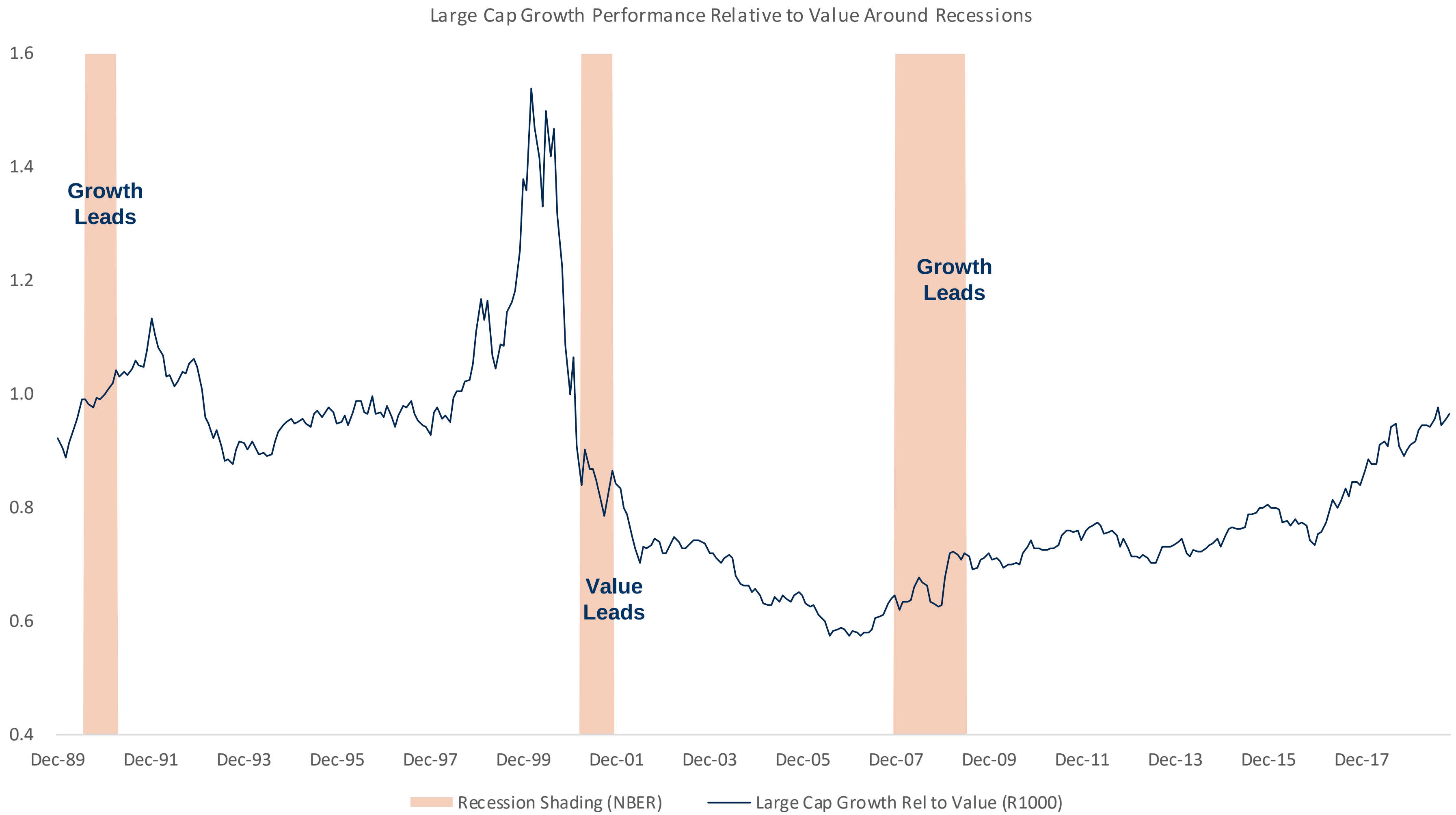


Source: RBC US Equity Strategy, Haver Analytics, Russell, Bloomberg

The Style Trade Behaves Inconsistently During Recessions

Key Takeaways

- Growth outperformed Value during the recessions of 1990–91 and 2008–09. However, Value outperformed Growth during the recession of 2000–01.
- Growth lagged Value during the global growth scares of 2015–16 and late 2018 and seems likely to underperform if recession / slow growth fears ramp up.



Source: RBC US Equity Strategy, Haver, Russell

Major Style Shifts Have Been Happening Late in Bull Markets or at Their End

Key Takeaways

- The last two major shifts in style leadership have occurred around peaks in the broader stock market.
- Value's last leadership cycle began at the market peak during the Tech Bubble. Growth's last leadership cycle began in 2006/2007—just ahead of the market's peak heading into the Financial Crisis.
- If/when the bull market peaks, we expect Value to take over leadership and Growth to get hit the hardest.

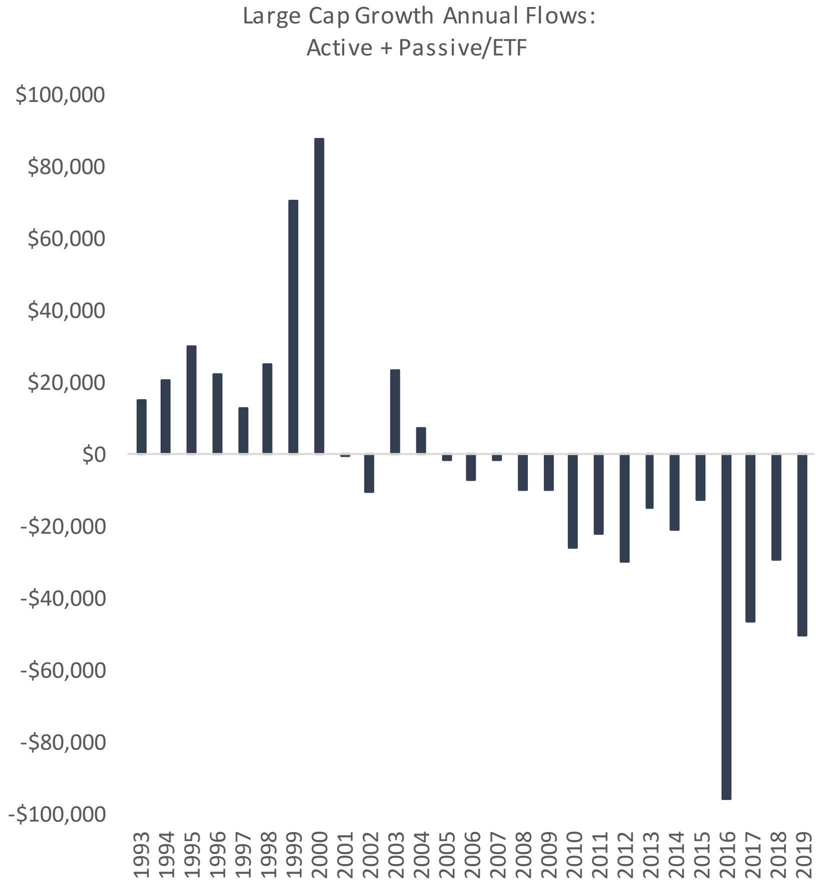
Large Cap Growth Performance Relative to Value: Recent Stock Market Pullbacks Around Recessions

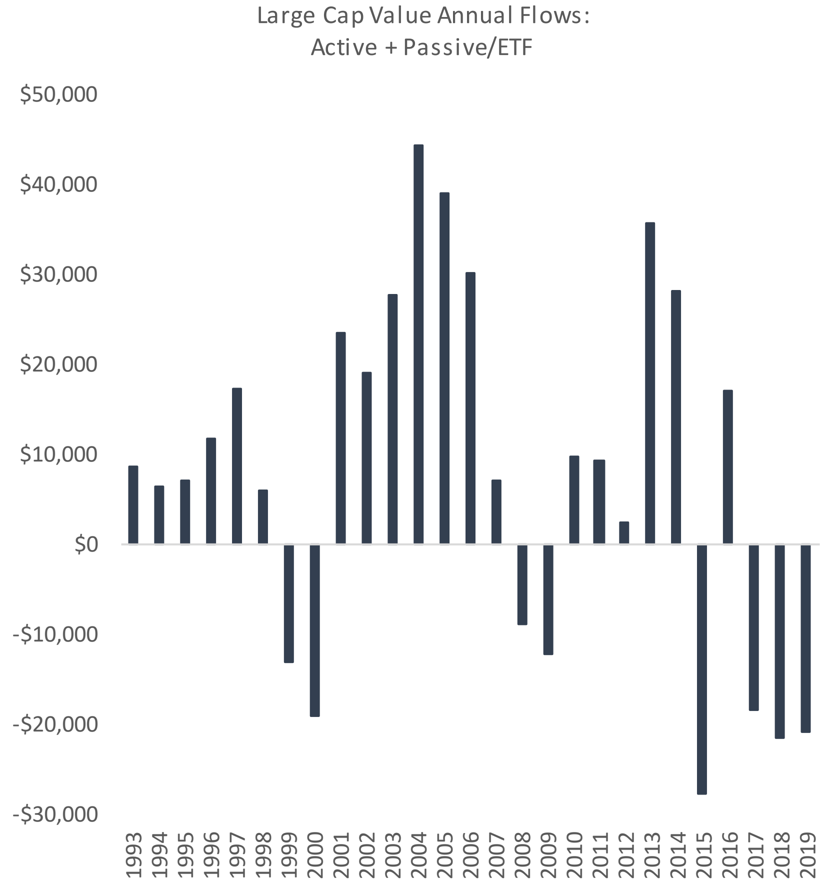
Source: RBC US Equity Strategy, Haver, Russell

Both Growth and Value Funds Have Seen Outflows in 2019

Key Takeaways

- Morningstar's data, which combines active with passive and ETFs, reveals that outflows persisted in both styles in 2018 but were becoming less severe in Growth while deteriorating in Value—at least for the year as a whole.



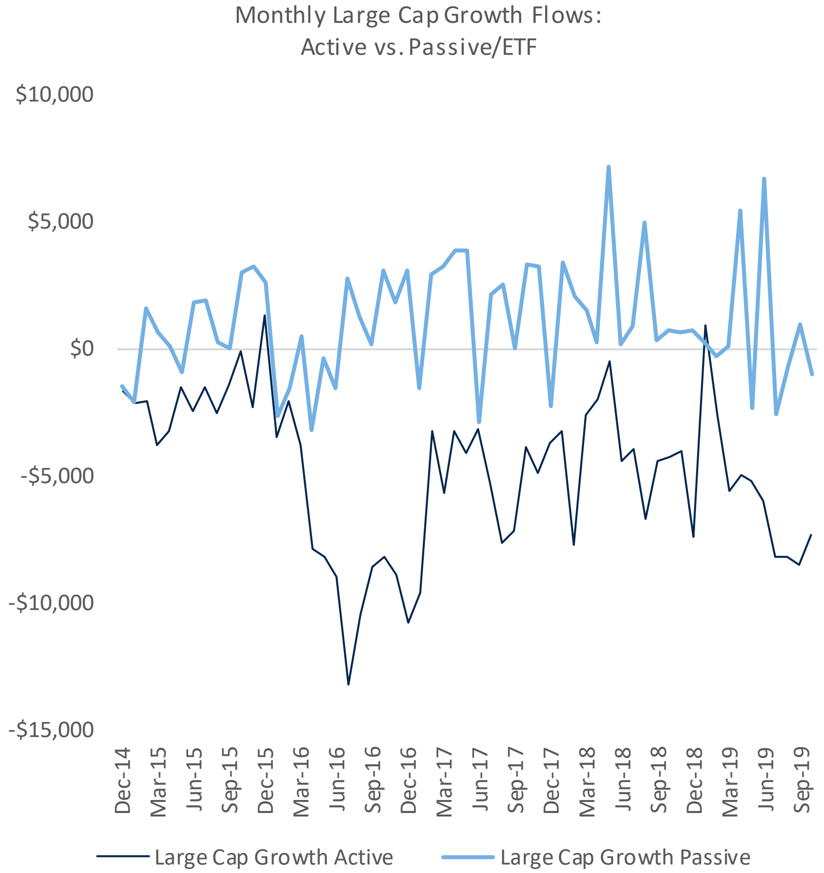


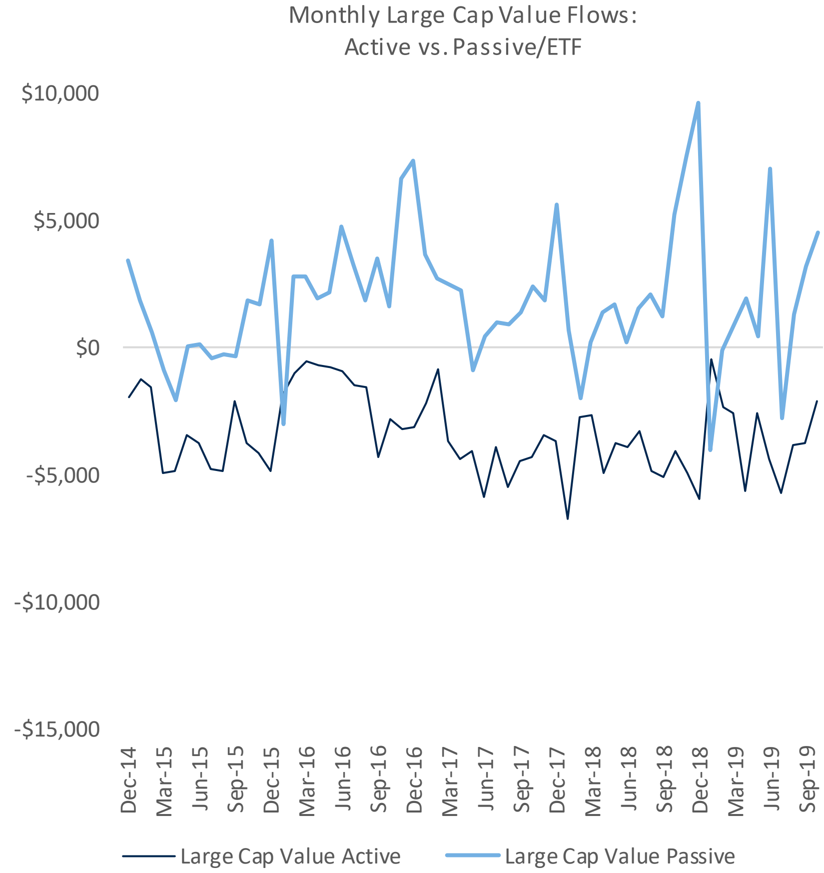
Source: RBC US Equity Strategy, Morningstar

Passive Flows Have Been Strongest In Value Recently

Key Takeaways

- Flows to passively managed funds have been choppy for both styles in 2019. In recent months, Growth has seen outflows or weak inflows, while Value has seen strong inflows.
- On the actively managed side, outflows remain in place for both styles.



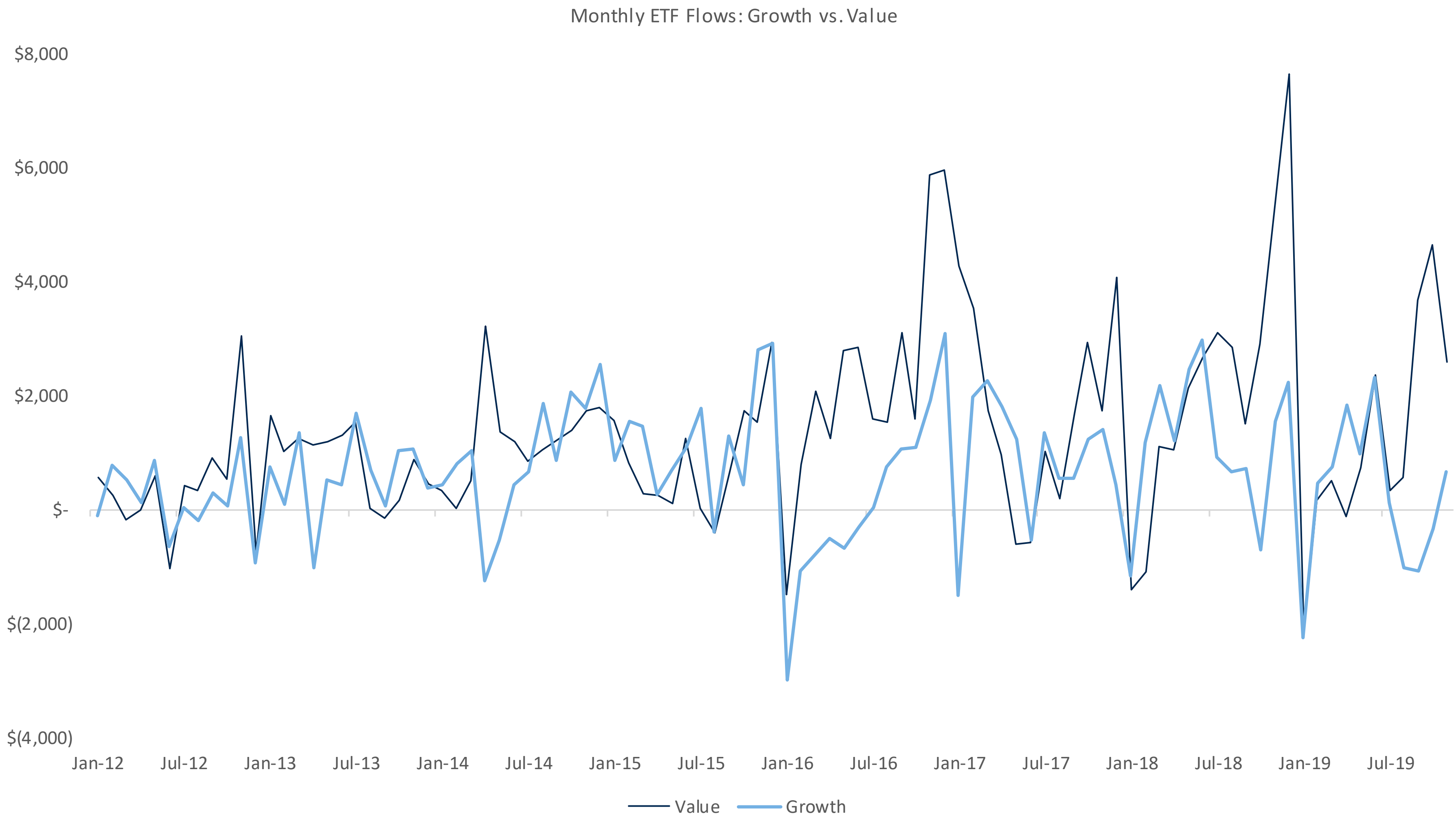


USD millions
Source: RBC US Equity Strategy, Morningstar

ETF Flows Have Been Positive For Value Recently While Growth Has Seen Outflows

Key Takeaways

- In 4Q18, ETF flows favored Value over Growth, similar to trends seen throughout 2016 (the last time Value led).
- Flows were slightly better in Growth in early 2019 but were similar between the two styles throughout much of this year. In late 3Q/early 4Q, Growth saw outflows while Value saw inflows. In November, Growth has seen slight inflows return, while Value inflows have weakened.

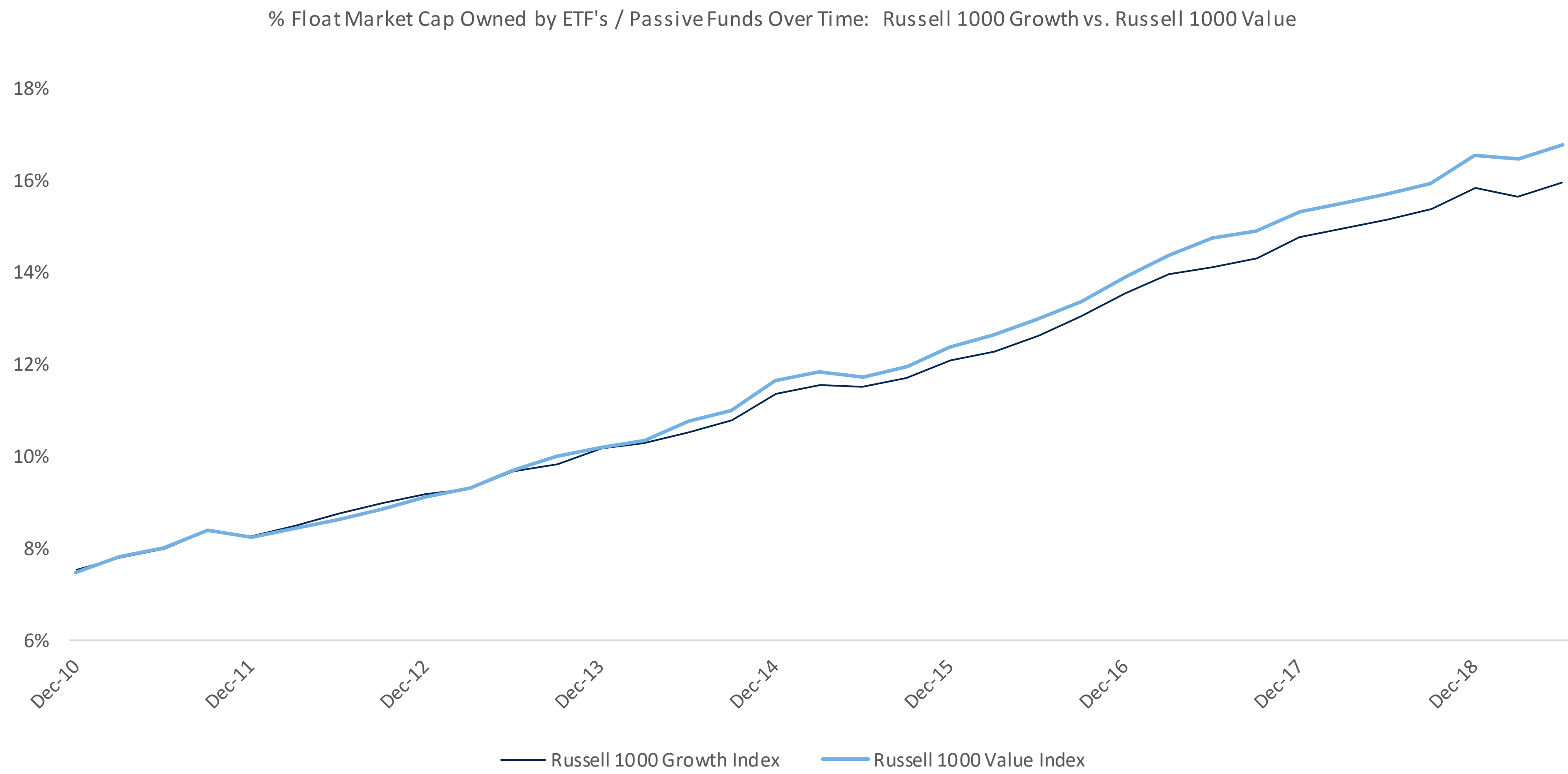


Source: RBC US Equity Strategy, Bloomberg

ETF/Passive Fund Ownership Remains Slightly Higher in Value

Key Takeaways

- ETF/passive fund ownership of Growth and Value indices is similar. At the margin it's become slightly higher for the Value indices in recent year. In both indices, the ETF/passive ownership has essentially doubled since 2010.



Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, Russell, Morningstar

Large Cap Sector Outlook

Our Latest Thoughts on the DRIVERs of
S&P 500 Sector Performance

Capital
Markets

S&P 500 Sector Scorecard

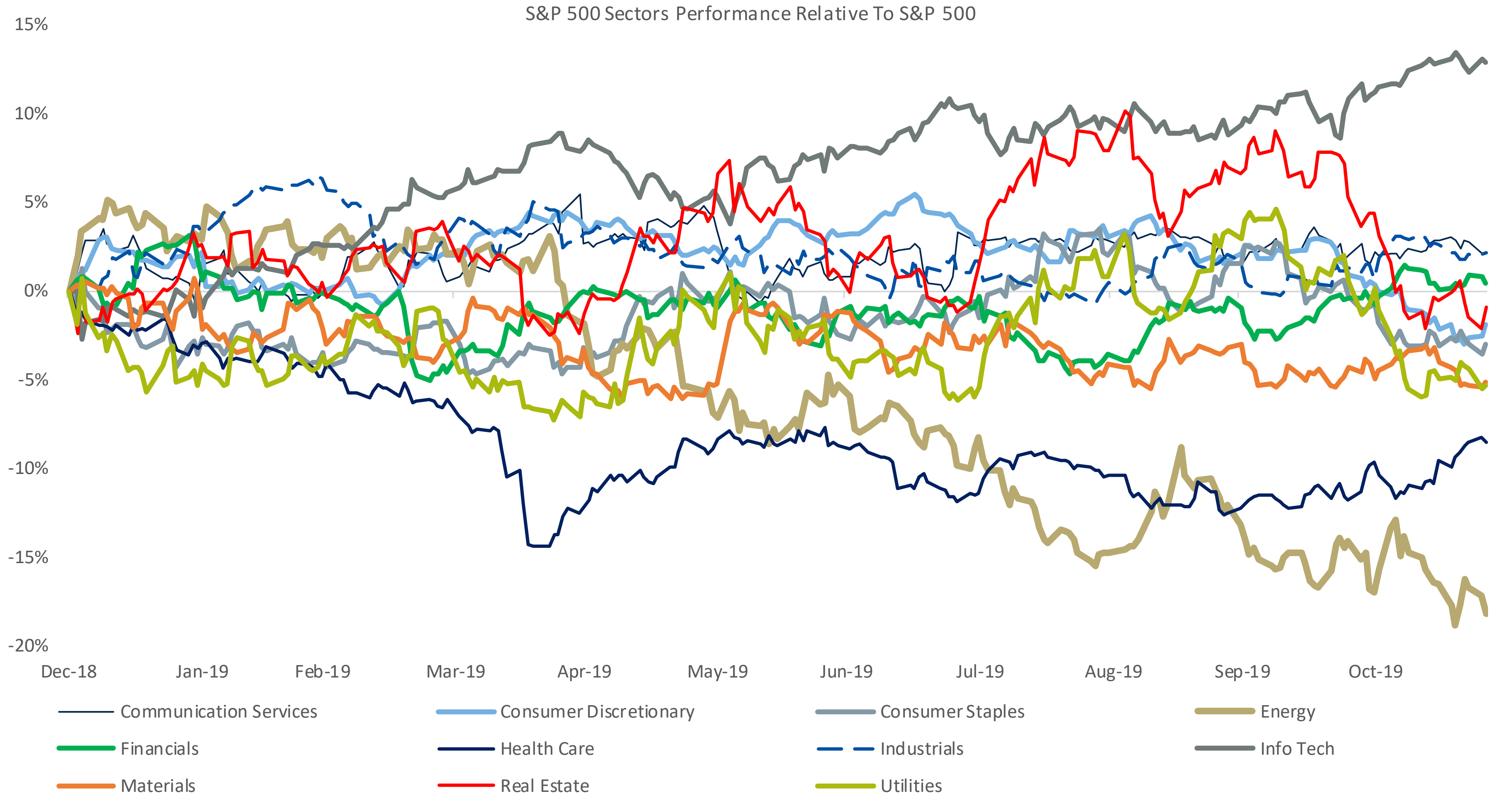
	Deals and Cash Deployment (Dividends & Buybacks)	Revisions/EPS (% Upward EPS Revisions)	Investor Sentiment and Positioning (Sell-Side, HF)	Valuations (Rel P/E)	China Tariffs/Trade War Risks	2020 Election Risks (Progressive/ Dem Sweep)	Retail Money Flows	Current Outlook
Official GICS Sectors								
Consumer Staples	✓	=	✓	✗	=	=	✗	Market Weight
Utilities	✓	=	=	=	✓	✓	=	Overweight
REITs	✓	=	=	✗	✓	✓	✓	Market Weight
Health Care	=	✓	✗	✓	✓	✗	✗	Market Weight
Energy	✓	✗	✗	=	=	✗	✓	Market Weight
Materials	✓	✗	=	✗	✗	=	=	Underweight
Financials	✓	✓	✓	✓	✓	✗	✓	Overweight
Industrials	✓	✗	=	✓	✗	✗	=	Overweight
Consumer Discretionary	=	✗	=	✗	✗	=	=	Underweight
Communication Services	✗	=	✗	✗	✓	=	=	Underweight
Technology	=	✓	=	✗	✗	✗	✓	Market Weight
RBC Regroupings								
CD ex Internet Retail	=	✗	=	=	✗	=	=	Negative Bias
TIMT (Tech, Internet, Media, Telecom)	✗	=	=	✗	✗	✗	✓	Negative Bias

Source: RBC US Equity Strategy

Tech Has Been The Top Performing Sector in 2019, While Energy & Health Care Have Lagged

Key Takeaways

- In addition to Tech, Communication Services and Industrials are outperforming in 2019.
- REITs and Financials are two of the more interesting in line/middle tier performers. REITs was a strong YTD outperformer as of late September, and Financials was a YTD laggard as of late August. Both sectors have reversed course in recent months, moving back to in line with the benchmark.
- Since the start of 4Q19, Health Care is the best performing sector relative to the S&P 500, with Utilities and REITs being the 2 worst performers.



Source: RBC US Equity Strategy, Bloomberg

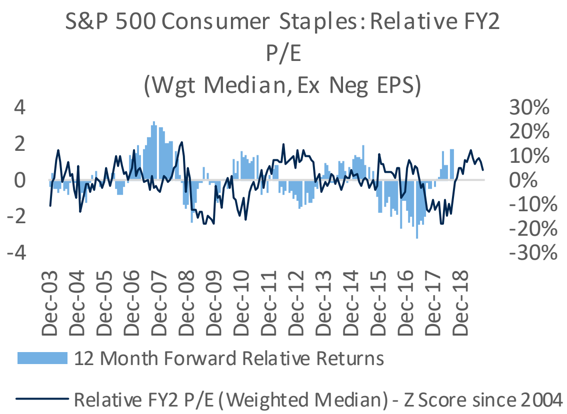
S&P 500 Sectors: Sector Snapshots

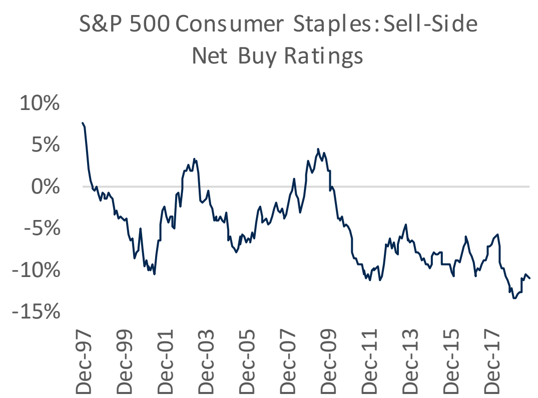
- **Defensives (Consumer Staples, REITs, Utilities, Health Care)**
- **Commodities (Energy & Materials)**
- **Cyclicals (Financials & Industrials)**
- **Growth (Communication Services, Consumer Discretionary, Technology)**
- **RBC Regroupings (Consumer Discretionary ex Internet, TIMT)**

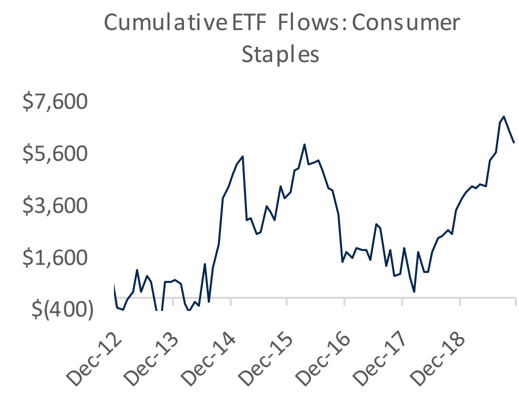
S&P 500 Consumer Staples: Market Weight

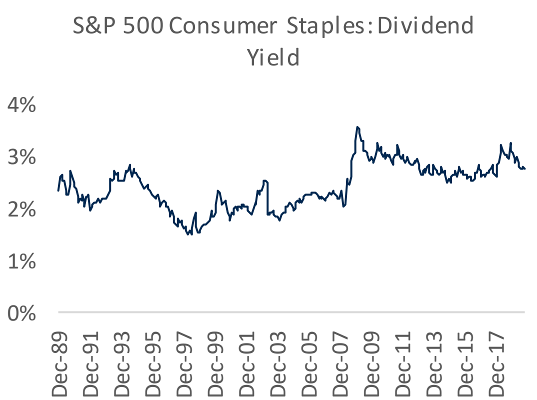
Key Takeaways

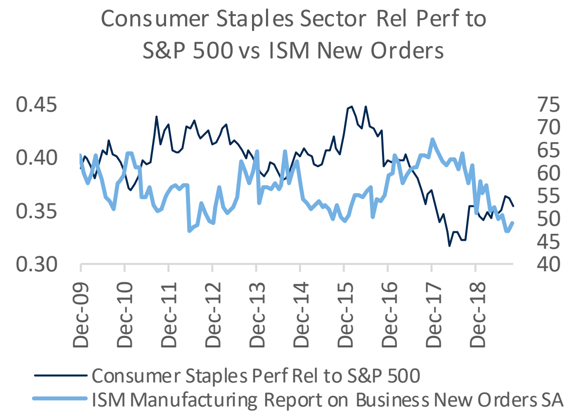
- **Negatives:** (1) Expensive (back to peak recently) on relative P/E. (2) ETF inflows are starting to reverse.
- **Positives:** (1) Deeply out of favour on the sell-side. (2) High dividend yield relative to other sectors and history.
- **What else we're watching:** (1) A defensive vehicle, tends to lag when ISM new orders rise. (2) Historically has lagged when Value has outperformed Growth, but the relationship of the sector with the style trade has broken down in recent years. (3) Adversely impacted by the China trade war, but less so than other sectors. (4) Less risk from the 2020 election (Warren win/Democratic sweep scenario) – mixed implications per our analysts with both negative and positive impacts. (5) Middle of the pack on EPS revisions recently.

