

Global Insight

Perspectives from the Global Portfolio Advisory Committee



Emerging from emergency

The Argentina and Turkey crises don't mean we're at a tipping point for emerging economies. We look at where emerging markets are likely to go from here.

Timothy Ash | Page 4



Focus article
Contagious currency crisis?



Global equity
It's all fundamental



Global fixed income
Resistance movement



Commodities
Red metal prices seeing red

For important and required non-U.S. analyst disclosures, see page 27.



Wealth Management

Table of contents

4 Emerging from emergency: Why it's not all over for emerging markets

Sensational headlines have become the norm as emerging market fixed income, equities, and currencies have come under pressure. But the Argentina and Turkey crises do not mean that it's all over for emerging economies. We look at where emerging markets are likely to go from here.

8 Contagious currency crisis? Emerging market stress and Western banks

Risks of contagion should be contained with any renewed currency weakness limited to emerging markets with weak fundamentals. Nevertheless, due to the global economy's intricate web, emerging markets' currency upheaval could impact banking systems in developed economies.

13 Global equity: It's all fundamental

Much of the story in recent months has been the outperformance of U.S. equities and the underperformance of just about everything else. But there could be a new page to the story as other markets should perk up amid stable economic momentum, healthy earnings growth, and appealing valuations.

18 Global fixed income: Resistance movement

Investors are again keenly eyeing key technical resistance levels for the 10-year U.S. Treasury yield; we think central bankers will err on the side of caution with regards to monetary policy, which could create an environment where inflation takes hold and yields move sustainably higher.

Inside the markets

3 *RBC's investment stance*

13 *Global equity*

18 *Global fixed income*

22 *Commodities*

23 *Currencies*

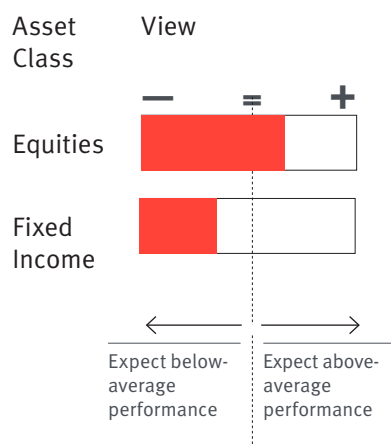
24 *Key forecasts*

25 *Market scorecard*

All values in U.S. dollars and priced as of market close, September 28, 2018, unless otherwise stated.

RBC's investment stance

Global asset views



See “Views explanation” below for details

Source - RBC Wealth Management

Equities

- We maintain a slight Overweight in global equities. While the U.S. business cycle is clearly mature, economic and earnings growth are both sturdy, and we see no signs of an imminent recession. This positive background is reflected in valuations that are at a modest premium to historical levels.
- Fundamentals in other developed countries are perhaps not as robust, but they remain very respectable, and valuations are at notable discounts. Emerging markets are beginning to look interesting, but fundamentals and valuations need to improve before we can become more positive.
- Overall, we would expect modest gains from equities over the next 12 months. Bouts of volatility arising from concerns over tariffs, the U.S. midterm elections, or emerging markets are to be expected and may offer selective opportunities to add to positions.

Fixed income

- “Accommodative” monetary policy will soon be a thing of the past, although the Federal Reserve is well ahead of its counterparts in normalizing monetary policy. The Fed and Bank of Canada are slowly raising interest rates as the U.S. and Canadian economies continue to grow and inflationary pressures begin to firm. Across the pond, the Bank of England is on pause as it awaits the outcome of Brexit negotiations, while the European Central Bank confirmed it will take initial steps to slow the expansion of the balance sheet and ultimately phase out asset purchases by year’s end. It too is on the lookout for inflationary pressures.
- We maintain our Underweight recommendation for fixed income, and prefer to be invested in shorter maturities given the flatness of global yield curves. We are Overweight credit, and favor high-quality bonds due to rich valuations in riskier areas of the market.

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.

Emerging from emergency

Why it's not all over for emerging markets



Timothy Ash
London, United Kingdom
tash@bluebay.com

The media has cast a bright spotlight on emerging markets (EMs), and sensationalist headlines have become the norm as EM fixed income, equities, and currencies have come under pressure. Timothy Ash, EM senior sovereign strategist at BlueBay Asset Management, probes beyond the headlines and tells us why the Argentina and Turkey crises do not mean that it's all over for EMs, and how BlueBay's EM debt team is identifying value in the asset class. BlueBay is an RBC Group company.*

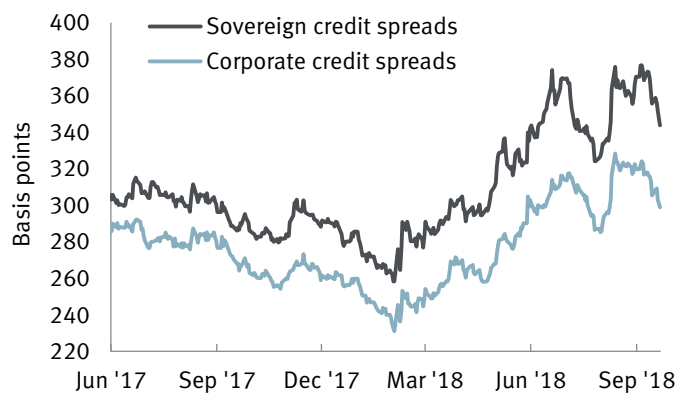
Q: Timothy, as someone who has lived through many EM crises over the last 25 years, what has gone wrong?

A: In EMs, it's normal to go through cycles where people either love the asset class with a passion or hate it with a vengeance. The reality is often somewhere in between—things are never quite as good as the peaks in asset prices might suggest, but not as bad as the bottoms might indicate either.

At the start of the year, the EM fixed income cup appeared half full. Concerns over further Fed tightening, trade wars, and the return of a positive U.S. dollar were put to one side in the search for yield.

The message was that as long as growth, commodity prices, and China (aka global trade) remained positive, aggregate EMs could still live with the higher debt service costs associated with the positive U.S. dollar and rising U.S. rates.

Emerging market spreads widen



EMs were much in vogue early in the year, but the tide has turned.

Source - BlueBay

* BlueBay Asset Management is one of Europe's largest specialist active managers of fixed income with over \$59.6 billion in assets under management in corporate and sovereign debt, rates, and foreign exchange (as of June 30, 2018). Its investment philosophy and approach focus on delivering absolute-style returns, with an emphasis on capital preservation. BlueBay is a wholly owned subsidiary of Royal Bank of Canada with full investment autonomy and substantial operational independence.

We still think that both the Argentine and Turkish economies can execute a turnaround by making the right policy choices, but their room for error is now very small.

This seemed logical until we suffered twin hits from initial policy errors in Argentina and continued policy failures in Turkey. The broader market weakness is a direct result of nervousness around these two countries.

Q: Can you elaborate on the circumstances in these two economies?

A: Both are large, liquid markets, and their combined troubles knocked the stuffing out of EMs, leaving the EM cup looking decidedly half empty.

Argentina had previously been viewed as a popular turnaround story, with \$100B worth of international assets flowing into this trade over the past couple of years.

In April, investor nervousness surrounding local market investments and a positive U.S. dollar led to the unwinding of positions, leading to a sharp selloff in the Argentine peso. The government successfully turned to the International Monetary Fund (IMF) to secure financing and restore some stability in the market. However, during August, the government unexpectedly called for the IMF to bring forward planned credit payments, exerting further pressure on the peso amid speculation that the true economic situation might be more precarious than previously believed and raising doubts regarding the government's ability to deliver on IMF conditions ahead of elections in 2019.

International positioning was lighter in Turkey, but policy missteps proved a common factor for both countries.

The Turkish central bank failed to employ sound monetary policy by refusing to raise interest rates throughout July while the lira was selling off and inflation concerns were mounting. President Recep Tayyip Erdoğan also made a series of uninspiring cabinet appointments, including putting his son-in-law in charge of a new Ministry of Treasury and Finance. International relations were further tarnished when the Turkish authorities refused to release an imprisoned American pastor. Ratings agencies downgraded their assessments of the market.

External investors' confidence levels were severely rattled by this combination of troubles, and the Turkish currency lost roughly 40% of its value.

We still think that both economies can execute a turnaround by making the right policy choices, but their room for error is now very small.

Q: So where do EMs go from here? Are we facing a systemic crisis such as the Asian crisis?

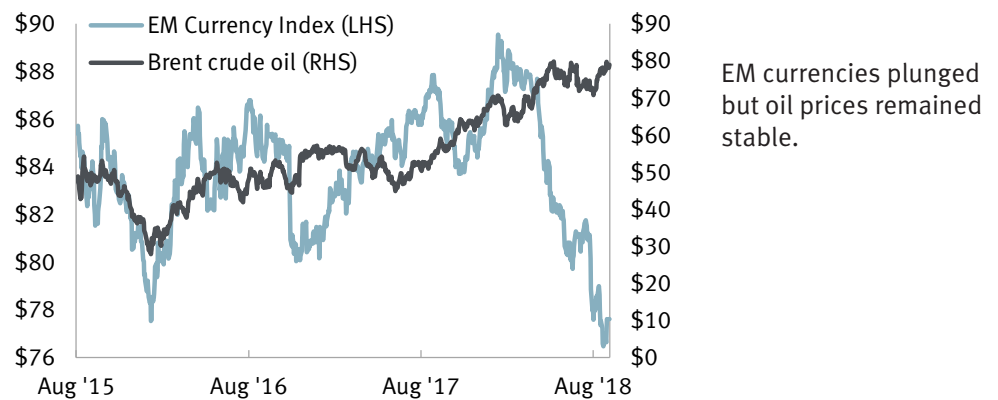
A: Argentina and Turkey are specific, idiosyncratic cases, and we're not sure that we can claim that EMs are inevitably heading for a systemic crisis comparable to that which took place in 1997–2002.

