GLOBAL Insight WEEKLY

Perspectives from the Global Portfolio Advisory Committee January 21, 2021

U.S. earnings dropping positive hints

Kelly Bogdanova – San Francisco

The magnitude of the earnings recovery in 2021 will ultimately come down to the taming of COVID-19 and the related economic reopening. With Q4 2020 earnings coming into focus, we're seeing the outlines of an encouraging picture. While the market may take a breather in the near term, the long-term setup appears constructive.

Early signals from the Q4 corporate reporting season are hinting that consensus earnings and sales forecasts for the quarter and even full-year 2021 could be too low.

This explains part of the reason why the U.S. equity market has held up so well, and the S&P 500 has reached new highs, despite the recent turmoil in the country and lingering COVID-19 challenges.

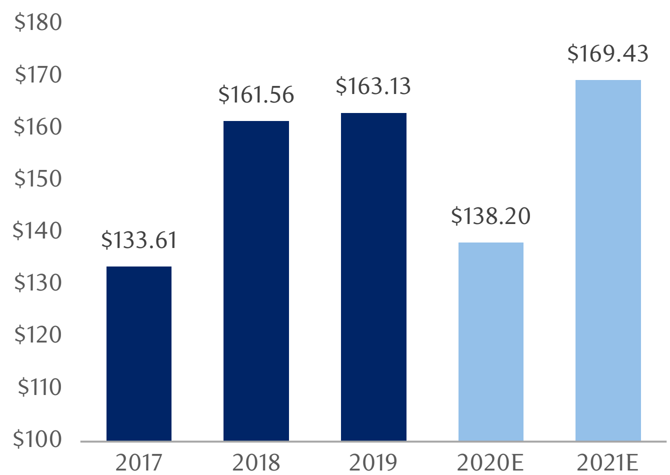
With 10 percent of S&P 500 companies having reported Q4 results thus far, both the proportion that has exceeded consensus forecasts and, more importantly, the *magnitude* of the beats have surpassed historical norms.

Collectively, these companies have posted earnings 22 percent higher than forecast, on average, well above the roughly seven to eight percent beat rate in a typical quarter. Companies in the Financials sector have led so far in terms of the magnitude of surprises with a beat rate of 28 percent.

S&P 500 profit margins are also surprising handsomely, by 19.5 percent, and revenue is pacing almost three percent higher than the consensus forecast. While the latter figure may seem modest, it's nothing to sneeze at, as revenue beats are normally one-third to one-half of that amount.

2021 earnings projected to exceed the 2019 peak

S&P 500 annual consensus earnings per share forecast*



* Actual results in dark blue; consensus estimates in light blue
Source - RBC Wealth Management, FactSet; data as of 1/21/21

For perspectives on the week from our regional analysts, please see pages 3–4.

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Priced (in USD) as of 1/21/21 market close, ET (unless otherwise stated). Produced: Jan. 21, 2021 5:51 pm ET; Disseminated: Jan. 21, 2021 6:00 pm ET
For important disclosures, required non-U.S. analyst disclosures, and authors' contact information, see page 6.

The COVID-19 bite in perspective

For those who live in communities where small businesses are struggling or have closed their doors, this good news might be difficult to grasp.

We think it once again illustrates that what happens on Wall Street isn't always a mirror image of what happens on Main Street.

Many small businesses are facing tougher challenges from the lingering COVID-19 headwinds and restrictions than publicly traded corporations. Companies that are listed on the U.S. stock exchanges, especially those that are included in the major indexes, generally have greater access to capital, cheaper financing rates, and more flexibility in managing expenses during challenging periods than small private businesses.

The unprecedented COVID-19 shutdowns have enabled some large corporations to gain market share at the expense of some favorite local mom-and-pop businesses.

It's all about the path back to normal

Publicly traded corporations, however, are not fully immune from the lingering COVID-19 challenges.

We think the magnitude of the full-year 2021 earnings recovery and market performance are dependent on just how fast COVID-19 is tamed by vaccines and other precautions, and the timing of the subsequent reopening of the U.S. economy. The path to getting from tight COVID-19 restrictions that exist in many states and large cities today to an opened-up economy could prove bumpy. From our vantage point, progress with domestic vaccinations has been disappointing thus far.