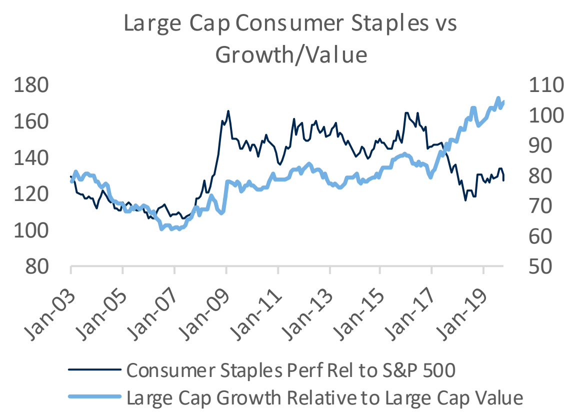










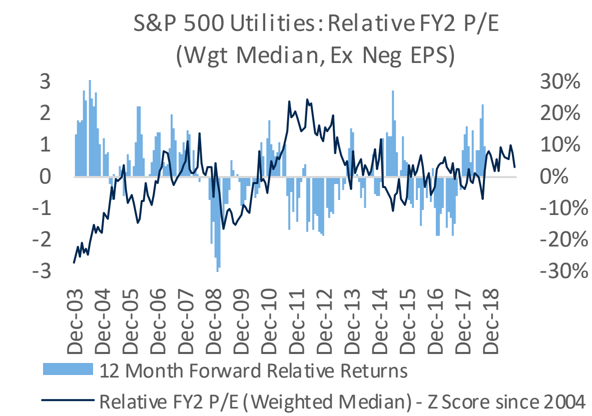


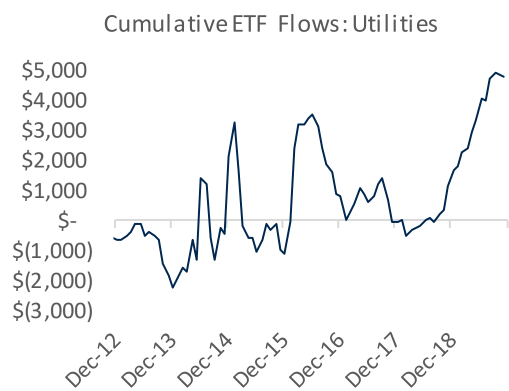
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates, Bloomberg

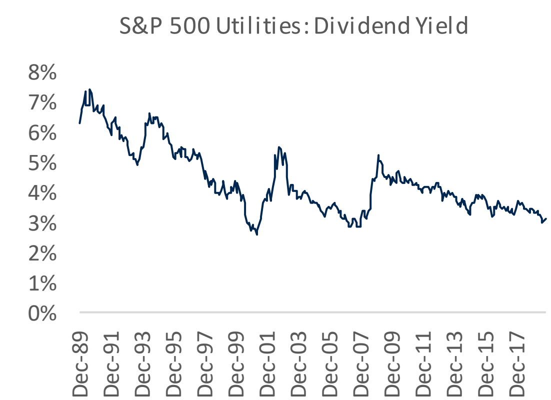
S&P 500 Utilities: Overweight

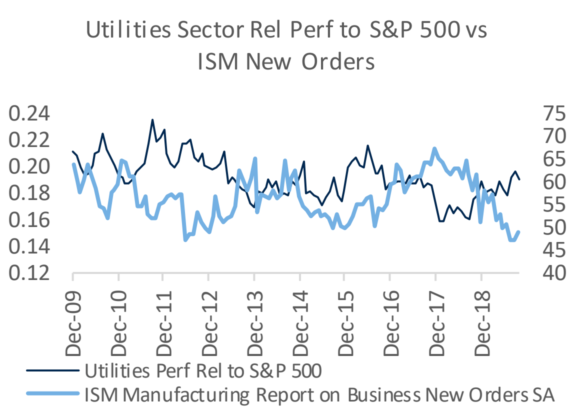
Key Takeaways

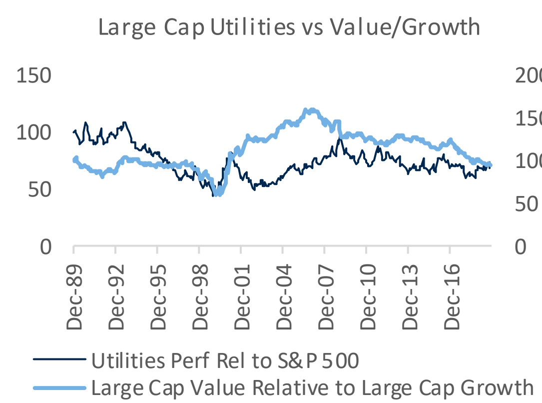
- **Positives:** (1) Low China trade war risk. (2) Low risk from 2020 elections (Warren/Democratic sweep) – note that the sector has fallen recently as expectations that Warren will win have faded in the betting markets. (3) High dividend yield relative to other sectors.
- **What Else We're Watching:** (1) Trades defensively – tends to lag when ISM new orders rise. (2) Tends to outperform when Value is leading, though the relationship has broken down. (3) ETF inflows have been strong, but may be peaking. (4) Relative P/E's are a touch above neutral. (5) No red flags or points of intrigue on our sell-side sentiment/hedge fund ownership work. (6) Ranks middle of the pack on revisions trends.

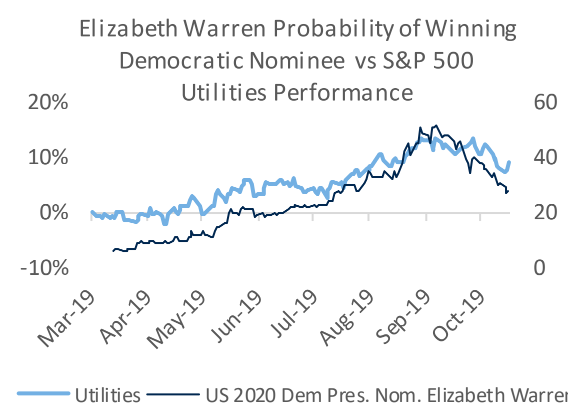










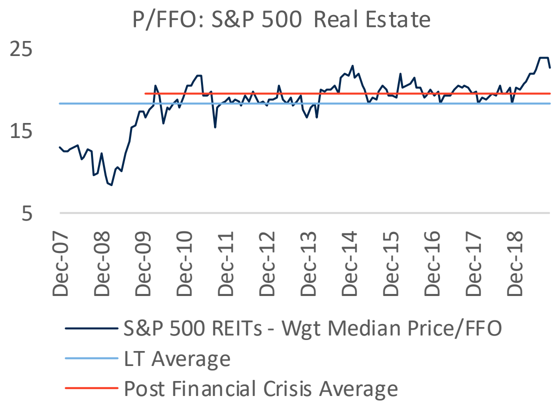


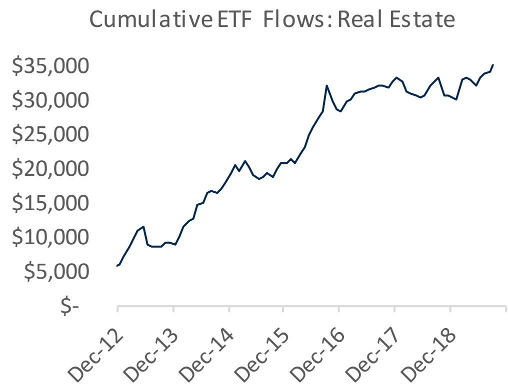
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates, Bloomberg, PredictIt

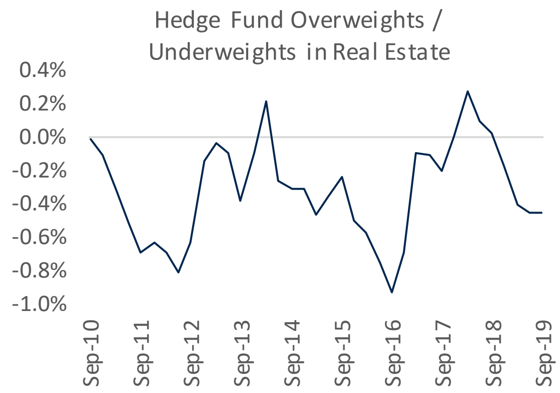
S&P 500 REITs: Market Weight

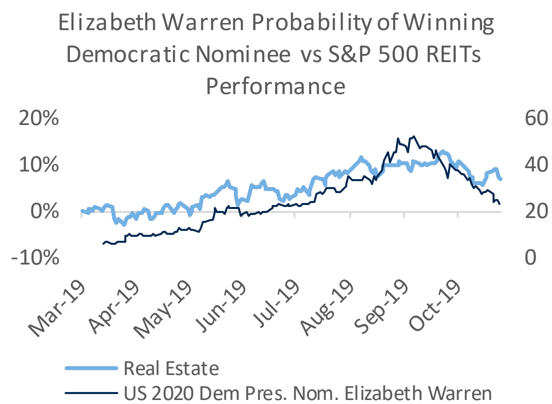
Key Takeaways

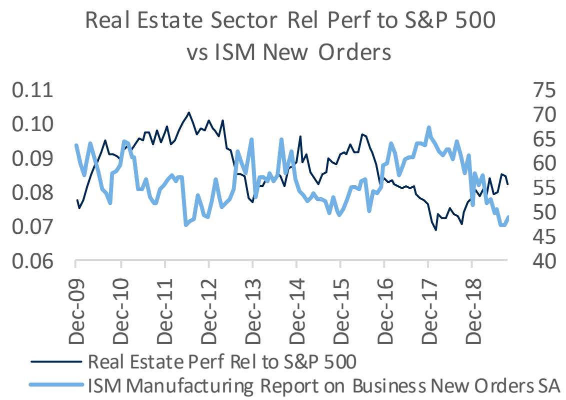
- **Positives:** (1) Low China trade war risk. (2) Low risk from 2020 elections (Warren/Democratic sweep) – note that the sector has fallen recently as expectations that Warren will win have faded in the betting markets. (3) Strong ETF inflows, with no recent signs of weakness. (4) High dividend yield relative to other sectors.
- **Negatives:** (1) Expensive on price to FFO, hitting a new peak recently.
- **What else we're watching:** (1) Trades defensively – tends to lag when ISM new orders rise. (2) Outperformed during the last major Value leadership cycle, though the relationship has broken down. (3) No red flags on our sell-side sentiment/hedge fund ownership work. Slightly out of favor in hedge funds. (4) Middle of the pack on EPS revisions recently.

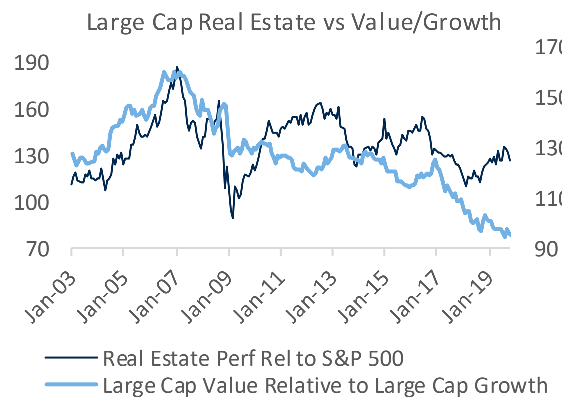










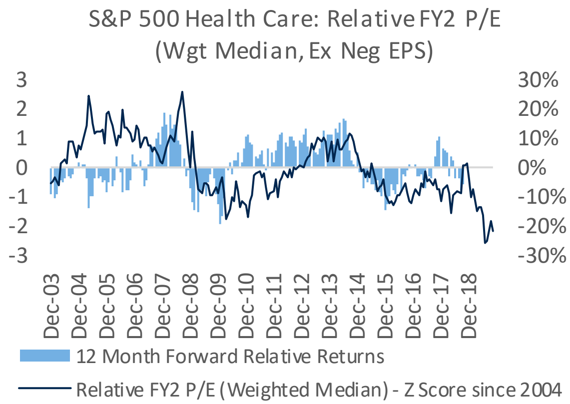


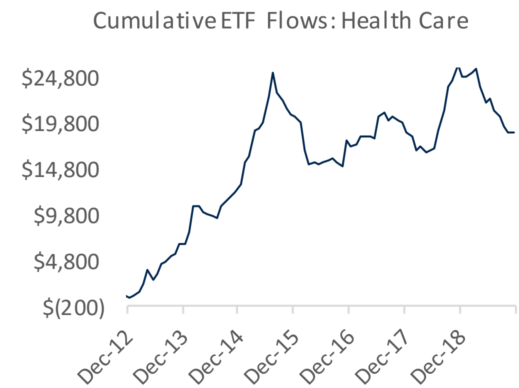
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

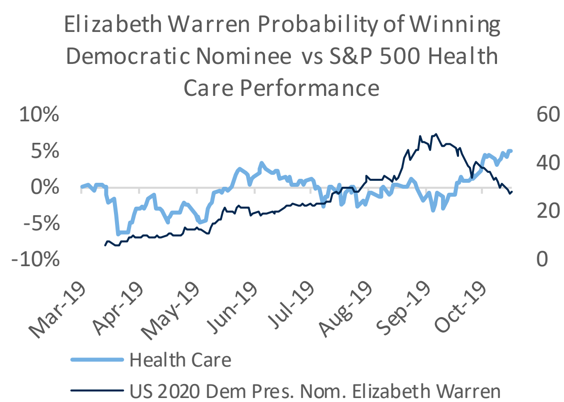
S&P 500 Health Care: Market Weight

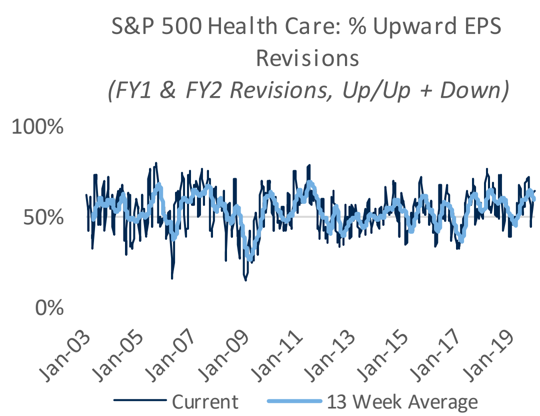
Key Takeaways

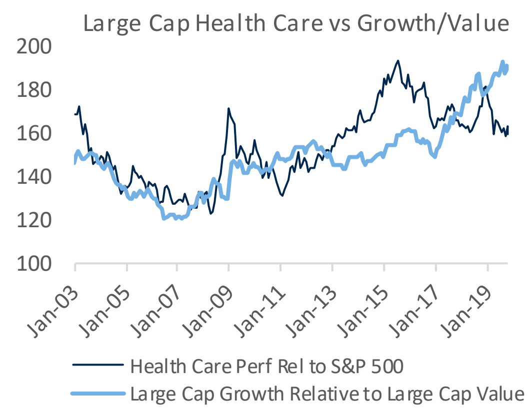
- **Positives:** (1) Valuations continue to look deeply attractive, with relative P/E breaking below the low end of its range recently. (2) Low China trade war risk. (3) Strong earnings and revenue revisions trends in 3Q reporting season.
- **Negatives:** (1) One of the most at risk sectors in the 2020 election if a progressive Democrat wins, though this may already be priced in. Note that the sector has moved up sharply since Warren began to fade in the polls in October. (2) Still crowded in hedge funds; sell-side sentiment also looks elevated again. (3) ETF outflows remain in place.
- **What else we're watching:** (1) Tends to lag when the Growth trade underperforms, though the relationship has broken down recently. (2) Not particularly appealing on buybacks or dividends.

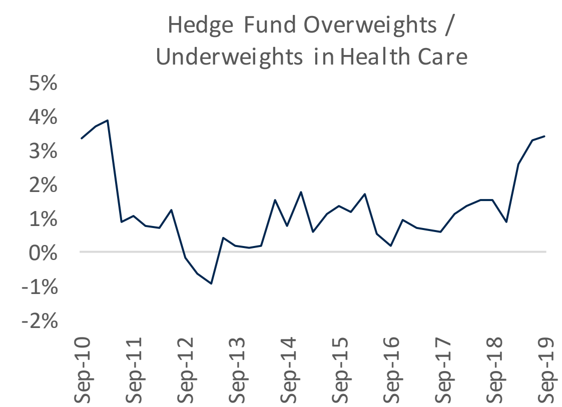










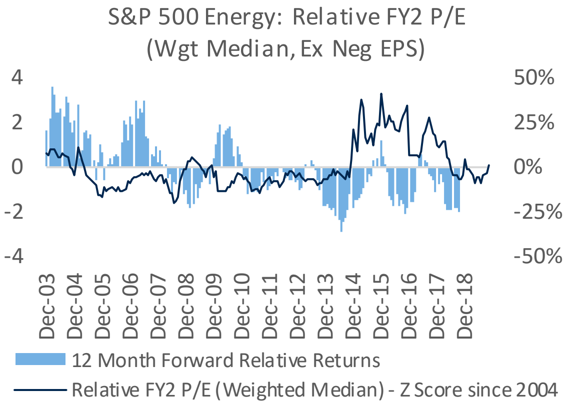


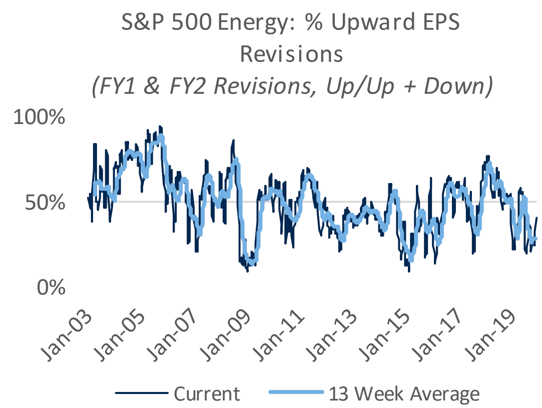
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

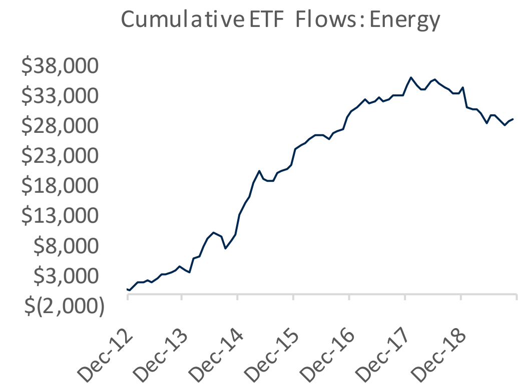
S&P 500 Energy: Market Weight

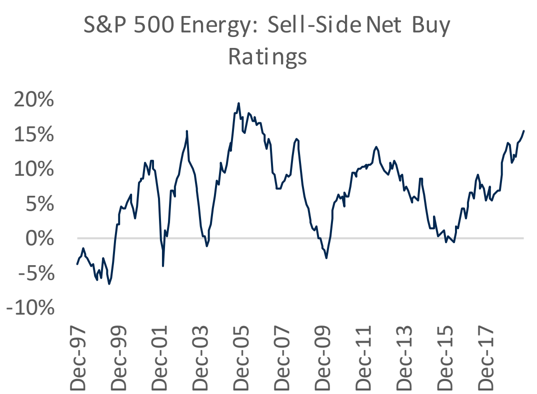
Key Takeaways

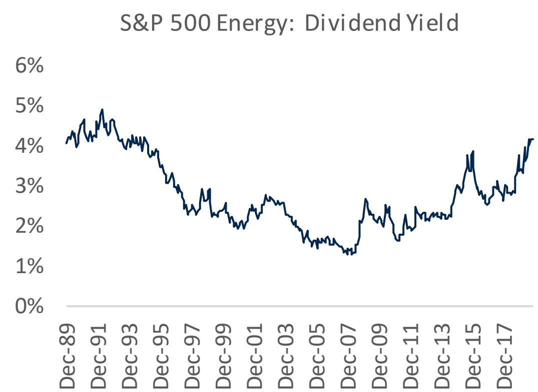
- **Positives:** (1) Buyback activity has been picking up and the dividend yield has been moving higher. The latter is also attractive vs. other sectors. (2) ETF flows had been negative, but have stabilized in 2019, with 4Q inflows seen.
- **Negatives:** (1) Weak EPS revisions trends, though these may have bottomed. (2) Still highly in favour on our sell-side sentiment indicator (net buys). (3) One of the sectors most at risk in the 2020 election if Warren wins/Democrats sweep.
- **What else we're watching:** (1) No longer attractively valued on our model – back to neutral relative to the S&P 500 on P/E. (2) Tends to outperform when Value leads Growth. (3) Some adverse impacts from the China trade war but less than other sectors. (4) Hedge funds have turned neutral the sector.

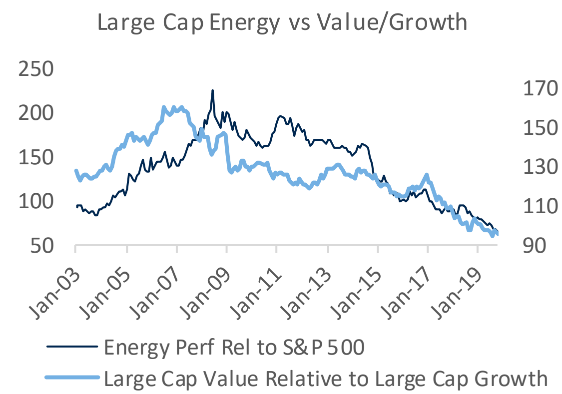










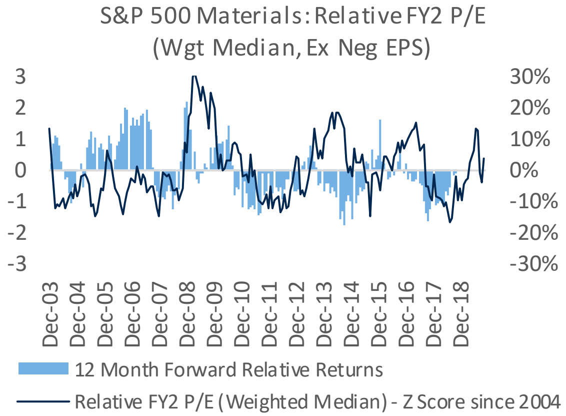


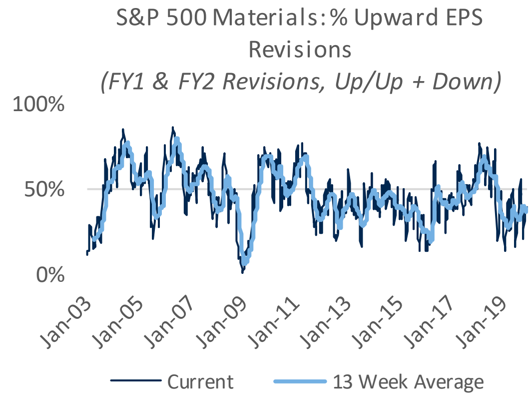
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

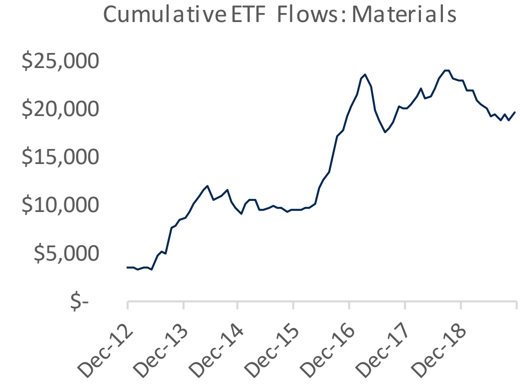
S&P 500 Materials: Underweight

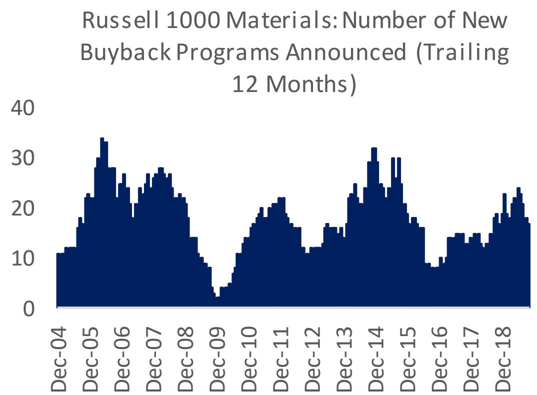
Key Takeaways

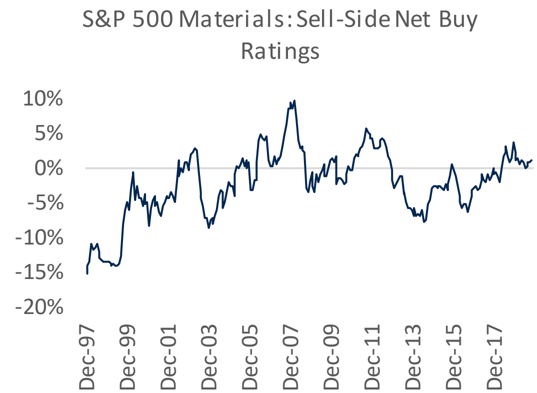
- **Negatives:** (1) Weak EPS revisions – though these may have bottomed. (2) High China trade war risk. (3) Relative P/E valuations are expensive again.
- **Positives:** (1) Buyback announcements are elevated, though trends have stalled recently.
- **What else we're watching:** (1) ETF flows have been negative, but appear to be stabilizing. (2) Mixed impacts from 2020 elections (Warren/Democratic sweep). (3) No red flags or points of intrigue on our sell-side sentiment or hedge fund positioning indicators.

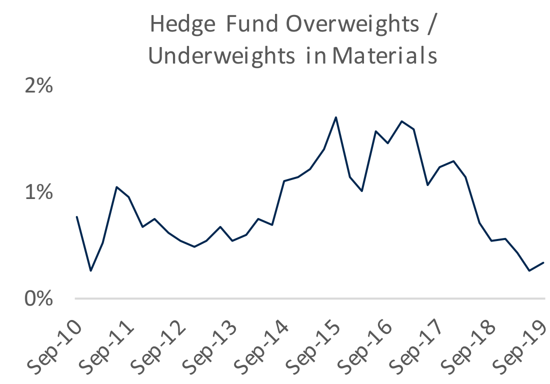










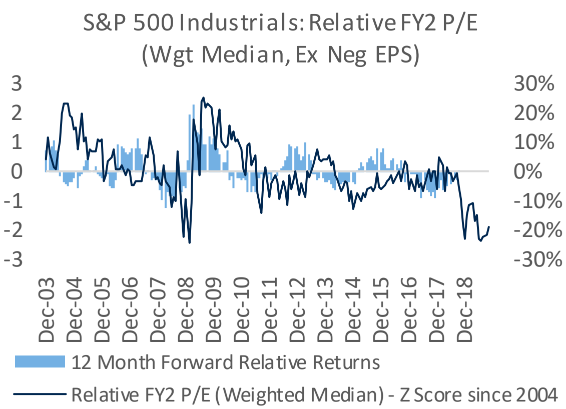


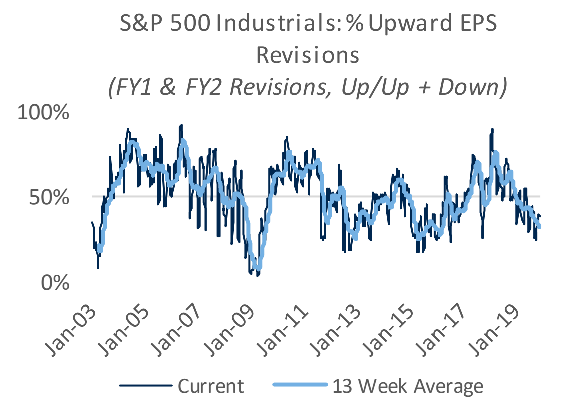
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

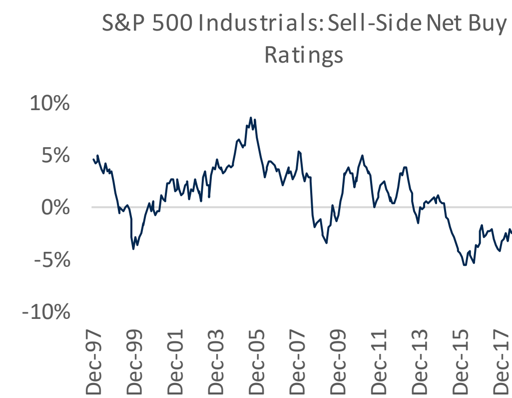
S&P 500 Industrials: Overweight

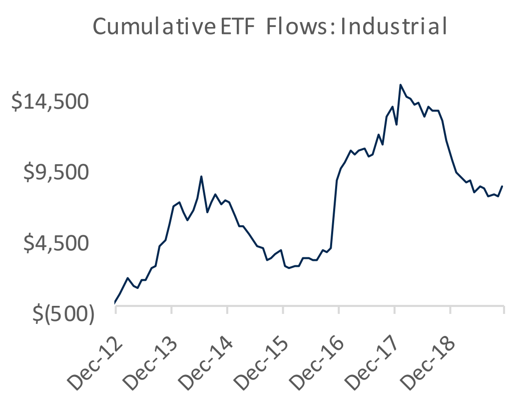
Key Takeaways

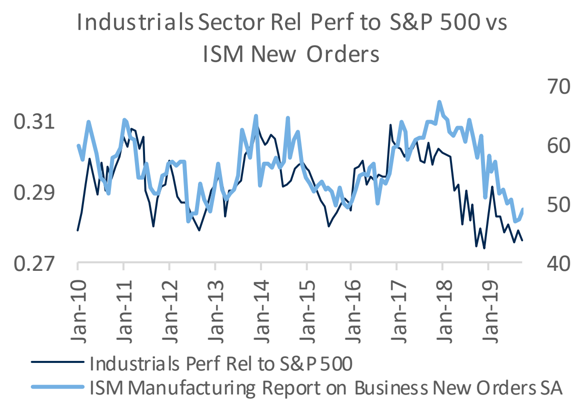
- **Positives:** (1) Industrials' relative P/E is deeply attractive, only slightly above Financial Crisis lows. (2) Strong buybacks.
- **Negatives:** (1) High China trade war risk. (2) High risk from 2020 elections (Warren victory/Democratic sweep). (2) Weak EPS & sales revisions, but these may have bottomed**.**
- **What else we're watching:** (1) Industrials ETF flows were weak for most of 2018 and early 2019. Trends are stabilizing, however. (2) Mixed signals on our ownership indicators. Sell side sentiment has been close to the low end of its historical range, but the sector looks a bit crowded in hedge funds. (2) Industrials tends to move in sync with the Growth/Value trade, outperforming when Value leads. (3) Industrials tends to outperform when ISM new orders rise.

