

# North American Focus List

Quarterly report



Wealth Management  
Dominion Securities

March 1, 2024

Portfolio Advisory Group – Equities

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## Sustained investor enthusiasm brings a strong start to the year

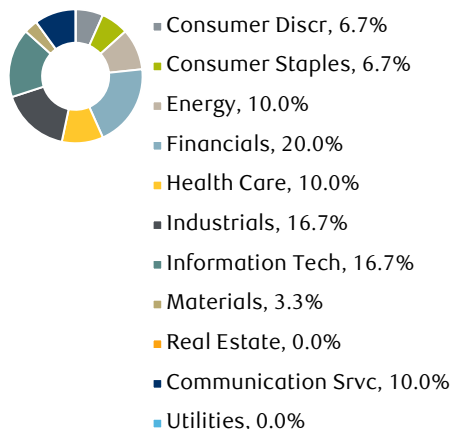
The U.S. and Canadian equity markets both finished the quarter ended Feb. 29 in the green. Investor enthusiasm has not faded through the S&P 500's advance of roughly 41% from its October 2022 bear market low, as the risks have continued to tilt away from recession and toward a soft landing.

The market is optimistic about falling inflation, and the two countries' central banks appear to be shifting their focus to the question of how to time interest rate cuts without reigniting it. Although the U.S. Federal Reserve kept interest rates

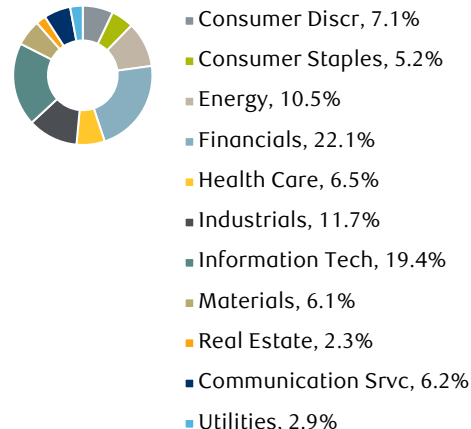
unchanged in February, the markets assume rate cuts are coming and are currently pricing in three by the end of the year. However, hotter-than-expected January U.S. inflation data underscored risks that inflation could drift higher, or at least remain sticky and above the Fed's 2% target for a prolonged period. The Bank of Canada (BoC) continues to take a more cautious approach to the pivot from hiking to cutting than the Fed, and only abandoned the prior statement that it "remains prepared to raise the policy rate further if needed" at its last meeting. Encouragingly, Canada's

### Sector weightings: North American Focus List vs. benchmark

North American Focus List



Benchmark



Percentages may not total 100% due to rounding.

Source - RBC Wealth Management, FactSet; data as of market close 2/26/24

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

All values in Canadian dollars and priced as of Feb. 29, 2024, market close, unless otherwise noted.

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

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inflation decelerated more than consensus expectations in January—CPI (Consumer Price Index) growth of 2.9% year-over-year is now within the BoC target range of 1% to 3%.

The U.S. corporate profit backdrop also appears to be improving on the expectation of improving economic fundamentals. Consensus S&P 500 earnings estimates for this year are around \$242, for a year-over-year increase of around 11%. As a result, the forward price-to-earnings multiple for the S&P 500 is roughly 21x, a premium to its long-term average of roughly 15x. The consensus forecast for the S&P/TSX Composite calls for earnings growth of approximately 4% y/y, and the index is trading at what we view as a more reasonable valuation of roughly 14x forward P/E, in line with its long-term average. Notwithstanding the rosy predictions, we see some risks to achieving the expected levels of growth this year, including still-restrictive monetary policies, dampened fiscal support, and a global growth drag from China and the eurozone.

High interest rates are also taking a bite out of consumer wallets, with households increasingly tapping into savings to keep up with inflation, while credit card balances are rising. Supply chain concerns and global shipping costs are on the rise again due to the resurgence of geopolitical tensions in the Middle East, which has forced many vessels to avoid the Red Sea and Suez Canal passage. These regional conflicts also raise the potential for supply disruptions and elevated energy prices. The U.S. presidential election in November 2024 is another source of uncertainty for equity markets.