We see four key differences between 1997–2002 and today:

- 1) Liquid EM currencies are no longer pegged to the U.S. dollar. Today, EM economies have floating foreign exchange regimes so that currencies can adjust. This should allow current account deficits to shrink, and central banks are generally responding with orthodox policy.

- 2) As EM currencies adjust, pressures and concerns typically move to the credit universe, and to countries with a heavy weight of foreign currency-denominated debt. Yet aside from Barbados, which defaulted on its debt over the summer, there has not been a big EM credit event to take an EM selloff to the level perceived as a real crisis—even Argentina and Turkey are stabilising for now.
- 3) The willingness and ability to pay debt obligations partly reflect the fact that, despite concerns around trade wars, both global trade and real GDP growth are holding up well, both in developed and emerging economies. The IMF is still predicting EM real GDP growth in aggregate for 2018 of around 4.9%, slightly higher than in 2017.
- 4) Oil prices are holding up relatively well, anchoring at least one-third of EM credits across the Middle East, Commonwealth of Independent States, Latin America, and Africa.

Emerging markets currencies and oil price



Source - BlueBay, Bloomberg

Q: Do you think there is a chance of further contagion in the asset class?

A: Although the possibility cannot be discounted, in our opinion, the probability has lessened recently.

The soft spots—Argentina and Turkey—both appear to have taken pragmatic steps to restore investor confidence. Turkey has raised rates to 24%, exceeding market expectations, in order to combat inflation. Argentina has utilised monetary and fiscal measures to combat high inflation and maintain economic viability, in particular by reaching an agreement with the IMF.

These measures should allow investors to focus on the strong fundamentals and attractive valuations of the asset class, limiting further downside and reducing contagion.

Having said that, there are still several important hurdles for EMs to tackle over the coming months which could contribute to uncertainty and volatility, including the uneasy trade relations between the U.S. and China and Brazil's elections in October.

Q: Given the investment complexities inherent in the region, and the individual nature of each country, how does the BlueBay team approach assessing EM debt as an asset class?

A: We have a very well-resourced team of 33 individuals dedicated to this asset class, including portfolio managers, traders, macro strategists, and corporate analysts. They carry out on-the-ground research and survey a broad range of market participants—from business, market, and political stakeholders to trade unionists, policymakers, and other investment professionals. Additionally, we analyse policy and economic inputs, while taking into account each country's unique history.

We essentially try to operate as “credit detectives,” layering region, country, and sector insights together with due diligence points using the approach described above to ensure we continue to deliver for our clients.

To complement our fundamental views, we rely on specialist traders for unique insight into the technical factors that drive markets, significantly improving our ability to manage risk.

Q: In terms of opportunity set, where do you see value in EMs right now?

A: The EM asset class comprises around 70 countries, all with different economic profiles with idiosyncratic drivers. We believe there are a number of positive bottom-up stories across our markets where policymakers are being proactive and the macroeconomic backdrop is improving. The reform story in South Africa, for instance, remains positive. The market is still seemingly giving the Cyril Ramaphosa administration time and backing to make land and pension reforms in the country.

Similarly, we are also positive on the recovering trajectory of Nigeria. It runs a current account surplus and, as an oil exporter, it benefits from the stability and recent spike higher in the oil price. Nigeria has slowly been normalising its currency policies, making it easier for investors and exporters to convert naira into U.S. dollars.

These are just two examples from a diverse opportunity set. Spreads have widened across EMs, but as always it's important to understand the fundamentals for each country in order to isolate the positive stories from the deteriorating ones.

We believe there are a number of positive bottom-up stories across our markets where policymakers are being proactive and the macroeconomic backdrop is improving.

Contagious currency crisis?



Laura Cooper
London, United Kingdom
laura.cooper@rbc.com

Emerging market stress and Western banks

The foreign exchange market has been buffeted by crosscurrents in emerging markets (EMs). In our view, the risks of contagion spreading further should be contained with any renewed currency weakness limited to EMs with weak fundamentals. Nevertheless, due to the global economy's intricate web, the EM currency upheaval could impact banking systems in Western economies.



Frédérique Carrier
London, United Kingdom
frederique.carrier@rbc.com

EM currency dominoes?

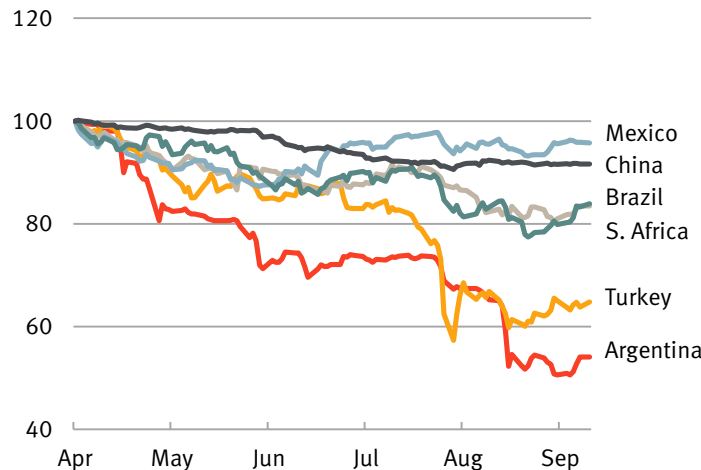
Investor fears of widespread financial stress sent EM currencies tumbling in August, aggravating earlier pressures from rising U.S. interest rates and attendant dollar strength.

The bulk of the weakness was confined to countries facing unique headwinds, namely Argentina and Turkey, and those showing the greatest vulnerability to tightening global liquidity.

During 2017, the combination of commodity prices rallying, healthy growth prospects, and still lowly valued but strong EM equity markets led global and U.S. investors to reallocate their portfolios to assets outside of the U.S. in search of greater yields. This contributed to global fund flows into EM equities and the MSCI Emerging Markets Currency Index rallied to record highs by early 2018.

Emerging market currency weakness has been contained

Currency movements against the dollar indexed to 100



EM currencies came under pressure in 2018 on the back of rising U.S. rates; although sharp declines have been limited to countries facing idiosyncratic challenges.

Source - Bloomberg, RBC Wealth Management

Contagious currency crisis?

However, rising U.S. Treasury yields against a backdrop of growing expectations for Federal Reserve rate hikes and U.S. dollar strength sparked an about-face for EMs by April 2018. The tightening in global financial conditions underpinned the selloff in EM currencies through July. Then, a sudden flare-up of events in August spurred concerns that broader EM fragilities could be brewing under the surface.

The MSCI Emerging Markets Currency Index fell from a record high in April to a 17-month low in September. So far this year, the Argentine peso has plunged by more than 50%, followed by the Turkish lira (-35%), Brazilian real (-15%), and South African rand (-10%), all despite interventions by central banks to prop up battered currencies.

The behaviour of EM currencies is important because it often sets the tone for EM equities and fixed income. It's no wonder EM equities have lagged in recent months, falling more than 10% since April compared to a gain of 7% for the MSCI World Index of developed markets and 13% for the S&P 500 (all in U.S. dollars).

Containing contagion


The EM countries whose currencies have experienced stress are those with the weakest fundamentals: high current account deficits, low foreign currency reserves, and weak fiscal positions. Uncertainty around elections and proposed reforms are further dampening investor confidence in countries like Brazil and Indonesia.

While there are still headwinds ahead for EMs with more rate increases from the Fed in the pipeline and other developed economies dialing back monetary policy stimulus, pronounced and prolonged currency selloffs should be limited

Gauging the risks amongst emerging market countries

The EM currencies that have come under the greatest stress are those with the weakest fundamentals.

Countries	Current account (% GDP)	Budget balance (% GDP)	GDP growth (ann. %)	CPI (%)	CDS spread* (5 yr)	External debt (% GDP)	Currency reserves (% GDP)
(More vulnerable)							
Argentina	-5.2	-1.0	3.8	33.6	742	52.6	7.9
Turkey	-6.5	-2.0	3.1	17.9	518	28.5	9.2
Brazil	-0.7	-7.3	1.0	4.2	291	84.0	18.3
South Africa	-3.2	-4.2	0.3	5.1	242	52.7	12.9
Colombia	-3.2	-3.7	2.5	3.1	116	49.4	15.0
Indonesia	-2.4	-2.9	5.3	3.2	142	28.9	12.0
Mexico	-1.5	-2.6	2.6	4.9	124	54.2	15.0
Chile	-1.2	-0.3	3.3	2.6	57	23.6	13.3
India	-1.9	-3.4	8.2	3.7	85	70.2	14.8
Russia	4.0	-1.0	1.9	3.1	175	17.4	24.3
Saudi Arabia	2.8	-9.3	1.2	2.2	81	17.3	73.7
China	0.5	-3.7	6.7	2.3	57	47.8	25.6
Poland	0.3	-1.7	5.1	2.0	63	51.4	20.0
South Korea	4.5	2.8	2.8	1.4	39	39.8	25.8
(More robust)							

Vulnerable  Robust

* Credit default swap spread can be considered to be the price, in basis points, of insuring against default of the underlying fixed income asset; i.e., the higher the price, the greater the likelihood of default.
Source - Bloomberg, RBC Wealth Management

Contagious currency crisis?

