



Global Asset
Management

Our North American equity outlook

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RBC Global Asset Management



Playbook Has More Pathways

Soft landing? Fiscal policy dominates monetary? Harder landing? What are markets priced for?

Interest Rates

- Rapid inflation done, structural more of a question mark
- Many indicators suggest inflation contained. Comfortable collecting attractive coupon with an option

Earnings

- Financial conditions have eased with rising markets setting up potential for a broadening of earnings growth in H2 and beyond
- Notably, current earnings forecast inconsistent with a slowdown

Valuations

- Headline vs underlying tells us a mixed message – there are always interesting stocks
- Overall equity risk premium still challenged

Stock Market Returns

- S&P 500 likely below average and more dependent on recession being delayed. Broad market return potential better.
- Dividend yields and dividend growth attractive
- Dollar cost averaging remains a key tool

“A DCF is like the Hubble telescope - turn it a fraction of an inch and you're in a different galaxy.”

- Curtis Jensen



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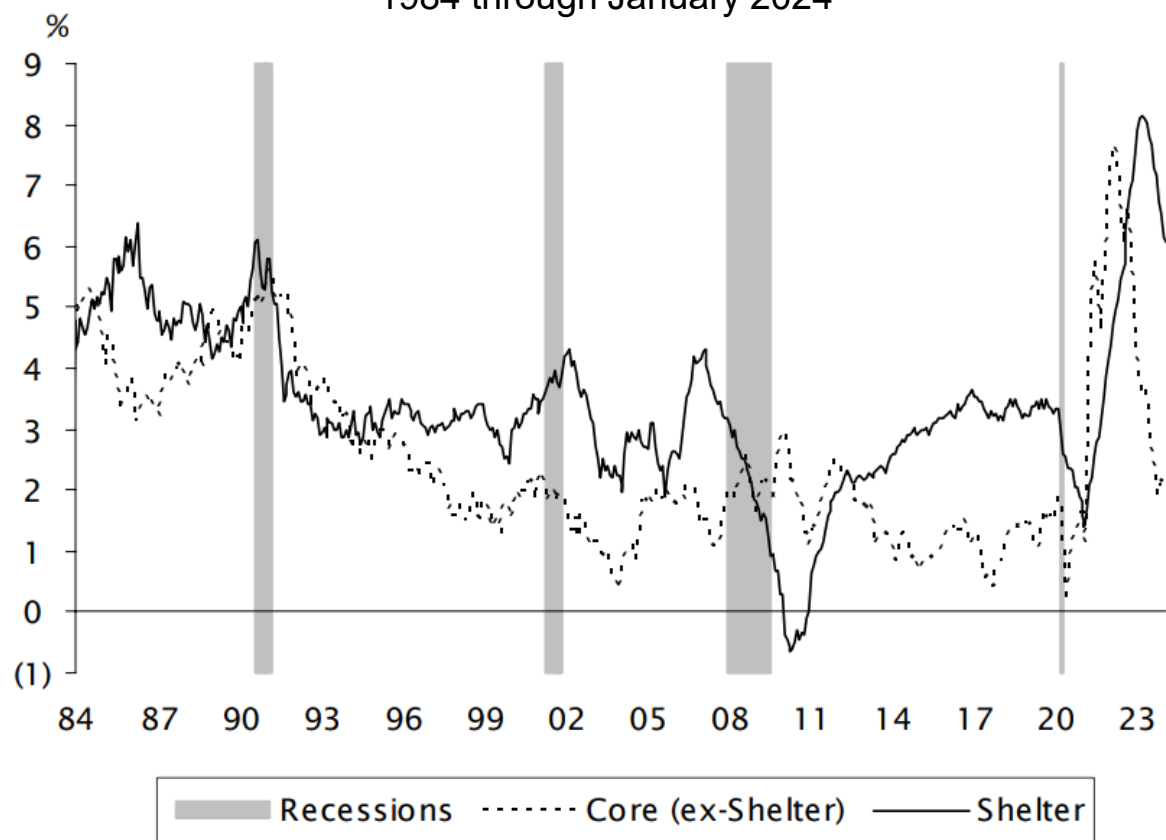
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Inflation Heading in the Right Direction

But likely remains bumpy

The CPI: Core (ex-Shelter) and Shelter
Year-over-Year Changes
1984 through January 2024



Source: Bureau of Labor Statistics, National Bureau of Economic Research, Empirical Research Partners Analysis.

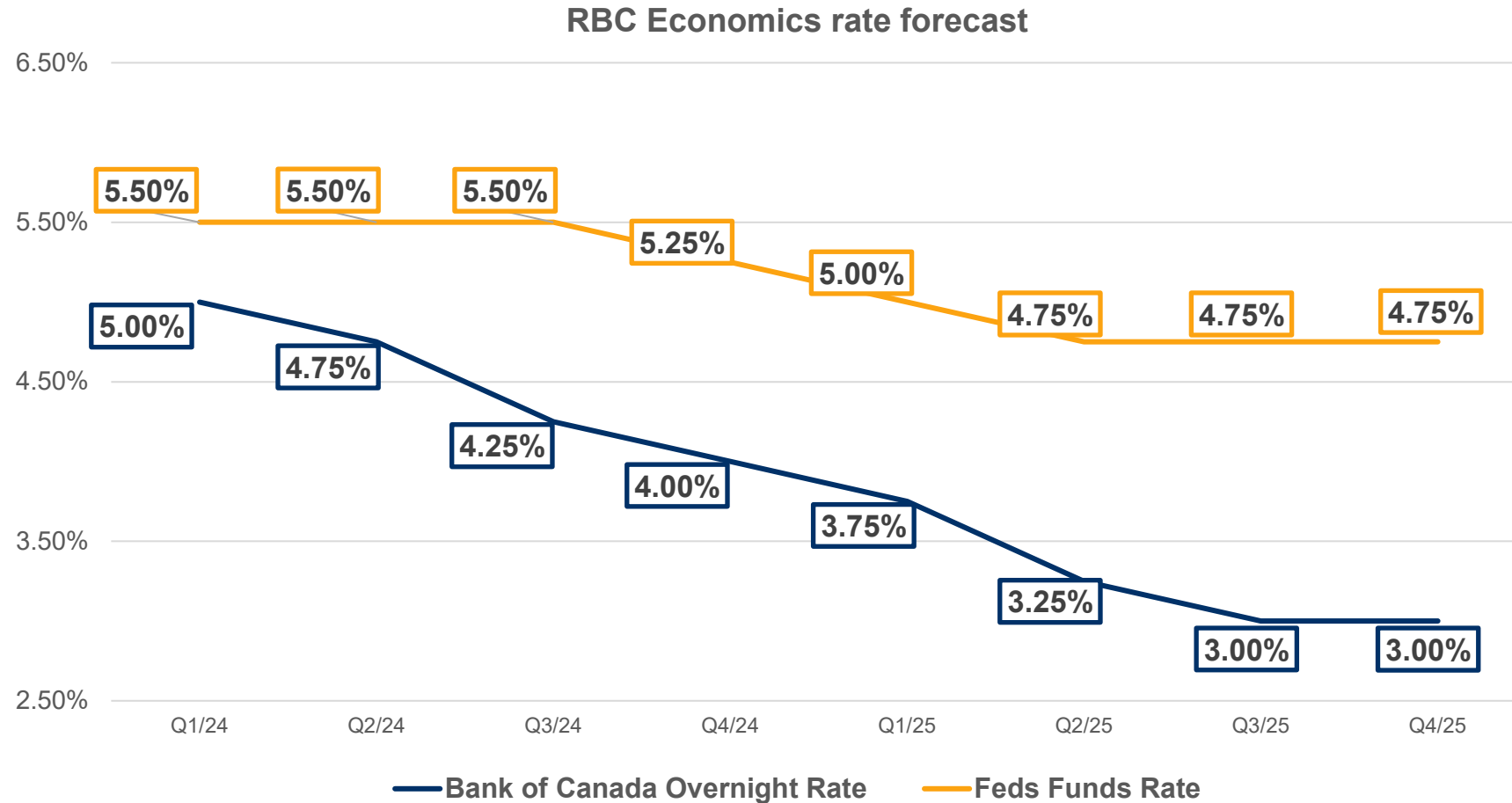
U.S. voluntary separations



Note: As of Feb 2024. Estimates for all private non-farm establishments. Shaded area represents recession.
Source: BLS, Macrobond, RBC GAM.

Canada vs. U.S. - Diverging Rate Outlook

Odds of a no-rate-cut scenario in 2024 have been rising in the U.S.



