Monthly Scorecard

September 9, 2019

Portfolio Advisory Group – U.S. Equities

Performance (Total return % change)

Index	8/31/19	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	26,403.28	-1.32	7.07	15.14	4.12	25.98
S&P 500	2,926.46	-1.58	6.87	18.34	2.92	23.14
NASDAQ	7,962.88	-2.46	7.13	20.90	-0.69	26.62
Russell 2000	1,494.84	-4.94	2.36	11.83	-12.92	9.23
Russell 3000	1,715.25	-2.04	6.40	18.02	1.30	21.81
S&P 500 Equal Wgt.	4,258.73	-3.11	5.09	16.47	0.41	17.58
MSCI AC World	510.88	-2.32	4.47	14.27	0.31	12.35
MSCI Europe	127.82	-2.66	1.72	10.87	-2.30	0.53
MSCI EAFE	1,842.58	-2.56	1.98	10.21	-2.65	2.18
MSCI Asia-Pacific	153.13	-3.09	1.41	6.59	-4.65	0.88
MSCI Emerg. Mkts.	984.33	-4.85	0.00	4.15	-4.01	-4.34
60/40 Allocation[1]	N/A	0.09	5.77	14.64	5.82	17.49
S&P 500 Sector	**8/31/19**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	940.47	-1.29	7.41	21.42	2.55	35.62
Consumer Staples	621.27	1.80	9.79	21.23	16.09	17.25
Energy	422.09	-8.07	-1.34	2.15	-20.13	-2.48
Financials	445.65	-4.85	4.05	14.30	-2.91	13.48
Health Care	1,046.74	-0.50	4.42	5.82	-0.57	15.45
Industrials	636.24	-2.62	5.72	18.99	0.53	13.74
Information Tech.	1,393.25	-1.48	11.10	29.41	6.62	41.56
Materials	354.28	-2.83	8.15	13.52	-2.52	7.19
Real Estate	242.44	4.87	8.58	28.49	20.29	27.88
Comm. Services[2]	166.58	-1.52	6.14	21.22	9.72	13.72
Utilities	315.97	5.16	8.35	20.28	21.18	22.04
FI, FX, & Commod.	**8/31/19**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[3]	1.50%	3.40	4.23	8.63	10.38	8.68
Invest-Grade Credit[4]	2.81%	3.14	6.26	13.94	13.33	12.19
High-Yield Credit[4]	5.72%	0.40	3.27	11.00	6.56	10.18
WTI Crude Oil[5]	$55.10	-5.94	2.99	21.34	-21.06	16.66
Dollar Index[5]	$98.92	0.41	1.19	2.85	3.97	6.74
Gold[5]	$1,520.30	7.53	16.46	18.55	26.54	15.05

[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 Aug 31, 2019, market close (unless otherwise stated).
Disseminated: Sept 9, 2019 15:00ET; Produced: Sep 9, 2019 14:02ET

Click here for author's information and important disclosures.

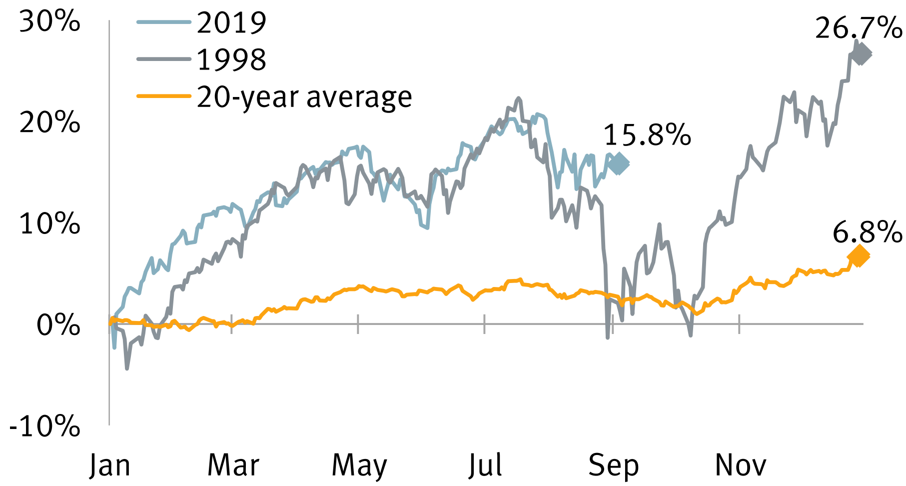
Are you not entertained?

