



Global Outlook 2019

Opportunities and Risks in an aging economic cycle

Alan Robinson – Global Portfolio Analyst, Portfolio Advisory Group – U.S. Equities

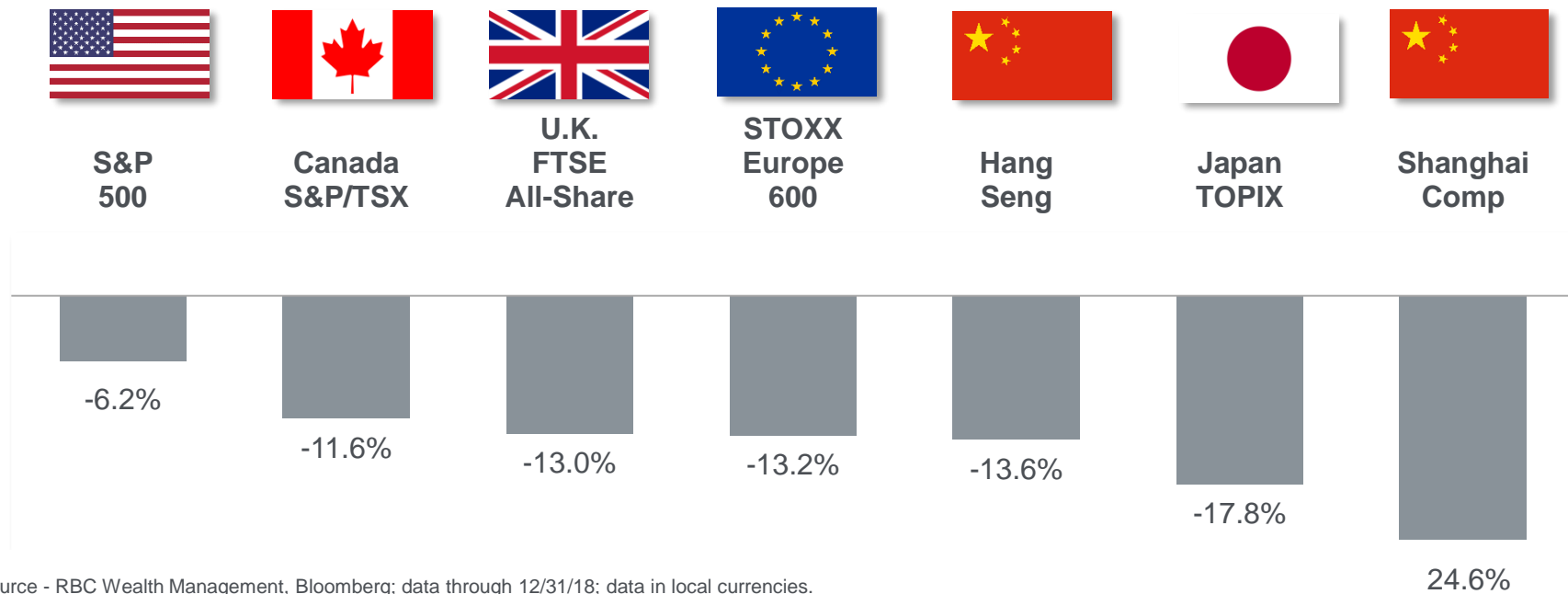
March 2019 | RBC Capital Markets, LLC / Portfolio Advisory Group – U.S.