Source: Bloomberg; as of April 26, 2024

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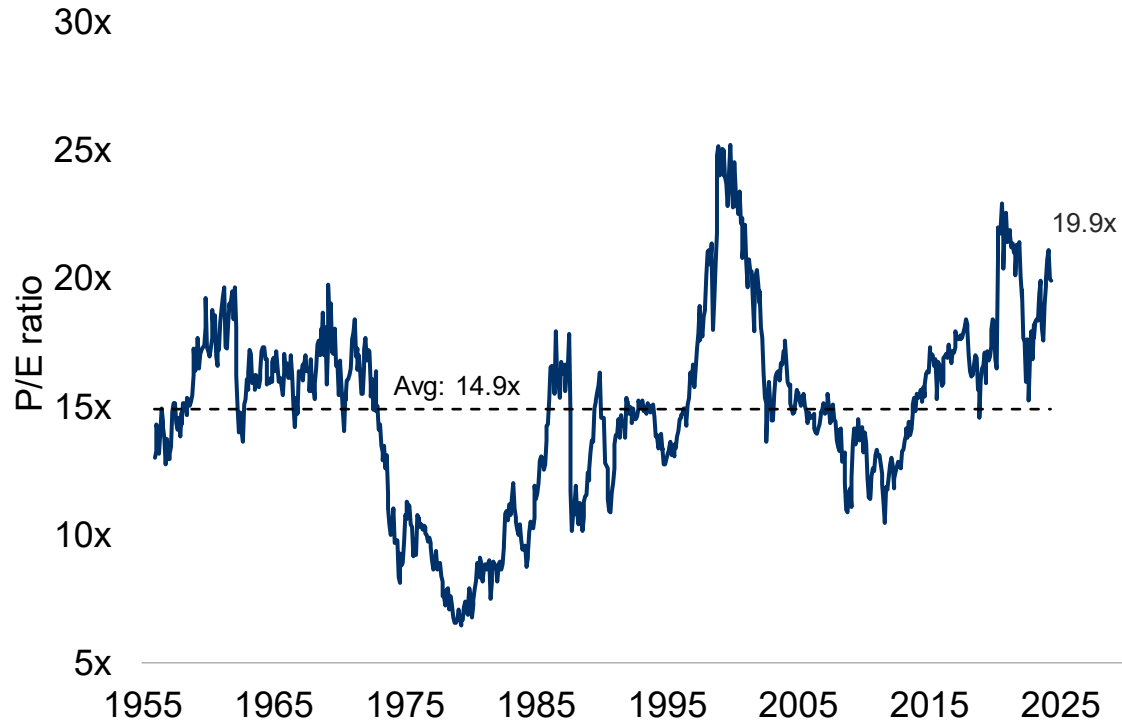
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Valuation is Full in Spots, Closer to Fair in Others

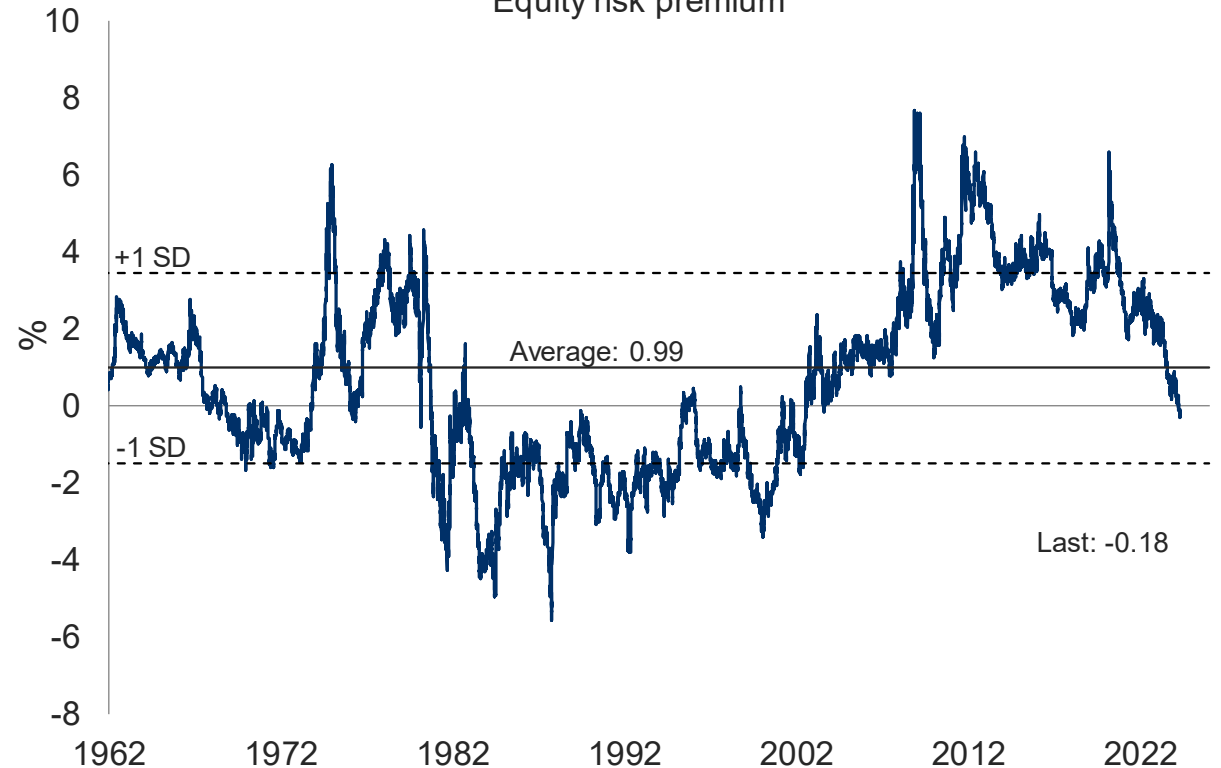
Raises Potential Impact of Inflation but Likely more Dependent on Earnings Growth

S&P 500 Forward 12-month P/E ratio



Note: P/E prior to 1990 is estimated assuming that the 1-year forward earnings are known. As of May 1, 2024. Source: Bloomberg, RBC GAM

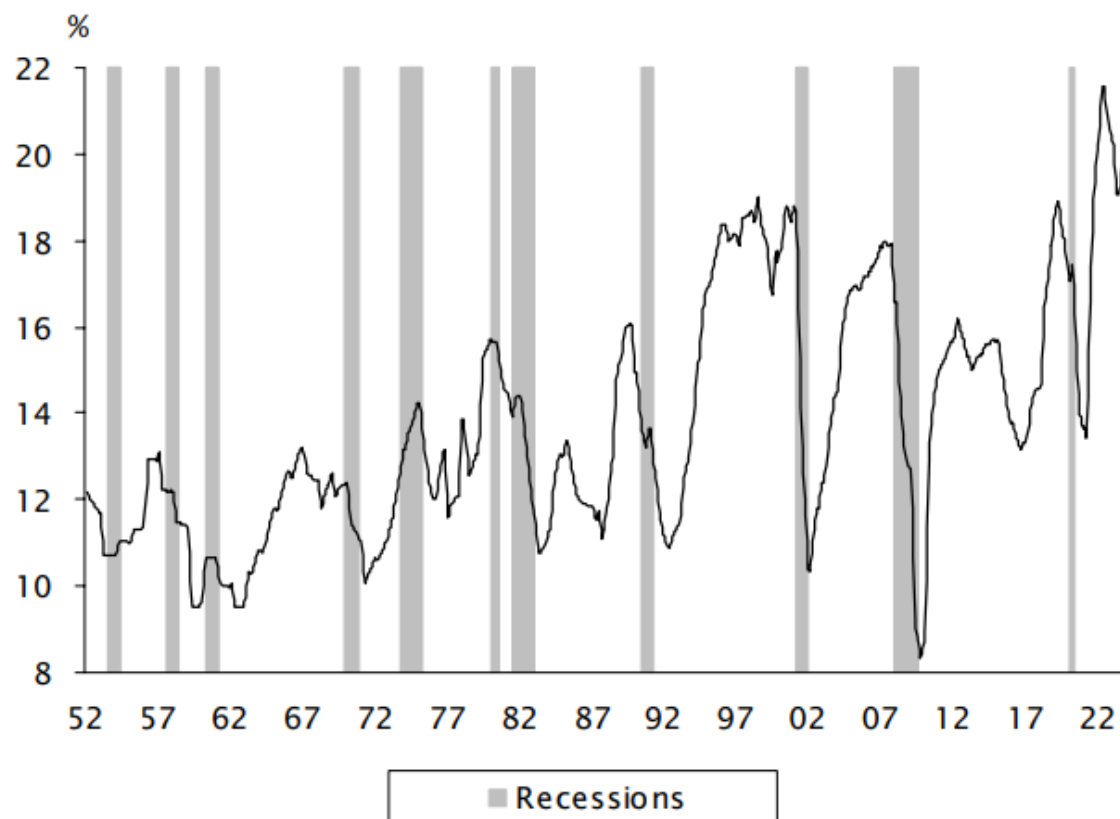
**S&P 500 Index
Equity risk premium**



Note: As of May 1, 2024. Equity risk premium calculated as S&P 500 12-month trailing earnings yield minus U.S. 10-year yield. Source: Bloomberg, RBC GAM

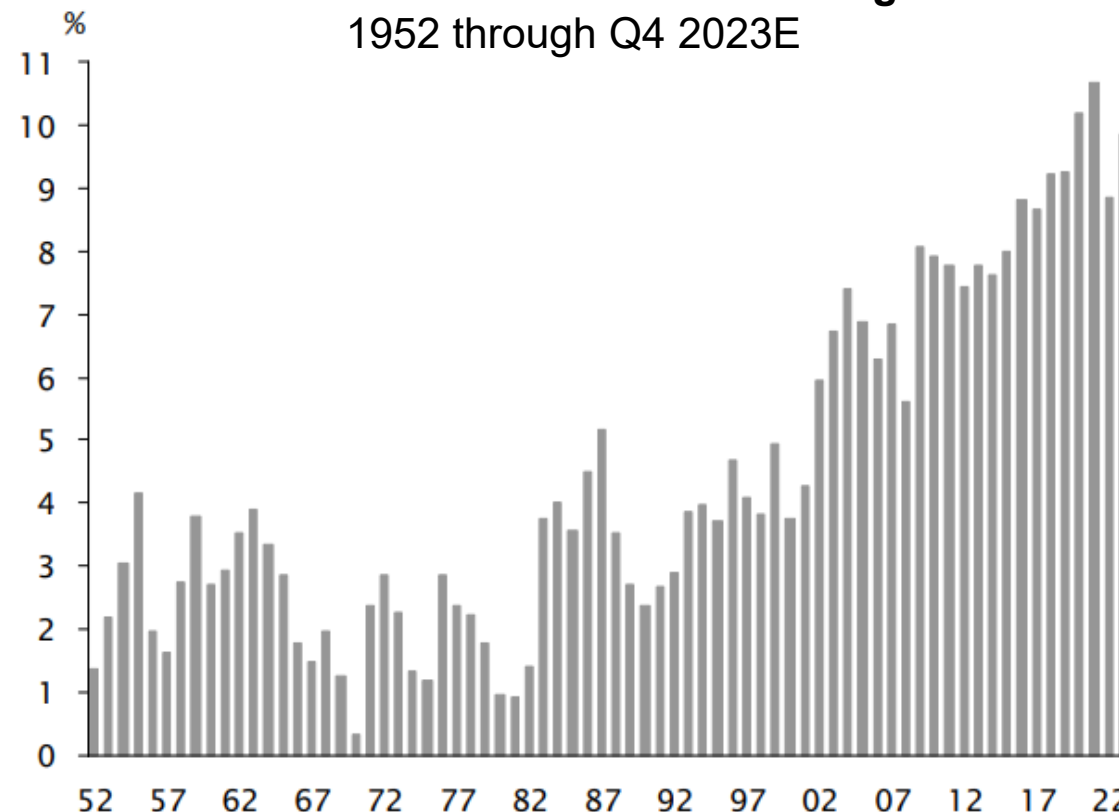
It is Hard to Argue with the Quality of the S&P 500

