The Pulse of the Market

Earnings Sentiment Broadens Out

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In A Nutshell

In *Pulse,* we tackle hot topics and other updates to the indicators we track regularly. The big things you need to know: First, earnings sentiment (the rate of upward EPS estimate revisions) is now improving broadly within the equity market, which we think opens the door for a short-term pause in mega cap Growth leadership within the US and US leadership within global developed markets equities. Second, the Growth/Value trade within Large Cap has turned choppy again, which we think may reflect the broadening out of improving earnings sentiment and valuations that have started to look frothy for mega cap Growth on some metrics. Third, stock market optimism improved in the latest Conference Board survey, a bright spot in the consumer narrative and a data point that alleviates some of our near-term pullback concerns.

Earnings Sentiment Improves Broadly, Opening The Door For A Short-term Pause In Mega Cap Growth And US Leadership

The tailwind that the strong, AI-powered EPS growth backdrop has provided to the recent performance and outlook for the S&P 500 has become a well-understood consensus data point. With that in mind, and 1Q26 reporting season essentially behind us, we took some time to dig deeper into the EPS stats that we track each week to see what else is worth knowing that the crowd isn't already talking about. Three things jumped out:

First, we are starting to see some improvement in bottom-up consensus EPS forecasts for the S&P 500 for 2027 in terms of the expected growth rate (page 24). Over the past few months, the implied growth rate embedded in consensus forecasts had been moving up dramatically for 2026 but was slipping for 2027. Even though the dollar value of 2027 EPS was still moving up, the growth rates those numbers implied were coming down. This was a concerning data point to us, because in the aftermath of the first Trump tariffs and the Russia-Ukraine war, the consensus EPS forecasts for the year the crisis unfolded (2018, 2022) didn't incur much damage in dollar terms (page 33). But we did see significant downward revisions to those forecasts in dollar terms for the subsequent years (2019, 2023). That history has made us worry a bit that there's risk lurking for 2027 consensus EPS forecasts from delayed war impacts (once companies run through their buffers, i.e., inventories and hedges) and that the need to lower 2027 estimates could be the catalyst for a pothole in S&P 500 performance later this year. What we are seeing in the 2027 data now, in terms of the implied growth rate starting to move back up, doesn't completely wash away that concern but does mitigate it. On this point, it's worth noting that at the sector level, we're seeing improvement on the 2027 forecasted EPS growth rates not just for Tech, but for Health Care and Industrials as well (page 30).

Second, there's been a broadening out of the improvement in earnings sentiment that's been underway as reporting season has wound down. The rate of upward EPS estimate revisions has been climbing for the S&P 500, its top-10 market cap names, the rest of the index, and Small Caps (pages 36-37). We're also seeing positive revisions to consensus forecasts for both EPS and revenues for all of the sectors in the S&P 500 (page 40) and most Small Cap sectors (page 41). This stat is admittedly getting close to past highs for the top-10 market cap names, but we think it still has a bit more room to run before getting to past peaks for the rest of the index. This is something that may, temporarily at least, support a short-term pause in the mega cap Growth leadership trade that has gripped markets in recent months.

Third, while the US still stands out positively against most other major developed market countries on earnings sentiment (the rate of upward EPS estimate revisions), some competition may be starting to emerge. Among the major global developed market countries we track, the US still stands out for having both an improving trend in the rate of upward EPS estimate revisions and a high level of upward revisions relative to other countries (pages 42-43). Outside the US, we're still seeing deteriorating earnings revisions trends in countries like Canada and Australia. But one thing we've noticed in recent updates is that earning revisions trends for Europe have been improving and are now back in slightly positive territory. While we continue to like the US over non-US on a longer-term 12-month view, in the short term we think it's possible the improving trend in earnings sentiment for Europe could spark a pause in the US leadership trade.

Quick Hits: What Else Jumps Out

- *Large Cap Growth leadership stumbles slightly in terms of performance*. While the leadership trend that's been in place for the past few months remains intact, we have seen some choppiness in the Growth trade relative to Value within the Russell 1000 in recent trading (page 15). The broad improvement we're now seeing in earnings sentiment (the rate of upward revisions) discussed above helps to explain why this might be occurring.
- *Valuations also starting to point to the possibility of a short-term pause in the Growth leadership trade.* Last week we highlighted how the top-10 market cap names in the S&P 500 are starting to approach previous highs again on a median NTM P/E multiple, while valuations for the rest of the S&P 500 have been compressing and are close to long-term average levels (page 52). Another chart in support of this idea highlights how the relative NTM P/E between these two baskets has spiked, while the relative long-term EPS growth forecast hasn't seen a similar move up (page 56). These two indicators tend to track one another and the gap in place at the moment suggests that something is off – either the relative P/E needs to fall, or the relative long-term EPS growth assumption needs to move up.
- *A bright spot in the consumer narrative.* While consumers felt a little worse in May relative to April, per the latest update from the Conference Board (page 88), their optimism about where stock prices are headed actually improved (page 45). Optimism on the stock market in the next 6-12 months is now above its most recent high but hasn't yet returned to the highs of late 2024. We see this as a constructive data point for the broader US equity market given the renewed importance of retail flows in recent years as a driver of stock market price action that mitigates some of our near-term concerns about a pullback due to rising interest rates and Fed hikes starting to get baked in. It is interesting to us, however, that the improvement on this survey stands in contrast to the deterioration that we've seen for passive retail US equity flows in recent EPFR updates (page 101).
- *Notable changes in funds flows.* Flows to US equity funds are still positive but appear to be softening (page 100) while improving a bit for France and Germany (page 103). At the sector level, flows are turning positive for Consumer funds and REITs funds (page 105).

Looking for a summary of / update on our outlook for US equities?

- *Go to…*See page 4 for a rundown on our S&P 500 outlook and key positioning trades (Growth/Value, US/non-US, Small Cap), along with page 5 for our thoughts on hot topics, and pages 6-7 for our sector views.
- *What's changed?* We've been concerned about the possibility of a short-term pullback in recent weeks due to rising rates and are keeping a close eye on valuations for the S&P 500, Russell 2000, and Nasdaq 100 which are generally elevated but (mostly) not quite back to peak on most of our metrics. The broadening out of the improvement we're seeing in earnings revisions trends offsets that to some extent as does the improvement in stock market optimism in the Conference Board survey. As discussed above, in the short term, this week we've also become a little more open to the idea that big cap Growth leadership in the US and US leadership over non-US may be due to take a breather.
- *Bottom line:* Overall, there has been no change in our longer-term, constructive outlook on the US equity market and our 12-month forward S&P 500 price target of 7,900.

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5 stars is highest

Summary / Update Of Our US Equity Market Outlook

- **Our 12-month S&P 500 price target is 7,900.** This implies a gain of 7.7% from the May 7th close, when we last froze our models and 4.4% from the May 28th close. We describe our forecast as higher but not heroic. We also see it as reflective of the idea that stocks can grind higher in the year ahead, but that gains may be slower from here. Our price target is maintained on a rolling 12-month-forward basis (it is not a December 31st estimate) and is updated monthly. We view it as a compass and general navigation tool designed to articulate where stocks are headed and why. The average and median of the five models (which we typically use to set our price target) is 8,100, which argued for a higher target. We decided in our latest update, however, to link our price target to the model that is best equipped to bake in the idea of a two-speed economy and earnings backdrop (AI in the fast lane, Middle East in the slow lane). In that model, we trim bottom-up consensus EPS forecasts for 1Q27 (as of early May) by 5%, putting yr/yr growth at 12% (which assumes 28% growth for AI focused stocks and 6% growth for the rest of the index), and bake in 3.3% CPI, a flat Fed, and 10-year yields of 4.5% to our trailing P/E calculation. Our various stress tests suggest that at least up to a certain point, P/E pressures from higher inflation and rates can be offset by strong earnings growth, specifically from the AI theme, in the year ahead but that a major breakdown in the earnings outlook, including the AI cohort, is needed to produce a significantly bearish outcome.

- **Tactical risks we're monitoring.** We're keeping an eye on valuations and sentiment/positioning for signs of a short-term top in the US equity market. So far, most of our valuation indicators are elevated but not quite back to peak (suggesting the rally is late innings), and our sentiment model remains fairly subdued (which buys the rally some time). Generally, we haven't expected the S&P 500's move higher to be linear and our base case is that any pullbacks will be no worse than a tier 1 garden-variety pullback in the 5-10% range. Unless recession concerns return or we see a major break higher in interest rates, it seems unlikely the S&P 500 would enter a tier 2 growth-scare drawdown (14-20%) or worse. One potential catalyst for a pullback later this year could be downward adjustments to late-2026 or 2027 EPS outlooks due to war impacts, though we've become a little less concerned about this issue given the recent improvement we've seen in the consensus EPS growth rate forecast for the S&P 500. Setbacks in the war are another. Profit-taking in Semis, an important pillar of the recent move in the S&P 500 that has strong earnings revisions trends but looks pricey, is yet another. Mid-term elections have been another potential stumbling block given poor historical performance trends for the S&P 500 around this event, including 2018 (Trump 1) and 2022 (Biden). On this latter point, it's worth noting that expectations for a Democratic sweep have been moving up again in betting markets, reversing a previous pickup in expectations for a Republican sweep. Higher interest rates have also come onto the radar recently, and further upward pressure on 10-year yields or increases in the number of Fed hikes being priced in could pressure stocks. As long as 10-year yields stay contained within the 3.3-5% range that has been in place since 2022 remain in place, we think any damage done to the S&P 500 will stay contained within tier 1 pullback territory.

- **We continue to prefer Growth over Value within Large Cap for the next 12 months, but acknowledge the potential for a short-term pause in this leadership trade.** We think US equity market performance in the year ahead will reflect trends in EPS over the next 12 months, and our data suggests that the earnings story is simply stronger for Growth than Value for the foreseeable future, driven by the AI theme. When we look at earnings sentiment, the rate of upward EPS estimate revisions has been stronger for Growth broadly and the biggest market cap names in the S&P 500 in particular than Value and the rest of the market, and impacts from the Middle East conflict seem likely to be more of a headwind for earnings revisions for Value and the rest of the market going forward. Meanwhile, data on bottom-up consensus net income estimates points to eroding dominance for the Mag 7 relative to the rest of the S&P 500 since 2024 and in the years ahead, but we have not yet seen an outright shift in earnings leadership to the rest of the market, which we believe has allowed the mega cap Growth/AI theme to fight back to maintain its leadership. Note that we have started to look at this data on a broader AI basket. There we are seeing a sharp pickup in anticipated growth dominance of that AI basket vs. the rest of the index in 2026 relative to 2025, which we think has helped to invigorate the AI theme even more in recent trading. Net income growth is also expected by consensus to be stronger in the AI basket than the Mag 7 in both 2026 and 2027, which we think is also supportive of a broadening of leadership within the AI theme. All of that being said, there are two issues that have crept up recently, which we think have the potential to spark a short-term pause in the big cap Growth leadership trade. First, valuation. The median NTM P/E of the top-10 market cap names in the S&P 500 is slightly above 31x, not quite back to but starting to approach pre/post-COVID levels (32-33x). Meanwhile, the median NTM for the rest of the S&P 500 has been compressing and is close to average. This has caused a spike in the relative P/E between the two baskets, which has not been accompanied by a commensurate pickup in relative long-term growth expectations. Second, earnings sentiment. While the rate of upward revisions on the sell-side is stronger for the top-10 market cap names than the rest of the S&P 500, the latter has seen a big improvement in recent updates. We've also noticed that all major S&P 500 sectors are back in positive revisions territory for EPS and sales. The improvement in earnings sentiment in the rest of the market outside of the biggest names could also contribute to a short-term pause in big cap Growth leadership, though we think this would be short-lived.

- **We continue to prefer US equities over non-US equities on a longer-term view, acknowledging the potential for a short-term pause in this trade as well.** Ahead of the Iran war, US equities looked cheap relative to non-US equities on a five-year time frame, and no longer looked overvalued on a 20-year time frame. We think that that helped to get US leadership started. Following the outperformance that the US saw after the war began, the US/non-US P/E has now moved back to levels in line with the five-year average but doesn't look highly stretched yet. On a 20-year time frame, the US/non-US relative P/E has moved up but is not yet back to past highs. This tells us there is still some room for the US to outperform non-US. We aren't getting terribly strong signals on the US relative to other developed market geographies on our economic indicators where GDP forecasts have been slipping broadly. Fundamentally, we do buy into the idea that the US has had less exposure to Middle East/energy disruption than Europe or Asia, and may incur less impact from residual damage going forward (something supported by our recent global analyst survey work). While our valuation work doesn't yet suggest that the US leadership trade has run its course, there are two things we're seeing on our data that speak to the possibility of a short-term pause in the US leadership trade. First, flows to US equity funds (which had been strong after the war broke out) have weakened slightly, while flows to France and Germany (though not Western Europe broadly) have improved a little. Second, while the US still looks better than Europe and most other major developed market countries in terms of the level of the rate of upward EPS estimate revisions, we've noticed that Europe has joined the US in being one of the only areas where this indicator has been improving, and that Europe has made a recent return to positive revision territory. While neither of these are strong enough signals to make us change our preference for US over non-US on a 12-month view, it does suggest to us that there's the potential for the US leadership trade to take a bit of a breather.

- **We are neutral on Small Caps relative to Large Caps due to the recent increase in interest rates and elevated valuations on some indicators.** Fundamentals skew constructive for Small Caps. Some of the positives we have seen include the strong March and April jobs reports, recent improvement in ISM manufacturing, and futures positioning (where CFTC data points to a net short in place but not deeply oversold levels). That being said, some of the negatives we have seen for Small Caps are the continuation of less robust earnings revisions trends relative to Large Caps (though both Large Cap and Small Cap have shown improvement on this metric at the end of 1Q26 reporting season) and downward pressure on consensus GDP forecasts due to the war (since Small Caps tend to get a boost from improved cyclical expectations and come under pressure when the economic outlook is called into question). Further on the earnings front, Small Caps are expected to see better net income growth than the S&P 500 and Mag 7 in 2026, but aren't expected to see better net income growth than the broader AI basket we're tracking until 2027. Rising rates are the main reason for our recently reduced enthusiasm on Small Caps. Small Caps tend to have a hard time outperforming when hikes are being priced in. Higher 10-year yields are also a headwind for Small Caps, as they lagged in late 2023 and early 2024 when 10-year yields made a run to the top of their post 2022 range, and were choppy vs. Large Cap in the late 2024/early 2025 move up in yields. Meanwhile, valuations are mixed. They have room to move up on an FY2 basis but are back to recent highs on an NTM basis.

Our Thoughts On Hot Topics

Issue	Our View
Mid-Terms	Mid-term election years have a poor track record for US equity market performance over time, and in the past two Presidential cycles in particular. Given the history, we have viewed the mid-terms as a risk in our outlook, and an event that could potentially help spark a pullback ahead of time or after the fact. That being said, we typically view trades around political events as temporary repricings, as stocks tend to find a way to reposition for a new political regime. At the moment betting markets lean towards a Democratic sweep outcome (something that we think could be a markets negative in the short-term given the tendency of investors to see Republican control as more business friendly and for the S&P 500 to trade in sync with polling and better market data on Republican outcomes in recent years). After a brief move lower, expectations for a Democratic sweep have moved up again in betting markets, while the improvement in Republican sweep expectations that had been seen in late April and early May has eased back. Investor attention on the mid-terms has been light, but does appear to be picking up. In a recent survey we conducted of RBC's equity analysts, Defense and Utilities stocks were highlighted as areas that seem vulnerable in a Democratic sweep scenario. Hospitals were also highlighted as a beneficiary of a Democratic sweep or Democratic House victory by the policy experts that presented at RBCCM's May 2026 Health Care conference. We will be keeping an eye on what issues Democrats will focus on in the campaign season, once we are past the primaries, but are concerned that a focus on affordability may include negative commentary around data centers and AI, which could be a negative catalyst for the broader S&P 500 as well. In terms of outcome, our expectation has been that the House will flip to the Democrats (though this could change as we gain a better understanding of redistricting), and the Senate will remain in Republican control. We see a (difficult) path for the Democrats to take back the Senate if they win Ohio, Maine, North Carolina, Georgia, Michigan, and Texas, but think the Democrats have more of an ability to take back the chamber than most investors realize.
Quarterly Reporting	We have not gotten a lot of color on the SEC proposal to allow companies to report on a semi-annual basis from investors yet. Our initial impression is that if too many companies take advantage of this potential rule change, it could reduce transparency in financial markets and lead to greater volatility around the release of results.
Private Credit	We have tended to view private credit risks as more of a narrative problem than a fundamental one, but acknowledge that there is simply much that we don't know here. Private credit fears picked up when valuations for the Russell 3000 Capital Markets industry (a group that contains investment banks along with alternative asset managers that have private credit exposure) were looking extremely overvalued. That valuation problem essentially resolved in March when valuations returned to levels slightly below long-term averages and don't look extreme again yet.
Iran War	From our seat in US equity strategy, we think the S&P 500's decline of 9.1% through the March 30th, 2026, low was in line with how deep an S&P 500 pullback should go if investors are not worried about recession. While the geopolitical community has highlighted potential recession risk from the conflict in Iran, that has not been the view of most of the investors in US equities that we have spoken to in recent months when it comes to the US economy. If that changes, we'd expect the S&P 500 to fall 14-20% (similar to past post GFC growth scares) in a situation where investor concerns about a recession manifest but don't come to fruition and to fall in the 25-33% range (in line with median and average recession drawdowns over time) if a recession does occur. On the March 30th low, we think a foggy/fragile bottom in US equities was put in place not because valuations and sentiment got washed out or priced in a recession, but because the stock market tends to react to turning points in times of distress when conditions start to get less bad at the margin, and that the cease fire put in place, while far from a clear resolution, checked that box. We tend to agree with the view of the geopolitical community that there has been lasting damage to commodity markets from the conflict, and as a result have made some downward adjustments to the outlook for S&P 500 EPS from non-AI focused companies into our valuation/EPS modeling. That being said, public company commentary since the war began has emphasized the ability to manage through crises like COVID and tariffs and has also highlighted buffers in terms of inventories of impacted materials, hedging, and other offsets like FX tailwinds to earnings and some tariff relief. We think these buffers will help to keep the 2026 earnings outlook largely intact, but do worry that those buffers won't last beyond a few quarters and that there may be some downside risk to 2027 earnings forecasts (something that could spark a short-term pullback in the broader market). We also think that it is important for investors to remember that S&P 500 performance is supposed to track or forecast S&P 500 profitability, and that the AI component of S&P 500 earnings is sizable, strong, and generally insulated against Middle East impacts. With renewed optimism in place over the war's end in late May, we are also contemplating whether a more permanent peace deal might be a "sell the news" event given how strong the major indices have been in April and May. At the same time, the emergence of clear evidence that a lasting peace and an opening of the Strait of Hormuz is not possible may spark another pullback in US equities.

S&P 500 Sector Snapshots – Consumer & Growth Oriented Sectors

S&P 500 Sector	Recommendation	Details
Communication Services	**Overweight**	Positives that we see for the sector include strong upward sales and EPS revisions trends and attractive absolute and relative valuations. Flows to the Telecom sector as tracked by EPFR (the closest comparison for this sector) have stalled a bit in recent updates. In our April analyst survey, the sector came in mixed across the questions we asked, with positive answers on the outlook on performance in an Iran de-escalation scenario and the overall demand assessment. We will monitor the sector as the Iran war continues, as the sector scored negatively on performance in that scenario and when asked about the knock-on and ripple effects of the war. Within the sector (at the Russell 3000 level), Interactive Media & Services, Wireless Telecommunication Services and Diversified Telecommunication Services all look attractive on relative valuations and have positive EPS revisions.
Consumer Discretionary	**Underweight**	The sector has moved into positive territory on both EPS and sales revisions in the most recent update. Meanwhile, the sector is expensive on an absolute FY2 P/E. The sector is slightly more attractive on a relative FY2 P/E basis, and modest inflows have returned. In our April analyst survey, the sector came in mixed across the different questions that were asked. We will monitor the sector as the Iran war continues, as the sector scored negatively on performance in that scenario and on the knock-on and ripple effects of the war. There could be opportunity in the sector if we see de-escalation in the war, as that is where the sector scored the most positively, and captured one of the most constructive views across sectors. Within the sector (at the Russell 3000 level), Automobiles, Automobile Components, Diversified Consumer Services and Distributors stand out for having attractive relative valuations and positive EPS revisions.
Consumer Staples	**Market Weight**	One of the most positive data points we see for the sector is attractive valuations on an absolute and relative basis. Meanwhile, the sector has also moved into positive territory on EPS and sales revisions in the most recent update. Flows to consumer funds that have generally been negative but are seeing some improvement in recent weeks. In our April analyst survey, our analyst was the least constructive across all of the sectors, which helps keep us market weight the sector despite some positive signals on our quant work. The sector scored negatively across all questions asked, with the most bearish outlook on sector performance if the Iran war continues. This is another sector we will monitor for knock-on effects and consumer health if the war drags on for longer, though the thought has crossed our minds that when it comes to the war, the impacts to this sector seem fairly well understood and there may be more risk lurking in other sectors where problems have not yet come to light. Within the sector (at the Russell 3000 level), Beverages, Food Products, and Consumer Staples & Distribution Retail jump out as looking compelling on both valuations and EPS revisions trends.
Health Care	**Market Weight**	The most positive data points we see for the sector are its attractive absolute and relative valuations and positive EPS and sales revisions. Meanwhile, the most negative data point we see is the deep outflows in recent funds flow data. In our April survey, the sector came in middle of the pack compared to the other sectors, with mixed answers across the questions asked. Our analysts did have slightly positive outlooks on valuations and the performance of the sector if the Iran War continues. One thing we are continuing to monitor is policy uncertainty, as this sector captured one of the most negative scores on our US domestic policy question. Within the sector (at the Russell 3000 level), Pharmaceuticals, Biotechnology and Health Care Equipment & Supplies have attractive relative valuations and positive EPS revisions.
Information Technology	**Market Weight**	Positives that we see for the sector include positive EPS and sales revisions and positive fund flows. The biggest negative we see for the sector is expensive absolute and relative valuations. In our April analyst survey, the sector came in neutral to positive on most of the questions we asked, excluding the negative outlook on potential ripple effects of the Iran War. Overall, the sector was one of the most constructive across all sectors. Within the sector (at the Russell 3000 level), Software, IT Services and Technology Hardware, Storage & Peripherals stand out as having attractive relative valuations and positive EPS revisions, but we aren't tempted here given lingering existential AI concerns that still seem relevant from a sentiment perspective. Semis revisions are quite strong and close to past peaks, levels that can admittedly endure for quite some time, but also have expensive valuations. We'd be more intrigued on a pullback here.

Source: RBC US Equity Strategy

S&P 500 Sector Snapshots – Cyclical, Value & Old Economy Oriented Sectors

S&P 500 Sector	Recommendation	Details
Energy	**Market Weight**	Positives that we see for the sector include solid upward EPS and sales revisions trends, alongside attractive absolute and relative valuations versus the broader market. In our April analyst survey, Energy also had one of the most constructive scorecards, with strong demand views, a positive domestic policy backdrop, and a relatively favorable read-through from geopolitical developments. Negatives have included weak sector fund flows, but recently we have started to see some sporadic inflows mixed with outflows. Within the Russell 3000 Energy sector, Oil, Gas & Consumable Fuels continues to look more appealing than Energy Equipment & Services, supported by positive EPS revisions and reasonable valuations. Going forward, we are watching commodity prices and geopolitical developments from Iran and the Middle East. Tactically, we do like this sector if the Iran War is prolonged given that there is still some valuation opportunity in it.
Financials	**Overweight**	Financials screen attractive especially on valuations relative to the broader market, while also scoring well in our analyst survey across performance, valuations, demand, and the domestic policy backdrop. Revisions trends have also improved recently at the broad sector level and are positive on both EPS and sales, while fund flows have been improving and are becoming less negative. Within the Russell 3000 Financials sector, Banks, Insurance, Consumer Finance, and Financial Services look most compelling, while Capital Markets screens less attractive with valuations in expensive territory but alongside improving revisions trends. Going forward, we are watching capital markets activity with a particular focus on private credit.
Industrials	**Market Weight**	Industrials continue to see solid upward EPS and sales revisions trends, while our analyst survey highlights constructive views on performance, demand and the domestic policy backdrop. Fund flows into the sector have also been positive, though they have moderated recently. The main offset is valuation, with Industrials screening as one of the more expensive sectors on both an absolute and relative basis. Within the Russell 3000 Industrials sector, few groups screen attractive on both valuations and revisions trends. Electrical Equipment and Construction & Engineering continues to see revisions momentum but now screens as expensive, while several cheaper groups still face weaker revisions trends. We continue to monitor manufacturing activity and the sustainability of AI infrastructure capex spending.
Materials	**Overweight**	Materials continues to screen attractive on valuations especially relative to the broader market, while revisions trends for the sector have improved recently as well, returning to positive territory for both EPS and revenues. Fund flows into Materials are beginning to stabilize following a stretch of weakness earlier in the year. In our April analyst survey, the sector scored positively on valuations and the domestic policy backdrop, though views on demand were more mixed. Metals & Mining and Chemicals continue to see positive EPS revisions trends, while Construction Materials screens expensive despite weaker revisions trends. We continue to monitor commodity price trends and the durability of infrastructure and reshoring-related spending.
REITs	**Market Weight**	REITs continue to screen attractive from a valuation perspective, with the sector's median price-to-FFO (P/FFO) ratio sitting below long-term averages. The sector is also seeing improving fund flows and a shift into positive territory. In our April analyst survey, the sector screened mixed overall. We continue to monitor interest rate trends (with concerns about impact from a prolonged higher interest rate environment), housing affordability dynamics, and commercial real estate activity. Note, while we are still market weight, we do consider this sector to be our preferred defensive in a pullback.
Utilities	**Market Weight**	Positives that we see for the sector include strong upward sales and EPS revisions trends. Negatives we see for the sector include expensive valuations and weakening funds flows. In our April analyst survey, the sector came in neutral or negative for most of the questions we asked, with a positive score on demand being the one bright spot. Going forward, we're keeping an eye on midterm election dynamics and the debate around affordability, which for now seems like a potential headwind for this sector. Within the sector (at the Russell 3000 level), no industry jumps out as looking compelling on both valuations and EPS revisions trends.

Source: RBC US Equity Strategy

The Four Tiers Of Fear In Modern US Equity Markets

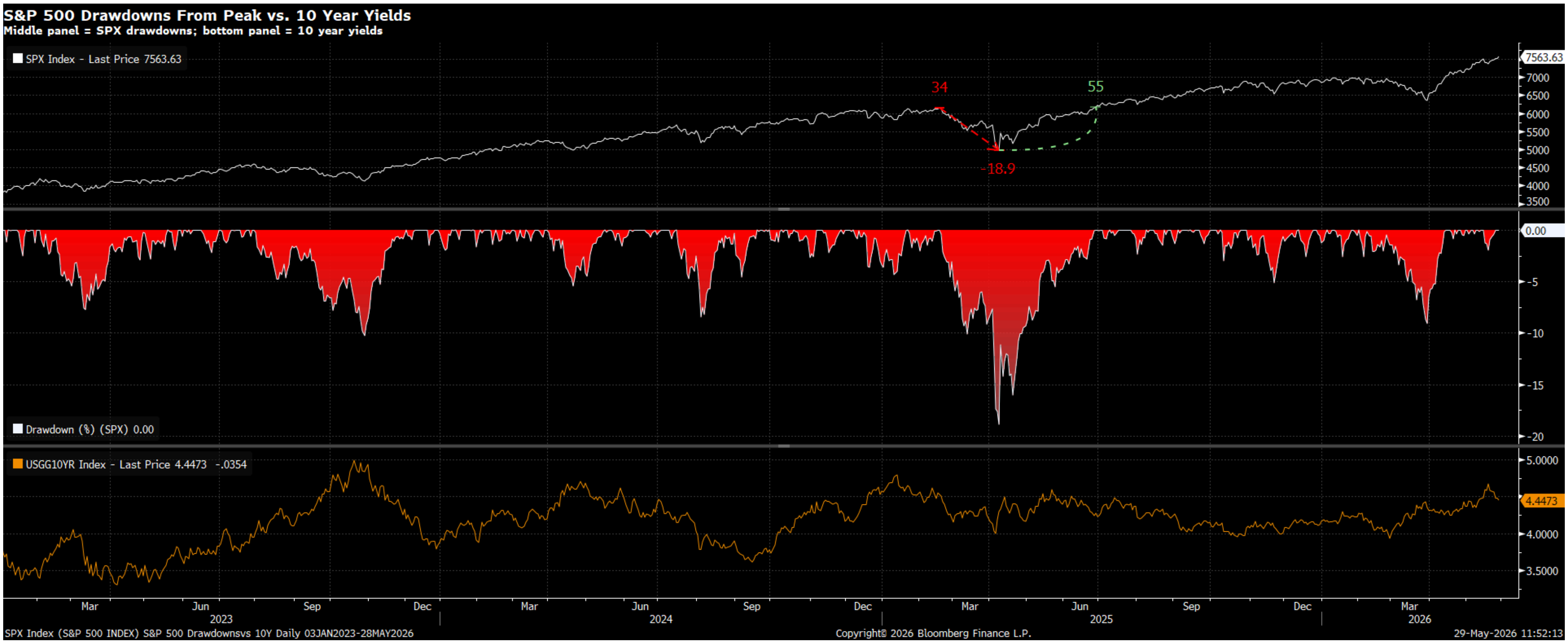
- This is a framework we've developed to think about potential downside levels in the S&P 500 whenever a period of stress and uncertainty emerges.
- We came into 2026 assuming the S&P 500 would experience at least one 5–10% tier-1 pullback this year, which occurred during 1Q26 – a 9.1% drawdown from the late-January peak through the late-March low.
- To the extent equities become weak again, a new pullback would begin from the latest May high. We think it would take a clear return of recession concerns to push the S&P 500 down into tier-2 pricing or worse.
- Potential catalysts for a tier 1 pullback include war setbacks, semis profit taking, midterm elections, reductions to 2027 EPS growth forecasts, or a further move up in bond yields similar to what was experienced in late 2023 (a 168 basis point increase) or early 2024 (a 90 basis point increase). Those were accompanied by 5% and 10% drawdowns in the S&P 500 and moves in yields off of early 2026 lows would take the 10-year yield into the 4.8-5.6% range. Note, if 10-year yields break meaningfully higher and see a more sizable increase like what was experienced in 2021-2022, a deeper pullback could materialize.

	What A Peak-To-Trough Drawdown Looks Like Historically In The S&P 500	Equivalent S&P 500 Downside Levels To Keep In Mind Today	Additional Thoughts
Tier 1 **Garden-Variety Pullback**	▪ 5–10% drawdown	▪ 6,767–7,143 vs. the 5/26/26 high	▪ This is what the major pullbacks in the S&P 500 had typically looked like since 2022. ▪ This is a natural starting point for thinking about downside risk whenever a major source of uncertainty arises.
Tier 2 **Growth Scare**	▪ 14–20% drawdown	▪ 6,015–6,466 vs. the 5/26/26 high	▪ The US equity market experienced four of these: in 2010 (European debt crisis), 2011 (US debt downgrade), 2015-2016 (industrial recession), and 2018 (trade war / Fed fears over balance sheet unwind). ▪ The tariff tantrum of 2025 fit this category with an 18.9% drawdown from late February through early April. ▪ These were all periods in which equity market participants began to significantly price in a crisis or recession that ultimately did not materialize. All of these but 2010 also saw at least one quarter of real GDP growth in the +/-1% range.
Tier 3 **Recession & Major Wars**	▪ Median & average drawdown of 27% and 32%	▪ Roughly 5,113–5,489 vs. the 5/26/26 high	▪ Recession drawdowns have ranged from 14% to 57% since the late 1930s. ▪ Recent, major wars have been similar to recessions, with the drawdowns around 9/11 and the two Gulf Wars ranging from 20% to 34%. 2022's Russia-Ukraine war contributed to a 25% drop.
Tier 4 **Major Crisis**	▪ Drawdown of around 50% or more for a general rule of thumb	▪ 3,760 vs. the 5/26/26 high	▪ 49% drawdown for the Tech bubble ▪ 57% for the Great Financial Crisis ▪ 43% drawdown for WW2 vs. the high at the start of the war (more than 80% vs. the pre-Great Depression high)

Source: RBC US Equity Strategy, S&P

Since 2022, The S&P 500 Fell 5-10% In 2 Of 3 Rising Rate Periods, Moved Up In The 3rd One

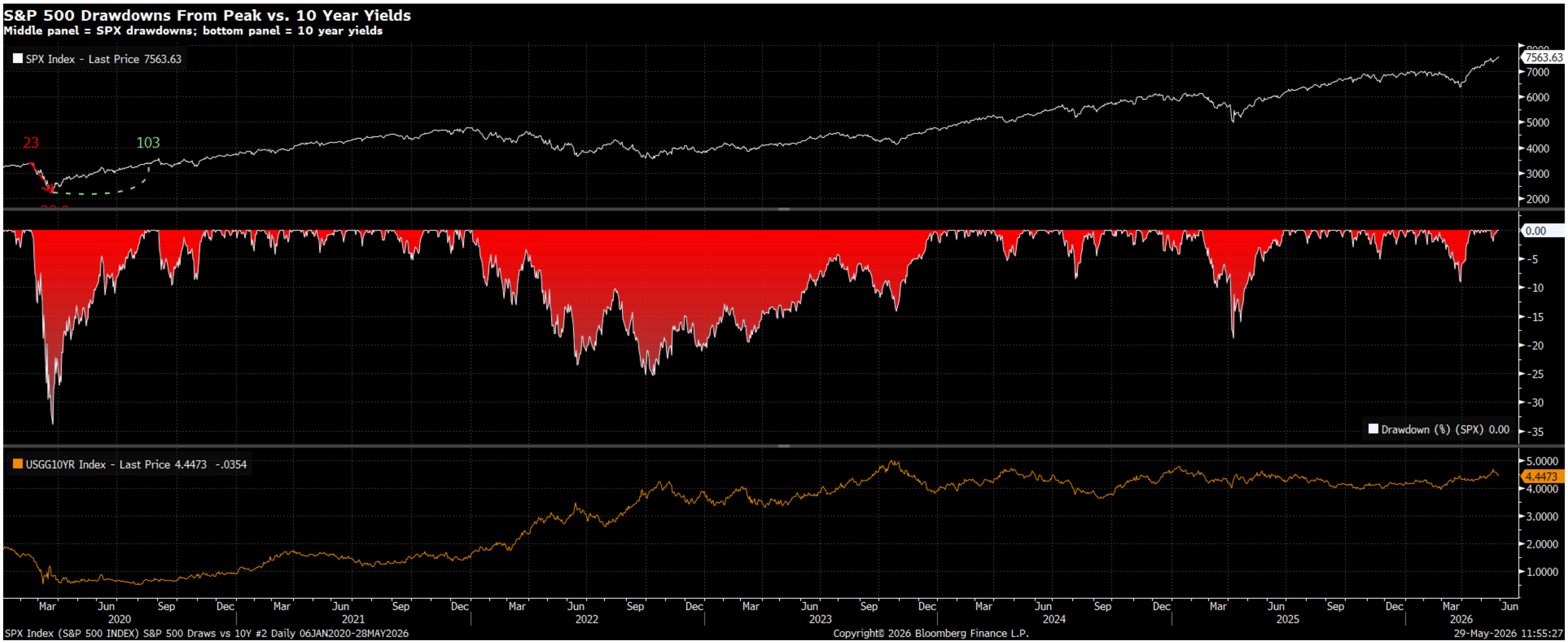
- 10-year yields have been range bound since 2022, in a band that's been meaningfully higher than the post-GFC norm.
- In a drawdown that ended in October 2023, the S&P 500 experienced a 10.3% drawdown as yields moved up 168 basis points (yields peaked at 4.99% about 7 days before stocks bottomed).
- In a drawdown that ended in April 2024, the S&P 500 experienced a 5.5% drawdown as yields moved up 91 basis points (stocks bottomed five days before yields peaked at 4.7%).
- From September 2024 to January 2025, 10-year yields rose 118 basis points to 4.79%. The S&P 500 powered through that move up in bond yields, fueled in part by optimism around Trump's re-election to the Presidency, and hit a new high in mid-February.
- Since the start of the Iran war, 10-year yields were up 73 basis points at the recent high. The S&P 500 initially fell 9.1% through the March 30th low but has bounced back.
- Note, the S&P 500 has regained its footing as May ended, as 10-year yields stopped their recent climb higher.



Source: RBC US Equity Strategy, Bloomberg, S&P
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.

In 2022, The S&P Fell Much More Than The 2023 & 2024 Pullbacks, But Yields Also Rose Much More

- In 2022, the S&P 500's drawdown from the late-2021 high was roughly 25% – much more than the 5-10% pullbacks of 2023 and 2024.
- The move up in bond yields was much higher than what was experienced in 2023 and 2024 as well – 370 basis points off the March-2020 COVID low and 307 basis points off the fall-2021 low. Ultimately, yields topped out at 4.2%.
- If we were to see a 300-basis point move off the February-2026 low, 10-year yields would be approaching 7%. That seems unlikely, but we do think a break above 5% for a meaningful period of time could rattle equity investors, by taking us out of the relatively stable interest rate environment that we've been in for the past few years from a 10-year yield perspective.



Source: RBC US Equity Strategy, Bloomberg, S&P
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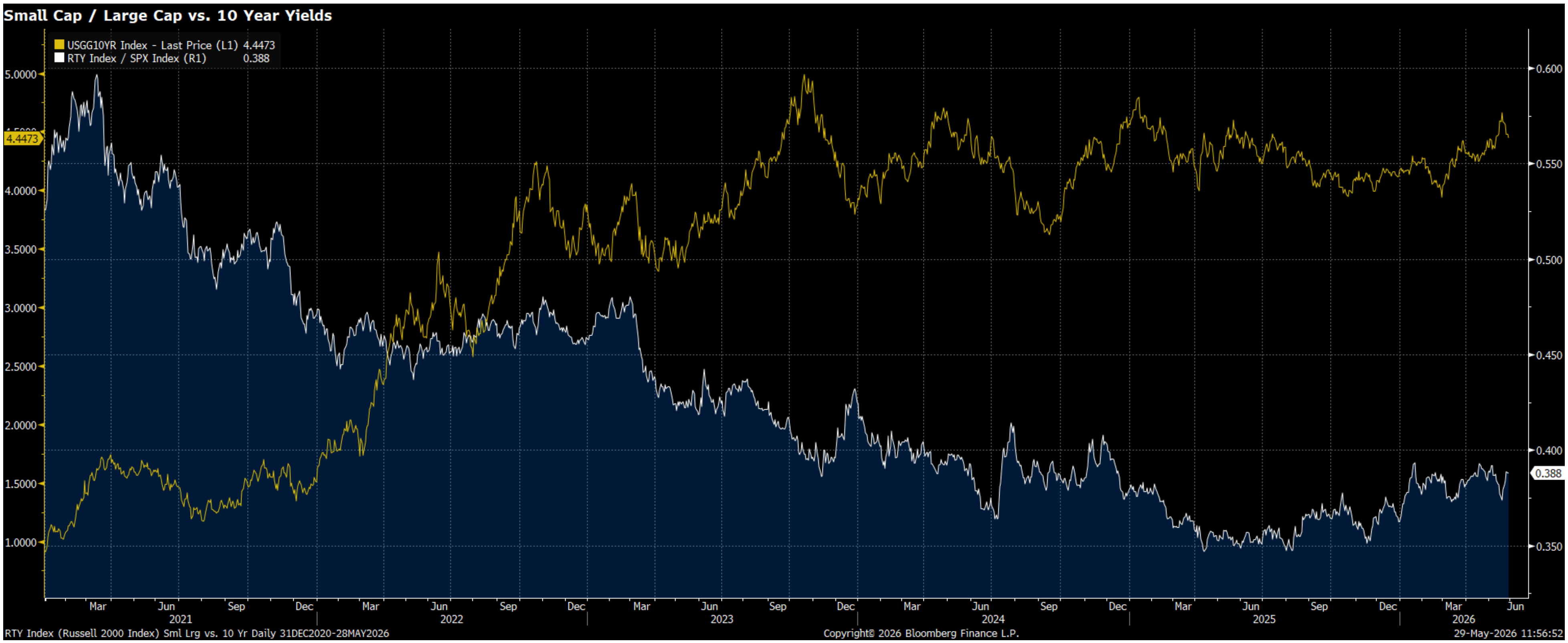
Small Lagged Large During The Yield Increases Of Late 2023 And Early 2024

- Small Caps also initially lagged Large Caps during the increase in yields in 2021-2022, but this trade stabilized midway through.
- In late 2024/early 2025 as yields rose, Small Caps were range bound relative to Large Caps, similar to the trend we've been seeing in early 2026.



Source: RBC US Equity Strategy, Bloomberg, S&P
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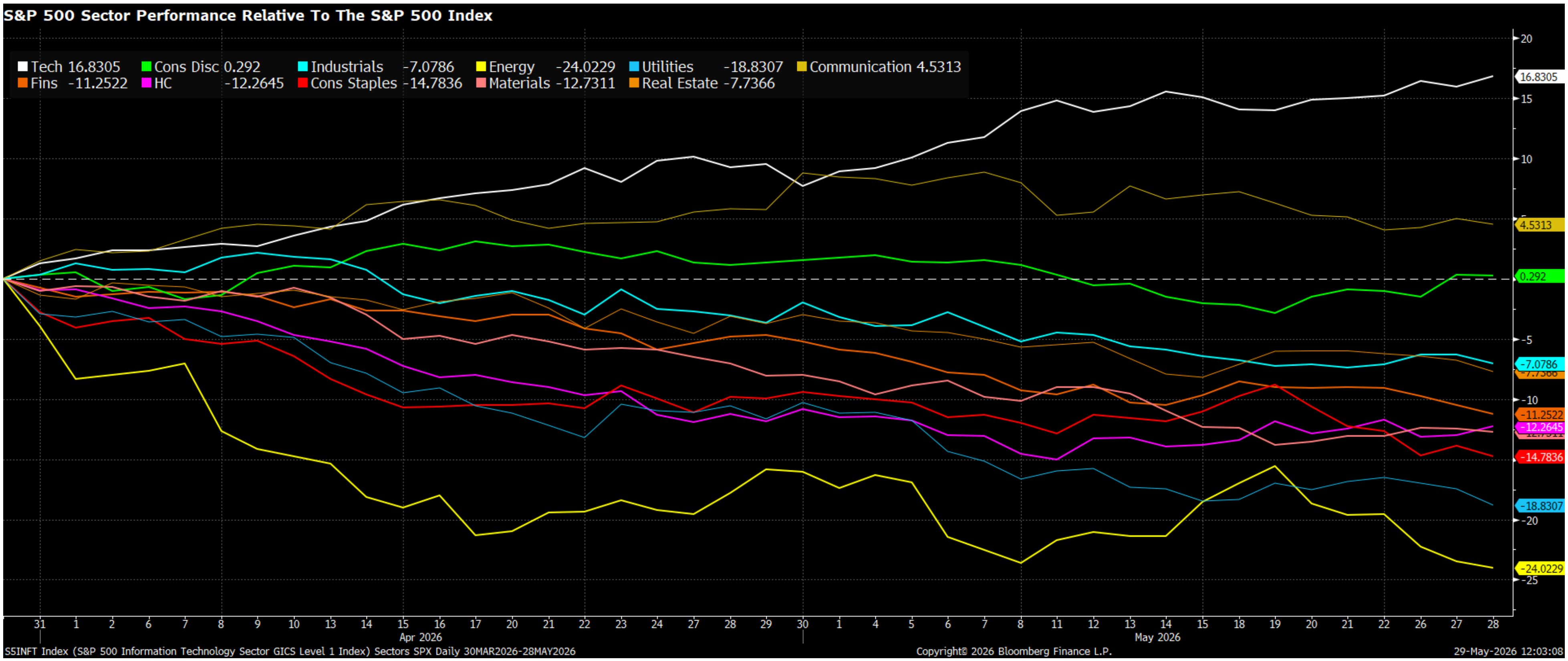
Only Tech & Comm Svcs Have Outperformed Within The S&P 500 Since The March 30th Low

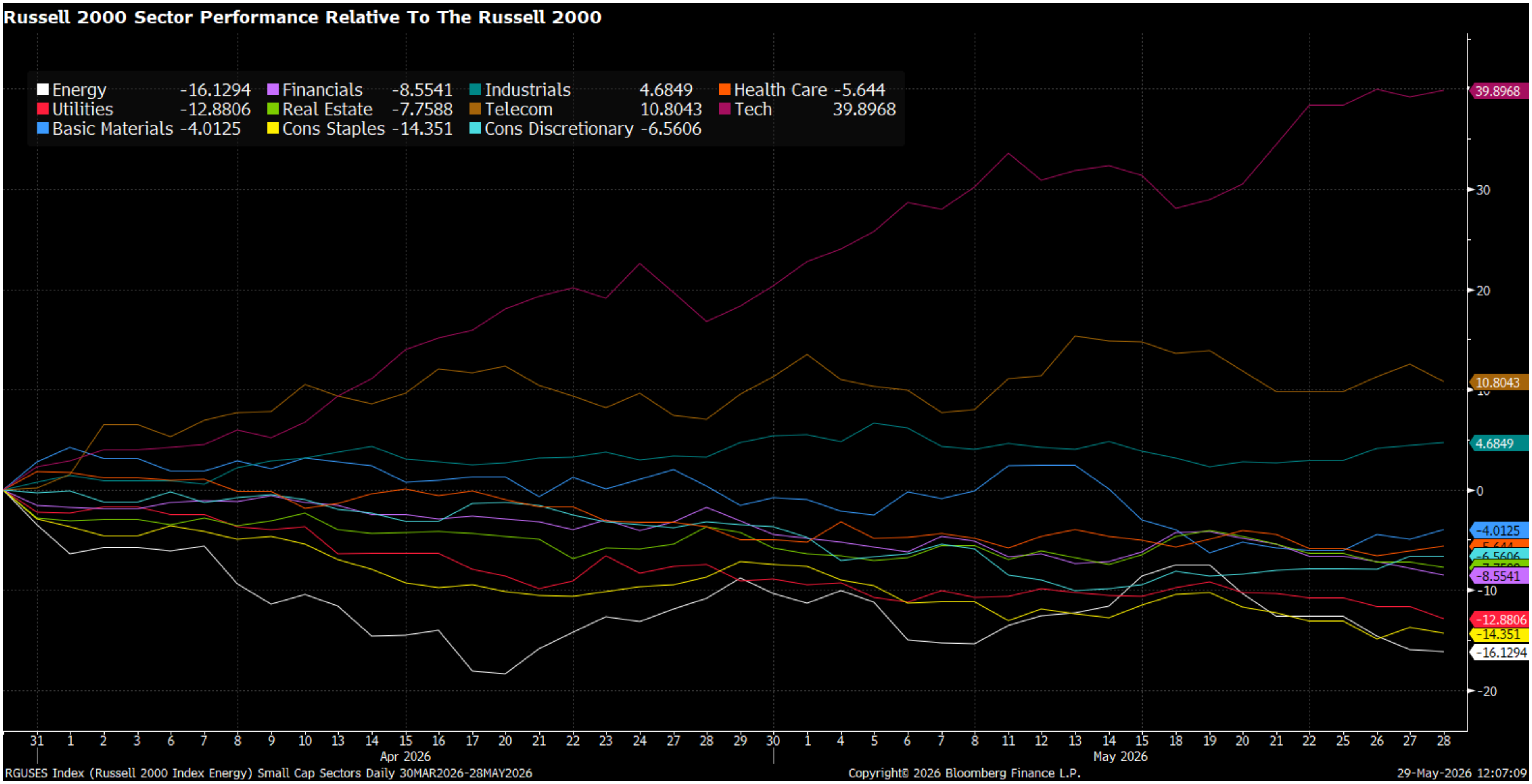
- These sectors are pillars of the Large Cap Growth trade. Consumer Discretionary has been in line due to recent improvement.
- Energy is the weakest-performing sector in April and May overall after seeing strength throughout March. It's been losing momentum recently.



Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, S&P, Bloomberg; as of May 28, 2026

Similar To Large Cap, Tech Has Also Outperformed In Small Cap Since The End Of March

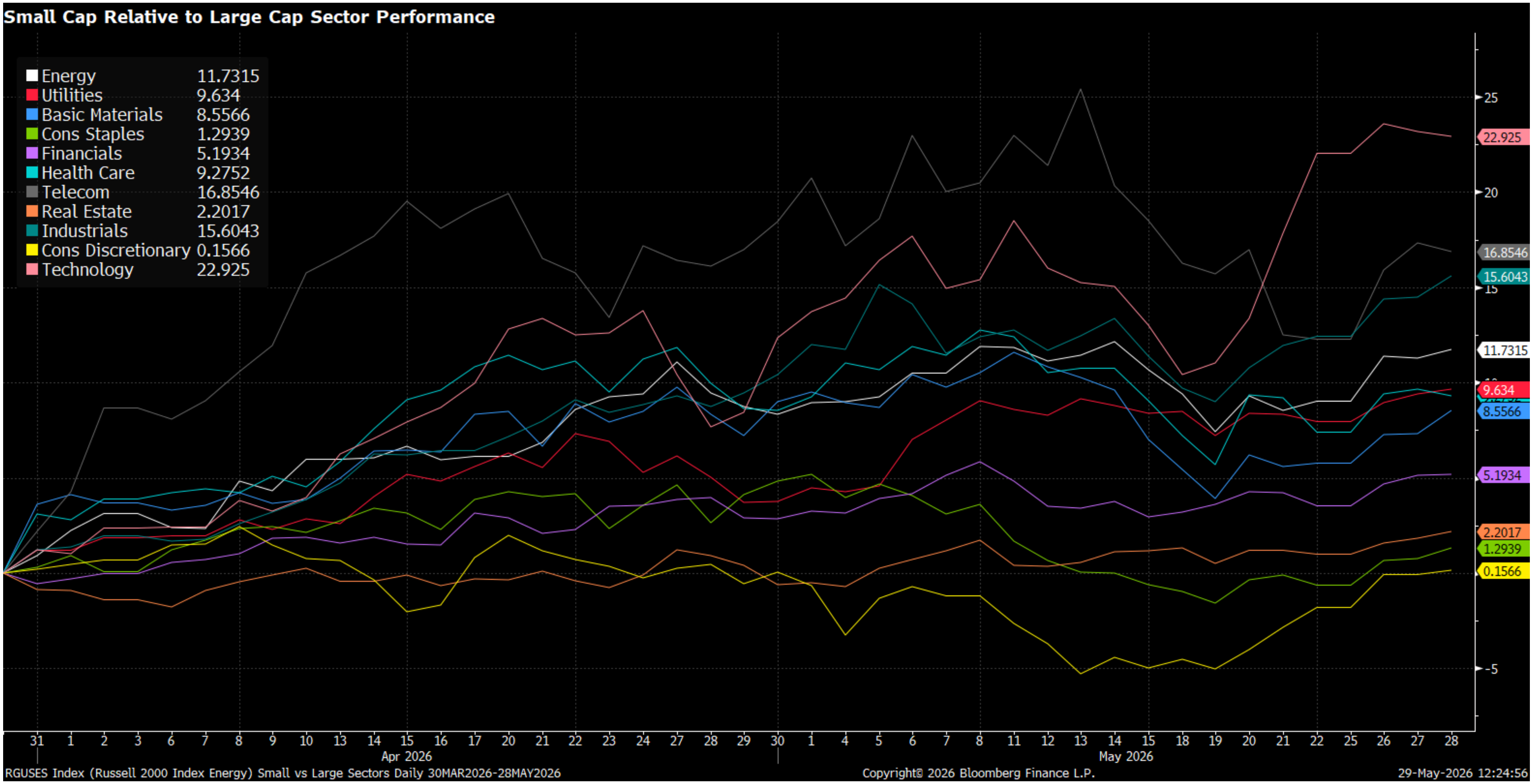
- Telecom has also seen strong performance in April and May and has continued to move higher recently.
- Unlike what we are seeing in Large Cap, Industrials has shown some leadership in Small Cap.
- Energy remains a laggard since the broader market low in late March, while Staples is also an underperformer.



Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Russell, Bloomberg; as of May 28, 2026

Almost All Sectors Have Gotten A Lift In Small Cap Relative To Large Cap In April And May

- Since the end of March, Tech has seen the strongest outperformance in Small Cap relative to its Large Cap peer (due in part to a recent surge), followed by Telecom then Industrials.
- Up until recently, Consumer Discretionary was the only exception with underperformance in Small Cap relative to its Large Cap peers since the end of March, but trends there are starting to improve a bit.



Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Bloomberg, Russell (both Large Cap and Small Cap sector inputs), as of May 28, 2026

Growth Has Attempted A Comeback In Leadership Vs. Value Within Large Cap In Recent Months

- This follows a brief return of Growth leadership in early March after the war began, then a renewed period of Value dominance later that month.
- In 2025, Value worked best to start the year, but after the tariff lows in the market, the Growth trade dominated.
- We saw a bit of fade in this trade in the latest update, which we think could be due to valuations approaching recent highs in the mega cap growth names or the more broad improvement we're starting to see in earnings sentiment across the equity market.

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Source: RBC US Equity Strategy, Bloomberg, Russell, as of May 28, 2026

The Russell 2000 Has Been Moving Sideways Vs. The S&P 500 In Recent Trading

- Small Caps technically remain in an uptrend vs. Large Caps since last fall, but the price action has been choppy.
- We think this is due in part to Fed hikes starting to get priced in again.

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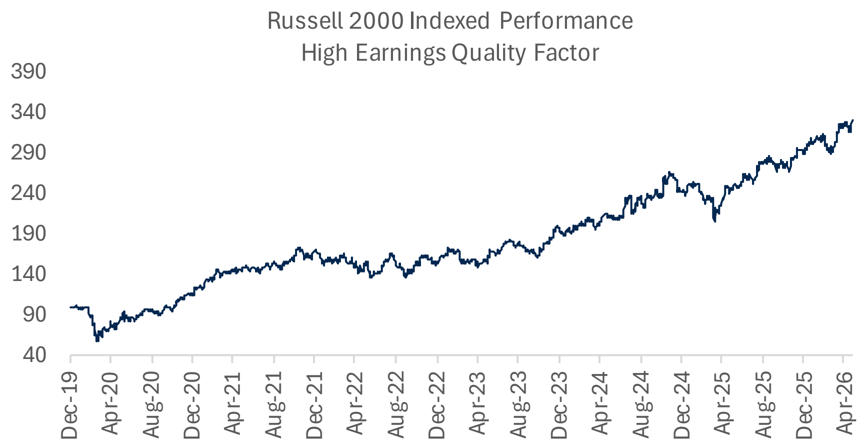
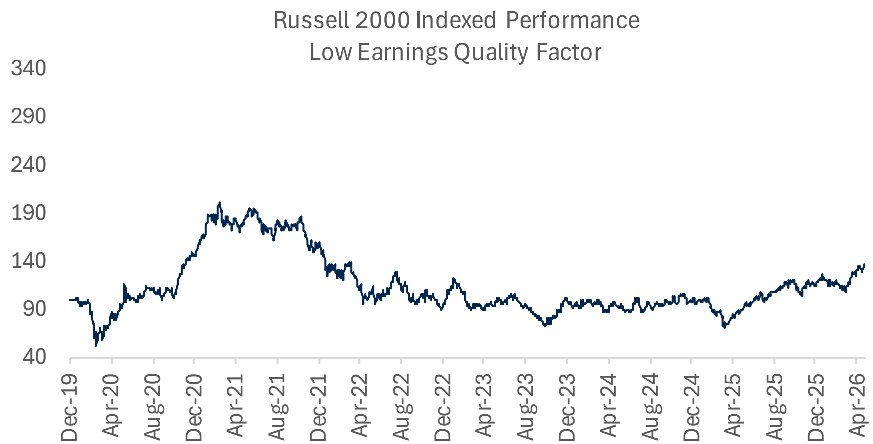
Source: RBC US Equity Strategy, Bloomberg, S&P, Russell, as of May 28, 2026

Low EPS Quality Has Been Outperforming In Small Cap

- The outperformance of high earnings quality within Small Caps peaked in early-April 2025, when the broader market bottomed a few days after the Liberation Day tariffs were announced, after which the market embarked on a fierce recovery. After that, low earnings quality led, as the market priced in rate cuts, looser financial conditions, and a hot economy in 2026. It's also worth noting that the Russell 2000 hit a recession low on our P/E model on April 8th, and that low-EPS-quality outperformance is a classic post-recession recovery trade. Starting mid-October 2025, high EPS quality fought back and started to outperform again, but as 2025 wound down, the trade turned choppy. So far in 2026, the high/low earnings-quality factor has been choppy, with a bit of flattening in this trade in the latest update.

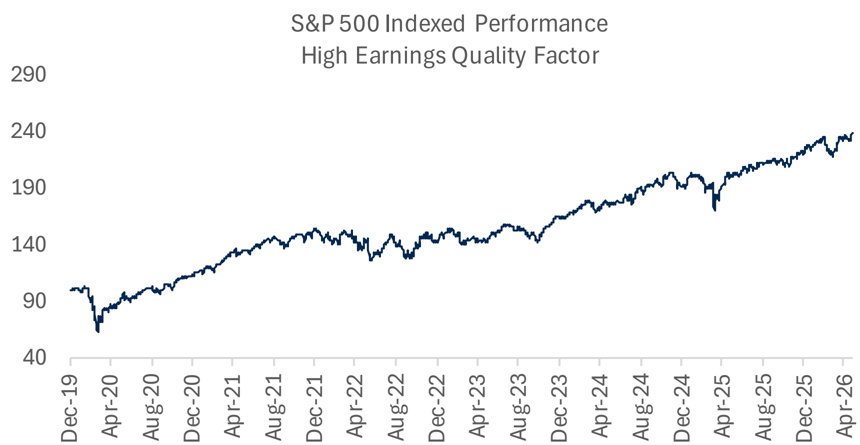


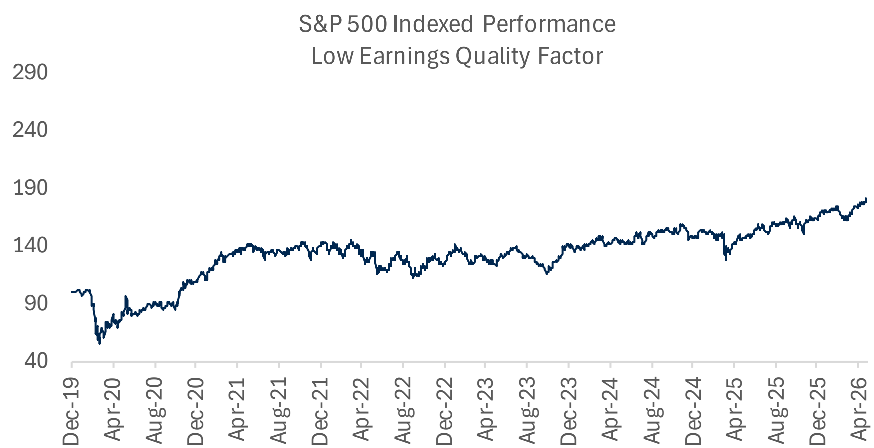


Note: The earnings quality factor is a sector-neutral, equal-weighted multifactor based on historical constituents that combines the trailing 12-month return on equity, earnings stability (measured as the ratio of the one-year change in EPS to the standard deviation of the one-year change in EPS across eight prior periods), and the distinction between positive and negative earnings based on whether EPS is above or below zero.
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of 5/26/2026

Low EPS Quality Has Also Been Leading Within Large Cap

- In Large Cap, high-earnings-quality stocks maintained steady outperformance from 2023 to 2025 but this trade peaked in May 2025. Between late October and mid-November, there was a modest shift toward higher earnings quality. However, this trend then reversed, with low earnings quality gaining prominence in late 2025. This trend has generally continued so far in 2026, though as has been the case in Small Cap, there's been a little bit of flattening in this trade in recent updates.