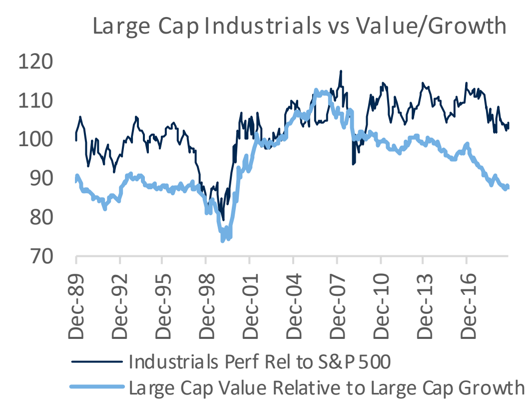










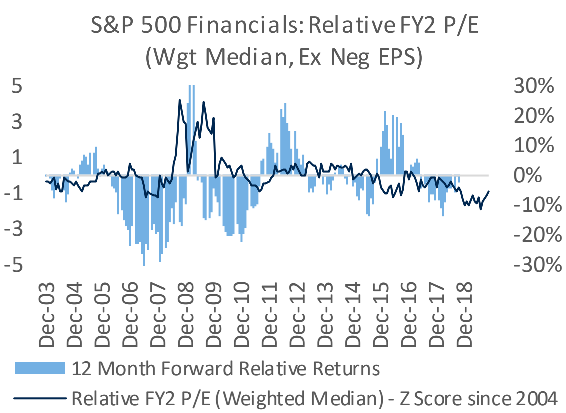


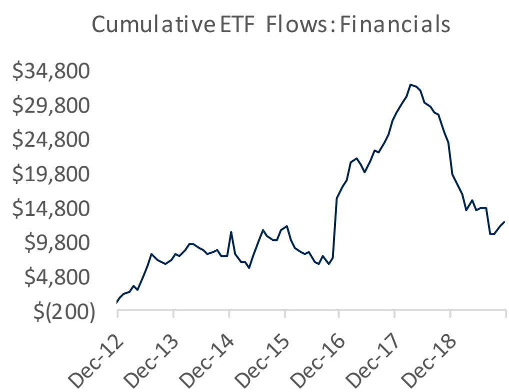
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

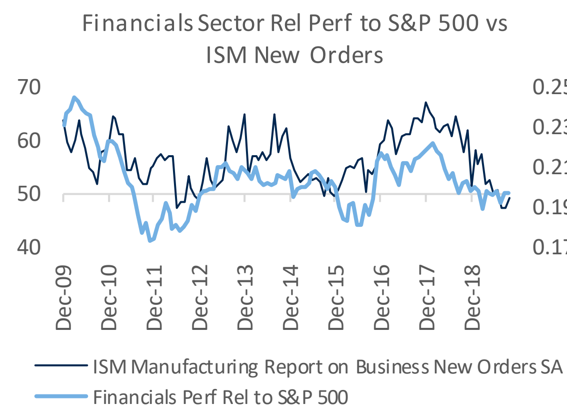
S&P 500 Financials: Overweight

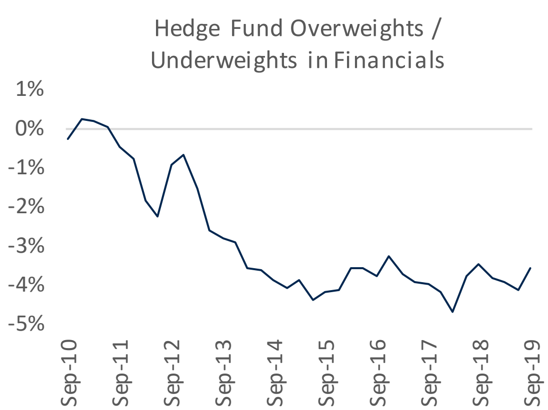
Key Takeaways

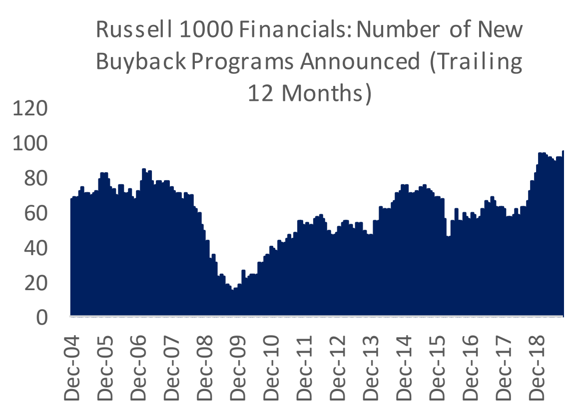
- **Positives:** (1) Financials looks deeply compelling on relative P/E, only slightly above 2015-2016 growth scare lows.(2) Strong on buybacks and dividends; buyback announcements are high and stable. (3) Out of favor among hedge funds and on the sell-side. (4) Low China trade war risk. (5) Strong EPS revision trends recently. (6) ETF flows have improved in recent months, turning positive in 4Q.
- **Negatives:** (1) High 2020 election risk if Warren wins/Democrats sweep.
- **What else we're watching:** (1) Financials trades cyclically, outperforming when ISM new orders rise and underperforming when it falls. (2) Has historically tended to outperform the broader market when Value outperforms Growth.

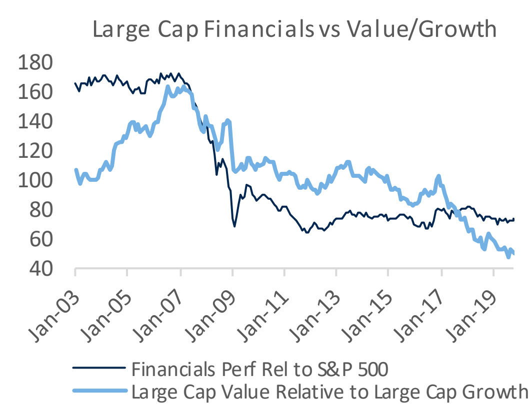












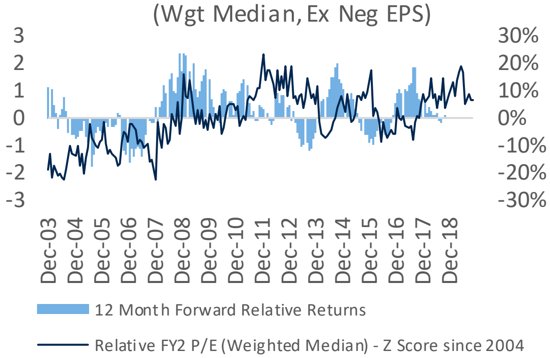
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

S&P 500 Consumer Discretionary: Underweight

Key Takeaways

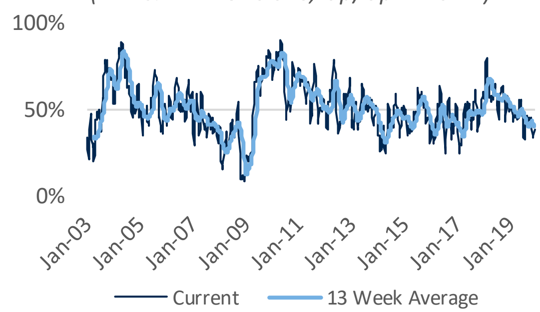
- **Negatives:** (1) High risk from the China trade war. (2) Overvalued relative to the broader market – consumer resiliency seems baked in. (3) Weak EPS revisions trends recently.
- **What else we're watching:** (1) Mixed impacts from 2020 elections (Warren/Democratic sweep). (2) No red flags on our sentiment and hedge fund positioning indicators. (3) Buyback announcements are higher than other sectors but have been slipping, weak on dividend comparisons. (4) Historically has lagged when Value has outperformed Growth. (5) ETF flows have stabilized.

S&P 500 Cons Disc: Relative FY2 P/E (Wgt Median, Ex Neg EPS)



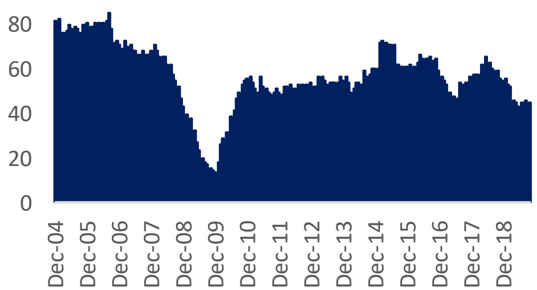
S&P 500 Cons. Discretionary: % Upward EPS Revisions

(FY1 & FY2 Revisions, Up/Up + Down)



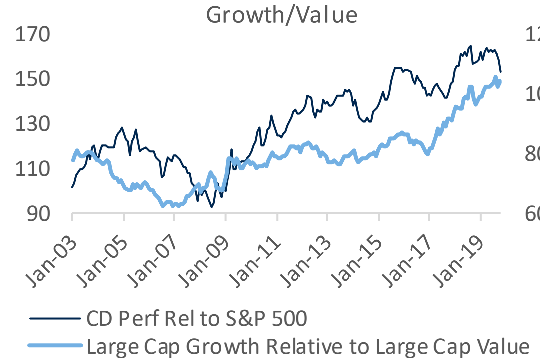
Cumulative ETF Flows: Consumer Discretionary

Russell 1000 Consumer Discretionary: Number of New Buyback Programs Announced (Trailing 12 Months)



S&P 500 Consumer Discretionary: Dividend Yield

Large Cap Consumer Discretionary vs Growth/Value



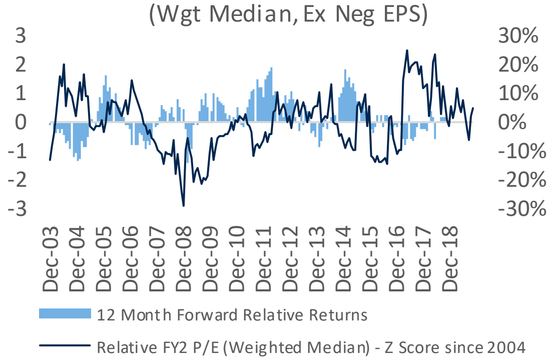
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

S&P 500 Communication Services: Underweight

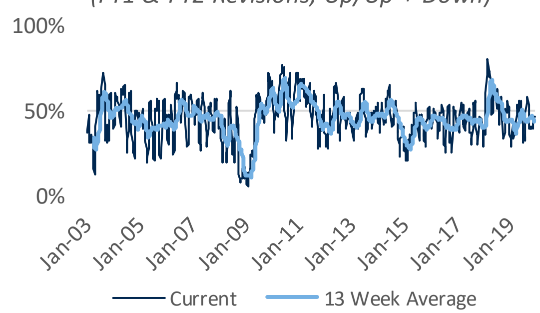
Key Takeaways

- **Negatives:** (1) Slightly expensive vs. the S&P 500 again on P/E. (2) Sell-side sentiment (net buy ratings) is approaching 2015/2016 highs. (3) Weak on buyback announcements and dividends vs. other sectors – though buyback announcements are showing some signs of improvement.
- **Positives:** (1) Low China trade war risk.
- **Other:** (1) Inflows have been strong since the sector reclassification in September 2018, but are slowing down. (2) Mixed impacts within the sector from the 2020 election (Warren/Democratic sweep). (3) Middle of the pack on revisions recently. (4) Historically, the sector has led when Growth outperforms Value.

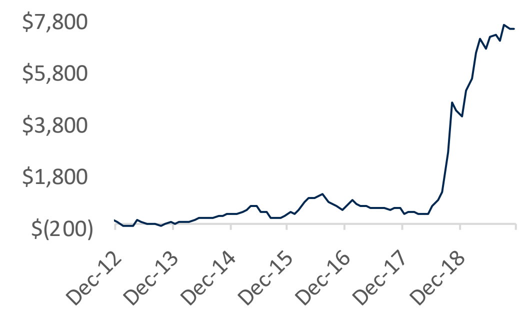
S&P 500 Comm Services: Rel FY2 P/E (Wgt Median, Ex Neg EPS)



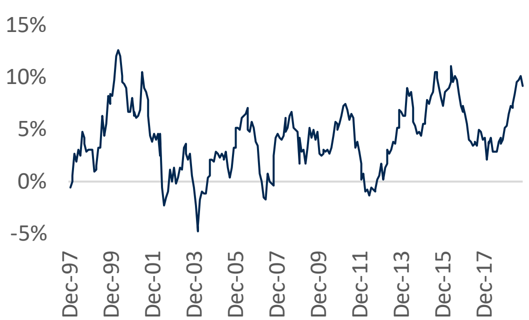
S&P 500 Communication Services: % Upward EPS Revisions *(FY1 & FY2 Revisions, Up/Up + Down)*



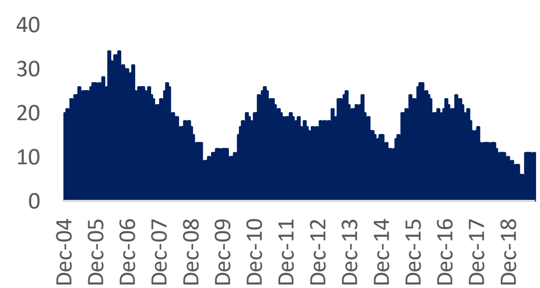
Cumulative ETF Flows: Communication Services



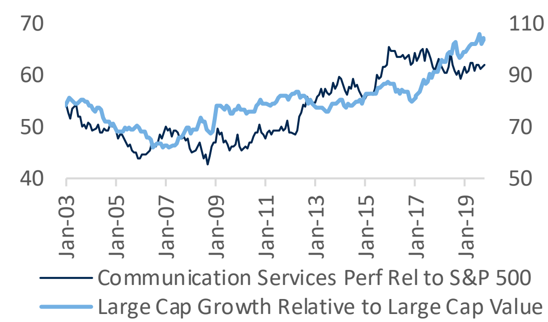
S&P 500 Communication Services: Sell-Side Net Buy Ratings



Russell 1000 Communication Services: Number of New Buyback Programs Announced (Trailing 12 Months)



Large Cap Communication Services vs Growth/Value

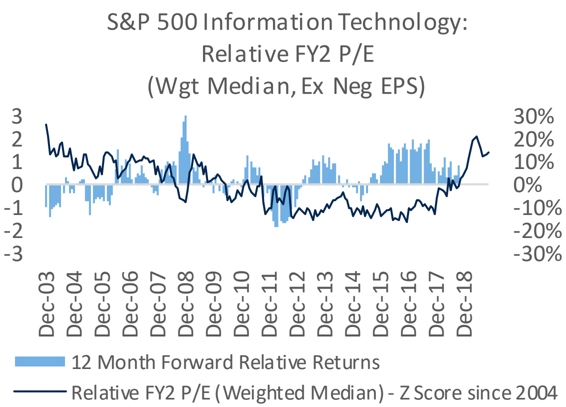


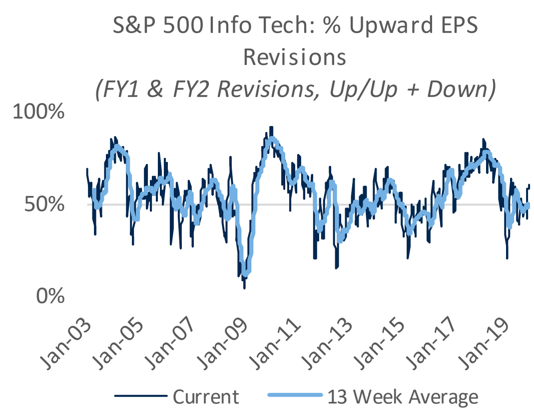
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

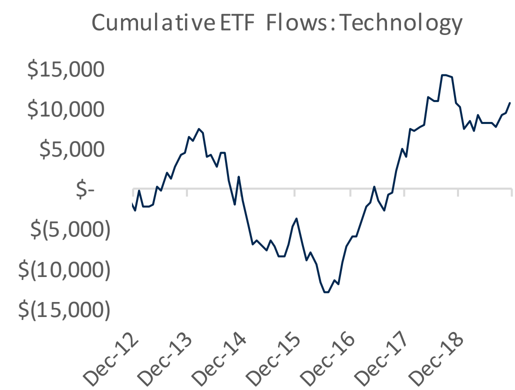
S&P 500 Technology: Market Weight

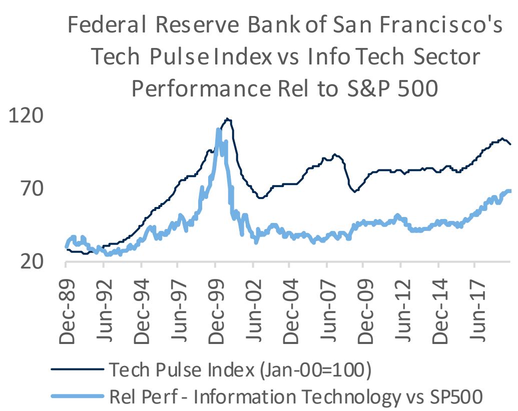
Key Takeaways

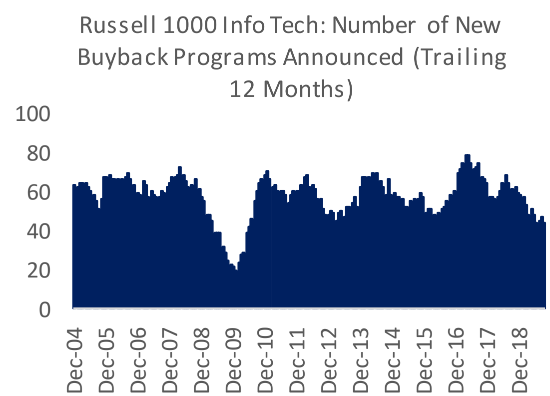
- **Positives: (**1) ETF inflows have improved after stalling earlier in 2019. (2) Strong EPS revisions trends recently.
- **Negatives:** (1) High China trade war risk. (2) High risk from 2020 elections (Warren/Democratic sweep), though a bit less than other sectors. (3) Highly expensive relative to the broader market on P/E.
- **Other:** (1) No red flags at the sector level on our sell-side sentiment or hedge fund positioning indicators – though we see big imbalances among hedge funds within the sector. (2) Historically the sector has lagged when Value outperforms Growth. (3) Buyback announcements are high relative to other sectors but are slipping within the sector. (4) Fundamentals (per the SF Fed's Tech Pulse index) are close to 2000's peak and stalling – an outright decline would be negative for performance.

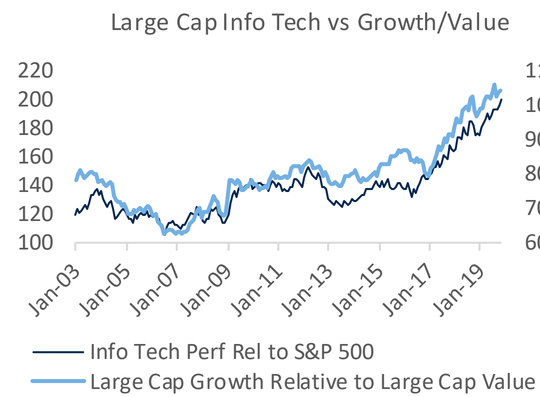










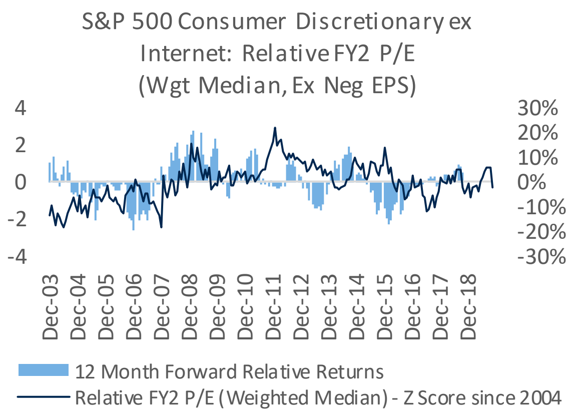


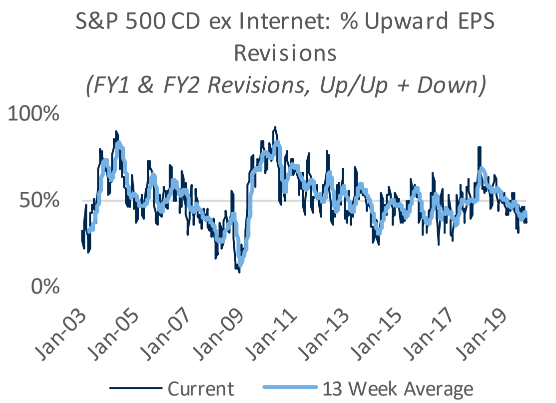
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

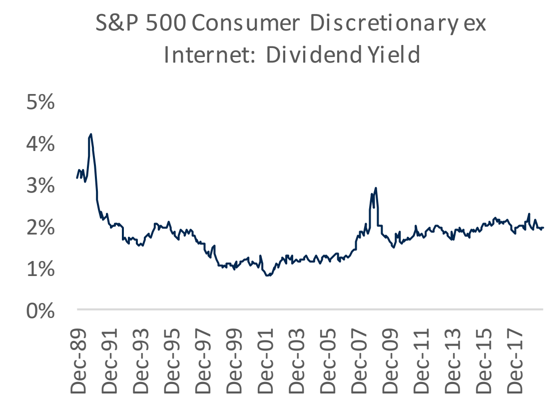
S&P 500 Consumer Discretionary ex Internet: Negative Bias

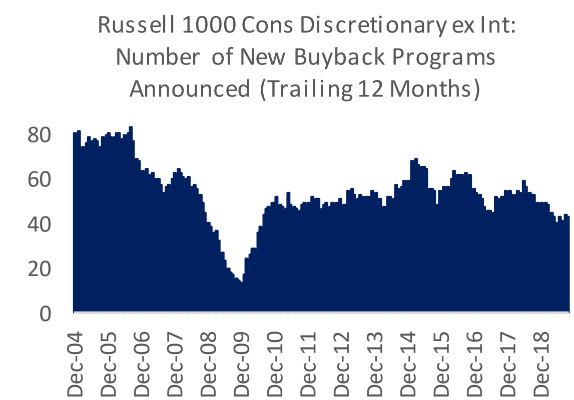
Key Takeaways

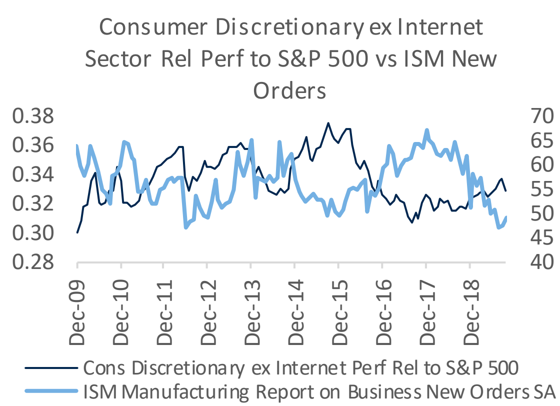
- **Negatives:** (1) High risk from the China trade war. (2) Weak EPS revisions trends recently.
- **What else we're watching:** (1) Mixed impacts from 2020 elections (Warren/Democratic sweep). (2) No red flags on our sentiment and hedge fund positioning indicators. (3) Buyback announcements are higher than other sectors but have been slipping, weak on dividend comparisons. (4) Historically the sector has lagged when Value has outperformed Growth. (5) Since the Financial Crisis, has lagged when ISM new orders are rising. (6) ETF flows have stabilized. (7) Relative P/E valuations are near their historical average.

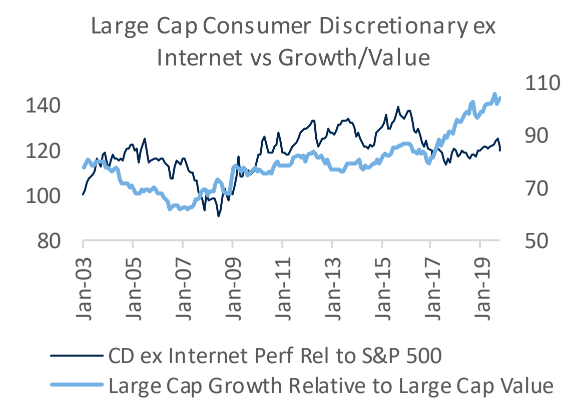










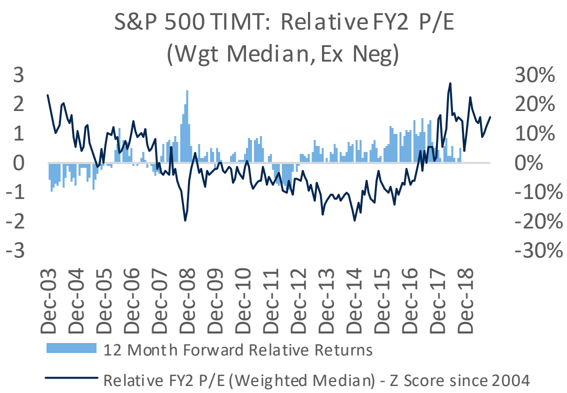


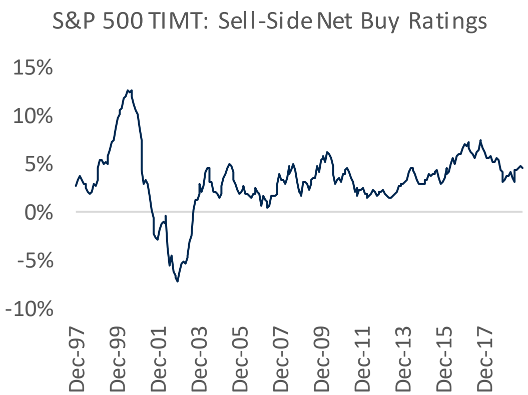
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

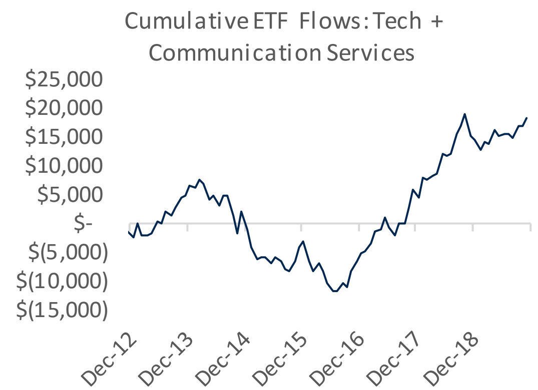
S&P 500 TIMT: Negative Bias

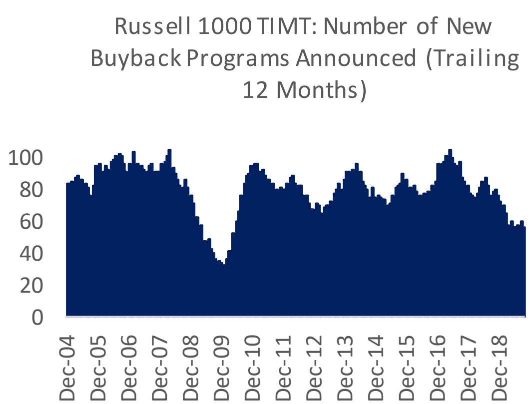
Key Takeaways

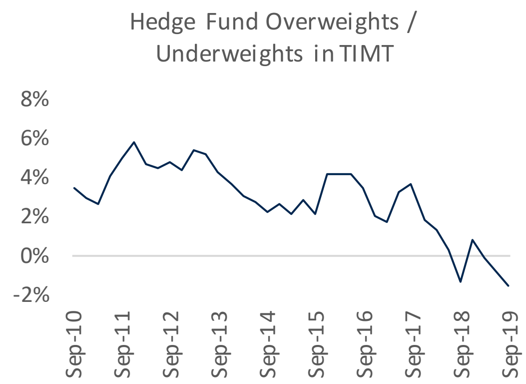
- **Negatives:** (1) One of the sectors most at risk from the China trade war. (2) High 2020 election risk (Warren/Democratic sweep). (3) Extremely overvalued relative to the broader market on P/E. (4) Buybacks announcements are falling and the space does not look appealing on dividends.
- **Positives:** (1) ETF flows have been positive recently.
- **What else we're watching: (**1) Tends to lag when Value outperforms Growth – moves in sync with the Growth trade. (2) Middle of the pack on earnings revisions trends recently. (3) Underowned in hedge funds but sell-side sentiment is high.

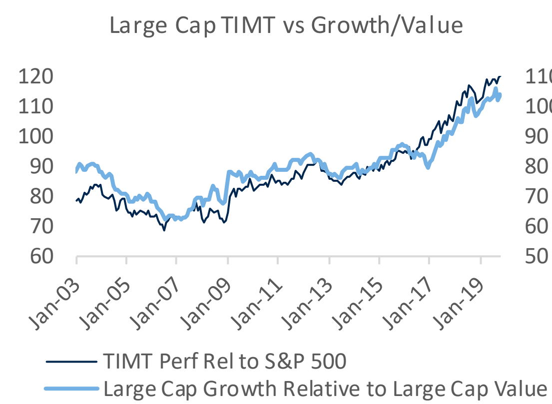












Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi, CIQ Estimates, IBES estimates

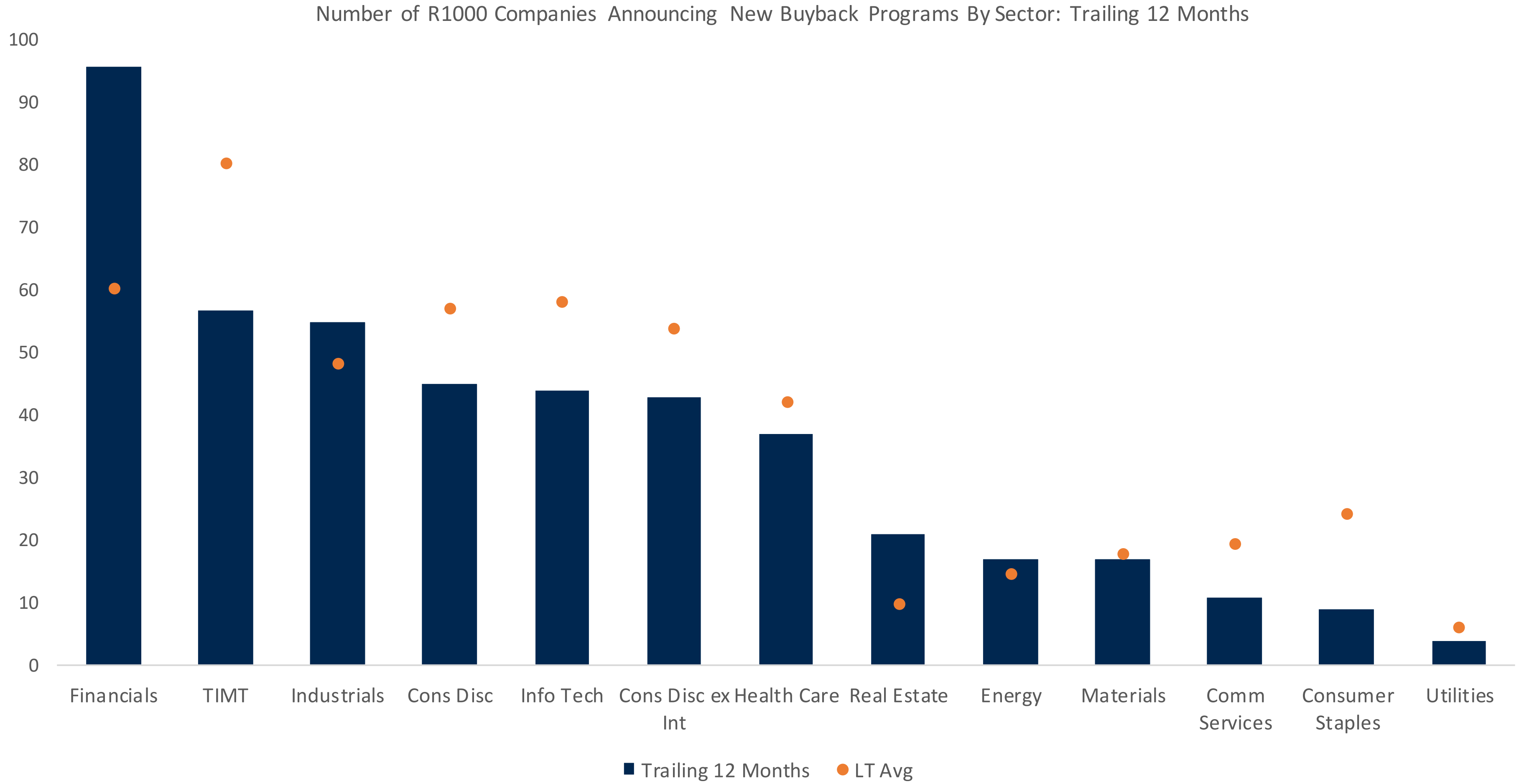
S&P 500 Sectors: Cross Sector Comparisons

- **Deals & Cash Deployment (Buybacks, Dividends, Debt, Capex)**
- **Revisions/Earnings**
- **Investor Sentiment & Positioning**
- **Valuation**
- **Economy & Policy**
- **Retail Money Flows**

New Buyback Announcements Have Stalled In Several Key Sectors

Key Takeaways

- In terms of trend, new buyback announcements have been on the rise for Financials, Energy, Industrials, and Materials though all have shown signs of levelling off in recent updates.
- Announcements are higher in Tech, TIMT, and Consumer Discretionary than other sectors, but trends have been slipping.
- Buyback announcements have been weak for Consumer Staples, Utilities, and Communications. Very recently, we have seen also a pickup in new buyback announcements for Communication Services (we are keeping a close watch to see if this becomes a trend).