The S&P 500 ROE¹
1952 through February 2024



Source: Corporate Reports, National Bureau of Economic Research, Empirical Research Partners Analysis.
1 Based on trailing four-quarter data measured as a composite; prior to 1976, the large-capitalization universe is used.

The S&P 500¹ Free Cash Flow Margins
1952 through Q4 2023E



Source: Corporate Reports, Empirical Research Partners Analysis.
1 Excludes financial and REITS; prior to 1976, the large-cap universe is used.

S&P 500 Scenarios

	Bear	Base	Bull
2024 EPS	239	245	252
2025 EPS	255	265	275
EPS growth after 2025	6.00%	7.00%	8.00%
2034 EPS	431	487	549
× P/E	15.0x	17.0x	19.0x
10-yr S&P 500 Target	6,470	8,282	10,432
S&P 500 Today *	5,018	5,018	5,018
10-yr CAGR	2.6%	5.1%	7.6%
Dividend Yield	1.5%	1.5%	1.5%
10-yr Total S&P 500 Return	4.1%	6.6%	9.1%

Source: RBC GAM, Bloomberg. S&P 500 price as of May 1, 2024.

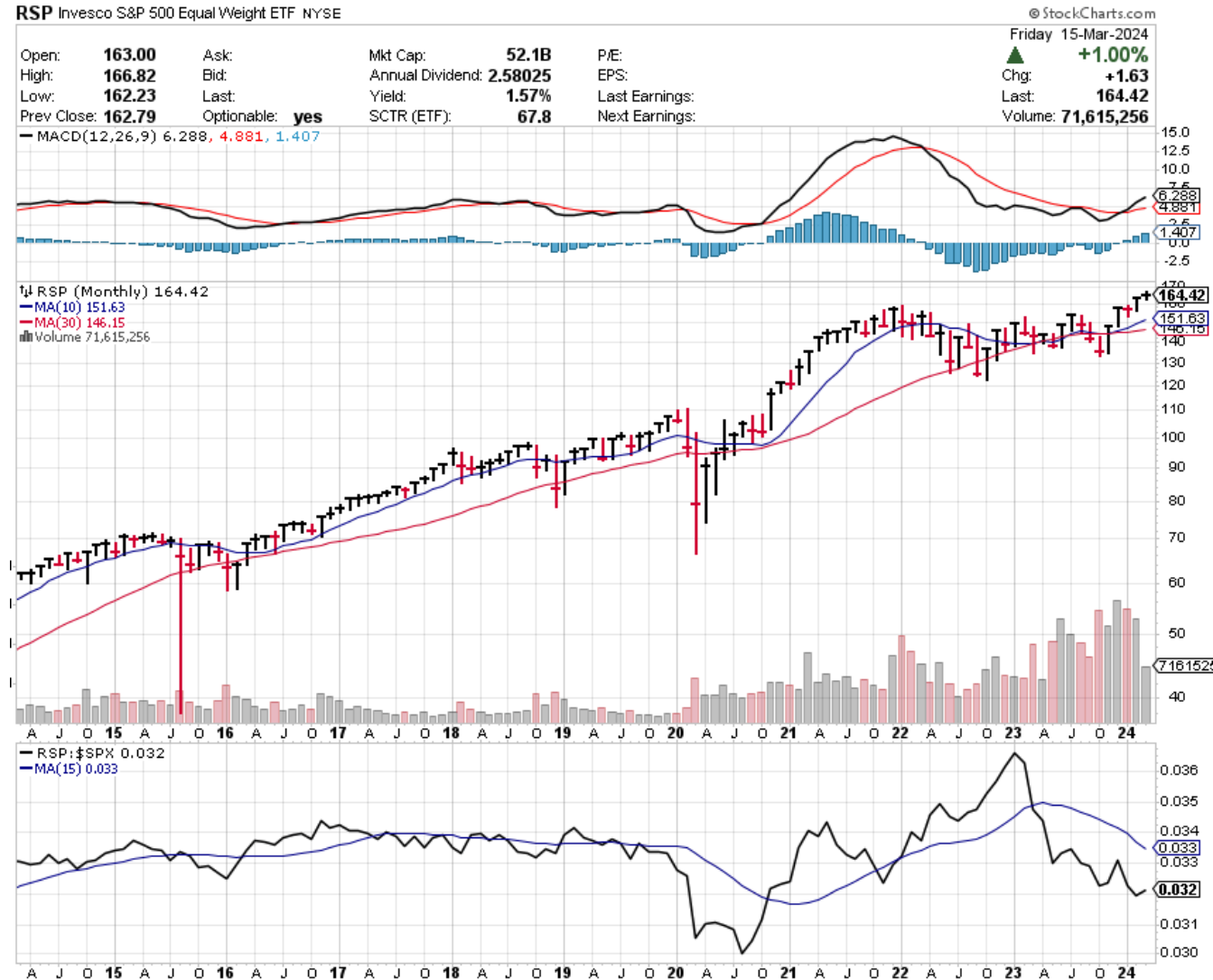
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It Is the Stock Market but Also a Market Full of Stocks

Invesco S&P 500 Equal Weight ETF



As of Mar 15, 2024. Source: StockCharts.

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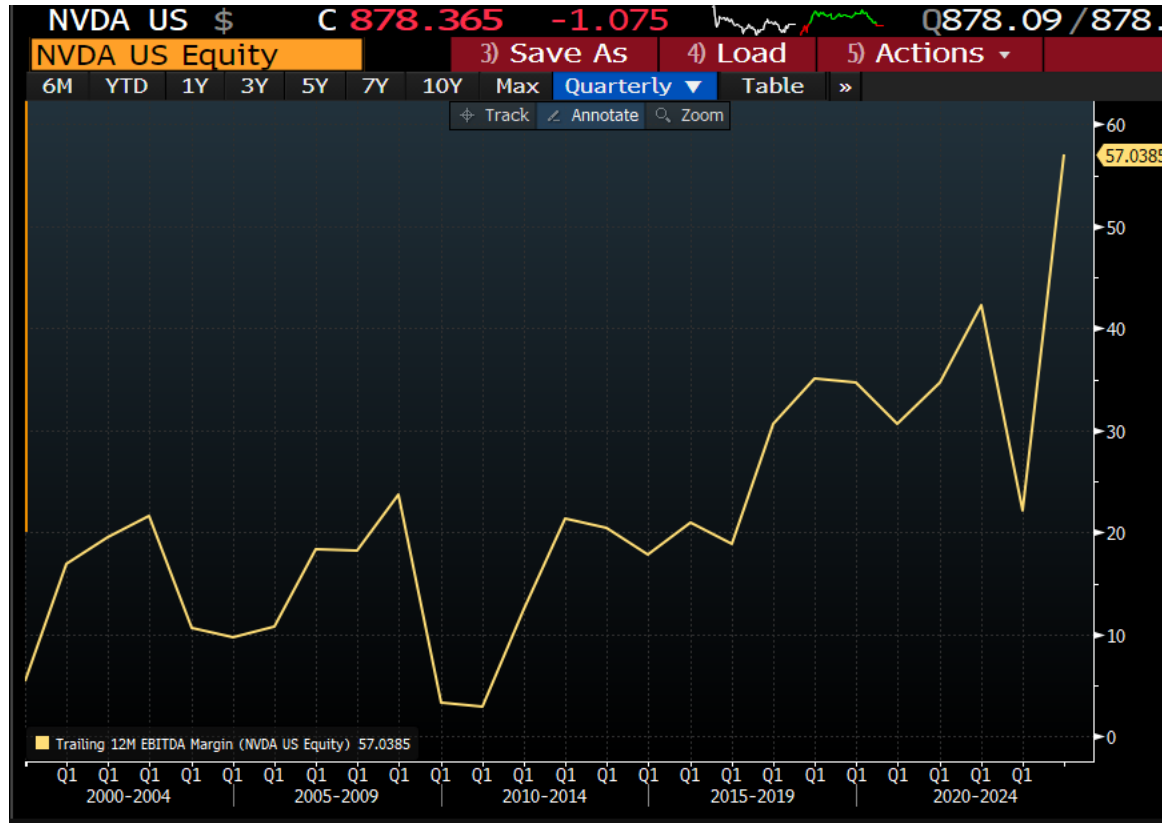
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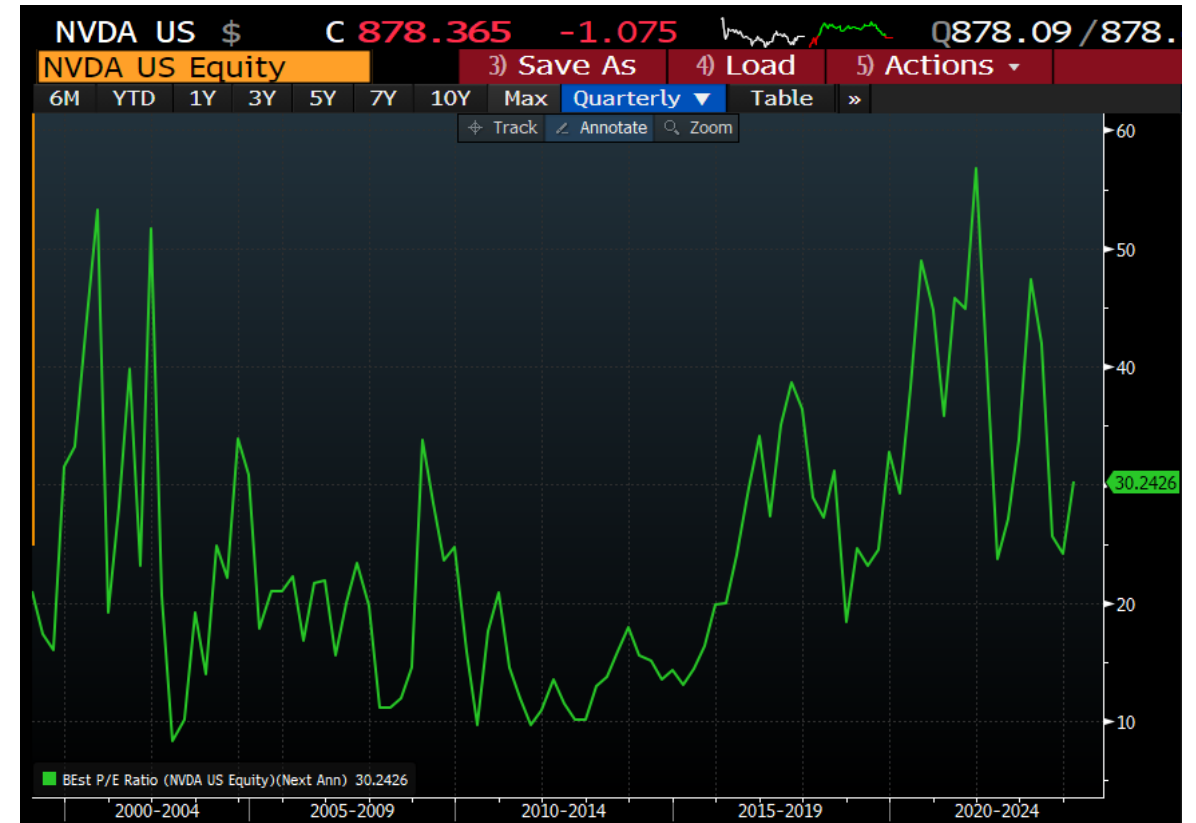
NVIDIA Margin And P/E Valuation