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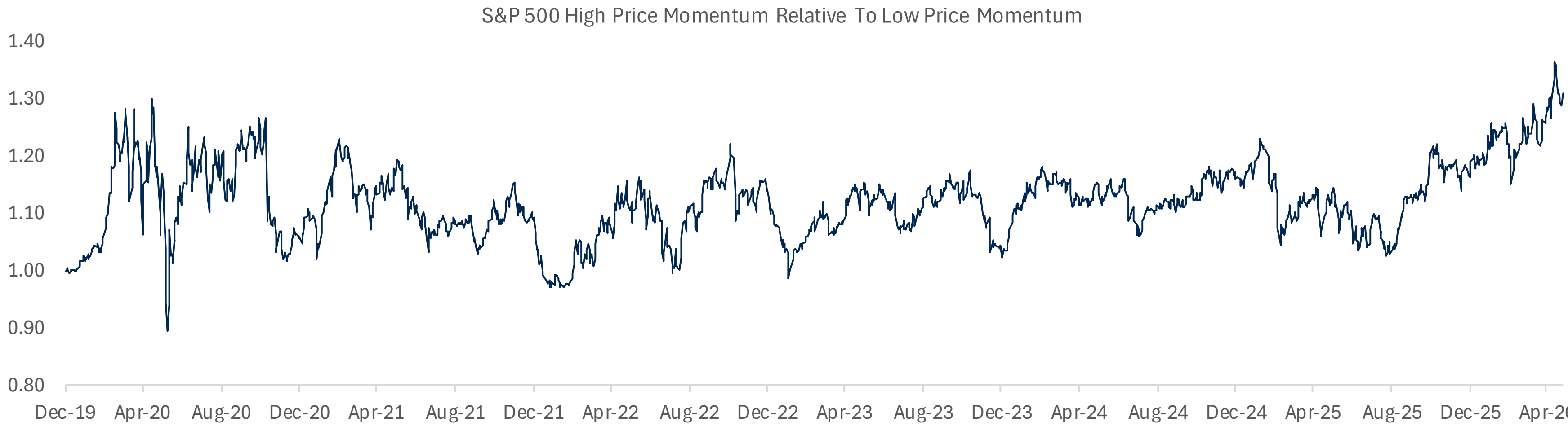
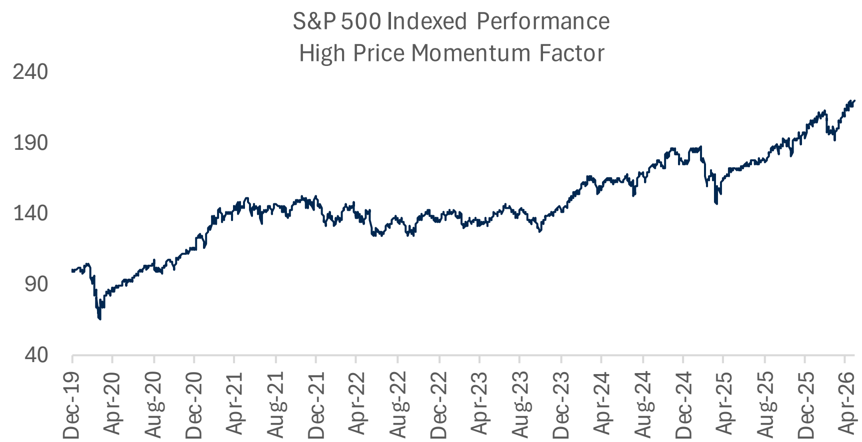
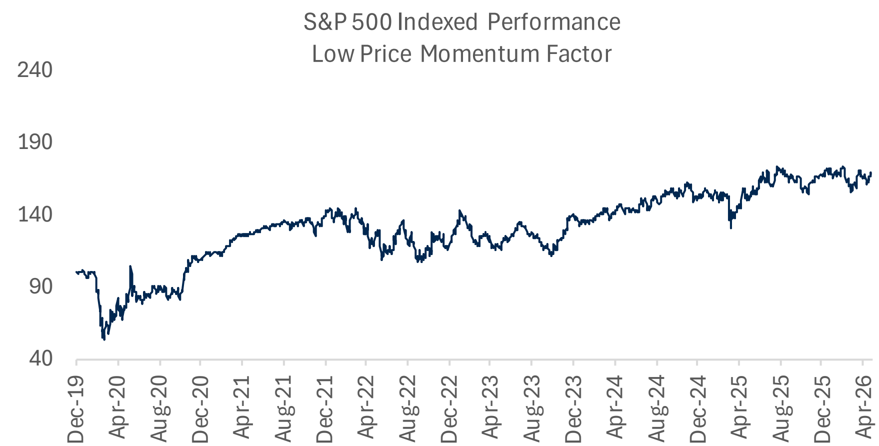
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of 5/26/2026

High-Price-Momentum Has Outperformed Sharply In Large Cap, But Has Slipped Recently

- Within Large Cap, high-price-momentum stocks experienced a sharp underperformance during the Covid market downturn in 2020. From 2021 to 2024, the relative performance of high-price-momentum versus low-price-momentum stocks exhibited a choppy pattern, characterized by intermittent bursts of outperformance and underperformance. However, starting late summer of 2025, high-price-momentum stocks dominated again through much of the fall with the trade getting close to the high end of its range. We have seen some strength in high momentum relative to low momentum recently, with the relative ratio to low price momentum hitting a new high. In the most recent trading, the ratio has declined a bit.







Note: The price momentum factor is a sector-neutral, equal-weighted factor based on historical constituents that measures the strength and the direction of a price movement depending on the direction of the 50-day moving average relative to the 200-day moving average.
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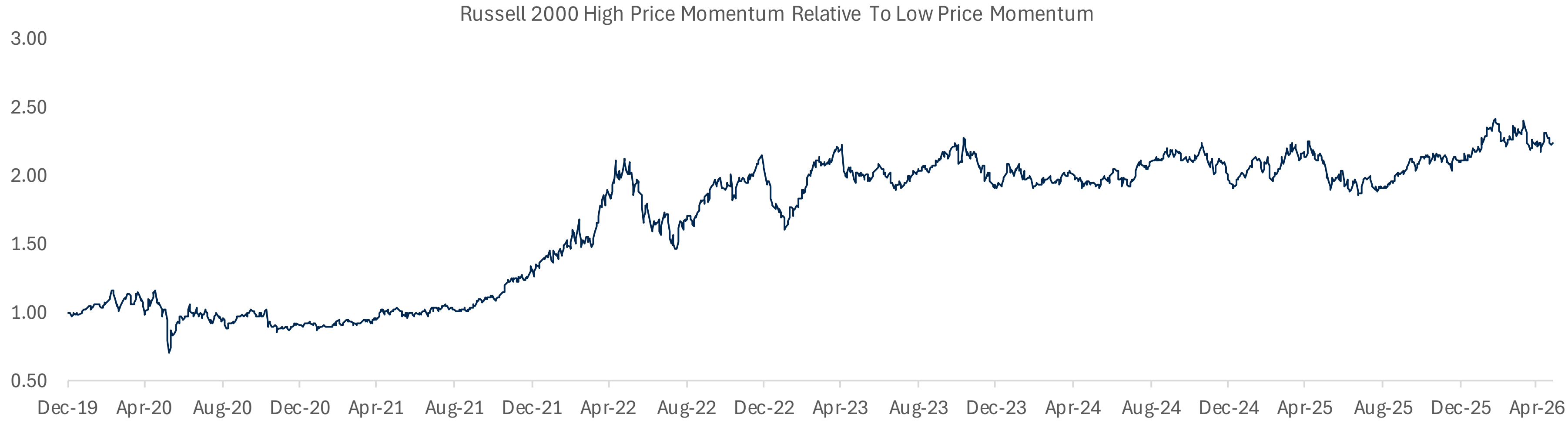
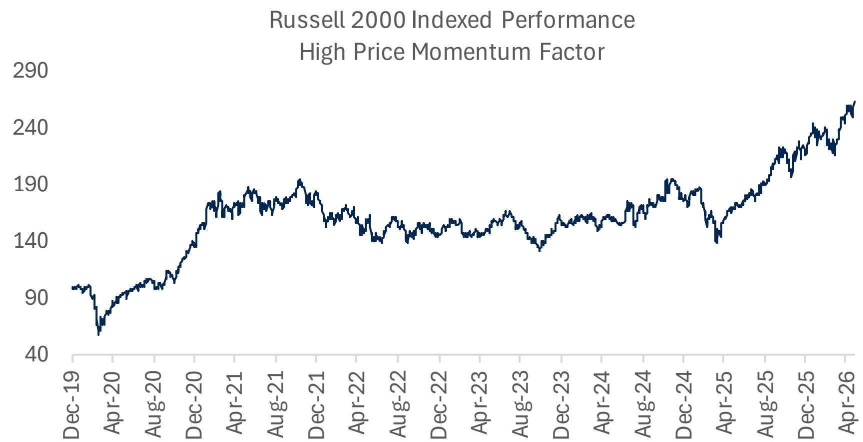
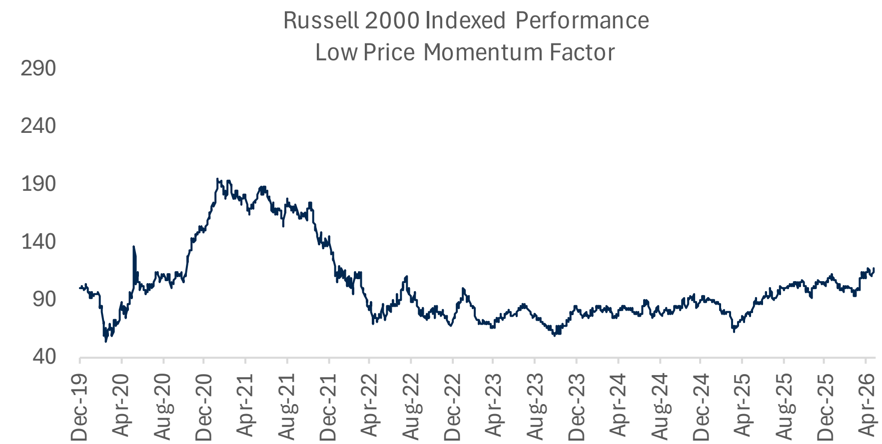
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of 5/26/2026

High-Price-Momentum Has Lagged In Small Cap In Early 2026, Including In Recent Trading

- Within Small Cap, high-price-momentum stocks experienced sharp underperformance during the Covid market shock in 2020. However, they rebounded strongly, outperforming throughout 2021 and 2022. The high-price-momentum factor saw a significant deterioration in performance during the summer of 2022, following a late-spring peak where it outperformed low-price-momentum stocks. A similar pattern unfolded in late 2022 and early 2023. High-price-momentum stocks failed to lead through the majority of 2023 and 2024. In 2025 there was a notable uptick in the relative performance of high-price-momentum stocks, with the relative ratio to low price momentum approaching the high end of its range. So far in 2026 we have seen high momentum underperform the low-momentum factor.







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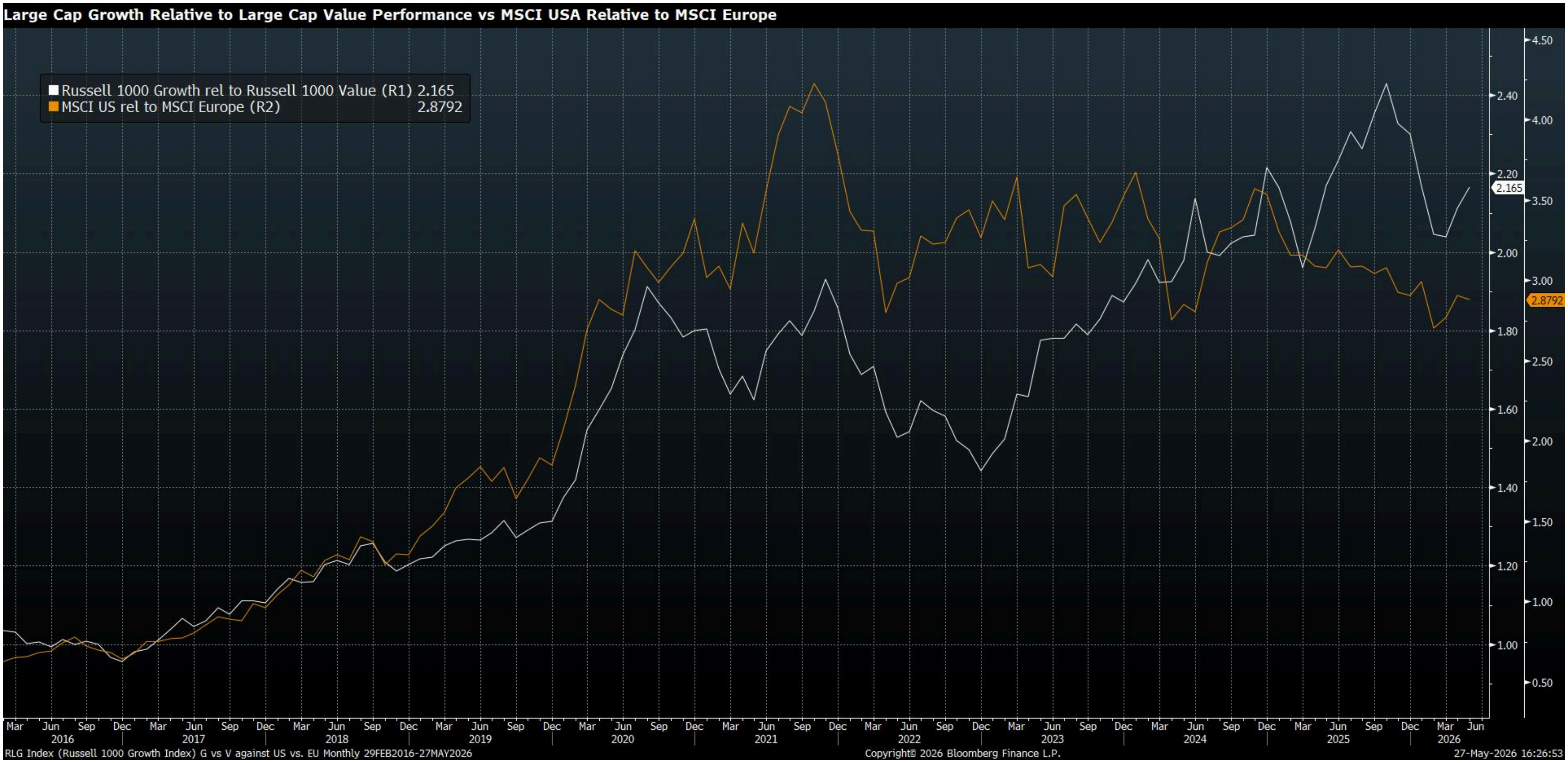
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of 5/20/2026

US Growth / Value Trade Has Tracked The US / Europe Trade In The Past

- The relationship broke down in 2022. It may be returning, however.



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Source: RBC US Equity Strategy, MSCI, Russell, Bloomberg; as of May 27, 2026; please see the MSCI disclaimer at the end of this report

The US Has Outperformed The Other Biggest Developed Market Countries Since The March Low

Source: RBC US Equity Strategy, Bloomberg, MSCI; as of May 26, 2026; please see the MSCI disclaimer at the end of this report
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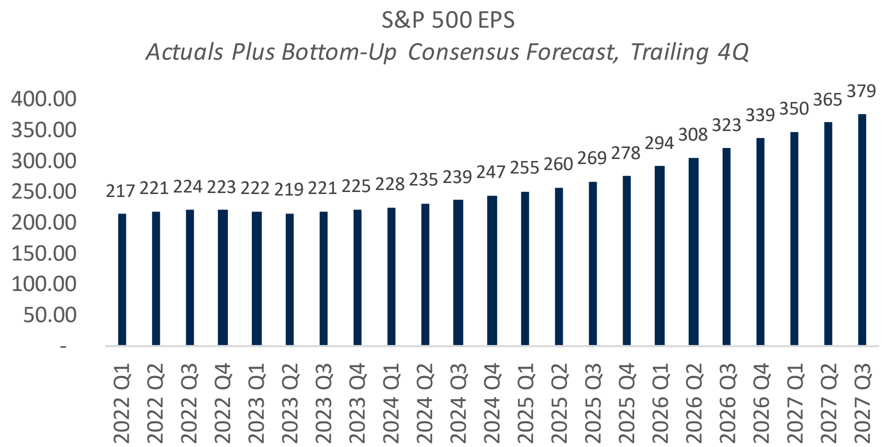
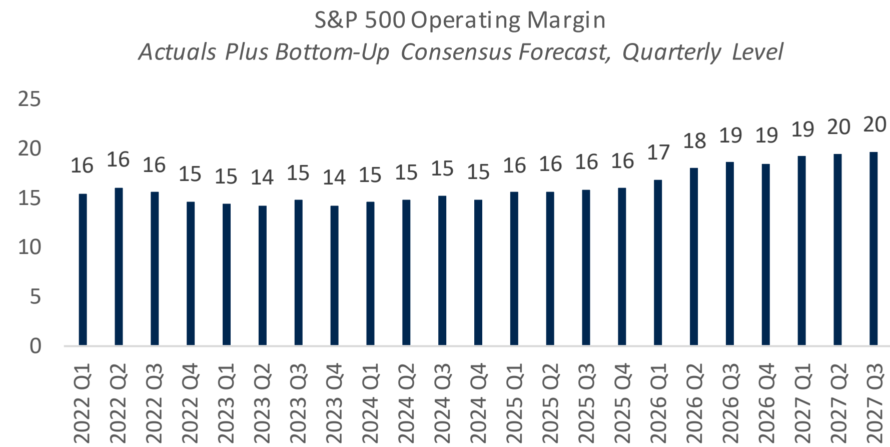
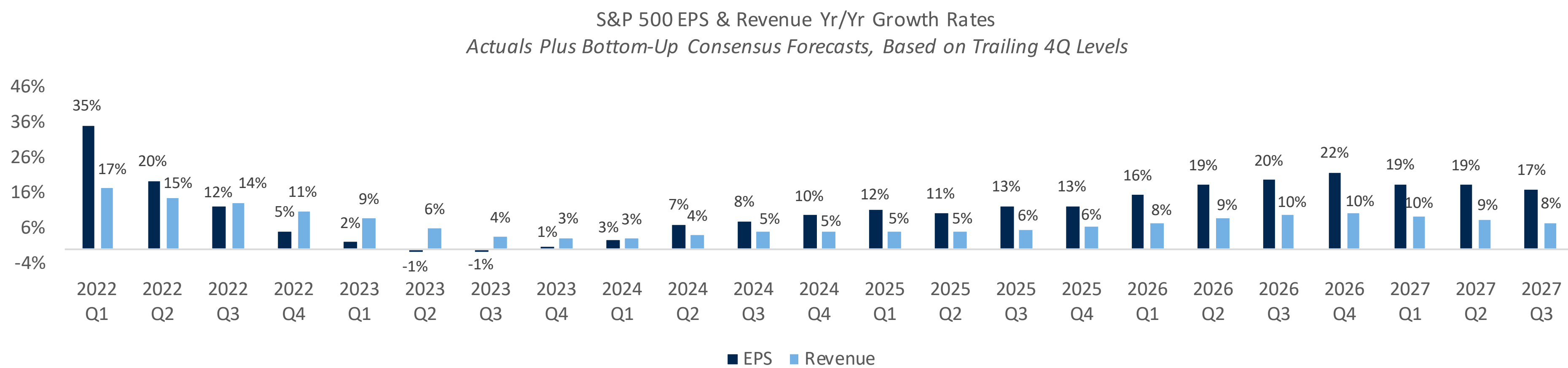
Tracking The Bottom-Up Consensus For S&P 500 EPS

- In our valuation and price target modeling, we are utilizing the bottom-up consensus S&P 500 EPS forecast as tracked by Bloomberg.
- For 4Q26, the trailing dollar value per share level is $339 (which also currently reflects a full-year, calendar-year 2026 level). This has improved significantly since the start of the year where it started out at $313.
- The current bottom-up consensus forecast bakes in some operating margin expansion for the broader index this year ahead and revenue growth of 10%.
- The anticipated yr/yr growth in EPS for 4Q26, on a trailing four-quarter basis, is 22.1%, up from the 12.6% growth rate anticipated for 2025.
- Note, our valuation/EPS modeling now uses 1Q27 as its starting point, where consensus anticipates $350 on a trailing 4Q basis for a growth rate of 19%.







Note: Operating margin stats exclude REITs and Financials; this data is maintained by Bloomberg and can be found on the BI STOX page on Bloomberg – an interactive model is not available from the RBC US Equity Strategy team.
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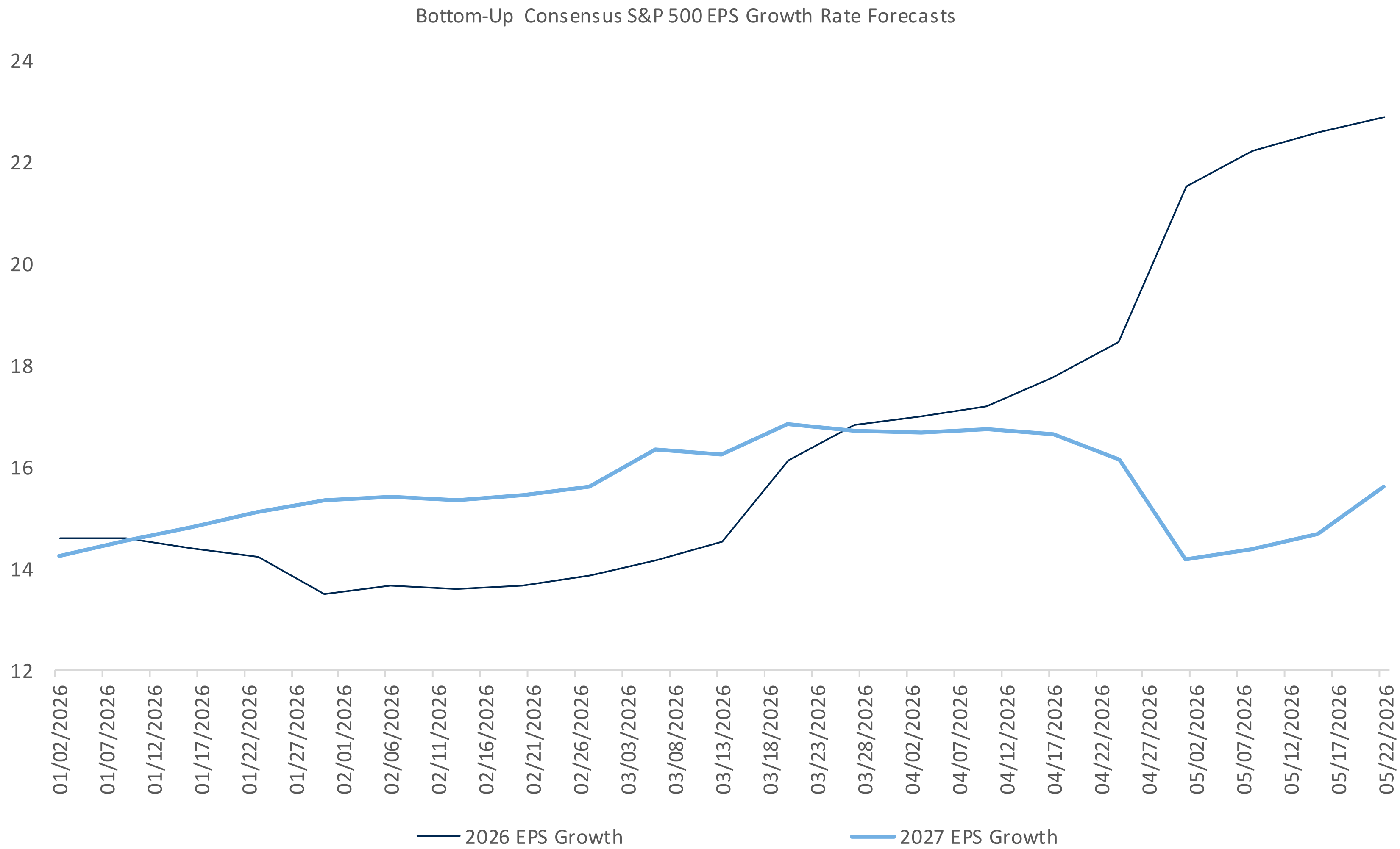
Source: RBC US Equity Strategy, Bloomberg; latest available data as May 27, 2026

2026 Consensus EPS Growth Rate Forecast Has Moved Up, 2027 Had Slipped But Is Recovering



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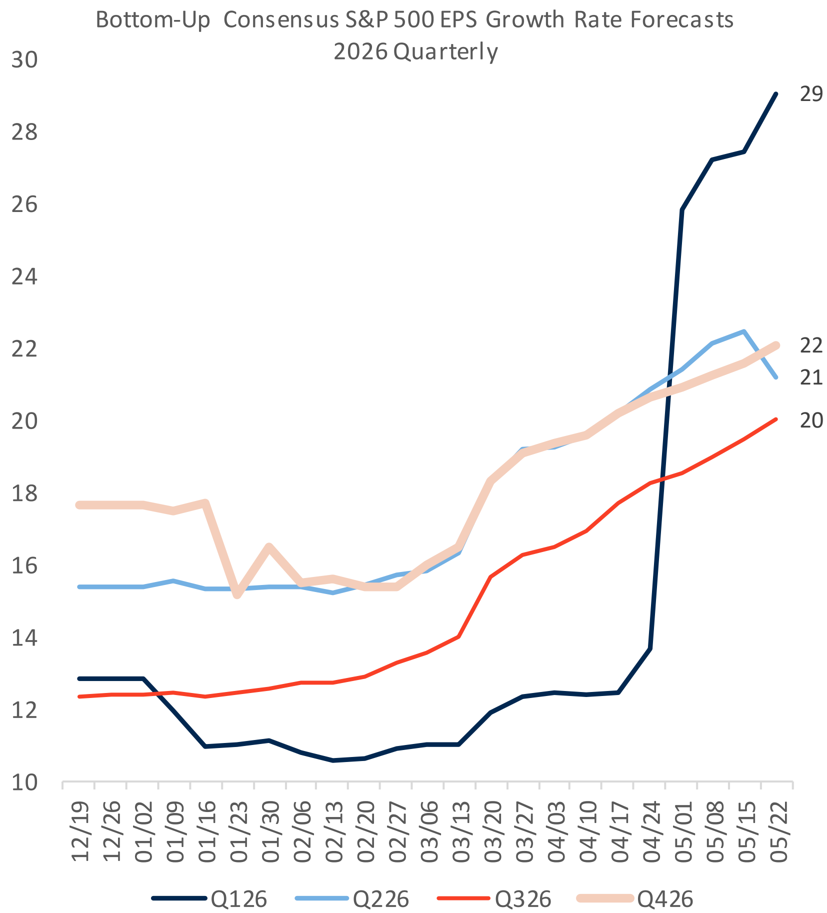
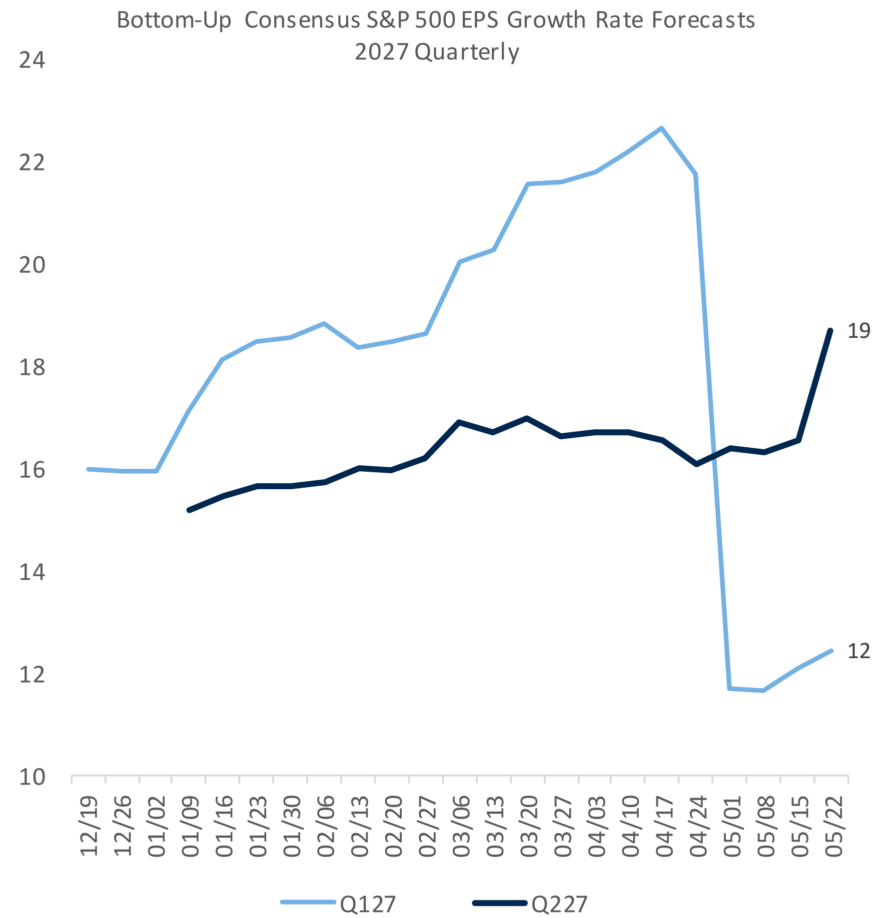
S&P 500 1Q26 Consensus EPS Growth Rate Forecast Has Moved Up Sharply

- Other quarters in 2026 have also moved up, but not as sharply.
- The bottom-up consensus EPS growth rate has fallen for 1Q27, while that of 2Q27 has started to move up.





Source: RBC US Equity Strategy, Bloomberg, latest available data as May 27, 2026
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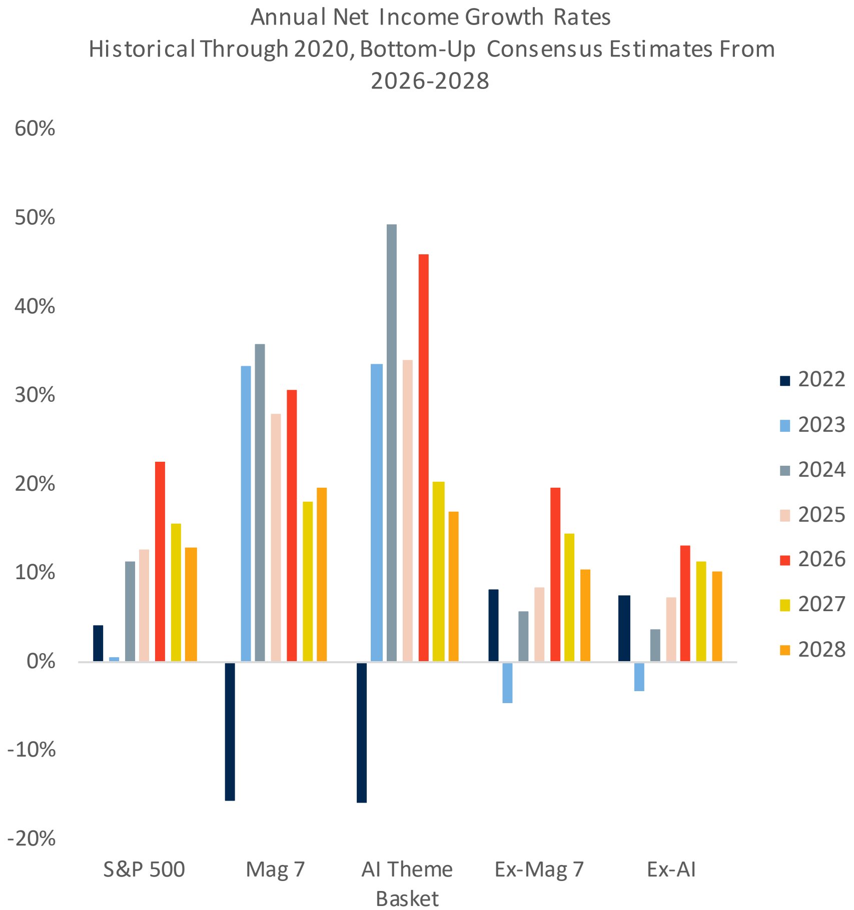
Consensus Expects AI Basket To See Superior Net Income Growth Through 2028

- S&P 500 net income is expected by consensus to peak in 2026, then decelerate in 2027 and 2028. The Mag 7 appears to have peaked in 2024, with deceleration expected through 2027 and some reacceleration anticipated in 2028. Meanwhile, a broader AI basket is anticipated to see far superior growth in 2026 to both the broader index and Mag 7, followed by deceleration in 2027.
- The AI basket is expected to be stronger than the ex-AI basket in all three years going forward, and stronger than the Mag 7 in 2026 and 2027.
- The AI basket is also expected to expand its dominance over the ex-AI basket in 2026 relative to 2025.



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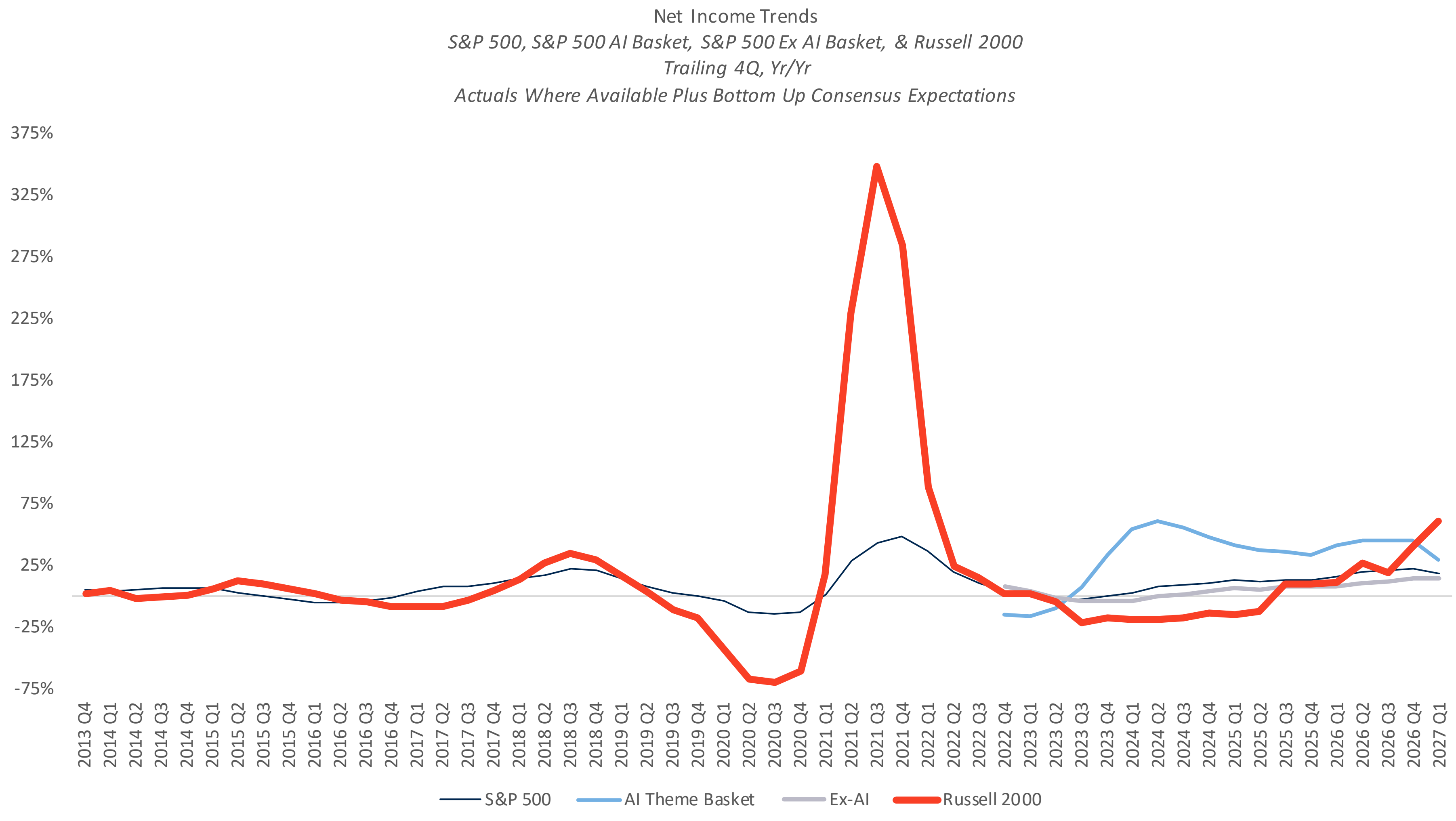
Source: RBC US Equity Strategy, Bloomberg, latest available data as May 27, 2026; S&P 500 AI Basket includes tickers: ACN, ADBE, AMD, GOOGL, AMZN, ANET, AVGO, DDOG, INTU, META, MU, MSFT, NVDA, ORCL, PLTR, QCOM, NOW, SMCI.

Consensus Expects Small Caps To Lag S&P 500 AI Names On Net Income Growth In 2026

- Small Caps' growth rate is now expected to keep accelerating through 1Q27. Throughout most of 2026, Small Cap's net income growth is expected to track a little below the S&P 500's AI-related names. But in 2027, Small Caps' growth rate is expected to pull ahead of the S&P 500's AI names.
- For 4Q26, the S&P 500 AI Basket's growth rate is 46%, followed by Small Caps (40%), the S&P 500 (23%), and the S&P 500 Ex-AI Basket (14%).
- For 1Q27, Small Caps' growth rate is 60%, followed by the S&P 500 AI Basket (30%), the S&P 500 (19%), and the S&P 500 Ex-AI Basket (15%).



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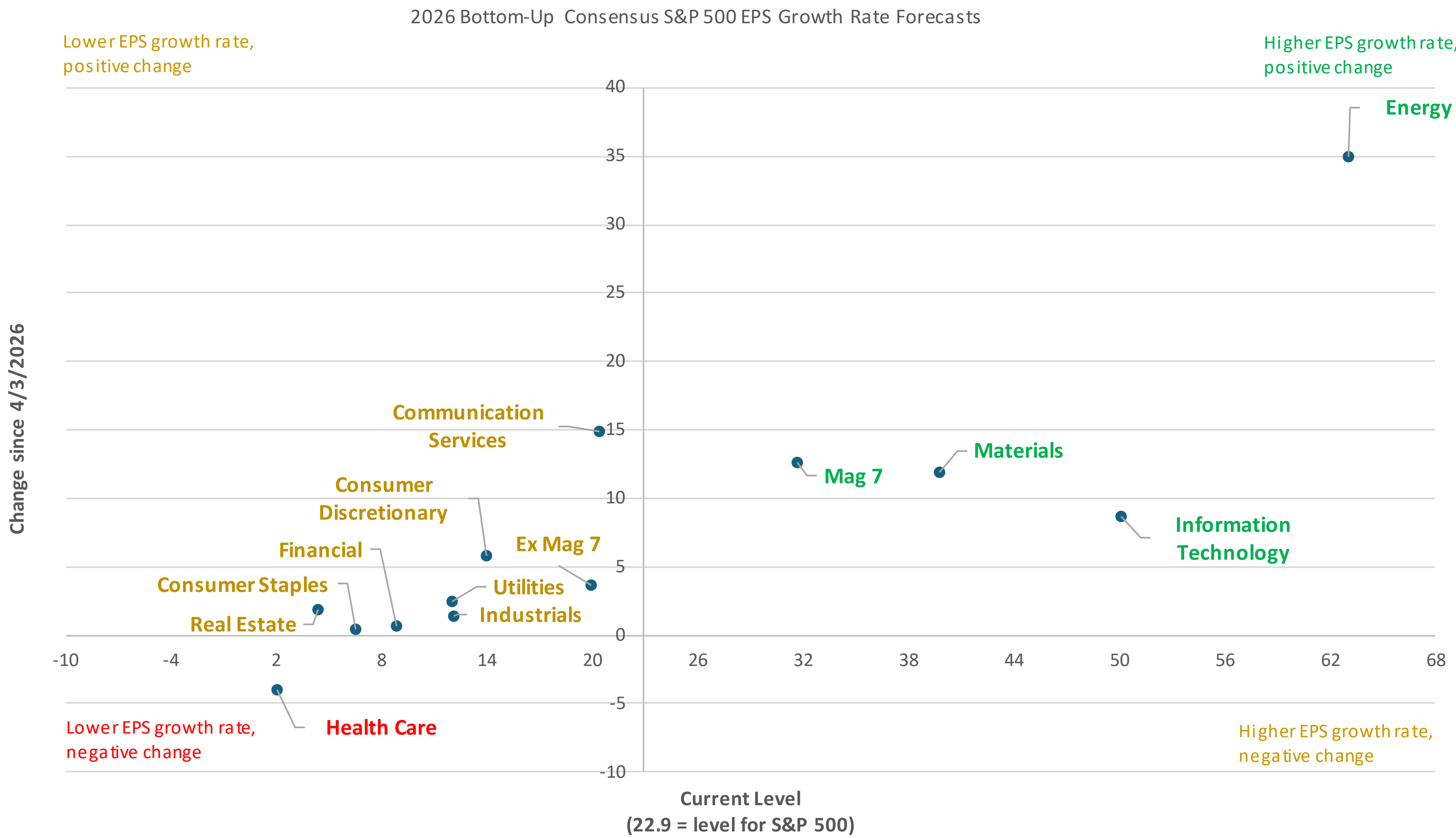
2026 Consensus EPS Growth Rates Strong & Improving For Energy, Tech, Mag 7 & Materials

- Most sectors have seen their EPS growth rate forecasts stay essentially flat since the reporting season began, with only a modest increase.
- Health Care has come down a bit.



Source: RBC US Equity Strategy, Bloomberg, latest available data as May 27, 2026
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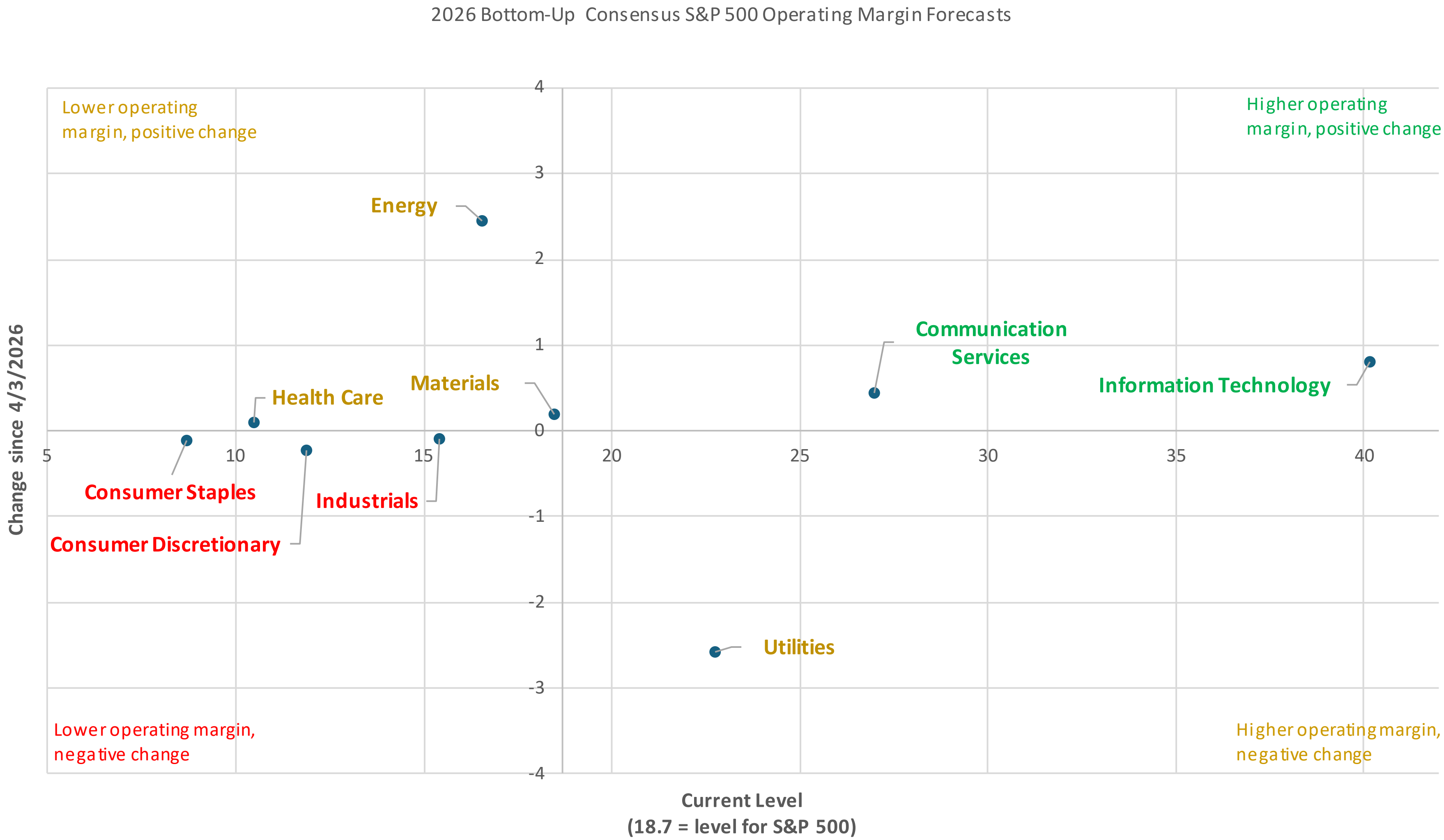
2026 Consensus Operating Margin Forecasts Have Been Strong & Improving For Tech & Comm Svcs

- Most other sectors haven't seen much movement of late.
- Energy has improved but remains below the broader market level.



Source: RBC US Equity Strategy, Bloomberg, latest available data as May 27, 2026
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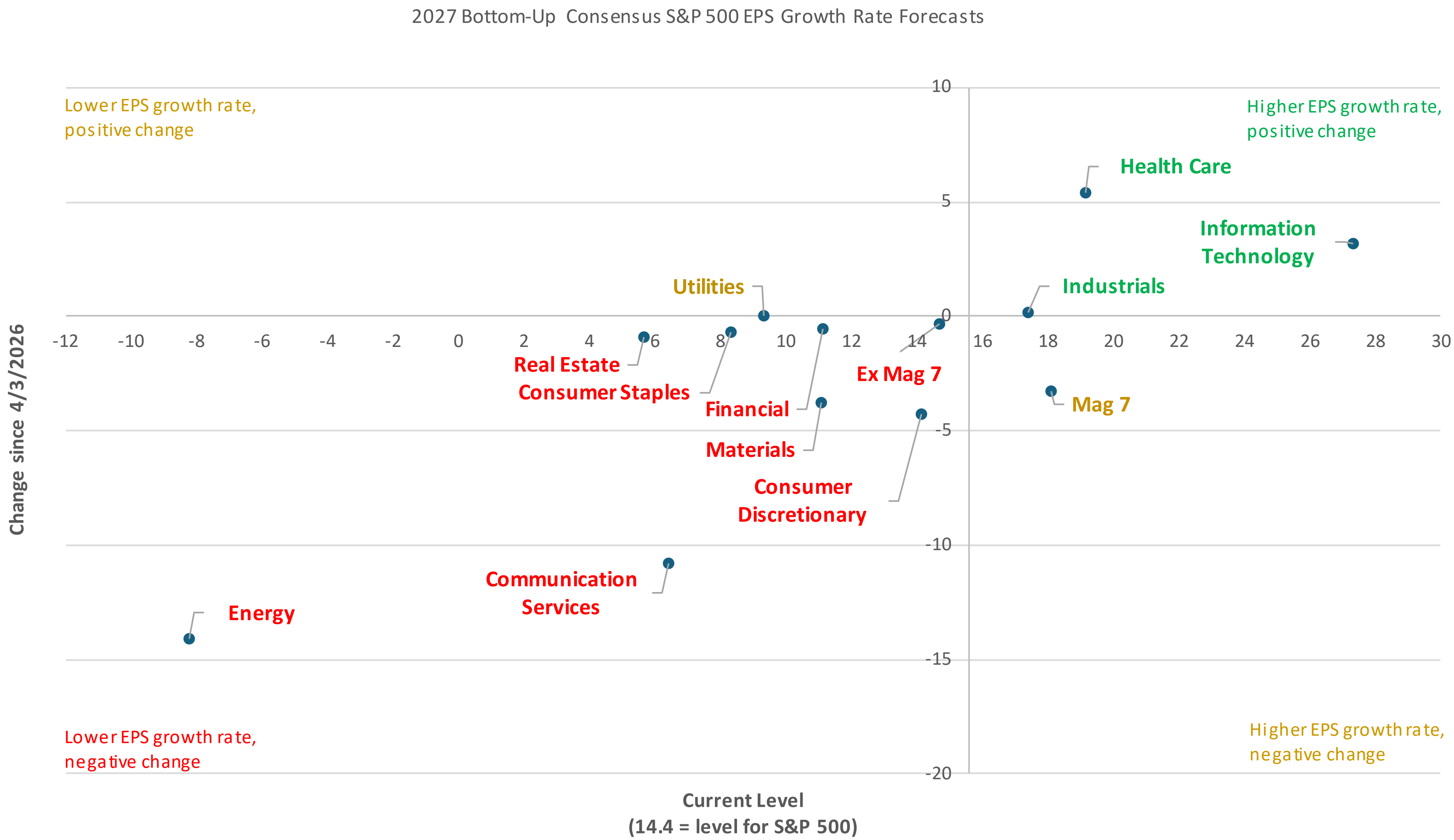
Consensus 2027 EPS Growth Rates Have Been Strong & Improving For Tech, Industrials, And HC

- Most other sectors haven't seen much movement of late or have dipped a little. Energy and Communication Services have both come down meaningfully.



Source: RBC US Equity Strategy, Bloomberg, latest available data as May 27, 2026
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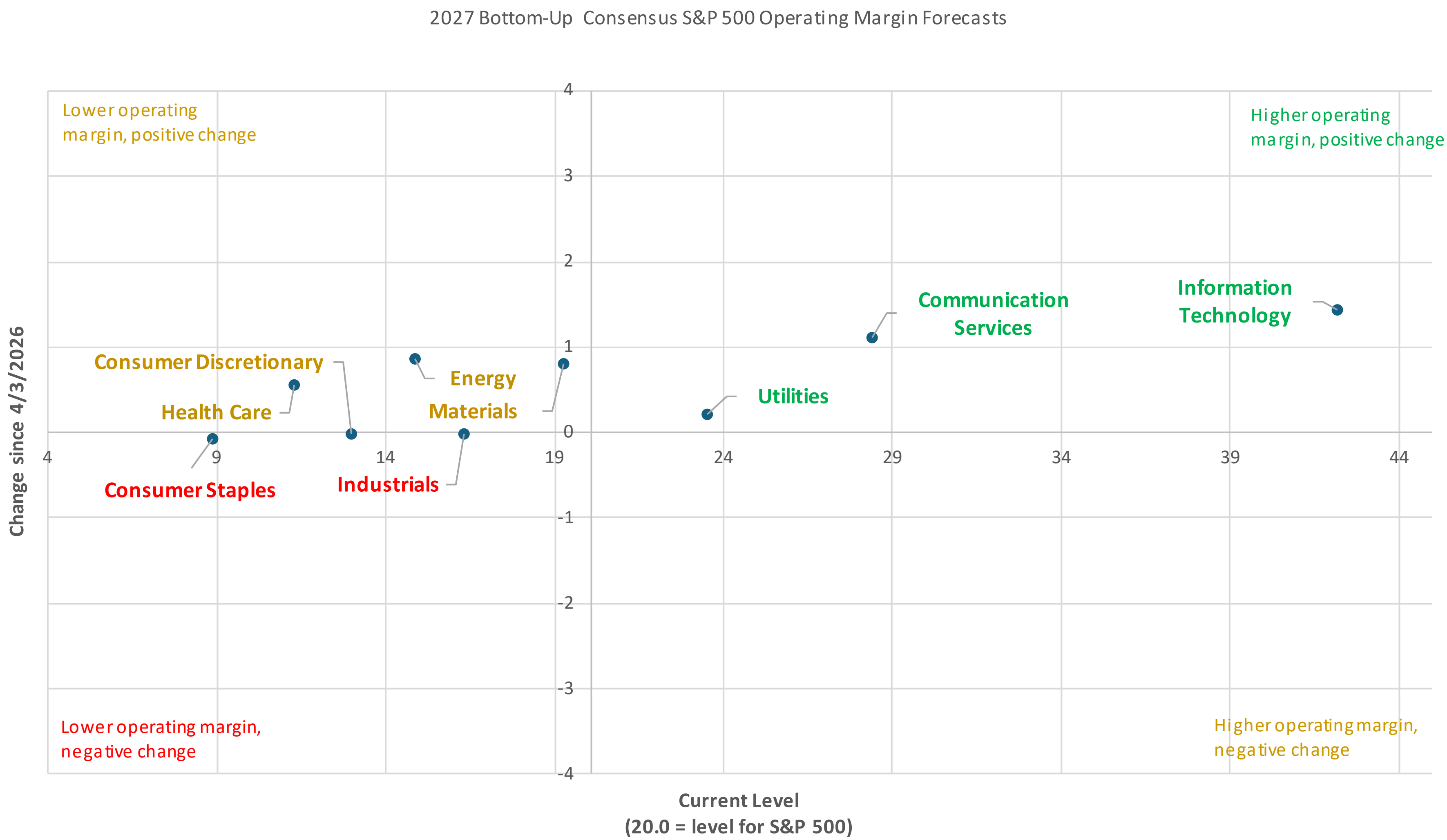
2027 Consensus Margin Forecasts Have Been Strong & Improving For Tech, Utilities & Comm Svcs

- Materials, Energy and Health Care have also improved of late but remain in line with the broader market in terms of level.



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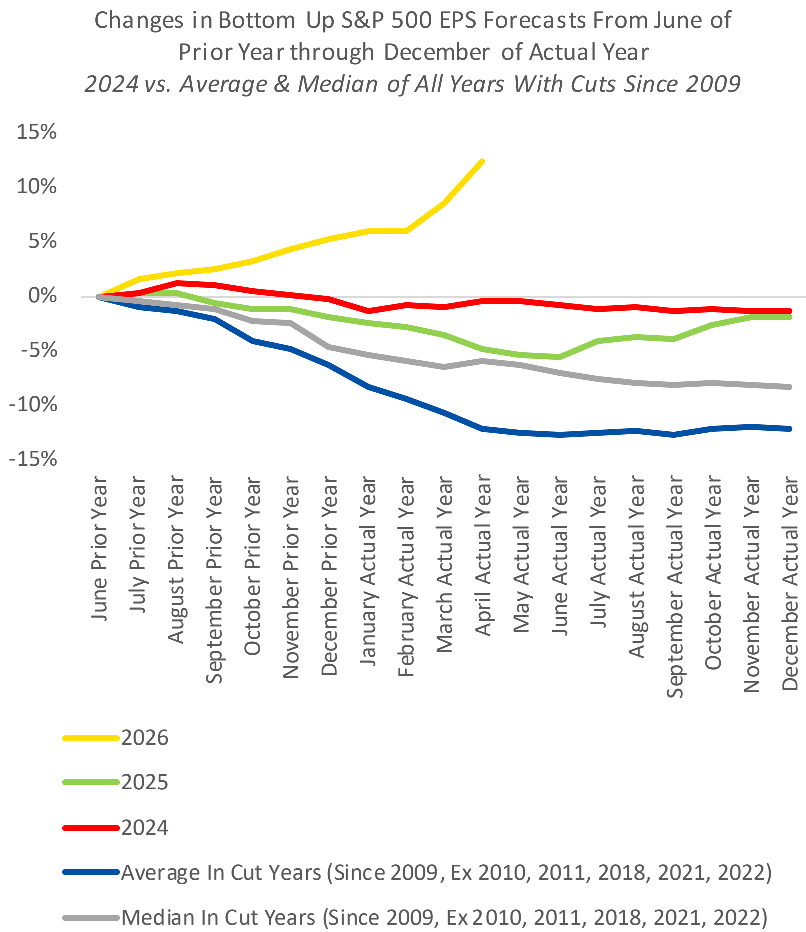
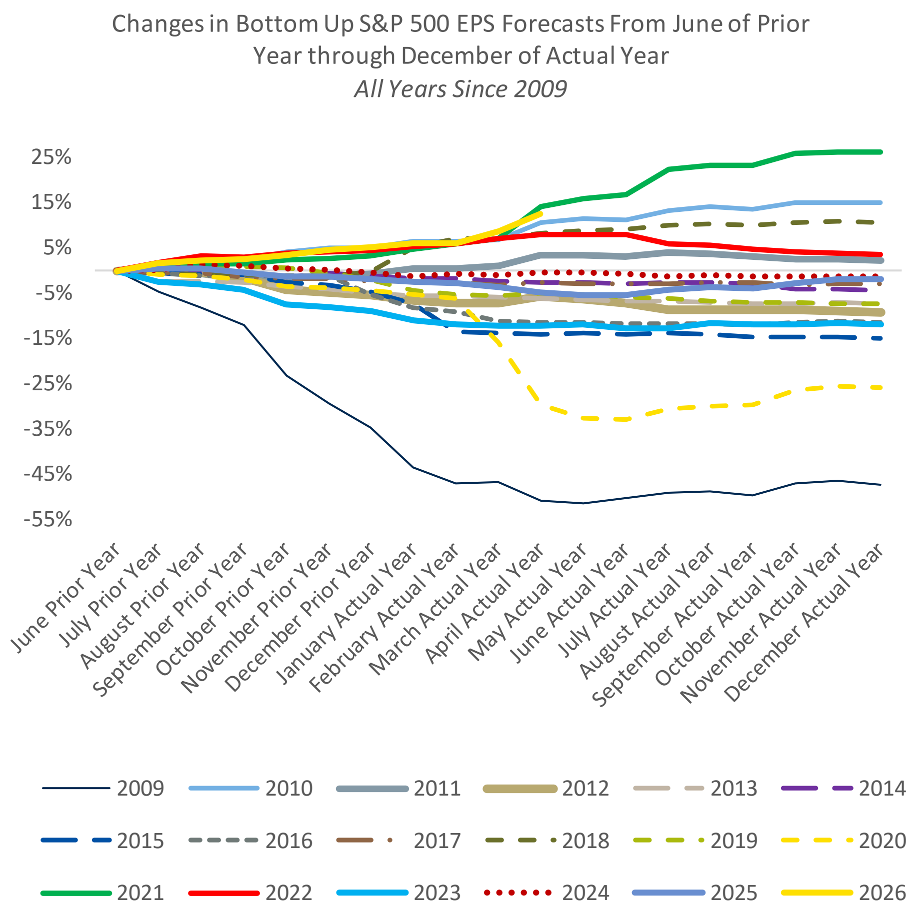
Consensus 2026 S&P 500 EPS Estimates Have Been Climbing Since Last Summer

- S&P 500 EPS tend to fluctuate as the year in question comes into view and then progresses. Most years, estimates start out too high. Looking back to 2009, there have been only five years in which the final number ended up being higher than the estimate in place in the June of the previous year.
- The median cut in downward adjustment years has been 8%, while the average downward adjustment has been 12%.
- 2026 has been an unusual year, with estimates climbing in a similar fashion to what we saw at this point in time for 2010, 2018, 2021, and 2022.

