

Watchful and cautious, but invested



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Three horses have dropped out of the global equity market race, at least for now, as the MSCI Europe, MSCI UK, and (Japan) TOPIX indexes all last posted new highs in the spring. European and UK markets have slowed to a walk ever since, while Japan looks to have slipped into a downtrend.

Meanwhile, the S&P 500 and Canada's TSX posted new highs last month as did the unweighted version of the S&P 500 and the advance-decline lines for both the S&P 500 and the Dow Jones Industrial Average. As long as these latter measures of "market breadth" keep making new highs alongside the capitalization-weighted S&P 500, it's reasonable to think the uptrend for the U.S. blue-chip index could have further to run.

U.S. equity valuations—never a reliable short-term timing tool—remain rich by historical standards at 24x consensus estimated earnings of \$242 per share and 21x projected 2025 earnings of \$275. They can get richer still, and we think they may do so as long as the 2025 earnings outlook does not fall apart. That will depend on the economy for which there are conflicting expectations.

U.S. consumers split

The U.S. consumer has differing views on the economic outlook

Equity views

Region	Previous	Current
Global	=	=
United States	=	=
Canada	=	=
Continental Europe	=	=
United Kingdom	–	–
Asia (ex Japan)	=	=
Japan	+	=

+ Overweight; = Market Weight; – Underweight
Source - RBC Wealth Management

depending on income. The top 40%, buoyed by much-better job security, appreciating stock prices, and rising home values have been the main positive force behind solid increases in consumer spending. Roughly speaking, the top 40% account for about 60% of consumer outlays.

The bottom 60% of income earners have been losing confidence in the near-term prospects for the economy since the beginning of the year (although long-term expectations remain mostly positive). That profile of declining confidence looks very much like the path of the National Federation of Independent Business' (NFIB) Small Business Optimism Index. Small and medium-sized businesses account almost 60% of private sector jobs in the United

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All values in U.S. dollars and priced as of market close, Oct. 30, 2024, unless otherwise stated.
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GLOBAL EQUITY

States. We think it's not surprising that the mood of the owners of those businesses looks a lot like the mood of their employees.

So small business optimism (or lack of it) maps onto consumer confidence and onto the (related) willingness of workers to voluntarily quit their jobs in search of a better-paying one: the so-called "quit rate" continues to plunge as employed workers cast a wary eye on the rising unemployment rate and the steady increase in continuing unemployment claims since the beginning of the year.

Rate cutting by the Federal Reserve may eventually improve this confidence picture but so far credit card loan rates and car loan rates remain sky high at 23% and 8.5%, respectively, up dramatically from two years ago. The rate on short-term business loans clocked in at a punishing 10% per annum in the latest NFIB survey.

For the stock market, the all-important earnings outlook has been more or less holding together, although both the 2024 estimate and the 2025 projection are fractionally off their recent peaks.

RBC Capital Markets, LLC Chief U.S. Equity Strategist Lori Calvasina has characterized the Q3 earnings season to date as "underwhelming."

For our part, we think an investment portfolio should retain a commitment to equities at or near its long-term target weight relative to fixed income. What would persuade us to become more defensively-minded would be the major stock market indexes rising to a succession of further new highs amidst a backdrop of some combination of a breakdown in market breadth, a prolonged stretch of unbridled investor optimism, and/or a shift in policy that fundamentally and materially weakened the prospects for earnings growth.

We remain watchful and cautious, but invested.

Research resources

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			Count	Percent
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