Where Do We Go from Here - 2H outlook

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U.S. economy decisively in “Early-to-Mid cycle” phase

U.S. business cycle scorecard

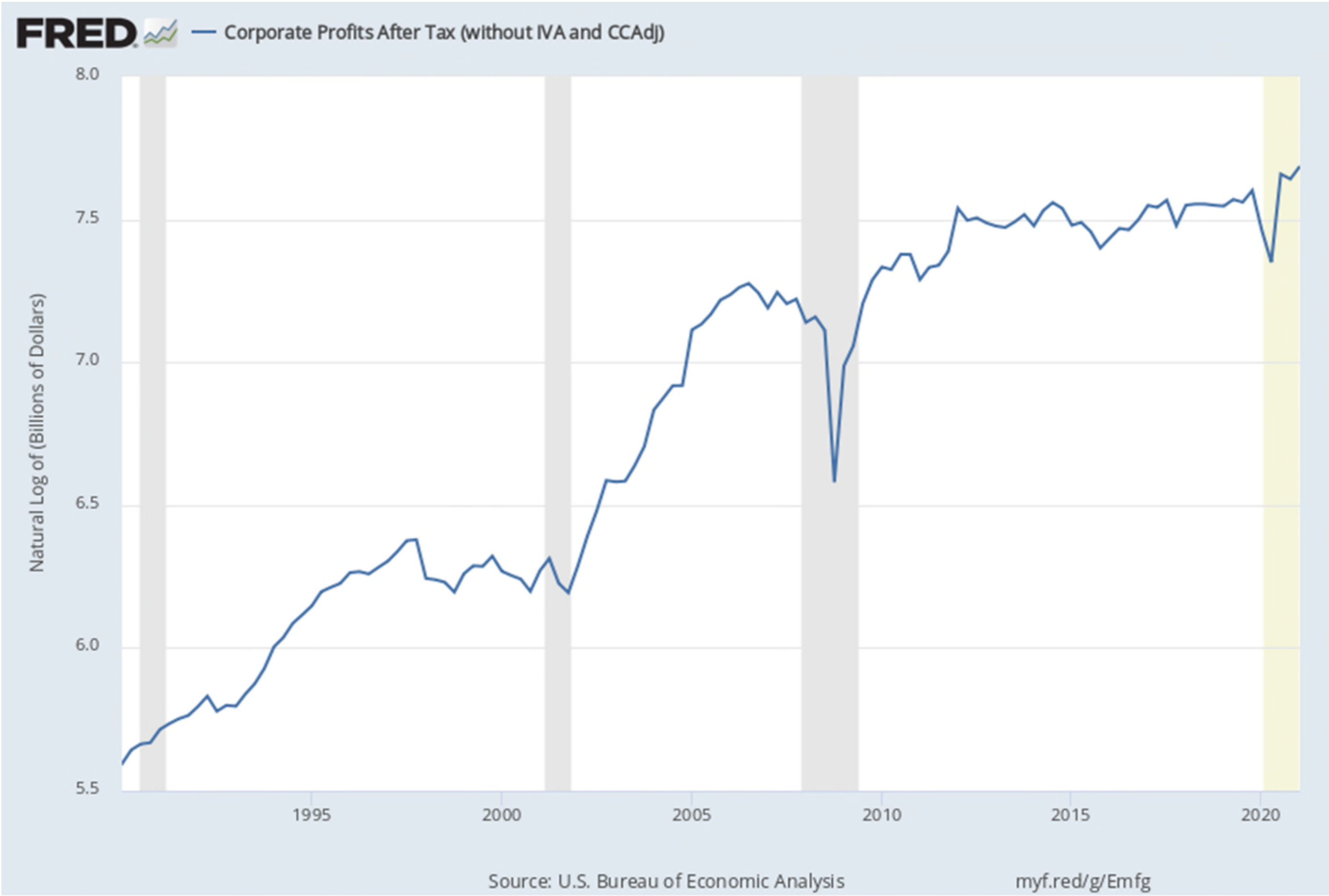
	Start of cycle	Early cycle	Mid cycle	Late cycle	End of cycle	Recession
Bonds						
Employment						
Corporate profitability						
Sentiment						
Credit						
Cycle age						
Leverage						
Inventories						
Monetary policy						
Consumer						
Economic trend						
Housing						
Business investment						
Volatility						
Economic slack						
Equities						
Prices						
Allocation to each stage of cycle	**11%**	**54%**	**22%**	**8%**	**1%**	**4%**

