Capital Markets

The Pulse of the Market

Baking in a Two-Speed Economy & EPS Backdrop into Our S&P 500 Forecast

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INVESTMENT STRATEGY RESEARCH | MAY 8 2026

Priced at market close, ET, on May 7, 2026 (unless otherwise noted).
All values in USD, unless otherwise noted.

For Required Conflicts Disclosures, see page 76.

Disseminated: May 8, 2026 00:15EDT; Produced: May 7, 2026 23:10EDT

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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, we have lifted our 12-month-forward S&P 500 price target to 7,900, which represents a 7.7% gain from the May 7th close. In adjusting our forecast, we are focusing on our valuation/EPS model, which does the best job of baking in a two-speed economy and earnings backdrop. Second, on bigger-picture positioning, we continue to prefer Growth over Value, US over non-US, and like Small Caps (but not as much as Large Cap Growth). Our sector views are mostly unchanged, but we have lowered Health Care to market weight from overweight. Third, we run through the strong stats from 1Q26 reporting season.

Lifting Our 12-Month-Forward S&P 500 Price Target to 7,900, With a Focus on Baking in a Two-Speed Economy & Earnings Backdrop

Since last November when we shifted to a rolling-12-month-forward S&P 500 price target, we've been committed to updating our forecast on a monthly basis, rain or shine. While our April update (7,750, for a 13.6% gain) came after a difficult month in financial markets, our May update comes after a rebound in the S&P 500 of more than 16% off the March 30th low. As we think about the year ahead, we are mindful of the challenges that confront the US equity market, but still see more upside potential as stocks climb the proverbial wall of worry. We think our new price target of 7,900 (which represents a gain of 7.7% from the 5/7/26 close) captures both ideas.

While we normally keep our price target close to the average or median of five different models (which examine stock market performance in the context of sentiment, GDP, valuation and EPS dynamics, the Fed, and the appeal of stocks vs. bonds), in this update we've decided to focus on the two models that we think are best equipped to help us map out the impact of a two-speed economy and earnings backdrop: our GDP and valuation/EPS tests.

Our GDP test (page 61) highlights the typical S&P 500 12-month return (+5.7%) when real GDP growth ends up in the 1.1–2.0% range on a yr/yr basis, in line with RBC Economics and consensus forecasts for 1Q27 (page 61). Consensus GDP views for early 2027 have come down a bit since the war began, but importantly have not fallen into the 0.1–2% range that is typically accompanied by a down stock market and the fear of the economy tipping into recession. This model points to fair value for the S&P 500 in 12 months' time of 7,755.

Our valuation/EPS test allows us to be a little bit more precise. Here, we're currently baking in inflation and 10-year yield assumptions that are well above consensus (3.3% CPI, 4.5% 10-year yields) into our trailing P/E calculation (resulting in some P/E compression from the highs of the past year). This model also currently uses an EPS assumption that lowers bottom-up consensus forecast for the total S&P 500 in 1Q27 by 5%. To arrive at that 5% haircut to the overall S&P 500 consensus, we looked at consensus forecasts for net income in a basket of AI-related names within the S&P 500, as well as the forecasts for the rest of the index. We didn't change the numbers for the AI basket (reflecting the idea that the AI narrative will stay strong – the fast lane) and lowered the numbers for the non-AI basket by 7.5% (reflecting the idea that the rest of the index will take some hits from the conflict in Iran – the slow lane). This model is producing a fair value output for the S&P 500 of 7,929, which we approximate to 7,900 for our official price target. See page 31 for details.

It is possible that we are being too conservative. Indeed, the average of all five of our models comes out to 8,100, a number that is also close to the median model output. Our sentiment model produces that median output. It looks at how stocks perform in the 12-month period after net bulls on the weekly AAII survey hit certain ranges (page 30). AAII net bulls have bounced back to levels slightly below average in recent updates, in the average to -1 standard deviation range, and our model points to a 12-month forward return in the S&P 500 of 10.8% from those levels (8,130 when using the 5/7/26 close as a starting point). Sentiment in this survey has rebounded since our last update in April, when this model was sending a 15% return signal due to the significant (but not all-time extreme) levels of bearishness that were in place at the time. But the recovery has not been strong enough to suggest euphoric conditions are in place.

In early/mid April, we wrote that we thought the S&P 500 had made a fragile, foggy bottom on March 30th. We have disagreed with the views of some of our peers that valuations and sentiment got washed out in March, and think the bottom was made because valuation froth was removed, and financial market participants believed that an inflection in the Middle East conflict had occurred. Going forward, we think the main risk to our 12-month view is that the situation in the Middle East ends up lasting much longer and/or the damage done is far greater than financial market participants and public companies expect, triggering a recession in the US. But we see this scenario as a tail risk rather than the base case. As we've discussed in the last few *Pulse* reports, public companies have generally been sending the message that they are able to manage through for now. It is difficult to know how much runway, cushion, and buffers they have, but some have noted their guidance assumes the conflict endures through 2Q or the summer, while others have highlighted inventories or hedges lasting anywhere from a quarter or two to a year.

Positioning Thoughts

- *Bigger picture views:* We continue to have a bias for Growth over Value within Large Cap and US equities over non-US equities (short-term outperformance by Europe on war resolution would not surprise us, but we'd see it as more of a short-term trade). We like Small Caps, but not quite as much as big cap Growth. See page 3 for more details on how we are thinking about each of these issues. Generally, we think pricing will follow earnings, and that mega cap Growth leadership within the US and US leadership relative to non-US are two trades that are linked to one another. We are also now tracking net income growth forecasts for an AI basket that is broader than the Mag 7. Forecasts are stronger for that broader AI basket in 2026-2027 than the Mag 7, making a case for broadening leadership within the AI theme (page 13).
- *Sector snapshots:* On pages 5-6, we recap our views on each of the S&P 500 sectors. Our recommendations are mostly unchanged, and we remain overweight Communication Services, Financials, and Materials, underweight Consumer Discretionary, and market weight other sectors. The one change we have made is that we have lowered Health Care from overweight to market weight. Valuations remain attractive, in our view, but earnings revisions trends are weak, flows are negative, and the sector was middle of the pack on most of the questions in our April analyst outlook survey for the US. Note that we now consider REITs (market weight) to be our preferred defensive in a pullback, and also see Energy (market weight) as tactically interesting if the war is prolonged given valuations that remain slightly appealing, in our view.

Quick Hits: What Else Jumps Out

- *EPS report card:* As we exit the final heavy week of 1Q26 reporting season, the stats are solidifying and generally coming in strong at the higher level. 1Q26 beats for the S&P 500 are tracking at 84% on EPS and 78% on sales, both higher than 4Q25 levels (pages 21-22). The consensus EPS growth rate for 1Q26 (blend of actuals and forecasts of companies still yet to report) has moved up from 13% to 26%, but it's worth noting that the other quarters in 2026 have moved up as well (page 12). Looking at 2026 as a whole, we see both high EPS growth rates (relative to the S&P 500) and big upward revisions to EPS growth rate forecasts for Tech, Energy, Materials, and Mag 7, along with a decent upward revision to Communication Services (page 15). No sector has come down on their 2026 EPS growth rate stats, though many are barely changed. Trends are also solid though admittedly a little less exciting when we look at the percent of EPS estimate revisions (FY1 & FY2 combined) for the S&P 500, which is tracking at 52.5%, driven by strength in the top-10 market cap names, Tech, Energy, Industrials, Utilities, and Communication Services, which have been seeing upward revisions to both EPS and revenue forecasts (page 23).
- *More midterm musings:* Last week, we pointed out that betting market expectations for a Democratic sweep this fall had eased while expectations for a split Congress had risen, something we thought might also be boosting animal spirits for the stock market at the margin. This week what jumps out on our data is that betting market expectations for a Republican sweep are now starting to move up. See pages 71-72.

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. Our price target is maintained on a rolling 12-month-forward basis (it is not a December 31st estimate) and is updated monthly. The average and median of the five models (which we typically use to set our price target) is 8,100, which suggests there is some upside risk to our view. We've 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). See page 4 for additional details on the math behind our price target, the methodology, and what's changed in the models since our last update in early April.

- **Tactical risks we're monitoring.** As previously discussed, we don't expect the S&P 500's move higher to be linear but anticipate that any pullbacks would be no worse than a tier 1 garden-variety pullback. But in our view, unless recession concerns return, it is unlikely the S&P 500 would enter a tier 2 growth-scare drawdown or worse. We are keeping an eye on valuation levels in the S&P 500 and Russell 2000, which could indicate a return of short-term overbought conditions when they return to past highs, but aren't seeing that condition in place broadly yet. One potential catalyst for a pullback later this year could be downward adjustments to late-2026 or 2027 EPS outlooks due to war impacts. Profit-taking in Semis, which have been an important pillar of the recent move in the S&P 500 and have strong earnings revisions trends but look pricey, is another. Mid-term elections could be another stumbling block for the S&P 500 later this year given the poor history for stocks around this event, including 2018 (Trump 1) and 2022 (Biden), but we suspect heightened expectations around a Democratic sweep in Congress contributed to the 9.1% drawdown in the S&P 500 in 1Q26 given an increase in odds around that scenario in betting markets earlier this year, and note that anticipation of a split Congress has been on the rise again in betting markets (a possible tailwind to US equities of late) even though it is not yet the most expected outcome. Setbacks in the war are another obvious potential downside catalyst in the short term. We've tended to view private credit as more of a narrative problem than a fundamental one but are also keeping an eye on this corner of the market as well.

- **We continue to have a bias in favor of Growth over Value within Large Cap.** We think US equity market performance will reflect trends in earnings over the next 12 months, and our data suggests that the earnings story is simply stronger for Growth than Value at the moment, 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, and find similar trends relative to the S&P 500 ex that AI basket – but we are seeing a sharp pickup in anticipated growth dominance of that AI basket in 2026, which we think has helped to invigorate the AI theme even more in recent trading. Net income growth is 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.

- **We continue to give an edge to US equities over non-US equities.** 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 the five-year average but doesn't look 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. In recent EPFR updates, US equity flows were showing modest signs of improvement, while flows to Europe were weakening and had turned negative. We aren't getting terribly strong signals on the US relative to other developed markets geographics on our earnings revisions work right now (most of the areas we track are showing signs of deceleration) or on our economic indicators where GDP forecasts are starting to slip 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). In our meetings, we've continued to emphasize to clients that there has historically been a link between the Growth/Value trade in the US and the US/non-US equity trade. Over the past 20 years, US underperformance relative to non-US tends to be accompanied by Growth underperformance vs. Value within the US. Note, our recent global analyst survey work suggests that Europe is less appealing than the US in terms of perceived valuations, demand, and war impacts. Note, we would not be surprised to see Europe lead and the US lag if a clear end of the war occurs, but for now we would view that as a short-term trade.

- **We like Small Caps, but not quite as much as big cap growth.** Small Caps have been outperforming Large Caps in a jagged uptrend since last August, but the relative trade has moved sideways in early 2026. Some of the positives we have seen for Small Caps include the strong March jobs report, recent improvement in ISM manufacturing, and the removal of froth from Russell 2000 valuations (which fell slightly below their long-term average in March) 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 weaker earnings revisions trends relative to Large Caps (which may finally be starting to equalize), a lack of optimism about Fed cuts in 2026 among financial market participants generally (since Small Caps tend to see bursts of leadership when dovishness increases), 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). Note 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, which helps us understand why the Russell 2000 has been showing some leadership vs. the S&P 500 recently, but not Nasdaq.

The Math Behind Our 12-Month S&P 500 Price Target of 7,900

Methodology: *We take a different approach to price targets than most strategists. We typically arrive at our price target through a quantitative process that leverages several different models. We often describe our price target as a navigational tool, more like a compass than a GPS, and as a signaling mechanism that is designed to reflect our general view of the path that the stock market is currently on. It essentially helps us to articulate whether we are bullish or bearish on the stock market and why we hold that view. Effective early-December 2025, we made an important change to our process. We are no longer orienting our models to answer the question of where the S&P 500 will end on December 31 of the year in question. Rather, going forward we will use our price target as a way to summarize what our models are signaling about where the S&P 500 will be 12 months or four quarters in the future on a rolling basis. This is more aligned with how stock analysts do their company-level price targets, and is more value-add to our clients in our discussions of the longer-term path that stocks are on than a continually updated discussion of December 31 levels in which the time frame is constantly compressing. Effective April 2026, we have adjusted the three models in which we leverage quarterly data points to focus on 1Q27 as opposed to 4Q26. Starting December 2025, we have been updating our analysis and price target on a monthly basis, which is a cadence we anticipate sticking with in the future.*

What's Changed Since Our Previous Update? We have refreshed our models for the 5/7/26 close and early-May macro and EPS inputs. In our May update, instead of using the median or average, we are linking the price target to our valuation/EPS model, which gives us the best ability to model in a two-speed economy and earnings backdrop (AI in the fast lane, Middle East in the slow lane). Relative to our last update, the signal from our sentiment model has weakened (from a 15% anticipated 12-month-forward return to a 10.8% anticipated 12-month-forward return), driven by an improvement in investor sentiment on the AAII survey from a deeply depressed level to a relatively neutral one. Meanwhile, the implied fair value level for the S&P 500 from our valuation/EPS test has improved due to the improvements in bottom-up consensus forecasts for the next four quarters (our assumptions on the macro variables used to derive our projected P/E and the 5% haircut we are giving to the bottom-up consensus EPS are unchanged since our last update). The signal from our cross-asset model has also improved slightly. With the exception of our valuation/EPS test, the fair value projection for all of our models has gotten a boost from a better starting point due to the fact the S&P 500 has risen since our April update.

Models		Details					
Driver	**Test**	**12 Month Forward Signals**	**RBC Rates / Econ View**	**Consensus Forecast**	**Actuals or RBC Strategy Inputs**	**Assumption**	**Implied Target**
Sentiment	**AAII Test**	12 month forward average return when this model is between average and -1 standard deviations below the long-term average, using the 4 week average			As of 5/7/26, net bulls were at 5.3% on the weekly update and 1.05% on the four-week avg.	10.8%	8,130
Valuation/EPS	**Trailing P/E Test**	**Implied trailing P/E assumption for four quarters post the end of the current one from our valuation model (based on a stress test on inflation, the Fed, and interest rates, regression goes back to 1962 but excludes the 2010's) combined with an EPS assumption based on the bottom-up consensus forecast for the next 4 quarters**			**We lowered the bottom-up consensus EPS (as of early May 2026) for 1Q27 by 5% to $329; used 3.3% CPI, flat Fed, 4.5% 10 year yields for the P/E calculation. Based on our net income sensitivity analysis, this would be the outcome if AI related net income is in line with consensus for 1Q27 (for 28% growth yr/yr), and non-AI net income comes in 7.5% below consensus (for 6% growth yr/yr), putting the total S&P 500 growth rate at 12%.**	**24.1**	**7,929**
Stocks vs. Bonds	**Earnings Yield Gap Model**	Average 12 month forward return since 1989 when this indicator is in the 0 to -1% range, based on the current bottom-up consensus NTM P/E and current 10 year yield			Was -0.2% as of 5/5/26	14.1%	8,372
Economy	**GDP Test**	Average 12 month return in the S&P 500 when real GDP is in the 1.1-2% range in a rolling four quarter period since 1990	Real GDP of 1.7% in 1Q27 as of mid April forecast update	Real GDP of 1.9% in 1Q27 as of early May		5.7%	7,755
Interest Rates	**Fed Test**	Average 12 month return with modest Fed cuts (target rate declines between 0 and -1% in a 12 month period)	1 cut by 1Q27 as of mid April 2026 forecast update (none in 2026)	1-2 cuts by 1Q27 as of early May 2026		13.3%	8,313
Key Stats							
12 Month Forward Price Target		**Approximation of our Valuation/EPS Test**					**7,900**
		Max					8,372
		Median					8,130
		Average					8,100
		Min					7,755
Implied 12 Mo Fwd S&P 500 Change		12 month price target vs. latest close					7.7%
Implied P/E		12 month price target divided by next four quarters bottom-up consensus EPS ($346 for 1Q27 on a trailing 4Q basis)					22.8

Source: RBC US Equity Strategy

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 turned positive and are improving recently. 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 is the only industry that looks attractive on relative valuations and has positive EPS revisions.
Consumer Discretionary	**Underweight**	We are seeing negative EPS and sales revisions, and the sector is expensive on an absolute FY2 P/E. The sector is slightly more attractive on a relative FY2 P/E basis, however, flows to global consumer funds have generally been negative. 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), Diversified Consumer Services stands out for having attractive relative valuations and positive EPS revisions.
Consumer Staples	**Market Weight**	The most positive data point we see for the sector is attractive valuations on an absolute and relative basis. Negatives for the sector include negative EPS and sales revisions and flows to consumer funds have generally been negative. 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), no industry jumps out as looking compelling on both valuations and EPS revisions trends. Tobacco looks expensive and has negative EPS revisions.
Health Care	**Market Weight (New Downgrade)**	The most positive data point we see for the sector is its attractive absolute and relative valuations. Meanwhile, negatives include fading earnings revisions trends that are now slightly negative, and 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 has 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 and improving 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 and Technology Hardware, Storage & Peripherals stands 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 include weakening sector fund flows, which have recently started to turn negative. 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 continue to screen attractive on both absolute and relative valuations, while also scoring well in our analyst survey across performance, valuations, demand, and the domestic policy backdrop. Revisions trends remain somewhat mixed at the broad sector level, though fund flows have been improving and are becoming less negative. Within the Russell 3000 Financials sector, Banks and Consumer Finance continue to look most compelling, while Capital Markets screens less attractive with valuations back in expensive territory alongside weak 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 remained 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 relative to the broader market, while revisions trends for the sector have improved recently as well. Fund flows into Materials have improved and 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 only real negative we see for the sector is weakening fund flows. 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 April 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. We do think as the year progresses, equity investors will increasingly start to focus on 2027, which may be where more earnings risk ultimately lies from the Iran conflict and hence renewed pullback risk in the broader market. On that point, we note that while bottom-up consensus EPS growth forecasts for the S&P 500 have remained resilient and have actually continued to move up, we have seen a little bit of slippage in the anticipated EPS growth rate expected by consensus for 2027 in the broader S&P 500. This slippage has been driven by the index ex the Mag 7 and the index ex Tech, as Tech and the Mag 7 have remained steady.

	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	▪ 6,629–6,997 vs. the 5/6/26 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	▪ 5,892–6,334 vs. the 5/6/26 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 5,008–5,377 vs. the 5/6/26 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	▪ 3,683 vs. the 5/6/26 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

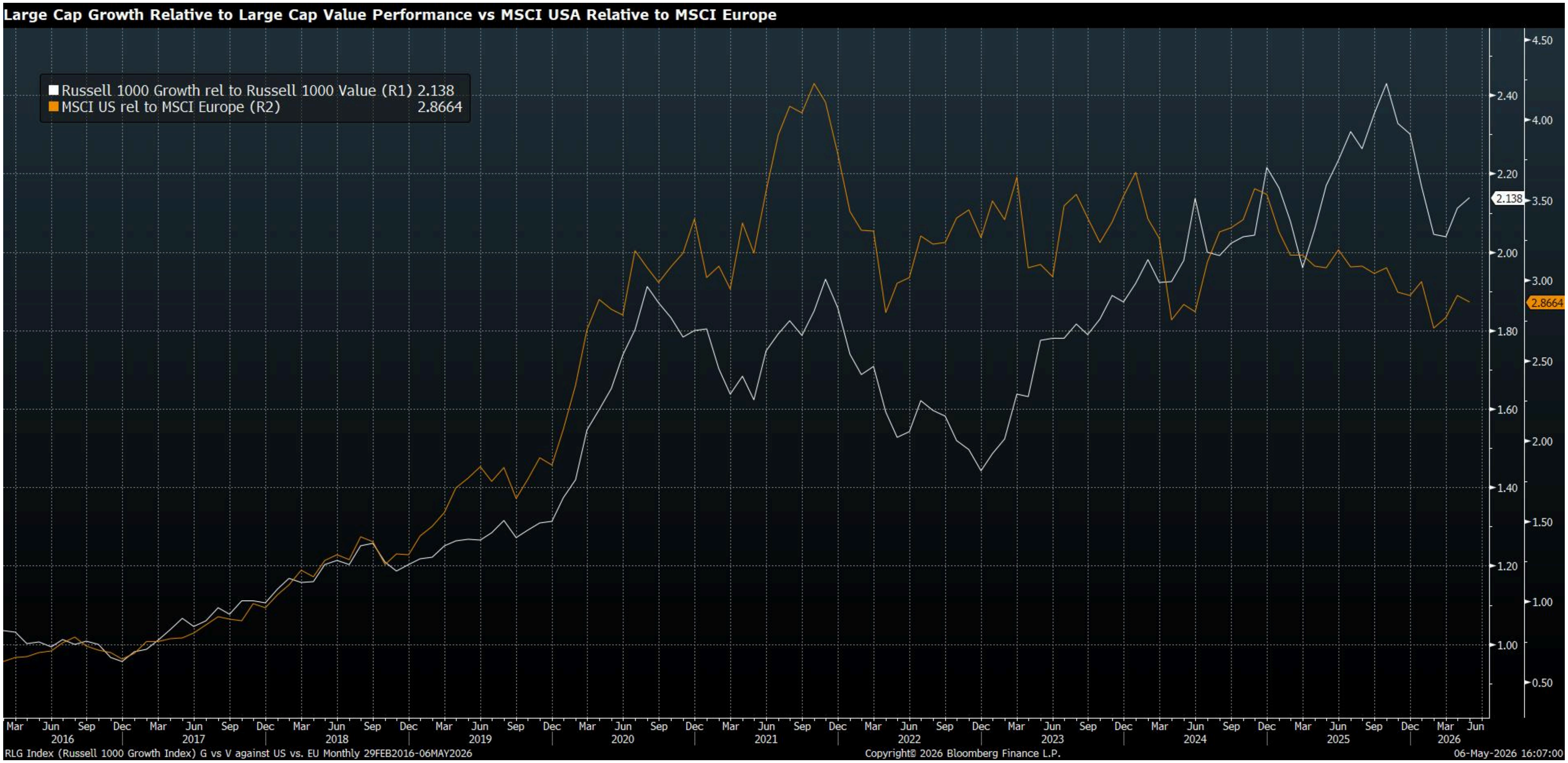
The Low-Quality Trade Has Recently Returned in Small Cap and Large Cap

- 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. Since last fall, the high-EPS-quality factor has been working again but there has been a bit of low-EPS-quality leadership that's returned again in recent trading.
- 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, both Small and Large experienced a modest shift toward higher earnings quality. However, this trend then reversed, with low earnings quality gaining prominence once again in late 2025. This trade has generally been tilted to high-EPS-quality outperformance but has been choppy in very recent updates with a small tilt toward low earnings quality.

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 May 5, 2026

US Growth / Value Trade Has Tracked the US / Europe Trade in the Past

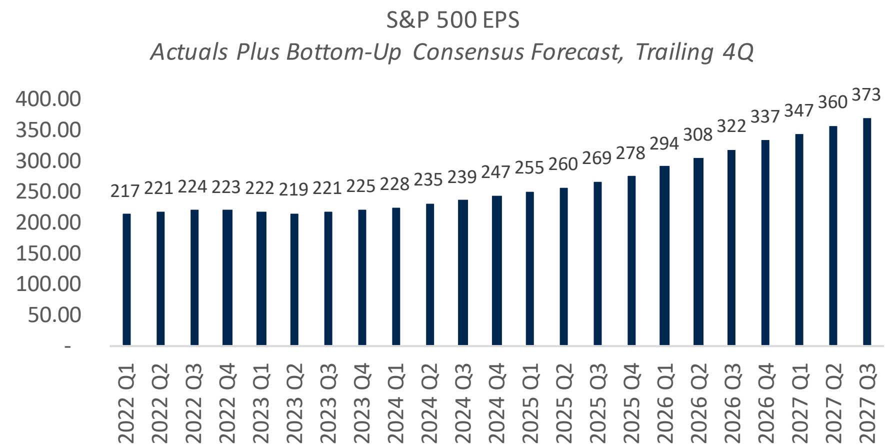
- The relationship broke down in 2022. It may be returning, however.

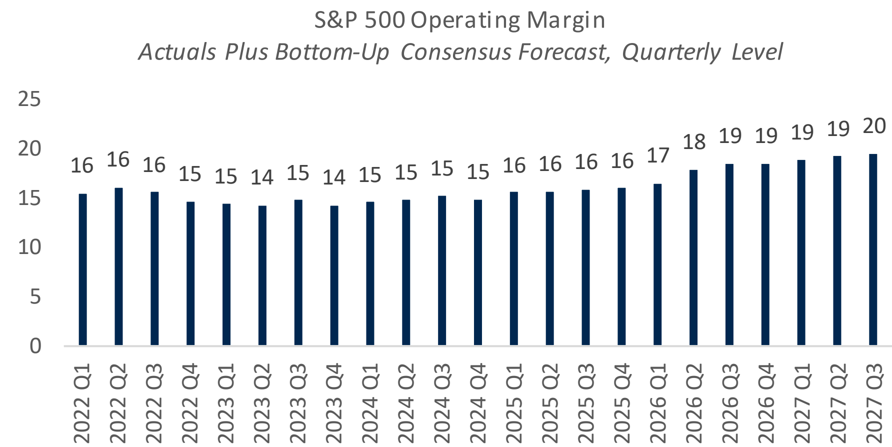


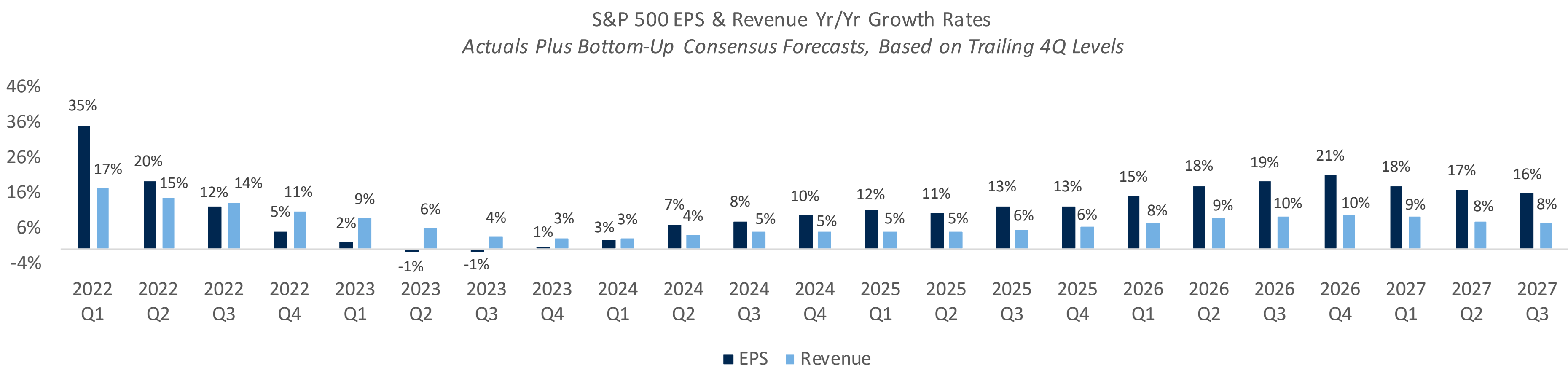
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, MSCI, Russell, Bloomberg; as of May 6, 2026; please see the MSCI disclaimer at the end of this report

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 $337 (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 21.3%, 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 $347 on a trailing 4Q basis for a growth rate of 18%.



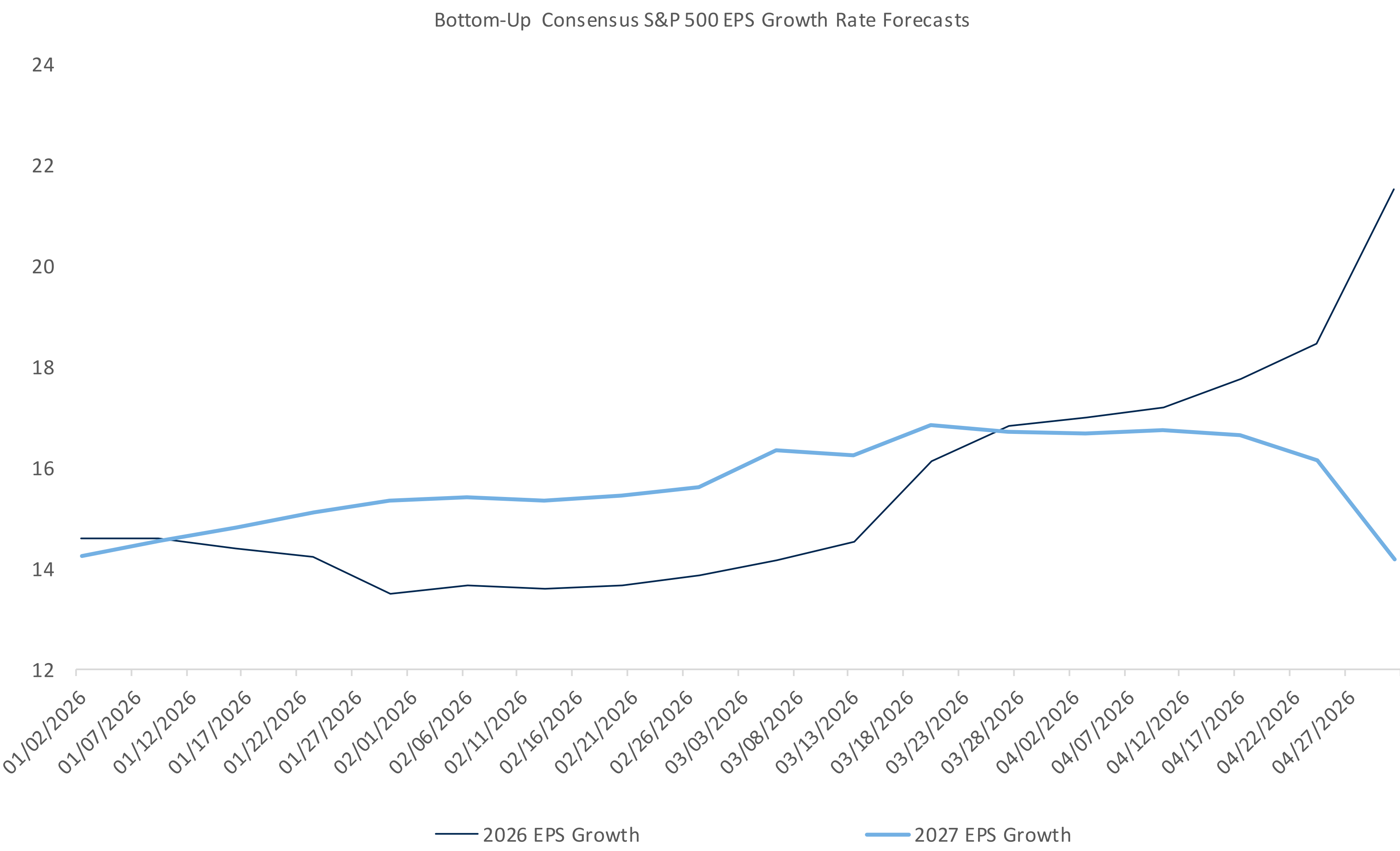




Note: Operating margin stats exclude REITs and Financials; this data is maintained by Bloomberg and can be found on the BI STOX page on Bloomberg – an interactive model is not available from the RBC US Equity Strategy team.
Note: The RBC US Equity Strategy team does not authorize the reproduction of 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; latest available data as May 5, 2026

2026 Consensus EPS Growth Rate Forecast Has Moved Up, While 2027 Has Moved Down

- For 2027, the dollar value of consensus EPS has moved up, but the implied growth rate has come down.



Source: RBC US Equity Strategy, Bloomberg, latest available data as May 5, 2026
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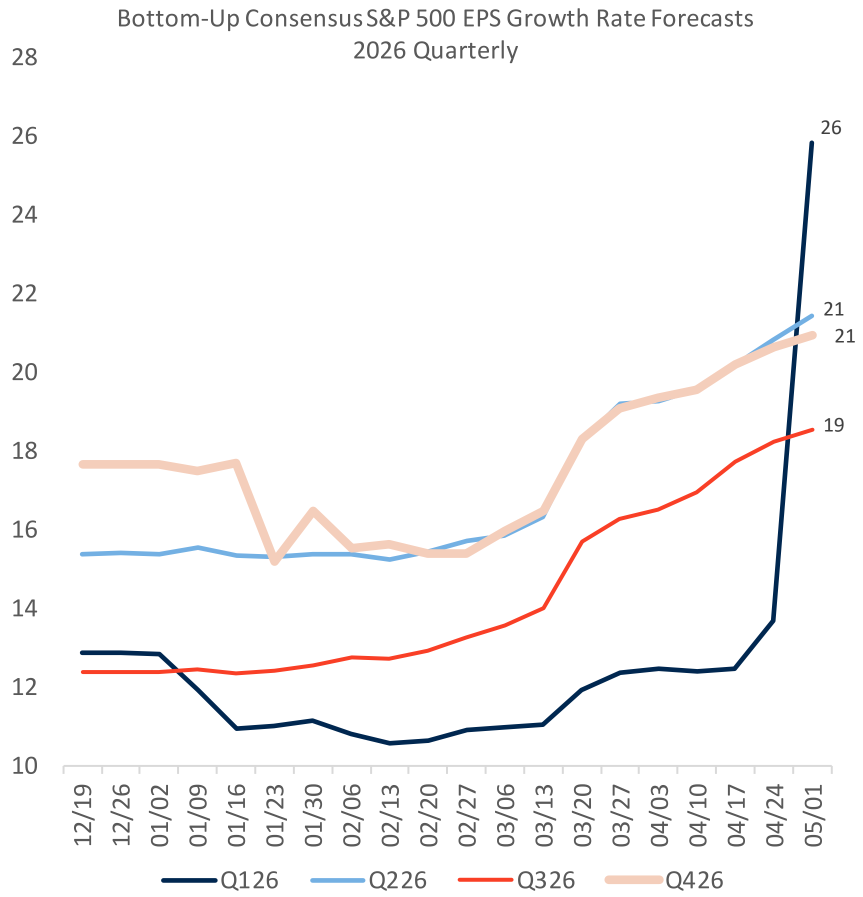
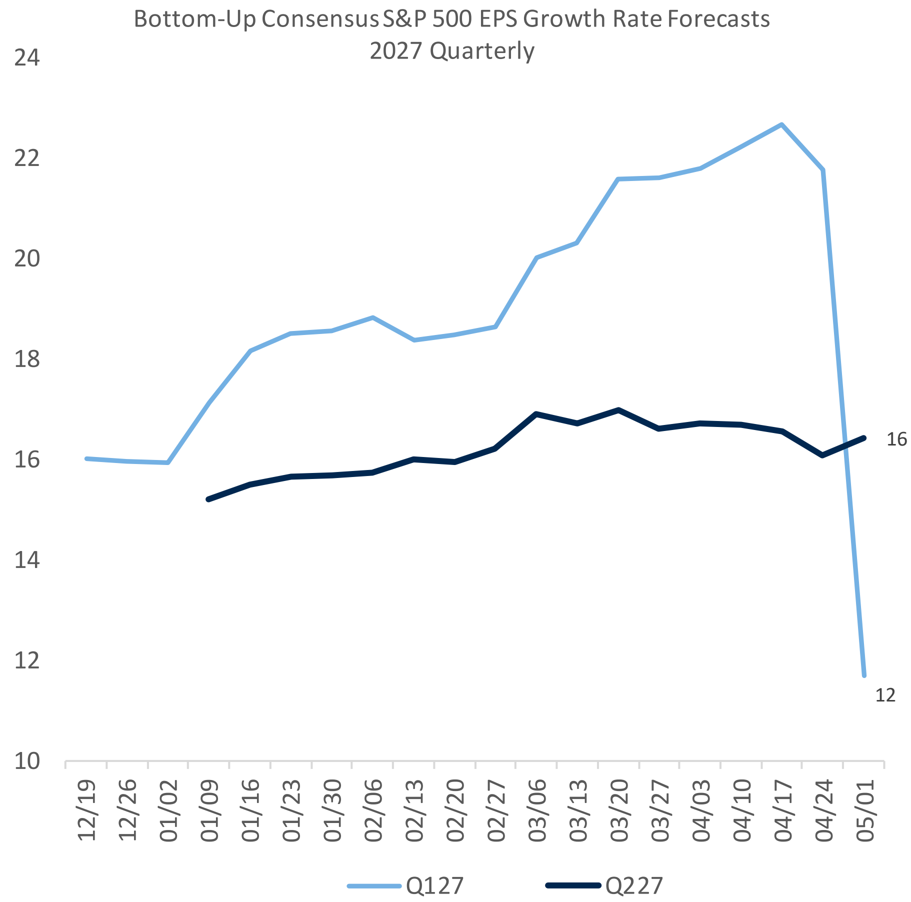
S&P 500 1Q26 Consensus EPS Growth Rate Forecast Has Moved Up Sharply

- 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 been stable.





