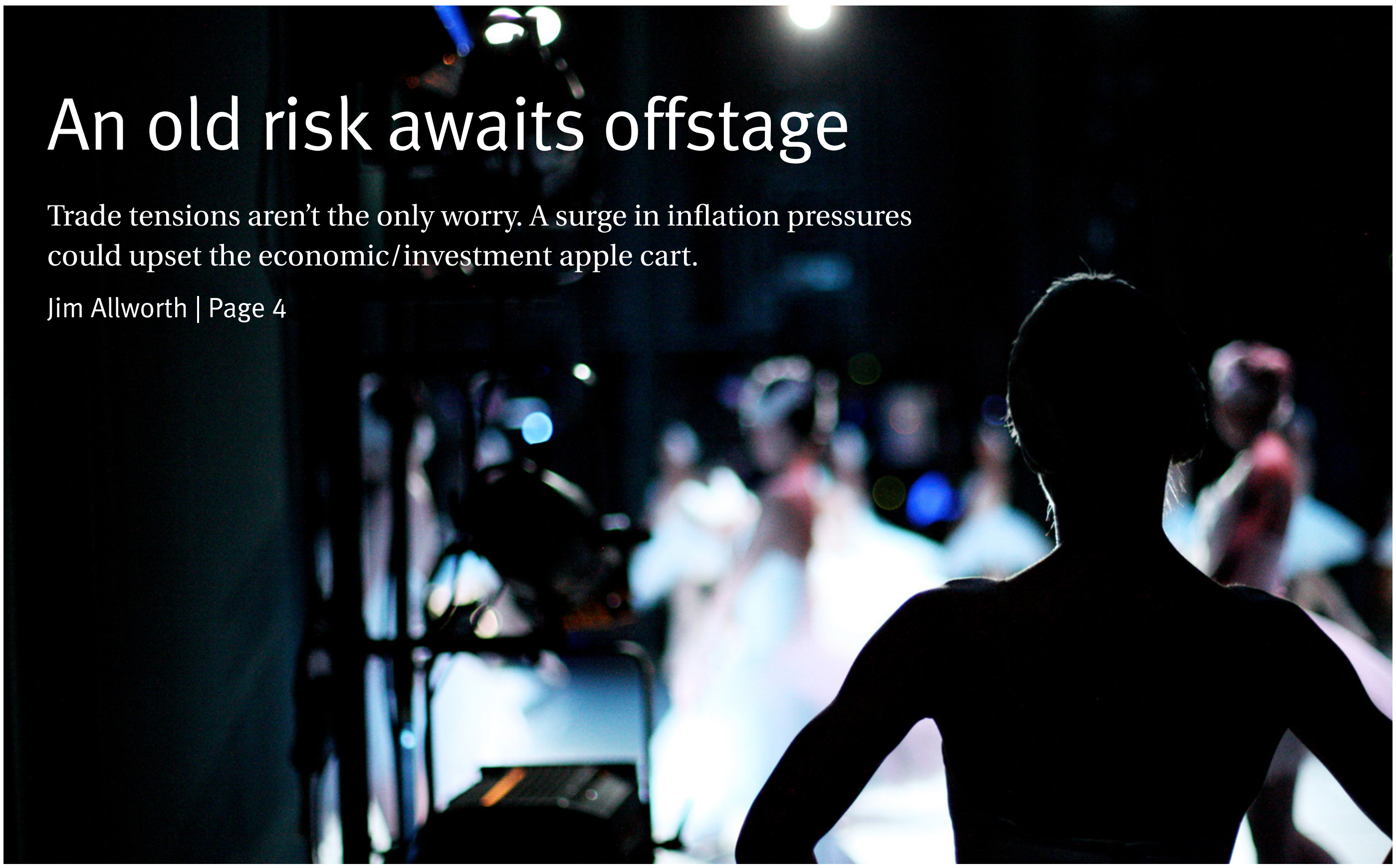
April 2018

RBC WEALTH MANAGEMENT

Global Insight

Perspectives from the Global Portfolio Advisory Committee



An old risk awaits offstage

Trade tensions aren't the only worry. A surge in inflation pressures could upset the economic/investment apple cart.

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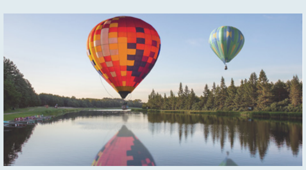
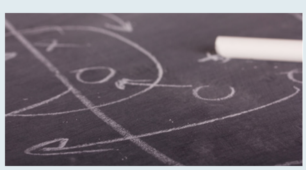


Focus article
Inflation insulation



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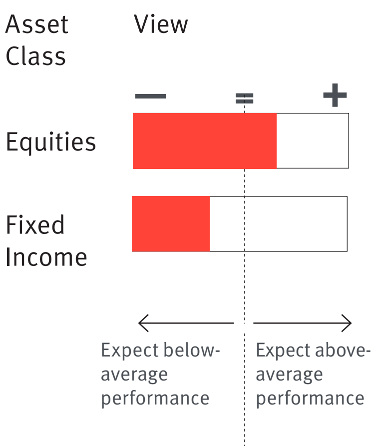

See "Views explanation" below for details

Source - RBC Wealth Management

Equities

- The global equity correction persisted in March as concerns about the U.S. administration's protectionist policies, particularly with regard to China, came to the fore. Equities could remain vulnerable to further headline risk and volatility around trade and tariff disputes.
- Meanwhile, the global economy is enjoying solid growth in North America, Asia, and Europe. This broad expansion should continue despite some easing in European momentum. All major economies should deliver growth for the next 12 months, at least. We maintain a modest Overweight position in global equities and a Market Weight allocation to the U.S. While the correction may have further to run, we expect new highs and a resumption of the long-term bull market later in the year.

Fixed Income

- Federal Reserve Chair Jay Powell's first meeting went off without a hitch, with a rate hike as expected and continued guidance toward a total of three hikes this year. He also noted that he isn't concerned about surging price pressures, which helped to further calm some of the early-year fears of rampant price pressures. In the near term, the Bank of England is likely the next to act where, despite inflation easing, hawkish policymakers appear determined to push through a rate hike in May.
- Flat yield curves will continue to pose challenges for investors and play into our curve positioning recommendations. Higher overall yields have increased interest in corporate credit, but we advise investors to temper their enthusiasm and stay selective as credit spreads overall are still tight, leaving us Underweight fixed income.

Views explanation

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

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

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

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

Focus article

An old risk waits offstage

There are more than trade tensions to worry about. A surge in price pressures—not in anyone's forecast, including our own or the Fed's—could upset the economic/investment apple cart. Two conditions that could push inflation uncomfortably higher are present simultaneously for the first time in a decade. Lean against developing inflation risks.

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Leaving politics and potential trade wars aside for the moment, an eerie calm has descended on the economic and investment backdrop:

- All the developed economies are growing at solid, if unspectacular rates, as is China and much of Asia. Russia and Brazil have pulled out of deep downturns.
- Purchasing Managers' Indexes (measures of economic activity) are at elevated levels pretty well everywhere, except perhaps China. Forward-looking indicators suggest industrial output will continue to grow.
- Unemployment rates continue to fall everywhere. Businesses in the U.S., Canada, and Japan cite difficulty in attracting and retaining qualified employees as a challenging business constraint. Wages are growing and consumers are confident.
- Corporate profits are strong, while upbeat management guidance points to continued growth in revenues and earnings through 2019.
- Central banks remain mostly accommodative, while commercial banks are out looking for creditworthy businesses and individuals to whom to lend.

What could disturb this happy, constructive equilibrium? In our view, something that is least expected—a sustained surge in inflation rates—would substantially worsen the global economic and investment outlook.

Possible change of trend

Source - RBC Wealth Management, U.S. Federal Reserve; data through Feb. 2018

An inflation surprise would push interest rates higher and alter the outlook for stocks, in our opinion.

On the policy front, this would force central banks to tighten faster than currently planned. Most central banks in the developed economies have a core inflation target of 2.0%. In all those countries inflation has been gradually picking up but remains below that threshold. After trying to avoid slipping into deflation for several years, most central bankers would breathe a sigh of relief if inflation were to move back up into a more "normal" zone.

But if it looked like inflation was headed toward 3%, asset markets might not wait for the Federal Reserve or the European Central Bank to make up their minds. The ultralow bond yields of the past several years have persisted because of the consistently low rate of inflation as well as the assurances of monetary policymakers that any move to "normalise" monetary conditions would be undertaken gradually and patiently. Unexpectedly strong inflation rates would call both presumptions into question.

