

# GLOBAL Insight

## 2024 Outlook



Wealth  
Management

Perspectives from the Global Portfolio Advisory Committee

### A new reality

Sideways stock markets and surging bond yields, set against a backdrop of a possible economic downturn, leave investors entering 2024 faced with a number of continuing challenges but newly rearmed with a traditional, reliable tool to enhance returns and manage risk. We look at how the return of bonds as a valuable complement to stocks in a balanced portfolio has changed the equation, and how investors can adapt. And while today's financial conditions seem to be a recipe for recession, we remain sufficiently committed to equities to take advantage of a realistic possibility large-cap indexes could post new highs in the coming months.

### Key points

- n In the wake of central banks winding up their bond buying programmes, (quantitative easing), bond yields for the first time in more than a decade have moved back to levels that make fixed income a fully useable and desirable adjunct to equities in a balanced portfolio.
- n But much higher bond yields are also adding to costs for businesses, pressuring profit margins, while reducing the spendable income of consumers. Added to already restrictive credit conditions, these raise the probability of recession in the coming year, in our view. But the hard/soft landing debate won't be over for a while—we believe both remain plausible outcomes.
- n The prospect the Fed and other central banks have finished with rate hiking has raised investor hopes that rate cutting may be on the agenda sooner than expected. This has fueled a stock market rally that could set new highs for some of the large-cap indexes before it's done.

### Where the action is

Today, a combination of government and investment-grade corporate bonds is yielding north of five percent. We believe that makes bonds once again a valuable adjunct to equities in a balanced portfolio, providing, as they have traditionally done, a combination of reduced volatility, more predictable returns, and the comfort of a maturity value.

## **What does this new higher bond yield environment mean for equities?**

First, it reduces the need to buy equities for income in order to make a long-term financial plan work.

If individual investors and pension funds find themselves able to achieve their long-term targeted returns and take less risk in the process, many may choose to do so. Lowering equity exposure by a few percentage points and redeploying the funds into fixed income is likely to be a feature of the coming months and quarters.

Second, the need for companies to refinance old loans and take on new ones in this higher-rate world means corporate interest costs are likely to rise, squeezing profit margins if those costs can't be fully passed on to customers.

Only the largest, most seasoned businesses were able to use the pandemic interlude of ultralow interest rates to issue long-term bonds. Many others had to accept shorter maturities. Some 20 percent of high-yield bonds (i.e., bonds of low-quality issuers) will mature in the next 18 to 36 months and will have to be refinanced at higher rates, which for some will likely be difficult. Even more companies are already being squeezed by the fast-rising cost of floating-rate debt. This latter category includes many small-cap companies, which we think goes some way to explaining their persistent underperformance in the stock market over the past year.

And finally, sharply rising borrowing costs reduce the spendable income of customers—both individuals and businesses. Consumers are contending with higher rates for mortgages, auto loans, and credit cards.

## **Debate still on**

Meanwhile, the hard versus soft landing debate about the likely course of the U.S. economy carries on. It won't be settled definitively until the Business Cycle Dating Committee at the National Bureau of Economic Research decides on the official start date of any recession that arrives. That announcement usually comes about a year after the recession has begun-making the proclamation itself not very useful for investors.

For our part, we are persuaded that the combination of high rates and restrictive bank lending standards in place today is a recipe for recession, just as it has been in the past. Soft landings, on the other hand, have historically featured rising interest rates but no overt tightening of lending standards.

Of course, our expectations for a U.S. recession could be misplaced. The pandemic abruptly ended what had been the longest uninterrupted economic expansion in U.S. history. And policy reactions to that public health crisis kick-started a new economic advance just as quickly. Big, decisive shifts in both fiscal and monetary policy over the past few years continue to have lingering effects on the course of the economy, which could persist in 2024. Instead of an outright multi-quarter decline in GDP, the headwinds alluded to above may do no more than keep growth on the slow side in 2024.

That could be enough to keep S&P 500 earnings growing, although probably not by as much as the current consensus estimate for 2024 (\$245 per share, up 11.4 percent from 2023's expected \$220) would suggest. In our opinion, any growth in earnings would leave room for share prices to advance between now and the end of 2024, even if the path for getting there remains in debate.

Stock markets have been rallying recently, after inflation data improved further and the Fed paused its rate hikes, and presumably on the strength of Q3 GDP and earnings growth that was ahead of consensus expectations. It looks to us like the rally could have legs into the new year.

For now, we recommend remaining sufficiently committed to stocks to take advantage of the distinct possibility of some large-cap indexes led by the S&P 500 reaching new all-time highs in the coming few months. However, we believe investors should consider limiting individual stock selections to companies they would be content to own through a recession, which, in our view, is the most probable economic outcome in the coming quarters. For us, that means high-quality businesses with resilient balance sheets, sustainable dividends, and business models that are not intensely sensitive to the economic cycle.

Perhaps the most compelling reason for focusing on resilient, high-quality businesses is that the economic headwinds which have been gathering will, in our view, run their course and probably fully dissipate later in 2024. Equity markets typically have anticipated the start of a new economic expansion several months before it gets underway. In our opinion, portfolios that have held their value to a better-than-average degree will be best-equipped to take advantage of the opportunities that are bound to present themselves when a stronger pace of economic growth reasserts itself.

At some point if a more defensive structuring for a balanced portfolio is called for, having bonds back as a reasonable alternative for an investor looking to take some risk out is a welcome development.

