



Global Outlook 2019

Opportunities and Risks in an aging economic cycle

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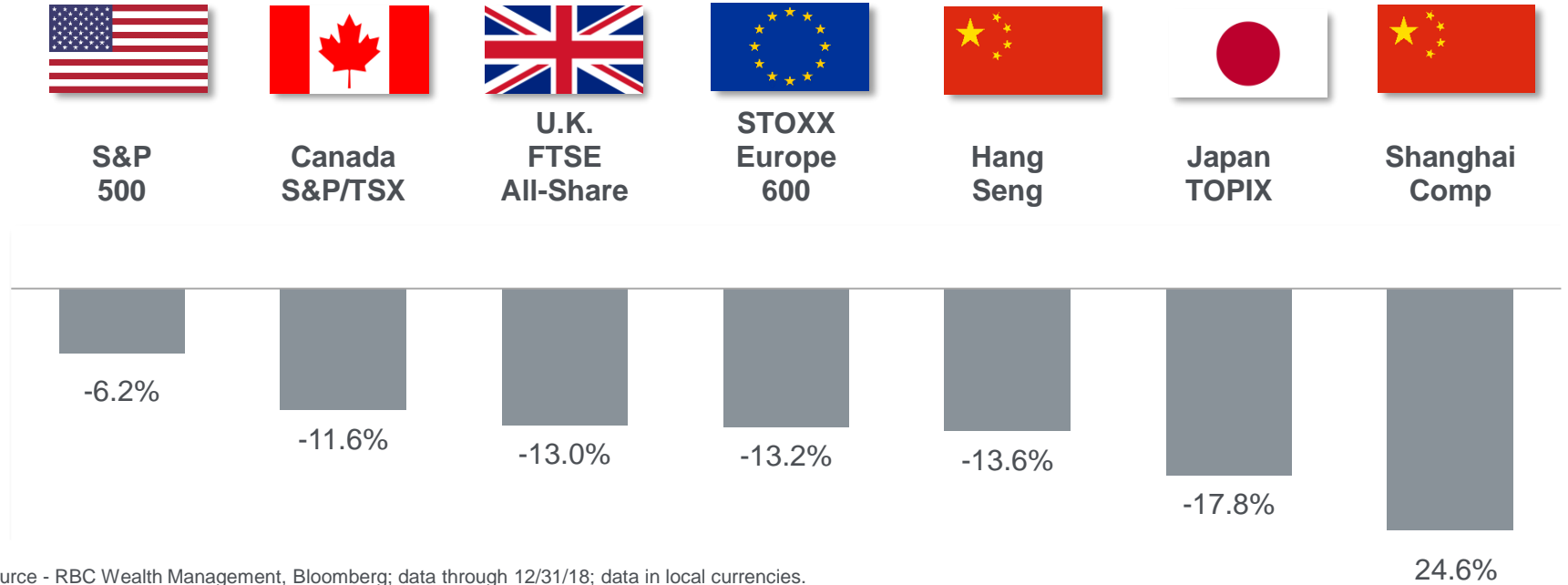
March 2019 | RBC Capital Markets, LLC / Portfolio Advisory Group – U.S.

All values in U.S. dollars and priced as of market close, March 22, 2019, unless otherwise noted

For Important Disclosures, see slide 23

Rough year for global stock markets

2018 performance of select equity indexes



Source - RBC Wealth Management, Bloomberg; data through 12/31/18; data in local currencies.