Note: As at 2021-04-29. Darkness of shading indicates the weight given to each input for each phase of the business cycle. Source: RBC GAM

Recession Scorecard

Indicator	Status		
	Positive	*Neutral*	*Negative*
Yield curve (10-year to 1-year Treasuries)	X		
Unemployment claims	X		
Unemployment rate	X		
Conference Board Leading Index	X		
ISM New Orders minus Inventories	X		
Fed funds rate vs. nominal GDP growth	X		

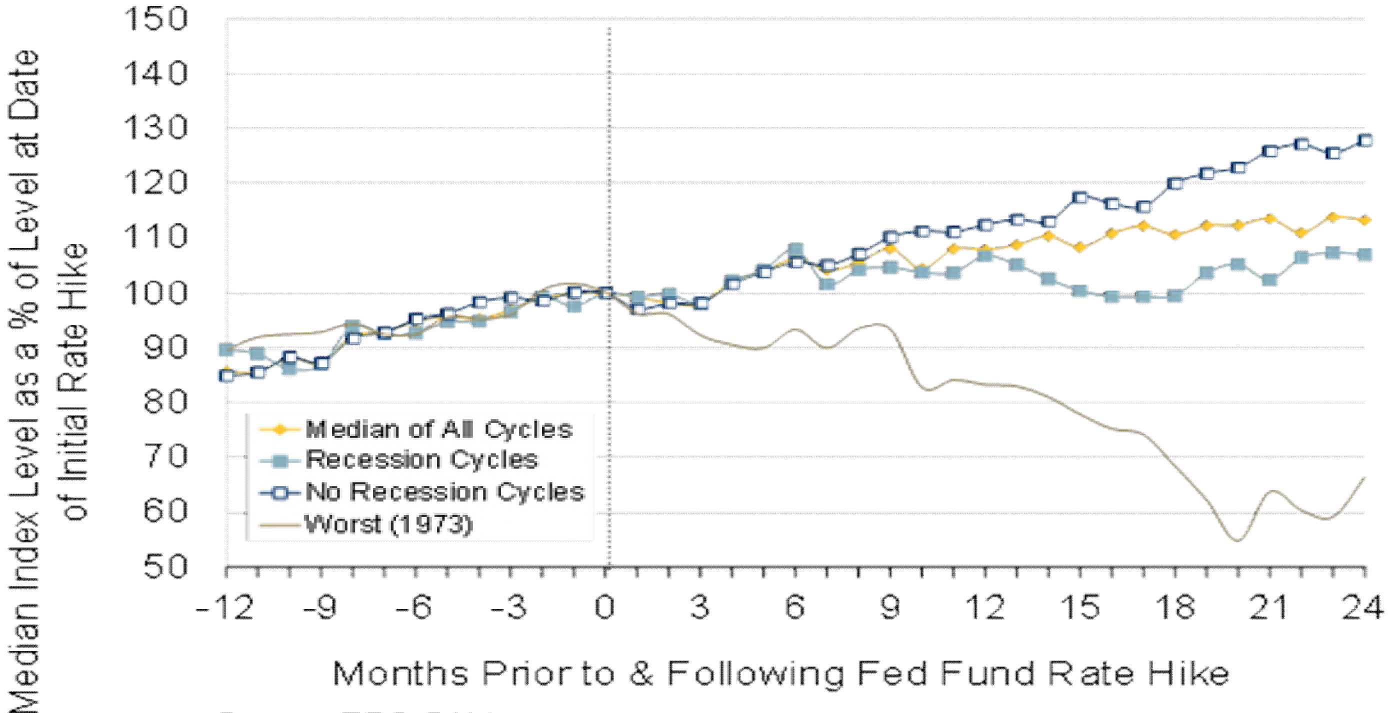
Corporate profits on a National Accounts basis already at new all-time highs…



