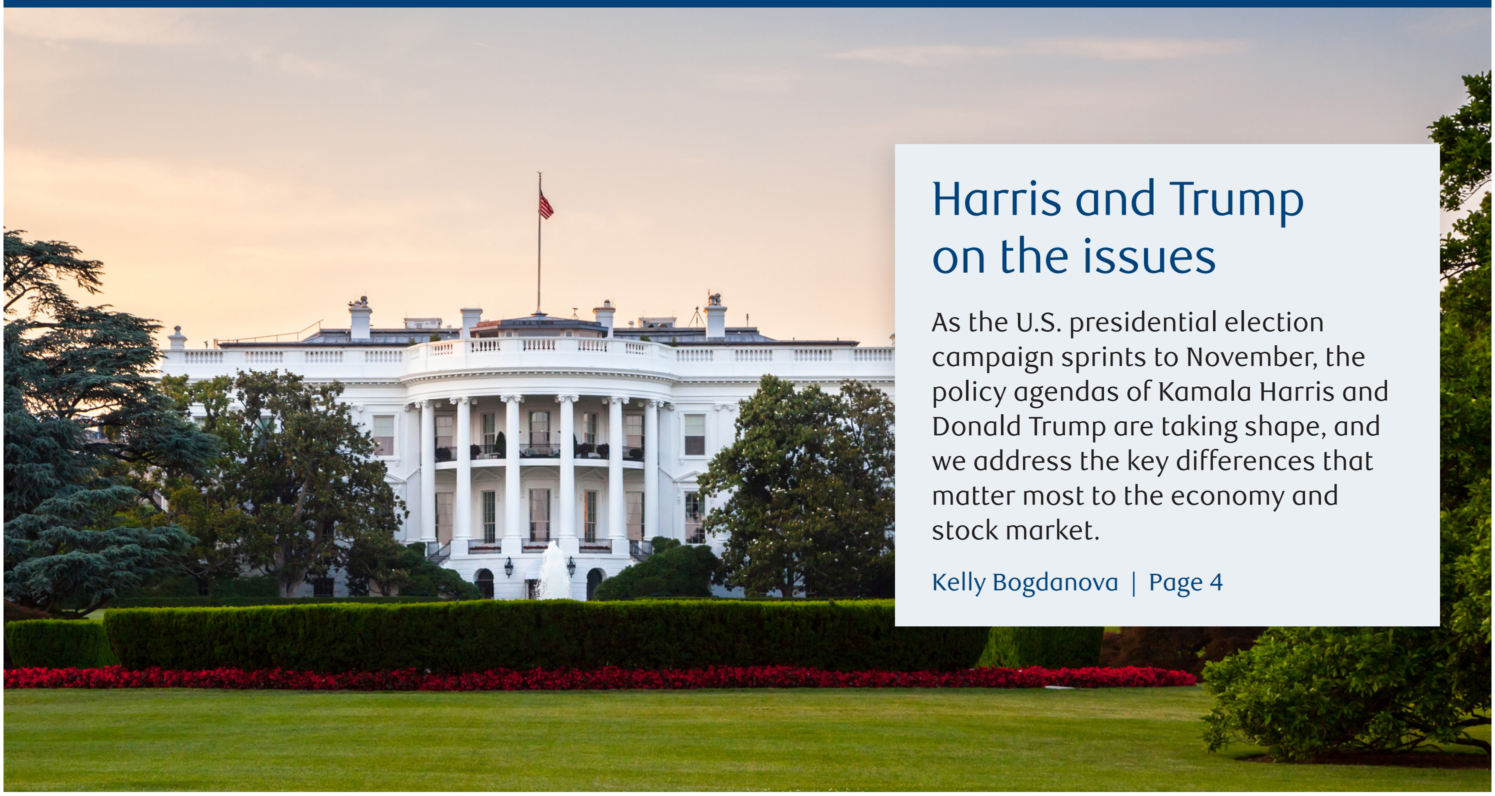
GLOBAL Insight

Wealth Management

Perspectives from the Global Portfolio Advisory Committee

September 2024



Harris and Trump on the issues

As the U.S. presidential election campaign sprints to November, the policy agendas of Kamala Harris and Donald Trump are taking shape, and we address the key differences that matter most to the economy and stock market.

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KEY FORECASTS

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Insight
September 2024

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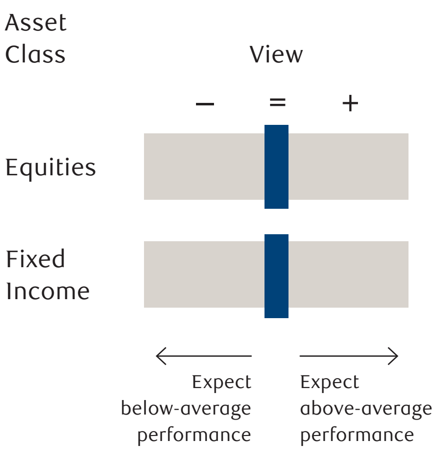

(+/=/–) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

+ Overweight implies the potential for better-than-average performance for the asset class or for the region relative to other asset classes or regions.

= Market Weight implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

– Underweight implies the potential for below-average performance for the asset class or for the region relative to other asset classes or regions.

Source - RBC Wealth Management

Equities

- Global equity markets' roller-coaster performance tested investors' nerves in August, though calm seemed to have returned by the end of the month. The U.S. economy is showing signs of cooling, but markets are focusing on the Fed's ability to cut interest rates to deliver the much-coveted soft landing. Higher volatility in the summer is not unusual, particularly after the markets' strong run and elevated U.S. equity valuations.
- We believe a soft landing in the U.S. remains the most likely scenario, though we see recession risks as having increased. We maintain a Market Weight stance on U.S. equities and continue to recommend a defensive posture in equity portfolios, with an emphasis on high-quality dividend-paying shares that can withstand further economic deterioration and whose valuations are supported by prospects for earnings growth.
- We also maintain our Overweight stance in Japanese equities, which are well supported by attractive valuations and ongoing corporate governance reform efforts.

Fixed income

- Global bond yields have fallen to the lowest levels of the year as the average yield on the Bloomberg Global Aggregate Bond Index declined to around 3.4% in August after reaching a 2024 high of 4.1% in April. A number of central banks have already taken steps to loosen monetary policy via rate cuts, with the U.S. Federal Reserve likely the next to do so at its September policy meeting.
- Global inflationary pressures continue to improve after a brief uptick to start the year. The Bank of Canada, the European Central Bank, and the Bank of England have now delivered multiple rate cuts, with the Fed likely to follow with either a 25 or 50 basis point rate cut in September. Regardless, ahead of the Fed joining the global rate easing cycle, we continue to recommend that U.S. investors look to extend duration, but after the recent sharp drop in yields, some patience may be called for.
- We reiterate our Market Weight stance on U.S. fixed income with yields remaining above multi-decade averages. Globally, we favor sovereign bonds over corporate bonds as we think valuations in the latter remain relatively rich compared to what are still elevated economic risks ahead.

MONTHLY
Focus

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Harris and Trump on the issues

As the U.S. presidential election campaign sprints to November, the policy agendas of Kamala Harris and Donald Trump are taking shape. With the noise about the stark choice facing America louder than we've ever heard, we address the key policy differences between Harris and Trump that matter most to the economy and stock market.

Vice President Kamala Harris and former President Donald Trump have both struck populist tones with their campaign rhetoric and slogans about the economy, attempting to appeal to middle-income voters.

