



RBC Global
Asset Management

THE GLOBAL INVESTMENT OUTLOOK

RBC Investment Strategy Committee

NEW YEAR 2015

THE RBC INVESTMENT STRATEGY COMMITTEE

The RBC Investment Strategy Committee consists of senior investment professionals drawn from across RBC Global Asset Management. The Committee regularly receives economic and capital markets related input from internal and external sources. Important guidance is provided by the Committee's regional advisors (North America, Europe, Far East), from the Global Fixed Income & Currencies Subcommittee and from the global equity sector heads (financials and healthcare, consumer discretionary and consumer staples, industrials and utilities, energy and materials, telecommunications and technology). From this it builds a detailed global investment forecast looking one year forward.

The Committee's view includes an assessment of global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits and stock prices.

From this global forecast, the RBC Investment Strategy Committee develops specific guidelines that can be used to manage portfolios.

These include:

- the recommended mix of cash, fixed income instruments, and equities
- the recommended global exposure of fixed income and equity portfolios
- the optimal term structure for fixed income investments
- the suggested sector and geographic make-up within equity portfolios
- the preferred exposure to major currencies

Results of the Committee's deliberations are published quarterly in *The Global Investment Outlook*.

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EXECUTIVE SUMMARY

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Vice President & Senior Portfolio Manager
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Daniel E. Chornous, CFA

Chief Investment Officer
RBC Global Asset Management Inc.

It was a volatile quarter for developed-world stock markets driven by investor concerns over the impact of what appeared to be intensifying geopolitical risks, as well as a cluster of poor economic readings. The downturn was fairly brief and contained, lasting only a few weeks, as economic data was not as troubling as it first looked. And while there are undeniably a large number of geopolitical risks in the world today, the overall threat is not getting worse. In fact, our view is that it is improving slightly.

Sharp decline in oil prices

The sharp decline in oil prices is worth noting given the severity of the move in recent weeks. We have long expected oil prices to descend back into double-digit territory due to a combination of slower emerging-market growth and surging supply brought on by a decade of high prices. The decline has been severe with oil now sitting around \$60 per barrel. Longer term, we continue to believe that a price of around \$80 per barrel represents a reasonable target given the costs of major producers.

Contrasting economic momentum

Uneven economic growth was one of the hallmarks of 2014. Some parts of the world accelerated nicely (the U.S and U.K.), while others posted disappointing results (Europe and Japan). For 2015, we expect a slight broadening of growth, even if individual prospects remain varied. The more robust developed economies look capable of sustaining their recent growth, while the more feeble ones should narrow the performance gap.

Emerging-market economic growth has decelerated materially over the

past few years. This slowing trend reflects the fact that fewer efficiency gains are available to corporations, and that emerging-market credit growth is slowing. We believe the era of deteriorating emerging-market growth may be nearing an end as these countries benefit from falling oil prices, lower interest rates and weaker currencies, and improving developed-world growth.

We remain in the expansion phase of this business cycle and we believe that we can continue on this path. The current cycle is five years old and the expansion phase typically lasts seven to 10 years. Importantly, business cycle expansions tend to last longer when they follow an especially deep recession, and when the initial recovery is tepid, as is the case for this cycle.

Inflation remains low

Inflation remains very low in many parts of the world, driven by a combination of slow growth, minimal wage pressures and declining commodity prices. We expect low inflation to persist over the next year and have shaved our inflation forecasts as a result. That said, we still believe that a trend to higher levels should

begin over the next year, but that will depend on where oil prices settle.

U.S. dollar strength expected to continue

The U.S. dollar bull market is firming up, with half of the 20% move off the bottom three years ago occurring since July. The greenback gained against every G10 currency and almost all emerging-market currencies. Such consistency underscores the power of the trend. We don't see any signs of a turn in this bull market, and believe that corrections against various currencies offer trading opportunities. Our forecasts are supported in large part by monetary-policy divergences and by dollar-positive flows – with much of that strength coming at the expense of the euro and the yen. Slower global growth and abundant commodity supplies will weigh on the Canadian dollar and other resource-linked currencies.

Monetary-policy divergence

The monetary policy environment remains unusually diverse. The U.S. Federal Reserve and Bank of England appear set to tighten in 2015, while the Bank of Japan and the European

Central Bank are actively delivering more stimulus. We do not expect an end to this divergence in policies in the near term. One group is focused on ensuring that their economies don't overheat, while the other is working to stabilize their economies and drive strong growth. We continue to believe that the Fed will be the first central bank to hike rates, likely in the summer of 2015.

Bond yields more likely to rise than fall

Interest rates are unusually low across the globe. As a result, we expect that yields are more likely to rise than fall over the next few years as sustainable global growth takes root. Our expectation that growth and inflation will tick upwards in 2015 and that the Fed will begin hiking rates reinforces our belief that higher yields are likely over our forecast horizon. The increase in yields should be gradual, though, as a rapid rise in interest rates could undermine the housing market and growth in general. If yields increase as we expect, capital losses on sovereign bonds would more than wipe out coupon income, leaving fixed-income investors with a negative total return.

Given the risks to the sovereign-bond market, corporate bonds remain a compelling alternative.

Expect higher volatility and lower returns for stocks

Global equities continued to rally through 2014. Despite strong returns, valuations for most major equity markets are not yet expensive by historical comparison. With fuller valuations, though, come lower average returns and greater volatility. As a result, we are more cautious on stocks at these valuation levels and continue to look for opportunities to tactically manage our asset mix.

Impetus from expanding multiples will likely be much less significant going forward. Equity markets will be paced more by corporate profit growth. As the global economic recovery becomes self-sustaining, we expect rising corporate profits to sustain the bull market. Many analysts have been sounding the alarm on profit margins, but our analysis indicates that margins should remain at or near current levels, removing a major downside risk to earnings.

Prefer stocks over bonds

Our preference for stocks over bonds has not changed. The long-term case for rising bond yields remains intact and will put downward pressure on returns to fixed-income investors, while stable growth, accommodative monetary policies, benign inflation, reasonable valuations and rising corporate profits all provide a supportive backdrop for equity markets. While stocks are well positioned to outperform bonds, both markets are likely to produce below-normal total returns going forward. During the sell-off in October, we took the opportunity to add two percentage points to our equity allocation, funded from bonds. For a balanced, global investor, we now recommend an asset mix of 61% equities (strategic neutral position: 55%) and 38% fixed income (strategic neutral position: 40%), with the balance in cash.

ECONOMIC & CAPITAL MARKETS FORECASTS

ECONOMIC FORECAST (RBC INVESTMENT STRATEGY COMMITTEE)														
	UNITED STATES		CANADA		EUROPE		UNITED KINGDOM		JAPAN		CHINA		EMERGING MARKETS¹	
	New Year 2015	Change from Fall 2014	New Year 2015	Change from Fall 2014	New Year 2015	Change from Fall 2014	New Year 2015	Change from Fall 2014	New Year 2015	Change from Fall 2014	New Year 2015	Change from Fall 2014	New Year 2015	Change from Fall 2014
REAL GDP														
2013A	1.86%		2.01%		(0.40%)		1.75%		1.56%		7.71%		5.25%*	
2014E	2.25%	N/C	2.25%	N/C	0.75%	N/C	3.00%	N/C	0.50%	(0.75)	7.25%	N/C	5.00%	N/C
2015E	3.25%	N/C	2.25%	N/C	1.25%	N/C	3.00%	N/C	1.50%	N/C	6.75%	N/C	5.25%	N/C
CPI														
2013A	1.46%		0.96%		1.34%		2.57%		0.36%		2.58%		4.69%	
2014E	1.75%	(0.25)	2.00%	N/C	0.50%	(0.25)	1.75%	(0.25)	2.75%	N/C	2.25%	(0.25)	4.25%	N/C
2015E	1.75%	(0.25)	1.75%	(0.25)	1.00%	(0.25)	1.75%	(0.50)	1.50%	(0.25)	2.75%	(0.25)	4.00%	N/C

A = Actual E = Estimate *GDP Weighted average of China, India, South Korea, Brazil, Mexico and Russia

TARGETS (RBC INVESTMENT STRATEGY COMMITTEE)				
	NOVEMBER 2014	FORECAST NOVEMBER 2015	CHANGE FROM FALL 2014	1-YEAR TOTAL RETURN ESTIMATE (%)
CURRENCY MARKETS AGAINST USD				
CAD (USD–CAD)	1.14	1.18	0.03	(2.0)
EUR (EUR–USD)	1.24	1.14	(0.06)	(8.6)
JPY (USD–JPY)	118.68	125.00	17.00	(5.3)
GBP (GBP–USD)	1.56	1.50	(0.13)	(3.7)
FIXED INCOME MARKETS				
U.S. Fed Funds Rate	0.25	0.50	N/C	N/A
U.S. 10-Year Bond	2.16	3.00	(0.25)	(5.0)
Canada Overnight Rate	1.00	1.00	N/C	N/A
Canada 10-Year Bond	1.90	2.50	(0.25)	(3.4)
Eurozone Policy Rate	0.05	0.00	N/C	N/A
Germany 10-Year Bund	0.70	1.50	(0.25)	(6.7)
U.K. Base Rate	0.50	1.00	(0.25)	N/A
U.K. 10-Year Gilt	1.93	3.25	(0.50)	(9.3)
Japan Overnight Call Rate	0.10	0.10	N/C	N/A
Japan 10-Year Bond	0.42	0.80	(0.10)	(3.2)
EQUITY MARKETS				
S&P 500	2068	2175	25	7.1
S&P/TSX Composite	14745	15500	(1000)	8.1
MSCI Europe	1681	1775	(100)	9.0
FTSE 100	6723	7000	(275)	8.0
Nikkei	17460	18000	1500	4.6
MSCI Emerging Markets	1005	1100	(75)	12.3

Source: RBC GAM

RECOMMENDED ASSET MIX

Asset mix – the allocation within portfolios to stocks, bonds and cash – should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor’s profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter term fluctuations in markets.

