Monthly Scorecard

August 10, 2020 Portfolio Advisory Group – U.S. Equities

Performance (Total return % change)

Index	7/31/20	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	26,428.32	2.51	9.23	-6.14	0.83	9.11
S&P 500	3,271.12	5.64	12.87	2.38	11.94	20.88
NASDAQ	10,745.27	6.85	21.16	20.46	32.89	43.22
Russell 2000	1,480.43	2.77	13.32	-10.58	-4.61	-8.86
Russell 3000	1,909.89	5.68	13.88	2.00	10.92	18.73
S&P 500 Equal Wgt.	4,334.39	4.84	11.51	-6.46	0.56	6.29
MSCI AC World	551.89	5.33	13.54	-0.96	7.79	11.61
MSCI Europe	118.12	3.49	13.05	-9.29	-0.97	-3.74
MSCI EAFE	1,820.21	2.36	10.57	-8.92	-1.13	-3.10
MSCI Asia-Pacific	164.64	4.58	12.15	-1.95	6.93	4.61
MSCI Emerg. Mkts.	1,078.92	9.01	18.00	-1.53	6.89	4.94
60/40 Allocation[1]	N/A	3.98	8.77	4.52	11.21	20.14
S&P 500 Sector	**7/31/20**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	1,145.81	9.00	20.13	16.88	21.57	32.77
Consumer Staples	642.01	6.96	8.22	0.91	8.14	23.95
Energy	272.09	-5.13	-4.60	-38.65	-38.27	-48.14
Financials	399.06	3.77	6.25	-20.77	-12.87	-9.86
Health Care	1,228.58	5.38	6.26	4.54	18.77	23.86
Industrials	605.88	4.34	12.29	-10.93	-5.73	-2.39
Information Tech.	1,942.39	5.62	21.14	21.41	38.91	60.75
Materials	379.77	7.07	17.01	-0.34	6.28	6.13
Real Estate	224.82	4.00	7.55	-4.88	0.16	17.75
Comm. Services[2]	191.69	6.80	12.63	6.47	14.76	31.76
Utilities	309.12	7.81	7.31	-4.20	5.83	23.32
FI, FX, & Commod.	**7/31/20**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[3]	0.53%	1.14	0.98	9.96	11.84	20.30
Invest-Grade Credit[4]	1.86%	3.25	6.92	8.44	12.44	24.15
High-Yield Credit[4]	5.37%	4.69	10.37	0.71	4.14	11.34
WTI Crude Oil[5]	$40.27	2.55	113.75	-34.05	-31.26	-41.43
Dollar Index[5]	$93.35	-4.15	-5.72	-3.15	-5.24	-1.27
Gold[5]	$1,975.86	10.94	17.16	30.22	39.76	61.41

[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 July 31, 2020, market close (unless otherwise stated).
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Feeling disoriented yet?

July concluded with equity markets largely higher despite corporate earnings dropping by a shocking amount, and the worst quarterly GDP contraction on record. Yes, that final stat includes the Great Depression. Investor disorientation almost feels like a prerequisite for anyone wanting to pay any sort of attention to market and economic news.

For the month, the MSCI All Country World Index climbed 5.3% on a total-return basis with Emerging Markets (+9.0%) and the U.S. leading. International developed markets was the worst relative performer but still managed to climb 2.4%. Domestically, the NASDAQ re-seized the leadership mantle with its 6.9% gain fueled by Consumer Discretionary and Communication Services. The S&P 500 climbed 5.6% while the economically sensitive Dow Jones gained a smaller 2.5%. Similarly highlighting the renewed struggles for traditional value stocks, the Russell 2000 climbed a relatively paltry 2.8%.

Earnings season is underway and continues against the backdrop of a 33% contraction in Q2 GDP and a 35% y/y contraction in Q2 EPS. The good news is that both of these numbers are actually higher than initially expected from consensus forecasters, and this incremental positive is what markets have likely been trading on. At this point, the headline numbers are less important than the incremental outcomes relative to expectations. In fact, Q2 earnings growth expectations for the S&P 500 have climbed all the way from -44% at the beginning of earnings season to the

