

U.S. Focus List

Quarterly Report



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Portfolio Advisory Group – Equities

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Market volatility ahead of the U.S. election could present opportunities

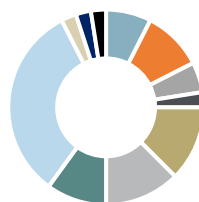
Headlines risks for the broader market likely to remain heightened into the fall.

The April showers brought greener days into the summer. The S&P 500 Index rallied 10% in the quarter ending July 31, following the 4% pullback during April on renewed inflation concerns. Investors were encouraged to see the resumption of progress on taming inflation in May and June, proving the surprise resurgence earlier in the year was driven by more transient factors. In addition to the cooler-than-expected Consumer Price Index data, the more balanced jobs picture in the quarter further alleviated investor concerns of sticky inflation. This also significantly raised market prospects that the U.S. will finally enter the era of interest rate cuts in September, joining most of the other major global central banks.

With the war on inflation gaining ground, we expect investor focus will shift back towards the health of the U.S. economy. Encouragingly, strength in the service sectors and payroll data continues to help offset weakness in the manufacturing sectors and retail sales. Manufacturing is in a contraction, while services—which is a bigger component of the U.S. economy—remains on a growth trajectory. The economy is continuing to add jobs but is rebalancing

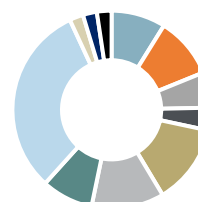
Sector weightings: U.S. Focus List vs. the S&P 500

U.S. Focus List



- Comm. Serv., 7.5%
- Cons. Discr., 10.0%
- Cons. Stap., 5.0%
- Energy, 2.5%
- Financials, 12.5%
- Health Care, 12.5%
- Industrials, 10.0%
- Info. Tech., 32.5%
- Materials, 2.5%
- Real Estate, 2.5%
- Utilities, 2.5%

S&P 500



- Comm. Serv., 8.9%
- Cons. Discr., 10%
- Cons. Stap., 5.8%
- Energy, 3.7%
- Financials, 13.1%
- Health Care, 11.9%
- Industrials, 8.4%
- Info. Tech., 31.4%
- Materials, 2.2%
- Real Estate, 2.3%
- Utilities, 2.4%

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

All values in U.S. dollars and priced as of July 31, 2024, market close, unless otherwise noted.

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

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Source - RBC Wealth Management, Bloomberg; data through 7/31/24; may not sum to 100% due to rounding

in a healthier direction, in our view. The U.S.'s growing ambitions in artificial intelligence are also driving a significant expansion of investments across all sectors in this emerging technology, helping to support the overall economy.

On the U.S. election front, former President Donald Trump survived an assassination attempt, while President Joe Biden made the tough decision to drop out of the presidential race amid growing public concerns towards his health and pressure from his donors. Vice President Kamala Harris is now the Democratic nominee with merely three and a half months to prepare for the election. The election's uncertain outcome has led some market participants to focus more closely on how the U.S. and global economies would fare with potential new tariffs and a more protectionist America under a potential second Trump term.

From our vantage point, the Technology sector was among the most impacted from the recent political developments—although other factors have also weighed on the sector and the overall U.S. equity market recently. We noticed that semiconductor stocks sold off globally in mid-July following Trump's comments in an extensive Bloomberg News interview that led some political observers to question his support for Taiwan. Taiwan Semiconductor Manufacturing Co. (TSM), as well as its customers such as NVIDIA Corporation (NVDA) and Advanced Micro Devices Inc. (AMD), saw significant selling pressure. Separately, multiple media outlets, including Bloomberg, reported the Biden administration is considering whether to impose tougher trade rules on semiconductor companies in order to further restrict them from doing business in China, which further weighed on the sector. These negative headlines, along with growing investor hopes of earlier and more rapid rate cuts from the U.S. Federal Reserve, triggered a broader rotation out of some of the more overbought Technology names, and into more value or smaller-cap names.