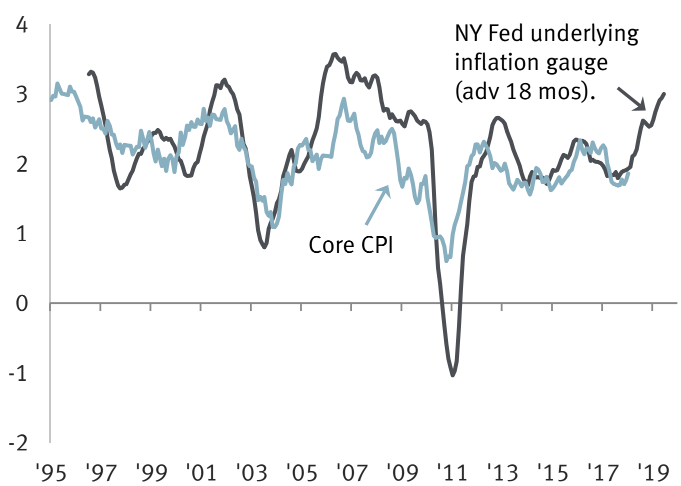
Bond investors typically demand a coupon rate well above the prevailing rate of inflation to protect against higher-than-expected inflation over the life of the bond. Conviction that inflation rates were going to stay low has persuaded bond investors in recent years to accept an unusually low cushion of such protection. Upsetting the apple cart of inflation expectations, were it to occur, might result in bond yields moving up by more than just the increase in the inflation rate.

Equity prices, for their part, would probably undergo some recalibration too. Rising corporate bond yields often act to bring price-to-earnings (P/E) multiples down, while a faster pace of monetary tightening raises risks of recession, bringing closer the prospect of an eventual decline in corporate profits and an accompanying bear market for equities.

Are there reasons to be concerned?

Let us say right here that a damaging surge in inflation is not in our forecasts for any of the developed economies or the emerging economies. We are looking for moderately higher inflation in 2018, with a little more to come in 2019.

Indications of higher inflation to come



History suggests the inflation rate should be moving higher this year and next.

Source - RBC Wealth Management, U.S. Federal Reserve Bank of New York

That said, there is at least one leading indicator that leaves open the possibility this year's widely expected gradual increase in inflation rates could be somewhat greater than forecast, with possibly more to come in 2019. The Underlying Inflation Gauge (UIG) published monthly and calculated by the New York Federal Reserve (see chart on previous page) has done a good job of flagging changes in the rate of growth of the core Consumer Price Index in the U.S. 18 months or so ahead of time. The UIG has been in an uptrend for 22 months, suggesting the inflation rate should be moving higher through this year and well into next.

Pre-conditions for higher inflation are present.

Two factors looked at together also suggest there is a risk of underestimating inflation over the next couple of years. The old monetarist dictum states inflation is the result of "too much money chasing too few goods." Arguably there is too much money and has been ever since central banks adopted aggressively accommodative policies in the wake of the Great Recession. In the intervening nine years money supply in the biggest economies has grown appreciably faster than GDP.

Too much money

Since Q3 2008	U.S.	Eurozone	Japan
Growth in GDP	33.1%	17.5%	6.3%
Growth in money supply	76.3%	42.8%	34.4%

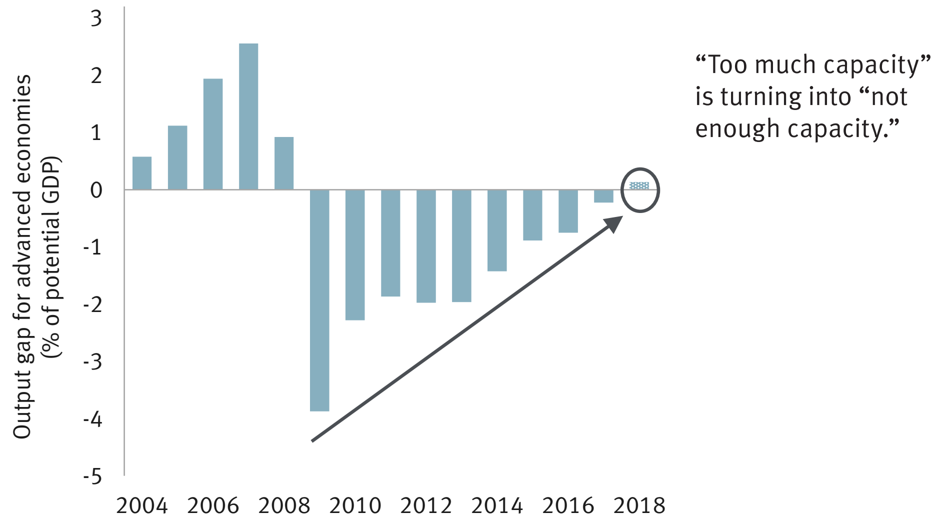
Money supply growth has outstripped GDP growth.

Source - RBC Wealth Management, U.S. Federal Reserve

This rapid growth of money supply concerned many observers who expected an inevitably damaging bout of inflation. But that excessive inflation never arrived. Just the opposite: deflation has been a preoccupying worry of central banks until very recently. One explanation has it that the "too few goods" part has been missing. There has been a great deal of excess capacity available in the developed economies even as China and much of emerging Asia were adding substantial new productive capability. This has kept prices of many goods subdued or even declining despite the growth in the money supply.

But today, fixed asset investment in China has slowed considerably while the government actively tries to shutter excess capacity in several basic industries. Meanwhile, the so-called "output gap" has closed in the developed world, with "excess capacity" turning into "not enough capacity" in several countries, including the U.S. (see chart on following page). So, one has to acknowledge the combined conditions of *too much money chasing too few goods* may be increasingly operative over the next couple of years and for the first time in a decade.

Economic slack finally gone in the developed world



Note: International Monetary Fund (IMF) estimate for 2018
Source - IMF, Haver Analytics, RBC Global Asset Management

Lean against risk

We think the appropriate stance for most investors is one that leans against developing inflation risks. We were already forecasting some increased inflation for the coming year. It's noteworthy that the Fed has recently pushed its own core inflation target to 2.1% for 2019, above its long-term target of 2.0% for the first time in years. Both our forecast and the Fed's fall a long way short of a damaging surge in price pressures.

We think the appropriate stance for most investors is one that leans against developing inflation risks.

That said, higher inflation than anyone is expecting would pose a significant risk to an investment portfolio. In a world where the output gap is in danger of closing for the first time in a decade and where there will continue to be excess money sitting in global bank accounts for some time to come, there is a greater probability that inflation expectations could undergo an upward shift that markets have not yet factored in.

Such a shift would hold ramifications for:

- The pace and eventual extent of central bank tightening;
- The spread between market interest rates and the inflation rate;
- The spread between corporate bond yields and government yields;
- The valuation (P/E ratio) of the equity markets; and
- The appropriate sector composition of equity portfolios.

We have set out some thoughts on how to consider the potential impact of these developing risks within investment portfolios in the articles that follow.

Focus article

Inflation insulation

Summer 2017's deflation scare is now just a memory, with an unexpected pickup in wage growth and consumer price inflation to start 2018 fueling a resurgence in inflation concerns. Add in the potential impact from trade tariffs and fiscal stimulus, and the result is an economic environment that could pose challenges to fixed income investors.

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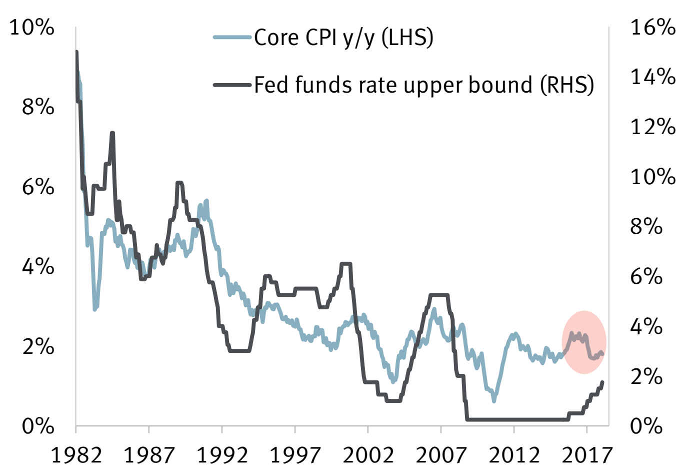
We acknowledge that inflation may rise toward or even above the Federal Reserve's 2% target, and that there are upside risks from a weak U.S. dollar and trade flows. However, we are not yet convinced the post-recession low inflation trend has completely passed.

We believe investors should continue to prepare for an inflationary environment that is low relative to longer-term historical norms, but we explore strategies that will permit investors to be nimble enough to pivot should inflation start to exceed the market's current expectations.

Fed gains confidence

As the chart shows, the Fed typically starts hiking rates at the first signs of an upswing in inflation and continues hiking until inflation peaks.

Fed typically quick to stamp out inflation pressures



This cycle, the Fed has taken a different approach of hiking rates even in a period of low/declining inflation.

Source - RBC Wealth Management, Bloomberg; data through 3/30/18

This time, the Fed actually *accelerated* its pace of rate hikes even as inflation waned in 2017. One interpretation is that the Fed has adopted a more proactive approach to combating inflation than in prior cycles. However, we would note the Fed has frequently characterized the very deliberate rate hiking of the past couple years in terms of "normalizing" monetary policy as it left behind the unprecedented "zero interest rate policy" that persisted for eight years beyond the financial crisis.