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

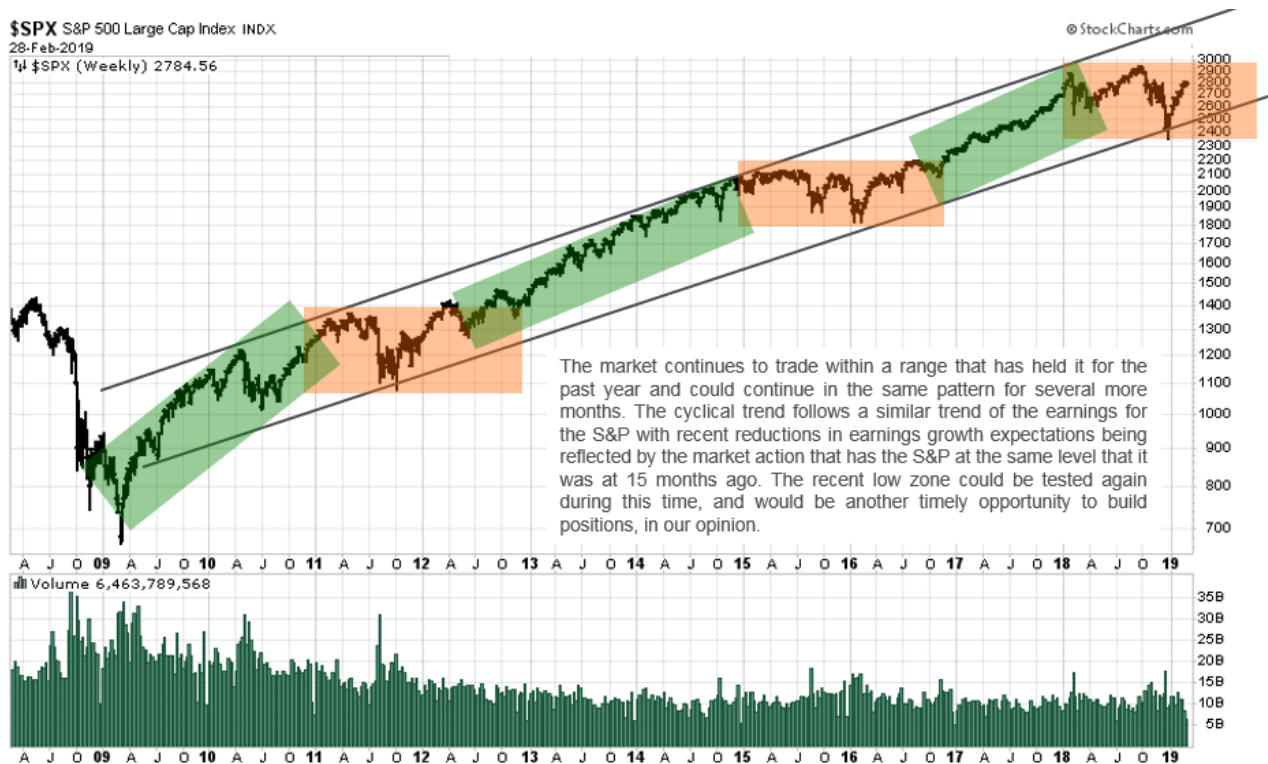


Chart courtesy of StockCharts.com and RBC Wealth Management

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

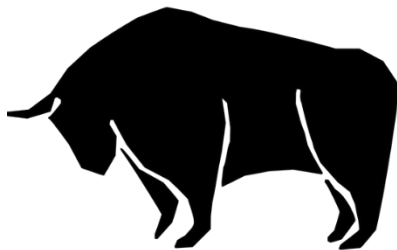
U.S. business cycle scorecard – 17 factors

	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

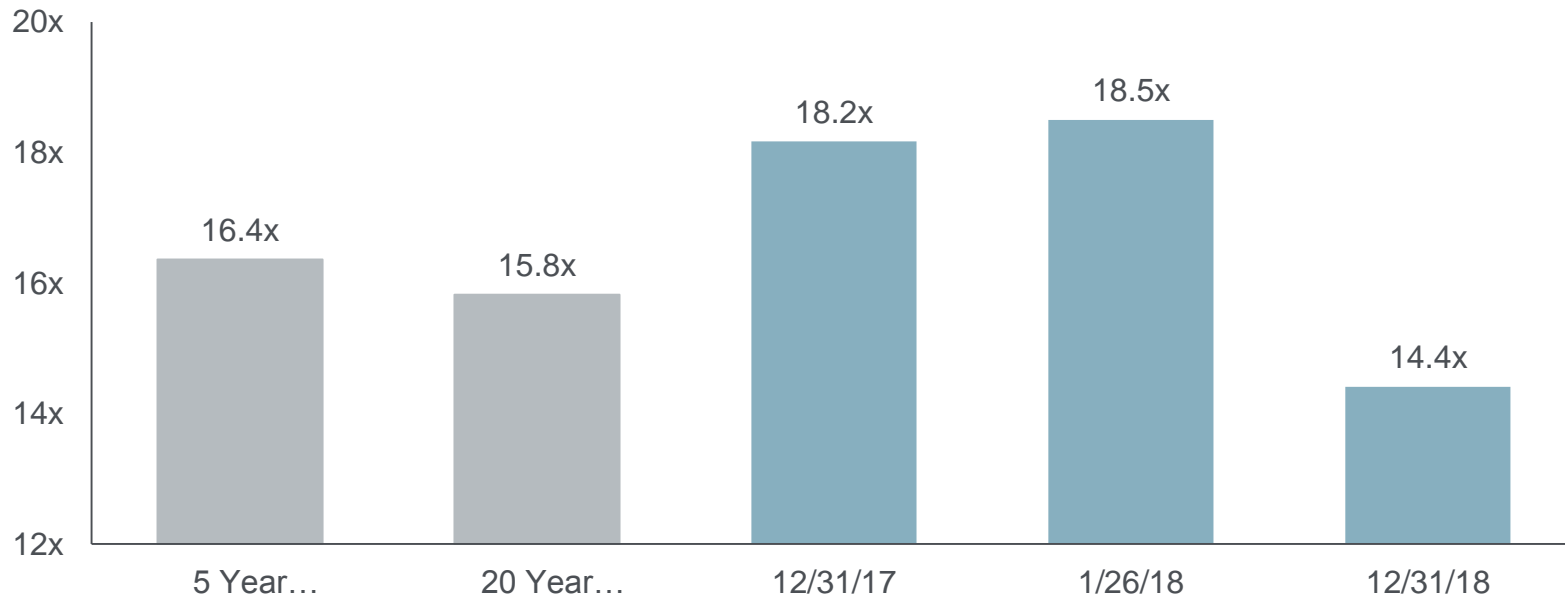
Bull markets are born in pessimism, grown in skepticism, and die in euphoria.
Where are we?

Source - RBC Global Portfolio Advisory Committee (GPAC).