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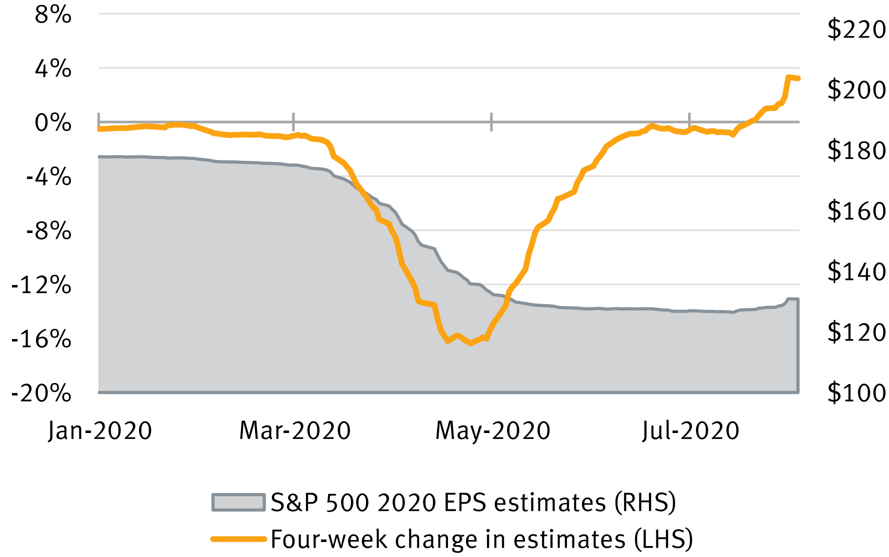
As Q2 earnings results come in better than feared, full-year 2020 estimates appear to have finally inflected higher after bottoming for several months in the aftermath of the COVID-19 impact on full year earnings.

S&P 500 2020 earnings estimates, with four-week momentum



Source - RBC Wealth Management, FactSet, Bloomberg; data through 8/3/20

-35% expectation today after 78% of the S&P 500 has reported. This 900 basis point improvement marks one of the best improvements in recent years.

Interestingly, if we look at the last-twelve-month (LTM) aggregate net income for the S&P 500, there are a few trends that even further explain the 2020 equity market experience. First, the entirety of the LTM S&P 500 net income has declined 25.8% from where it was one year ago. However, the companies with the three largest shares of net income—Apple, Microsoft, and Google-parent Alphabet—tell a different story. The aggregate trailing net income of these three companies has actually climbed 3.5%, buoying their share prices and the indexes that they constitute.

Apple is more than 100% higher in the last year, Microsoft more than 50%, and the laggard that is Alphabet a "mere" 22% higher. These returns, and the related impact on benchmarks, compare very favorably to the S&P 500 which has climbed 12% in the last year. The fact that these three companies comprise 15% of S&P 500 net income shows how important they are and also highlights the fact that NASDAQ relative performance to the Dow Jones is the widest it's been in at least 30 years. Thus far this year, the NASDAQ is outperforming the Dow Jones +20.5% to -6.1%.

Shifting gears to international markets, specifically emerging markets, it appears we're at a compelling juncture. July saw emerging market stocks outperform domestic stocks, and we think performance of the indicator that is the U.S. dollar is indicative of ongoing favorable returns for emerging markets over the coming 6- and 12-month time horizons. The reason the U.S. dollar is a favorable indicator for emerging markets is most related to two facts. First, emerging market companies frequently borrow in U.S. dollars and, therefore, have an easier time paying back their borrowings when the dollar weakens. Second, the dollar and commodities have a generally inverse relationship. Thus, when the dollar weakens, commodity prices may improve and emerging markets represent an overweight to commodities as compared to the U.S.

Now, consider that the U.S. Dollar Index has fallen by 6.6% in the last three months and by 9.5% from the March 4 closing high. Going back to 1987, when the Dollar Index has declined by at least these amounts, Emerging markets have generally outperformed domestic ones. Specifically, when the three-month move in the U.S. Dollar Index is at least 6.6% lower, Emerging markets have outperformed the U.S. 56% of the time over a six-month time horizon and 68% of the time over a 12-month time horizon. Taking it one step further, if we extrapolate the current peak-to-trough decline of 9.5% over the last five- to six-month decline (it's only been five months from the March 4 highs), the potential for outperformance to climb even further with the likelihood of emerging markets equities outperforming domestic ones reaches all the way to 88% 12 months from now (see table).

The relationship between emerging markets outperformance and the U.S. dollar is clear. The more the dollar contracts, the better the probabilities of outperformance, historically.