Source: RBC US Equity Strategy, Bloomberg, latest available data as May 5, 2026
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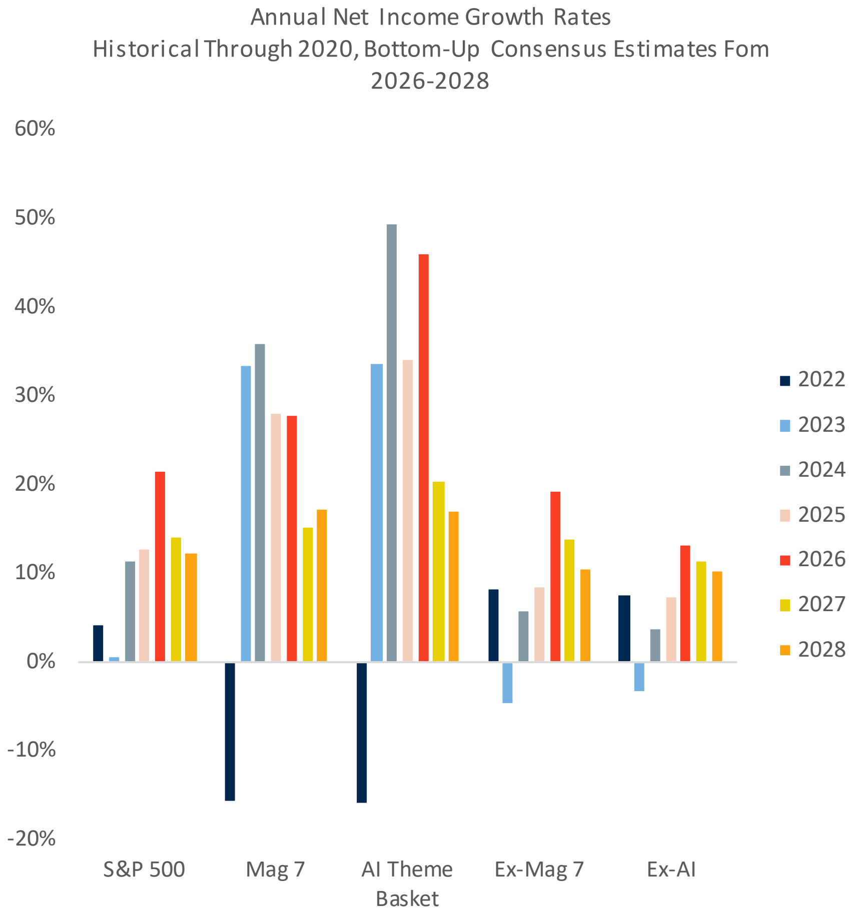
Consensus Expects AI Basket to See Superior Net Income Growth Through 2028

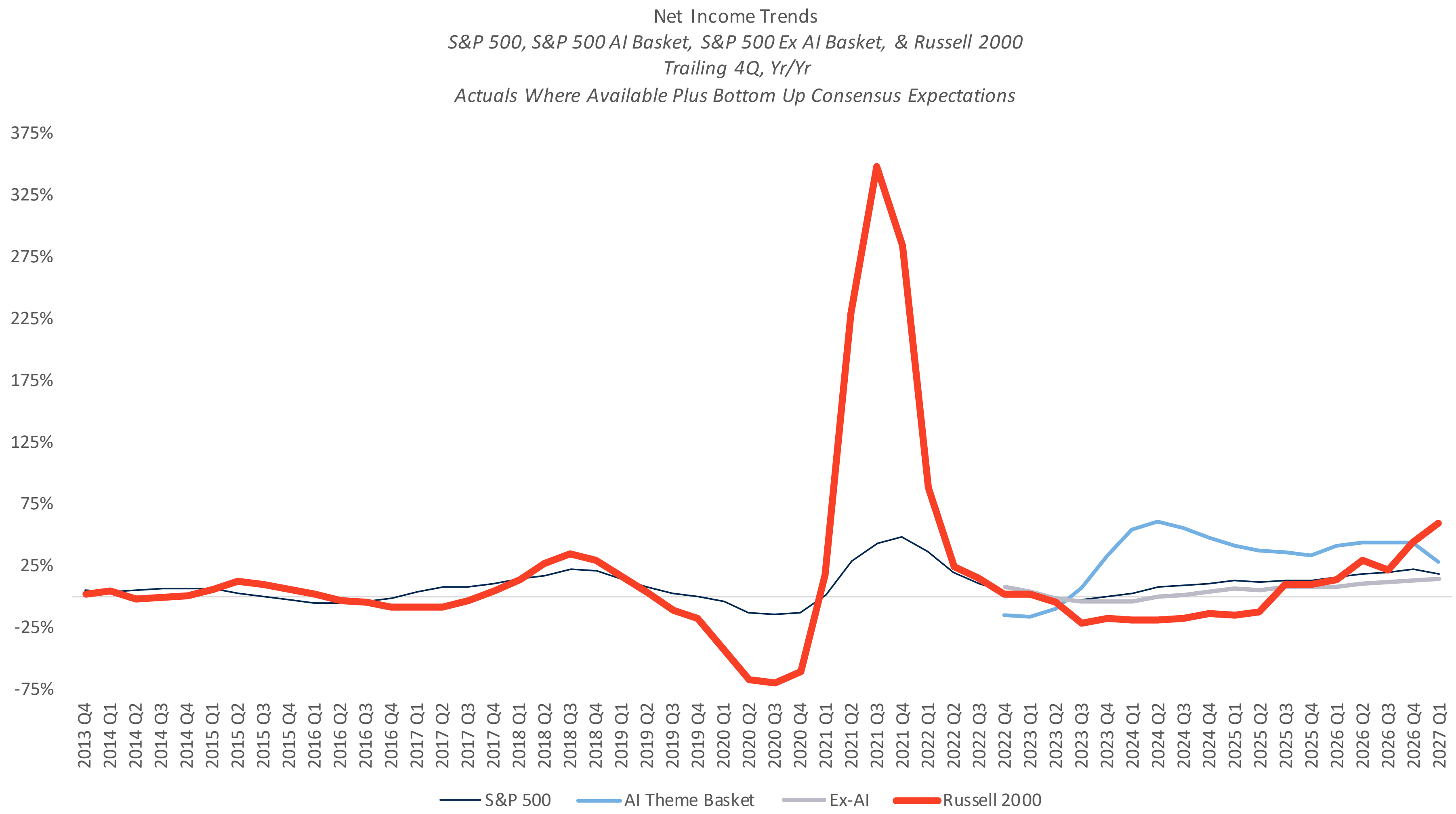
- S&P 500 net income is expected by consensus to peak in 2026, then decelerate in 2027 and 2028. The Mag 7 appears to have peaked in 2024, with deceleration expected through 2027 and some reacceleration anticipated in 2028. Meanwhile, a broader AI basket is anticipated to see far superior growth in 2026 to both the broader index and Mag 7, followed by deceleration in 2027 and 2028.
- 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.



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, latest available data as May 6, 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, Small Caps' growth rate is 44%, followed by the S&P 500 AI Basket (44%), the S&P 500 (22%), and the S&P 500 Ex-AI Basket (14%).
- For 1Q27, Small Caps' growth rate is 59%, followed by the S&P 500 AI Basket (28%), the S&P 500 (18%), and the S&P 500 Ex-AI Basket (14%).



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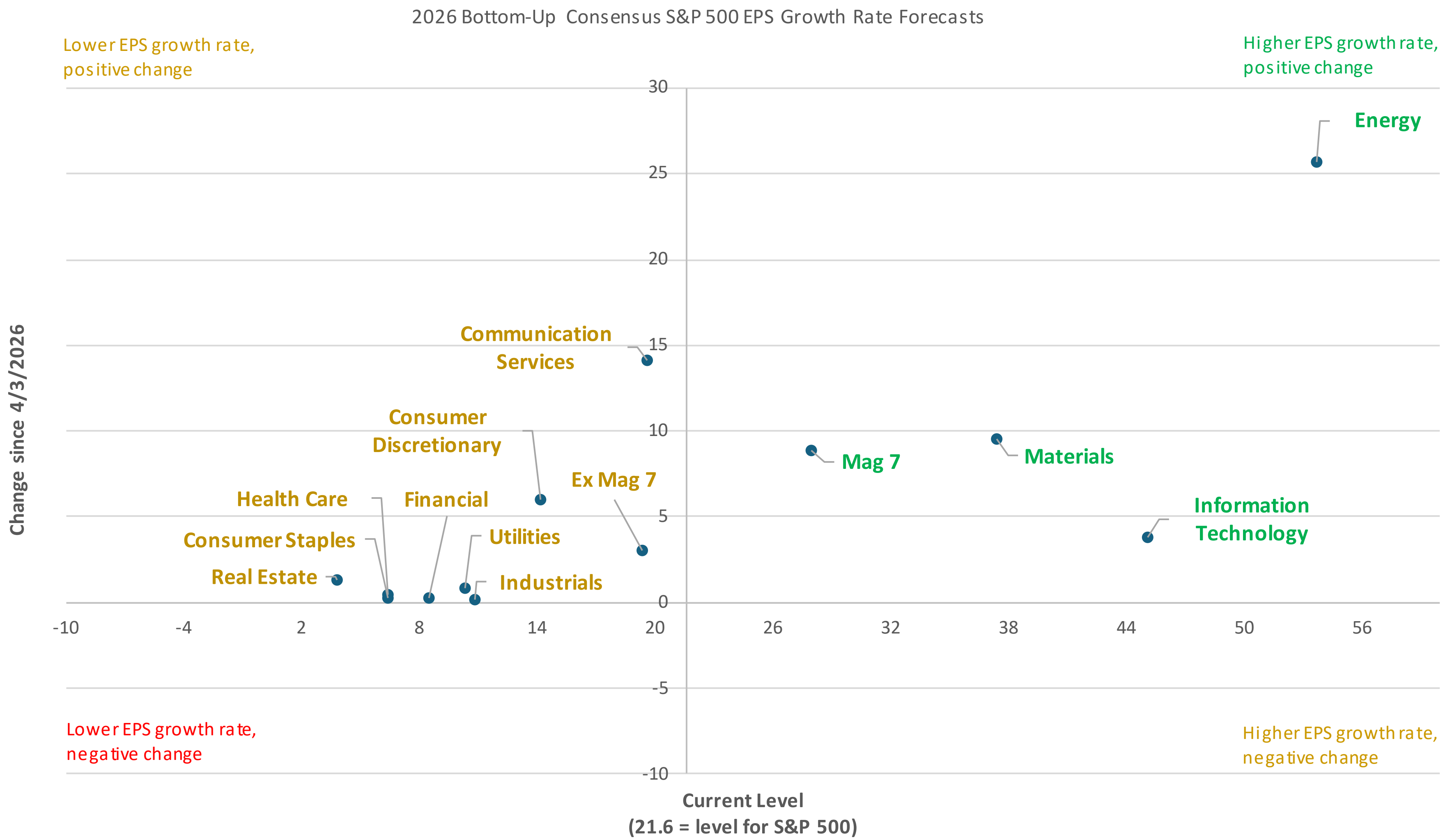
2026 Consensus EPS Growth Rates Strong & Improving for Energy, Tech, Mag 7 & Materials

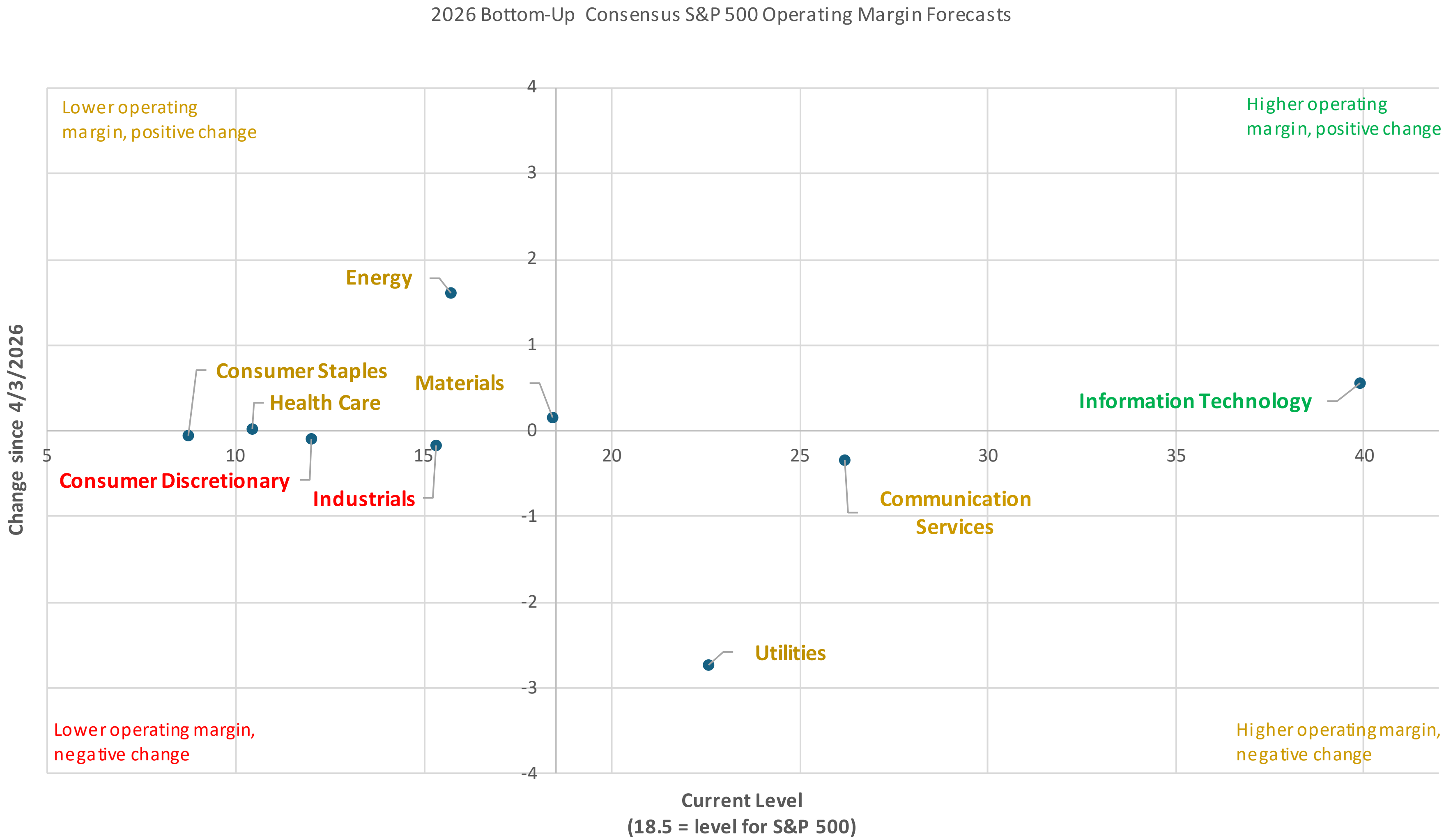
- Most sectors have seen their EPS growth rate forecasts stay essentially flat since the reporting season began, with only a modest increase.



Source: RBC US Equity Strategy, Bloomberg, latest available data as May 5, 2026
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.

2026 Consensus Operating Margin Forecasts Have Been Strong & Improving for Tech

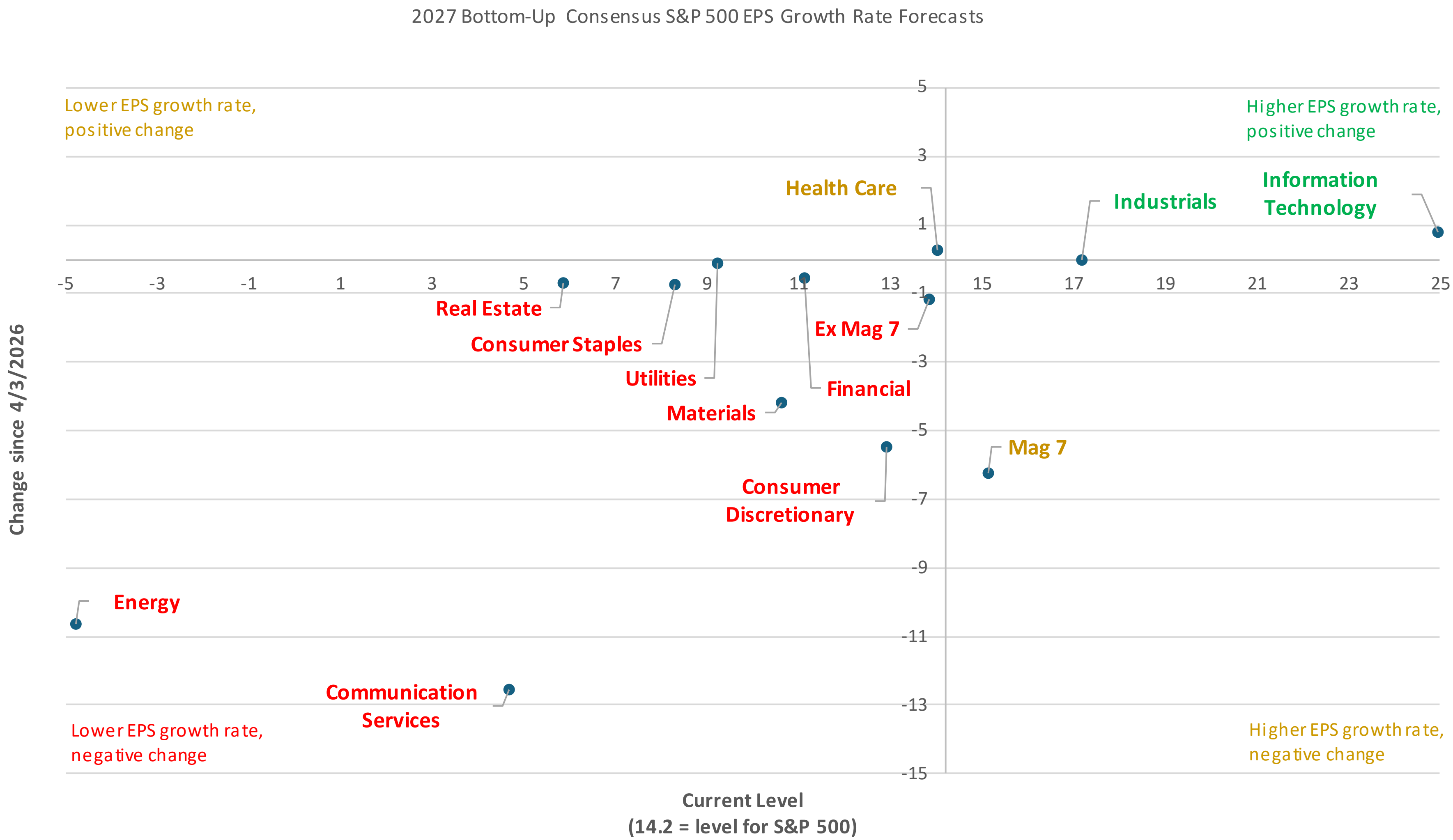
- Most other sectors haven't seen much movement of late.
- Energy has improved but remains below the broader market level.



Source: RBC US Equity Strategy, Bloomberg, latest available data as May 5, 2026
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.

Consensus 2027 EPS Growth Rates Have Been Strong & Improving for Tech

- Most other sectors haven't seen much movement of late or have dipped a little.



Source: RBC US Equity Strategy, Bloomberg, latest available data as May 5, 2026
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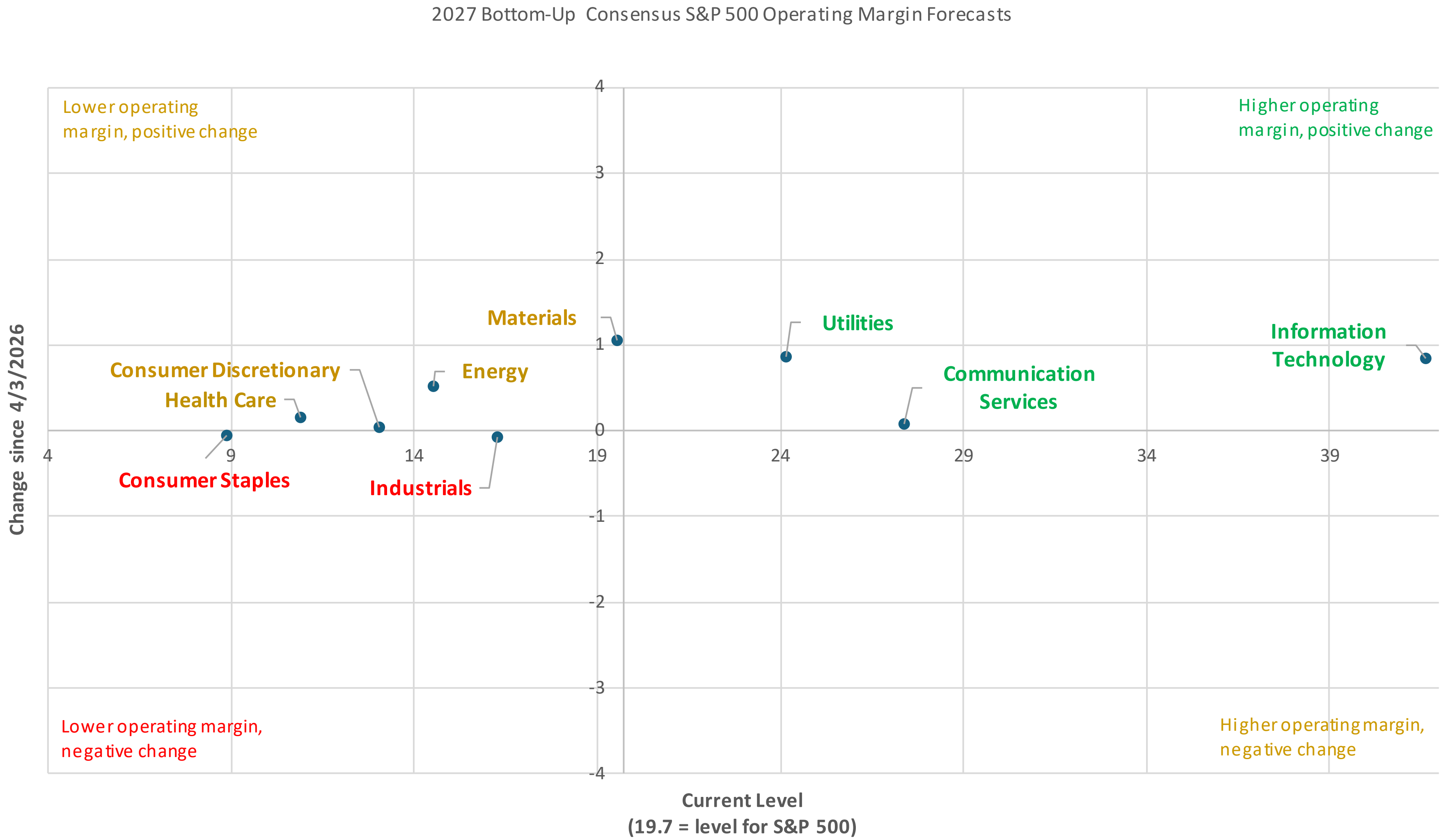
2027 Consensus Margin Forecasts Have Been Strong & Improving for Tech, Utilities & Comm Svcs

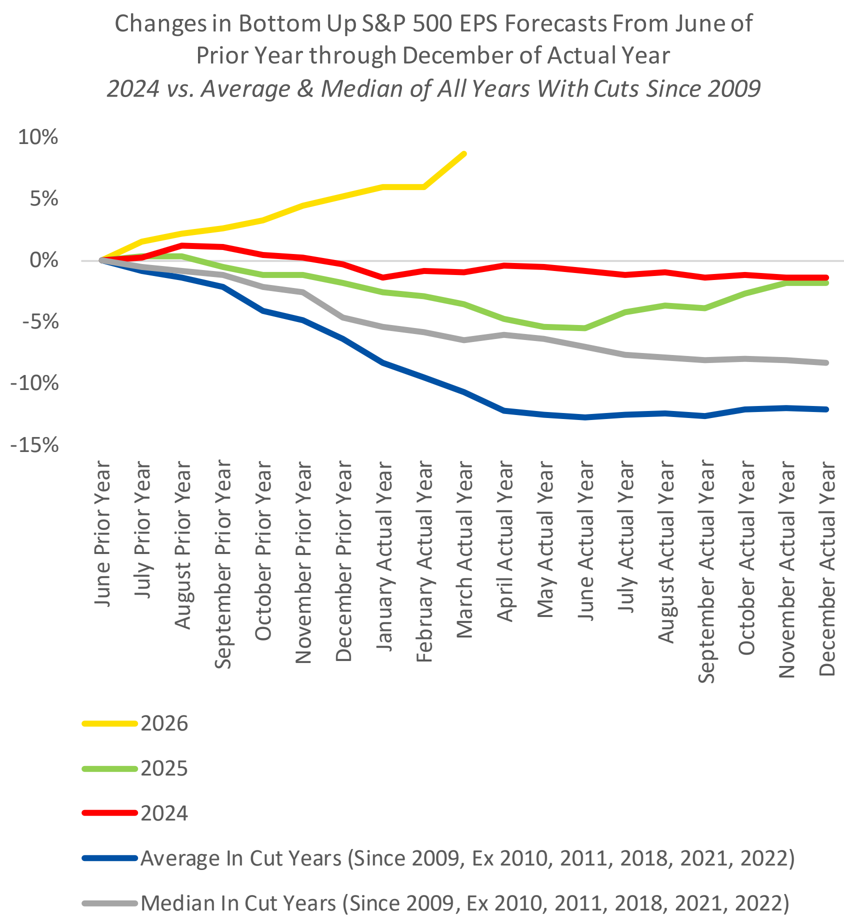
- Materials has also improved of late but remains in line with the broader market in terms of level.

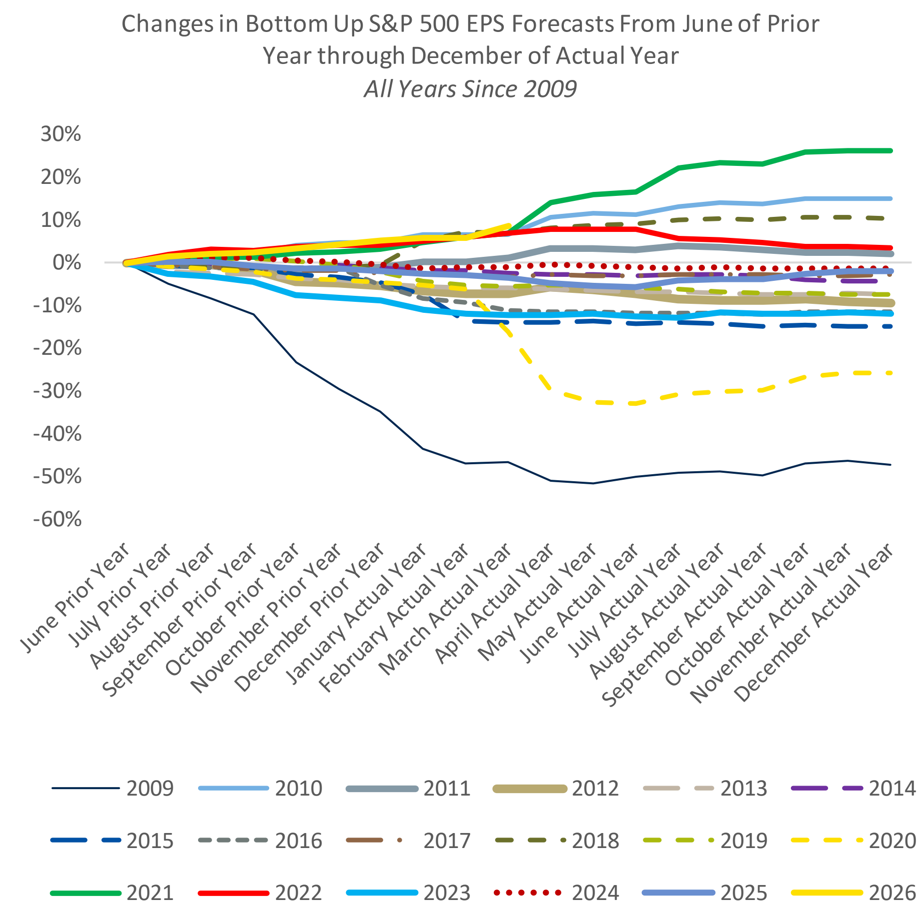


Source: RBC US Equity Strategy, Bloomberg, latest available data as May 5, 2026
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.

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.

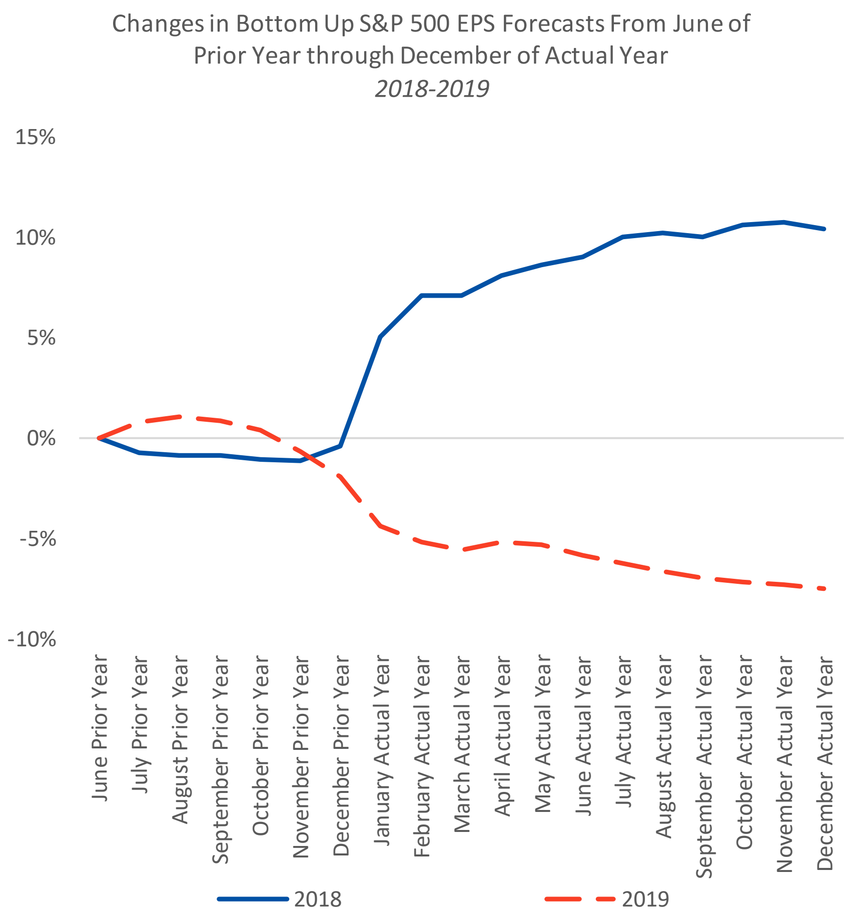


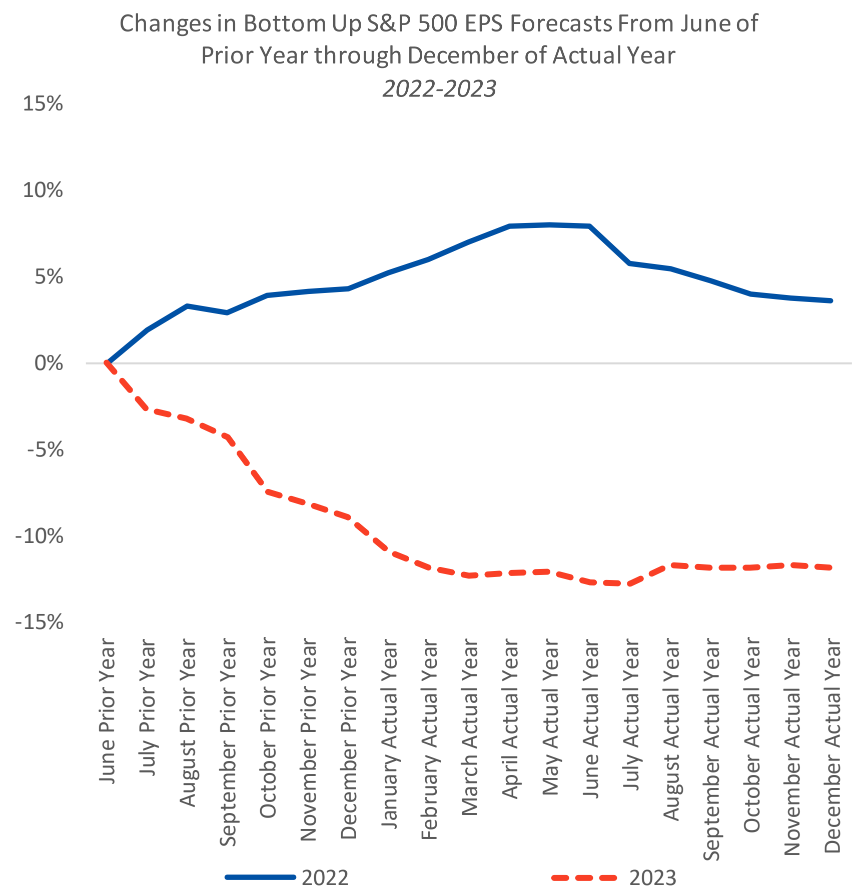


Source: RBC US Equity Strategy, Haver, S&P Capital IQ; through March 2026 (latest data point available)

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.

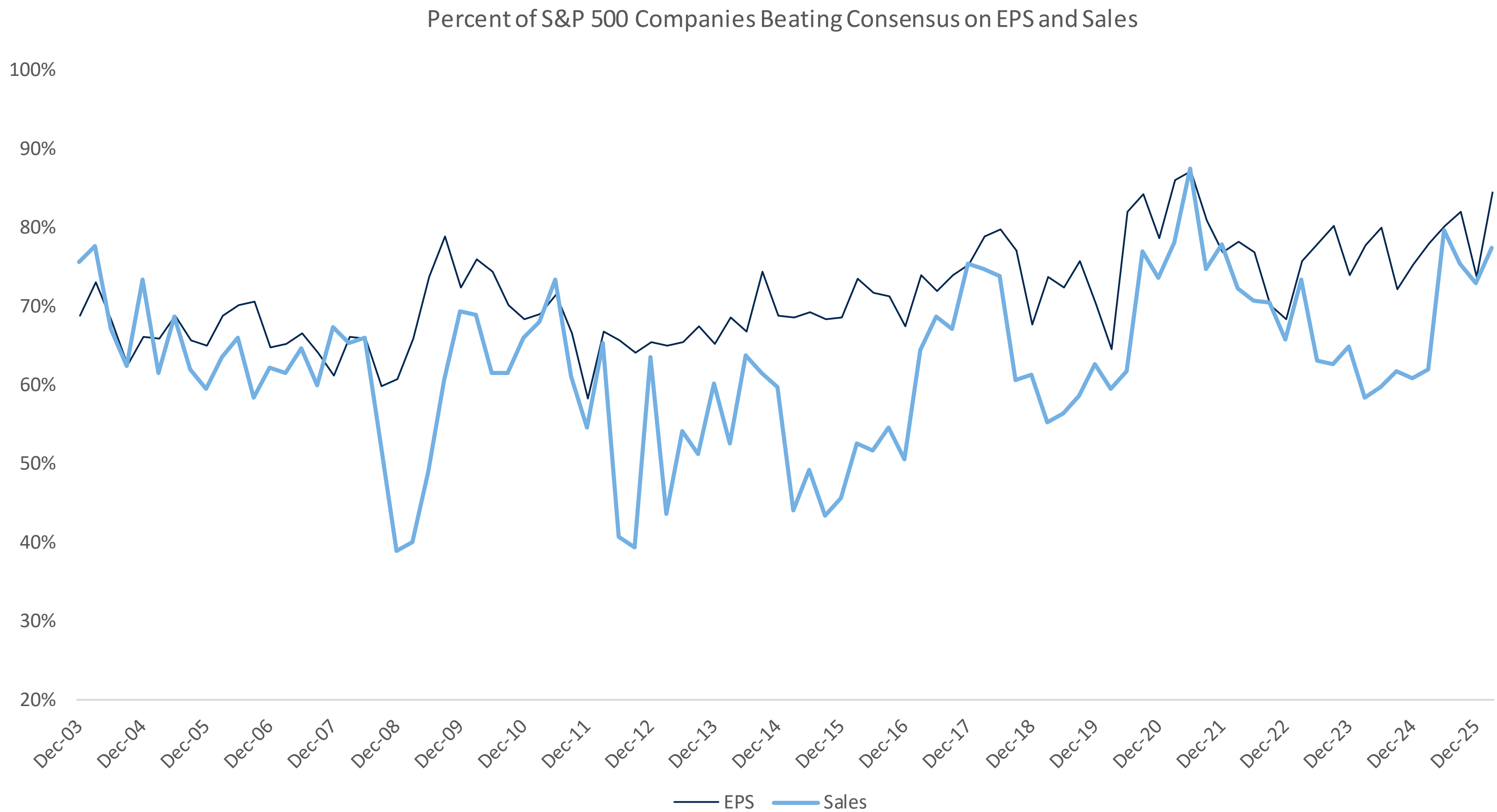




Source: RBC US Equity Strategy, Haver, S&P Capital IQ

In Large Cap, EPS and Revenue Beats for 1Q26 Have Been Stronger Than 4Q25 so Far

- 84% beating on EPS and 78% beating on sales for 1Q26 (vs. 74% on EPS and 73% on sales during 4Q25).