Relatively healthy economic fundamentals alongside attractive EM asset valuations should cause concerns of widespread fragilities to eventually fade.

to countries where fundamentals are deteriorating, in our view. Timothy Ash, EM senior sovereign strategist at BlueBay Asset Management,* believes contagion risks should be controlled (see “[Emerging from emergency: Why it’s not all over for emerging markets](#)”).

Finding footing

There are a number of reasons why the broader EM backdrop, while bruised, remains constructive, in our view. In aggregate, EMs appear poised to remain the engine of global economic growth, gaining more ground against developed economies through 2019, at least. Relatively healthy economic fundamentals, despite notable exceptions, alongside attractive EM asset valuations should cause concerns of widespread fragilities to eventually fade.

Moreover, in our view, policy stimulus in China, ongoing EM reforms, and central banks employing measures to contain pressures should keep a lid on a spillover of idiosyncratic vulnerabilities. Pain could persist in pockets of EMs, though we believe the sharp currency rout should begin to abate.

Key risks to our view include escalating U.S.-China trade actions, a potential economic slowdown in China feeding into broader emerging economies, and further capital flows into the U.S., attracting assets away from riskier EM securities.

Chain reaction?

The crosscurrents that blew across EMs are likely to impact some developed banks due to their lending activities. Turkey is a case in point. Volatility has recently abated following the Turkish central bank’s unexpected and aggressive rate hike that shored up the lira, but the country remains in the eye of the storm. Nonperforming loans are likely to spike with local interest rates now exceeding 24%. In addition, with 40% of Turkish loans in foreign currency for the banking system as a whole, the devaluation of the lira will make it more difficult for those who use local currency revenues to repay their foreign currency loans.

European banks are likely to bear the brunt of this. Their exposure to Turkey is greater than that of their U.S. counterparts, though in aggregate it remains relatively small. According to the Bank for International Settlements, the loan exposure to Turkey of Spanish, Italian, and French banks is equivalent to 1.9%, 0.5%, and 0.4% of total assets, respectively. By comparison, U.S. banks’ exposure represents a mere 0.1% of total assets.

Foreign banks’ claims on Turkey

A hit on Turkey would be manageable

Country	Spain	Italy	France	U.K.	U.S.
Banks' claims on Turkey (\$B)	\$80.9	\$18.5	\$35.1	\$16.9	\$18.1
Claims as % of banks' total assets	1.9%	0.5%	0.4%	0.2%	0.1%

Source - Bank for International Settlements, Bloomberg

* BlueBay Asset Management is one of Europe’s largest specialist active managers of fixed income with over \$59.6 billion in assets under management in corporate and sovereign debt, rates, and foreign exchange (as of June 30, 2018). Its investment philosophy and approach focus on delivering absolute-style returns, with an emphasis on capital preservation. BlueBay is a wholly owned subsidiary of Royal Bank of Canada with full investment autonomy and substantial operational independence.

Contagious currency crisis?

Specifically, the three European banks most exposed to Turkey have stakes in Turkish banks: Spain's BBVA (49.9% stake in Turkiye Garanti Bankasi), Italy's UniCredit (40.9% stake in Yapi ve Kredi Bankasi), and France's BNP (72% stake in Turk Ekonomi Bankasi), according to RBC Capital Markets.

Should the Turkish exposure be written off, RBC Capital Markets calculates it would represent a 12%, 6%, and 3% hit to book value, respectively. BBVA is the most exposed but the hit would likely still be manageable. Dutch bank ING also has some exposure that should be similarly manageable as its Turkish business accounted for less than 2% of the bank's tangible book value in 2017.

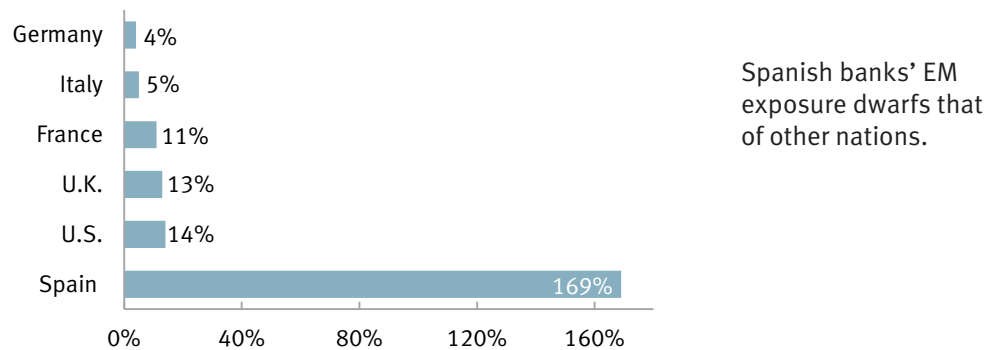
The question is, what if contagion spreads within EMs?

This is not our base-case scenario, though highly indebted countries facing hefty debt rollovers may well find it more difficult to procure financing in the current environment. In particular, Argentina, Turkey, Brazil, Indonesia, and Colombia all have to pay a substantial portion of their external debt within the next year.

Overall, our heat map of potentially problematic countries indicates that beyond Argentina and Turkey, the most at risk are Brazil, South Africa, Colombia, Indonesia, Mexico, and Chile.

Here again, exposure to potential problem countries seems to be most acute in Europe. Spain appears most vulnerable with exposure to the most fragile EM economies adding up to more than 160% of its banking system capital and reserves. Other European countries are much less directly exposed, though French banks have large exposure to Spain, while German banks have large exposure to France.

Foreign loans in most-challenged EMs as a percentage of total country bank equity

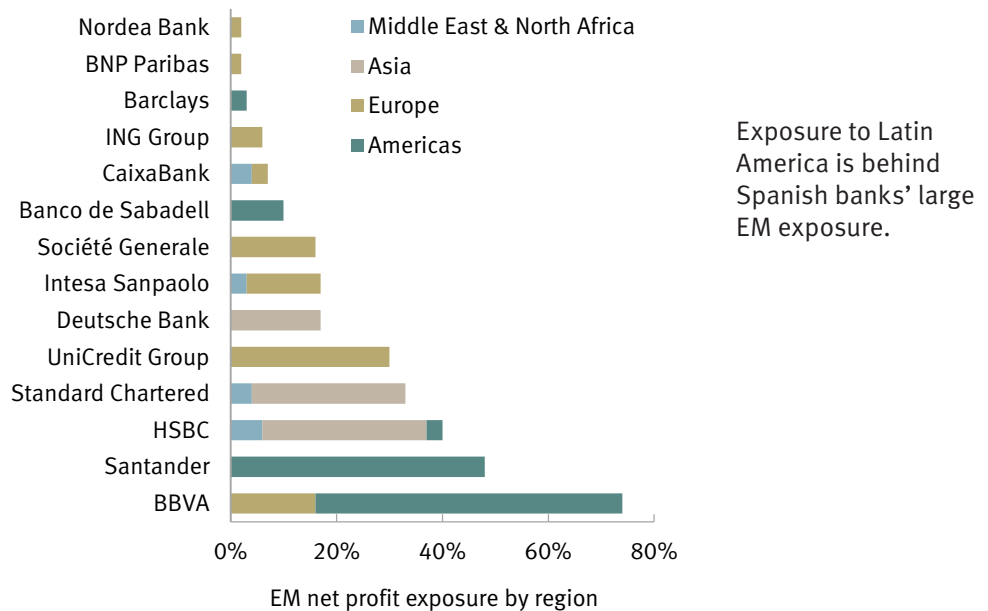


Source - Bank for International Settlements

Broadening the exercise to all EM countries, the European and U.K. banks that are most exposed to EMs are Spain's BBVA and Santander (due to Latin American exposure) and the U.K.'s HSBC and Standard Chartered (due to Asian exposure). For U.S. banks, Citi is most exposed, with some 32% of revenues generated in EMs, of which 15% is in Asia, 13% in Eastern Europe, Middle East, and Africa, and 4% in Latin America.

Contagious currency crisis?

European banks' emerging markets exposure by region



Source - RBC Capital Markets

Confinement

At this stage, EM stress seems relatively contained with Argentina and Turkey in particular in the crosshairs. While these countries have further to go to stabilize their currencies and financial systems—even if the process involves volatility and bumps along the way—we believe contagion risks are relatively limited for the wider EM universe, global financial system, and developed market banks.

