Monthly Scorecard

May 8, 2019 | Portfolio Advisory Group – U.S. Equities

Performance (Total return % change)

Index	4/30/19	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	26,592.91	2.66	6.99	14.79	12.57	32.94
S&P 500	2,945.83	4.05	9.48	18.25	13.48	28.52
NASDAQ	8,095.39	4.78	11.48	22.39	15.85	36.90
Russell 2000	1,591.21	3.40	6.49	18.46	4.57	16.64
Russell 3000	1,735.60	3.99	9.22	18.60	12.66	27.35
S&P 500 Equal Wgt.	4,385.66	3.60	8.36	19.04	10.61	23.15
MSCI AC World	524.84	3.42	7.65	16.18	5.64	21.25
MSCI Europe	132.04	3.87	8.30	15.02	-2.49	11.46
MSCI EAFE	1,921.49	2.89	6.33	13.36	-2.69	12.04
MSCI Asia-Pacific	162.36	1.64	4.42	11.57	-4.01	15.44
MSCI Emerg. Mkts.	1,079.24	2.12	3.23	12.27	-4.70	16.38
60/40 Allocation[1]	N/A	2.44	6.44	12.14	10.20	19.09
S&P 500 Sector	**4/30/19**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	952.14	5.71	10.91	22.33	16.89	36.52
Consumer Staples	593.64	2.52	9.16	14.83	18.38	11.10
Energy	489.38	0.07	4.86	16.51	-7.29	4.24
Financials	464.95	9.00	8.73	18.34	4.28	23.63
Health Care	1,033.35	-2.63	-1.01	3.79	10.52	22.58
Industrials	657.97	4.11	9.51	22.02	10.53	20.28
Information Tech.	1,381.76	6.43	19.26	27.57	22.76	53.01
Materials	359.84	3.64	8.36	14.31	3.04	12.50
Real Estate	223.07	-0.47	5.59	16.98	21.17	22.32
Comm. Services[2]	167.49	6.53	10.01	21.42	15.86	12.88
Utilities	297.75	0.93	8.16	11.87	17.96	21.77
FI, FX, & Commod.	**4/30/19**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[3]	2.50%	-0.28	1.35	1.83	4.77	3.65
Invest-Grade Credit[4]	3.60%	0.54	3.28	5.71	6.50	7.21
High-Yield Credit[4]	6.12%	1.42	4.08	8.78	6.74	10.23
WTI Crude Oil[5]	$63.91	6.27	18.81	40.74	-6.80	29.56
Dollar Index[5]	$97.48	0.20	1.99	1.36	6.14	-1.59
Gold[5]	$1,283.55	-0.68	-2.85	0.09	-2.42	1.20

[1] 60% S&P 500 and 40% Bloomberg Barclays U.S. Aggregate.
[2] Communication Services returns include data from the previously labeled Telecom sector for returns including dates prior to 9/30/18. [3] Yield reflects 10-year U.S. Treasury, total returns reflect Bloomberg Barclays U.S. Treasury Index. [4] Yield and total returns reflect that of the respective Bloomberg Barclays Index. [5] Spot prices and price returns.
Source - Bloomberg, RBC Wealth Management

Priced (in USD) as of April 30, 2019, market close (unless otherwise stated).

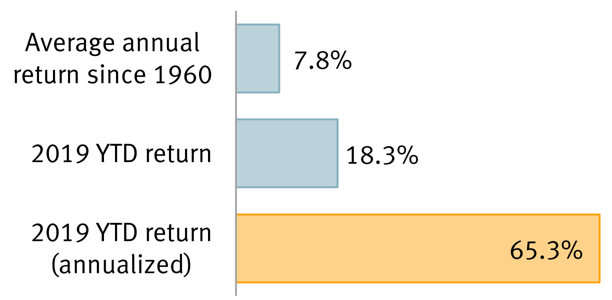
Click here for author's information and important disclosures.

Spring cleaning?

Equity markets deserved to throw a Cinco de Mayo party this year, as April saw stocks add to 2019 gains that were already strong, bringing the annualized S&P 500 gains YTD to more than 60%. The recently completed month saw U.S. equities build on their leadership position, while all major indexes closed at least 1% higher. The U.S. led, with the S&P 500 gaining 4.1% on a total-return basis while the NASDAQ actually climbed higher, gaining 4.8%. European equities appreciated 3.9%, U.S. small caps gained 3.4%, and Emerging Markets jumped 2.1%. The MSCI Asia Pacific was the worst-performing major index but still gained 1.6%.