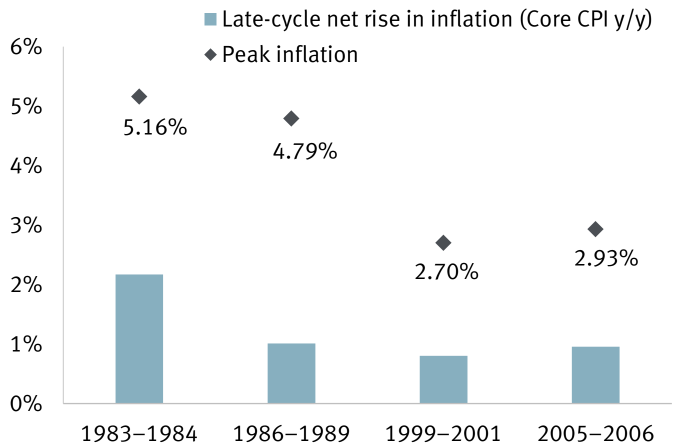
Inflation insulation

With consensus expecting three rate hikes in 2018, we believe the Fed should be able to keep a soft lid on inflation pressures.

With consensus expecting three rate hikes in 2018, we believe the Fed should be able to keep a soft lid on inflation pressures.

Despite growth prospects in the U.S. and other developed economies accelerating, we believe we are still operating under a lower-growth, low-rate regime compared to historical norms. And this lower trend growth has, over time, mitigated the impact of late-cycle inflation accelerations (see chart), and we believe this could occur again in the current cycle.

Falling rates have put downward pressure on late-cycle inflation peaks



Source - RBC Wealth Management, Bloomberg

Lower trend growth has, over time, mitigated the impact of late-cycle inflation.

In short, while we could see a pickup in inflation from current levels, we think the magnitude is likely to be smaller than what has been seen in the past.

Even within this view, however, we believe it is important to consider various outcomes in managing portfolios as inflation pressures could build more than markets appear to be expecting over the near term.

Portfolio positioning

Periods of rising inflation can erode fixed income returns on two fronts, with the first being a decline in purchasing power. As consumer prices rise, investors are unable to purchase the same quantity of goods and services with each coupon payment.

Second, inflation expectations are a large component of bond yields, and increasingly so as investors move farther out on the yield curve. Rising inflation expectations can drive bond prices down in anticipation of diminished purchasing power and higher required borrowing costs for the issuer in the future.

If it looks as if inflation is set to rise materially in the near future, there are a few ways to arm a portfolio to better withstand such an environment.

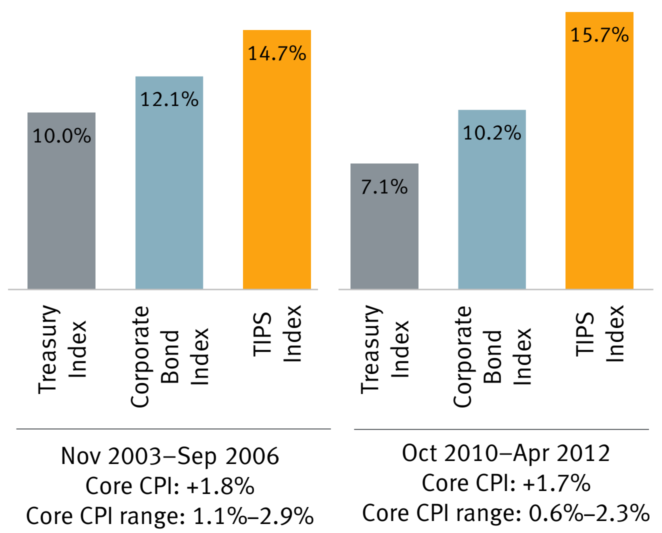
Rising inflation scenario

If it looks as if inflation is set to rise materially in the near future, there are a few ways to arm a portfolio to better withstand such an environment—including increasing allocations to inflation-protected securities and shortening portfolio duration through floating-rate fixed income instruments.

Investment strategies

- **Treasury Inflation-Protected Securities (TIPS):** We believe TIPS is the most obvious asset class for investors concerned about inflation. TIPS address inflation head-on with direct revisions to their par value based on changes in a measure of the Consumer Price Index (CPI), which offers higher coupon payments on the inflation-adjusted principal in the event inflation is rising. TIPS carry the full faith and credit guarantee of the U.S. government, but investors should be conscious that TIPS carry interest rate risk despite its inflation protection. For example, if interest rates were to rise by more than the increase in the inflation rate, the investor would not be protected.

TIPS outperform in a rising inflation environment



Source - RBC Wealth Management, Bloomberg

TIPS is the most obvious asset class for investors concerned about inflation.

- **Floating rate bonds:** Most floating rate coupons are tied to short-term interest rates and are issued by large financial institutions. In a rising rate environment, interest rate adjustments should keep prices close to par at each reset date, limiting total returns, but floating rate bonds offer a short-duration investment that has limited interest rate risk.
- **Securitized bank loans:** For investors willing to accept credit risk in exchange for protection from inflation and higher rates, securitized bank loans are worth considering. Bank loans can be viewed as an alternative to high-yield bonds, with exposure to senior lien loans tied to short-term interest rates. In an inflationary environment with the Fed moving to tighten lending conditions, coupon income on the loans increase and act as a hedge against those interest rate movements.

Inflation insulation

Low inflation scenario

Our U.S. fixed income team's base case has inflation remaining fairly muted for the foreseeable future, with no move significantly beyond the Fed's 2% target. In this scenario, we believe there are opportunities to take advantage of the multi-year highs in bond yields and lock in higher coupons with intermediate- to long-duration bonds.

Investment strategies

- **Intermediate-term investment-grade corporate credit:** Rising bond yields over the past seven months have created the most attractive entry points in corporate credit in the past five years, and, in our view, investors should target a duration between 7 and 10 years. We believe intermediate-term bond prices would be supported by the fairly subdued inflation outlook.
- **Preferred shares:** Currently the U.S. fixed income team's favorite sector in fixed income, preferred shares are trading near the cheapest levels in the past five years. We often view preferred shares as an alternative to high-yield bonds for investors looking to pick up additional portfolio yield, in a trade-off between interest rate risk and credit risk. In low inflation environments, this sector is likely to outperform.
- **Long-term municipal bonds:** Value in the municipal bond market is largely contingent upon the yield comparisons to the Treasury market, and going further out on the municipal yield curve offers increasingly attractive entry points. We think investors should extend out to the 15- to 20-year section of the yield curve, which captures nearly 95% of the maximum yield available on the Bloomberg Barclays AAA Municipal Bond Index.

With inflation's likely return in some degree or another, investors should be proactive in adding some protection.

"Waiting" is not a strategy

Investors are challenged in the current market environment to make prudent investment decisions, but unfortunately the noise surrounding inflation and interest rates causes many to do nothing. It is our view that there is a cost to waiting, and with inflation's likely return in some degree or another, investors should be proactive in adding some protection.

Focus article

An equity playbook for rising rates

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The prospect of moderately higher inflation and interest rates puts different sectors in the spotlight. Financials do well in such periods, Utilities do not. Among other favored sectors, we have found two in particular for which the time may be right.

Our forecast has U.S. inflation rising moderately this year to or above the Fed's long-term target of 2%, with more of the same expected for 2019. There is a possibility that the pace of inflation in both years could be somewhat brisker than our forecast (see "An old risk waits offstage" on page 4).

In our view, this is not a question of revisiting the rip-roaring '70s or '80s, when inflation rates were often in the high single digits, if not higher. Rather, we see it as leaving behind the ultralow inflation of 1%–2%, and accompanying fears of deflation, of the past several years to arrive at today, where expectations are for sustained GDP growth with inflation running in the 2.0%–2.5% range, or perhaps somewhat higher. We believe this emerging new plateau in inflation has not yet been fully factored into financial markets.

The most certain outcome of any move higher in the inflation rate would be some accompanying increase in interest rates. From the perspective of an equity investor the pertinent question should be: "How do we want to position our equity portfolio in order to benefit from the prospect of higher inflation and interest rates?"

To answer this question, we reviewed the last 27 years to examine what happens in the equity market during periods of rising 10-year bond yields—a by-product of rising inflation. We looked at the data by quarter and identified 10 periods when bond yields climbed 59 basis points or more.

The best and the worst

Our analysis found two sectors where the business dynamics make changes in inflation and interest rates particularly important.

The first is Financials, especially banks. Rising interest rates are usually very good for bank profits. Interest costs on customer deposits rise slowly because demand deposits typically are paid nothing or very little, while term deposits and CDs are paid a fixed rate over a fixed term. So the total interest bill on a bank's deposit base rises more slowly than posted deposit rates as a large proportion of deposits gradually matures and rolls over into the higher rate. By contrast, the interest rate on most bank loans floats higher with the prime rate almost instantly.

On average, Financials has been the best-performing sector in the periods of rising interest rates we looked at.

Banks also benefit from higher loan activity that comes with the stronger economy that has produced the higher inflation and interest rates. The resulting wider bank profit margins produce higher earnings and the prospect of higher dividends.

On average, Financials has been the best-performing sector in the periods of rising interest rates we looked at.