Every individual has differing return expectations and tolerances for volatility, so there is no “one size fits all” strategic asset mix. Based on a 35-year study of historical returns and the volatility of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC Investment Strategy Committee publishes a recommended asset mix based on our current view of the economy and return expectations for the major asset classes. These weights are further

divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark setting is 55% equities, 40% fixed income, 5% cash.

A tactical range of +/- 15% around the benchmark position allows us to raise or lower exposure to specific asset classes with a goal of tilting portfolios toward those markets that offer comparatively attractive near-term prospects.

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GLOBAL ASSET MIX							
	BENCHMARK POLICY	PAST RANGE	NEW YEAR 2014	SPRING 2014	SUMMER 2014	FALL 2014	NEW YEAR 2015
CASH	2.0%	1.5% – 16%	4.0%	4.0%	4.0%	1.0%	1.0%
BONDS	43.0%	25% – 54%	38.0%	38.0%	37.0%	40.0%	38.0%
STOCKS	55.0%	36% – 65%	58.0%	58.0%	59.0%	59.0%	61.0%
Note: Effective September 1, 2014, we revised our strategic neutral positions within fixed income, lowering the 'neutral' commitment to cash from 5% to 2%, and moving the difference to bonds. This takes advantage of the positive slope of the yield curve which prevails over most time periods, and allows our fixed income managers to shorten duration and build cash reserves whenever a correction in the bond market, or especially an inverted yield curve, is anticipated.							
REGIONAL ALLOCATION							
GLOBAL BONDS	CWGBI* NOV. 2014	PAST RANGE	NEW YEAR 2014	SPRING 2014	SUMMER 2014	FALL 2014	NEW YEAR 2015
North America	34.6%	18%– 40%	28.0%	38.0%	37.7%	32.9%	39.6%
Europe	41.5%	32% – 56%	42.3%	38.2%	39.3%	41.9%	39.0%
Asia	23.9%	20% – 35%	29.7%	23.7%	23.1%	25.2%	21.4%
Note: Based on anticipated 12-month returns in \$US hedged basis							
GLOBAL EQUITIES	MSCI** NOV. 2014	PAST RANGE	NEW YEAR 2014	SPRING 2014	SUMMER 2014	FALL 2014	NEW YEAR 2015
North America	59.6%	51%– 61%	57.3%	58.3%	58.7%	59.1%	60.5%
Europe	21.9%	21% – 35%	23.8%	25.0%	24.2%	22.3%	20.8%
Asia	11.2%	9% – 18%	11.5%	9.8%	10.2%	11.3%	11.3%
Emerging Markets	7.3%	0% – 8.5%	7.5%	7.0%	7.0%	7.3%	7.5%
Our asset mix is reported as at the end of each quarter. The mix is fluid and may be adjusted within each quarter, although we do not always report on shifts as they occur. The weights in the table should be considered a snapshot of our asset mix at the date of release of the <i>Global Investment Outlook</i> .							
GLOBAL EQUITY SECTOR ALLOCATION							
	MSCI** NOV. 2014	RBC ISC FALL 2014	RBC ISC NEW YEAR 2015	CHANGE FROM FALL 2014	WEIGHT VS. BENCHMARK		
Energy	8.81%	9.10%	7.81%	(1.29)	88.6%		
Materials	5.23%	5.78%	4.23%	(1.55)	80.9%		
Industrials	10.92%	10.97%	12.12%	1.15	111.0%		
Consumer Discretionary	11.81%	11.84%	12.81%	0.97	108.5%		
Consumer Staples	9.81%	10.70%	9.81%	(0.89)	100.0%		
Health Care	12.61%	13.47%	14.21%	0.75	112.7%		
Financials	21.00%	18.88%	19.00%	0.12	90.5%		
Information Technology	13.02%	14.70%	15.02%	0.32	115.4%		
Telecom. Services	3.44%	2.94%	1.64%	(1.30)	47.7%		
Utilities	3.36%	1.62%	3.36%	1.73	100.0%		

*Citigroup World Global Bond Index **MSCI World Index

Source: RBC Investment Strategy Committee

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This tactical recommendation for the Balanced profile can serve as a guide for movement within the ranges allowed for all other profiles. If, for example, the recommended current equity exposure for the Balanced profile is set at 62.5% (i.e.: 7.5% above its benchmark of 55% and part way toward its upper limit of 70% for equities), that would imply a tactical shift of + 5.02% to 25.02% for the Very Conservative profile

(i.e.: a proportionate adjustment above the benchmark equity setting of 20% within the allowed range of +/- 15%).

The value-added of tactical strategies is, of course, dependent on the degree to which the expected scenario unfolds.

Regular reviews of portfolio weights are essential to the ultimate success of an investment plan as they ensure current exposures are aligned with levels of

long-term returns and risk tolerances best suited to individual investors.

Anchoring portfolios with a suitable strategic asset mix, and placing boundaries defining the allowed range for tactical positioning, imposes discipline that can limit damage caused by swings in emotion that inevitably accompany both bull and bear markets.

-
1. **Average Return:** The average total return produced by the asset class over the period 1979 – 2014, based on monthly results.
 2. **Volatility:** The standard deviation of returns. Standard deviation is a statistical measure that indicates the range around the average return within which 2/3 of results will fall into, assuming a normal distribution around the long-term average.
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VERY CONSERVATIVE

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
CASH & CASH EQUIVALENTS	2%	0-15%	1.1%	1.0%
FIXED INCOME	78%	55-95%	75.2%	73.8%
TOTAL CASH & FIXED INCOME	80%	65-95%	76.3%	74.8%
CANADIAN EQUITIES	10%	5-20%	11.0%	12.0%
U.S. EQUITIES	5%	0-10%	6.8%	7.0%
INTERNATIONAL EQUITIES	5%	0-10%	5.9%	6.2%
EMERGING MARKETS	0%	0%	0.0%	0.0%
TOTAL EQUITIES	20%	5-35%	23.7%	25.2%
			RETURN	VOLATILITY
35-YEAR AVERAGE			9.2%	6.1%
LAST 12 MONTHS			8.8%	3.0%

Very Conservative investors will seek income with maximum capital preservation and the potential for modest capital growth, and be comfortable with small fluctuations in the value of their investments. This portfolio will invest primarily in fixed-income securities, and a small amount of equities, to generate income while providing some protection against inflation. Investors who fit this profile generally plan to hold their investment for the short to medium term (minimum one to five years).

CONSERVATIVE

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
CASH & CASH EQUIVALENTS	2%	0-15%	1.0%	1.0%
FIXED INCOME	63%	40-80%	60.1%	58.4%
TOTAL CASH & FIXED INCOME	65%	50-80%	61.1%	59.4%
CANADIAN EQUITIES	15%	5-25%	16.0%	17.1%
U.S. EQUITIES	10%	0-15%	11.9%	12.1%
INTERNATIONAL EQUITIES	10%	0-15%	11.0%	11.4%
EMERGING MARKETS	0%	0	0.0%	0.0%
TOTAL EQUITIES	35%	20-50%	38.9%	40.6%
			RETURN	VOLATILITY
35-YEAR AVERAGE			9.5%	7.3%
LAST 12 MONTHS			10.0%	3.0%

Conservative investors will pursue modest income and capital growth with reasonable capital preservation, and be comfortable with moderate fluctuations in the value of their investments. The portfolio will invest primarily in fixed-income securities, with some equities, to achieve more consistent performance and provide a reasonable amount of safety. The profile is suitable for investors who plan to hold their investment over the medium to long term (minimum five to seven years).

BALANCED

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
CASH & CASH EQUIVALENTS	2%	0-15%	1.0%	1.0%
FIXED INCOME	43%	20-60%	40.0%	38.0%
TOTAL CASH & FIXED INCOME	45%	30-60%	41.0%	39.0%
CANADIAN EQUITIES	19%	10-30%	20.0%	21.1%
U.S. EQUITIES	20%	10-30%	21.8%	22.1%
INTERNATIONAL EQUITIES	12%	5-25%	12.9%	13.3%
EMERGING MARKETS	4%	0-10%	4.3%	4.5%
TOTAL EQUITIES	55%	40-70%	59.0%	61.0%
			RETURN	VOLATILITY
35-YEAR AVERAGE			9.6%	8.7%
LAST 12 MONTHS			12.1%	3.4%

The Balanced portfolio is appropriate for investors seeking balance between long-term capital growth and capital preservation, with a secondary focus on modest income, and who are comfortable with moderate fluctuations in the value of their investments. More than half the portfolio will usually be invested in a diversified mix of Canadian, U.S. and global equities. This profile is suitable for investors who plan to hold their investment for the medium to long term (minimum five to seven years).

GROWTH

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
CASH & CASH EQUIVALENTS	2%	0-15%	1.0%	1.0%
FIXED INCOME	28%	5-40%	24.9%	22.6%
TOTAL CASH & FIXED INCOME	30%	15-45%	25.9%	23.6%
CANADIAN EQUITIES	23%	15-35%	24.0%	25.1%
U.S. EQUITIES	25%	15-35%	26.8%	27.2%
INTERNATIONAL EQUITIES	16%	10-30%	17.0%	17.4%
EMERGING MARKETS	6%	0-12%	6.3%	6.7%
TOTAL EQUITIES	70%	55-85%	74.1%	76.4%
			RETURN	VOLATILITY
35-YEAR AVERAGE			9.6%	10.8%
LAST 12 MONTHS			13.3%	3.9%

Investors who fit the Growth profile will seek long-term growth over capital preservation and regular income, and be comfortable with considerable fluctuations in the value of their investments. This portfolio primarily holds a diversified mix of Canadian, U.S. and global equities and is suitable for investors who plan to invest for the long term (minimum seven to ten years).