But underneath the rhetoric, a gulf exists between them on issues pertinent to the U.S. economy and stock market. Harris and Trump don't see eye-to-eye on tax, tariff, inflation, and regulatory policies, and have different track records on oil and gas producers, green energy companies, and banks, among other industries.

We have a long-held view that the economy and market don't march to the president's drum—or Washington, D.C.'s for that matter. Quite often other factors supersede developments inside the Beltway. And let's face it, many campaign proposals don't make their way into law, presidential executive orders, or bureaucratic rulemaking because of the checks and balances built into the system.

Yet it's still useful to consider candidates' economic proposals given that some presidential decisions can impact the market overall or select industries, even if just for a short time.

Tax plan takeaways

We're monitoring tax policy closely because the large tax cuts on individuals, investments, and estates that were implemented in 2018 during Trump's presidency, known as the Tax Cuts and Jobs Act (TCJA), will expire at the end of 2025. **If nothing is done, tax rates will automatically revert to higher levels previously in place.**

The corporate tax rate, which the TCJA cut from 35 percent to 21 percent, does not have a sunset provision—meaning this low rate will stay in place until it is proactively raised or lowered in new legislation that is signed into law by the president.

After Trump was elected president in 2016 along with both a Republican-led House of Representatives and Senate, the stock market rallied in anticipation that a tax cut package would be delivered. The rally accelerated as the TCJA debate unfolded in the latter part of 2017 and soon after the legislation took effect in early 2018, as the agreement ended up being the largest tax overhaul in three decades and the changes were more business-friendly than market participants had initially anticipated. All told from election day in November 2016 through late January 2018, the S&P 500 rose 34 percent, although there were other factors that boosted the market during this period too.

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Tax issues likely to be front and center

Many of the Tax Cuts and Jobs Act (TCJA) provisions that benefited individual taxpayers starting in 2018 are scheduled to sunset at the end of 2025:

- The reduction of **individual income tax rates** and the restructuring of the tax brackets will expire
- The increase in the **standard deduction**, elimination of the **personal exemption**, and doubling of the **child tax credit** will expire
- Limits on the **state and local tax deduction** and the **mortgage interest deduction** will expire
- The decoupling of the income threshold for **capital gains** from ordinary income will expire
- The reduction of the **alternative minimum tax** will expire
- The reduction of the **estate tax** will expire
- The higher lifetime thresholds for **gifts** will expire
- The **corporate tax rate** of 21% does not expire, but could be changed in any forthcoming tax legislation

Note: Items impacted by TCJA sunset provisions are not limited to this information. This information does not constitute tax advice.

Source - Tax Foundation, Kiplinger, RBC Wealth Management

No surprise, once again this campaign season, the Republican and Democratic standard-bearers differ on tax policy:

- Trump proposes extending all of the low tax provisions in the TCJA beyond the year-end 2025 sunset date, regardless of household income, including tax rates on individuals, estates, capital gains, and dividend income, among other provisions. He seeks to eliminate partial income taxation on Social Security retirement payments. Note: To pass in the Senate with 51 votes (reconciliation process, no filibuster), the tax package cannot increase the deficit beyond a multiyear budget window, as assessed by government scoring entities. Trump would likely seek to have any additional tariff revenue estimates factored into the calculations. Deficit hawks are typically skeptical about the veracity of scoring methods. But this is how the TCJA was passed in late 2017.
- Harris proposes to extend the low tax rates for most taxpayers but is in favor of raising taxes on households with incomes above $400,000 per year, and increasing the long-term capital gains tax to 28 percent from 20 percent for those earning $1 million per year or more. She would boost the TCJA child and small business tax credits and would introduce a new tax credit for certain first-time homebuyers.
- Harris advocates raising the corporate tax rate to 28 percent from 21 percent, which is lower than the pre-TCJA tax rate of 35 percent. While Trump had previously advocated lowering the corporate rate to at least 20 percent, more recently he proposed reducing the rate to 15 percent for companies that manufacture goods in the U.S., with some restrictions.

For details about the candidates' tax proposals, see the Appendix on page 16.

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Decoding the impact of tax code changes

The prevailing, basic view among many Wall Street money managers and equity market participants going back decades is that tax cuts are usually positive for the economy and stock market. Conversely, tax hikes can be a drag on economic growth and can hit the overall stock market or equities within key industries, at least for a brief period. A combination of tax hikes and cuts has historically been viewed more favorably when deficit reduction has been part of the plan, such as in the 1990s.

To economists who attempt to analyze this from a nonpartisan perspective and in light of historical experiences, this is a more complex issue.

The impact of tax policy on economic activity can depend on:

- The magnitude and composition of tax code changes, i.e., the distribution of rate cuts/credits versus rate hikes
- How various household income segments and their spending power are affected
- The timing of tax code changes, i.e., the stage in the business cycle in which changes occur
- How tax code changes influence federal spending, the federal budget deficit, and inflation
- The interplay that tax and other fiscal policies have with the Federal Reserve's monetary policies

Furthermore, many factors impact economic growth, including those which have little to do with tax or Washington policies in general.

Regardless of who is elected president in 2024, the congressional election results will play an important role in determining tax and other fiscal policies.

Tax legislation won't be considered in a vacuum. Forthcoming tax deliberations would likely involve a broader policy debate in Washington about the federal budget, including spending levels and tariff policies (another form of tax revenue), and the potential impact on the bloated federal deficit and debt. Nonpartisan organizations that analyze fiscal policies, such as the Committee for a Responsible Federal Budget, have pointed out that provisions within both candidates' tax proposals are rather costly and neither candidate has credible deficit reduction proposals at this stage.

If Trump is elected, the policy debate would likely take into account the work of a new government efficiency commission that he would put in place, which he has tapped entrepreneur Elon Musk to lead. The commission would audit federal spending and the government's performance in order to recommend "drastic reforms."

We don't think that major tax code changes on individuals or corporations are factored into stock market sentiment as of this writing.

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The effective corporate tax rate—the actual tax rate—that the median S&P 500 company paid dropped from an average of 30.5 percent in the years before the TCJA corporate tax cut to 19.7 percent after the TCJA was fully implemented in 2018, according to a study by Bloomberg macro strategist Cameron Crise.

The tax cuts worked

The median tax rate of S&P 500 firms significantly declined after TCJA

Source - Bloomberg News, "What the data says about actual corporate tax rates: Macro Man" 8/20/24; data represents the median 12-month effective tax rate through 4/30/24

Admittedly, the effective rate varies widely, with some of the largest S&P 500 multinational companies paying a much lower rate because they still shift significant revenues overseas to countries and jurisdictions with low tax rates and use other accounting maneuvers.

With any legislative change in the corporate rate, the effective rate for the median S&P 500 company would depend on whether deductions and loopholes are maintained, tightened, or loosened, whether incentives to shift revenues overseas would remain, and whether an alternative minimum corporate tax would be implemented. And the effective rate could end up varying widely by company, just as it does today.

We also don't think that a corporate tax rate change is factored into S&P 500 consensus profit margin forecasts, which are currently near the upper end of the range since 1990.

Even so, for those wondering about the impact of corporate tax rates on the overall stock market, Bloomberg's study has interesting news. Based on data going back to 1947, Crise found that, **"Over the long run there has been essentially zero correlation between the effective corporate tax rate and the performance of the S&P 500** ... In many ways the regulatory burden and monetary policy backdrop are more significant to equity returns than the tax rate, bemusing as that may be."