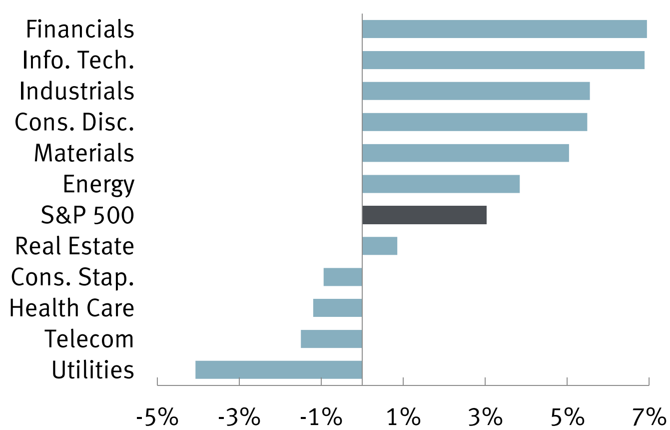
Just as consistently, the Utilities sector has been the worst performer. In periods of rising inflation, utilities' fuel and operating costs can rise quickly, while the rates they are able to charge customers usually rise more slowly, often held back by the regulatory process. Squeezed profit margins constrain dividend increases, especially since many utilities are already paying out an above-average proportion of their earnings.

Rising yields make bonds, with their comparative certainty of payout and promised repayment of principal, look more and more competitive against utility shares where dividend increases look to be on hold. Broadly speaking, sectors that had higher dividend payouts on average underperformed, according to our analysis.

Here are some of the other sectors of note. Technology was surprisingly strong with positive returns in every period of rising yields, the only sector to achieve this result. Many of the largest Tech stocks have very low levels of debt in their capital structure and trade much more on their growth prospects than their dividends, if they pay one at all.

In addition to Technology and Financials, we found Materials, Industrials, Consumer Discretionary, and Energy all outperformed the S&P 500. We believe the relative strength in more economically sensitive (cyclical) sectors such as these makes sense, as a rising interest rate environment is typically associated with a strengthening of the business activity levels for these groups.

Average S&P 500 sector performance during a rising rate environment



Sectors tied to economic growth tend to outperform during a rising interest rate environment.

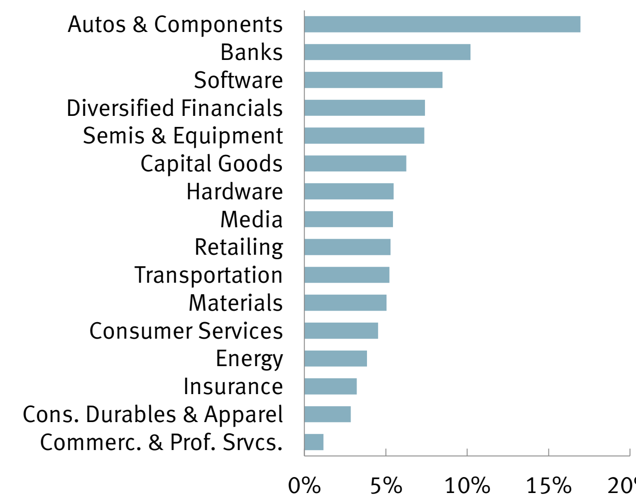
Source - RBC Wealth Management, Bloomberg; data through 3/7/18

Deeper into the data

Taking the analysis one step further, we also reviewed subsectors for each of the top-performing sectors to provide a better understanding of areas that seem to lead during periods of rising rates.

Within Consumer Discretionary, autos and components showed very strong average growth, which we believe is related to the cyclical nature of the sector and because rising bond yields typically are a reflection of stronger economic growth and consumer spending. We would also note that Media and Retailing were strong performers within Consumer Discretionary. In the Financials sector, Banks and Diversified Financials both exhibited very strong performance relative to the market. As for Technology, we found Software, Semiconductors and Equipment, and Hardware were all positive, while the Industrials sector saw the strongest relative performance from Capital Goods and Transportation.

Average S&P 500 subsector performance during a rising rate environment



Most cyclically sensitive sectors outperform during a rising interest rate environment.

Source - RBC Wealth Management, Bloomberg; data through 3/7/18

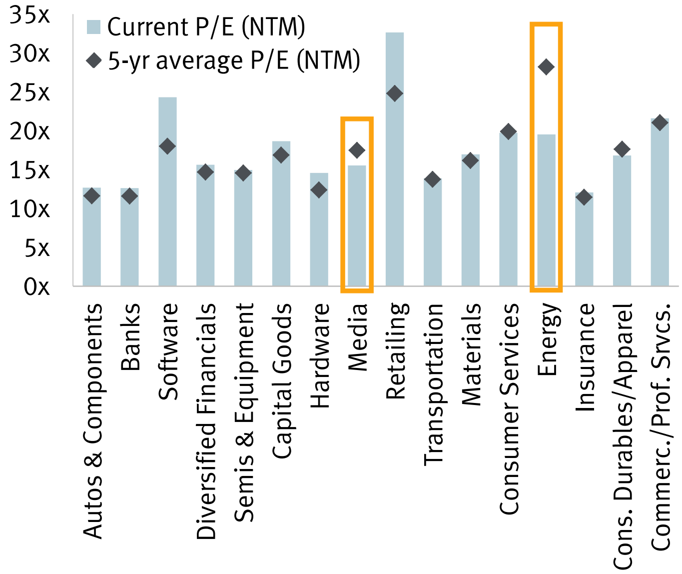
Two areas stand out to us as opportunities—Media and Energy.

Digging down further from a valuation and performance perspective, two areas stand out to us as opportunities—Media and Energy. Often, it is prudent to take into account both valuation and recent performance. Looking at sectors that have underperformed but have good relative valuation can lead to better investment outcomes over the long term, in our view.

Media is currently trading at a discount to its historical forward price-to-earnings (P/E) multiple, both in absolute terms and relative to the S&P 500. In addition, the sector has underperformed the S&P 500 on both a 1-year and 5-year basis.

We also find that Energy has materially underperformed in absolute and relative terms on a 1-year and 5-year basis. And we see a substantial valuation discount that is intriguing, in our view.

S&P 500 subsectors current P/E vs. 5-yr. average



Media and Energy are the two subsectors trading at the steepest valuation discounts.

Source - RBC Wealth Management, FactSet; data through 3/7/18

Despite a return of volatility, we continue to give equities the benefit of the doubt in 2018.

History lesson

While it is unclear the degree to which interest rates and inflation will rise, our analysis reveals not only which sectors have outperformed in the past when yields moved higher, but also shows that the overall market typically rises during this time. The data argues for a portfolio allocation tilted toward Financials, Energy, Materials, Industrials, Consumer Discretionary, and Technology, which largely agrees with RBC Capital Markets' sector positioning.

Despite a return of volatility, we continue to give equities the benefit of the doubt in 2018.

S&P 500 sector performance during a rising rate environment

Higher average return ---->

Sectors	Average	Mar '94	Jun '09	Dec '16	Mar '92	Dec '10	Mar '96	Jun '04	Mar '90	Jun '13	Mar '99
BPS change in 10-yr	77.0 bps	94.4 bps	87.0 bps	85.0 bps	82.9 bps	78.4 bps	75.5 bps	74.6 bps	69.3 bps	63.7 bps	59.4 bps
S&P 500	3.03%	-4.43%	15.22%	3.25%	-3.21%	10.20%	4.80%	1.30%	-3.81%	2.36%	4.65%
Financials	6.95%	-4.94%	35.08%	20.48%	-0.28%	11.18%	7.79%	-2.94%	-10.65%	6.78%	6.98%
Tech	6.89%	4.17%	19.35%	0.78%	4.99%	9.97%	5.20%	2.77%	8.28%	1.22%	12.16%
Industrials	5.55%	-2.60%	18.01%	6.58%	0.26%	11.19%	6.91%	7.97%	1.33%	2.23%	3.65%
Consumer Disc.	5.49%	-4.04%	17.65%	1.86%	5.19%	12.15%	7.84%	-0.49%	-2.14%	6.43%	10.44%
Materials	5.04%	0.33%	15.53%	4.10%	4.63%	18.50%	12.78%	1.97%	-5.78%	-2.39%	0.75%
Energy	3.84%	-3.45%	10.06%	6.56%	-9.89%	20.86%	4.75%	6.98%	-1.69%	-0.93%	5.15%
Real Estate	0.85%	1.99%	26.99%	-4.20%	-1.20%	6.39%	1.07%	-7.16%	-5.84%	-2.98%	-6.56%
Consumer Staples	-0.95%	-4.90%	8.87%	-2.70%	-4.45%	5.31%	3.08%	-0.01%	-5.97%	-0.17%	-8.52%
Health Care	-1.20%	-11.35%	8.27%	-4.42%	-13.24%	3.12%	3.50%	2.34%	-6.19%	3.33%	2.68%
Telecom	-1.50%	-5.87%	1.90%	3.53%	-7.66%	5.92%	-4.93%	-1.77%	-9.05%	-0.07%	3.01%
Utilities	-4.07%	-12.43%	8.83%	-0.79%	-8.98%	-0.02%	-3.20%	-2.27%	-7.77%	-3.67%	-10.40%