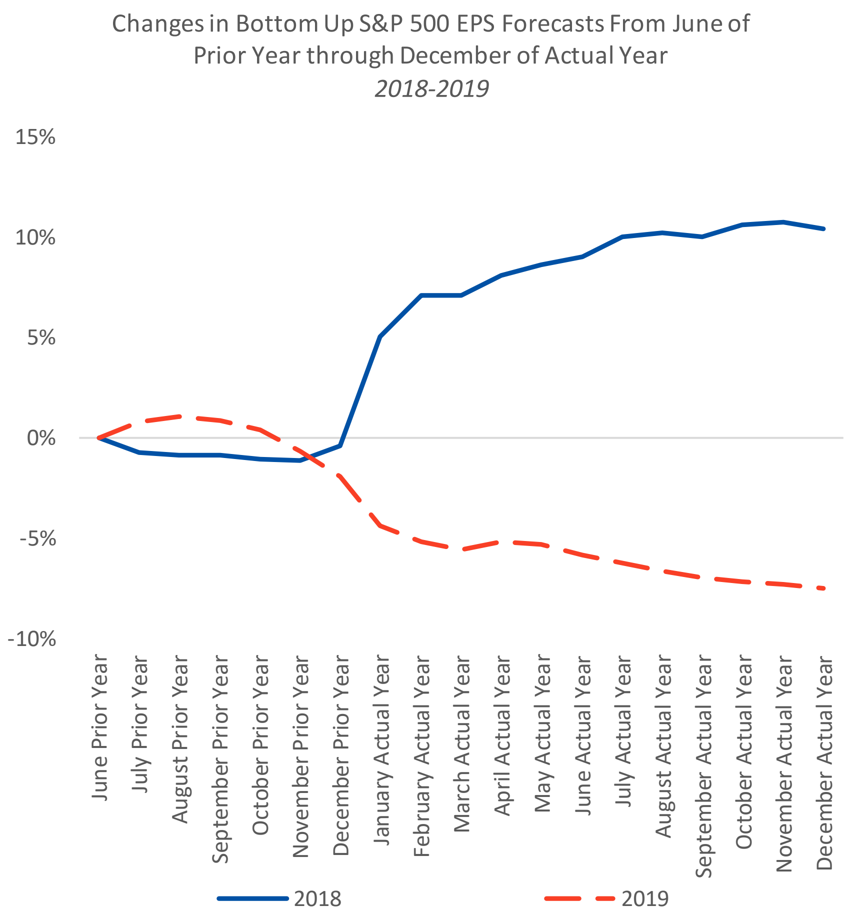


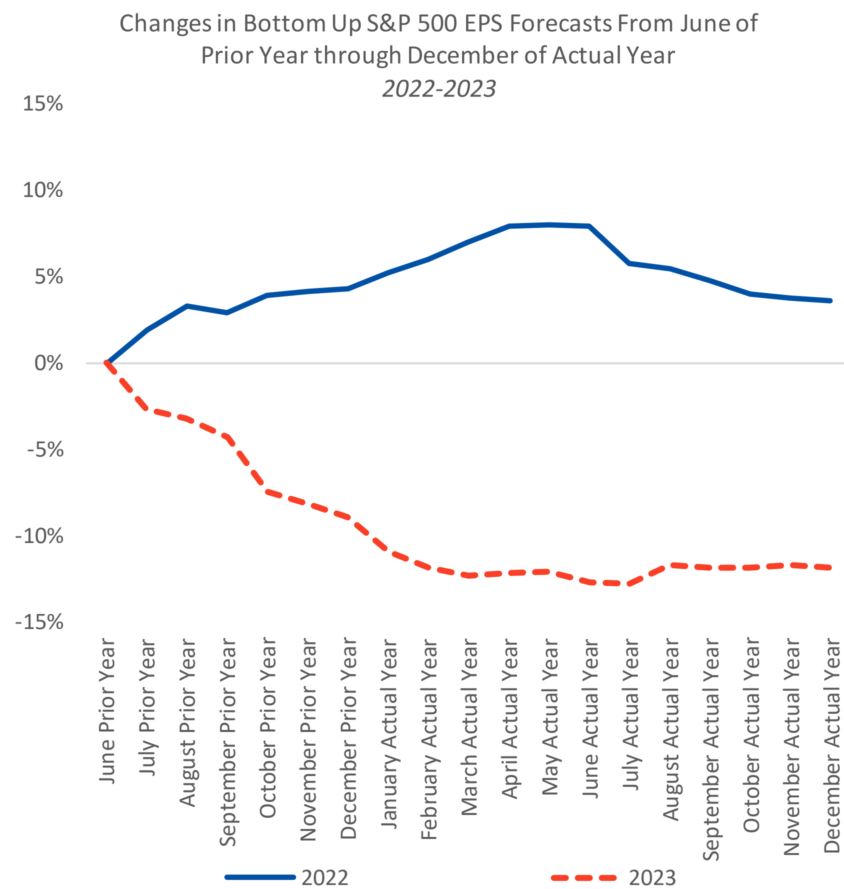


Source: RBC US Equity Strategy, Haver, S&P Capital IQ; through April 2026 (latest data point available)

Looking Back At 2018-2019 And 2022-2023 EPS Growth Forecasts

- Around the first Trump tariffs, S&P 500 EPS forecasts (bottom-up, consensus) were resilient for 2018, but steadily fell for 2019.
- A similar dynamic was seen around the Russia-Ukraine war. 2022 EPS forecasts fell a little in the second half of the year, but took a bigger hit for 2023 early on.
- This adds to our concern that earnings risks from the Middle East conflict may lie more in 2027 than 2026.

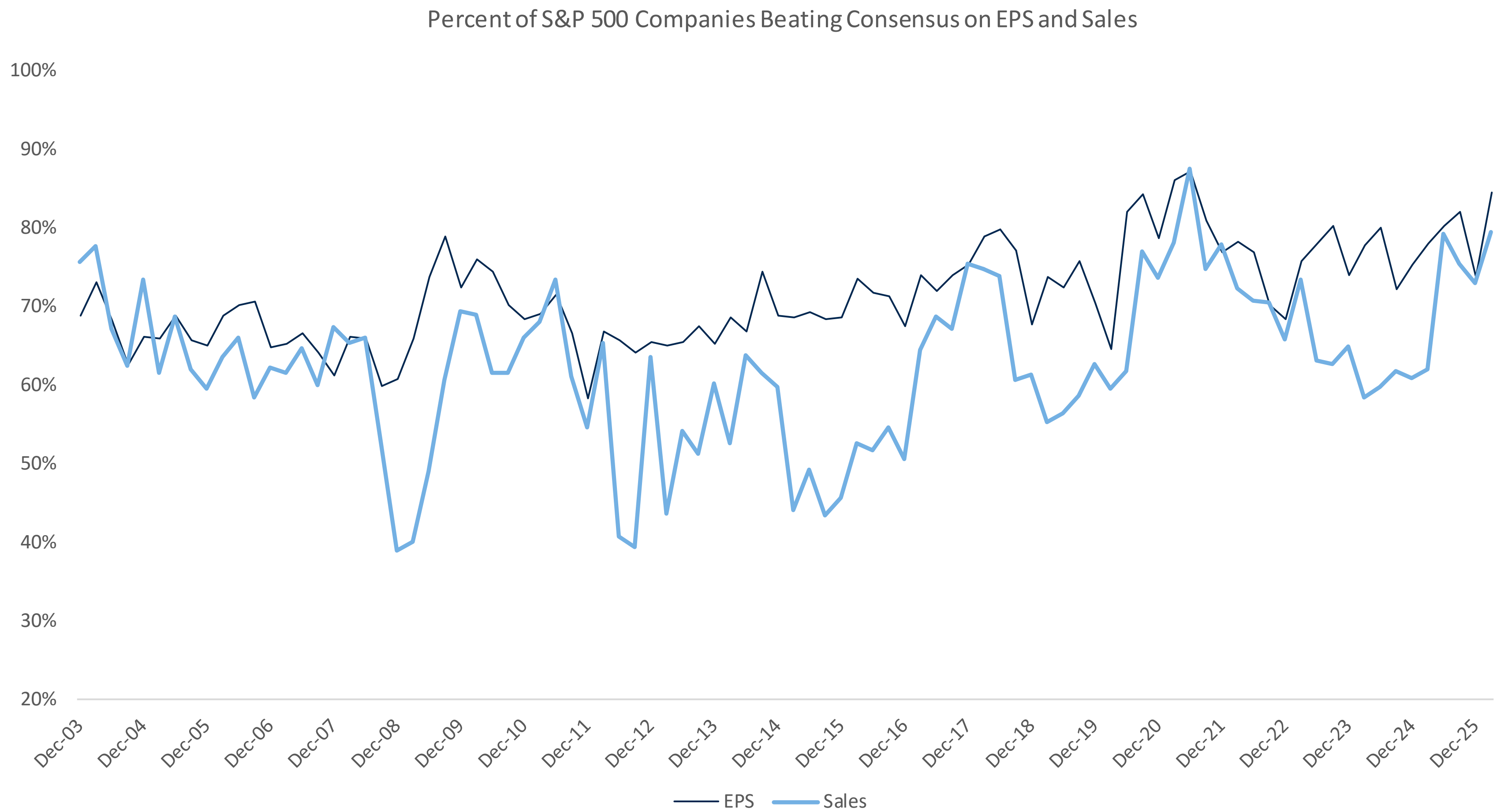




Source: RBC US Equity Strategy, Haver, S&P Capital IQ

In Large Cap, EPS And Revenue Beats For 1Q26 Have Been Stronger Than 4Q25

- 85% beating on EPS and 80% beating on sales for 1Q26 (vs. 74% on EPS and 73% on sales during 4Q25).



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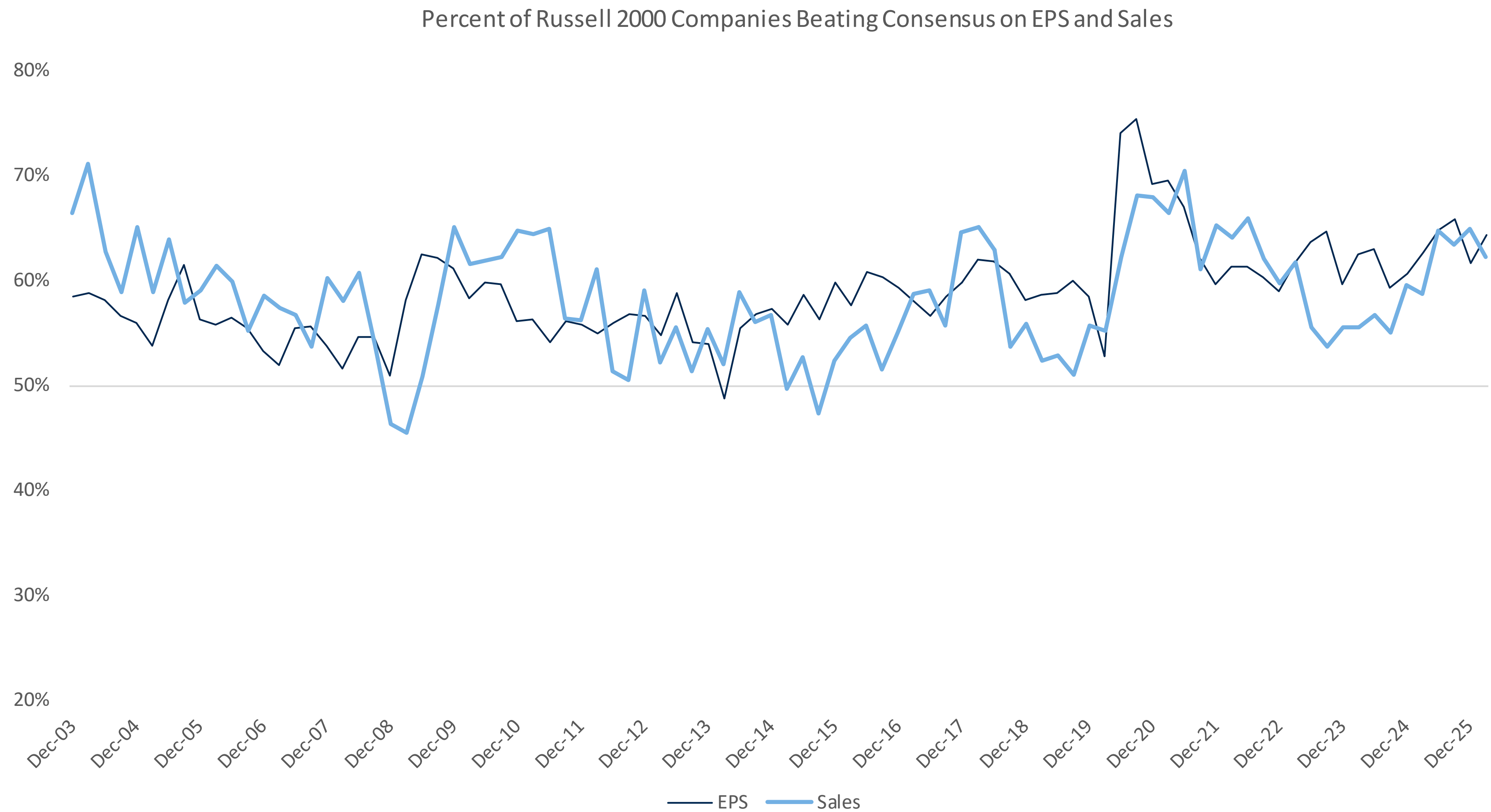
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates. S&P, Prelim data point for 1Q26 captured on May 26, 2026, with 93% of S&P 500 results in.

In Small Cap, EPS Beats Are Coming In Stronger Than Last Quarter, But Not Revenue Beats

- 64% beating on EPS & 62% beating on sales for 1Q26 (vs. 62% on EPS and 65% on sales during 4Q25).



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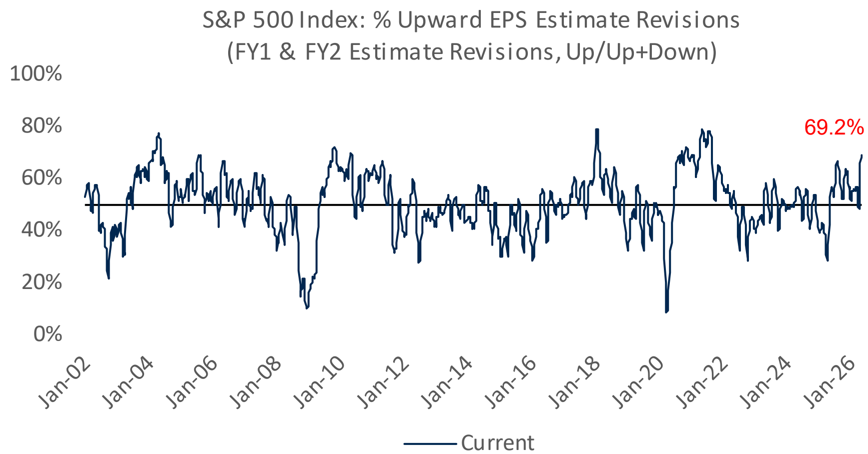
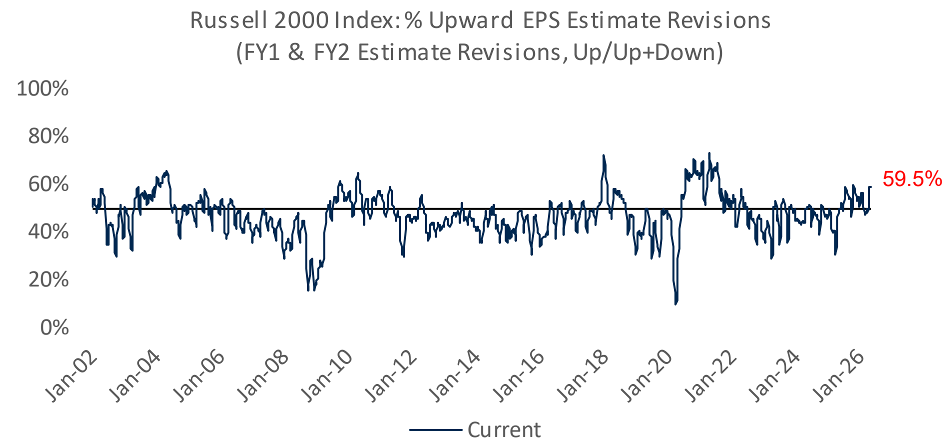
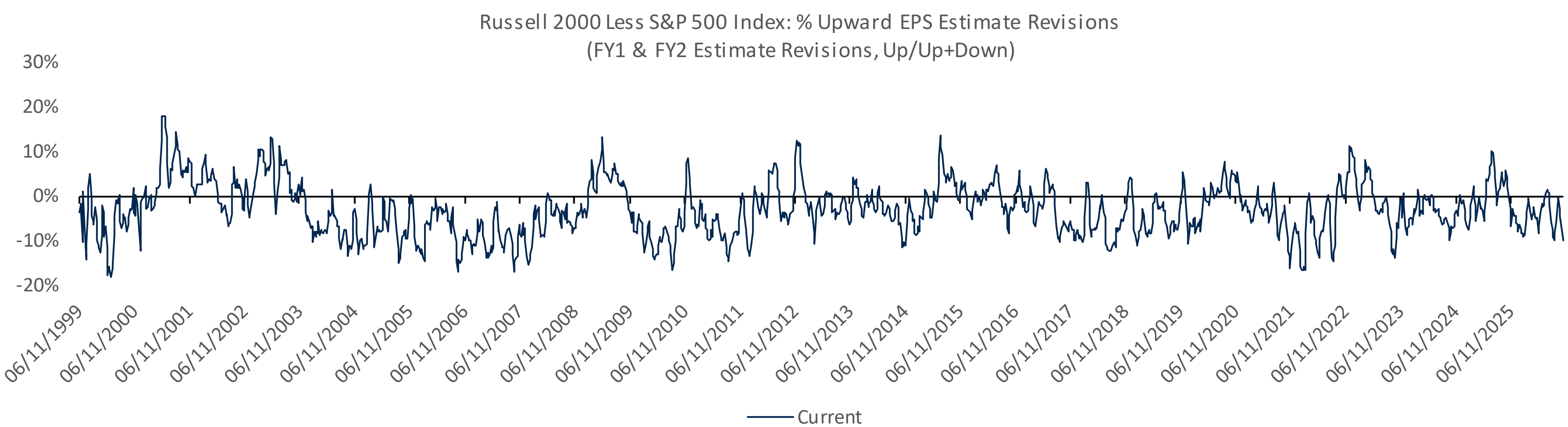
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates. Russell; Prelim data point for 1Q26 captured on May 26, 2026, with 75% of Russell 2000 results in.

EPS Estimate Revisions Have Strengthened For Both The S&P 500 And Russell 2000 Recently

- Upward revisions moved higher for both Large Cap and Small Cap in the most recent update.
- This gauge of earnings sentiment is now higher than the highs of fall 2025 for Large Cap, while still slightly below that level for Small Caps.
- Note that the S&P 500 reclaimed a slight advantage to the Russell 2000 on this stat earlier this year, and has continued to move that way in recent updates.







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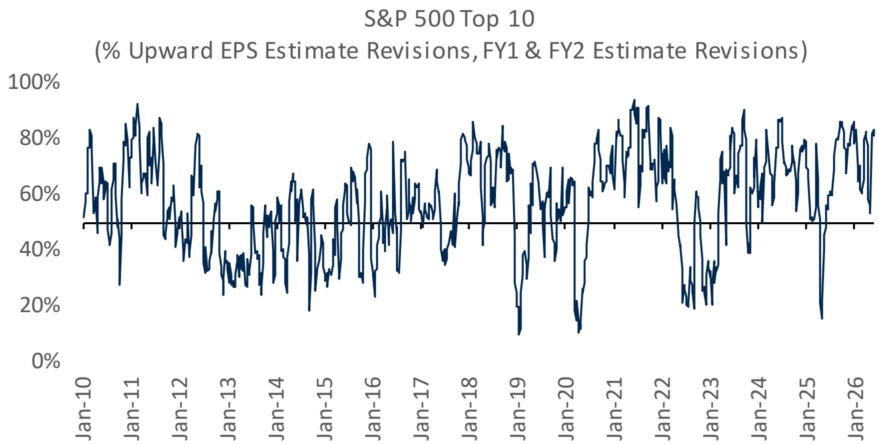
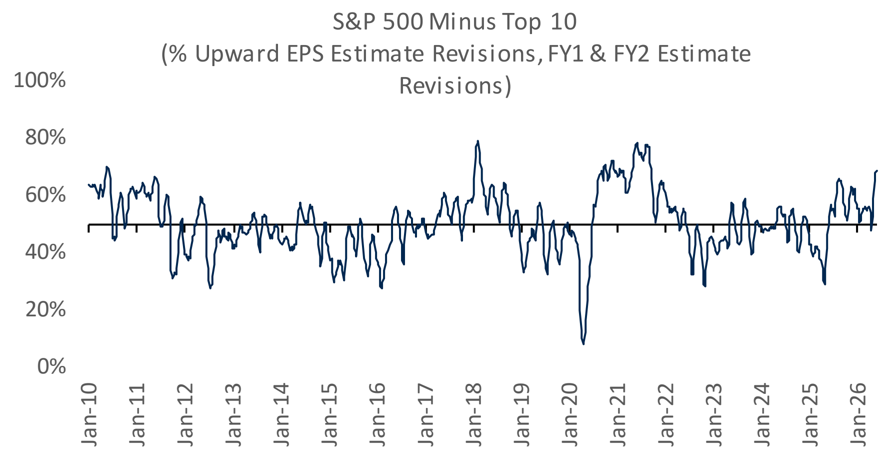
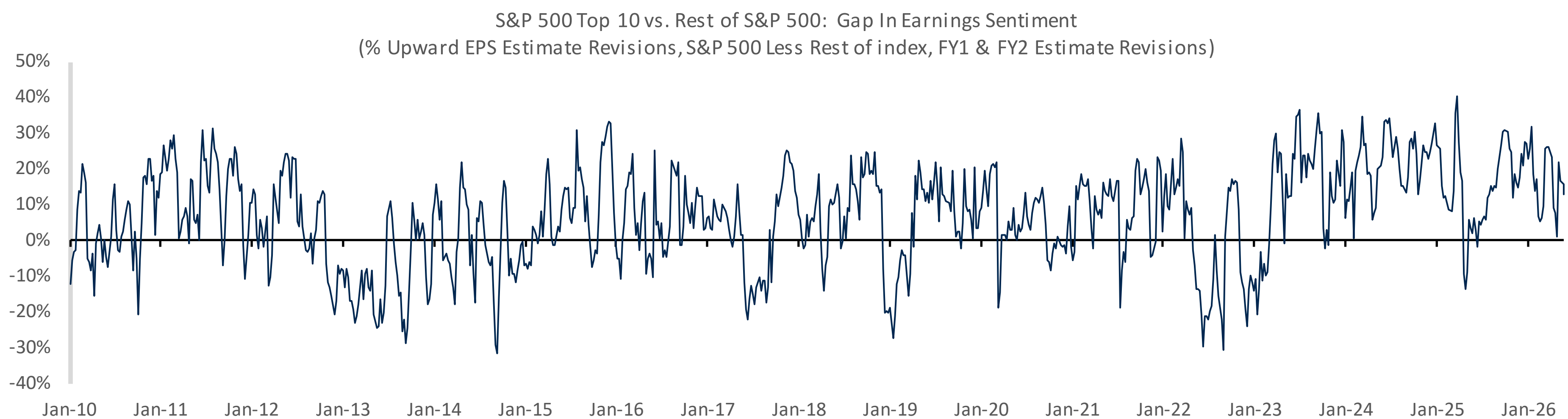
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates, S&P, Russell. For REITs, FFO/share revisions are used instead of EPS revisions; as of May 26, 2026.

EPS Revisions Have Surged For The Biggest Cap Names In The S&P 500 And The Rest Of The Index

- The dominance of the biggest market cap names continued to hold an advantage in the most recent update.



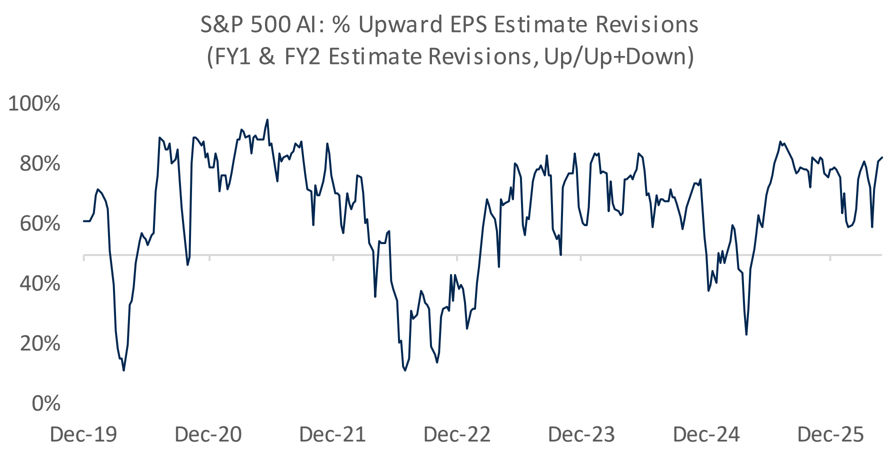


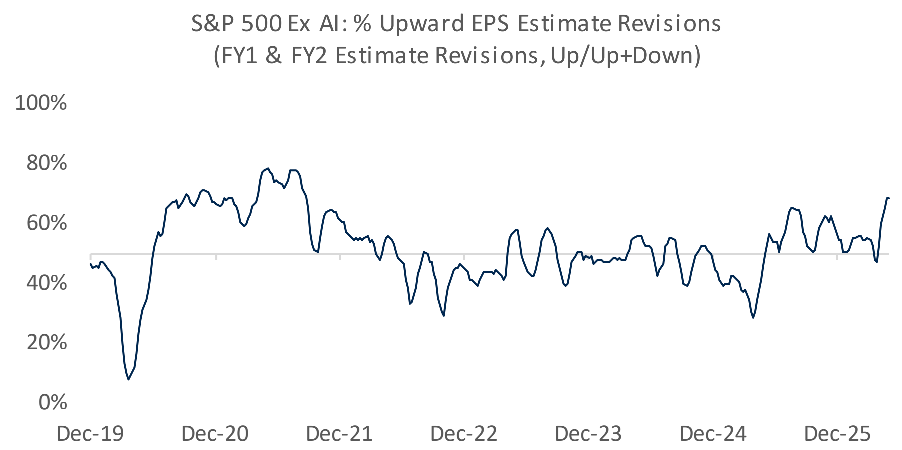


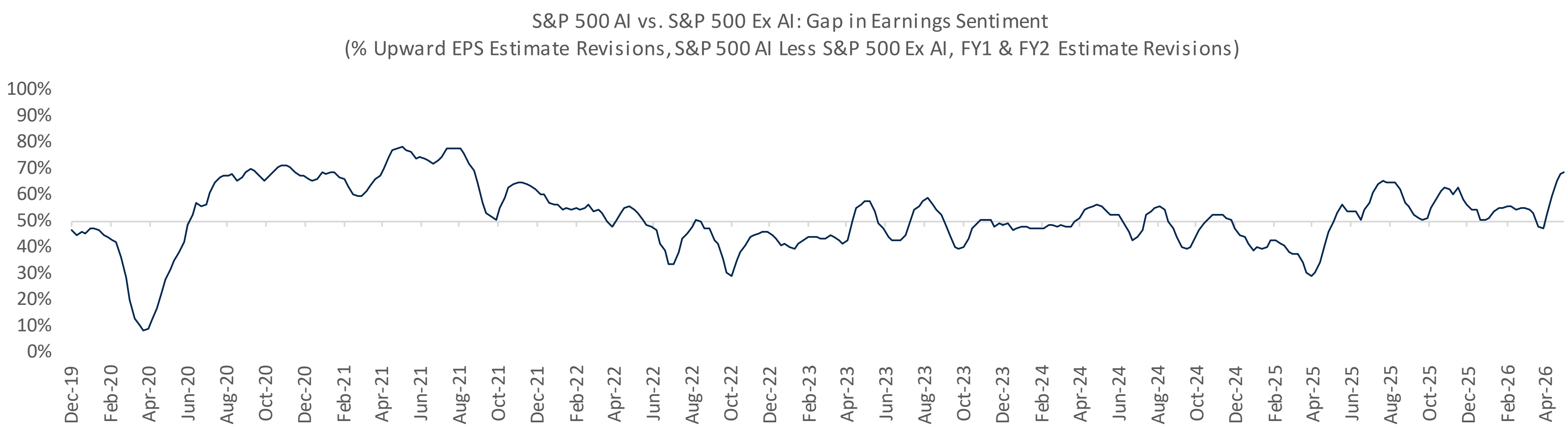
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates, S&P. For REITs, FFO/share revisions are used instead of EPS revisions; as of May 26, 2026.

EPS Revisions Have Surged For Both AI Focused Names In The S&P 500 And The Rest Of The Index

- The AI focused basket has a clear advantage on this metric, however.



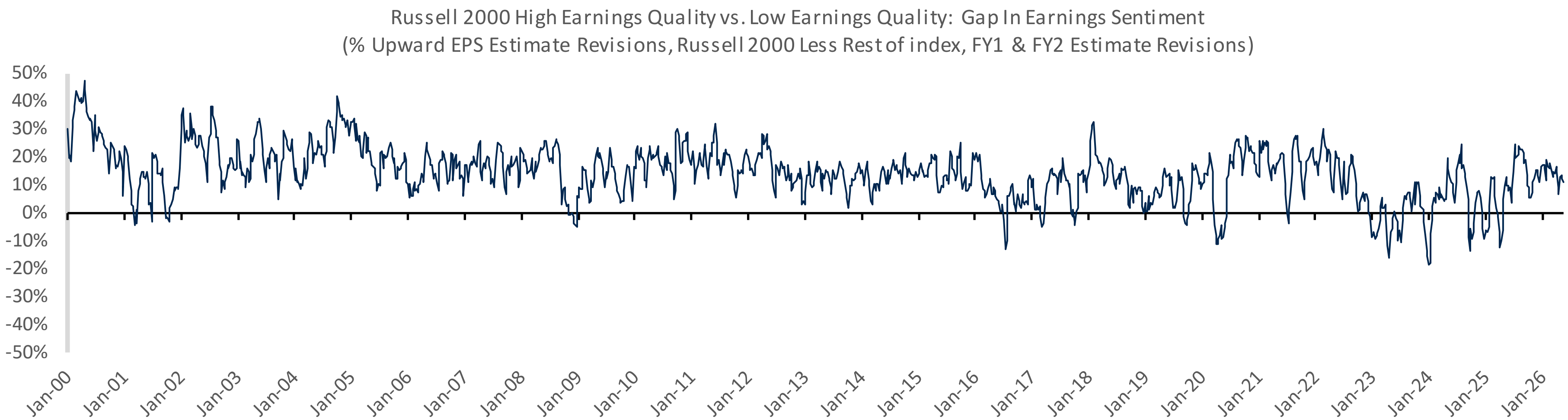


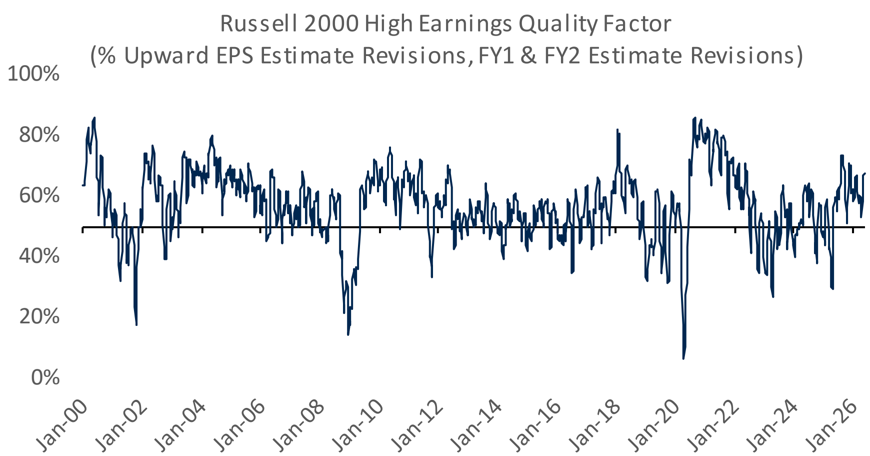


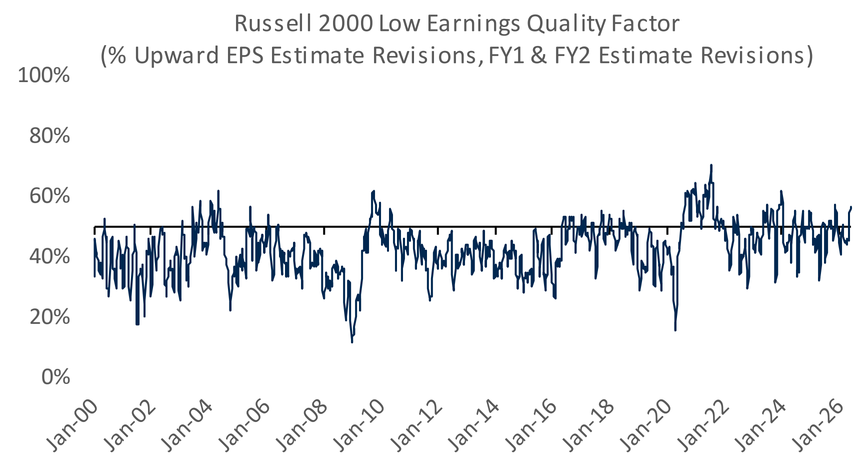
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates, S&P, latest available data as May 26, 2026; S&P 500 AI Basket includes tickers: ACN, ADBE, AMD, GOOGL, AMZN, ANET, AVGO, DDOG, INTU, META, MU, MSFT, NVDA, ORCL, PLTR, QCOM, NOW, SMCI.

Small Cap Stocks w/High EPS Quality Have Seen Better EPS Revisions Trends Than Low EPS Quality

- High EPS Quality Small Cap stocks are seeing rates of upward revisions that are positive. Low EPS Quality Small Cap stocks are also seeing rates of upward revisions that are positive. However, low EPS quality stocks are seeing better trends relative to their own history and are back in positive territory, which may be helping performance trends. The gap between high and low quality on EPS revisions has narrowed a bit of late.



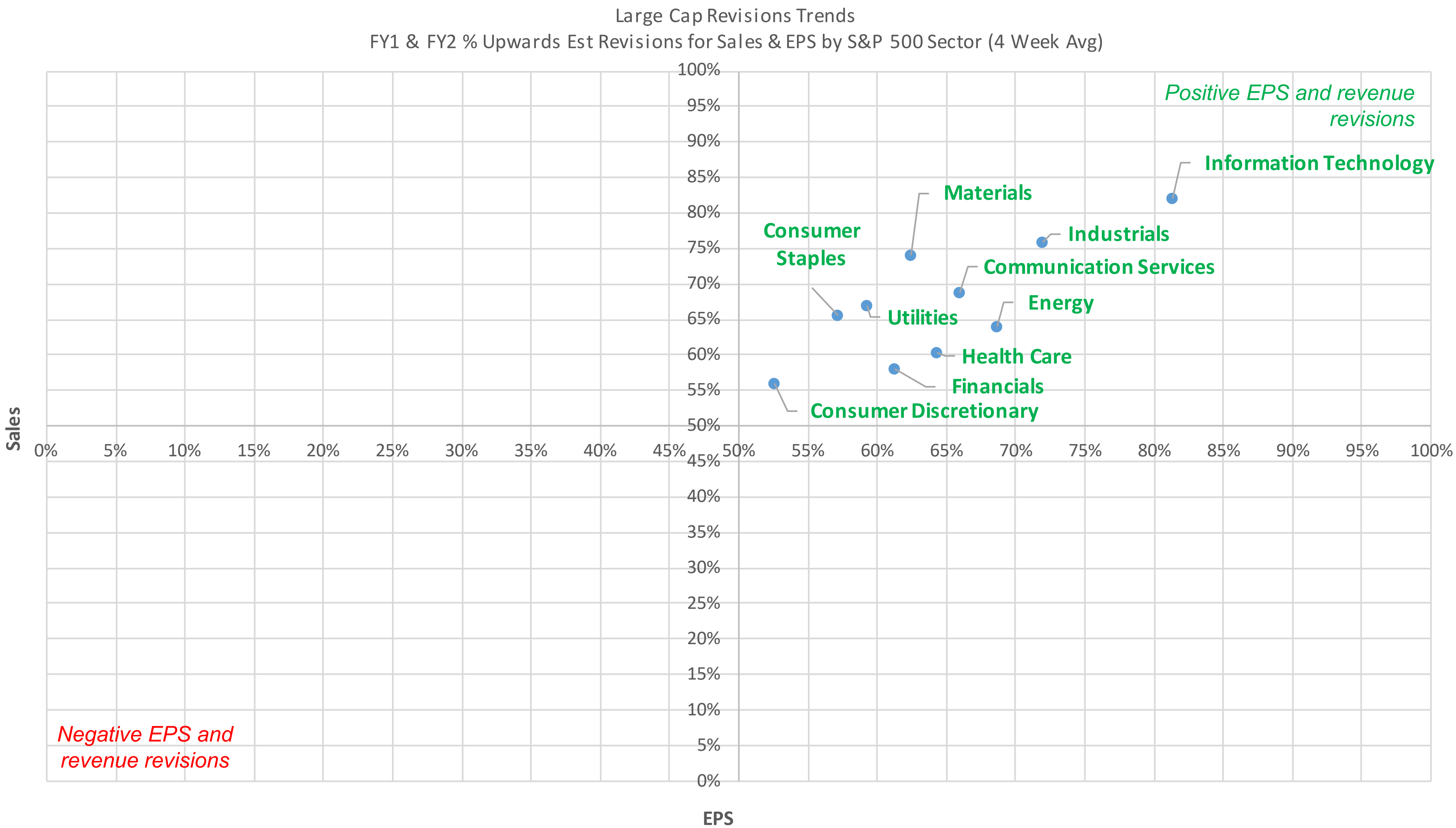




Note: The earnings quality factor is a sector-neutral, equal-weighted multifactor based on historical constituents that combines the trailing 12-month return on equity, earnings stability (measured as the ratio of the one-year change in EPS to the standard deviation of the one-year change in EPS across eight prior periods), and the distinction between positive and negative earnings based on whether EPS is above or below zero.
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of May 26, 2026

Within Large Cap, All Sectors Are Now Seeing Positive EPS And Sales Revisions

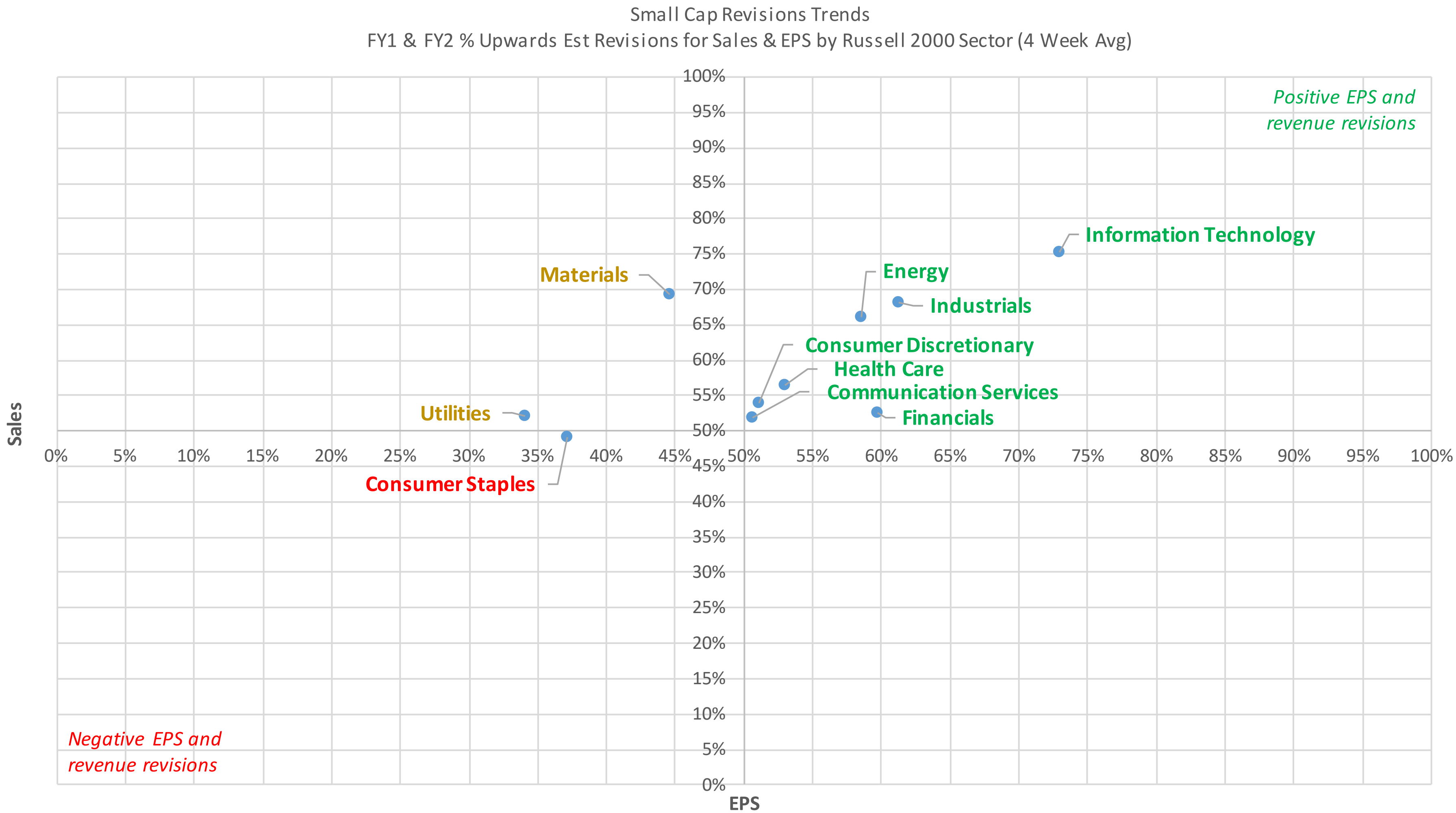
- Trends remain strongest in Tech and Industrials. Energy also remains strong.
- EPS revisions improved for both Consumer Staples and Consumer Discretionary during the most recent update.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, CIQ estimates, S&P. Excludes REITs; as of May 26, 2026

Within Small Cap, The Majority Of Sectors Are Seeing Positive EPS & Sales Revisions

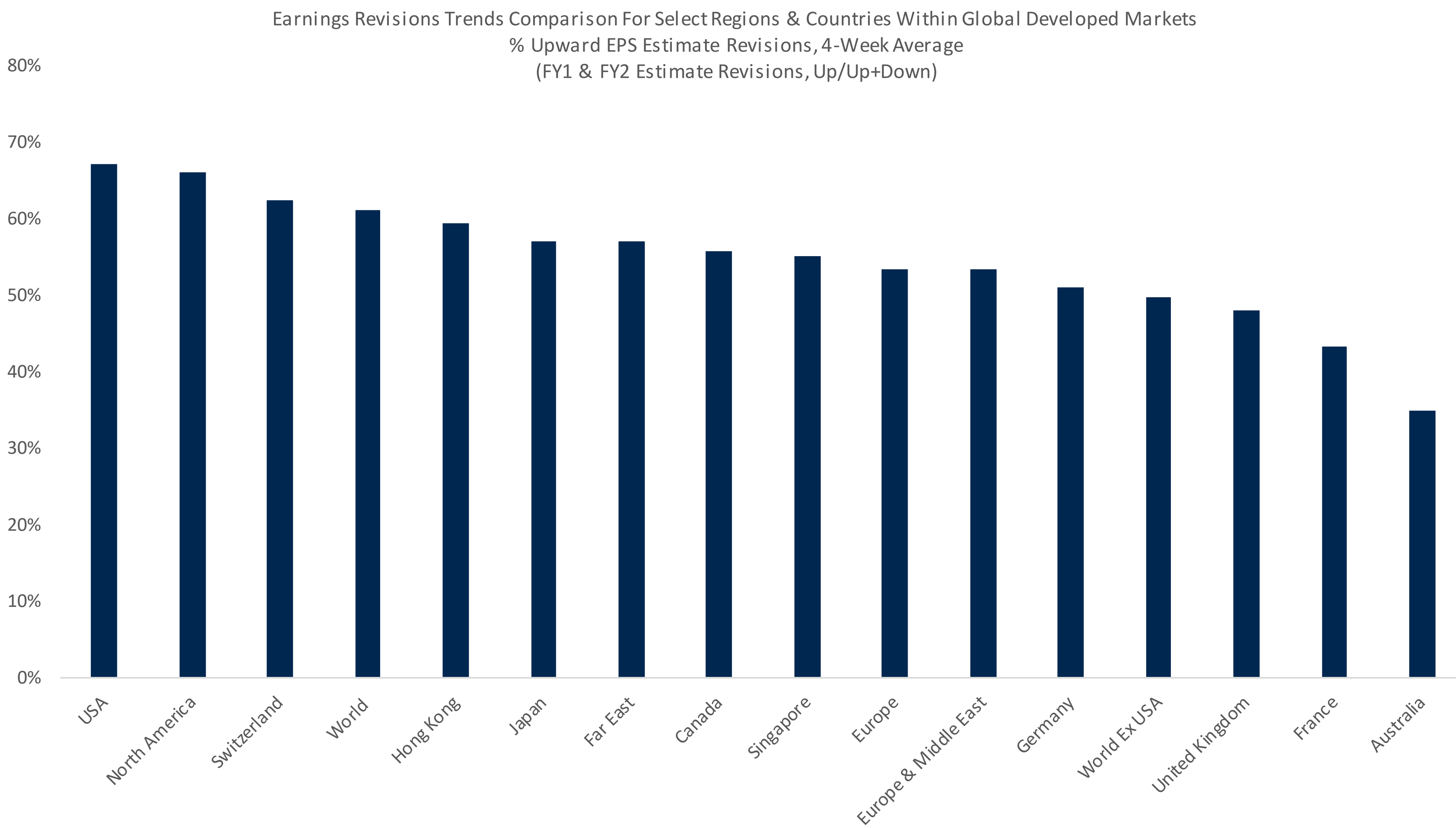
- Staples is the only sector seeing negative revisions for both EPS and sales. Utilities and Materials are also weak on EPS revisions.
- EPS revisions for Consumer Discretionary improved during the most recent update and the sector now sits in positive territory on both EPS and sales.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, CIQ estimates, Russell. Excludes REITs; as of May 26, 2026

EPS Revisions Have Been Strongest In North America, Weakest In Europe And Australia

- Revisions for Europe have been balanced between upward and downward revisions.



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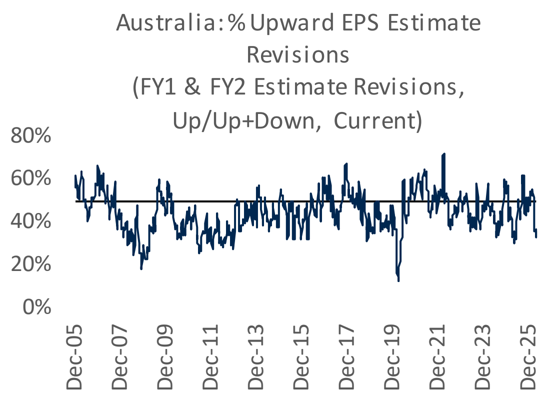
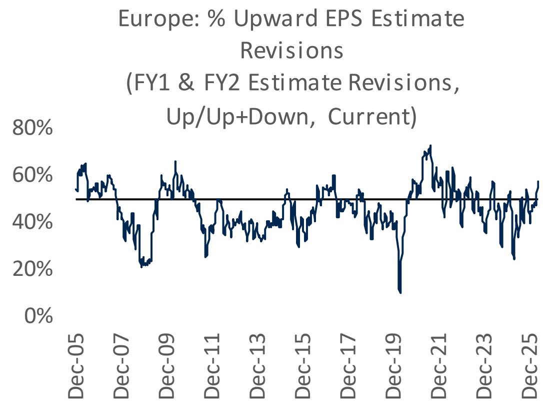
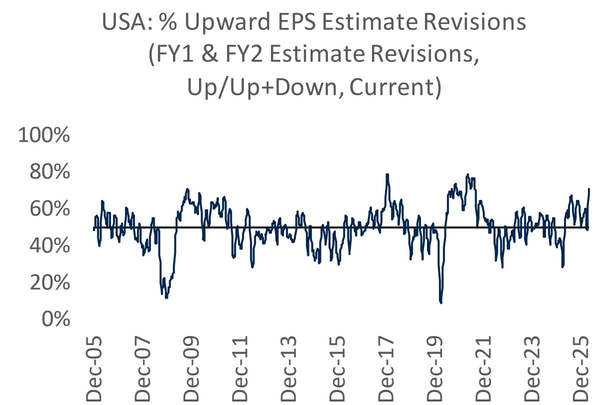
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 26, 2026; please see the MSCI disclaimer at the end of this report; regions/countries based on MSCI constituents

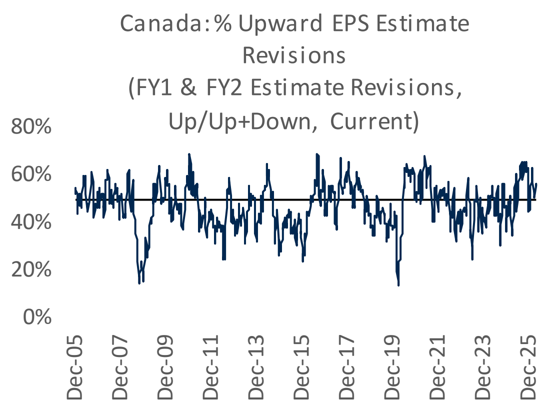
EPS Revisions Trends Are Mixed For The Biggest Developed Market Countries & Regions

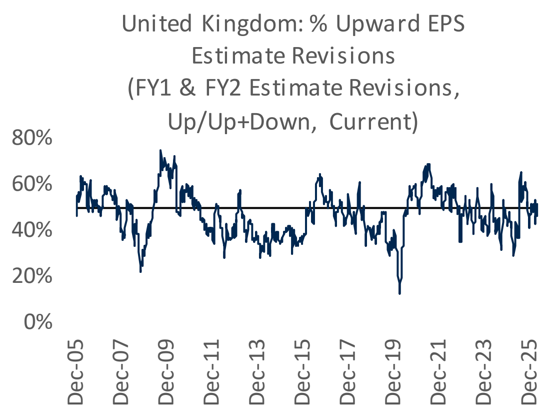
- Australia, the UK, Japan, and Canada are seeing downtrends, while Europe and USA are seeing improving trends – Europe has actually moved back into positive territory.

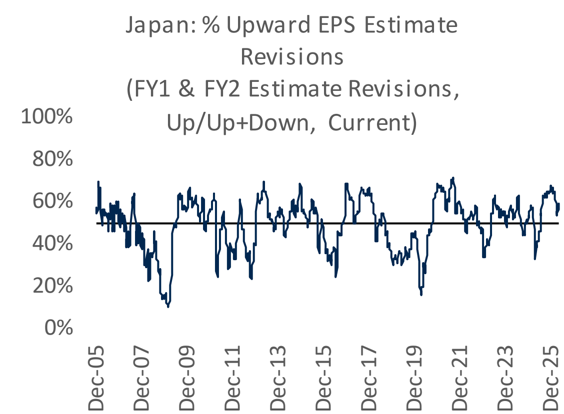












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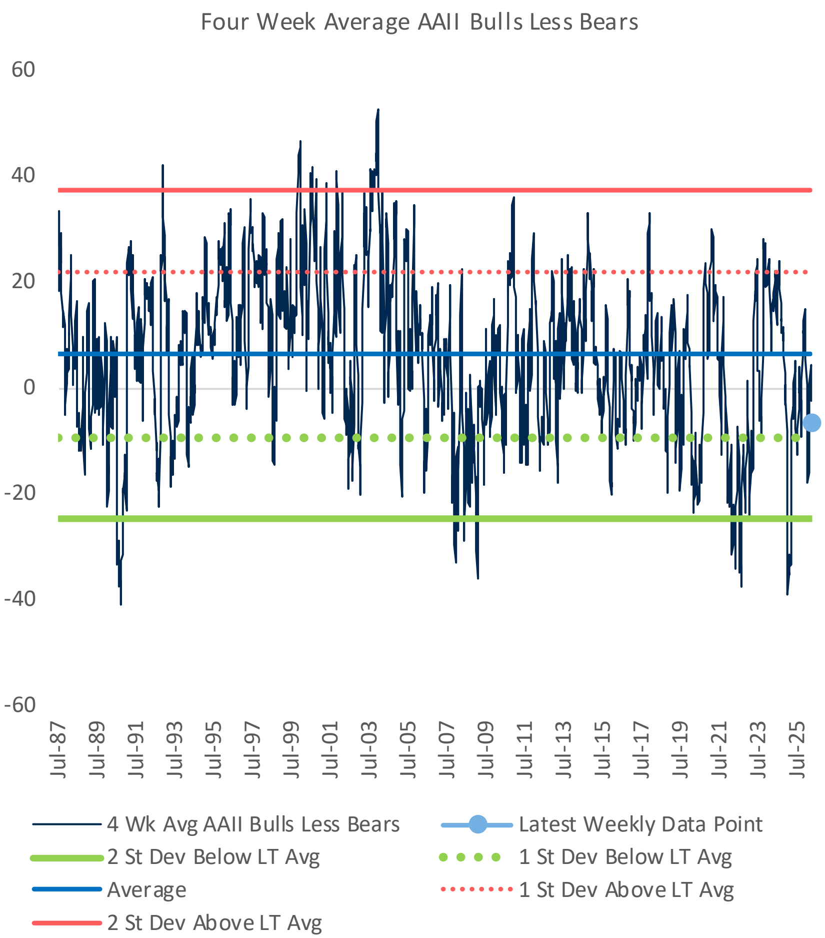
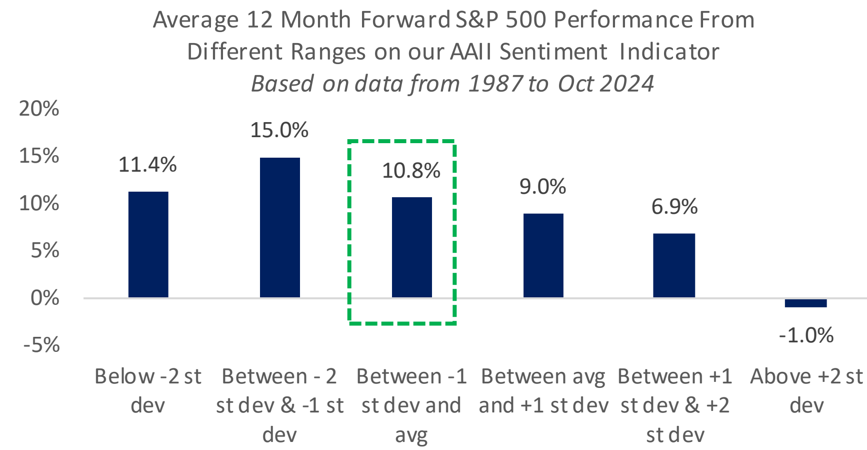
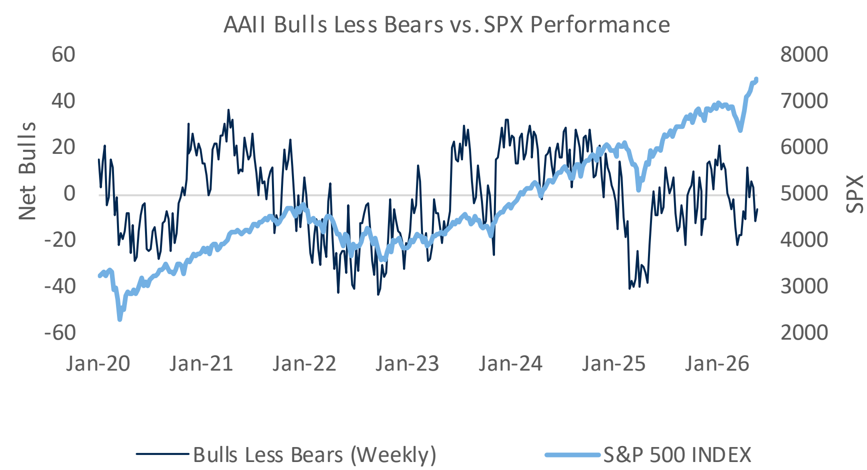
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 26, 2026; please see the MSCI disclaimer at the end of this report; regions/countries based on MSCI constituents

Our Main Sentiment Model Points To A Gain Of 10.8% Over The Next 12 Months

- As of 5/28/26, net bulls were at -6.30% on the weekly update (an improvement vs. the prior week's -11.90%) and -2.55% on the four-week average (down vs. 1.38% the prior week).
- The four-week average is between average and one standard deviation below the long-term average, a level that has, on average, been followed by a gain of 10.8% in the S&P 500 on a 12-month-forward basis.
- Net bulls on the weekly data point hit an absolute low on 9/22/2022 (-43.2%) and on 2/27/2025 (-41.2%), but only fell to -21.6% in March 2026. The recent drop in sentiment to more than one standard deviation below average was consistent with what we'd expect in a tier 1 / garden variety (5-10%) S&P 500 drawdown. But if risk of a deeper drawdown (tier 2 or 3) emerges, those deeper lows of 2022 and 2025 are good reference points for how negative sentiment could turn.







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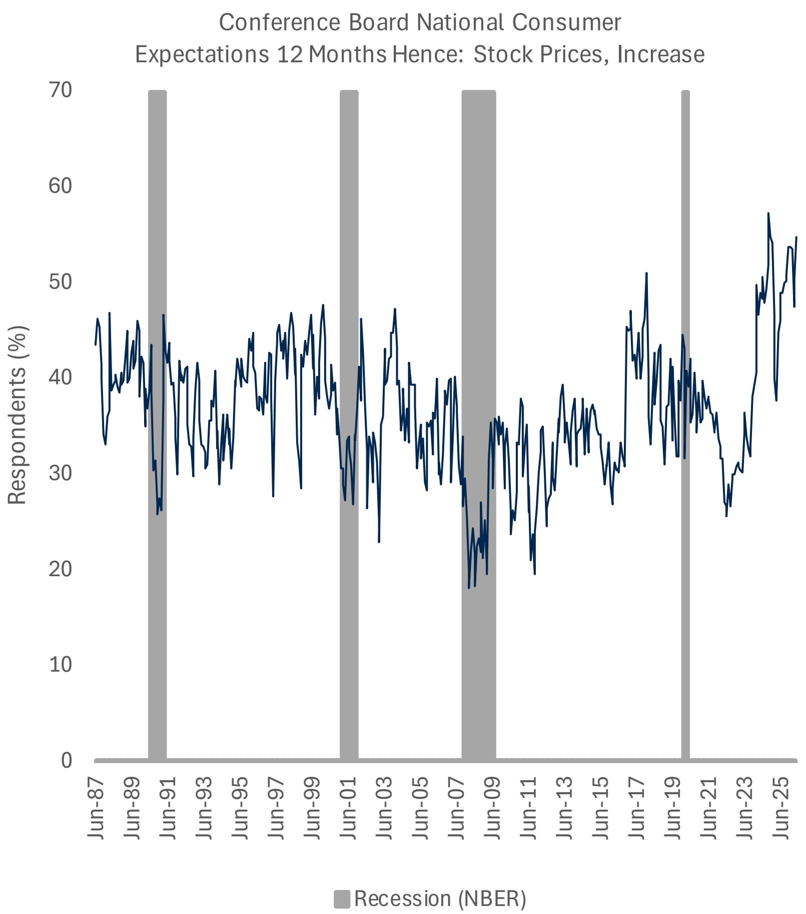
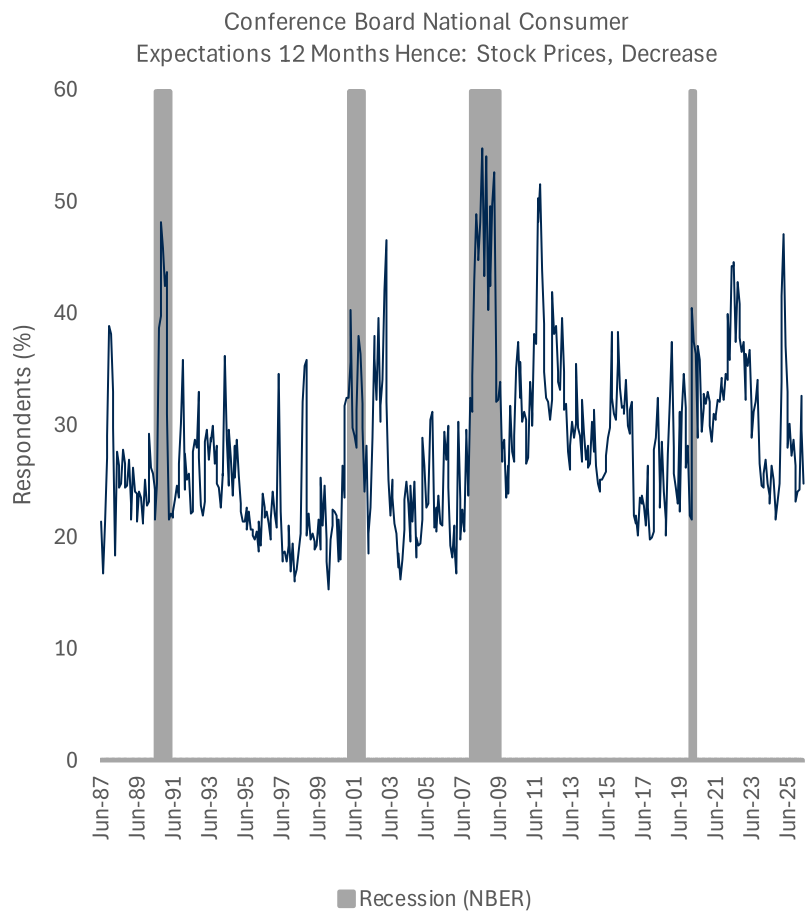
Source: RBC US Equity Strategy, Bloomberg, AAII, S&P; updated May 28, 2026

Consumers Have Been Highly Optimistic On Stocks, With A Rebound In May

- Those expecting higher stock prices are up again and remain elevated vs. history, though a bit below the late-2024 high.
- Those anticipating lower stock prices moved down sharply in the latest update as well.