AGGRESSIVE GROWTH

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
CASH & CASH EQUIVALENTS	2%	0-15%	0.5%	0.5%
FIXED INCOME	0%	0-10%	0.0%	0.0%
TOTAL CASH & FIXED INCOME	2%	0-20%	0.5%	0.5%
CANADIAN EQUITIES	32.5%	20-45%	32.7%	33.1%
U.S. EQUITIES	35.0%	20-50%	36.0%	36.1%
INTERNATIONAL EQUITIES	21.5%	10-35%	21.8%	21.3%
EMERGING MARKETS	9.0%	0-15%	9.0%	9.0%
TOTAL EQUITIES	98%	80-100%	99.5%	99.5%
			RETURN	VOLATILITY
35-YEAR AVERAGE			9.7%	13.4%
LAST 12 MONTHS			15.3%	4.9%

Aggressive Growth investors seek maximum long-term growth over capital preservation and regular income, and are comfortable with significant fluctuations in the value of their investments. The portfolio is almost entirely invested in stocks and emphasizes exposure to global equities. This investment profile is suitable only for investors with a high risk tolerance and who plan to hold their investments for the long term (minimum seven to ten years).

CAPITAL MARKETS PERFORMANCE

Milos Vukovic, MBA, CFA

Vice President & Head of Investment Policy
RBC Global Asset Management Inc.

The U.S. dollar extended its gains against all major currencies between September 1, 2014, and November 30, 2014. The greenback's 14.1% gain versus the yen was the biggest. The greenback climbed 6.1% against the British pound, 5.6% versus the euro and 5.2% versus the Canadian dollar. Over the 12-month period ended November 30, 2014, the U.S. dollar rose 15.8% against the yen, 9.2% versus the euro and 7.7% versus the Canadian dollar.

Fixed-income markets posted declines during the three-month period, mostly because of U.S. dollar strength against all major currencies. Returns were generally positive in local-currency terms. The Barclays Capital Aggregate Bond Index, a broad measure of U.S. fixed-income performance, rose 1.0%. European bonds lost 3.5% measured by the Citigroup WGBI – Europe Index, even though yields extended declines on concerns that deflation was becoming more of a threat. The FTSE TMX Canada Universe Bond Index, Canada's fixed-income benchmark, declined 3.5%, while Japanese bonds, as measured by the Citigroup Japanese Government Bond Index, lost 11.1%.

Major equity markets declined broadly, as was the case with global fixed income, on U.S. dollar strength. U.S. equity markets rose on optimism that the U.S. economic recovery was continuing to gather momentum. The S&P 500 Index climbed 3.7%, while the MSCI Europe lost 3.8%. Within Europe, the MSCI U.K. lost 6.7%, followed by a 4.6% decline in the MSCI France. The MSCI Germany fell the least, with a 0.2% decline. Over the 12-month period, the S&P 500 increased 16.9%. The MSCI U.K. lost 0.1%, followed by 3.6% declines for both the MSCI Germany and the MSCI France. The S&P 400 Index, a measure of the U.S. mid-cap market, rose 0.7% in the latest three months and 12.2% for the 12-month period, while the S&P 600 Index, a gauge of small-cap performance, appreciated 1.1% in the three-month period and gained 4.3% over the 12-month period. The S&P/TSX Composite Index lost 9.7% in U.S. dollar terms during the three months, lagging the 8.0% loss for the large-cap S&P/TSX 60 Index, but beating the 21.0% drop in the resource-heavy S&P/TSX Small Cap Index. The MSCI Emerging Markets

Index lost 7.3% during the three-month period and climbed 1.1% in the 12-month period. The Russell 3000 Growth Index rose 4.1% during the quarter, and the Russell 3000 Value Index gained 2.0%. Over the 12-month period, the Russell 3000 Growth Index rose 16.5% and the Russell 3000 Value Index increased 14.6%.

Seven of the 10 global equity sectors rose during the quarter ended November 30, 2014. The best-performing sector was Health Care, which gained 6.2%, followed by Information Technology at 5.0%, and Consumer Staples with a 4.1% rise. The worst-performing sectors were Energy, which lost 20.0%; Materials, which lost 8.4%; and Financials, which lost 0.1%. Over the 12-month period, the best-performing sectors were Information Technology, Health Care and Utilities, and the worst-performing were Energy, Materials and Industrials.

EXCHANGE RATES						
PERIODS ENDING NOVEMBER 30, 2014						
	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.1439	5.21	7.69	7.69	3.90	1.62
USD–EUR	0.8037	5.59	10.58	9.18	2.60	3.82
USD–GBP	0.6394	6.14	5.89	4.65	0.12	1.02
USD–JPY	118.6700	14.05	12.68	15.84	15.24	6.54

Note: all changes above are expressed in US dollar terms

CANADA								
PERIODS ENDING NOVEMBER 30, 2014								
	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
<i>Fixed Income Markets: Total Return</i>								
FTSE TMX Canada Univ. Bond Index	(3.54)	0.46	0.03	0.13	3.35	1.48	7.72	4.04

U.S.								
PERIODS ENDING NOVEMBER 30, 2014								
	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
<i>Fixed Income Markets: Total Return</i>								
Citigroup U.S. Government	1.21	4.77	3.85	1.63	3.28	6.47	11.84	5.59
Barclays Capital Agg. Bond Index	1.00	5.86	5.26	3.00	4.10	6.26	13.35	7.02

GLOBAL								
PERIODS ENDING NOVEMBER 30, 2014								
	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
<i>Fixed Income Markets: Total Return</i>								
Citigroup WGBI	(4.06)	0.17	(0.38)	0.94	1.61	0.93	7.28	4.87
Citigroup WGBI – Europe	(3.45)	1.88	2.42	6.15	2.30	1.58	10.30	10.29
Citigroup Japanese Government	(11.14)	(8.06)	(11.08)	(10.84)	(3.83)	(6.51)	(4.24)	(7.37)

CANADA								
PERIODS ENDING NOVEMBER 30, 2014								
	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
<i>Equity Markets: Total Return</i>								
S&P/TSX Composite	(9.68)	3.11	5.16	5.63	6.52	(4.97)	13.25	9.75
S&P/TSX 60	(8.02)	4.94	6.85	6.61	6.19	(3.24)	15.07	10.76
S&P/TSX Small Cap	(21.01)	(9.02)	(6.56)	(3.47)	2.72	(16.90)	0.63	0.29

U.S.								
PERIODS ENDING NOVEMBER 30, 2014								
	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
<i>Equity Markets: Total Return</i>								
S&P 500	3.72	13.98	16.86	20.93	15.96	9.12	25.85	25.64
S&P 400	0.68	8.87	12.23	19.51	17.77	5.92	20.87	24.17
S&P 600	1.06	2.82	4.31	19.61	18.56	6.32	12.33	24.28
RUSSELL 3000 Value	1.96	11.83	14.60	21.16	15.66	7.27	23.42	25.89
RUSSELL 3000 Growth	4.11	13.29	16.45	20.42	16.86	9.53	25.40	25.12
NASDAQ Composite Index	4.61	14.73	18.02	22.29	17.44	10.06	27.10	27.05

Note: all rates of return presented for periods longer than 1 year are annualized

Source: Bloomberg/MSCI

GLOBAL PERIODS ENDING NOVEMBER 30, 2014								
	USD					CAD		
<i>Equity Markets: Total Return</i>	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World*	(0.12)	6.66	8.91	16.08	10.96	4.99	17.30	20.60
MSCI EAFE*	(3.95)	(1.49)	(0.02)	12.02	6.38	0.96	7.68	16.38
MSCI Europe*	(3.80)	(1.96)	0.24	12.92	6.53	1.12	7.96	17.32
MSCI Pacific*	(4.37)	(0.90)	(0.86)	10.33	6.32	0.52	6.78	14.63
MSCI UK*	(6.72)	(2.77)	(0.11)	10.61	8.02	(1.95)	7.58	14.92
MSCI France*	(4.61)	(5.15)	(3.59)	12.04	3.47	0.27	3.84	16.40
MSCI Germany*	(0.16)	(6.21)	(3.60)	14.65	7.71	4.95	3.82	19.12
MSCI Japan*	(1.70)	(2.63)	(1.85)	10.54	5.95	3.32	5.71	14.84
MSCI Emerging Markets*	(7.31)	2.54	1.06	5.27	3.55	(2.57)	8.84	9.37

GLOBAL EQUITY SECTORS PERIODS ENDING NOVEMBER 30, 2014								
	USD					CAD		
<i>Sector: Total Return</i>	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy	(19.82)	(10.66)	(8.03)	2.23	4.04	(15.72)	(0.95)	6.21
Materials	(8.37)	(2.99)	(0.77)	2.17	2.21	(3.68)	6.88	6.15
Industrials	0.03	1.60	4.88	16.07	12.43	5.15	12.96	20.59
Consumer Discretionary	3.54	4.38	6.52	21.63	17.38	8.84	14.73	26.37
Consumer Staples	4.11	9.70	10.51	15.29	13.26	9.43	19.03	19.78
Health Care	6.16	21.17	22.38	26.07	17.30	11.59	31.81	30.98
Financials	(0.12)	4.66	6.11	19.99	7.77	4.99	14.28	24.67
Information Technology	4.97	17.89	22.92	19.18	14.37	10.34	32.39	23.82
Telecommunication Services	1.88	3.84	6.39	13.29	10.21	7.09	14.59	17.70
Utilities	2.19	15.32	15.76	9.63	5.42	7.42	24.68	13.90

* Net of Taxes

Note: all rates of return presented for periods longer than 1 year are annualized

Source: Bloomberg/MSCI

GLOBAL INVESTMENT OUTLOOK

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Markets in motion

As a bumpy quarter for financial markets draws to a close, it is useful to reflect back on the origins and effects of these market swings. In early October, developed-world stock markets swooned by 10%, driven by a perception of intensifying risks that coincided with a cluster of sour economic readings. Fortunately, this stock-market response was out of proportion to the news, allowing the entirety of the losses to be unwound (Exhibit 1). The geopolitical environment is just not as poor as it looks, as demonstrated by risks such as Ebola and ISIS that have failed to achieve true global significance.