S&P 500 subsector performance during a rising rate environment

Higher average return ---->

Sector	Subsector	Average	Mar '94	Jun '09	Dec '16	Mar '92	Dec '10	Mar '96	Jun '04	Mar '90	Jun '13	Mar '99
	BPS change in 10-yr	77.0 bps	94.4 bps	87.0 bps	85.0 bps	82.9 bps	78.4 bps	75.5 bps	74.6 bps	69.3 bps	63.7 bps	59.4 bps
Cons. Disc.	Autos & Components	16.95%	-4.76%	78.62%	3.36%	26.81%	31.35%	9.78%	6.53%	3.98%	11.18%	2.61%
Financials	Banks	10.21%	-4.02%	41.32%	29.95%	7.47%	18.60%	9.86%	0.18%	-11.89%	10.12%	0.47%
Tech	Software	8.48%	-1.70%	20.38%	-0.60%	0.62%	11.31%	13.09%	9.64%	3.23%	2.78%	26.01%
Financials	Diversified Financials	7.40%	-5.20%	37.27%	15.85%	-3.38%	12.14%	10.12%	-8.02%	-9.29%	7.84%	16.67%
Tech	Semis & Equipment	7.37%	12.80%	13.51%	4.34%	13.18%	13.40%	-5.95%	-2.34%	13.21%	7.15%	4.35%
Industrials	Capital Goods	6.25%	-1.54%	19.28%	5.44%	0.74%	11.60%	8.35%	8.59%	2.80%	2.86%	4.38%
Tech	Hardware	5.47%	5.49%	20.26%	1.86%	5.84%	7.25%	2.11%	0.07%	8.87%	-2.80%	5.78%
Cons. Disc.	Media	5.44%	-7.24%	23.90%	8.82%	9.74%	11.21%	1.41%	-2.77%	-9.63%	6.01%	12.93%
Cons. Disc.	Retailing	5.29%	-2.32%	9.84%	-1.03%	-0.11%	11.03%	11.26%	0.35%	3.78%	8.51%	11.62%
Industrials	Transportation	5.23%	-6.71%	14.60%	12.67%	0.33%	10.60%	6.22%	8.51%	0.19%	1.08%	4.78%
Materials	Materials	5.04%	0.33%	15.53%	4.10%	4.63%	18.50%	12.78%	1.97%	-5.78%	-2.39%	0.75%
Cons. Disc.	Consumer Services	4.53%	-3.44%	13.65%	5.02%	7.86%	8.95%	11.54%	-0.05%	-15.55%	1.47%	15.83%
Energy	Energy	3.84%	-3.45%	10.06%	6.56%	-9.89%	20.86%	4.75%	6.98%	-1.69%	-0.93%	5.15%
Financials	Insurance	3.21%	-6.60%	24.95%	9.57%	-8.53%	5.45%	1.45%	0.43%	-9.89%	7.90%	7.41%
Cons. Disc.	Consumer Durables & Apparel	2.85%	-2.76%	18.21%	-5.45%	-2.72%	11.63%	6.25%	-1.85%	-2.66%	5.14%	2.73%
Industrials	Commercial & Professional Services	1.16%	-3.77%	15.45%	-0.98%	-1.94%	7.52%	-0.23%	2.66%	-4.60%	-1.97%	-0.48%

Source - RBC Wealth Management, Bloomberg; data through 3/7/18

S&P 500 subsector valuation and performance comparison

S&P 500 subsectors	Valuation multiples				Performance			
	Absolute		Relative S&P 500		Absolute		Relative S&P 500	
	P/E NTM	5-yr	P/E NTM	5-yr	1-yr	5-yr	1-yr	5-yr
Autos & Components	12.7x	11.6x	0.74x	0.72x	22.3%	15.5%	4.7%	1.2%
Banks	12.6x	11.6x	0.74x	0.72x	19.8%	18.4%	2.2%	4.1%
Software	24.3x	18.0x	1.43x	1.12x	44.8%	24.7%	27.1%	10.4%
Diversified Financials	15.6x	14.7x	0.92x	0.91x	22.1%	15.7%	4.4%	1.4%
Semis & Equipment	15.0x	14.6x	0.88x	0.90x	46.3%	27.6%	28.7%	13.3%
Capital Goods	18.7x	16.9x	1.09x	1.05x	17.1%	14.7%	-0.6%	0.4%
Hardware	14.6x	12.4x	0.85x	0.77x	29.4%	21.0%	11.7%	6.7%
Media	15.5x	17.5x	0.91x	1.08x	-1.8%	11.7%	-19.5%	-2.5%
Retailing	32.6x	24.8x	1.91x	1.54x	41.1%	23.8%	23.4%	9.5%
Transportation	13.9x	13.7x	0.81x	0.85x	14.9%	15.1%	-2.8%	0.8%
Materials	17.0x	16.2x	1.00x	1.00x	17.5%	10.9%	-0.2%	-3.4%
Consumer Services	19.7x	19.9x	1.16x	1.24x	22.7%	14.3%	5.0%	0.0%
Energy	19.5x	28.2x	1.14x	1.75x	0.0%	-0.5%	-17.7%	-14.8%
Insurance	12.1x	11.5x	0.71x	0.71x	11.1%	14.1%	-6.6%	-0.1%
Cons. Durables/Apparel	16.8x	17.6x	0.99x	1.09x	10.3%	8.6%	-7.3%	-5.7%
Commerc./Prof. Srvcs.	21.6x	21.0x	1.27x	1.31x	17.8%	14.9%	0.2%	0.6%

Source - RBC Wealth Management, FactSet; data through 3/7/18

The song remains the same

A lot of turbulent water has passed under the bridge over the past 90 days. We don't intend to enumerate all the market surges and plunges; data points, political shifts, and misinterpretation of facts; central bank press conferences; nor the severe weather events that have buffeted markets and investor psyches over the past few months.

However, when we check in on the factors that have mattered most in determining what the trajectory of the economy, corporate earnings, and share values is likely to be over the next year or two, remarkably little has changed. Central bank policies remain unusually accommodative, and banks are ready to lend. Employment and wages continue to grow, unemployment to fall. Consumers and businesses are confident. Meanwhile, fiscal policies range from mildly to wildly stimulative.

Reliable leading indicators suggest there is more of this to come. As long as that continues to be the case, we expect to counsel investors to give equities the benefit of the doubt.

That said, confidence in the sustainability of the economic and earnings expansion is no reason to cease being vigilant. The lead article in this issue, "An old risk waits offstage" on page 4, considers one potential wild card—a sustained surge in inflation—that were it to occur would force a recalibration of most variables that drive the investment cycle, bringing the next recession and associated bear market for equities that much closer.

Being watchful of this and other potentially negative changes in the investment landscape is always appropriate. So far no factor has emerged that would change our constructive view. We would be modestly Overweight equities in a global portfolio.

Equity views

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

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

Regional highlights

United States

- The U.S. equity market has been weak and wobbly so far this year due to the spike in Treasury yields, Federal Reserve policy uncertainty, inflation jitters, ongoing Washington chaos, and more recently, economic growth concerns and protectionism risks, including tariff threats between the U.S. and China. None of these risks are acute enough to knock us off of our constructive Market Weight stance on U.S. equities.

- The U.S. and its trading partners have incentives to resolve their differences. As long as trade rhetoric and disputes don't put economic and corporate earnings growth at risk, the market should be able to navigate through this period. But there could be additional volatility and downside along the way.

- The economic and corporate foundation is sturdy. Almost all of the forward-looking economic

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indicators we track are signaling the expansion will continue for the next 12 months, at least. The S&P 500 earnings outlook is strong, as RBC Capital Markets anticipates 17% y/y growth this year and the consensus forecast is even higher. The market is reasonably valued with a price-to-earnings ratio of 17.0x based on our $155 per share forecast for 2018. The consensus forward P/E ratio is 16.5x on slightly higher earnings estimates.

- As the correction plays out, we would look for opportunities because the multiyear bull market should ultimately resume its upward path.

Canada

- We maintain a Market Weight recommendation on Canadian equities. The S&P/TSX Composite trades at a discount relative to its historical valuation relationship with broad developed and emerging market equity indices. Moreover, it trades at a historically wide discount to the S&P 500. We believe these valuation discounts will persist until such time as investors have better visibility on the successful resolution of a number of domestic risks.

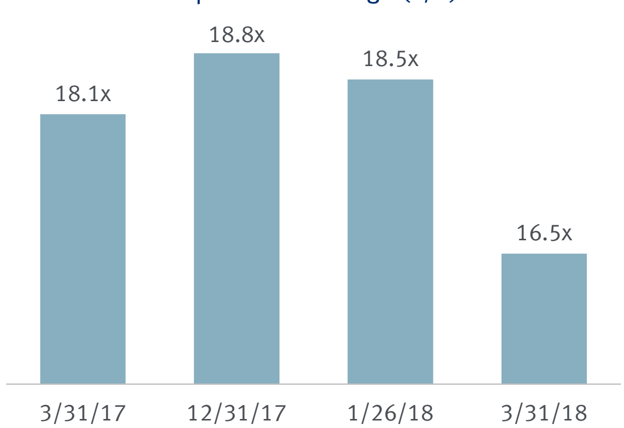
- Scenarios under which investor sentiment towards the Canadian equity market could improve include: 1) a positive resolution to NAFTA renegotiations and other trade policy uncertainty, 2) an improved energy outlook with tangible progress towards transportation solutions in Western Canada, and 3) wage growth that helps consumers adapt to higher interest rates. Of course, the converse also holds true. A perceived worsening of any of these issues could cause discounted valuations to persist and/or downward revisions to earnings forecasts.