Source: RBC US Equity Strategy, Bloomberg; through May 2026
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Current Assumptions And Stress Tests From Our Valuation / EPS Model

- This model is based on regression analysis using data going back to 1962. We use quarterly data series for CPI (yr/yr, 3-month average), Fed funds (the effective date, then the upper bound of the announced rate when available), and 10-year yields along with the trailing average S&P 500 P/E multiple. We have excluded the 2010s (the decade between the GFC and COVID) from our regression analysis, as the historical, inverse relationships between the macro variables and the P/E either reversed or eroded during that decade.
- In our S&P 500 price target process, we normally use a projected P/E that is generated by this model using consensus macro forecasts for CPI, the Fed, and 10-year yields with a reference period of four quarters from now as opposed to a static year-end level, along with the bottom-up consensus EPS forecast for the next four quarters. As of our April-2026 update, the reference point for all assumptions were changed to 1Q27 from 4Q26.
- In order to inject some conservatism into our S&P 500 price target modeling, we are, for now, utilizing an EPS assumption for 1Q27 (trailing 4Q basis, as of 5/4/26, after the busiest week of reporting season) that haircuts the consensus estimate by 5%, to roughly $329 (a slightly higher dollar value level than our previous update in early April of $322), representing 12% growth yr/yr. This assumption is based on the idea that non-AI related earnings see only mid-single-digit growth yr/yr and come in 7.5% below the early-May consensus, while the AI-related consensus forecast ends up being correct). We are also leveraging macro assumptions in our P/E calculation that are more conservative than the consensus. On the P/E, we are bringing in 3.3% CPI (in line with a stress test for $100 oil that RBC's Economics team published after the war began), a flat Fed (no cuts or hikes), and 10-year yields of 4.5% (not quite the 5% threshold that equity investors tend to worry about, and slightly below where we are today but in line with our US Rates Strategy team's forecast). This math points to fair value for the S&P 500 for 1Q27 of 7,929. Note this version of our model has the P/E contracting to a little above 24x, down from the 26-28x levels that have been in place in recent quarters. Less optimistic fair value estimates for the index can be found by taking up the CPI and interest rate assumptions. We can also get to a bearish outcome with our 5% consensus EPS haircut scenario by taking yields to 5.5%, adding in more hikes, and taking CPI above 4%, but it's easier to get to a bear case by pushing EPS forecasts down significantly lower.

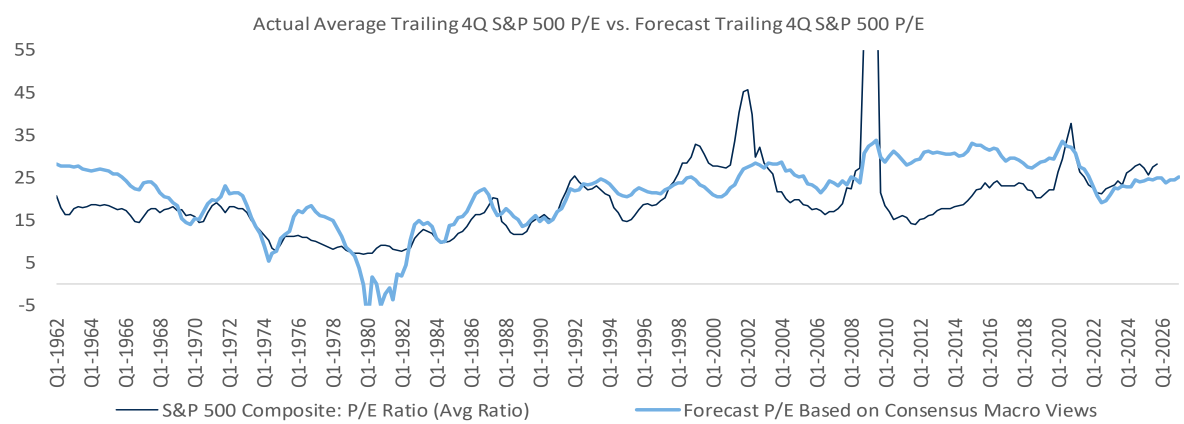
Scenarios and Stress Tests For 1Q27

			Macro Assumptions		*Implied P/E*	*1Q27 T4Q EPS Assumptions*						
		CPI	**Fed Funds**	**10 Year Yield**	**Using Model**	**Bottom - Up Consensus**	**5% Haircut to Consensus**	**10% Haircut to Consensus**	**5% Gain vs. 1Q26**	**Flat vs. 1Q26**	**5% Drop vs. 1Q26**	**10% Drop vs. 1Q26**
		Y/Y, 3 Mo Avg	*Upper Bound / Qtr End*	*Quarter End*		*$346*	*$329*	*$312*	*$308*	*$293*	*$279*	*$264*
P/E Test **Consensus Macro**	*Starting point*	3.3	3.48	4.27	24.52	8,489	8,065	7,640	7,551	7,192	6,832	6,472
RBC Rates/Econ Inputs	*As of mid May 2026 monthly forecast update*	2.6	3.75	4.45	24.97	8,644	8,212	7,780	7,689	7,323	6,957	6,591
Higher CPI Scenario #1	*RBC Econ CPI stress, flat Fed, slightly lower yields*	3.3	3.75	4.50	24.11	8,347	7,929	7,512	7,425	7,071	6,718	6,364
Higher CPI Scenario #2	*Higher CPI, hikes, much higher yields*	3.8	4.25	5.00	22.71	7,861	7,468	7,075	6,992	6,659	6,326	5,993
Higher CPI Scenario #3	*Even higher CPI, more hikes, much much higher yields*	4.2	4.75	5.50	21.42	7,415	7,044	6,673	6,596	6,282	5,968	5,654

Reference period for macro assumptions and trailing 4Q EPS is 1Q27; Consensus macro is latest available as of 5/28/2026; EPS consensus is as of 5/4/26; RBC Econ/Rates forecasts are as of 5/14/26 (updated monthly)

How we get to $329 for 1Q27….Net Income Sensitivity Analysis

Dollar Values (Trailing 4Q Basis, $M)	
3,136,157	Consensus for Total S&P 500 Net Income (Unadjusted)
947,770	Consensus for AI Basket
2,188,387	Consensus for Ex AI Basket (Unadjusted)
2,024,258	Adjusted Consensus for Ex AI (1Q27 Est Lowered by 7.5%)
2,972,028	Adjusted Consensus for Total S&P 500 Net Income
Key Percentages - Yr/Yr % Change	
18%	Consensus for Total S&P 500 Net Income
28%	Consensus for AI Basket
14%	Consensus for Ex AI Basket (Unadjusted)
6%	**Adjusted Consensus for Ex AI (1Q27 Est Lowered by 7.5%)**
12%	**Adjusted Consensus for Total S&P 500 Net Income**

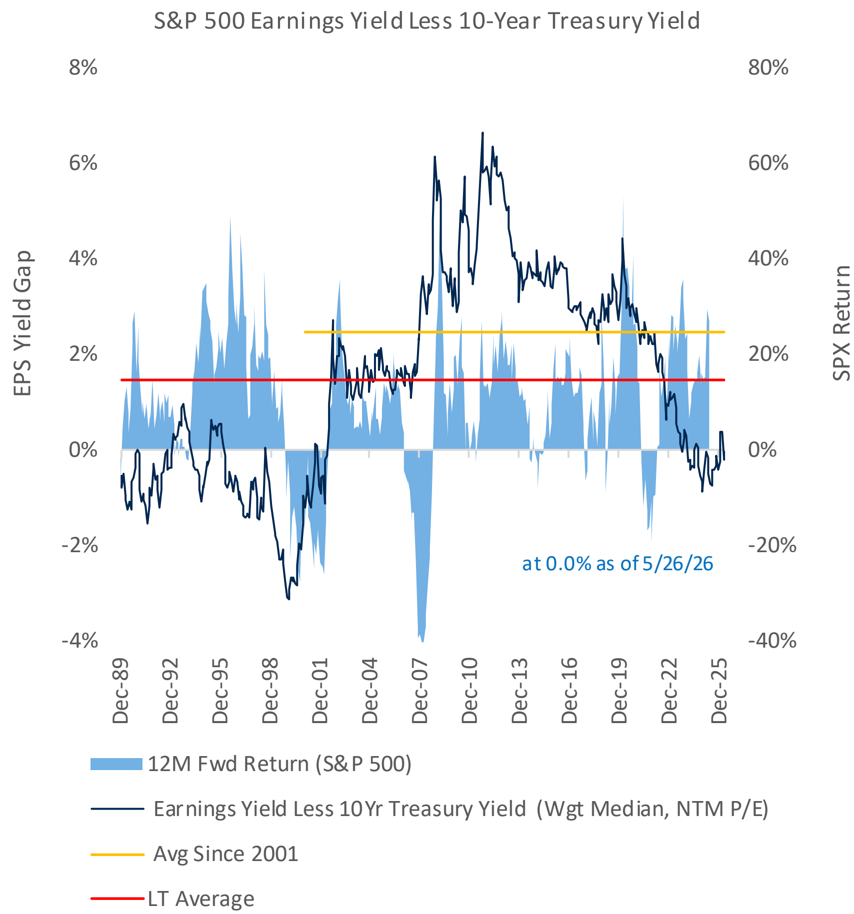


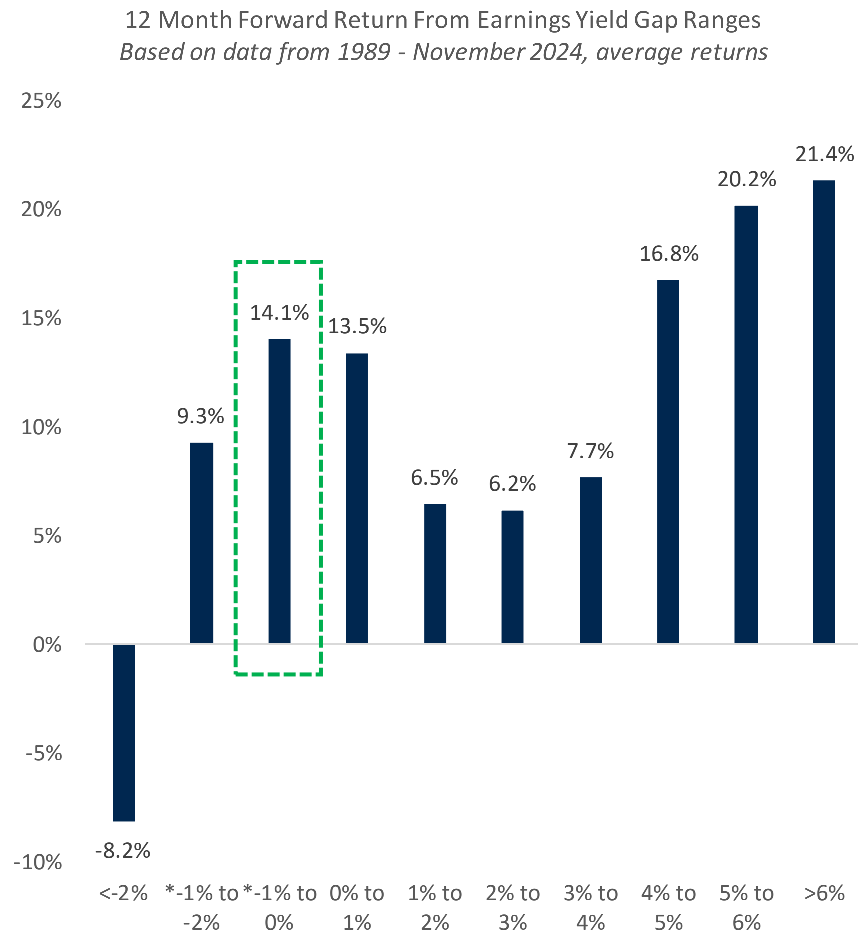
Source: RBC US Equity Strategy, Bloomberg, Haver, S&P

Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors; we do not share the excel version of this model.

Our EPS Yield Gap Analysis Points To Mid-Teens Gains For The S&P 500 In The Next 12 Months

- The gap between the next 12 months' earnings yields in the S&P 500 and the 10-year Treasury yield is now slightly negative, and within a range that has been followed by strong gains in the S&P 500 in the past. To get into the range where negative returns are typically seen, we'd need to see the 10-year yield move up to 6.3%, assuming the earnings yield stays constant.

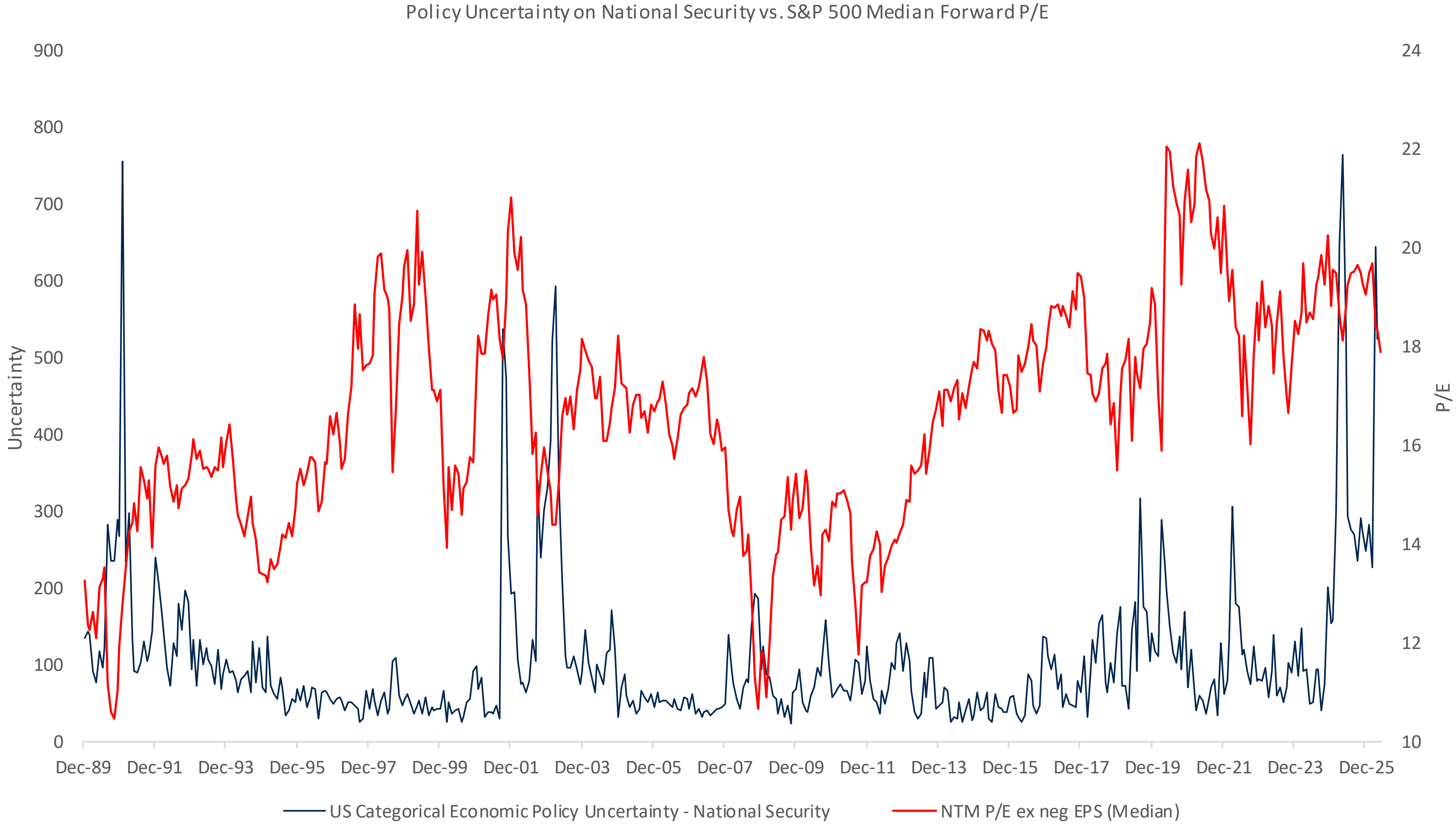




Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Haver, Bloomberg, S&P; May 26, 2026.

Foreign Policy Uncertainty Tends To Weigh On P/Es

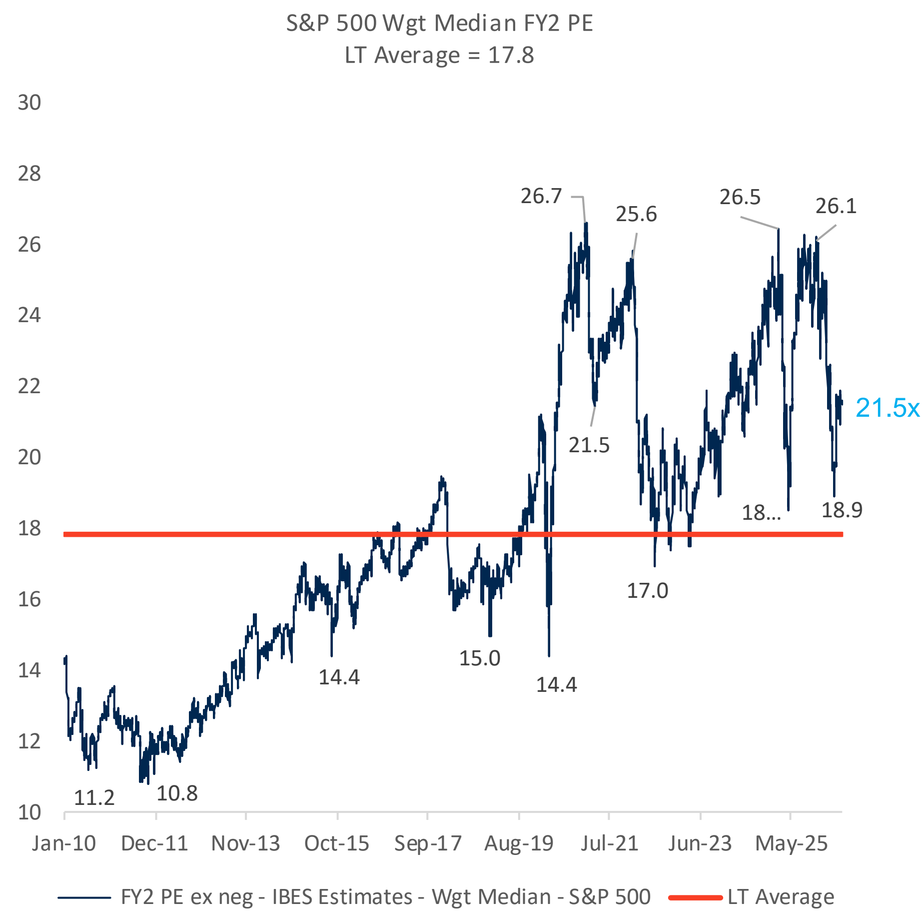
- Whenever geopolitical uncertainty spikes, the first thing that usually jumps into our mind is that forward P/E multiples tend to come under pressure for the S&P 500. This speaks to one of the transmission mechanisms of geopolitical conflicts and risks to equities.
- In recent years we've seen some deterioration in S&P 500 median P/Es when uncertainty regarding national security spiked in spring 2025 (Liberation Day tariffs), 1Q22 (Russia's invasion of Ukraine), and 1Q20 (COVID). This is something we also saw in early 2003 as the US was preparing to invade Iraq.



Source: Bloomberg, Baker Davis & Bloom, S&P Capital IQ Clarifi, May 26, 2026

S&P 500 Forward P/Es Have Rebounded, Closed In On Past Highs On NTM Recently But Not FY2

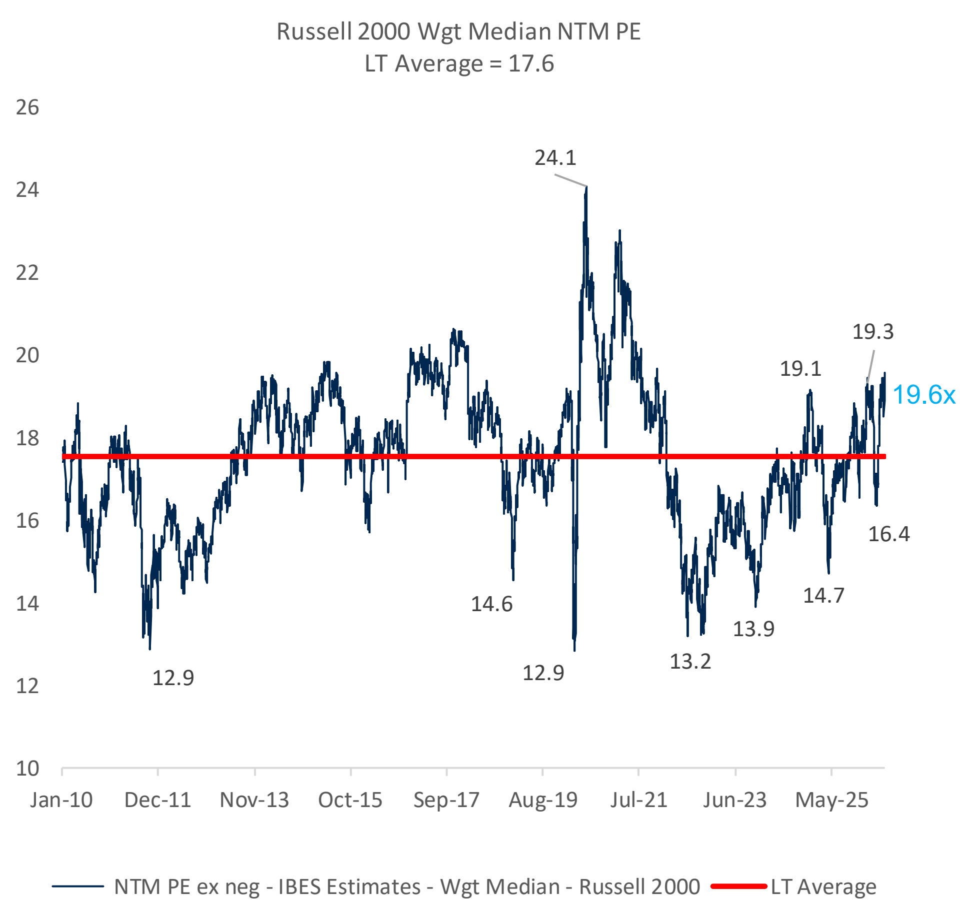
- Large Cap valuations corrected earlier this year as investors worked through AI concerns, private credit stress, and geopolitical uncertainty.
- The S&P 500 avoided a full washout to 2025 lows, in our view, as both NTM and FY2 P/E multiples failed to break materially below long-term averages or reclaim the prior 2018-2023 trough range. They did hit 2025 lows.
- We believe excess froth was removed from Large Caps, creating room for multiples to recover once the macro and geopolitical backdrop got less negative. However, we disagree with those who argue that valuations became a reason to buy the market on their own. We simply didn't see washout conditions on either metric for this index.

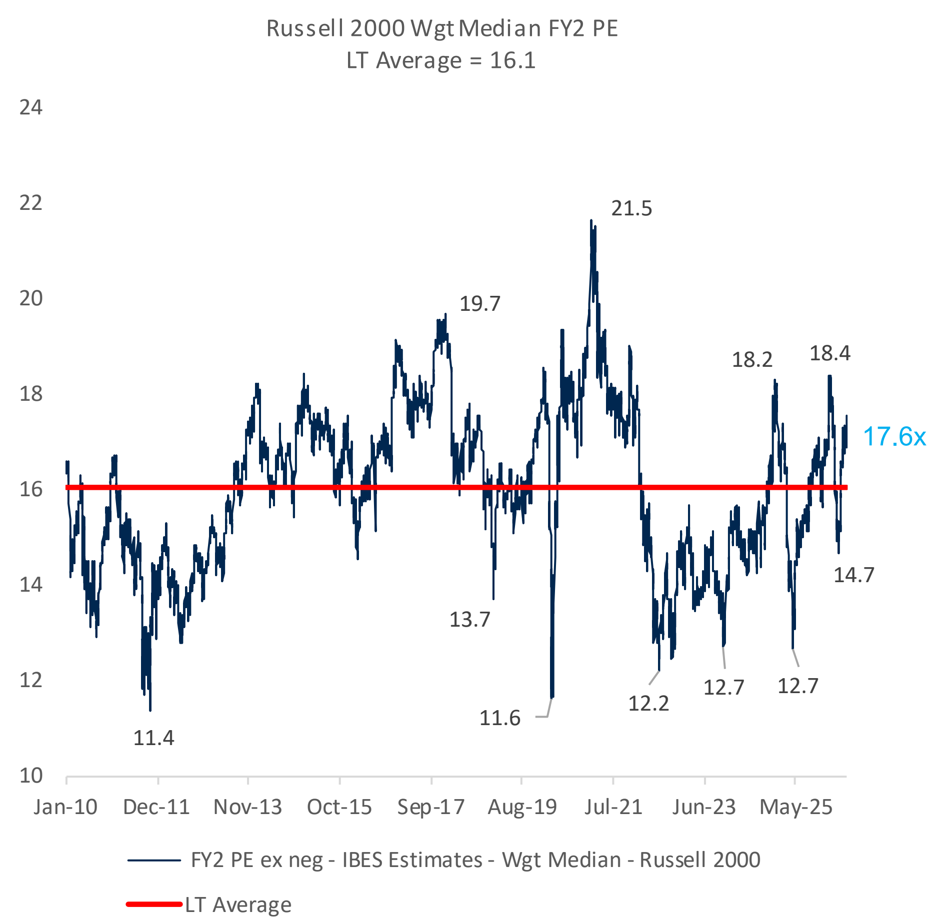


Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 26, 2026.

Russell 2000 Forward P/Es Also Rebounded, Closing In On Past Highs on NTM but Not FY2

- Small Cap valuations also corrected earlier this year amid AI, private credit, and geopolitical concerns.
- With Small Caps, we focus mostly on FY2 P/E. On that metric, the Russell 2000 broke slightly below its long-term average, but failed to reach the recession zone of 11-13x, which it achieved during the lows of COVID, 2022, 2023, and 2025. Note we're still trading well below the last two peaks on this metric pointing to some room for Small Caps and US equities broadly to run. Valuations are admittedly close to the most recent highs on an NTM basis, but that metric has been less helpful as a bottom indicator.
- Similar to our thinking on Large Caps, we think recent multiple compression removed the froth from Small Caps, but valuations did not reach levels that historically signaled a major washout opportunity.

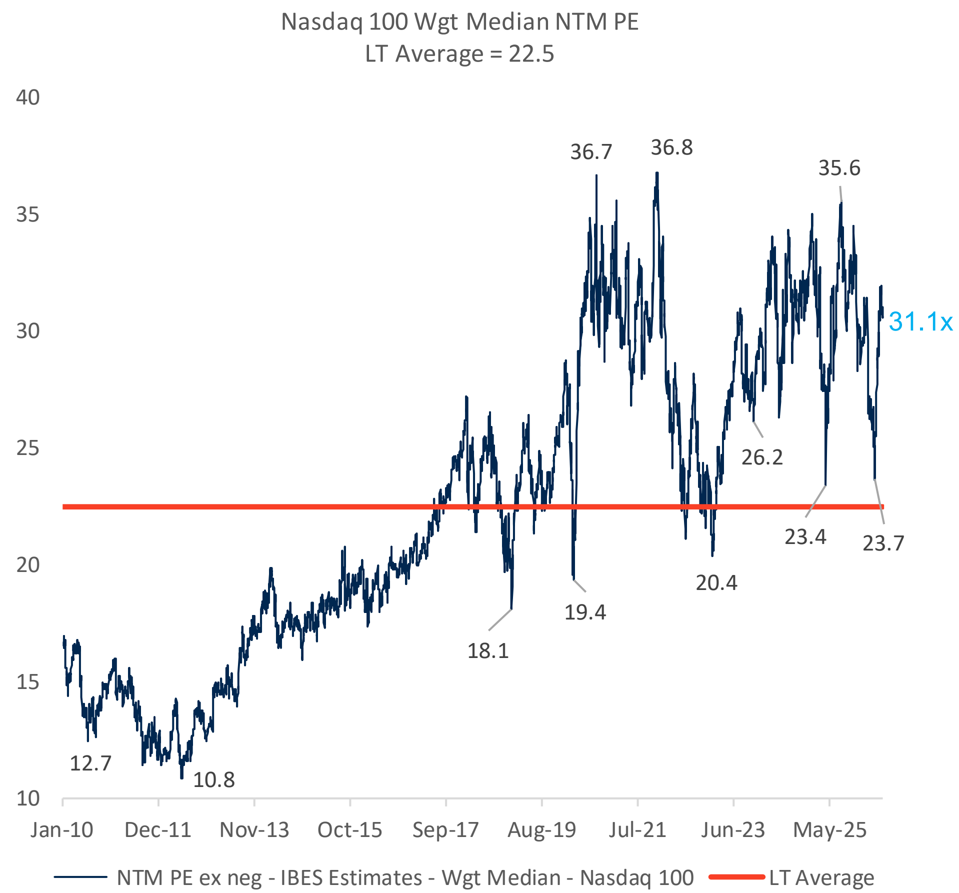


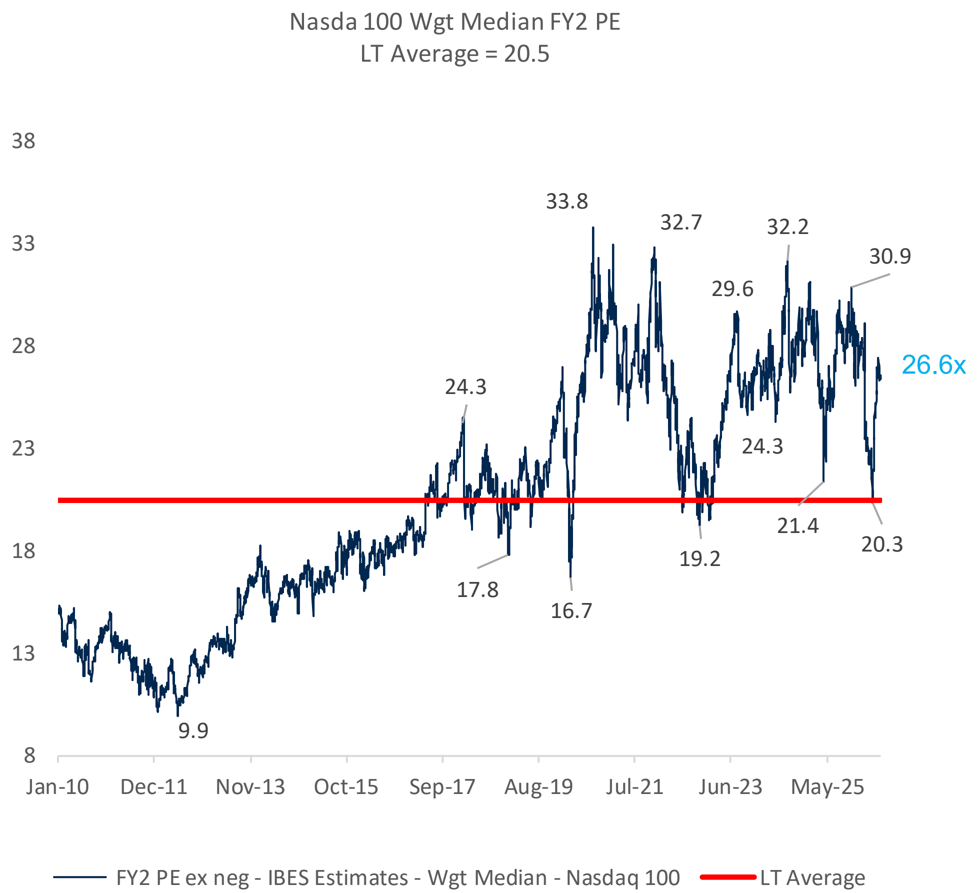


Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Russell, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 26, 2026.

Nasdaq 100 Forward P/Es Have Rebounded, After Hitting Five-Year Averages

- Nasdaq 100 valuations corrected earlier this year amid AI, private credit, and geopolitical concerns. On both NTM and FY2 P/E, valuations never approached levels that have historically coincided with major market lows. The latest rebounds have not quite taken either P/E back to the pre/post-COVID era highs.

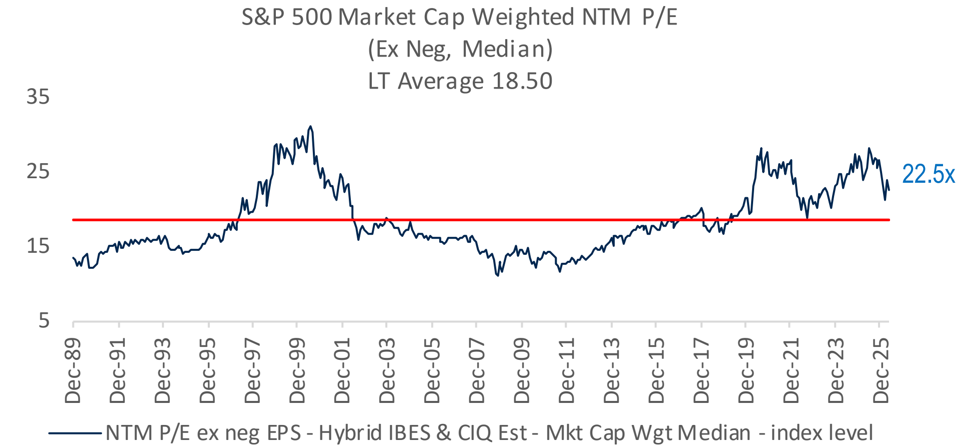


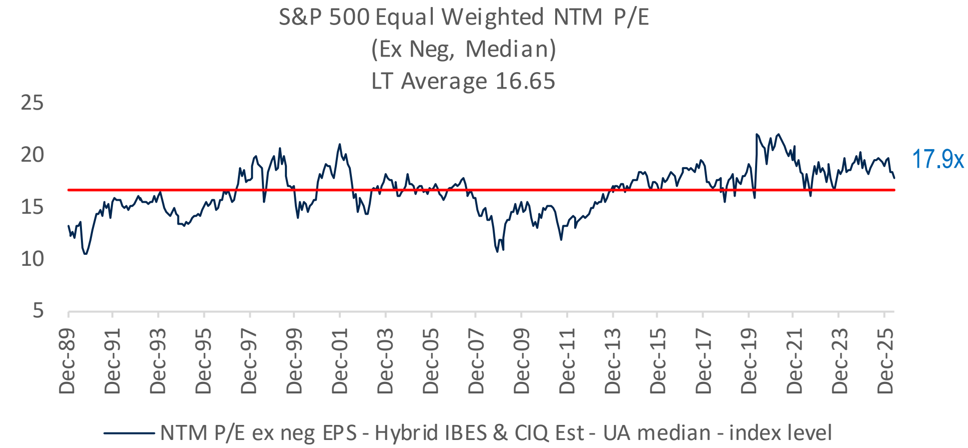


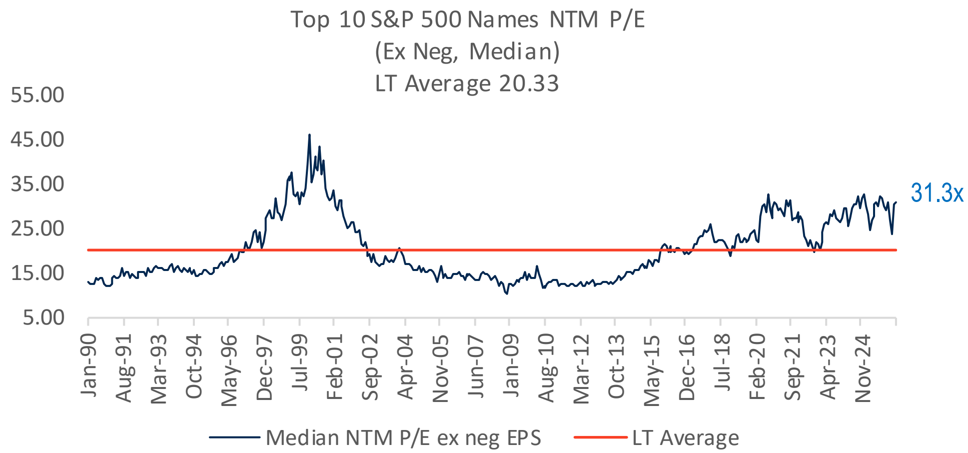
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Russell, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 26, 2026.

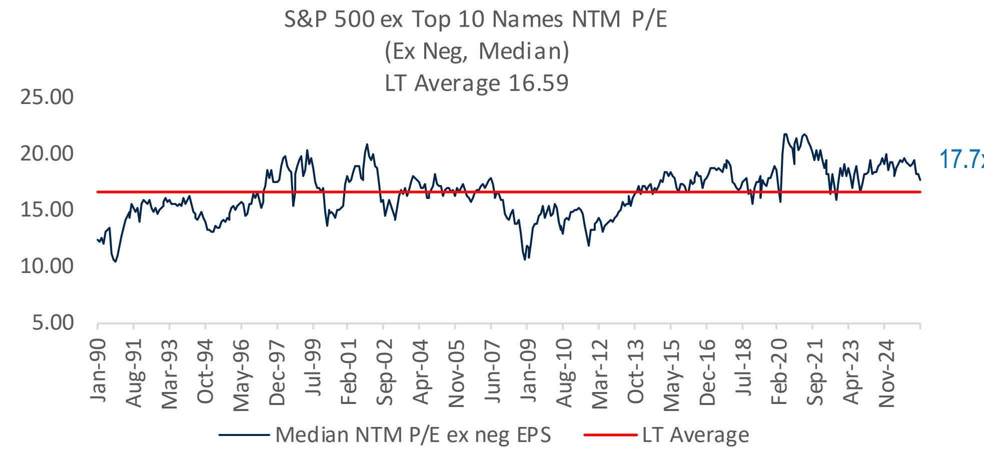
Forward P/Es Stalled Near Their Pre- And Post-COVID Era Ceilings Throughout The S&P 500

- When we look at NTM P/Es on bottom-up consensus EPS forecasts, we find that valuations were coming under pressure in the S&P 500 generally ahead of the war – whether we're focusing on the overall index, the top-10 market cap names, the index excluding those names, and looking at the data on an equal-weighted or market cap-weighted basis.
- On this methodology, the broader index on a cap-weighted basis and the top-10 names bumped up against their pre- and post-COVID ceiling last year. In the equal-weighted S&P 500 and the index excluding the top market-cap names, the NTM P/E stalled near its post-COVID high but not its pre-COVID high.
- Recently, the top 10 market cap basket has rebounded sharply, while we've seen compression in the rest of the index.









Note: Mid-week basket portfolio rebalancing applied for the Top 10 and S&P ex Top 10 baskets; as of May 26, 2026.
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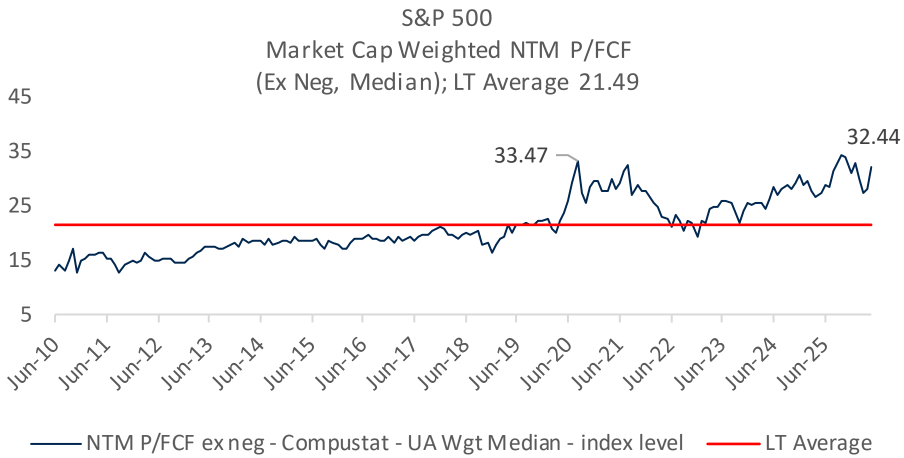
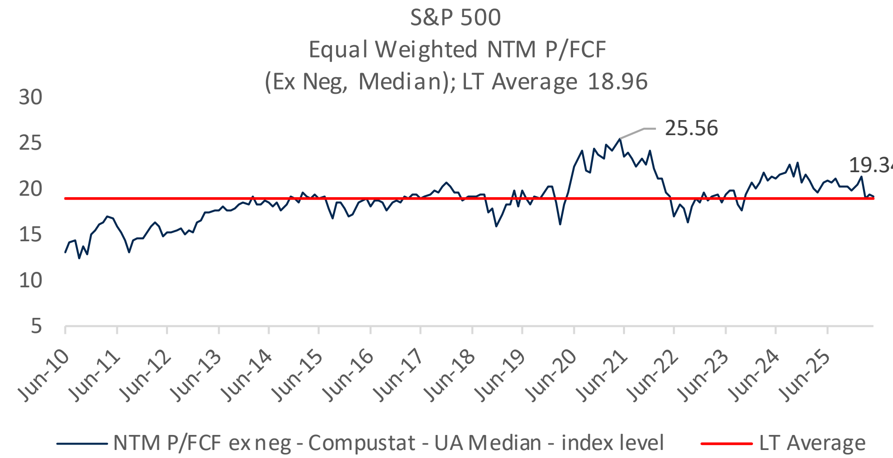
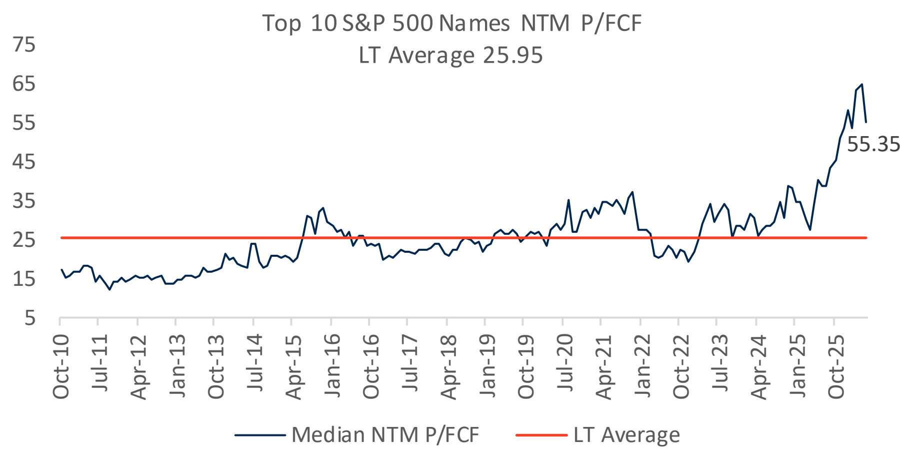
Source: RBC US Equity Strategy, S&P, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 26, 2026.

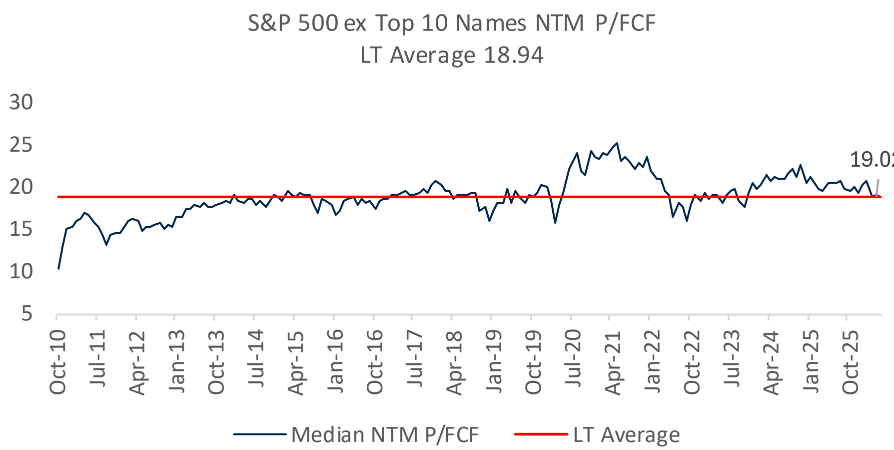
The S&P 500 Returned To Past Peaks On Projected Cash Flow, Driven By Mega Cap Growth Stocks

- The last major peak on this metric for the S&P 500 was achieved in mid-2021 – the index would go on to rally through the end of the year, peaking in early-January 2022.
- The problematic cash flow multiple is something that very much seems to be concentrated in the mega cap growth complex. This multiple is well below recent and prior peaks for the equal-weighted S&P 500 and the index excluding the top-10 market cap names.









Note: Mid-week basket portfolio rebalancing applied for the Top 10 and S&P ex Top 10 baskets; as of May 26, 2026.
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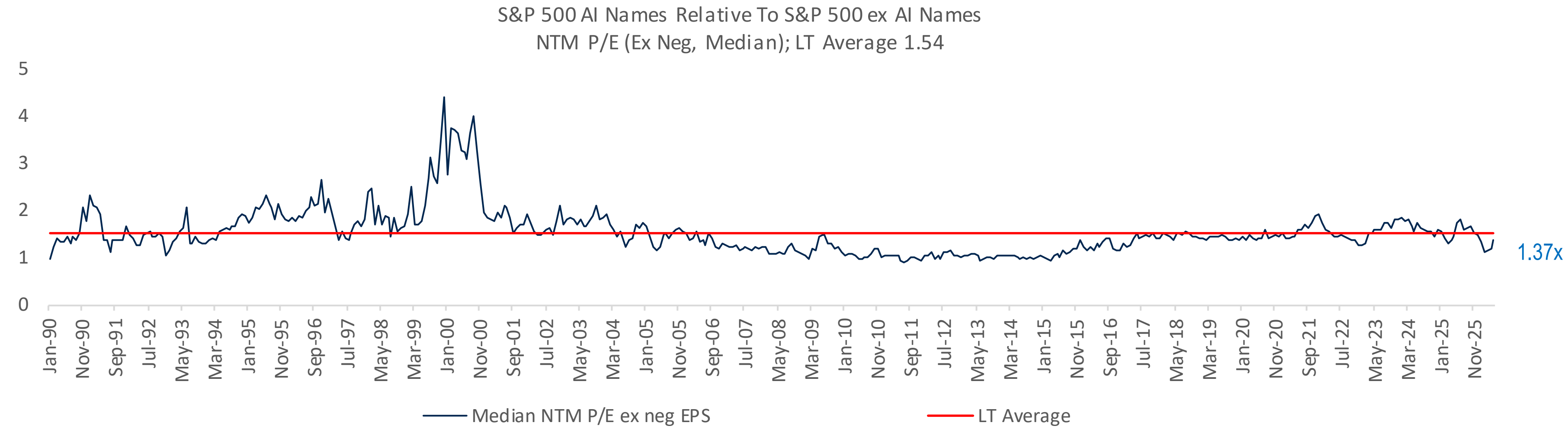
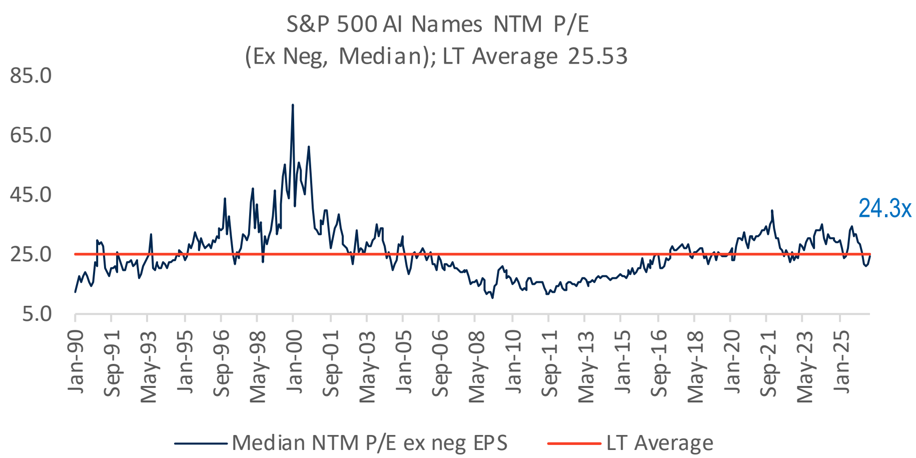
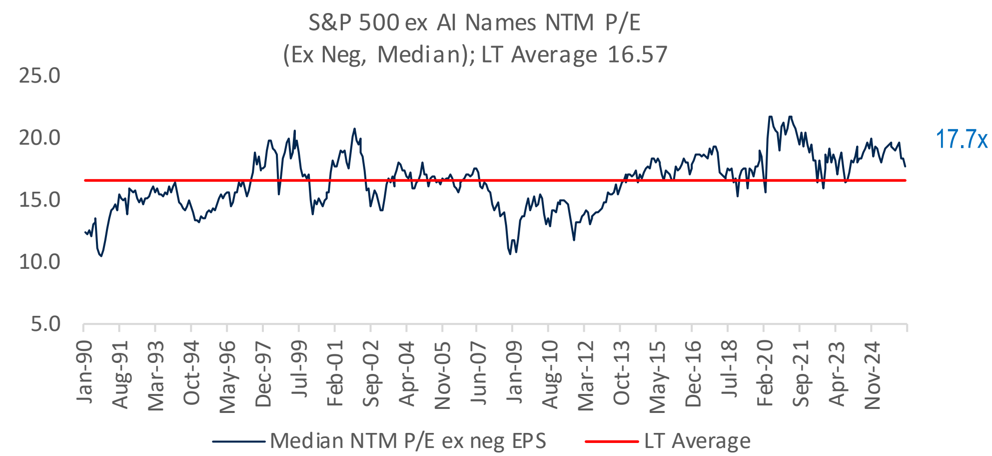
Source: RBC US Equity Strategy, S&P, S&P Capital IQ / ClariFI, Compustat, CIQ estimates, IBES estimates; as of May 26, 2026.

AI Focused Names In The S&P 500 Screen More Attractive Than The Rest Of The Index

- AI-focused names in the S&P 500 continue to trade at a premium versus the rest of the index in absolute terms, but relative to their own long-term averages, AI-focused names appear less stretched than the broader market. Meanwhile, the rest of the S&P 500 is currently trading modestly above historical valuation norms.
- The relative valuation premium of AI names versus ex-AI stocks also remains below its long-term average and well below the extreme spreads reached during the late-1990s Tech Bubble. Note, there are several Software stocks in this basket.



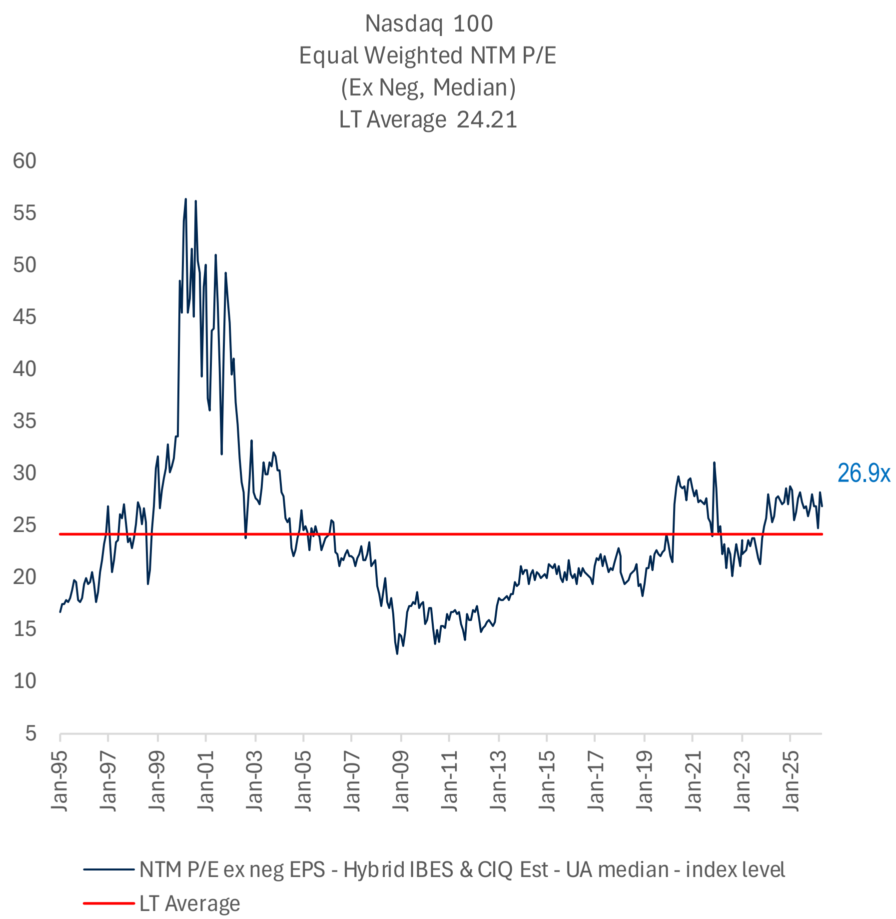


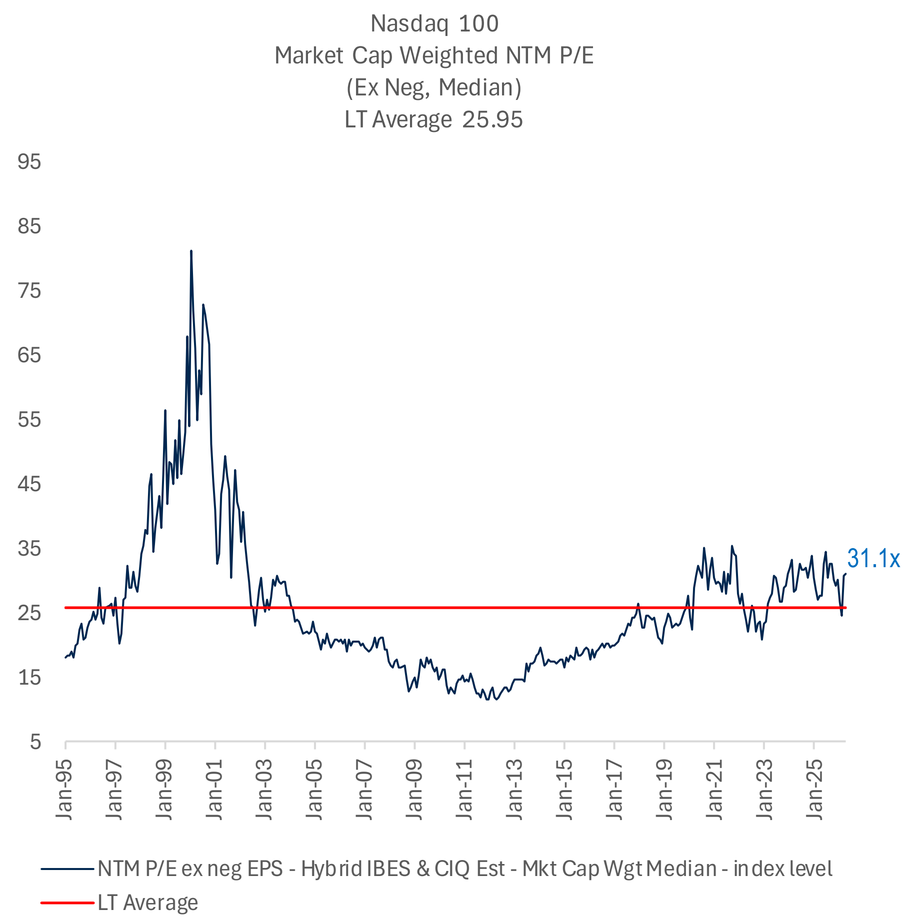


Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates, S&P, latest available data as May 26, 2026; S&P 500 AI Basket includes tickers: ACN, ADBE, AMD, GOOGL, AMZN, ANET, AVGO, DDOG, INTU, META, MU, MSFT, NVDA, ORCL, PLTR, QCOM, NOW, SMCI.

Nasdaq 100 Valuations Have Ticked Up Recently But Are Still Below Recent Highs

- Nasdaq 100 valuations on both a market cap weighted and equal weighted basis have been well below Tech bubble highs.
- On both a market cap weighted and equal weighted basis, current levels are still a bit below the highs of the pre/post-COVID era, but their recent rebound looks late innings on an equal weighted basis.

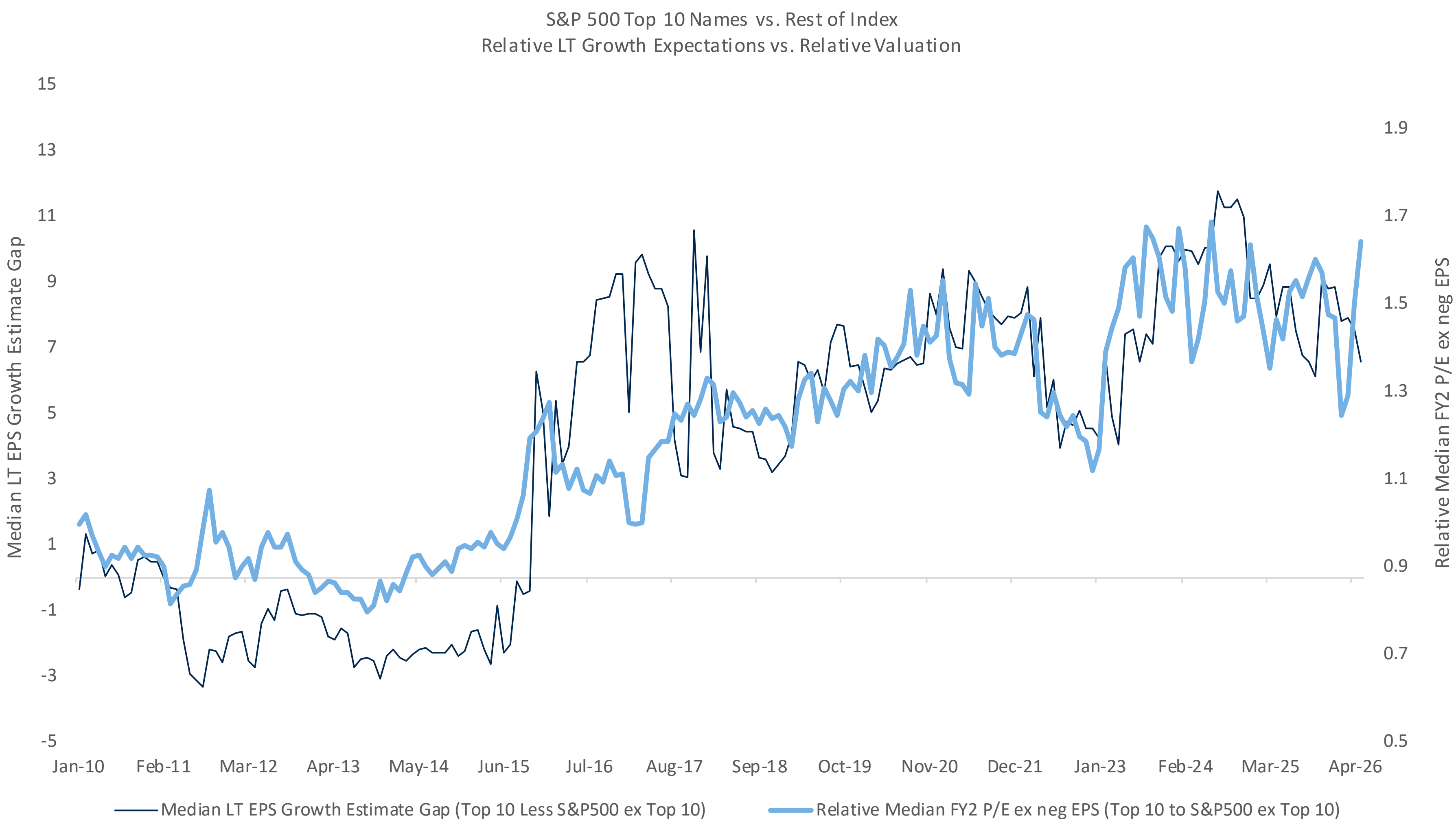




Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, S&P, Russell, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 27, 2026.