This is not the late 1990s when a number of EM countries were vulnerable to contagion. More EM countries have positive current account balances, external debt denominated in local currencies, higher currency reserves, and free-floating exchange rates. These factors do not automatically immunize currencies and financial systems from stress, but they should contain it, in our view.

European banks are more exposed to volatility and stress in EMs than their U.S. counterparts. But as long as contagion remains confined, we would expect them to weather the difficulties.

It's all fundamental

Much of the story in recent months has been the outperformance of U.S. equities and the underperformance of just about everything else. Very little has worked outside of America, save for a few emerging markets. While the S&P 500 has rallied 8.5% year to date, other developed markets are down 3.8% as a group, and emerging markets have fallen 9.5% as a whole, in U.S. dollar terms.

Credit for U.S. leadership mainly goes to stronger-than-expected economic and earnings growth aided further by tax reform. Growth exceeded peer developed nations by wide margins at a time some emerging market fundamentals have faltered. Additionally, the Federal Reserve's gradual pace of interest rate hikes—at the same time other major central banks remained accommodative—has boosted confidence in the U.S. economy. Moreover, a number of Tech and Communications stocks benefitted from structural trends and performed particularly well, which enhanced S&P performance.

Equity views

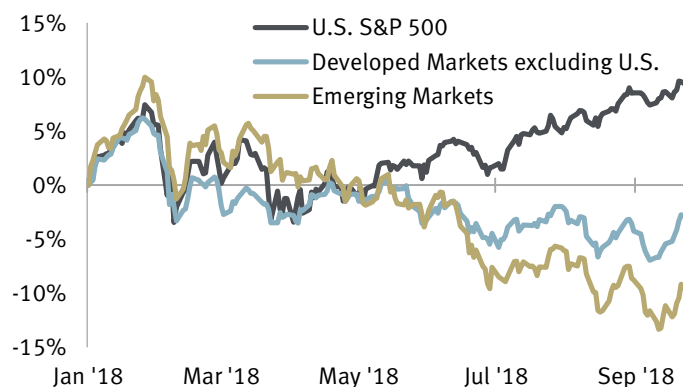
Region	Current
Global	+
United States	=
Canada	=
Continental Europe	=
United Kingdom	=
Asia (ex-Japan)	=
Japan	=

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

Will the bifurcated equity returns persist? We think the long-term U.S. bull market has further to go and should deliver at least modest gains in 2019, but other markets should perk up in the meantime.

Our constructive U.S. view is predicated on bright corporate earnings and economic outlooks. S&P 500 profits should grow at a high single-digit pace or slightly better in 2019, in our estimation. Although the economy is probably in a later stage of the cycle, all of our major forward-looking economic indicators continue

Major equity indexes year-to-date performance



While the U.S. leads so far in 2018, select developed markets look attractive and emerging markets are becoming more interesting.

Note: "Developed Markets excluding U.S." is represented by MSCI World ex-U.S. Index; "Emerging Markets" is represented by the MSCI Emerging Markets Index. Source - RBC Wealth Management, Bloomberg; data through 9/25/18

Kelly Bogdanova
San Francisco, United States
kelly.bogdanova@rbc.com

to signal very low recession risks. This is important because bull markets don't die of old age—recessions typically do them in.

Certainly there are near-term risks. The U.S. market could tread water or pull back due to uncertainties about tariffs, Washington drama, the midterm elections, or Fed policy. But we remain constructive about 2019 because we think the economic expansion and earnings growth cycle still have legs.

Other markets should perk up, probably as the U.S. dollar levels off and it becomes clearer to global investors that the torrid pace of U.S. economic growth could cool off next year, albeit to an above-trend pace. The opportunities for companies in developed markets outside of the U.S. aren't poor per se, they just have been temporarily overshadowed by the American boom.

European economic momentum is stabilizing and earnings estimates have been revised upward lately, unlike during the same period in previous years, and valuations for the region appear reasonable. Japan is looking more interesting to us. Strong earnings growth should persist, and the TOPIX is

trading almost 10% below its five-year average valuation based on trailing earnings.

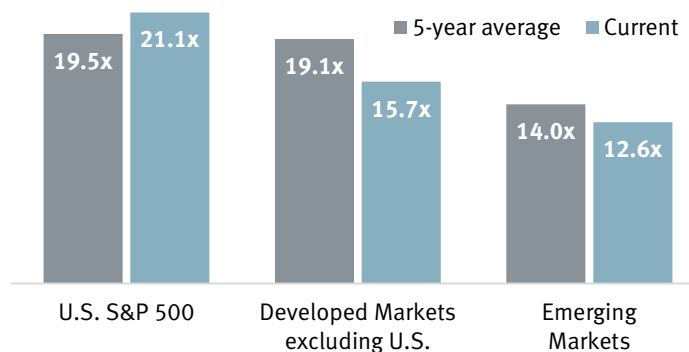
As a group, developed markets outside of the U.S. have price-to-earnings (P/E) ratios well below their five-year average whereas the U.S. is modestly above that level.

It's probably too soon to make oversized commitments to emerging market equities given the continued vulnerabilities in Turkey and Argentina. Also, uncertainties about China's efforts to reduce debt and its ongoing trade dispute with the U.S. could detract from Chinese GDP growth and blow against other Asian emerging economies.

But it's not too soon to put emerging market equities on the radar screen as there could be attractive entry points in coming months. In order to become more active in this asset class, we would like to see three things unfold:

- 1) Valuations need to cheapen further: Emerging market P/E ratios are already moderately below the five-year average based on trailing earnings and the forward consensus estimate, but they typically are

Price-to-earnings ratios based on trailing 12-month earnings (in USD)



Valuation showdown: Markets outside of the U.S. have the advantage compared to 5-year averages.

Note: "Developed Markets excluding U.S." is represented by MSCI World ex-U.S. Index; "Emerging Markets" is represented by the MSCI Emerging Markets Index. Source - RBC Wealth Management, Bloomberg; data through 9/26/18

even cheaper when great buying opportunities arise.

- 2) The dollar needs to peak against a broad basket of currencies: This could occur if the Fed signals it may slow its rate hike cycle or if it hints the cycle is nearing the end.
- 3) Fundamentals of emerging markets need to improve: As a group, those countries almost always grow GDP faster than more mature developed economies. But lately that gap has narrowed. We need to see it start to widen again with stronger growth coming from emerging markets.

We maintain our modest Overweight on global equities overall. While we expect worthwhile returns from the U.S. market in 2019, developed markets outside of the U.S. also have attractive fundamentals and emerging markets may provide an opportunity in coming months.

Regional highlights

United States

- Major U.S. equity indexes climbed to record levels again in September despite heightened U.S. and China trade tensions that ushered in more tit-for-tat tariffs. The S&P 500 is up 8.5% year to date. Thus far, the

U.S.-China tariffs have had little discernible impact on the domestic economy, inflation, consumer confidence, or corporate earnings. Q3 is likely to deliver GDP growth well above trend, perhaps around 4% or more, for the second straight quarter. Looking ahead to 2019, RBC Capital Markets expects GDP to grow at a 3.0% above-trend rate led by strong consumer spending.

- S&P 500 earnings should end this year up a blistering 20%+ compared to 2017 (roughly 8 percentage points of that is due to tax cuts). While we believe momentum will slow next year and the visible tax cut benefits will drop out of the numbers, we anticipate earnings will grow in the high single-digits to low double-digits in 2019. This should be enough to support worthwhile market gains, in our view.
- Despite the recent string of all-time highs, the S&P 500 is still reasonably valued. It trades at a 16.8x forward price-to-earnings (P/E) ratio based on RBC Capital Markets' 2019 estimate of \$173 per share. This is only moderately above the long-term average P/E ratio. Therefore, valuations should not hinder the

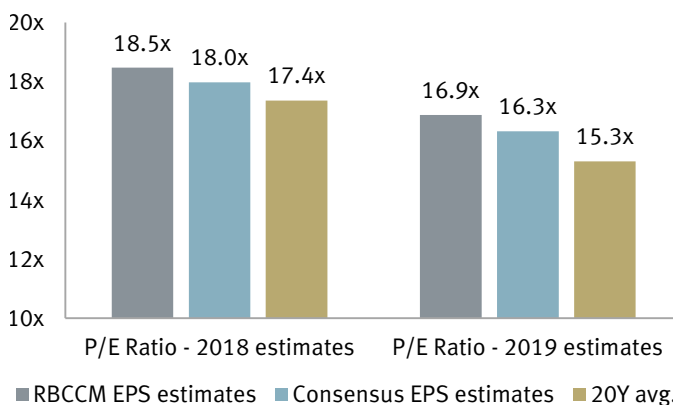
Kelly Bogdanova
San Francisco, United States
kelly.bogdanova@rbc.com

Patrick McAllister, CFA
Toronto, Canada
patrick.mcallister@rbc.com

Frédérique Carrier
London, United Kingdom
frederique.carrier@rbc.com

Jay Roberts, CFA
Hong Kong, China
jay.roberts@rbc.com

S&P 500 price-to-earnings (P/E) ratios



The U.S. equity market is slightly more expensive than historical averages, but not onerously so.

Source - RBC Wealth Management, FactSet; data through 9/28/18

market over the near term. We remain constructive on U.S. equities.