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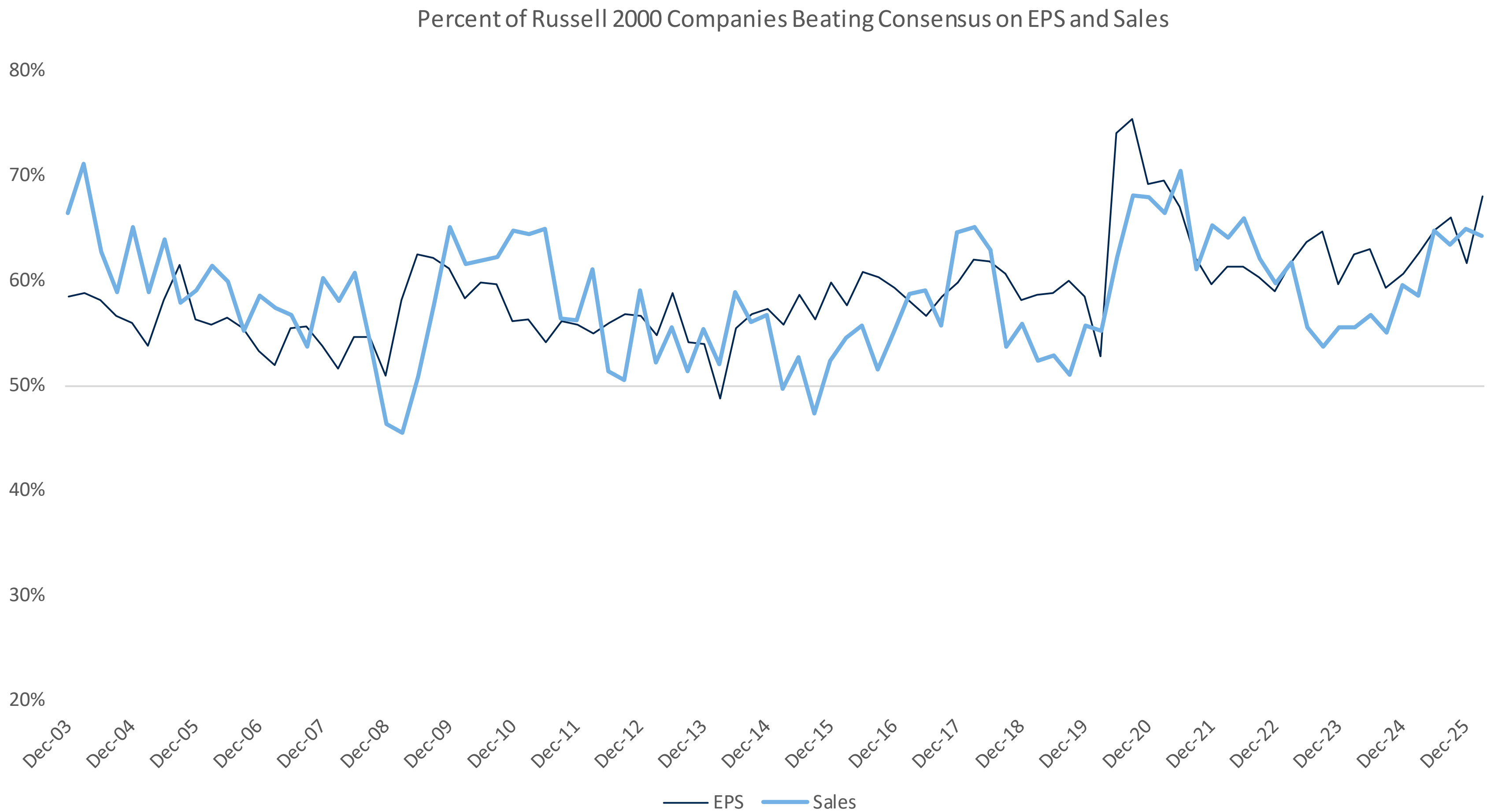
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates. S&P, Prelim data point for 1Q26 captured on May 5, 2026, with 75% of S&P 500 results in.

In Small Cap, EPS Beats Are Coming in Stronger Than Last Quarter so Far, but Not Revenue Beats

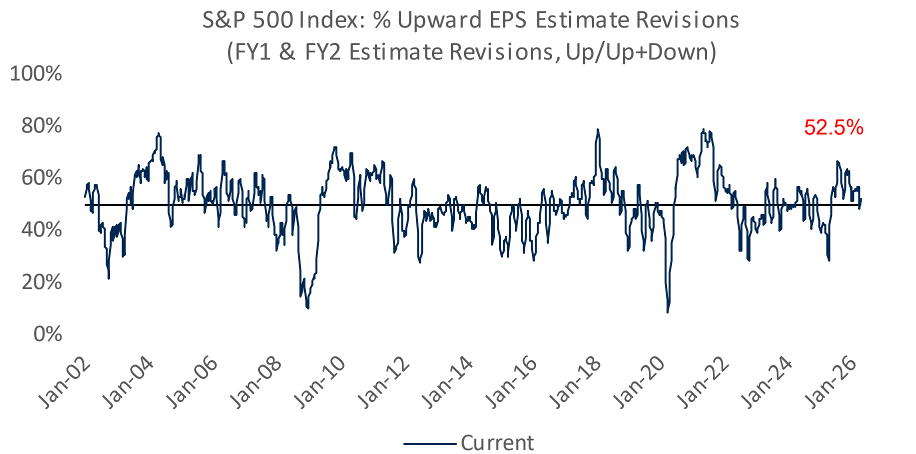
- 68% beating on EPS & 64% beating on sales for 1Q26 (vs. 62% on EPS and 65% on sales during 4Q25).

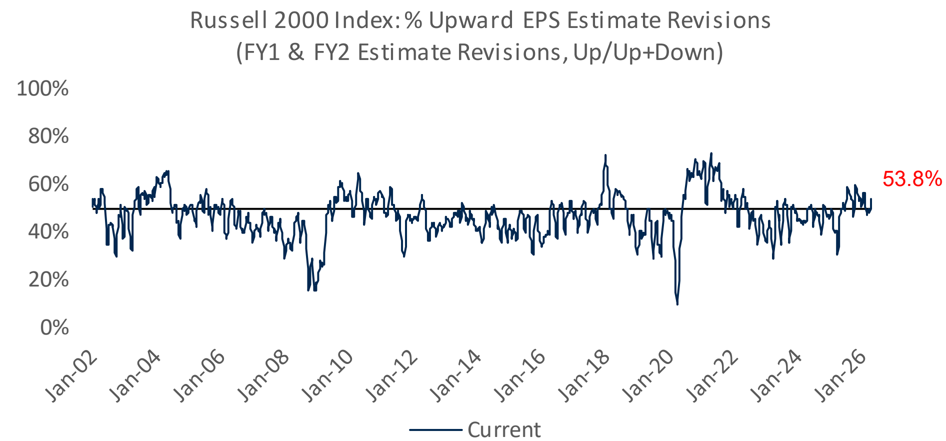


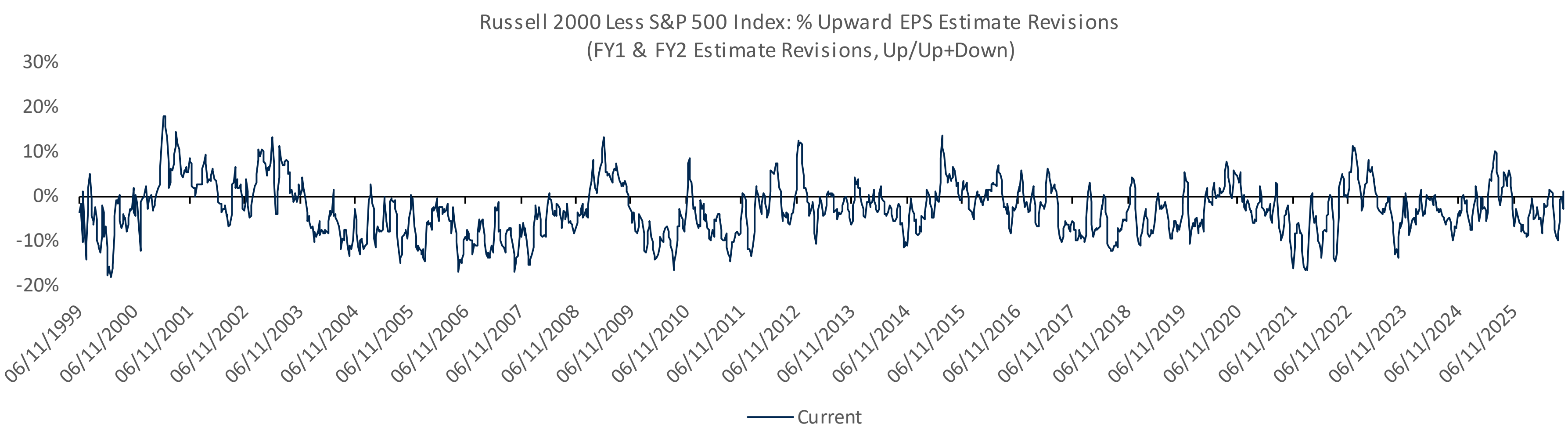
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates. Russell; Prelim data point for 1Q26 captured on May 5, 2026, with 39% of Russell 2000 results in.

EPS Estimate Revisions Have Weakened for Both S&P 500 and Russell 2000 Recently

- Upward revisions are slightly positive for Small Cap in the most recent update, while revisions remain in slightly positive territory for Large Cap as well.
- However, this gauge of earnings sentiment is still below the highs of fall 2025 for both.
- Note that the S&P 500 reclaimed a slight advantage to the Russell 2000 on this stat earlier this year, and is moving slightly that way in recent updates.







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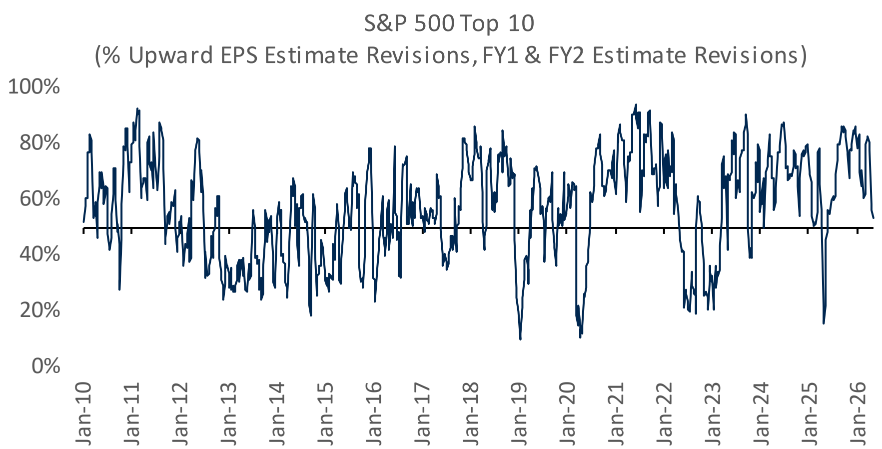
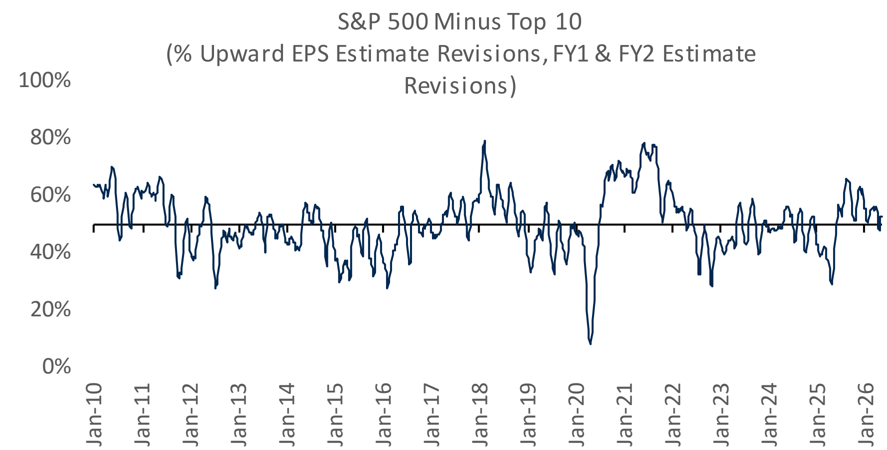
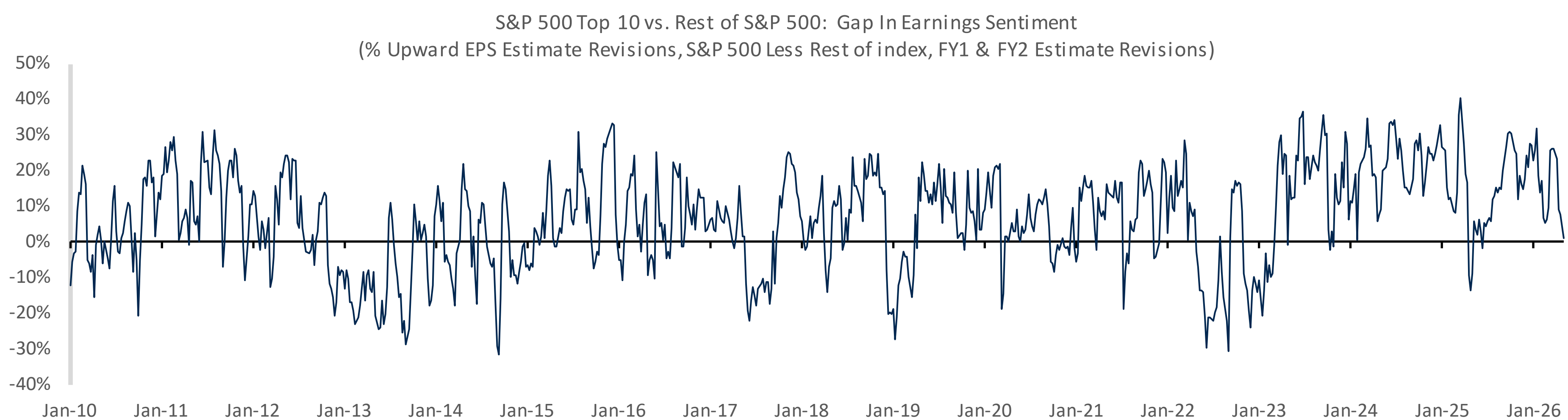
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates, S&P, Russell. For REITs, FFO/share revisions are used instead of EPS revisions; as of May 5, 2026.

EPS Revisions Have Been Better for the Biggest Cap Names in the S&P 500 vs. the Rest of the Index

- The dominance of the biggest market cap names held a slight advantage in the most recent update.
- Both the top-10 names and the rest of the index are seeing rates of upward revisions below last year's highs. Levels are slightly weaker in the rest of the index than the top-10 names, holding steady in the most recent update.







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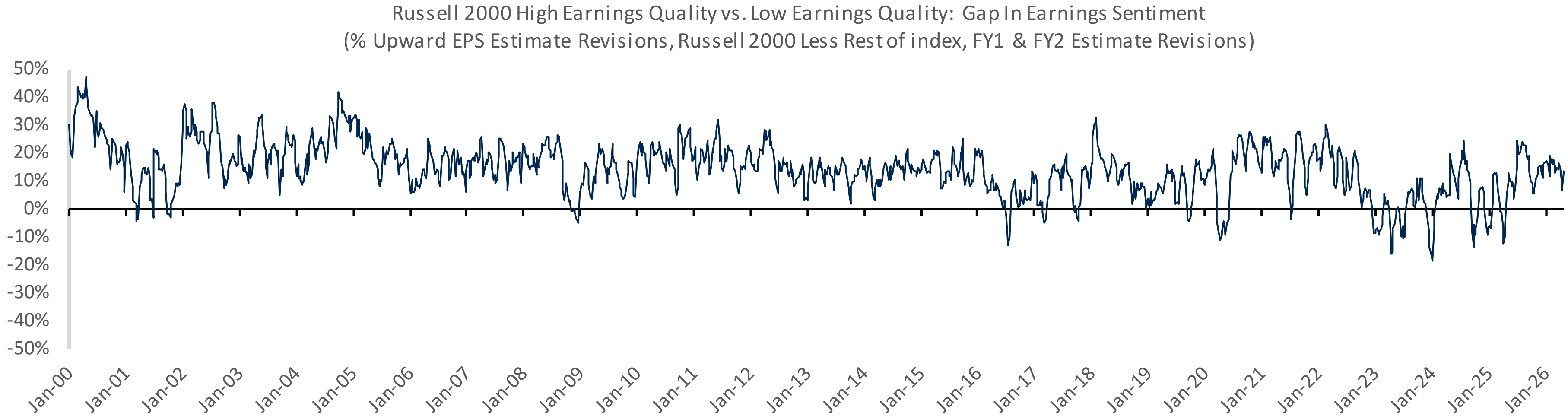
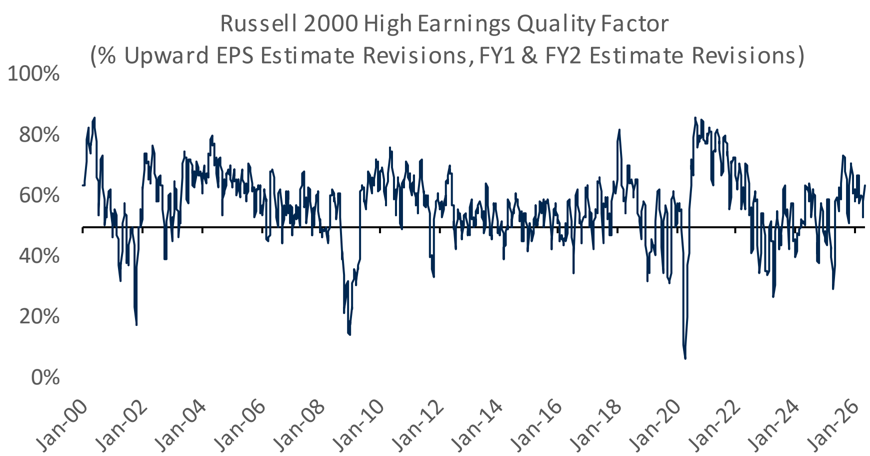
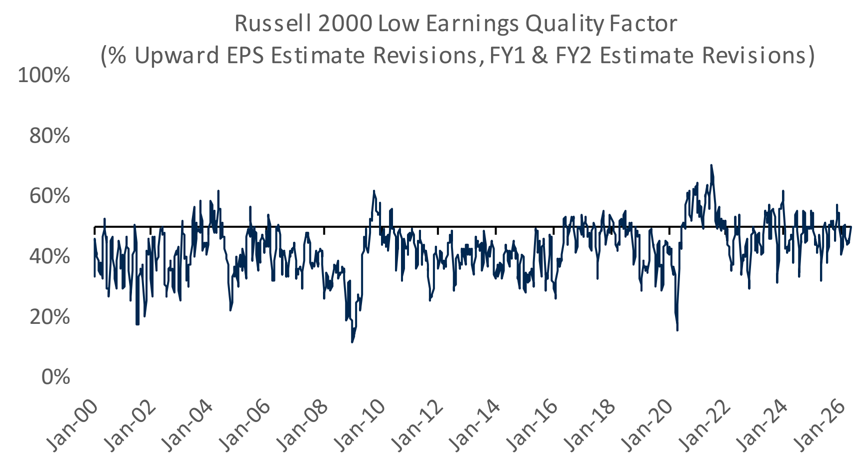
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi, CIQ estimates, S&P. For REITs, FFO/share revisions are used instead of EPS revisions; as of May 5, 2026.

Small Cap Stocks With High EPS Quality Have Started to Have Better Revisions Trends Recently

- High EPS Quality Small Cap stocks are back to seeing rates of upward revisions that are positive.
- Low EPS Quality Small Cap stocks are seeing rates of upward revisions that are neutral.







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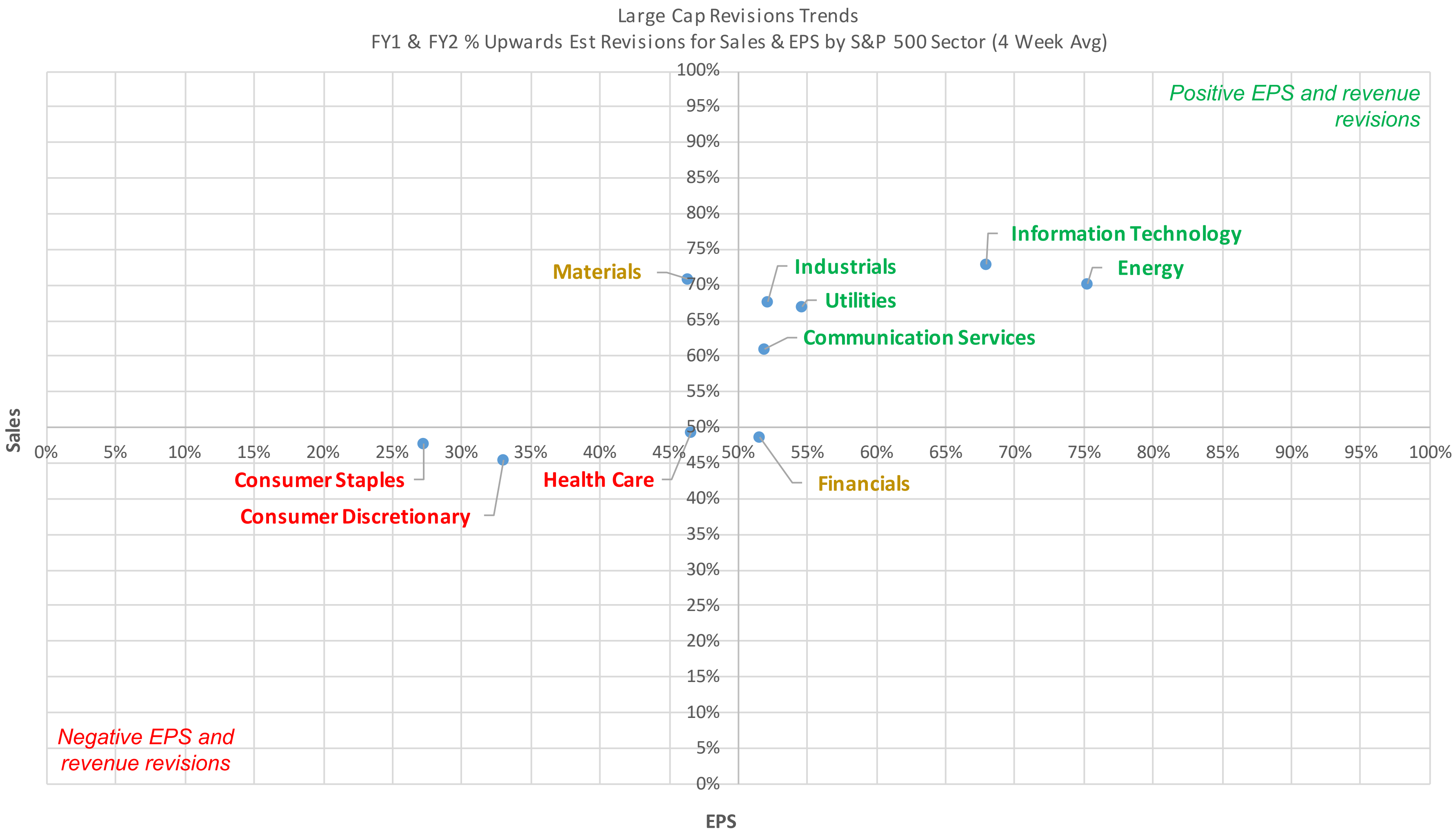
Source: RBC US Equity Strategy, S&P Capital IQ/ClariFi; Russell, S&P, as of May 6, 2026

Within Large Cap, a Handful of Sectors Are Seeing Positive EPS and Sales Revisions

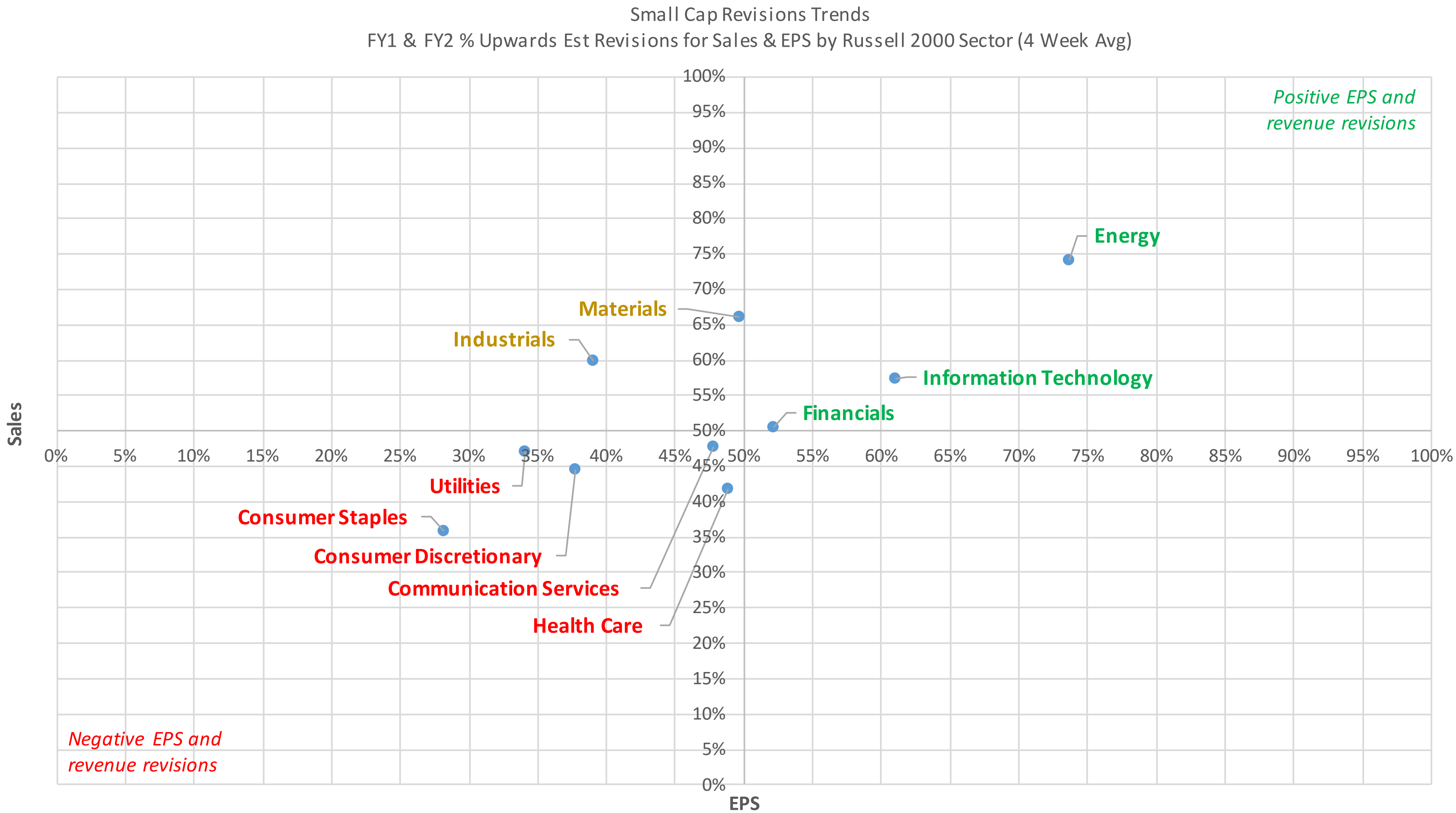
- Trends remain strongest in Tech and Energy. Industrials and Utilities also remain strong. Sales revisions improved for Communication Services in the most recent update and is now positive on both EPS and sales.
- Discretionary has seen EPS revisions deteriorate and turn negative.
- Staples and Health Care held steady in the most recent update, but remain negative on the 4-week average.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, CIQ estimates, S&P. Excludes REITs; as of May 5, 2026

Within Small Cap, Tech, Financials and Energy Are Seeing Positive EPS & Sales Revisions

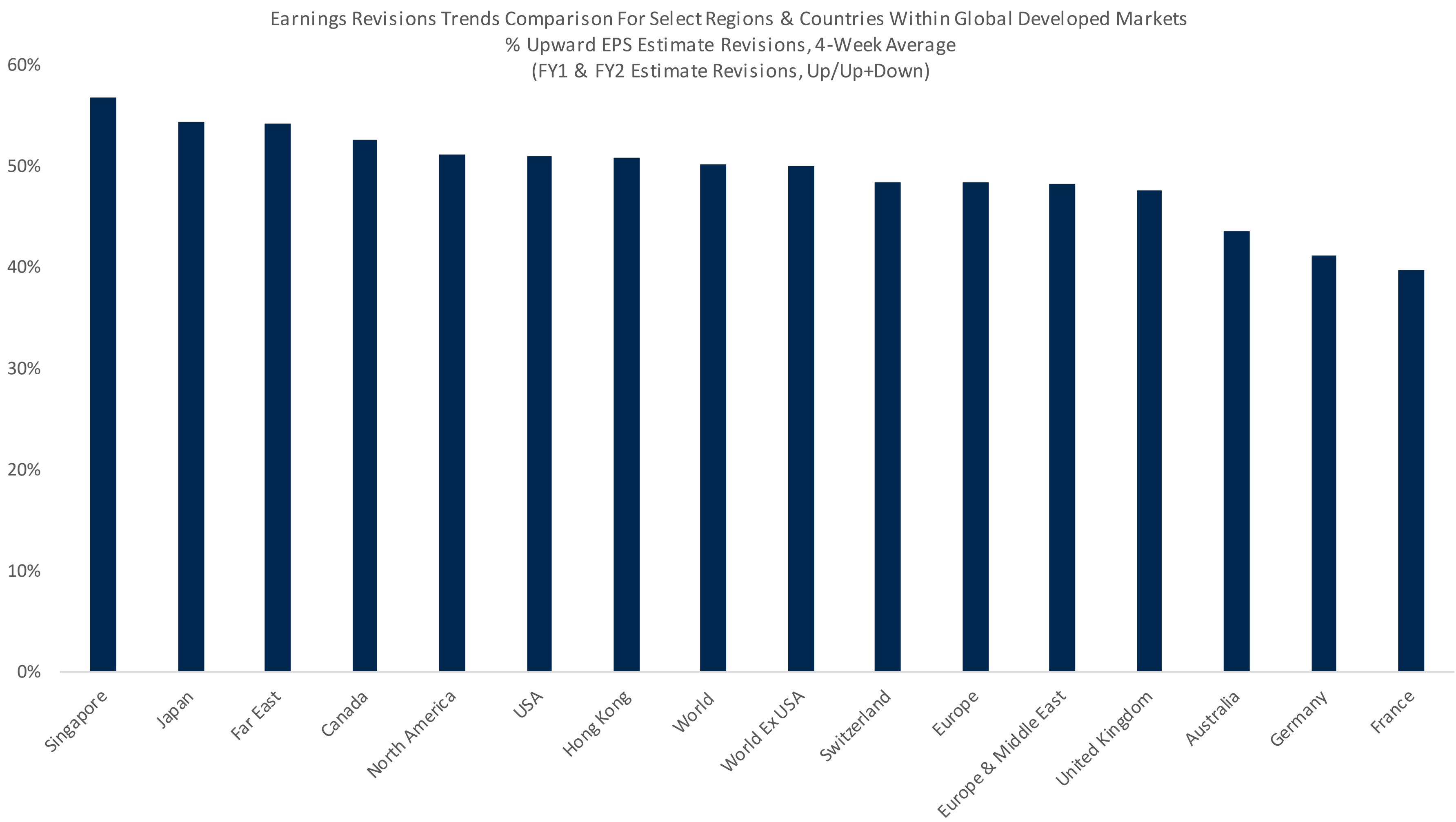
- Staples, Consumer Discretionary, Utilities, Communication Services, and Health Care are seeing negative revisions for both EPS and sales.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, CIQ estimates, Russell. Excludes REITs; as of May 5, 2026

EPS Revisions Have Been Strongest in the Far East & North America, Weakest in Europe

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



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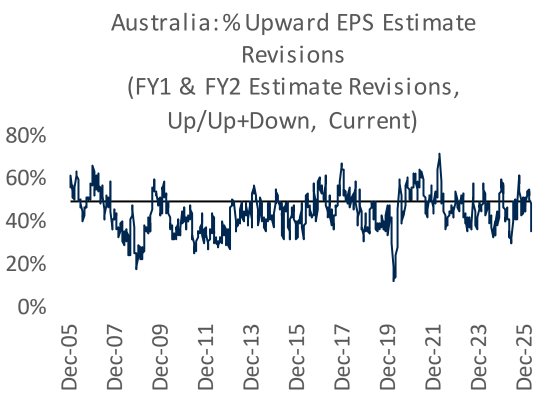
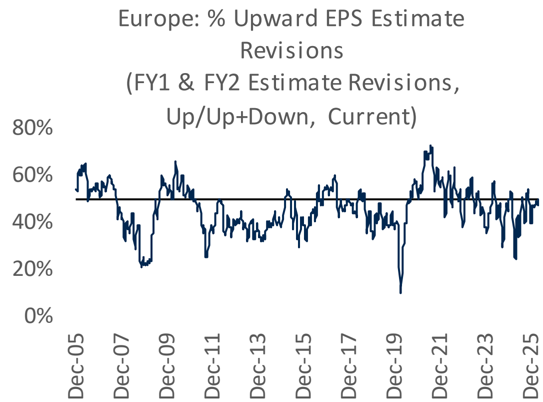
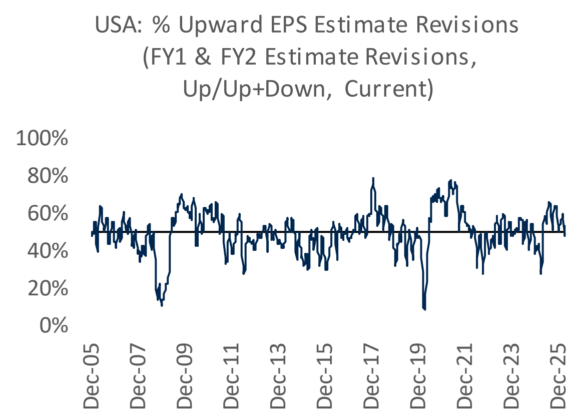
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 5, 2026; please see the MSCI disclaimer at the end of this report; regions/countries based on MSCI constituents

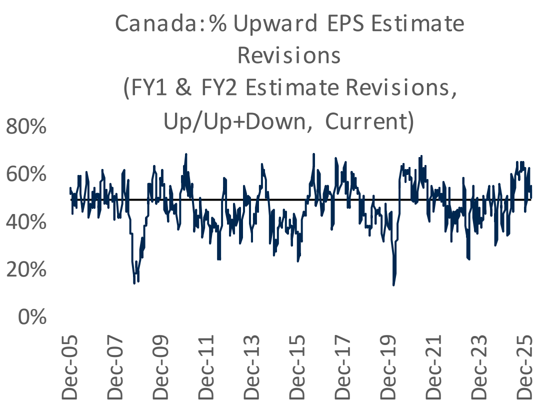
EPS Revisions Trends Are Weakening for Most of the Biggest Developed Markets Countries & Regions

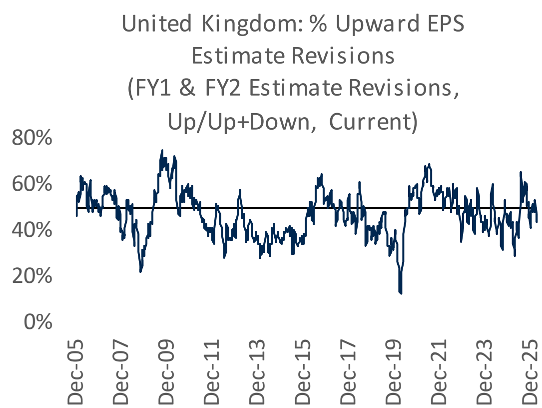
- A deceleration in earnings revisions momentum appears to be underway globally.
- Japan had been strengthening until very recently and was the main exception, but is now deteriorating after hitting past peaks.

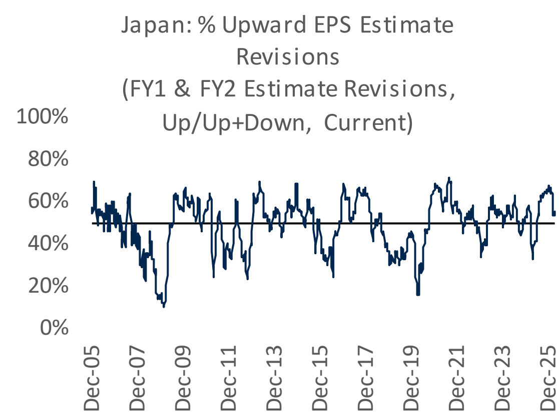












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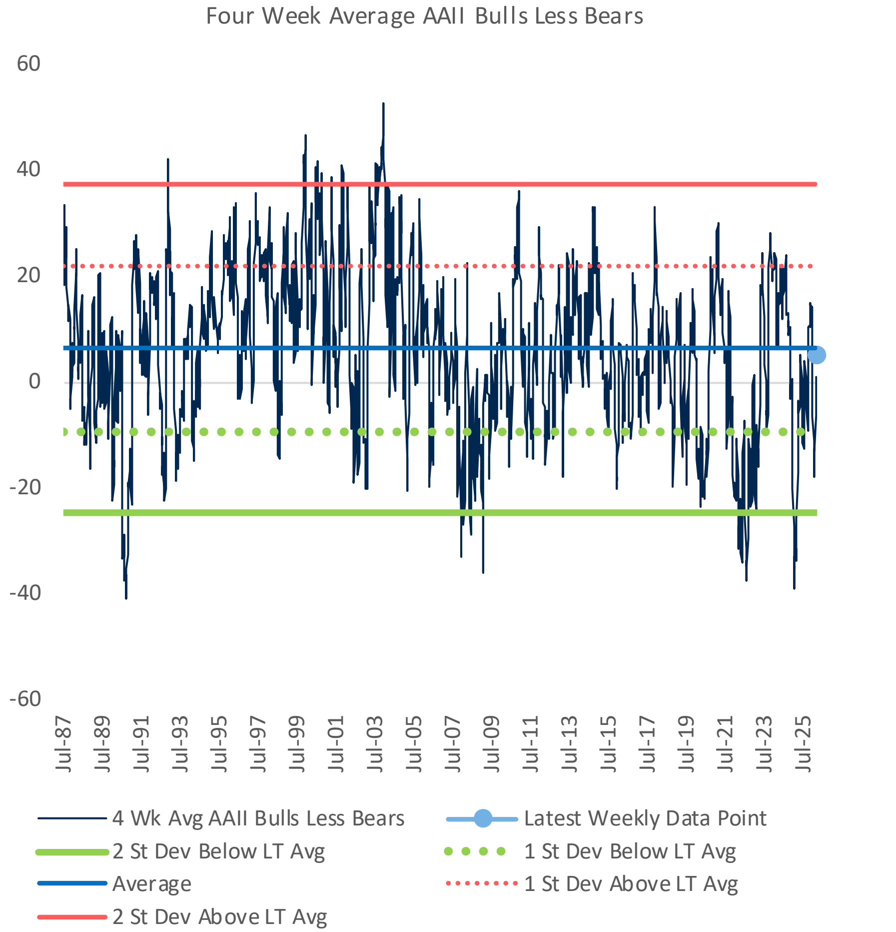
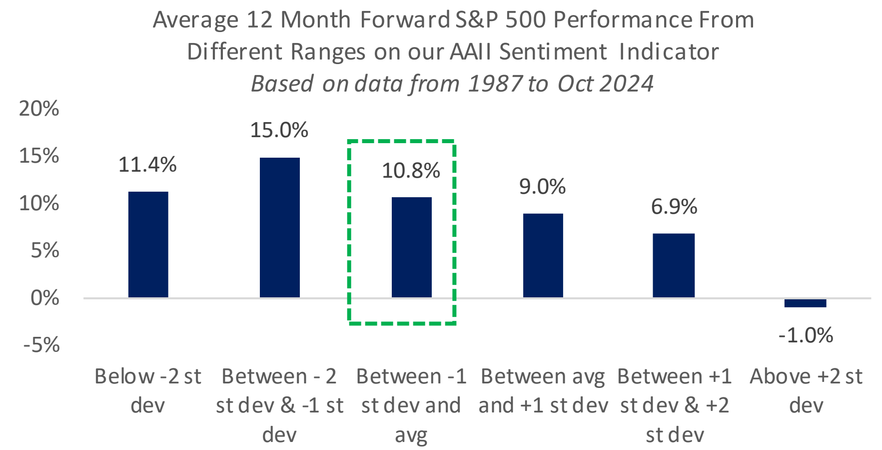
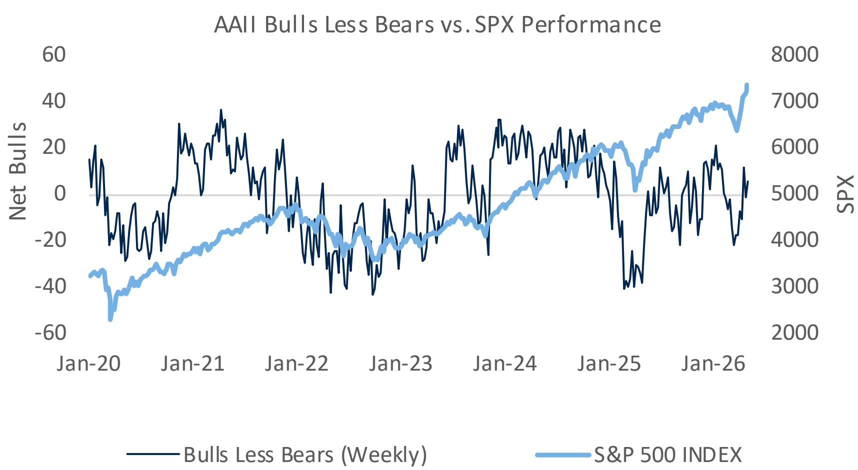
Our Main Sentiment Model Points to a Gain of 10.8% Over the Next 12 Months

- As of 5/7/26, net bulls were at 5.3% on the weekly update (an improvement vs. the prior week's -1.6%) and 1.05% on the four-week average (up vs. -2.10% 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.







