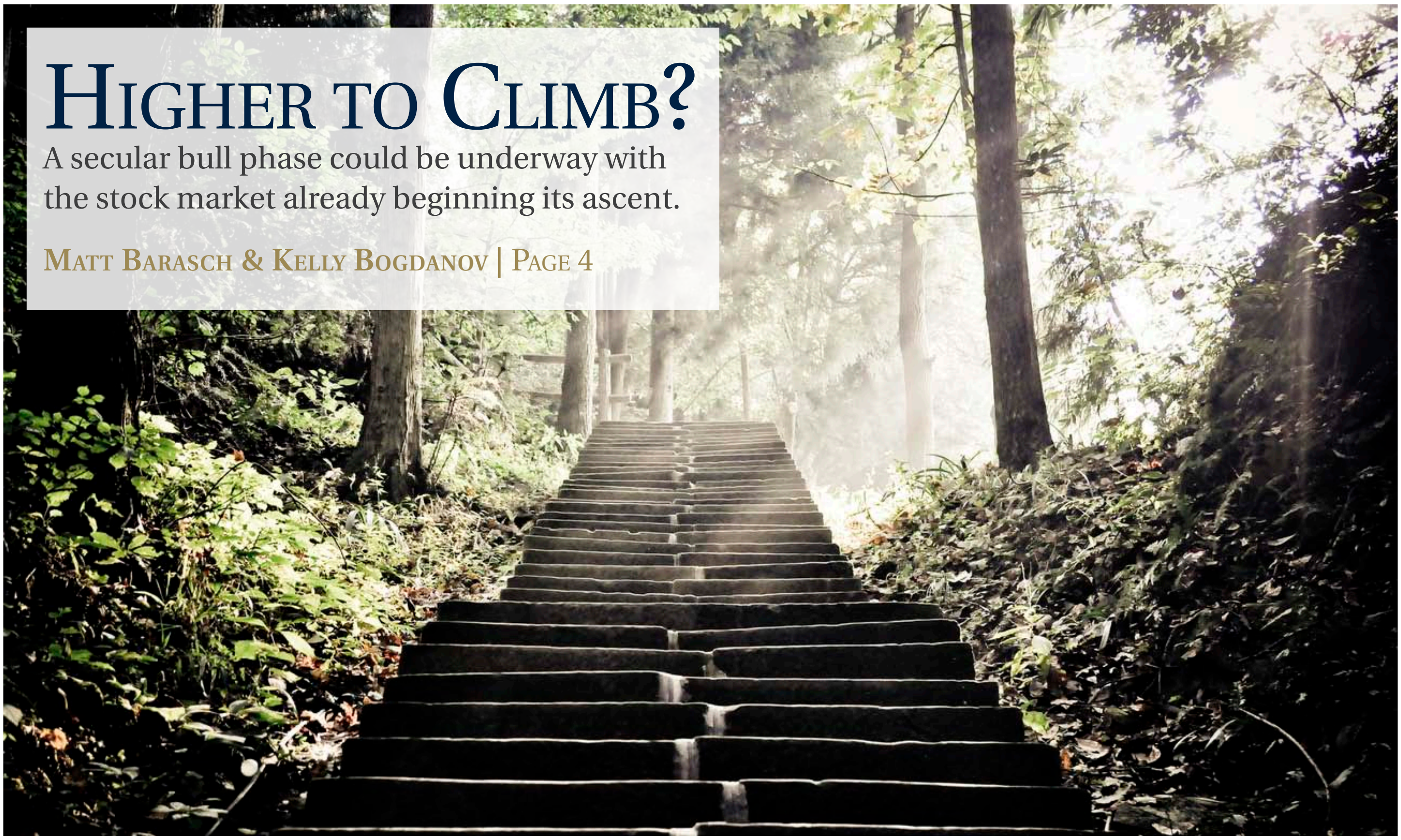
OCTOBER 2014

RBC WEALTH MANAGEMENT

GLOBAL INSIGHT

PERSPECTIVES FROM THE GLOBAL PORTFOLIO ADVISORY COMMITTEE



Higher to Climb?

A secular bull phase could be underway with the stock market already beginning its ascent.

Matt Barasch & Kelly Bogdanov | Page 4

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Transformational catalysts usually herald the emergence of secular bull periods. Powerful technological drivers appear ready to sustain a prolonged climb. Investors should consider the market's ongoing breakout and position portfolios accordingly.

7 *Pockets of Strength*

The three big pillars of Canadian equities—banks, life insurance, and energy—should enjoy some tailwinds in the years ahead. Earnings growth prospects and reasonable valuations in these sectors have expanded our "comfort zone" for selective investment.

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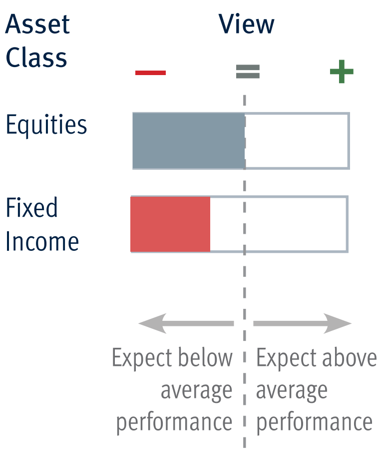
All values in U.S. dollars and priced as of market close, September 30, 2014, unless otherwise stated.

RBC's Investment Stance

Global Asset Views



See "Views Explanation" below for details

Source - RBC Wealth Management

Equities – Average Performance =

- Equity market volatility has picked up as the U.S. and Europe have consolidated and the U.K. and Canada have pulled back. While this could continue near term or even morph into a modest corrective phase, we would stay the course by maintaining a full allocation to equities.
- Our outlook for the next 12 months remains constructive. The forthcoming divergence in central bank policies in 2015 (U.S., U.K. likely tighter and European Central Bank looser) should not cause the bull market to cease.
- Corporate earnings should continue to grow as the U.S. economy gains traction and the eurozone slowly regains its footing. Valuations, while not cheap for most markets, could expand as confidence improves.