S&P 500 2019 returns in context

The S&P 500's recent returns indicate investors may need to properly calibrate expectations going forward



Source - RBC Wealth Management, Bloomberg; data though 4/30/19

U.S. equity markets were characterized by an earnings season that was rapidly paced and positively surprising in the fact that it was better than feared. After concerns of an earnings recession cropped up in the first quarter, that fear-filled narrative has largely abated. First-quarter consensus earnings growth expectations of 0.9% have climbed from their pre-earnings season nadir of -2.5% on April 11.

Interestingly, sector-level monthly returns did not show a strong relationship to quarterly beat rates. Financials, the

RBC Wealth Management

best-performing sector in April with its 9.0% monthly return, was fueled by double-digit Bank returns despite the sector only delivering a beat rate (better quarterly EPS than expected) of 71%, reasonably below the full S&P 500 beat rate of 75.5%. Communication Services was the second-best performing sector on strength in the Entertainment industry, largely born from Disney's recently announced streaming platform and the related gain of 23% for the company. Tech stocks finished third for performance with strength in the semiconductors and software industries and were even better on beat rates at some 87%.

Despite being the worst-performing sector, Health Care was surprisingly strong in quarterly results with an 85% beat rate. Clearly, investors were less concerned about the sector's better-than-expected results than they were with the headwinds from Washington, D.C. Health Care stocks were pressured by a ramp up in the headlines surrounding the next election cycle, a resumption in the Medicare for All narrative, and increased fears of greater governmental scrutiny. This was particularly evident in the Providers and Services industry—which encompasses insurers, pharmacy benefit managers, and hospital/clinic operators—as the group declined 3.4% for the month. Real Estate was the only other sector to deliver negative returns, largely driven by the widening and steepening in the U.S. yield curve for the month, while Energy stocks were basically flat as the sector's earnings season went poorly relative to the other S&P 500 sectors.

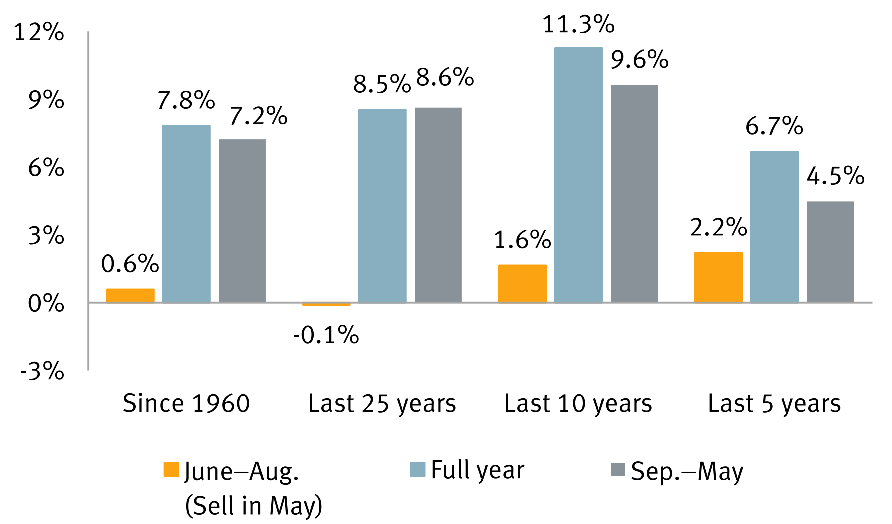
Sell in May and go away?!?!

The old adage *"Sell in May and go away"* is not one we subscribe to as a legitimate investment strategy for every single year given the lack of a fundamentally driven thought process behind that rule of thumb. However, the evidence bears out the fact that the summer months (June–August) have historically weaker, yet positive, returns.

Consider that since 1960, the S&P 500 average annual return has been 7.8%. Over this same time frame, the average return for the June–August period has been a mere 0.6%. There are several reasons for this phenomenon. First, volume is historically smaller during those months as school is out and traders step away from their desks. Second, and more fundamentally driven, is the nature of the quarterly earnings rhythm. The summer months frequently mark the final months in which

June through August returns appear to be seasonally weak. However, it's important to note that average returns for the summer months, while disproportionately small, generally remain positive.

S&P 500 returns by monthly series



Source - RBC Wealth Management, Bloomberg; data through 4/30/19

The market's P/E ratio clearly indicates a backdrop that is neither as dire as that of January 2018 nor as attractive as December 2018. Instead, the S&P 500 P/E ratio highlights a market that we believe is primed for mid-single-digit returns in coming months.

investor focus is most intensely concentrated on current calendar year data. Once the calendar flips to fall, investor attention shifts to the upcoming year while new growth rates often refresh the collective investor psyche.