If this is to hold – AI is going to need to be very profitable for their customers

NVIDIA EBITDA Margin



NVIDIA P/E Ratio



Source: Bloomberg, market data as of March 15, 2024

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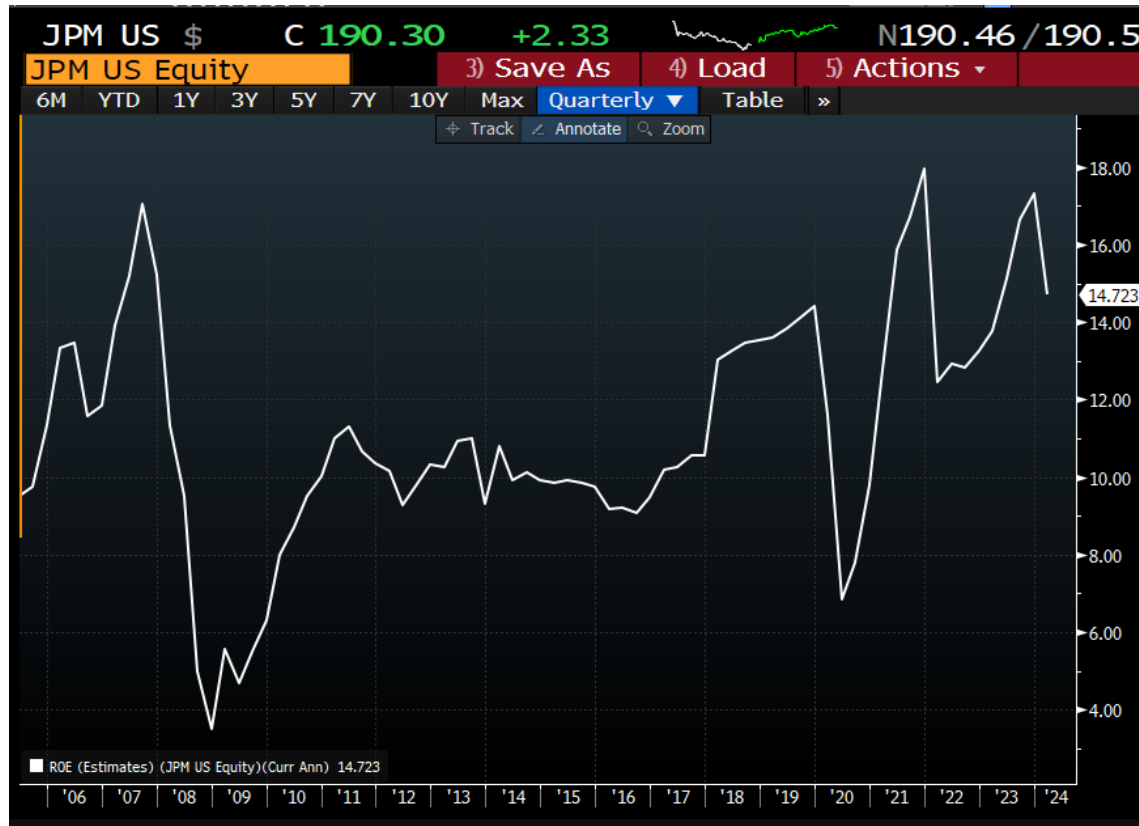
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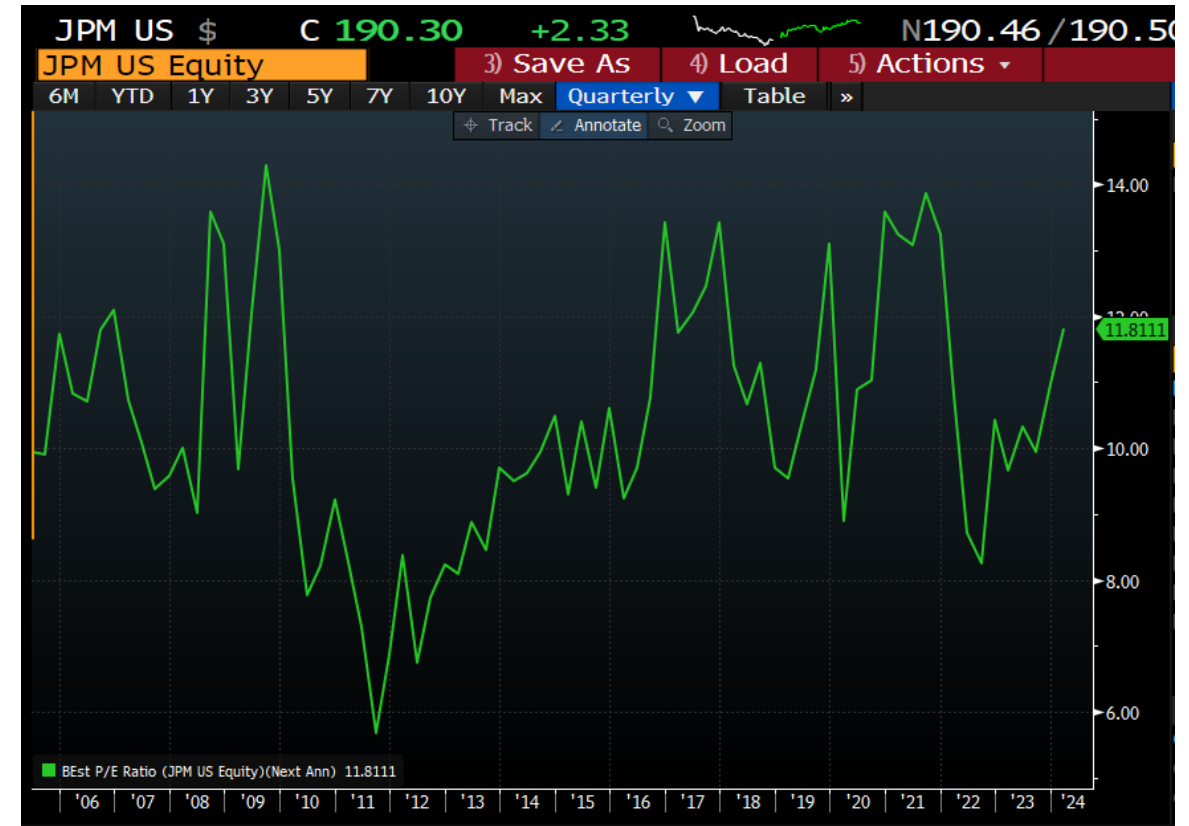
JP Morgan ROE and P/E Valuation