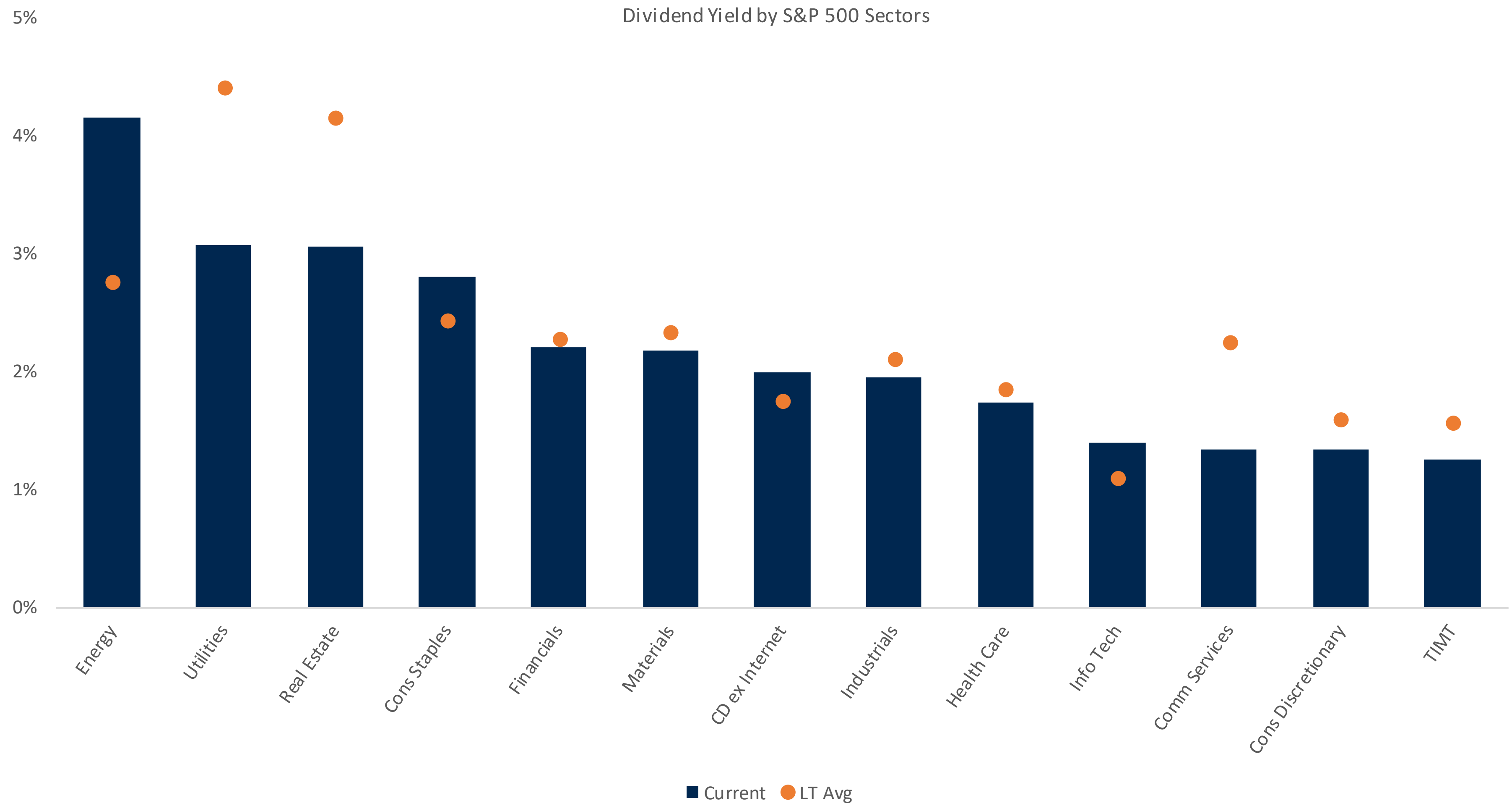


Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ key developments

Dividend Appeal of Energy and Staples Has Grown

Key Takeaways

- Dividend yields are generally at or below average in most sectors. Of the higher-yield sectors, Staples and Energy stand out, as their current dividend yields are above the long-term average. Trends have also been constructive for Financials, where dividend yields have been climbing since the Financial Crisis.
- Dividend yields for Consumer Discretionary (including Internet Retail), Communication Services, and TIMT are low relative to other sectors and history.



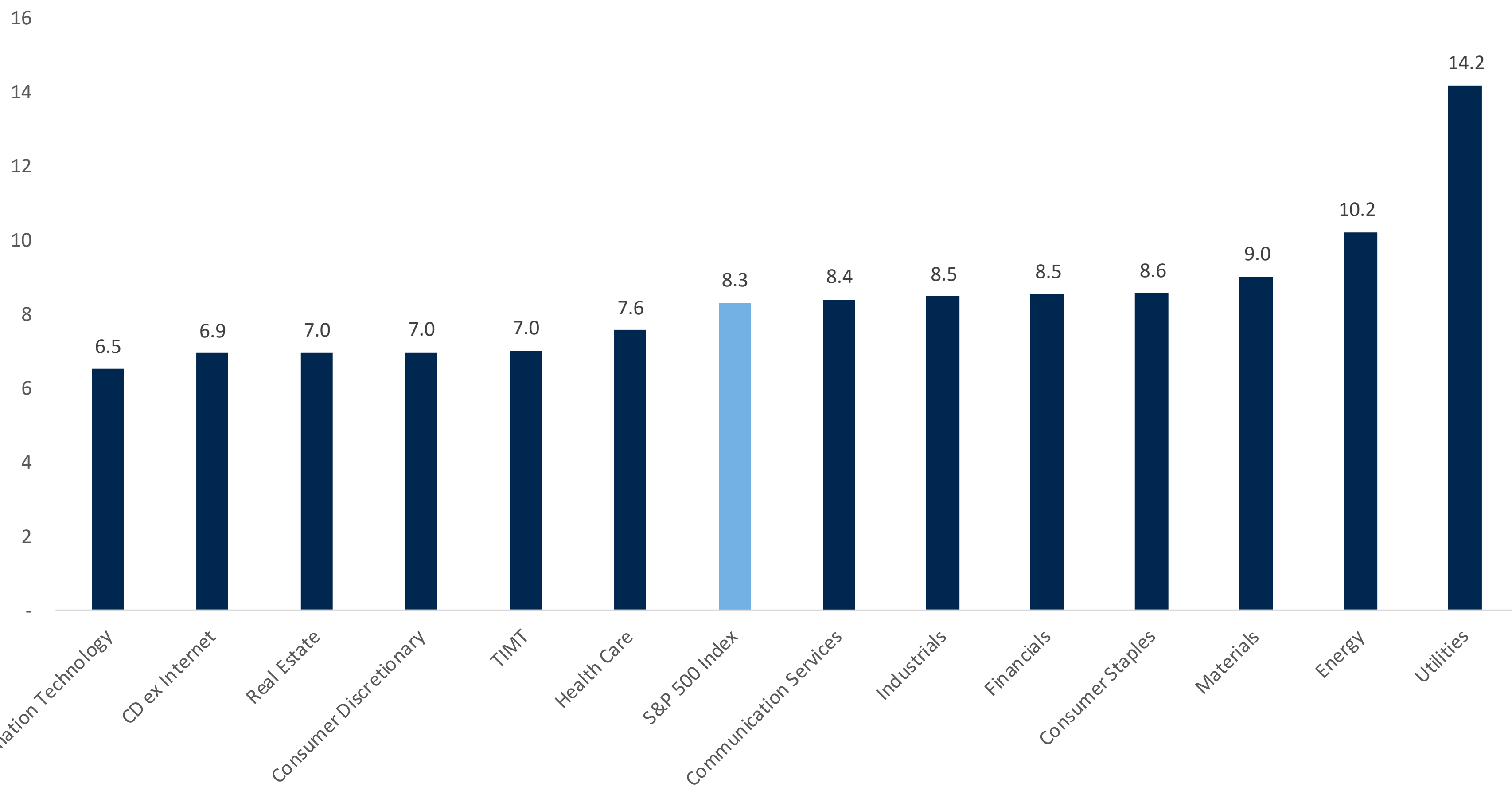
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi

Debt Maturity by Sector

Key Takeaways

- Below we highlight the weighted average debt maturity for S&P 500 sectors.
- On average, Tech stocks have the lowest weighted average debt maturity (~6 years) while Utilities has the highest.

S&P 500 Sectors Ranked by Avg Debt Maturity (# Years, Includes Parent & Subsidiary Debt)

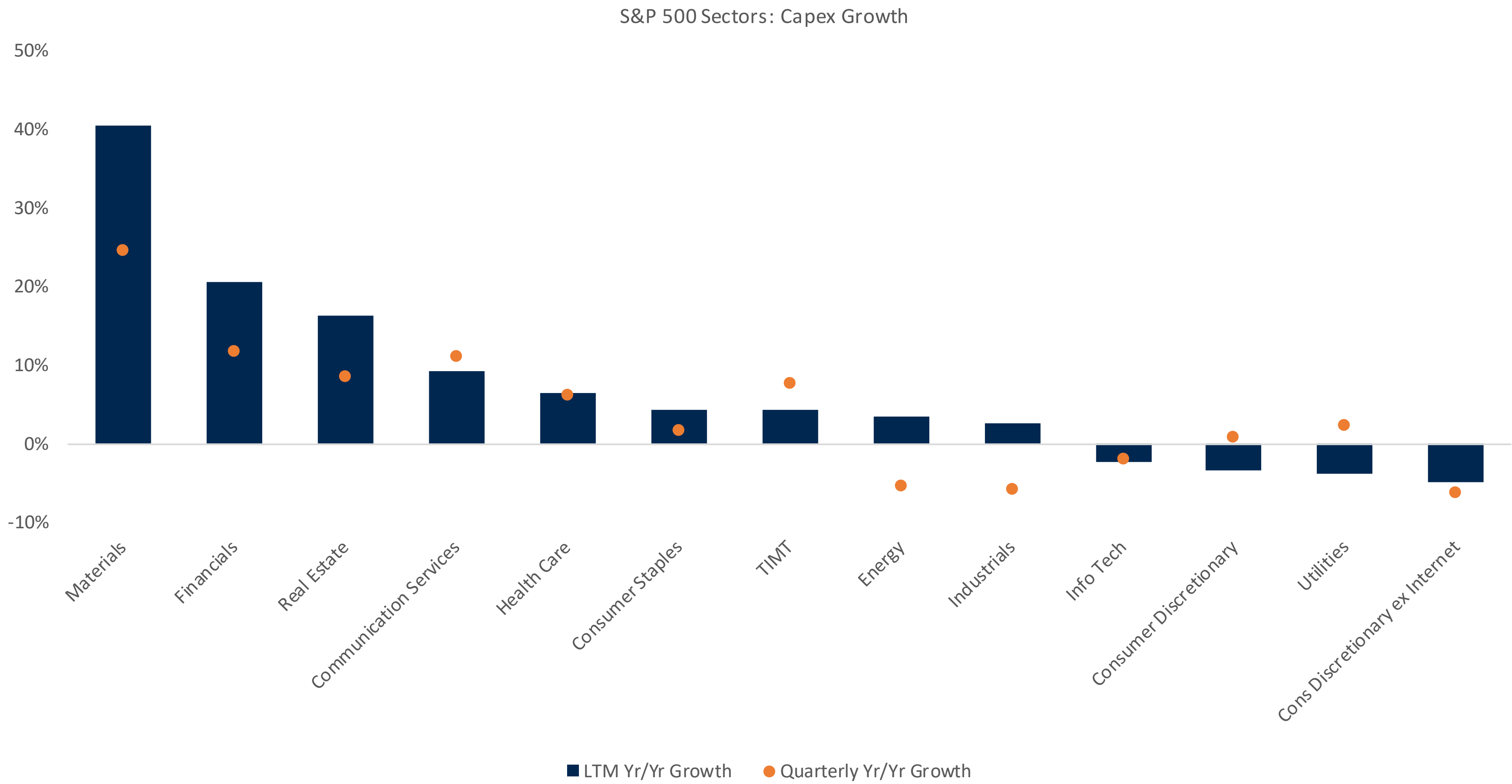


Source: RBC US Equity Strategy, Bloomberg. Frozen as of November 25th, 2019

Capex Trends Moderating for Most Sectors, Some Showing Signs Of Stabilization

Key Takeaways

- Preliminary data reported for 3Q19 suggests that capex growth has already started to slow for several sectors. Capex growth has been moderating for Energy, Health Care, Industrials and REITs. Quarterly yr/yr growth is negative territory for Energy and Industrials as well.
- Capex growth has been moderating for Communication Services, Consumer Discretionary, Tech, and Utilities, but we've seen some signs of stabilization in recent quarters. We will be watching to see if this holds.
- Trends have been constructive for Materials (where capex growth is still accelerating) and Financials (where growth has been stable in positive territory recently).

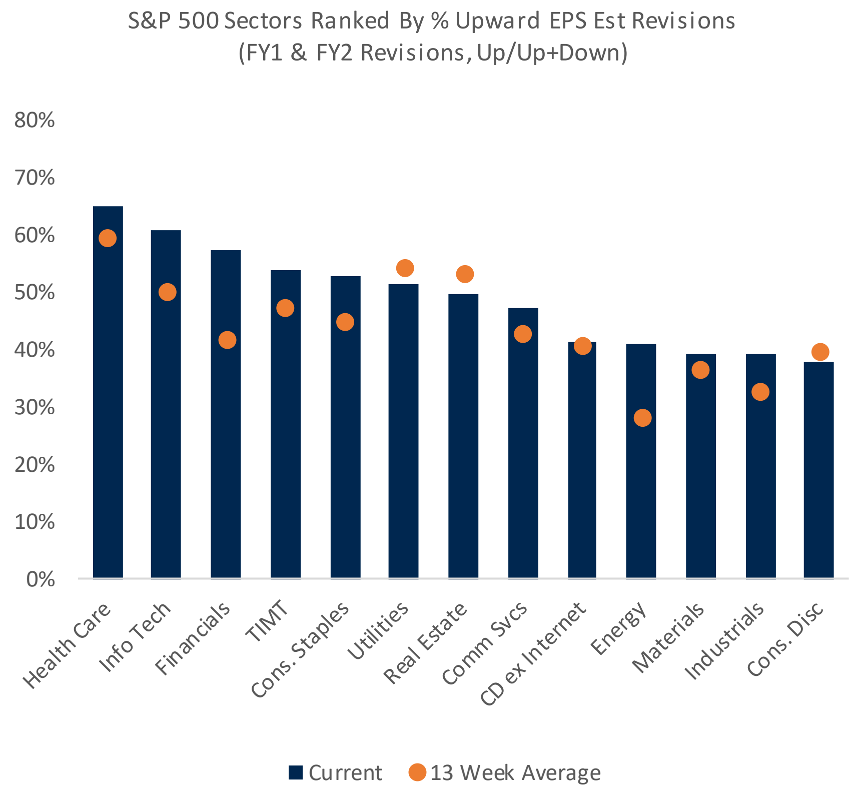


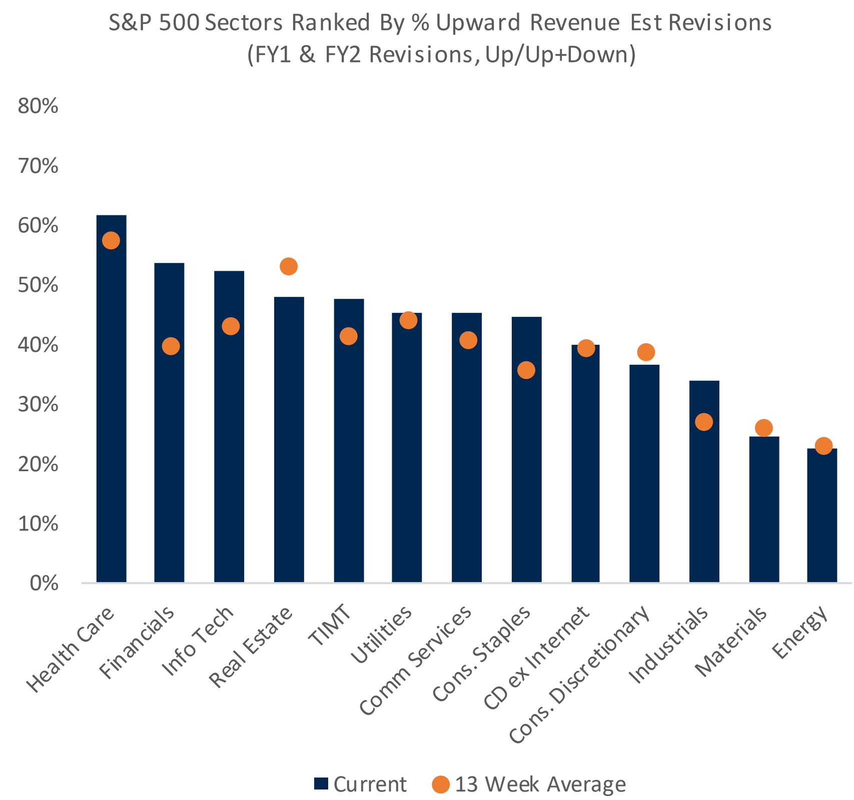
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Compustat

Mixed Revisions Trends At The Sector Level

Key Takeaways

- Most sectors were seeing predominantly negative revisions trends (more downward than upward revisions) in early 2019 on both EPS and sales. Trends improved in April and May, with most sectors returning to positive territory on EPS. For the most part, trends were in negative territory for most sectors over the summer and early fall.
- Trends have started to improve again in 4Q, with roughly half of S&P 500 sectors back in positive territory on EPS revisions. Health Care, Tech, and Financials stand out as being the strongest sectors on EPS revisions recently and the only three sectors in positive territory on revenue revisions.
- Energy, Consumer Discretionary, Materials, and Industrials have been weakest on revisions recently.





For REITs, FFO/share revisions are used instead of EPS revisions.
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates

Health Care & Tech Have Seen Fewer Negative Guides For 4Q Than 3Q

Key Takeaways

- 18% of S&P 500 companies have issued 4Q guidance to date. So far Tech, Consumer Discretionary, Health Care, REITs, and Industrials have been most active in issuing guidance.
- Negative guides have improved for Health Care and Tech relative to what we saw last quarter. Negative guides have deteriorated for REITs, Industrials, and Consumer Discretionary. For the latter two sectors, trends have returned to past peaks.

S&P 500 Q3 Earnings Guidance

GICS Sector	% Positive	% Inline	% Negative	% Issuing Q3 EPS Guidance
Communication Services	33%	0%	67%	14%
Consumer Discretionary	14%	9%	77%	35%
Consumer Staples	100%	0%	0%	3%
Energy	N/A	N/A	N/A	0%
Financials	N/A	N/A	N/A	0%
Health Care	12%	12%	76%	27%
Industrials	31%	23%	46%	19%
Information Technology	20%	20%	61%	61%
Materials	17%	0%	83%	21%
Real Estate	33%	33%	33%	19%
Utilities	0%	0%	100%	11%
S&P 500 Index	**20%**	**15%**	**65%**	**22%**

S&P 500 Q4 Earnings Guidance

GICS Sector	% Positive	% Inline	% Negative	% Issuing Q4 EPS Guidance
Communication Services	0%	0%	100%	9%
Consumer Discretionary	16%	5%	79%	31%
Consumer Staples	0%	0%	100%	3%
Energy	N/A	N/A	N/A	0%
Financials	N/A	N/A	N/A	0%
Health Care	13%	25%	63%	26%
Industrials	0%	9%	91%	16%
Information Technology	35%	19%	45%	46%
Materials	25%	0%	75%	14%
Real Estate	29%	29%	43%	22%
Utilities	0%	100%	0%	4%
S&P 500 Index	**21%**	**16%**	**63%**	**18%**

Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, FactSet

Recent Shifts in 2019 EPS Growth, Revenue Growth, and EBIT Margin Estimates

Key Takeaways

- Energy, Consumer Discretionary, Materials, and Industrials have seen the biggest cuts to 2019 EPS growth estimates since Sept 30th. Tech and Health Care are the only two sectors that have seen lifts to 2019 EPS growth estimates in that same time frame.
- In addition to shifts, we also keep an eye on where EPS growth is expected to be highest in 2019. Health Care and Financials have this honor at the moment, tracking at ~9-10%, while Energy, Materials, Tech, Consumer Discretionary, and Industrials are tracking in negative territory.

S&P 500 Sectors: Recent Shifts In Bottom Up Consensus 2019 Estimates (Based On Capital IQ Consensus Estimates)

	Current Level			Recent Shift (Since 9/30/2019)		
	2019 Revenue Growth	2019 EBIT Margin	2019 EPS Growth	2019 Revenue Growth	2019 EBIT Margin	2019 EPS Growth
Official GICS Sectors						
Consumer Staples	4.3%	10.0%	2.4%	-0.1%	0.0%	0.6%
Utilities	3.5%	21.6%	4.1%	0.0%	-0.1%	0.3%
Health Care	6.3%	13.9%	9.6%	0.7%	0.1%	2.1%
Energy	-4.2%	9.7%	-28.4%	-1.6%	-0.3%	-5.1%
Materials	-2.1%	13.0%	-9.7%	-1.7%	-0.5%	-2.4%
Financials	2.8%	30.3%	8.7%	0.2%	-0.3%	-0.2%
Industrials	0.0%	13.5%	-1.4%	-2.9%	-0.2%	-1.8%
Consumer Discretionary	4.1%	9.6%	-0.1%	-0.5%	-0.3%	-4.1%
Communication Services	10.3%	20.4%	6.4%	-0.2%	0.1%	-0.7%
Technology	1.6%	25.5%	-0.9%	0.1%	0.1%	1.6%
RBC Regroupings						
CD ex Internet Retail	1.6%	10.1%	-1.2%	-0.6%	-0.2%	-3.3%
TIMT (Tech, Internet, Media, Telecom)	6.3%	21.6%	1.7%	0.0%	0.0%	0.4%
Threshold for shading				*+/-1%*	*+/- 25 bps*	*+/-1%*

Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates

Recent Shifts in 2020 EPS Growth, Revenue Growth, and EBIT Margin Estimates

Key Takeaways

- Most sectors have seen cuts to 2020 EPS growth estimates since the end of September. Energy and Tech stand out as seeing the most meaningful cuts. Consumer Discretionary (excluding Internet Retail) is the only sector to see a meaningful lift to 2020 EPS growth estimates.
- In addition to shifts, we also keep an eye on where EPS growth is expected to be highest in 2020. Energy, Industrials, and Materials have this honor at the moment, while expectations are low for Financials, Utilities, Staples, and Communication Services.

S&P 500 Sectors: Recent Shifts In Bottom Up Consensus 2020 Estimates (Based On Capital IQ Consensus Estimates)

	Current Level			Recent Shift (Since 9/30/2019)		
	2020 Revenue Growth	2020 EBIT Margin	2020 EPS Growth	2020 Revenue Growth	2020 EBIT Margin	2020 EPS Growth
Official GICS Sectors						
Consumer Staples	3.6%	10.2%	6.1%	0.0%	0.0%	-1.0%
Utilities	3.2%	22.7%	4.9%	0.0%	0.0%	-0.2%
Health Care	7.0%	14.4%	8.4%	0.0%	0.0%	-1.0%
Energy	3.6%	10.6%	22.3%	-4.3%	-0.7%	-8.1%
Materials	3.8%	14.5%	15.2%	-0.2%	0.0%	-0.5%
Financials	2.7%	30.3%	4.7%	-0.6%	-0.4%	-1.0%
Industrials	5.7%	14.5%	15.6%	0.4%	-0.2%	-1.0%
Consumer Discretionary	6.0%	10.2%	13.2%	0.3%	-0.2%	0.9%
Communication Services	7.2%	21.3%	6.2%	-0.1%	-0.2%	-1.2%
Technology	7.3%	26.2%	10.2%	-1.3%	-0.1%	-2.1%
RBC Regroupings						
CD ex Internet Retail	3.6%	10.7%	11.4%	0.5%	0.0%	2.6%
TIMT (Tech, Internet, Media, Telecom)	8.3%	22.2%	9.3%	-0.8%	-0.3%	-2.1%
Threshold for shading				*+/-1%*	*+/- 25 bps*	*+/-1%*

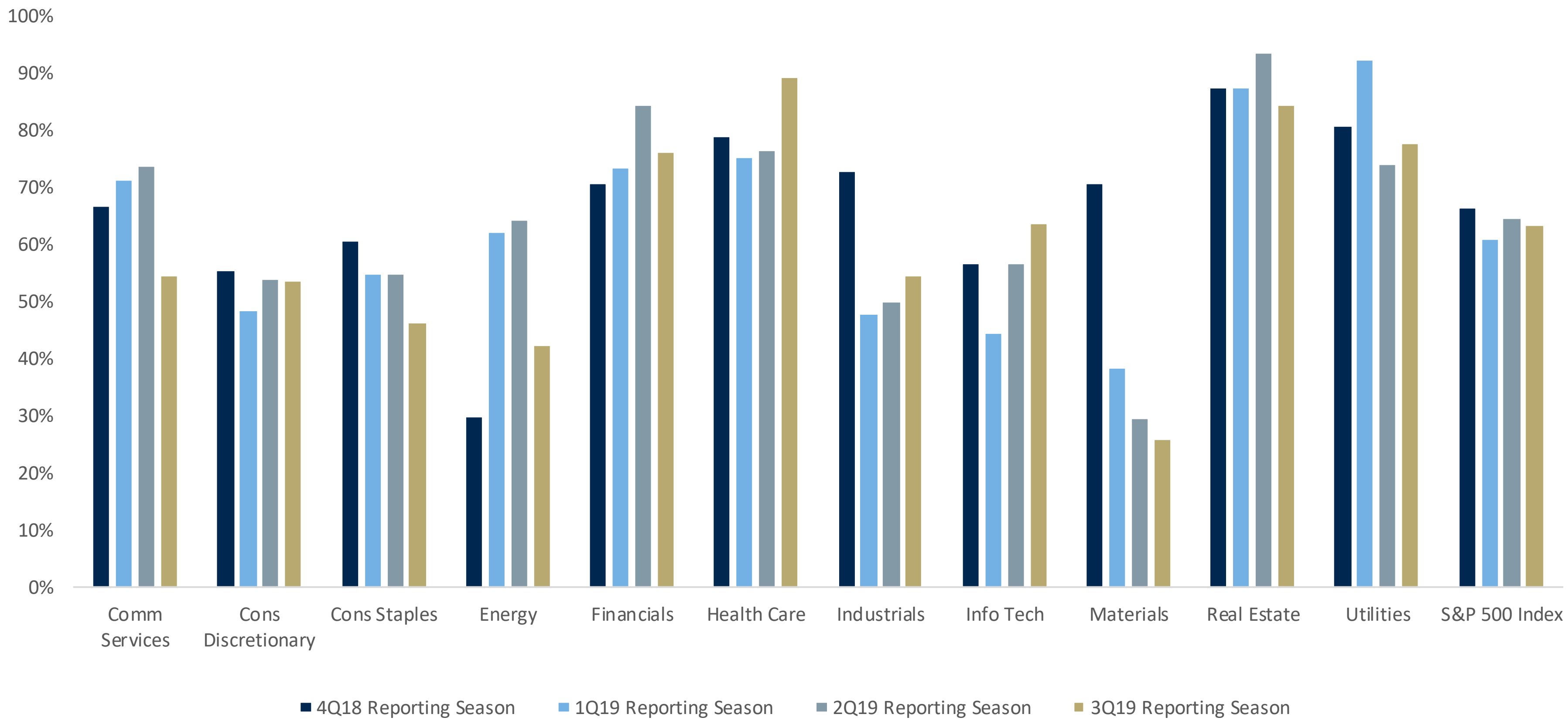
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates

Reporting Season Snapshot: Demand Commentary By Sector

Key Takeaways

- So far this reporting season, the tone around demand / the macro backdrop has improved for Health Care, Industrials, and Tech, and deteriorated for Communication Services, Staples, Energy, Financials, Materials, and REITs. Trends have slipped a bit for Financials relative to 2Q19, though trends are still a bit better than 1Q19.

S&P 500 Sectors: % Companies With Healthy Demand Trends By Reporting Season

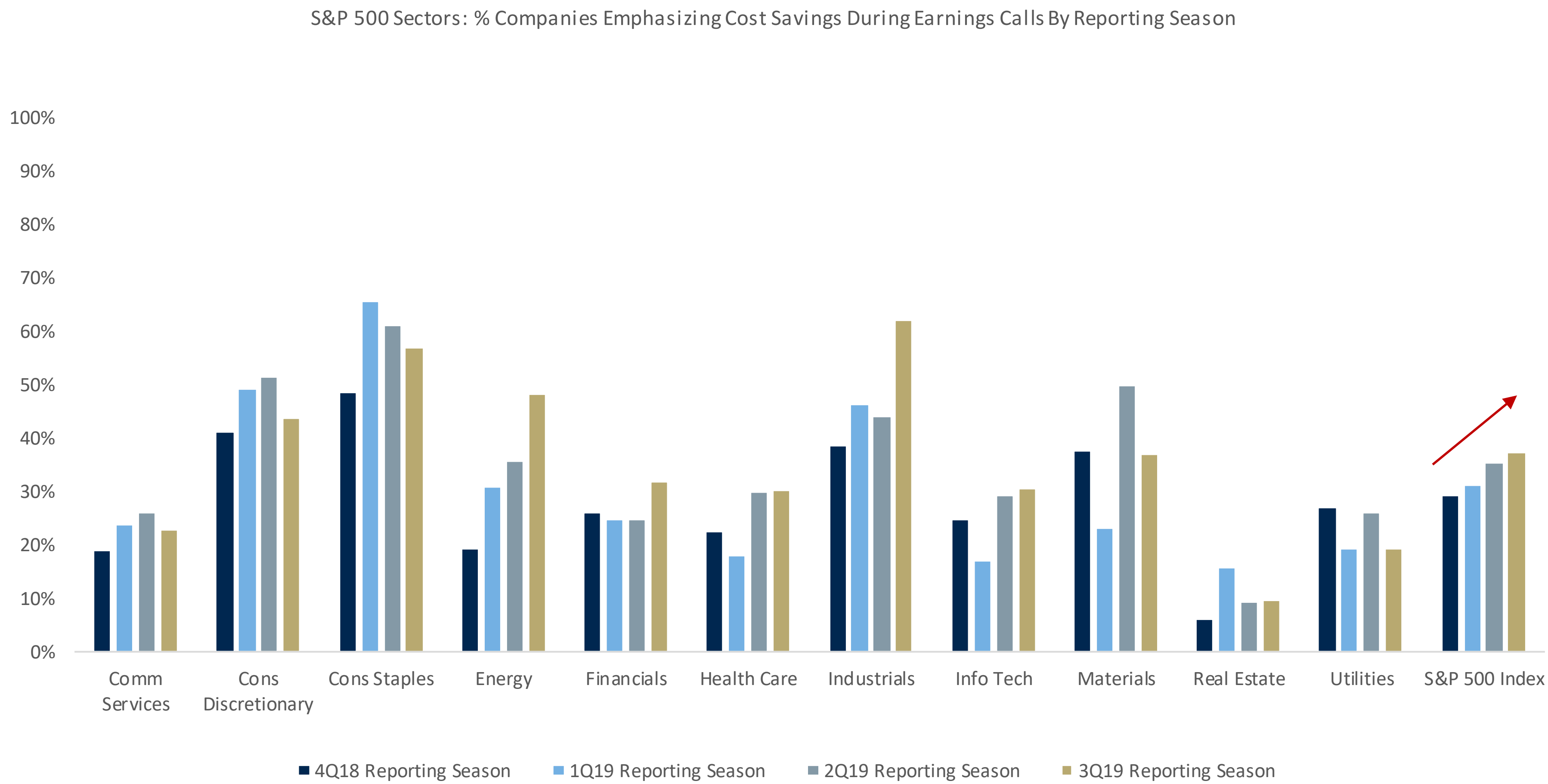


Source: RBC US Equity Strategy, Alphasense; 3Q19 reporting season stats are based on results through November 22nd when 95% of S&P 500 companies had reported results.

Reporting Season Snapshot: Cost-Savings and Restructuring Plans Commentary By Sector

Key Takeaways

- At the sector level, cost-savings plans have generally been most in focus among Consumer Discretionary, Consumer Staples, Industrials, and Materials since the 4Q18 reporting season.
- So far this reporting season, cost savings have been a much bigger focus during earnings calls for Energy, Financials, and Industrials vs. the 2Q19 reporting season.
- In general, cost-savings plans have become a bigger focal point during earnings calls over the past year.

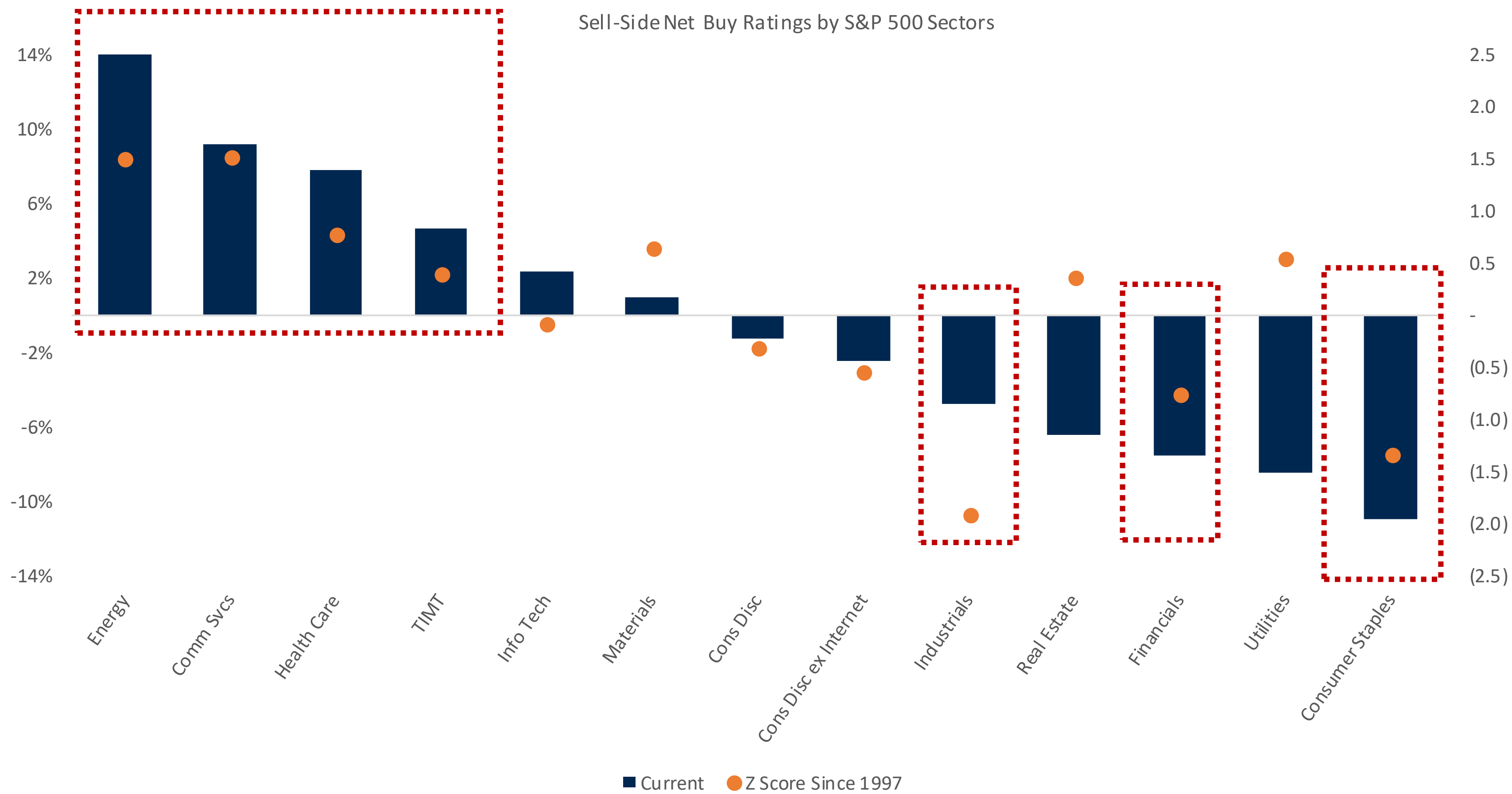


Source: RBC US Equity Strategy, Alphasense; 3Q19 reporting season stats are based on results through November 22nd when 95% of S&P 500 companies had reported results.