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, AAII, S&P; updated May 7, 2026

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 last 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, but a bit higher than where we are today). 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.

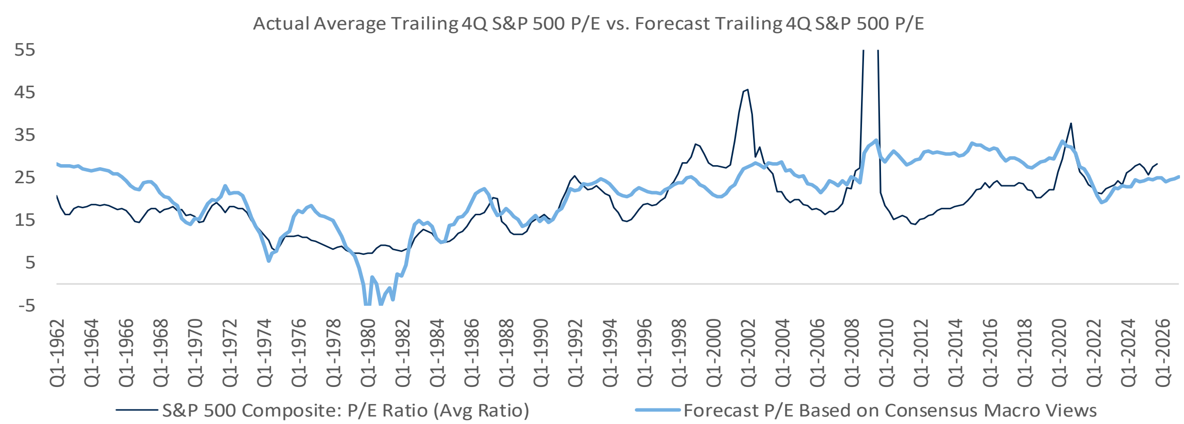
Scenarios and Stress Tests For 1Q27

			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
			Y/Y, 3 Mo Avg	*Upper Bound / Qtr End*	*Quarter End*		*$346*	*$329*	*$312*	*$308*	*$293*	*$279*
P/E Test	**Consensus Macro**	*Used in model*	2.9	3.37	4.16	25.17	8,713	8,278	7,842	7,751	7,382	7,013
	RBC Rates/Econ Inputs	*As of mid April 2026 monthly forecast update*	2.6	3.50	4.10	25.46	8,813	8,373	7,932	7,840	7,466	7,093
	Higher Oil Scenario #1	*RBC Econ CPI stress, flat Fed, higher yields*	3.3	3.75	4.50	24.11	8,347	7,929	7,512	7,425	7,071	6,718
	Higher Oil Scenario #2	*RBC Econ CPI stress test, cuts, yields lower*	3.3	3.00	4.00	25.14	8,704	8,269	7,833	7,742	7,374	7,005
	Higher Oil Scenario #3	*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

Reference period for macro assumptions and trailing 4Q EPS is 1Q27; Consensus macro is latest available as of 5/6/2026; EPS consensus is as of 5/4/26; RBC Econ/Rates forecasts are as of 4/13/26 (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**

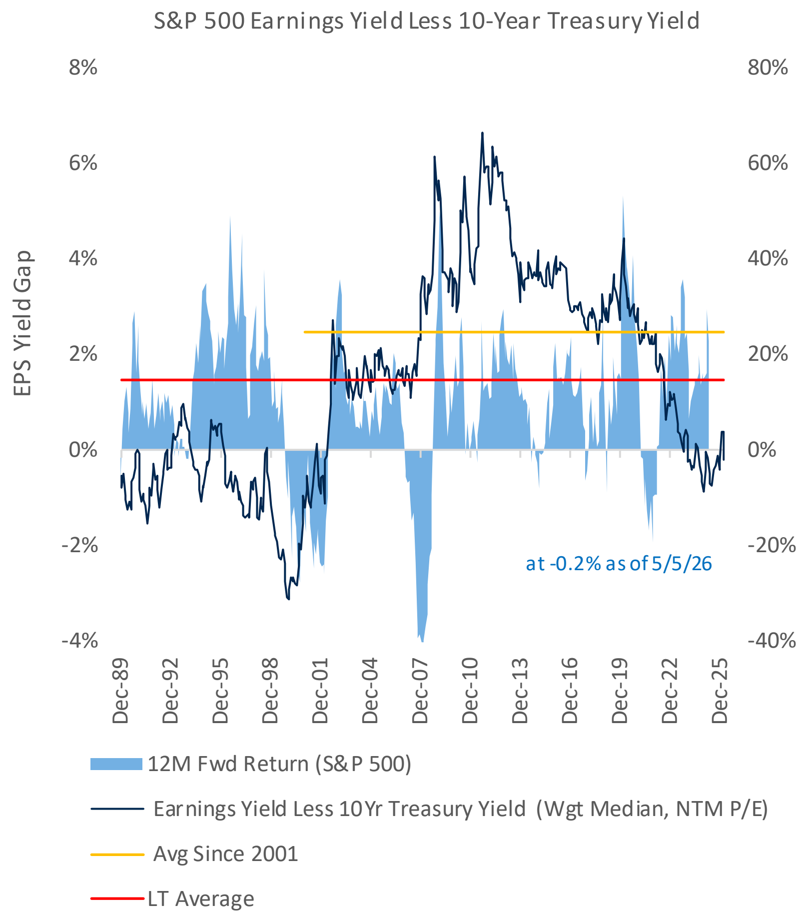


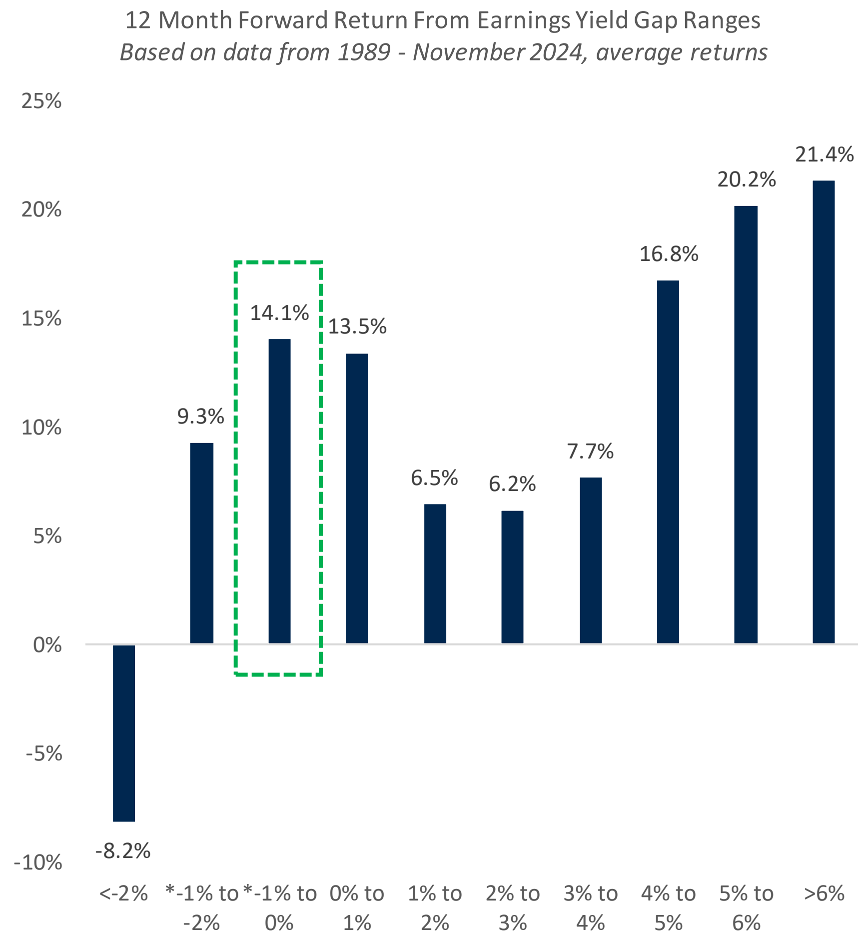
Source: RBC US Equity Strategy, Bloomberg, Haver, S&P

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.

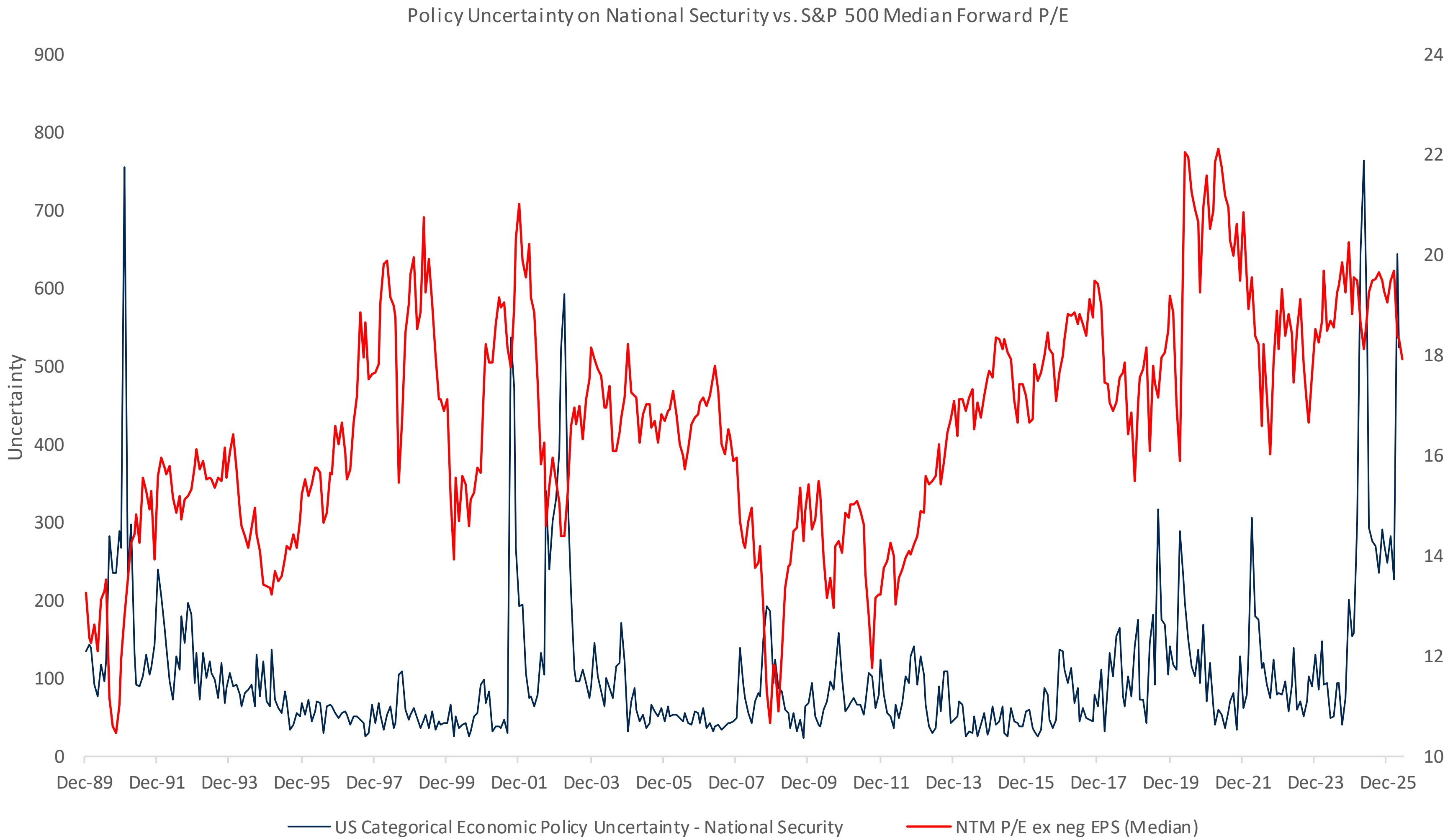




Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Haver, Bloomberg, S&P; May 5, 2026.

Foreign Policy Uncertainty Tends to Weigh on P/Es

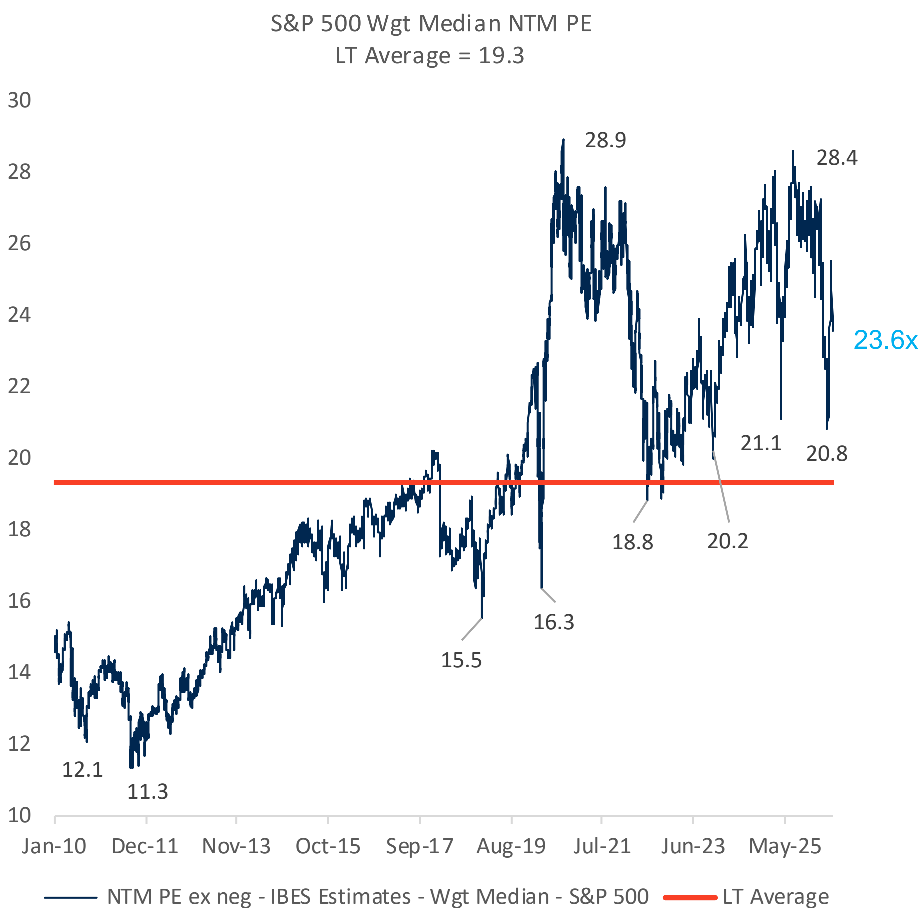
- Whenever geopolitical uncertainty spikes, the first thing that usually jumps into our mind is that forward P/E multiples tend to come under pressure for the S&P 500. This speaks to one of the transmission mechanisms of geopolitical conflicts and risks to equities.
- In recent years we've seen some 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.

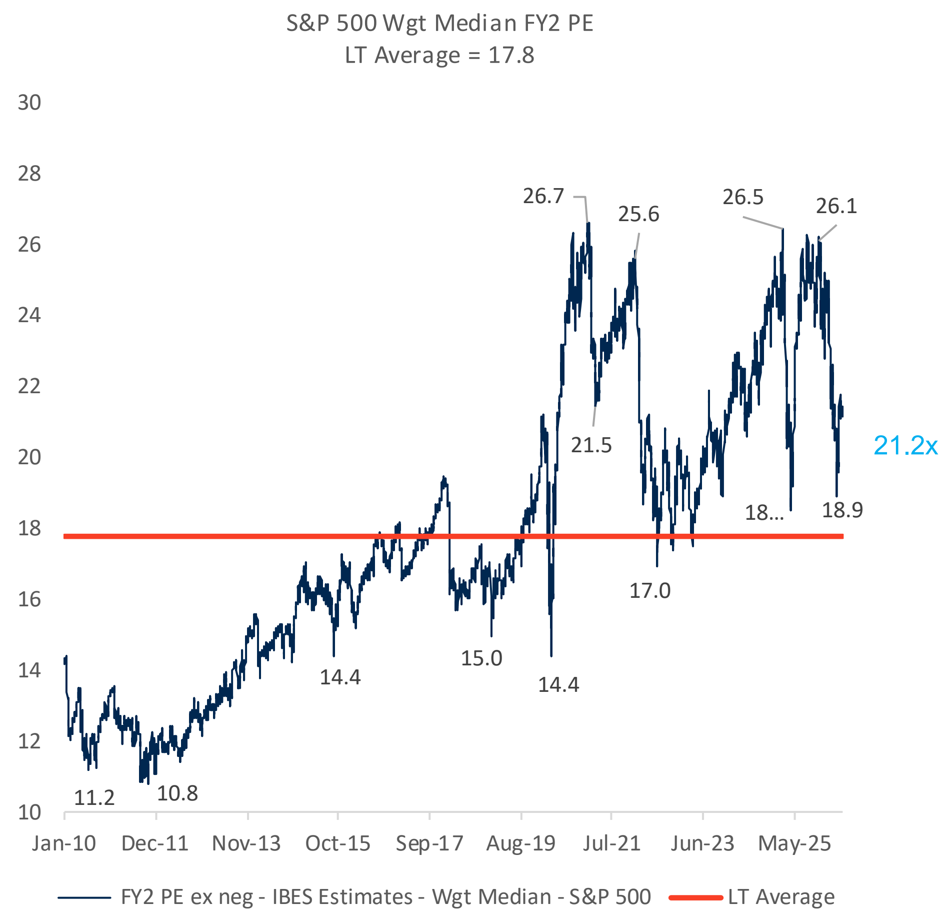


Source: Bloomberg, Baker Davis & Bloom, S&P Capital IQ Clarifi, May 5, 2026

After Falling Back to Average, S&P 500 Valuations Are Rebounding but Aren't Yet Back to Prior Highs

- 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.
- 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.

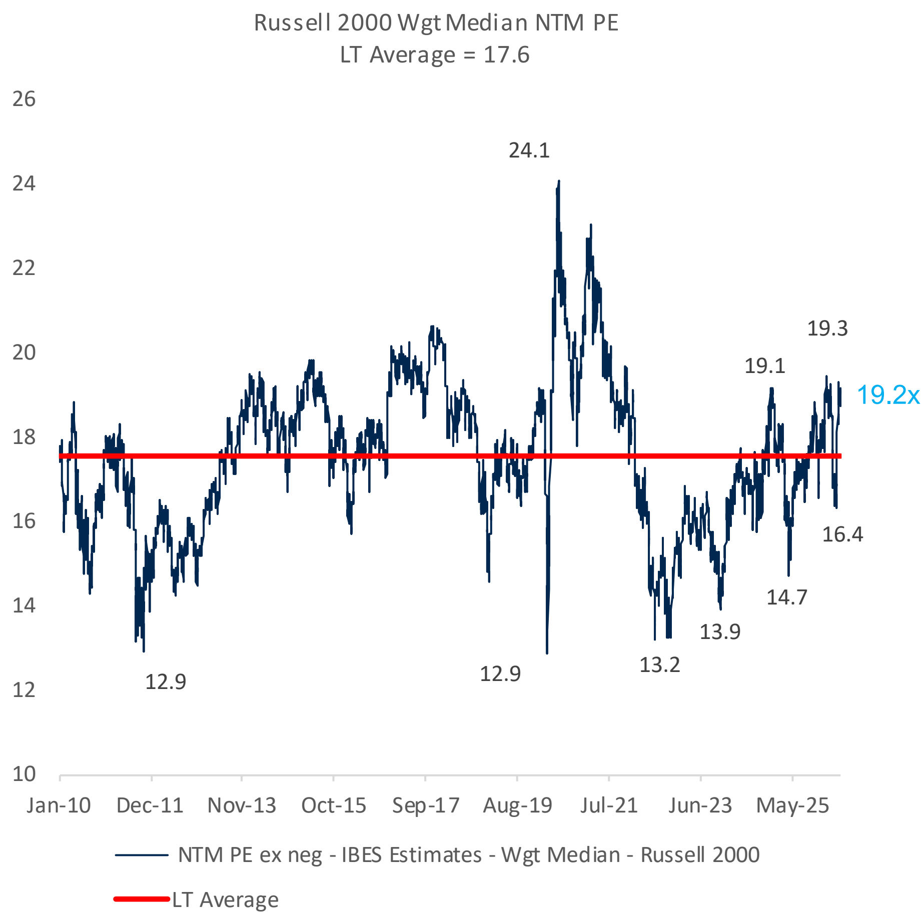


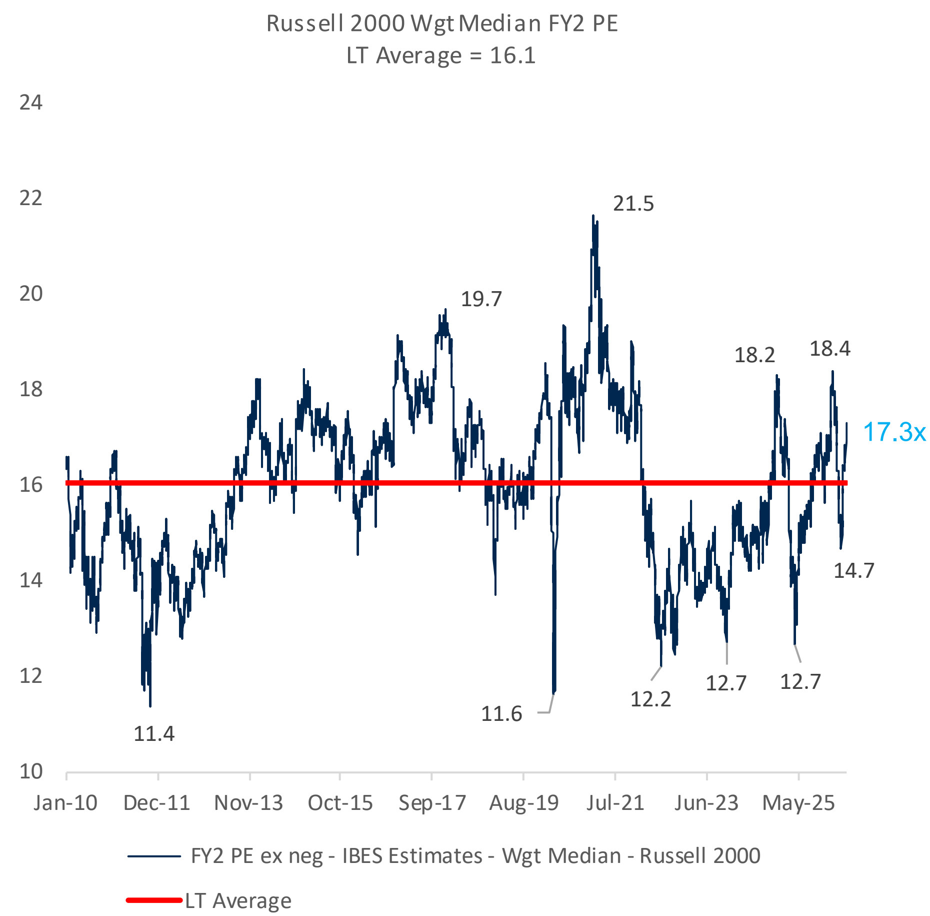


Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 5, 2026.

Small Cap Valuations Have Rebounded Off the Lows but Remain Below Recent Peaks on FY2 P/E

- 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 back to the most recent highs on an NTM basis.
- 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.

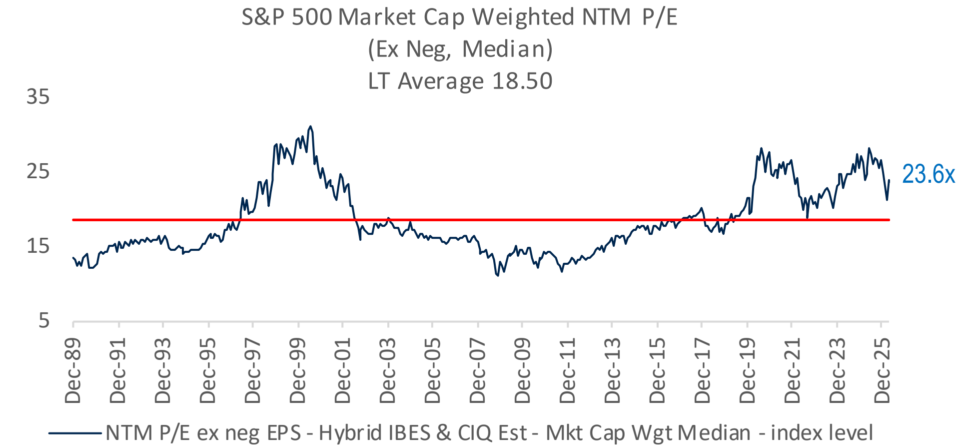


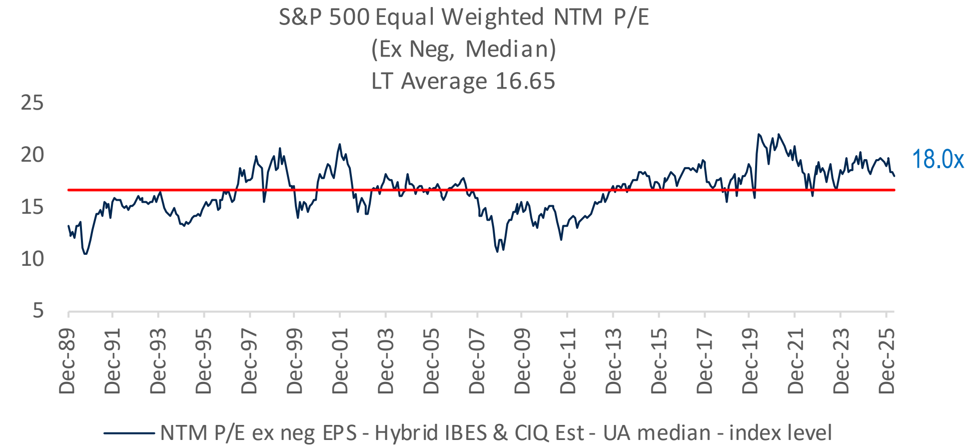


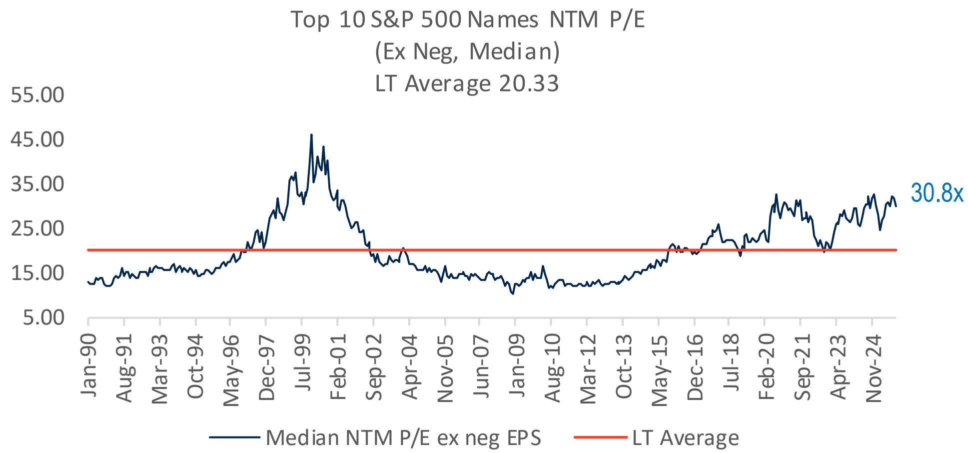
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Russell, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 5, 2026.

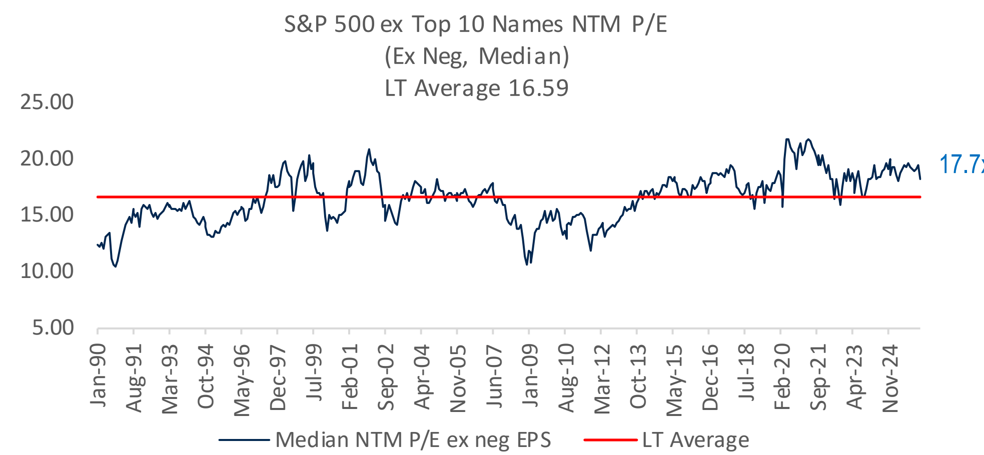
Forward P/Es Stalled Near Their Pre- and Post-COVID Era Ceilings Throughout the S&P 500

- 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.
- We saw more noteworthy slippage in the market cap-weighted P/E in part due to compression in the P/Es of a handful of the biggest market cap names.









Note: Mid-week basket portfolio rebalancing applied for the Top 10 and S&P ex Top 10 baskets; as of May 5, 2026.
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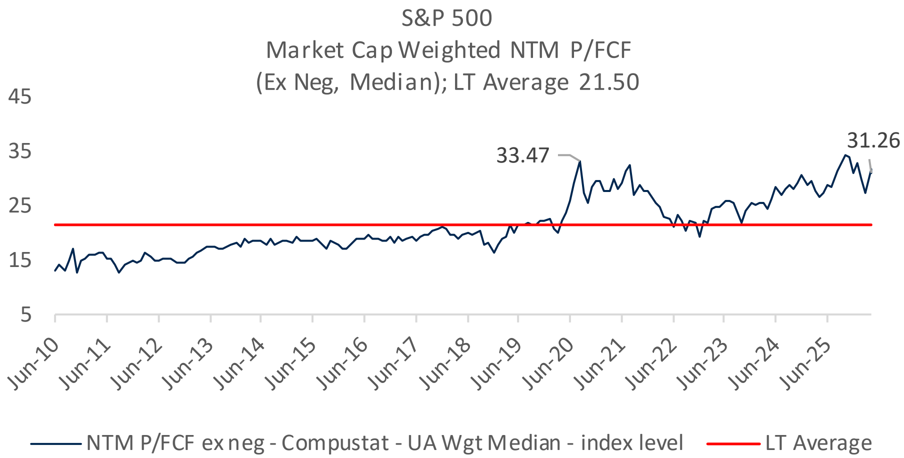
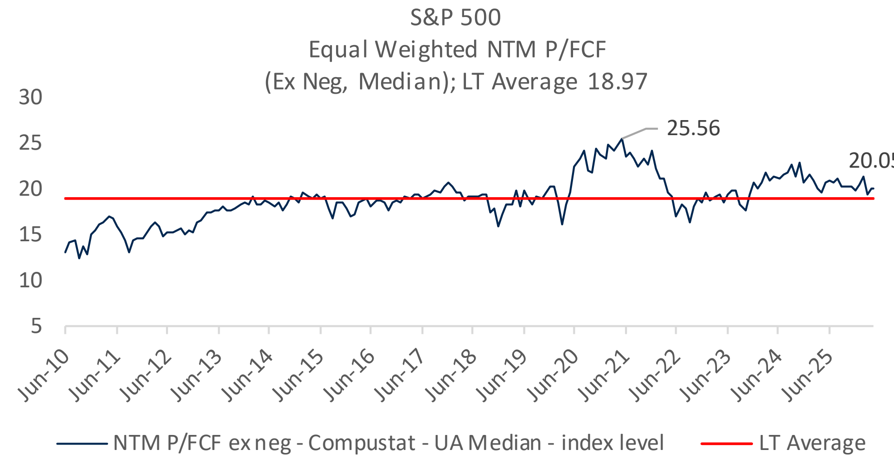
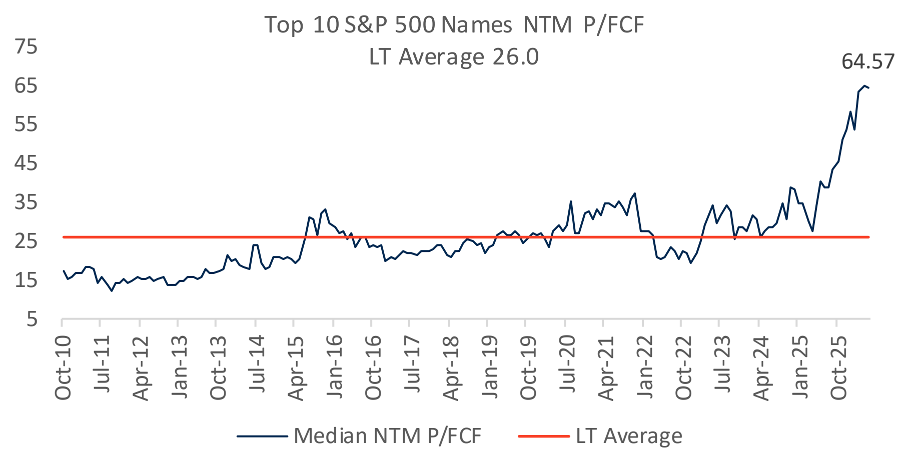
Source: RBC US Equity Strategy, S&P, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 5, 2026.