Average valuation for expanding profitability

JPM ROE



JPM P/E Ratio



Source: Bloomberg, market data as of March 15, 2024

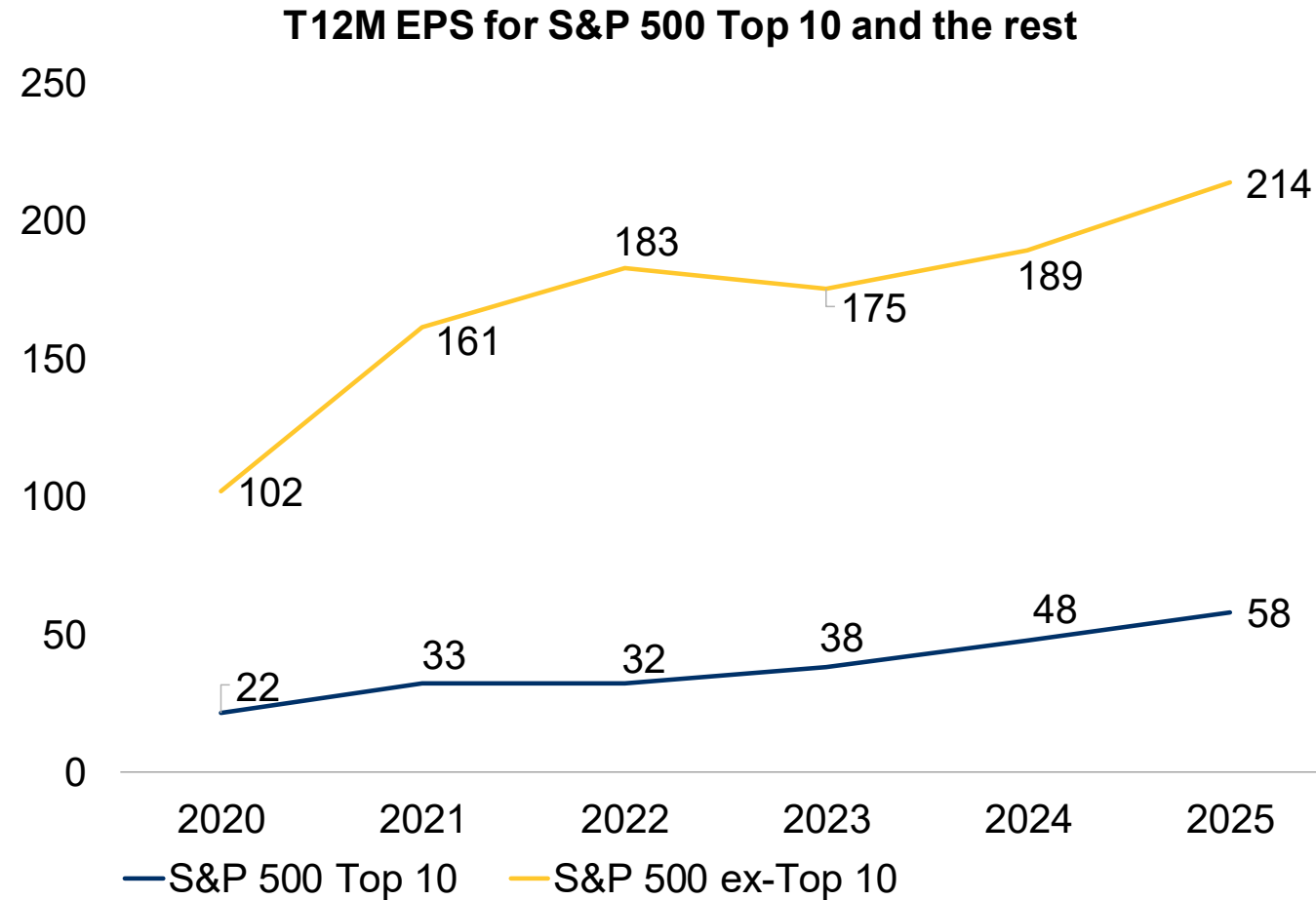
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Valuation is Full in Spots, Closer to Fair in Others

Inflation peaks, 12 months later interest rates peak, 12 months later earnings bottom



Source: RBC GAM. As of May 1, 2024.

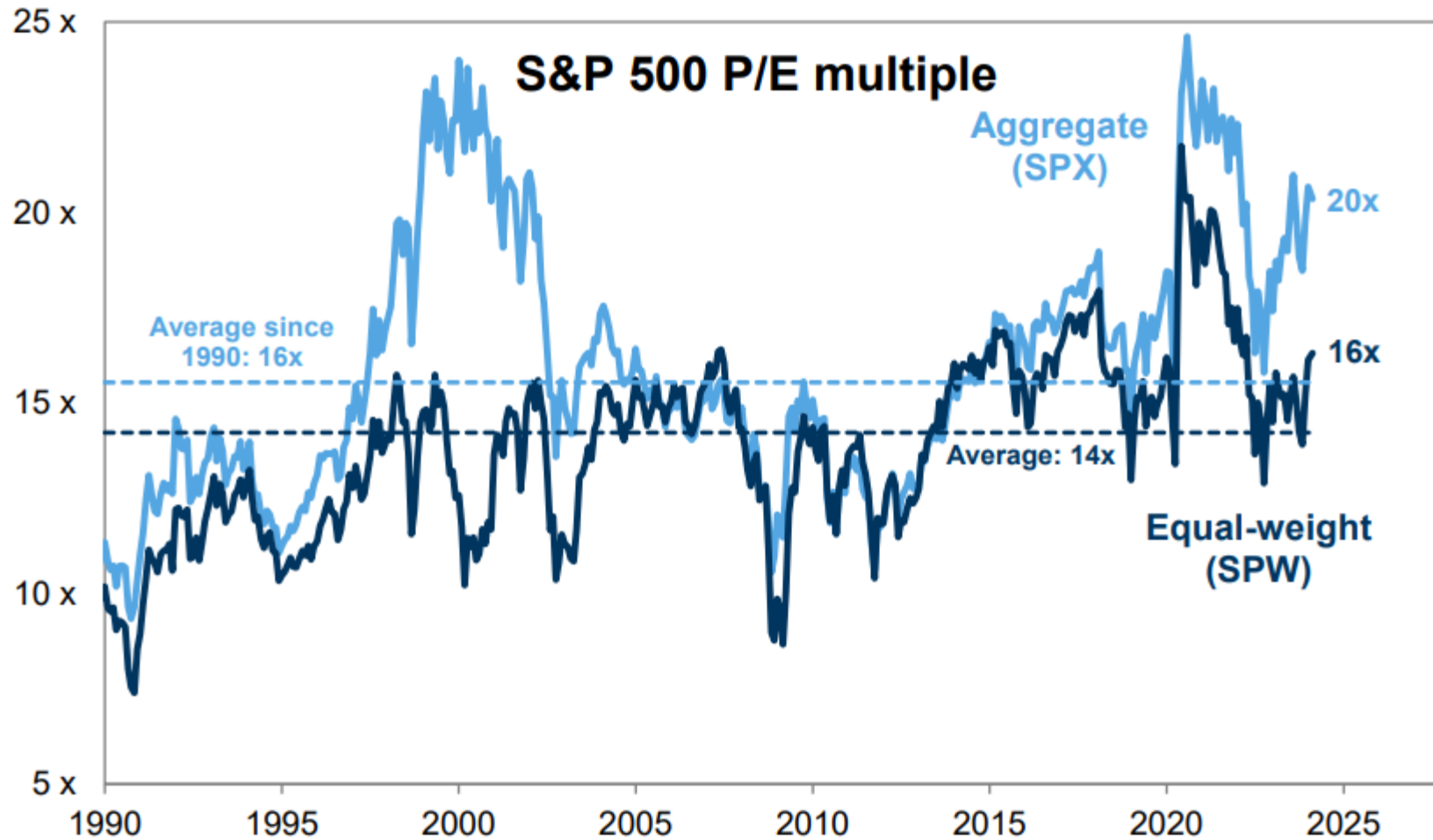
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Valuation is Full in Spots, Closer to Fair in Others

Raises potential impact of inflation but likely more dependent on earnings growth



Source: Goldman Sachs Global Investment Research, Feb 29, 2024.

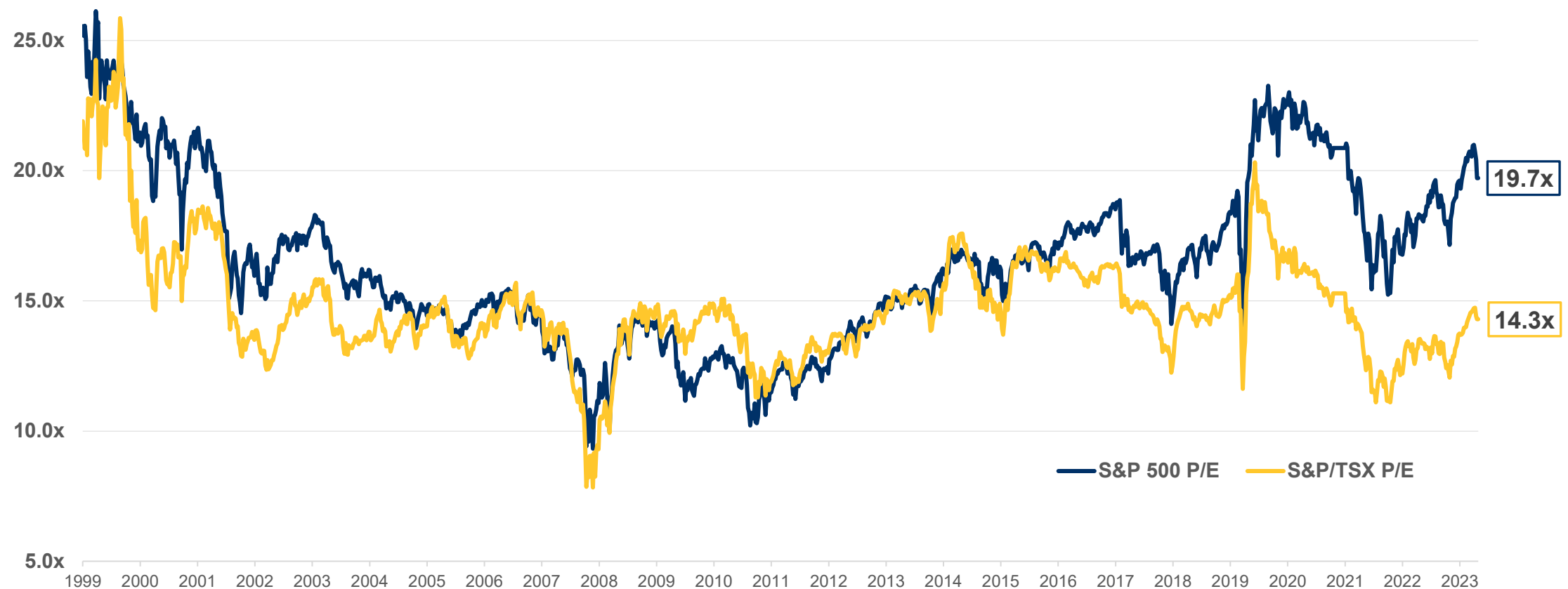
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Historical P/E ratio - S&P 500 vs. S&P/TSX Composite Index