While we believe the stretched valuations in the Technology sector have partly contributed to the recent pullback, we also believe investor concerns over political narratives are historically often overdone, particularly during election years. We view these largely as headline risks that could increase stock market volatility but do not change our broader investment thesis. We expect headline risks for the broader market to remain heightened into the U.S. election. We would recommend using any material pullbacks as potential opportunities to increase allocations to high-quality names on the Focus List.

Focus List performance

The U.S. Focus List returned 10.25% for the three months ending July 31, outperforming the S&P 500 by 20 basis points. The Focus List's outperformance in Health Care and Industrials was partly offset by underperformance in Consumer Discretionary and Communication Services.

Focus List changes

During the quarter, we raised our weight in NVIDIA Corporation (NVDA) to 5% from 2.5% and introduced Accenture plc (ACN) at a 2.5% position. To make way for these changes, we removed our 2.5% positions in McDonald's Corporation (MCD) and Medtronic plc (MDT).

Portfolio positions

Symbol	Company name	Position weight	Price 7/31/24	52-wk range	EPS (calendar year)			P/E		Div. yield	Market cap (B)
					2023A	2024E	2025E	2024E	2025E		
Communication Services											
GOOG	Alphabet Class C	2.5%	\$173.15	193 - 121	\$5.80	\$7.90	\$8.84	21.9x	19.6x	0.5%	\$2,120.6
META	Meta Platforms Class A	2.5%	\$474.83	543 - 274	\$20.21	\$22.89	\$26.05	20.7x	18.2x	0.4%	\$1,204.4
DIS	Walt Disney	2.5%	\$93.69	124 - 79	\$4.01	\$4.95	\$5.68	18.9x	16.5x	0.8%	\$170.8
Consumer Discretionary											
AMZN	Amazon.com	5.0%	\$186.98	201 - 118	\$2.91	\$4.94	\$6.27	37.8x	29.8x	0.0%	\$1,945.8
HD	Home Depot	2.5%	\$368.16	397 - 274	\$15.24	\$15.24	\$16.08	24.2x	22.9x	2.4%	\$365.1
NKE	NIKE Class B	2.5%	\$74.86	123 - 71	\$3.65	\$3.49	\$3.40	21.5x	22.0x	2.0%	\$112.2
Consumer Staples											
STZ	Constellation Brands Class A	2.5%	\$245.16	275 - 228	\$11.80	\$13.48	\$14.97	18.2x	16.4x	1.6%	\$44.7
COST	Costco Wholesale	2.5%	\$822.00	897 - 531	\$14.82	\$16.73	\$18.38	49.1x	44.7x	0.6%	\$364.4
Energy											
CVX	Chevron	2.5%	\$160.47	172 - 140	\$13.13	\$12.42	\$14.15	12.9x	11.3x	4.1%	\$295.7
Financials											
JPM	JPMorgan Chase & Co.	5.0%	\$212.80	218 - 135	\$16.16	\$16.81	\$17.02	12.7x	12.5x	2.2%	\$611.1
MA	Mastercard Class A	5.0%	\$463.71	490 - 360	\$12.26	\$14.30	\$16.59	32.4x	28.0x	0.6%	\$427.8
SPGI	S&P Global	2.5%	\$484.73	503 - 340	\$12.60	\$14.59	\$16.32	33.2x	29.7x	0.8%	\$151.7
Health Care											
JNJ	Johnson & Johnson	2.5%	\$157.85	176 - 143	\$8.15	\$9.90	\$11.16	15.9x	14.1x	3.1%	\$380.0
TMO	Thermo Fisher Scientific	5.0%	\$613.34	621 - 416	\$21.55	\$21.74	\$24.12	28.2x	25.4x	0.3%	\$234.1
UNH	UnitedHealth Group	5.0%	\$576.16	582 - 436	\$24.17	\$26.43	\$30.02	21.8x	19.2x	1.5%	\$530.3
Industrials											
HON	Honeywell International	2.5%	\$204.75	221 - 175	\$9.16	\$10.13	\$11.23	20.2x	18.2x	2.1%	\$133.0
RTX	RTX	2.5%	\$117.49	118 - 69	\$5.06	\$5.46	\$6.13	21.5x	19.2x	2.1%	\$156.3
UNP	Union Pacific	2.5%	\$246.73	259 - 199	\$10.45	\$11.14	\$12.50	22.2x	19.7x	2.2%	\$150.3
XYL	Xylem	2.5%	\$133.50	146 - 88	\$3.78	\$4.25	\$4.79	31.4x	27.9x	1.1%	\$32.4
Information Technology											
ACN	Accenture Class A	2.5%	\$330.62	388 - 279	\$11.75	\$12.23	\$13.17	27.0x	25.1x	1.6%	\$207.1
ADBE	Adobe	2.5%	\$551.65	638 - 434	\$12.45	\$14.44	\$16.57	38.2x	33.3x	0.0%	\$244.6
APH	Amphenol Class A	2.5%	\$64.26	71 - 39	\$1.51	\$1.76	\$2.06	36.5x	31.3x	1.0%	\$77.4
AAPL	Apple	7.5%	\$222.08	237 - 164	\$6.25	\$6.80	\$7.53	32.7x	29.5x	0.5%	\$3,405.4
MSFT	Microsoft	7.5%	\$418.35	468 - 309	\$10.80	\$12.54	\$14.34	33.4x	29.2x	0.7%	\$3,109.6
NVDA	NVIDIA	5.0%	\$117.02	141 - 39	\$1.21	\$2.47	\$3.45	47.3x	33.9x	0.0%	\$2,878.7
PANW	Palo Alto Networks	2.5%	\$324.73	381 - 201	\$2.25	\$4.40	\$4.58	NM	NM	0.0%	\$105.1
NOW	ServiceNow	2.5%	\$814.39	850 - 527	\$2.98	\$6.61	\$8.00	NM	NM	0.0%	\$167.8
Materials											
ECL	Ecolab	2.5%	\$230.69	249 - 157	\$5.21	\$6.64	\$7.50	34.7x	30.8x	1.0%	\$65.9
Real Estate											
CCI^	Crown Castle	2.5%	\$110.08	120 - 85	\$7.55	\$6.97	\$6.91	15.8x	15.9x	5.7%	\$47.8
Utilities											
NEE	NextEra Energy	2.5%	\$76.39	80 - 47	\$3.17	\$3.41	\$3.69	22.4x	20.7x	2.7%	\$157.0