Fixed Income – Below-Average Performance –

- Even though the Federal Reserve is on track to end its bond-buying program in October and possibly begin tightening in mid-2015, ultra-low interest rates should linger for some time. The Fed has flexibility to take a slow, measured approach to hiking rates because inflation seems unlikely to exceed its target in the near or medium term.
- Below-trend growth and disinflationary pressures in the eurozone should help keep a lid on yields across regions.
- Nevertheless, this is no time for complacency. Volatility has risen recently, and liquidity risks could surface as the Fed lays out its tightening strategy. We would position portfolios defensively by concentrating on high-quality, liquid intermediate-duration securities.

Views Explanation

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

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

= **In-line** implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

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

Focus Article

Higher to Climb?

Matt Barasch
Toronto, Canada
matt.barasch@rbc.com

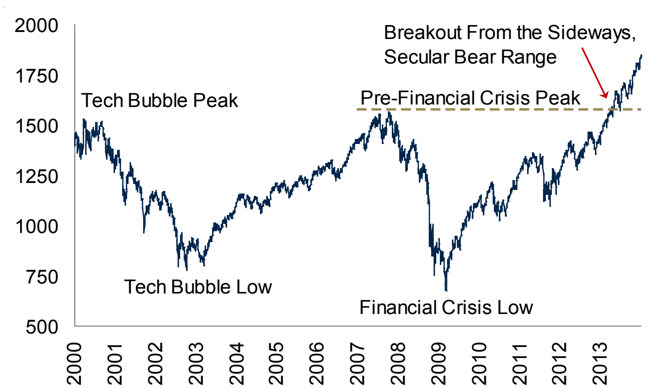
Kelly Bogdanov
San Francisco, United States
kelly.bogdanov@rbc.com

For over 100 years the stock market has seen extended periods of sideways patterns followed by long-term outperformance. In essence, it has been climbing a staircase. The market has already taken its next step up and a secular bull phase looks like it may be starting. It's prudent to align portfolios for this possibility.

Following is an executive summary of a special report, *Higher to Climb?* Please find the full report here.

Living through the 2000–2013 period probably felt like a roller coaster ride for many. The S&P 500 traveled to peaks of around 1,500 twice and reached low points below 800 on two occasions (see chart). From point to point, the market had gone nowhere for 13 years—it traveled "sideways" in a wide, torturous range. But then, against the expectations of most, stocks kept pushing higher, and today the index sits near 2,000. Is this a definitive breakaway from the sideways pattern?

Roller Coaster Ride: S&P 500 Index, 2000–2013



Source - RBC Wealth Management, Bloomberg; data through 12/31/13

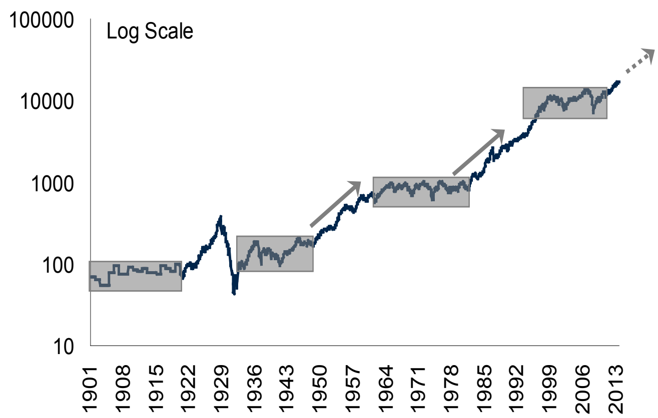
Stocks took investors on a wild ride, but finally pushed into a higher range in mid-2013.

A look at the market's longer-term trend is instructive. There were distinct, long sideways patterns with significant ebbs and flows within them—the Great Depression/World War II era, the high inflation/economic stagnation of the 1970s, and the unwinding of the tech bubble, and debt excesses of the past decade. As the chart on the next page shows, when those sideways patterns were finally and definitively left behind, they gave way to long-term advances (secular bull markets). The market over a long period of time looks more like a staircase. With the S&P 500's push toward 2,000 during the past year, we believe the market may have begun to take its next step.

What Do Bull Market Backdrops Typically Look Like?

Inexpensive Valuations: The three secular bull markets of the past century all began with the market trading at very inexpensive valuations relative to historical norms. One of the pushbacks against the secular bull call is that stocks this time around did

Dow Jones Industrial Average: Historical Sideways and Secular Bull Cycles



Source - RBC Capital Markets, Haver Analytics, Standard & Poor's; data through 8/31/14

The market tends to move in prolonged cycles. It's quite possible it has entered a new secular bull phase.

not approach the single-digit valuation levels that were hallmarks of the predecessor secular bulls. While this is indeed true—the S&P 500 bottomed at between 11x and 12x forward earnings—we believe this overlooks an important distinction that sets the current cycle apart.

The S&P 500 P/E ratio is below average when adjusted for the unusually large piles of cash on U.S. corporate balance sheets.

Adjust for Cash: One of the lasting effects of the financial crisis has been the build-up of cash on the balance sheets of U.S. corporations. This is making the S&P 500 look more expensive on a P/E basis than is actually the case. If we adjust the P/E multiple of the market to reflect this cash and compare it to "cash-adjusted" P/Es over the past 40+ years, we get a different picture of the market's valuation. While the market did not reach the lows of the early 1980s, when the last secular bull market began, it did push below 9x earnings in the latest cycle, significantly less than the cash-adjusted average of about 15x. Currently, the cash-adjusted P/E is slightly below average.

The End of a Crisis: Bull markets have tended to begin in the wake of major geopolitical events. The 1920s bull was launched soon after World War I, while similarly, the 1950s/1960s bull was launched in the wake of World War II. While the 1980s/1990s bull did not come after a major war, it did follow a decade marked by oil embargoes, runaway commodity prices, skyrocketing inflation, and high unemployment (in a sense a war of a different kind). Similarly, the decade just past was marked by the bursting of the technology bubble, the war on terror, and the financial crisis.