Short-term market: S&P 500 – 11 years

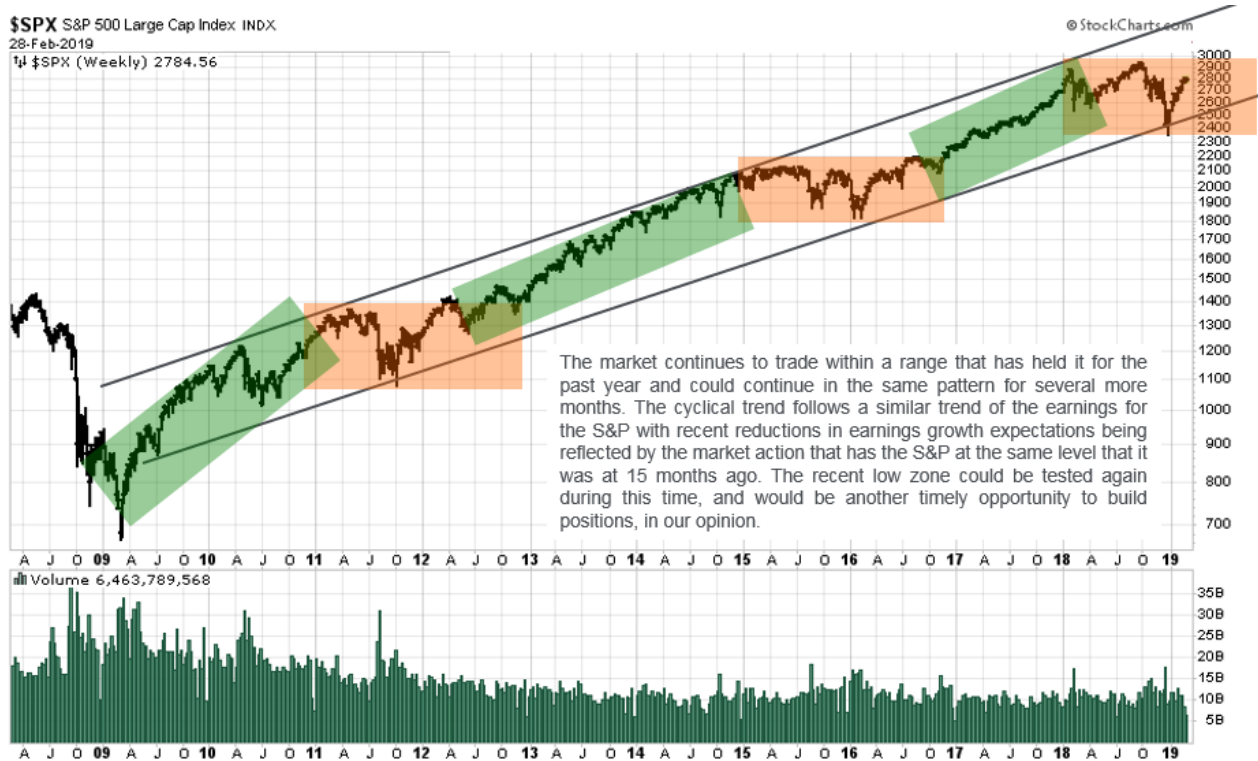


Chart courtesy of StockCharts.com and RBC Wealth Management

2018: The good, the bad, and the ugly



Economic activity

- U.S. growth accelerated, while
- Global growth slowed
- China slowdown significant
- No recession

Rates

- Moved higher before pulling back at year end (2.68%)
- Yield Curve flattened further
- 3-5 year inverted for 1st time since 2007

Equity Market Performance

- No place to hide

Monetary policy

- Fed led the pack with increases and the continued unwinding of the balance sheet
- Unwinding of global stimulus underway, although unevenly
- Financial conditions tightening

Volatility

- Spiked to more “normal” levels

Trade/tariffs/geopolitics

- Captured headlines

Indicators signaling “late” and “end” of cycle

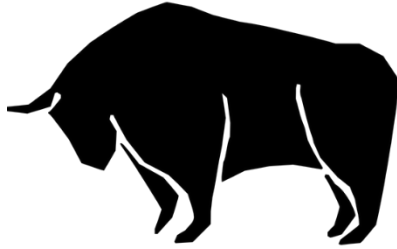
U.S. business cycle scorecard – 17 factors

	Start of cycle	Early cycle	Mid cycle	Late cycle	End of cycle	Recession
Inventories		●	○			
Consumer durables		●	●			
Housing			●	●		
Prices			●	●		
Bonds			●	●		
Monetary policy			●	●		
Equity profitability			●	●		
Leverage			●	●	○	
Economic trend			○	●	○	
Credit			○	●	○	
Sentiment				●		
Business investment				●	○	
Employment				●	○	
Equity direction			○	●	●	
Economic slack				●	●	
Volatility				○	●	
Cycle age					●	
Votes for each stage of biz cycle	0	2	9	13.5	6.5	0

Source – RBC Global Asset Management Legend: ● = most likely stage of business cycle; ○ = alternative interpretation. Data as of 2/12/19.

Bull market speed check

Over or just bruised?



-  **No recession**
-  **Valuation reasonable**
-  **Monetary policy on hold**
-  **EPS: Positive but slowing**
-  **Investor sentiment: Neutral**
-  **Volatility is likely here to stay**

Fundamentals remain positive, but we expect 2019 to be a year of increased volatility and skepticism.

Recession Scorecard – Risk limited

Scorecard of our favorite U.S. economic indicators

Global Portfolio Advisory Committee: Economic Indicator Scorecard

Indicator	Status		
Yield Curve (1-Year to 10-Year)	-	✓	-
Unemployment Claims	-	✓	-
Unemployment Rate	✓	-	-
Conference Board Leading Index	✓	-	-
ISM New Orders minus Inventories	✓	-	-
Fed Funds vs. Nominal GDP Growth	✓	-	-

Expansion

Neutral

Recessionary

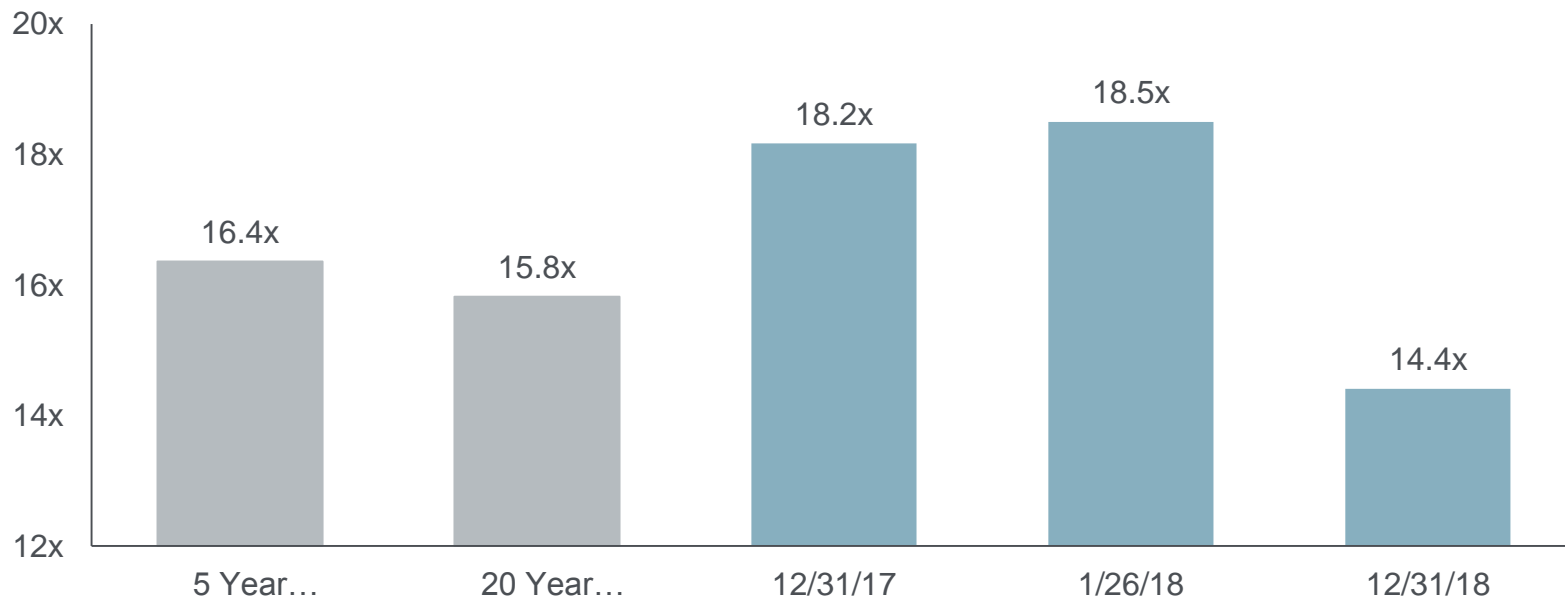
**Bull markets are born in pessimism, grown in skepticism, and die in euphoria.
Where are we?**

Source - RBC Global Portfolio Advisory Committee (GPAC).