- Looking beyond the consensus estimates for 2018 earnings growth when U.S. growth dominates in large part due to its aggressive corporate tax cuts, the consensus outlook for 2019 earnings growth looks broadly similar between the S&P/TSX Composite and S&P 500. Analysts are forecasting a little over 10% earnings growth for both benchmarks next year. Of note, earnings expectations for the S&P/TSX are not skewed by the resource sectors as forecast growth for the non-resources sectors is roughly in line with the benchmark on an aggregate basis.

Continental Europe & U.K.

- We maintain our Underweight in U.K. equities. Our two main reasons for this stance have been the difficult macroeconomic environment and political uncertainty.

S&P 500 forward price to earnings (P/E) ratio



After rising through 2017, market valuations have become less onerous in 2018 due to higher earnings estimates based on tax cuts and the market correction.

Source - RBC Wealth Management, Thomson Reuters I/B/E/S

- The former remains, as the Bank of England is intent upon increasing rates at a time of lacklustre growth, an unappetising proposition. Political uncertainty has lost some of its immediacy with the agreement to a 21-month transition deal with the EU to start after the Brexit date of March 29, 2019. The agreement goes some way to reduce uncertainty for businesses in the short term. However, it is not fully guaranteed and still depends on the thorny issue of preventing a hard border in Ireland. Assuming this can be resolved, the transition avoids a cliff edge Brexit in 2019, though difficult decisions are merely postponed until later. Visibility for 2021 remains very murky.

- Finally, as the U.K. is a high-yielding equities market, it traditionally doesn't perform well in tightening cycles given its relatively large exposure to bond proxies. An undemanding valuation and the appearance of activist investors to unlock value could help underpin the equities market. We continue to prefer U.K. companies with an international bias.

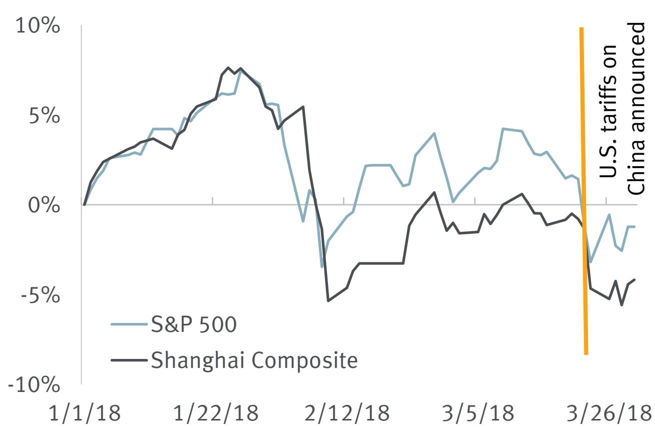
Asia

- Asian equities reacted negatively to the imposition of tariffs on certain Chinese goods by the U.S., but pulled back less than U.S. indexes. While the economic impact may be limited in size and scope (for now), the move creates uncertainty with respect to additional tariff policies in the future and also damages investor sentiment.

- Risk aversion has pushed the yen still higher against the dollar. If the yen holds on to these gains, we expect downward revisions to corporate earnings in Japan where many companies have been using USDJPY110 to form earnings guidance. However, there are a lot of things going well in Japan, with certain business indicators at their highest levels in over 25 years and a low, but positive, level of inflation.

- Yi Gang is now the governor of the People's Bank of China (PBoC), replacing Zhou Xiaochuan who had been at the helm since 2002. Yi Gang was deputy governor since 2008. The move comes at a time when the PBoC, one of the most important central banks, has seen its regulatory powers expanded. Additionally, the PBoC is at the heart of China's efforts to contain credit growth and financial risks. These efforts should be closely watched for any signs of negative impact on China's growth rate.

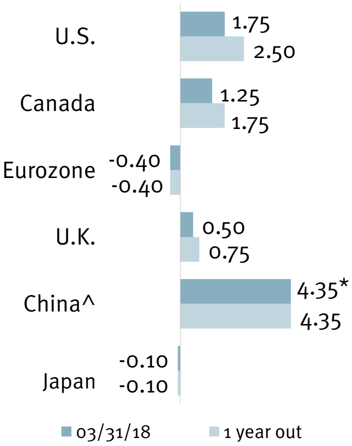
U.S. and Chinese equity market performance, YTD



Chinese equity market underperformance in 2018 was in place before the announcement of tariffs exacerbated the underperformance trend.

Source - RBC Wealth Management, Bloomberg; data through 3/30/18

Central bank rate (%)



^Under review
*1-yr base lending rate for working capital, PBoC
Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management

Yields that glitter aren't always gold

The upward pressure on interest rates in recent months has been a double-edged sword for investors. Prices on existing portfolio positions have come under pressure, but higher overall yields have provided some of the more attractive reinvestment opportunities in recent years, especially in corporate credit. The question for investors: Is the glitter from higher yields really offering the gold of good relative value opportunities?

It's not just Treasury yields that are higher this year. While the 10Y Treasury yield has added about 35 basis points (bps), investment-grade corporate yields are higher by 55 bps. The difference has been driven by widening credit spreads, or the yield compensation investors receive for credit risk. Typically credit spreads widen in reaction to economic distress, but for now corporate earnings remain solid and economic fundamentals indicate a recession is not a near-term concern; we see recent moves as a function of a spike in new issuance.

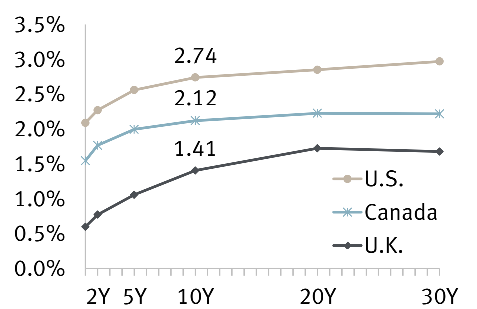
Ultimately, though, credit spreads hold the key as to whether an investor is being rewarded for taking on the additional credit risk, and in this cycle they have yet to move significantly wider, but corporate bonds may be on the verge of moving to more attractive valuations. Interest rates, in our view, are likely to remain contained by historical standards as central banks only gradually raise interest rates. Investors will continue to turn to corporate credit for higher yields,

Fixed income views

Region	Gov't Bonds	Corp. Credit	Duration
Global	–	+	5–7 yr
United States	–	+	7–10 yr
Canada	=	=	3–5 yr
Continental Europe	=	+	5–7 yr
United Kingdom	–	=	5–7 yr

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

Sovereign yield curves



Source - Bloomberg

which will likely have a limiting effect on spreads widening. So, until then, the gold of relative value could prove elusive and investors will be better served by remaining patient and selective.

Regional highlights

United States

- The Federal Reserve, at the March meeting, left its projected rate hikes for 2018 at three, but just barely, while increasing rate forecasts for 2019 and 2020. Markets had been on edge that

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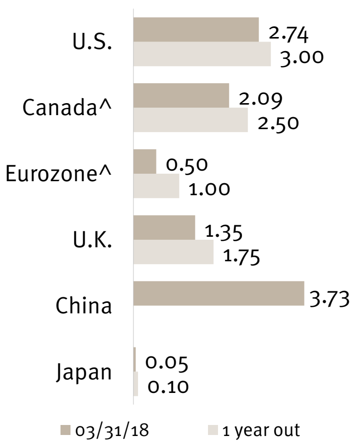
10-year rate (%)



^Under review
Note: Eurozone utilizes German Bunds
Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management

the Fed might signal a fourth hike this year following the passage of tax reform and on improved growth prospects. Whether the Fed adds an extra hike will likely depend upon the inflation outlook in coming months with more rapid progress toward its 2% target the determining factor. For now, we maintain our view that the Fed will only raise rates two more times this year before pausing in December to assess the landscape. Over time, Fed hikes should drive a flatter yield curve, and we continue to favor increasing duration.

- Investment-grade (IG) corporate spreads, or the extra yield compensation over Treasuries for credit risk, have jumped to the highest levels since September 2017 after touching the lowest levels in a decade in February. Though this is typically a sign of distress, there hasn't been similar spread widening in riskier speculative-grade credits, so we see this as likely reflecting the recent deluge of new issuance to fund large M&A transactions. We're not buyers yet, but valuations could soon look more attractive in IG corporates should spreads keep widening.

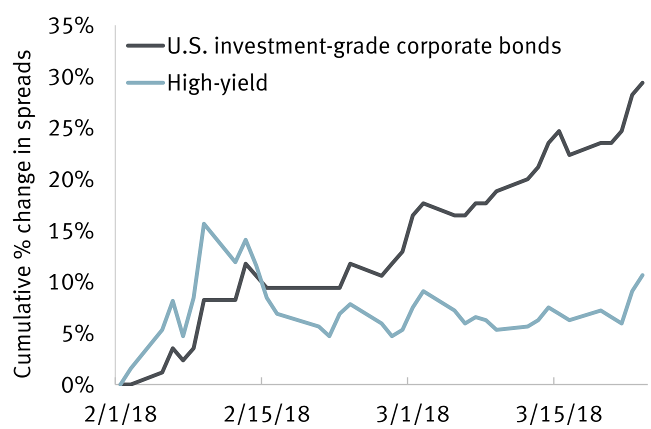
- Preferred shares remain our favorite fixed income sector, particularly as the 10Y Treasury yield has steadied around 2.90%. As we don't see the 10Y moving markedly higher from here, preferreds offer the most attractive yields, and chance for capital appreciation.