^ Adjusted funds from operations (AFFO) instead of earnings per share (EPS).

Source - FactSet and our national research correspondents

In the table above, A stands for actual earnings, E stands for estimated earnings based on FactSet estimates. The U.S. Focus List portfolio does not reflect the returns from actual investments; actual client account returns may differ. Information on removed stocks is available upon request. The U.S. Focus List portfolio is provided as an informational resource and is not intended to be the primary basis for any investment decision. Investors are advised to consider investment objectives, risks, and fees before investing. Investors should also note that commissions, advisory program fees, interest charges, or other expenses will reduce overall return on an investment. Principal value and investment returns will fluctuate; when liquidated, an investor's investment value may be worth more or less than the initial investment amount. Past performance is no guarantee of future results and should not be viewed as an indicator of future results.

Methodology

The Investment Committee members listed on the next page of this report select and monitor the companies included in U.S. Focus List.

The Portfolio is constructed using a combination of top-down sector allocation and bottom-up stock selection. The sector allocation is driven by the US Equity Strategy group at RBC Capital Markets, and designed to structure the Portfolio according to expectations of the economic and investment outlook. The Portfolio will generally offer exposure to most of the 11 GICS sectors underlying the S&P 500 Index.

The bottom-up stock selection is based off a multidisciplined approach that involves fundamental, quantitative, and technical research. Furthermore, a qualitative analysis is undertaken by the Committee, with a particular focus on risk assessment, given the concentrated nature of the Portfolio.