An unexpected August may have left some investors feeling wrong-footed, but equity market moves may not have been as far out of bounds as many believed. Volatility certainly picked up, with the VIX averaging 20.5 for the month—the highest since January's 21.5 and last December's 26.5. Furthermore, PMIs are slowing, with August's ISM Manufacturing PMI surprisingly lower than expected at 49.1, and Fundstrat estimates that $16T of global debt now trades at negative rates.

However, taking a step back from daily minutiae and focusing on the bigger picture reveals that U.S. equity performance has been essentially flat for nearly two years. These flat returns come despite the nausea-inducing path we've traveled over this time, with equity markets delivering an annualized return of only 0.7% from the January 2018 highs. Consider that as of late July, the S&P 500 was on track to post its best year since at least the mid-1990s. Or that even with August's selloff of nearly 2.0% in the S&P 500, domestic equities have still delivered year-to-date gains in the mid-teens. Or that we avoided the dreaded earnings recession that appeared so likely earlier this year. Or that U.S. consumer spending, as evidenced by retail sales data, remains healthy and continues to drive two-thirds of U.S. economic output. Or that RBC Capital Markets, LLC Chief Economist Tom Porcelli estimates that manufacturing, which is what Manufacturing PMIs capture, only comprises about 10% of U.S. economic output. It seems to us that there is more balance in equity markets than one might feel at this moment.

Strong starts with mid-year corrections and late-year rallies are not unprecedented. 2019 appears to be on a similar trajectory as 1998, a year in which markets priced in Long-Term Capital Management and Asian Financial Crisis concerns before ultimately ending the year on a high note.

S&P 500 annual returns, by year



Source - RBC Wealth Management, Bloomberg; data through 8/31/19

Global equity markets were broadly lower in August as governments involved in trade disputes continued to be inconsistent, at best, in their messaging and their implementation of tariffs, while monthly PMI data suggested a global economy in contraction. Furthermore, interest rates continued to fall around the world with the Treasury rate backdrop in the U.S. deteriorating as the 2Y/10Y spread inverted and bottoming at -5 bps on August 27. And most strikingly, Argentinian equities slid 48% in a single day—the second-worst one-day rout in a single exchange since 1950, according to Bloomberg.

As a result, the MSCI All Country World Index retreated 2.3% on a total return basis with U.S. large caps acting as a buoy. Europe shed 2.7%, Asian indexes declined 3.1%, and emerging markets fell 4.9%. Clearly, economically sensitive geographies struggled, as further evidenced by oil's 5.9% decline and gold's 7.5% gain.

The same trends played out in U.S. equities, with bond proxies delivering gains while risk-on sectors declined. Leadership was evident in the Utilities, Real Estate, and Consumer Staples sectors, with these groups gaining between 1.8% and 5.2% for the month. The worst-performing sector was Energy, largely due to renewed concerns about oil demand and the impact this had on oil prices. Financials, Materials, and Industrials all declined more than the S&P 500, and small caps trailed their large cap peers. In our view, recent stock performance reflects increasing fear of a slowdown in global growth, but we believe it's important to remember that the market is a forward discounting mechanism and much of this concern appears to be priced into the market at current index levels—particularly when we look at the results of the AAII investor sentiment survey in relation to U.S. index valuations and volatility.

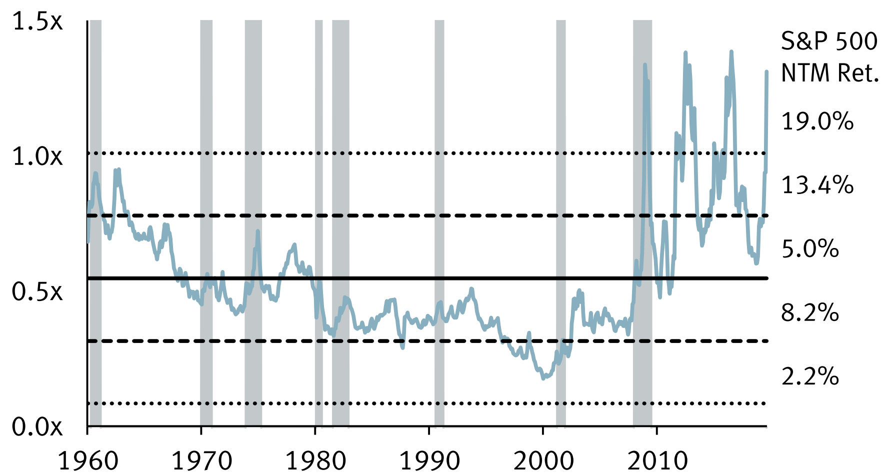
Dividend and Treasury yields: What gives?