Drivers of the Next Bull Market

Normally, unique catalysts characterize secular bull markets. There are disruptive technologies already in evidence that could be powerful engines for the economy and stock prices in years to come.

Health Care and Tech Convergence

The lines between health care and technology are blurring as the medical industry incorporates high-speed computing, mobile technologies, and engineering applications into its innovations mix. Technology developments are already affecting everything from mundane health care tasks, such as bill paying; to 3D printing technologies being used to create highly customized tissues or "bio-printed" organs; to advanced neural engineering and brain mapping research; and many things in between.

Higher to Climb?

The main catalysts for secular bull markets tend to transform society and positively impact day-to-day life.

Immuno-Oncology

Cancer treatment breakthroughs are on the horizon. While cancer normally evades the body's immune system, immuno-oncology (I-O) targets ways to alter the immune system to attack cancerous tumors. I-O has the potential to extend the lives of late-stage cancer patients, and could transform many cancers into manageable, chronic diseases, or could ultimately cure some patients.

Artificial Intelligence

Some old-line heavyweight tech companies and the most innovative Internet firms are engaging in an artificial intelligence (AI) arms race to mimic the human brain's neural networks. AI is becoming one of the hottest disciplines in leading science-based universities globally, is a target of venture capital firms, and has already birthed a new group of tech start-ups.

Advanced Robotics

The next generation of advanced robots could revolutionize the factory floor. They will incorporate AI and enhanced dexterity (including limbs and multiple joints), and will collaborate more effectively with other machines and humans.

How to Position for a Secular Bull

Previous secular bulls were accompanied by positive policy changes and major technological advancements, and the next one is likely to be no exception. But when secular bulls are in the early innings, it usually doesn't "feel" like the market is in the midst of a strong, long-lasting rally. Scars from the global financial crisis are keeping many investors on the sidelines this go around, potentially just as the new secular bull is getting underway. Very few are acknowledging the market's breakout in 2013, or are contemplating how to position portfolios for a secular bull run.

Dow Jones Industrial Average:
Return Differences Sideways vs. Secular Bull Cycles

	Begins	Ends	# of Years	% Change	Annualized Return
Sideways	May 1933	Apr 1950	16.9	154%	5.7%
Bull	Apr 1950	Dec 1961	11.7	244%	11.1%
Sideways	Dec 1961	Oct 1982	20.9	41%	1.7%
Bull	Oct 1982	Jan 2000	17.2	1034%	15.1%
Sideways	Jan 2000	Mar 2013	13.1	22%	1.5%

Source - RBC Wealth Management, Bloomberg

Average annual returns are much higher during secular bull markets.

Even though it's too soon to definitively declare the secular bull has arrived, we believe the prudent investment strategy is to position portfolios for the possibility by taking three steps:

- **Keep equity allocations at or above the recommended target allocation** except during periods when a recession becomes a near-term, plausible risk;
- **Buy the market on dips** rather than sell into strength (dips/corrections do occur during secular bull cycles); and
- **Incorporate long-term sector biases into portfolios** toward areas of the market that could benefit from the unique contours of the next secular bull—for example, the health care, technology, and energy sectors.

For a fuller analysis of these issues, see our complete report, *Higher to Climb?*

Pockets of Strength

Matt Barasch
Toronto, Canada
matt.barasch@rbc.com

Investors should look for the pockets of strength that exist in Canada's stock market. Banks, life insurance, and energy have the quality businesses we look for, and with reasonable valuations and solid growth prospects now is the time to add exposure. Our long-term conviction toward Canadian equities is growing and we favour a market weight stance.

Last month, we upgraded our recommendation for Canadian stocks to market weight from underweight.

The primary drivers of this more positive view were: (1) increasing confidence that the Canadian banks and life insurance companies ("lifecos") will offer good returns over the next several years and (2) the strong free cash flow (FCF) growth and modest valuations of the large-cap energy names.

Collectively, these three groups comprise approximately one-half the market cap weighting of the S&P/TSX.

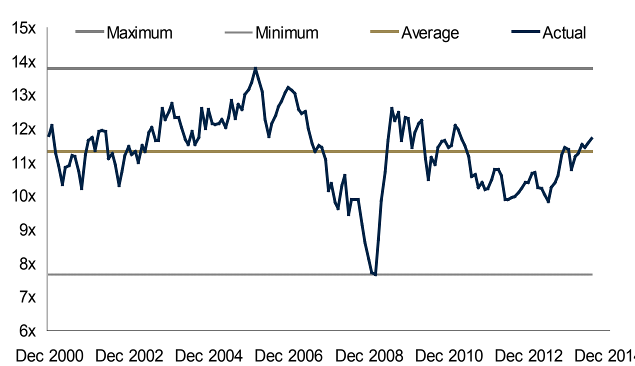
Banks: Well-Positioned for Higher Rates

Much has been written about the potential that Canada's housing market is in a bubble. However, while there are indeed some cities that have seen prices push well beyond traditional metrics for affordability, we believe that on the whole, the data does not support the "nationwide bubble" thesis.

Rather, we believe Canada is likely to experience a deceleration in pricing gains in the years to come. Against this backdrop, we believe the Canadian banks offer compelling value.

Retail lending is likely to slow against the backdrop of a cooling housing market; however, commercial lending should provide some offset to this, while the banks' "other businesses," which include capital markets, wealth management, and insurance, should provide some tailwind as well.

Average Forward P/E Multiple of the Canadian Banks



Source - RBC Capital Markets Quantitative Research, RBC Capital Markets, RBC Dominion Securities Inc.

P/E multiples on the banks are near their long-term averages.

Furthermore, it is our view that interest rates will begin to gradually rise over the next several years.