Meanwhile, economic data was not as troubling as it first looked. The International Monetary Fund's 2015 global growth forecast was revised only 0.2 percentage point lower. European data was weak, but distorted by holiday effects. Japanese GDP weakness seems similarly overstated. Moreover, lingering deflation risks are tempered by the prospect of additional monetary stimulus in these two regions.

In fact, although stock-market histrionics have captured a disproportionate share of the attention, the actions of other financial variables have been far more consequential because they have not reversed course. Since the summer, oil prices have plummeted from over \$100 to less than \$70 per barrel. Bond yields are also substantially lower, and most

EXHIBIT 1. Stock-Market Swings Are Common

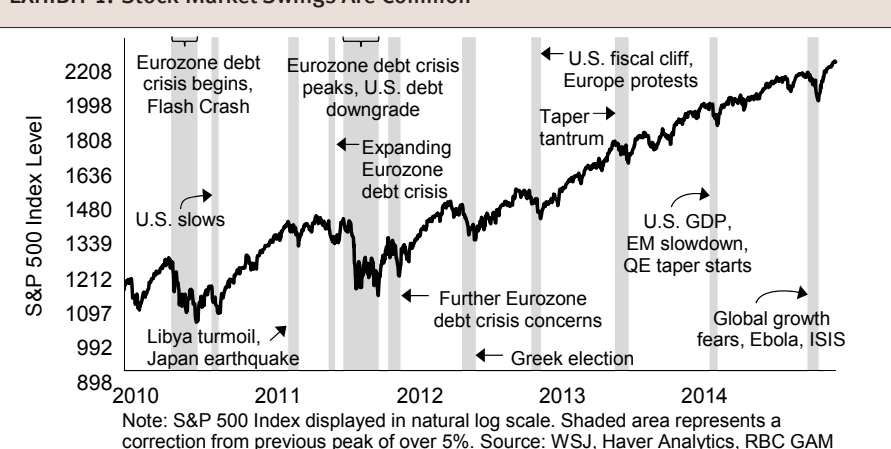
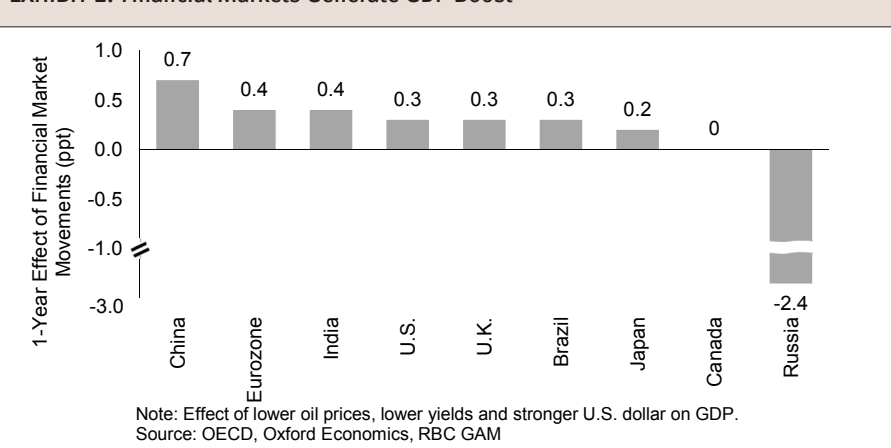


EXHIBIT 2. Financial Markets Generate GDP Boost



of the world's major currencies have depreciated versus the U.S. dollar.

These shifts are all profoundly growth-enhancing, and provide the foundation for an important economic upswing over the coming quarters (Exhibit 2). This is already becoming visible, with

economic momentum shifting back from negative to positive (Exhibit 3).

Oil's new world

The sharp decline in oil prices is worth particular contemplation given the extremity of the move (Exhibit 4). That fact that oil prices have gone

down rather than up is not entirely shocking. We have long expected oil prices to descend back into double-digit territory due to a combination of slower emerging-market growth and surging supply brought on by a decade of high prices.

Predicting where oil prices will settle is an entirely different challenge. Recent downward momentum has arguably pushed oil prices past fair value, though it is difficult to anticipate how long the deviation may last. We continue to believe that a price of around \$80 per barrel represents a reasonable target given the costs of major producers (Exhibit 5).

Upsetting the apple cart, the member nations of the Organization of Petroleum Exporting Countries (OPEC) recently opted not to reduce production despite plummeting prices. Various theories have been put forward to justify this inaction:

1. OPEC is the low-cost producer and so can stomach lower oil prices better than other producers;
2. The cartel may wish to undercut shale-oil producers before shale captures even more market share;
3. OPEC may be punishing Russia (another big oil producer) given Russia's recent geopolitical aggression;
4. The cartel may simply lack the coordination to cut production.

We find most of these arguments unpersuasive. OPEC is indeed the low-cost producer, but their government budgets are heavily reliant on oil prices that are in many cases well above current levels (Exhibit 6). Thus, they

EXHIBIT 3. Leading Indicators Begin to Turn Higher

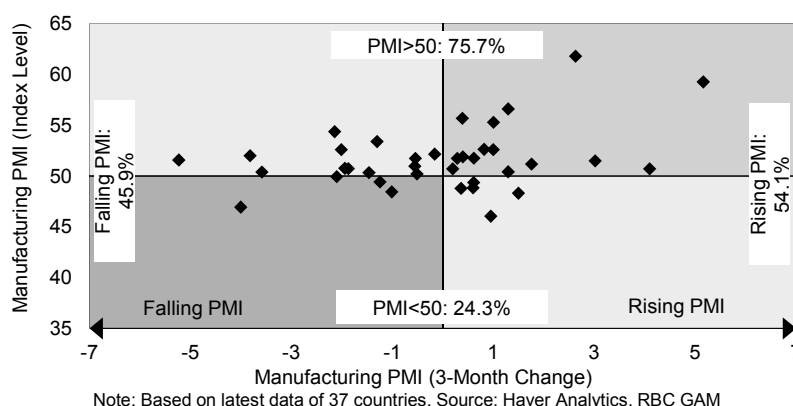
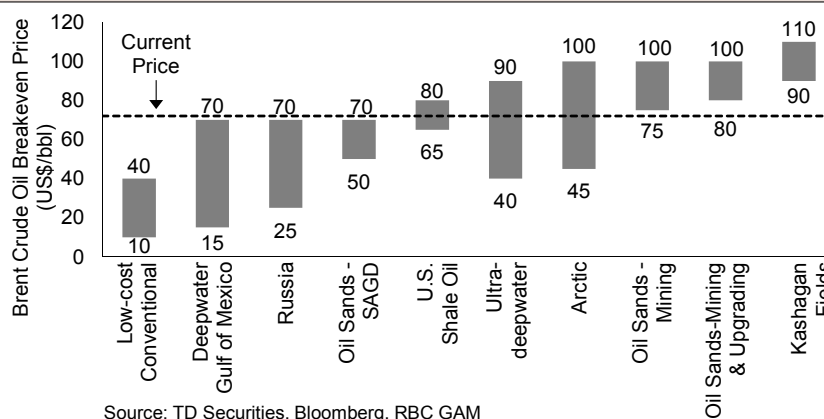


EXHIBIT 4. Oil Prices Tumble on Global Growth Concerns and Supply Glut



EXHIBIT 5. Falling Oil Prices Limited by Production Constraints



are no less desirous of high prices than anyone else.

OPEC no doubt wishes that shale oil producers would go away, but it is not clear that they can sustainably best them via lower prices. The entrepreneurial nature of the shale oil business (paired with a rapid decay rate on existing wells), means that shale producers can turn off and on almost like a light switch. The only way to permanently kill shale oil would be to take prices down through \$60 and keep them there indefinitely. But a permanently lower price level would punish OPEC as much as anyone else.

The idea that OPEC would wish to punish Russia seems laughable given the number of OPEC nations closely aligned with Russia, and given the economic cost these countries are incurring.

As a result, we are most inclined toward the last hypothesis: OPEC is having coordination problems. Some members, such as Iran, Venezuela and Nigeria, are particularly vulnerable to low prices, and so are keen to cut production. Others are much less willing to suffer the upfront hit, and are hoping Saudi Arabia will absorb the brunt of any cutback, as it often does. Saudi Arabia, meanwhile, appears fed up with doing the hard work all by itself, particularly since it has significant idle capacity.

How will equilibrium return? OPEC will likely succumb to a production cut at some point over the next few months simply because it is so clearly in its best interest. The global daily supply exceeds demand by no more than two million barrels, out of a market

EXHIBIT 6. OPEC Unlikely to Embrace Low Oil Prices

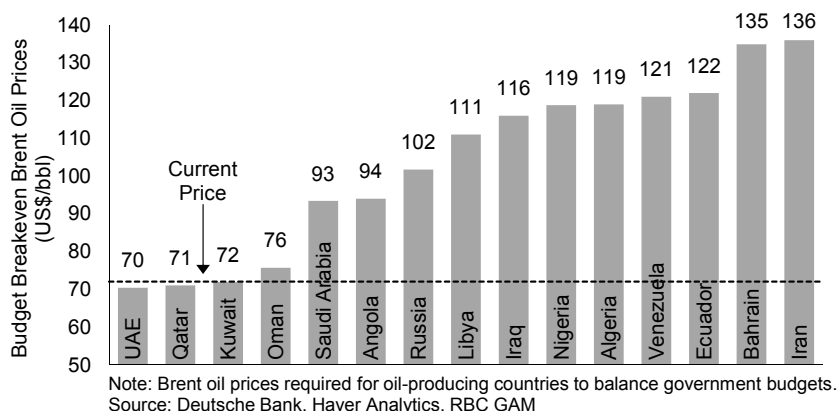
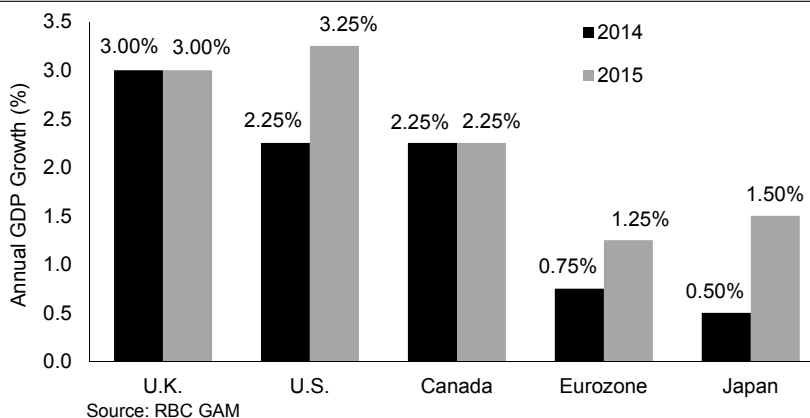


EXHIBIT 7. RBC GAM GDP Forecasts for Developed Markets



of 93 million barrels. If OPEC, which produces 40% of the total, were to reduce its production by just 4%, it would be amply compensated with a 10% to 25% increase in price.