Relative Valuations Of Top-10 S&P 500 Names Usually Track Relative LT EPS Growth

In the chart below, we look at the biggest market cap names against the rest of the S&P 500 on relative P/E and relative LT EPS growth. Generally, these two lines have been tracking one another. Last year, a gap opened up, suggesting the mega cap growth trade was a bit ahead of itself. In the most recent updates, the gap has disappeared – indicating that the mega cap growth trade does not look undervalued anymore from this perspective. It is actually starting to look a bit overvalued.



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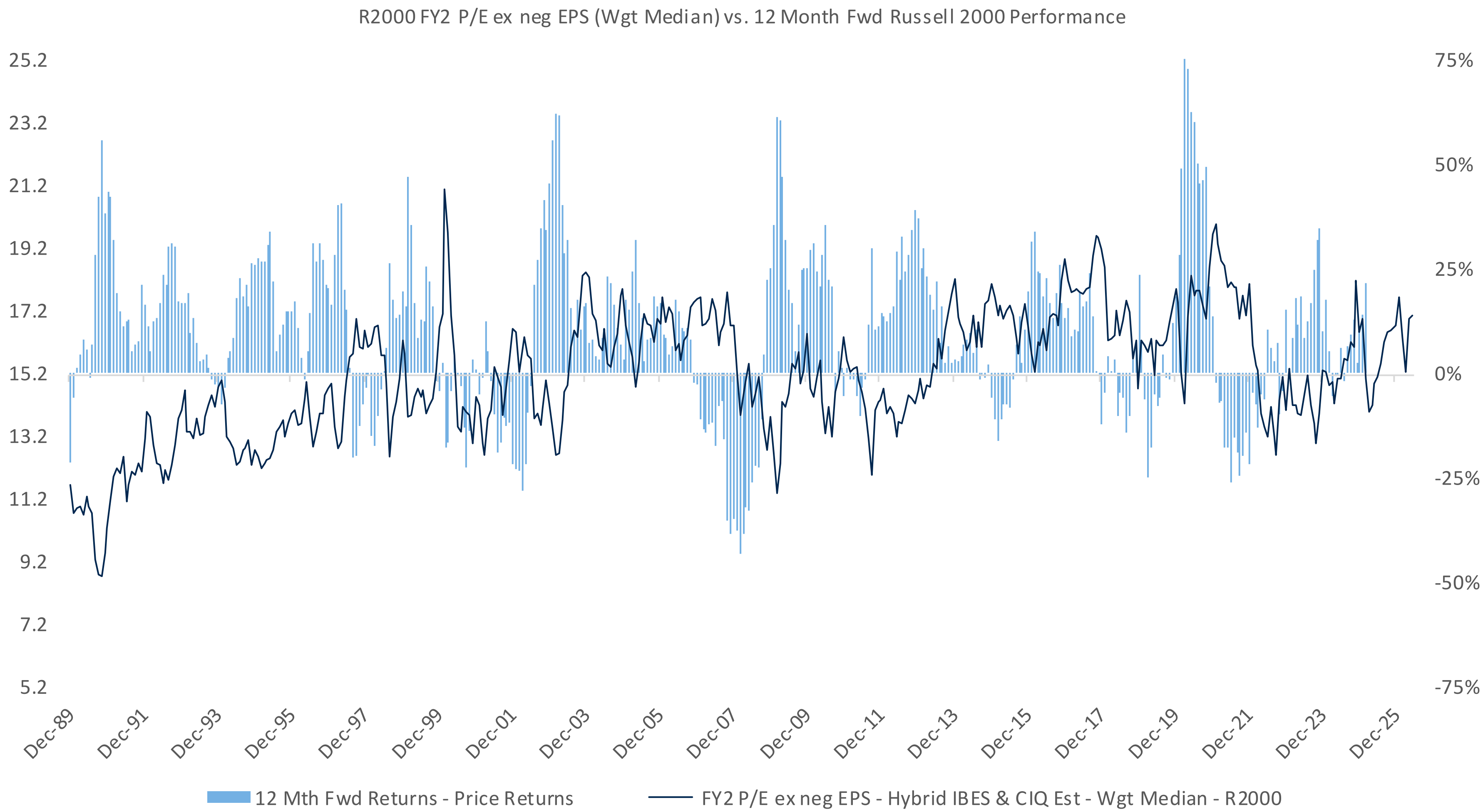
Source: RBC US Equity Strategy, S&P, S&P Capital IQ/ClariFi, CIQ estimates, IBES estimates, as of May 26, 2026. Mid-month basket portfolio rebalancing applied.

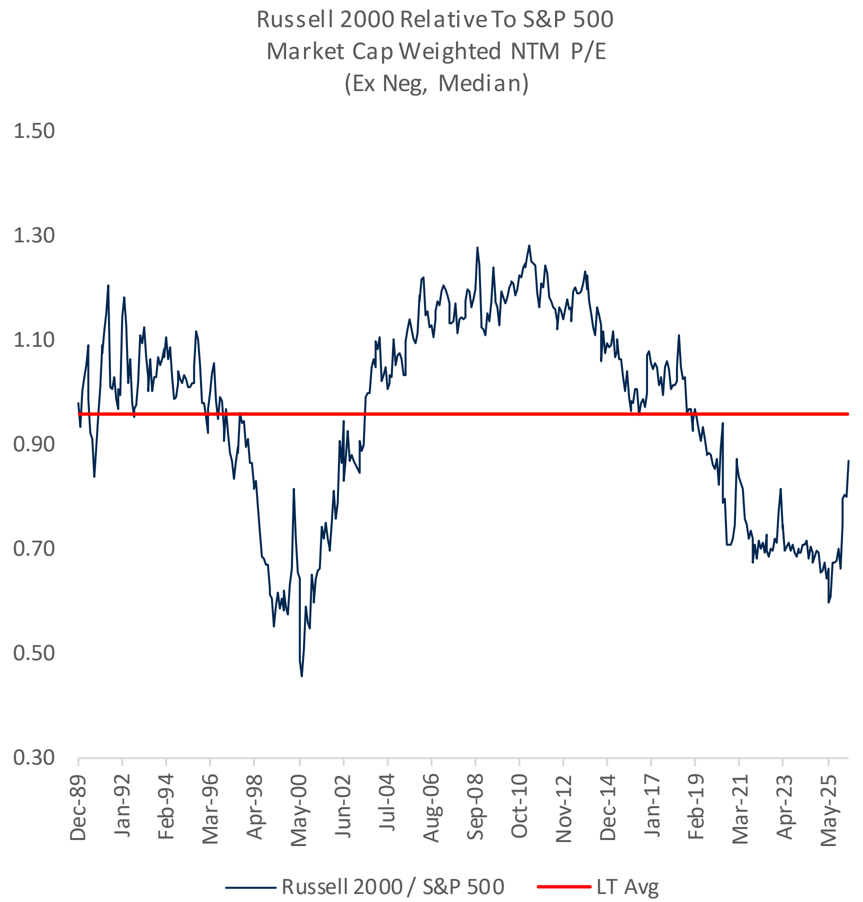
The Russell 2000 FY2 P/E Is Back Above Its Long-Term Average, But Not Yet Recent Highs

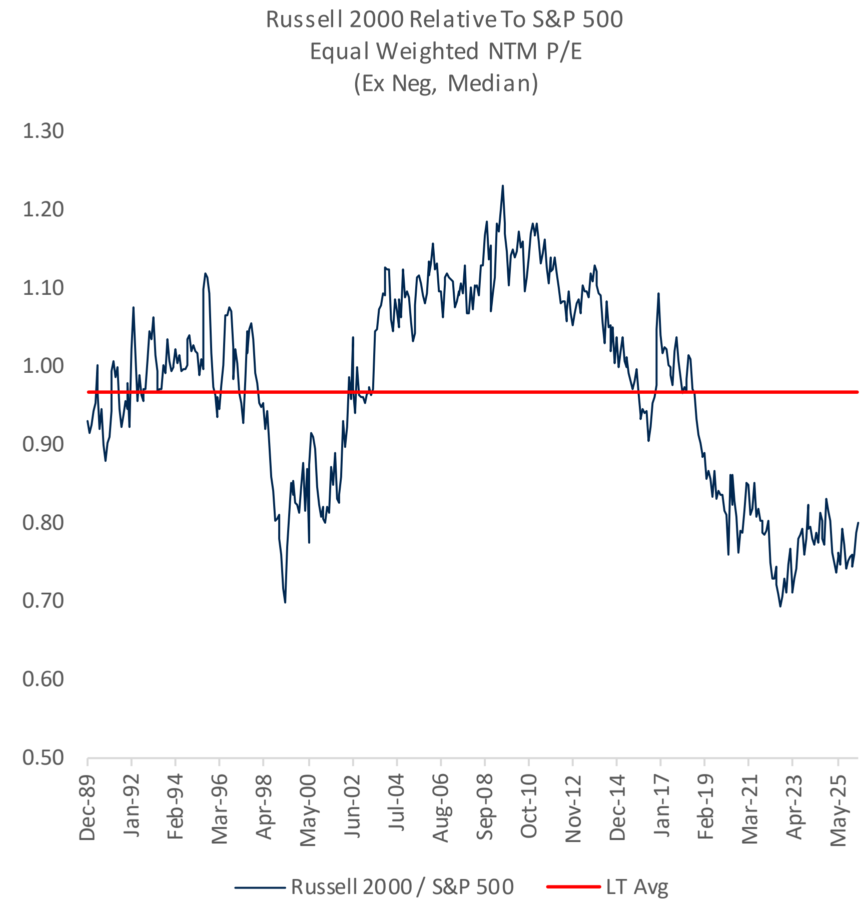
- The Russell 2000 forward P/E hit 12.65x when the stock market hit its YTD low in early April. That was a significant milestone, as this indicator often bottoms in the 11-13x range. That level was also in line with its 2022 and 2023 lows.
- At January month-end, this stat was 17.5x, close to the November-2024 high of 18.1x. On an intramonth basis, this metric got even closer to the November-2024 level.
- As of late-May 2026, this metric is 17.07x – above its long-term average of 15.18x (it briefly dipped below it in March). A return to the November-2024 and January-2026 highs will be an important test for the market. A return to even higher levels is possible based on history, but it's worth noting that the index failed to break out earlier this year.



Source: RBC US Equity Strategy, Russell, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 26, 2026

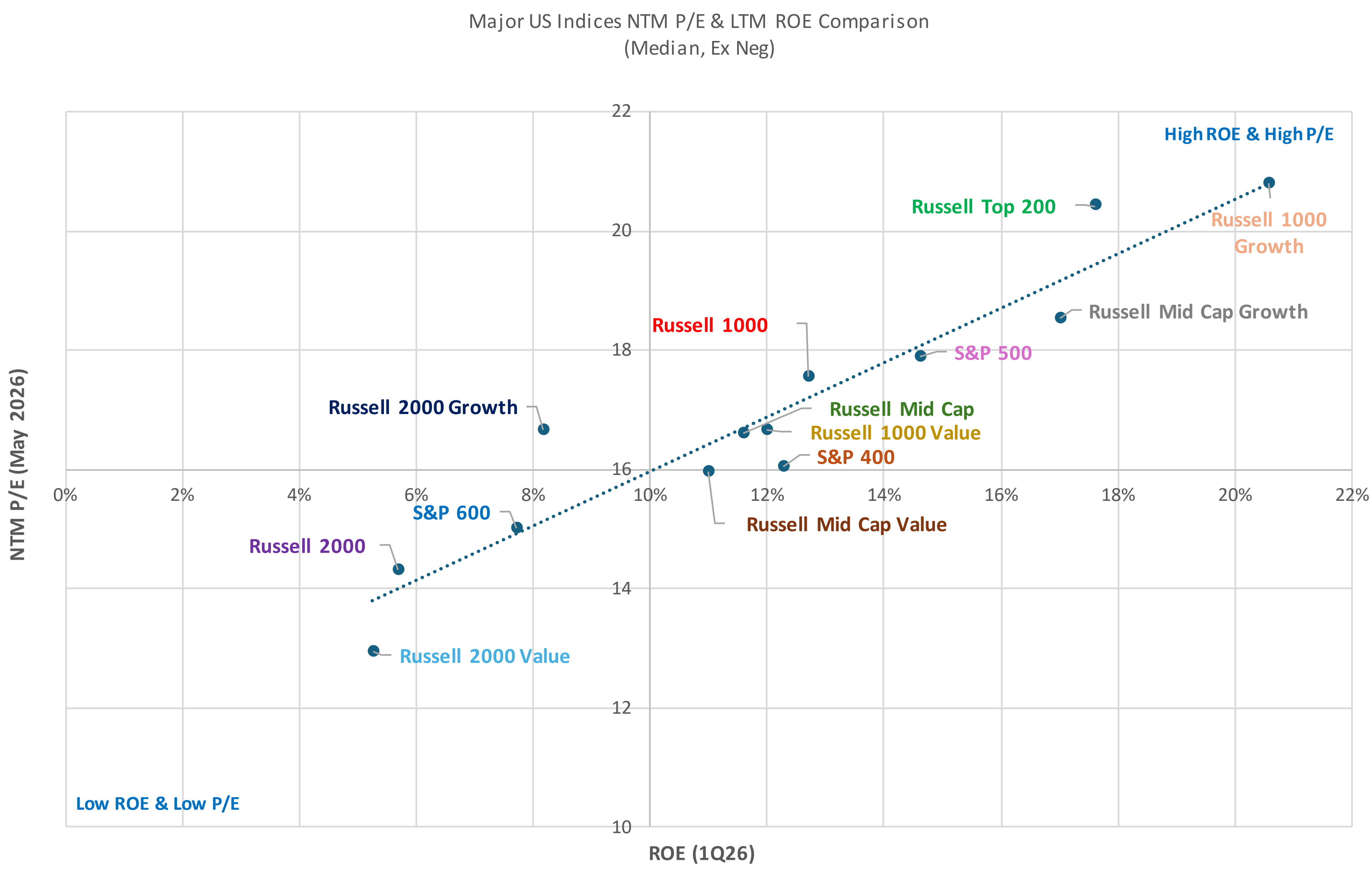
Russell 2000 Remains Undervalued Vs. S&P 500 On NTM P/E





Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, S&P, Russell, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 26, 2026.

The Russell 2000's Lower P/E Vs. The S&P 500 Reflects Its Lower ROE



Source: RBC US Equity Strategy, Russell, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of 5/26/2026
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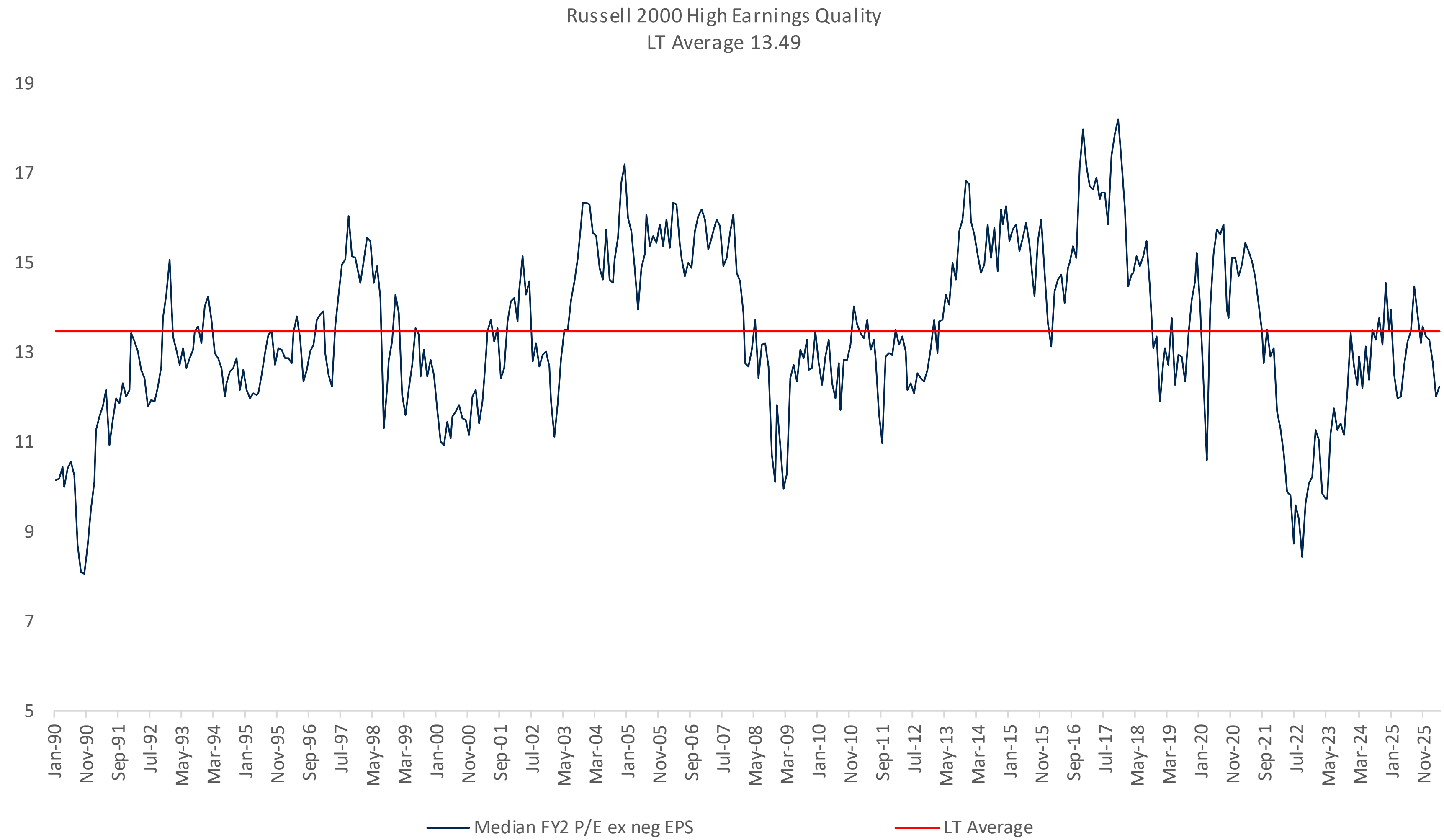
High Earnings Quality Trades At A Discount Within Small Cap On Forward P/E

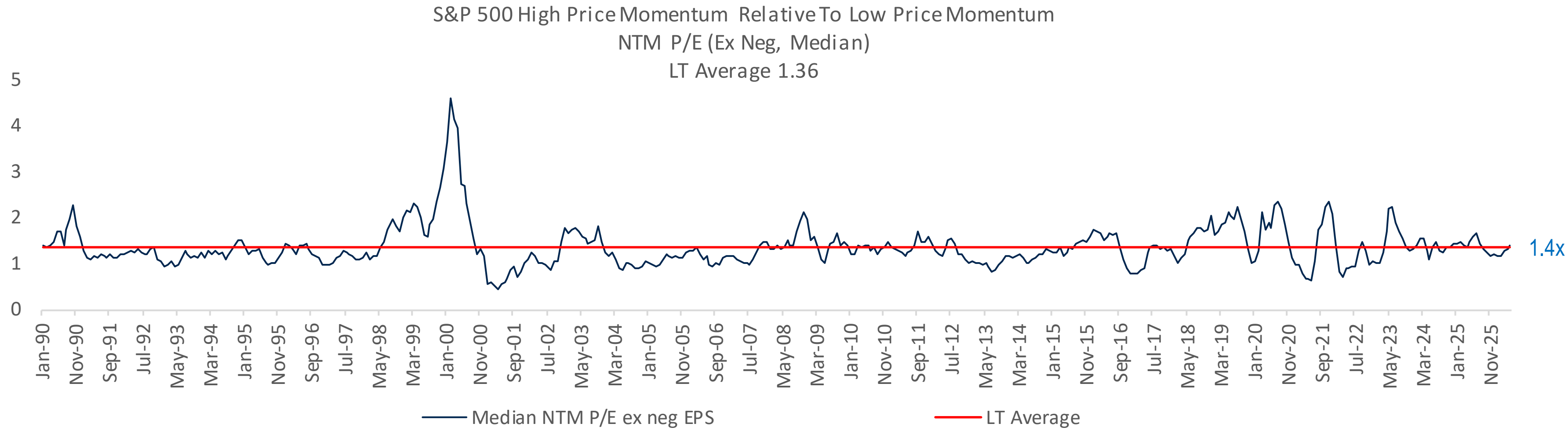
- We examined median valuation multiples for the high-EPS-quality baskets within the Russell 2000. We found that the high-EPS-quality basket's forward P/E is below its historical average, suggesting to us that valuation opportunities do exist within this cohort.

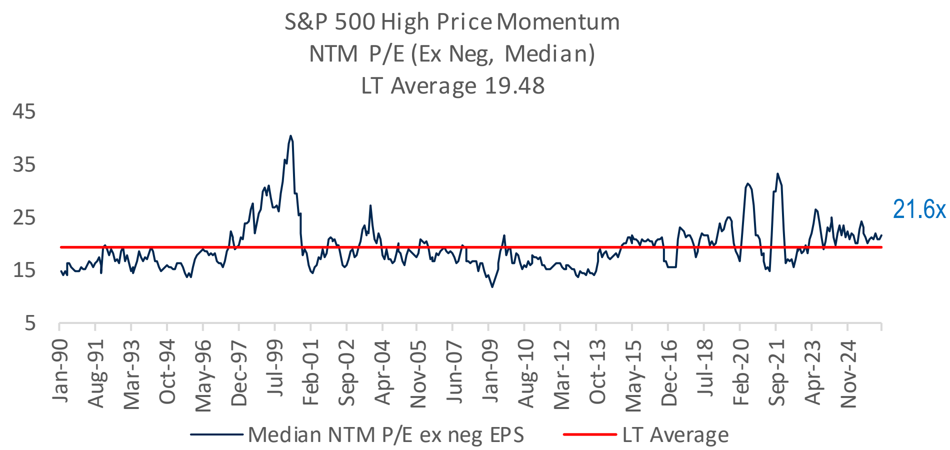


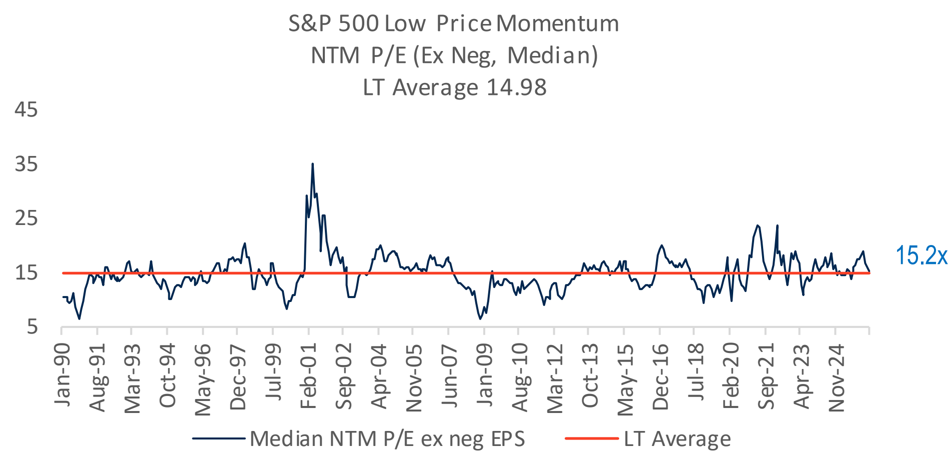
Note: The earnings quality factor is a sector-neutral, equal-weighted multifactor based on historical constituents that combines the trailing 12-month return on equity, earnings stability (measured as the ratio of the one-year change in EPS to the standard deviation of the one-year change in EPS across eight prior periods), and the distinction between positive and negative earnings based on whether EPS is above or below zero.
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of May 26, 2026.

High Price Momentum Large Caps Look Fairly Valued Vs. Low Price Momentum Stocks

- High momentum stocks continue to trade at a premium to low momentum peers, but the relative valuation spread is sitting in line with its long-term average and well below most prior peaks.







Note: The price momentum factor is a sector-neutral, equal-weighted factor based on historical constituents that measures the strength and the direction of a price movement depending on the direction of the 50-day moving average relative to the 200-day moving average.
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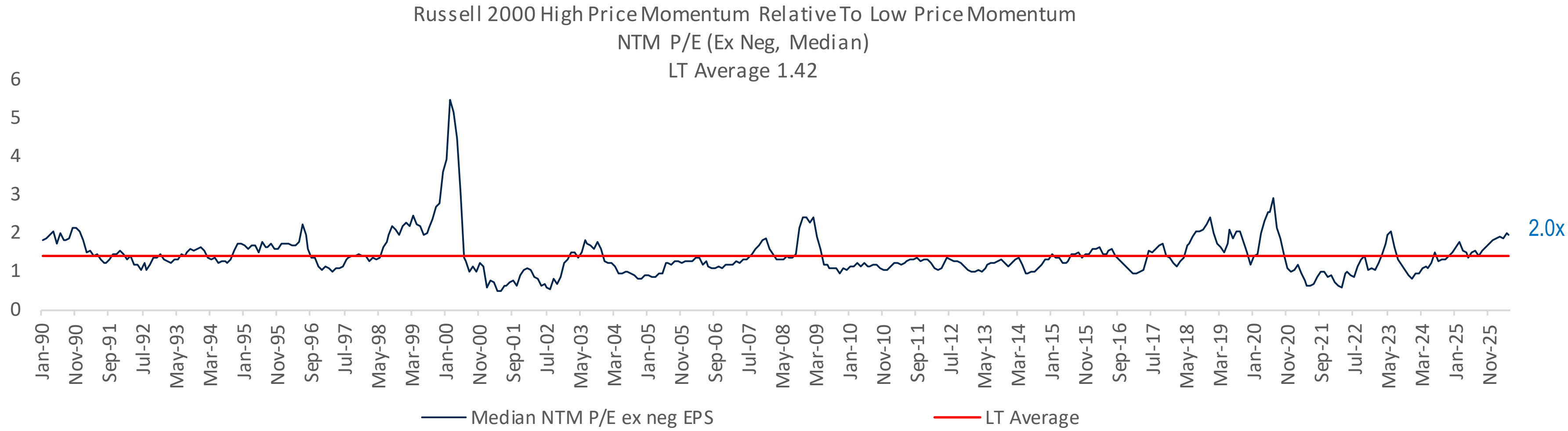
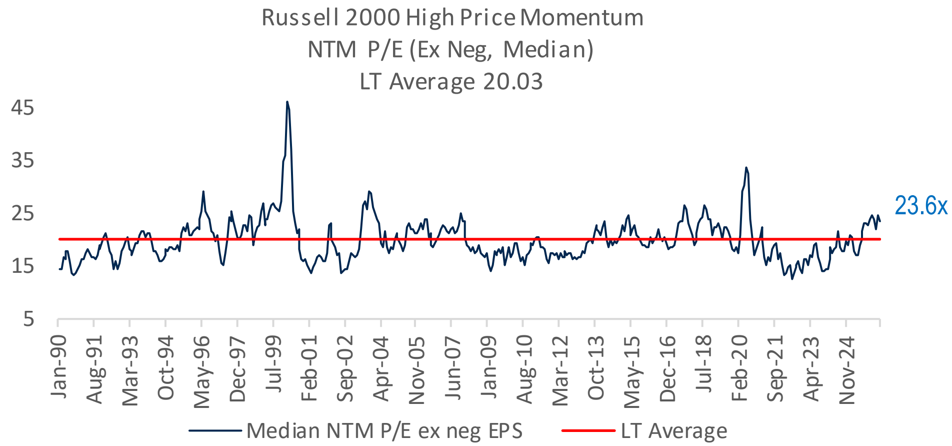
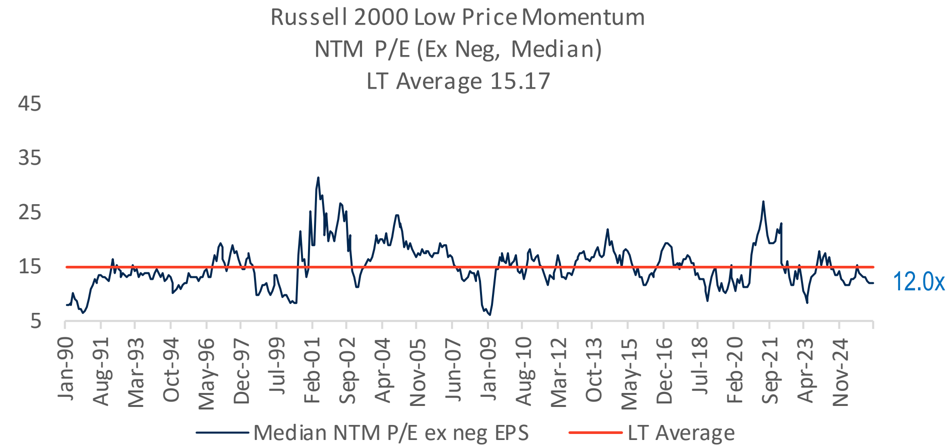
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of 5/26/2026

High Price Momentum Small Caps Look Expensive, While Low Price Momentum Names Look Cheap

- Valuation premiums for high momentum small cap have re-expanded recently, driven by improving investor preference for leadership-oriented exposures within the asset class. Absolute valuations for this cohort are above average. We see the opposite for low price momentum names, where the P/E is below average. Overall, the relative P/E of high momentum vs. low momentum is above average, though not back to peak.







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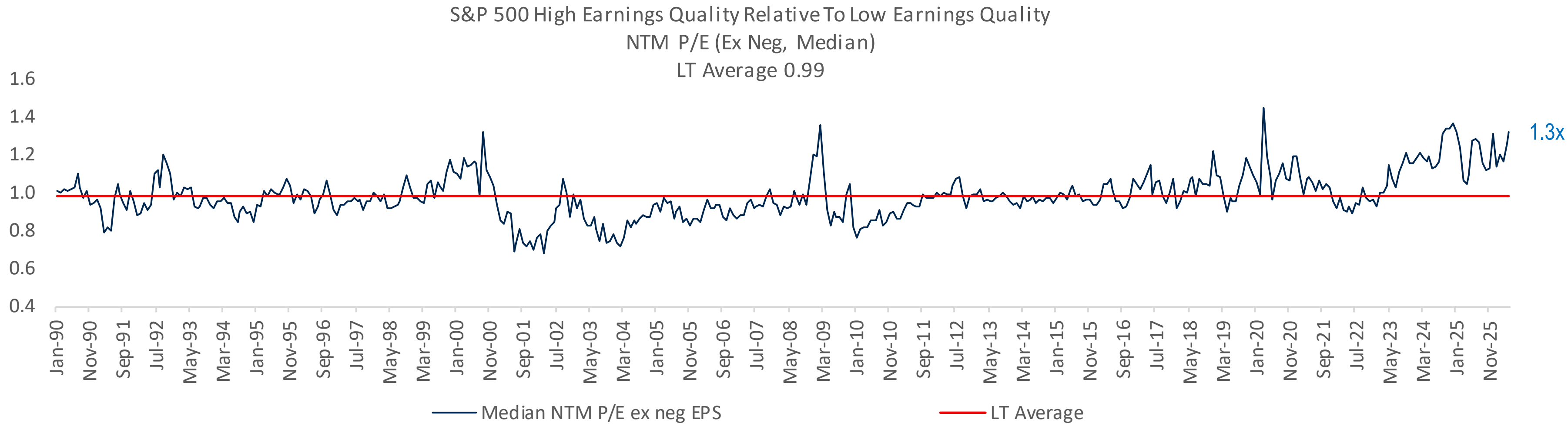
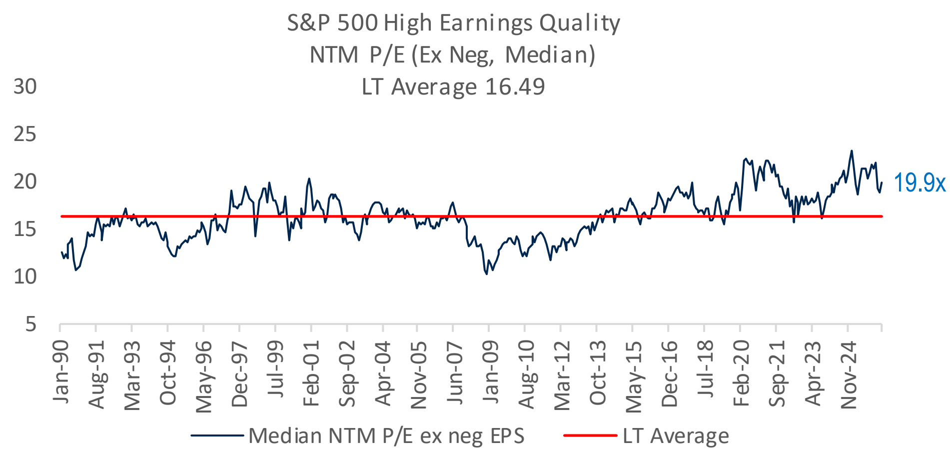
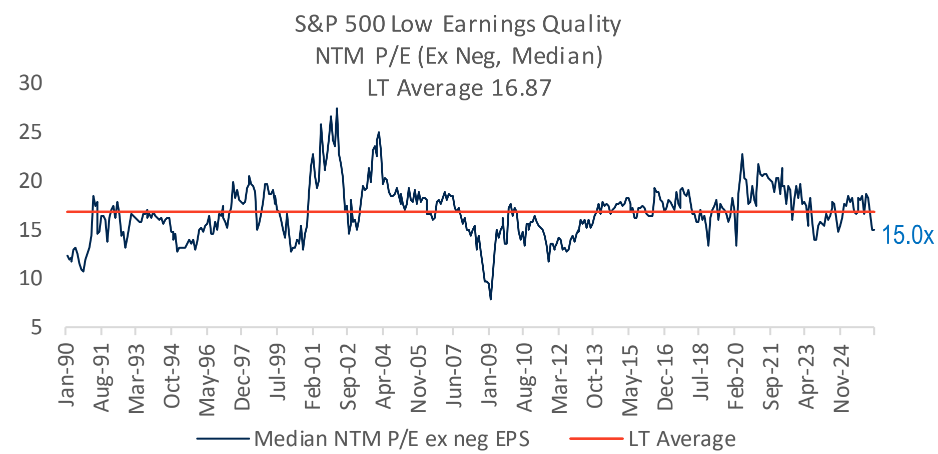
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of 5/26/2026.

High Earnings Quality Continues To Command A Premium Within Large Cap

- High EPS-quality large caps currently trade +19x forward earnings (above average) versus roughly 15x for lower quality peers (below average), with the relative spread now well above historical norms.
- The widening quality premium suggests investors are willing to pay up for companies with stronger earnings visibility and more durable fundamentals.







Note: The earnings quality factor is a sector-neutral, equal-weighted multifactor based on historical constituents that combines the trailing 12-month return on equity, earnings stability (measured as the ratio of the one-year change in EPS to the standard deviation of the one-year change in EPS across eight prior periods), and the distinction between positive and negative earnings based on whether EPS is above or below zero.
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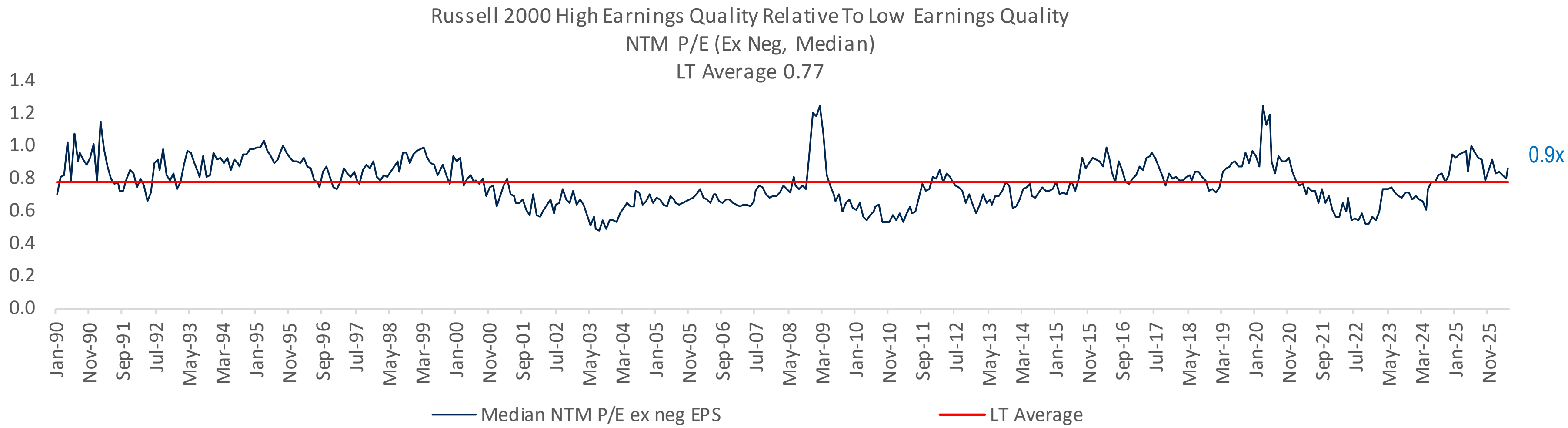
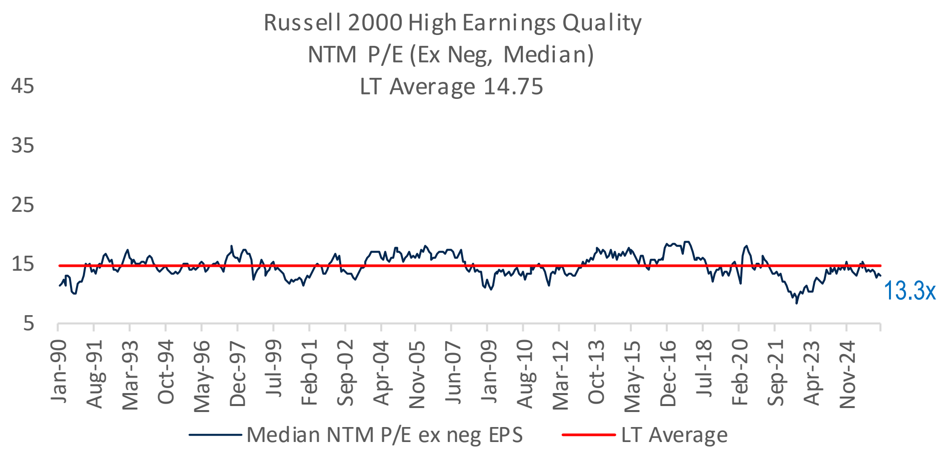
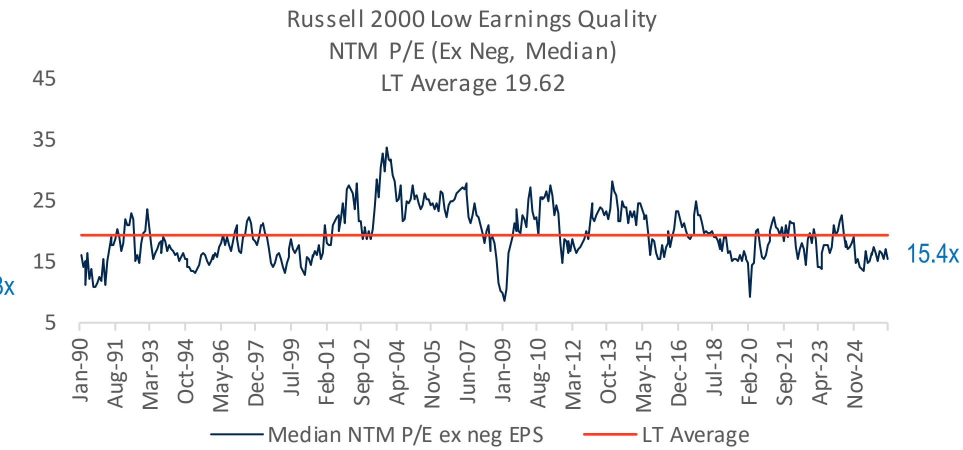
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of 5/26/2026.

High Earnings Quality Small Caps Command A Modest Premium

- High-EPS-quality small caps trade near historical valuation averages, while low EPS-quality cohort remains below long-term norms.
- As a result, the relative quality premium within small caps remain modestly above historical averages, suggesting investors continue to favor earnings stability and higher quality balance sheet profiles.







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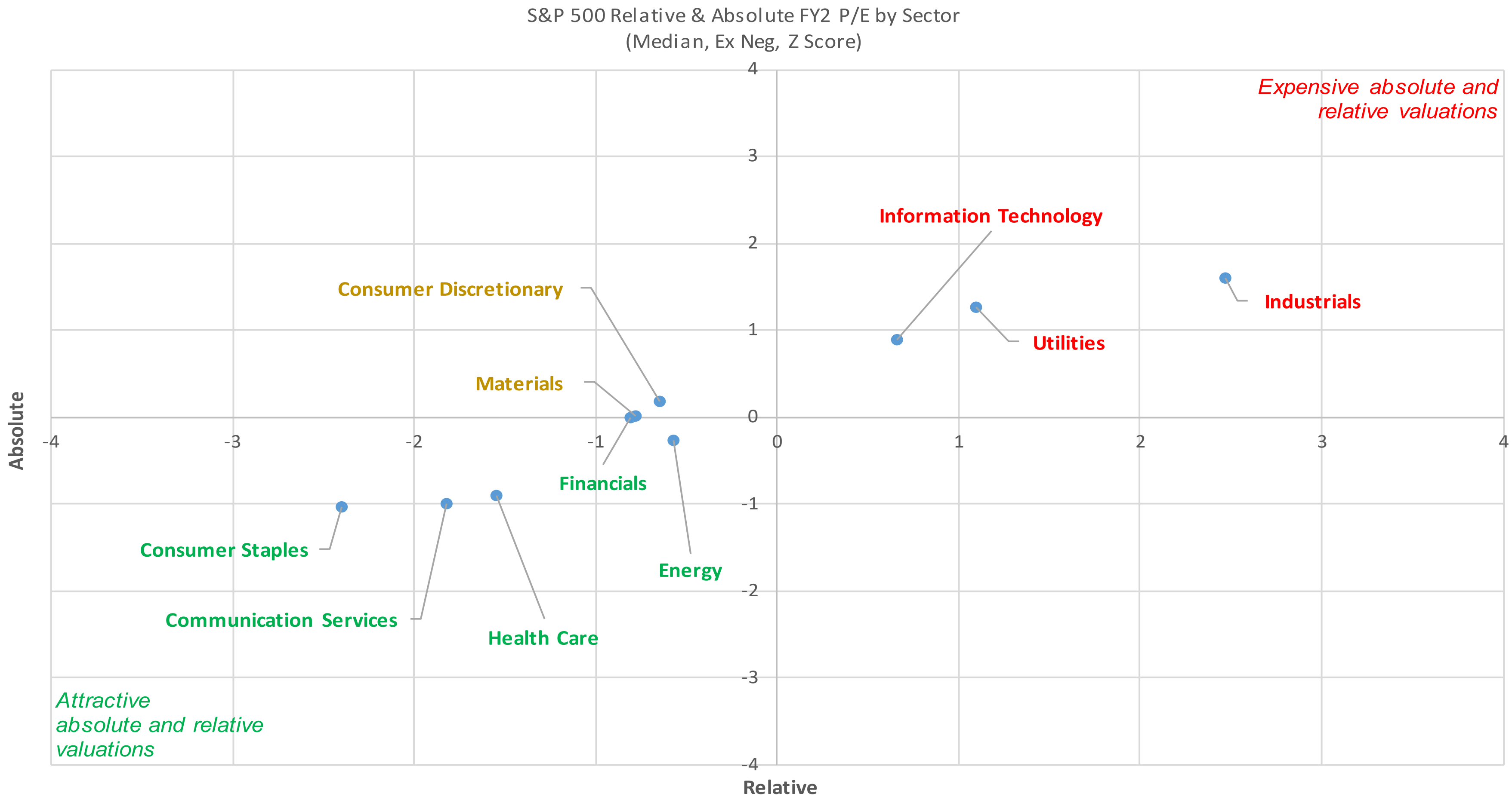
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of 5/26/2026.

Industrials, Utilities, And Tech Look Most Expensive Within Large Cap

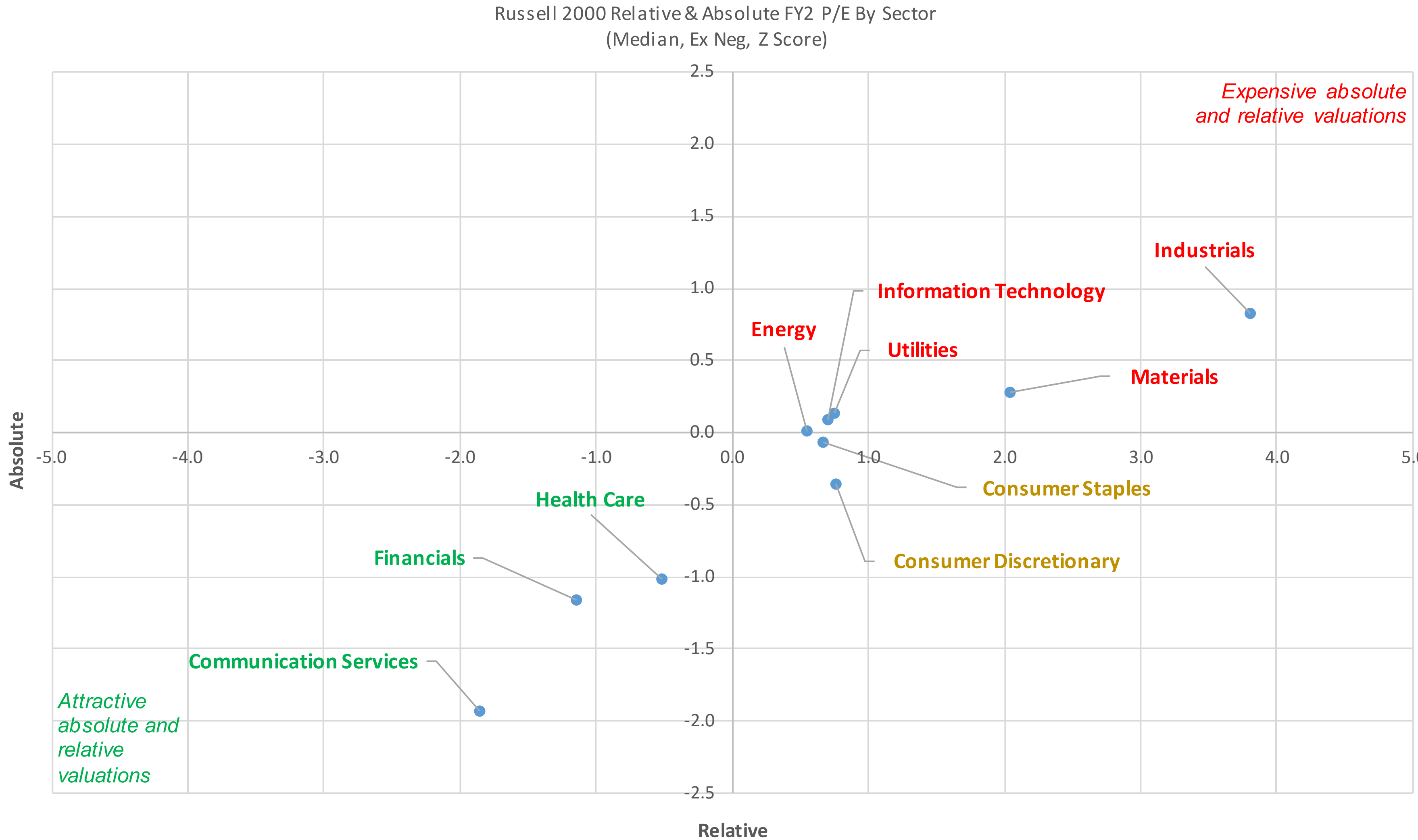
- Consumer Discretionary and Materials are slightly above their long-term averages on an absolute P/E, but slightly attractive/close to average on a relative P/E basis.
- Tech is now expensive on both an absolute P/E and relative P/E basis.
- Meanwhile, Energy, Health Care, Communication Services, Financials, and Consumer Staples look attractively valued on both absolute and relative P/E – more so on relative than absolute.



Note: Excludes REITs; data since December 1989 for all sectors ex REITs; as of May 26, 2026.
Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, S&P

Valuations Look Most Attractive In Comm Svcs, Financials & Health Care Within Small Cap

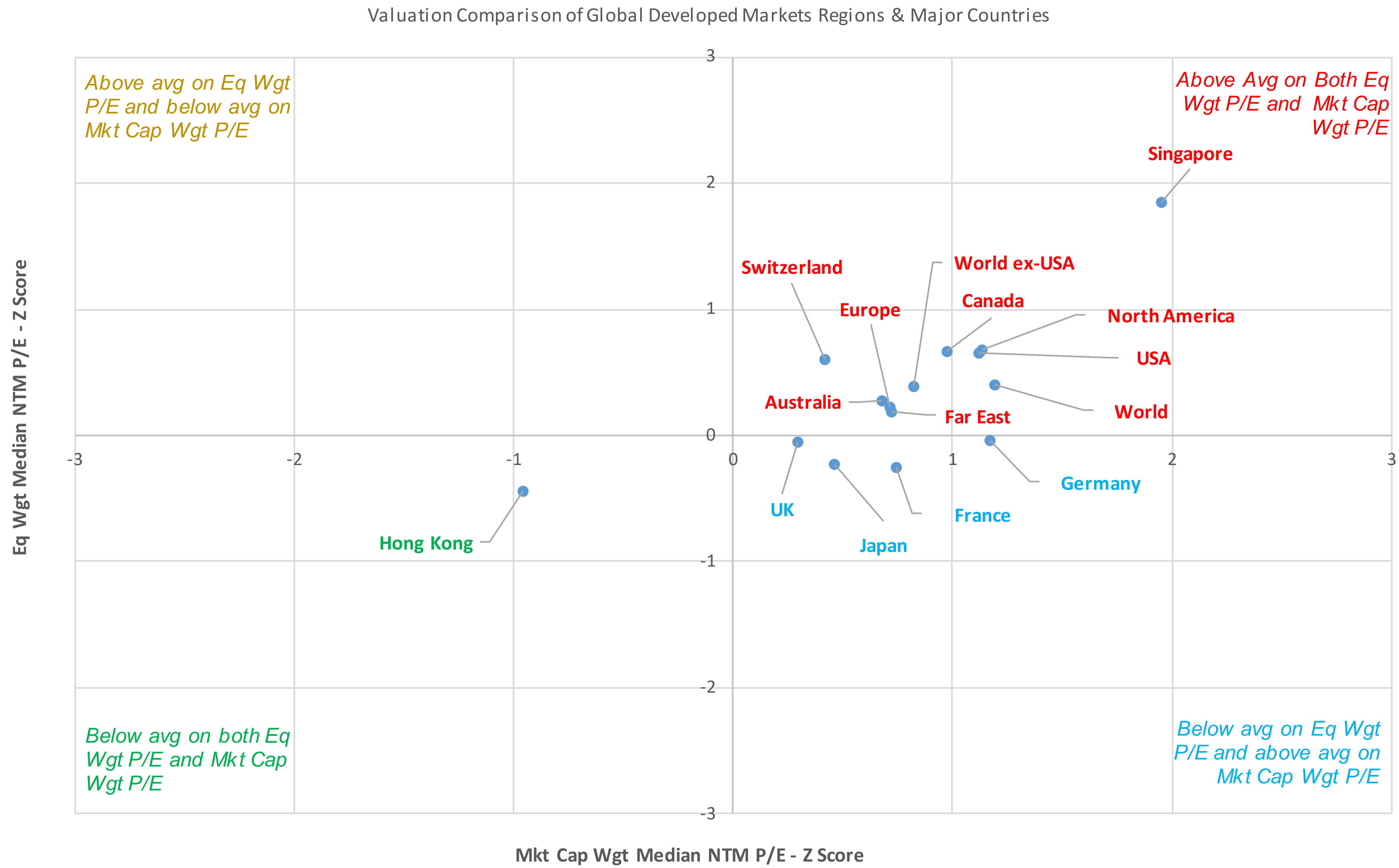
- Info Tech, Utilities, Energy, and Materials sectors screen expensive on a relative P/E basis and somewhat neutral on an absolute P/E basis. The Industrials sector in the Russell 2000 stands out as the most expensive, especially on a relative P/E basis.
- Consumer Discretionary and Consumer Staples screen attractive on an absolute P/E basis, but expensive on a relative P/E basis. This is a recent development for Info Tech.



Notes: Excludes REITs; data since December 1989 for all sectors ex REITs; as of May 26, 2026.
Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell

North America Has Been Driving Up Global Developed Market Equity Valuations

- It is no surprise that the US doesn't look cheap. More interesting to us is that Singapore looks more overvalued than other major developed market countries. That was also true for Canada until recently.
- While World ex USA and Europe don't look cheap, valuations look more reasonable than what we see in North America and the commodity-driven countries. Note within Europe, Germany and France look expensive on a market cap-weighted basis.



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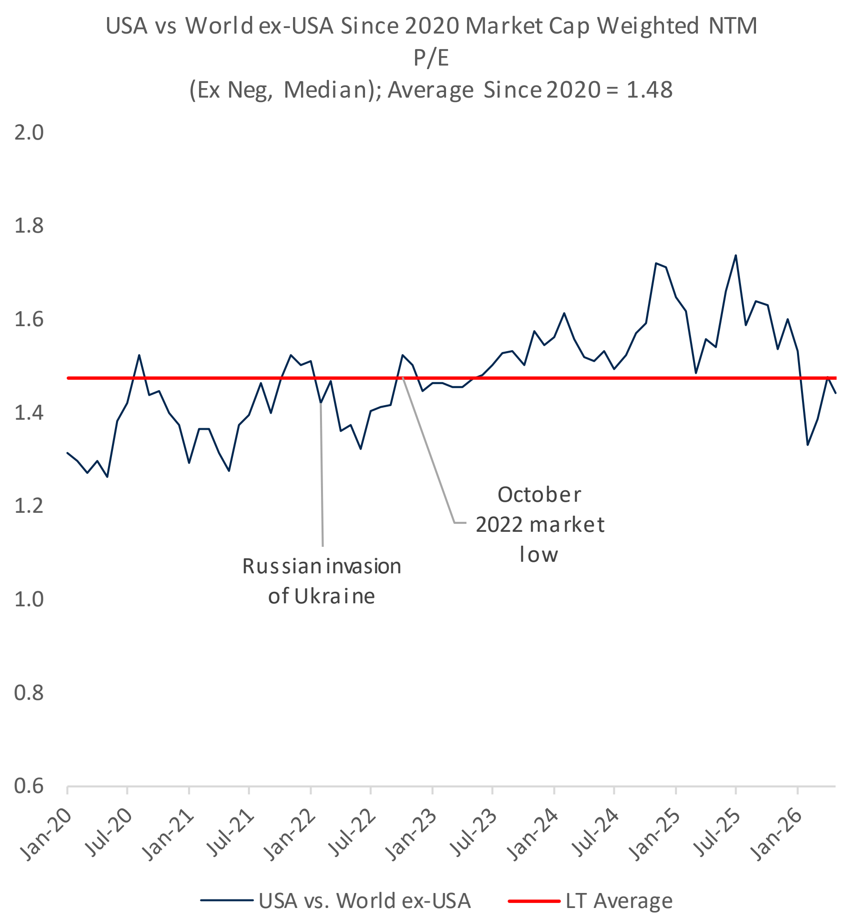
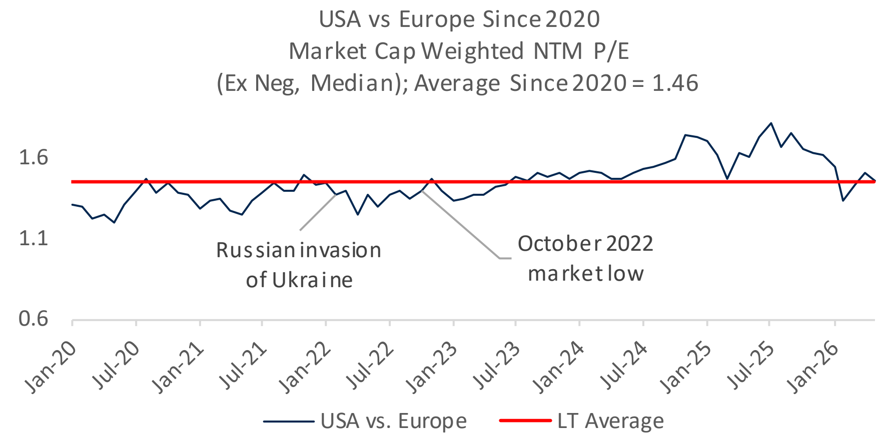
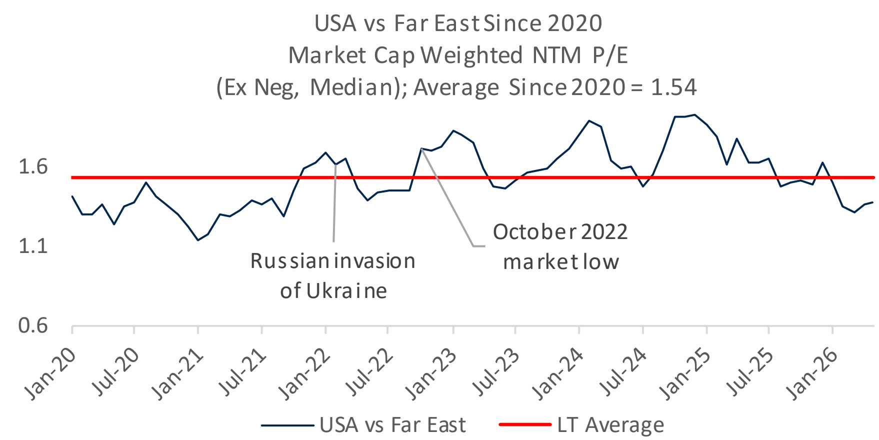
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 26, 2026; please see the MSCI disclaimer at the end of this report; regions/countries based on MSCI constituents with negative earners excluded.

US P/E Is In Line With Its Five-Year Average Relative To Non-US And Europe

- In late 2025/early 2026, we saw the US P/E compress relative to Non-US, Europe, and the Far East. Those declines took the US below its post-COVID average relative to non-US, Europe, and the Far East. We think AI fears were largely responsible for the relative P/E compression seen late last year, setting up for a defensive trade back into the US after the US strikes on Iran occurred.
- Since the low in the broader market in late March, US valuations have been climbing relative to non-US valuations again. They are back at average but don't look extreme yet.