Canada

- Canada struck an 11th-hour deal to join the U.S. and Mexico in a revised North American Free Trade Agreement. The United States-Mexico-Canada agreement will see Canada provide increased access to its tightly-controlled dairy market in exchange for the preservation of a key dispute-resolution system and protection against the imposition of U.S. auto import tariffs. Steel and aluminum duties imposed by the U.S. on Canada and Mexico in June remain in place. The deal is a welcome development for investors in Canada as it avoids the uncertainty of a “no deal” scenario as well as the potentially devastating impact of tariffs on U.S. auto imports.
- RBC Capital Markets reiterated its WTI crude oil forecast of \$76 per barrel for 2019 and introduced a forecast of \$83 for 2020. The firm’s outlook is grounded in the view that the global oil market will continue to tighten amid ongoing production declines in Venezuela, the imposition of U.S. sanctions against Iran, and limited OPEC spare capacity. The positive implications of the bullish forecast for Canadian producers

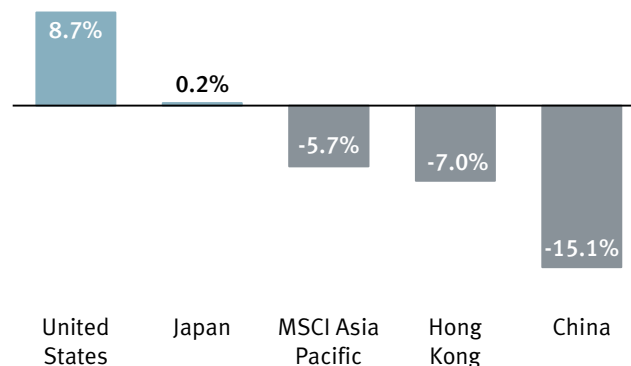
are blunted by expectations for wider discounts for both Canadian heavy and light crude streams, with the former suffering from a lack of transportation capacity and the latter crowded out by an increasingly self-sufficient U.S.

- The federal government’s bid to increase crude oil pipeline capacity through the expansion of the Trans Mountain pipeline was dented by a court ruling that judged consultations with affected indigenous communities fell short and that the National Energy Board’s approval failed to address the project’s impact on endangered killer whales. The government will now seek to address both shortfalls with the project’s fate and in-service date hanging in the balance. We believe Canada’s growing energy transportation deficit is a significant hurdle to attracting investment—either directly in energy projects or via publicly traded markets.

Continental Europe & U.K.

- We recommend investors hold Market Weight positions in European and U.K. equities. Trade tensions and emerging market (EM) woes crimped European economic growth earlier in the year, with export-oriented manufacturers suffering. The

Asian equity performance compared to the U.S.



Asian equities have significantly underperformed their U.S. peers in 2018 as trade disputes continue and the value of goods impacted by the tariffs grows.

Source - RBC Wealth Management, FactSet; data through 9/28/18

domestic economy, however, remains sturdy. Overall, the pace of growth will probably settle back to a still-respectable 0.4% q/q from last year's 0.7%. The easing of trade tensions between the EU and U.S. will help, though continued EM difficulties, Italian budget discussions, and trade tensions between China and the U.S. could impede the EU from regaining traction over the next few months.

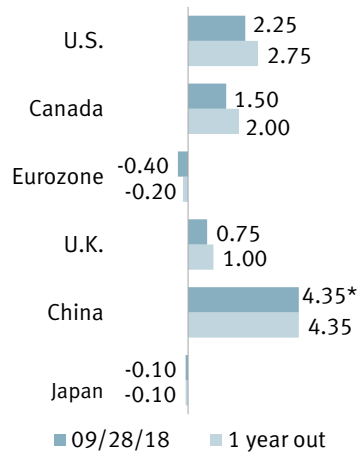
- Against this relatively healthy, if not robust, background, European equities appear reasonably valued. We prefer core countries to those of the periphery as the latter's equity markets are dominated by banks. While we like exporters, we would be cautious on those with heavy EM exposure.
- As for the U.K., with the March 2019 Brexit deadline fast approaching, tensions are intensifying between the country and the EU, and within the Conservative party. Our base-case scenario remains that of a "soft" Brexit with a transition period, though tail risks remain important. Details regarding the future economic relationship with the EU are likely to take years to iron out, capping U.K. economic growth and British pound strength. We maintain our long-standing preference for companies that generate a substantial portion of their revenues outside of the U.K.
- If the U.S. were to tax all Chinese imports, approximately 0.5% might be subtracted from China's growth, a material but manageable reduction, in our view. The potential impact of the trade dispute on U.S. growth is smaller.
- We see little chance of a favourable resolution in the short term as the U.S. is effectively demanding that China change its laws, regulations, and behaviours with respect to market access and technology transfer.
- In Japan, Prime Minister Shinzo Abe won the Liberal Democratic Party leadership election, as expected. We continue to prefer Japanese equities among the major Asian equity markets. The TOPIX had seen some weakness due to the trade dispute, but a powerful rally in September has pushed the index into positive territory for 2018. TOPIX earnings growth has been robust, while the yen has weakened recently against the dollar. Equity valuations also remain supportive.

Asia

- The MSCI Asia Pacific Index is down 4.9% year to date. The trade dispute between the U.S. and China continues to intensify, impacting market sentiment in Asia. The total value of goods currently set to be impacted by tariffs is \$360B, with \$250B of those tariffs on China, at rates of 5%–25%.

Resistance movement

Central bank rate (%)



*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

Global bond investors were welcomed back from summer breaks in style as sovereign yields climbed markedly higher in September. They now sit just a stone's throw from either cycle highs or year-to-date highs, depending on each market. With economic data unfolding as expected and no major surprises from central banks, investors have found themselves in a position similar to that of children who are now back in school—wondering how they got there and what's in store for them.

Notably, the 10-year U.S. Treasury yield is back above 3% and investors are once again keenly eyeing key technical resistance levels at 3.08% and 3.13%, the latter being the year-to-date high reached in May. A new catalyst to push yields higher was a mid-month deadline for U.S. pension fund contributions, which effectively sidelined a large marginal buyer of bonds. Pension funds typically purchase longer-dated bonds, so that the market adjusted to a weaker buyer base, sending yields higher.

With limited changes to monetary policy expectations globally, the 10-year U.S. Treasury yield moving higher had a steepening effect not only on the U.S. curve, but also on other major sovereign curves whose respective 10-year bonds are highly correlated with U.S. Treasuries. Although the trend remains for flatter curves across the majority of markets, especially in North America, the September steepening offered a welcome chance to take a breath.

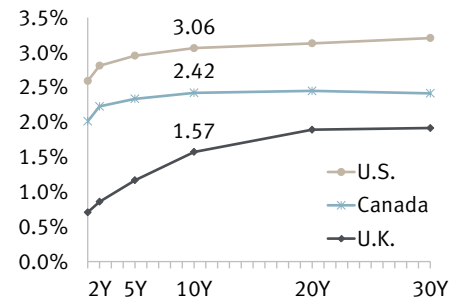
We generally remain in the camp that central bankers will err on the side of caution, not wanting to make any

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

moves that will choke off what has been an incredibly slow, yet long, recovery. This could create an environment where inflation takes hold and yields move sustainably higher, though there has been little evidence of that yet.

This leaves us in what we could categorize as somewhat foreign land, another feeling likely shared by the children back at school. We would urge clients to take note of our regional experts' advice to manage exposure to government bonds and credit products as we edge slowly toward the end of the cycle.

Christopher Girdler, CFA
Toronto, Canada
christopher.girdler@rbc.com

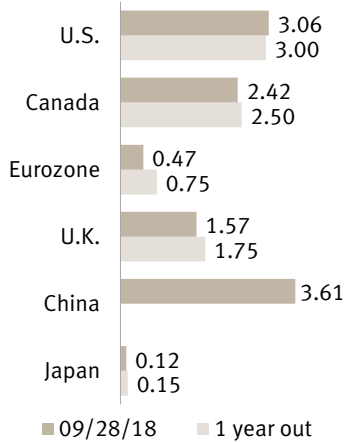
Sam Renikoff
Minneapolis, United States
sam.renikoff@rbc.com

Mikhail Pasic, CFA
Toronto, Canada
mikhail.pasic@rbc.com

Rufaro Chiriseri, CFA
London, United Kingdom
rufaro.chiriseri@rbc.com

Chun-Him Tam
Hong Kong, China
chunhim.tam@rbc.com

10-year rate (%)



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

Regional highlights

United States

- Supply is expected by RBC Capital Markets to remain well below 2017 levels through the end of the year, which should broadly support the municipal bonds sector. The front end of the municipal yield curve has cheapened relative to Treasuries, but investors can still only capture 69% and 74% of Treasury yields on 2- and 5-year bonds, respectively. We continue to favor municipal bonds with maturities beyond 10 years, where investors can capture 85%–100% of equivalent taxable Treasury yields.
- Investment-grade bonds continue to struggle as tightening credit spreads were outweighed by a more than 20 basis point (bps) jump in the 10-year Treasury yield. The Bloomberg Barclay’s Investment Grade Corporate Bond Index now yields nearly 4.10%, the highest since 2011. High-yield bonds, however, continue to add to 2018 outperformance as spreads tightened further and are now very close to the current cycle’s tightest levels. With high-yield valuations looking increasingly rich, in our view, we continue to favor the preferred

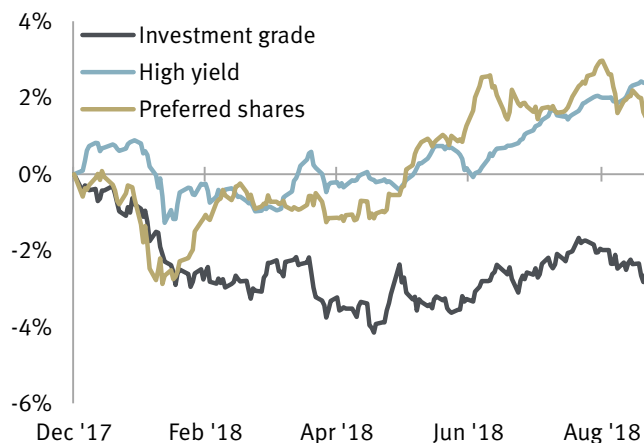
share market for picking up yield. Prices look cheap after falling 1.55% in September on the back of higher Treasury yields.