Nevertheless, the $169 per share S&P 500 consensus earnings forecast for 2021 is not a high hurdle, in our view, especially given the robust trends in the current reporting season. We don't think the full-year estimate assumes a quick path back to normal, but rather, a more recognizable business landscape that starts to emerge in the second half of the year.

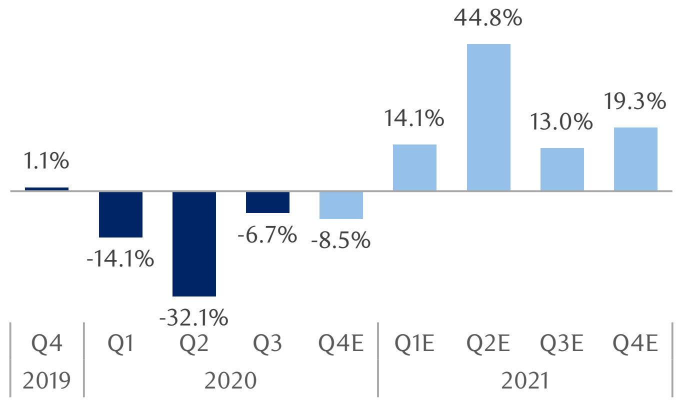
Once COVID-19 is tamed and shutdown restrictions are lifted—whether that happens sooner or later than expected—if anything, we think post-pandemic economic growth could end up being stronger than many economists are penciling in.

The savings rate among the population is unusually high at 14 percent, a level that RBC Capital Markets points out "has rarely been achieved in modern-day U.S. history." This has been helped along by fiscal spending from Washington (aka helicopter money) that could grow further if the Biden administration gets even part of what it is requesting from Congress.

Very little has been spent by households on services such as entertainment and travel, and some are being frugal with goods purchases due to the economic challenges overall, so cash has been socked away.

Earnings growth trends projected to improve in 2021

S&P 500 consensus earnings growth forecast (y/y % change)*



*Actual results in dark blue; consensus estimates in light blue
Source - RBC Wealth Management, FactSet; data as of 1/21/21

Our national research correspondent believes that this factor, combined with pent-up demand for services, could ultimately lead to a spending splurge once the economy begins to return to normal.

RBC Capital Markets, LLC's Chief U.S. Economist Tom Porcelli wrote in his 2021 outlook report, "While it is not part of our baseline forecast, we can easily see a scenario that is not particularly outlandish where the consumer finds themselves in a feel good spot later in the year (i.e. the vaccine is moving along without any major issues, we are getting toward full employment, etc.), and they begin to deploy this stockpile in earnest."

For this reason, full-year 2021 earnings could actually surprise to the upside, even if there are COVID-19-related bumps in the months ahead. While some of this earnings optimism likely has been factored into the market already, we doubt all of it has.

During this reopening stage of the economic rebound, we think cyclical (economically sensitive) sectors have the potential to benefit the most from earnings trends, including those that are directly tied to discretionary consumer spending.

Support for higher ground

Multiple U.S. equity indexes have reached new all-time highs recently. While some technical indicators continue to flash warning signs that the market could cool off or even pull back over the near term, which would be normal, we remain constructive on the U.S. equity market based on a longer 12–18 month time horizon.

We expect corporate profits, revenues, and major equity indexes to gain more ground as fiscal stimulus is added and the Federal Reserve keeps monetary policies ultraloose, and especially as the COVID-19 headwinds are ultimately tamed.