Valuation more reasonable

Below 5- & 20-year averages

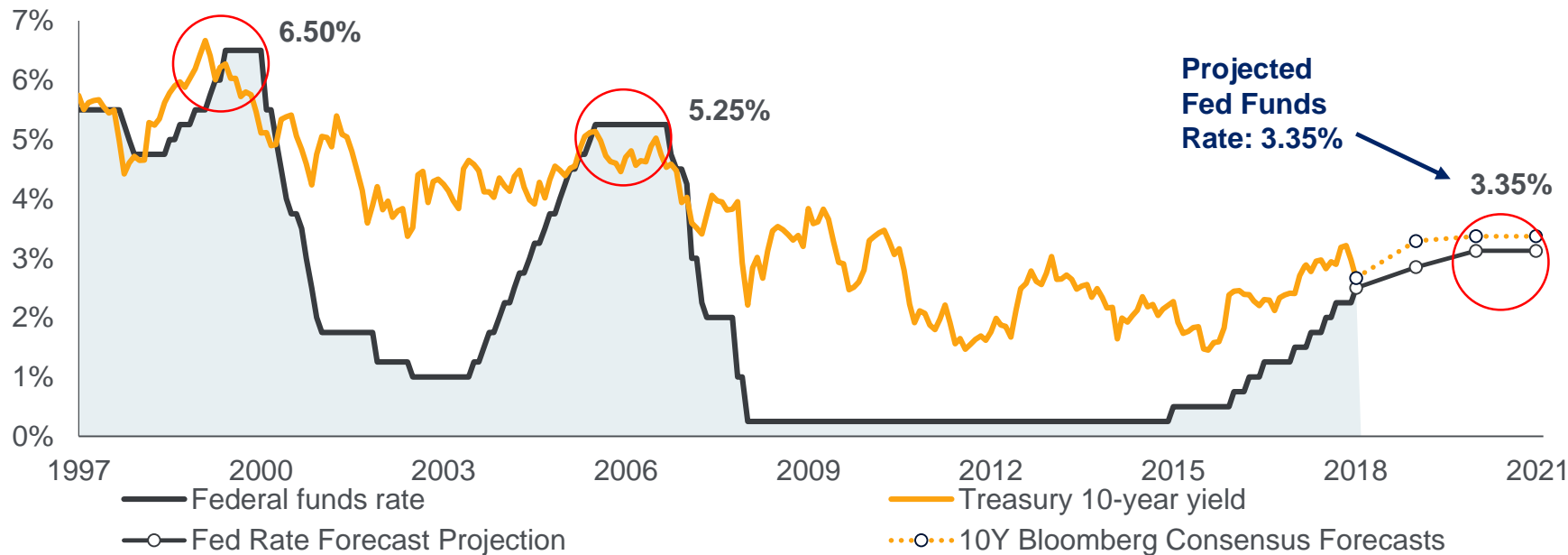
S&P 500 forward price-to-earnings (P/E) ratio



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

Time for a pause...?

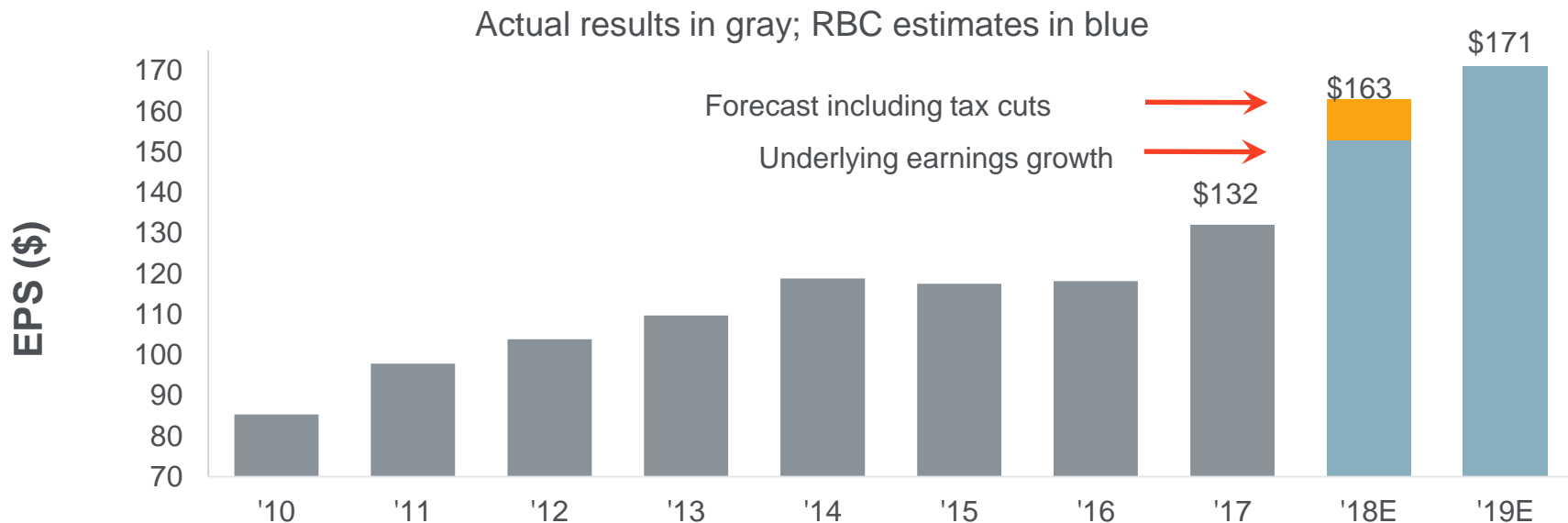
Fed Funds Rate & U.S. Treasury 10-Yr Yield