- The Federal Reserve raised rates for the third time this year and the eighth time this cycle, bringing the Fed Funds rate to a 2.00%–2.25% range. Out of 16 officials, 12 now favor raising rates once more in December, increasing the likelihood the Fed looks past yield curve flatness for the time being and raises rates a fourth time in 2018. But more importantly, officials eliminated a longstanding reference that categorized policy as “accommodative,” which, in our view, is an indication that we are nearing the end of the Fed’s tightening cycle. The Fed Funds futures market currently prices in just three more hikes left in the cycle, and given the flatness of the yield curve, we think the Fed will ultimately pause hiking rates at some point next year.

Canada

- Bond yields in Canada moved higher, and yields are now at, or near, the highest levels of the year across all maturities. The largest increase in yields came on longer-dated maturities as the move came on the

Investment grade bonds continue to underperform as Treasury yields rise



With high-yield valuations looking increasingly rich, we continue to favor the preferred share market for picking up yield.

Source - RBC Wealth Management, Bloomberg; data through 9/24/18

back of strong U.S. economic data and optimism about a de-escalation of global trade disputes.

- Canadian economic data was mixed, with a strong retail sales report offset by softer employment data. With headline inflation near a seven-year high at 2.8%, the market is pricing in three rate hikes that would take the Bank of Canada's overnight rate to 2.25% by mid-2019. We view this as a reasonable expectation.
- The Government of Canada yield curve continues to imply that rates will crest below 2.50%. We continue to believe this is underpricing the upside risks to inflation, especially given the BoC is likely to raise rates in a slow and gradual fashion. The sharp uptick in the interest component of debt service outlays in recent national balance sheet accounts data is evidence of the Canadian borrower's sensitivity to higher short-term rates.
- A-rated 2-5 year corporate and government bonds trading below par and offering yields in the 2.50%–3% range are timely purchases, in our view.
- Investment Grade (IG) credit spreads held steady in September,

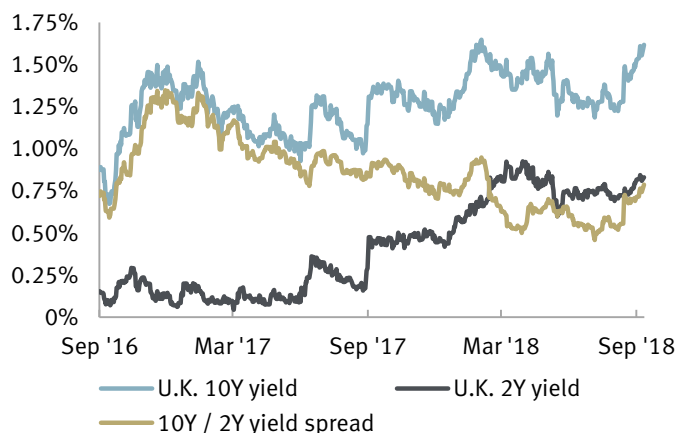
but once again underperformed their U.S. counterparts, perhaps because investors are waiting for the inaugural bank bail-in bond offering. This new bond structure will contain a provision whereby the bonds can be converted into equity if the regulator deems a financial institution non-viable. Investors may demand a higher risk premium for this product than the deposit notes structure it is replacing. Given the significant portion of bond issuance that banks account for, this could have an impact on the broader corporate bond market and supports our cautious stance on credit risk.

Continental Europe & U.K.

Europe

- European Central Bank (ECB) president Mario Draghi's recent comments on a "relatively vigorous" inflation pickup have increased the probability of a rate hike in the second half of 2019. This doesn't change our current view, as we still anticipate a rate hike in Q3 2019.
- We continue to prefer European credit to government bonds for the additional yield pickup; cyclical issuers are most attractive because they will benefit from the positive

The U.K. yield curve steepened in September



Yield increase is not a signal of a shift in monetary policy.

Source - RBC Wealth Management, Bloomberg; data through 9/24/18

economic backdrop and strong fundamentals. We are closely monitoring the ECB's plan to end asset purchases in December 2018, as that will be contingent on a continued positive economic outlook.

U.K.

- The recent yield spike in the UK 10-year yield is more reflective of a change in the referenced 10-year bond (from a Dec. 2027 bond to an Oct. 2028 bond) than of a shift in monetary policy guidance. The higher yield on the Oct. 2028 bond meant the spread between the 2-year and the new 10-year reference bond widened. The slight uptick in inflation from 2.4% to 2.5% y/y also contributed to the yield increase, though to a lesser degree.
- We recently upgraded our position on Gilts to Market Weight from Underweight, as we see continued demand for safe-haven assets due to Brexit uncertainty that will be the main driver of the Bank of England's policy stance.
- Turning to credit, we maintain a Market Weight position due to tighter spreads and Brexit headwinds. We favour non-UK-centric issuers within the cyclicals and financials sectors, as they are better positioned to benefit from continued global growth.

Asia

- The relief rally for Asian credit proved to be short-lived after the primary market returned from its summer break. Supply indigestion ensued. The riskier countries—Indonesia, India and China—have been under renewed pressure, but we feel it's important to differentiate the challenges that these three countries are facing.

- Indonesia and India are more exposed to the Federal Reserve's hiking cycle and a stronger U.S. dollar. For example, although both countries have generated real GDP growth greater than 5% in recent years, they continue to run current account deficits and thus remain susceptible to external shocks. Furthermore, both Indonesia and India will hold general elections in the first half of 2019, and any significant fiscal policy changes or major reforms are likely to be deferred.
- China's credit markets have been heavily impacted by the tightening of onshore liquidity in recent months, a result of the government's deleveraging efforts. Bond refinancing is the main concern in the near term and investors are particularly attentive to any changes in monetary and fiscal policy. We continue to emphasize that differentiation between larger companies with wide access to financing and smaller ones with fewer funding channels is essential to maneuver through volatility and avoid pitfalls.
- Overall, we remain cautious on Asian credit but believe it is in a better position to weather market volatility and challenges than credit in other emerging market regions. Before we become more constructive, we would like to see greater stability in bond market liquidity and further guidance on Fed policy.

Red metal prices seeing red

Commodity forecasts

	2018E	2019E
Oil (WTI \$/bbl)	68.08	75.91
Natural Gas (\$/mmBtu)	2.95	2.85
Gold (\$/oz)	1,278	1,300
Copper (\$/lb)	2.88	2.75
Corn (\$/bu)	3.80	3.98
Wheat (\$/bu)	5.01	4.90

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

Last spring the outlook for the copper market seemed to be heading toward an inflection point given an uptick in demand for electric vehicles, a shift toward renewable energy, and a lack of investments into new copper projects worldwide. Since then, however, investor sentiment has largely turned negative due to the evolving U.S.-China trade dispute, which has driven copper prices lower as the market digests the potential of a slowdown in China's economy.

The Trump administration recently increased pressure on China by slapping it with another round of tariffs, this time a 10% tax on \$200B in Chinese goods. It also warned this could increase to 25% by January 2019 if China were to retaliate. China is by far the world's largest consumer of copper at approximately 48% of global supply, followed by Europe at 16%, according to Wood Mackenzie. As a result, any signs of deceleration within the Chinese economy would likely pressure copper prices.

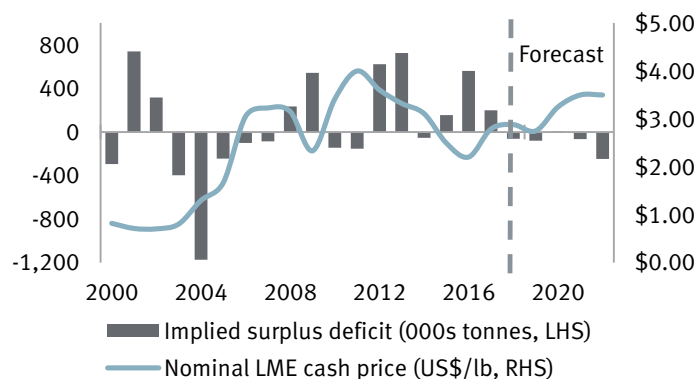
RBC Capital Markets is taking a cautious stance as trade uncertainty continues to unfold but believes copper prices can find support between \$2.50 to \$2.75/lb

given that the market continues to look fairly balanced over the next 2–3 years. This is predicated on a scenario where there are no meaningful escalations in the U.S.-China trade dispute and economic data from China remains relatively unchanged.