Valuation more reasonable

Below 5- & 20-year averages

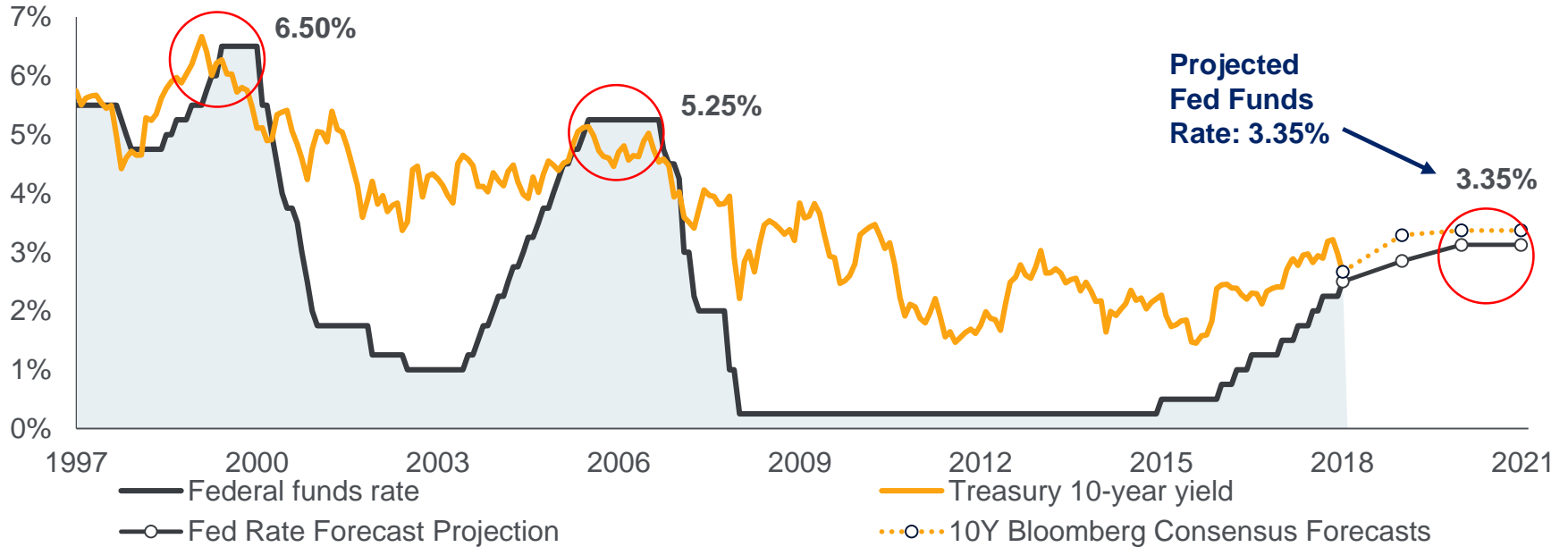
S&P 500 forward price-to-earnings (P/E) ratio



Source - RBC Wealth Management, FactSet; data as of 12/31/18

Time for a pause...?

Fed Funds Rate & U.S. Treasury 10-Yr Yield

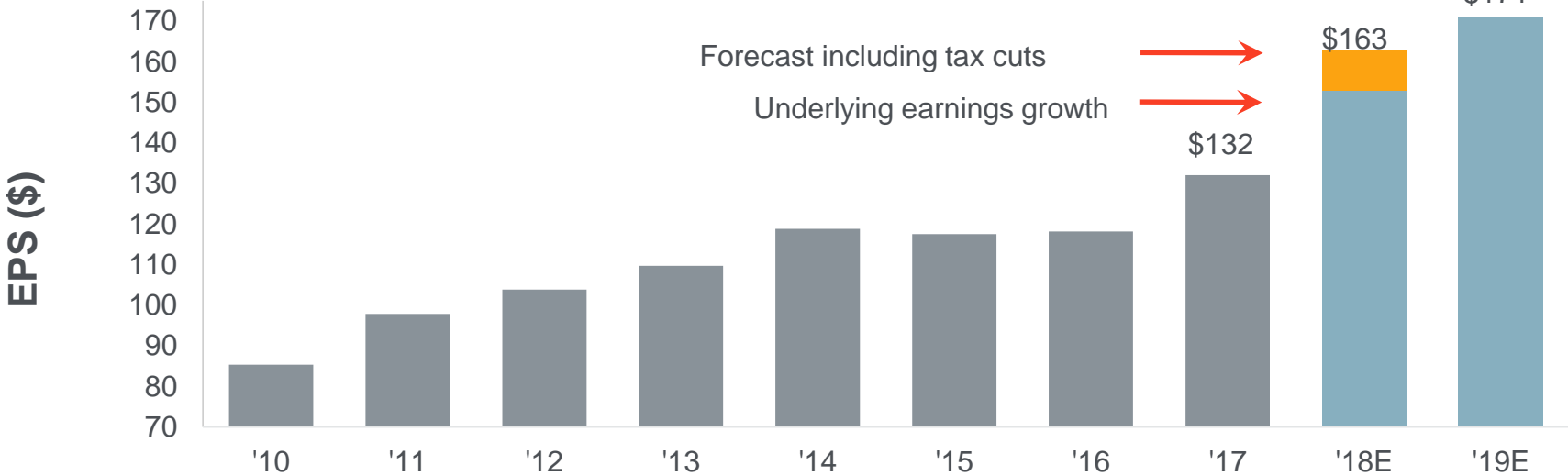


Source: RBC Wealth Management, Bloomberg Consensus data, Federal Reserve Summary of Economic Projections, data as of 1/10/19.