Uneven growth

Unusually uneven economic growth was one of the hallmarks of 2014. Some parts of the world accelerated nicely, such as the U.S., the U.K. and India. On the other side of the aisle, however, Europe and Japan have both

disappointed, and Brazil and Russia have been extremely weak.

We expect slightly broader growth in 2015, even if individual prospects remain varied. The zippier developed economies look capable of sustaining their recent growth, while the more feeble ones are gearing up to narrow the performance gap (Exhibit 7).

The outlook is more mixed for emerging markets. India and Mexico are most obviously on track for

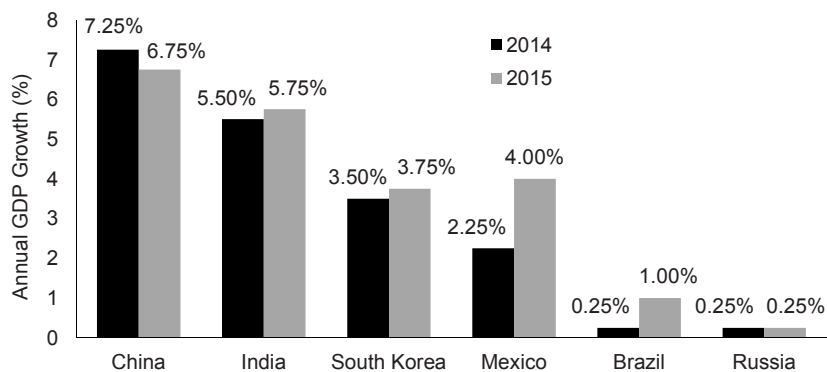
improving, strong growth. Brazil is capable of at least escaping from recession after a disastrous 2014, if not much more. Meanwhile, Chinese growth should continue to decelerate, while Russia remains stuck in a recessionary orbit (Exhibit 8).

Another way to convey our forecasts is according to whether we are more optimistic than the consensus expectation. This is distinct from whether we expect good growth. For instance, while we expect faster growth in India, we are unconvinced it can accelerate quite as quickly as the market imagines. By this metric, we look for better-than-expected growth in the U.S., U.K., Japan, Eurozone, Mexico and South Korea. Conversely, we anticipate worse-than-consensus growth in Canada, India, Russia and China. Our expectations align with the consensus for Brazil (Exhibit 9).

Sustaining the business cycle

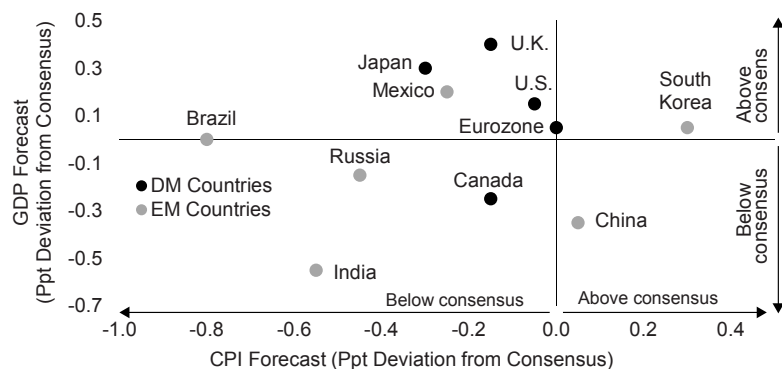
We believe the expansion phase of this business cycle can persist, despite investor concerns that European and Japanese weakness could be signalling a downward turn (Exhibit 10). There are several reasons for our constructive view. First, it is customary for the business cycle to last seven to 10 years, not the mere five that separate us from the Great Recession. Second, economic expansions tend to last longer when they follow an especially deep recession, and when the initial recovery is tepid. Third, downturns are classically induced by an overheating economy. As demonstrated by frosty inflation levels, this is not yet a credible concern.

EXHIBIT 8. RBC GAM GDP Forecast for Emerging Markets



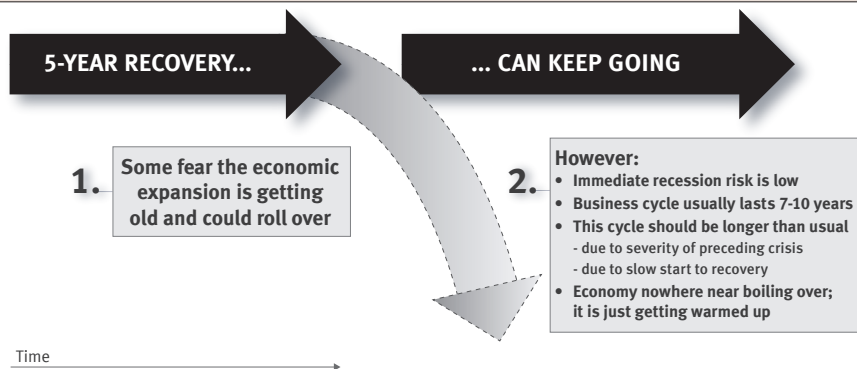
Source: RBC GAM

EXHIBIT 9. RBC GAM Forecasts vs. Consensus for 2015



Note: Deviation measured as difference between RBC GAM forecast and consensus forecast. Source: RBC GAM, Consensus Economics

EXHIBIT 10. Longer Business Cycle



Source: RBC GAM

Overstated geopolitical worries

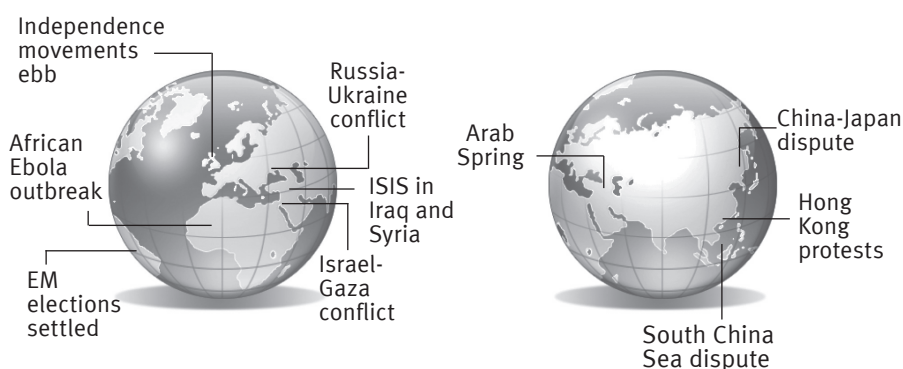
There are undeniably a large number of geopolitical risks in the world today (Exhibit 11). However, the environment may not be quite as problematic as it first looks, despite the spectres of Ebola and ISIS.

The Ebola outbreak is an awful tragedy and a full-blown crisis for West Africa. But from a global investment perspective, the consequences appear limited. This is just the latest outbreak in a long line – spanning decades – and none has spread meaningfully beyond an initial handful of the world’s poorest countries.

The characteristics of Ebola may have something to do with this. A multi-week incubation period limits the pace at which it spreads. Ebola spreads through direct contact with bodily fluids (rather than through the air), limiting its transmission. Helpfully, symptoms manifest before the disease becomes highly contagious, affording a window of opportunity to isolate patients. The mortality rate – as high as 50% to 70% in the poorest nations – is much lower in the developed world at 10% to 20%. Even Liberia – which suffered the worst of the initial outbreak – is reporting a diminishing number of new cases. Vaccines under development also show some promise. None of this guarantees that Ebola has peaked, but it makes for an improbable global pandemic.

ISIS is mainly relevant to markets via its potential effect on Iraqi oil production. Yet oil prices have failed to signal even an iota of concern, instead plummeting to the lowest

EXHIBIT 11. Geopolitical Threats



Source: RBC GAM

levels in years. This lack of traction is understandable. ISIS operates predominantly in the north and northwest of Iraq, whereas most of the oil production comes from the south. Where ISIS has wrested control of extraction or refinery facilities, it has largely maintained production as a means of raising funds. The West’s engagement has also profoundly limited ISIS’s ability to expand further. As a result, we expect ISIS to remain of limited relevance to global markets.

Meanwhile, a number of risks are in a holding pattern, such as the Russia-Ukraine conflict. Russia is unlikely to formally annex eastern Ukraine, nor is Ukraine likely to fully wrest control back from rebels.

More than offsetting the handful of intensifying risks, a large number of geopolitical risks have recently faded. Naturally, these receive little acknowledgement in the press. For instance, the Israel-Gaza conflict has eased, as have tensions between China and Japan.

A further such development is the ebbing of independence movements around the world. The threat of Scottish separation has vanished after a September “No” vote. This not only keeps the U.K. intact, but also reduces the odds of the U.K. leaving the European Union in a few years. The Scottish vote also took the air out of separatist movements elsewhere. Catalonia recently cancelled its own referendum on whether to secede from Spain (though much of this was also due to legal challenges from Madrid).

A final point of uncertainty has helpfully dimmed as a spate of emerging-market elections have been resolved. The votes spanned the so-called “Fragile Five” of India, Indonesia, Brazil, South Africa and Turkey. All went according to initial expectations, and those in India and Indonesia went very well from the standpoint of investors. For all nations, moving past their elections has brought a helpful dose of clarity to the outlook, and opens a window for delivering politically unpopular but economically valuable structural reforms.