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

The corporate foundation is sturdy

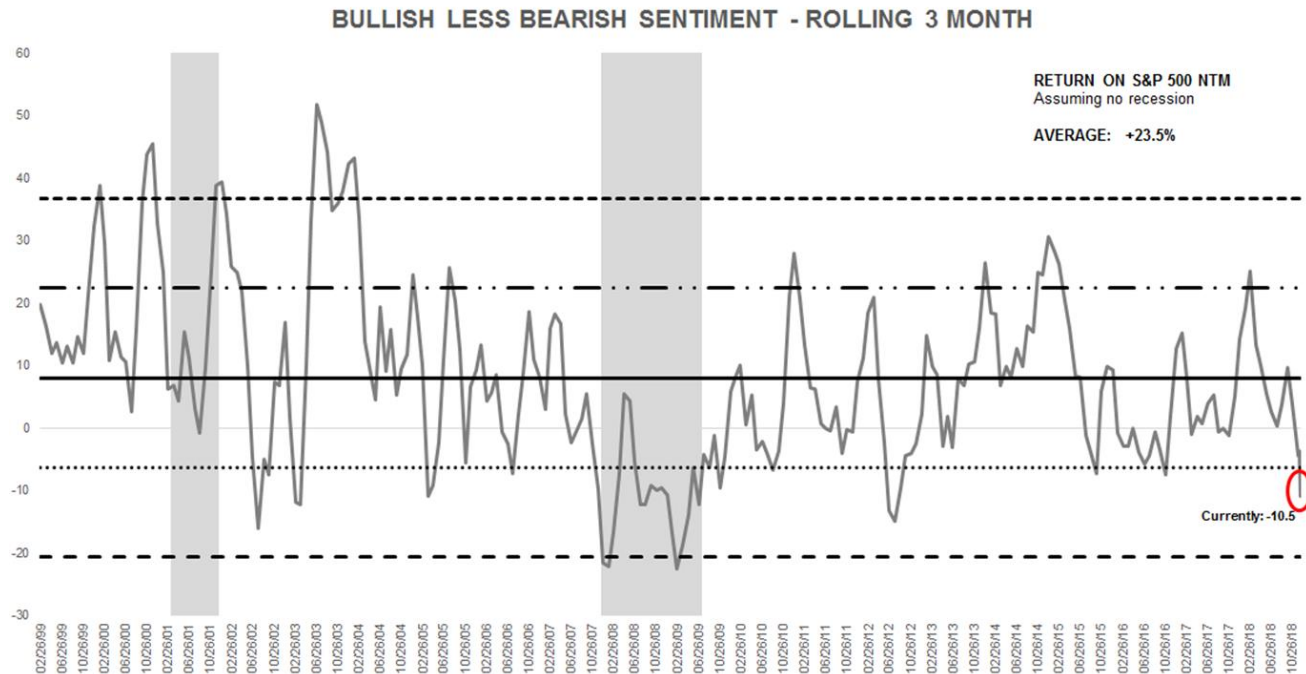
S&P 500 annual earnings per share & estimates



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

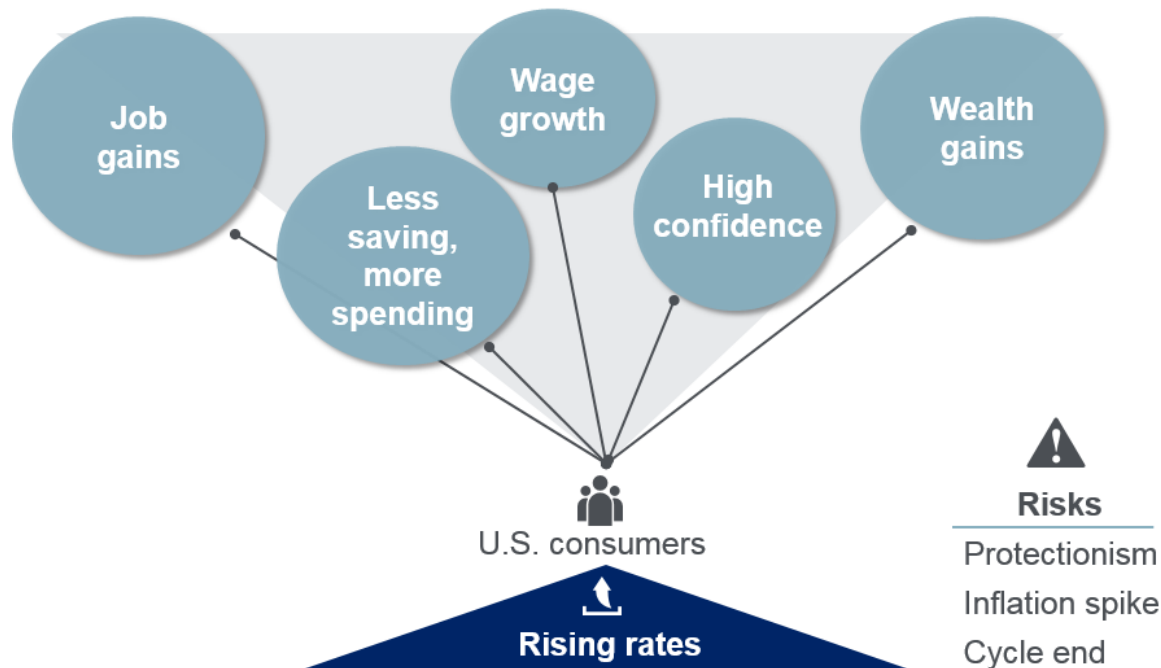
Year	# of days with moves greater than +/- 1%	# of days with moves greater than +/- 2%
50 Year Avg.	59	13
2018	63	19
2017	8	0
2016	48	9
2015	72	10
2014	38	6
2013	38	4
2012	50	6
2011	96	35
2010	76	22
2009	117	55
2008	134	72