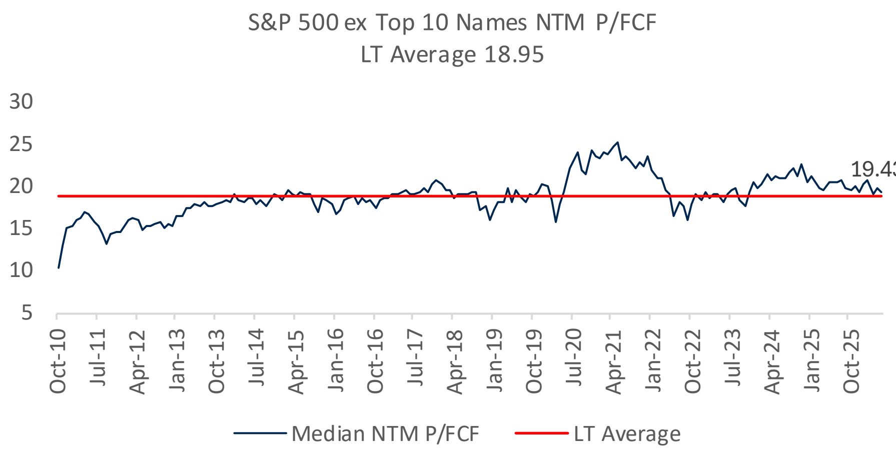
The S&P 500 Has Returned to Past Peaks on Projected Cash Flow, Driven by Mega Cap Growth Stocks

- 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 5, 2026.
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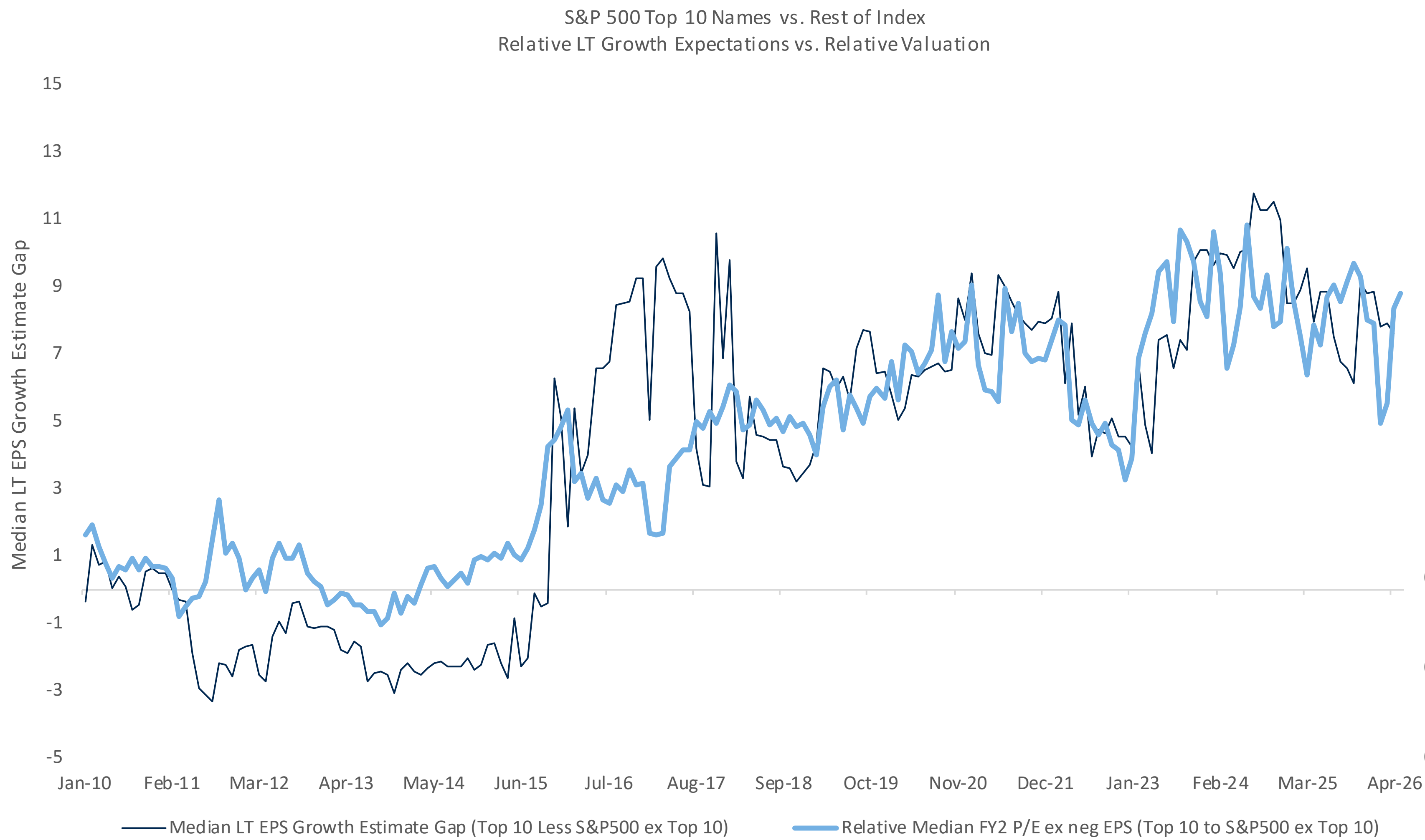
Source: RBC US Equity Strategy, S&P, S&P Capital IQ / ClariFI, Compustat, CIQ estimates, IBES estimates; as of May 5, 2026.

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. Indeed, this model may be starting to signal that the growth trade has gotten a little overbought and is due for a breather.



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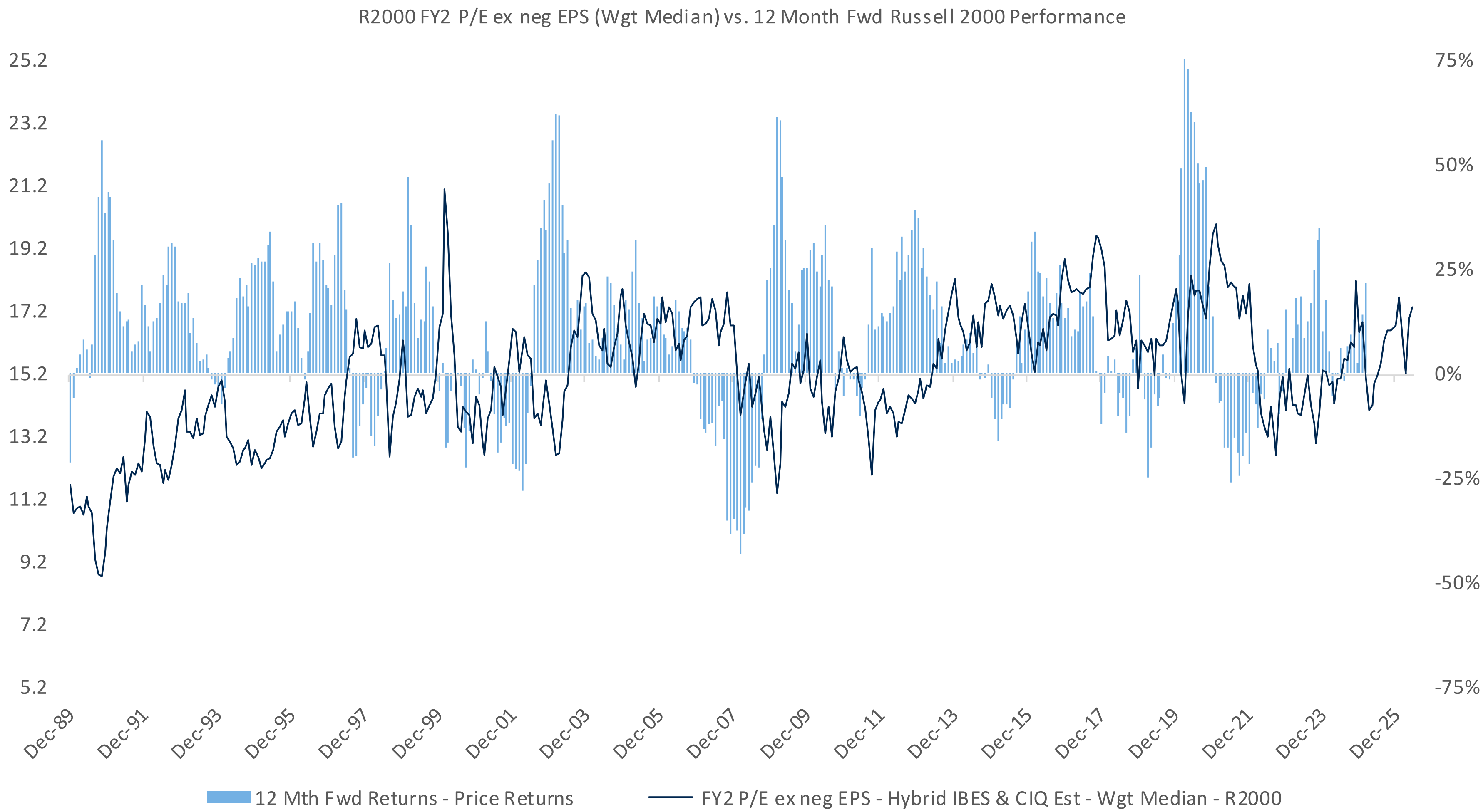
Source: RBC US Equity Strategy, S&P, S&P Capital IQ/ClariFi, CIQ estimates, IBES estimates, as of May 5, 2026. Mid-month basket portfolio rebalancing applied.

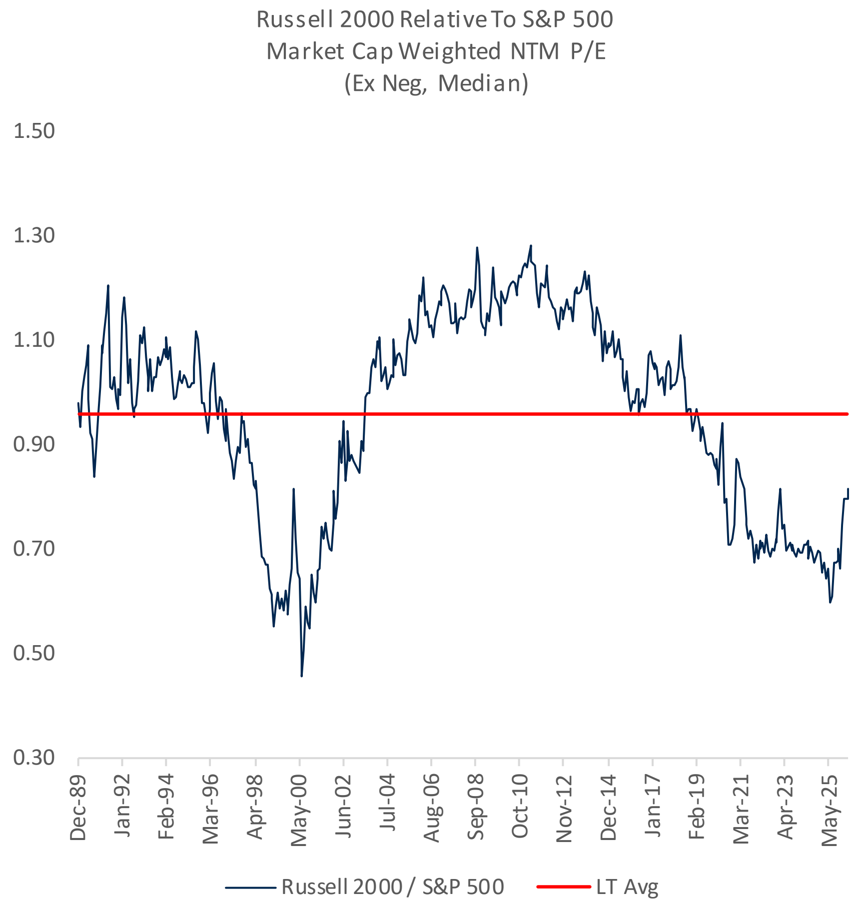
The Russell 2000 FY2 P/E Is Back Above Its Long-Term Average, but Not Yet Recent Highs

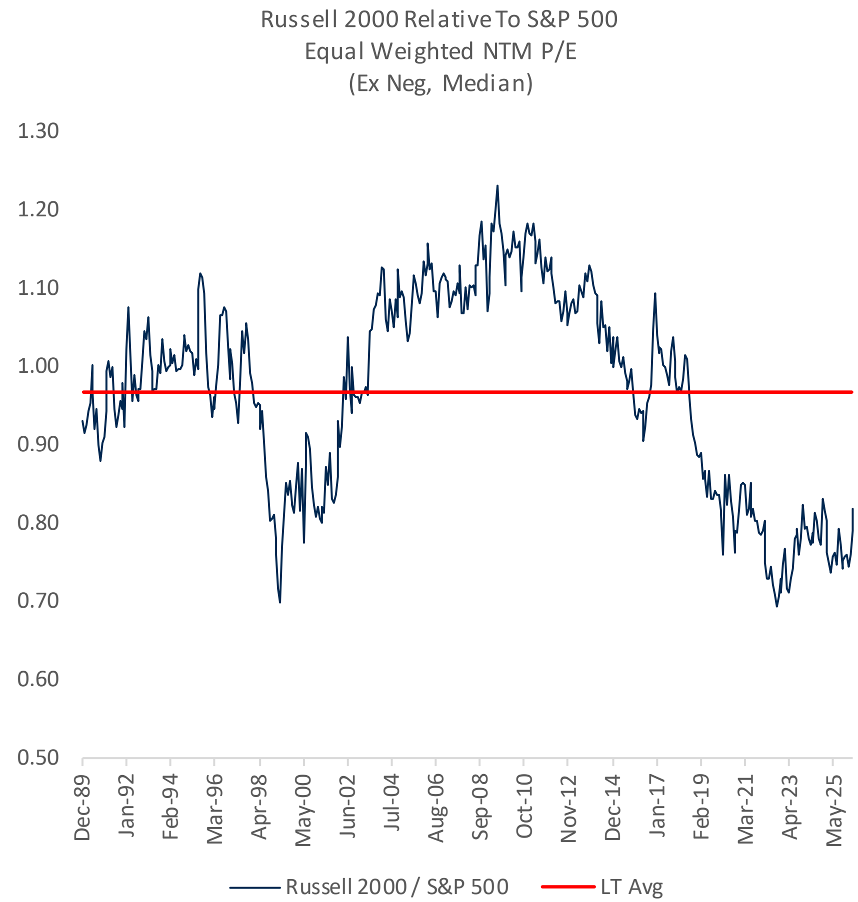
- The Russell 2000 forward P/E hit 12.65x when the stock market hit its YTD low in early April. That was a significant milestone, as this indicator often bottoms in the 11-13x range. That level was also in line with its 2022 and 2023 lows.
- At January month-end, this stat was 17.5x, close to the November-2024 high of 18.1x. On an intramonth basis, this metric got even closer to the November-2024 level.
- As of early-May 2026, this metric is 17.33x – 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 5, 2026

Russell 2000 Remains Undervalued vs. S&P 500 on NTM P/E





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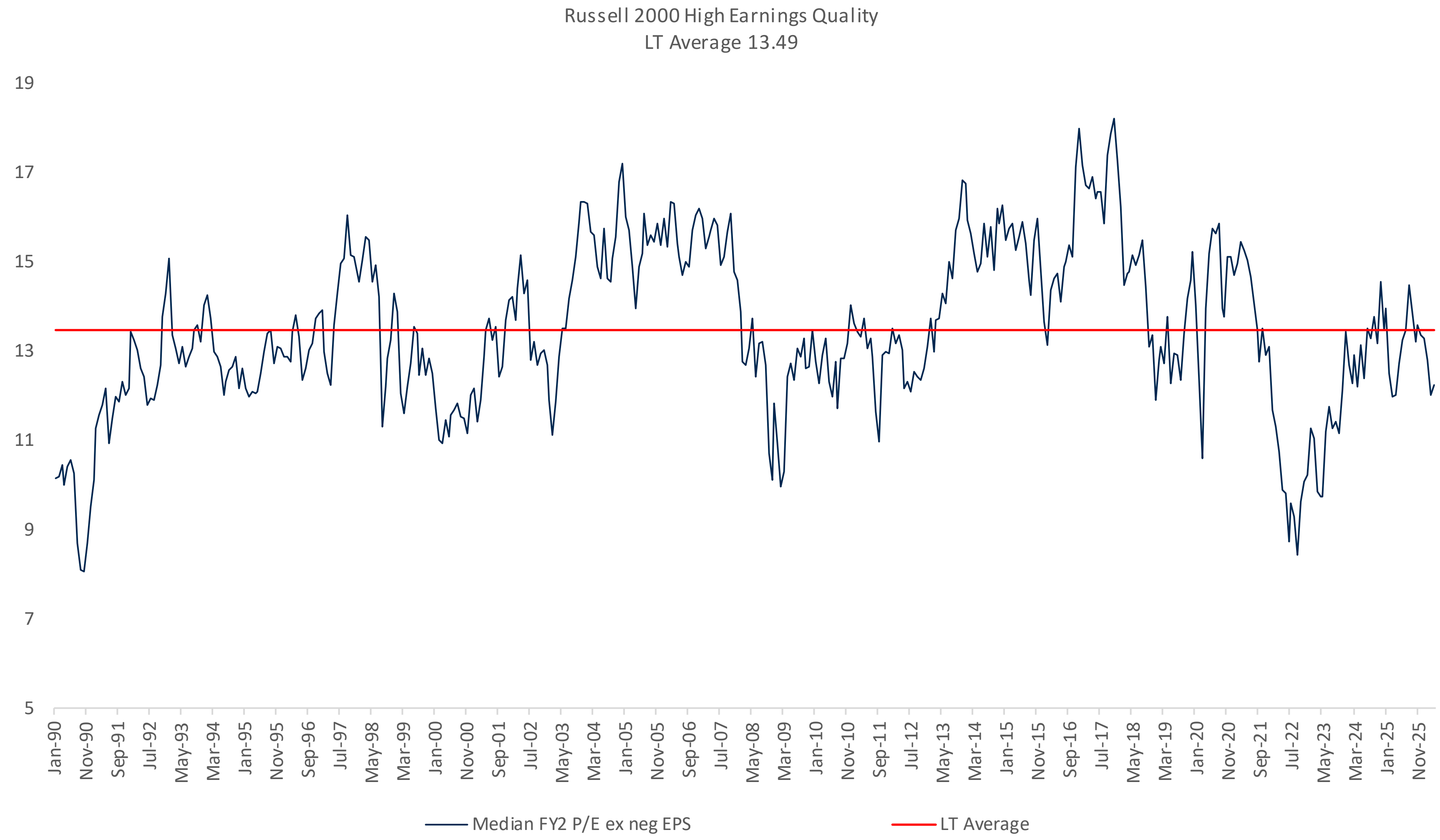
Source: RBC US Equity Strategy, S&P, Russell, S&P Capital IQ / ClariFI, CIQ estimates, IBES estimates; as of May 5, 2026.

High Earnings Quality Trades at a Discount Within Small Cap on Forward P/E

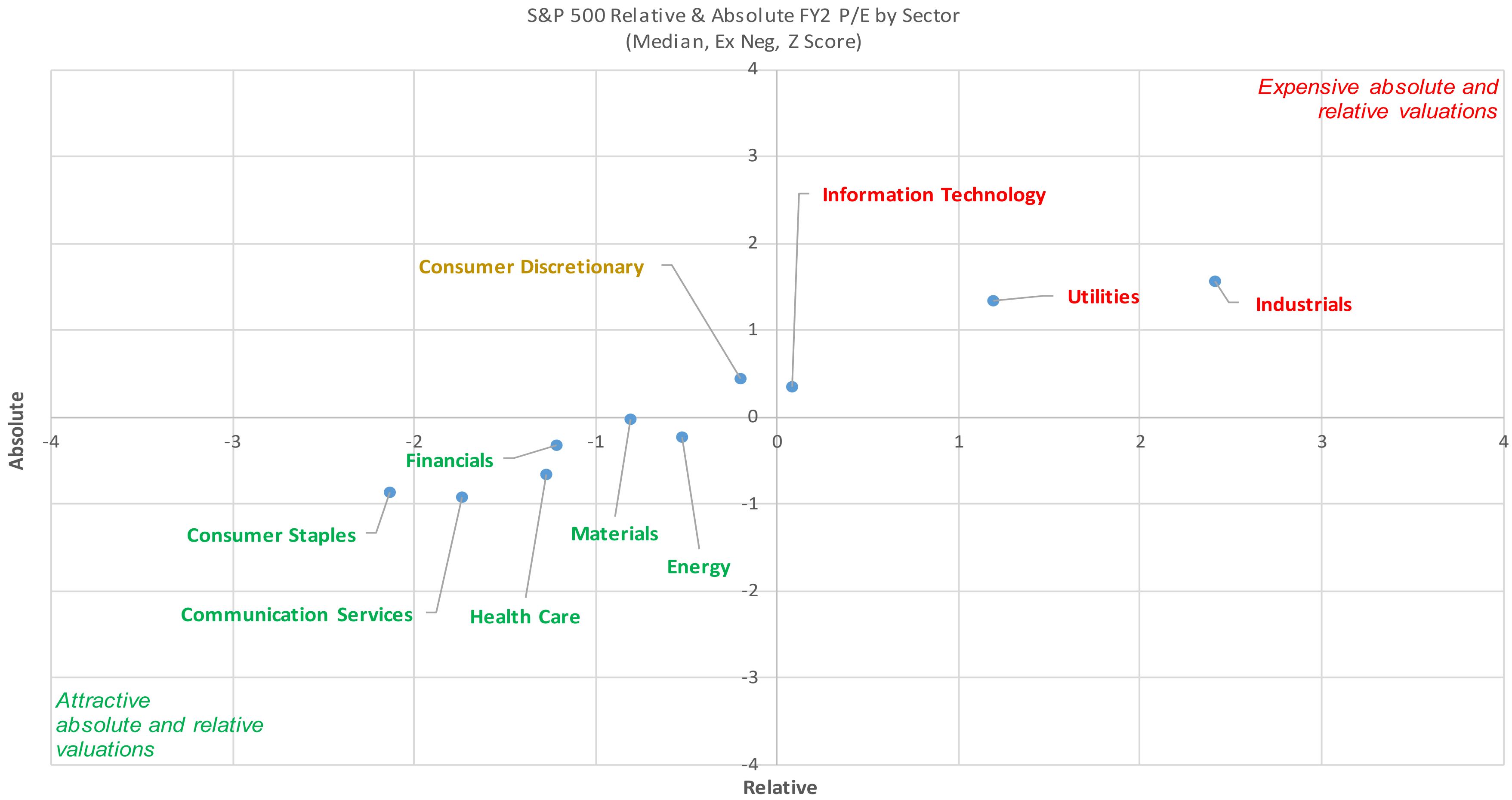
- We examined median valuation multiples for the high-EPS-quality baskets within the Russell 2000. We found that the high-EPS-quality basket's forward P/E is below its historical average, suggesting to us that valuation opportunities do exist within this cohort.



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 5, 2026.

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

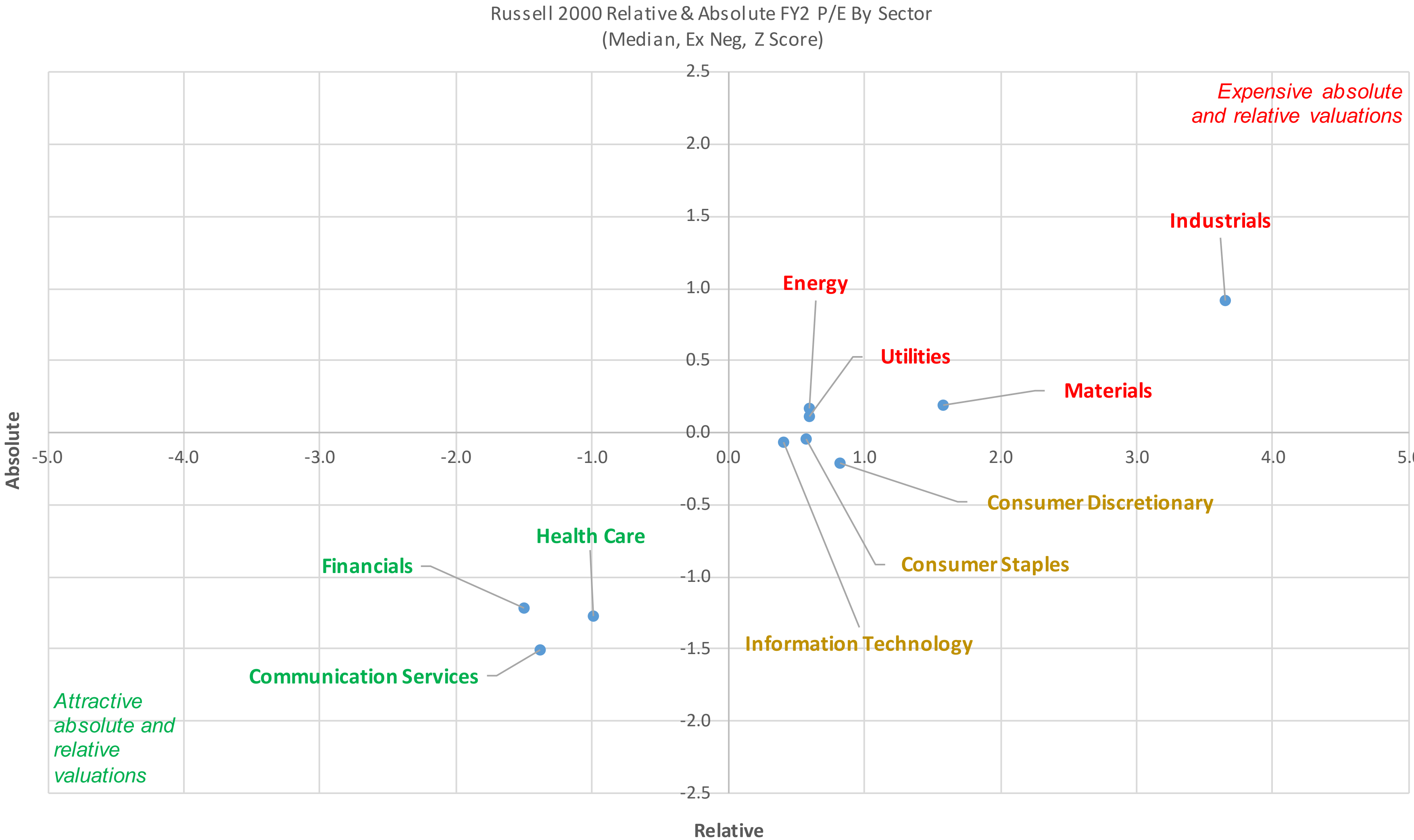
- Consumer Discretionary is slightly above their long-term averages on an absolute P/E, but slightly attractive/close to average on a relative P/E basis.
- Tech is now expensive on both an absolute P/E and relative P/E basis.
- Meanwhile, Energy, Health Care, Communication Services, Financials, and Consumer 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 5, 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

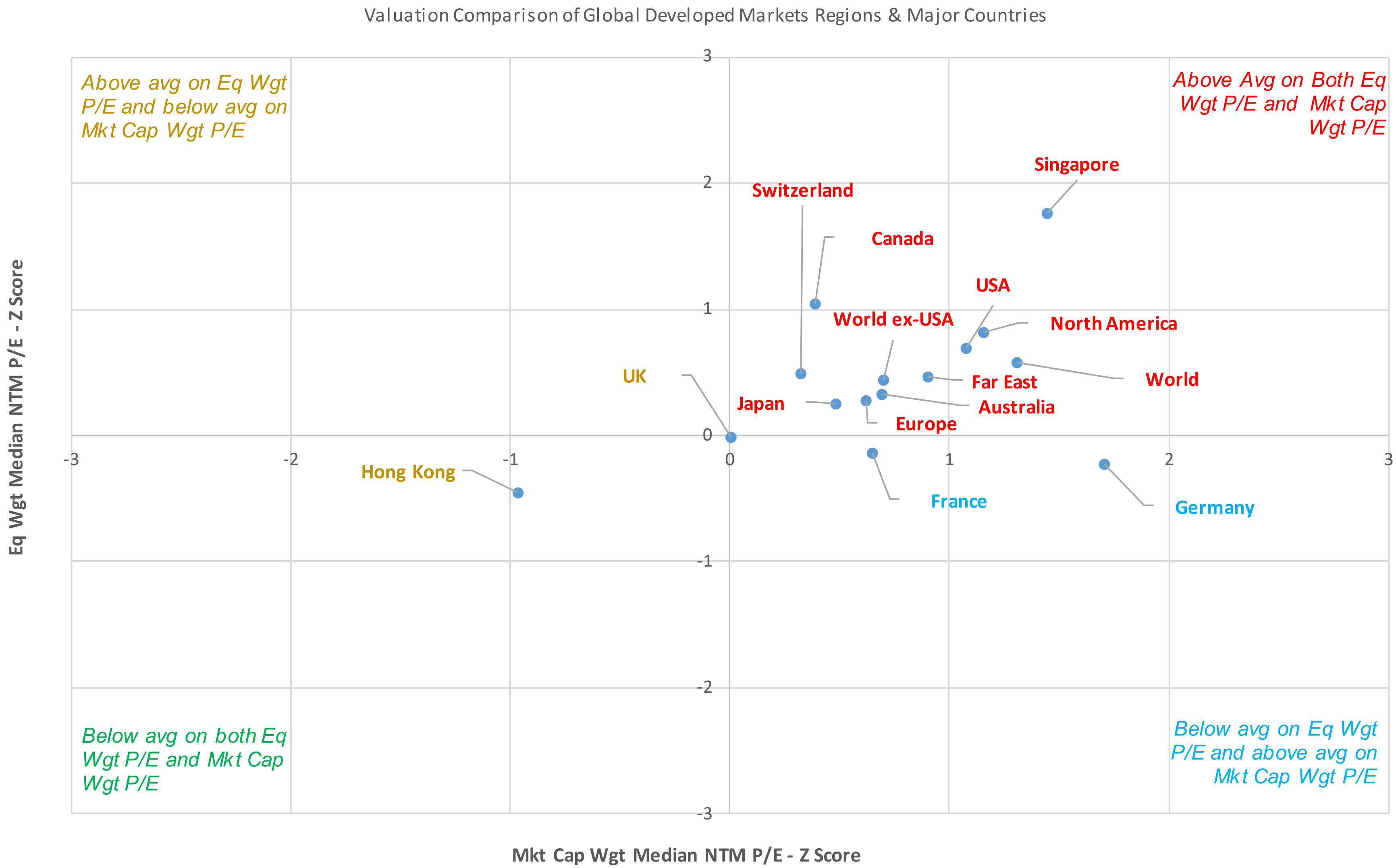
- Energy and Utilities screen expensive on a relative P/E basis and somewhat neutral on an absolute P/E basis. The Industrials sector in the Russell 2000 stands out as the most expensive, especially on a relative P/E basis. Materials is now screening negative on both an absolute and relative P/E basis. Consumer Discretionary and Consumer Staples screen attractive on an absolute P/E basis, but expensive on a relative P/E basis. The Info Tech sector now screens attractive on an absolute P/E basis, and somewhat neutral 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 5, 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 Australia and Singapore look similarly or 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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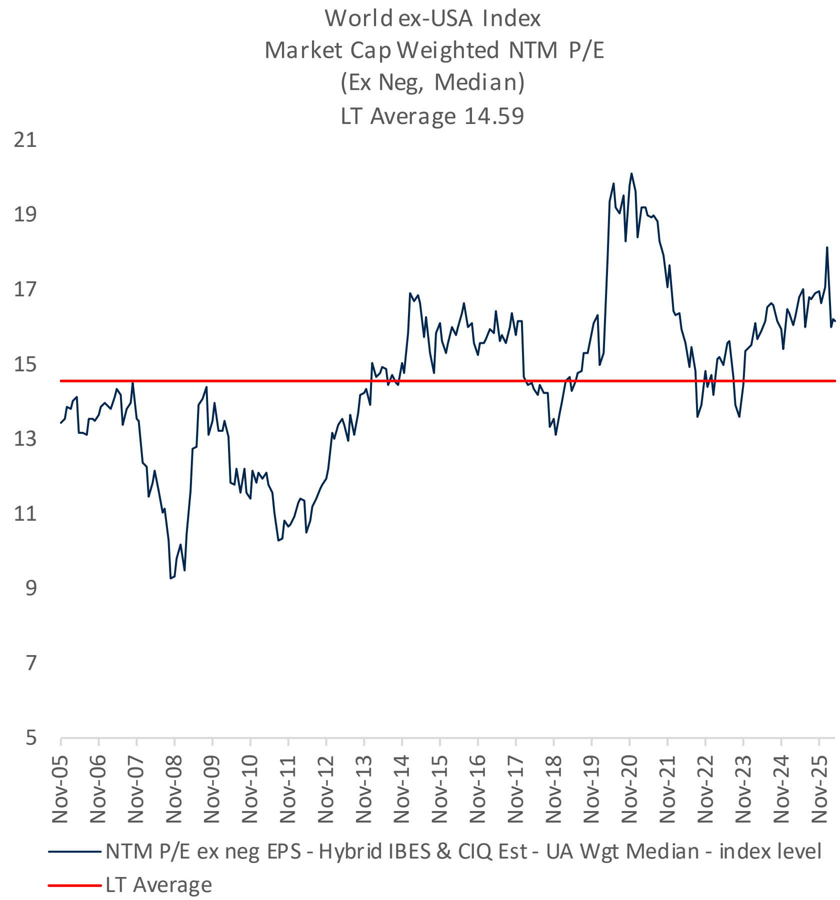
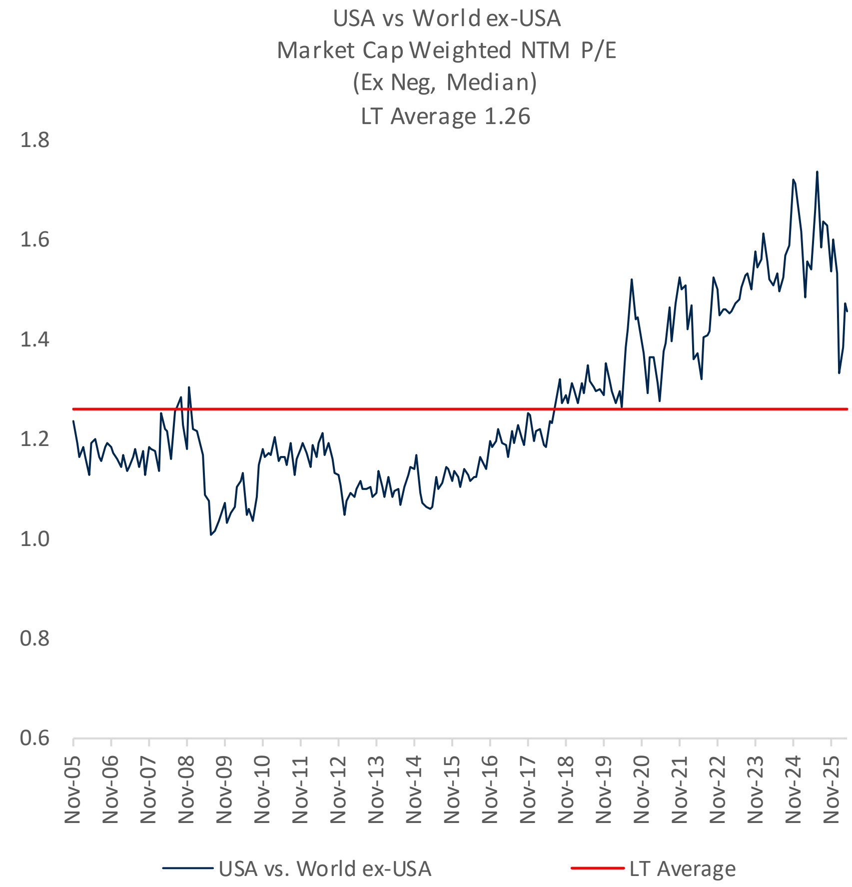
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 5, 2026; please see the MSCI disclaimer at the end of this report; regions/countries based on MSCI constituents with negative earners excluded.

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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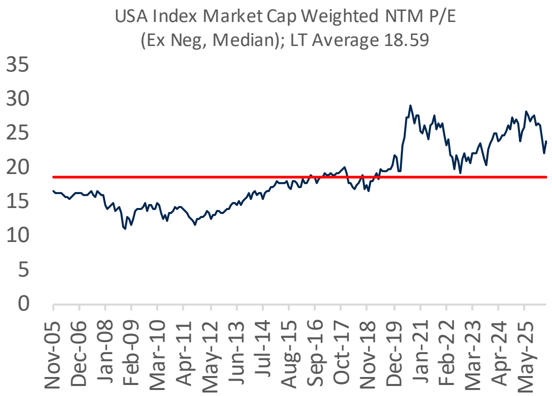
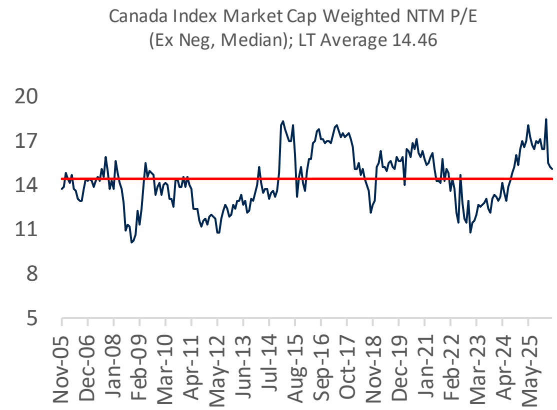
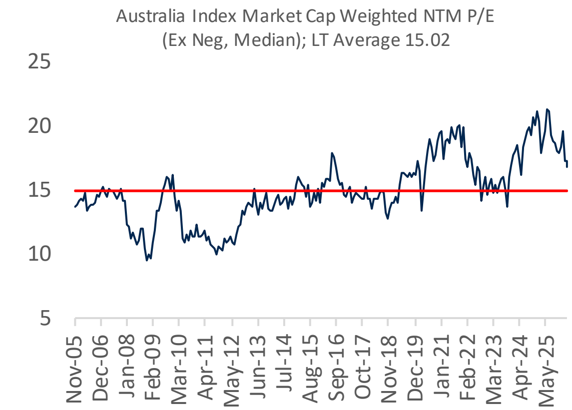
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 5, 2026; please see the MSCI disclaimer at the end of this report; regions/countries based on MSCI constituents with negative earners excluded.

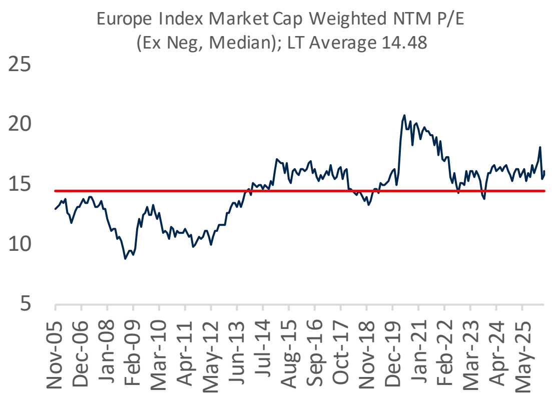
Key Major Non-US Developed Markets Countries Have Seen Their P/Es Move Down

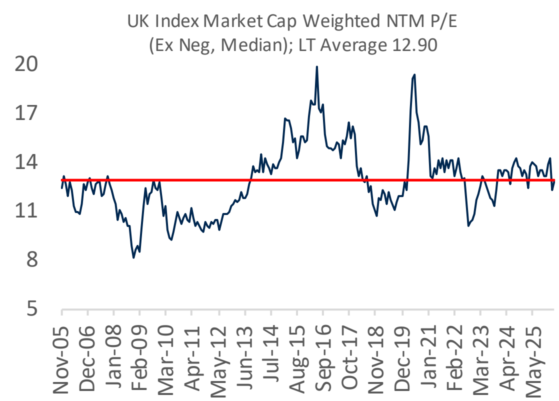
- The US P/E has started to rebound. The P/Es for Canada, Australia, Europe, and UK have moved down in the latest updates.
- In the case of Canada and Australia, early-2026 levels were close to past highs (more so for Canada).