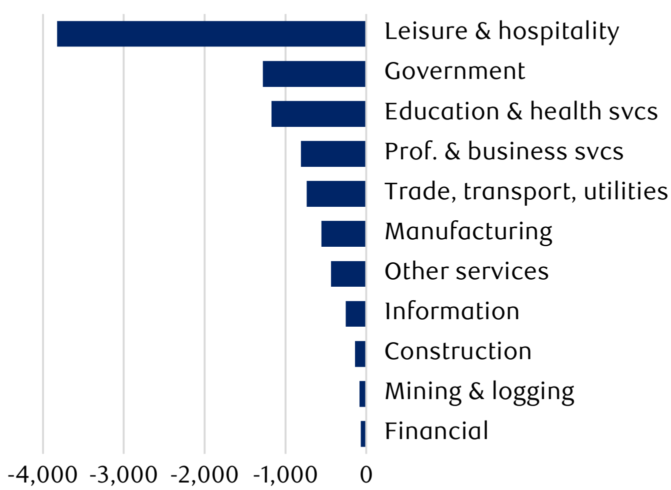
UNITED STATES

Atul Bhatia, CFA – Minneapolis

- **Bond market volatility declined this week** as markets focused on President Joe Biden's $1.9 trillion stimulus proposal. The plan faces an uncertain future in Congress and one key provision—the $15 per hour minimum wage—will likely generate significant legislative opposition. If enacted, that measure should help push annual inflation toward the Fed's goal of 2% on a sustained basis. Permanent earnings increases to lower-income workers are typically spent rather than saved, avoiding one of the problems that has muted the impact of past stimulus programs. Even without the wage increase, the remaining provisions should be supportive of consumer price inflation and GDP growth.
- **Recent data has underscored the need for policy support.** December's nonfarm payroll data showed a 140,000 employment drop for the month and a record-breaking 9.37 million job loss for 2020. Investors and employees can take some solace in the fact that recent losses were heavily concentrated in the leisure and hospitality sector, an area that should benefit from the ongoing vaccination rollout. Even with a return to pre-pandemic employment levels in hospitality, the U.S. would still face a nearly 6 million job deficit compared to 2019.
- **A recovery to pre-pandemic employment levels will likely be a multi-year process** and will almost certainly drive the Fed to keep policy rates at or near zero for years. Optimism on the possibility for robust growth in H2 2021 has sparked some commentary, however, on when the Fed should begin discussing potential reductions to its $120 billion per month bond-buying program. Four Fed members said an initial conversation may be warranted this year, while Fed Chair Jerome Powell and two other senior members said any such talk should be delayed until at least 2022. Messaging around asset purchase changes has been difficult for the central bank in the past, most notably in 2013's so-called "taper tantrum," when yields rose sharply in response to comments by then-Fed Chair Ben Bernanke.

A long recovery ahead

U.S. job losses in 2020 (thousands)



Source - RBC Wealth Management, U.S. Bureau of Labor Statistics

CANADA

Carolyn Schroeder & Richard Tan, CFA – Toronto

- Gyms remain largely closed in Canada, but that's not stopping **the S&P/TSX Composite** from **flexing its muscle early into 2021**. Following news of a potential vaccine late last year, the market took a risk-on mentality and rotated away from growth into value and from defense into cyclicals. All else being equal, we believe these trends play well into the dynamics of the Canadian equity markets given the S&P/TSX Composite trades at a discount to the S&P 500 and Canada is a resource-based economy. With respect to the latter, we've witnessed an increased amount of debate on whether the environment is poised for an upcoming commodity supercycle. In our view, the combination of low rates, a weakened U.S. dollar, potential rise in inflation, and arguably the start of a new business cycle should continue to support commodities broadly. In aggregate, the Energy and Materials sectors represent roughly 25% and 5% of the Canadian and U.S. markets, respectively.
- **The Bank of Canada (BoC) opted against a policy tweak** as a more optimistic medium-term outlook combined with ongoing fiscal support reduced the need for additional monetary policy stimulus. As such, the central bank held its overnight rate steady at the effective lower bound of 0.25% and maintained the current pace of quantitative easing (QE) of at least CA$4 billion per week. The announcement was accompanied by the **release of the January Monetary Policy Report** and the bank's upgrade to its 2022 GDP growth forecast to 4.8% from 3.7%, in line with RBC Economics forecasts. Even with current lockdowns making for a sluggish start to the year (Q1 2021 GDP expected to decline by 2.5% annualized) the BoC upgraded its 2021 forecast (on a Q4/Q4 basis) to 4.6% from 3.8%. The upgrade was driven by the earlier-than-anticipated arrival of vaccines, ongoing fiscal stimulus, strong foreign demand, and higher commodity prices.

EUROPE

Frédérique Carrier & Thomas McGarrity, CFA – London

- **The shares of Stellantis, the newly formed company following the completion of the €50 billion merger of European automakers Fiat Chrysler and Peugeot, began trading on Jan. 18, 2021.** The traditional auto manufacturing industry remains in the relatively early innings of a heavy investment and capital expenditure cycle in electrification and other smart mobility features such autonomous driving and increased connectivity. Due to the high fixed costs associated with the required investments, further consolidation within the sector is inevitable, in our view. **We expect to see growing numbers of strategic partnerships with technology companies** as the industry incumbents seek to keep pace with ongoing technological changes and try to boost their low valuation multiples.