The corporate foundation is sturdy

S&P 500 annual earnings per share & estimates

Actual results in gray; RBC estimates in blue

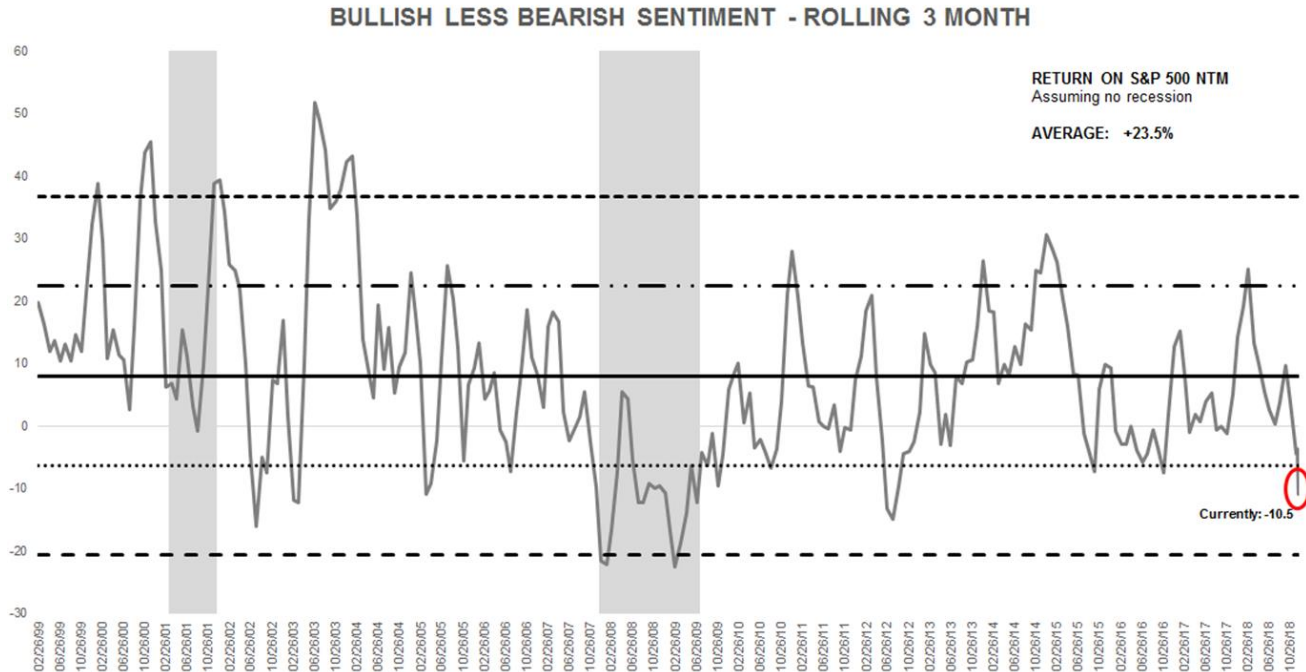


Source: RBC Wealth Management, RBC Capital Markets US Equity Strategy, Thomson Reuters I/B/E/S; 2018 - 2019 data are RBC Capital Markets estimates, data as of November 2, 2018.



Pessimism was near extremes in December

S&P 500 returns typically strong from these levels



Shaded bars represent U.S. recessions

Source - RBC Wealth Management, Bloomberg; data through 12/20/18



Return to normal volatility

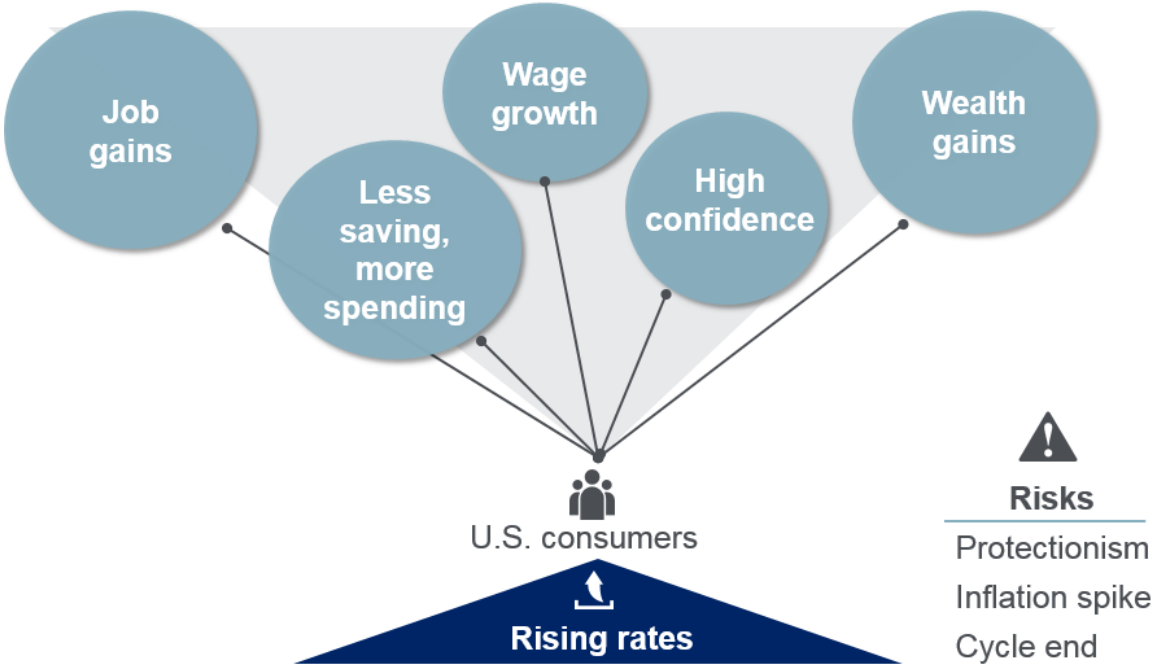
Year	# of days with moves greater than +/- 1%	# of days with moves greater than +/- 2%
50 Year Avg.	59	13
2018	63	19
2017	8	0
2016	48	9
2015	72	10
2014	38	6
2013	38	4
2012	50	6
2011	96	35
2010	76	22
2009	117	55
2008	134	72