One of the largest sources of earnings for the banks is net interest margins (NIM), which have been at depressed levels for the past several years as low rates across the yield curve have held back this earnings lever. As rates rise, NIM should expand, which will provide further earnings torque for the banks.

Against this backdrop, the Canadian banks are trading at roughly the midpoint of their historical range, while they are collectively very well capitalized.

Lifecos: Improving Fundamentals

Gradually rising rates and strong capital positions should propel lifecos.

Over the past five years, the lifecos have been intensely focused on repairing their capital bases, de-risking their business models, and targeting new markets such as emerging Asia.

Fast forward to today and the group has collectively built up significant amounts of capital that are well above both internal and regulatory requirements, and have significantly lowered their sensitivity to the ebbs and flows of equity and bond markets. Should our interest rate call play out, the lifecos would be poised to benefit as many of their businesses have been hurt by the extremely low level of interest rates.

As with the banks, the valuations on the lifecos are close to historical norms; however, we believe that potential capital deployment and higher rates could provide a strong earnings tailwind over the next several years.

Energy: Attractive Entry Point

While it is difficult to forecast oil prices out several years, we believe that high global production costs, a lack of growth in global supply, and recovering developed economies should, at the very least, keep a floor underneath prices. The large-cap Canadian energy names should generate mid-single-digit production per share growth out to the end of the decade, which should unlock significant pools of FCF.

Over the past several years, we have seen many of the large-cap names adopt shareholder-friendly approaches, including consistently growing dividends and opportunistic share buyback programs. We expect this to continue going forward.

Despite this, the large-cap energy names continue to trade at low valuation levels relative to historical norms, and thus, we see a compelling long-term opportunity.

Growing Longer-Term Conviction

Our focus tends to be on businesses that can compound shareholder wealth over many years. These types of businesses tend to have well-respected management teams that have a track record of success, significant capital bases, strong FCF, and reasonable and sustainable dividend and share buyback policies.

If this can be achieved at what we believe are reasonable valuation levels, then our comfort level in terms of allocating new capital will tend to grow. Given that the above three groups comprise roughly one-half of the market cap weighting in the S&P/TSX, we believe that a market weight stance is more appropriate.

Chinks in the Armor

The MSCI World Index, which tracks developed markets, delivered a solid rally from May through August (+3.6%), followed by a weak showing in September (-2.9%).

This combination of a strong midyear run and a weak September is somewhat rare, occurring on only seven occasions since 1970, or 15.6% of the time. On average, the MSCI World usually trades slightly higher from May through August and posts a small loss in September.

Is the recent heightened volatility a sign of things to come?

A consolidation phase is underway—albeit within a wider range than usual. Pockets of the market are pulling back (Canada) and others could be vulnerable to correcting further (U.S. small caps, U.K. market).

While there could be more bumps heading into year end, we remain constructive on global equities. They should deliver worthwhile gains during the next 12 months.

The forthcoming divergence in central bank policies in 2015 should not cause the bull market to cease. The Bank of England and Federal Reserve will likely tighten at a slow, deliberate pace. Markets tend to run into trouble in the latter stages of tightening cycles, not ahead of time or in the early stages.

Furthermore, global economic and corporate earnings growth should improve modestly in 2015, which would support developed equity markets.

We would hold overall equity exposure at the recommended benchmark weighting and would look to add stocks should weakness persist.

While there could be more bumps heading into year end, we remain constructive on global equities.

Kelly Bogdanov
San Francisco, United States
kelly.bogdanov@rbc.com

Matt Barasch
Toronto, Canada
matt.barasch@rbc.com

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

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

Equity Views

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

Source - RBC Wealth Management

Regional Highlights

United States

- Market breadth has been lackluster and technical indicators have weakened lately—not surprising after such a strong rally. The major indexes have been supported by a handful of the largest stocks. If they lose momentum, it could portend a longer consolidation period or pullback.
- Attention will soon shift to Q3 earnings season. Expectations have moderated considerably. The consensus forecast for S&P 500 earnings growth has been cut to 6.5% y/y from 11.0% y/y at the start of the quarter, according to Thomson Reuters I/B/E/S. The S&P 500 should exceed the lower earnings hurdle, just as it has each quarter since the Great Recession ended.
- If the market pulls back near term, we would buy the dip. Our economic models indicate a nearly zero percent chance of recession in the next 12 months. Pullbacks tend to be limited (typically less than 15%) and short-lived when the economy avoids a recession. We continue to favor large caps over small caps, and would overweight industrials, health care, and financials.

Canada

- We recommend market weight exposure to Canadian equities (see article on page 7).
- We favour exposure to Canadian banks and life insurance companies as well as large-cap energy over other areas of the market.
- We would continue to avoid exposure to gold companies, preferring direct commodity exposure, while we would be cautious with overall exposure to midstream pipeline companies as we believe valuations are stretched.

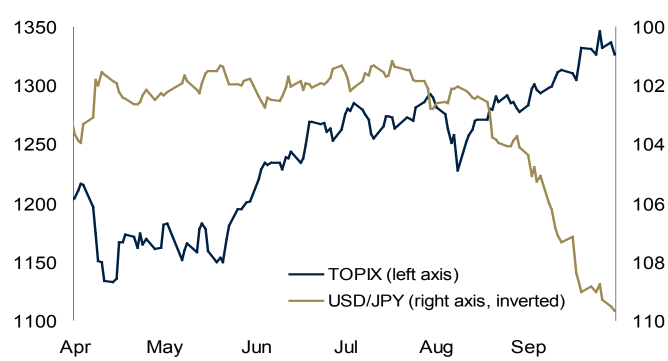
Continental Europe & U.K.