Thus, the overall level of geopolitical risk may be elevated, but it is not getting worse. To the contrary, it is improving slightly.

Deflation threat

Inflation has lately been very low around the world, driven by a combination of slow growth, minimal wage pressures and declining commodity prices. Real-time indicators suggest the worst is not quite over yet, and so we look for the continuation of fairly low inflation over the next year.

European inflation has been especially weak. As the months stack up, it becomes more difficult to escape from this experience given falling inflation expectations (Exhibit 12).

Fortunately, there are several reasons why persistent deflation should ultimately be avoided. Our economic models argue that the European economy is not weak enough to succumb to deflation. Empirically, various European inflation proxies have begun to stabilize or edge higher (Exhibit 13). Even in a Japanese-style worst-case scenario, Europe should be capable of following Japan out of any deflationary trap via Japan's recent strategy of monetary stimulus and currency weakness. In fact, Europe is already beginning to undertake these remedies.

Accordingly, we have revised our inflation forecasts modestly lower, but still believe a rising trend is probable over the next year (Exhibit 14). Of course, much will depend on where oil prices settle.

EXHIBIT 12. Eurozone Inflation Expectations Are Low and Falling

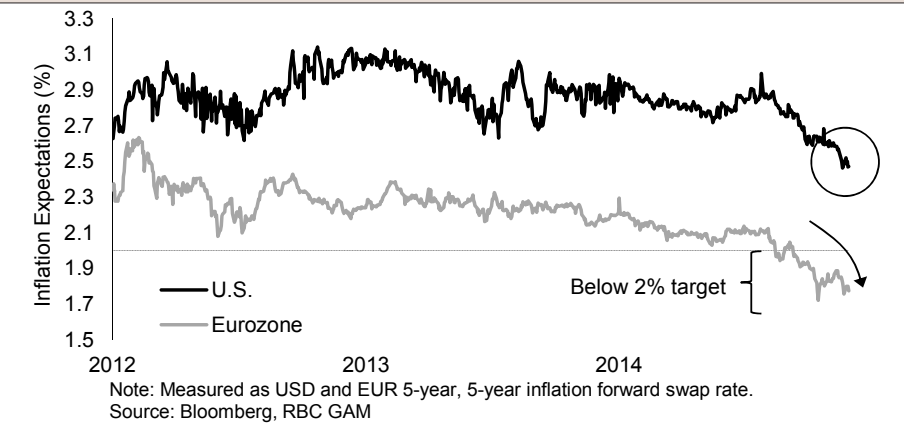


EXHIBIT 13. Euro Area Inflation Proxies Have Bottomed

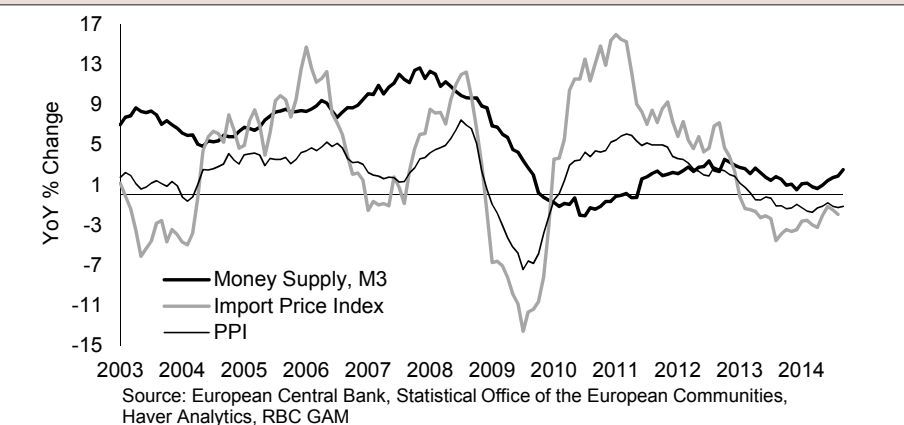
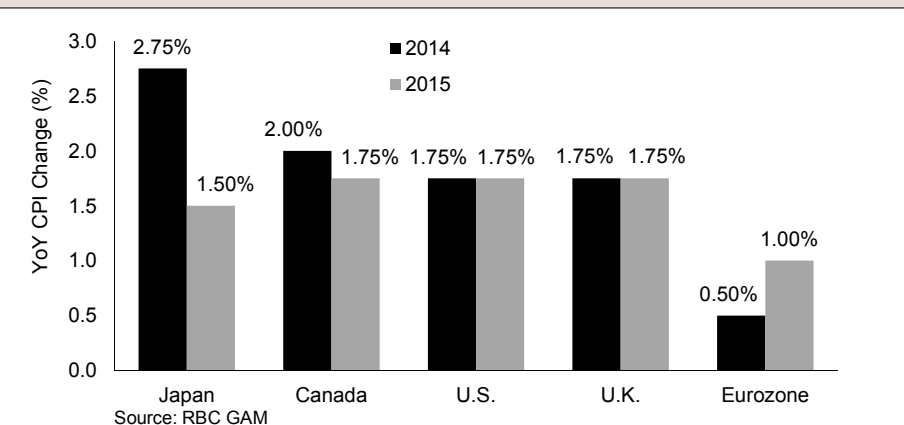


EXHIBIT 14. RBC GAM CPI Forecast for Developed Markets



U.S. liftoff sustained

We have long regarded 2014 as the magical year when U.S. economic growth would finally escape its long malaise. However, this assessment was initially contradicted by early 2014 economic data: U.S. GDP shrank outright in the first quarter of the year, to the worst extent outside of an official recession since the early 1980s. Fortunately, that weakness has since been revealed to be unrepresentative of the broader trend. Not only were other metrics such as hiring and earnings fairly good during the first quarter, but a barrage of economic data has pointed to remarkable economic strength ever since (Exhibit 15).

This economic strength should persist. Part of the logic relates to the benefit that accrues to the U.S. from low oil prices and low bond yields. Another part is that two prior shackles – fiscal austerity and poor risk appetite – have released their grip. On the latter, it is slightly frustrating that risk appetite has increased in a lopsided fashion, with appetite in the financial market reviving more quickly than in the real economy (Exhibit 16). For now, we'll take what we can get, and expect sentiment in the real economy to continue to improve.

Several sectors seem particularly capable of nurturing U.S. growth. The consumer-spending outlook is favourable due to strong wealth and income gains. The income channel is supported mainly by already robust hiring, and also by the prospect of faster wage growth. Our labour-market indicator is finally back to a historically average reading, and continues to improve rapidly (Exhibit 17). Wage growth has been lethargic, but should

EXHIBIT 15. What a Relief: U.S. GDP Bounces Back

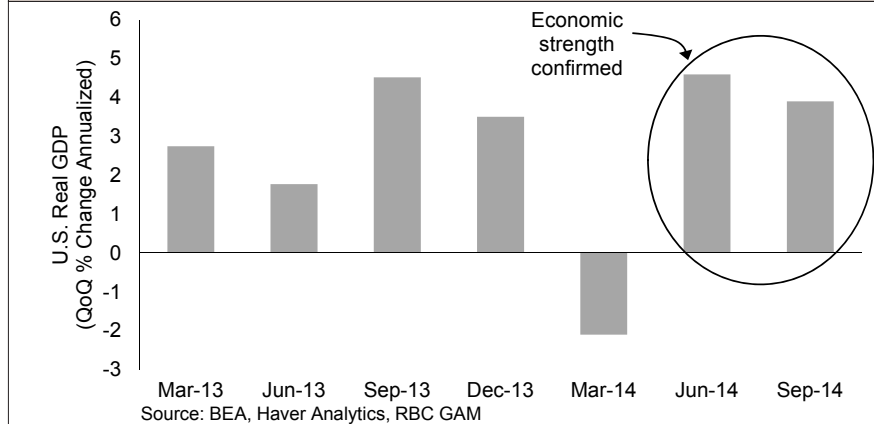


EXHIBIT 16. Risk Appetite Higher for Markets, Less for Real Economy

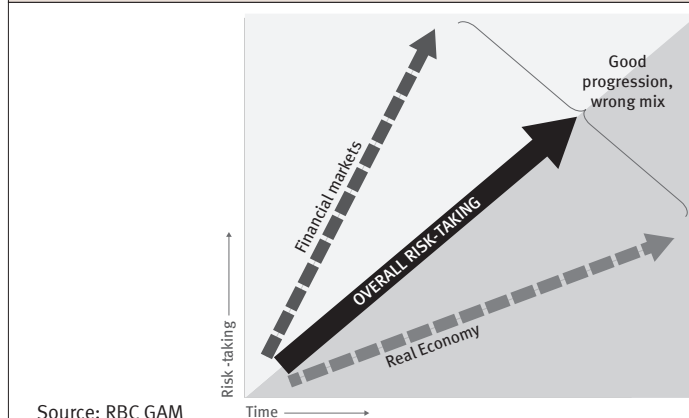
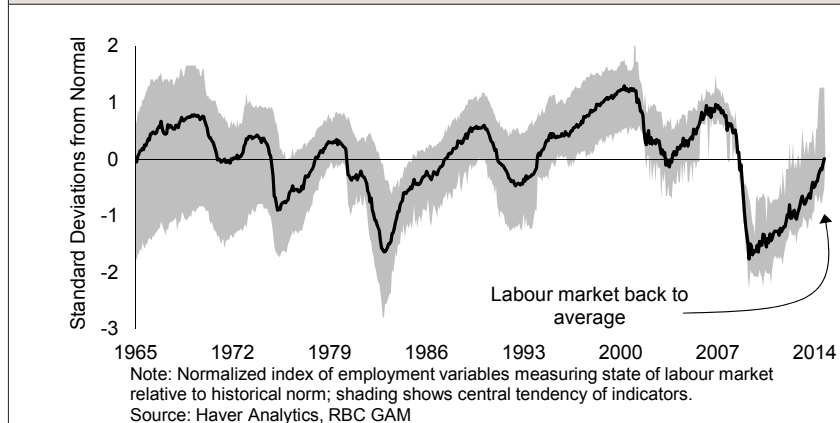


EXHIBIT 17. U.S. Labour Market Conditions Improve Rapidly



extend a nascent uptick based on business hiring intentions and the growing number of people leaving their jobs voluntarily (Exhibit 18). Lower oil prices are also putting money into people's pockets.