Source - RBC Wealth Management, Bloomberg data through 12/24/18



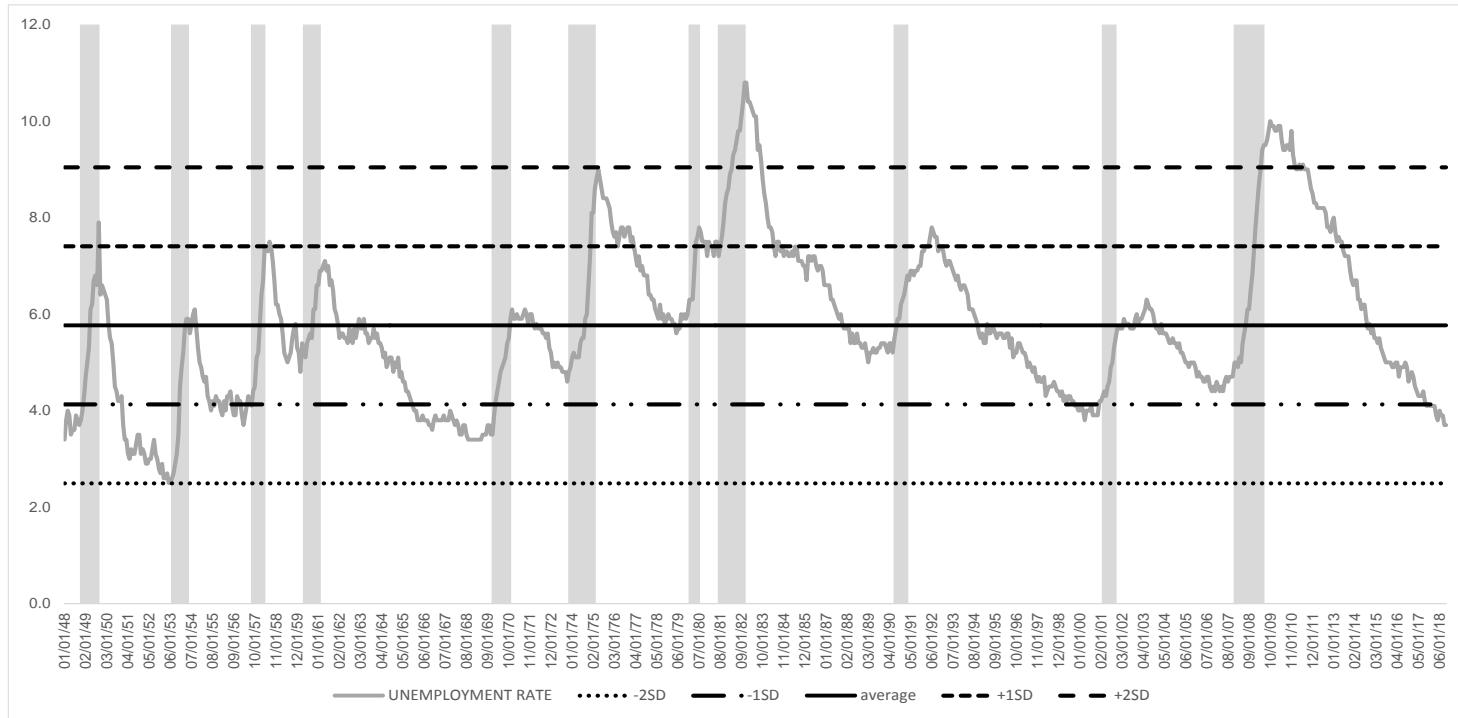
Key to U.S. economic growth: Consumers

U.S. consumers can remain buoyant



Source - RBC Global Asset Management, RBC Wealth Management.