Sell-Side Sentiment by Sector: Energy, Communication Svcs/TIMT, Health Care Most in Favor

Key Takeaways

- Sell-side net buy ratings are high relative to other sectors and history for Energy, Communication Services/TIMT, and Health Care.
- The opposite has been true for Staples, Financials, and Industrials. Net buys are low vs. other sectors and history.

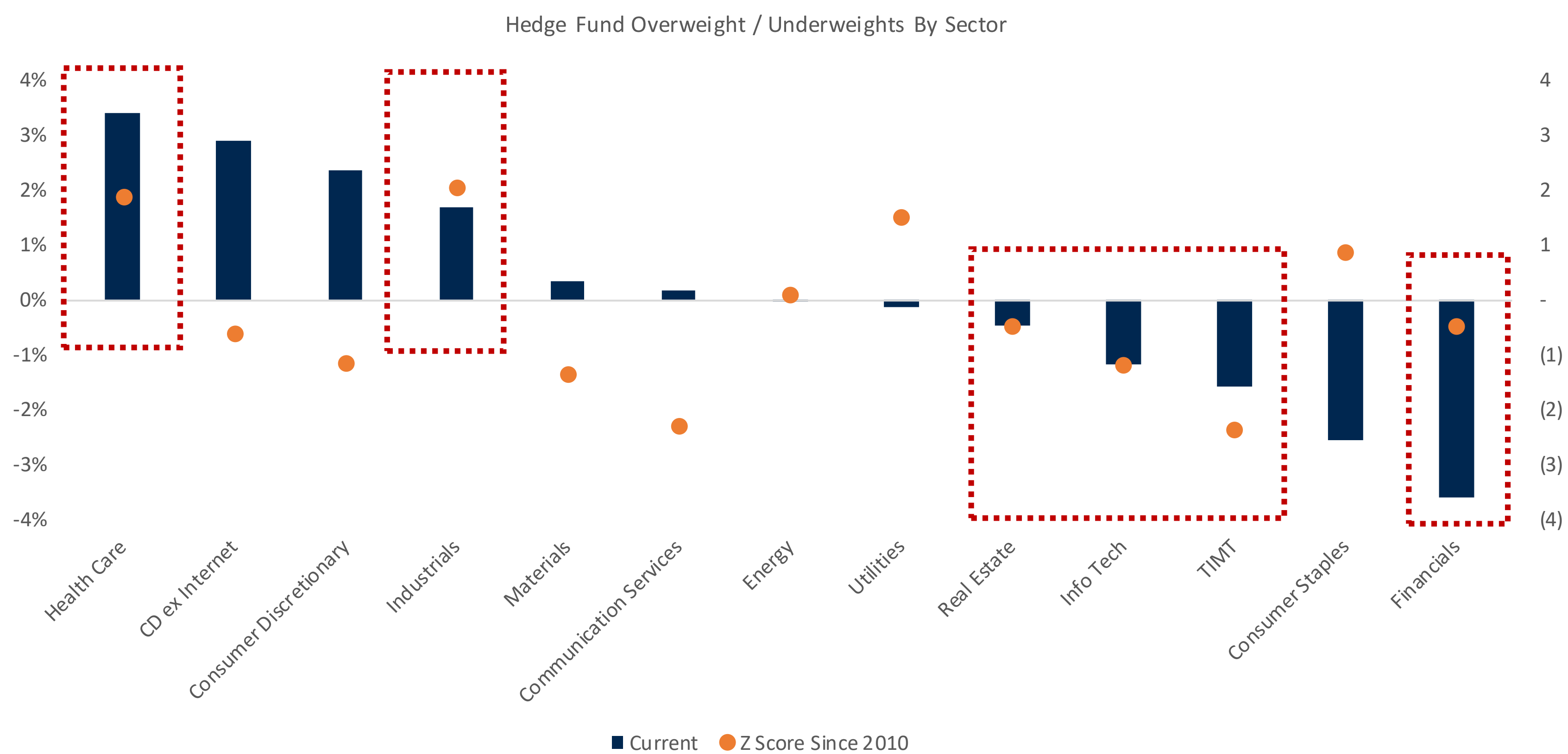


Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi

Hedge Fund Sector Exposure at a Glance: Most Crowding Risk In Health Care & Industrials

Key Takeaways

- To gauge positioning risk, we think it's important to look at whether a sector is overweight or underweight and how that compares to history (z score).
- Health Care and Industrials continue to show the most crowding risk at the broader sector level with both sizable overweights and elevated z scores.
- On the flip side, Financials and Tech/TIMT are out of favor in hedge funds. REITs are also slightly out of favor (slight underweights that are a bit below their LT average).



Methodology notes: To calculate sector overweight/underweight, we add up the total dollar value of the single stocks (any market cap) owned by hedge funds, plus any relevant sector/industry-focused ETFs, and calculate its percentage of total US equity assets in single stocks and sector/industry-focused ETFs. We then look at that percentage relative to the Russell 3000's sector weight. In essence, we are asset-weighting the data. It reflects hedge fund ownership collectively as opposed to the exposure of the average fund. Sector-specific funds are included in the data set.

Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi

Valuations Look Best In Health Care and Non TIMT/Consumer Related Cyclicals

Key Takeaways

- Valuations within defensive sectors are a bit mixed. Health Care looks best, with clear appeal on all of the metrics we track. Staples are expensive on P/E but more appealing on other metrics. Utilities generally looks neutral on most of our metrics.
- Financials, Energy, and Industrials all carry valuation appeal, with attractive readings on most metrics (though Energy has moved back to neutral recently on P/E). Valuations for Materials have turned expensive again on P/E in our latest update and are only neutral on P/cash flow.
- TIMT continues to lack valuation appeal broadly. The broader space looks expensive on most of our metrics, and none of the three affected sectors (Communication, CD, Tech) looks attractive on any metric that we track.

Wgt Median Valuation Z-Score (Relative To S&P 500, Since 2004)				
Sector	Relative FY2 P/E	Relative LTM EV/EBITDA	Relative LTM P/OCF	Relative P/B
Consumer Staples	0.54	-0.85	-0.80	0.36
Utilities	0.29	-0.23	0.18	-0.59
Health Care	-2.14	-1.97	-0.89	-1.27
Energy	0.11	-0.59	-2.27	-1.93
Materials	0.41	-0.61	0.10	-2.03
Financials	-0.87	-0.97	1.26	-1.35
Industrials	-1.87	-1.97	-0.66	-0.57
Consumer Discretionary	0.66	0.94	0.34	1.80
Communication Services	0.47	0.41	0.34	0.60
Information Technology	1.45	0.91	0.47	3.53
RBC Regroupings (Based on the Official GICS Classifications, With Some Industry Level Reassignments)				
Cons. Discretionary ex Internet	-0.28	0.49	-0.03	-0.80
TIMT	1.55	0.57	-0.50	3.69

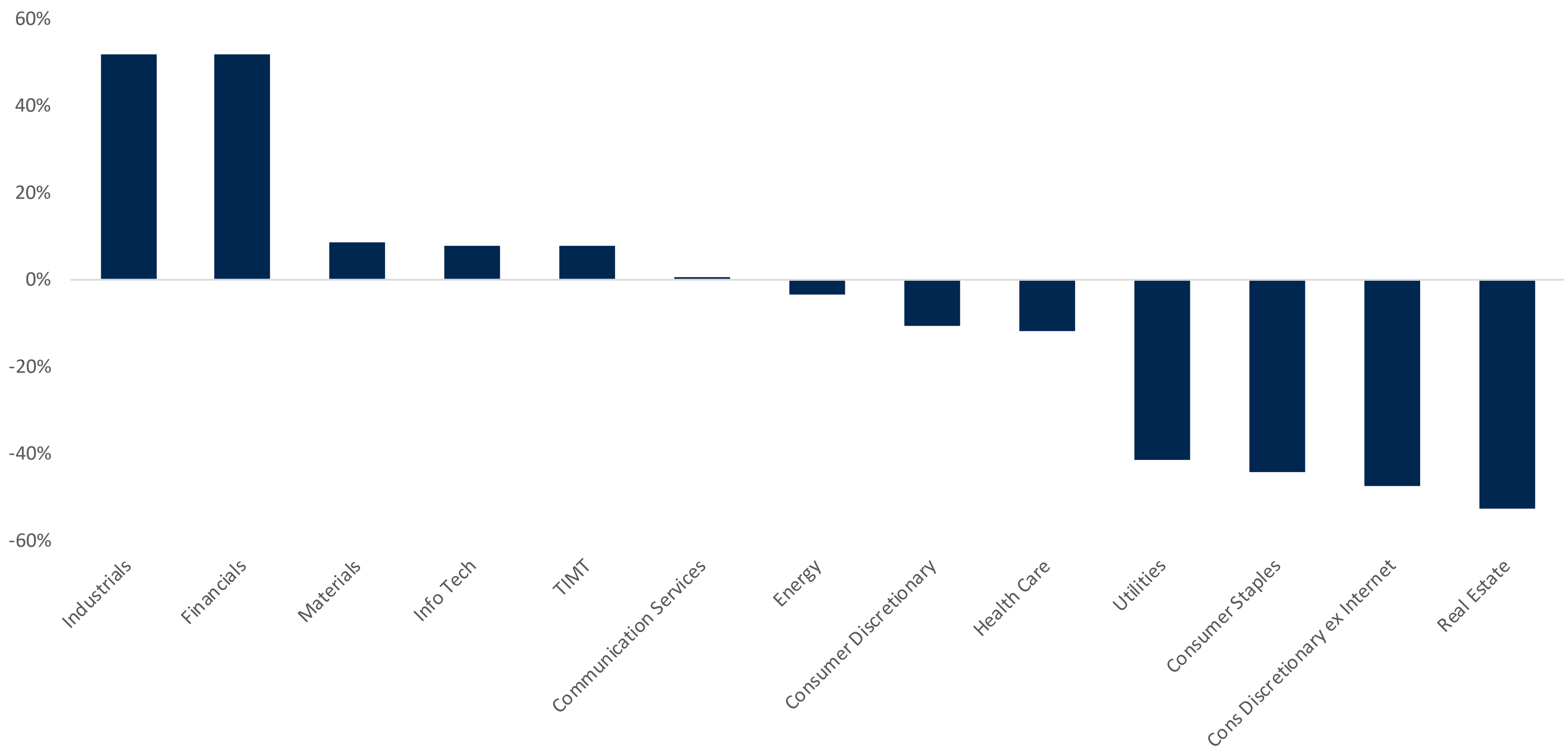
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, Compustat, CIQ estimates, IBES estimates

Sector Sensitivities to ISM New Orders

Key Takeaways

- If ISM new orders pick up, Real Estate, Staples, Discretionary (ex Internet), and Utilities are likely to lag, as their performance has tended to move inversely with ISM new orders since 2010.
- Meanwhile, Industrials and Financials seem most likely to outperform given positive correlations with trends in new orders—we view these as the most economically sensitive areas in the current stock market/economic cycle. Note that Tech/TIMT no longer trades like a cyclical sector on this basis.

Correlation Between S&P 500 Sector Performance (Relative to the S&P 500) & ISM New Orders Since 2010



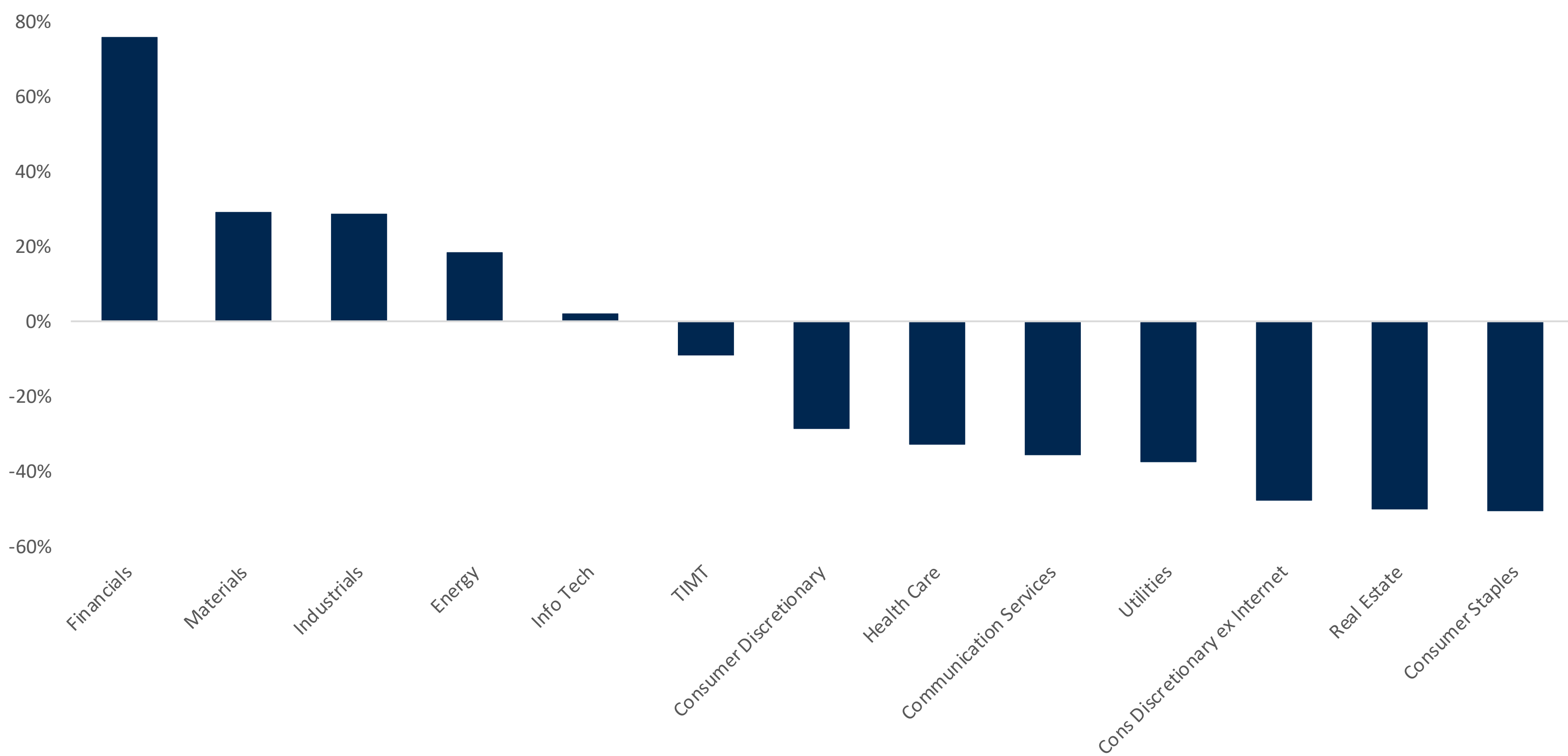
Source: RBC US Equity Strategy, Haver

Sector Sensitivities to 10 Year Treasury Yields

Key Takeaways

- Financials performance, relative to the broader US equity market, moves closely with trends in the 10 year Treasury yield.
- Staples, REITs, Consumer Discretionary ex Internet, and Utilities trade most inversely with 10 year yields.
- This analysis generally mimics what we see on our ISM study.

Correlation Between S&P 500 Sector Performance (Relative to the S&P 500) & US 10-Year Yields Since 2010



Source: RBC US Equity Strategy, Bloomberg

Large Cap Sector Performance Trends During Different Real GDP Environments

Key Takeaways

- In 0-2% real GDP years (where consensus forecasts for 2020 currently stand), the strongest relative returns are typically seen in Staples & Utilities (both Defensives), as well as Energy, Materials, Financials, and Industrials (Value/Commodity related Cyclicals) within Large Cap.
- In 2-4% real GDP years (where RBC forecasts for 2020 currently stand), Consumer Discretionary, Tech, and REITs tend to see the strongest relative returns within Large Cap.

Russell 1000 Sectors: Relative Return During <0% Real GDP Years	Median Relative Return
Official GICS Sectors	
Consumer Staples	10.6%
Utilities	-7.6%
Real Estate	-2.6%
Health Care	14.8%
Energy	-11.2%
Materials	-3.8%
Financials	-13.2%
Industrials	-3.2%
Consumer Discretionary	15.3%
Communication Services	-2.6%
Information Technology	-3.6%
RBC Regroupings	
Consumer Discretionary ex Internet	10.6%
TIMT	-3.8%

Russell 1000 Sectors: Relative Return During 0-2% Real GDP Years	Median Relative Return
Official GICS Sectors	
Consumer Staples	8.7%
Utilities	3.5%
Real Estate	-6.5%
Health Care	1.7%
Energy	4.8%
Materials	7.1%
Financials	4.9%
Industrials	6.0%
Consumer Discretionary	1.4%
Communication Services	-1.5%
Information Technology	-1.0%
RBC Regroupings	
Consumer Discretionary ex Internet	0.8%
TIMT	0.0%

Russell 1000 Sectors: Relative Return During 2-4% Real GDP Years	Median Relative Return
Official GICS Sectors	
Consumer Staples	-2.0%
Utilities	-2.1%
Real Estate	3.7%
Health Care	-1.6%
Energy	-4.6%
Materials	0.7%
Financials	0.3%
Industrials	0.6%
Consumer Discretionary	5.1%
Communication Services	-1.2%
Information Technology	1.7%
RBC Regroupings	
Consumer Discretionary ex Internet	0.9%
TIMT	1.8%

Russell 1000 Sectors: Relative Return During >4% Real GDP Years	Median Relative Return
Official GICS Sectors	
Consumer Staples	0.1%
Utilities	-12.1%
Real Estate	-8.4%
Health Care	14.6%
Energy	-3.8%
Materials	-4.5%
Financials	-4.6%
Industrials	-3.0%
Consumer Discretionary	-5.8%
Communication Services	7.3%
Information Technology	21.5%
RBC Regroupings	
Consumer Discretionary ex Internet	-6.3%
TIMT	3.6%

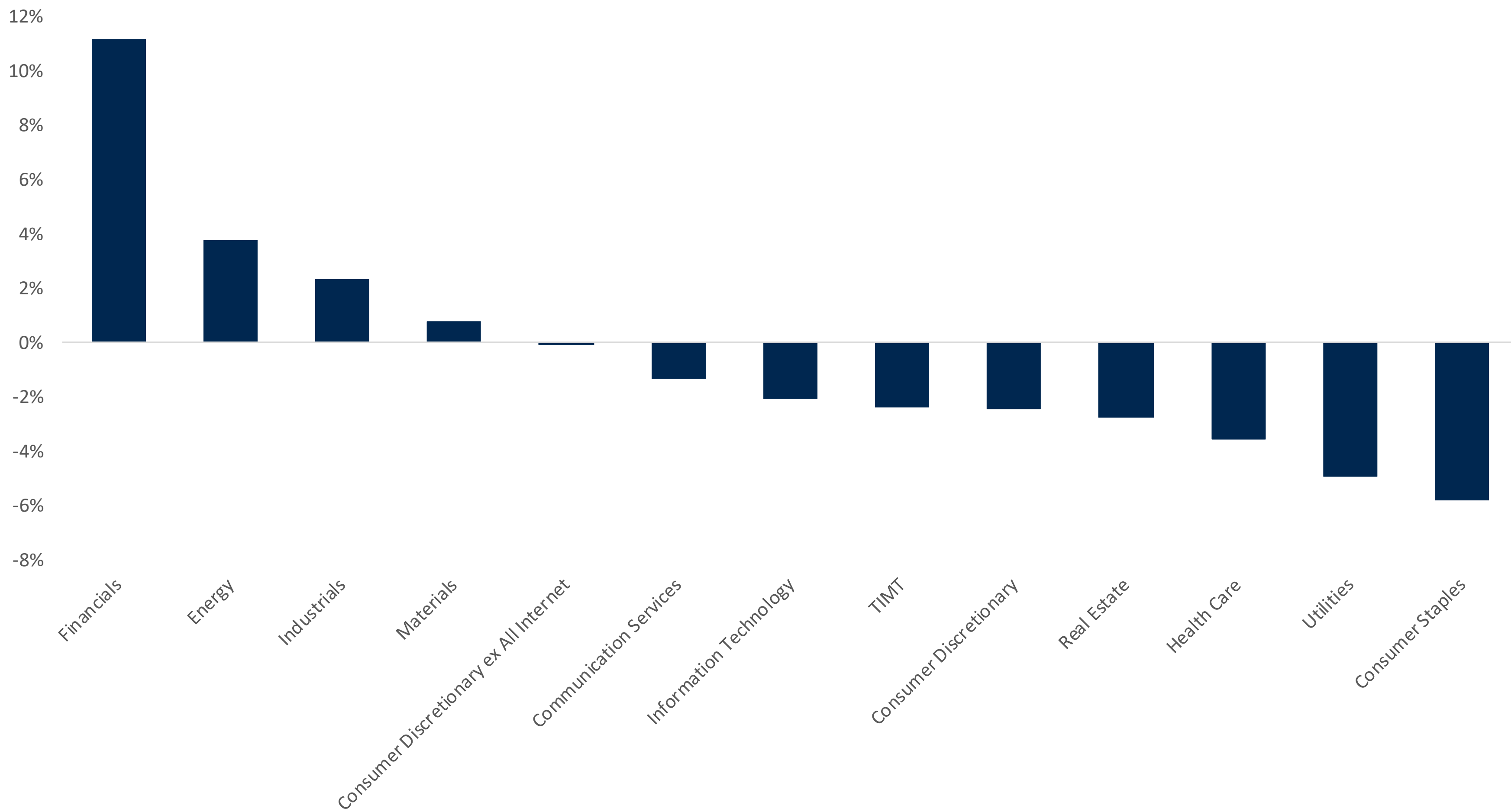
Source: RBC US Equity Strategy, Haver, S&P Capital IQ/ClariFi, include all years from 1980 - 2018

Value Oriented Cyclicals Outperformed After Trump Won in 2016, As Defensives Lagged

Key Takeaways

- Cyclical sectors such as Financials, Energy and Industrials (cheap sectors which tend to outperform when Value beats Growth) were the big outperformers following the 2016 US Presidential Election through year end.
- Defensive sectors such as Consumer Staples and Utilities underperformed the market the most.
- Investors may pull out this playbook if Trump wins again in 2020 – late 2019 sector performance suggests they may have already.

2016 Post - Presidential Election Large Cap Sector Returns Relative to Market

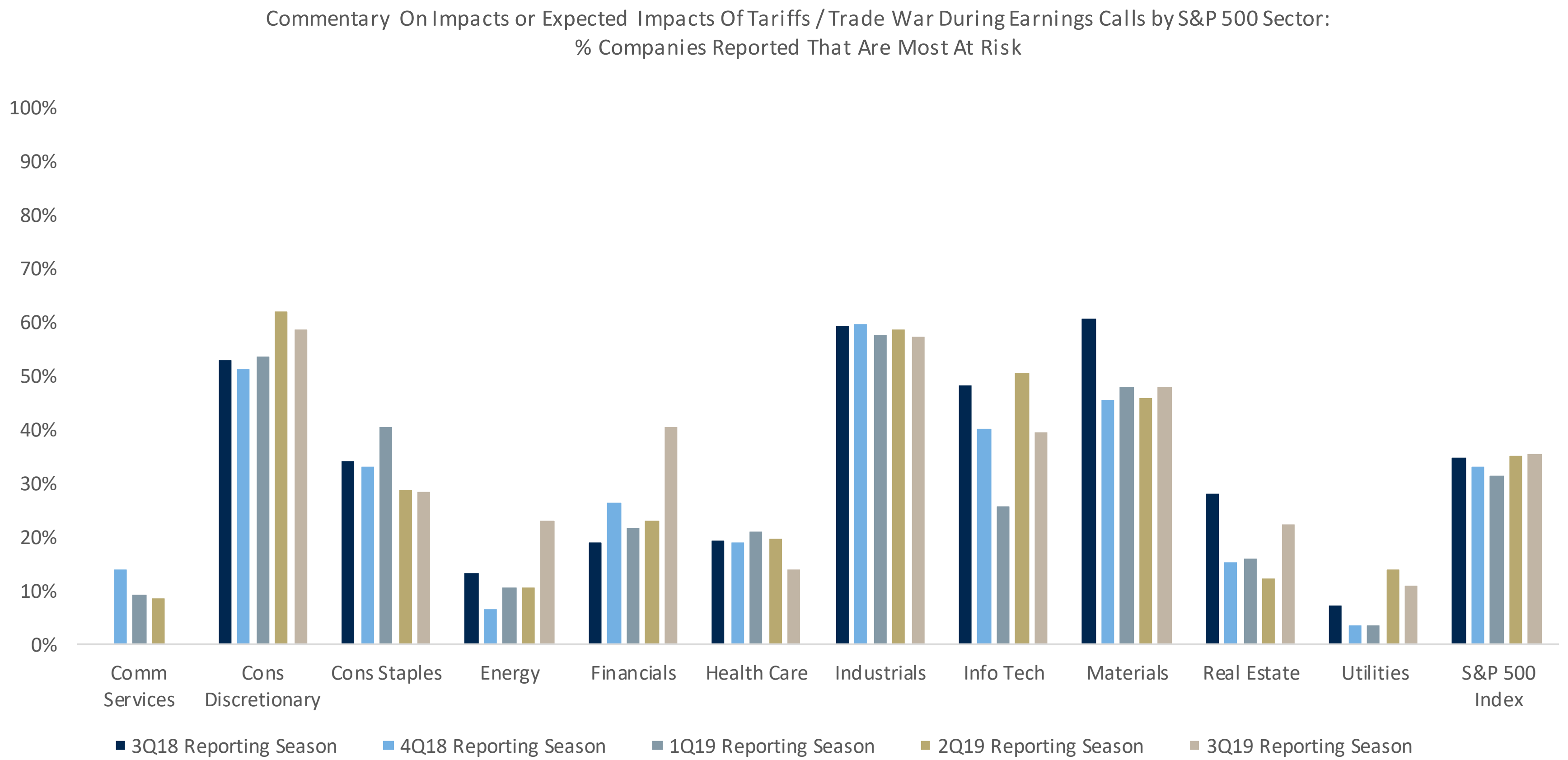


Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, Return time frame from Election day through year-end 2016

Reporting Season Snapshot: Tariffs and China Trade War Commentary By Sector

Key Takeaways

- Generally Consumer Discretionary, Industrials, Tech, and Materials have had the most negative tone around the tariff discussion during earnings calls since the 3Q18 reporting season. These four sectors have generally had the highest percentage of companies within them falling into our "most at risk" bucket. In contrast, Utilities, REITs, Communication Services, Energy, and Health Care have generally had the lowest percentage of "most at risk" companies.
- So far this reporting season tariffs have been more in focus among Energy, Financials, and REITs companies relative to prior reporting seasons. Trends for Communication Services, Health Care, and Tech have improved this reporting season.



Source: RBC US Equity Strategy, Alphasense; 3Q19 reporting season stats are based on results through November 22nd when 95% of S&P 500 companies had reported results. Companies counted as being "most at risk" are those that discussed tariffs as: (1) having a clear negative impact, (2) being manageable/minor headwind, (3) adding to uncertainty or too soon to tell. We consider companies to be least at risk if they discussed tariffs as: (1) having a positive impact, (2) having an immaterial impact, or (3) did not discuss tariffs during the earnings call.

RBC's View On What's Most & Least At Risk If Warren Wins & Democrats Sweep In 2020

	Risk Level	RBC Analyst Views	Warren Policies With Sector Impacts	Our Overall Take
Cons Staples	Mixed	Neutral	Tariffs, support for agribusiness break ups, $15 minimum wage, eliminating student debt, universal public college, affordable housing initiatives, higher corporate taxes	Overall platform constructive for consumer spending/confidence, but other views adverse to company profitability (wages, corporate taxes, tariffs)
Utilities	Low	Mostly Bullish	Support for renewables is a positive, nuclear regulation (relevant to IPP's, a very tiny weight)	No clear negatives for the broader sector, and support for renewables is a plus; has not been a big beneficiary of tax reform or buybacks
REITs	Low	Neutral	Indirectly, $15 minimum wage, eliminating student debt, universal public college; higher corporate taxes	No clear negatives for the sector; and Retail properties could benefit from consumer related initiatives; not a big beneficiary of buybacks
Health Care	Highest	Bearish to Very Bearish	Medicare For All, eliminating private insurance, support for government negotiation of drug prices/international reference pricing, allowing US government to manufacture generics, higher corporate taxes, preconditions on buybacks	Numerous direct /industry specific policy risks for the sector, while views on corporate taxes and buybacks are also negatives
Energy	Highest	Mostly Very Bearish	Green New Deal, national fracking ban, requiring climate risk disclosures, federal funds for clean energy, strict regulations on reducing carbon emissions, higher corporate taxes, preconditions on buybacks	Several direct /industry specific policy risks for the sector, while views on corporate taxes and buybacks are also negatives
Materials	Mixed	Bullish to Neutral to Bearish	Green New Deal, support for agribusiness break ups, support of tariffs, regulation, higher corporate taxes, preconditions on buybacks, no clear stance on infrastructure spending	In terms of industry specific policy issues, a few key risks and no clear positives; views on corporate taxes and buybacks are also negatives
Financials	Highest	Bearish to Very Bearish	Regulation, restoring Glass Steagall, eliminating student loan debt, cap on credit card interest rates, lending restrictions, making payments infrastructure a public utility, judiciary appnts, Fiduciary rule, higher corp taxes, buybacks preconditions	Numerous direct /industry specific policy risks for the sector, while views on corporate taxes and buybacks are also negatives
Industrials	High	Mostly Bearish w/1 Neutral	Defense spending cuts, support of tariffs, demands for changes to USMCA, $15 min wage, higher corporate taxes, preconditions on buybacks, no clear stance on infrastructure spending, Green New Deal (indirect effects via Energy)	Several direct /industry specific policy risks, tariff overhang could remain; views on corporate taxes and buybacks are also negative; revenue could be pressured if corporate taxes rise (lowering capex/demand)
Cons Disc	Mixed	Mostly Neutral w/1 Very Bearish & 1 Bullish	Breaking up big Tech/privacy concerns, tariffs, wealth taxes, $15 minimum wage, eliminating student debt, universal public college, affordable housing initiatives, higher corporate taxes, preconditions on buybacks	Overall platform constructive for consumer spending/confidence, but adverse to company profitability (wages, corporate taxes, buybacks, tariffs); big Tech break up is a negative for AMZN (major weight in Internet Retail), but could be positive for other Retailers/Internet names
Comm Svcs	Mixed	Bullish to Neutral to Bearish	Breaking up big Tech/privacy concerns, higher corporate taxes	Big Tech break up is a negative for Interactive Media (FB & GOOGL, major weights in the sector) but could be positive for other Internet names; stance on corporate taxes is a risk but sector has not been buyback dependent
Tech	High	Mostly Bearish w/1 Neutral	Breaking up big Tech/privacy concerns, making payments infrastructure a public utility, higher corporate taxes, preconditions on buybacks	Big Tech break up / privacy concerns are less of an issue but Tech has been very buyback dependent and higher corporate taxes would negatively the companies directly and also seem likely to dampen IT spending; payments views a risk to IT Svcs; tariff overhang could remain

What RBC Analysts Say Is Most & Least At Risk If Warren Wins & Democrats Sweep In 2020

Key Takeaways

- Our analysts say the combination of a Warren win and Democratic sweep in 2020 is bearish or very bearish for 64% of the US industries that they cover.
- This scenario is viewed as neutral for 26% of the US industries RBC covers and is a positive for just 10%.