Historical precedent suggests S&P 500 and Treasury yields are currently at an interesting juncture, and analyzing the relationship of U.S. equity yields and the 10Y Treasury rate shows a trend that skews positively for U.S. stocks. The current 2.0% yield on the S&P 500 appears favorable relative to the 10Y Treasury rate of 1.50%. In fact, this 1.3x ratio of equity yields to bond yields has historically indicated future equity returns greater than 15% annually. When the ratio has been this elevated, equity returns have more than doubled their historical averages.

Based on historical precedent and adjusting for the possibility of a "new normal" for U.S. interest rates, equity returns still appear favorable from here—even if they don't reach the levels attained in 2008, 2012, and 2016, the last three times that S&P 500 dividend yields outpaced 10Y Treasury rates to this extent.

Since 1960, when the S&P 500's dividend yields has outpaced the 10Y Treasury rate, stocks have returned 19.3% on average in the ensuing 12 months—more than double the index's 12-month rolling average of 8.0%. Furthermore, there have been 37 monthly occurrences since 1960 in which the S&P 500 dividend yield was larger than the 10Y Treasury rate, and 95% of the time next-12-month returns have been positive.

Ratio of S&P 500 dividend yield to 10Y Treasury rates



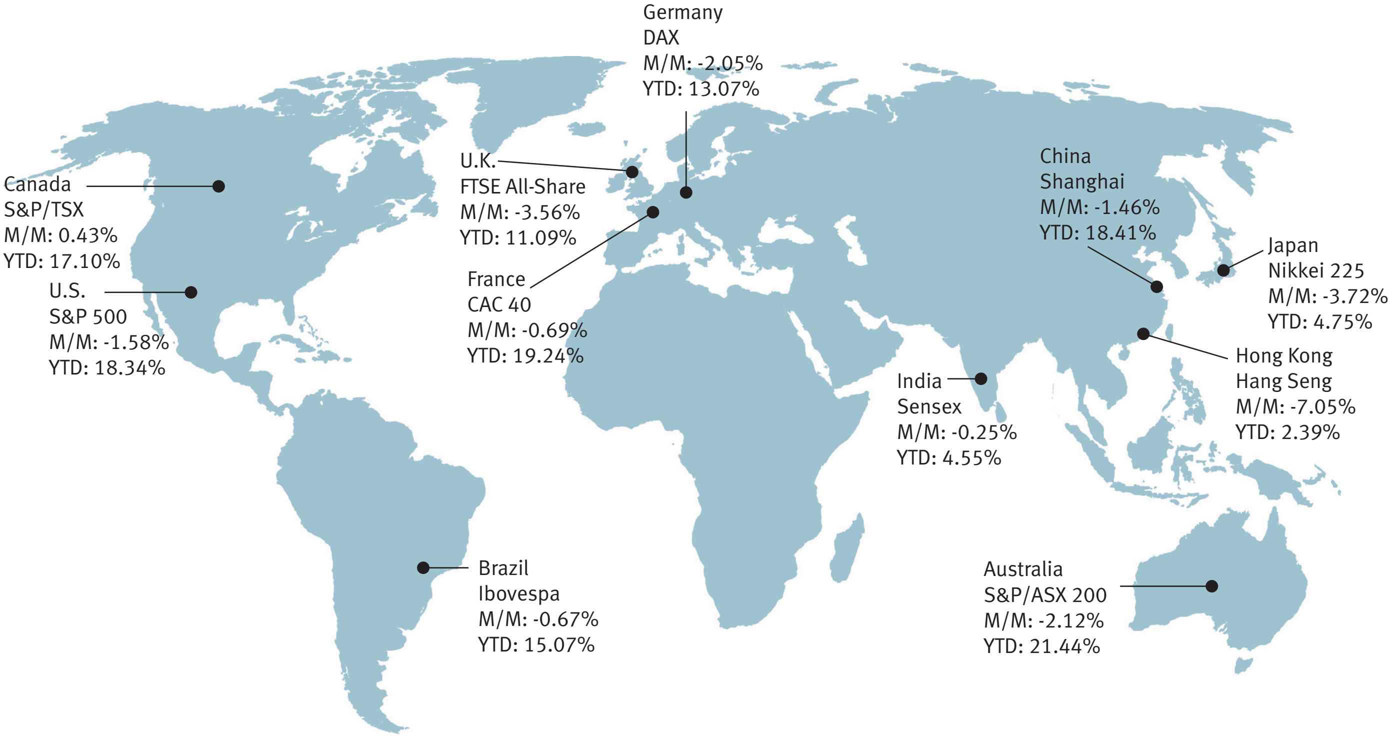
Source - RBC Wealth Management, Bloomberg, Robert Shiller; data through 8/31/19