Canada

- Government of Canada (GoC) yields rose sharply towards the end of March on reports the U.S. is taking a softer position towards automobile manufacturing rules within ongoing NAFTA renegotiations. Trade uncertainty, the heavily indebted household, and a housing market slowdown had pushed longer-dated GoC yields to two-month lows prior to the news. Despite the move, the GoC curve remains particularly flat; the yield differential between the 10-year GoC and the 2-year GoC yield being a mere 32 basis points significantly reduces the attractiveness of longer-dated bonds. We prefer short to intermediate maturities, especially those trading at discounts to their maturity values.

- Spreads on Canadian corporate bonds remain close to decade lows

Deluge of issuance driving investment-grade spreads wider



New issuance, not credit distress, has pushed investment-grade credit spreads wider.

Source - RBC Wealth Management; Bloomberg; data period 2/1/18–3/23/18 arguing for selectivity and managing credit risk within portfolios.

- A weaker corporate credit environment combined with a depressed 5-year GoC yield led preferred shares lower in March. We like the outlook for rate reset issues in a rising rate environment but would lean towards defensive positioning as credit spreads move closer to 10-year averages.

Continental Europe & U.K.

- Investors appear to be anticipating the European Central Bank's (ECB) first rate hike since 2011 earlier than we expect, with a 10 basis points (bps) hike priced in by March 2019. Given one of the more hawkish members of the ECB council, Deutsche Bundesbank President Jens Weidmann, appears to think "mid 19" seems reasonable, our expectation is more towards Q2/Q3 2019. We therefore recommend holding benchmark interest rate risk in euro portfolios, and are focused on some of the near-term geopolitical risks, which we cannot see currently factored into sovereign spreads.

- In spite of recent credit spread widening, we think euro corporate credit will continue to be supported by solid fundamentals as well as a gradual, anticipated wind-down of accommodative monetary policy.

- February's U.K. inflation data surprised the market by softening faster than expected to 2.7% from its elevated and extended peak of 3%. We believe this should begin a slow trend down to 2.4% by year end. We do not expect this singular data point to be enough to shift the Bank of England's (BoE) newly hawkish stance and still expect a bank rate increase in May unless inflation continues to surprise to the downside.

- For sterling investors, we prefer corporate credit to Gilts. Valuations are attractive, trading at greater spreads than U.S. dollar and euro peers. A relatively weak currency also bodes well for credit which could benefit from capital flows as international investors are light sterling assets. We do not like the risk/reward profile for Gilts whilst the BoE seems intent on raising rates and domestic and geopolitical pressures are extant.

The coming copper crunch?

Commodity forecasts

	2018E	2019E
Oil (WTI $/bbl)	54.00	56.00
Natural Gas ($/mmBtu)	3.00	3.00
Gold ($/oz)	1,300	1,300
Copper ($/lb)	3.00	3.25
Corn ($/bu)	3.85	4.09
Wheat ($/bu)	4.65	4.75

Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (corn and wheat)

It seems like forever since the days when a landline would be shared amongst an entire family. Nowadays, almost every member of the family has a smartphone and the age in which kids start using phones appears to be trending ever lower. While staring at a phone all day probably isn't good for the eyes (or the brain), it's likely positive for copper prices. Global demand for copper is rising and there is potential for a supply deficit in the short run.

Copper prices were up over 31% y/y in 2017, driven by increased investment interest and optimism around global growth. RBC Capital Markets points out that copper upcycles typically have lasted for five years on average dating back to 1970, and argues we are currently in year two of a multiyear copper rally.

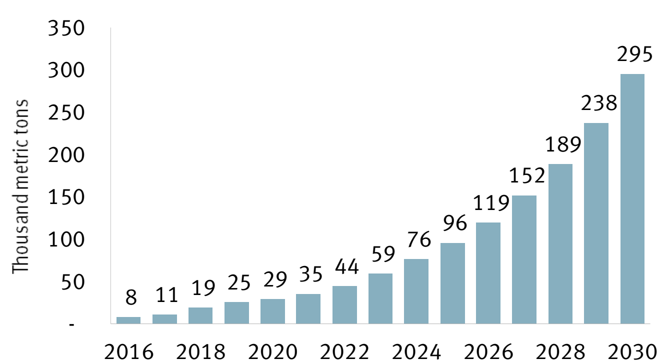
Bloomberg forecasts for copper demand continue to rise as interest within green initiatives, such as electric vehicles (EV), and electronics continues to gather steam. It expects the number of EVs sold globally to rise to 1.5 million in 2018, an increase of 400,000 from 2017. By 2030, it is expected that 295,000 tons of copper will be required annually to manufacture EV batteries.

Growth within renewable energy will also be a catalyst given that copper is used to conduct electricity from wind and solar.

Copper prices have pulled back in recent weeks due to a combination of softening data from China, rising interest rates, and market turbulence from tariff proposals. However, RBC Capital Markets continues to see strong fundamentals for the next 3–5 years and projects near-term supply deficits. RBC Capital Markets forecasts as much as five million tons of new copper supply will be needed to balance the market by 2028. That is the equivalent of one new Escondida (the world's largest copper mine producing one million tons per annum) coming on-stream every two years. There are only two mines of note currently under development, with a combined annual capacity of less than half a million tons.

The degree of variability in copper supply going forward will be contingent on whether consumer demand in areas such as EVs, electronics, and renewable energy continues to accelerate and whether new mines will be able to come online to narrow supply gaps.

Copper demand from electric vehicle batteries



Copper demand from EV is forecast to grow exponentially.

Source - RBC Capital Markets, Bloomberg, Bloomberg News Energy Finance

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Currencies

Currency forecasts

Currency pair	Current rate	Forecast Dec 2018	Change*
Major currencies			
USD Index	90.15	93.22	3%
CAD/USD	0.77	0.82	6%
USD/CAD	1.28	1.22	-5%
EUR/USD	1.23	1.18	-4%
GBP/USD	1.40	1.27	-9%
USD/CHF	0.95	1.03	8%
USD/JPY	106.43	109.00	2%
AUD/USD	0.76	0.73	-4%
NZD/USD	0.72	0.71	-2%
EUR/JPY	130.91	129.00	-1%
EUR/GBP	0.87	0.93	7%
EUR/CHF	1.17	1.22	4%
Emerging currencies			
USD/CNY	6.28	6.80	8%
USD/INR	65.17	65.20	0%
USD/SGD	1.31	1.40	7%

* Defined as the implied appreciation or depreciation of the first currency in the pair quote.
Examples of how to interpret data found in the Market Scorecard.
Source - RBC Capital Markets, Bloomberg

U.S. dollar: Growth to trump trade tensions – Early signs of a U.S. dollar recovery are taking shape, with the currency trending broadly sideways since mid-January. While it has not been a smooth path—with protectionist rhetoric turning to action, and the implementation of trade tariffs prompting a brief leg lower in the currency—economic fundamentals remain strong, abetted by tax cuts and stimulus spending and, in our view, should enable the dollar to gain modest upward traction throughout 2018.

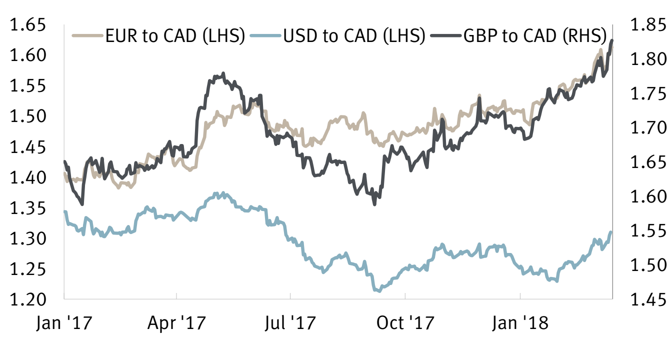
Euro: Optimism prevails, but no rate hikes yet – The euro has enjoyed a wave of market optimism that the European Central Bank (ECB) could begin to shift away from highly accommodative monetary policy this year given the firm economic backdrop. The ECB did signal its increasing optimism about economic developments, dropping its commitment to increase its asset purchase program, if needed; however, the tepid pace of inflation is likely to keep rates unchanged until mid-2019 with the euro poised to drift lower against the U.S. dollar.

British pound: Punching higher, for now – The Bank of England expressed less tolerance for elevated levels of inflation, prompting markets to position for the central bank to follow up its November rate hike with another as early as May. Rate expectations alongside positive Brexit developments underpinned sterling performance in recent weeks. That said, the still-challenging political backdrop and softer economic growth, which should see the BoE embrace a more cautious tone later this year, underpin our expectation that sterling will grind lower.

Canadian dollar: Bearing the brunt of uncertainty – An escalation of trade risks contributed to the Canadian dollar plunging to multi-year lows against the euro and pound, and slipping further against the U.S. dollar. Canada was granted a temporary exemption from U.S. tariffs, yet a lack of clarity on how trade channels will be disrupted and mixed economic data kept the currency under pressure. We remain of the view that rising trade tensions will ease somewhat, enabling the Bank of Canada to tighten policy further in 2018, providing some relief to the currency.