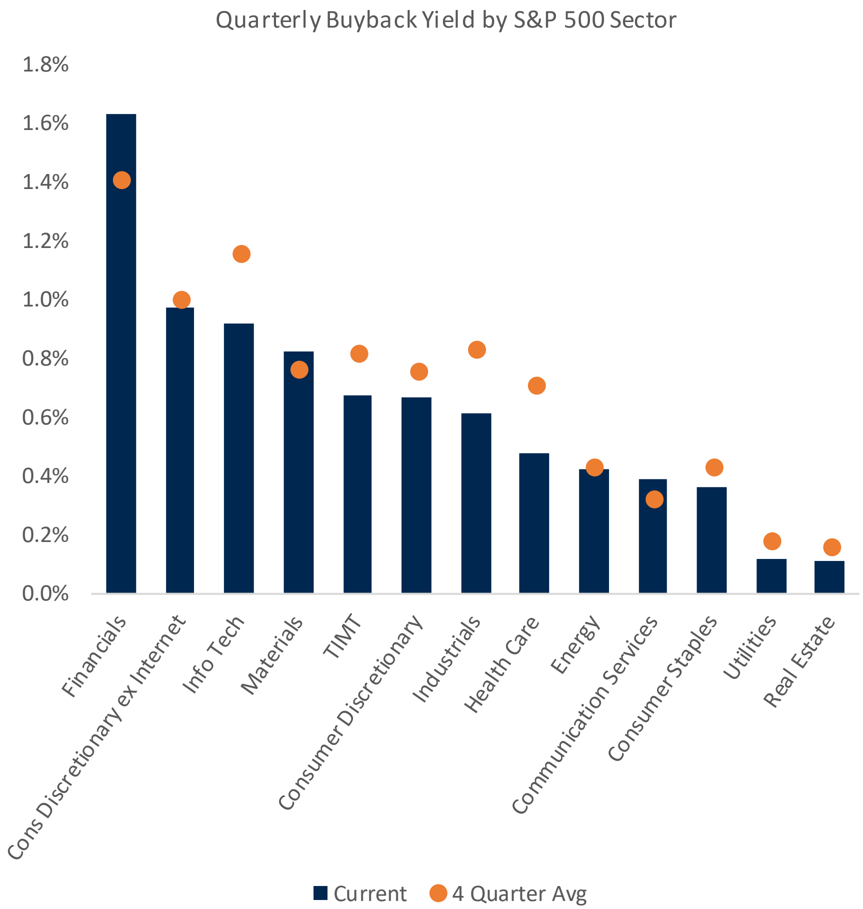
Very Bullish	Bullish	Neutral	Bearish	Very Bearish
•Yield Cos / Alternative Energy	•Forest Products	•Autos & Autos Parts	•Chemicals	•Banks (Large)
	•Internet ex Megacap	•Beverage, HH & Personal Care and Tobacco	•Coatings	•Biotech
	•Utilities (Electric, Gas & Multi)	•Building Products	•Independent Power Producers	•E&P
		•Business Services	•Machinery/Cap Goods	•Hardlines/ Broadlines
		•Cable & Telecom	•Medical Supplies & Devices	•HC Payors (Managed Care)
		•Communications Infrastructure	•Mega Cap Internet	•HC Service Providers
		•Global Apparel & Specialty Softlines	•Multi-Industry & Electrical Equipment	•Integrated Oil & Gas
		•Homebuilding	•Oil Services	•Life Insurance
		•Packaging	•P&C Insurance; Insurance Brokers	•Midstream and MLPs
		•REITs	•Payments, Processors, & IT Services	•Refiners
		•Software	•Railroads	•Spec Pharma – Branded
			•Semiconductors & Semi-cap Equipment	•Specialty/Consumer Finance
			•SMID Regional Banks	
			•Spec Pharma – Generics	
			•U.S. Asset Managers	

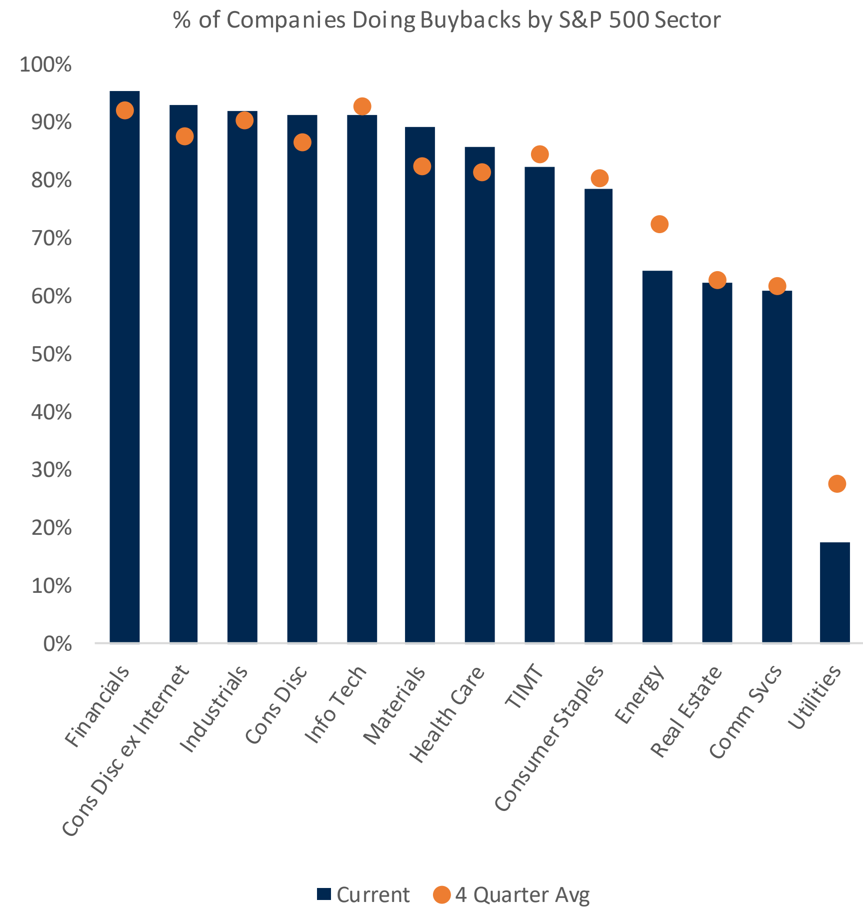
Source: RBC US Equity Strategy, RBC Capital Markets estimates

S&P 500 Sector Sensitivity To Buybacks

Key Takeaways

- Sectors that have been most tied to buybacks in recent quarters have been Financials, Tech/TIMT, Industrials, Consumer Discretionary (both including and excluding Internet) and Materials.
- Sectors less impacted by buyback activity in recent quarters have been Utilities, Real Estate, and Communication Services.



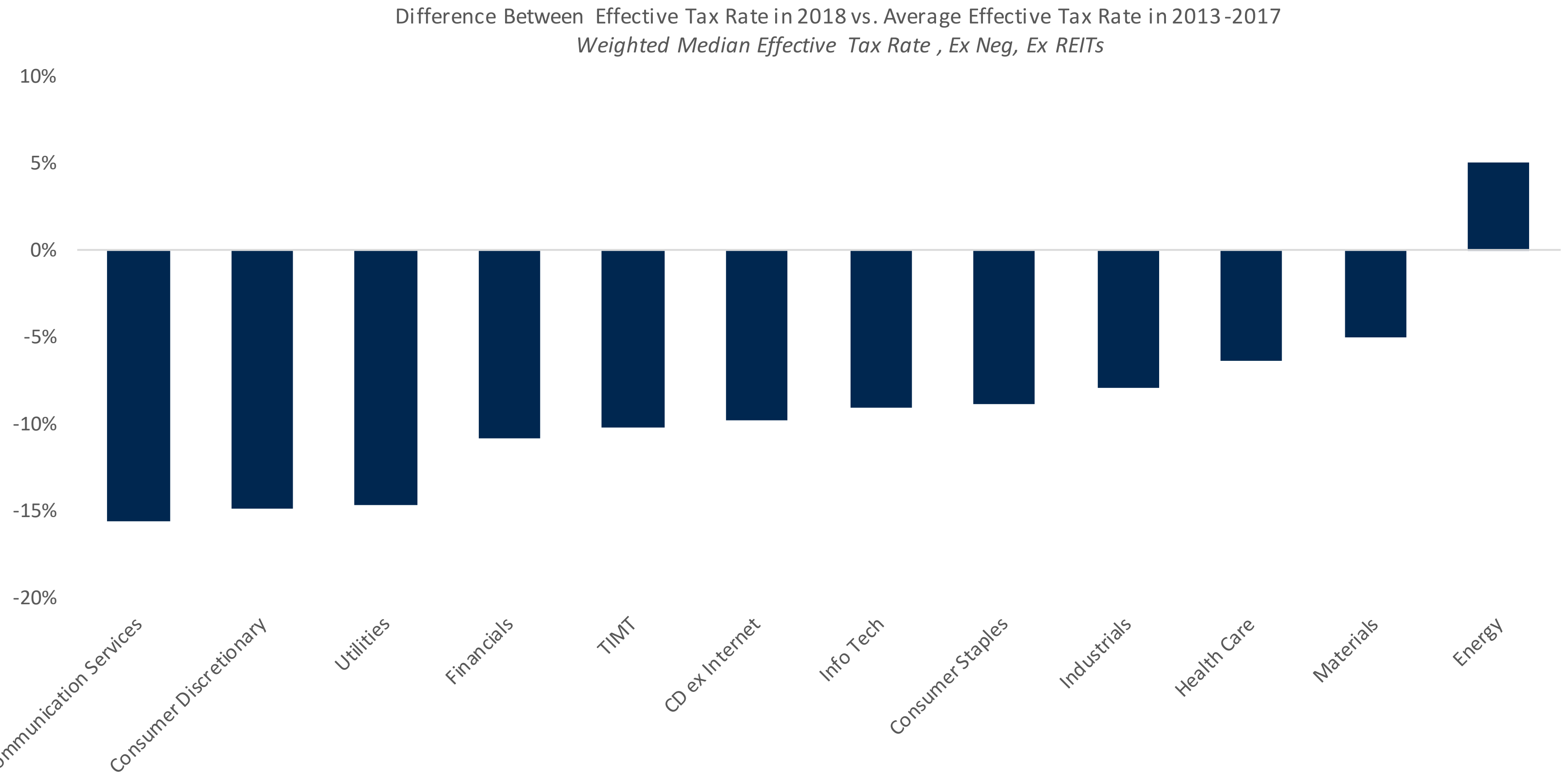


Source: RBC US Equity Strategy, Buyback Yield is calculated as the aggregate sum of quarterly share repurchases as a percent of aggregate sum of market cap.

S&P 500 Sector Sensitivity To Tax Reform

Key Takeaways

- We compared the effective tax rates for the S&P 500 sectors in 2018 (which reflects the enactment of the Tax Reform Act of 2017, which significantly lowered taxes for most companies) to their average tax rate in 2013-2017. Aside from Energy, all major sectors benefited from tax reform, with Communication Services, Consumer Discretionary, and Financials seeing the biggest impacts. Note that while Energy's effective tax rate was low in the immediate period prior to tax reform due to losses/low oil prices, the sector historically was a high tax payer and so like most other sectors we think higher corporate taxes would be a negative for the sector.
- Utilities companies' tax savings are passed through to customers, meaning it did not end up benefiting from tax reform.

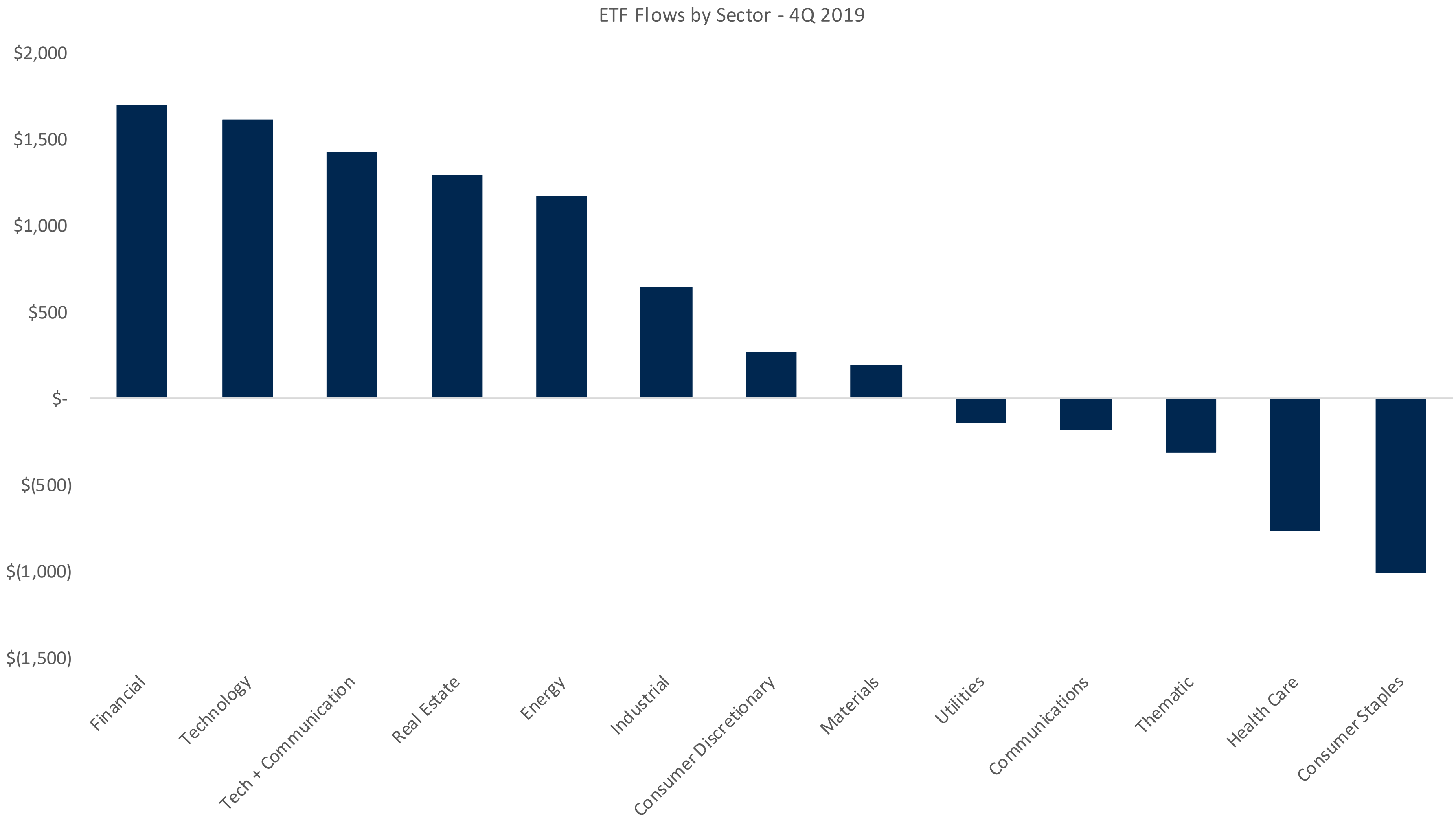


Source: RBC US Equity Strategy, CapitalIQ/ClariFi, Compustat

Tech Has Seen Strongest ETF Flows in 4Q19, While Key Defensives Have Seen Outflows

Key Takeaways

- Through late November, Financials, Tech/TIMT, REITs, and Energy have seen the strongest ETF inflows in 4Q19, while Health Care and Staples have seen the deepest outflows.

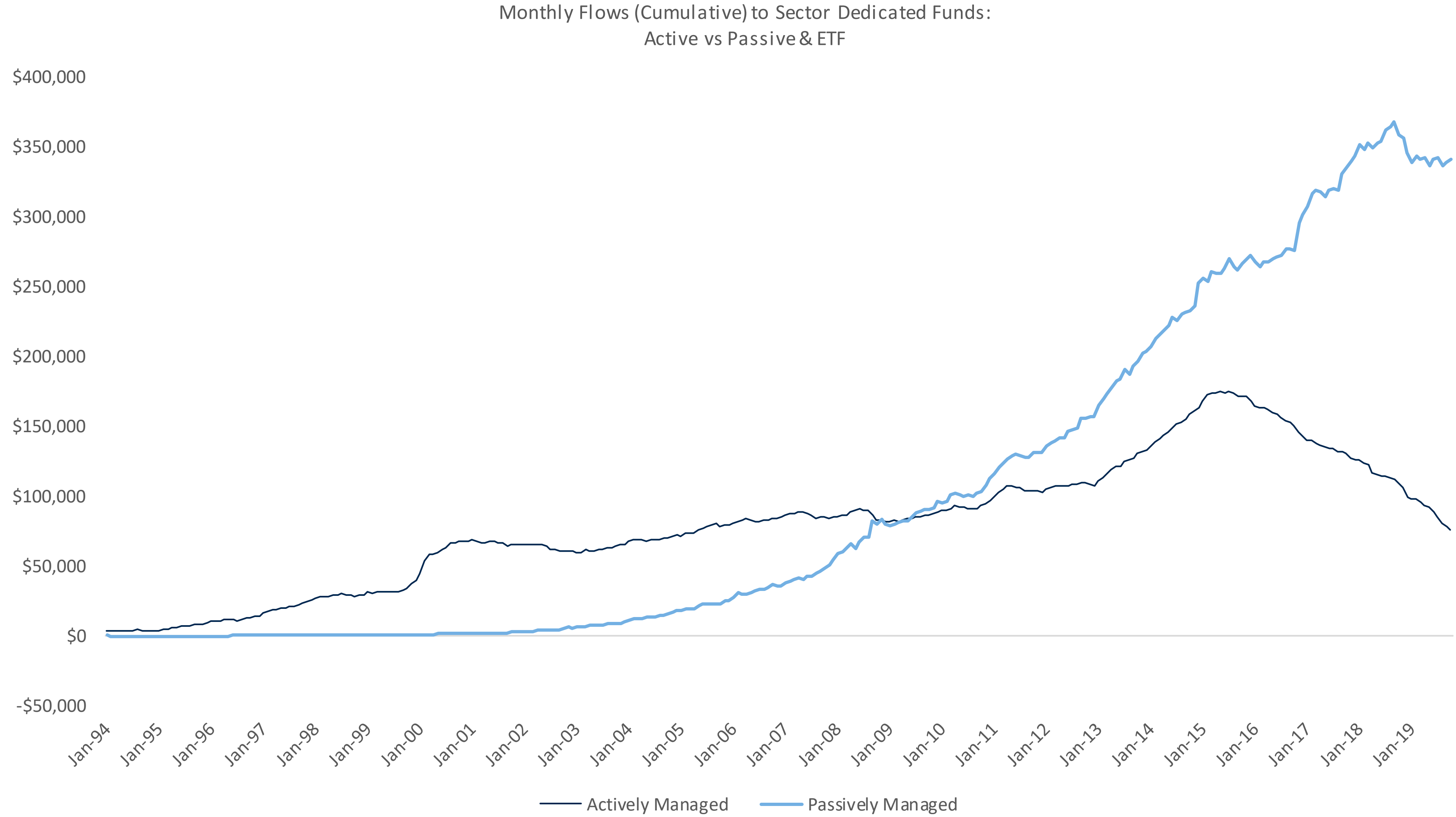


Source: RBC US Equity Strategy, Bloomberg

Passive/ETF Flows Have Become More Important for Sectors, but Inflows May Have Peaked

Key Takeaways

- Since 2015, there's been a clear rotation out of actively managed sector funds (all sectors combined) and into passively managed sector funds.
- That pillar of support from passive may have peaked, however, as passive sector funds have seen outflows in 2019.

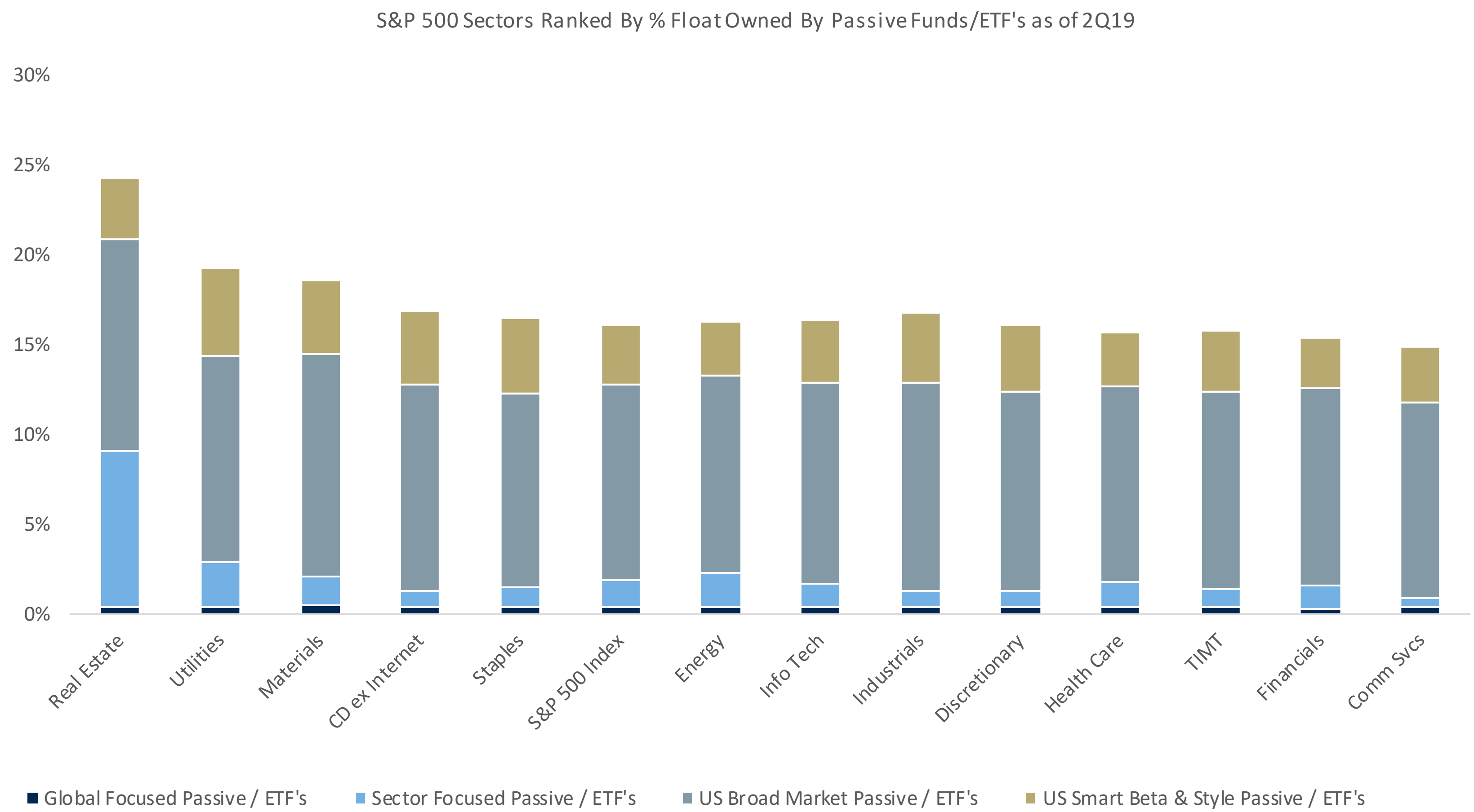


Source: RBC US Equity Strategy, Morningstar. USD millions

ETF/Passive Ownership Is Highest for REITs in Large Cap

Key Takeaways

- By our count, 24% of S&P 500 REITs market cap (float adjusted) is owned by passive funds / ETFs, well above what we see for the broader S&P 500 index (16%).
- Large Cap Communication Services has the lowest ownership by passive funds / ETFs, at 15%.



Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, Morningstar

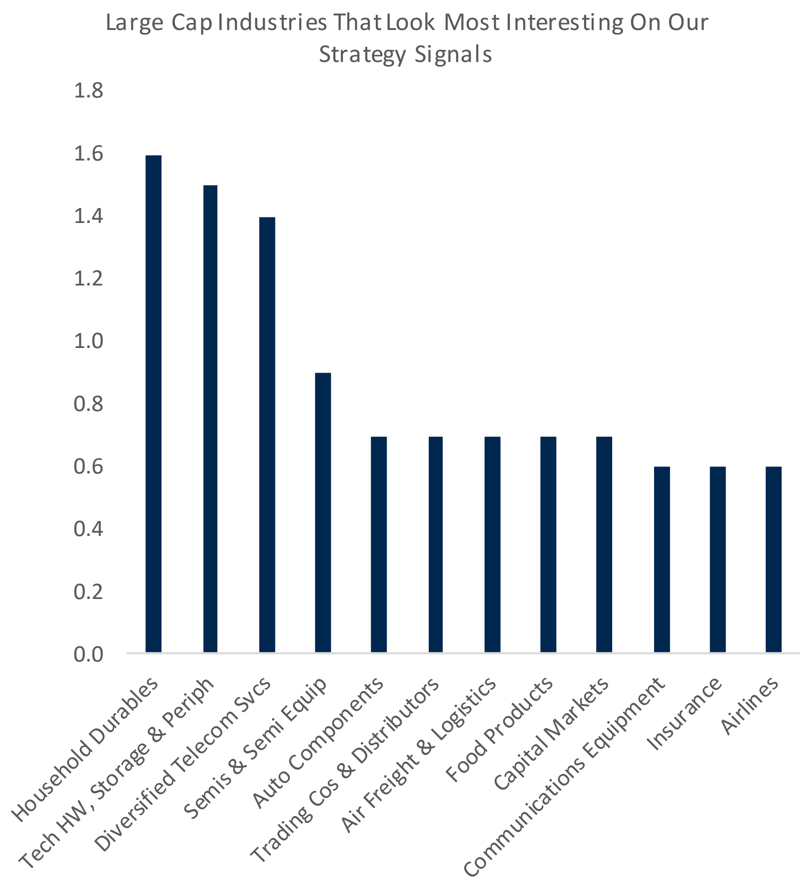
Large Cap Industries

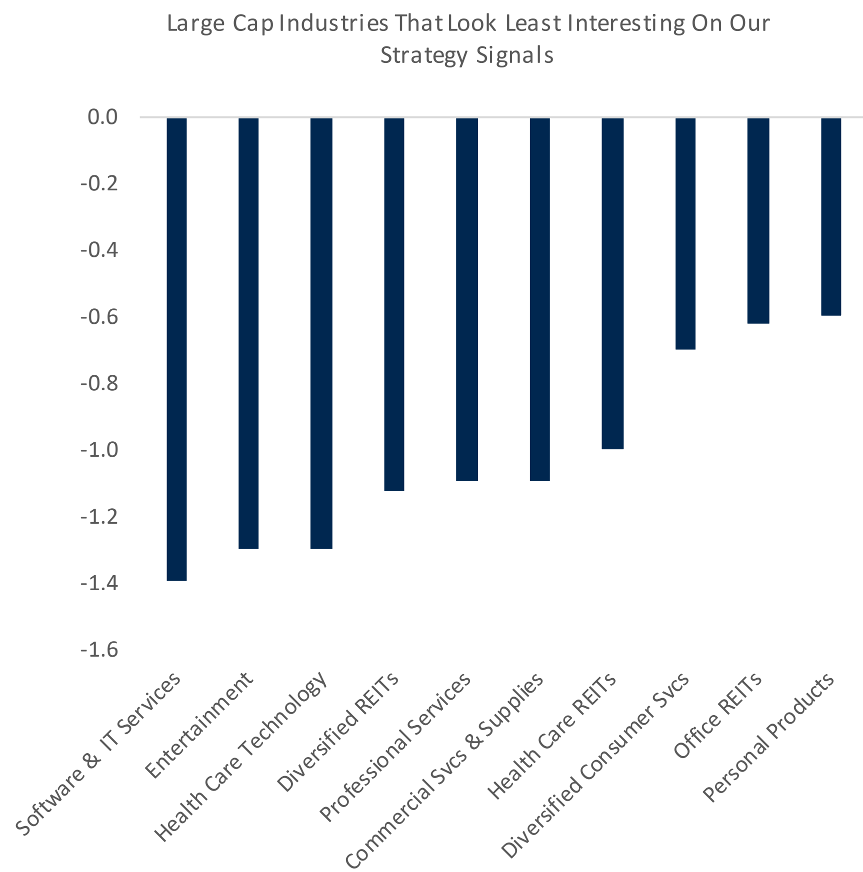
- **Most and Least Interesting Industries on Our Strategy Signals**
- **Industry Scorecards for Defensive Sectors**
- **Industry Scorecards for Commodity and Cyclical Sectors**
- **Industry Scorecards for the New Tech, Consumer Discretionary, Communication Services Sectors**
- **REITs and Utilities Rank High on the List of Large Cap Industries Most Highly Owned by Passive**

Most and Least Interesting Industries on Our Strategy Signals

Key Takeaways

- We evaluate 61 industries within the 10 major GICS sectors (ex Real Estate) by scoring and ranking them on five metrics: upward earnings revisions, sell-side net buys, hedge fund positioning, and valuations (equal weighted and market cap weighted multiples unique to each sector). We also score the eight equity REITs subindustries on four metrics: FFO/share revisions, sell-side net buys, and equal and market cap weighted.
- We looked at the 1,000 biggest US stocks by market cap.





Software and IT Services were combined into a single industry.
Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, IBES, CIQ estimates

Industry Scorecards for Defensive Sectors

Key Takeaways

- Based on the universe of the biggest 1,000 stocks by market cap.
- We score and rank industries based on five metrics: revisions score, sell-side net buys, hedge fund positioning, and two valuation metrics. The scores vary from +2 to -2. For valuations, a +2 signals the industry as being undervalued relative to the market. For revisions, a +2 indicates upward revisions momentum for the industry.
- For hedge fund positioning score, a +2 signals low levels of crowding relative to its own history among hedge funds while a +2 score on net buy ratings shows the industry as being out of favor among sell-side ratings relative to history (a measure of crowdedness).
- For REITs, we use FFO revisions and Price/FFO multiples while removing hedge fund positioning.

Large Cap Consumer Staples Industry Scorecard

Industry	Market Cap Weight	Revisions Score	% Net Buy Ratings Score	HF Positioning Score	FY2 P/E Valuation Score	P/OCF Valuation Score	Average Across 5 Metrics
Food Products	1.4%	-1	2	0	1.5	1	**0.7**
Tobacco	0.7%	0	-0.5	-1	2	1	**0.3**
Household Products	1.6%	1	1.5	0	-0.5	-0.5	**0.3**
Food & Staples Retailing	2.0%	2	0.5	0	-1	-0.5	**0.2**
Beverages	2.0%	-2	2	0.5	-1	-0.5	**-0.2**
Personal Products	0.3%	-2	0.5	-0.5	0	-1	**-0.6**

Large Cap Health Care Industry Scorecard

Industry	Market Cap Weight	Revisions Score	% Net Buy Ratings Score	HF Positioning Score	FY2 P/E Valuation Score	EV/EBITDA Valuation Score	Average Across 5 Metrics
Health Care Providers & Svcs	2.3%	1	-2	1	2	1	**0.6**
Biotechnology	2.2%	2	-1.5	-2	2	2	**0.5**
Pharmaceuticals	3.5%	2	-2	-0.5	1.5	0.5	**0.3**
Health Care Equip & Supplies	3.0%	2	-2	1.5	-1	-1	**-0.1**
Life Sciences Tools & Svcs	1.1%	1	-1	-1	-0.5	-1	**-0.5**
Health Care Technology	0.2%	-1	-2	-1	-1	-1.5	**-1.3**

Large Cap Utilities Industry Scorecard

Industry	Market Cap Weight	Revisions Score	% Net Buy Ratings Score	HF Positioning Score	FY2 P/E Valuation Score	EV/EBITDA Valuation Score	Average Across 5 Metrics
Indepen Pwr & Renew Elec	0.1%	1	-1	0	1	1	**0.4**
Electric Utilities	2.0%	1	1.5	-1	-1.5	-0.5	**-0.1**
Gas Utilities	0.2%	-1	1	-1	0.5	0	**-0.1**
Multi-Utilities	1.0%	-1	1	-1	-0.5	-1	**-0.5**

**Water Utilities excluded due to lack of data quality*

Large Cap REITs Subindustry Scorecard

	FFO/Share Revisions Score	% Net Buy Ratings Score	Median P/FFO Valuation Score	Wgt Median P/FFO Valuation Score	Average Across 4 Metrics
Hotel and Resort REITs	-2	0.5	1	2	**0.4**
Industrial REITs	2	-1.5	0	0	**0.1**
Retail REITs	-2	1	0	0	**-0.3**
Specialized REITs	0	0.5	0	-2	**-0.4**
Residential REITs	1	0	-2	-1	**-0.5**
Office REITs	2	-1.5	-2	-1	**-0.6**
Health Care REITs	0	0	-2	-2	**-1.0**
Diversified REITs	-2	0.5	-2	-1	**-1.1**

**Note history on Health Care REITs and Hotel & Resort REITs starts in 2014. Other subindustries start in 2007*

Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates, IBES, Compustat

Industry Scorecards for Commodity and Cyclical Sectors

Key Takeaways

- Based on the universe of the biggest 1,000 stocks by market cap.
- We score and rank industries based on five metrics: revisions score, sell-side net buys, hedge fund positioning, and two valuation metrics. The scores vary from +2 to -2. For valuations, a +2 signals the industry as being undervalued relative to the market. For revisions, a +2 indicates upward revisions momentum for the industry.
- For hedge fund positioning score, a +2 signals low levels of crowding relative to its own history among hedge funds while a +2 score on net buy ratings shows the industry as being out of favor among sell-side ratings relative to history (a measure of crowdedness).