Looking out to the next 12 months, our view continues to be that a U.S. recession will occur, although our conviction has waned slightly. RBC Global Asset Management Inc. Chief Economist Eric Lascelles now estimates the probability of a recession at 40% for the U.S., and slightly higher for Canada. At this stage of the business cycle, we think investors should be prepared for a wide range of potential economic outcomes. While achieving a soft landing now seems increasingly likely, we believe investors should also be prepared for the possibility that the economy may enter a recession given the aggressive series of rate hikes and tightening credit conditions.

In light of the uncertain macro environment, we recommend maintaining a balanced defensive positioning with selective exposure to growth-oriented stocks. We continue to prefer high-quality companies with a track record of execution, strong balance sheets, ample free cash flow generation, robust competitive moats, and secular growth tailwinds.

### Focus List changes

During the quarter, the Investment Committee added **NVIDIA Corporation (NVDA)** and **Meta Platforms Inc. (META)** to the North American Focus List, and removed **Alphabet Inc. (GOOG)** and **Texas Instruments Inc. (TXN)**. Please see the Feb. 26 change report for more information.

### Performance

The North American Focus List was up 10.26% for the quarter ending Feb. 29, outperforming the blended benchmark by 105 basis points (bps). The outperformance was driven by the Materials and Consumer Staples sectors, partially offset by the Information Technology and Health Care sectors.

### Total return for the winter quarter (12/1/23–2/29/24)

	Total return
North American Focus List	10.26%
Blended benchmark	9.21%
Relative	105 bps

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

Source - FactSet

# Focus List positions

Symbol	Company name	Price 2/26/24	52-wk range	EPS (calendar year)			P/E		Div. yield	Market cap (B)
				2022A	2023A/E	2024E	2023A/E	2024E		
Communication Services										
META*	Meta Platforms Class A	\$481.74	494 - 168	\$13.03	\$20.21	\$23.72	23.8x	20.3x	0.4%	\$1,059.9
T	TELUS	\$23.84	29 - 21	\$1.19	\$0.95	\$1.05	25.1x	22.8x	6.3%	\$35.0
DIS*	Walt Disney	\$107.68	113 - 79	\$3.59	\$3.98	\$4.84	27.1x	22.2x	0.7%	\$197.5
Consumer Discretionary										
AMZN*	Amazon.com	\$174.73	176 - 88	\$0.06	\$2.91	\$4.23	NM	41.3x	0.0%	\$1,815.0
MCD*	McDonald's	\$297.12	302 - 246	\$10.10	\$11.94	\$12.43	24.9x	23.9x	2.2%	\$214.5
Consumer Staples										
COST*	Costco Wholesale	\$745.35	747 - 465	\$13.48	\$14.66	\$16.17	NM	46.1x	0.5%	\$330.7
EL*	Estée Lauder Companies Class A	\$145.02	260 - 102	\$5.33	\$2.84	\$3.26	NM	44.5x	1.8%	\$33.8
Energy										
CNQ	Canadian Natural Resources	\$88.98	93 - 67	\$11.19	\$7.51	\$7.81	11.9x	11.4x	4.5%	\$96.3
SU	Suncor Energy	\$45.68	48 - 37	\$8.44	\$5.10	\$4.64	9.0x	9.8x	4.8%	\$59.2
TRP	TC Energy	\$53.09	57 - 44	\$4.30	\$4.52	\$4.07	11.7x	13.0x	7.2%	\$55.1
Financials										
BMO	Bank of Montreal	\$126.83	132 - 103	\$12.98	\$11.78	\$12.21	10.8x	10.4x	4.8%	\$91.4
BN	Brookfield Corp.	\$55.07	56 - 39	\$3.60	\$4.08	\$4.24	13.5x	13.0x	0.8%	\$90.3
IFC	Intact Financial	\$235.96	237 - 182	\$11.88	\$11.70	\$14.35	20.2x	16.4x	2.1%	\$41.4
MA*	Mastercard Class A	\$474.51	475 - 340	\$10.65	\$12.26	\$14.40	38.7x	32.9x	0.6%	\$439.3
RY	Royal Bank of Canada	\$132.32	139 - 108	\$11.22	NA	NA	NA	NA	4.2%	\$185.6
TD	Toronto-Dominion Bank	\$80.73	91 - 76	\$8.30	\$7.95	\$7.89	10.2x	10.2x	4.8%	\$144.6
Health Care										
JNJ*	Johnson & Johnson	\$160.79	176 - 145	\$8.53	\$8.15	\$10.68	19.7x	15.0x	3.0%	\$387.3
TMO*	Thermo Fisher Scientific	\$563.48	593 - 416	\$23.24	\$21.55	\$21.57	26.1x	26.1x	0.3%	\$214.9
UNH*	UnitedHealth Group	\$525.32	555 - 446	\$21.18	\$23.86	\$26.86	22.0x	19.6x	1.4%	\$485.9
Industrials										
CP	Canadian Pacific Kansas City Ltd.	\$116.91	117 - 94	\$3.77	\$3.84	\$4.36	30.4x	26.8x	0.7%	\$108.9
HON*	Honeywell International	\$199.19	211 - 175	\$8.76	\$9.16	\$9.96	21.7x	20.0x	2.2%	\$129.9
TRI	Thomson Reuters	\$214.83	218 - 159	\$3.43	\$4.73	\$4.83	45.5x	44.5x	1.4%	\$97.2
TIH	Toromont Industries	\$127.19	128 - 101	\$5.47	\$6.38	\$6.38	19.9x	19.9x	1.5%	\$10.5
WCN	Waste Connections	\$229.62	232 - 175	\$5.14	\$5.68	\$6.47	40.4x	35.5x	0.7%	\$59.2
Information Technology										
ADBE*	Adobe	\$560.48	638 - 319	\$10.83	\$12.43	\$14.09	45.1x	39.8x	0.0%	\$253.3
AAPL*	Apple	\$181.16	200 - 144	\$6.12	\$6.24	\$6.71	29.0x	27.0x	0.5%	\$2,797.5
CSU	Constellation Software	\$3,754.12	3806 - 2236	\$60.09	\$78.18	\$95.66	48.0x	39.2x	0.1%	\$79.6
MSFT*	Microsoft	\$407.54	421 - 246	\$9.51	\$10.72	\$12.54	38.0x	32.5x	0.7%	\$3,028.2
NVDA*	NVIDIA	\$790.92	824 - 223	\$3.43	\$12.14	\$21.94	NM	36.1x	0.0%	\$1,977.3
Materials										
CCL.B	CCL Industries Class B	\$68.97	72 - 53	\$3.48	\$3.76	\$4.04	18.3x	17.1x	1.7%	\$11.4