Investors should keep in mind that before we get to the "long run," the overall fiscal policy debate between the next president and Congress (and lobbyists) about tax rates, federal spending, and the deficit and debt could have a short-term impact on U.S. stock market volatility following the election, including at times during 2025.

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Price plans and populism

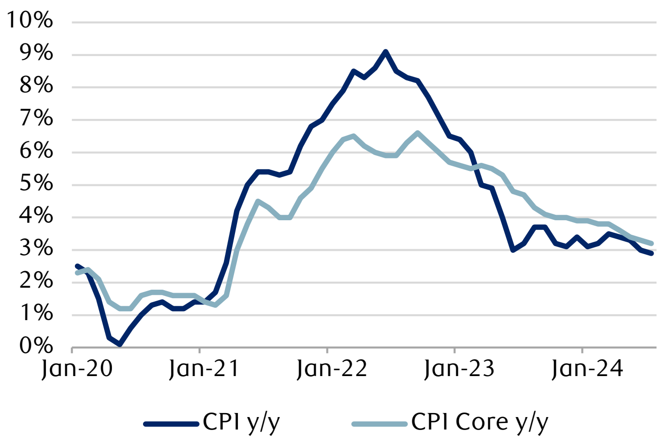
Much of Wall Street is focused on the fact that the year-over-year inflation rate has declined meaningfully since it peaked in 2022 as this tends to directly or indirectly impact asset prices—a positive development, indeed.

But the presidential candidates and most voters are still focused on the fact that overall prices remain very elevated, and this is what impacts household budgets.

In other words, Wall Street and Main Street see the inflation issue very differently.

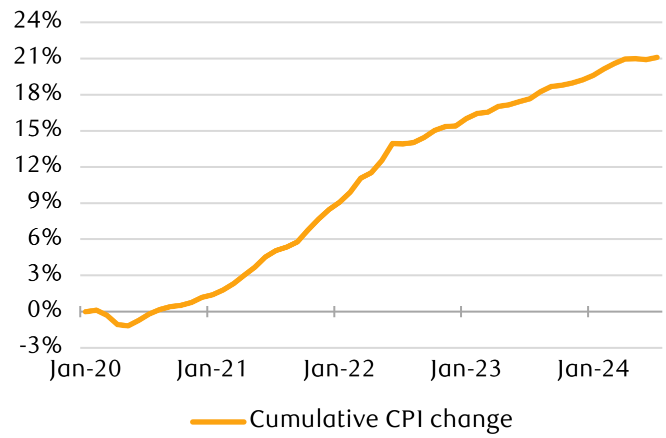
The *rate* of inflation has come down a lot…

Year-over-year U.S. Consumer Price index (CPI) inflation rates



…but *prices* are still very high

Cumulative price growth since 2020



Source - RBC Wealth Management, Bloomberg; "CPI Core" excludes food and energy; data through July 2024

Harris' proposal to tackle high prices by targeting "price gouging" is favored by progressive organizations and polls indicate that it's supported by some young voters who are important for swing-state election outcomes. This is the generation that polling shows is most pessimistic about their ability to achieve "the American dream." However, for many voters over 50 years old, we believe Harris' price gouging ideas conjure up negative images of the failed price-control policies of Republican President Richard Nixon in the 1970s.

Legal mechanisms already exist to combat price gouging during emergencies like natural disasters and pandemics, and price collusion is already illegal under federal and state antitrust laws.

At this stage it's unclear whether Harris is merely stating that she will enforce price gouging protections more actively during emergencies, or whether she is seeking more sweeping federal authority like what is advocated in the "Price Gouging Prevention Act of 2024," co-sponsored by progressive Democratic Senator Elizabeth Warren and three Midwestern Democratic senators.

This type of legislation could give the Federal Trade Commission a lot more leeway to regulate prices because it would specifically make it unlawful for large companies to sell any good or service at a (presently undefined) "grossly excessive price" in both emergency and *non*-emergency circumstances, irrespective of the company's position in the supply chain. It also could include substantial pricing and cost reporting requirements for some large companies in certain circumstances.

Regardless of what Harris is aiming for, we believe any sweeping price gouging initiatives would go nowhere in the next session of the Senate and would also struggle to gain support in the House, no matter which party wins control of these two congressional chambers.

One of former President Barack Obama's senior economic advisors has already spoken out against Harris' proposal. Former Chair of the Council of Economic Advisors Jason Furman told *The New York Times*, "This is an unwise policy, and I think the best hope is that ultimately all this will turn into rhetoric rather than reality. There are no positive aspects to this, but there are negative ones." Editorial teams at publications that are normally sympathetic to the Democratic Party such as *The Washington Post* and *The New York Times* have criticized the idea, as has *The Wall Street Journal* which is typically more sympathetic to the Republican Party.

Regarding other areas of law that intersect with price gouging and collusion, we would expect a Harris administration to more aggressively investigate and prosecute federal antitrust and consumer protection cases compared to the Biden administration and previous Trump administration.

Harris' home state of California has a history of more actively pursuing these types of actions and enacting laws and regulations favoring consumers over businesses than many other states. This trend occurred before, during, and after Harris served six years as California's attorney general.

In contrast to Harris, Trump's inflation strategy focuses on incentivizing more domestic oil and natural gas production and energy exports, with the aim of substantially lowering energy and power prices overall, which are key cost inputs of many goods and some services.

Even if this were to dampen global oil and goods prices, we believe some of Trump's other policies, namely tariff increases, could partly or fully wipe out the benefits that lower energy and power prices would bring.

Talking tariffs

Tariff proposals warrant special attention as many of Trump's policies are more sweeping than those he implemented during his previous term, and the proposals differ greatly from those of Harris:

- Trump supports across-the-board tariffs on all imports of 10 percent or more, and high tariffs on Chinese imports of 50 percent or more. He would levy tariffs on goods of U.S.-based companies that are produced overseas and imported into the country, and would use tariffs against domestic companies that outsource American jobs. He has also threatened to use tariffs against countries that trade outside of the U.S. dollar system.

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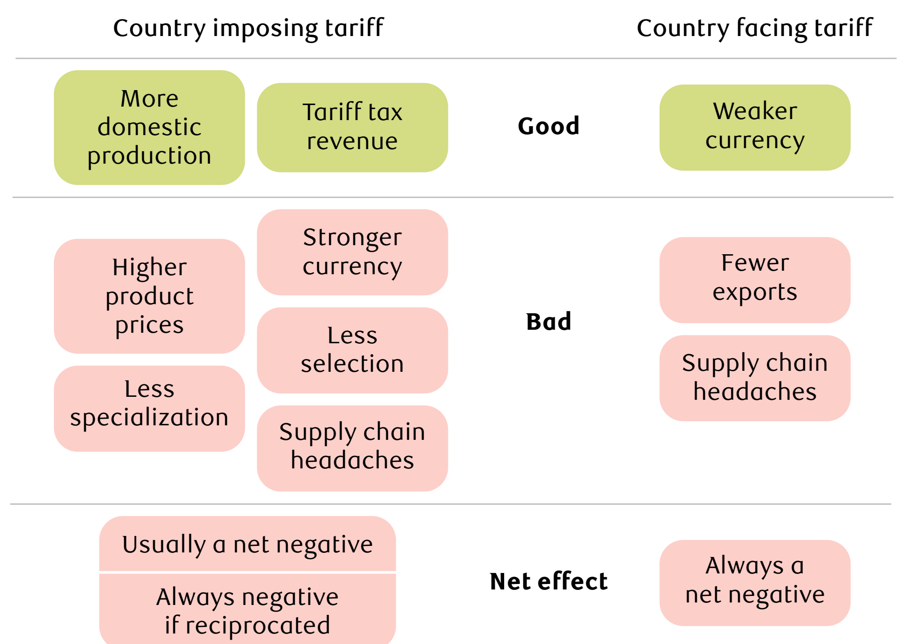
- Harris does not support across-the-board tariff increases and views such tariffs as “in effect a national sales tax.” She also does not support significantly raising tariffs on Chinese imports but would likely keep in place the China tariffs and sanctions that Trump and Biden implemented.