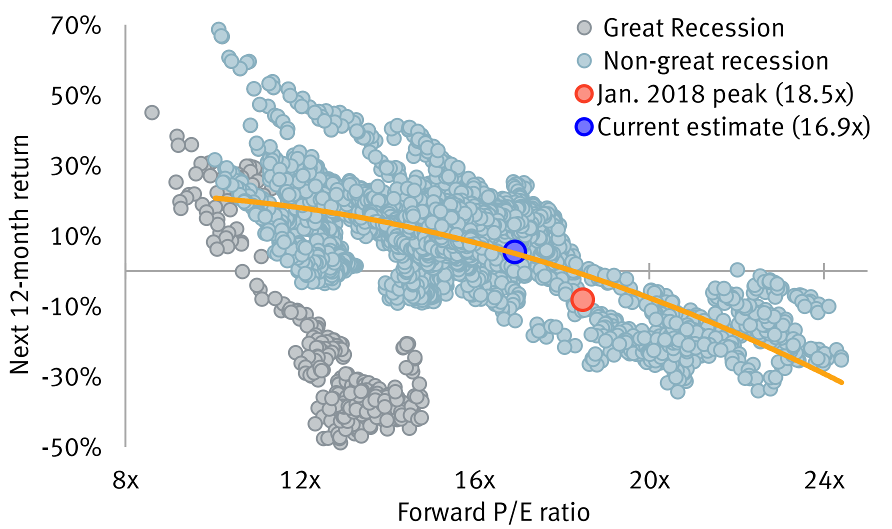
The historical returns underlying the *"Sell in May and go away"* adage may play out in 2019. *For this specific year, the question we're asking ourselves is this: What should investor expectations be for summer 2019?* Well, application of intellectually honest, fundamentally driven analysis may indicate that a re-calibration of return expectations are in order. This is particularly true if investors expect the returns of the past four and a half months to continue.

Consider that the S&P 500 has smoothly climbed more than 25% from its Christmas Eve low. Next, add in the factual narrative of decelerating earnings growth. Finally, recognize that the forward price-to-earnings (P/E) ratio on the S&P 500 has climbed from its intraday low of 13.3x on Christmas Eve to its April-end level of 16.9x. This recipe may indicate a reset of return expectations is appropriate.

To be perfectly clear, we're not calling for an equity market correction at this time, particularly in light of the economic underpinnings of this current bull market. Employment continues to indicate a robust economy, ISM data continues to highlight an ongoing expansion, and inflation remains in check.

Instead, we want to facilitate appropriate hopes for investors. Given the historically smaller returns over the summer months and the backdrop mentioned earlier, we think it's safe to say that the market's current annualized pace of more than 60% won't continue into perpetuity. Rather, modest returns into yearend seem more likely to us. In fact, our P/E-based return model is showing 5.5% returns for the next 12 months from here. This appears reasonable, in our view, given the current economic backdrop and what has historically been a more sluggish time of the year for equity market returns. We're not selling this May, but we are ensuring we hold properly calibrated equity market return expectations for coming months.