- Semiconductor equipment maker **ASML reported Q4 results significantly ahead of consensus expectations**, alongside raising guidance for 2021 citing strong logic demand and a continued recovery in memory. Luxury goods company **Richemont reported quarterly sales 5% above consensus expectations**, thanks to a stronger-than-expected performance in jewellery.

- **In Germany, centrist Armin Laschet won the Christian Democratic Union (CDU) party leadership elections, suggesting a continuation of Chancellor Angela Merkel's legacy.** Laschet was supportive of Merkel's controversial open door immigration policy, has a good relationship with French President Emmanuel Macron, and backed the EU recovery plan. **However, it is not a given that he will become the next chancellor** of Germany. In the spring, the CDU and its sister coalition partner, the Christian Social Union (CSU) party, will nominate a joint candidate for the September 2021 national elections. Political observers suggest the CSU might want to put forth its own candidate for the chancellorship, Markus Söder, who is very popular both within the party and in Germany. One key factor for determining which candidate might be selected is whether the CDU does better in opinion polls under Laschet's leadership over the next couple of months.

- **Italian Prime Minister Giuseppe Conte narrowly survived a vote of confidence** in the lower and upper houses of parliament, and thus retains his role but leading a minority government.

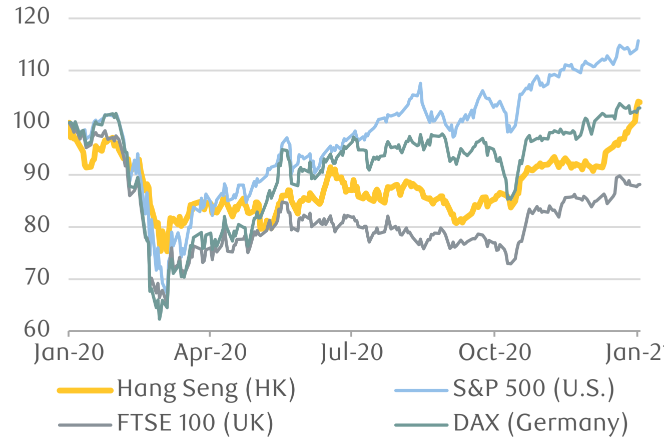
ASIA PACIFIC

Jasmine Duan – Hong Kong & Nicholas Gwee, CFA – Singapore

- **Asian stocks headed for another record high amid a global rally** on optimism that U.S. fiscal spending will revive economic growth and boost corporate profits.

Asian equities start the year strong

Equity index returns normalized to 1/20/20 = 100



Source - RBC Wealth Management, Bloomberg

The MSCI Asia Pacific Index is already up 6.6% year to date.

- The Hong Kong market is one of the top performers in the region. **Funds from China are buying record amounts of shares in Hong Kong**, driving the Hang Seng Index above 30,000 for the first time since May 2019. Southbound inflows through the Stock Connect program reached a new high. According to Bloomberg, onshore Chinese investors have bought a net US$26.6 billion in Hong Kong stocks year to date, up from US$3.6 billion a year ago. The strong inflows were mainly driven by positive news and relatively undemanding valuations.

- **China's GDP increased by 2.3% in 2020**, beating market estimates. According to The Wall Street Journal, China is **the only major economy to report growth last year**. China's GDP grew 6.5% y/y in Q4 2020, surpassing the 6.0% expansion in Q4 2019. It contracted by 6.8% y/y in Q1 2020, before growing by a more modest 3.2% and 4.9% in Q2 and Q3 of that year, respectively.

- **Japanese exports increased in December for the first time in just over two years**, with demand from China climbing. The value of overseas shipments rose by 2% y/y, snapping a 24-month losing streak that came amid trade wars and the pandemic. Gains mainly derived from exports of plastic, non-ferrous metals, and equipment for making semiconductors, while car shipments declined.

- **China broke its previous record for renewable energy installations with a massive addition of wind power in 2020.** According to the National Energy Administration, China added almost 72 gigawatts of wind power in 2020. The country also added about 48 gigawatts of solar power, the most since 2017, and about 13 gigawatts of hydropower. According to Bloomberg, China's previous record for new renewables capacity across all technologies was about 83 gigawatts in 2017.