For details about the candidates’ tariff proposals, see the Appendix on page 17.

RBC Global Asset Management Inc. Chief Economist Eric Lascelles wrote, “**[Tariffs] undeniably hurt the country that has tariffs levied against it,** via a reduction in the country’s capacity to export and due to inevitable supply chain headaches. These are partially offset by the advantage of a weaker currency.”

However, Lascelles cautions, **“Less intuitively, tariffs usually also hurt the country levying them.** While that country might manage to deliver additional domestic production in the targeted sector and the government earns additional revenue from the tariffs, there are subtle costs that eat away at this advantage.”

Theoretical tariff considerations for GDP



Source - RBC Global Asset Management Inc. Chief Economist Eric Lascelles

Because Trump seems to be using proposals of high tariffs on China and an across-the-board tariff on all goods as negotiating leverage, Lascelles added, “We’d like to think any tariffs would be significantly smaller than what is currently proposed, but the idea of new tariffs is hardly one big bluff.”

A separate report about tariffs and immigration, including their potential impact on inflation, will be published by RBC Wealth Management.

Regulations and red tape

Both Harris and Trump are advocating lower regulations on small businesses and are pushing populist narratives on the topic.

The widespread perception among market participants that Trump is likely to have a more business-friendly regulatory regime than Harris rings true to us, except there are nuances.

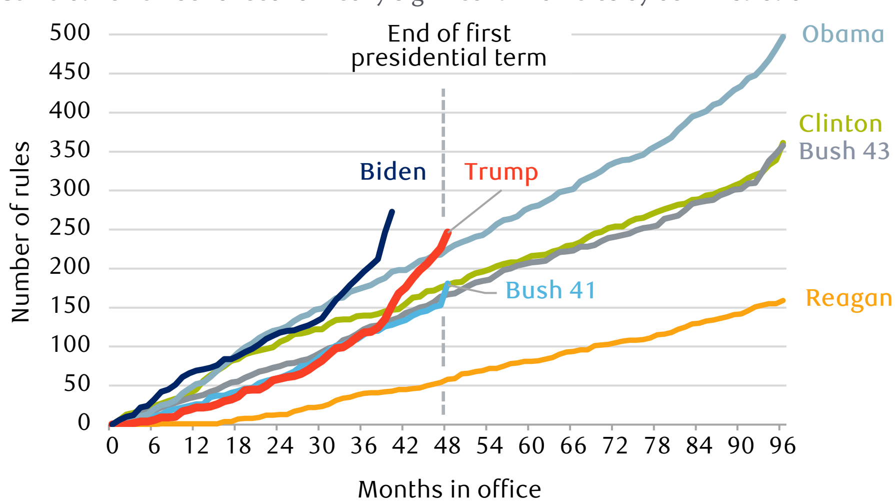
The Biden-Harris administration added 11 percent more "economically significant regulations" in almost 3.5 years than Trump did in his full four-year term, and there is evidence that Trump canceled more existing regulations during his time in office than Biden has.

However, the general perception that Trump will be an across-the-board deregulator doesn't fully correspond with his record as president.

During the first three years of Trump's presidency, the number of new regulations was lower than the first three years of the Biden, Obama, and Clinton administrations, and was even slightly below the George W. Bush administration. But in the fourth year under Trump, the number of regulations surged, perhaps partly due to the pandemic. In total, his administration ended up implementing more economically significant regulations than Obama did in his first term.

Regulation has increased under every president since Reagan, and accelerated during the last three administrations

Cumulative number of economically significant final rules by administration



Note: "Economically significant final rules," as defined by the 1996 Congressional Review Act, are rules that result in an annual effect on the economy of $100 million or more, or a major increase in costs and prices, or have a significant adverse effect on competition and various economic indicators.

Source - Regulatory Studies Center at The George Washington University; data through 8/5/24

When it comes to environmental regulatory policy and rules that impact traditional energy producers, the differences between Harris and Trump are stark.

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We think a Harris administration would implement more proactive and stringent environmental regulations than a second Trump administration. This is what she advocated as California attorney general and as a senator. Harris previously supported the Green New Deal, controversial proposals to shift the U.S. economy to clean, renewable energy by 2030, whereas Trump strongly opposed it and still does.

While there has been little focus by the two campaigns on climate issues this election cycle and we doubt there would be support for the Green New Deal or similar legislation in the next Congress, we believe Harris would look for opportunities to advance the ball on this issue. Trump stated he would roll back existing climate-related regulations and federal targets.

One can argue whether certain regulations—environmental or otherwise—are good or bad for society and the country at large; whether there are times that regulations are much needed; and whether some regulations can actually end up lowering costs for certain businesses and households.

Regardless, a heavy regulatory load on businesses has been the norm for many years, despite multiple presidential candidates' pledges to "cut the red tape" in campaign after campaign. It's been a running complaint for more than two decades by organizations that represent small businesses such as the National Federation of Independent Business and those that represent large and small companies such as the U.S. Chamber of Commerce.

Only a concerted, laser-focused effort on reducing regulations would change this, in our view. **For deregulation to work for both the business sector *and* society, we think a scalpel would be needed rather than a sledgehammer.**

Influence on industries

Based on their previous track records and policies stated during the campaign, the two candidates have different approaches when it comes to certain industries and similar approaches for other industries than is commonly understood, as the table on the next page shows.

It's prudent to consider the industry leanings and proposals of both candidates, although individual investors should be careful not to jump to conclusions on how stocks of particular industries or sectors might fare depending on who wins the presidential election.

There are often factors—some unexpected—that influence industry and sector returns, and typically a number of other bread-and-butter fundamental issues impact returns much more than election-related issues.

There are recent examples when industries didn't perform in the ways that many market participants had expected given the views and actions of the president at the time:

- **Bank stocks underperformed when Trump was president.** Soon after the 2016 election, CNBC published an article with the headline, "With Trump's victory, it's a whole new day for banks." This was the case

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for much of Trump's time in office. The S&P 500 Banks Industry Group moderately outperformed the S&P 500 through 2019. However, once the pandemic hit and the Fed quickly cut interest rates back to near-zero levels, bank stocks severely underperformed. While the S&P 500 managed to strongly rebound from the pandemic selloff by the end Trump's term, bank stocks hadn't bounced back yet. In total, from the 2016 election date to the 2020 election date, the S&P 500 Banks Index rose a paltry 6.3 percent whereas the S&P 500 rallied 57 percent.

- **The Energy sector drastically underperformed when Trump was president but has significantly outperformed under Biden.** Despite Trump's favorable regulatory approach for the oil and gas industries and his friendly "drill, baby, drill" policies, the Energy sector fell 56 percent from election day 2016 through election day 2020. At the same time, the S&P 500 rose 57 percent. It's rare to see such a wide divergence in performance between a sector and the market as a whole during a four-year period. Energy was pressured at first by a price war within OPEC+ and then by the pandemic.