Since reaching a high of \$2.93 in June, copper prices have pulled back by approximately 17%. RBC Capital Markets has trimmed its copper forecasts to \$2.88 and \$2.75/lb for 2018 and 2019 (from \$3.22 and \$3.25), respectively. We anticipate the U.S. Federal Reserve will continue its rate hike cycle, which combined with the ongoing U.S.-China trade spat and any further strength in the dollar could temporarily dampen copper producers' capital spending plans and global demand for copper.

Looking out to 2022, RBC Capital Markets forecasts a supply deficit of roughly 250,000 tonnes and maintains its long-term copper estimate of \$3.00/lb. We remain constructive on copper over the long term because trends such as electrification should play out over time. Until we see net new investments into copper projects, we believe the current backdrop looks compelling.

Global refined copper supply and demand



The copper market is expected to experience a multi-year global supply deficit.

Richard Tan
Toronto, Canada
richard.tan@rbc.com

Source - RBC Capital Markets, Wood Mackenzie, Bloomberg

Currency forecasts

Currency pair	Current rate	Forecast Dec 2019	Change*
Major currencies			
USD Index	95.13	93.72	-1%
CAD/USD	0.77	0.78	1%
USD/CAD	1.29	1.28	-1%
EUR/USD	1.16	1.20	4%
GBP/USD	1.30	1.29	-1%
USD/CHF	0.98	0.95	-3%
USD/JPY	113.70	125.00	10%
AUD/USD	0.72	0.70	-3%
NZD/USD	0.66	0.70	6%
EUR/JPY	131.93	150.00	14%
EUR/GBP	0.89	0.93	5%
EUR/CHF	1.13	1.14	1%
Emerging currencies			
USD/CNY	6.86	7.30	6%
USD/INR	72.49	73.00	1%
USD/SGD	1.36	1.40	3%

* 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: Treading lightly

Supportive factors for the dollar eased in early September, capping the uptrend that had been firmly entrenched since April. A reprieve in emerging market pressures following central bank actions alongside a muted reaction to U.S.-China trade developments tempered dollar demand. Renewed dollar support should come from growing expectations for further Fed rate hikes, in our view, although this advantage is likely to fade in 2019 as monetary policy is poised to tighten outside of the U.S.

Euro: Proceed with caution

Market optimism towards an improving economic outlook and a drop in fears around Italian politics underpinned a mid-August euro upturn. Italian budget fears unwound the rally in late September, and renewed euro weakness is likely to prevail in the remaining months of 2018. With little to drive short-end European rates higher and U.S. rates grinding upward, the euro is poised to take guidance from widening rate spreads through year's end.

British pound: Brexit? What Brexit?

The British pound appeared to shake off part of its Brexit burden in September, as conciliatory EU-U.K. negotiations propelled the currency higher against both the U.S. dollar and the euro.

Investor optimism appears premature, in our view, given the still-elevated (and underpriced) probability of a no-deal outcome. Mounting U.K. political pressures are a risk to the transition, in our view, and continue to underpin our cautious currency outlook.

Canadian dollar: Wait and see

Growing optimism for a negotiated NAFTA deal sent the Canadian dollar sharply higher in September, capping a volatile period for the currency. As earlier tailwinds of U.S.-Canada rate spreads and crude oil price dynamics fade, an upbeat Bank of Canada assessment on the need for future rate hikes further lifted the currency. With a trade deal coming to fruition, rising interest rate expectations should underpin the currency trading range-bound against the U.S. dollar through early 2019, in our view.

Japanese yen: Extending the losses

Pressure on the yen persisted in September, extending losses against the U.S. dollar since March. Benign market reaction to U.S.-China trade developments is not supporting the yen as a safe haven, with the currency instead taking cues from rising U.S. yields and attendant demand favoring the dollar. Ongoing caution from the Bank of Japan could keep the currency under pressure through year's end.

Canadian dollar whipsawed by trade developments



The Canadian dollar has taken its cues from developments around NAFTA negotiations recently.

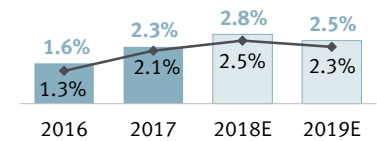
Laura Cooper
 London, United Kingdom
 laura.cooper@rbc.com

Source - RBC Wealth Management, Bloomberg; data through 9/19/18

■ Real GDP growth ◆ Inflation rate

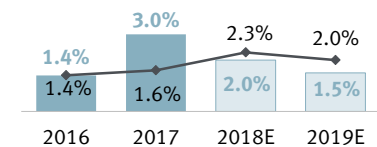
United States — Robust growth

- As expected, the Fed raised rates 25 basis points in September while signaling another hike in December, a nod to current economic strength. Q2 GDP robust at 4.2% q/q and Q3 GDP tracking at 3.8% q/q. Inflationary pressures retreated; core CPI fell to 2.2% y/y, core PPI to 2.3% y/y, import prices to 3.7% y/y. Business sentiment at record highs, consumer sentiment highest since 2000.



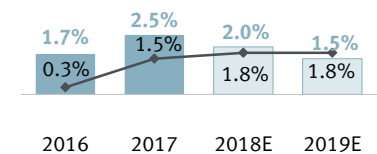
Canada — Another rate hike

- Hiring reversed August's gains with net job losses of 51,000 pushing the unemployment rate back to 6%. Retail sales remain robust at 0.9% m/m growth and core inflation rose to 2.0% y/y. The Bank of Canada is expected to hike rates 25 basis points at October 24 meeting. July GDP rose more than expected at 0.2% m/m. New trade agreement removes major uncertainty.



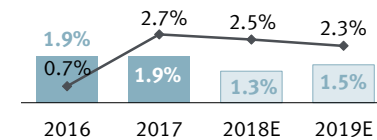
Eurozone — Italian fear

- Q2 GDP held at 2.1% y/y. Headline inflation rose to 2.1% y/y although core inflation came in at just 0.9% y/y, dealing a blow to ECB President Draghi who cited faster wage growth would translate into "relatively vigorous" pickup in inflation. Italian bond yields jumped after budget plans would see a worrying deficit of 2.4% of GDP. Italy's credit rating is on watch for a downgrade by Moody's.



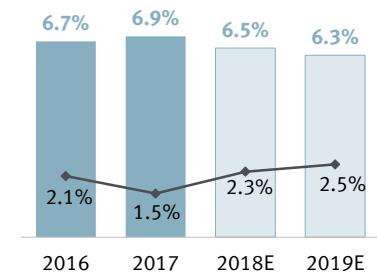
United Kingdom — Solid month

- Economic data was fairly strong, with July GDP rising 0.3% q/q, lifting the 3-month rolling average to 0.6%—the fastest pace in a year. Strength in construction and retail sales boosted growth, both up 3.5% y/y. Consumer prices rose a surprising 2.7% y/y, with wages up 2.6% y/y, boosting chances of another rate hike in 2019, although rates will ultimately be dictated by the Brexit outcome.



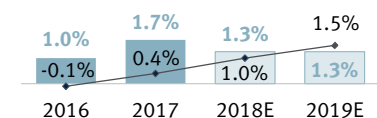
China — Still slowing

- Growth continued to show signs of modest slowdown through August. Retail sales and industrial production held strong, rising 9.0% and 6.1% y/y, respectively, yet fixed asset investment rose just 5.3% YTD—the slowest pace in 18 years. The government is expanding infrastructure spending in the west of the country, but the trade war with the U.S. and slowing private investment remain headwinds.



Japan — Same story

- Q2 GDP was revised higher to 3.0% from 2.6% y/y, driven by strength in private investment and corporate profits, which rose 12.8% and 17.9% y/y, respectively. Faster growth may help fuel inflation, though core consumer prices rose just 0.9% y/y in August. The Bank of Japan left policy unchanged in September, with inflation still nowhere near 2%.