The List consists of positions at either 7.5%, 5%, or 2.5% weights. The universe of companies available for selection encompasses stocks under fundamental research coverage by RBC Capital Markets and third-party research providers. A minimum rating of Hold, or its equivalent, is necessary for inclusion. There is no minimum market capitalization for stock eligibility, though the Portfolio is expected to be broadly large cap in nature. Additions to the Portfolio require average daily reported trading in excess of \$10 million over the prior five days as a minimum liquidity requirement. Cash can be held in lieu of a stock position short term up to a 5% weighting.

Annual Portfolio turnover is targeted to be less than 100% in typical market conditions, but potential for higher turnover exists in periods of unusual market volatility. Given the desire to create a portfolio and not a list of companies, equity selection may be influenced by diversification decisions, including industry weightings, relative valuations, and macroeconomic considerations associated with cyclical markets.

Implementation of changes to the U.S. Focus List

The Investment Committee for the U.S. Focus List will make changes to the Portfolio for any of the following reasons: (1) The fundamentals and business outlook of the included company appear to be diminished compared with prior expectations; (2) the Investment Committee deems the current valuation of the shares as above our fundamental valuation and suggests a switch to another company with a more compelling valuation or to cash; (3) a deterioration in a stock's multidisciplined score; (4) a fundamental downgrade or elimination of opinion by our research sources (noted in the prior section) that warrants removal in the estimation of the Investment Committee; and (5) the desire to include a company whose fundamentals are superior to that of a company currently included in the Portfolio. Stocks will be monitored on those criteria.

Disclosures and disclaimers

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Distribution of ratings – RBC Capital Markets Equity Research

As of June 30, 2024

Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Outperform]	857	57.44	271	31.62
Hold [Sector Perform]	588	39.41	146	24.83
Sell [Underperform]	47	3.15	5	10.64

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Ratings

Outperform (O): Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns

expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy

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

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Accenture (ACN; Outperform; \$330.62)

Adobe (ADBE; Outperform; \$551.65)

Alphabet (GOOG; Outperform; \$173.15)

Amazon.com (AMZN; Outperform; \$186.98)

Chevron (CVX; Outperform; \$160.47)

Constellation Brands (STZ; Outperform; \$245.16)

Crown Castle (CCI; Sector Perform; \$110.08)

Ecolab (ECL; Outperform; \$230.69)

Home Depot (HD; Sector Perform; \$368.16)

Honeywell International (HON; Sector Perform; \$204.75)

Johnson & Johnson (JNJ; Outperform; \$157.85)
 JPMorgan Chase & Co. (JPM; Outperform; \$212.80)
 Mastercard (MA; Outperform; \$463.71)
 Medtronic (MDT; Sector Perform; \$80.32)
 Meta Platforms (META; Outperform; \$474.83)
 Microsoft (MSFT; Outperform; \$418.35)
 NextEra Energy (NEE; Outperform; \$76.39)
 NIKE (NKE; Sector Perform; \$74.86)
 Palo Alto Networks (PANW; Outperform; \$324.73)
 RTX (RTX; Sector Perform; \$117.49)
 S&P Global (SPGI; Outperform; \$484.73)
 ServiceNow (NOW; Outperform; \$814.39)
 Thermo Fisher Scientific (TMO; Outperform; \$613.34)
 Union Pacific (UNP; Outperform; \$246.73)
 UnitedHealth Group (UNH; Outperform; \$576.16)
 Xylem (XYL; Outperform; \$133.50)

Our third-party research providers have fundamental research of:

Amphenol (APH; Overweight; \$64.26)
 Apple (AAPL; Overweight; \$222.08)
 Costco Wholesale (COST; Overweight; \$822.00)
 McDonald's (MCD; Overweight; \$265.40)
 NVIDIA (NVDA; Overweight; \$117.02)
 Walt Disney (DIS; Overweight; \$93.69)

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