How Harris and Trump compare on industry issues

Banks & financial services	Trump's regulatory policy proposals would likely be more favorable than those of Harris, and he could be more supportive of financial industry mergers and acquisitions (M&A), and increased M&A overall. Among other regulations, Harris seeks to limit customer fees, which she refers to as "hidden fees and late charges," as she did in the Senate. She has prosecuted and criticized "big banks."
Oil, natural gas, coal, power, rare earth minerals	Trump supports reducing regulations, expanding leases, and approving drilling to boost domestic oil and gas production and exports. He is willing to enact a "national emergency" declaration to achieve a "massive increase" in domestic energy supply. He seeks to build out energy and power infrastructure, including building pipelines, refineries, traditional power plants, and nuclear reactors. He advocates expanding the power grid for higher demand required by artificial intelligence (AI). Trump also seeks to increase coal production and exports, and he proposes to lift environmental restrictions on mining of rare earth minerals. While Harris no longer supports a fracking ban, we think she would likely impose more stringent regulations on oil, gas, coal, power producers, and mining than Trump.
Clean energy & cleantech	Harris seeks to keep in place and build on the Inflation Reduction Act's (IRA) industry subsidies and incentives. Trump seeks to "rescind all unspent" IRA funds through legislation. Some of the companies that benefit are in Republican congressional districts; some House Republicans have warned against repealing the IRA. If rescinding the unspent funds doesn't pass Congress, he could try to curtail or slow funding through executive agencies. Trump views nuclear energy as clean energy and supports building more nuclear plants, including for AI power needs.
Pharmaceuticals & health care insurers	Harris seeks to add more pharmaceuticals to the Medicare price cap list, building on Biden's policies. She also wants to extend the price cap list to all Americans, not just retirees in Medicare, and she seeks to permanently cap out-of-pocket drug spending at $2,000 per year for everyone (this cap is scheduled to start for Medicare beneficiaries in 2025 as part of the IRA). Trump has previously supported granting Medicare the ability to negotiate prescription drug prices and to level-out prices between the U.S. and other countries (refered to as "most favored nations" pricing). Regardless of who is elected, we believe pharma industry lobbyists will push back and will likely seek compromises, and Congress will have a big say in all of this. More pricing restrictions could benefit some health care insurers, and they could also benefit from looser regulations under Trump.
Technology	Both candidates would likely continue to pursue active federal antitrust investigations/cases against select Big Tech firms. But we believe they would each be supportive of the technology industry overall, including AI development. They understand that technology companies are key drivers of innovation and GDP growth, and they each have ties with high-profile tech industry executives. However, both candidates will likely maintain and add more restrictions on tech exports to China, citing national security concerns, which could negatively impact select U.S.-based firms. The powerful tech lobby will weigh in on major policy issues.
Military weapons contractors	Both candidates are supportive of significant weapons spending and exporting U.S. weapons to allies and friendly countries. While there would likely be different priorities for the development of certain weapon systems, we think Congress, the Pentagon, and other national security officials have a bigger say in these matters than is often given credit. Historically, Republicans have advocated for higher spending levels, but over the years weapons spending has become more of a bipartisan issue as both parties are now dominated by foreign policy hawks. And military weapons contractors are another powerful lobbying group.

Source - RBC Wealth Management, RBC Capital Markets industry analysts and commodity strategy team, candidates' statements, campaign statements, candidates' previous records in government, Bloomberg News, The Washington Post, The Hill

While Biden's oil and gas policies have been less industry-friendly than Trump's, the sector has risen 194 percent starting with Biden's election in November 2020 to date. Energy benefited as the pandemic-related supply and demand challenges faded, and then pushed higher amid the onset of the Ukraine crisis in early 2022. The rally has outpaced the S&P 500's 61 percent gain. During Biden's presidency, Energy has been by far the best performing of the 11 S&P 500 sectors. Its gain is almost double that of the second-best performer, Information Technology, which has been quite strong.

- **Cleantech and clean energy stocks have lagged well behind both the traditional Energy sector and the S&P 500 thus far during Biden's presidency.** The First Trust NASDAQ Clean Edge Green Energy Index Fund is one example. It has fallen 35 percent since Biden's election in 2020, despite the fact that his administration helped craft and pushed strongly for the passage of the "Inflation Reduction Act," which included unprecedented cleantech and clean energy incentives and subsidies. The 35 percent decline compares very poorly to the Energy sector's 194 percent rally and the S&P 500's 61 percent gain over the same period.

There are rational reasons why the performance of cleantech, the Energy sector, and banks diverged meaningfully from what many market participants thought would happen based on who was elected president—we will spare readers the lengthy explanations.

Our key point is that these are illustrations of our longstanding view that there are often a number of factors at play when it comes to industry and sector returns. Just because a president has a friendly (or unfriendly) stance toward a particular industry doesn't automatically mean that stock performance will follow suit.

Presidents don't govern the stock market

For individual investors, we think the best investment strategy vis-à-vis elections is to give deference to the long-term investment strategy that is already in place, and to avoid the temptation of making drastic asset class or sector changes based on various election outcome scenarios.

In recent years, those who were uneasy about Trump's previous presidency and stayed on the sidelines or reduced U.S. equity exposure because of this would have missed out on meaningful upside. The S&P 500 rose 67 percent during his four-year term, and this includes the sharp selloff that occurred during the most fearful stage of the pandemic.

Likewise, those with misgivings about Obama's eight-year term who stood on the sidelines or held low equity allocations would have missed a cumulative 181 percent rally. And those worried about Biden would have missed a 40 percent move thus far during his term in office.

The bottom line is the market has gone up under both parties' presidential leadership, and its overall performance often had little to do with who occupied the Oval Office.

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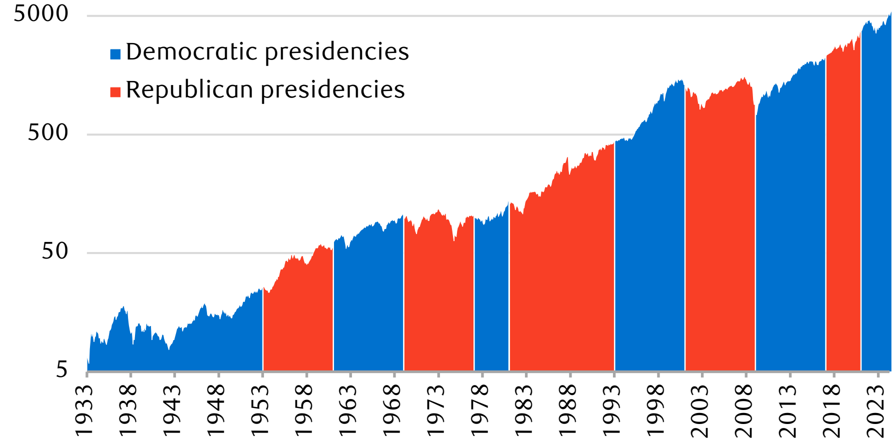
Market gains have occurred under both parties

S&P 500 performance since 1933 by presidential party control



Source - RBC Wealth Management, Bloomberg; monthly data through 8/31/24 shown on a logarithmic scale. Categories separated by inauguration dates when a party change occurred

Whether Harris or Trump wins the presidency in 2024, we remain convinced that the formal and informal checks and balances built into the government's structure will constrain the next president from fulfilling her or his full slate of policy goals. Historically, the checks and balances have often worked in the stock market's favor.