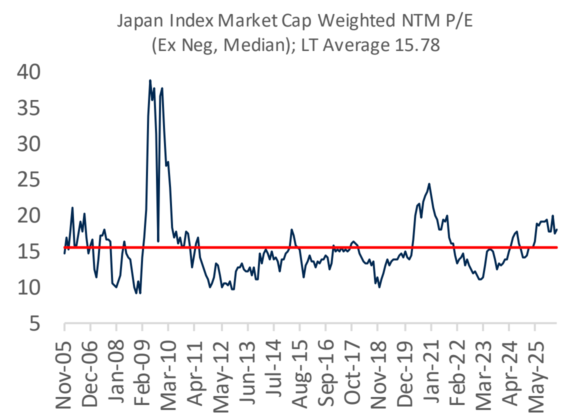








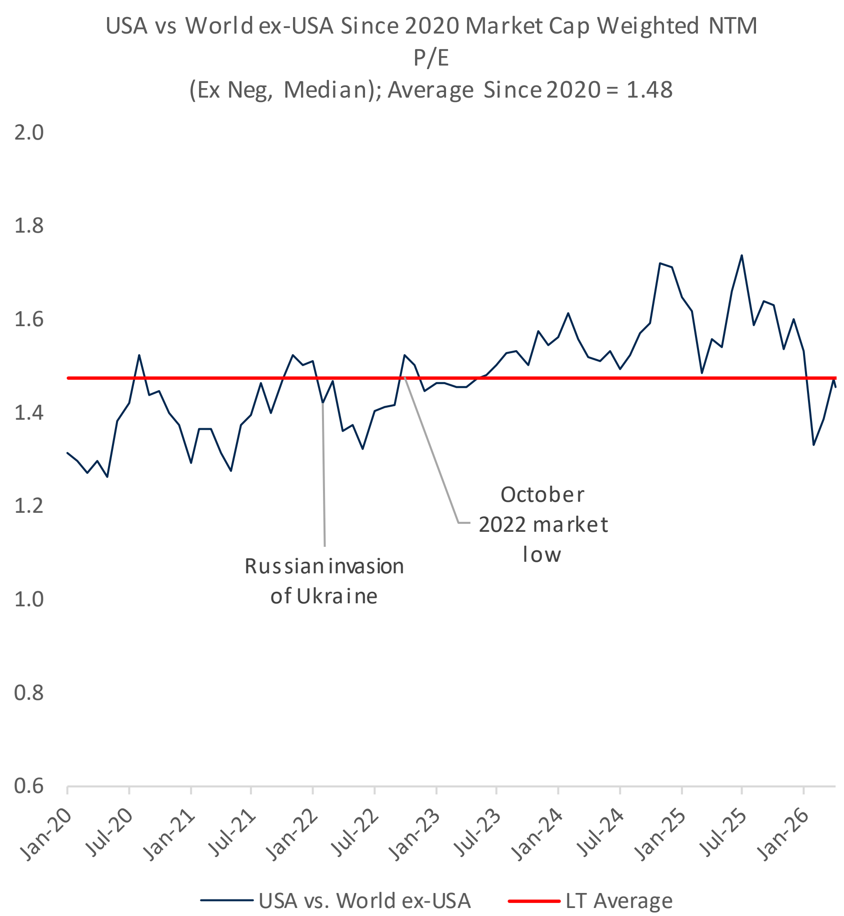


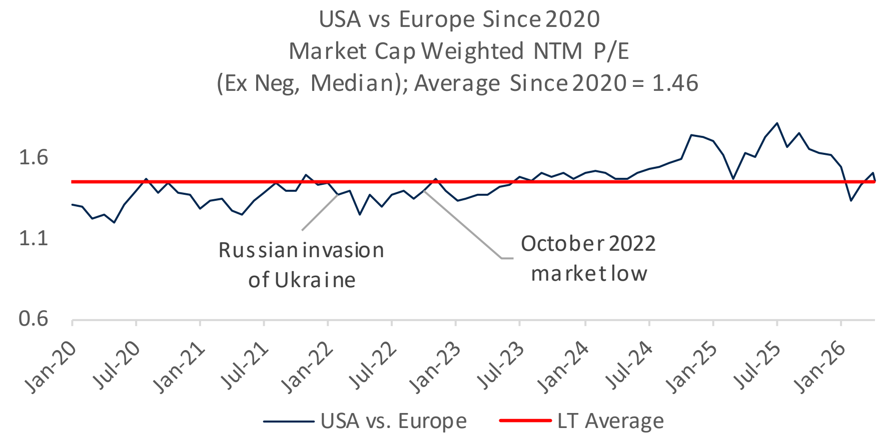


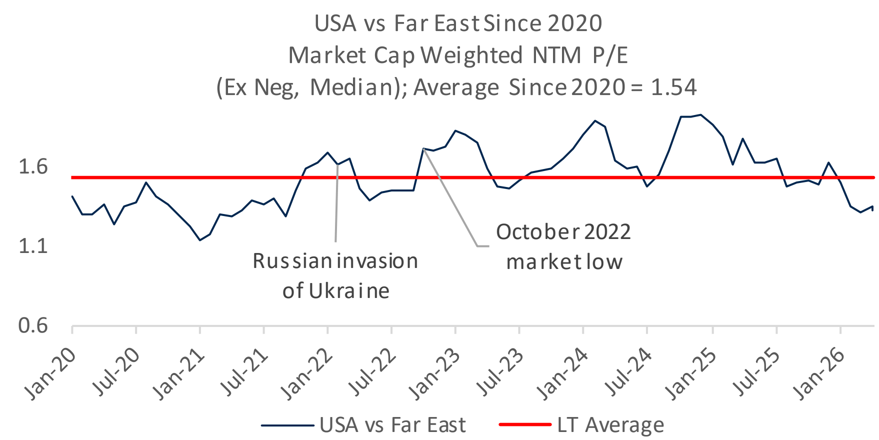
Note: The red line represents the long-term average of the time series.
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 5, 2026; please see the MSCI disclaimer at the end of this report; countries based on MSCI constituents with negative earners excluded.

US P/E Is Now Right Around 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.







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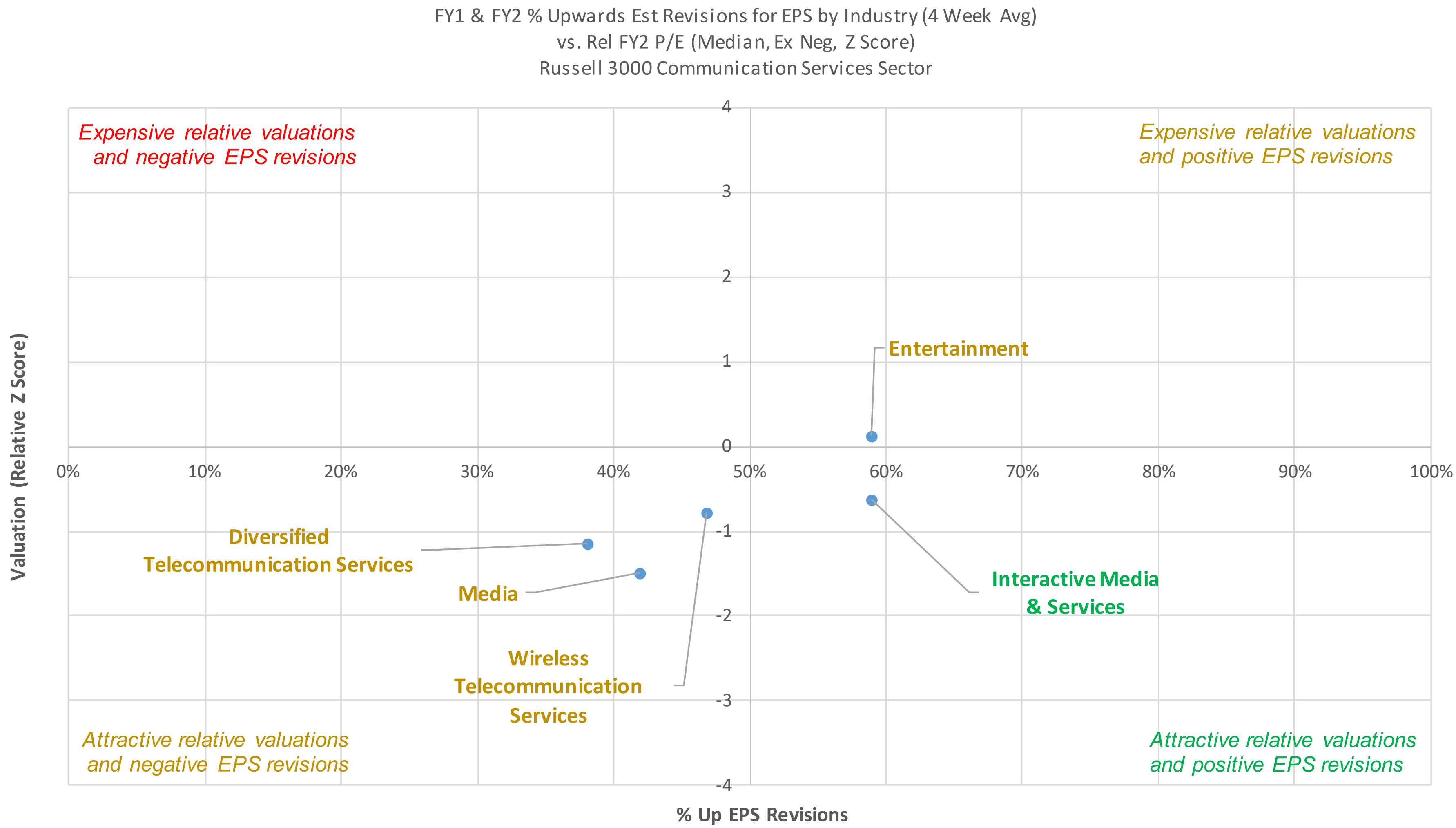
Source: RBC US Equity Strategy, MSCI, S&P Capital IQ Clarifi; as of May 5, 2026; please see the MSCI disclaimer at the end of this report; regions/countries based on MSCI constituents with negative earners excluded.

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

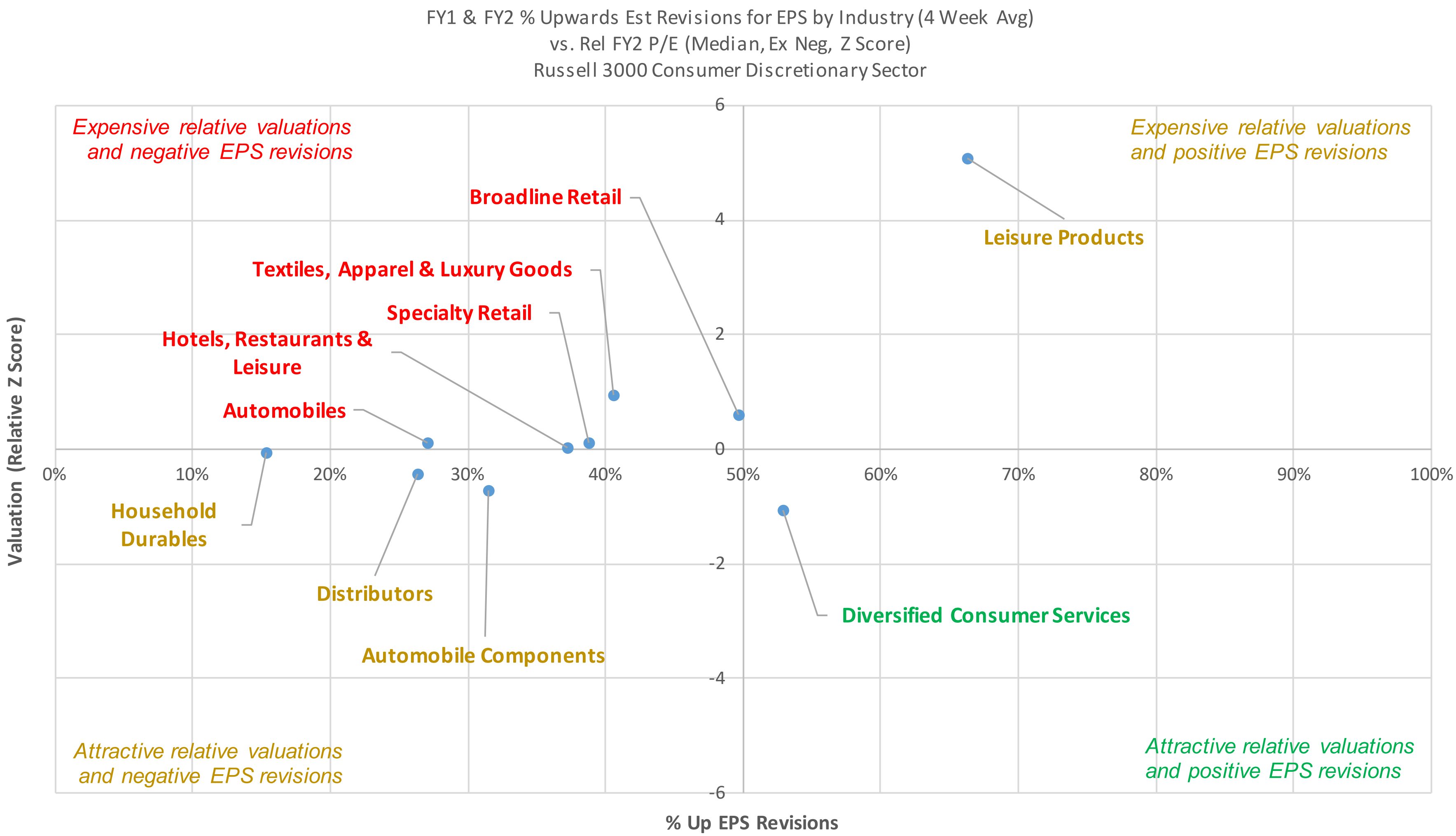
- Interactive Media & Services is the only industry with attractive valuations and positive revisions.
- Diversified Telecommunication Services, Wireless Telecom Services, and Media have negative EPS revisions, but attractive valuations.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell, as of May 5, 2026

Within CD, Most Industries Have Negative EPS Revisions

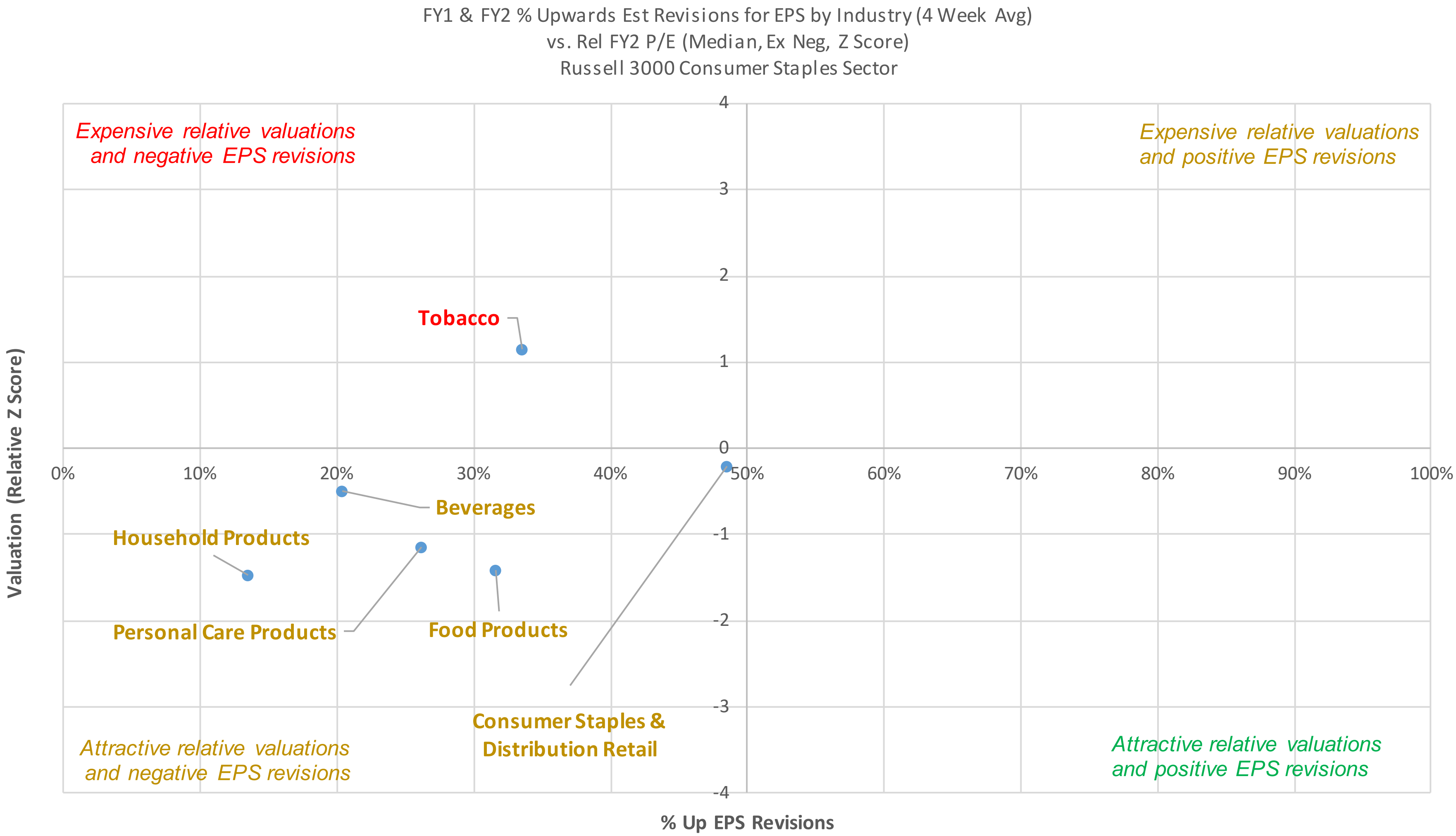
- Textiles, Apparel & Luxury Goods, Hotels, Restaurants & Leisure, Broadline Retail, Specialty Retail, and Autos look pricey and have weak EPS revisions. Leisure Products have positive revisions but expensive valuations. These are all areas that may be more vulnerable to the impacts of higher energy costs going forward given the lack of valuation appeal.
- Automobile Components, Distributors, and Household Durables have weaker revisions. Valuations look reasonable (in line with the average) but not cheap.
- Diversified Consumer Services 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 5, 2026

Within Staples, Tobacco Has Expensive Valuations but Other Groups Look Cheap

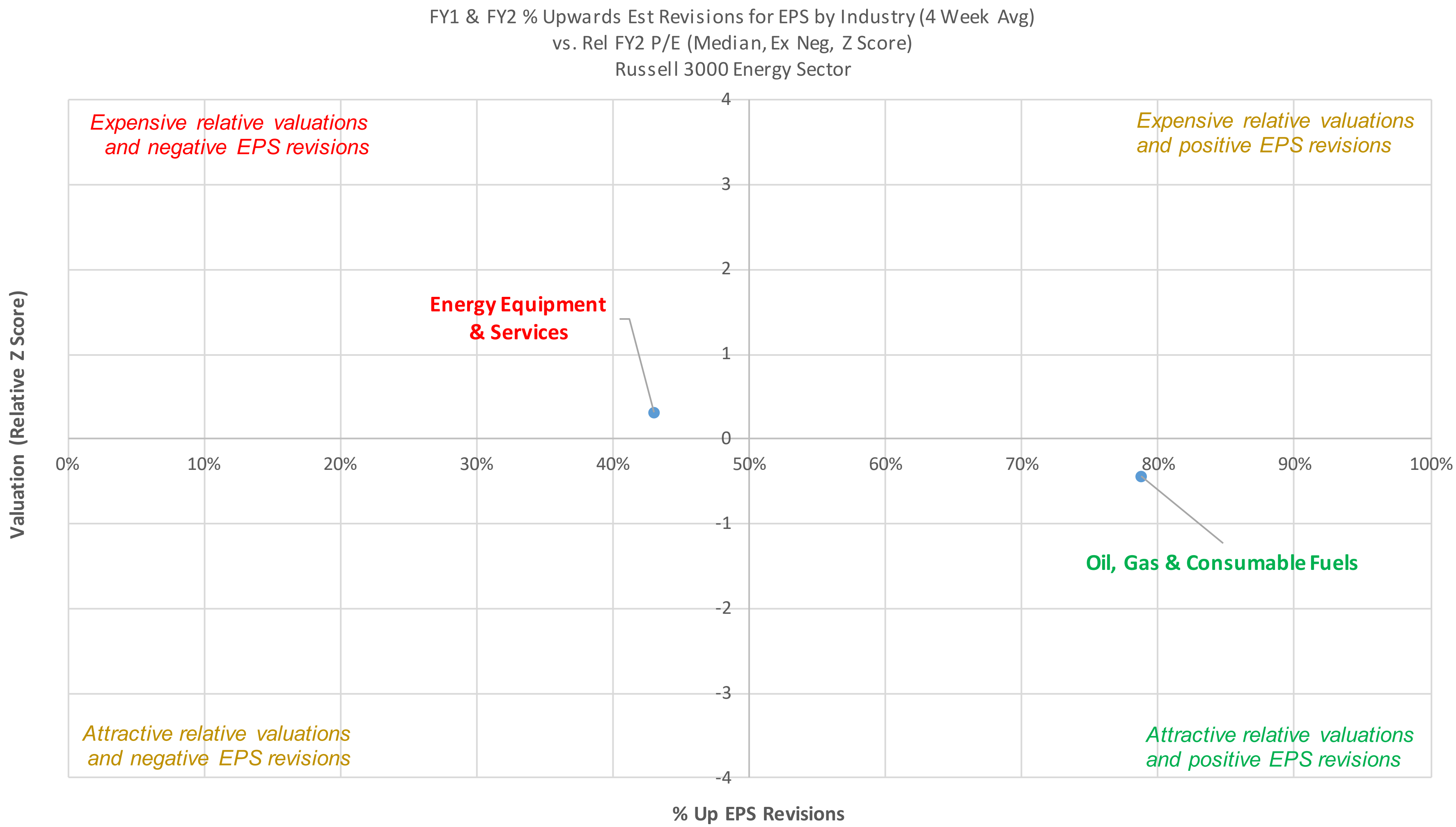
- Consumer Staples & Distribution Retail, Food Products, Beverages Household Products, and Personal Care Products look attractively valued but EPS revisions are weak.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 5, 2026

Within Energy, Valuations Are Close to Average for Both Industries

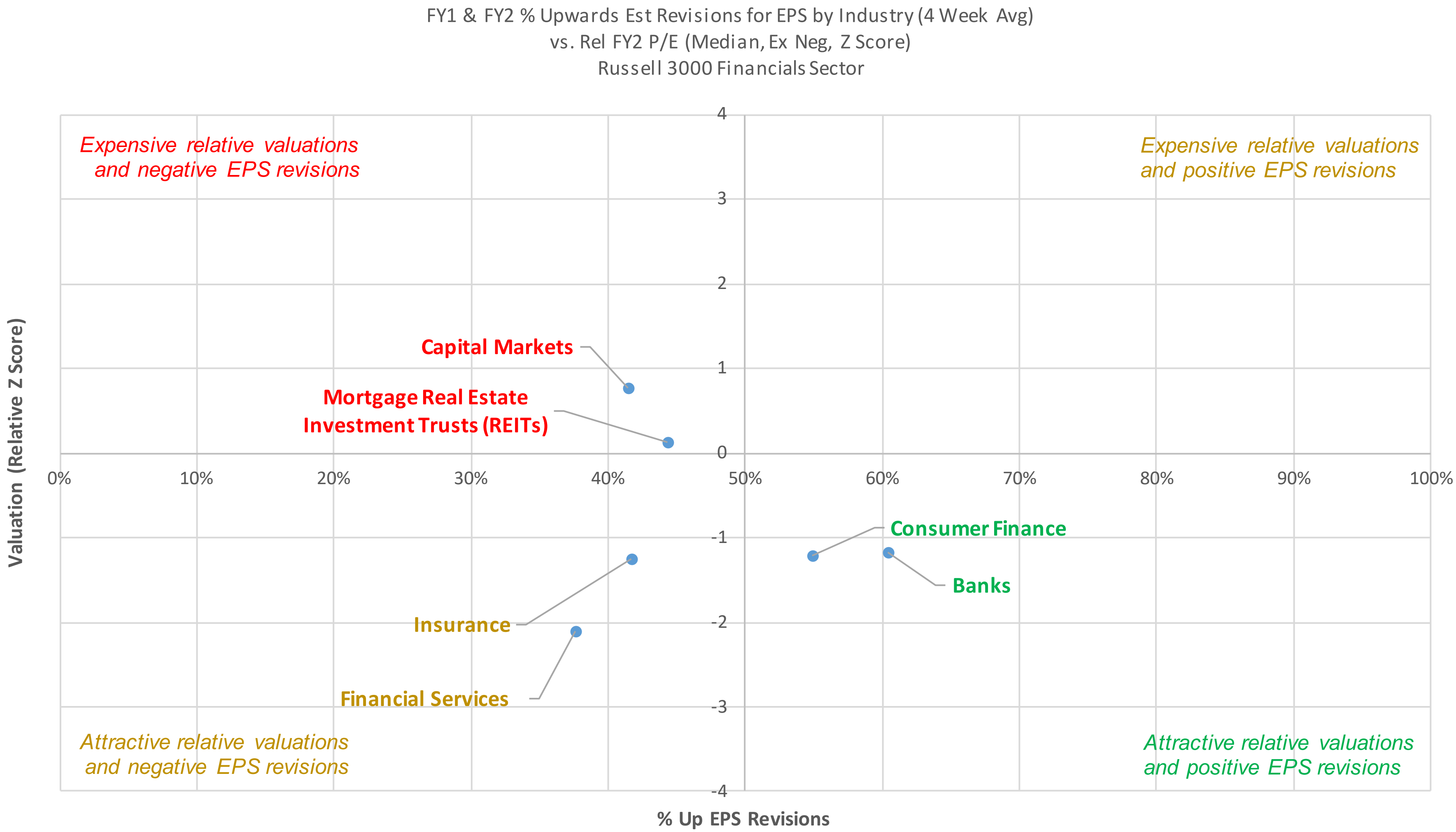
- We see a little more valuation appeal in the oil and gas names.
- Oil, Gas & Consumable Fuels have positive EPS revisions while Energy Equipment & Services have negative revisions.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 5, 2026

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

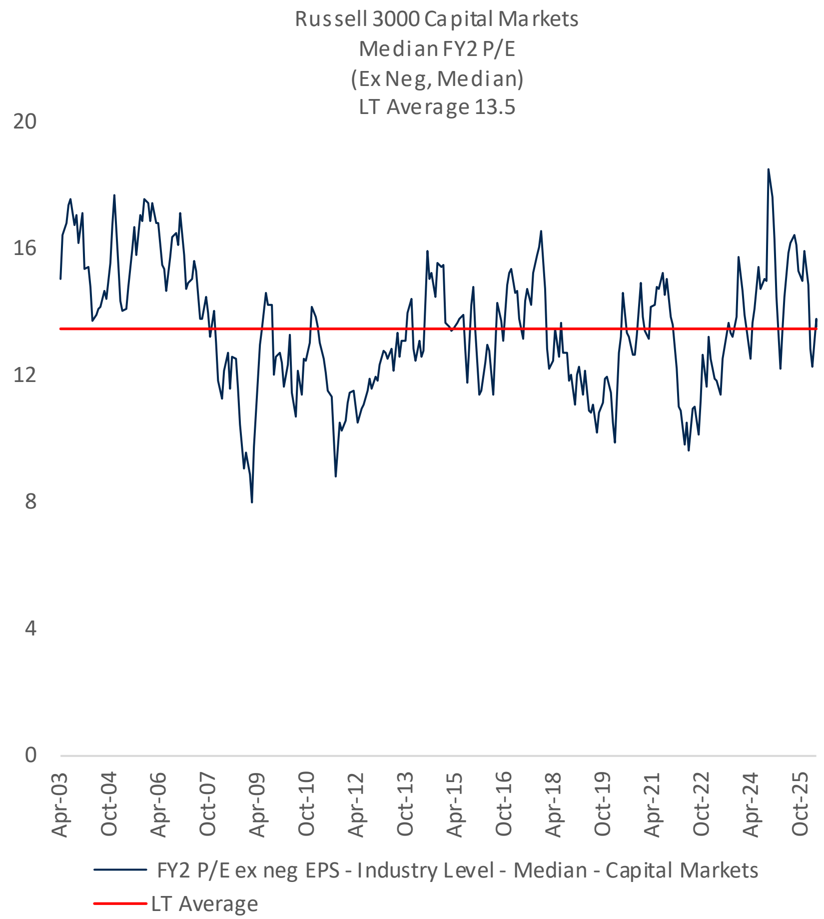
- Capital Markets was expensive to start the year. Valuations had improved to average levels but have turned slightly expensive again. Note that the industry used to have positive earnings revisions, but those have turned negative now. Mortgage REITs also screen expensive with negative earnings revisions.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

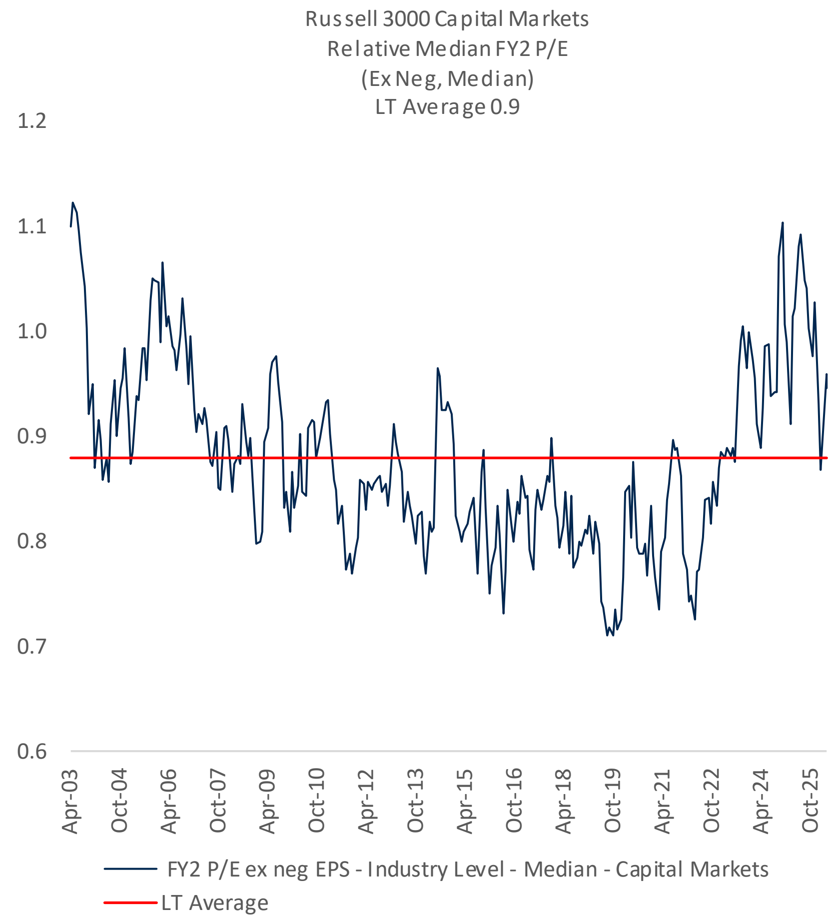


Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 5, 2026

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.

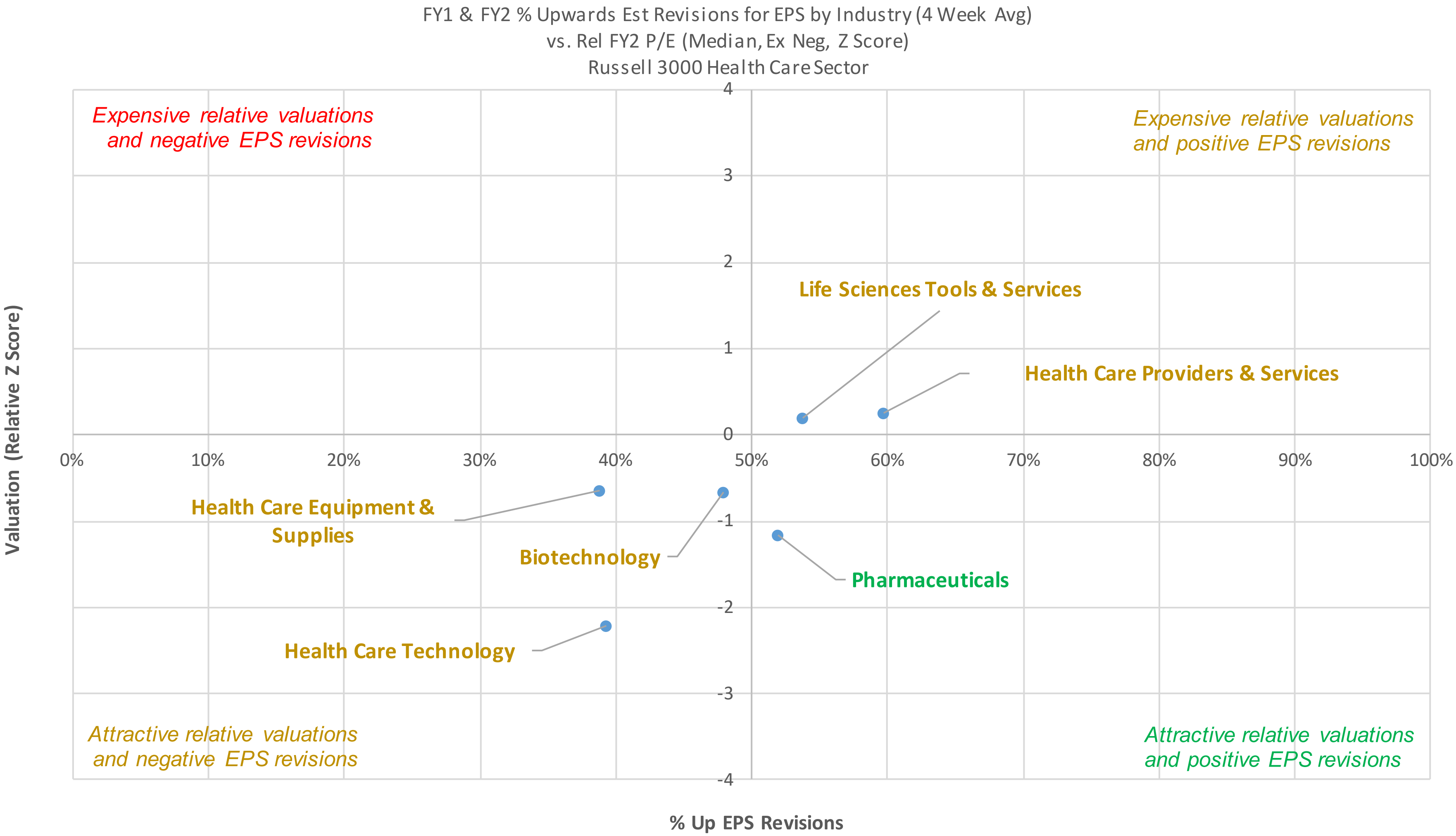




Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 5, 2026

Within HC, Pharma Stands Out as the Most Interesting Industry

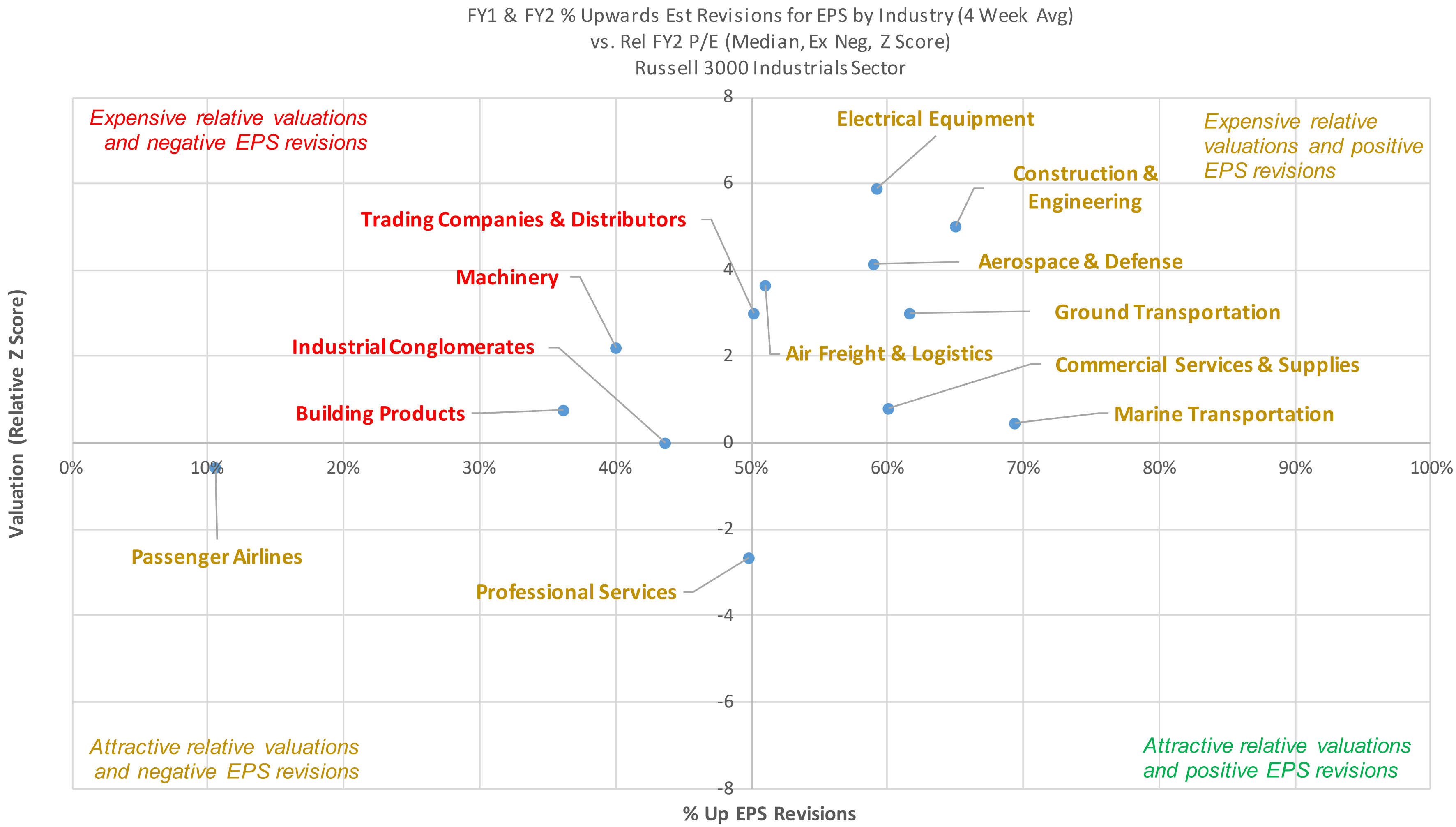
- Health Care Equipment & Supplies, Health Care Tech, and Biotech have attractive valuations but negative EPS revisions. On the flip side, Health Care Providers & Services and Life Sciences Tools & Services are pricey with positive revisions.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell, as of May 5, 2026

Within Industrials, Few Groups Look Attractively Valued

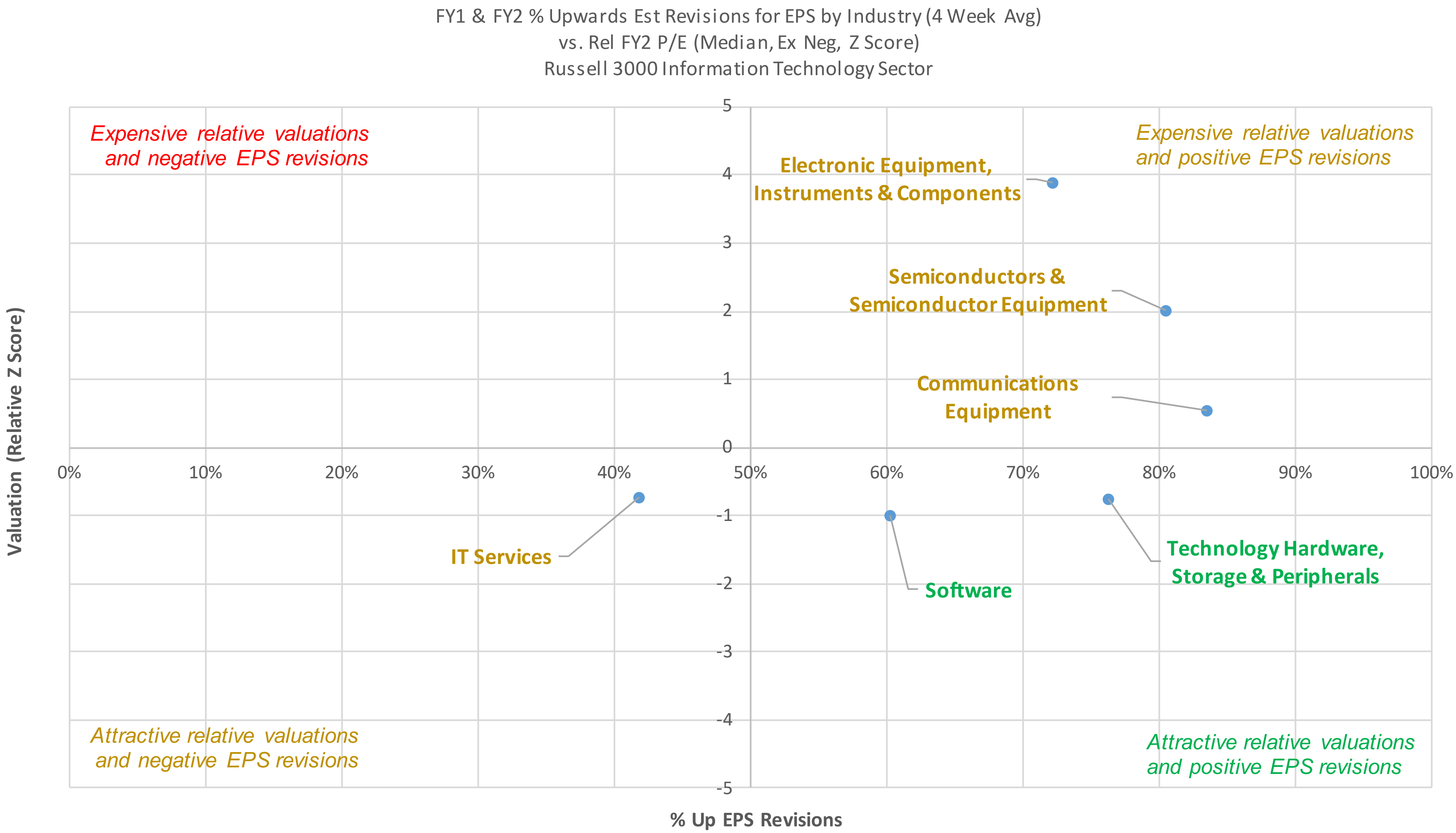
- No industry looks attractively valued and has positive EPS revisions. Electrical Equipment and Aerospace & Defense now screen extremely expensive per our model with relative valuations of close to six and four standard deviations above the long-term average, respectively.



Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 5, 2026

Within Tech, All Industries Have Positive EPS Revisions Except for IT Services

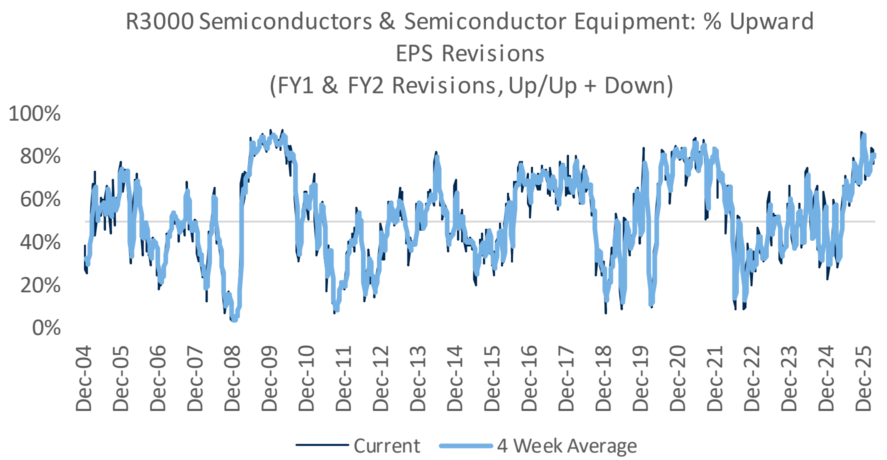
- Software, Tech Hardware, and IT Services all have attractive valuations.
- Semis/Semi Equipment and Electronic Equipment Instruments & Components lack valuation appeal.

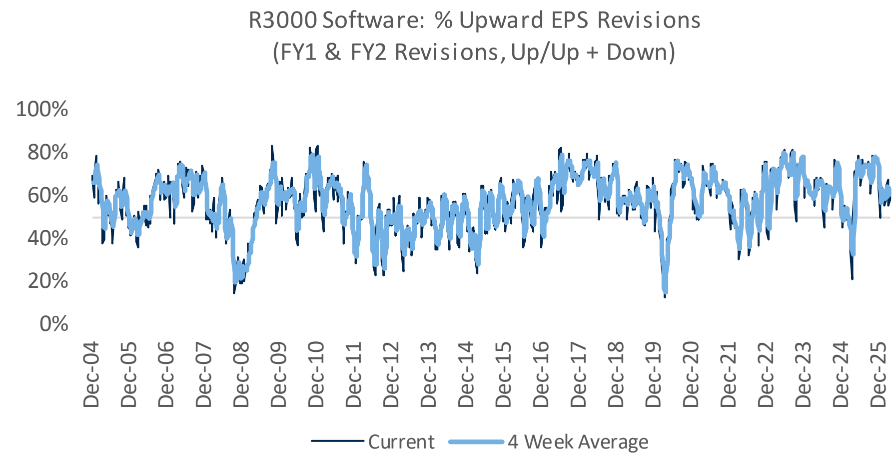


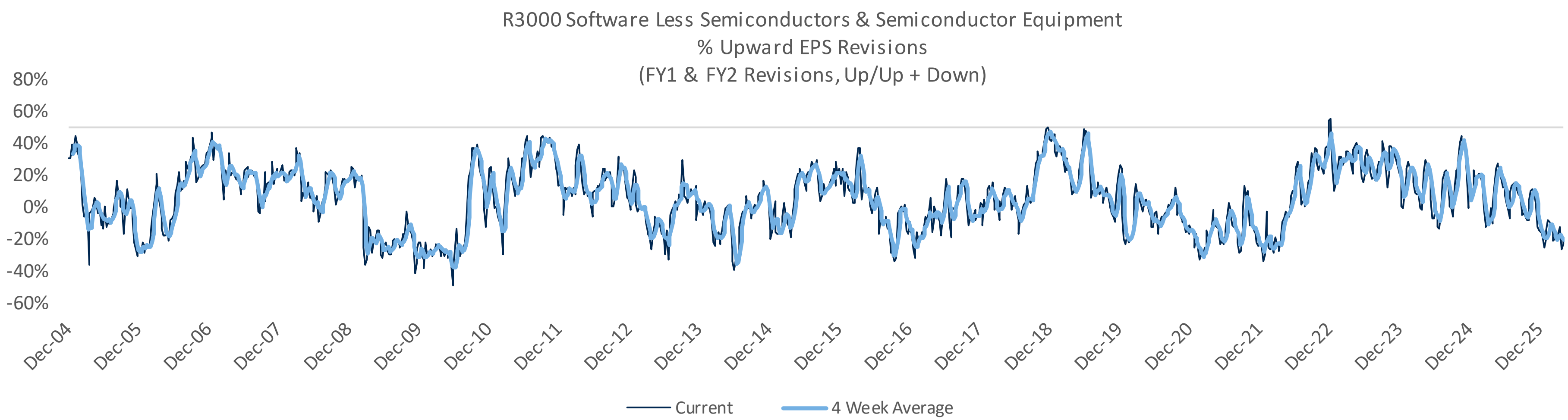
Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 5, 2026

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 have stabilized around the 50% mark, but haven't yet entered 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.



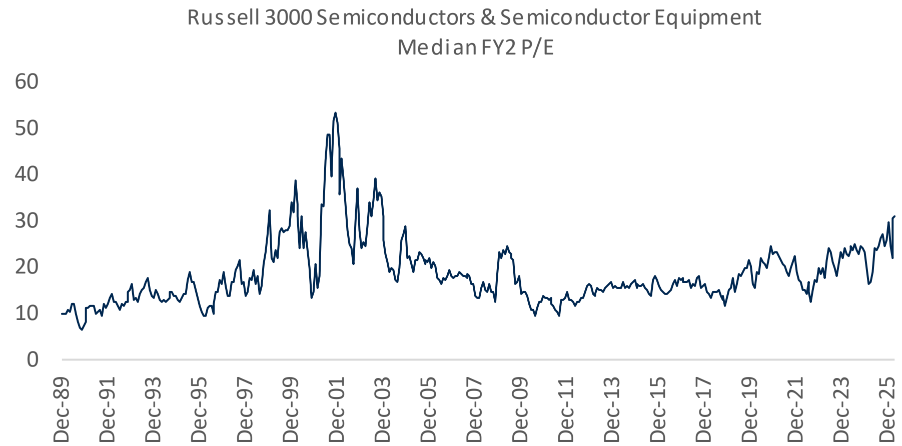


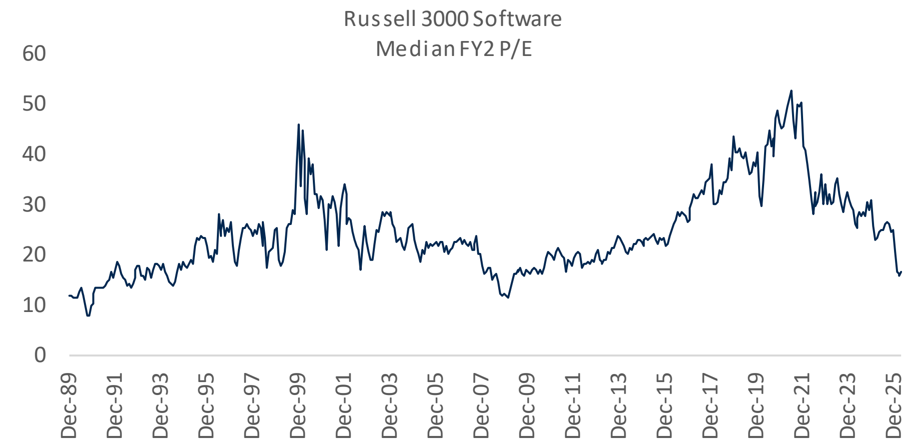


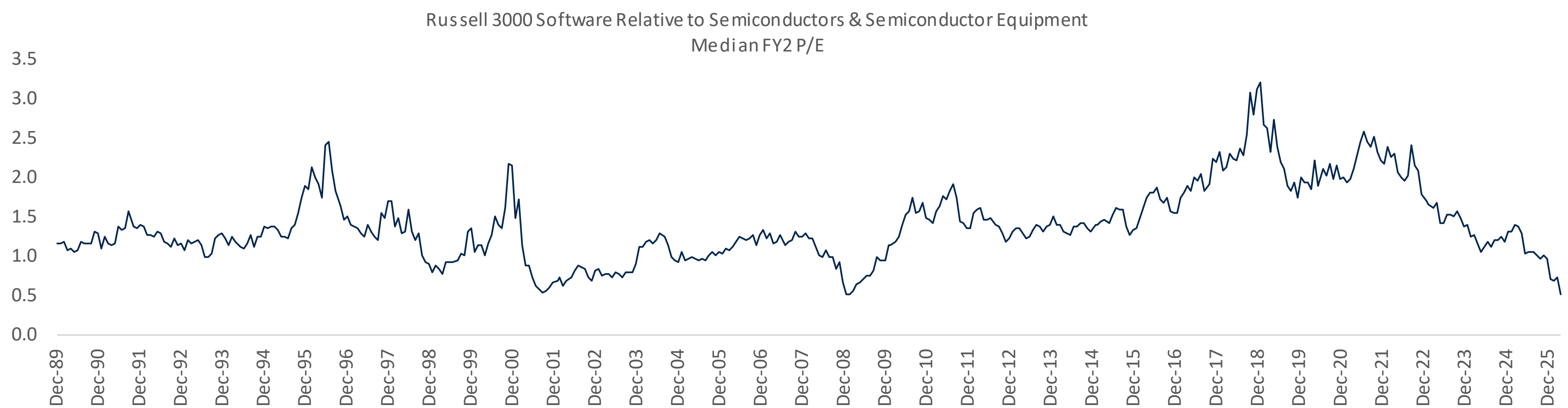
Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 5, 2026

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 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 5, 2026

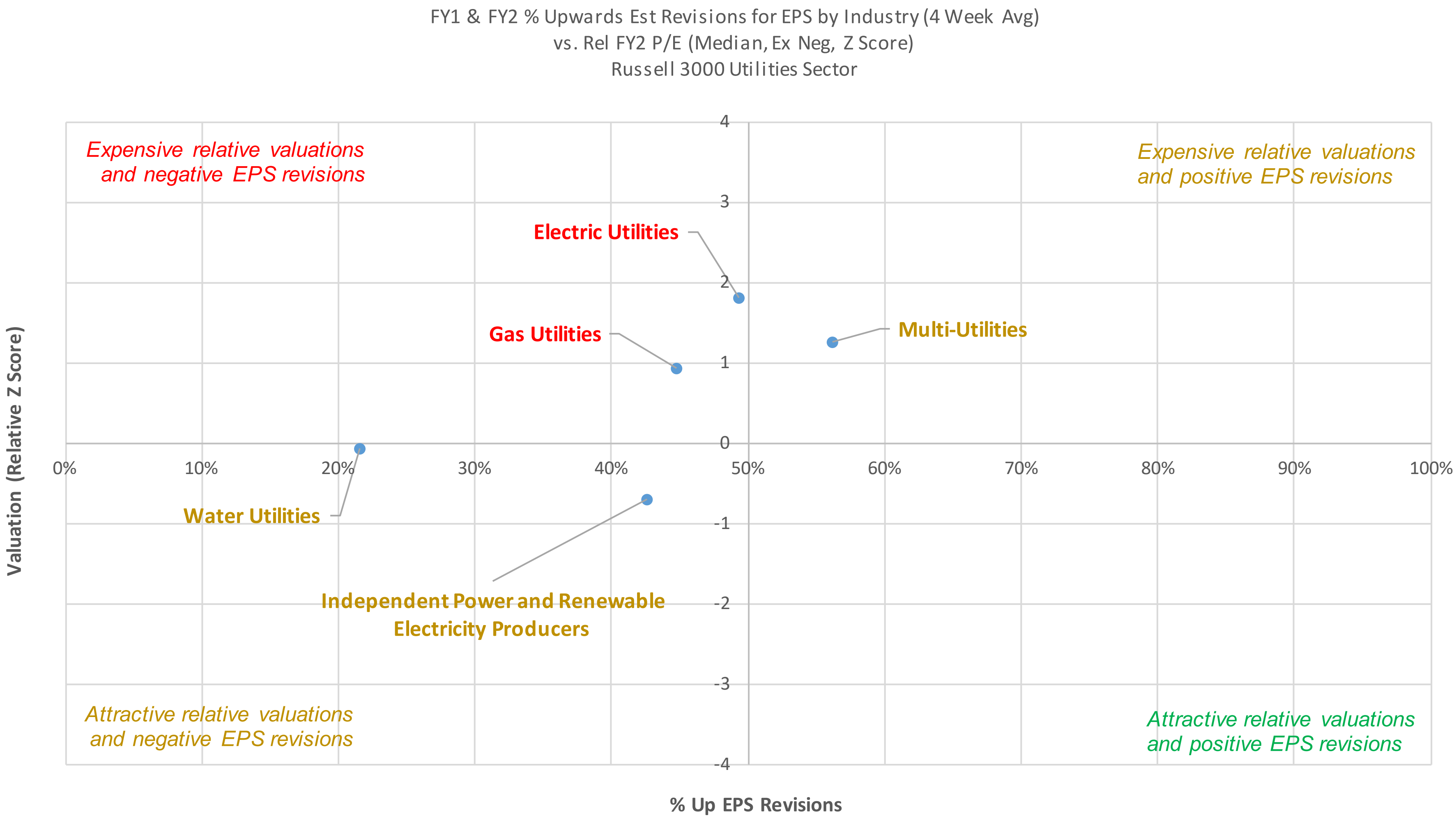
Within Materials, Construction Materials Stands Out With Negative EPS Revisions & Pricey Valuations

- 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 appear to have attractive valuations but have negative earnings revisions.

Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell, as of May 5, 2026

Within Utilities, Most Industries Have Expensive Valuations

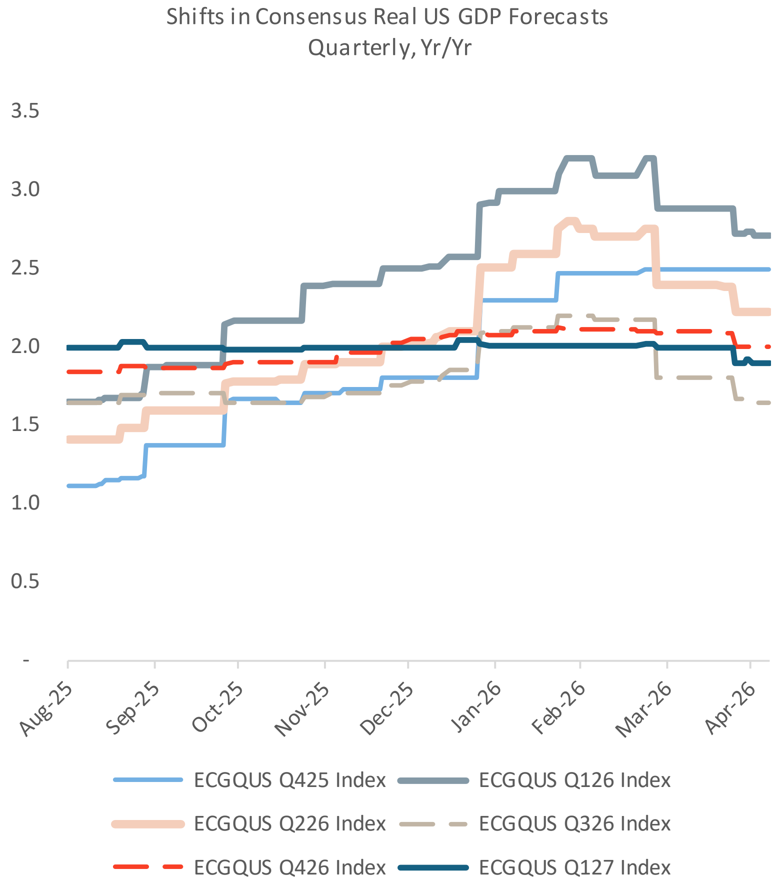
- Multi Utilities has positive EPS revisions but expensive valuations.
- Electric Utilities and Gas Utilities screen expensive with negative EPS revisions.
- Meanwhile, Independent Power and Renewable Producers and Water Utilities have negative EPS revisions but is the only industry with attractive valuations.

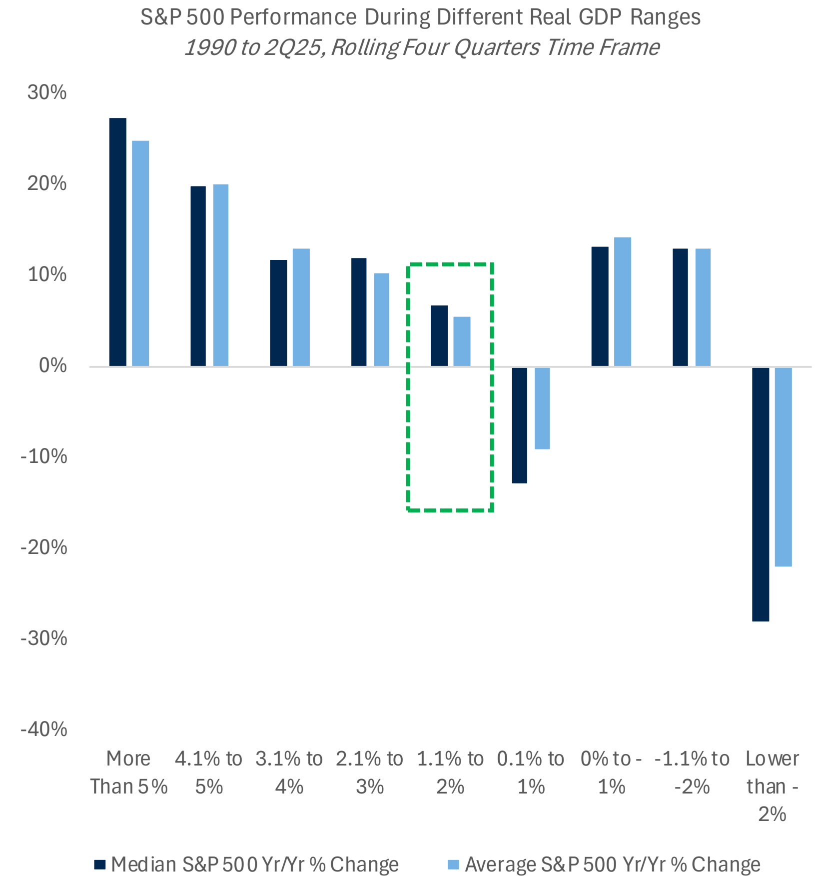


Source: RBC Equity Strategy, S&P Capital IQ / ClariFI, Russell; as of May 5, 2026

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 1.7% for 1Q27 while the street consensus is tracking at 1.9% 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.

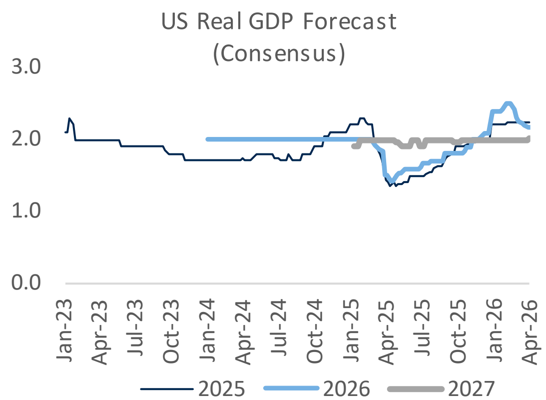


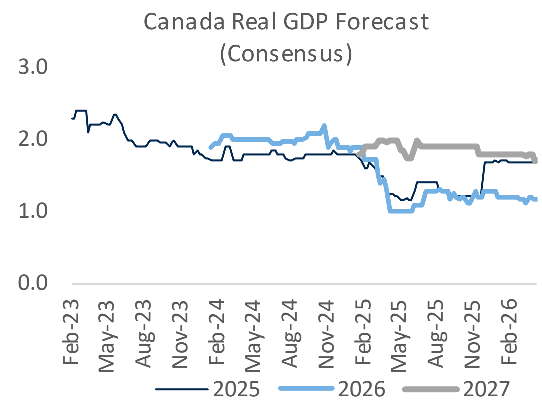


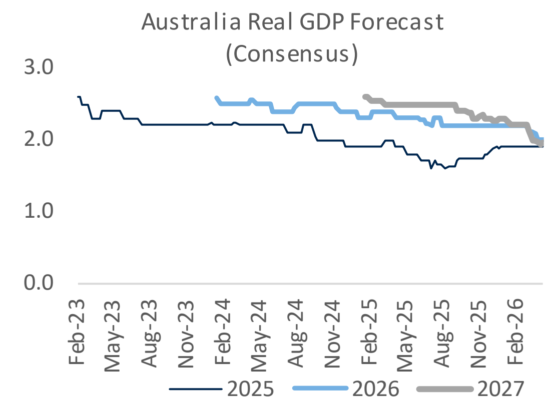
Note: The RBC US Equity Strategy team does not authorize the reproduction of its published charts and is not able to share their underlying data due to license restrictions with our vendors.
Source: RBC US Equity Strategy, Bloomberg, S&P; as of 5/6/26

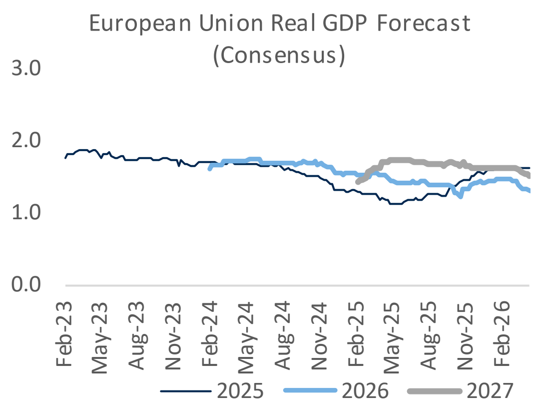
Trends in Consensus US GDP Forecasts Had Been a Bright Spot Among Global Developed Markets

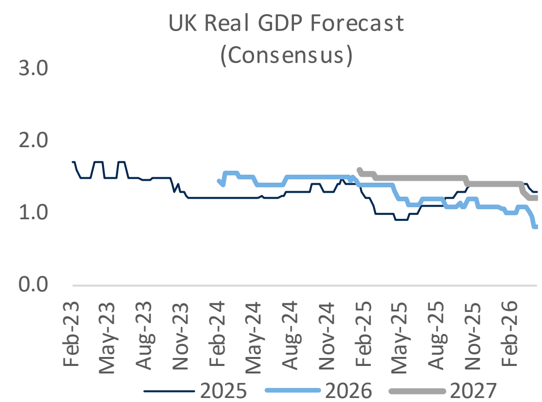
- US GDP forecasts for full-year 2026 have softened lately but remain on par with 2025's levels, which ended on strong footing. Meanwhile, 2027 expectations have been firm.
- Outside the US, we've seen some slippage in consensus GDP forecasts for 2026 for Canada, Australia, and Europe, but not the UK or Japan. 2027 consensus forecasts have been coming down in most major non-US countries that we track.
- Before the war, what had been jumping out to us about the US relative to other global developed market areas was that the US is expected to see GDP acceleration in 2026, while most other areas were expected to see deceleration. And that among the ones with acceleration anticipated, the US was the only one where 2026 numbers had also been moving up. At the moment, what jumps out to us is that the US is expected to see some deceleration in 2027 vs. 2026. Most other non-US developed markets that we track were expected to see some acceleration in 2027 vs. 2026, but those gaps are closing amid recent 2027 downgrades. We suspect these downgrades are driven by views on the Middle East and impacts from the conflict, which may reverse if peace is achieved.

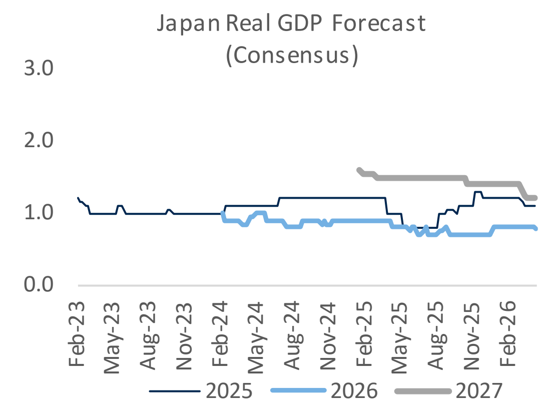






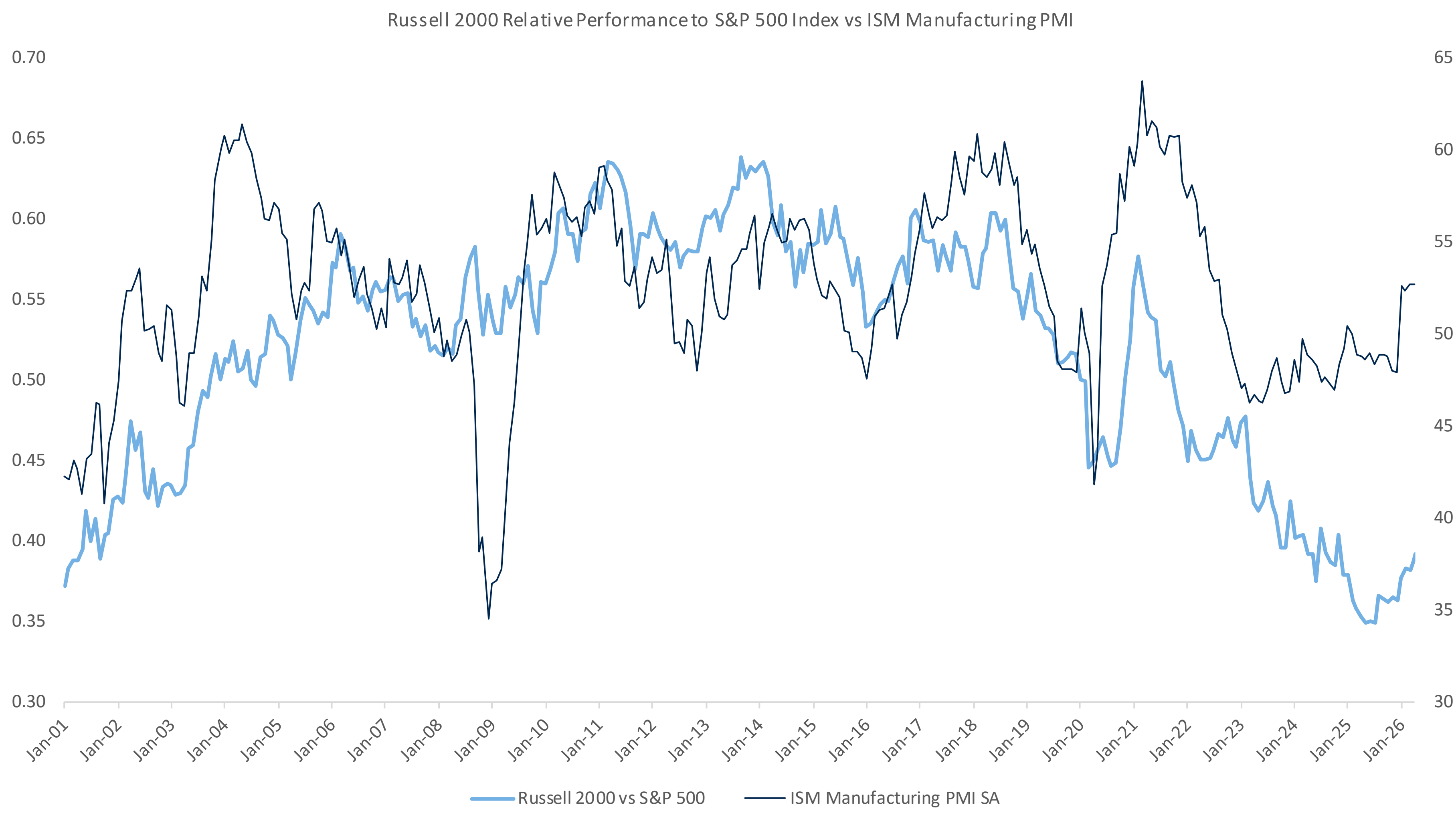






Source: RBC US Equity Strategy, Bloomberg; as of 5/1/2026; forecasts are the consensus tracked by Bloomberg

Recent Improvement in ISM Manufacturing Is Supportive of Small Caps



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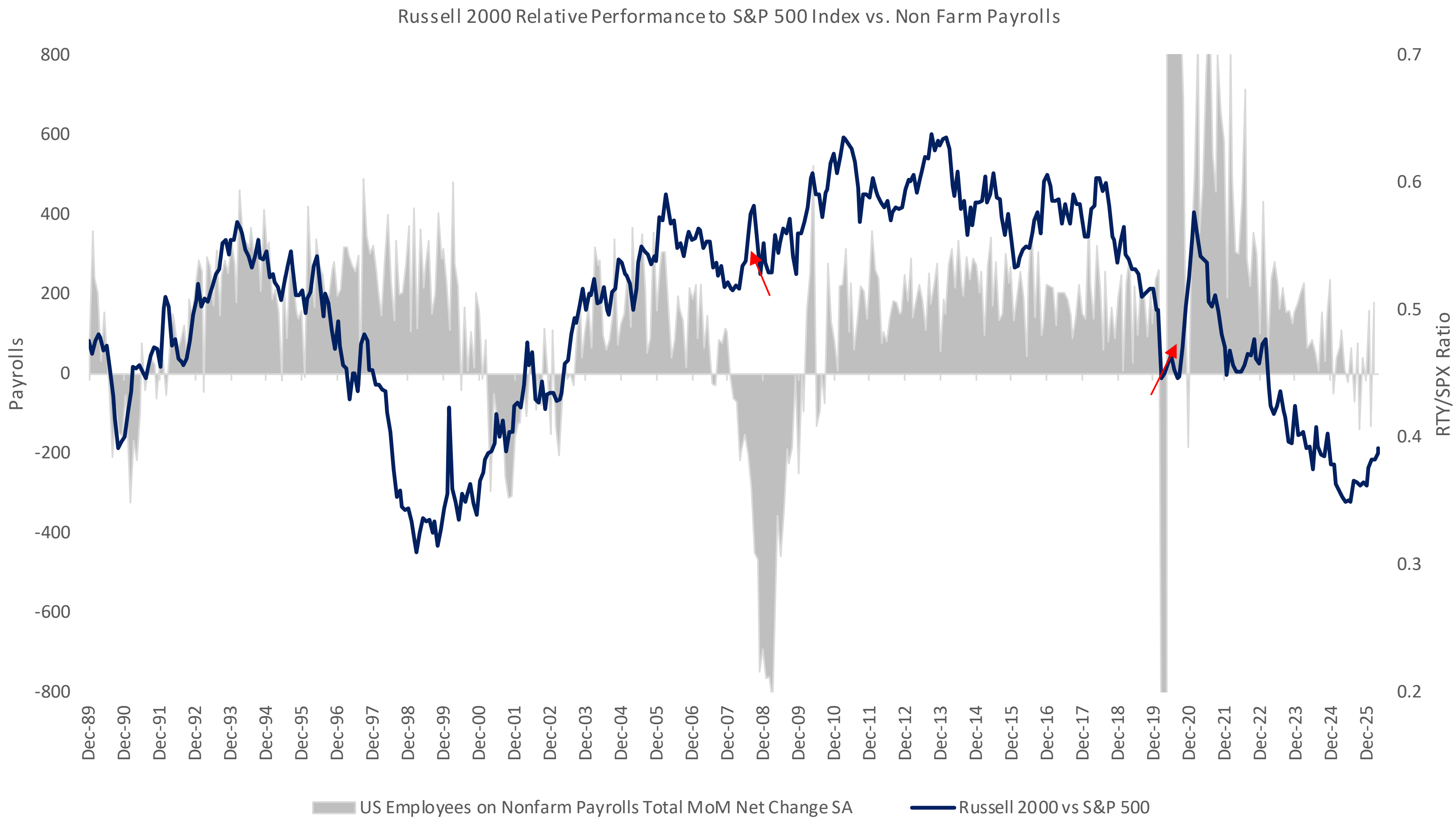
Source: RBC US Equity Strategy, Bloomberg. Russell, S&P, latest available data as of 5/5/26

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

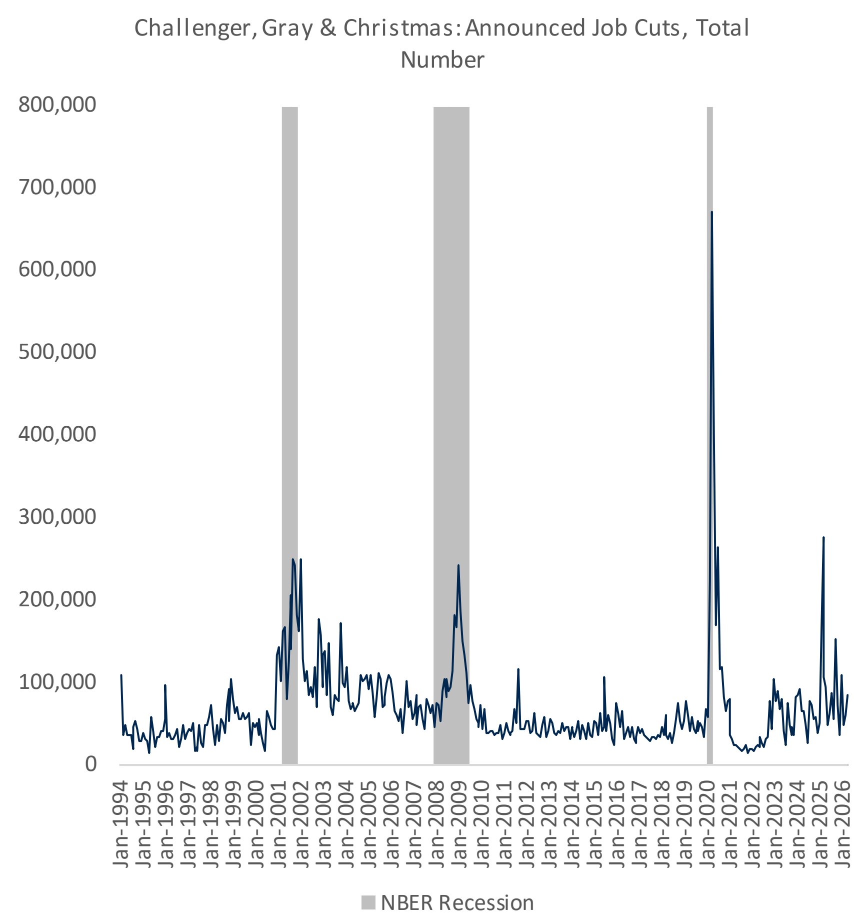
- We had been starting to see some signs of a positive jobs growth environment in the January NFP release, but this shifted abruptly in the update for February, which came out in early March. That downtick was a challenge to the positive fundamental story for Small Caps that had been unfolding. The good news for Small Caps is that trends improved again in the March NFP release, which came out in early April.
- 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 for April, 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.