- Both the U.K. and the eurozone have suffered currency weakness over the past few months. The pound has been affected by the uncertainty of the Scottish referendum, while ECB monetary action has weighed on the euro.
- This could benefit the corporate sector, which derives a large proportion of earnings abroad. Consensus earnings forecasts are tentatively starting to stabilise. Industrials, pharmaceuticals, and consumer stocks are most exposed.
- We expect further policy action from the ECB to be supportive of equities markets in the short term, though further structural reforms, particularly in France and Italy, are needed to make lasting inroads. Momentum in this area is sadly lacking. Furthermore, the Russia-Ukraine crisis remains a lurking threat.

Asia

- We are positive on the outlook for equity performance in Asia ex-Japan due to a combination of superior earnings growth, more attractive valuation levels, and a reversal of the deceleration in global growth that has taken place over the past several years. A better short- to medium-term outlook for China is also an important consideration. However, China remains the biggest source of perceived regional risk among investors, in our view.
- Japan's benchmark TOPIX index has rallied to its highest level since 2008, helped by a fresh burst of dollar strength against the yen. The Japanese Diet reopens early this month, putting Prime Minister Shinzo Abe's reform agenda in areas such as corporate taxes back in the spotlight. In our view, the Bank of Japan will remain highly accommodative. Governor Haruhiko Kuroda will provide further support should the all-important inflation goals prove illusive.

Japan Equities Versus Dollar/Yen

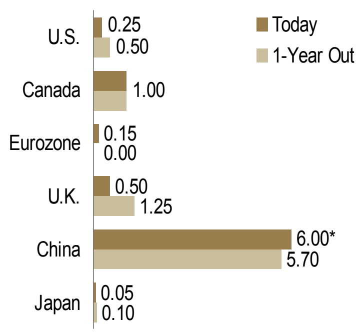


Source - RBC Wealth Management, Bloomberg; data through 9/30/14

Japanese equities have rallied on yen weakness.

INVEST BEYOND THE NOISE

Central Bank Rate (%)



*1-yr base lending rate for working capital, PBoC
Source - RBC Investment Strategy Committee, RBC Capital Markets, and Global Portfolio Advisory Committee (GPAC), Consensus Economics

We believe the Federal Open Market Committee inadvertently reminded investors to focus on the risks that really matter when it reiterated that the Federal Reserve would keep its benchmark interest rate at a low level for a "considerable period" in its September policy statement.

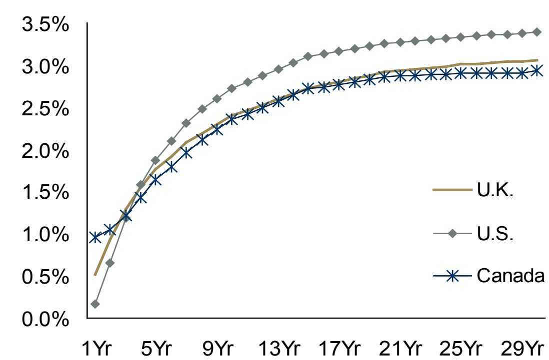
We expect monetary conditions to tighten in the U.S. during 2015 so long as the economic data remains favourable. Investors should therefore assess portfolio sensitivity to tighter conditions and not worry about the timing of rate hikes or parsing language shifts by the central bank.

In Canada and the U.S., we regard intermediate portions of the yield curve as most attractive, which highlights how "short duration" positioning is not bereft of risk as a strategy. Pockets of value emerged in both countries recently, but overall markets are best described as nearly fully valued.

Leveraged loans remain a concern for us, given they are not floating rate securities in the sense many investors believe due to LIBOR floors.

Negative yields have emerged in the eurozone thanks to policy initiatives pursued by the European Central Bank. While growth momentum has stalled and the risk of deflation seems omnipresent, we would continue to take advantage of opportunities in the corporate bond space.

Sovereign Yield Curves



Source - RBC Wealth Management, Bloomberg; data through August 2014

REGIONAL HIGHLIGHTS

UNITED STATES

- The Federal Reserve has spoken, "considerable time" stays for now, but the direction of future economic data will be the key determinant in the glide path of future policy moves, rather than focusing on a specific time period.

- The U.S. Treasury yield curve steepened in September, but with weak global growth expectations and low inflation, long rates should remain anchored. The steepening move was most pronounced in the 5-year time frame, affirming our view that investors are best served targeting intermediate maturities.

- Credit spreads widened marginally in September, and investors should remain alert as the Federal Reserve-induced price volatility and concerns over illiquid market conditions could be harbingers of things to come. In coming months, high yield may offer no better than coupon-like returns, and investors would be better served adding to exposure in BBB credits, which we believe will generate better performance and lower volatility.

RAJAN BANSI
Toronto, Canada
rajan.bansi@rbc.com

CRAIG BISHOP
Minneapolis, United States
craig.bishop@rbc.com

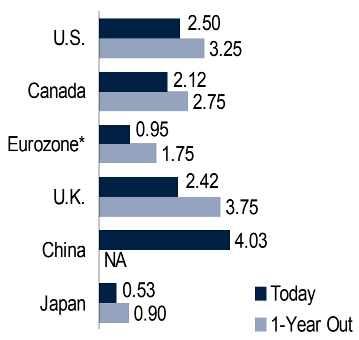
MIKHIAL PASIC
Toronto, Canada
mikhial.pasic@rbc.com

ALANA AWAD
Toronto, Canada
alana.awad@rbc.com

HAKAN ENOKSSON
London, United Kingdom
hakan.enoksson@rbc.com

Global Fixed Income

10-Year Rate (%)