Large Cap Materials Industry Scorecard

Industry	Market Cap Weight	Revisions Score	% Net Buy Ratings Score	HF Positioning Score	FY2 P/E Valuation Score	P/OCF Valuation Score	Average Across 5 Metrics
Chemicals	1.5%	-2	0.5	1	1.5	1	**0.4**
Containers & Packaging	0.4%	-2	1	-0.5	1.5	1	**0.2**
Metals & Mining	0.4%	-1	2	0	-1	1	**0.2**
Construction Materials	0.1%	2	-1.5	-1	0	0.5	**0.0**

**Paper & Forest Products excluded due to lack of data quality*

Large Cap Energy Industry Scorecard

Industry	Market Cap Weight	Revisions Score	% Net Buy Ratings Score	HF Positioning Score	FY2 P/E Valuation Score	EV/EBITDA Valuation Score	Average Across 5 Metrics
Equip & Svcs	0.3%	-2	-2	0	0	2	**-0.4**
Oil, Gas & Cons Fuels	4.6%	-2	-2	0	1	1	**-0.4**

Large Cap Industrials Industry Scorecard

Industry	Market Cap Weight	Revisions Score	% Net Buy Ratings Score	HF Positioning Score	FY2 P/E Valuation Score	P/OCF Valuation Score	Average Across 5 Metrics
Trading Cos & Distributors	0.2%	-2	2	-0.5	2	2	**0.7**
Air Freight & Logistics	0.6%	-2	2	0	2	1.5	**0.7**
Airlines	0.4%	0	1.5	-0.5	1	1	**0.6**
Construction & Engineering	0.1%	2	-2	-0.5	2	1	**0.5**
Electrical Equipment	0.4%	-2	2	-0.5	1	1.5	**0.4**
Aerospace & Defense	2.6%	1	-0.5	-0.5	1	0.5	**0.3**
Industrial Conglomerates	1.2%	-1	1.5	-1	1	0.5	**0.2**
Machinery	1.5%	-2	2	-0.5	0.5	0.5	**0.1**
Building Products	0.2%	-2	1	0.5	0.5	0.5	**0.1**
Road & Rail	3.9%	-2	1.5	-1.5	0	-0.5	**-0.5**
Professional Services	0.4%	-2	1.5	-1	-2	-2	**-1.1**
Commercial Svcs & Supplies	0.6%	-1	-0.5	-1	-2	-1	**-1.1**

**Marine and Transportation Infrastructure excluded due to lack of data quality*

Large Cap Financials Industry Scorecard

Industry	Market Cap Weight	Revisions Score	% Net Buy Ratings Score	HF Positioning Score	FY2 P/E Valuation Score	P/Book Valuation Score	Average Across 5 Metrics
Capital Markets	3.0%	2	2	-1.5	0.5	0.5	**0.7**
Insurance	2.1%	-1	2	0.5	0.5	1	**0.6**
Banks	5.2%	-1	0.5	1	1.5	1	**0.6**
Consumer Finance	0.8%	2	-1	-0.5	1	1	**0.5**
Div'd Financial Svcs	1.8%	1	-2	1.5	0.5	1.5	**0.5**
Thrifts & Mortgage Fin	0.1%	2	-1.5	0.5	0	0	**0.2**

**Mortgage REITs excluded due to lack of data quality*

Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates, IBES, Compustat

Industry Scorecards for the New Tech, Consumer Discretionary, Communication Services Sectors

Key Takeaways

- Based on the universe of the biggest 1,000 stocks by market cap.
- We score and rank industries based on five metrics: revisions score, sell-side net buys, hedge fund positioning, and two valuation metrics. The scores vary from +2 to -2. For valuations, a +2 signals the industry as being undervalued relative to the market. For revisions, a +2 indicates upward revisions momentum for the industry.
- For hedge fund positioning score, a +2 signals low levels of crowding relative to its own history among hedge funds while a +2 score on net buy ratings shows the industry as being out of favor among sell-side ratings relative to history (a measure of crowdedness).

Large Cap Communication Services Industry Scorecard

Industry	Market Cap Weight	Revisions Score	% Net Buy Ratings Score	HF Positioning Score	FY2 P/E Valuation Score	EV/EBITDA Valuation Score	Average Across 5 Metrics
Diversified Telecom Svcs	1.9%	1	2	0.5	2	1.5	**1.4**
Wireless Telecom Svcs	0.3%	-2	0	1	1.5	2	**0.5**
Media	1.7%	0	-1	0.5	1.5	1.5	**0.5**
Interactive Media & Svcs	5.1%	-1	-0.5	1	1.5	1	**0.4**
Entertainment	1.7%	-1	-2	-0.5	-1	-2	**-1.3**

Large Cap Information Technology Industry Scorecard

Industry	Market Cap Weight	Revisions Score	% Net Buy Ratings Score	HF Positioning Score	FY2 P/E Valuation Score	EV/EBITDA Valuation Score	Average Across 5 Metrics
Tech HW, Storage & Periph	3.9%	2	1.5	2	1	1	**1.5**
Semis & Semi Equip	3.6%	2	0.5	1.5	1	-0.5	**0.9**
Communications Equipment	1.0%	-2	0.5	0.5	2	2	**0.6**
Electronic Equip, Inst & Comp	0.6%	-1	1.5	-0.5	-1	-1	**-0.4**
Software & IT Services	12.5%	1	-2	-2	-2	-2	**-1.4**

Large Cap Consumer Discretionary Industry Scorecard

Industry	Market Cap Weight	Revisions Score	% Net Buy Ratings Score	HF Positioning Score	FY2 P/E Valuation Score	EV/EBITDA Valuation Score	Average Across 5 Metrics
Household Durables	0.4%	2	2	1	1.5	1.5	**1.6**
Auto Components	0.1%	-2	2	1	1.5	1	**0.7**
Distributors	0.1%	0	1.5	-1	1.5	0.5	**0.5**
Internet Retail	3.5%	-2	-0.5	1	0.5	1.5	**0.1**
Specialty Retail	2.2%	-1	1	1	0	-1.5	**-0.1**
Multiline Retail	0.5%	-1	0.5	0.5	-0.5	-0.5	**-0.2**
Automobiles	0.5%	-2	1	0	0.5	-0.5	**-0.2**
Hotels, Restaurants & Leisure	2.2%	-1	1.5	-2	0.5	0	**-0.2**
Textiles, Apparel & Lux Goods	0.8%	-1	-0.5	0.5	0.5	-0.5	**-0.2**
Leisure Products	0.1%	1	0	-1	-0.5	-1.5	**-0.4**
Diversified Consumer Svcs	0.2%	-2	-1.5	0	0	0	**-0.7**

Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates, IBES, Compustat

Large Cap Performance Trends

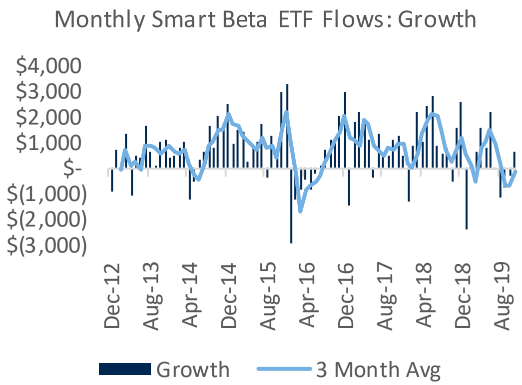
Factors and Fund Returns

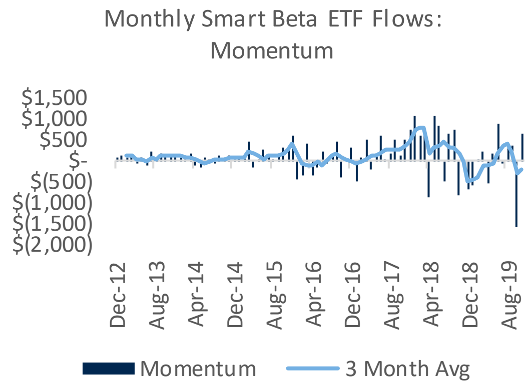
Capital Markets

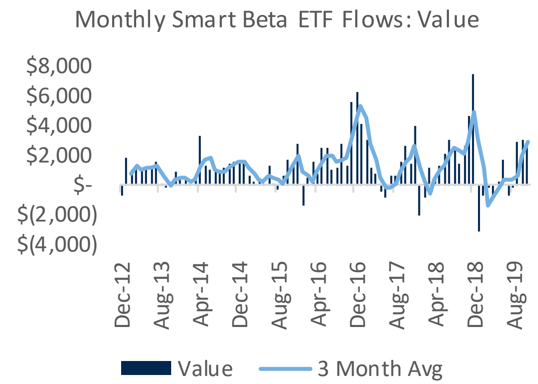
Factor Flows Have Favored Value, Low Vol, and ESG In Late 2019 – Until November

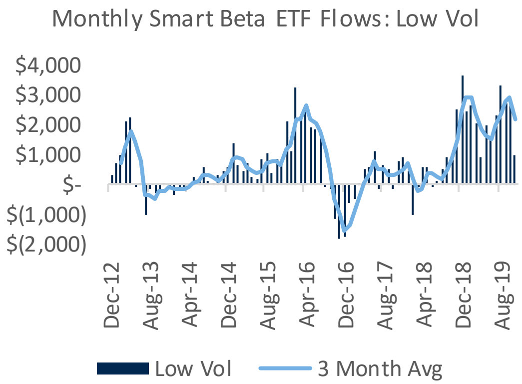
Key Takeaways

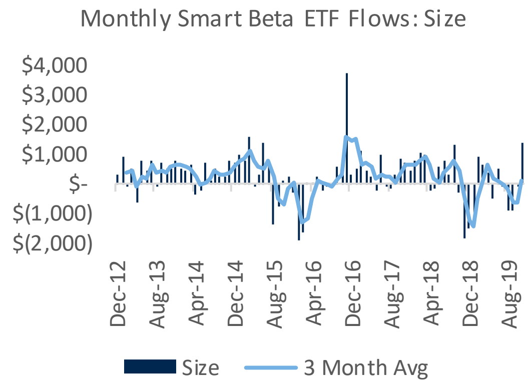
- For the past few months, ETF flows tracked by Bloomberg have shown a rotation out of Growth, Momentum and Size, and into Value, Low Vol, and ESG. Flows to Momentum and Growth have turned positive again in November, however.

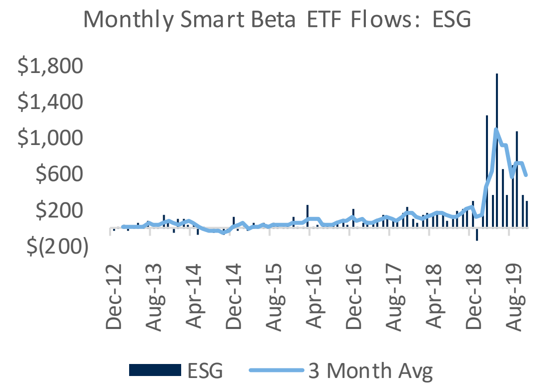












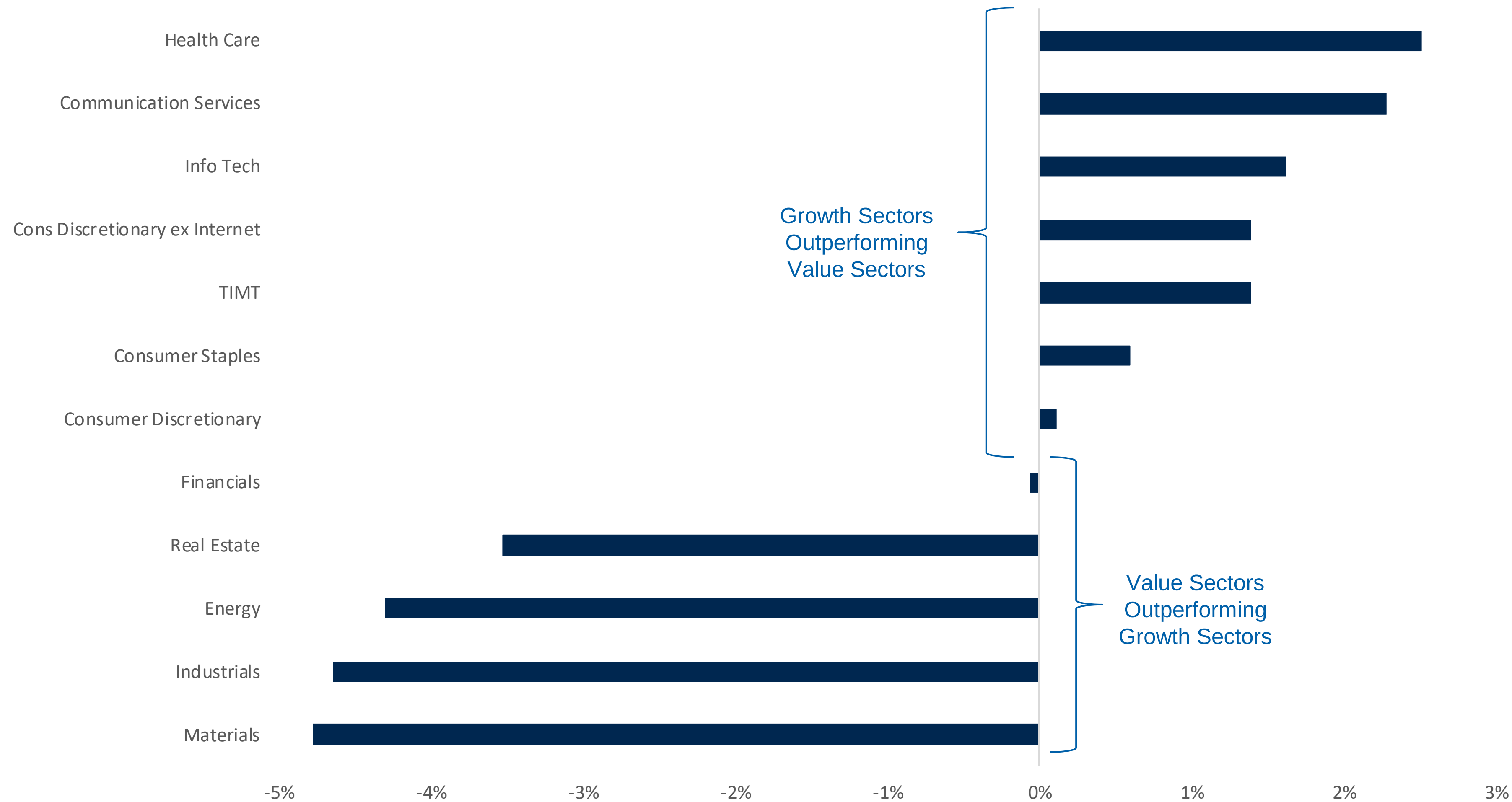
Source: RBC US Equity Strategy, Bloomberg, ETF classifications are done by Bloomberg

4QTD 2019 Growth/Value Relative Performance by Sector

Key Takeaways

- Through the last quarter of the decade, the Growth/Value trade seems to be almost balanced when dissecting it by sectors. The sectors in Growth outperforming their Value peers include Health Care, Communication Services, TIMT, Tech, Consumer Discretionary, and Consumer Staples.
- Within all other sectors, Value has the edge over Growth so far.

Large Cap (Growth - Value) Relative Performance by Sector (4QTD 2019)

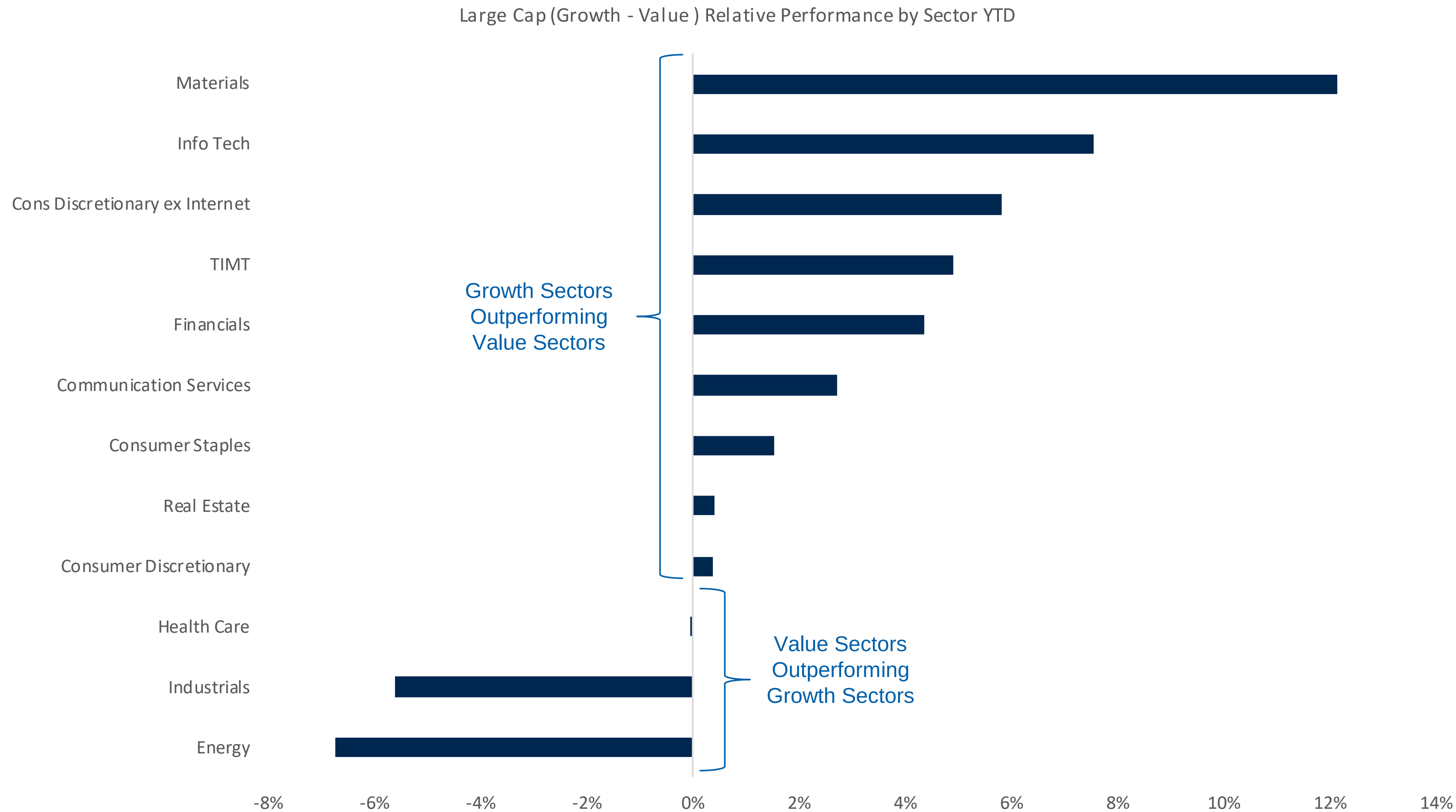


Utilities is excluded due lack of data.
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi

2019 Year To Date Growth/Value Relative Performance by Sector

Key Takeaways

- For the year as a whole, Growth is outperforming Value within most sectors. The most notable outperformance stems from Materials, Tech, Consumer Discretionary ex Internet & TIMT.
- The only 2 sectors where Value is outperforming its Growth peers are Energy and Industrials.

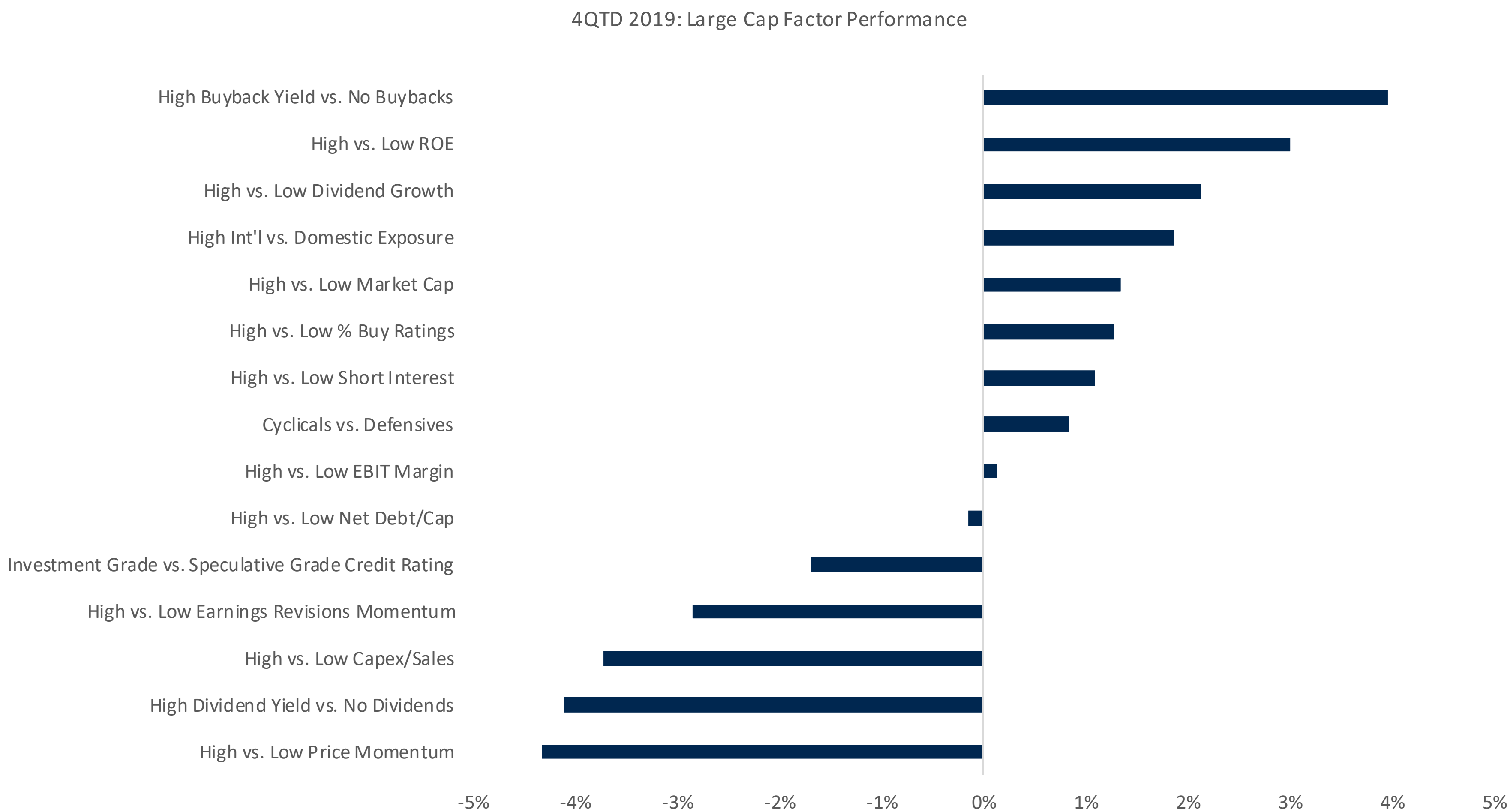


Utilities excluded due to lack of data.
Source: RBC US Equity Strategy, Russell, S&P Capital IQ/ClariFi

4QTD 2019 Factor Performance Within the S&P 500

Key Takeaways

- So far in the fourth quarter of 2019, active manager friendly factors like high ROE (quality), bigger market cap, cyclicals, high margins, high buyback yield, and high dividend growth are outperforming. On the other hand, underperforming factors have been high price momentum, high dividend yield, and high capex to sales.

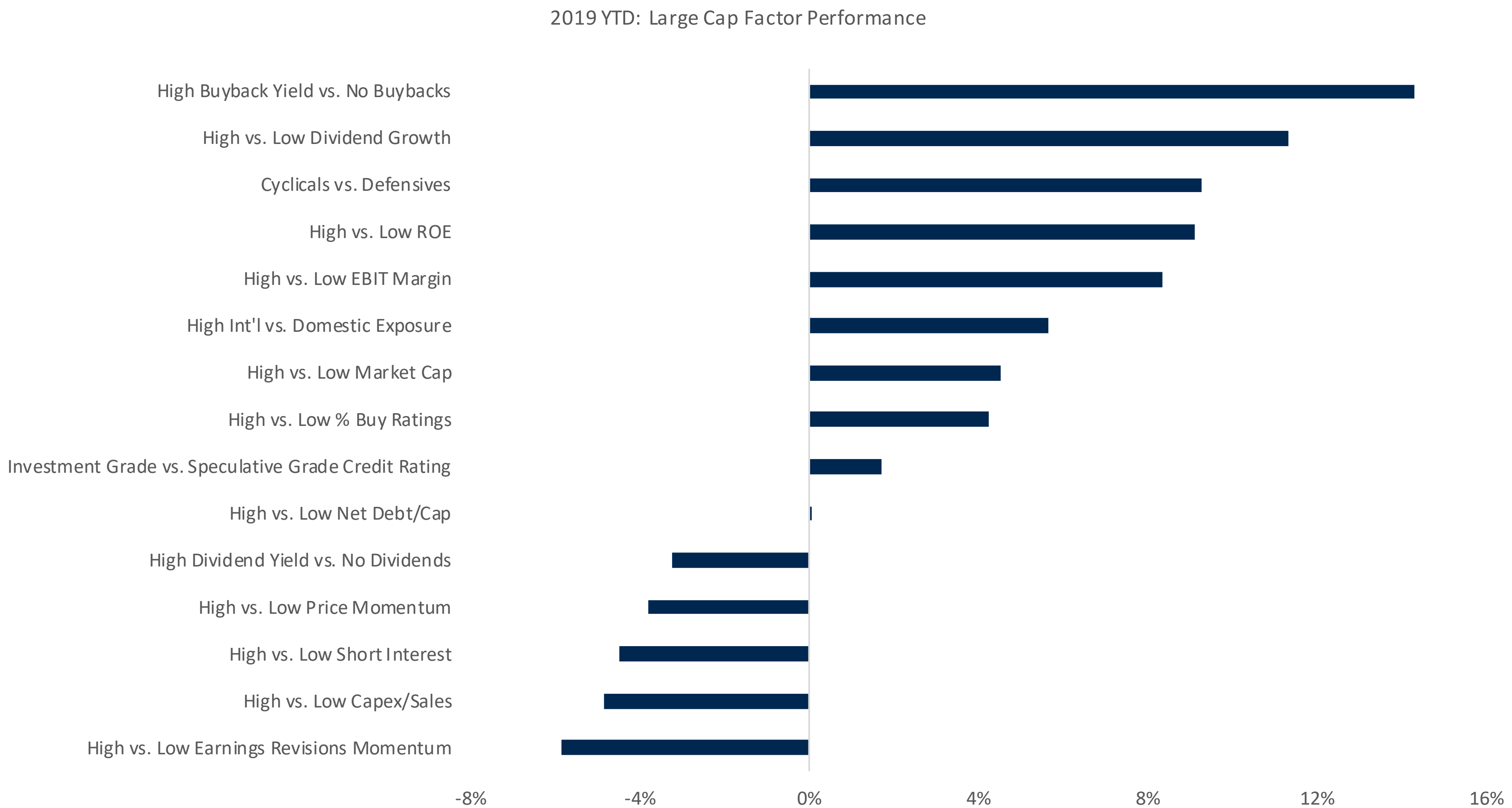


Total returns, returns are equal weighted, S&P 500 universe
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi

Year To Date Factor Performance Within the S&P 500

Key Takeaways

- For 2019 as a whole, high buyback yield, high dividend growers, cyclicals, ROE, margins, and larger size have outperformed. Out of favor stocks on the sell-side, domestic exposure, and investment grade credit rated companies have also outperformed.
- High dividend yield and high price momentum are included among the factors that have lagged.

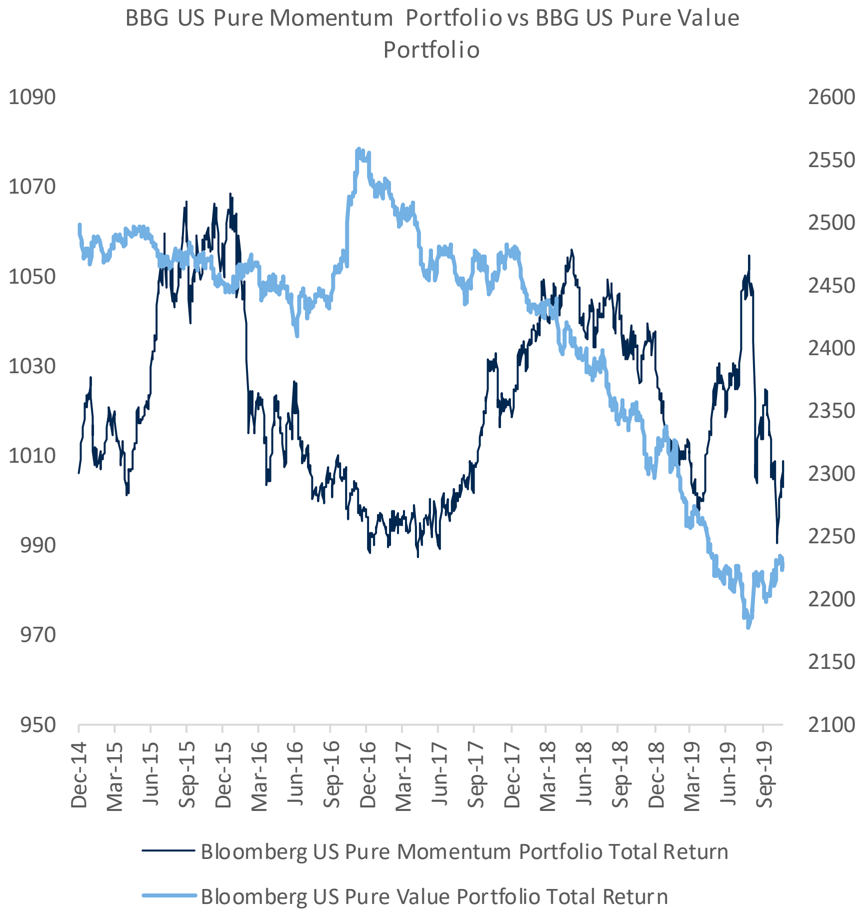


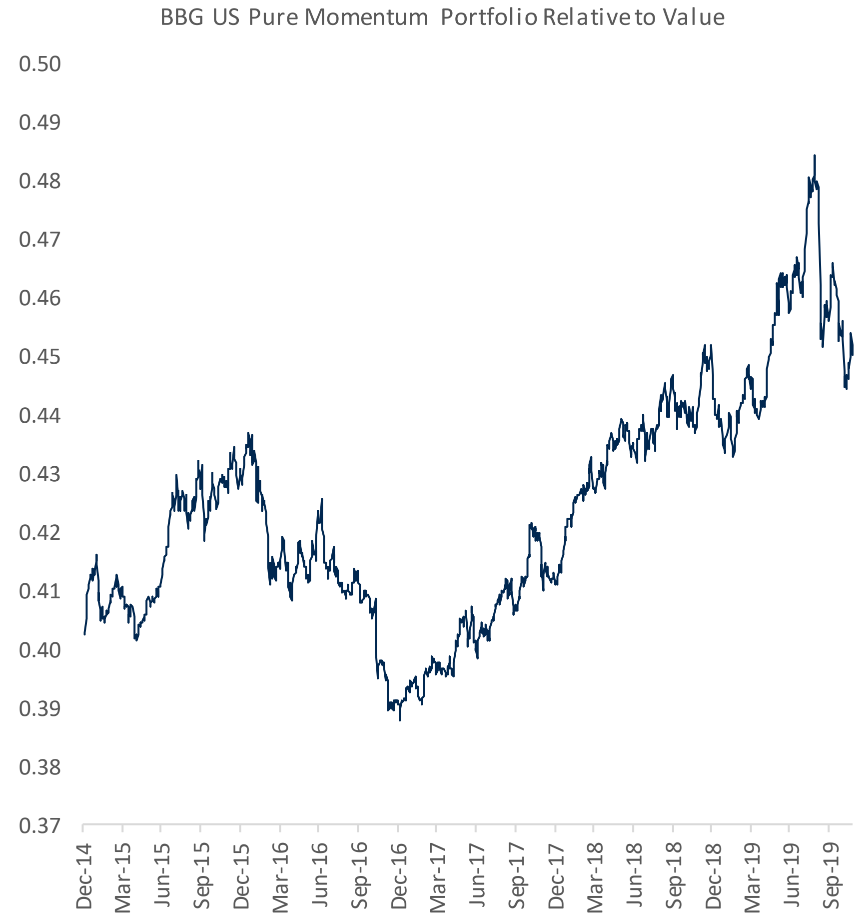
Total returns, returns are equal weighted, S&P 500 universe
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi

Momentum Trying To Make A Comeback

Key Takeaways

- The Momentum factor underperformed the Value factor sharply in late August through early November but has been outperforming again in recent trading sessions. The late 2019 breakdown was similar to that seen in late 2015/2016.
- In 2016, the shift into Value began when the US economy underwent a growth scare early in the year and continued late in the year when economic angst receded and investors became more confident that the Fed would soon start hiking rates again, which was interpreted as a positive for Financials and helped the Value trade keep going.