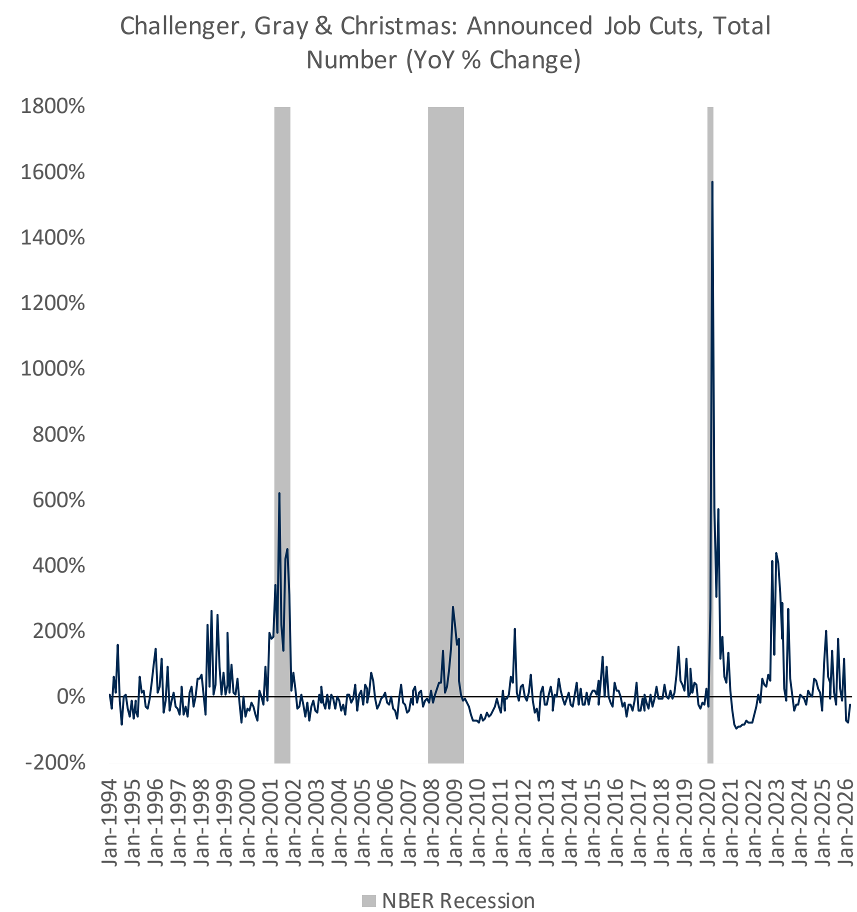


Source: RBC US Equity Strategy, Bloomberg. Russell, S&P. As of 5/6/2026.

Layoff Announcements Were Up in April, But Remain Well Below Recent Highs

- Challenger found 83,387 layoffs in April, down 21% from a year ago.

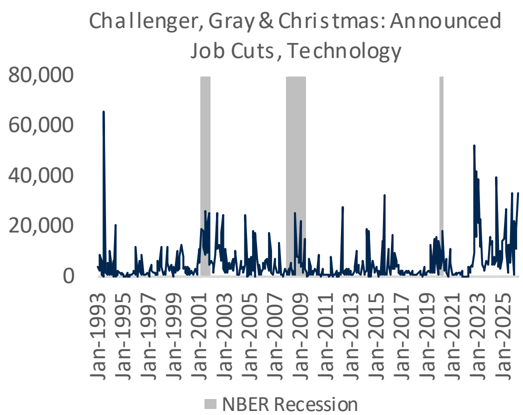


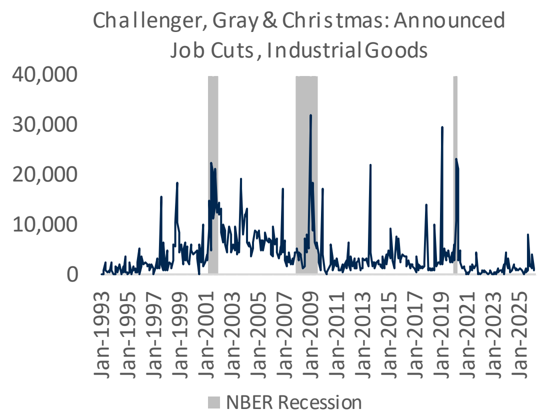


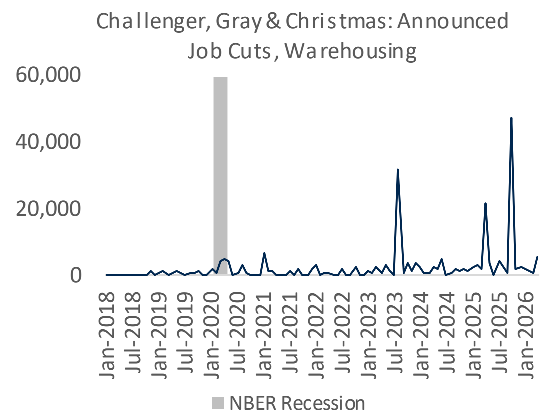
Source: RBC US Equity Strategy, Haver Analytics, all charts monthly through April 2026

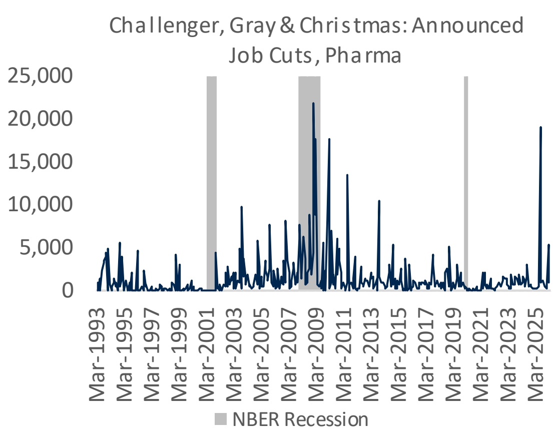
Tech Saw the Most Noteworthy Increase in Announced Job Cuts

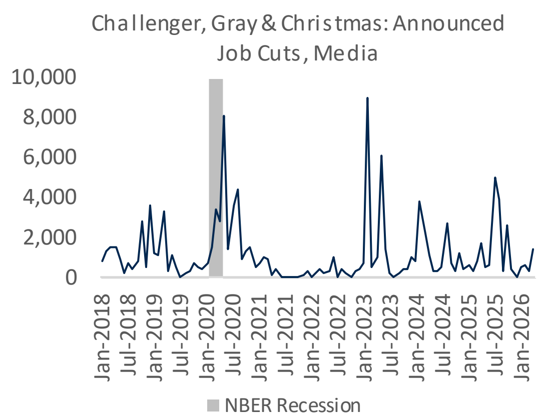
- Tech layoffs jumped for the month of April. Layoff numbers were also noteworthy in Pharma. Media and Apparel also saw an uptick in layoffs. Warehousing industries saw a small number of layoffs this month too, but Industrial Goods industries saw a drop in announced job cuts.

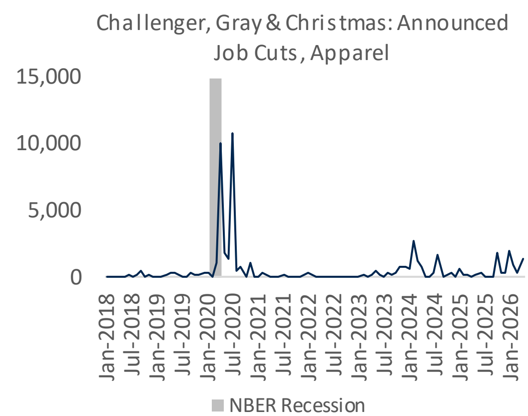












Source: RBC US Equity Strategy, Haver Analytics, all charts monthly through April 2026

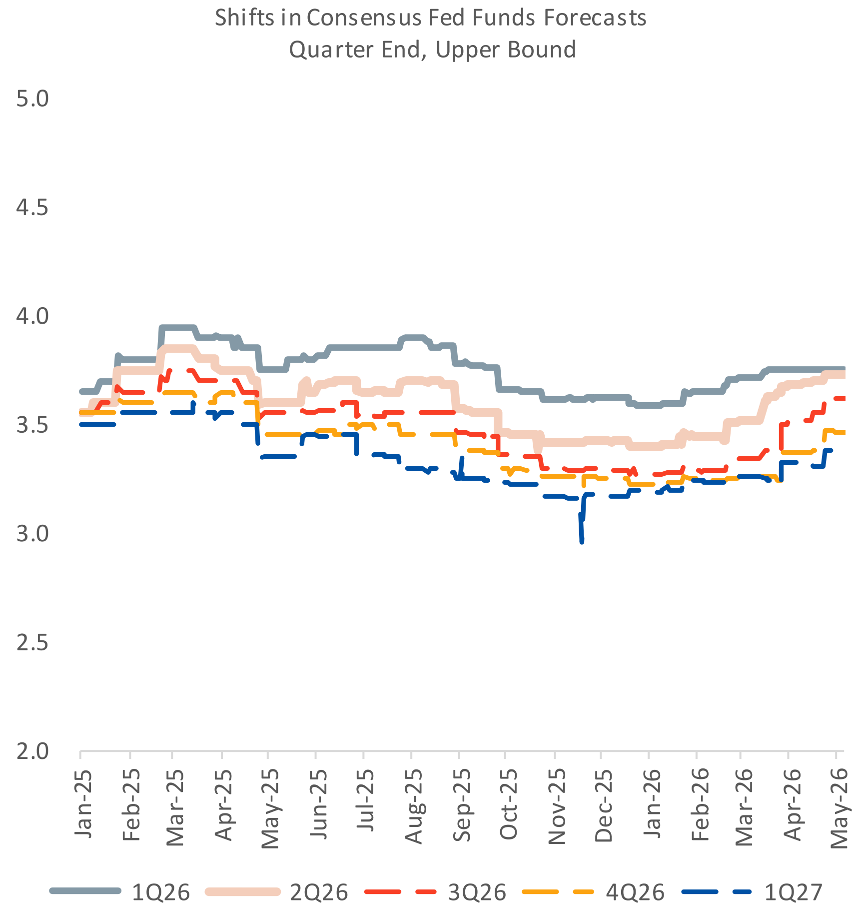
Small Caps Had Benefited from Improving Enthusiasm on the US Economy

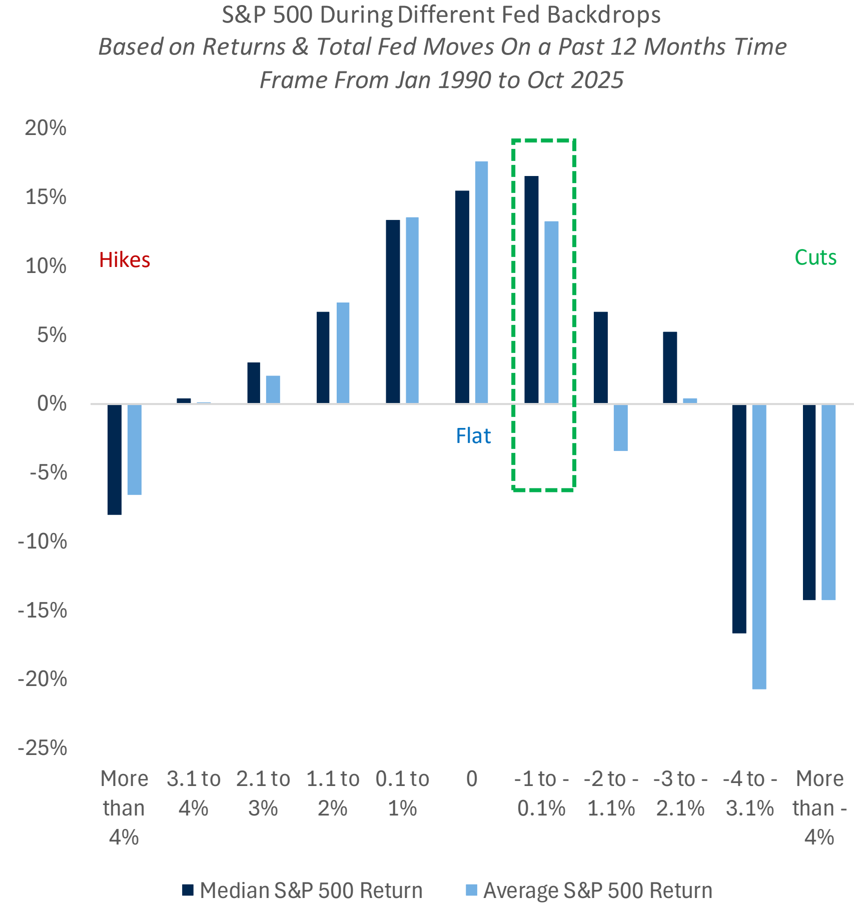
- In recent years, Russell 2000 performance relative to S&P 500 performance – our preferred way to gauge Small/Large relative performance – has been linked to shifts in GDP expectations in the US for 2025 and more recently 2026. Small has lagged as economic growth expectations cooled off.
- Late-2025 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 updates 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 5/6/26

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 does nothing or hikes modestly, returns tend to be similar. Deeper cuts 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 between one and two cuts through 1Q27. With this in mind, we are keeping 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.
- Note that if the Fed does not cut over the next 12 months, this would have a minimal impact on our S&P 500 outlook, as S&P 500 moves tend to be slightly stronger (17.7%) when the Fed does nothing in a 12-month time frame. A few hikes, while likely to upset markets in the short term, would also not be onerous to our forecast from the perspective of this model, though we do acknowledge the removal of cuts tends to generate some downside in the US equity market in the short term.





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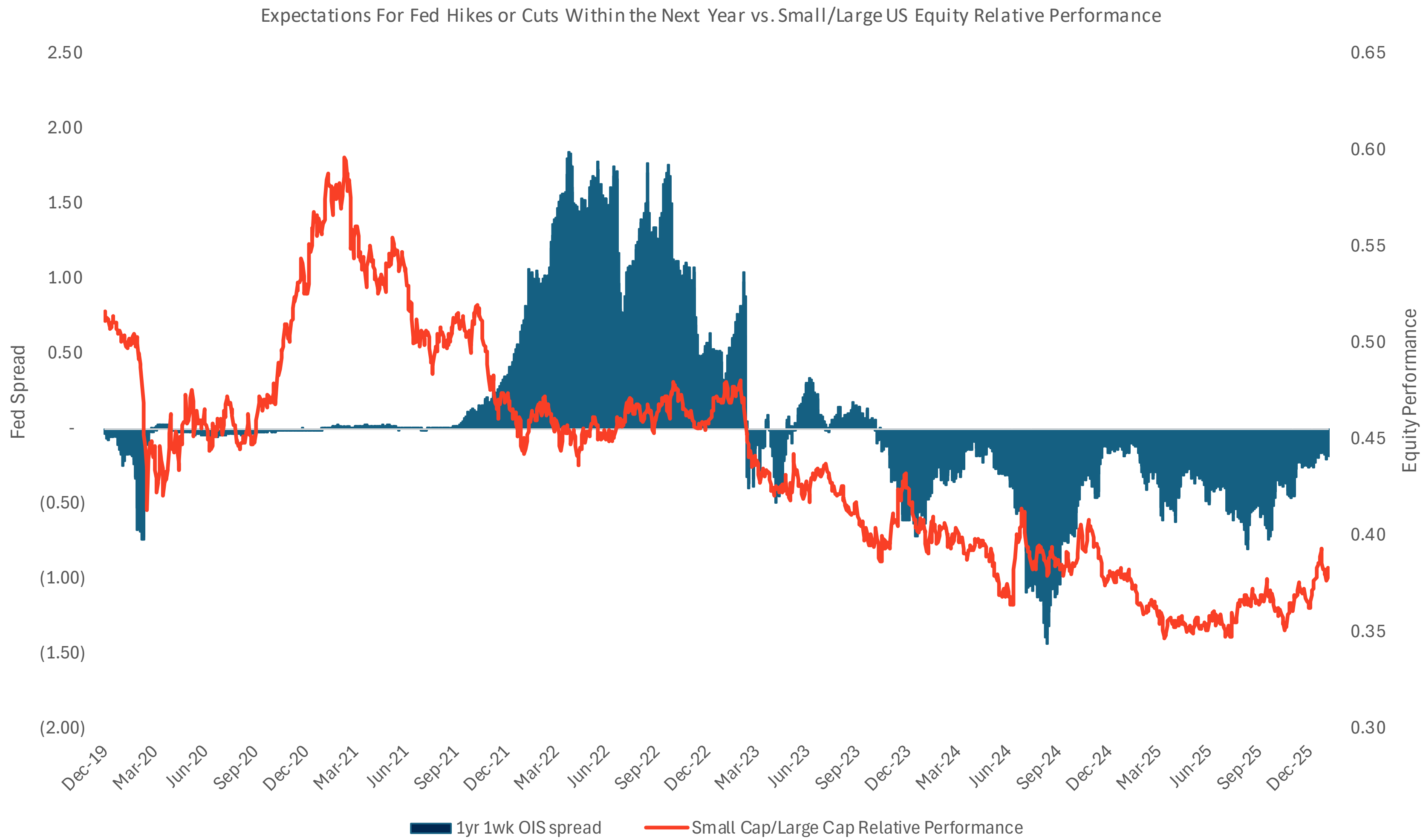
Source: RBC US Equity Strategy, Bloomberg, S&P; as of 5/6/26

The Dialing Up & Dialing Down of Fed Rate-Cut Expectations Have Driven Small Cap Relative Performance

- 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 increased expectations for Fed hikes (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.



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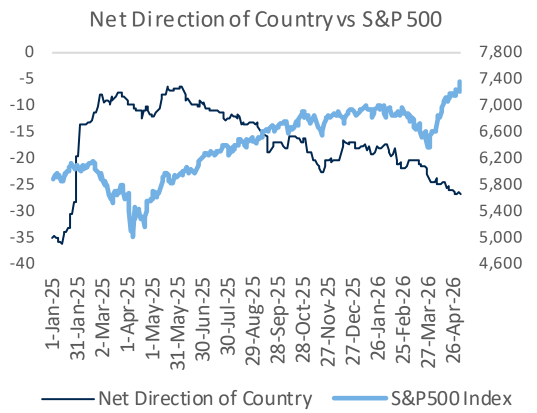
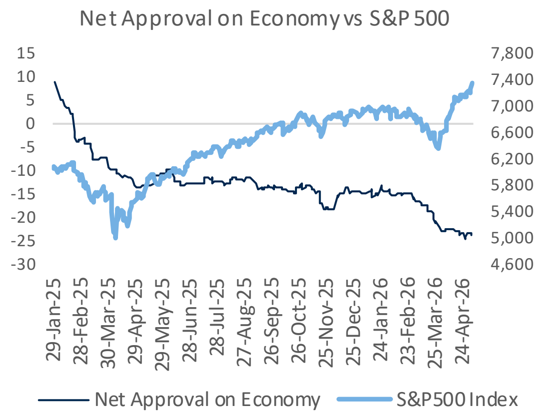
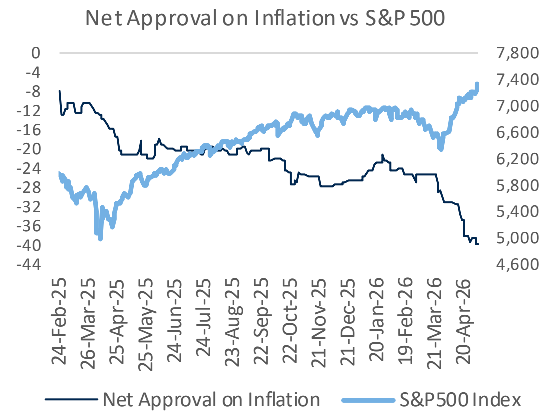
Source: RBC US Equity Strategy, Bloomberg, S&P; through May 5, 2026.

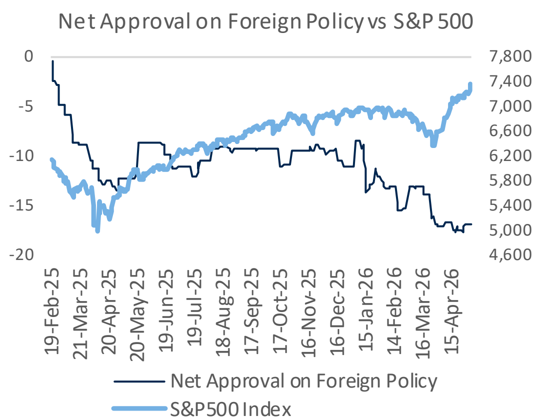
Net Approval Has Been Moving Down on Most Key Policy Issues, but Is Improving on a Few

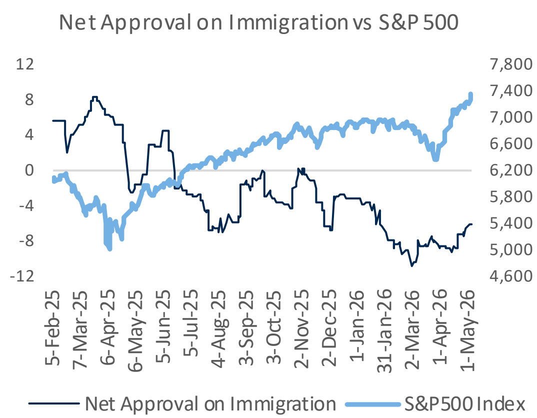
After an initial move up on the Iran strikes, trends in foreign policy have deteriorated again. Meanwhile, views on the direction of the country and inflation have also been falling – particularly the latter. Immigration views are off their lows and moving higher. Crime remains the only major issue in net positive territory and has continued to move higher.

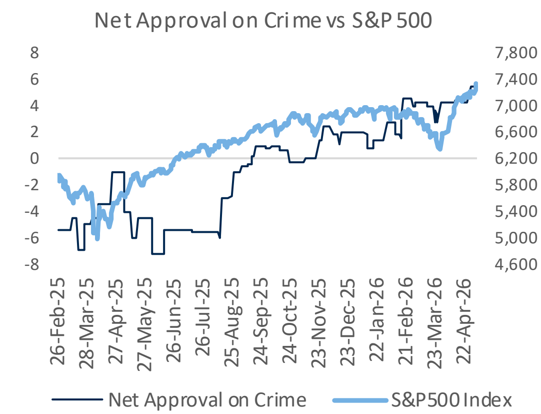












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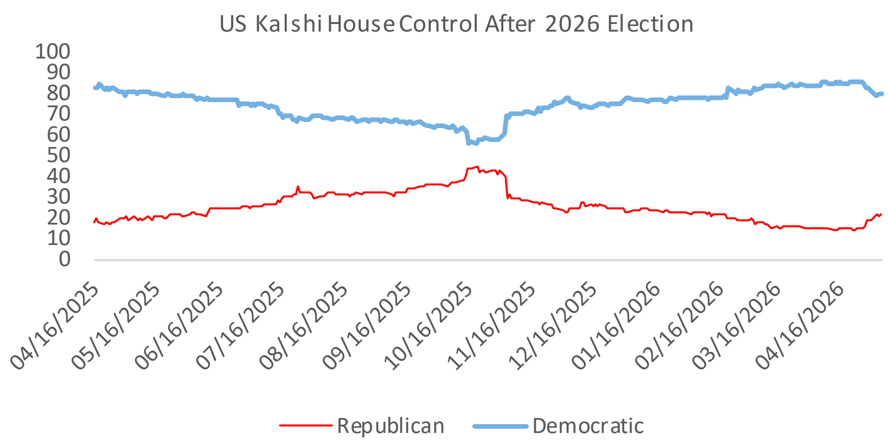
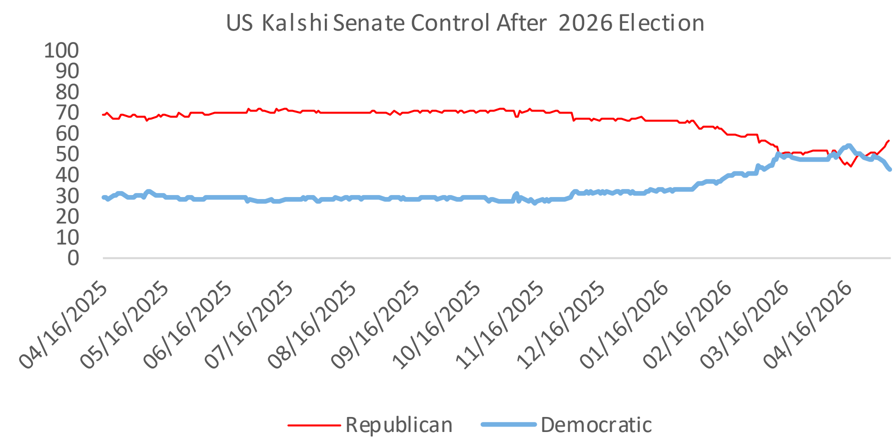
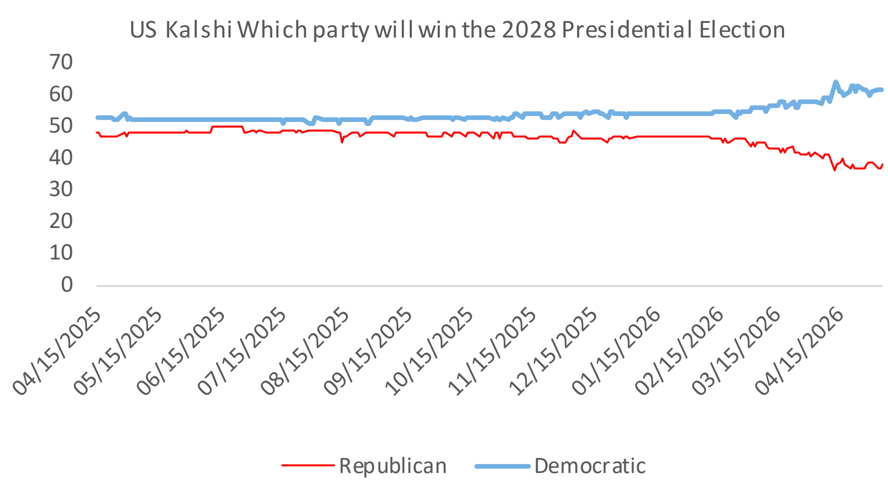
Source: RBC US Equity Strategy; Bloomberg, S&P, as of May 6, 2026

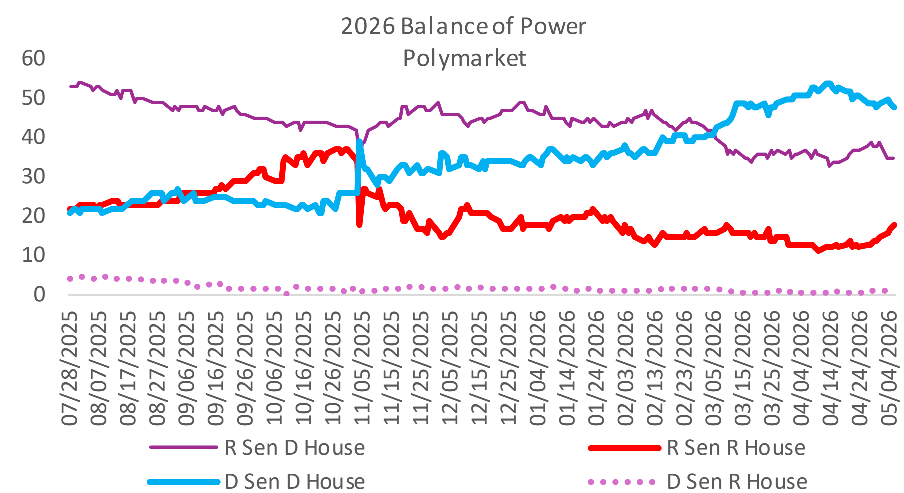
Betting Markets Are Starting to Move Back Toward Republicans for the Midterms

- Currently, betting markets anticipate Democrats will take back the House in 2026 and the White House in 2028, but we have seen expectations for Democratic control of the House erode in recent updates. Views on the Senate had been tied between the two parties, but have recently shifted back in Republicans' favor.
- 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. In recent updates, expectations around the Democratic sweep scenario have fallen, while expectations around a Republican sweep have been moving up. There has been some ebb and flow in the split Congress scenario of late. The bottom right chart indicates to us that betting markets may see further de-escalation of the war as benefiting Republicans this fall.









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Source: RBC US Equity Strategy; Bloomberg, as of May 6, 2026

Sentiment on Stocks and Trump/Congressional Republicans Has Also 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 has come with some improvement in those metrics.
- What we've noticed though, is that there's also been an improvement in anticipation of a Republican sweep scenario, making us wonder if increased expectations for that scenario may be contributing to recent strength in the US equity market.

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Source: RBC US Equity Strategy, S&P, Bloomberg; as of May 6, 2026 (SPX) and May 6 (polling/betting market)

RBC Analyst Survey – US Heat Map Using Sector Scores

In our quantitative survey questions, we asked our analysts to choose an answer that ranges in numerical value from +2 to -2. Generally, +2 is the most optimistic or constructive choice, while -2 is the most pessimistic or negative choice, and 0 represents neutral, mixed, don't know, or not applicable.

When we look specifically at our US analysts' views, several things jump out:

- **Overall views:** Our US analysts have a constructive view on performance in an Iran de-escalation scenario, valuations and, to a lesser degree, demand and the domestic policy backdrop. Our US analysts tilted negative on the performance outlook for a prolonged war and for knock-on, ongoing, lingering and ripple effects of the war.
- **Performance outlooks by US sector:** In an Iran de-escalation scenario, performance outlooks are most constructive for Financials, Tech and Consumer Discretionary. They are neutral for Utilities and tilt negative for Consumer Staples and Health Care. In a prolonged war scenario, performance outlooks are most constructive for Energy, and tilt negative on most other sectors, most notably, Consumer Staples, Consumer Discretionary and Utilities.
- **Valuation views by US sector:** Valuation assessments are constructive for most US sectors, particularly for Tech and Financials. Valuation views have a negative tilt for Consumer Staples and veer neutral for Communication Services and Utilities.
- **Demand views by US sector:** Views tilt constructive for most sectors. The main exceptions are Consumer Staples and Consumer Discretionary, which have clear negative tilts. The most constructive tilts are in place for Utilities, Tech and Energy.
- **Iran war impacts by US sector:** The most negative tilts are in place for Consumer Staples, Utilities, Consumer Discretionary and, to a lesser degree, Communication Services. Energy is a bright spot, with a constructive tilt.
- **Domestic policy backdrop by US sector:** Despite the positive overall tilt, views vary considerably by sector. There are positive tilts for Energy, Financials, Materials and, to a lesser degree, Industrials. There are negative tilts for both Consumer Staples and Health Care.

A higher number is more constructive in the table below, a lower number is generally more negative, scale of +2 to -2

US Heat Map

Region	GICS Sector	Performance / Iran De-escalation Scenario	Performance / Prolonged War Scenario	Valuations	Demand	Knock On, Ongoing, Lingering, Ripple Effects of the War	US Domestic Policy Backdrop
		Avg Score	Avg Score	Avg Score	Avg Score	Avg Score	Avg Score
US	**All Industries**	**0.49**	**-0.29**	**0.49**	**0.33**	**-0.25**	**0.27**
US	Communication Services	0.50	-0.50	0.00	0.50	-0.50	0.00
US	Consumer Discretionary	1.00	-1.14	0.14	-0.43	-1.00	0.00
US	Consumer Staples	-1.00	-2.00	-1.00	-1.00	-2.00	-1.00
US	Energy	-0.20	0.80	0.20	1.00	0.40	1.00
US	Financials	1.13	-0.50	1.25	0.63	-0.13	1.13
US	Health Care	-0.33	0.33	0.33	-0.17	0.00	-1.00
US	Industrials	0.56	-0.67	0.33	0.67	-0.22	0.33
US	Information Technology	1.00	0.00	1.00	1.00	-0.33	0.00
US	Materials	0.43	0.29	0.71	-0.14	0.00	0.57
US	Real Estate	0.50	-0.50	0.50	0.50	0.00	0.00
US	Utilities	0.00	-1.00	0.00	2.00	-1.00	0.00

Source: RBC US Equity Strategy, RBC Capital Markets; April 2026

RBC Analyst Survey – US Heat Map Using Sector Ranks

- In the table below, we re-created our US heat map for the April survey results, using rankings instead of scores.
- For each question, we ranked the sectors from most constructive – which is represented by the number 1 – to least constructive – which is represented by the number 9. Sectors with identical scores for a question were given the same ranking.
- We think this makes the takeaways from the survey a bit more clear.
- Financials, for example, comes in first place on three questions and in the top five on all questions.
- Meanwhile, Consumer Staples comes in the bottom half for all questions, and with a rank of 8 or 9 for all but one. Discretionary and Utilities also rank low on most questions, while Energy and Tech rank high on most.

US Sector Rankings

Region	GICS Sector	Performance / Iran De-escalation Scenario	Performance / Prolonged War Scenario	Valuations	Demand	Knock On, Ongoing, Lingering, Ripple Effects of the War	US Domestic Policy Backdrop	*Average Rank*
US	Communication Services	4	5	8	5	6	5	6
US	Consumer Discretionary	2	8	7	8	7	5	6
US	Consumer Staples	9	9	9	9	8	6	8
US	Energy	7	1	6	2	1	2	3
US	Financials	1	5	1	4	3	1	3
US	Health Care	8	2	5	7	2	6	5
US	Industrials	3	6	5	3	4	4	4
US	Information Technology	2	4	2	2	5	5	3
US	Materials	5	3	3	6	2	3	4
US	Real Estate	4	5	4	5	2	5	4
US	Utilities	6	7	8	1	7	5	6

Source: RBC US Equity Strategy, RBC Capital Markets; April 2026

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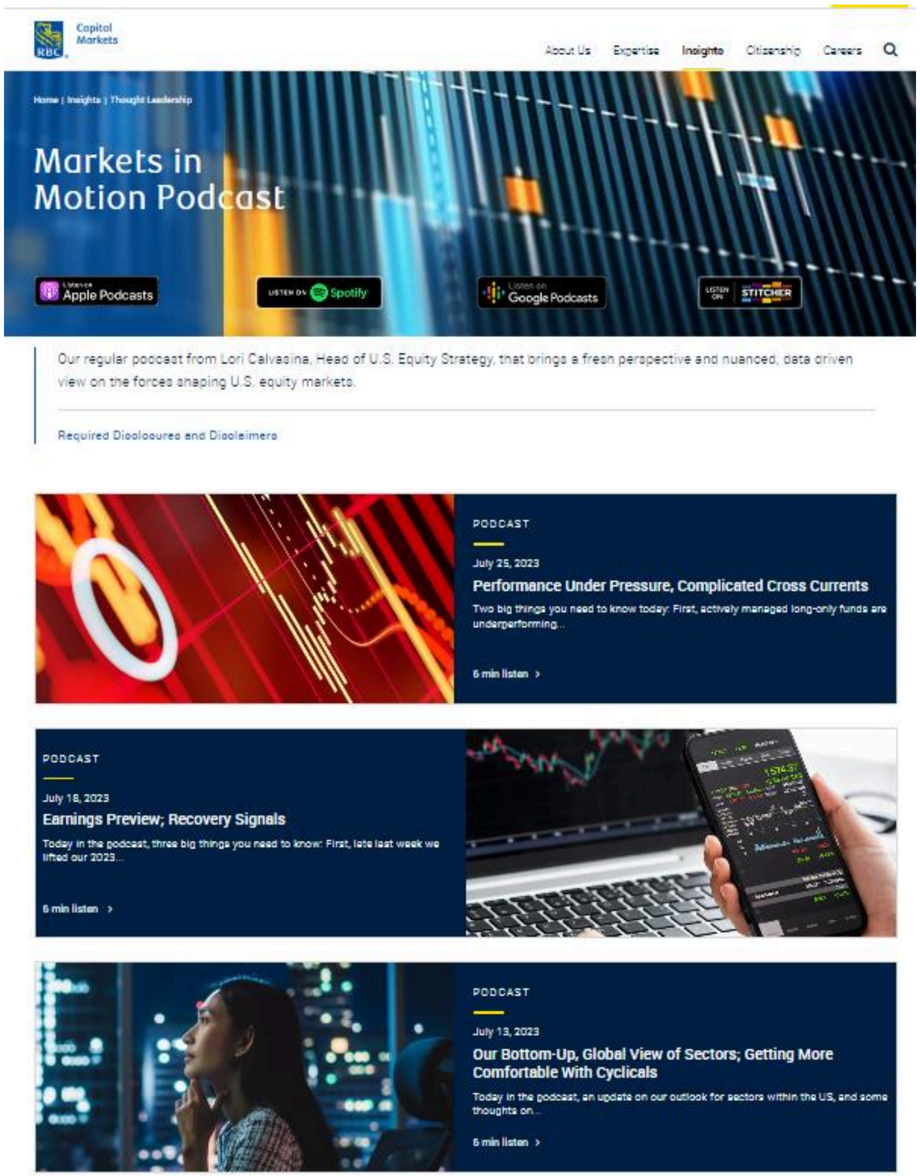

- RBC's *Markets in Motion* podcast is the weekly podcast from Lori Calvasina, Head of US Equity Strategy at RBC Capital Markets, highlighting her latest views on the US equity market in 5–8 minutes.
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