Valuation spread remains wide



Source: Bloomberg; closing prices as of April 26, 2024

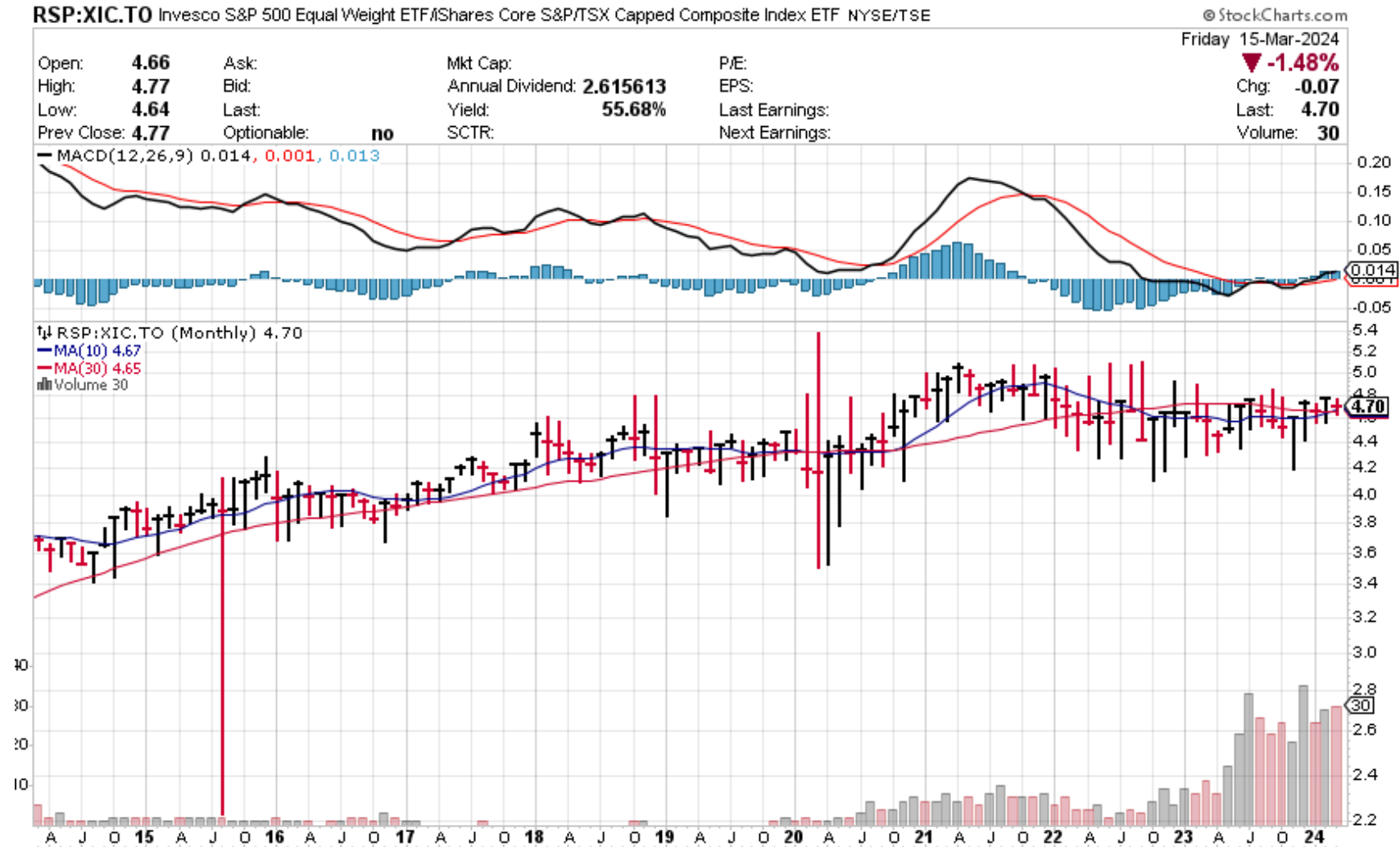
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Canada Versus the U.S. – The Average Stock is Similar

More nuanced today versus historical moves



As of Mar 15, 2024. Source: StockCharts.

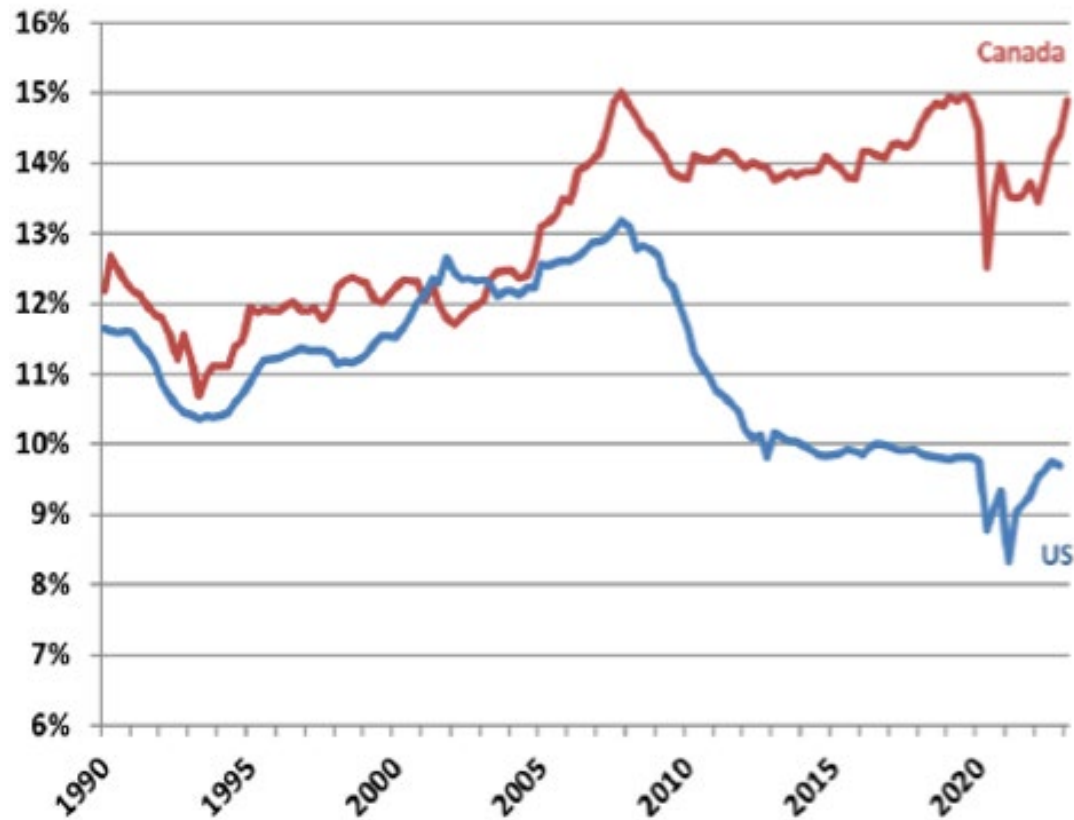
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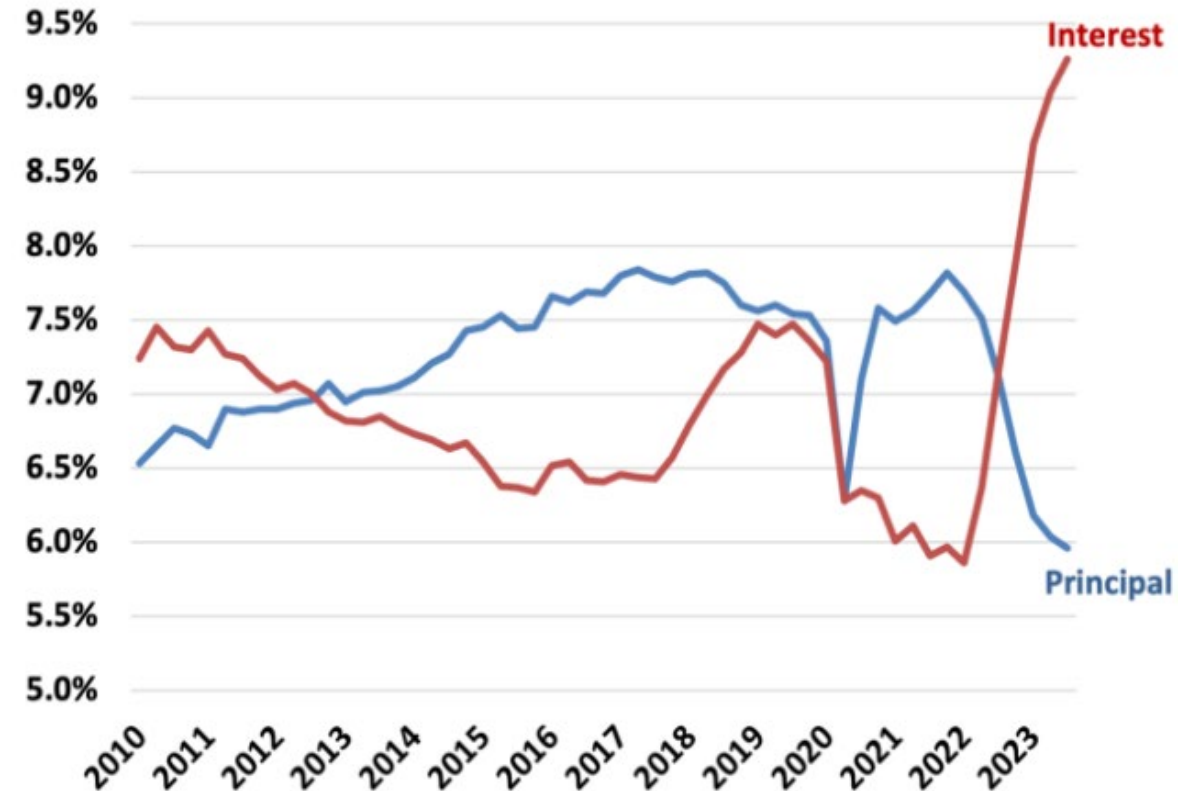