…Usually a year or so ahead of S&P profits. Peak long before recession begins

S&P 500 and the Fed Funds Rate Hike

Implications for Current Cycle, Following First Rate Hike



Source: RBC GAM

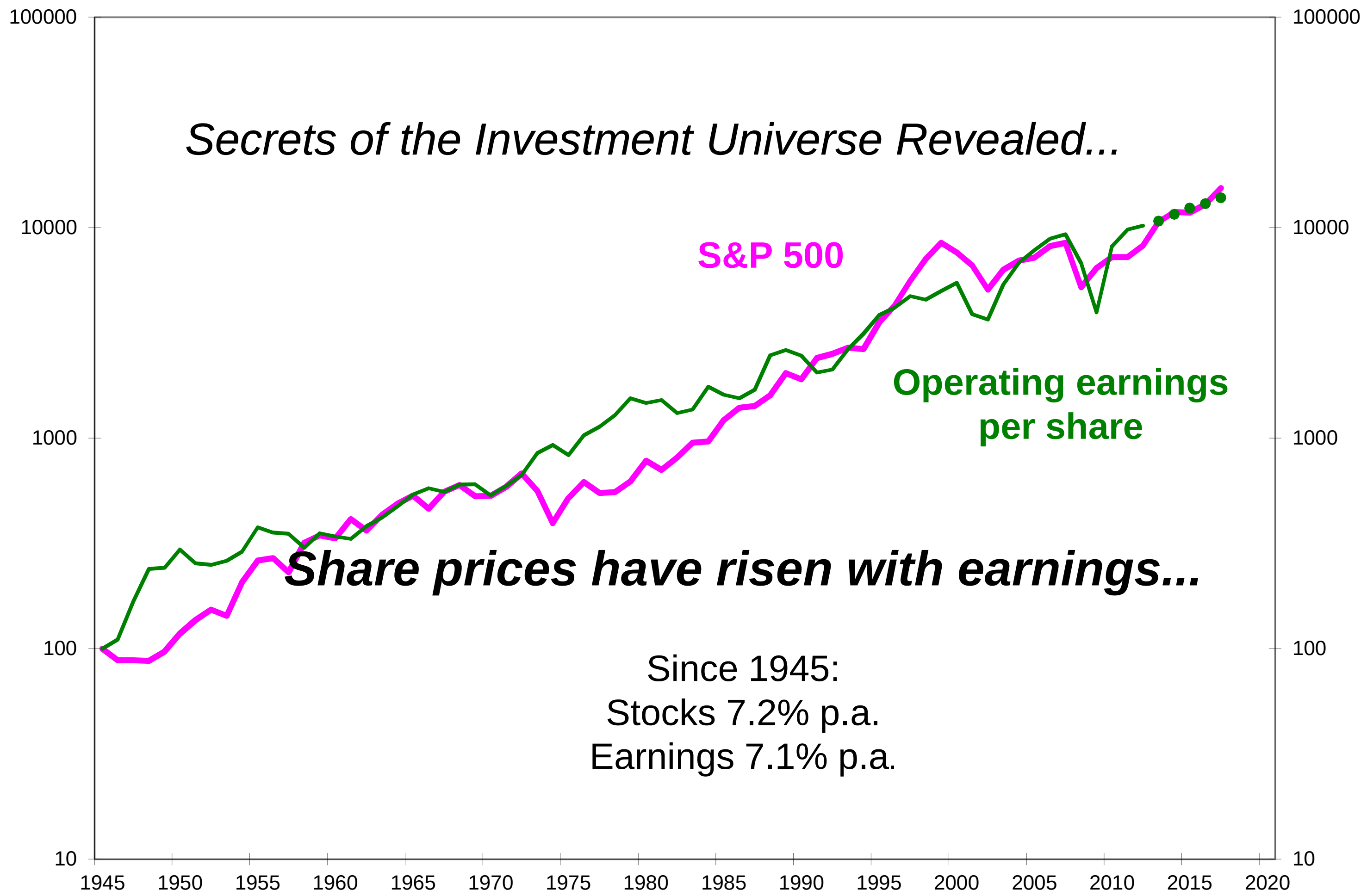
S&P 500 return statistics prior to and following the first rate hike