The housing market is another probable source of strength, for three reasons. First, the regulatory environment has undergone a profound shift with the installation of a new Federal Housing Finance Agency (FHFA) head focused on extending credit rather than conserving government finances. This development could revive mortgage lending, much as auto lending has already picked up (Exhibit 19).

Second, housing affordability remains attractive. Third, builders are constructing about 300,000 too few homes per year to keep up with demographic demand. All of these factors contribute to the increasingly positive outlook expressed by home builders (Exhibit 20).

U.S. policymaking heats up

The U.S. political environment remains imperfect given the sharp ideological divide that has stalled legislative progress over the past several years. Nevertheless, the story isn't all bad. The risk of a government shutdown or fiscal cliff near-miss has declined due to a shrinking budget deficit and the desire for both parties to appear conciliatory as the 2016 presidential election approaches.

The mid-term election's pivot toward a Republican Senate brings about a slightly improved legislative outlook. Historically, the federal government has been surprisingly productive when

EXHIBIT 18. More Workers Voluntarily Changing Jobs

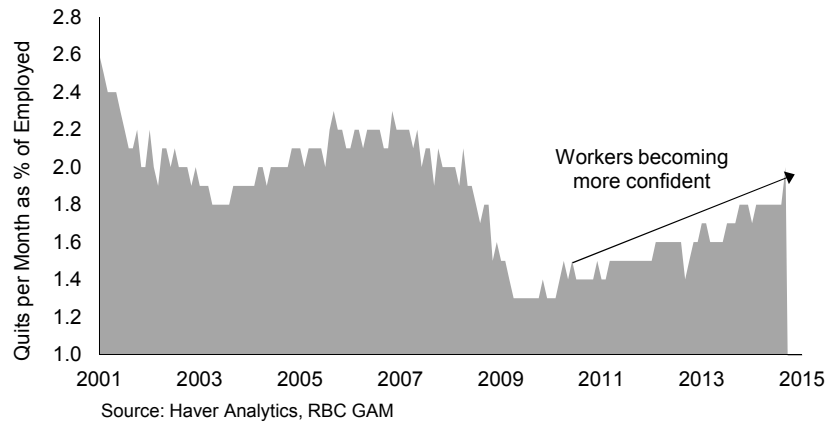


EXHIBIT 19. Auto Loans to Riskier Borrowers Have Mostly Recovered

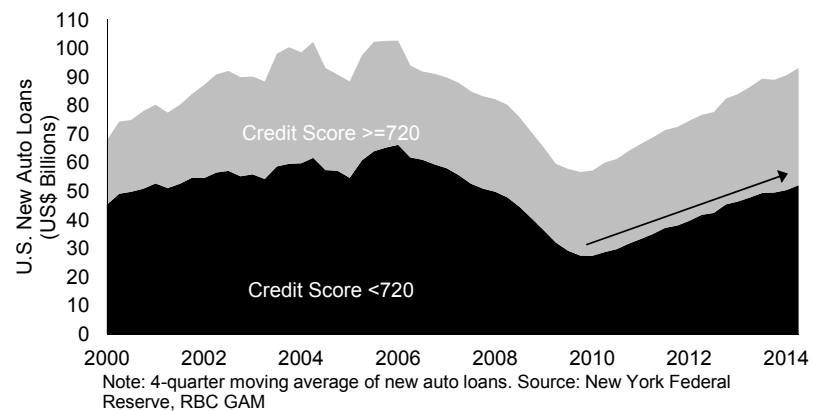
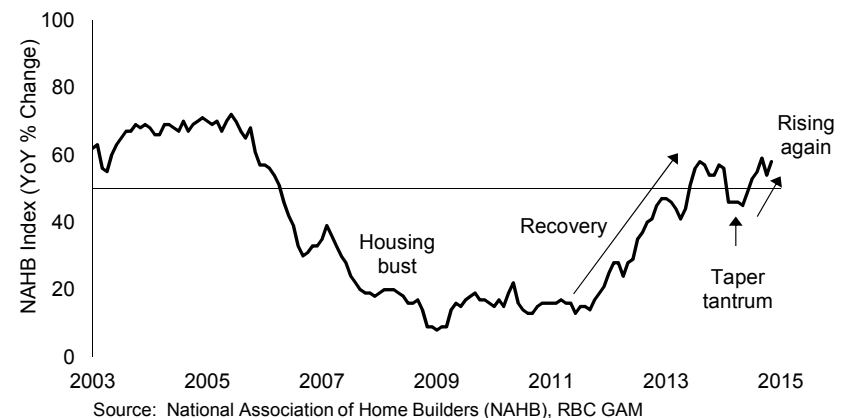


EXHIBIT 20. Home Builders Becoming More Optimistic



the White House is in the hands of one party and Congress in the other. The free-trade inclinations of the Republican Party improve the chances of the U.S. ratifying the Trans-Pacific Partnership and enacting significant tax reform. Moreover, recent executive action to improve a dysfunctional immigration environment should also prove economically useful, if underwhelming.

The U.S. Federal Reserve (Fed) remains plausibly on track to increase the fed-funds rate around the middle of next year, spurred by a strengthening economy and the prospect of accelerating wages (Exhibit 21). This view is approximately in line with signals from the Fed itself, though moderately ahead of market expectations.

Concerns about feeble foreign growth and the negative impact of a strong U.S. dollar are likely exaggerated. Emerging-market economies are stabilizing, and several prominent developed ones have better prospects ahead. Dollar strength is unlikely to deliver a critical blow given the inward orientation of the U.S. economy and the fact that the dollar's increases are predicated on this economic strength. In fact, the dollar should continue to strengthen for a few more years given further economic strength, an attractive valuation and evident upward momentum (Exhibit 22).

U.K. loses altitude

We continue to lump the U.K. with the U.S. in the group of developed countries with particularly strong growth prospects, but our enthusiasm is slightly tempered (Exhibit 23).

**EXHIBIT 21. U.S. Fed Funds Rate
Equilibrium Range**

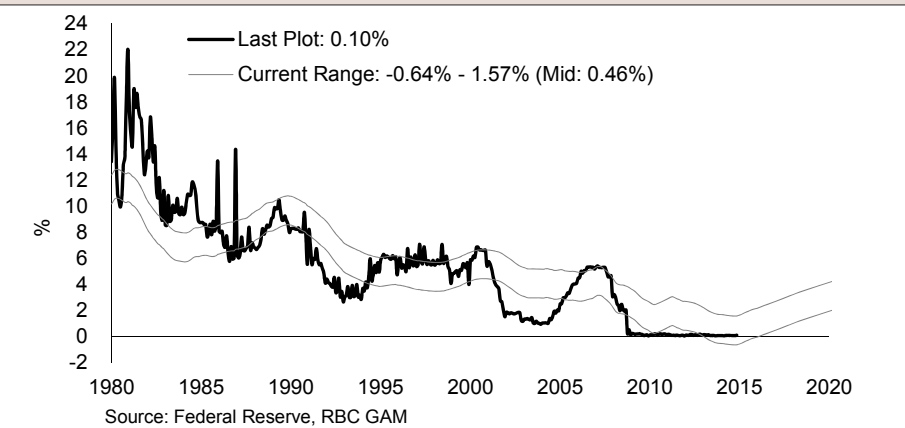


EXHIBIT 22. U.S. Dollar Is Cheap and Rising

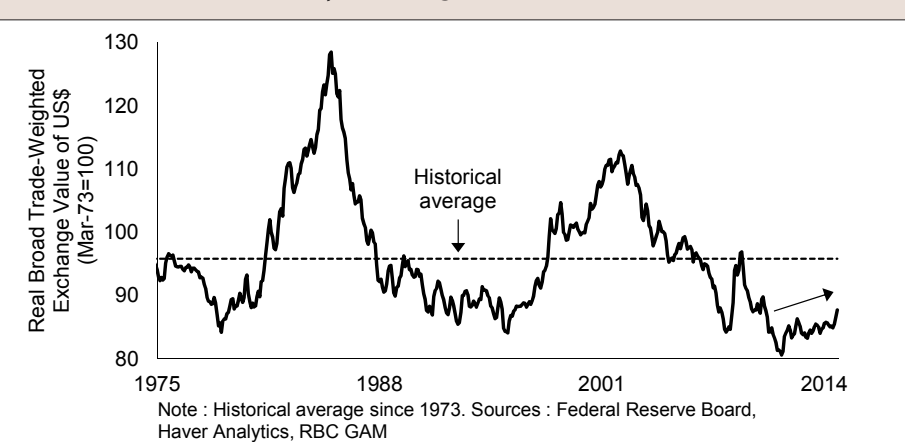
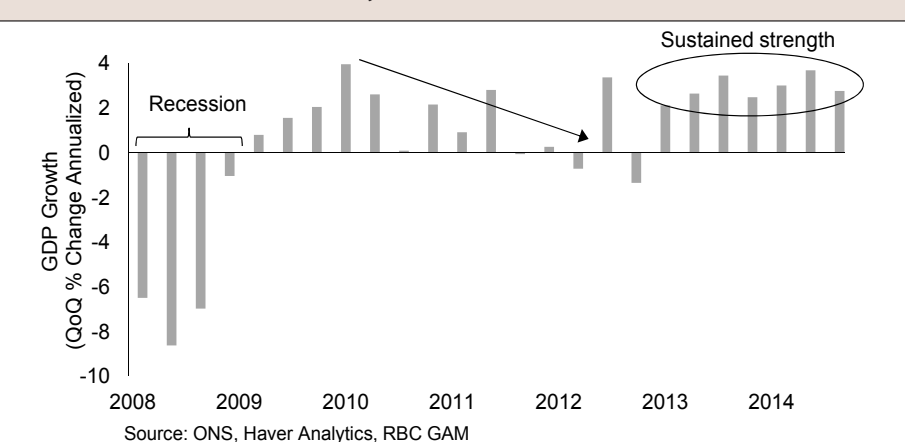


EXHIBIT 23. U.K. in Robust Recovery



A key reason for this more cautious expectation is that the U.K. is set to experience more fiscal drag this year than last (Exhibit 24). Of course, as a consolation prize, this means that the British fiscal deficit is on pace to shrink quickly.