Further support for our view on equities can be found in the fact that the current ratio of S&P 500 yields to 10Y Treasury yields is comparable to the peaks of 2008, 2012, and 2016. All three instances proved to be good times to invest in equity markets, as the yield relationship subsequently normalized and equity markets clawed their way higher. However, we must also acknowledge the fact that a "new normal" may be in place for global interest rates. The outcome that appears most likely to us is that a new interest rate regime will moderate, but not eliminate, this trend of above-average equity returns. Over the next 12 months, we believe returns will probably follow a trajectory similar to past instances, albeit on a more modest scale. But if history is a guide, future equity returns are likely to exhibit an attractive risk-reward relationship.

To be clear, we're not arguing that returns will approach 20% over the next 12 months, but we are looking to the unwinding of this stretched relationship to help us remain focused on the bigger picture as volatility rises and equity markets consolidate their gains of 2016 and 2017. Although potential equity performance over the next several months is unclear, we hope investors realize there is some support for equity markets today—particularly for those who take advantage of the positive tailwinds of relative yields in relation to valuations, investor sentiment, and market volatility. In our view, there may be more balance in equity markets than first meets the eye.

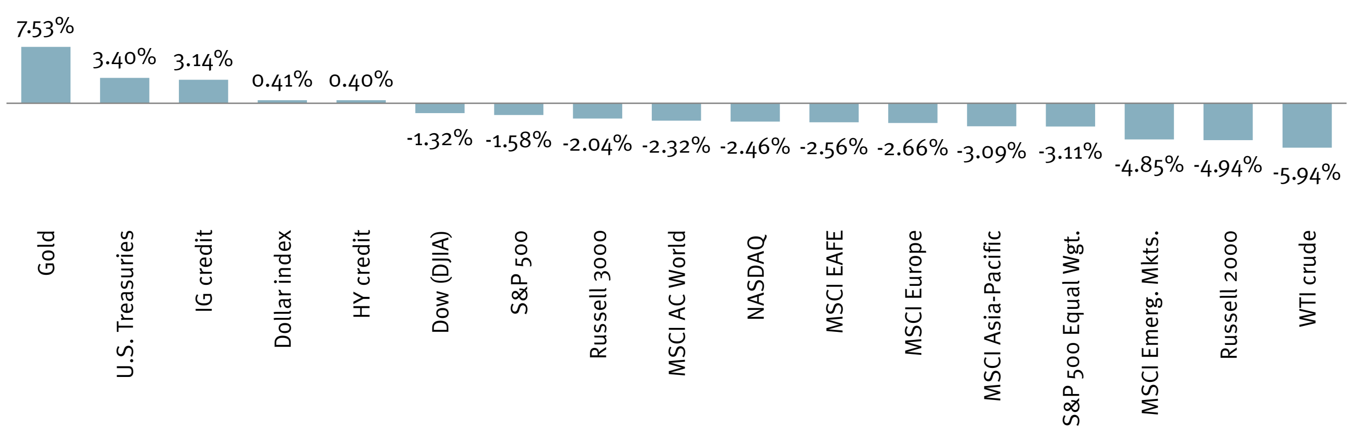
World markets

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



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – August 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 June 30, 2019

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Top Pick & Outperform]	772	53.57	215	27.85
Hold [Sector Perform]	588	40.80	114	19.39
Sell [Underperform]	81	5.62	2	2.47

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.