Source - RBC Investment Strategy Committee, RBC Capital Markets, and GPAC

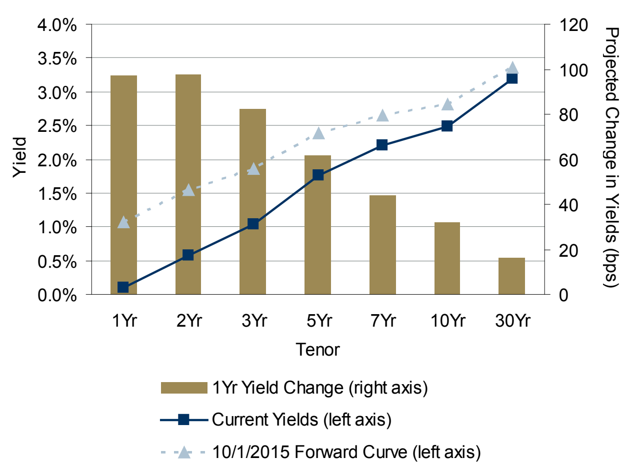
Canada

- Extending term still does not provide investors with sufficient pick-up in yield despite a steepening of the curve during September. We believe investors looking to extend term should wait for better entry points. Overall, government bond yields were higher versus August.
- Guaranteed Investment Certificate (GIC) relative valuation continues to beat alternatives. GICs remain the best-yielding option for terms under five years in the investment grade space.
- The preferred share market has sold off slightly since the start of September. Specifically, lower reset spread issues already trading at discounts have seen downward price pressure, which we believe is likely to continue as these issues become potential candidates for tax-loss selling season.

Continental Europe & U.K.

- The Scottish Referendum caused volatility in the Gilts market, which has since seen a strong relief rally. However, the rally is likely to be short-lived as the U.K. economy is gathering steam, and the Bank of England will eventually be forced to hike rates. We remain cautious on longer duration exposure.
- The uptake from the ECB's latest TLTRO was below expectations and has stirred up market talk about the possibility of further unorthodox ECB measures. This will likely keep the core eurozone government yield curves, as well as the peripherals, at low levels, at least for now. Risks around failed fiscal and structural reforms from Italy linger, but are unlikely to push yields higher as the ECB has indicated it is ready to do whatever it takes to preserve the euro.
- Corporate yield premium remains immune to M&A activity and the re-opened tap of new issuance. We continue to favour corporates and see scope for further spread tightening. However, some very isolated cases of spread widening on particular issuers highlights the importance of a selective approach.

1Yr Treasury Forwards vs. Current Yields: Market Pricing in Higher Volatility at Short End of Curve



Source - RBC Wealth Management, Bloomberg; data as of 9/30/14

The intermediate portion of the curve looks most attractive—"short duration" positioning brings an element of risk.

Commodity Forecasts

	2014E	2015E
Oil (WTI $/bbl)	99.00	96.00
Natural Gas ($/mmBtu)	4.38	4.00
Gold ($/oz)	1,325	1,400
Copper ($/lb)	3.15	3.00
Corn ($/bu)*	3.88	4.30
Wheat ($/bu)*	5.68	6.05

* Corn and Wheat 2014 forecasts are for H2 2014
Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (corn and wheat).

Gold

- A rising dollar has pressured gold prices of late.
- With systemic risks fading, a mixed set of macro drivers, and levelling supply/demand trends, our expectations for the price of gold are muted.
- Gold has traded within a range of $1,200–$1,400 over the last year. We do not see a significant change in fundamentals to drive it meaningfully beyond this range for a protracted period of time.

Energy

- Oil prices have dropped as a number of factors have come into play recently, including: (1) a lower demand forecast from the International Energy Agency, (2) rising supply from Libya, (3) a stronger dollar, and (4) weaker economic data from China.
- We expect WTI crude oil to remain at $75–$100/bbl in the near term. In the face of increasing production from Libya and the U.S., Saudi Arabia may be required to lower exports in 2015 to balance the market.
- Strong U.S. natural gas storage injections have delivered nearly 2.0 tcf since the end of March (36% over the five-year average). RBC Capital Markets forecasts storage to peak at 3.5 tcf this fall, about 10% below normal levels.
- Despite tight storage conditions, rising supply should continue. We expect natural gas to trade in a range of $3.50–$5.00/mmBtu.

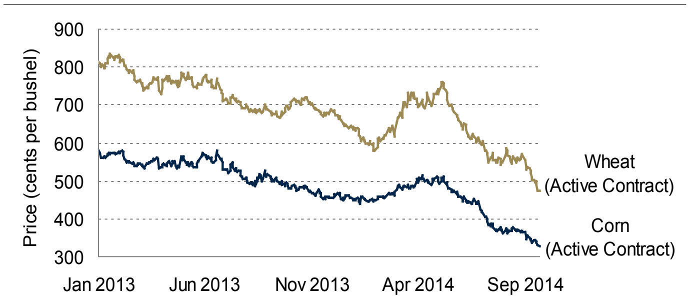
Copper & Industrial Metals

- Prices have remained resilient around the $3/lb mark, supported by solid demand growth, a continued shortage of scrap, and production disruptions.
- The copper market was in deficit for the first eight months of 2014. RBC Capital Markets forecasts a slight surplus of supply in 2015.
- If demand conditions deteriorate, we could see renewed weakness. However, we would expect some stabilization of the market around the $2.40–$2.50/lb level, given cost support.

Corn & Ag Commodities

- Crop prices continue to plunge after a very favourable growing season this summer.
- The USDA forecasts the ending season stocks-to-use ratio for corn will be 19.6%, up considerably from recent tight years.
- Global wheat stores should reach 196 million tonnes by May 2015, up 5% y/y, per the USDA.

Corn and Wheat Prices



Source - RBC Dominion Securities, Bloomberg; data through 9/22/14

Corn and wheat prices down on bumper crops.