Japanese yen: More room to run – An abatement of risk appetite driven by rising trade tensions and the return of financial market volatility sent the yen soaring early last month. Going forward, a mild shift in monetary policy is looking increasingly likely as the central bank is ever more constrained by its current loose monetary policy stance. This anticipated forthcoming move suggests the yen rally has room to run.

Canadian dollar came under significant pressure in recent months



Canadian dollar should unwind recent losses as trade tensions are likely to ease somewhat.

Source - RBC Wealth Management, Bloomberg

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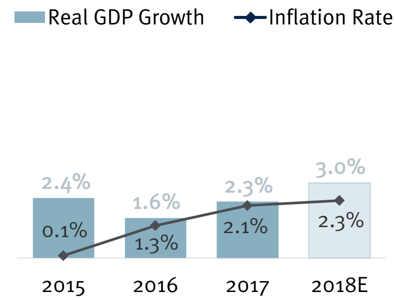
Key forecasts

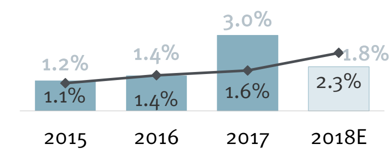
United States — Eyes remain on Fed

- Q4 ’17 GDP revised to 2.9% y/y, but Q1 ’18 GDP estimates fizzle to below 2.0%. Fed hiked rates 25 bps at March meeting and revised economic growth forecasts higher to reflect tax cuts. Hiring reaccelerated as higher wages draw more participants into the labor force, still over 6.3 million open jobs. New tax laws, low supply, inclement weather, and higher mortgage rates weighed on home selling activity.



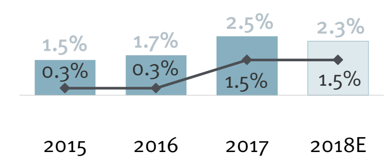
Canada — Consumer-led growth

- Blended inflation accelerated above 2.0% y/y, from 1.8% one month prior. The BoC held rates at March meeting and is eyeing future rate hikes but remains cautious on elevated consumer leverage. Housing data weakened after mortgage underwriting rule change at start of year. January GDP growth fell back below 3.0%, first sub-3.0% growth since February 2017. Unemployment rate moved back down at 5.8%.



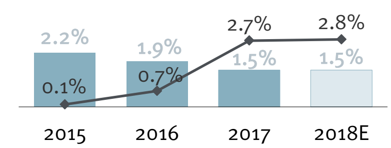
Eurozone — Slowing growth?

- Eurozone Markit PMIs point to continued economic growth in the region, but sentiment surveys suggest a slower pace of growth in 2019. Eurozone Q4 ’17 GDP held at 2.7% y/y and RBC Capital Markets expects 2.3% and 1.9% this year and next, respectively. Hiring is mostly stronger across the region, but unemployment still above pre-crisis levels keeps inflation data generally tame, likely keeping the ECB from hiking rates until mid-2019.



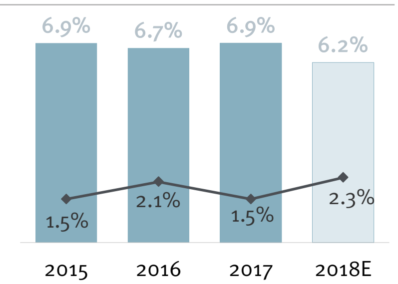
United Kingdom — Inflation pressures ease

- The BoE voted to leave rates unchanged but left a May rate hike firmly on the table. Inflation pressures eased slightly with CPI decelerating to 2.7% y/y from 3.0%, and PPI to 2.6% y/y from 2.8%. Yet the BoE doesn’t see inflation returning to 2.0% target until after 2020, and labor market is showing signs of tightening. Unemployment fell to cycle low of 4.3% and wages rose 2.8%.



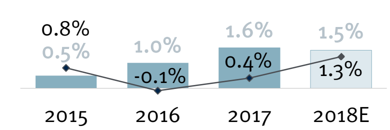
China — Trade risks lurk

- Economy is off to a solid start to the year with strong year-to-date (YTD) growth in industrial production and fixed asset investment, rising 7.2% and 7.9% y/y, respectively. Yet expectations for growth have moderated, as fiscal policy will likely tighten in order to reduce the budget deficit and curb excess leverage. Trade relations with the U.S. remains a wild card, as net exports is a key driver of GDP growth.



Japan — Halfway there

- For the first time since 2015, core inflation hit 1.0%, halfway to the BoJ’s 2.0% target. Unemployment ticked down to 2.4%, the lowest since 1993, yet most recent job gains have been in low-paying sections of the market. Headwinds remain, including a 5.7% YTD rise in the yen, and thus the BoJ will likely stick to its 0% 10-year yield target and -0.1% policy rate for the foreseeable future.



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

Market scorecard

Index (local currency)	Level	1 month	YTD	12 month
S&P 500	2,640.87	-2.7%	-1.2%	11.8%
Dow Industrials (DJIA)	24,103.11	-3.7%	-2.5%	16.6%
NASDAQ	7,063.45	-2.9%	2.3%	19.5%
Russell 2000	1,529.43	1.1%	-0.4%	10.4%
S&P/TSX Comp	15,367.29	-0.5%	-5.2%	-1.2%
FTSE All-Share	3,894.17	-2.2%	-7.8%	-2.4%
STOXX Europe 600	370.87	-2.3%	-4.7%	-2.7%
EURO STOXX 50	3,361.50	-2.3%	-4.1%	-4.0%
Hang Seng	30,093.38	-2.4%	0.6%	24.8%
Shanghai Comp	3,160.53	-3.0%	-4.4%	-1.9%
Nikkei 225	21,159.08	-4.1%	-7.1%	11.9%
India Sensex	32,968.68	-3.6%	-3.2%	11.3%
Singapore Straits Times	3,427.97	-2.6%	0.7%	8.0%
Brazil Ibovespa	85,365.56	0.0%	11.7%	31.4%
Mexican Bolsa IPC	46,124.85	-2.8%	-6.5%	-5.0%
Bond yields	**3/29/18**	**2/28/18**	**3/31/17**	**12 mo. Chg**
US 2-Yr Tsy	2.266%	2.250%	1.254%	1.01%
US 10-Yr Tsy	2.739%	2.861%	2.387%	0.35%
Canada 2-Yr	1.775%	1.787%	0.748%	1.03%
Canada 10-Yr	2.091%	2.235%	1.625%	0.47%
UK 2-Yr	0.823%	0.778%	0.125%	0.70%
UK 10-Yr	1.350%	1.501%	1.139%	0.21%
Germany 2-Yr	-0.602%	-0.540%	-0.740%	0.14%
Germany 10-Yr	0.497%	0.656%	0.328%	0.17%
Commodities (USD)	**Price**	**1 month**	**YTD**	**12 month**
Gold (spot $/oz)	1,325.54	0.5%	1.7%	6.1%
Silver (spot $/oz)	16.38	-0.3%	-3.3%	-10.3%
Copper ($/metric ton)	6,679.25	-3.1%	-7.3%	14.8%
Uranium ($/lb)	21.00	-4.6%	-12.1%	-10.6%
Oil (WTI spot/bbl)	64.94	5.4%	7.5%	28.3%
Oil (Brent spot/bbl)	70.27	6.8%	5.1%	33.0%
Natural Gas ($/mmBtu)	2.73	2.5%	-7.5%	-14.3%
Agriculture Index	295.19	-2.9%	4.6%	2.1%
Currencies	**Rate**	**1 month**	**YTD**	**12 month**
US Dollar Index	90.1510	-0.5%	-2.1%	-10.2%
CAD/USD	0.7762	-0.4%	-2.4%	3.4%
USD/CAD	1.2884	0.4%	2.5%	-3.3%
EUR/USD	1.2300	0.9%	2.5%	15.5%
GBP/USD	1.4018	1.9%	3.7%	11.7%
AUD/USD	0.7678	-1.1%	-1.7%	0.6%
USD/JPY	106.4300	-0.2%	-5.6%	-4.5%
EUR/JPY	130.9100	0.6%	-3.2%	10.3%
EUR/GBP	0.8774	-1.0%	-1.2%	3.4%
EUR/CHF	1.1764	2.1%	0.5%	10.0%
USD/SGD	1.3111	-1.0%	-1.9%	-6.2%
USD/CNY	6.2898	-0.7%	-3.3%	-8.7%
USD/MXN	18.1869	-3.5%	-7.5%	-2.9%
USD/BRL	3.3063	1.8%	-0.1%	5.9%

The introduction of trade tariffs and weakness in the Tech sector weighed on U.S. stocks.

Long-term bonds rallied as moderating inflation expectations and soft consumer data prompted short position covering.

Oil rallied as OPEC considers decreasing its inventory target.

Increased likelihood of tighter monetary policy in 2018 strengthened the pound.

Equity returns do not include dividends, except for the German DAX and Brazilian Ibovespa. Equity performance and bond yields in local currencies. U.S. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing. Examples of how to interpret currency data: CAD/USD 0.77 means 1 Canadian dollar will buy 0.77 U.S. dollar. CAD/USD 3.4% return means the Canadian dollar has risen 3.4% vs. the U.S. dollar during the past 12 months. USD/JPY 106.43 means 1 U.S. dollar will buy 106.43 yen. USD/JPY -4.5% return means the U.S. dollar has fallen 4.5% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 3/29/18.

Research resources

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