Furthermore, other factors have typically had greater impacts on U.S. stock market performance than federal election outcomes—factors such as the natural ebb and flow of the business cycle, the Fed's monetary policies, and industry innovation.

For additional detail on the candidates' policy positions, see the Appendix on the next two pages.

Appendix: Harris and Trump on the issues

Candidates' tax proposals in light of the expiration of the Tax Cuts and Jobs Act (TCJA) at the end of 2025

	Kamala Harris	Donald Trump
Tax rates for individuals	Extend low rates for most taxpayers. Allow the rate to rise for households with incomes above $400,000. Rate is not specified, but Biden-Harris fiscal 2024 budget proposal was to increase the top individual income tax rate to 39.6% on income above $400,000 for single filers and $450,000 for joint filers.	Extend all of the low rates in the TCJA, regardless of household income. Open to adjusting the rates lower. Would also consider having tariffs ultimately replace some or all income tax revenue.
Standard deduction	Position unclear.	Extend the higher deductions from the TCJA.
Child tax credits	Increase the base credit to $3,000 from $2,000 per child, and further increase the credit to $6,000 for children in their first year of life and $3,600 for other children under six years old.	Extend the TCJA $2,000 credit per child. Open to increasing this and to considering a new family tax credit (JD Vance's $5,000 per child proposal).
Earned income tax credit (EITC)	Expand it by increasing the EITC available to workers who do not have child dependents for tax purposes.	Extend the TCJA rules.
Homebuyer tax credit	$25,000 tax credit for qualified first-time homebuyers, an increase of Biden's $10,000 proposal that Congress did not pass.	No proposal.
Small business tax credit	Increase the tax deduction for starting a small business to $50,000 from $5,000.	No proposal.
Tax on gratuities	Proposes "no tax on tips" for certain service sector workers.	Proposes "no tax on tips" for certain service sector workers.
Social Security retirement income	No proposal.	Eliminate the partial income taxation on Social Security retirement payments.
Medicare tax	Position unclear. Previously supported extending the Medicare tax to reach 5% on income above $400,000 (Biden-Harris 2024 budget).	Extend the TCJA rules.
Capital gains & dividend income	Supports raising the capital gains tax rate to 28% from the TCJA's 20% on people earning $1 million or more.	Extend the TCJA rules. The current long-term capital gains rates are 0%, 15%, or 20%, depending on income level.
Tax on unrealized gains	Supports a so-called "billionaire minimum tax." Specific proposal is unclear but in the Biden-Harris 2025 fiscal budget proposal, taxpayers with net wealth above $100 million would be required to pay a minimum effective tax rate of 25% on an expanded measure of income that includes unrealized capital gains. Taxpayers would calculate their effective tax rate for the minimum tax and, if it fell below 25%, would owe additional taxes to bring their effective rate to 25%. This requires legislation and is unlikely to pass in Congress.	Strongly opposes taxes on unrealized gains.
Alternative minimum tax (AMT)	Position unclear. Previously supported lower AMT exemptions (higher AMT taxes).	Extend the TCJA rules.
Estate tax	Position unclear. Previously supported lower estate tax exemptions (higher estate taxes).	Extend the TCJA rules. As of 2024, individuals can exempt up to $13.61 million from federal estate and gift taxes, and married couples can shield $27.22 million.
Gift tax	Position unclear. Previously supported lower gift tax exemptions (higher gift taxes).	Extend the TCJA rules.
Corporate tax rate	Increase the corporate tax rate to 28% from 21%. Would increase the stock buyback tax from to 4% from1%. Positions unclear about deductions, loopholes, offshore revenues, dividends, and the corporate alternative minimum tax (passed in the Inflation Reduction Act but the Internal Revenue Service delayed implementation).	Previously advocated lowering the corporate rate to 20% or less from 21%. Recently called for reducing the rate to 15% "solely for companies that make their product in America" and would introduce tax credits and accounting incentives for such companies. Trump said, "If you outsource, offshore, or replace American workers, you're not eligible for any of these benefits."

Note: Items impacted by TCJA sunset provisions are not limited to this information. This information does not consitute tax advice.

Source - RBC Wealth Management, candidates' statements, campaign statements, Committee for a Responsible Federal Budget, Urban-Brookings Tax Policy Center, Tax Foundation, Bloomberg News, Forbes, CNBC, Axios.

Appendix (continued)

Candidates' tariff proposals

	Kamala Harris	Donald Trump
Across-the-board and reciprocal tariffs	Does not support across-the-board tariff increases. Views such tariffs as "in effect a national sales tax."	Seeks to phase in over time an across-the-board tariff of 10% on imported goods from all countries, including allies and non-allies, although in some statements Trump has advocated 10%-20% tariffs. For the USMCA, there is likely an initial exception (see item below). The 10% tariff compares to a roughly 2.3% average tariff currently, which is mainly due to tariffs on Chinese goods. Also promises reciprocal tariffs on imports from countries that impose high tariffs on similar U.S. goods.
Tariffs on U.S.-based companies that manufacture overseas	Has not commented on Trump's proposal for this, and has not previously supported anything like it.	Proposes to levy tariffs on goods of U.S.-based companies that are produced overseas and are imported into the country, and would use tariffs against domestic companies that outsource jobs. Companies that shift production overseas would face a "substantial" tariff. Such companies that produce overseas would be ineligible for the 15% corporate tax rate and other manufacturing tax credits and accounting incentives.
USMCA (formerly NAFTA)	Has not commeted about whether she seeks changes to the United States-Mexico-Canada agreement (USMCA) when it comes up for review in July 2026. Given her previous track record, not likely to seek major changes.	Trump's economic advisor Scott Bessent indicates the 10% across-the-board tariff would probably not apply before the USMCA review in July 2026. However, during the review, Trump could seek changes which could include additional tariffs on Mexican and Canadian imports. The review could also tighten rules of origin and minimum content requirements for USMCA goods, which would target Chinese imports to Mexico that make their way to the U.S.
Tariffs on China	Has not previously supported significantly raising tariffs on Chinese imports. Regarding existing tariffs and sanctions on China that were implemented during the Trump and Biden administrations, has not signalled any potential changes to these. Would likely build on Biden's "de-risking" and "small yard, high fence" China policies.	Implement a significant tariff on all imports from China. Told Bloomberg the tariff would be 50% but many news outlets report 60%, and he told Fox News "maybe it's going to be more than that." This compares to an average 19% tariff on Chinese goods currently. The new tariff level could differ by product category. Overall likely to implement more aggressive policies against China on multiple fronts.
Dedollarization tariffs	Has not commented on Trump's support of tariffs on countries that trade outside the dollar zone, but she has supported the Trump and Biden economic sanctions that are still in effect which have caused dedollarization trends to accelerate.	States that he is less inclined to use economic sanctions against rival countries and prefers to use them only on a short-term basis due to the dedollarization trends that they have caused. However, he has threatened to use tariffs against countries that trade outside of the U.S. dollar system and don't "honor the dollar as the world currency." Functionally, in our view, this would be akin to sanctions.