Mark Allen
Toronto, Canada
mark.d.allen@rbc.com

Currencies

Currency Forecasts

Currency Pair	Current Rate	Forecast Sep 2015	Change*
USD Index	85.94	86.13	0%
CAD/USD	0.89	0.85	-4%
USD/CAD	1.12	1.17	4%
EUR/USD	1.26	1.26	0%
GBP/USD	1.62	1.59	-2%
USD/CHF	0.96	0.98	2%
USD/JPY	109.65	107.00	-2%
AUD/USD	0.87	0.91	5%
NZD/USD	0.78	0.84	8%
EUR/JPY	138.49	134.82	-3%
EUR/GBP	0.78	0.79	2%
EUR/CHF	1.21	1.23	2%
Emerging Currencies			
USD/CNY	6.14	6.20	1%
USD/INR	61.76	62.00	0%
USD/SGD	1.28	1.29	1%
USD/TRY	2.28	2.15	-6%
USD/PLN	3.31	3.17	-4%
USD/MXN	13.43	12.60	-6%
USD/BRL	2.45	2.30	-6%

* Defined as the implied appreciation or depreciation of the first currency in the pair quote.
Examples of how to interpret data found on page 16.
Source - RBC Capital Markets, Bloomberg

U.S. Dollar

- The Fed provided something for dollar bulls and bears in its September minutes. What it didn't provide is any change from the narrative that rate hikes are just a matter of time, and this belief is at the core of our view that the dollar will continue to grind higher against most currencies over the next year.

Euro

- The prevalence of negative interest rates on eurozone sovereign bonds, persistently low inflation, and a general decline in economic data all paint a bleak picture for the euro.
- Although the headline EUR/USD rate has weakened by more than 10% over the summer, most of this is due to dollar strength. Looking ahead, we expect independent euro weakness to compound the currency's woes.

Canadian Dollar

- The loonie has held up well over the late summer, partly on the "buy North America" theme and partly on inflation data approaching the higher end of the BoC's target range.
- However, we remain bearish on the currency over the long term as we believe currency depreciation is the most likely tool to correct Canada's stubborn current account deficit.

British Pound

- With the volatility surrounding Scotland's independence vote slowly subsiding, attention returns to the prospect for the U.K.'s first rate hike.
- We expect this to occur in February 2015, but stronger-than-expected data before then may accelerate this timeline and push the EUR/GBP cross to new six-year lows.

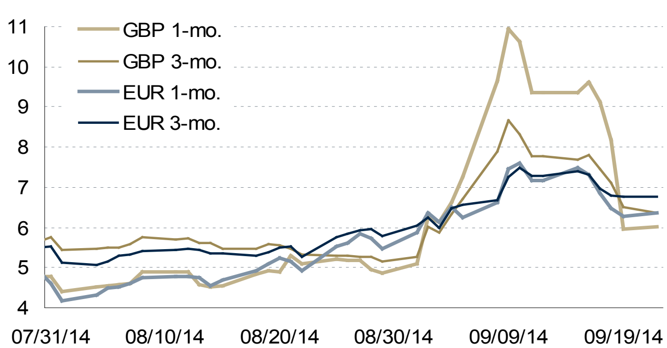
Japanese Yen

- For the first time since the change in government in 2012, Japanese investors bought more foreign stocks than foreigners bought Japanese stocks in Q3 2014.
- This unhedged fund flow contributes to yen weakness and if a similar pattern is seen in the bond market, we would expect the yen to fall further into 2015.

Australian Dollar

- Central Bank comments bemoaning the strength of the Aussie dollar pushed the currency to a six-month low against the greenback, as yield investors were spooked by the potential for further currency losses.
- We expect this trend to continue if weak commodity demand and generally disappointing Chinese economic data persists.

You Take the High Road and I'll Take the Low Road

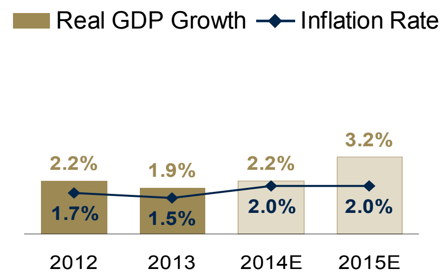


Source - RBC Wealth Management, Bloomberg; data through 9/22/14

The Scottish independence vote caused a surge of volatility in the pound *and* the euro. The "No" decision now allows traders to focus once again on fundamentals.

ALAN ROBINSON
Seattle, United States
alan.robinson@rbc.com

Key Forecasts

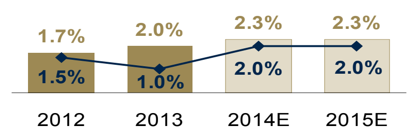


United States — Strengthening

- Q2 bounce-back revised up again to a very strong 4.6%, led by capex. Housing activity moderating. Leading indicators and CEO confidence elevated.
- ISM manufacturing and services indexes both up again in August to 4-year highs. New orders strong.

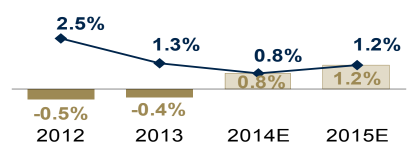
Canada — Trade Driven

- Q2 GDP looks to have rebounded in synch with the U.S. RBC Canadian PMI hit 9-mo. high in August, new orders strong.
- Mfg. unfilled orders flat, but at record level; shipments very strong, led by autos. Capex intentions elevated. Housing construction steady. Energy development outlook clouded.



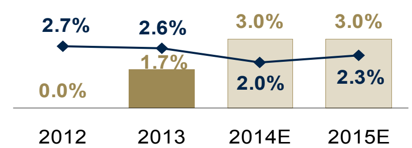
Eurozone — Stagnation

- Q2 was the 5th successive quarter of positive growth, still mostly Germany. Italy lagging. Ireland, Portugal out of bailout. Spain GDP growth positive for four quarters.
- Composite PMI still in expansion zone but no discernible momentum. Germany solidly positive but new orders weaker, France/Italy in contraction. Spain readings still positive.



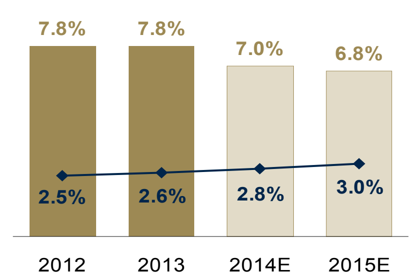
United Kingdom — Strengthening

- GDP up 5 quarters running; revised higher, now well past pre-crisis peak. PMIs mixed in September, but elevated. New orders weaker. Business confidence off highs.
- Employment growing but wages stagnant. Retail sales strong in Q2. GDP pace sustainable for rest of 2014 and 2015.