Pricing in the above table is determined by the ticker. Data for companies using U.S. tickers (designated by \* in the table) are in U.S. dollars (and for subsequent mentions in the report); data for companies with Canadian tickers are shown in Canadian dollars. In all jurisdictions where RBC conducts business we do not offer investment advice on Royal Bank. Certain regulations prohibit member firms from soliciting orders and offering investment advice or opinions on their own stock. References to Royal Bank are for informational purposes only and are not intended as a direct or implied recommendation for investing in Royal Bank and all related securities. RBC Capital Markets is acting as financial advisor to Royal Bank of Canada in respect of an agreement to acquire HSBC Bank Canada, as announced on November 29, 2022.

Source - FactSet

## Methodology

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

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

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

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

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

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

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

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

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

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## North American Focus List Investment Committee

### Louis Chan, CFA, Portfolio Advisor

louis.chan@rbc.com; RBC Dominion Securities Inc.

### Phil Huang, CA, CPA, CFA, Portfolio Advisor

phillip.huang@rbc.com; RBC Dominion Securities Inc.

### Sunny Singh, CFA, Portfolio Advisor

sunny.singh@rbc.com; RBC Dominion Securities Inc.

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			Count	Percent
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TC Energy (TRP; Outperform; \$53.09)  
TELUS (T; Outperform; \$23.84)  
Thermo Fisher Scientific (TMO; Outperform; \$563.48)  
Thomson Reuters (TRI; Sector Perform; \$214.83)  
Toromont Industries (TIH; Outperform; \$127.19)  
Toronto-Dominion Bank (TD; Outperform; \$80.73)  
UnitedHealth Group (UNH; Outperform; US\$525.32)  
Waste Connections (WCN; Outperform; \$229.62)

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