Source - RBC Wealth Management, candidates' statements, campaign statements, Committee for a Responsible Budget, American Action Forum, Trump economic advisor Scott Bessent, Foreign Affairs, Bloomberg News, The Washington Post, CBS News, Fox News, Vox

GLOBAL

Equity

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Cautious chorus

Major equity markets rebounded from their deep mid-summer swoon but, so far, most have yet to post new highs. That said, measures of market "breadth" for the S&P 500—the advance-decline line and the equal-weighted version of the index—set new highs several weeks ago, suggesting the S&P 500 will eventually follow suit.

The S&P 500, at its July peak, was trading at a chunky 23.3x this year's consensus earnings per share estimate of $243 and 20.6x next year's forecast (then at $275). Usually, investors think of multiples at 20x or higher as "expensive" and "unsustainable" or "limiting additional upside." But history offers no clear valuation line in the sand beyond which stocks cannot move.

In our view, it's not excessive valuation that tips markets into a downturn. Rather it is a marked negative re-appraisal of earnings prospects. Sometimes those take the form of a "growth scare." These usually resolve themselves into earnings outcomes that are not as damaging as first feared. Markets correct or consolidate for a while before embarking on a renewed upleg.

Recessions, on the other hand, last longer and typically require forecasters to make a series of negative earnings revisions that often turn out to be worse than the modest "trimming" of estimates that is often the first response to an economic slowdown. As investors give up on their hopes for earnings for the year at hand, they also tend to lose confidence in the ability of the economy and earnings to resume growing beyond that year at the rates that had justified premium multiples.

This stark difference in equity market outcomes is one reason why the recession/no recession debate rages on, as it always has in response to an extended Fed tightening cycle. As has been true for a while, neither side is yet bold enough to claim victory nor willing to admit defeat.

Equity views

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

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

The "soft landing" crowd has been taking heart from the fact that the equity market backdrop continues to play out in a way that appears to support their view. S&P 500 consensus earnings estimates for this year and next—$243 per share, up 9.6%, and today's estimate of $280 per share, up 15.2%—are not far from where they began the year. At 23x this year's earnings and 19.5x next, we think a soft landing looks bought and paid for.

On the other side, the "hard landing" proponents would argue that the next year's earnings growth estimate is usually little more than an extrapolation of the current year's growth rate, plus or minus. In their view, the 2025 outlook could change considerably if the underlying assumptions about the path of the economy were to change.

They also point out that it has almost always been the case that the stock market is at a valuation peak and investors are too optimistic about the outlook for the economy and earnings just before a bear market begins. Similar conclusions could be drawn about what the current rate of economic growth says about the economy slipping into recession in the period immediately ahead.

GLOBAL EQUITY

Looking back at all the recessions of the past 100 years, GDP growth in the quarter before a recession started ranged from minus 2% to plus 9%; in other words, GDP growth in one period, by itself, tells us little or nothing about the likelihood of recession arriving in the following period.

The composition of GDP may be more revealing. Consumer spending consistently accounts for about 70% of U.S. GDP. It is very hard for the U.S. and most other advanced economies to slip into recession without the consumer pulling back on spending.

Over the past couple of years, U.S. real consumer spending growth has been running between 1% and 3% per annum. Through much of that time the fuel for that spending—disposable income (i.e., personal income after tax)—was growing faster than the spending itself, allowing savings to build. But, for the past three quarters, consumer spending has been growing markedly faster than disposable income, as households reduce savings and take on debt to maintain spending levels. That has lowered the savings rate to less than half pre-pandemic levels and not far off a multi-decade low.

In some ways it's worse than those numbers reveal: over the past couple of years the price of necessities—food, utilities, property and auto insurance, etc.—rose by 20% or more. Prices have stopped rising at that accelerated pace but have shown little to no signs of coming down. And the cost of debt service has also moved noticeably higher. That leaves less disposable income available to buy cars, appliances, meals away from home, travel, home improvements, i.e., discretionary purchases most of which have a higher multiplier effect on the overall economy.

So far, slower disposable income growth has not translated into a commensurate slowdown in overall consumer spending. Lingering optimism about job security and future wage gains have given consumers the confidence to reduce savings and borrow to maintain spending. However, without a resurgence in disposable income growth, we believe a more challenging economic growth environment looks to be ever nearer.

So where does that leave us? Not surprisingly we'd like to have our cake and eat it too. We note that our Recession Scorecard, which was giving the U.S. economy a unanimous expansionary "green" signal a little more than two years ago has seen the seven indicators that it tracks slide inexorably toward recessionary "red." There can always be a first time. Even "all red" wouldn't make a recession unequivocally inevitable. But it seems imprudent to us not to acknowledge that the historical risks that indicate the U.S. is headed for recession have risen and with them the risks that future S&P earnings will have to be revised lower reducing the support for today's elevated price-to-earnings multiples. That view calls for a cautious approach to equity selection in a portfolio and perhaps, eventually, to a reduced equity exposure.

But not yet. As noted at the outset, measures of "breadth" have been leading the market: both the advance-decline line and the equal-weighted version of the S&P 500 have recently posted new highs while the major broad U.S. market averages—the S&P 500 cap-weighted index, the Nasdaq Composite, and the Russell 1000—have not yet done so.

A new upleg for the broad market averages where breadth measures failed to participate and moved into a downtrend would be a signal to us that a deeper, broader retrenchment for equity markets was in the works. However, there is an ever-present risk that this single metric won't behave the way it always has. All the more reason a cautious, watchful approach is called for.

GLOBAL
Fixed income

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“The time has come for policy to adjust”

Those eight words, spoken by Federal Reserve Chair Jerome Powell at the Fed’s annual Jackson Hole Economic Symposium in late August, gave markets the clearest signal yet that the Fed is ready to begin the process of normalizing interest rates.

The Fed, at its next meeting on September 17–18, will likely cut interest rates for the first time since 2020 and by doing so will join the central banks of Europe, the United Kingdom, Canada, along with others which have already taken steps to lower borrowing costs.

The case for doing so is a simple one. In terms of the Fed’s dual mandate of price stability and maximum employment, upside of risks to inflation has morphed into downside risks for employment. While the Fed aimed for, and largely achieved, cooling in a historically strong labor market, it may now be at the point of cracking.

As the chart shows, in July the unemployment rate briefly jumped above the Fed’s current estimation of the long-term level of full employment, but fell back to that level in August. And while inflation has yet to completely return to target, Powell has long signaled that cuts would likely commence prior to that point so long as inflation’s trajectory was on the right path. Waiting to the point of actual achievement would risk cuts coming too late and amplifying recession risks.

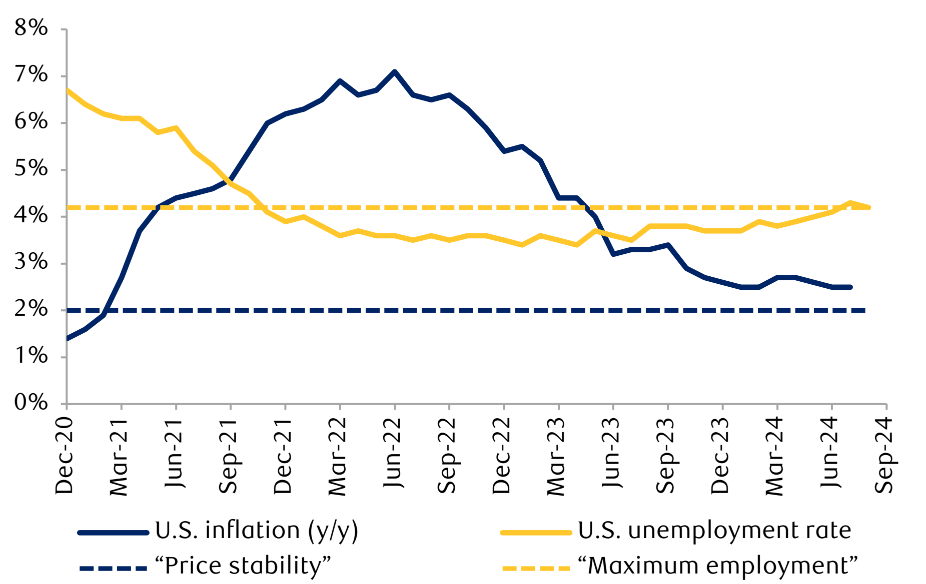
With the timing now all but set, the only thing that remains to be decided is the magnitude of the first rate cut.