Canada Is Feeling It Earlier – Markets Will Bottom Before It Feels Better

Household debt service ratios



Household debt service ratios



Source: North Cove Advisors Inc. As of Feb 29, 2024.

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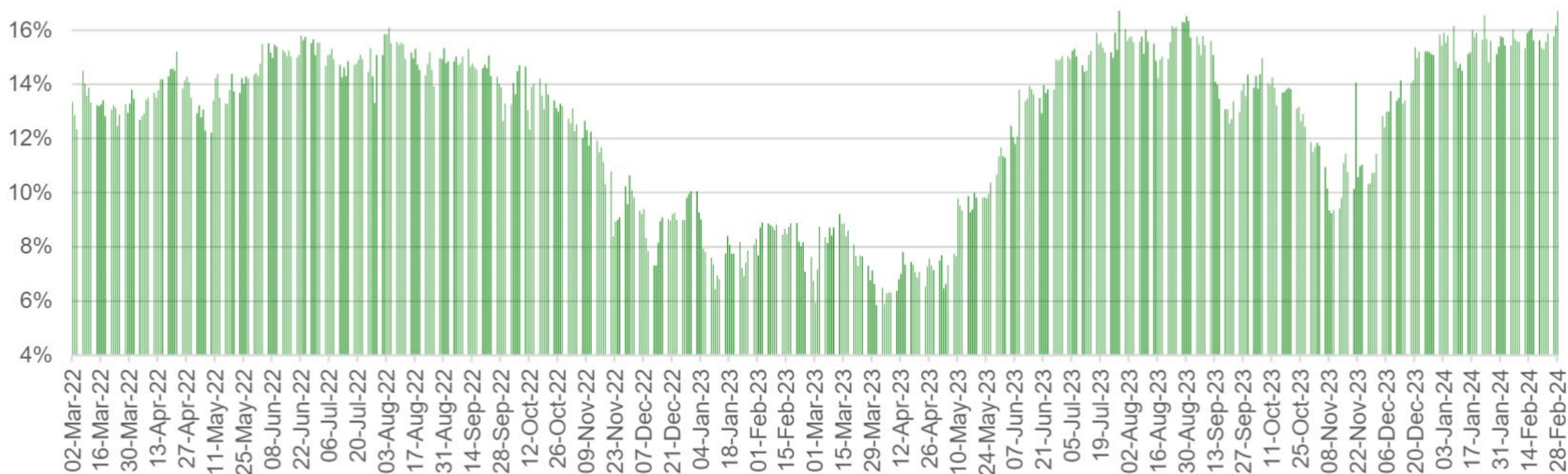
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How Does This Translate in the Portfolios

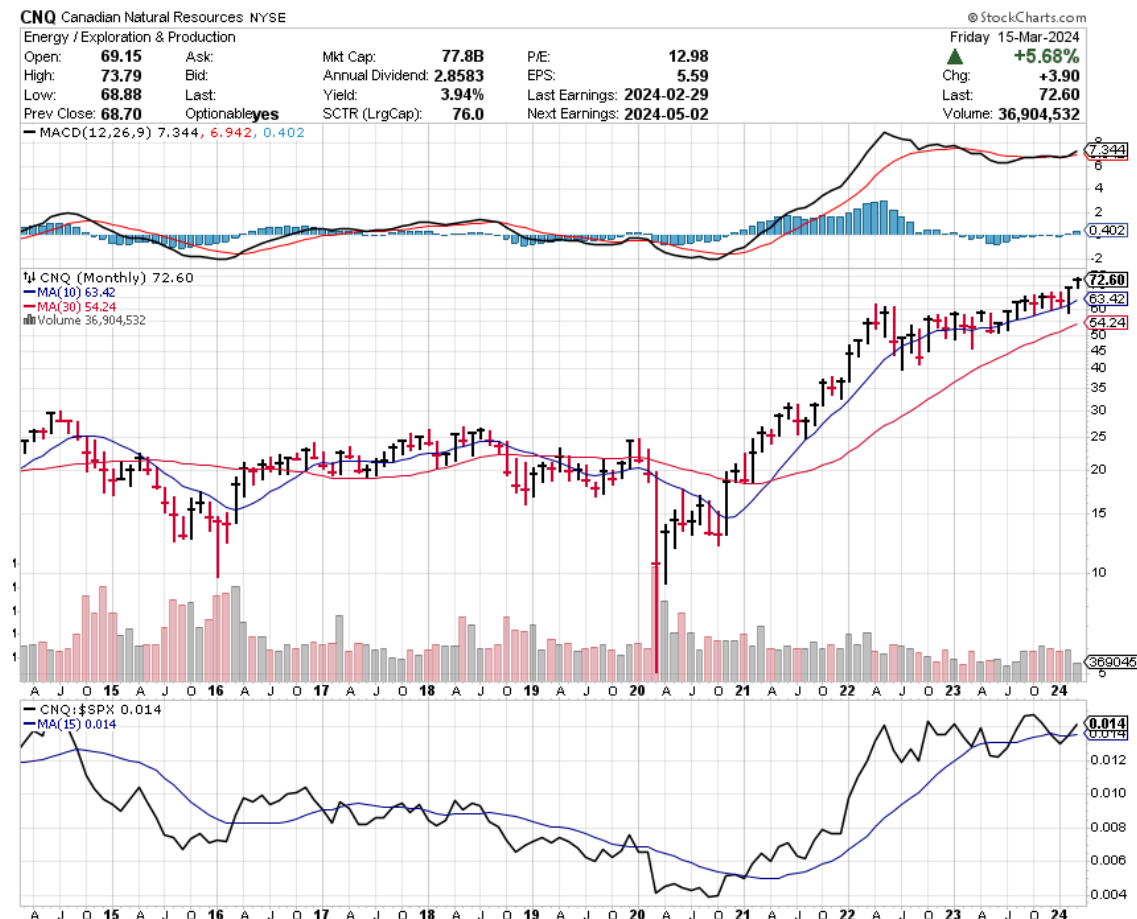
WN – George Weston Limited

George Weston Holdco Discount (Daily)