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	2,913.98	0.4%	9.0%	15.7%
Dow Industrials (DJIA)	26,458.31	1.9%	7.0%	18.1%
NASDAQ	8,046.35	-0.8%	16.6%	23.9%
Russell 2000	1,696.57	-2.5%	10.5%	13.8%
S&P/TSX Comp	16,073.14	-1.2%	-0.8%	2.8%
FTSE All-Share	4,127.91	0.5%	-2.2%	1.9%
STOXX Europe 600	383.18	0.2%	-1.5%	-1.3%
EURO STOXX 50	3,399.20	0.2%	-3.0%	-5.4%
Hang Seng	27,788.52	-0.4%	-7.1%	0.9%
Shanghai Comp	2,821.35	3.5%	-14.7%	-15.8%
Nikkei 225	24,120.04	5.5%	6.0%	18.5%
India Sensex	36,227.14	-6.3%	6.4%	15.8%
Singapore Straits Times	3,257.05	1.4%	-4.3%	1.2%
Brazil Ibovespa	79,342.42	3.5%	3.8%	6.8%
Mexican Bolsa IPC	49,504.16	-0.1%	0.3%	-1.7%
Bond yields	9/28/18	8/31/18	9/29/17	12 mo. Chg
US 2-Yr Tsy	2.819%	2.627%	1.483%	1.34%
US 10-Yr Tsy	3.061%	2.860%	2.334%	0.73%
Canada 2-Yr	2.214%	2.070%	1.517%	0.70%
Canada 10-Yr	2.427%	2.228%	2.099%	0.33%
UK 2-Yr	0.824%	0.731%	0.467%	0.36%
UK 10-Yr	1.573%	1.427%	1.365%	0.21%
Germany 2-Yr	-0.523%	-0.605%	-0.692%	0.17%
Germany 10-Yr	0.470%	0.326%	0.464%	0.01%
Commodities (USD)	Price	1 month	YTD	12 month
Gold (spot \$/oz)	1,192.50	-0.7%	-8.5%	-6.8%
Silver (spot \$/oz)	14.70	1.1%	-13.2%	-11.7%
Copper (\$/metric ton)	6,263.50	5.0%	-13.1%	-2.6%
Uranium (\$/lb)	27.50	3.4%	15.1%	35.8%
Oil (WTI spot/bbl)	73.25	4.9%	21.2%	41.8%
Oil (Brent spot/bbl)	82.72	6.8%	23.7%	43.8%
Natural Gas (\$/mmBtu)	3.01	3.2%	1.9%	0.0%
Agriculture Index	277.03	-3.2%	-1.8%	-1.5%
Currencies	Rate	1 month	YTD	12 month
US Dollar Index	95.1320	0.0%	3.3%	2.2%
CAD/USD	0.7746	1.0%	-2.6%	-3.4%
USD/CAD	1.2908	-1.0%	2.7%	3.5%
EUR/USD	1.1604	0.0%	-3.3%	-1.8%
GBP/USD	1.3031	0.5%	-3.6%	-2.7%
AUD/USD	0.7224	0.5%	-7.5%	-7.8%
USD/JPY	113.7000	2.4%	0.9%	1.1%
EUR/JPY	131.9300	2.4%	-2.5%	-0.7%
EUR/GBP	0.8904	-0.6%	0.3%	0.9%
EUR/CHF	1.1398	1.4%	-2.6%	-0.4%
USD/SGD	1.3670	-0.4%	2.3%	0.7%
USD/CNY	6.8688	0.5%	5.6%	3.2%
USD/MXN	18.7183	-1.9%	-4.8%	2.5%
USD/BRL	4.0493	-0.1%	22.4%	28.0%

Stabilizing economic data helped boost European stocks.

The 10-year Treasury yield approached year-to-date highs on the back of rising inflation expectations.

Crude oil surged due to limited supply out of Venezuela, Libya, and Iran.

U.S. dollar weakness contributed to stabilizing emerging market currencies.

Equity returns do not include dividends, except for the 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 fallen 3.4% vs. the U.S. dollar during the past 12 months. USD/JPY 113.7 means 1 U.S. dollar will buy 113.7 yen. USD/JPY 1.1% return means the U.S. dollar has risen 1.1% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 9/28/18.

Research resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC Wealth Management Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's investment advisors / financial advisors who are engaged in assembling portfolios incorporating individual marketable securities. The Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee, providing additional tactical and thematic support utilizing research from the RBC Investment Strategy Committee, RBC Capital Markets, and third-party resources.

Global Portfolio Advisory Committee members:

Jim Allworth – Co-chair; Investment Strategist, RBC Dominion Securities Inc.

Kelly Bogdanova – Co-chair; Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group – U.S. Equities, RBC Capital Markets, LLC

Frédérique Carrier – Co-chair; Managing Director, Head of Investment Strategies, Royal Bank of Canada Investment Management (U.K.) Limited

Mark Bayko, CFA – Head, Portfolio Management, RBC Dominion Securities Inc.

Craig Bishop – Lead Strategist, U.S. Fixed Income Strategies Group, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Laura Cooper – Head of FX Solutions and Strategy, Royal Bank of Canada Investment Management (U.K.) Limited

Janet Engels – Head of Portfolio Advisory Group U.S., RBC Wealth Management, RBC Capital Markets, LLC

Tom Garretson, CFA – Fixed Income Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Christopher Girdler, CFA – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Patrick McAllister, CFA – Canadian Equities Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – Equities, RBC Dominion Securities Inc.

Jay Roberts, CFA – Head of Investment Solutions & Products, RBC Wealth Management Hong Kong, RBC Investment Services (Asia) Limited

Alan Robinson – Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group – U.S. Equities, RBC Capital Markets, LLC

Alastair Whitfield – Head of Fixed Income - British Isles, Royal Bank of Canada Investment Management (U.K.) Limited

The RBC Investment Strategy Committee (RISC) consists of senior investment professionals drawn from individual, client-focused business units within RBC, including the Portfolio Advisory Group. The RISC builds a broad global investment outlook and develops specific guidelines that can be used to manage portfolios. The RISC is chaired by Daniel Chornous, CFA, Chief Investment Officer of RBC Global Asset Management Inc.

Additional Global Insight authors:

Timothy Ash – Emerging Markets Senior Sovereign Strategist, BlueBay Asset Management LLP, a wholly owned subsidiary of Royal Bank of Canada

Rufaro Chiriseri – Fixed Income Specialist, RBC Investment Management (U.K.) Limited

Mikhial Pasic, CFA – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Sam Renikoff – Fixed Income Portfolio Associate, U.S. Fixed Income Strategies Group, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Chun-Him Tam – Head of UHNW Solutions & Head of Fixed Income Asia, Royal Bank of Canada, Singapore Branch

Richard Tan – Canadian Equities Associate Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – Equities, RBC Dominion Securities Inc.

Required disclosures

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

Non-U.S. Analyst Disclosure: Jim Allworth, Mark Bayko, Christopher Girdler, Patrick McAllister, Mikhial Pasic, and Richard Tan, employees of RBC Wealth Management USA's foreign affiliate RBC Dominion Securities Inc.; and Frédérique Carrier, Laura Cooper, Rufaro Chiriseri, and Alastair Whitfield, employees of RBC Wealth Management USA's foreign affiliate Royal Bank of Canada Investment Management (U.K.) Limited; Jay Roberts, an employee of RBC Investment Services (Asia) Limited; Chun-Him Tam, an employee of Royal Bank of Canada, Singapore Branch; and Timothy Ash, an employee of BlueBay Asset Management, a wholly owned subsidiary of Royal Bank of Canada; contributed to the preparation of this publication. These individuals are not registered with or qualified as research analysts with the U.S. Financial Industry Regulatory Authority ("FINRA") and, since they are not associated persons of RBC Wealth Management, they may not be subject to FINRA Rule 2241 governing communications with subject companies, the making of public appearances, and the trading of securities in accounts held by research analysts.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2> to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 60 South Sixth St, Minneapolis, MN 55402.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income

(RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), the Guided Portfolio: All Cap Growth (RL 12), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets, LLC ratings of Top Pick/Outperform, Sector Perform, and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Top Pick & Outperform]	859	54.33	251	29.22
Hold [Sector Perform]	646	40.86	125	19.35
Sell [Underperform]	76	4.81	5	6.58

Explanation of RBC Capital Markets, LLC Equity Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings: Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.

Not Rated (NR): The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

Risk Rating: The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Risks to Rating and Price Target

When RBC Wealth Management assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Risks to Rating and Price Target", respectively.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of RBC Capital Markets, LLC, and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets, LLC and its affiliates.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/

dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our Web site at <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2>. Conflicts of interests related to our investment advisory business can be found in Part II of the Firm's Form ADV or the Investment Advisor Group Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part II of the ADV, or Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; by RBC Investment Services (Asia) Limited, a subsidiary of RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Hong Kong, China; and by Royal Bank of Canada Investment Management (U.K.) Limited, an investment management company with principal offices located in London, United Kingdom.

Third-party disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including

clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of Royal Bank of Canada. In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC. Additional information is available upon request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. ©Registered trademark of Royal Bank of Canada. Used under license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

RBC Wealth Management (British Isles): This publication is distributed by Royal Bank of Canada Investment Management (U.K.) Limited and RBC Investment Solutions (CI) Limited. Royal Bank of Canada Investment Manage-

ment (U.K.) Limited is authorised and regulated by the Financial Conduct Authority (Reference number: 146504). Registered office: Riverbank House, 2 Swan Lane, London, EC4R 3BF, UK. RBC Investment Solutions (CI) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business in Jersey. Registered office: Gaspé House, 66-72 Esplanade, St Helier, Jersey JE2 3QT, Channel Islands, registered company number 119162.

To Hong Kong Residents: This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ('SFC'), and RBC Investment Services (Asia) Limited, which is regulated by the SFC. Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521).

To Singapore Residents: This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

© 2018 RBC Capital Markets, LLC - Member NYSE/FINRA/SIPC

© 2018 RBC Dominion Securities Inc. - Member Canadian Investor Protection Fund

© 2018 RBC Europe Limited

© 2018 Royal Bank of Canada

All rights reserved

RBC1524