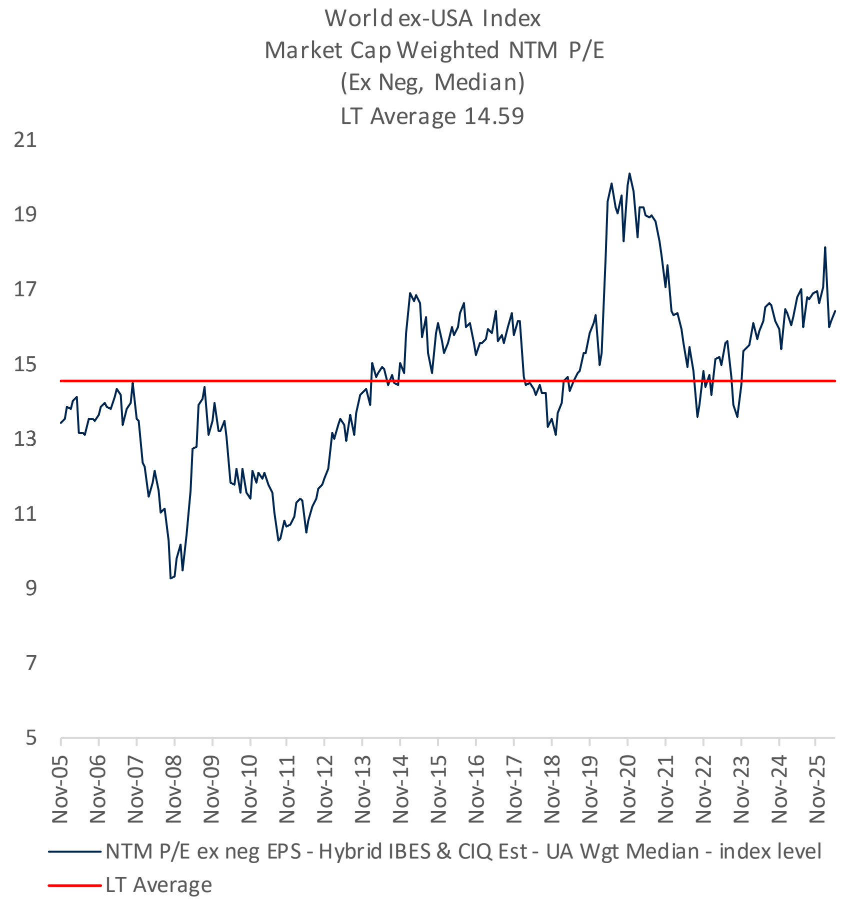


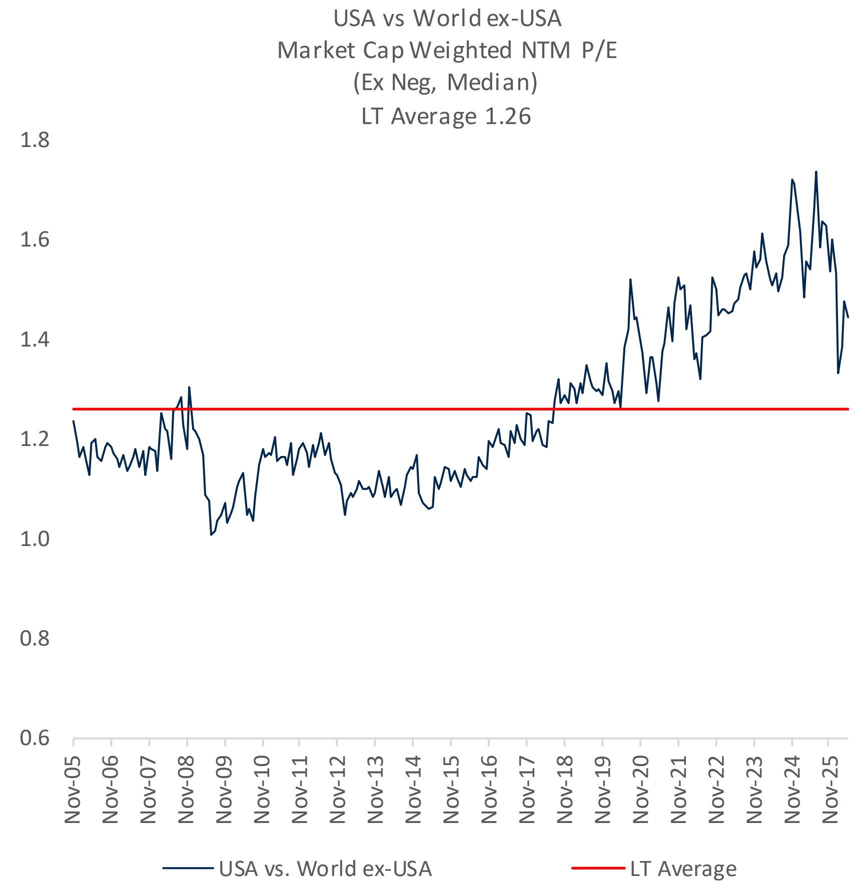


Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 26, 2026; please see the MSCI disclaimer at the end of this report; regions/countries based on MSCI constituents with negative earners excluded.

US Premium Relative To Non-US Dropped Sharply Ahead Of The War, Is Returning Again

- The US valuation premium over the rest of the world fell last fall and in early 2026, and got close to its long-term average in February ahead of the Iran war. The US has begun to rebuild its premium in recent updates, but is not yet back to past highs.





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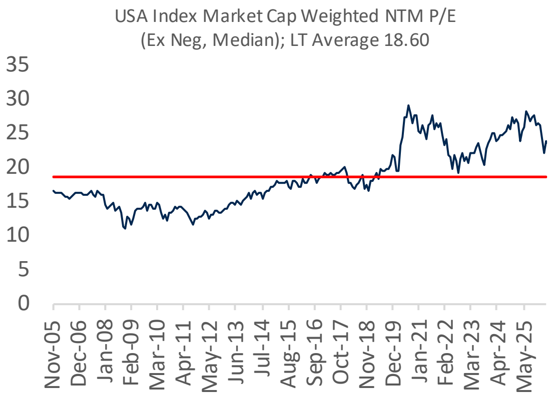
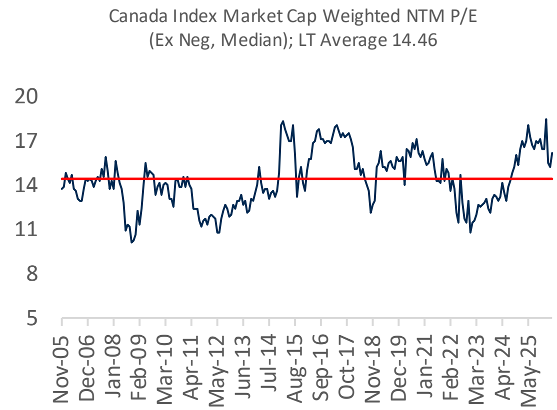
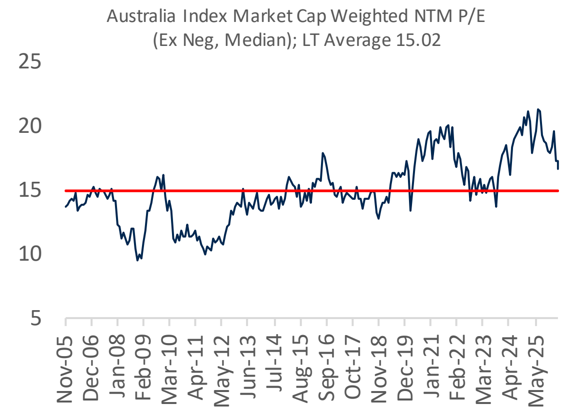
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 26, 2026; please see the MSCI disclaimer at the end of this report; regions/countries based on MSCI constituents with negative earners excluded.

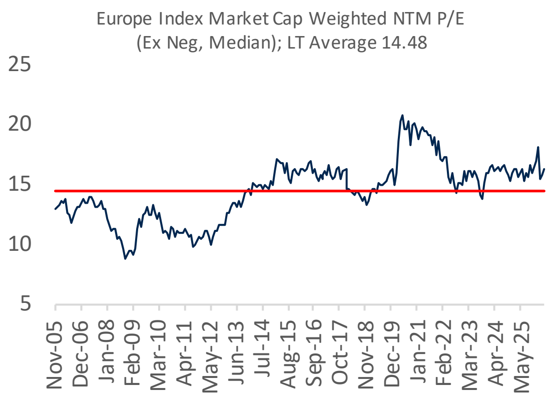
Key Major Non-US Developed Market Countries Have Seen Their P/Es Move Down

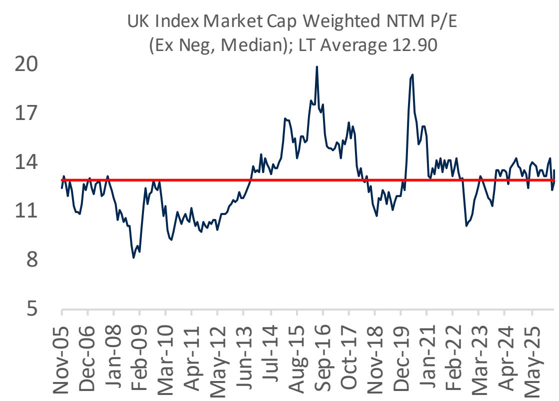
- The US P/E has started to rebound. We are also seeing a little lift in Canada and Europe, but Australia has continued to move lower.
- In the case of Canada and Australia, early-2026 levels were close to or in line with past highs.

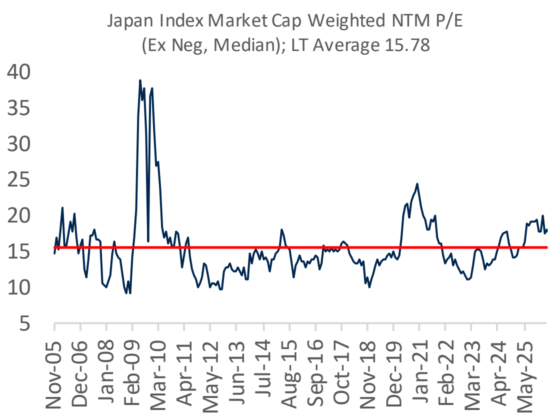












Note: The red line represents the long-term average of the time series.
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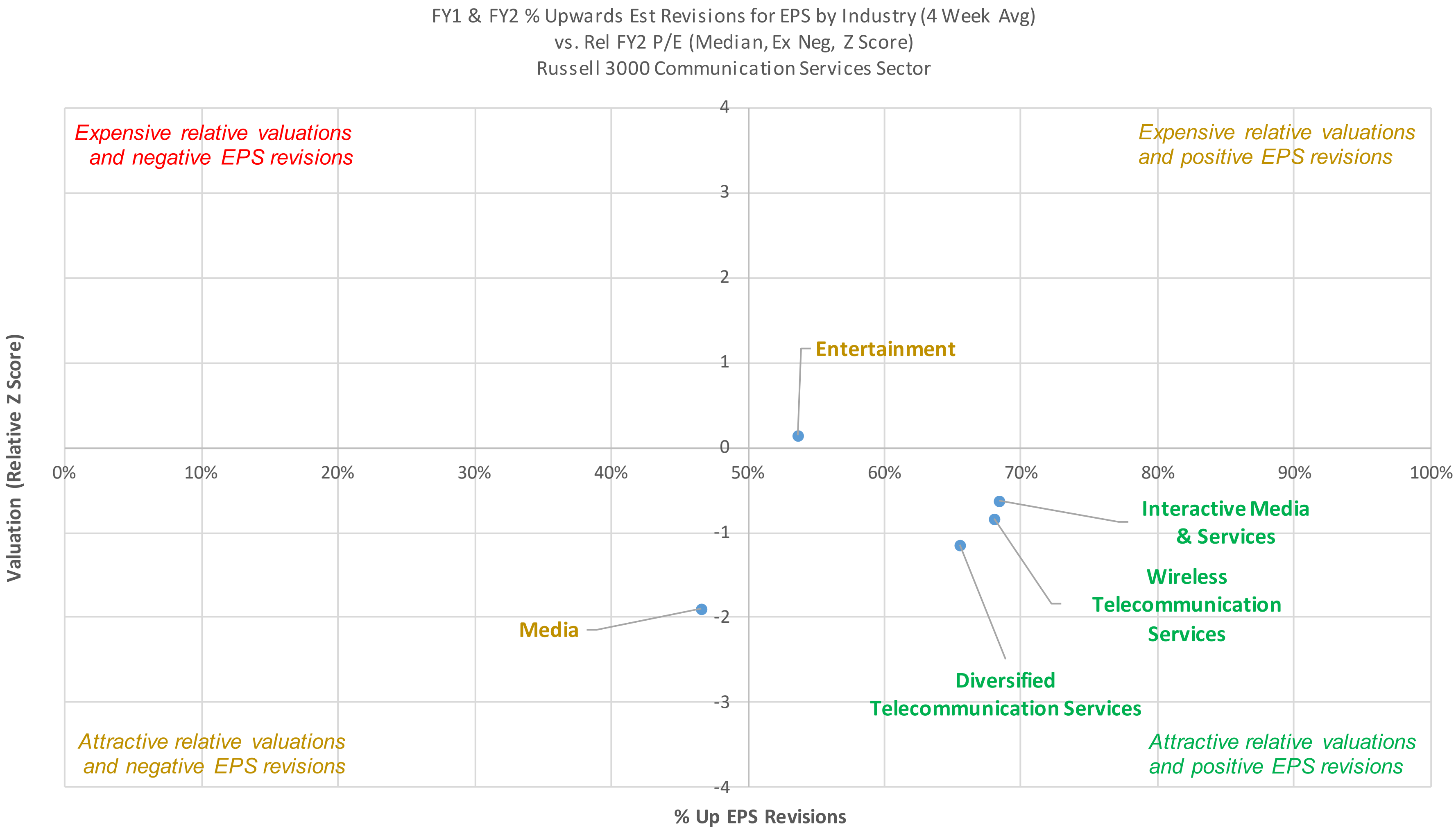
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 26, 2026; please see the MSCI disclaimer at the end of this report; countries based on MSCI constituents with negative earners excluded.

Within Comm Svcs, All Industries Look Attractively Valued Except For Entertainment

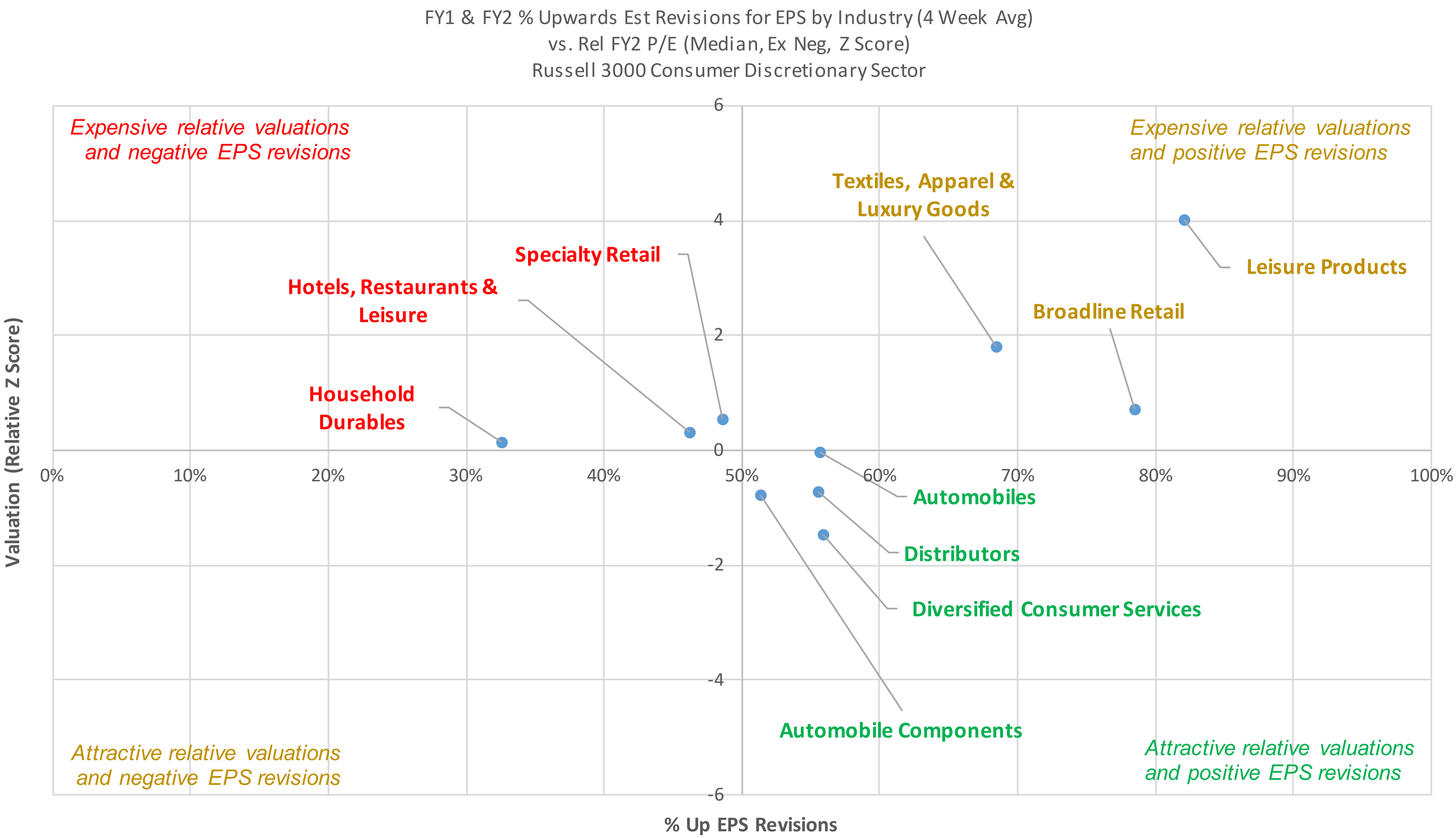
- Interactive Media & Services, Diversified Telecommunication Services, and Wireless Telecom Services have attractive valuations and positive revisions.
- Media has negative EPS revisions, but attractive valuations.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell, as of May 26, 2026

Within CD, More Industries Are Starting To Have Positive EPS Revisions

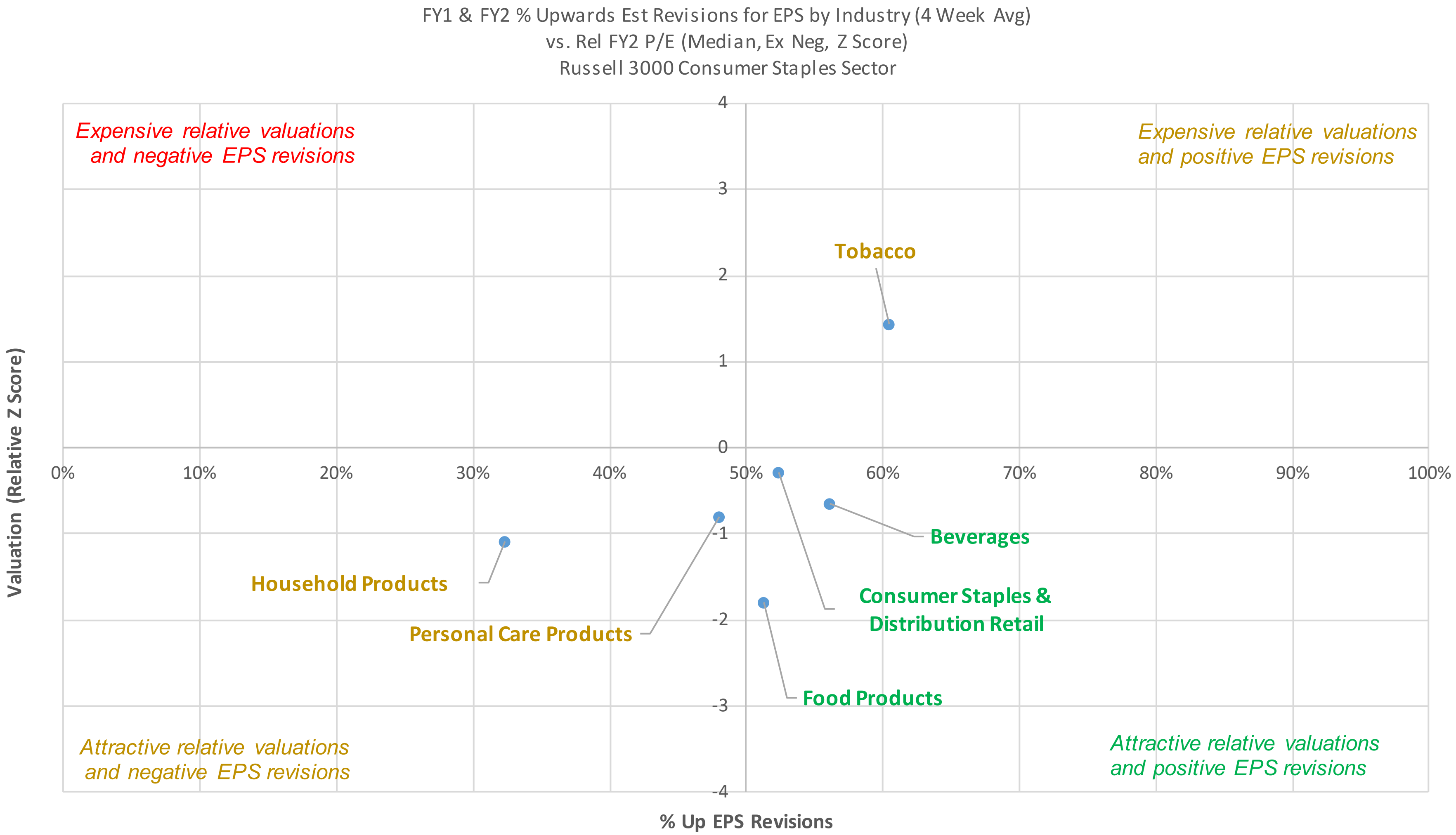
- Household Durables, Hotels, Restaurants & Leisure, and Specialty Retail look pricey and have weak EPS revisions. Textiles, Apparel & Luxury Goods, Leisure Products, and Broadline Retail have positive revisions but expensive valuations. These are all areas that may be more vulnerable to the impacts of higher energy costs going forward given the lack of valuation appeal.
- Diversified Consumer Services. Distributors, Automobiles, and Automobile Components are the only bright spots with slightly attractive valuations and positive earnings revisions.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 26, 2026

Within Staples, More Industries Are Also Starting To Have Positive EPS Revisions

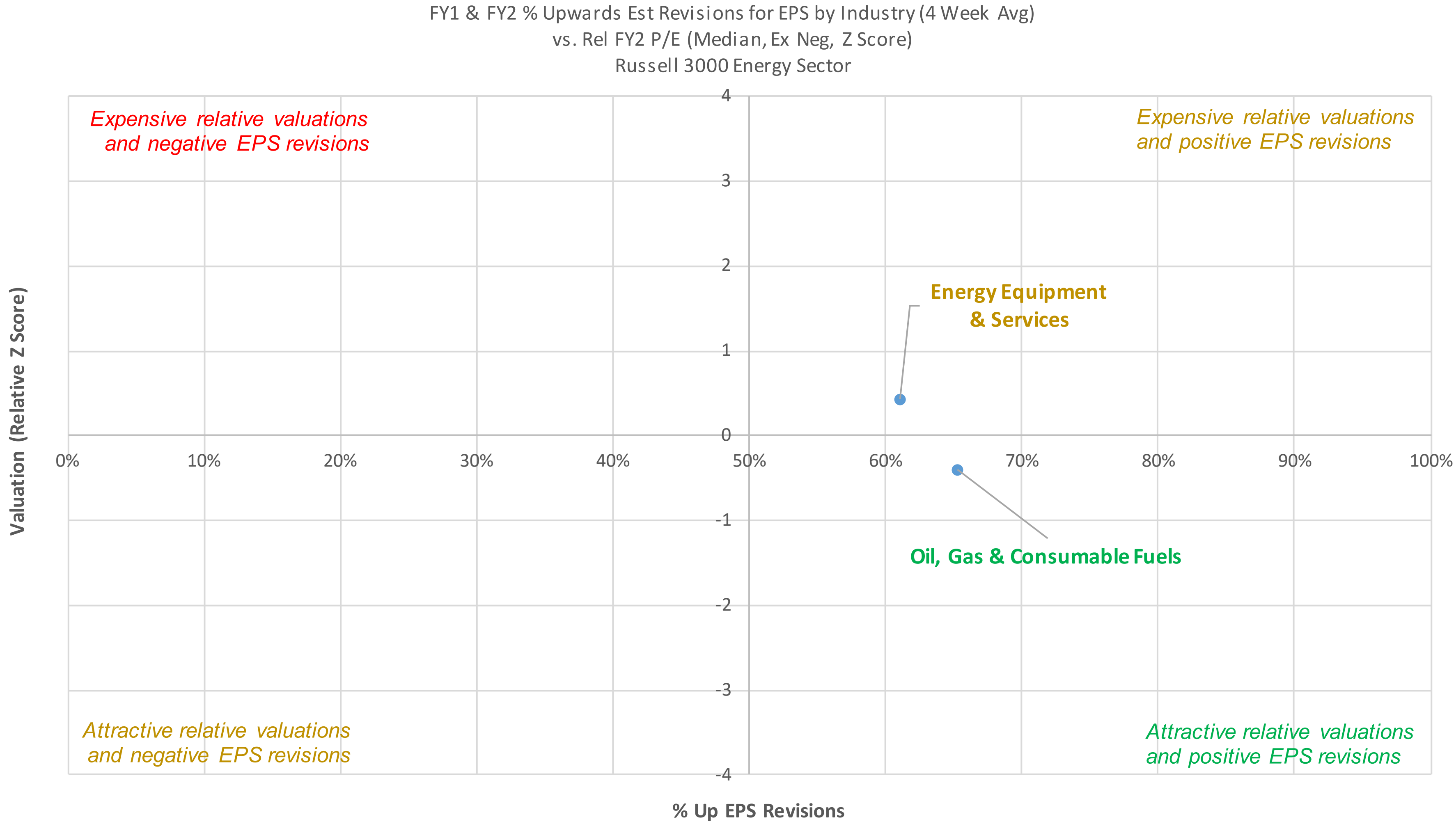
- Most groups now have positive EPS revisions. Beverages, Consumer Staples & Distribution Retail, and Food Products have positive revisions alongside attractive valuations. Tobacco stands out with expensive valuations but positive EPS revisions.
- Household Products and Personal Care Products have attractive relative valuations but with negative EPS revisions.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 26, 2026

Within Energy, Valuations Are Close To Average For Both Industries

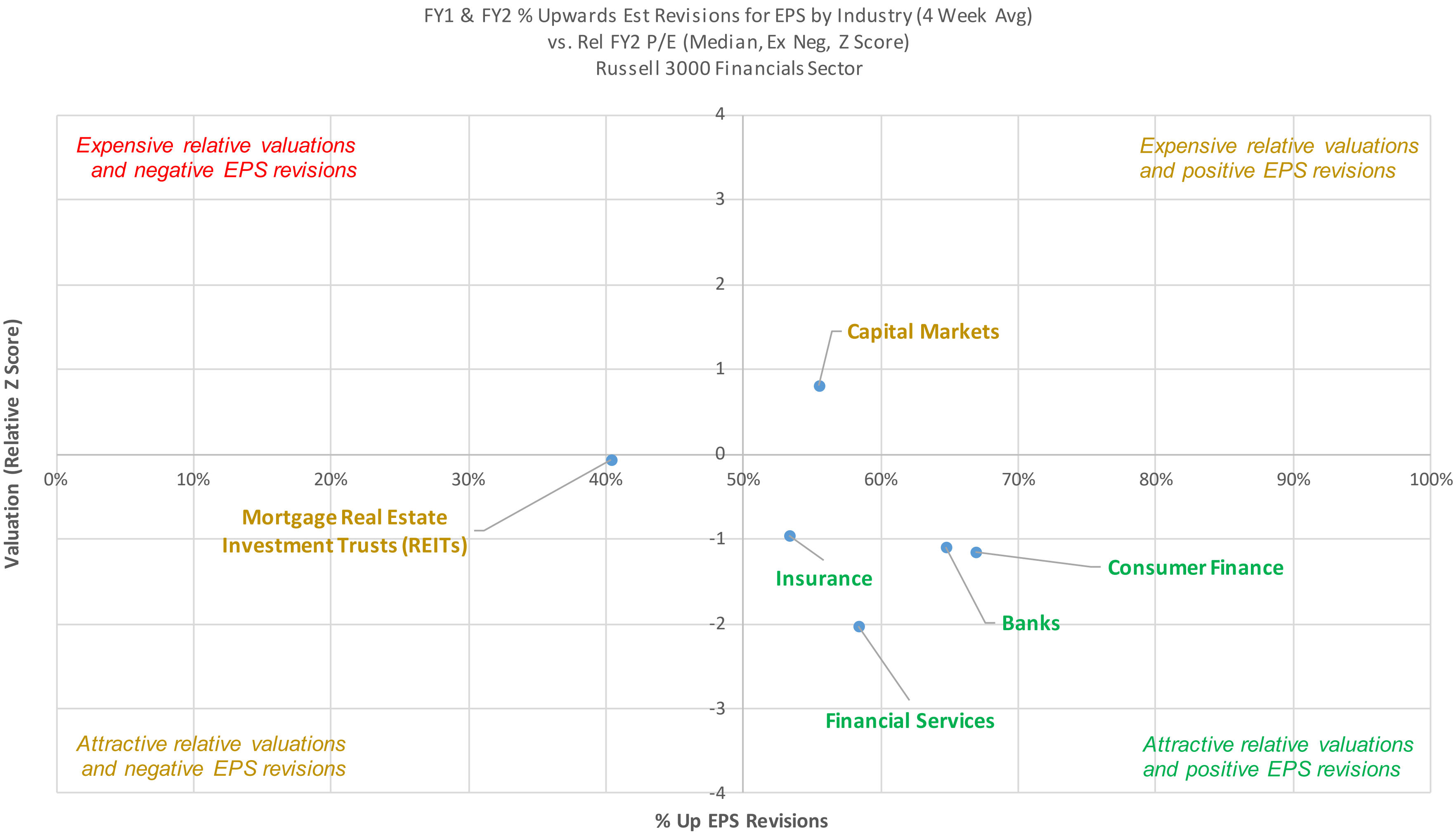
- We see a little more valuation appeal in the oil and gas names.
- Both industries have positive EPS revisions, but those for Oil, Gas & Consumable are much stronger than those for Energy Equipment & Services.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 26, 2026

Within Financials, Capital Markets Are Still Screening Slightly Expensive With Negative EPS Revisions

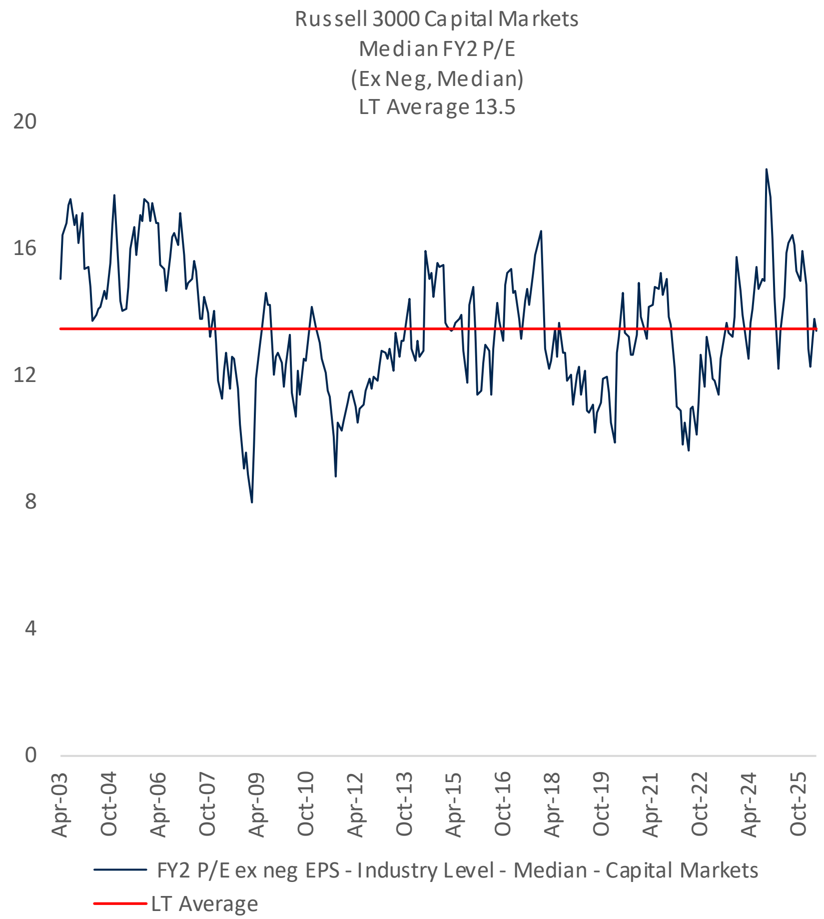
- Capital Markets was expensive to start the year. Valuations had improved to average levels but have turned slightly expensive again.
- Banks, Consumer Finance, Financial Services, and Insurance have attractive valuations and screen positive on their EPS revisions.
- Mortgage REITs have attractive valuations too but screen negative on their EPS revisions.

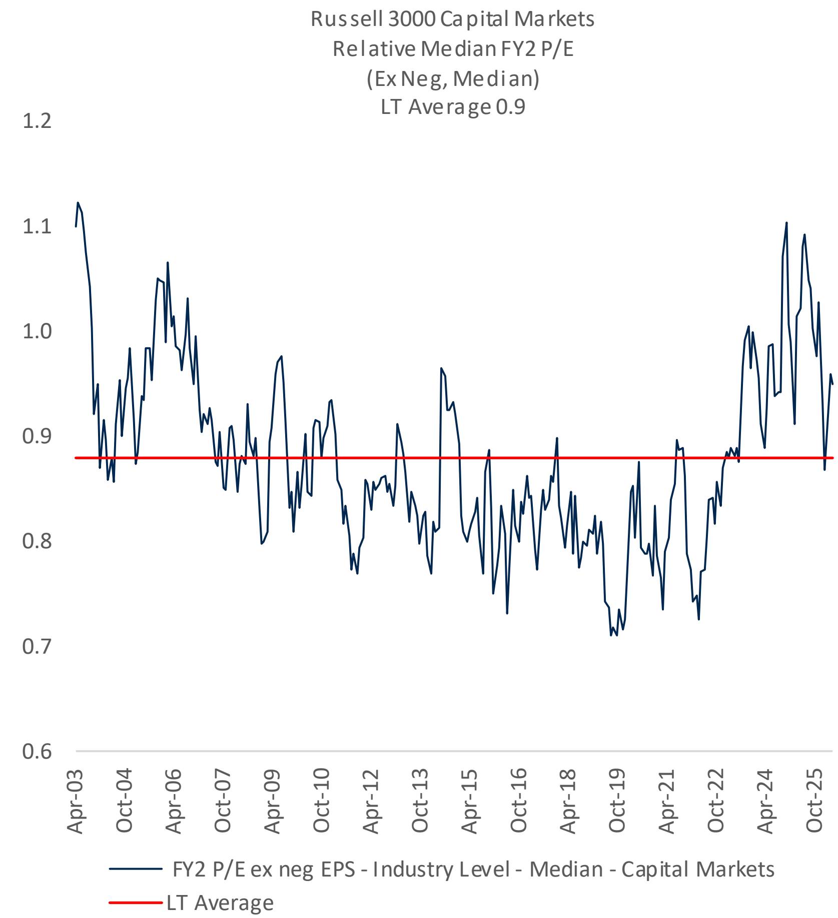


Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 26, 2026

Within Financials, Capital Markets Valuations Are Rebounding Again, Remain Well Below Past Peaks

- Absolute valuation and relative valuation vs. the Russell 3000 recently fell back down to levels slightly below the long-term average, but remained well above past troughs. Similar to our thinking on the broader market indices, we think the froth was removed from this group but don't think valuations got washed out.

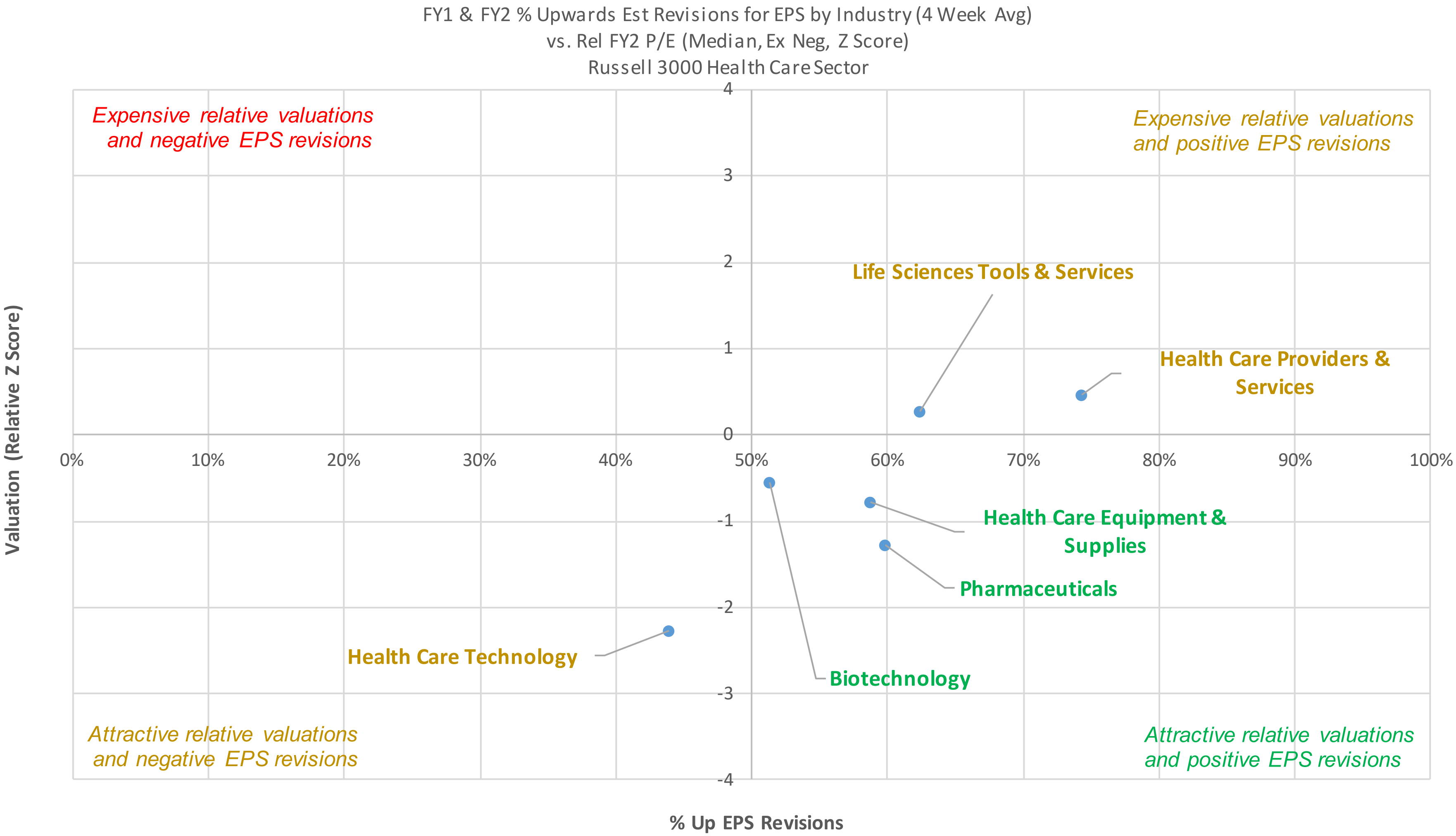




Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 26, 2026

Within HC, Most Industries Have Positive Earnings Revisions

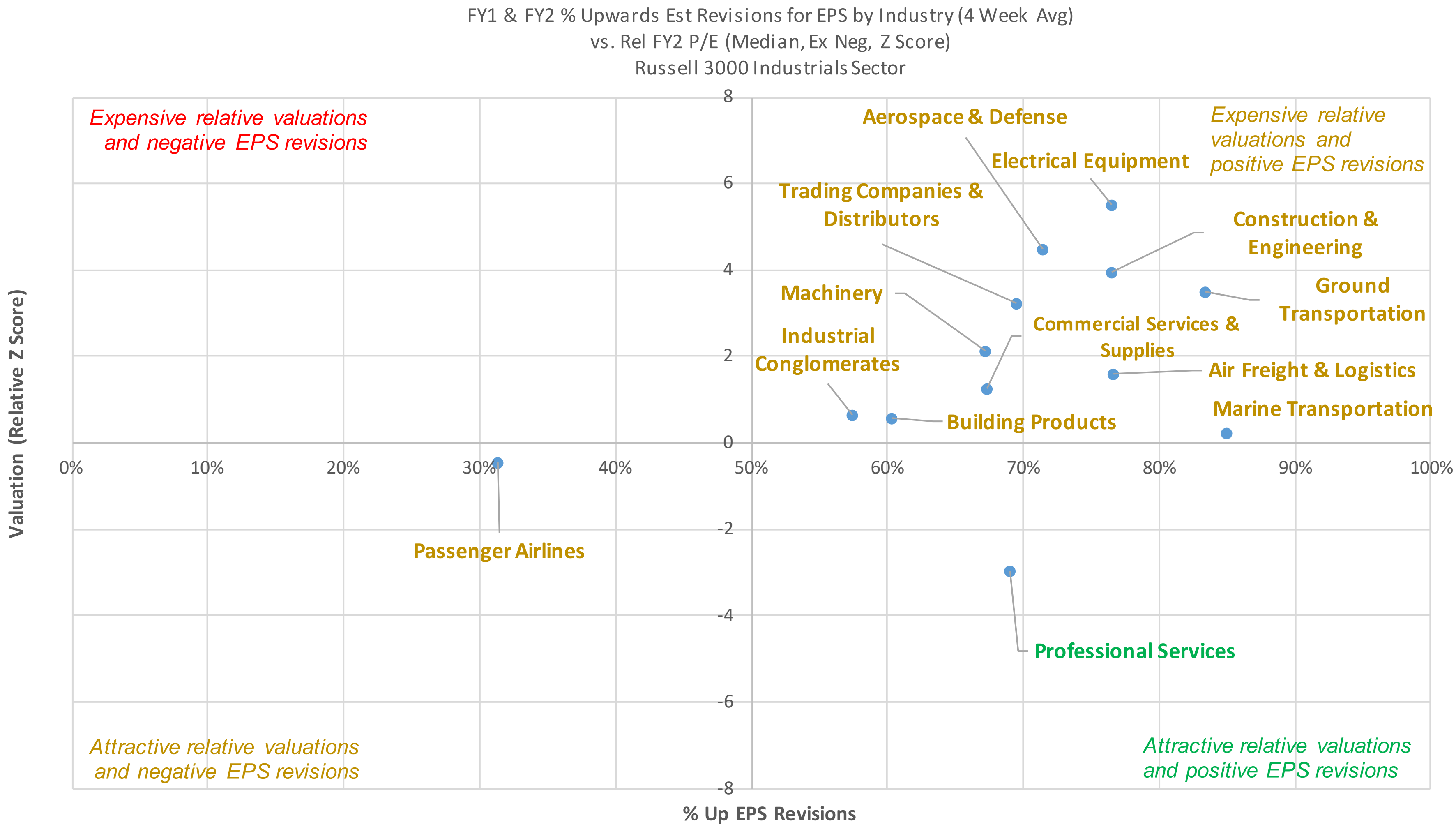
- Health Care Equipment & Supplies, Pharma, and Biotech have attractive valuations and positive EPS revisions.
- Health Care Providers & Services and Life Sciences Tools & Services are pricey with positive revisions.
- Health Care Tech is the only one with negative EPS revisions but it still has valuation appeal.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell, as of May 26, 2026

Within Industrials, Most Groups Have Positive Revisions But Expensive Valuations

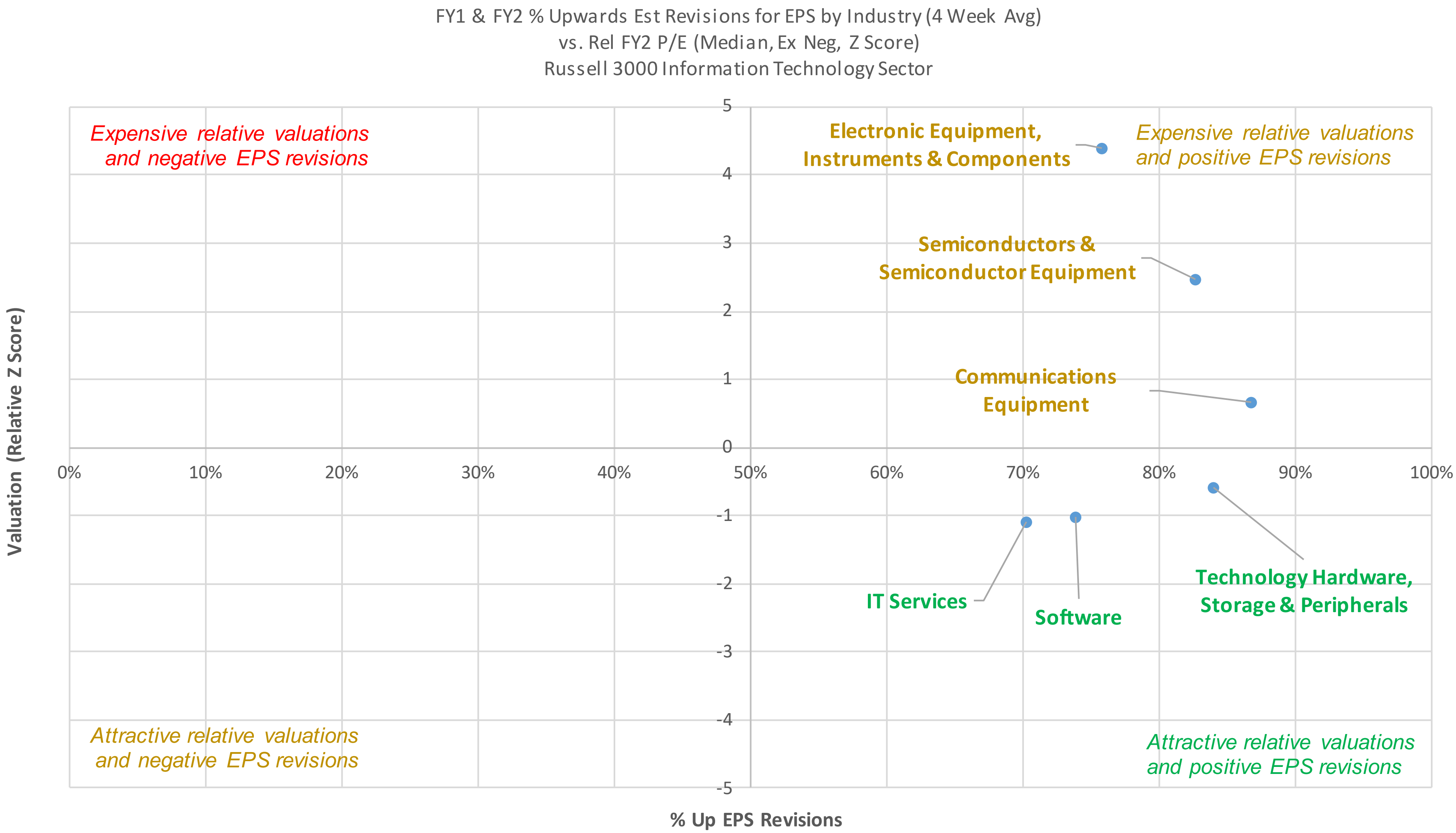
- Only Professional Services industry looks attractively valued and has positive EPS revisions.
- Electrical Equipment, Aerospace & Defense, and Construction & Engineering now screen extremely expensive per our model with relative valuations between four and five standard deviations above the long-term average.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 26, 2026

Within Tech, All Industries Have Positive EPS Revisions

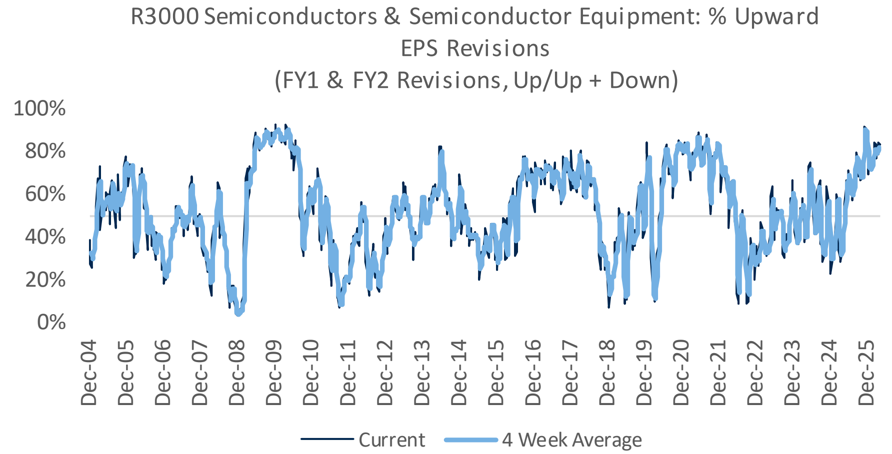
- Software, Tech Hardware, and IT Services all have attractive valuations.
- Semis/Semi Equipment and Electronic Equipment Instruments & Components lack valuation appeal.

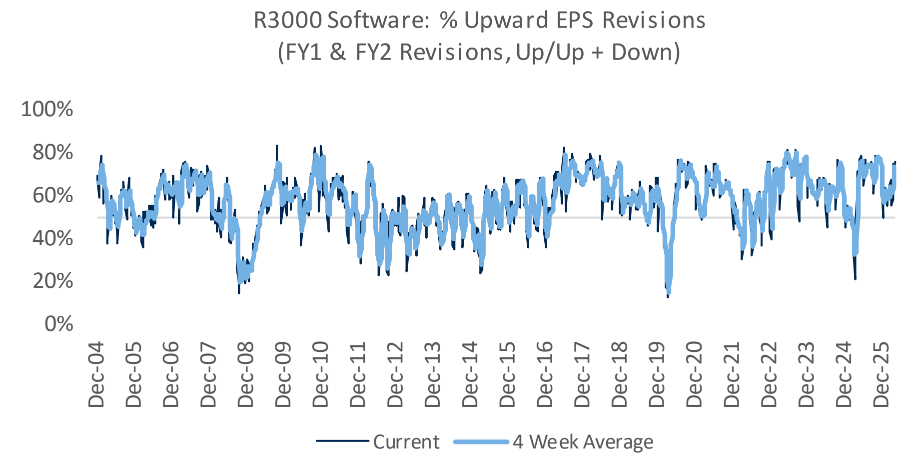


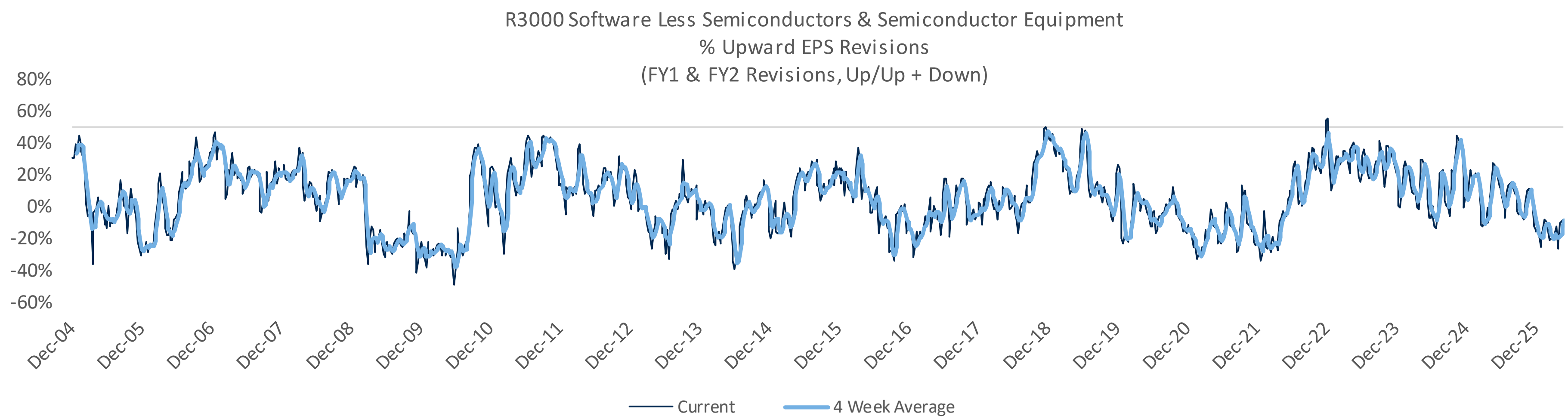
Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 26, 2026

Semis EPS Estimate Revisions Have Been Near Peak, While Software Revisions Have Fallen Sharply

- One thing we've been pointing out in recent client meetings is that Software revisions stabilized around the 50% mark, but didn't enter negative revisions territory. While valuations for this industry are close to past lows, we are not seeing the same thing on Software EPS revisions and normally like to see extreme negative EPS revisions and depressed valuations before considering an industry to be washed out. Meanwhile, Semis revisions are in line with past peaks, which keeps us vigilant for a deceleration in the rate of upward revisions which we think would be a negative signal for performance. It's worth noting that past peaks for this industry have sometimes been extended.



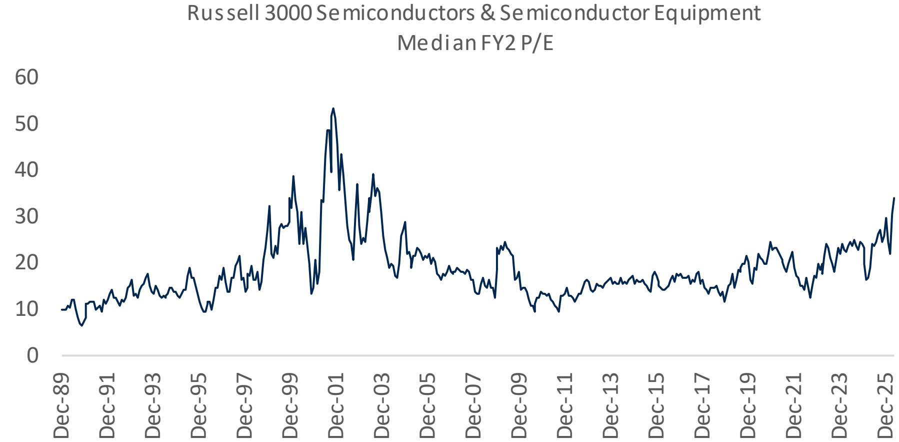


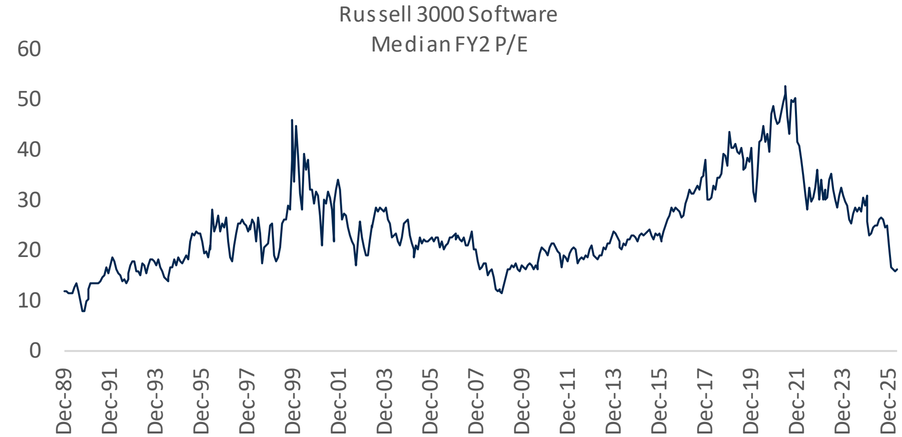


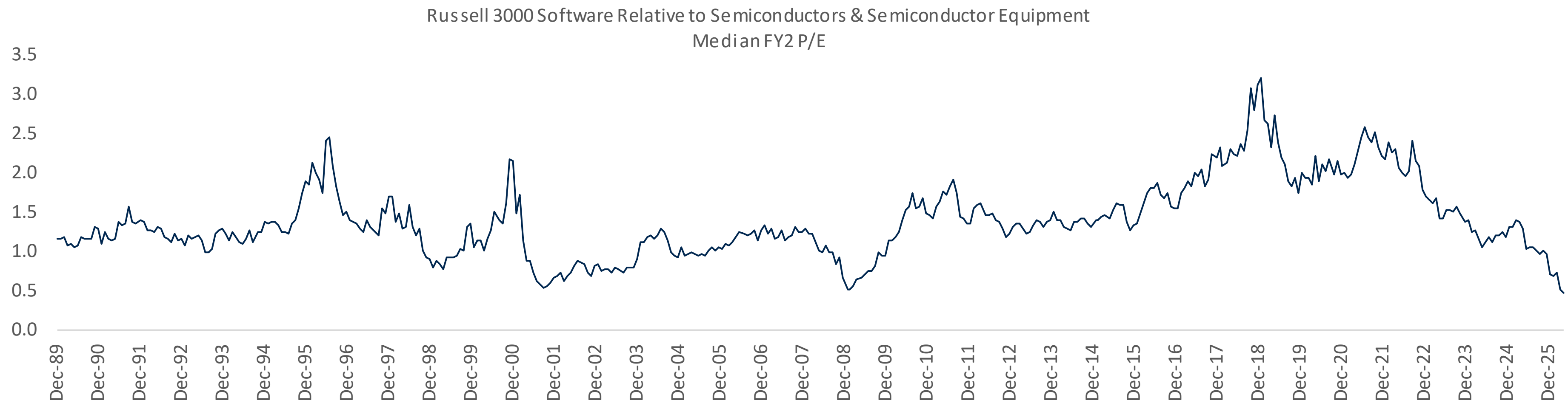
Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 26, 2026

Semis Valuations Have Returned To Post-GFC Highs, Software FY2 P/Es Approaching Past Lows

- We had seen some slight contraction in Semis P/E, but it's popped back up again to levels above recent highs. Tech bubble highs remain far off, however.
- The relative P/E of Software relative to Semis has gotten close to Tech bubble and GFC lows. Some investors have recently raised the idea to us of Software potentially going up in the Russell value indices in the upcoming reconstitution, which could prompt buying by Value PMs.