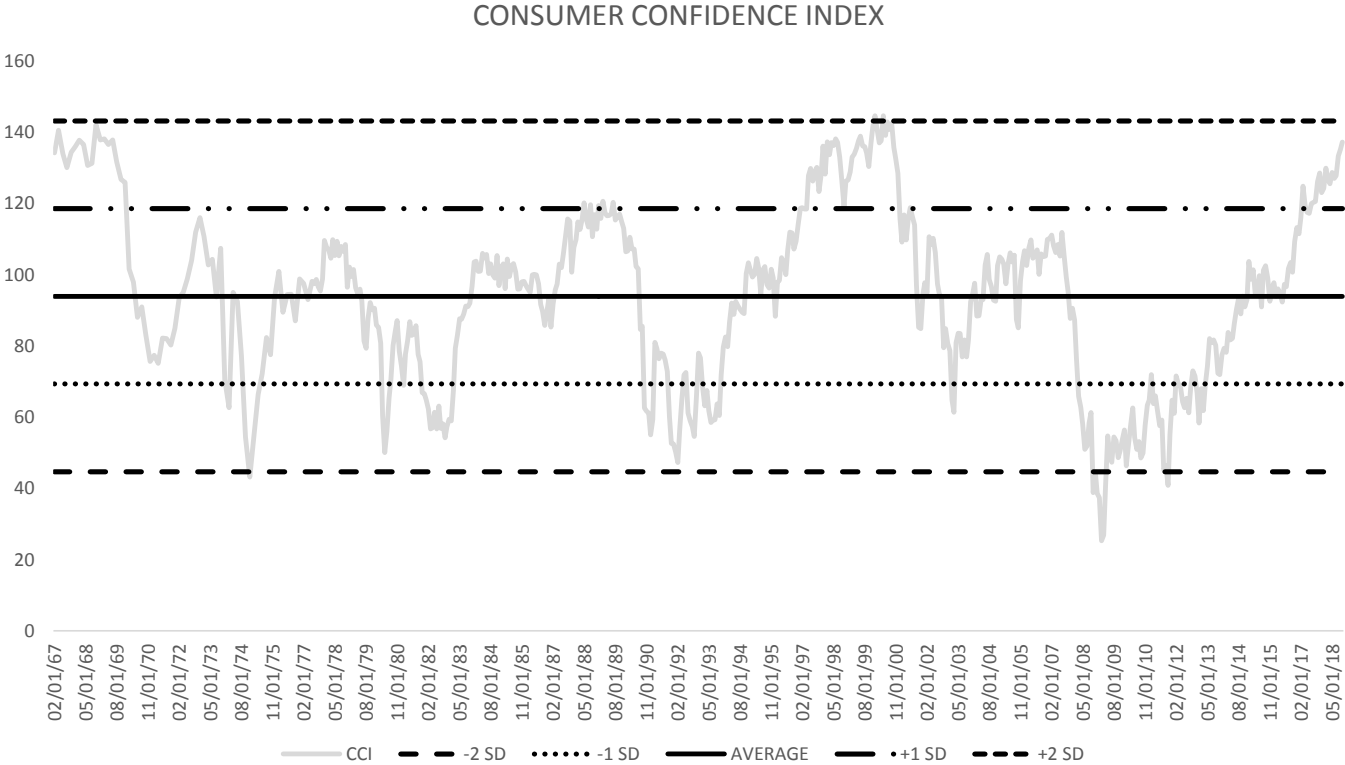
Employment – Current cycle lows



Source - RBC Wealth Management, Bloomberg; data through 11/30/18



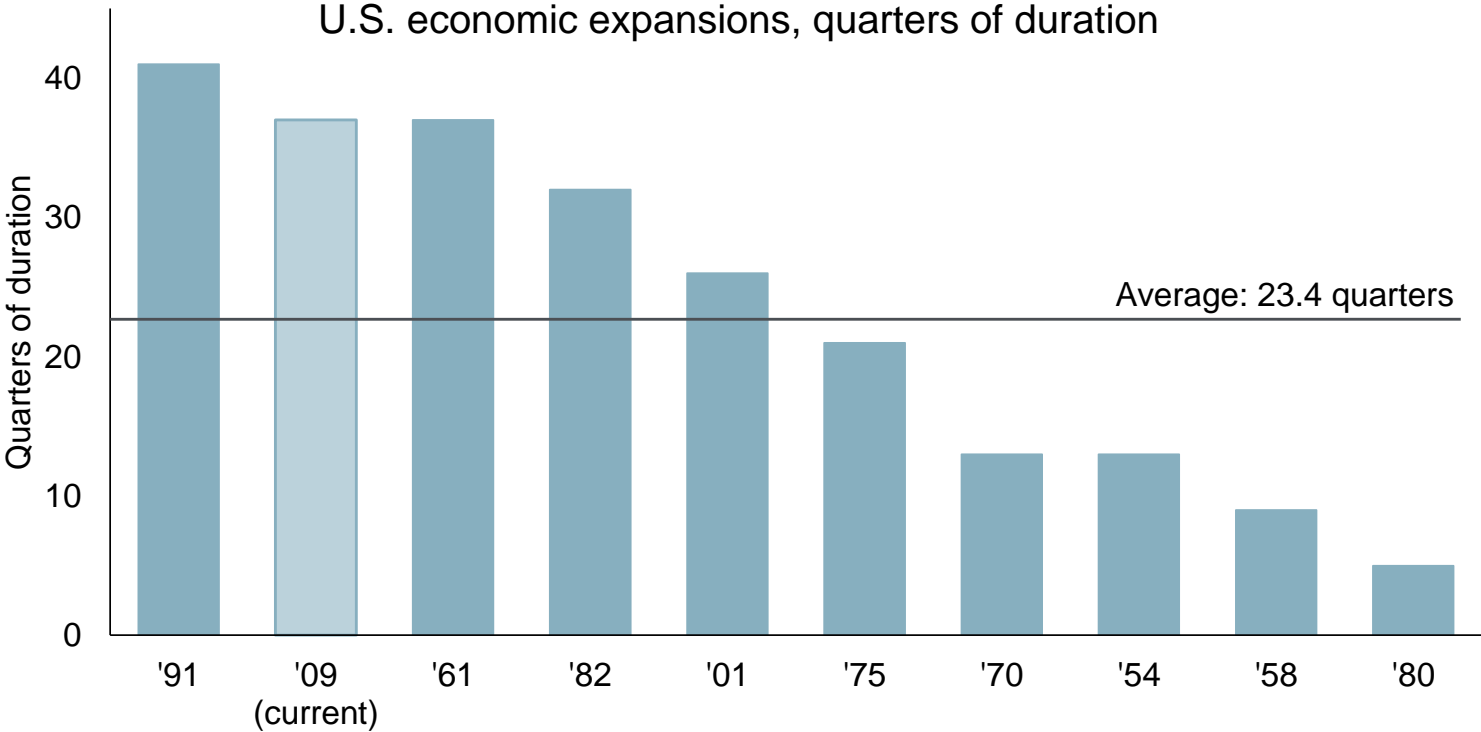
Consumer confidence



Source - RBC Wealth Management, Bloomberg; data through 11/30/18



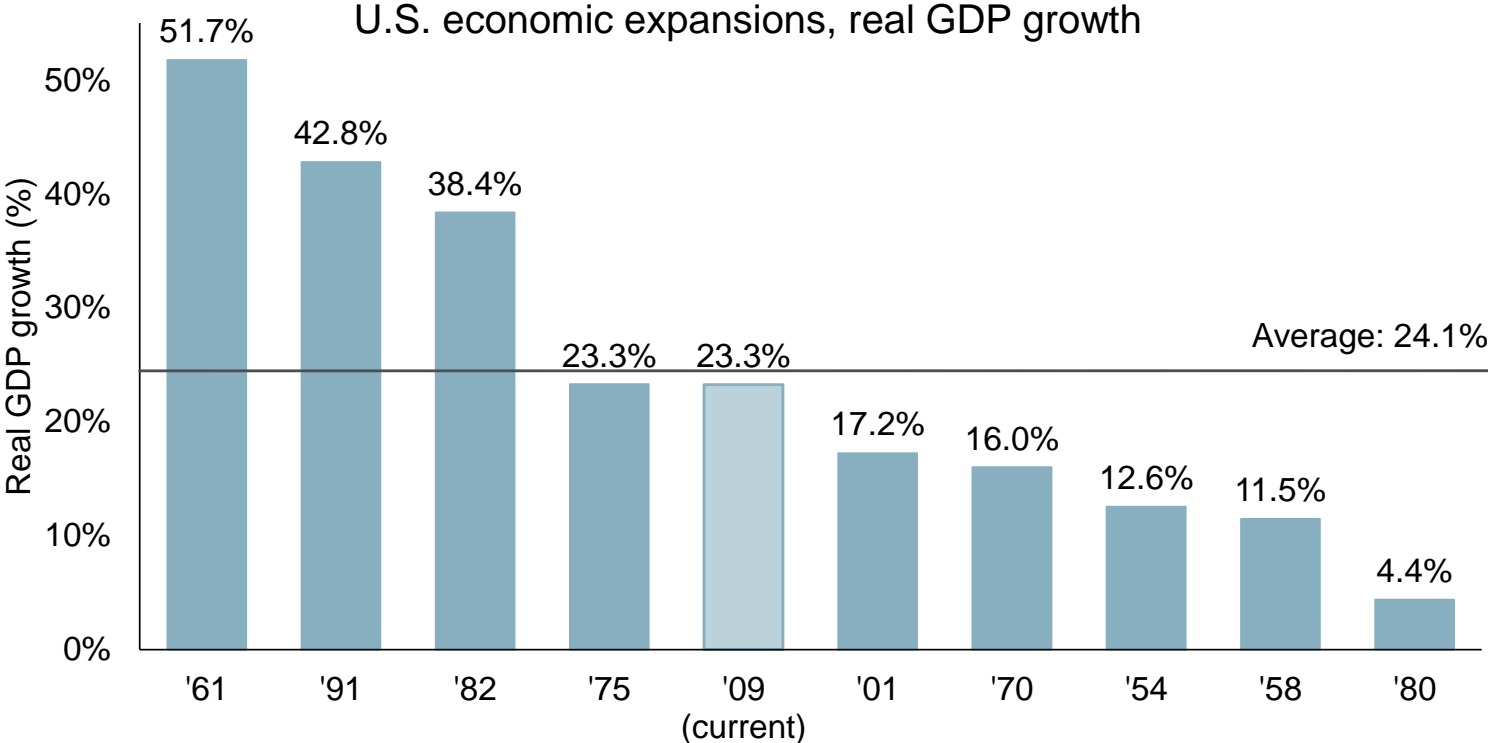