MARKET Scorecard

Data as of January 21, 2021

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	3,853.07	2.6%	2.6%	16.0%	44.3%
Dow Industrials (DJIA)	31,176.01	1.9%	1.9%	6.8%	26.2%
Nasdaq	13,530.92	5.0%	5.0%	44.4%	89.1%
Russell 2000	2,141.42	8.4%	8.4%	27.0%	44.4%
S&P/TSX Comp	17,916.20	2.8%	2.8%	2.0%	16.7%
FTSE All-Share	3,802.30	3.5%	3.5%	-10.0%	-0.7%
STOXX Europe 600	410.89	3.0%	3.0%	-3.0%	15.3%
EURO STOXX 50	3,618.35	1.8%	1.8%	-4.5%	15.8%
Hang Seng	29,927.76	9.9%	9.9%	6.9%	10.0%
Shanghai Comp	3,621.26	4.3%	4.3%	18.6%	38.7%
Nikkei 225	28,756.86	4.8%	4.8%	20.5%	38.8%
India Sensex	49,624.76	3.9%	3.9%	20.1%	35.7%
Singapore Straits Times	3,017.15	6.1%	6.1%	-7.1%	-6.3%
Brazil Ibovespa	118,329.00	-0.6%	-0.6%	1.1%	23.2%
Mexican Bolsa IPC	44,810.21	1.7%	1.7%	-1.8%	1.8%
Gov't bonds (bps change)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. 10-Yr Treasury	1.108%	19.4	19.4	-66.7	-167.7
Canada 10-Yr	0.869%	19.2	19.2	-64.7	-114.8
UK 10-Yr	0.331%	13.4	13.4	-30.0	-99.2
Germany 10-Yr	-0.496%	7.3	7.3	-24.8	-75.1
Fixed income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	1.17%	-0.6%	-0.6%	5.9%	19.2%
U.S. Investment-Grade Corp	1.83%	-0.9%	-0.9%	7.6%	25.8%
U.S. High-Yield Corp	4.11%	0.6%	0.6%	7.0%	18.2%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	1,869.17	-1.5%	-1.5%	20.0%	46.0%
Silver (spot $/oz)	25.95	-1.7%	-1.7%	45.9%	69.9%
Copper ($/metric ton)	8,040.25	3.8%	3.8%	31.2%	35.1%
Oil (WTI spot/bbl)	53.09	9.4%	9.4%	-9.0%	-1.3%
Oil (Brent spot/bbl)	55.99	8.1%	8.1%	-13.3%	-10.8%
Natural Gas ($/mmBtu)	2.50	-1.7%	-1.7%	31.7%	-28.3%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	90.0930	0.2%	0.2%	-7.6%	-6.5%
CAD/USD	0.7915	0.8%	0.8%	3.5%	5.2%
USD/CAD	1.2634	-0.7%	-0.7%	-3.3%	-5.0%
EUR/USD	1.2166	-0.4%	-0.4%	9.8%	7.0%
GBP/USD	1.3730	0.4%	0.4%	5.2%	6.5%
AUD/USD	0.7761	0.9%	0.9%	13.4%	8.4%
USD/JPY	103.5100	0.3%	0.3%	-5.8%	-5.6%
EUR/JPY	125.9400	-0.2%	-0.2%	3.4%	1.0%
EUR/GBP	0.8861	-0.9%	-0.9%	4.3%	0.5%
EUR/CHF	1.0771	-0.4%	-0.4%	0.3%	-5.0%
USD/SGD	1.3223	0.0%	0.0%	-2.0%	-2.7%
USD/CNY	6.4620	-1.0%	-1.0%	-6.4%	-4.9%
USD/MXN	19.7371	-0.9%	-0.9%	5.1%	3.0%
USD/BRL	5.3605	3.1%	3.1%	41.9%	42.6%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Wednesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.79 means 1 Canadian dollar will buy 0.79 U.S. dollar. CAD/USD 0.8% return means the Canadian dollar rose 0.8% vs. the U.S. dollar year to date. USD/JPY 103.51 means 1 U.S. dollar will buy 103.51 yen. USD/JPY 0.3% return means the U.S. dollar rose 0.3% vs. the yen year to date.

Source - Bloomberg; data as of 4:35 pm ET 1/21/21.

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As of December 31, 2020

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Buy [Outperform]	828	54.83	299	36.11
Hold [Sector Perform]	615	40.73	166	26.99
Sell [Underperform]	67	4.44	12	17.91

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