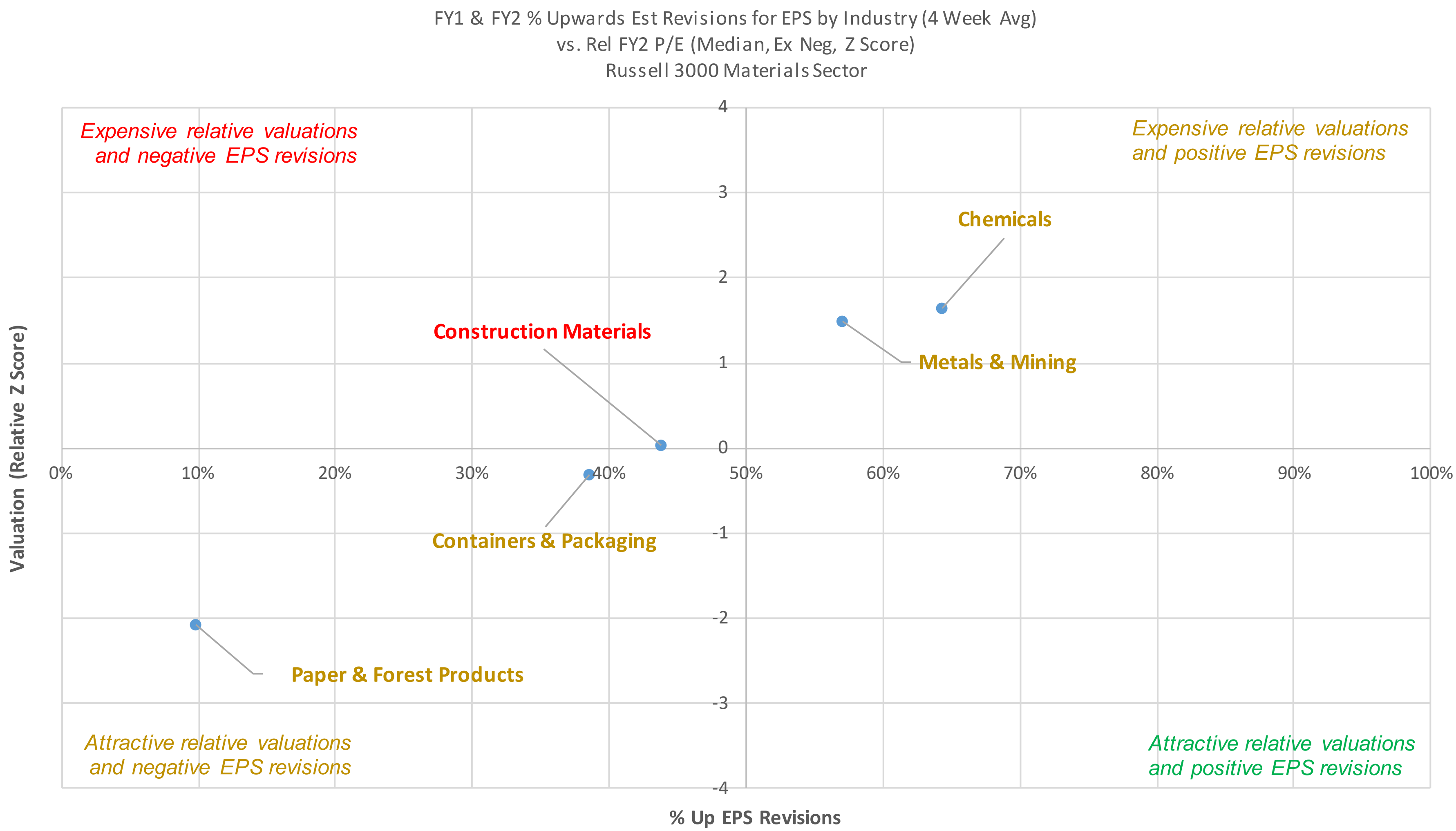




Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 26, 2026

Within Materials, Construction Materials Stands Out With Negative EPS Revisions & Pricey Valuations

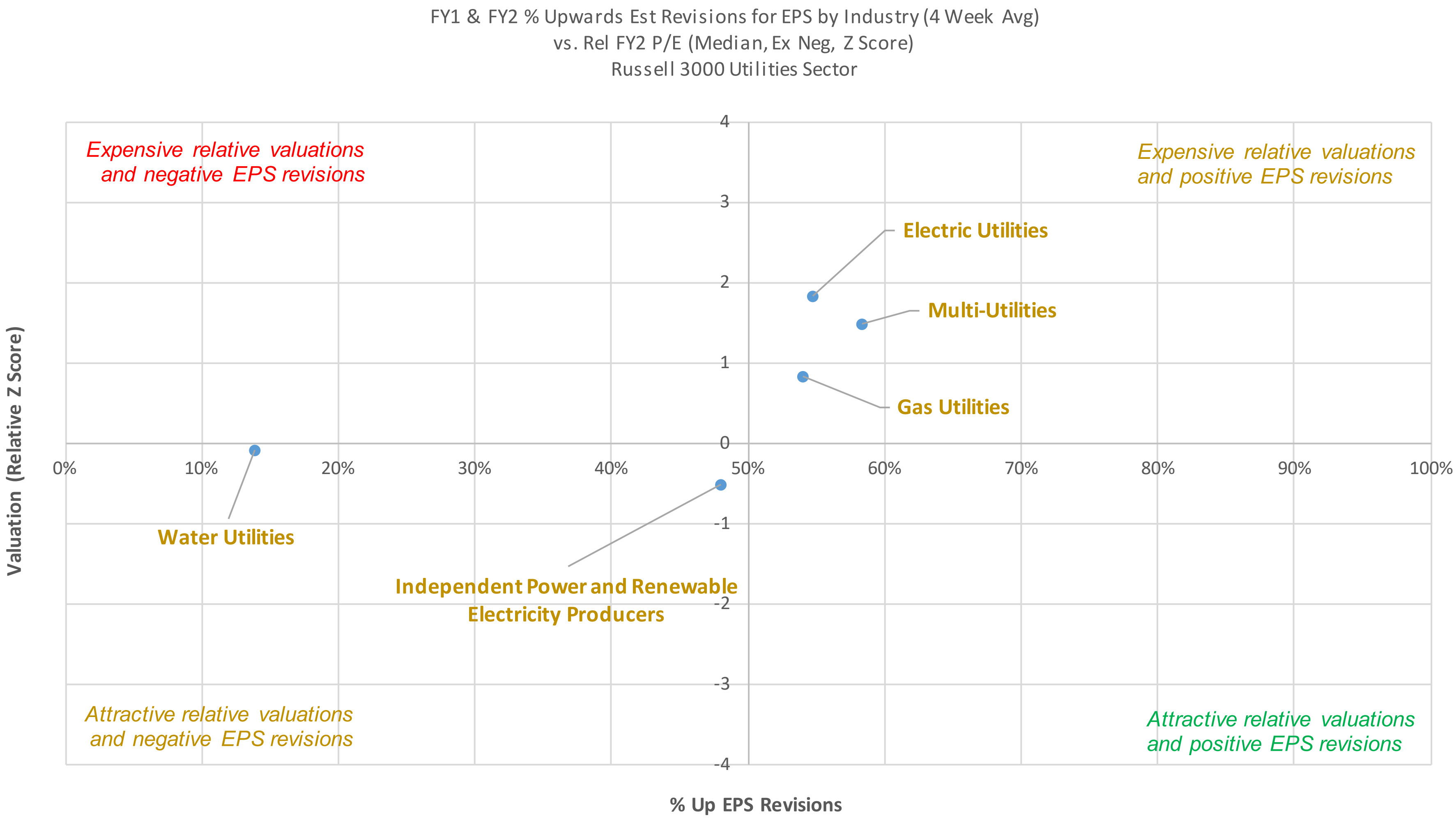
- Metals and Mining and Chemicals have positive EPS revisions. Valuations have fluctuated recently and are currently sitting a bit above their long-term average.
- Paper & Forest Products and Containers & Packaging have attractive valuations but have negative earnings revisions.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell, as of May 26, 2026

Within Utilities, No Industry Stands Out With Attractive Valuations And Positive EPS Revisions

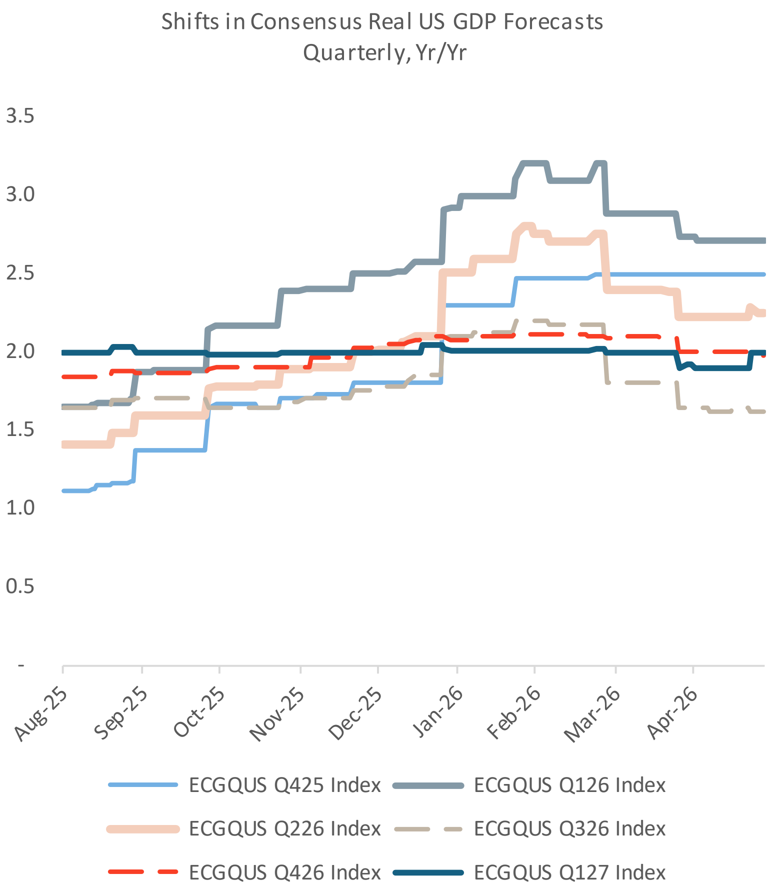
- Multi Utilities, Electric Utilities, and Gas Utilities have positive EPS revisions but expensive valuations.
- Meanwhile, Independent Power and Renewable Producers and Water Utilities have negative EPS revisions but is the only industry with attractive valuations.

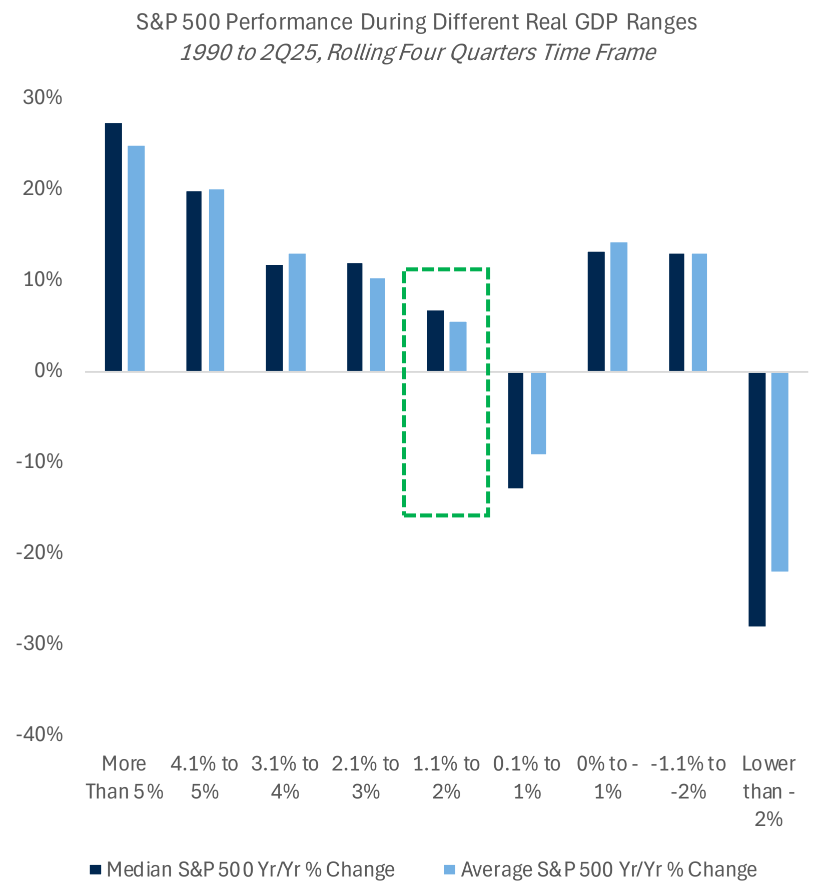


Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 26, 2026

Expectations For The Real GDP Backdrop Have Remained Solid From A Stock Market Perspective

- We have seen some modest downward revisions to quarterly GDP forecasts recently, but are still in a range that points to decent stock market returns.
- RBC Economics is anticipating 1.9% for 1Q27 while the street consensus is tracking at 2.0% per Bloomberg.
- Given the fact that RBC and consensus are in the upper end of the 1.1–2% range for 1Q27, we are using an anticipated return of 5.7% in our price target modeling.
- Note if the 1Q27 real GDP forecast slips into the 0.1–1% range, that poses a downside risk to our price target as stocks tend to fall in that range.

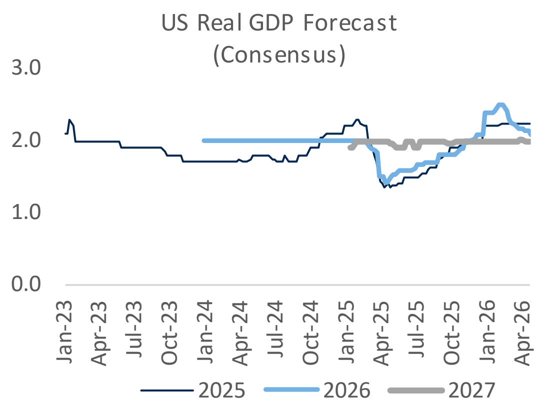


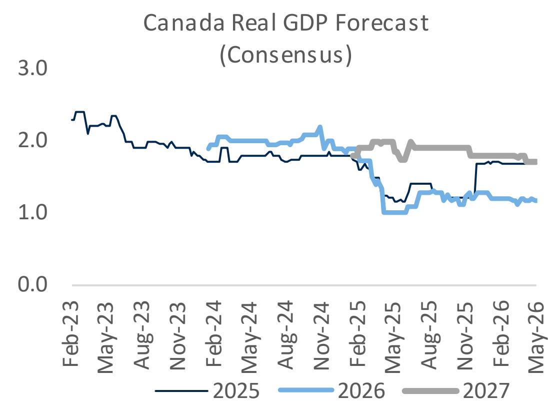


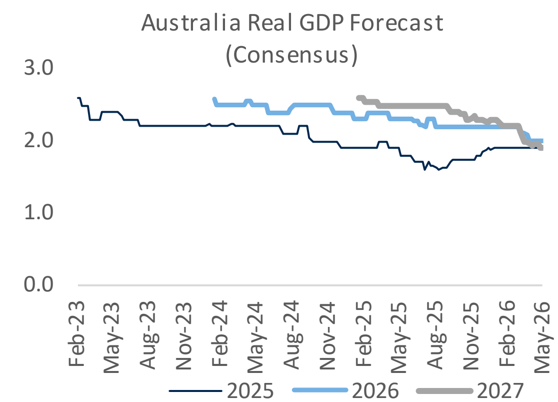
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Bloomberg, S&P; as of 5/27/26

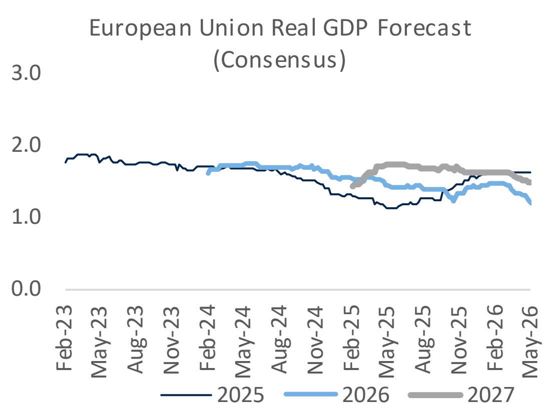
Trends In Consensus US GDP Forecasts Had Been A Bright Spot Among Global Developed Markets

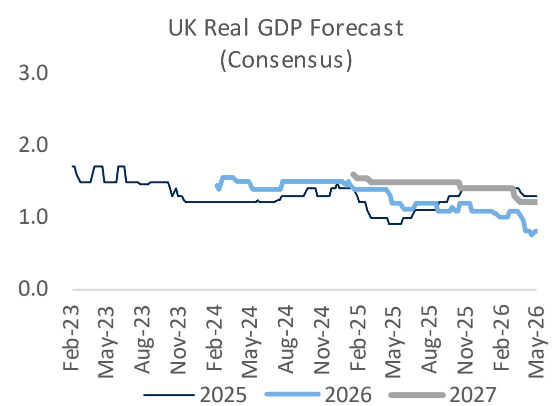
- US GDP forecasts for full-year 2026 have softened lately and are slightly below 2025's levels. Meanwhile, 2027 expectations have been firm.
- Outside the US, we've also seen some slippage in consensus GDP forecasts for 2026 for all of the major countries we've been tracking ex Canada plus the EU. 2027 consensus forecasts have been coming down in most major non-US countries that we track as well.

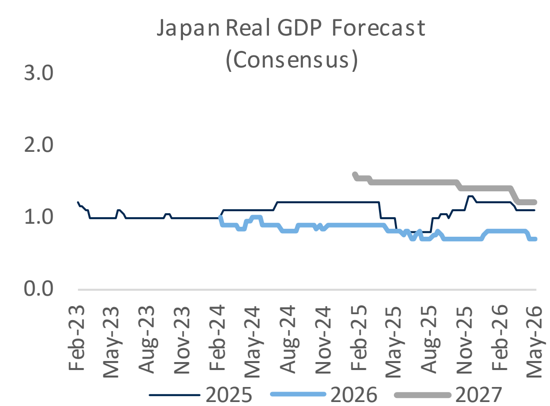






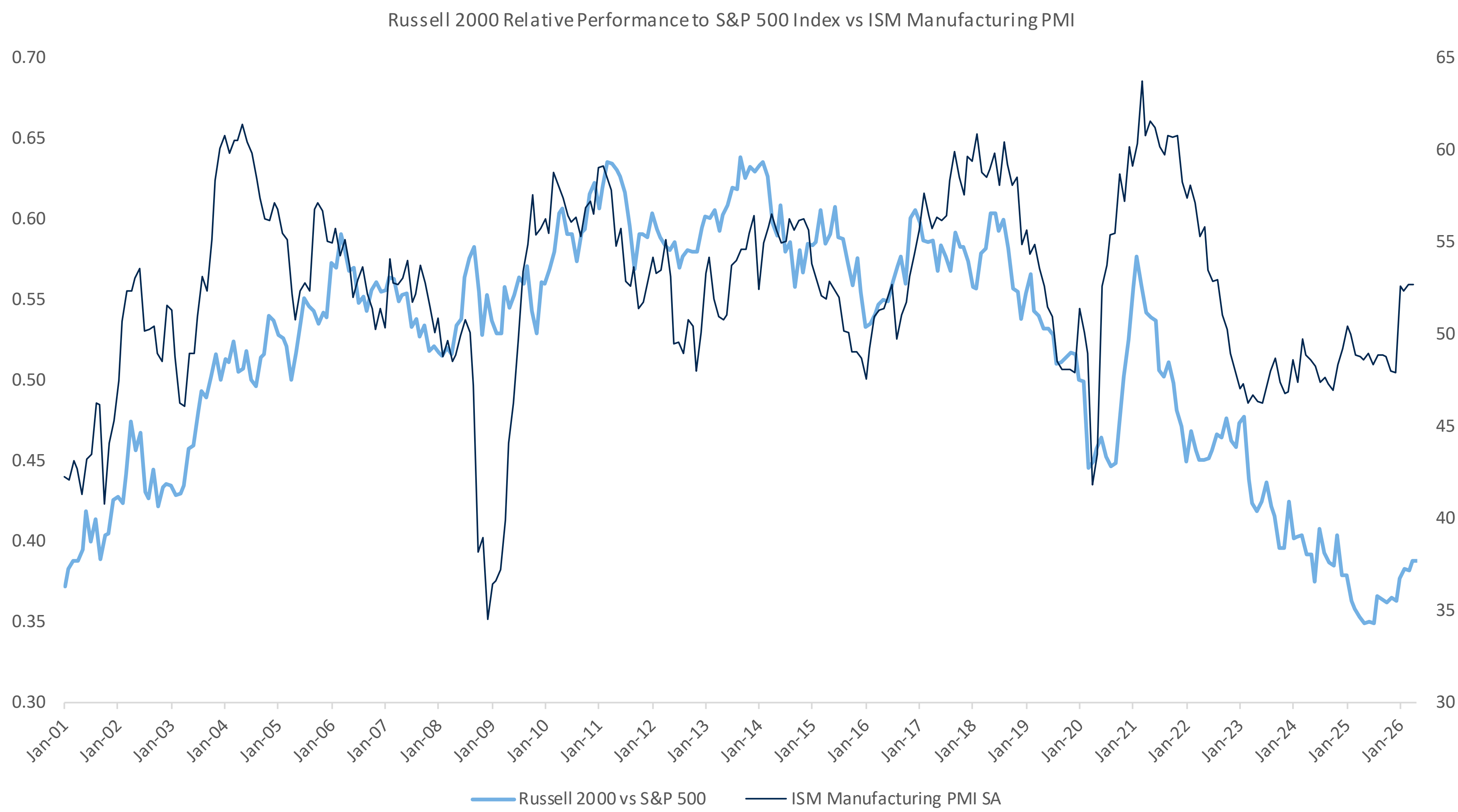






Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Bloomberg; as of 5/22/2026; forecasts are the consensus tracked by Bloomberg

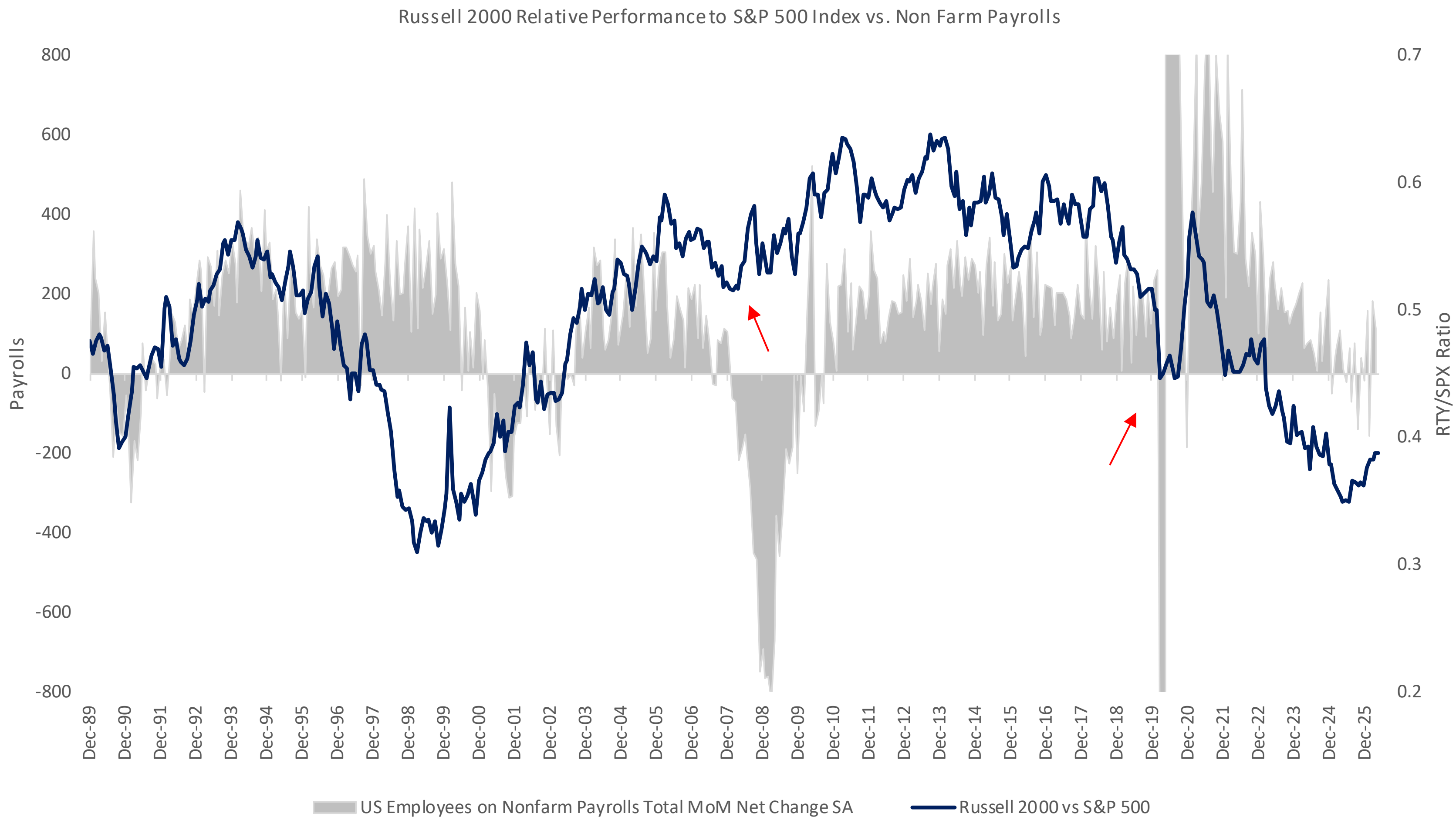
Recent Improvement In ISM Manufacturing Is Supportive Of Small Caps



Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Bloomberg. Russell, S&P, latest available data as of 5/27/26

Small Caps Usually Lag When Jobs Growth Is Weak, And Outperform When It Is Strengthening

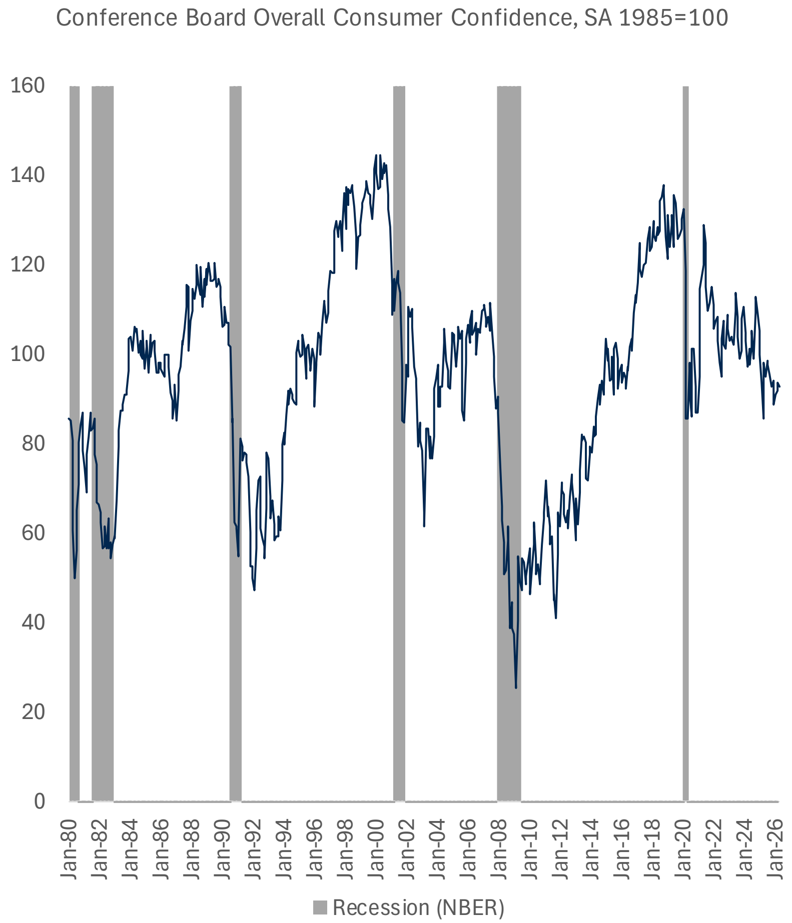
- We had been starting to see some signs of a positive jobs growth environment in the January NFP release, but this shifted abruptly in the update for February, which came out in early March. That downtick was a challenge to the positive fundamental story for Small Caps that had been unfolding. The good news for Small Caps is that trends improved again in the March and April NFP releases.
- Generally, neither stalling nor deteriorating jobs growth tends to be good for Small Cap performance relative to Large Caps. Usually, Small Caps need to see accelerating jobs growth to outperform. There is a wrinkle to that idea, however. In the last two cycles, Small/Large relative performance has tended to bottom right around when deep and sustained jobs losses emerge.
- Looking ahead to the next NFP report, in the very short term, we think a bad print would be bad for Small Caps, unless it results in increased expectations around Fed cuts in the year ahead. Conversely, a good print would be good for Small Caps unless it results in increased concerns that hikes are coming.

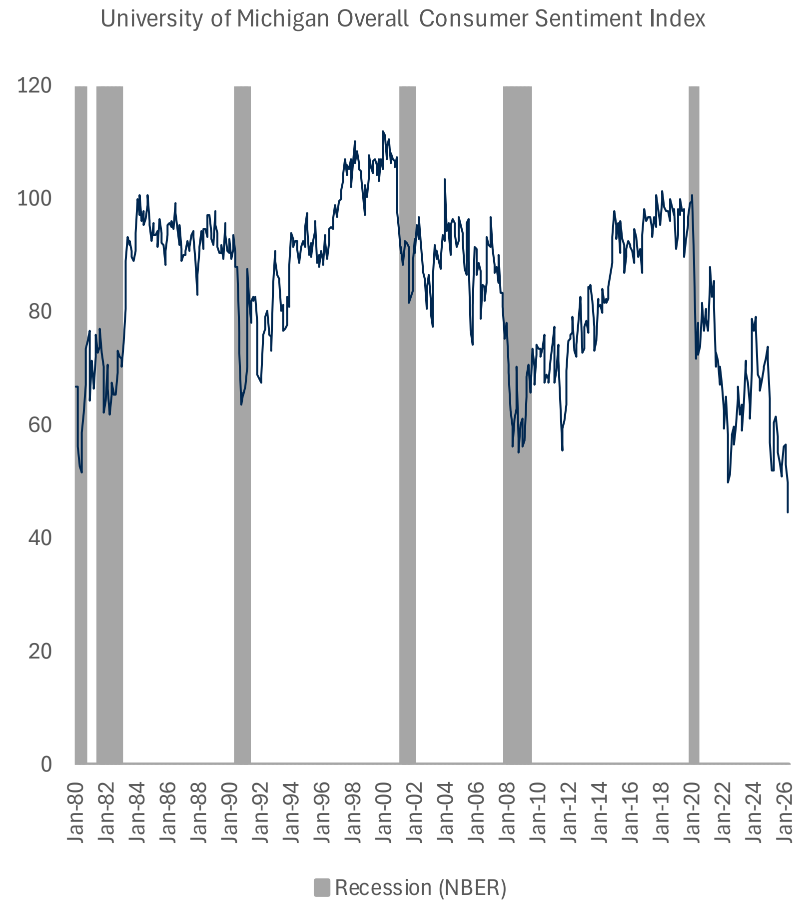


Source: RBC US Equity Strategy, Bloomberg. Russell, S&P. As of 5/27/2026.

Consumer Confidence / Sentiment Has Been Weak

- Consumer sentiment on the University of Michigan survey broke slightly below prior 2025 and 2022 lows in the November update. After a period of attempted stabilization, final May data showed renewed signs of weakness, with sentiment at 44.8, a new post-COVID low.
- Conference Board consumer confidence – which is through May – has shown more signs of stabilization. For the month of May, overall confidence came in at 93.1. The COVID lows are essentially holding on that survey.

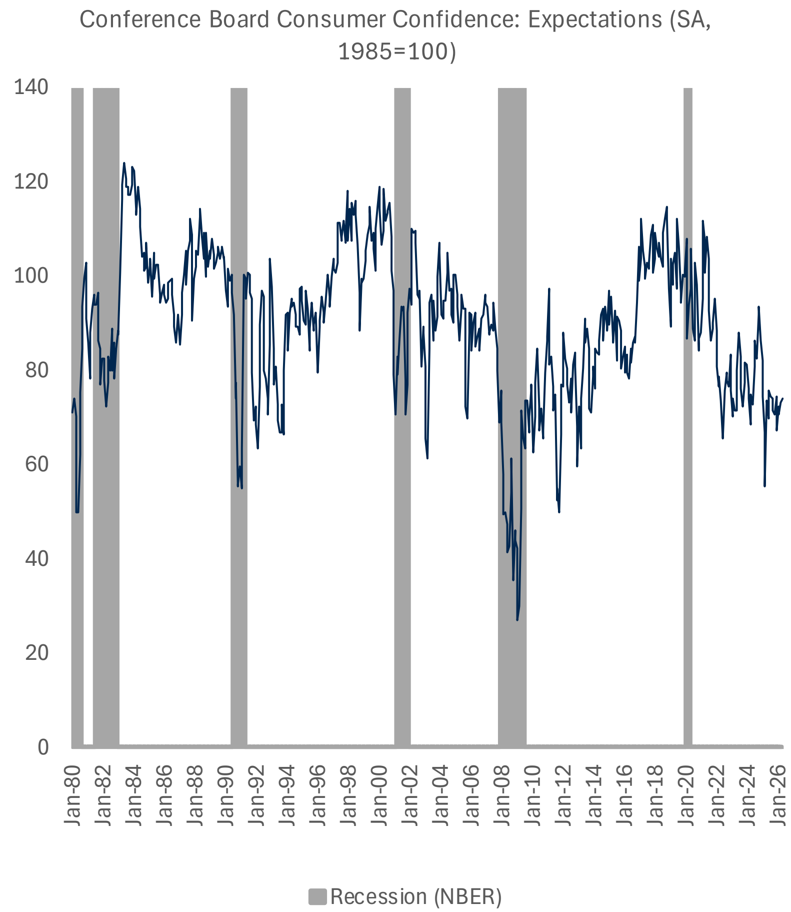


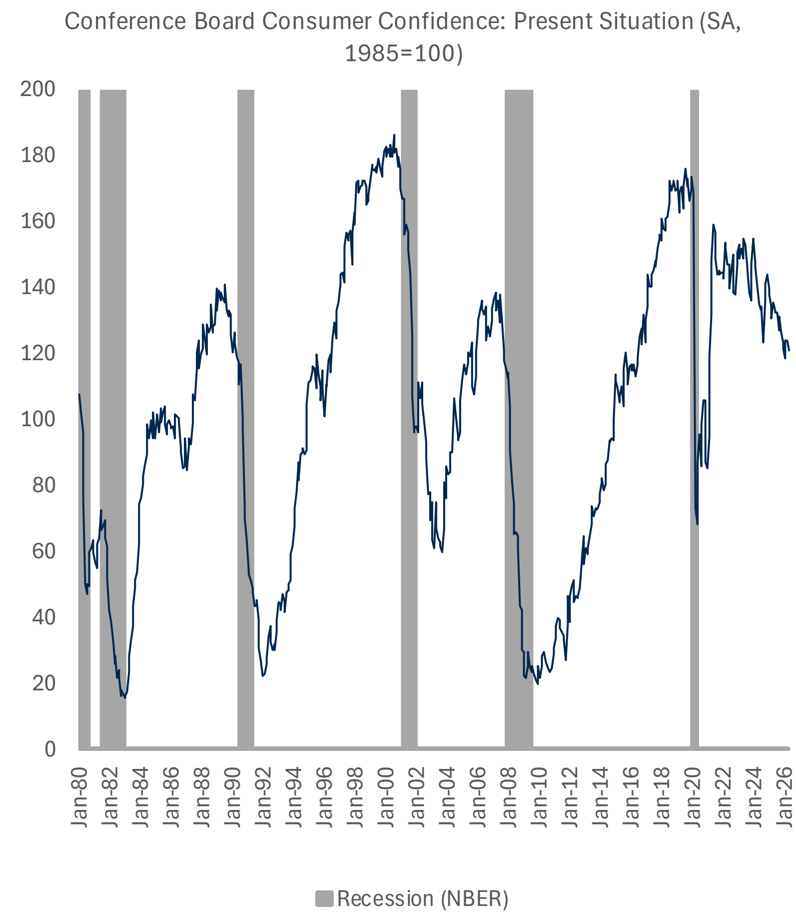


Source: RBC US Equity Strategy, Haver Analytics, Bloomberg. UMich data as of May 22, 2026; Conference Board data through May 2026.

Consumer Expectations Improved A Bit In The Latest Conference Board Release

However, the present situation gauge ticked down a little for the month of May.

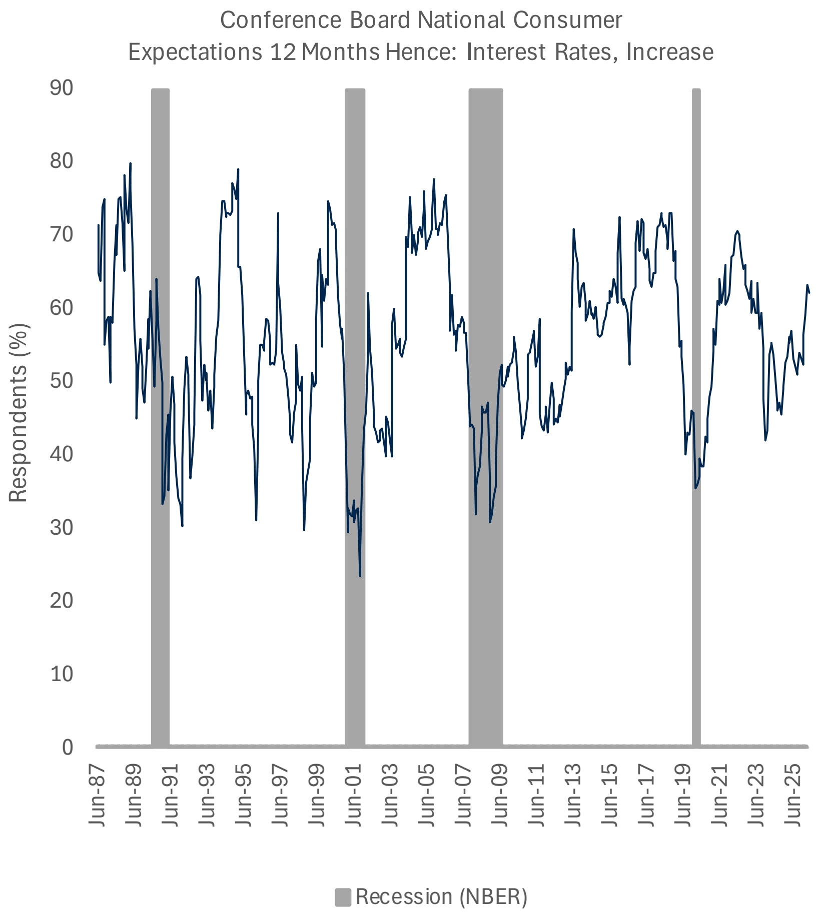


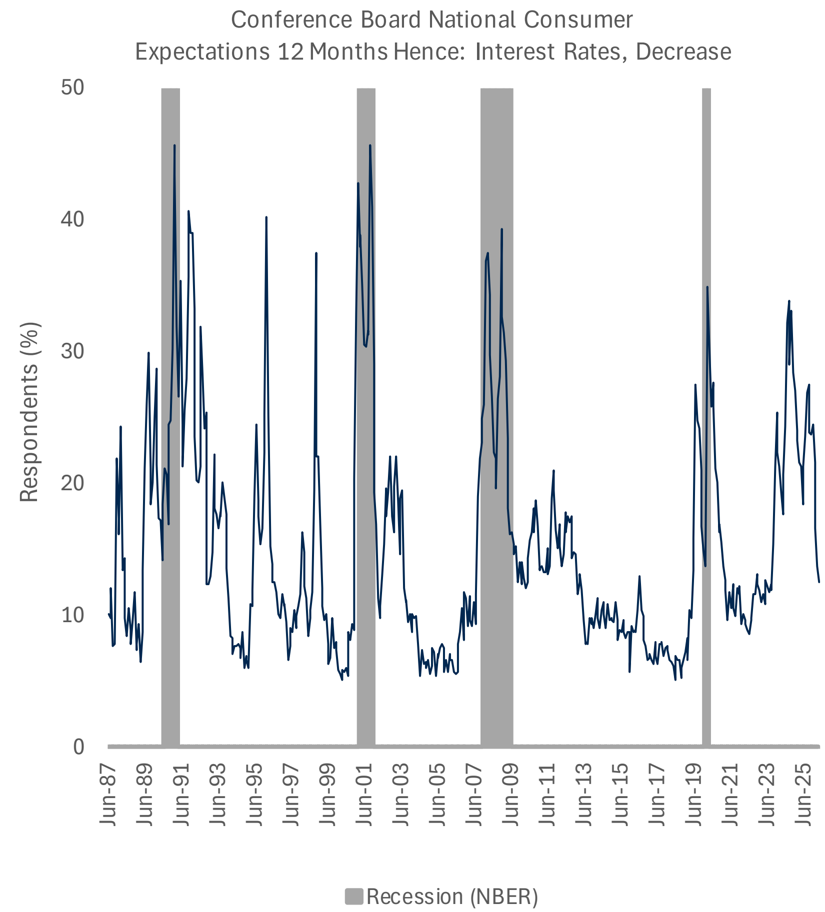


Source: RBC US Equity Strategy, Haver Analytics, Bloomberg. Through May 2026.

Interest Rate Views Have Worsened For Consumers In Recent Months

Those expecting higher interest rates increased in the latest update for the month of May, and those expecting decreases substantially declined.

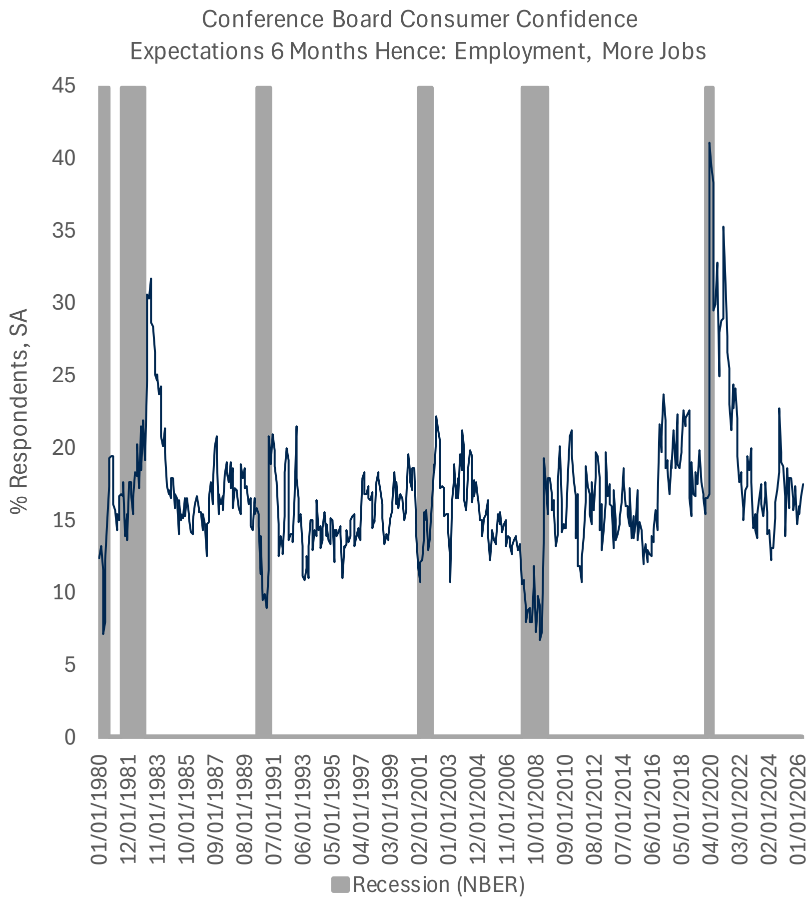


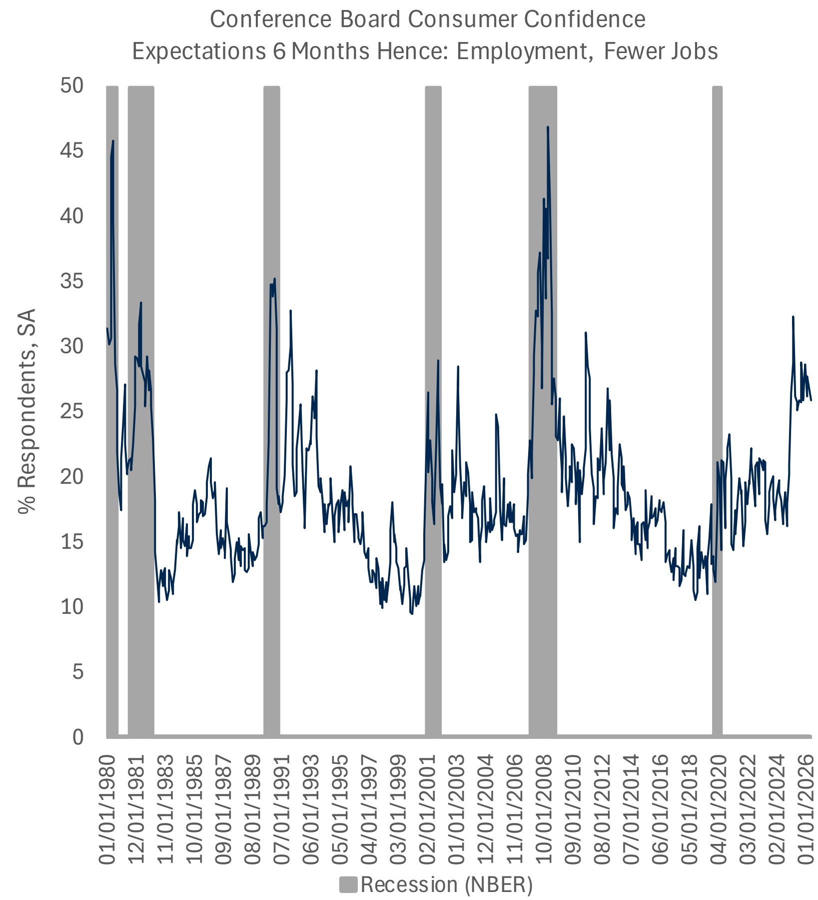


Source: RBC US Equity Strategy, Bloomberg. Through May 2026.

Consumers' Views Of The Employment Backdrop Improved A Bit

Those saying they expect more jobs to be available ticked up in the latest update, and those expecting fewer jobs to be available ticked down.

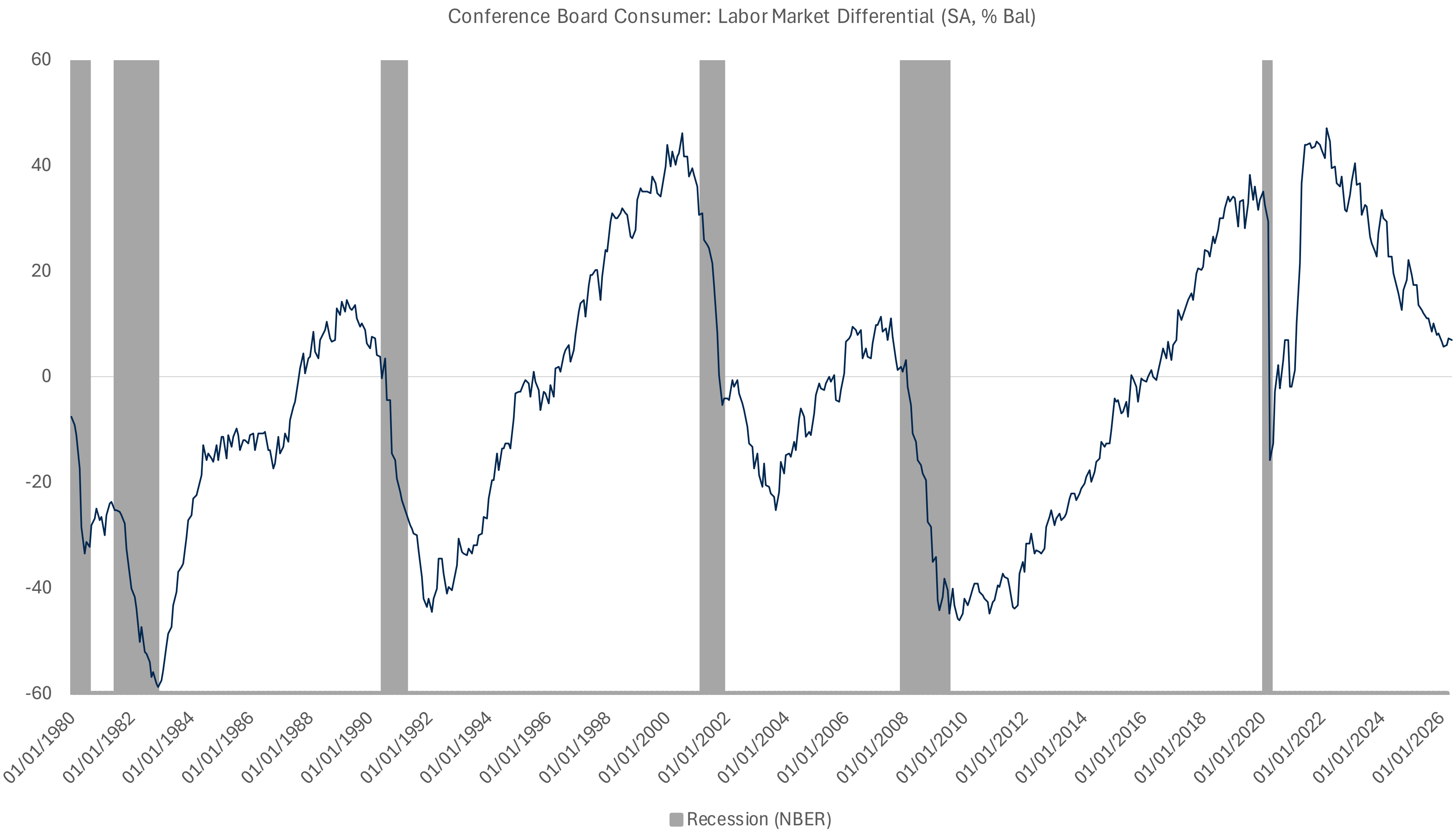




Source: RBC US Equity Strategy, Haver Analytics. Through May 2026.

Consumer Labor Market Expectations Have Remained Weak Overall

Labor market differential measures the percentage of consumers who think jobs are plentiful minus the percentage who believe that jobs are currently hard to get. It has been on a decline for a long period of time; in the most recent update in May, the labor market differential improved a bit.



Source: RBC US Equity Strategy, Haver Analytics, Bloomberg. Through May 2026.

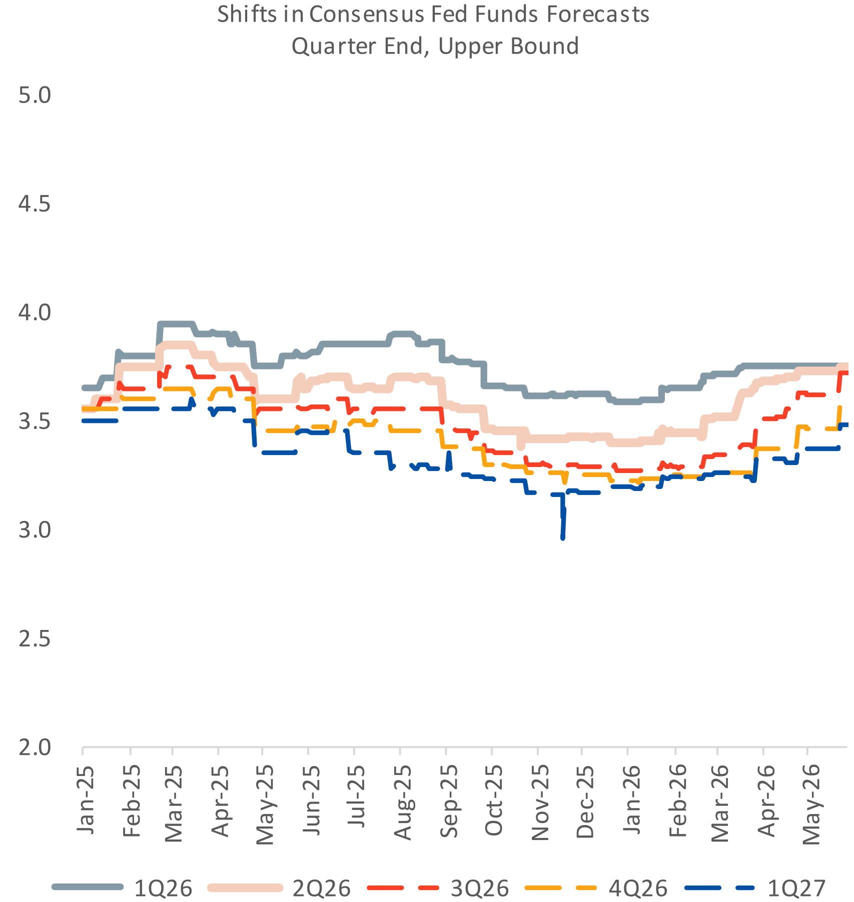
Small Caps Had Benefited From Improving Enthusiasm On The US Economy

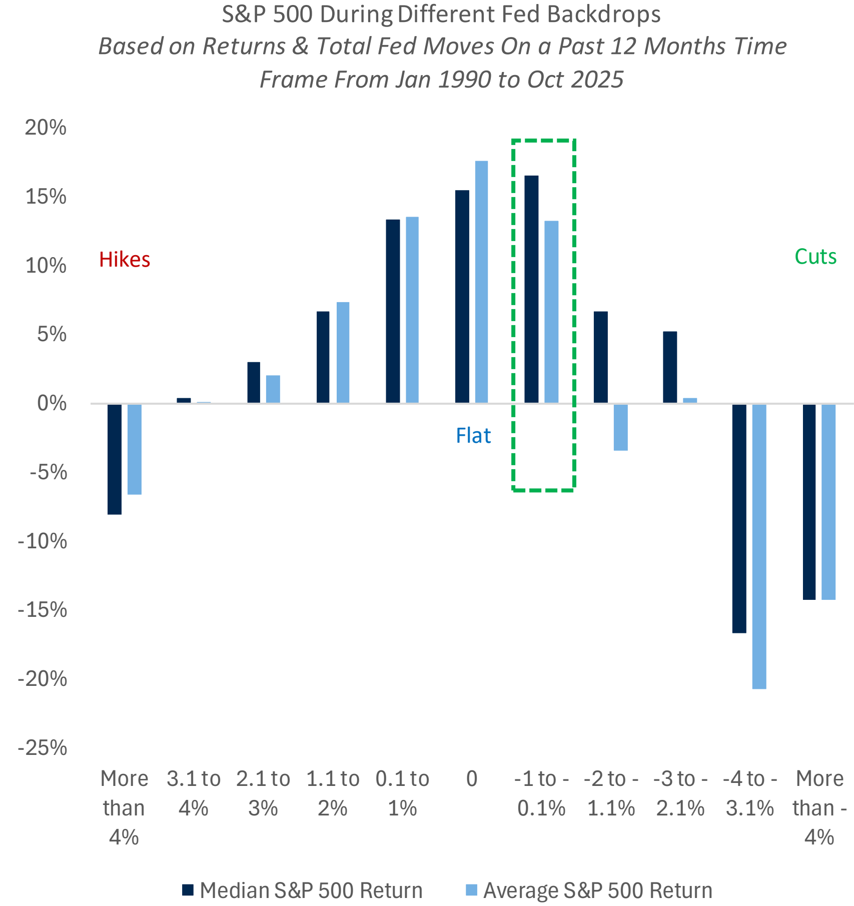
- In recent years, Russell 2000 performance relative to S&P 500 performance – our preferred way to gauge Small/Large relative performance – has been linked to shifts in GDP expectations in the US for 2025 and more recently 2026. Small has lagged as economic growth expectations cooled off.
- Late-2025 strength in Small Cap leadership occurred alongside a sharp pickup in domestic economic expectations. 2026 expectations have come down, while we have seen some momentum in Small Cap leadership of late. It's worth noting that 2027 GDP expectations have been relatively flat.
- Note that 2026 full-year GDP forecasts have been trimmed in recent weeks as Middle East peace talks continue.

Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy; Bloomberg, S&P, Russell, as of 5/27/26

How We Think About Fed Moves In The Context Of Longer-Term US Equity Market Moves

- Historically, when the Fed has made modest cuts in a 12-month period (that amount to 1% or less), the S&P 500 has gone up by 13.3% on average. When the Fed hikes modestly (in the 1% or less range), returns tend to be similar (13.7%). Deeper cuts and bigger hikes during a 12-month window tend to be accompanied by weaker equity market returns or declines.
- The published consensus per the ECFC function on Bloomberg currently points to one cut through 1Q27. With this data in mind, in our last price target update we kept in place the assumption in our 12-month S&P 500 price target process that Fed expectations are signaling a 13.3% return in the index, the same core assumption that has been in place in our process over the past few months.
- It's worth noting, however, that RBCCM's US Rates Strategy team is no longer expecting any cuts in either 2026 or 2027 per their mid-May forecast update and other data sets suggest hikes are starting to be added into the forecast. While we see the addition of hikes to the forecast as a challenge for US equities in the short term and something that could help spark a tier 1 pullback, this particular study suggests that as long as the hikes are modest it is unlikely to derail the longer-term (i.e., 12-month) US equity market outlook.
- Note, we are starting to see the bond market (OIS spreads) begin to price in hikes in the year ahead. If we replace our assumption for modest cuts with one for modest hikes would have a minimal impact on our 12-month price target.





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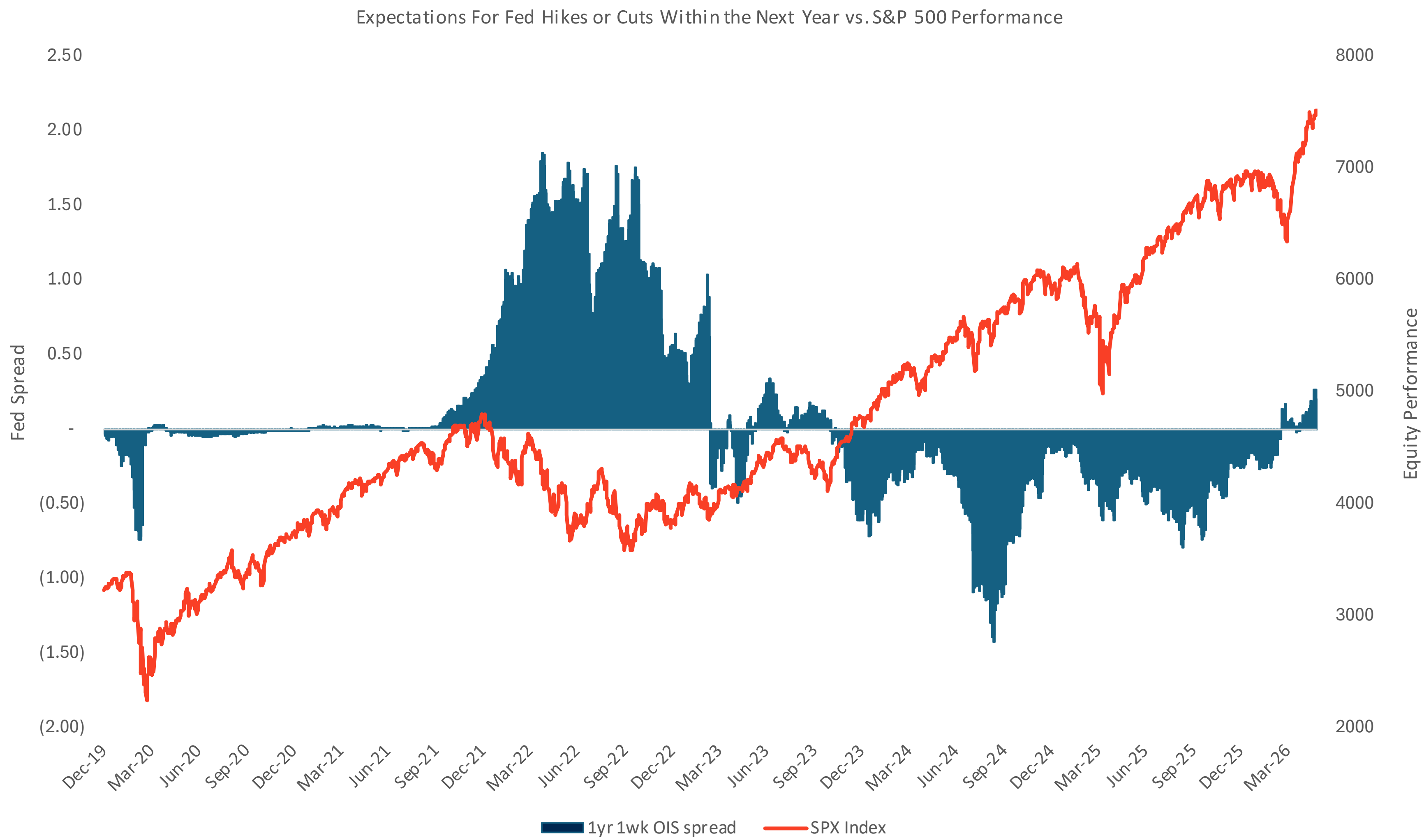
Source: RBC US Equity Strategy, Bloomberg, S&P; as of 5/27/26

Increased Expectations For Hikes In The Year Ahead Could Eventually Help Spark A Pullback In Stocks

- We've gradually seen a dialing down of Fed-cut expectations in recent months, which has resulted in a weaker tailwind for the US equity market.
- Expectations for hikes in the year ahead have also returned. The last time we saw this was 2023 when the S&P 500 experienced a pullback of 10% in the latter part of the year. Note that in 2023, hikes started to get priced in June, with stocks peaking in early August.
- In 2021-2022, a deeper pullback occurred, but markets were pricing in far more / bigger hikes than in 2023 or today.
- On this particular data set, hikes started to get priced in late March in 2026.