Fixed income views

Region	Gov’t bonds	Corp. credit	Duration
United States	+	–	7–10
Canada	+	=	3–7
Continental Europe	+	=	3–7
United Kingdom	+	=	3–7

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

Upside risks to inflation fade, but give way to downside risks to employment



Source - RBC Wealth Management, Bloomberg, U.S. Federal Reserve; inflation based on the Personal Consumption Expenditures Index

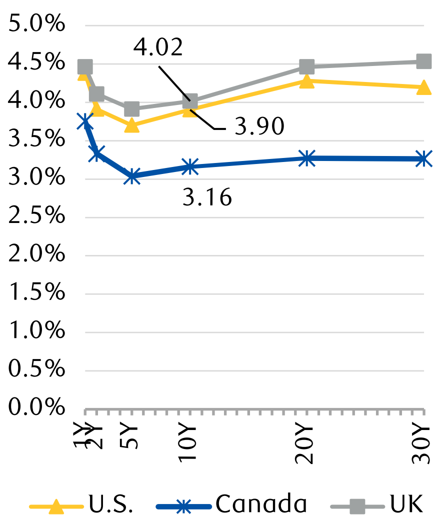
GLOBAL FIXED INCOME

While the labor market backdrop is of growing concern, Fed Governor Christopher Waller noted after the September payrolls report for August that "The labor market is continuing to soften, but not deteriorate." That has led market participants to broadly expect that the Fed will lean toward a standard 25 basis point cut this month.

But as Powell also noted in August, "We do not seek or welcome further cooling in labor market conditions," so any further softness in employment data will likely mean the Fed won't hesitate to accelerate the process of policy adjustments via larger rate cuts in the months ahead.

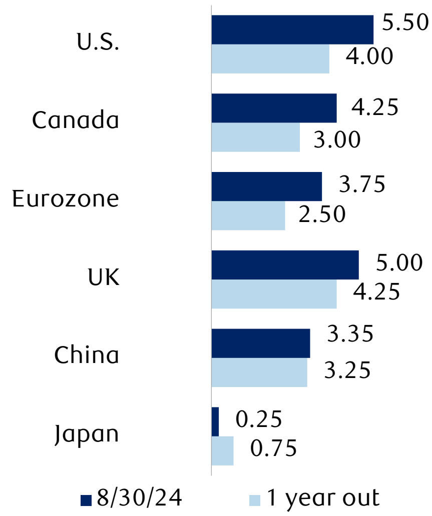
After a number of false starts in recent months and years, the global policy rate easing cycle has likely arrived.

Sovereign yield curves



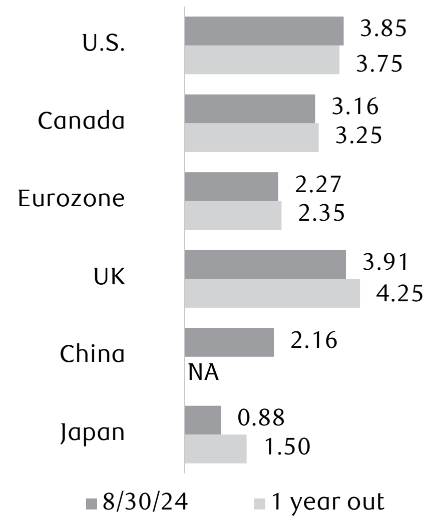
Source - Bloomberg; data through 8/31/24

Central bank rates (%)



Source - RBC Investment Strategy Committee, RBC Capital Markets forecasts, Global Portfolio Advisory Committee, RBC Global Asset Management

10-year rates (%)

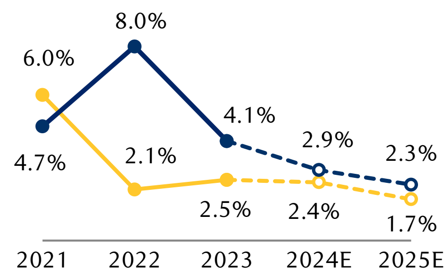


Note: Eurozone utilizes German Bunds.
Source - RBC Investment Strategy Committee, Global Portfolio Advisory Committee, RBC Global Asset Management

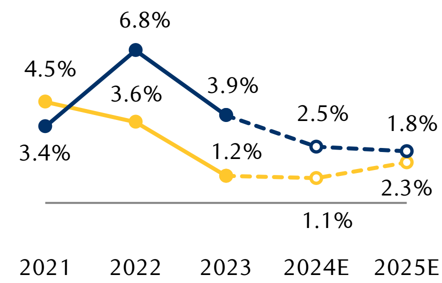
KEY

Forecasts

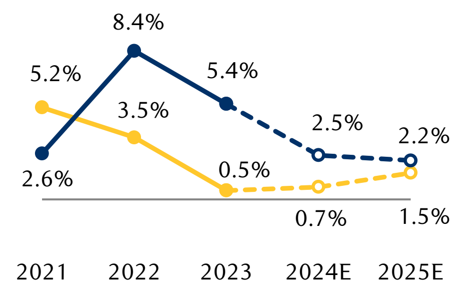
United States



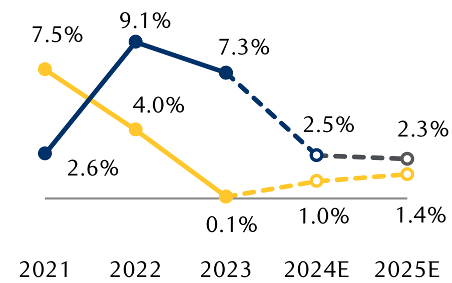
Canada



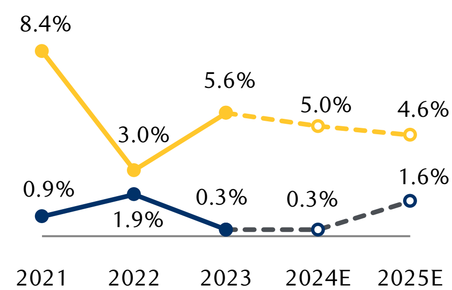
Eurozone



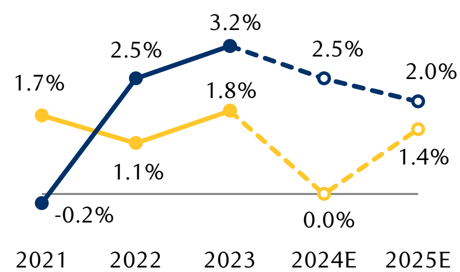
United Kingdom



China



Japan



Real GDP growth

Inflation rate

Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management, Bloomberg consensus estimates

Research resources

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			Investment Banking Services Provided During Past 12 Months	
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