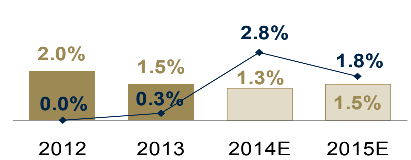
China — Stabilising

- Q2 GDP up 7.5%, slightly better than expected. Manufacturing PMI weaker but still in expansion, Services PMI stronger. New orders keeping factory activity elevated. Exports stronger over the summer.
- Loan growth slowing but still faster than GDP growth. House prices and construction weaker on balance. Government easing liquidity squeeze but policy growth initiatives remain targeted.



Japan — Volatile

- Q2 GDP weak but noise from April tax hike still a factor. Leading indicators rose modestly in July as new orders picked up and PMI rebounded.
- Buying/spending on autos and machinery ahead of sales tax increase made for weak Q2 comparisons. Retail sales improving gradually in Q3.



Source - RBC Investment Strategy Committee, RBC Capital Markets, and GPAC

Market Scorecard

Index (local currency)	Level	1 Month	YTD	12 Month
S&P 500	1,972.29	-1.6%	6.7%	17.3%
Dow Industrials (DJIA)	17,042.90	-0.3%	2.8%	12.6%
NASDAQ	4,493.39	-1.9%	7.6%	19.1%
Russell 2000	1,101.68	-6.2%	-5.3%	2.6%
S&P/TSX Comp	14,960.51	-4.3%	9.8%	17.0%
FTSE All Share	3,533.93	-2.9%	-2.1%	2.6%
STOXX Europe 600	343.08	0.3%	4.5%	10.5%
German DAX	9,474.30	0.0%	-0.8%	10.2%
Hang Seng	22,932.98	-7.3%	-1.6%	0.3%
Shanghai Comp	2,363.87	6.6%	11.7%	8.7%
Nikkei 225	16,173.52	4.9%	-0.7%	11.9%
India Sensex	26,630.51	0.0%	25.8%	37.4%
Singapore Straits Times	3,276.74	-1.5%	3.5%	3.4%
Brazil Ibovespa	54,115.98	-11.7%	5.1%	3.4%
Mexican Bolsa IPC	44,985.66	-1.4%	5.3%	11.9%
Bond Yields	**9/30/14**	**8/29/14**	**9/30/13**	**12 mo chg**
US 2-Yr Tsy	0.567%	0.488%	0.317%	0.25%
US 10-Yr Tsy	2.489%	2.343%	2.610%	-0.12%
Canada 2-Yr	1.124%	1.104%	1.193%	-0.07%
Canada 10-Yr	2.146%	1.995%	2.543%	-0.40%
UK 2-Yr	0.826%	0.838%	0.442%	0.38%
UK 10-Yr	2.425%	2.368%	2.721%	-0.30%
Germany 2-Yr	-0.082%	-0.029%	0.167%	-0.25%
Germany 10-Yr	0.947%	0.890%	1.779%	-0.83%
Commodities (USD)	**Price**	**1 Month**	**YTD**	**12 Month**
Gold (spot $/oz)	1,208.16	-6.2%	0.2%	-9.1%
Silver (spot $/oz)	16.98	-12.8%	-12.8%	-21.8%
Copper ($/ton)	6,720.00	-4.1%	-8.9%	-7.8%
Uranium ($/lb)	36.50	17.7%	0.7%	7.4%
Oil (WTI spot/bbl)	91.16	-5.0%	-7.4%	-10.9%
Oil (Brent spot/bbl)	94.67	-8.3%	-14.6%	-12.6%
Natural Gas ($/mmBtu)	4.12	1.4%	-2.6%	15.8%
Agriculture Index	292.40	-9.3%	-16.8%	-21.6%
Currencies	**Rate**	**1 Month**	**YTD**	**12 Month**
US Dollar Index	85.94	3.9%	7.4%	7.1%
CAD/USD	0.89	-2.8%	-5.1%	-7.9%
USD/CAD	1.12	2.9%	5.4%	8.6%
EUR/USD	1.26	-3.8%	-8.1%	-6.6%
GBP/USD	1.62	-2.3%	-2.1%	0.2%
AUD/USD	0.87	-6.3%	-1.9%	-6.1%
USD/CHF	0.96	4.0%	7.0%	5.5%
USD/JPY	109.65	5.3%	4.1%	11.6%
EUR/JPY	138.49	1.3%	-4.3%	4.2%
EUR/GBP	0.78	-1.5%	-6.2%	-6.8%
EUR/CHF	1.21	0.0%	-1.7%	-1.4%
USD/SGD	1.28	2.2%	1.0%	1.6%
USD/CNY	6.14	-0.1%	1.4%	0.3%
USD/BRL	2.45	9.4%	3.6%	10.4%

Small caps have lagged partly due to valuation concerns.

Pro-democracy protests contributed to the Hang Seng's weakness.

Oil declined for the third straight month on the strong dollar, excess supply.

Thus far the EUR/USD cross has fallen mainly due to dollar strength. Look for euro weakness to take it lower.

Equity returns do not include dividends, except for the German DAX. 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 0.89 means 1 Canadian dollar will buy 0.89 U.S. dollar. CAD/USD -7.9% return means the Canadian dollar has fallen 7.9% vs. the U.S. dollar during the past 12 months. USD/JPY 109.65 means 1 U.S. dollar will buy 109.65 yen. USD/JPY 11.6% return means the U.S. dollar has risen 11.6% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 9/30/14.

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Mark Allen – Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Rajan Bansi – Head of Fixed Income Strategies, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Matt Barasch – Head of Canadian Equities, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

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

Kelly Bogdanov – Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

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Sell [Underperform]	98	5.98	8	8.16

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