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



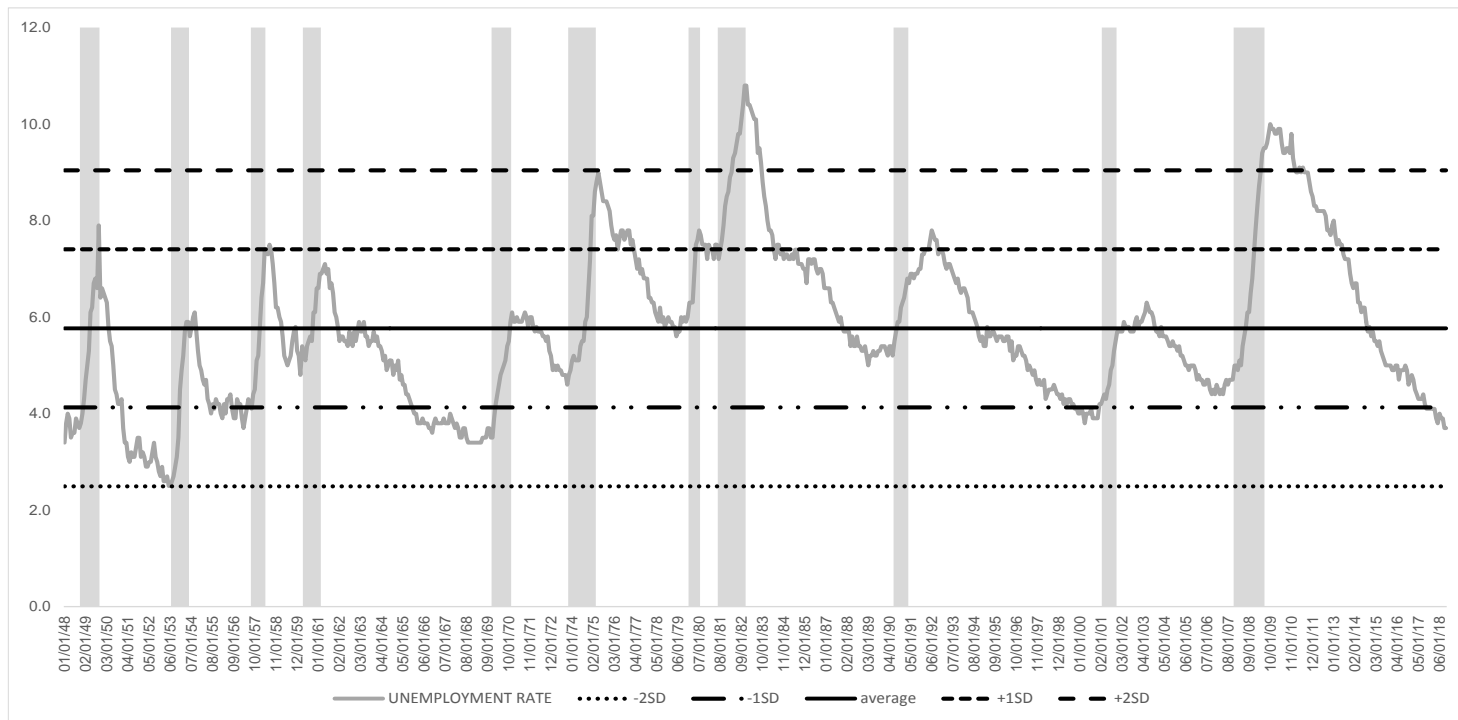
Key to U.S. economic growth: Consumers

U.S. consumers can remain buoyant



Source - RBC Global Asset Management, RBC Wealth Management.