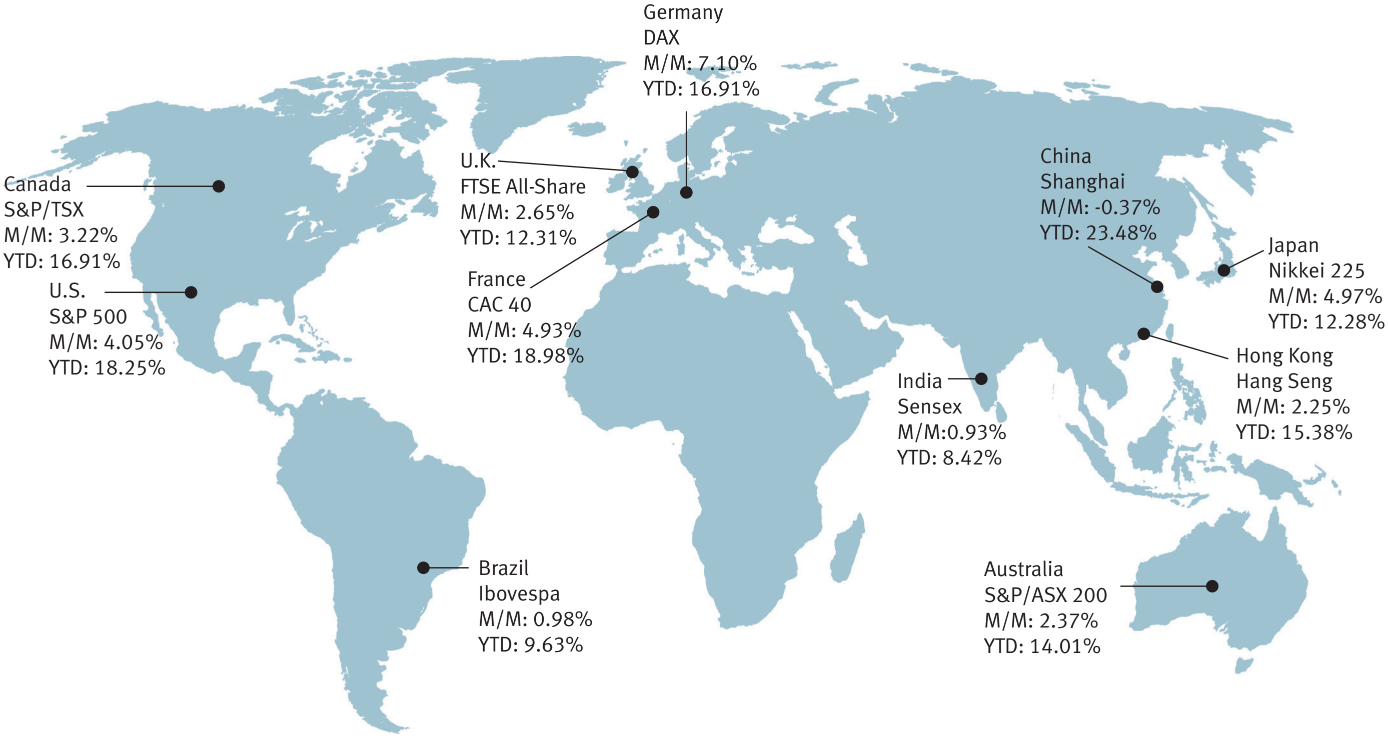
S&P 500 forward P/E ratio and indicated future returns



Source - RBC Wealth Management, FactSet; data through 4/30/19

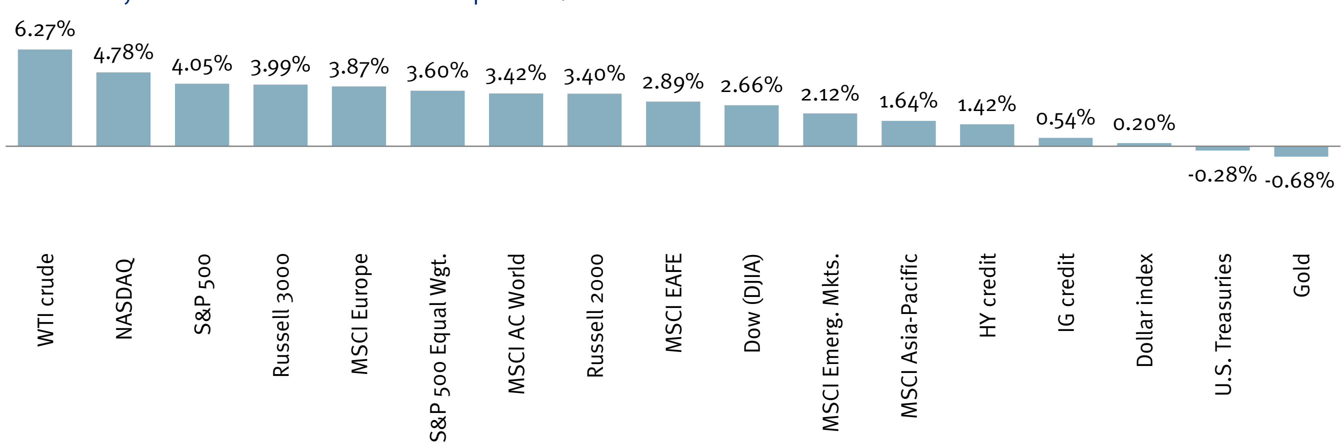
World markets

April month-over-month and year-to-date total return



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – April 2019



Source - Bloomberg

Disclosures and disclaimers

Author
Ben Graham, CFA, Research Associate
benjamin.graham@rbc.com; RBC Capital Markets, LLC

Analyst Certification

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.

With respect to the companies that are the subject of this publication, clients may access current disclosures of RBC Wealth Management and its affiliates by accessing our web site at https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2 or by mailing a request for such information to RBC Wealth Management Research Publishing, 60 South Sixth Street, 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). 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.

Distribution of Ratings - RBC Capital Markets, LLC Equity Research
As of March 31, 2019

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Top Pick & Outperform]	794	54.01	202	25.44
Hold [Sector Perform]	589	40.07	107	18.17
Sell [Underperform]	87	5.92	5	5.75

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.

The analyst(s) responsible for preparing this research report have received (or will receive) 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 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 Web site 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 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.

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.