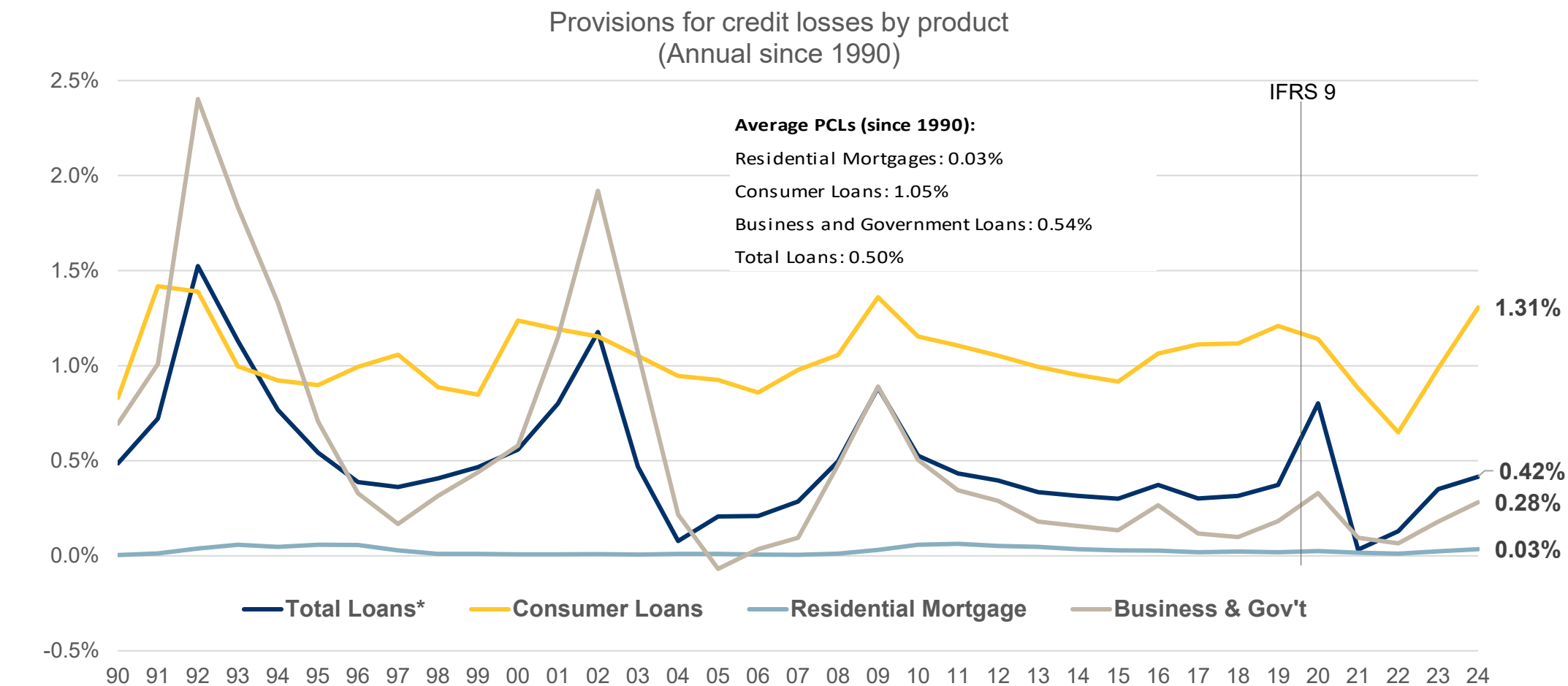


Note: Assumes a value of 7-9x NTM EBITDA for Weston Foods prior to its divestiture in Q4/21. Source: TD Securities Inc. As of Feb 28, 2024.

Energy – Free Cash Flow Profiles Remain Attractive



Canadian banks' provisions for credit losses by product



*based on total PCLs

Source: Company filings, RBC Capital Markets. As of April 2024

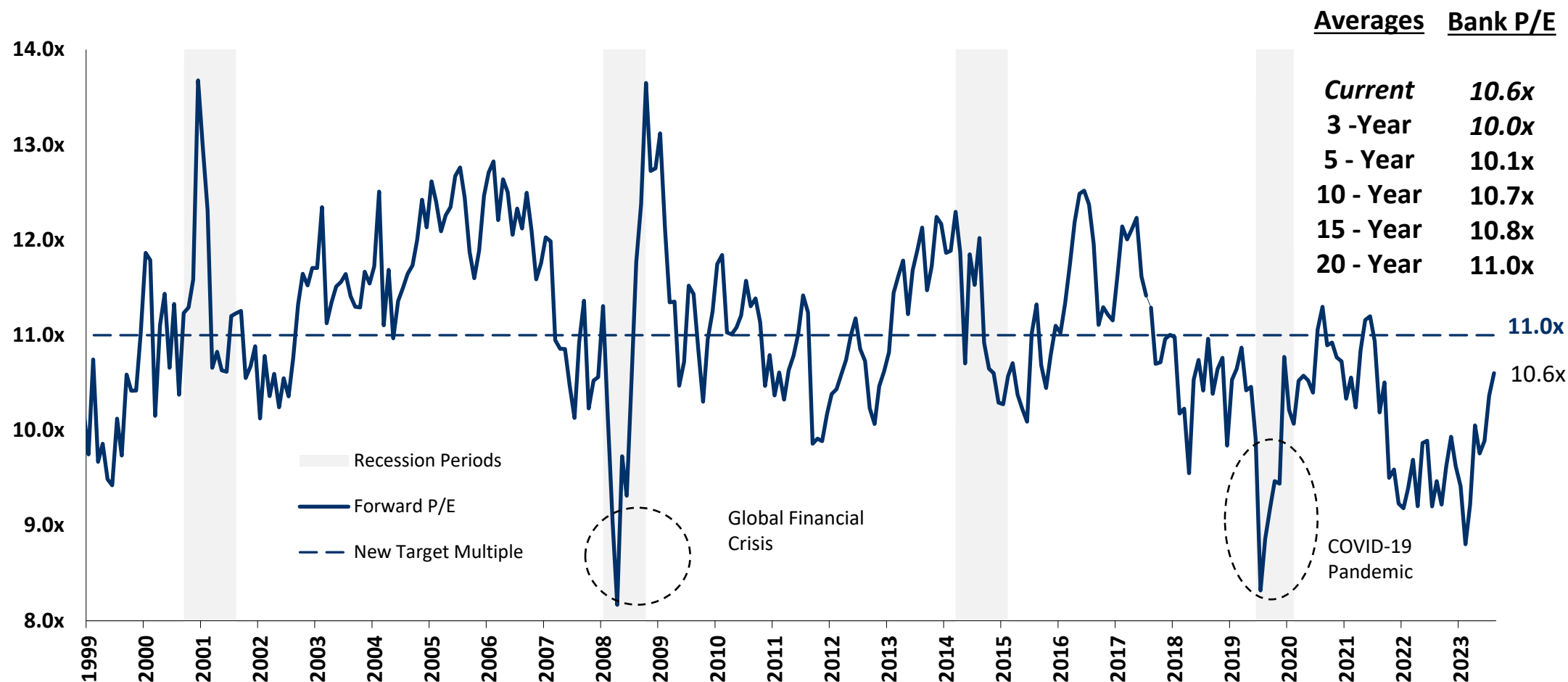
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Canadian Banks' Historical Valuations

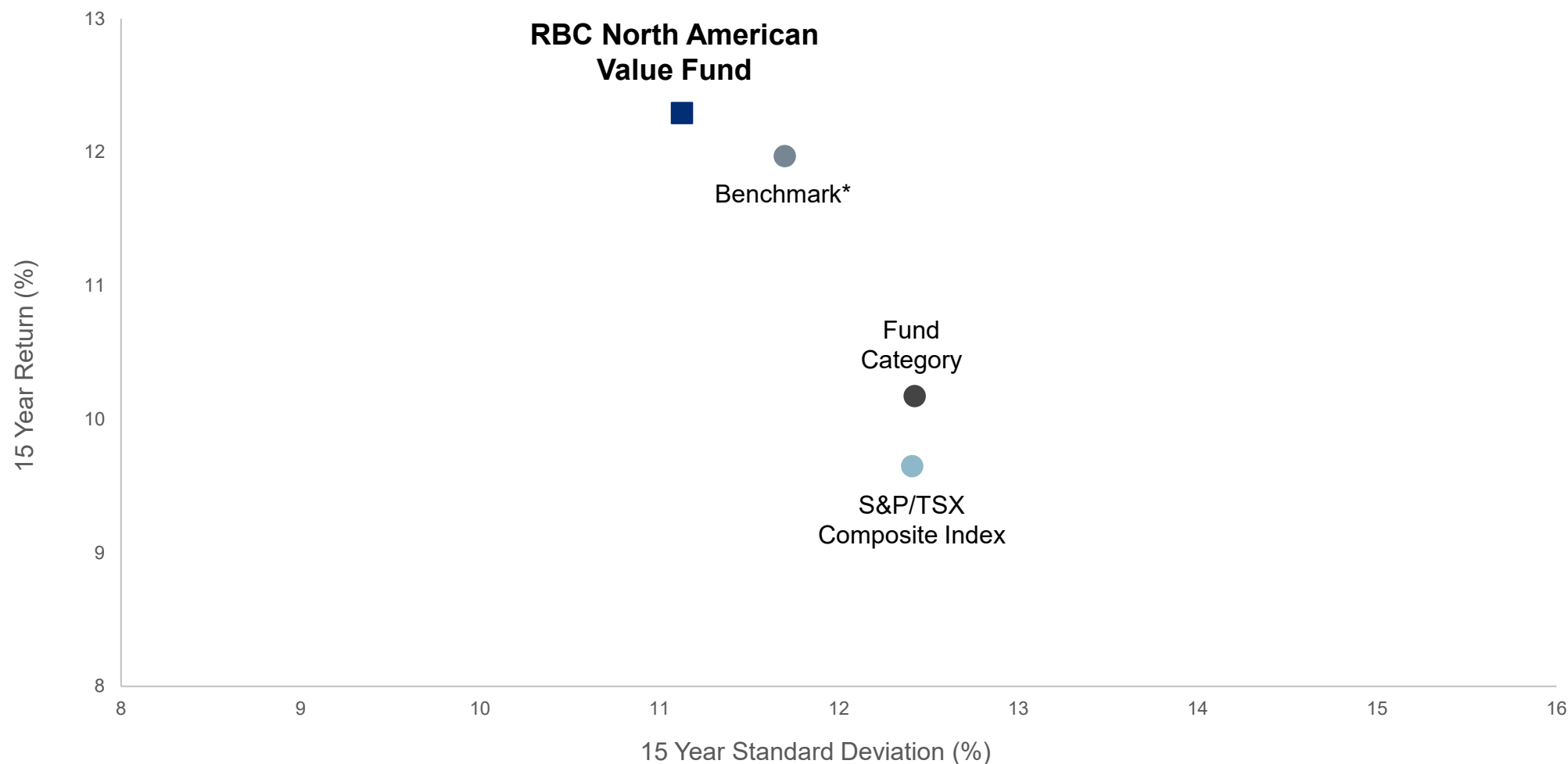
Bank P/E multiples recovering



Source: BMO CM, Bloomberg; Note: Last Data Point: Apr 25, 2024. As of 2016, industry earnings include consensus estimates for BMO from FactSet.

RBC North American Value Fund

All-in-one solution with an exceptional track record



Data as of Mar 31, 2024. Based on series F performance, net of management fees. Source: Morningstar. *Custom benchmark = 60% S&P/TSX, 40% S&P 500, half hedged. CIFSC category is Canadian Focused Equity

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Disclosure

May 13, 2024

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