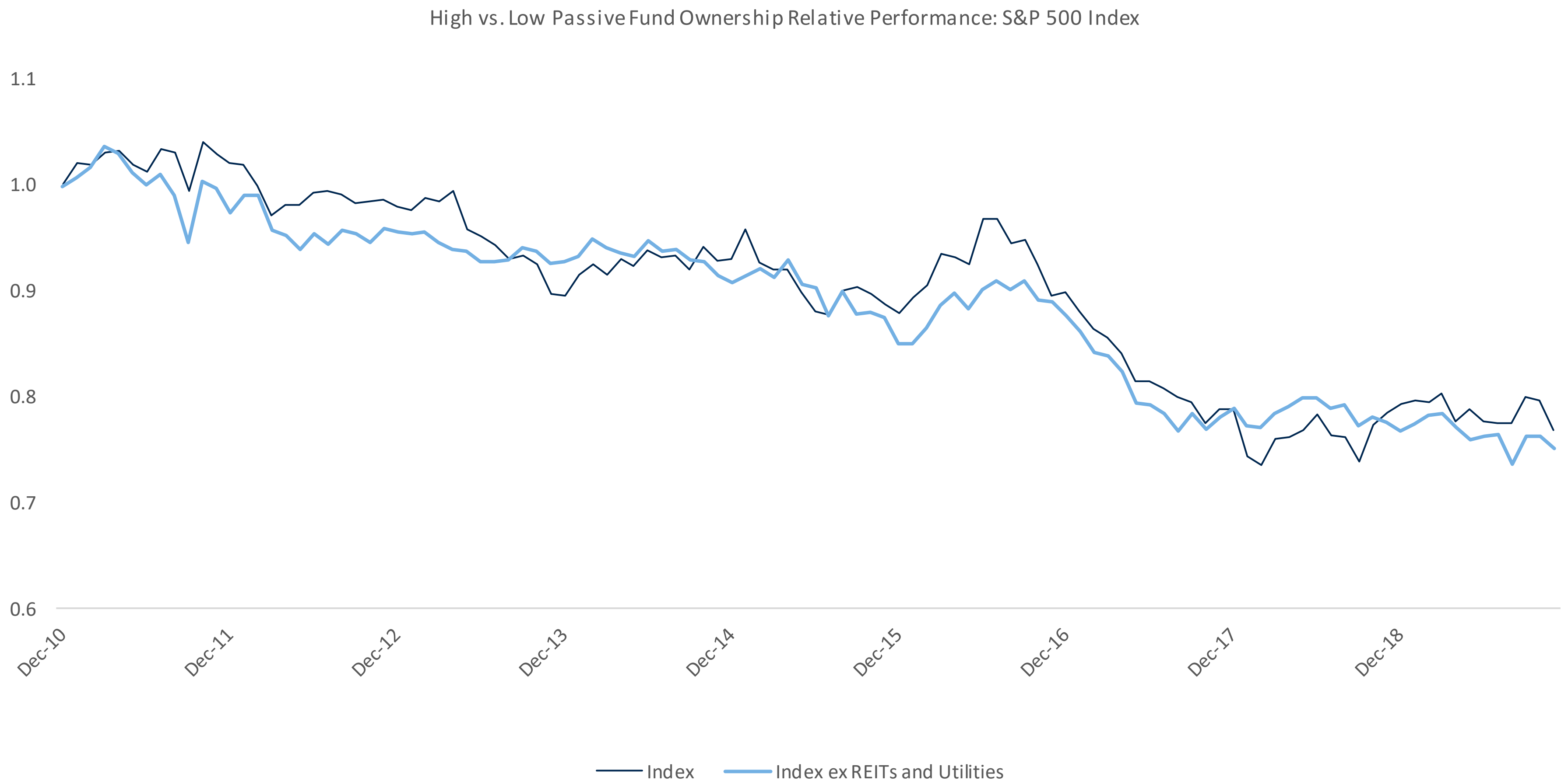


Source: RBC US Equity Strategy, Bloomberg: Pure factor returns are generated by a multi-factor risk model that calculates the return associated with 1 standard deviation of additional exposure to a particular style factor, while assuming market neutral exposure to all other style and industry factors.

Historical S&P 500 Performance by Passive/ETF Ownership

Key Takeaways

- Stocks within the S&P 500 that have been most heavily owned by ETFs/passive funds have underperformed since 2010.
- Over the last two years, there's been no clear bias toward high or low ETF/passive exposure.



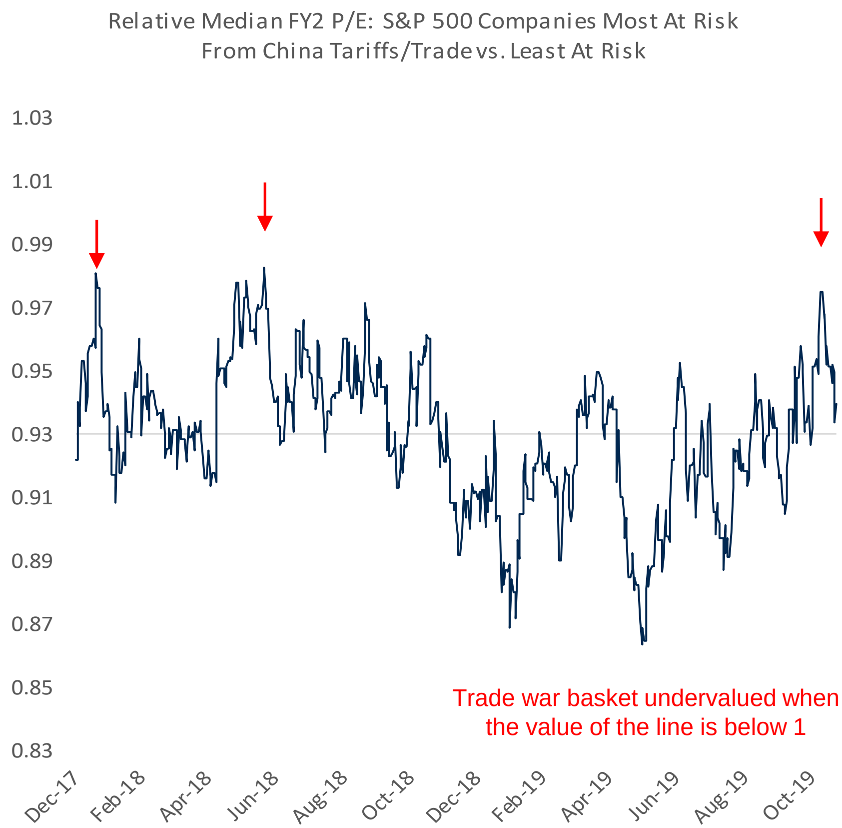
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, Morningstar

Methodology notes: Ownership is based on percentage of float market cap owned by passive funds / ETF's; performance captures top quintile of % ownership relative to bottom quintile of % ownership

A Better Outlook For The China Trade War Has Been Baked In

Key Takeaways

- S&P 500 companies most at risk from the China tariffs/trade war (based on our review of earnings transcripts during the last three reporting seasons) underperformed in late April / May when trade talks broke down but outperformed again in June and July. This basket underperformed again in August ahead of the last round of tariff escalation, but outperformed through mid-September as trade tensions cooled. After pausing briefly, in October and early November this basket outperformed again, surging above both July's high and April's peak. In late November, performance has weakened again. Additionally, the most at risk names no longer look undervalued relative to the least at risk names on P/E, a key difference from 2Q and August.
- Relative performance and valuation of the most at risk names essentially returned to 1Q18 /pre China trade war levels in early November.



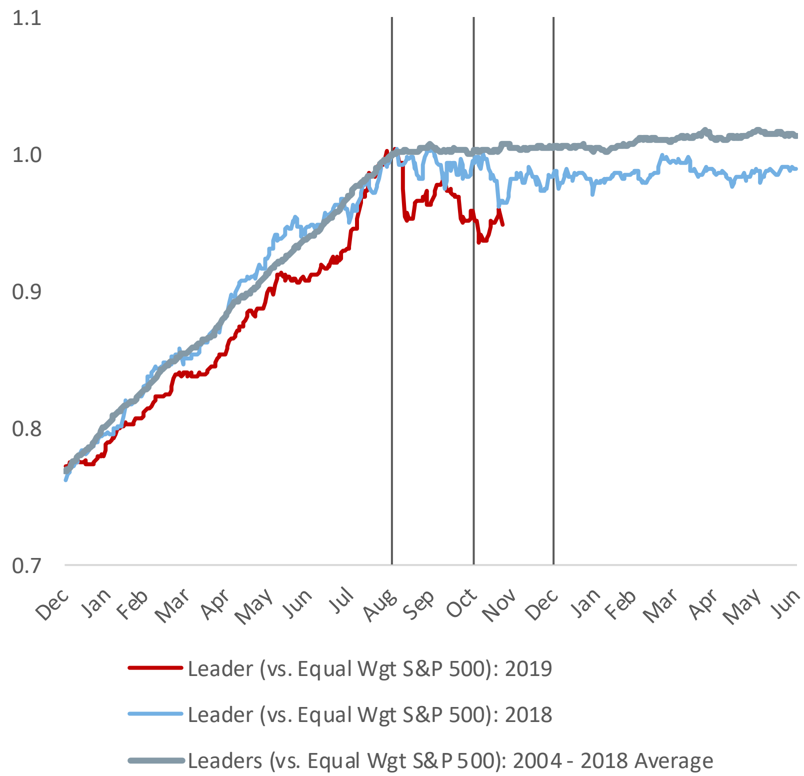
Source: RBC US Equity Strategy, Alphasense, S&P Capital IQ/ClariFi

Market Leaders Stumbled Have Stumbled Hard In Late 2019, But Are Attempting To Bounce Back

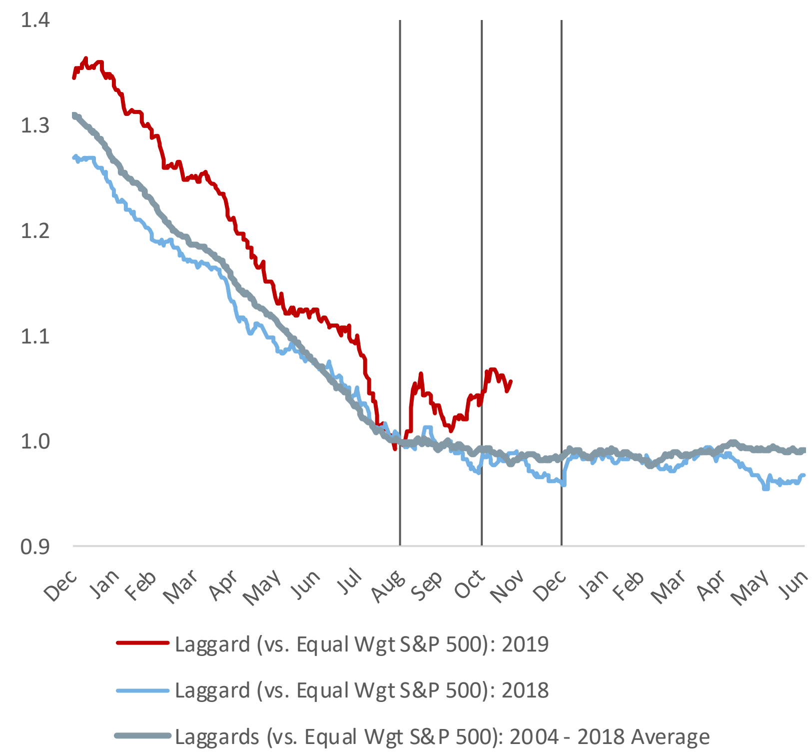
Key Takeaways

- The best-performing stocks in the S&P 500 (based on YTD performance through the end of August) underperformed sharply in late August / early September, while the laggards caught a bid. These trades have reversed course several times over the past few months. In November, the old leadership has been working again, while the old laggards have come under pressure again.

Leaders Trade: Relative Performance Around Year End
Top Quintile Of S&P 500, Ranked By YTD Performance Through End Of August



Laggards Trade: Relative Performance Around Year End
Bottom Quintile Of S&P 500, Ranked By YTD Performance Through End Of August

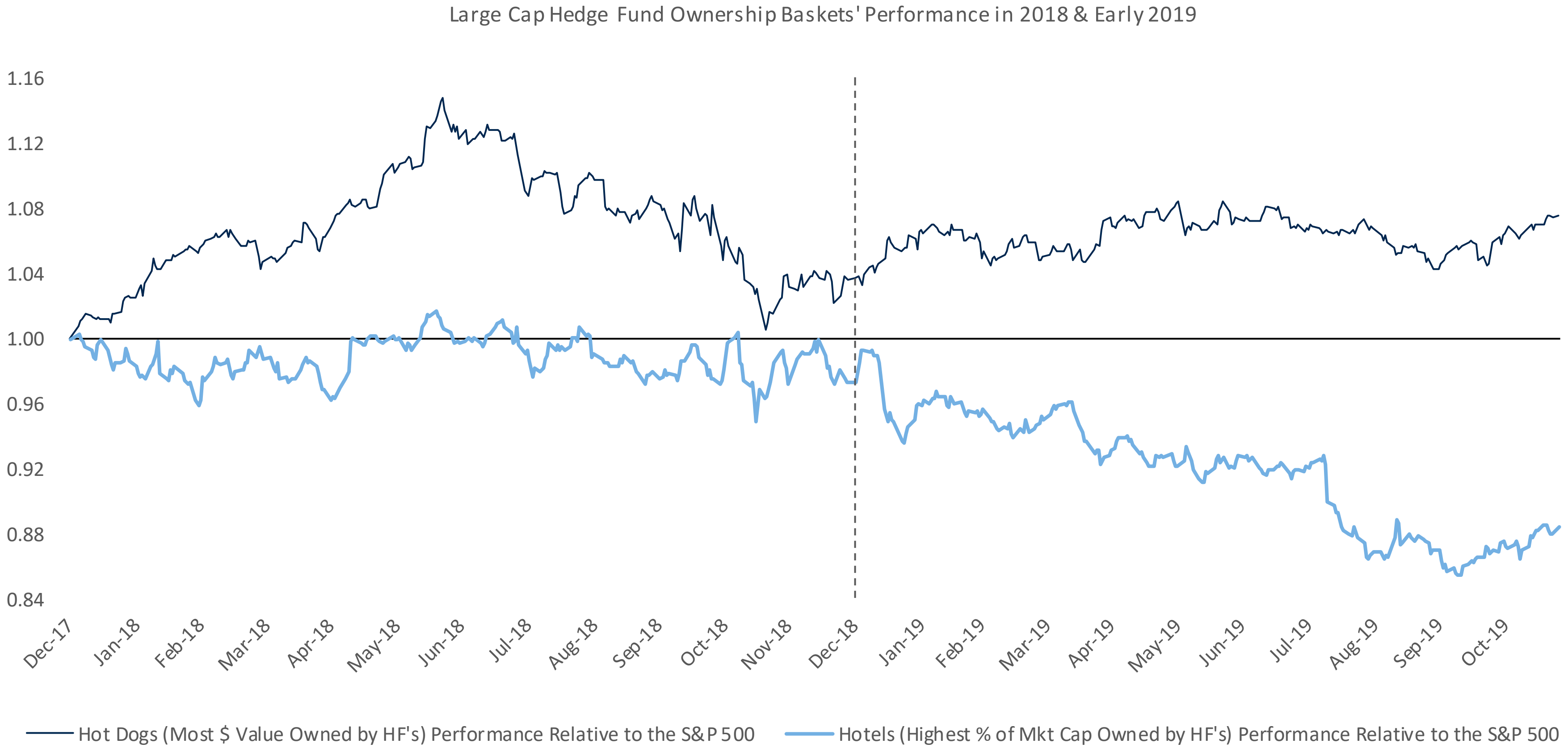


Source: RBC US Equity Strategy, Alphasense, S&P Capital IQ/ClariFi, CIQ estimates, Compustat

S&P 500 Stocks with Heavy Hedge Fund Ownership Lagged In 3Q, Have Improved In 4Q

Key Takeaways

- After lagging sharply in 2H18, the Hot Dogs have outperformed in early 2019. They struggled again in 3Q19, but have bounced back so far in 4Q.
- The Hotels underperformed in 2H18 as well and have continued to lag in 2019, with underperformance deepening as the year has progressed. Trends have improved recently.



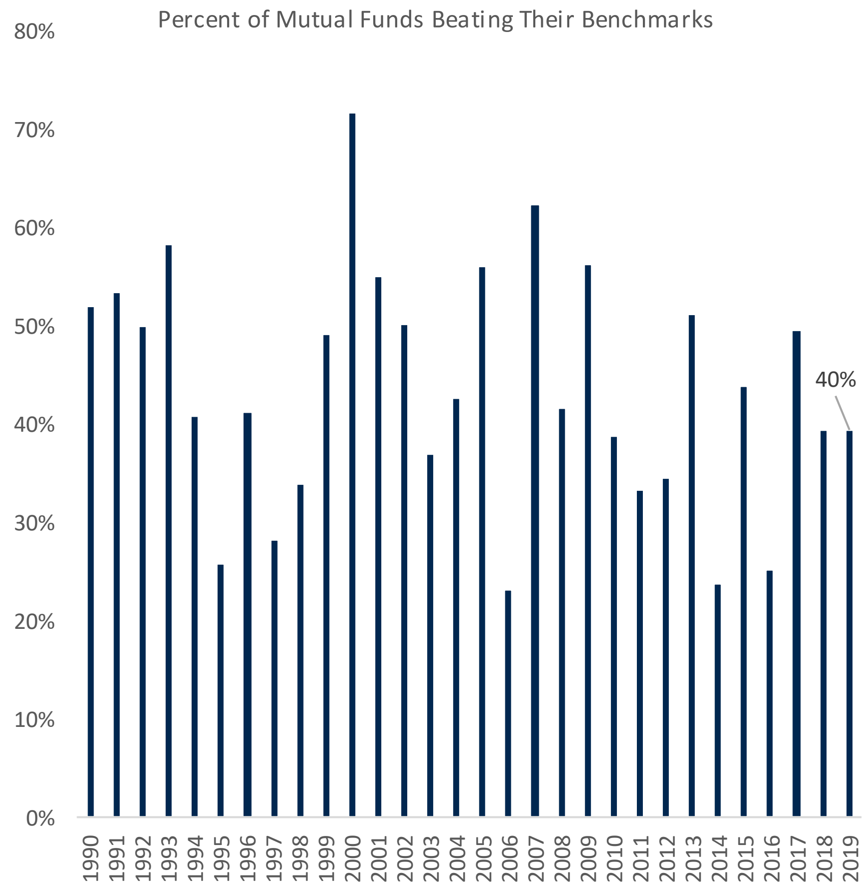
Methodology notes: Rebalanced quarterly; equal weighted daily total returns basket against market cap weighted S&P 500; latest holdings data drawn from 3Q19 13f filings for 361 hedge funds, with significant investments in US equities, both diversified and sector-focused funds, all strategies.

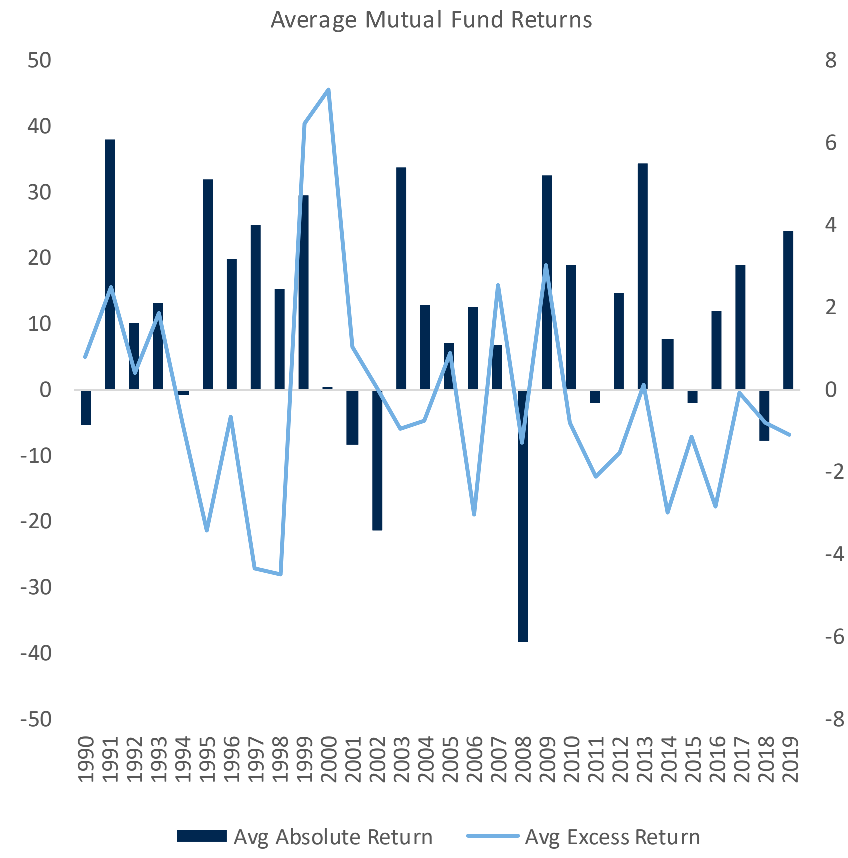
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi

Less Than Half of Actively Managed Funds Are Outperforming in 2019

Key Takeaways

- By our count, less than half of actively managed funds tracked by Morningstar are beating their benchmarks in 2019 as of late November, on par with. 2018.
- Absolute returns have been strong, and slightly higher than 2017.





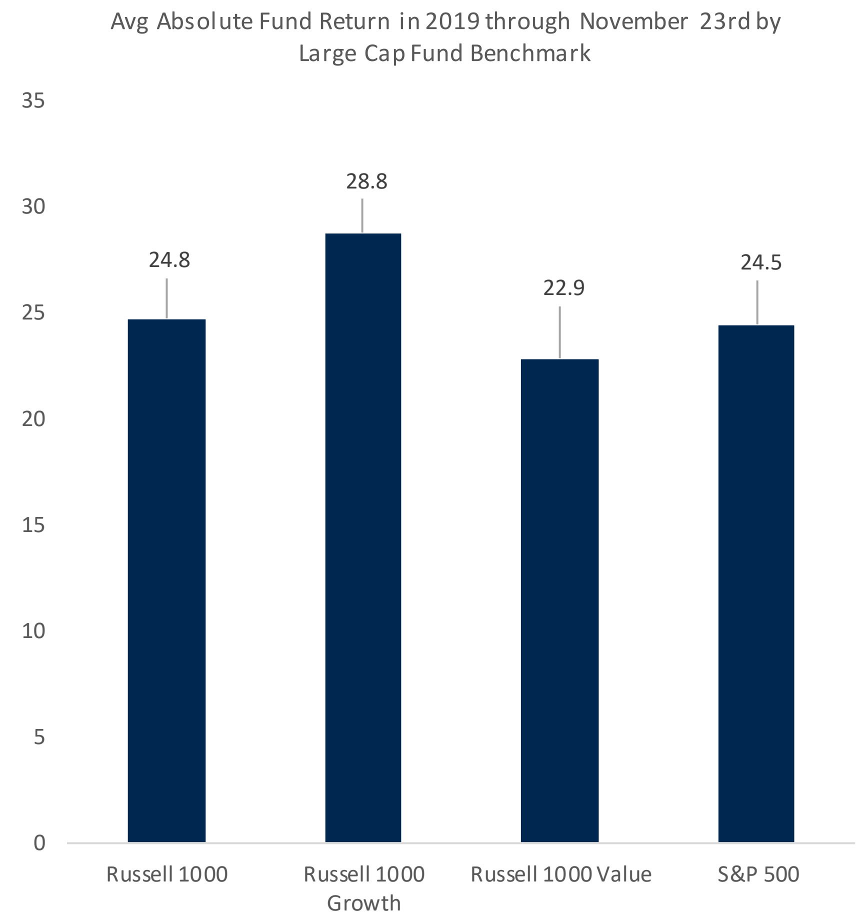
Note: Data includes funds from all size and style segments relative to the fund's own respective benchmark

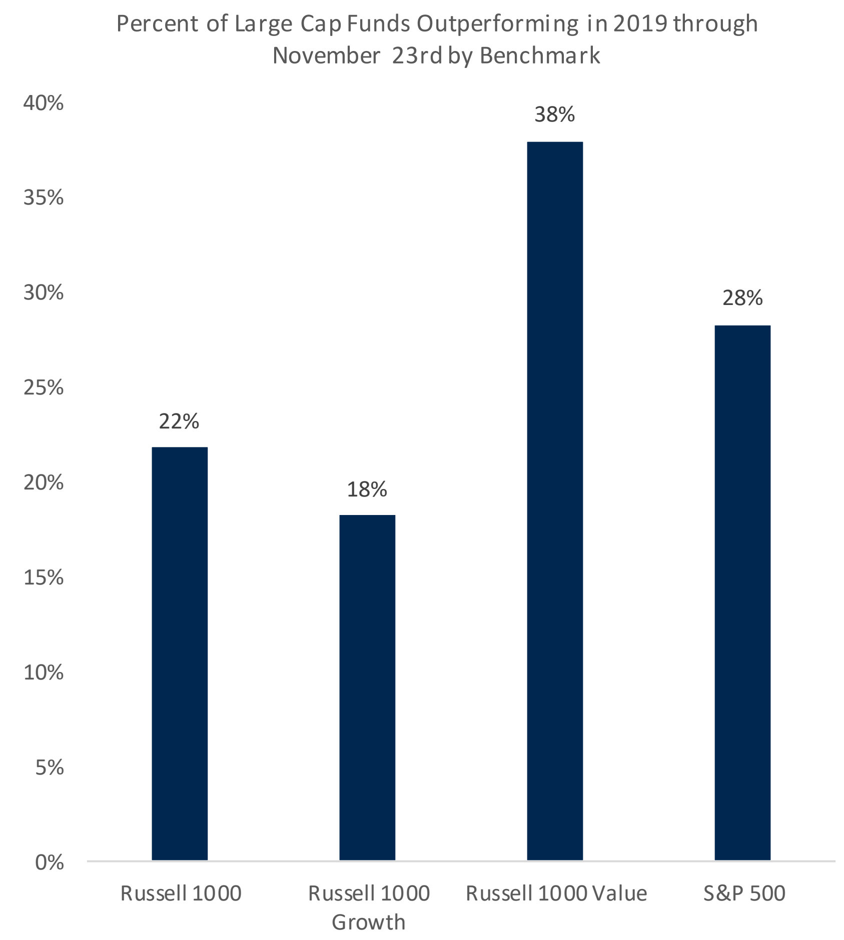
Source: RBC US Equity Strategy, Morningstar

Growth Funds Have Best Absolute Returns in 2019, But Value's Been Best vs. Benchmark

Key Takeaways

- Through late November, Growth funds still have an advantage on absolute returns for the year. Value and broad market benchmarked fund returns are also strong but are a clear step behind.
- Relative to their benchmarks, no category has crossed the 50% threshold. Value has been a bit stronger than other categories on this basis, but still well below the 50% threshold.





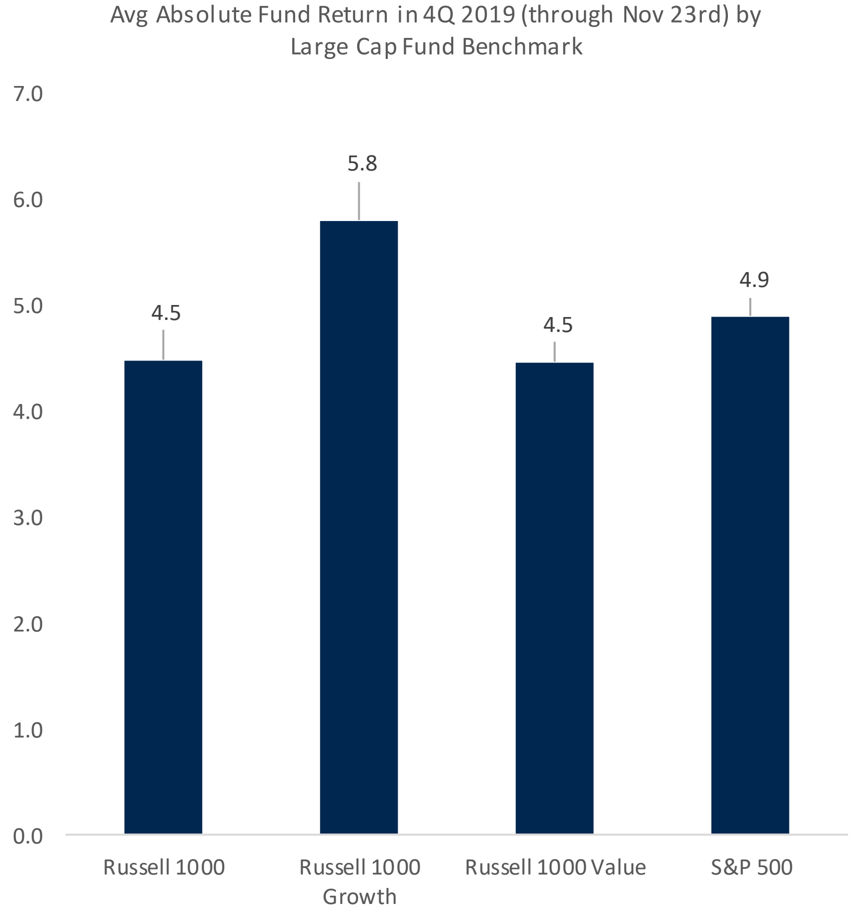
Note: Based on broad market US equity funds, actively managed only. Does not include index funds, ETFs, sector-focused funds. Compared to fund's stated primary benchmark rather than Morningstar category.

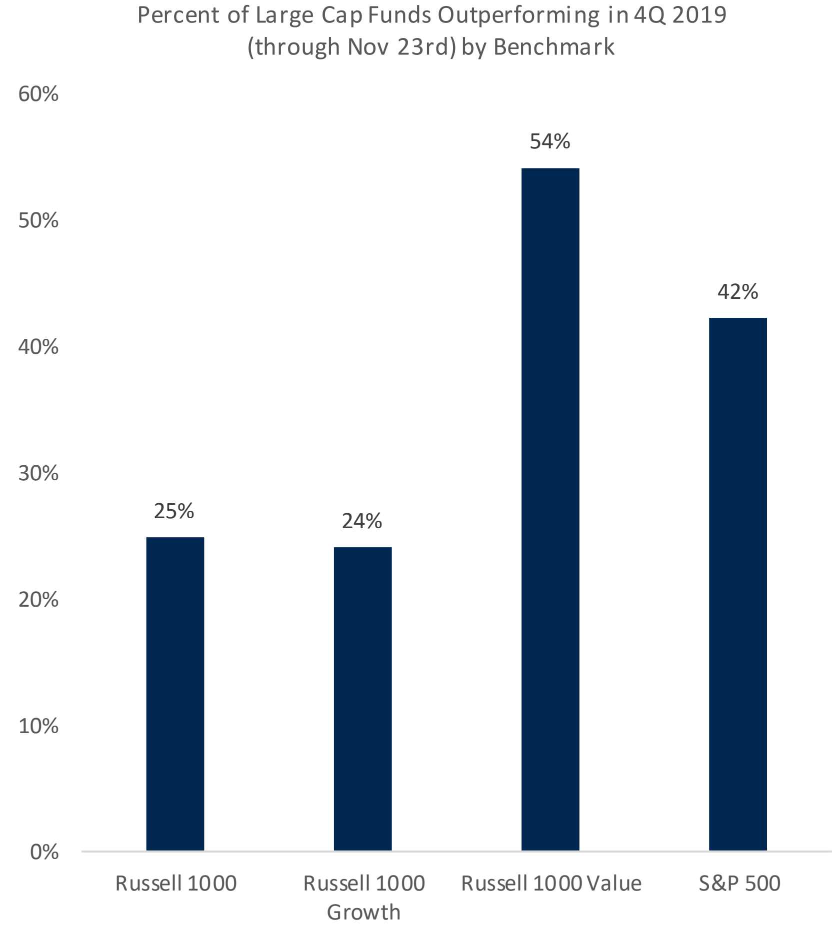
Source: RBC US Equity Strategy, Morningstar

Growth Funds Have Best Absolute Returns in 4Q19, But Value's Been Best vs. Benchmark

Key Takeaways

- Growth funds are bouncing back in 4Q in terms of absolute performance, but most are lagging their benchmark.
- Value funds have not been quite as strong in absolute returns, but the majority are outperforming their benchmark.
- Funds that benchmark to the S&P 500 have seen absolute returns on par with Value funds, but like Growth funds most are underperforming during 4Q19.





Note: Based on broad market US equity funds, actively managed only. Does not include index funds, ETFs, sector-focused funds. Compared to fund's stated primary benchmark rather than Morningstar category.

Source: RBC US Equity Strategy, Morningstar

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