Duration of the economic recovery



Source - RBC Wealth Management, Bloomberg; data through 12/21/18



Shallow economic recovery

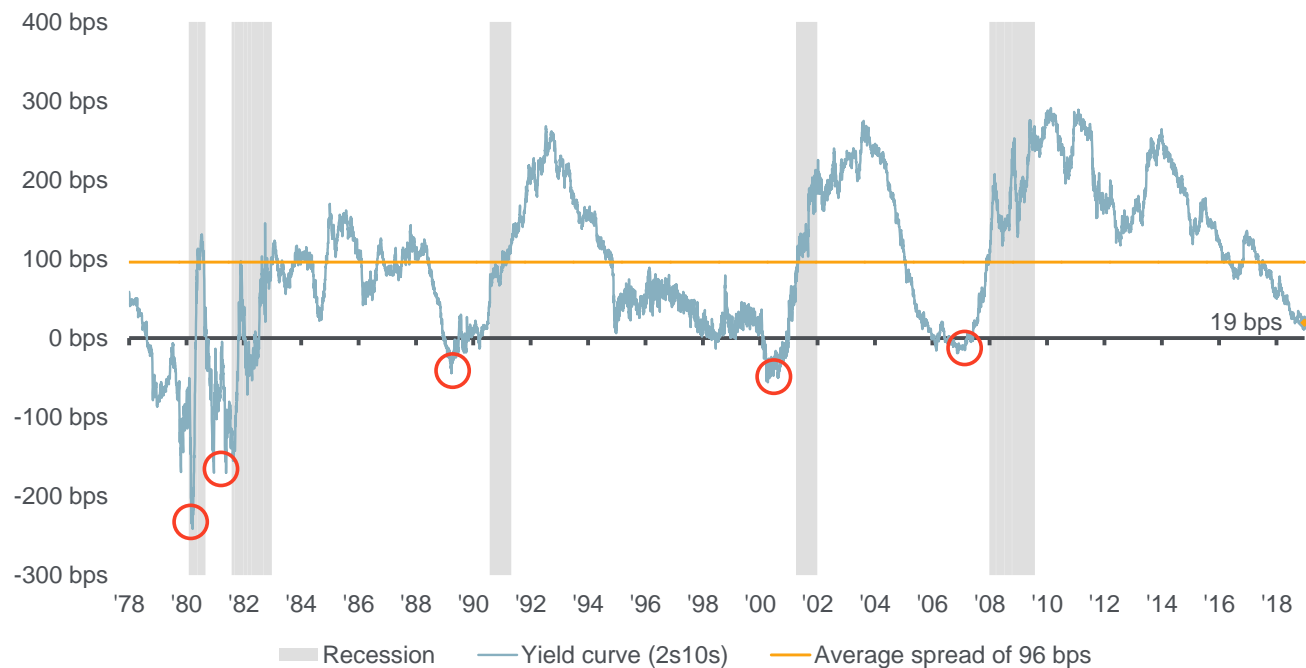


Source - RBC Wealth Management, Bloomberg; data through 12/21/18



Yield curve: Flirting with inversion

The recent flattening bears watching, is it different this time?