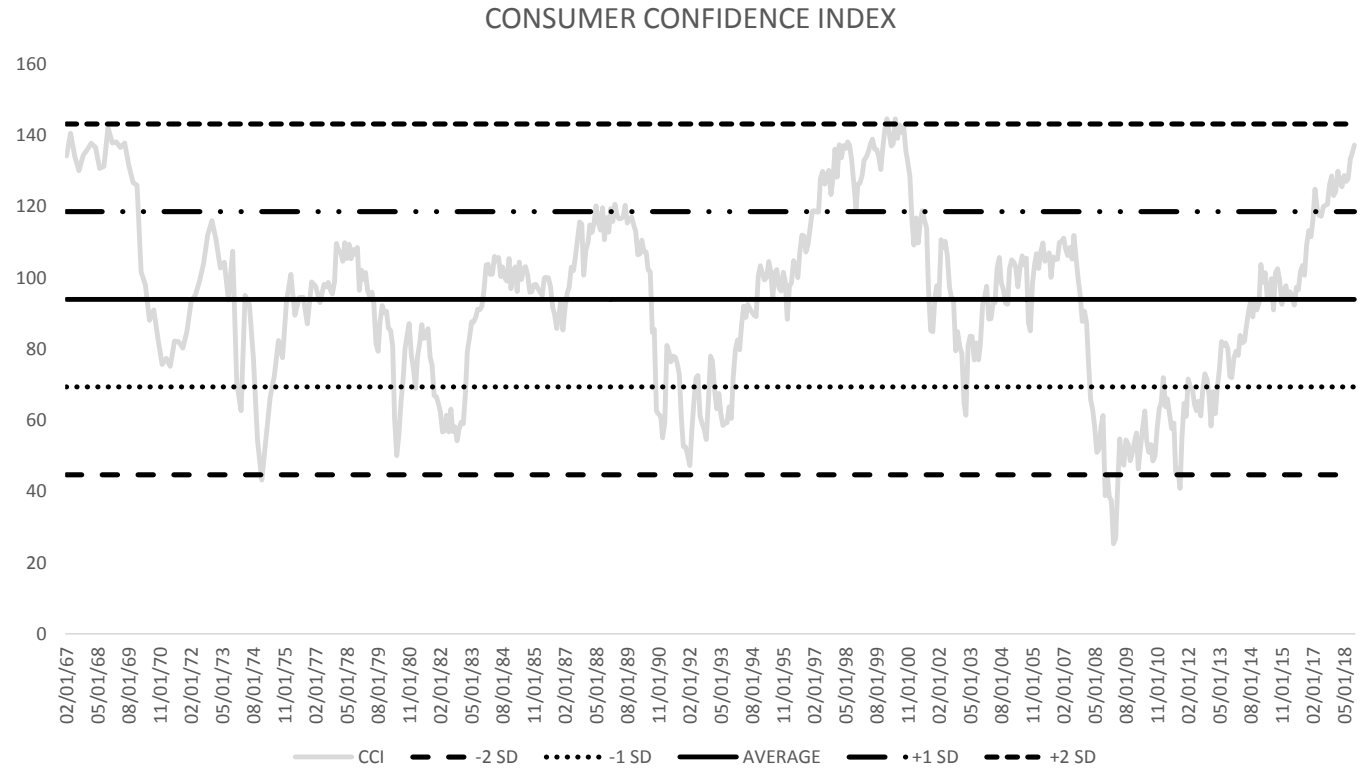
Employment – Current cycle lows



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



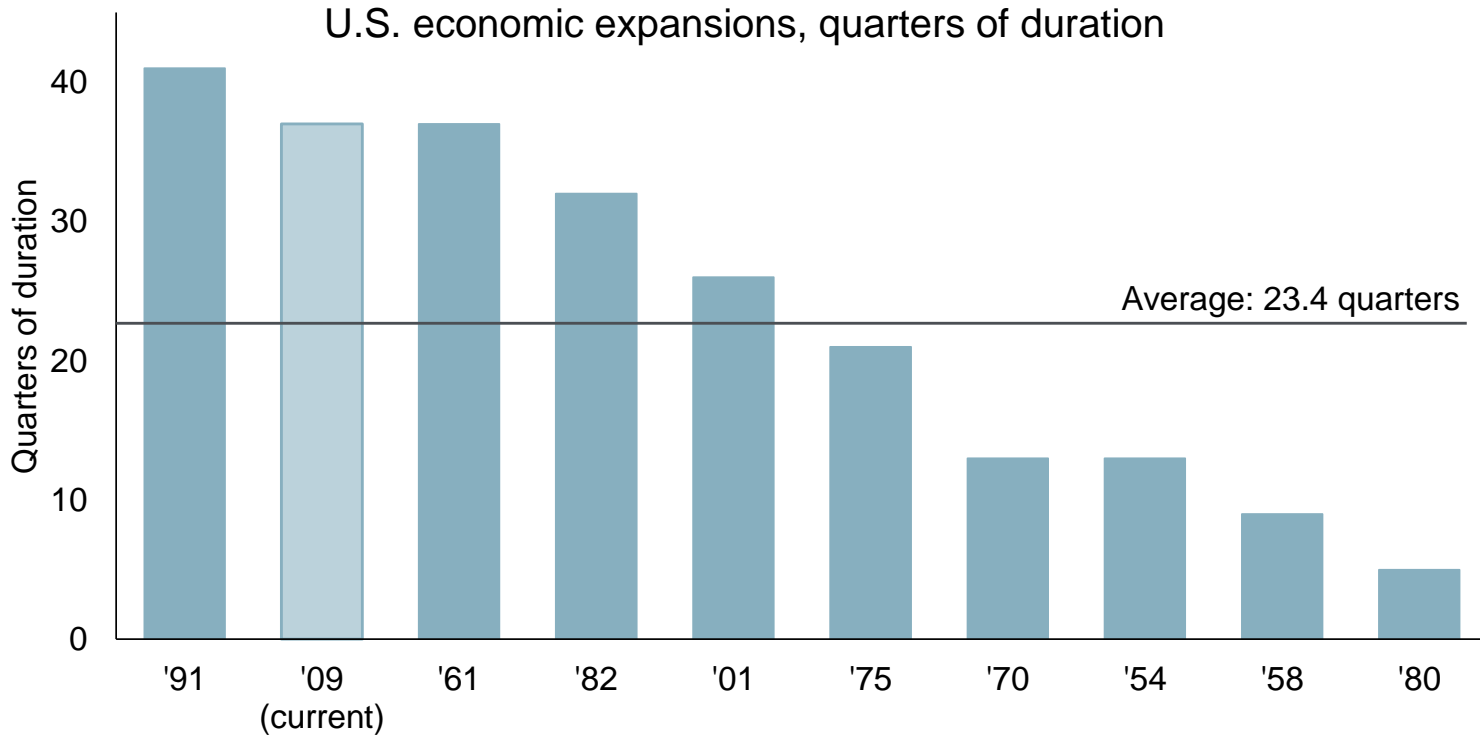
Consumer confidence



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



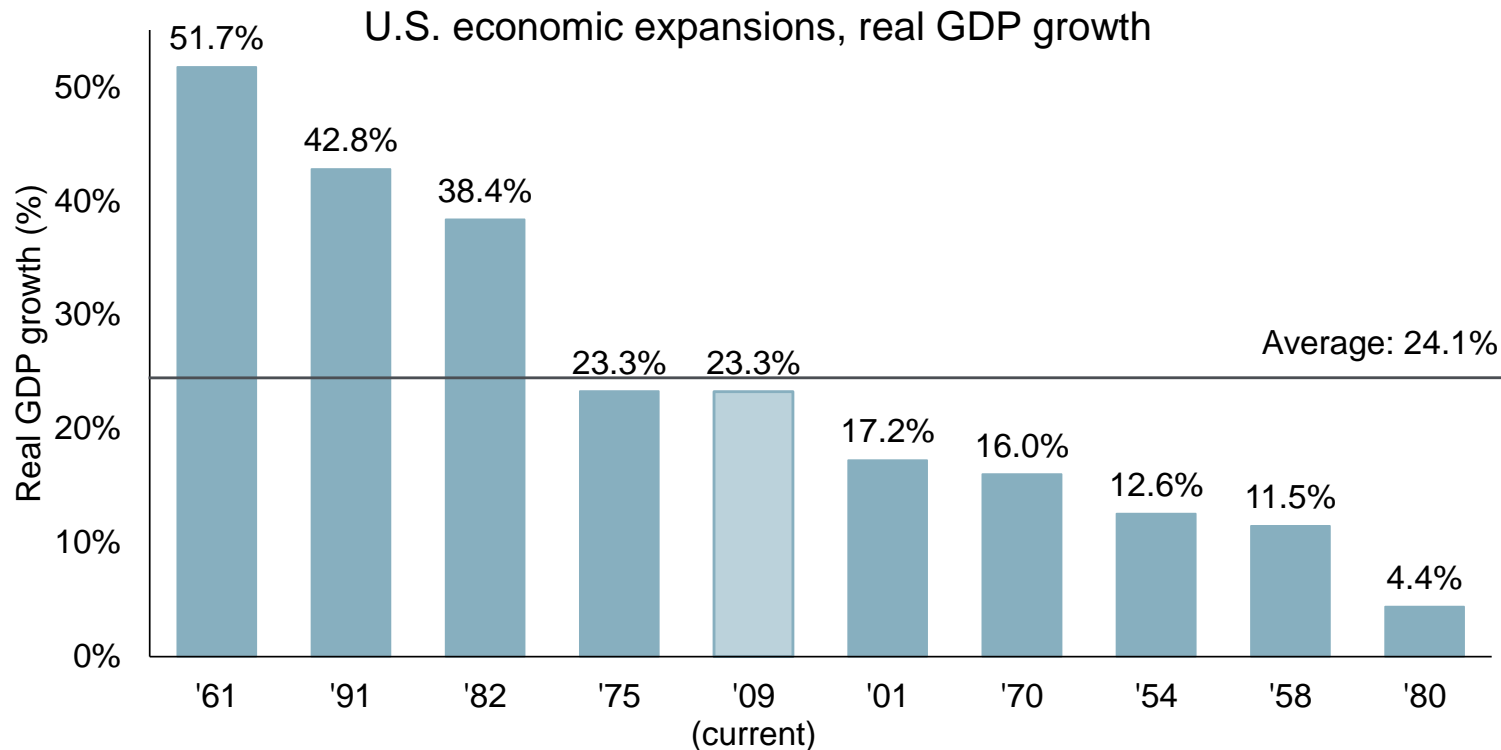
Duration of the economic recovery



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



Shallow economic recovery

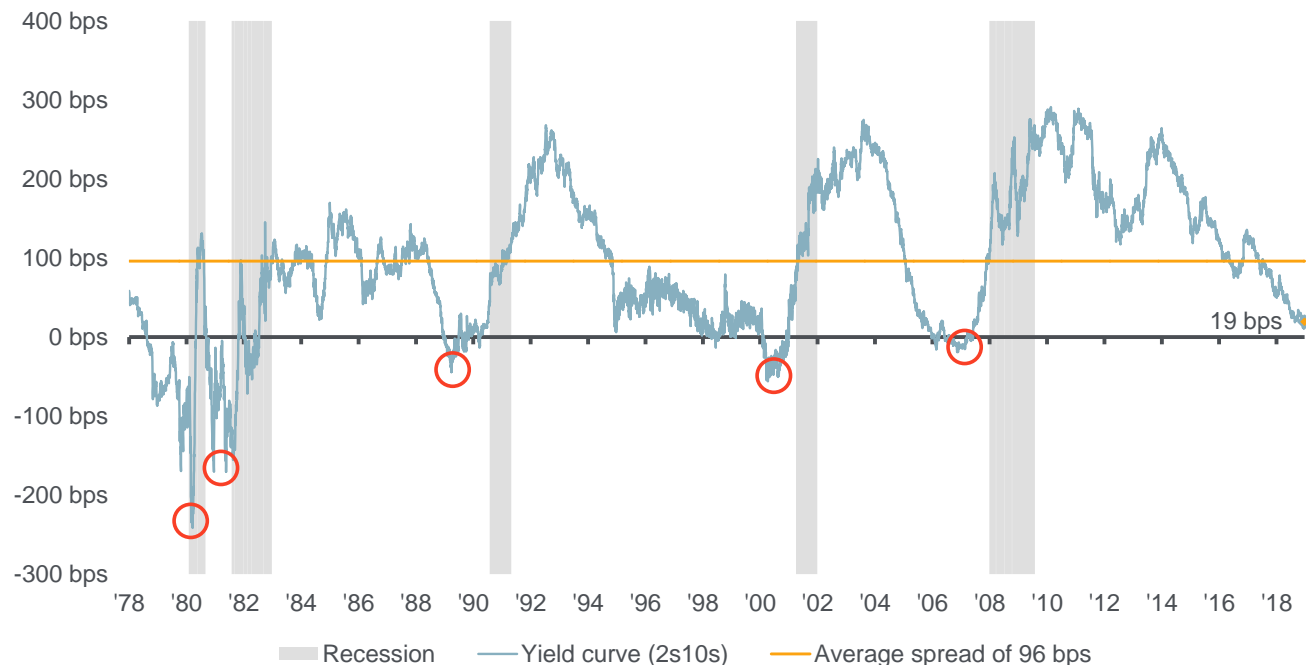


Source - RBC Wealth Management, Bloomberg; data through 12/21/18



Yield curve: Flirting with inversion

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

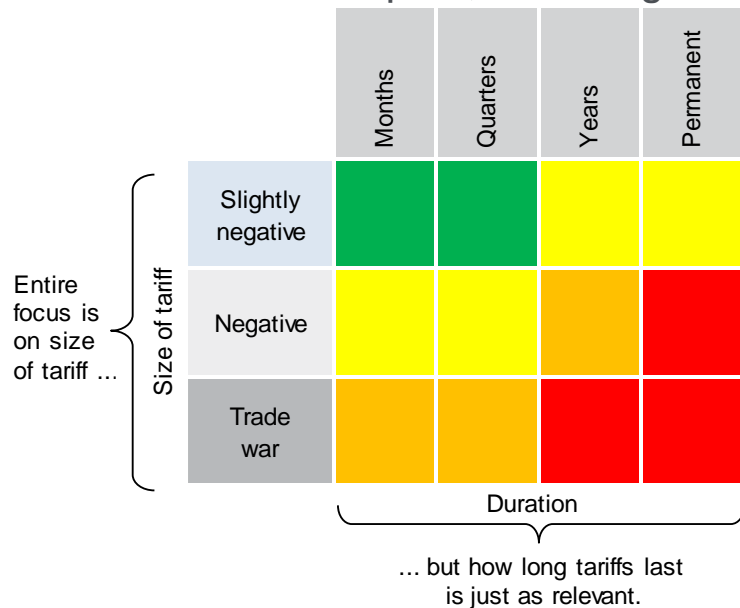


Source - RBC Wealth Management, Bloomberg; data through 12/26/18

Much more than a trade dispute

Heat map of cumulative tariff pain

Green is modest impact; red is high impact



- 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

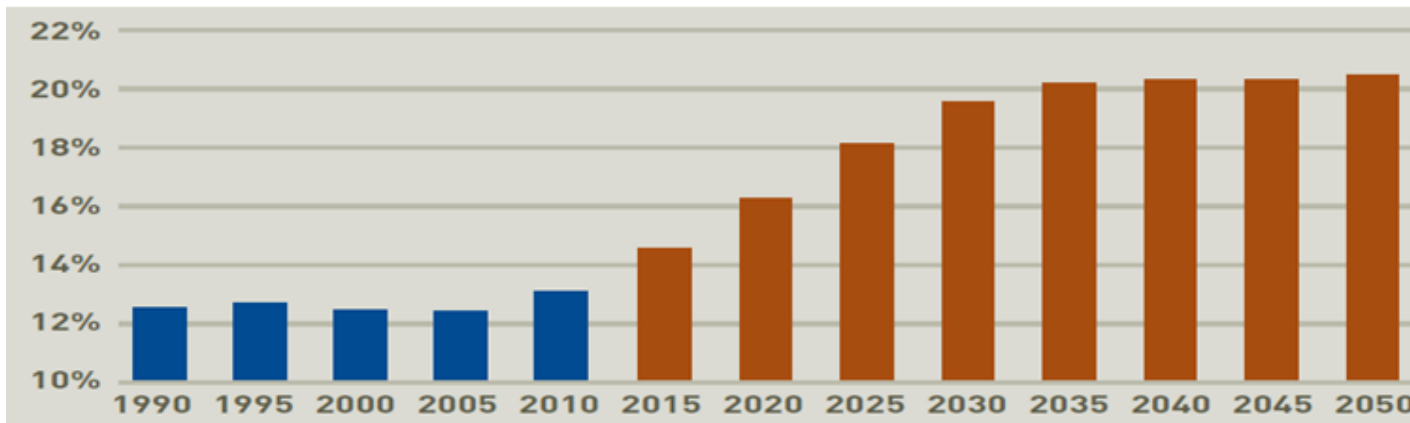


Source: RBC Wealth Management, FactSet; Weekly data through 12/21/18



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

Disclosures

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, LLC. This report has been prepared by RBC Capital Markets, LLC, 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.

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, 60 South Sixth St, Minneapolis, MN 55402.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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, LLC ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Disclosures

Distribution of Ratings - RBC Capital Markets, LLC Equity Research				
As of December 31, 2018				
Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Top Pick & Outperform]	876	54.92	234	26.71
Hold [Sector Perform]	642	40.25	111	17.29
Sell [Underperform]	77	4.83	7	9.09

Explanation of RBC Capital Markets, LLC 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.

Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

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, LLC 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.

Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of RBC Capital Markets, LLC, and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets, LLC 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 author is employed by RBC Wealth Management, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA.

Disclosures and Disclaimer

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.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

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 RBC Wealth Management, 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 RBC Wealth Management nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from 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 consent of RBC Wealth Management. 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 available upon request.

© 2019 RBC Capital Markets, LLC - Member NYSE/FINRA/SIPC. All rights reserved.