Probabilities of emerging markets outperforming the U.S

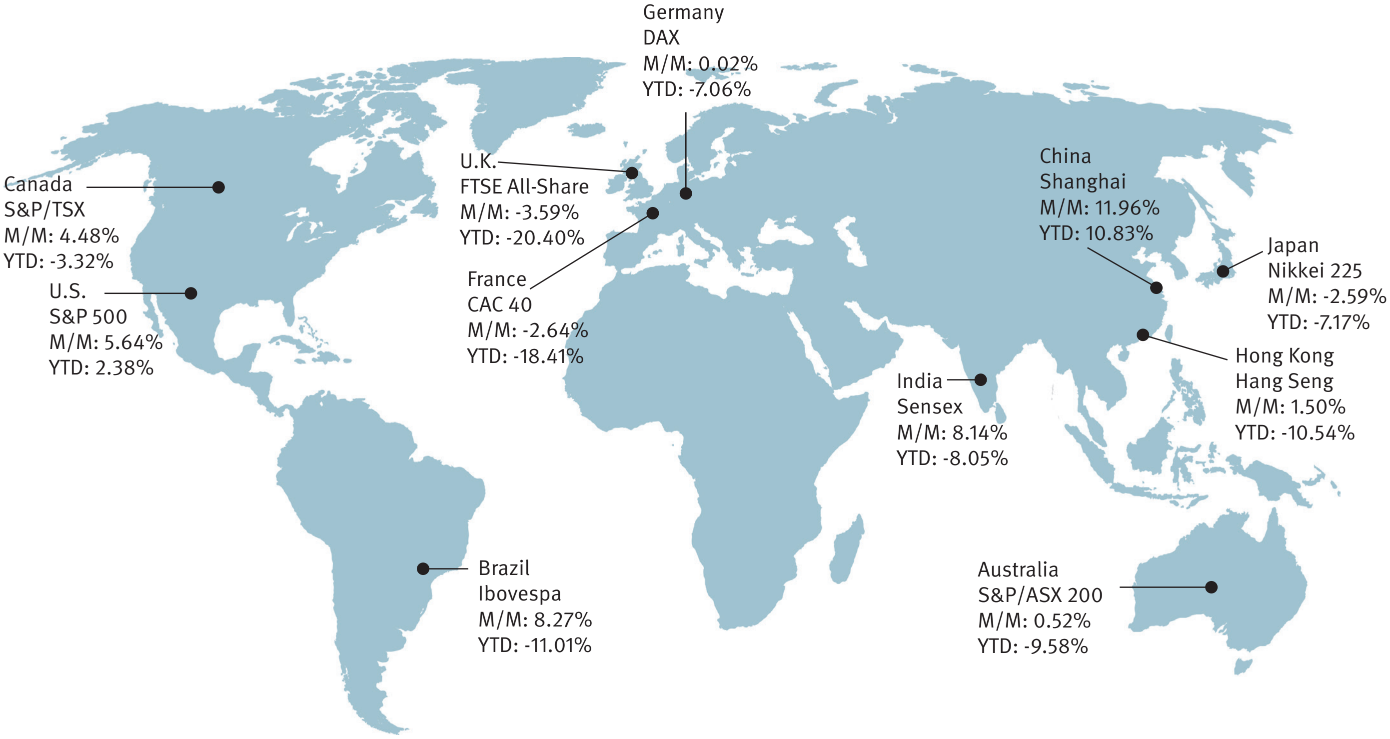
	When the dollar declines by at least 6.6% over three months	When the dollar declines by at least 9.5% over six months	All times*
6 mos. forward	56.2%	65.2%	48.9%
12 mos. forward	67.9%	88.6%	49.0%

Note - "All times" is a blend of outcomes on three- and six-month moves in the U.S. dollar and ensuing 6- and 12-month returns
Source: RBC Wealth Management, FactSet, Bloomberg; data from 12/31/1987 to 7/31/20

While this is far from a guarantee, looking at Emerging Market performance in the aftermath of sharp declines in the U.S. dollar provides a reasonable framework characterized by fundamental underpinnings with which to consider emerging market stocks. At this time, emerging markets do appear favorable in relation to domestic stocks based upon currency moves and are further supported by what we view as attractive relative valuations.

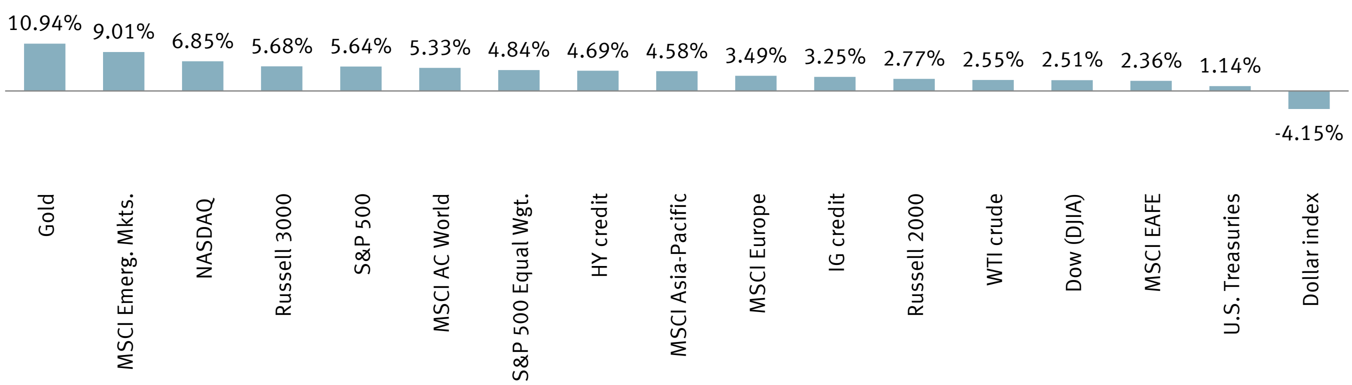
World markets

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



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – July 2020



Source - Bloomberg

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