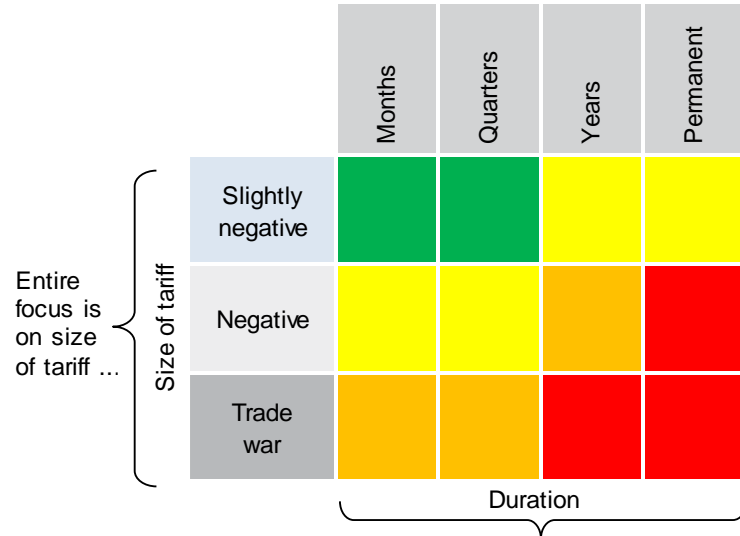


Source - RBC Wealth Management, Bloomberg; data through 12/26/18



Much more than a trade dispute

Heat map of cumulative tariff pain
Green is modest impact; red is high impact



... but how long tariffs last is just as relevant.

- To date, the U.S. has implemented 5%–25% tariffs on \$250B of Chinese goods.
- China has responded with \$160B of its own taxes on U.S. goods.
- But this is much more than a trade dispute. It is primarily a clash over national security, underpinned by ideological differences.

Source – RBC Global Asset Management

U.K. & European equities

U.K.: Brexit will set the tone

- Should the U.K. secure a soft (or even no) Brexit, and therefore maintain the status quo—our base case—stocks should rally and valuations should re-rate upward. Should Brexit negotiations fail, and the U.K. leave without a transition, the currency would likely weaken and equity prices may fall due to higher perceived risk.

Europe: Fundamentals stabilizing

- European equities should continue to be supported by modestly improving fundamentals, including cyclical low unemployment as well as stronger capital investment and lending environments, while a weak currency should underpin exports. Forward-looking P/E valuations near 13x are not demanding, trading below long-term averages, and EPS growth should pick-up to around 8% in 2019

Equity: Value stocks over Growth stocks

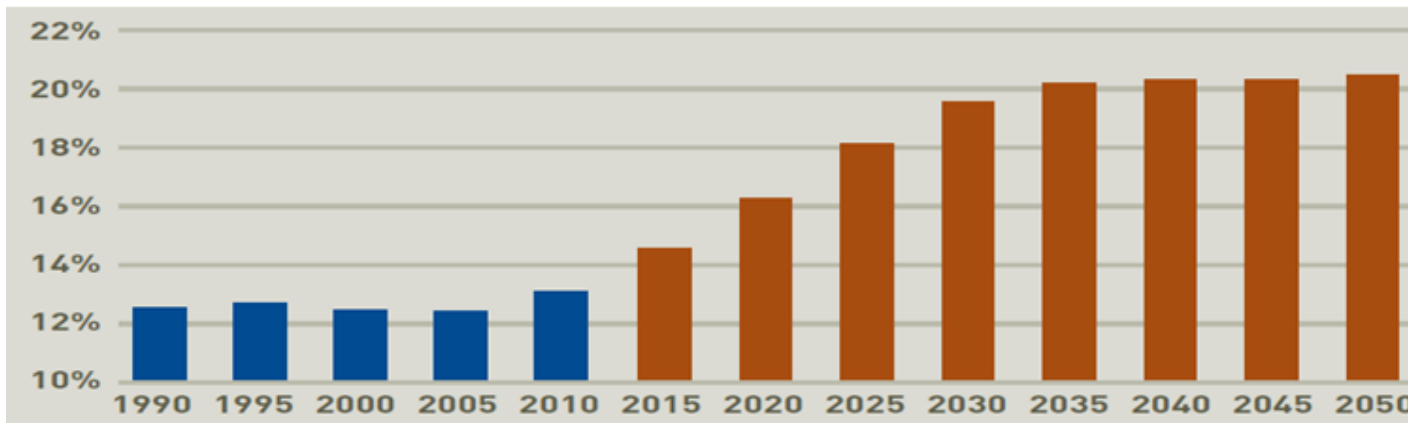


Source: RBC Wealth Management, FactSet; Weekly data through 12/21/18



Dividends should remain in demand

Demographics positive for dividends – % of U.S. population over 65 years of age



Four reasons why dividend stocks should remain in demand

- Current low interest rate environment & need for income
- Potential for a growing income stream
- Dividends reduce market risk & can enhance performance
- Earnings growth & dividend growth = share price appreciation

Source - Census Bureau Population division; 2015–2050 are estimates

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			Count	Percent
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