Data since July 1954

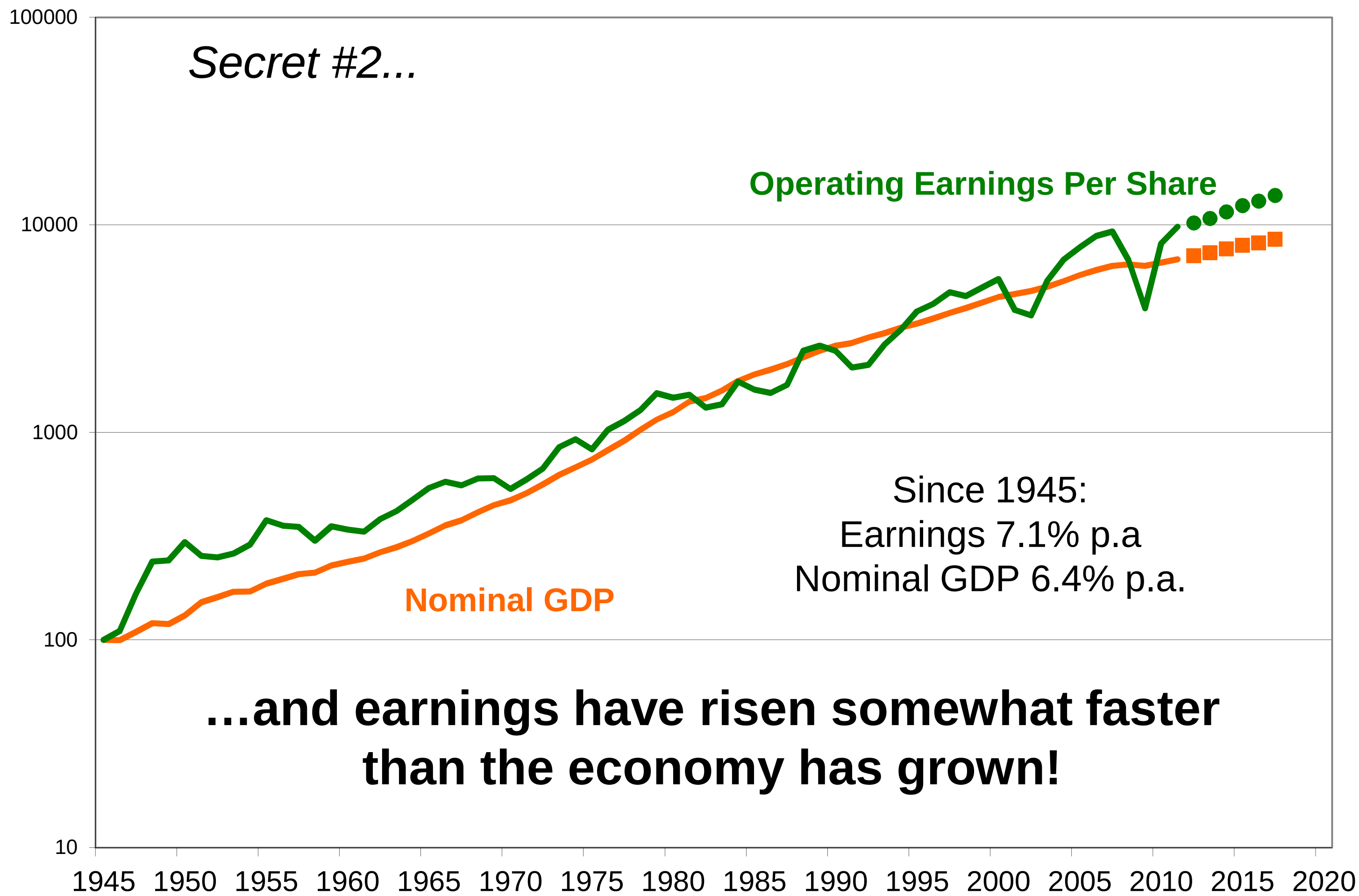
		Median trailing returns (%)			Median forward returns (%)*			
	# of observations	12 months	6 months	-- First rate hike --	6 months	12 months	24 months	36 months
ALL CYCLES								
All cycles	17	16.8	4.4		5.0	8.9	6.3	7.8
No-recession cycles	9	17.1	3.9		4.2	12.4	11.0	7.8
Recession cycles	8	13.2	9.7		5.9	6.4	0.7	6.4

Source: RBC GAM *periods greater than 12 months are annualized

How to pick stocks



Secrets of the Investment Universe Revealed...
S&P 500
Operating earnings per share
Share prices have risen with earnings...
Since 1945:
Stocks 7.2% p.a.
Earnings 7.1% p.a.
100000
10000
1000
100
10
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
2020


Secret #2...
Operating Earnings Per Share
Nominal GDP
Since 1945:
Earnings 7.1% p.a
Nominal GDP 6.4% p.a.
…and earnings have risen somewhat faster than the economy has grown!
100000
10000
1000
100
10
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
2020

Long-term considerations

- CBO forecasts U.S. GDP will grow at just 4-4.5% per annum over the next decade or two. (Nominal growth without adjusting for inflation)
- Much slower than the 65 years following WWII when growth averaged 6.9%+
- Slower growth means more intense competition, even more corporate concentration than we saw in the last decade, sharper distinction between winners and also - rans.
- Portfolios should be populated with stocks where there is a high conviction that sales, earnings, and dividends will grow faster than the economy
- Dividend growth conviction is more important/valuable than yield.
- Beware of value traps – high yield, high payout ratio, high debt, low/no growth.

Thank you

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