Research resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management’s Portfolio Advisory Group. The RBC Wealth Management Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm’s investment advisors / financial advisors who are engaged in assembling portfolios incorporating individual marketable securities. The Global Portfolio Advisory Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee (RISC), providing additional tactical and thematic support utilizing research from the RISC, RBC Capital Markets, and third-party resources. The RISC consists of senior investment professionals drawn from individual, client-focused business units within RBC, including the Portfolio Advisory Group. The RISC builds a broad global investment outlook and develops specific guidelines that can be used to manage portfolios. The RISC is chaired by Daniel Chornous, CFA, Chief Investment Officer of RBC Global Asset Management Inc.

Global Portfolio Advisory Committee members

- Jim Allworth** – Co-chair Investment Strategist, RBC Dominion Securities Inc.  
**Kelly Bogdanova** – Co-chair Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC  
**Frédérique Carrier** – Co-chair Managing Director & Head of Investment Strategies, RBC Europe Limited  
**Mark Bayko, CFA** – Head, Portfolio Management, RBC Dominion Securities Inc.  
**Rufaro Chiriseri, CFA** – Head of Fixed Income, British Isles, RBC Europe Limited  
**Janet Engels** – Head, Portfolio Advisory Group U.S., RBC Wealth Management, RBC Capital Markets, LLC  
**Thomas Garretson, CFA** – Fixed Income Senior Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC  
**Ryan Harder, CFA** – Fixed Income Portfolio Advisor, Portfolio Advisory Group, RBC Dominion Securities Inc.  
**Patrick McAllister, CFA** – Manager, Equity Advisory & Portfolio Management, Portfolio Advisory Group, RBC Dominion Securities Inc.  
**Alan Robinson** – Senior Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group – U.S. Equities, RBC Capital Markets, LLC  
**Michael Schuette, CFA** – Multi-Asset Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group – U.S., RBC Capital Markets, LLC  
**David Storm, CFA, CAIA** – Chief Investment Officer, BI & Asia, RBC Europe Limited  
**Yuh Harn Tan** – Head of Discretionary Portfolio Management & UHNW Solutions, Royal Bank of Canada, Singapore Branch  
**Joseph Wu, CFA** – Portfolio Manager, Multi-Asset Strategy, RBC Dominion Securities Inc
- Additional Global Insight contributors
- Luis Castillo** – Fixed Income Portfolio Advisor, Portfolio Advisory Group, RBC Dominion Securities Inc.  
**Jasmine Duan** – Senior Investment Strategist, Royal Bank of Canada, Hong Kong Branch  
**Nicholas Gwee, CFA** – Portfolio Manager, Royal Bank of Canada, Singapore Branch  
**Kennard Ling** – Fixed Income Specialist, Royal Bank of Canada, Singapore Branch  
**Thomas McGarrity, CFA** – Head of Equities, British Isles, RBC Europe Limited  
**Shawn Sim** – Head of Fixed Income, Royal Bank of Canada, Singapore Branch  
**Sunny Singh, CFA** – Canadian Equities Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – Equities, RBC Dominion Securities Inc.  
**Richard Tan, CFA** – Canadian Equities Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – Equities, RBC Dominion Securities Inc.  
**Nicolas Wong, CFA** – Head of FX, Asia & BI, Royal Bank of Canada, Singapore Branch

Required disclosures

Analyst Certification

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

Important Disclosures

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

Non-U.S. Analyst Disclosure

One or more research analysts involved in the preparation of this report (i) may not be registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Wealth Management and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2> to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 250 Nicollet Mall, Suite 1800, Minneapolis, MN 55401-1931.

RBC Capital Markets Distribution of Ratings

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

Distribution of ratings – RBC Capital Markets Equity Research

As of September 30, 2023

Rating	Count	Percent	Investment Banking Services Provided During Post 12 Months	
			Count	Percent
Buy [Outperform]	820	55.97	250	30.49
Hold [Sector Perform]	590	40.27	148	25.08
Sell [Underperform]	55	3.75	5	9.09

Explanation of RBC Capital Markets Equity Rating System:

An analyst’s “sector” is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst’s view of how that stock will perform over the next 12 months relative to the analyst’s sector average

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

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

Valuation and Risks to Rating and Price Target

When RBC Capital Markets assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled “Valuation” and “Risks to Rating and Price Target”, respectively. The analyst(s) responsible for preparing this research report have received (or will receive) compensation that is based upon various factors, including total revenues of RBC Capital Markets, and its affiliates, a portion of which are or have been generated by investment banking activities of RBC Capital Markets and its affiliates.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report. RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management or a designated third party will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

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

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; RBC Investment Services (Asia) Limited, a subsidiary of RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Hong Kong, China; Royal Bank of Canada, Singapore Branch, a licensed wholesale bank with its principal office located in Singapore; and RBC Europe Limited, a licensed bank with principal offices located in London, United Kingdom.

### Third-party Disclaimers

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

### Disclaimer

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

**To U.S. Residents:** This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

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

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

**To persons receiving this from Royal Bank of Canada, Hong Kong Branch:** This document is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch which is regulated by the Hong Kong Monetary Authority and the SFC. This document is not for distribution in Hong Kong, to investors who are not “professional investors”, as defined in the Securities and Futures Ordinance (Cap. 571 of Hong Kong) and any rules made under that Ordinance. This document has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Past performance is not indicative of future performance.

**WARNING:** The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Investors are advised to exercise caution in relation to the investment. If you are in doubt about any of the contents of this document, you should obtain independent professional advice.

**To persons receiving this from Royal Bank of Canada, Singapore Branch:** This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This publication is not for distribution in Singapore, to investors who are not “accredited investors” and “institutional investors”, as defined in the Securities and Futures Act 2001 of Singapore. This publication has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch.

©2023 RBC Capital Markets, LLC – Member NYSE/FINRA/SIPC

©2023 RBC Dominion Securities Inc. – Member Canadian Investor Protection Fund

©2023 RBC Europe Limited

©2023 Royal Bank of Canada

All rights reserved

RBC1524