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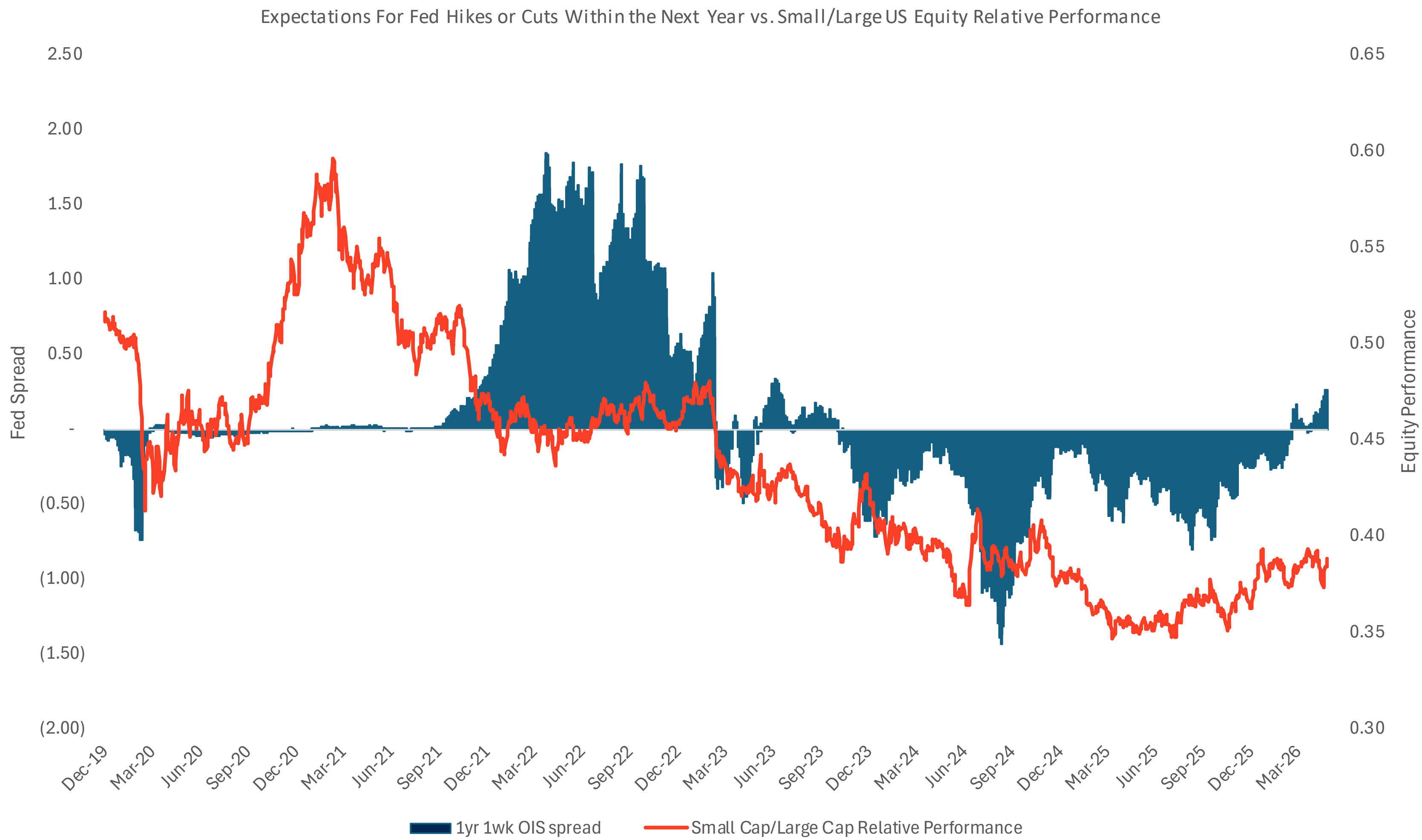
Source: RBC US Equity Strategy; Bloomberg, S&P, through May 27, 2026.

Renewed Expectations For Hikes Are A Headwind For Small Caps In Particular

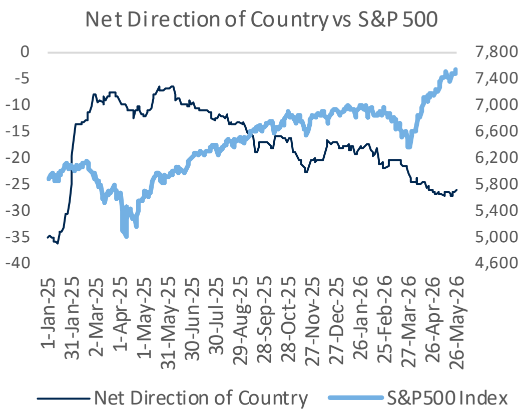
- In recent years, Small Caps tend to outperform Large Caps when Fed-cut expectations have increased, and have underperformed when Fed-cut expectations have eased back or when hikes have gotten priced in. To the extent the situation in Iran results in hikes in the year ahead (which is not the view of RBC's Rates Strategy team), it would be a problem for Small Caps in the short term from this perspective. In the meantime, renewed concerns on hikes are a problem for Small Caps from a sentiment perspective.

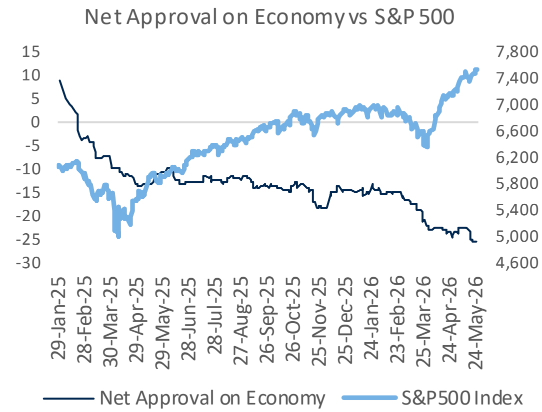


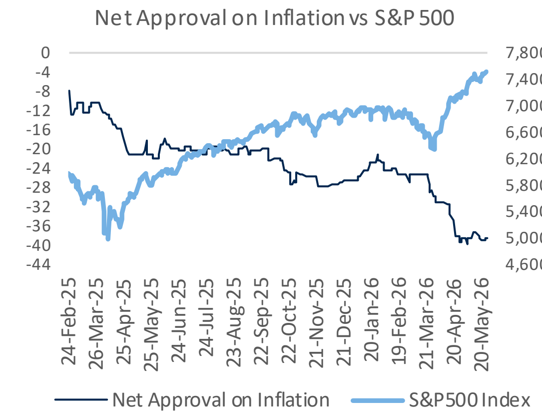
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Bloomberg, S&P; through May 27, 2026.

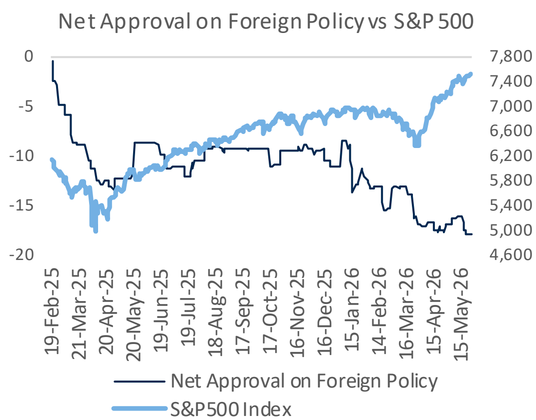
Net Approval Had Been Improving On A Few Key Policy Issues, But Trends Are Weakening Again

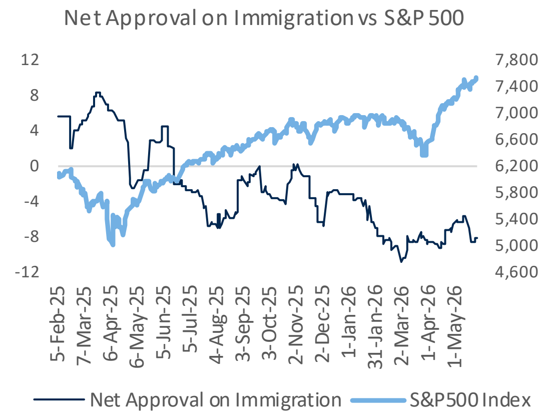
We were seeing net approval improve on the economy and foreign policy earlier in 2Q, but those improvements have reversed course. Views on inflation and immigration have improved slightly in recent updates. Views on crime remain net favorable.

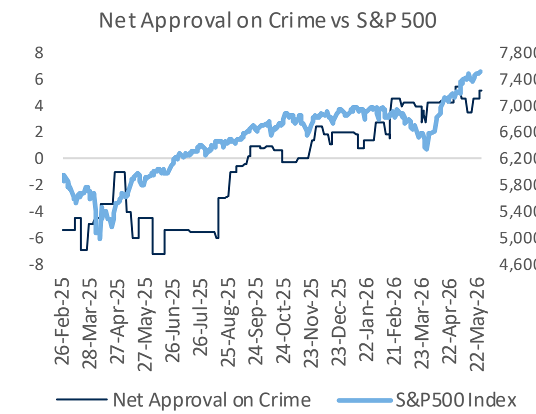












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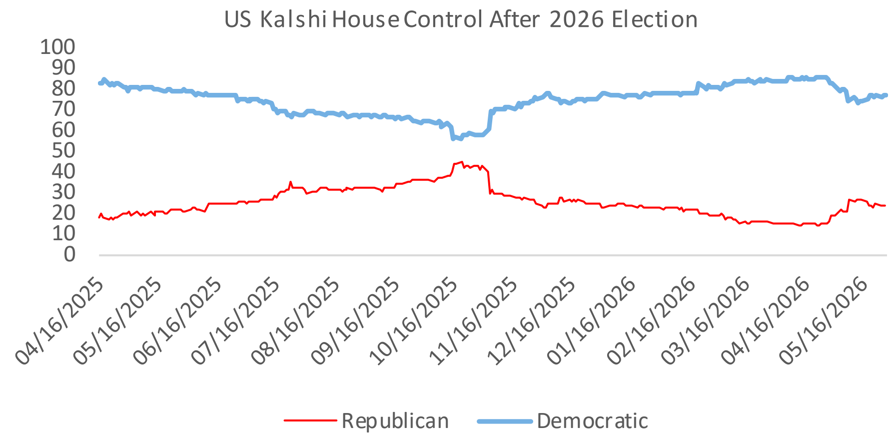
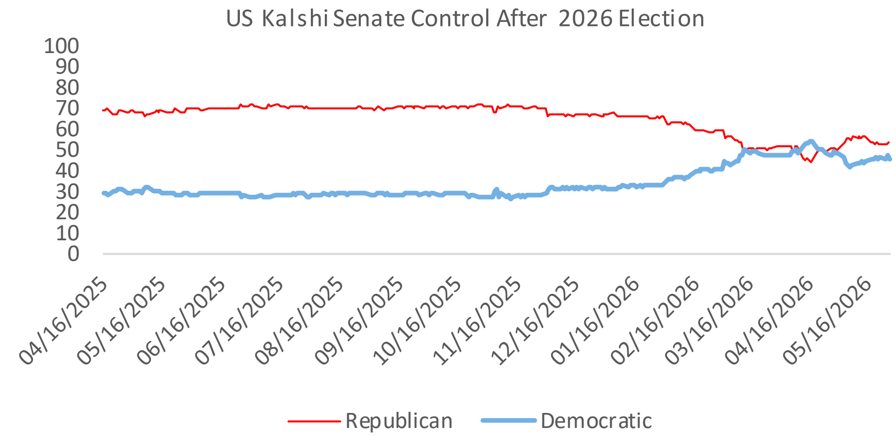
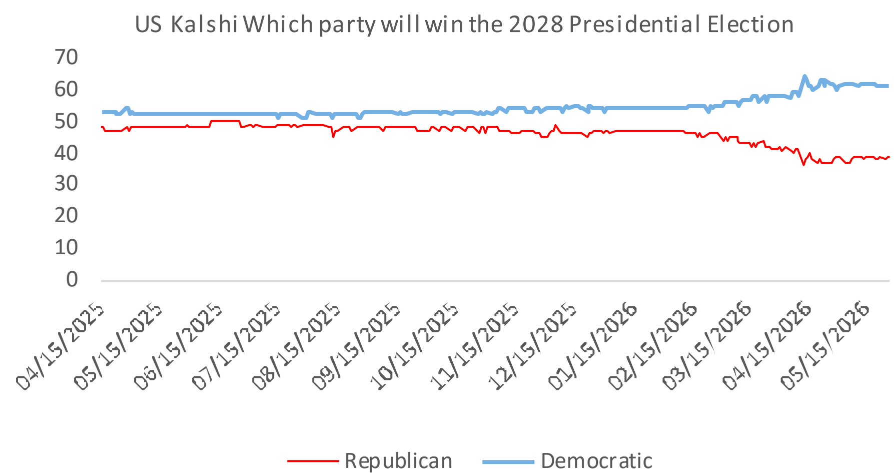
Source: RBC US Equity Strategy; Bloomberg, S&P, as of May 27, 2026

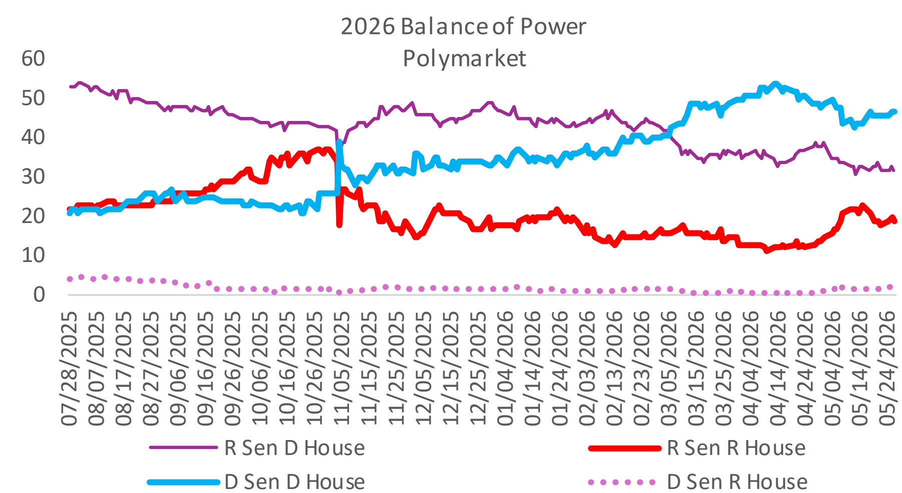
After Shifting Towards Republicans, Midterm Betting Markets Are Moving Back Toward Democrats

- Currently, betting markets anticipate Democrats will take back the House in 2026 and the White House in 2028. After a brief shift towards Republicans, we have seen expectations shift back to Democratic control of the House erode in recent updates. Views on the Senate had been tied between the two parties, then shifted back in favor of Republicans. In the latest updates, however, Democrats are improving on this metric again.
- In Polymarket's balance-of-power scenarios, a blue sweep in the midterms has been in place since the Iran war began, and that remains the case today. It's followed by a Republican Senate/Democratic House scenario, and then the Republican sweep scenario. Early in 2Q, expectations around the Democratic sweep scenario had stalled, while expectations around a Republican sweep had been picking up. But in more recent updates, momentum has shifted back in favor of the Democratic sweep scenario and away from the Republican sweep scenario.









Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy; Bloomberg, as of May 27, 2026

Sentiment On Stocks And Trump/Congressional Republicans Have Been Linked

- In 2024, the S&P 500 and Trump net favorability moved in tandem. After Trump took office, S&P 500 performance and Trump's net job approval trended together until the summer of 2025. Then, the S&P 500 became more aligned with betting market expectations for a Republican sweep in the midterms.
- The November-2025 dip in the S&P 500 saw the stock market become aligned with all three of these gauges of political sentiment again.
- The 1Q26 weakness in the S&P 500 coincided with low Trump approval/favorability levels and lowered expectations for a Republican sweep in the midterms. The recent bounce-back in the S&P 500 in 2Q26 has come with some deterioration in those metrics.
- There had been a pickup in Republican sweep expectations as the stock market began to rally back, but that improvement has faded in recent updates.

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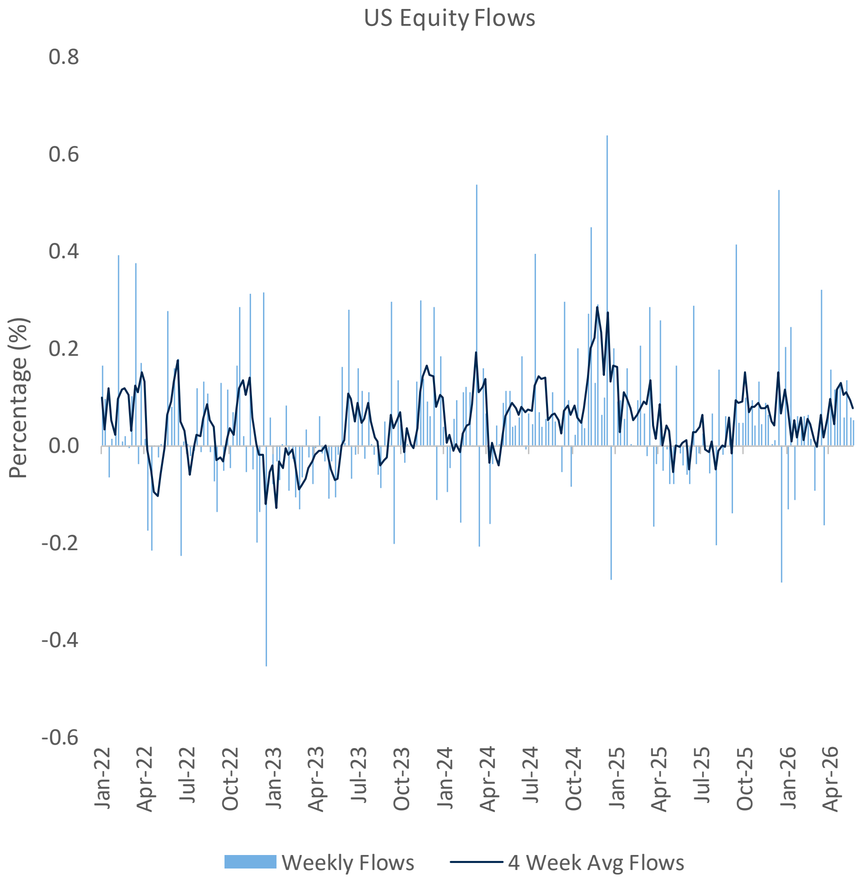
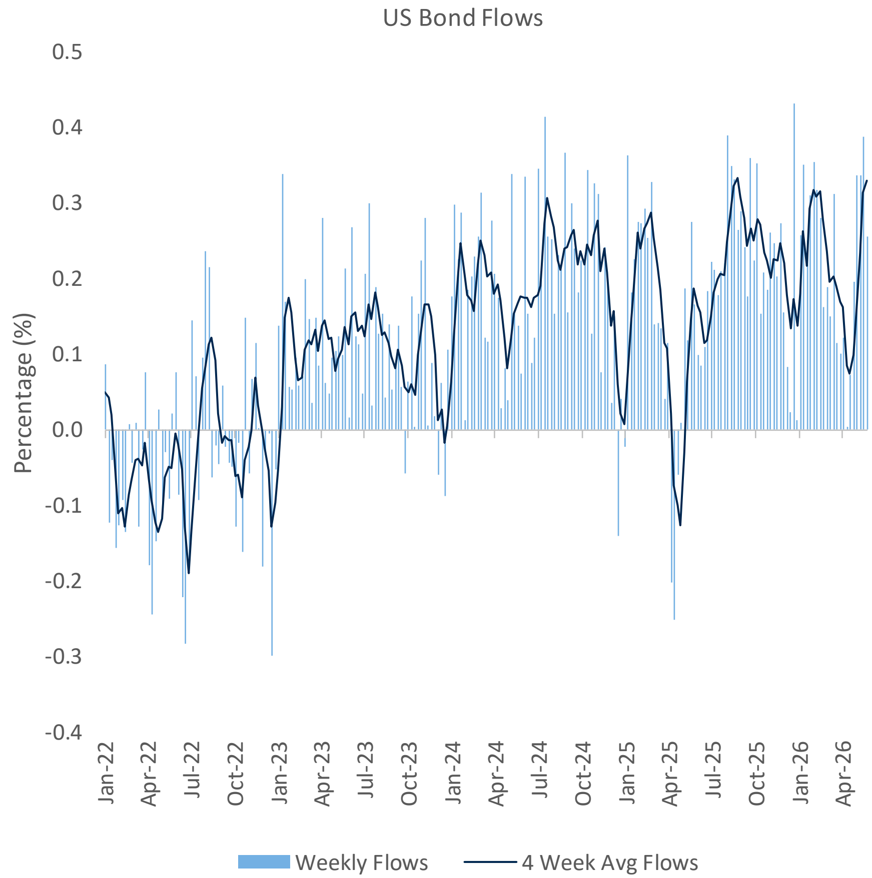
Source: RBC US Equity Strategy, S&P, Bloomberg; as of May 27, 2026 (SPX) and May 27, 2026 (polling/betting market)

US Equity Fund Inflows Have Been In Positive Territory, With Some Signs Of Slowing A Bit

- US equity funds saw inflows return on the weekly EPFR data in 2H25, but well below the levels in place in late 2024 and early 2025. We saw modest outflows on a weekly basis in early 2026, but in recent weeks we are seeing some inflows again. The level of inflow is a little below the latest highs.
- Meanwhile, US bond flows have been strong this year. They recently have picked up some momentum again after a brief period of deceleration.





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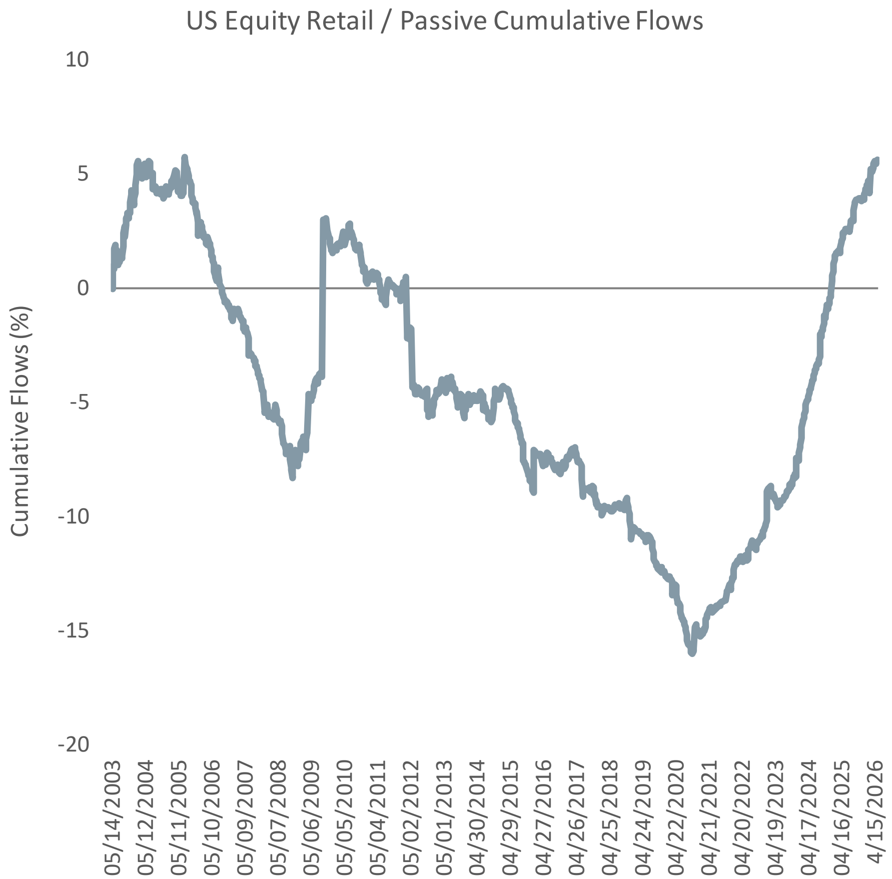
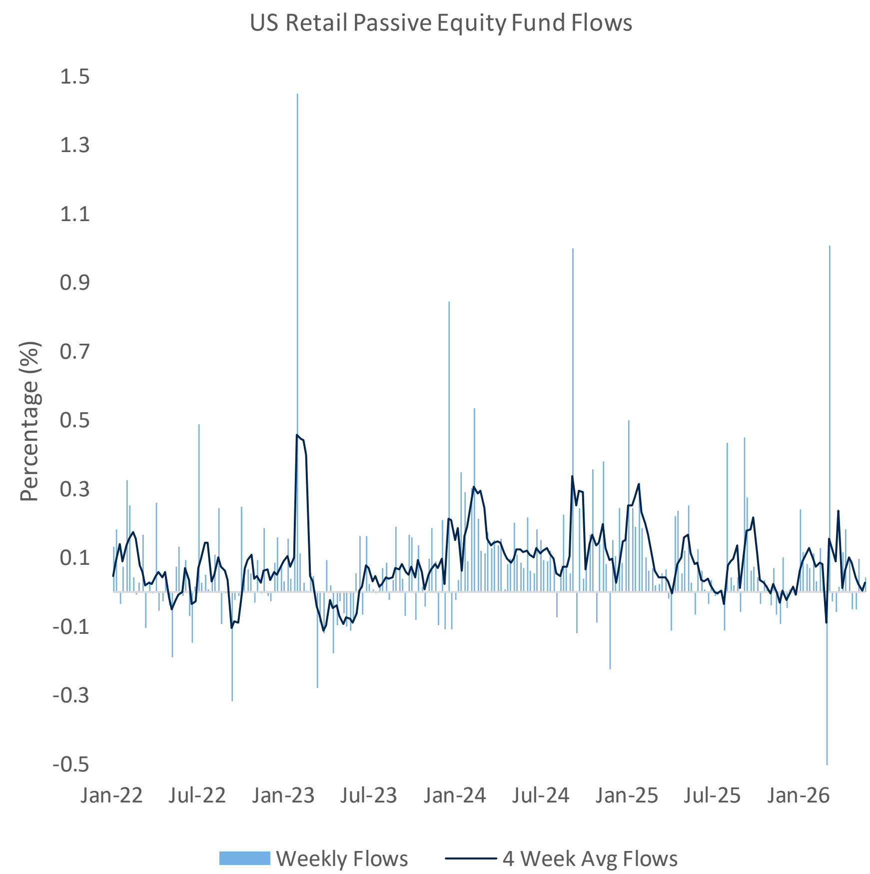
Source: RBC US Equity Strategy, EPFR; as of May 27, 2026

Passive Retail Flows Have Been Weaker In Recent Updates

- Flows to passive retail funds have ebbed and flowed since the start of this year. In the latest weekly updates, small inflows were seen, well below recent highs.





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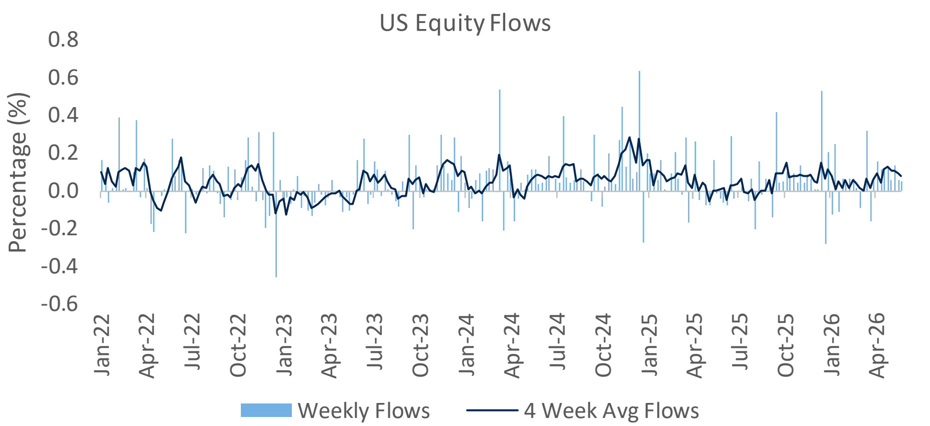
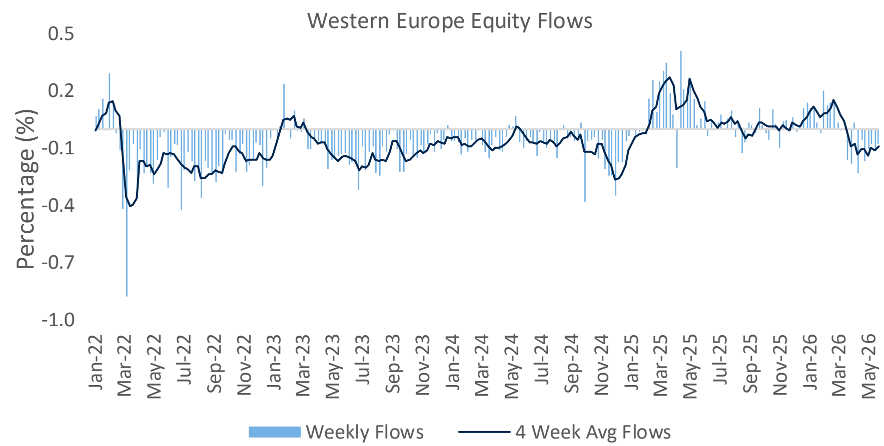
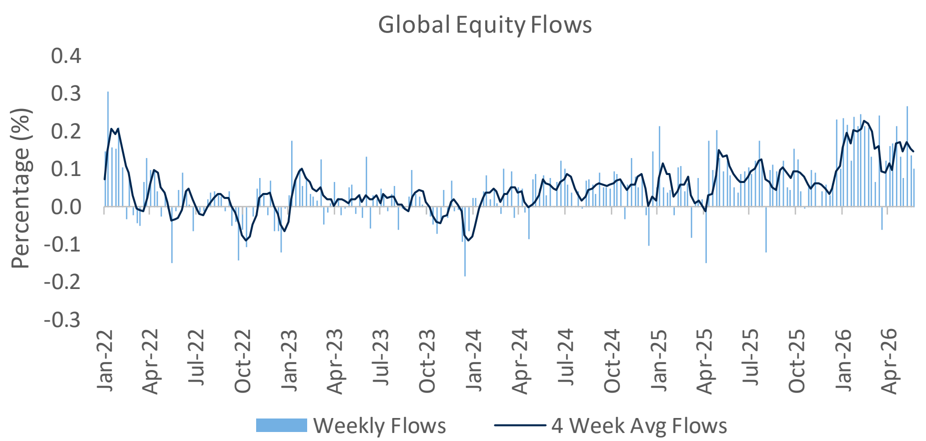
Source: RBC US Equity Strategy, EPFR; as of May 27, 2026

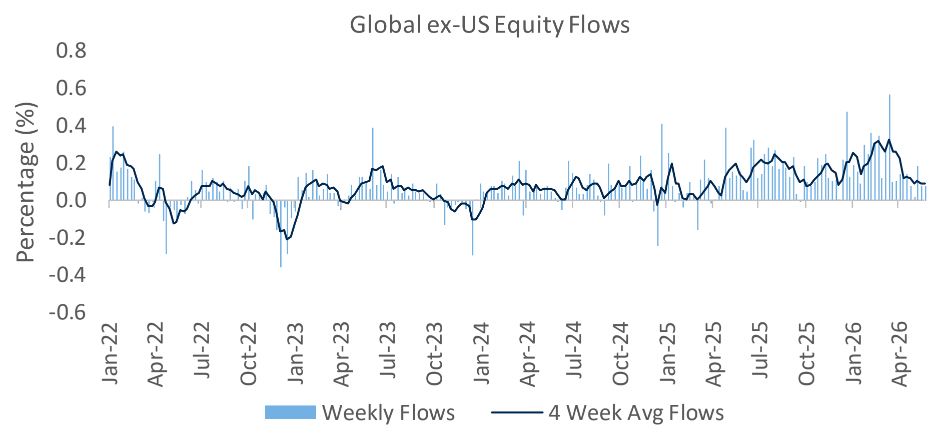
US And Global Equity Inflows Seen Alongside Weaker European & Global Ex-US Flows

- Western Europe flows got off to a good start in 2026 as part of the rotation in leadership that occurred within US equities, but we are seeing clear outflows over the past few months as a "buy the USA" trade took hold as the war in Iran broke out. Western European flows have not shown any sign of improvement in recent updates though they have also not gotten worse.
- Flows to global equity funds are showing strength again. Flows to global ex US equity funds are weaker and are off their highs, but unlike Western Europe are still positive. US flows are still positive but have lost a little momentum.









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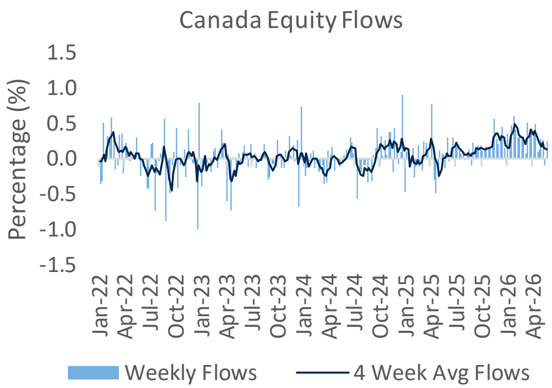
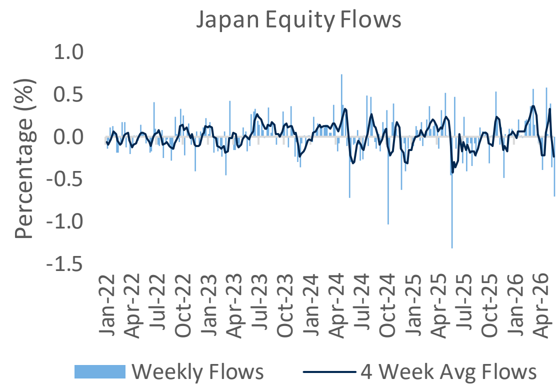
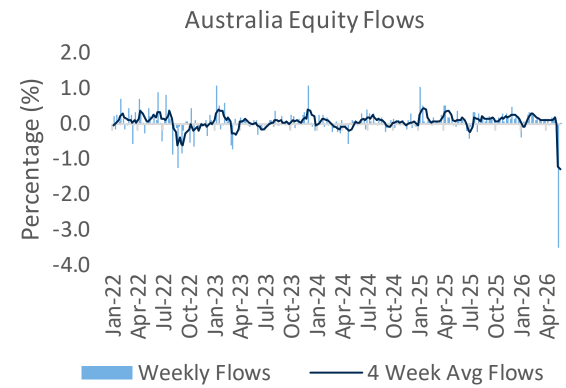
Source: RBC US Equity Strategy, EPFR; as of May 27, 2026

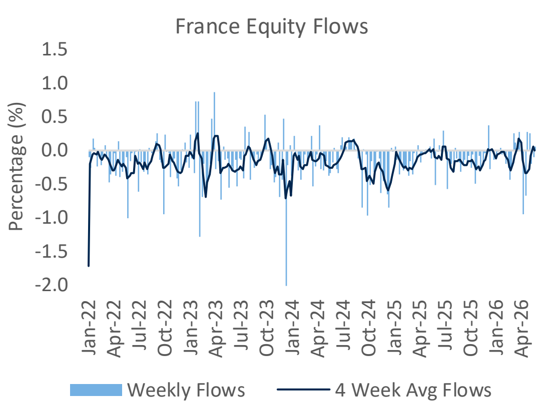
Mixed Trends For Key Developed Market Country Equity Fund Flows

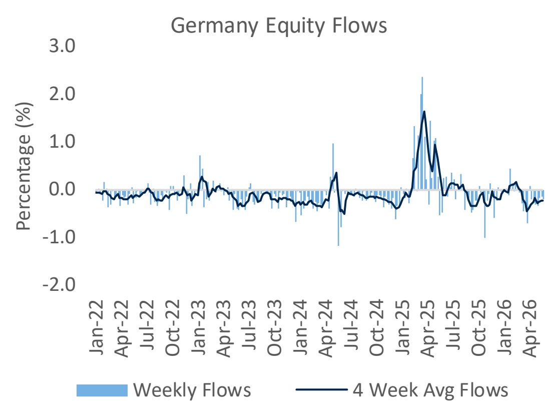
- We are seeing smaller inflows for Canada, weakening in Japan, and large outflows for Australia.
- France and the UK are seeing improving trends lately, and German flows are getting less negative.

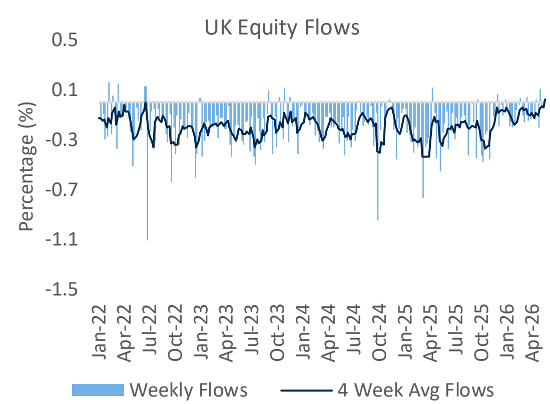












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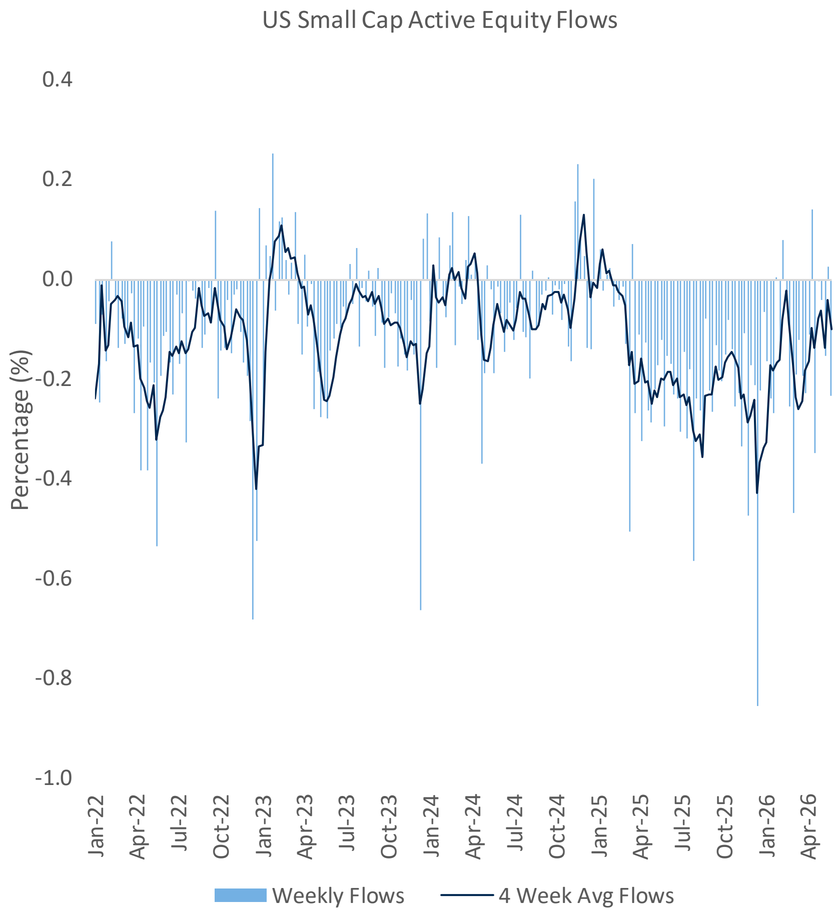
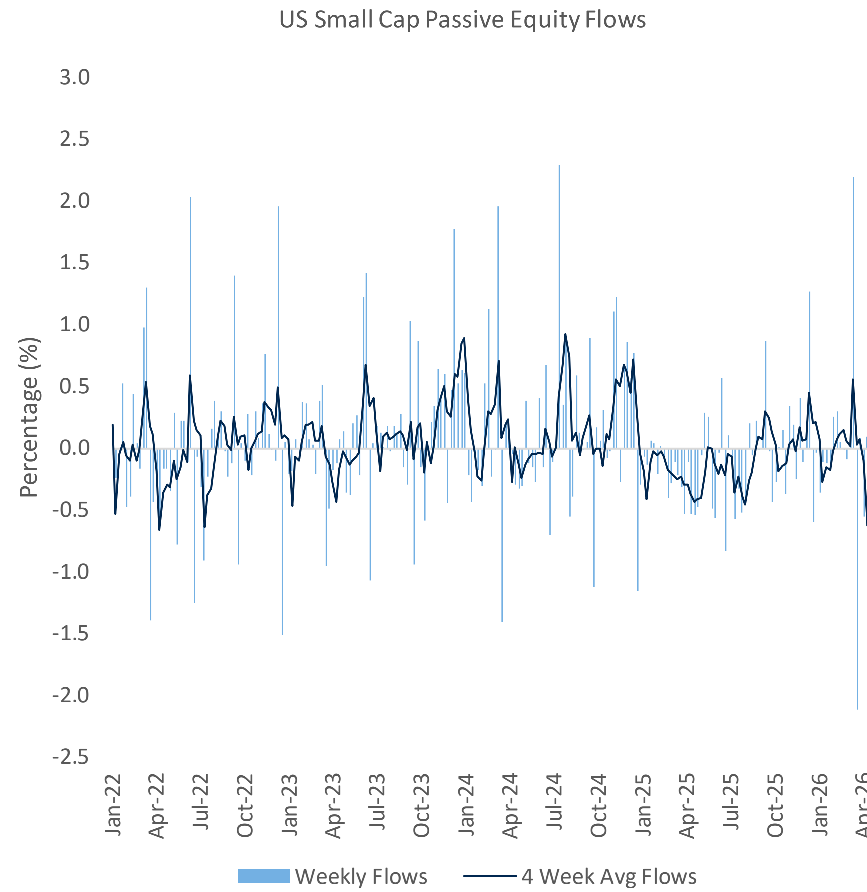
Within Small Cap, Active Funds Registering Outflows, Passive Flows Have Stalled Recently





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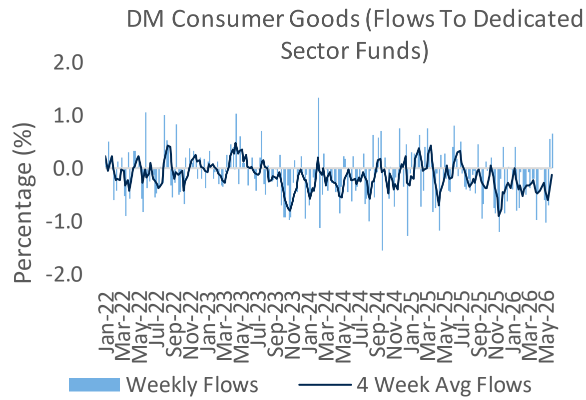
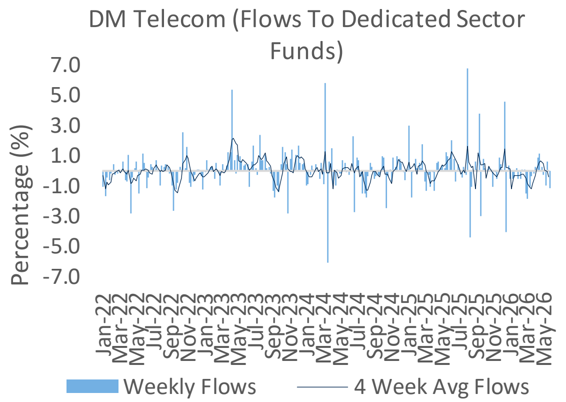
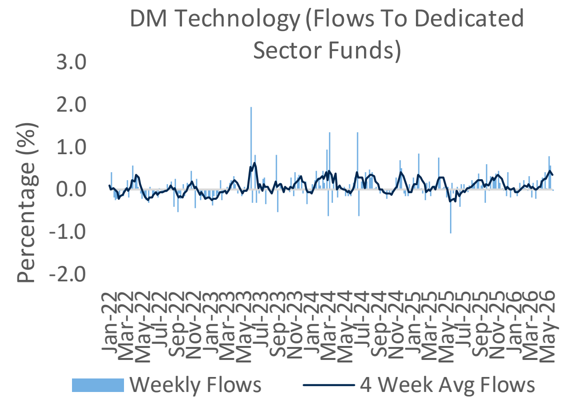
Source: RBC US Equity Strategy, EPFR; as of May 27, 2026

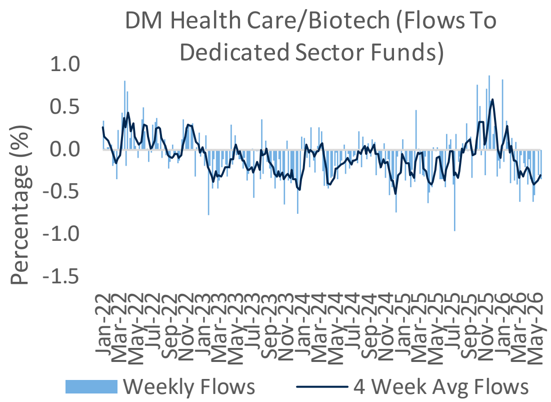
Global Developed Markets Sector Flows (Growth And Defensive)

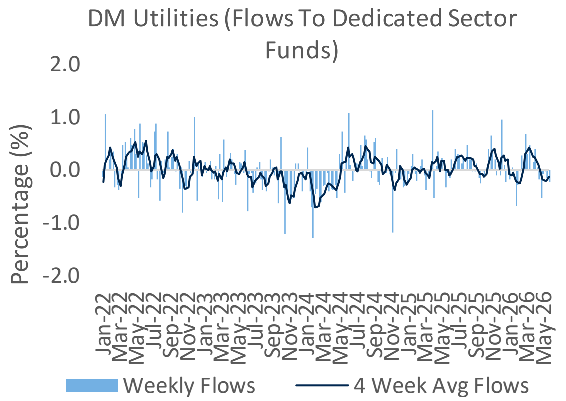
- These charts capture inflows / outflows to funds dedicated to specific sectors.
- On the growth side, Consumer flows have generally been negative but just registered large weekly inflows. Telecom flows have stalled. Tech flows are still improving.
- On the defensive side, Health Care continues to see deep outflows in the latest updates. Utilities flows have deteriorated and are negative, while REITs appears to have turned a corner and are starting to see inflows now.

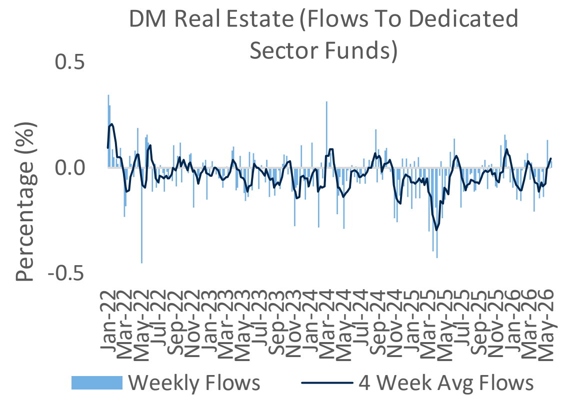








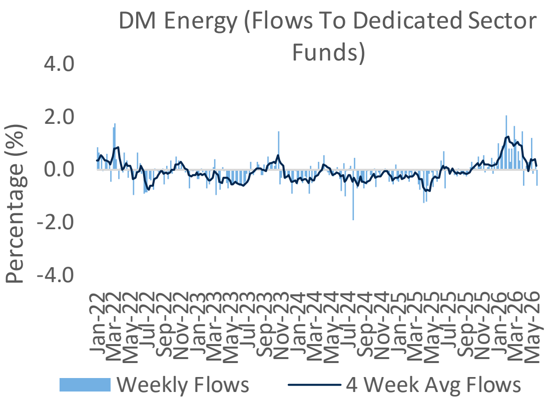


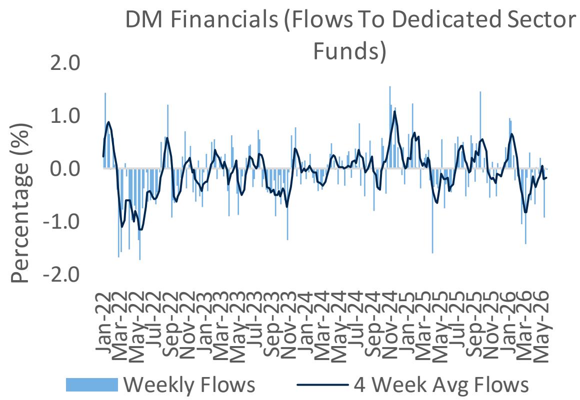


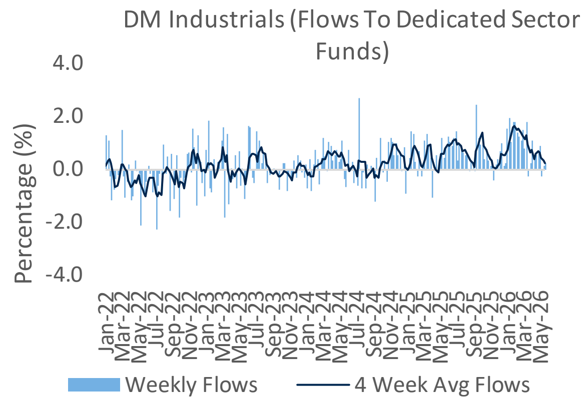
Note: Global Developed Markets includes all developed market funds dedicated to Asia-Pacific, North America, Western Europe, and Global as their regional mandate.
Source: RBC US Equity Strategy, EPFR; as of May 27, 2026

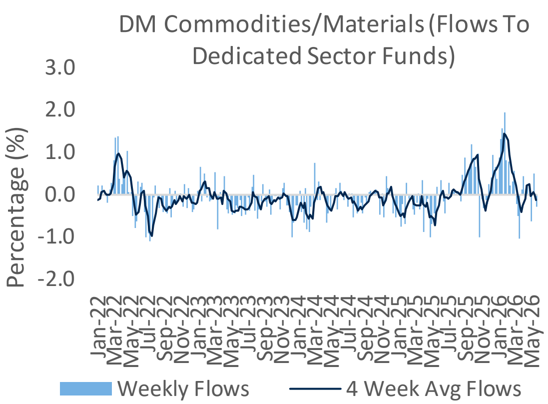
Global Developed Markets Sector Flows (Cyclical And Value)

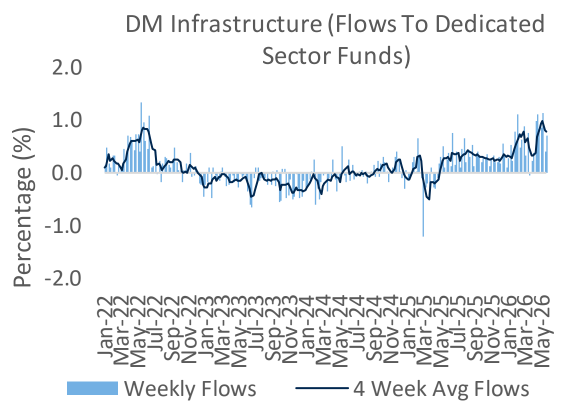
- These charts capture inflows / outflows to funds dedicated to specific sectors.
- On the commodity side, Energy flows went through a period of brief weakness, then a little improvement, and now the sector is seeing modest outflows again. Materials flows have started to stabilize after a period of weakness earlier this year.
- On the cyclical side, Industrials flows have been strong but are weakening. Financials flows have been weak but are getting less negative.
- Infrastructure flows have been positive and continue to be strong.











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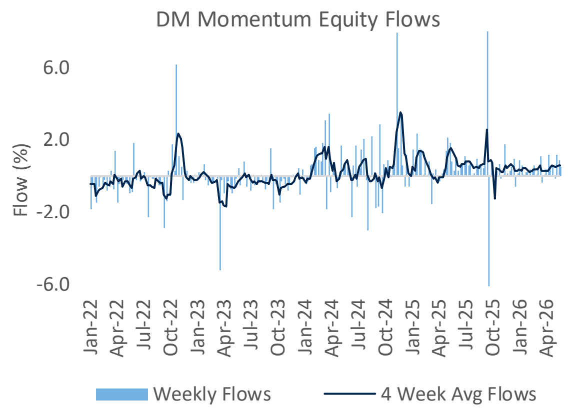
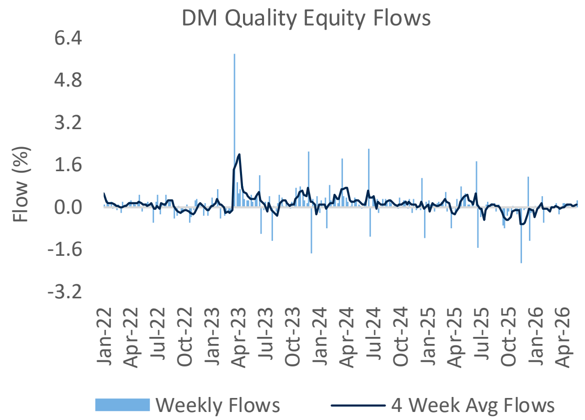
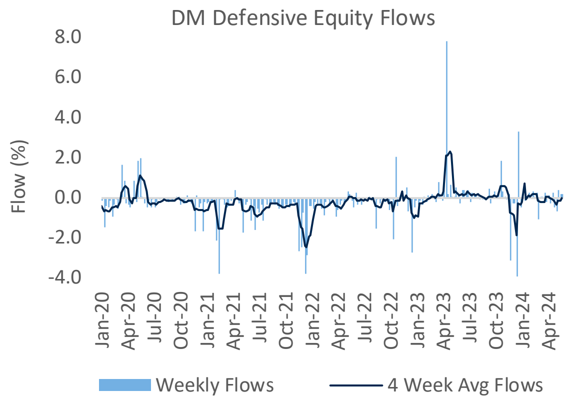
Source: RBC US Equity Strategy, EPFR; as of May 27, 2026

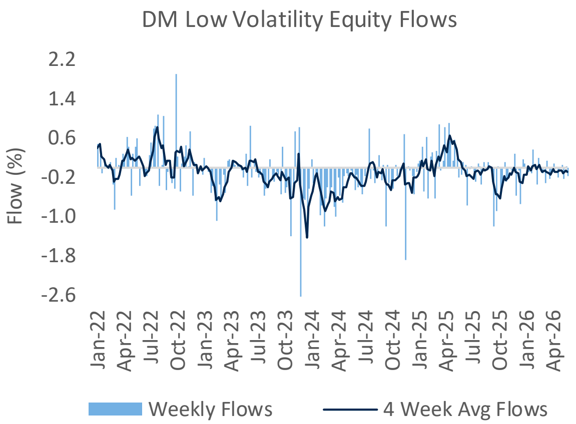
Global Developed Markets Factors Flows

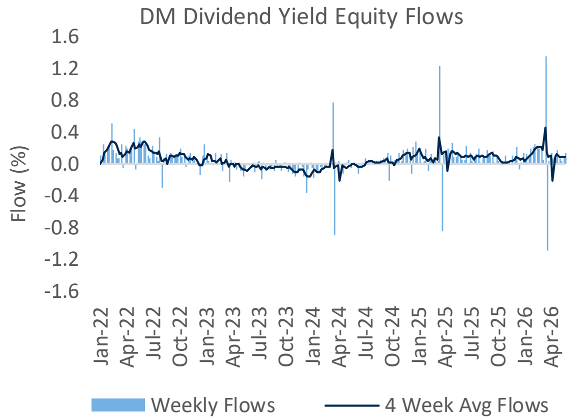
- These charts capture inflows / outflows to funds dedicated to specific factors.
- Flows for momentum funds have been positive and stable lately.
- Flows for low vol and for quality funds have been muted.
- Flows to defensive funds have been choppy recently.
- Dividend funds have seen a few extreme weeks in recent months.











Source: RBC US Equity Strategy, EPFR; as of May 27, 2026

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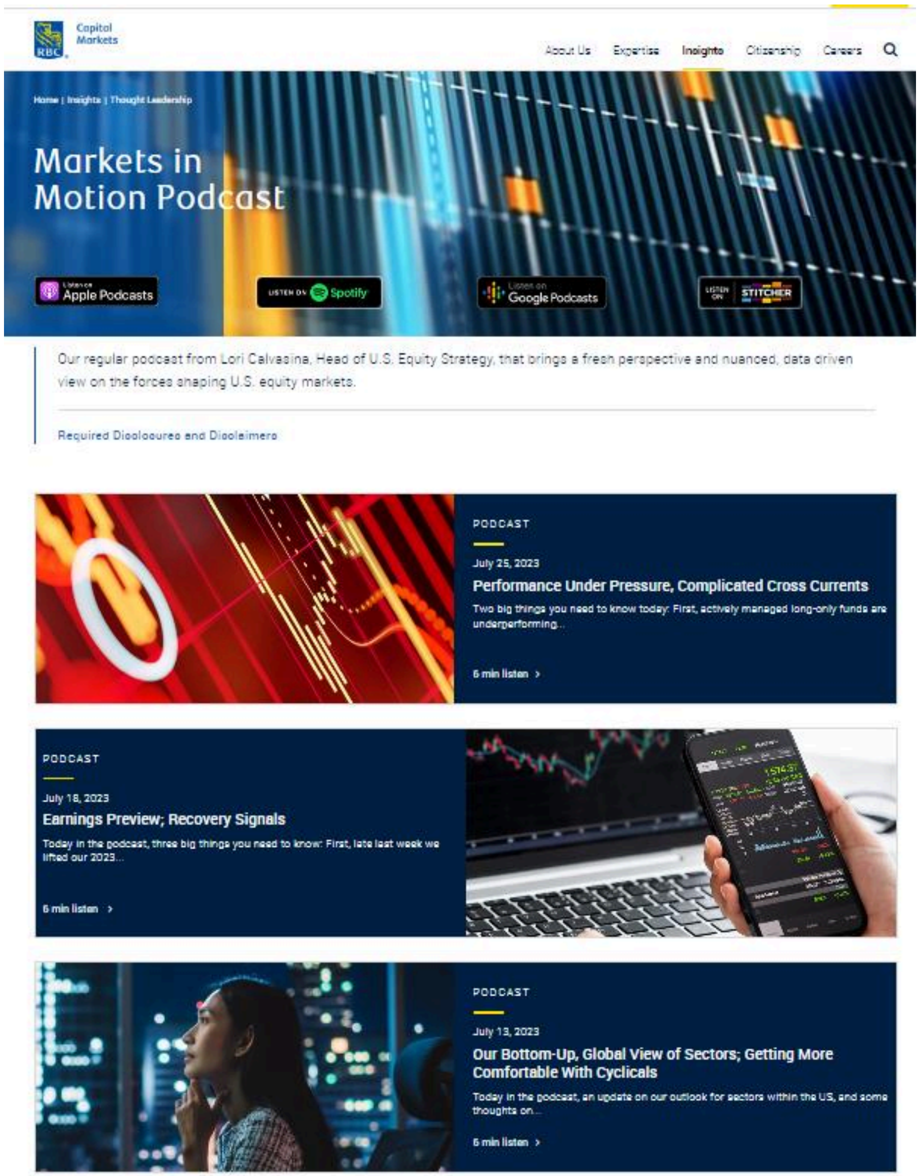

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