Another clear vulnerability lies in the housing market's recent soft patch, though we still see room for future upside given chronic underbuilding and the seemingly boundless appetite for London properties from financiers and foreigners.

Behind these quibbles remains a foundation for solid economic growth. This is most obvious in the remaining potential upside for business investment, which has been rising rapidly but has not yet cracked pre-crisis levels (Exhibit 25). The "No" vote in the Scottish referendum should helpfully reduce uncertainty, aiding this cause.

Further help is set to come from the international sphere via the now familiar trio of lower oil prices, lower bond yields and the recently softer pound. It will also be a relief if the Eurozone manages somewhat quicker growth (more on that shortly).

The British election this spring becomes more complicated by the moment, as a three-party system morphs into a four-party one given UKIP's surging popularity. The most likely outcome remains a Conservative minority and thus a familiar-looking coalition, but other permutations are conceivable.

The Bank of England (BOE) has recently backed away from near-term rate hikes in the wake of falling

EXHIBIT 24. Little Change to Fiscal Drag Outside of U.K.

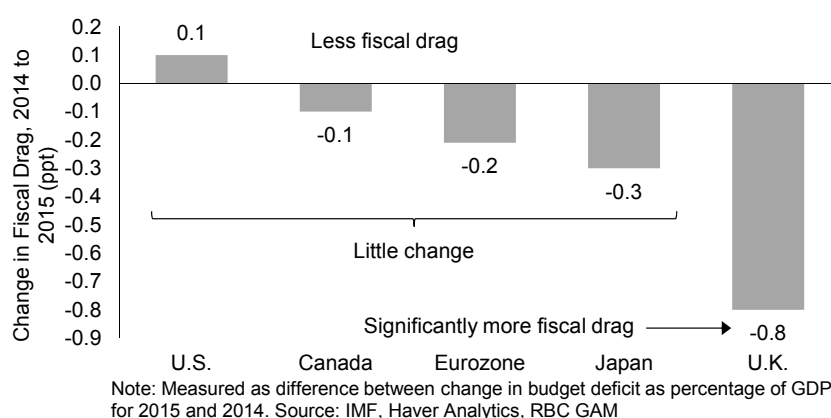


EXHIBIT 25. U.K. Business Investment Retains Important Upside

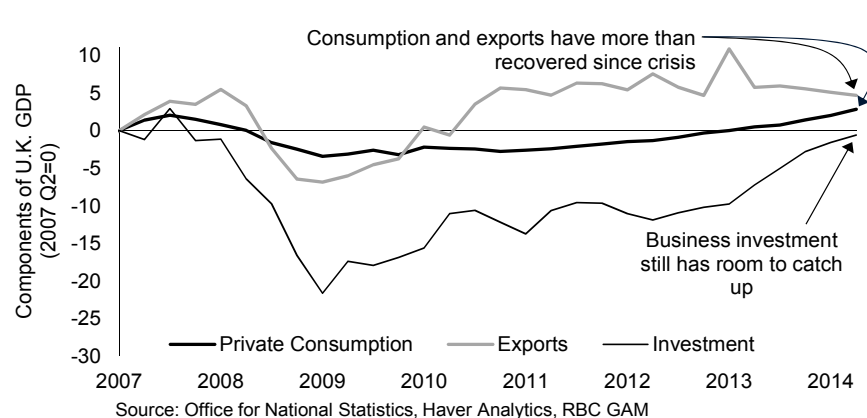
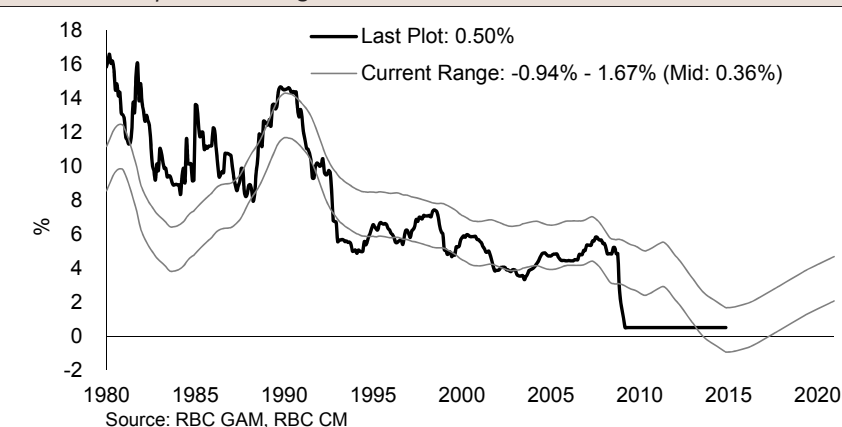


EXHIBIT 26. United Kingdom Base Rate Equilibrium Range



inflation readings, but remains capable of a mid-2015 tightening given vanishing economic slack and the vigour of recent growth (Exhibit 26). As the U.S. dollar strengthens, the pound may weaken modestly, though sterling should be more resilient against other currencies.

Eurozone pivot

We have long maintained a below-consensus take on the Eurozone's economic growth prospects. To this end, we even downgraded our growth expectations earlier in the year as the conflict between Russia and Ukraine grew more intense. Serious downside risks remain with regard to deflation and the political environment.

However, the landscape is shifting around us. Consensus expectations for European growth and inflation have been in serious decline in recent months, possibly to an exaggerated degree. Through no action of our own, we suddenly find ourselves slightly on the optimistic side of consensus. To be clear, this merely indicates that we look for some slight economic improvement over the next year, and that deflation can be avoided.

As a helpful springboard, the euro has fallen significantly, European bond yields have declined to astonishingly low levels and, of course, oil prices have collapsed.

On the geopolitical front, the economic damage from deteriorating ties with Russia appears limited. Trade sanctions bite, but the trade channel from most European countries to Russia is fairly small. European confidence has been undermined by

EXHIBIT 27. Eurozone Confidence Merely Slips

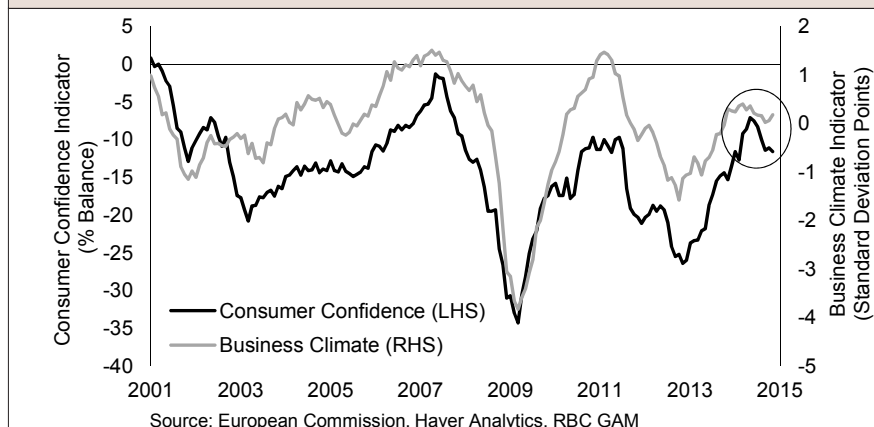
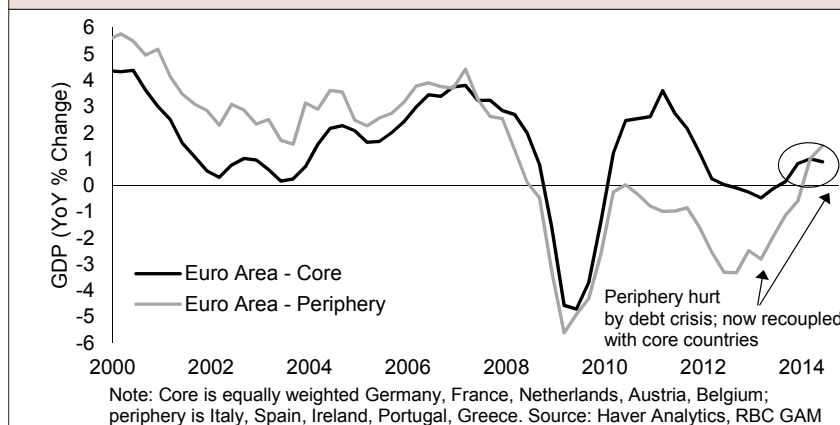


EXHIBIT 28. Euro Area GDP Growth Recoupling



the combination of Russian actions and Europe's geographic proximity to both Ebola and ISIS. But the overall dampening has been very slight, with confidence remaining near normal (Exhibit 27).

European mix

The composition of growth within Europe has undergone quite a transformation. Whereas core Europe was previously outpacing the periphery by a wide margin, the two have now converged (Exhibit 28).

To the extent that this is in part due to weakness in core Europe, we are happy to report that Germany is not quite as damaged as it is perceived to be by many investors. The labour and housing markets appear fine and a recent across-the-board decline in leading indicators merely returns them to normal readings (Exhibit 29).

Meanwhile, it is quite remarkable that peripheral Europe has returned to the land of the living. We believe these countries can sustain their recoveries given fading fiscal austerity and

rebounding competitiveness. Ireland has been particularly strong. Spain has also managed to knock out steady growth, in part thanks to a housing market that has finally bottomed. Greece and Portugal are also credibly on a path toward growth. Italy, on the other hand, has continued to flounder, though recent labour-market reforms offer some hope.

European public policy

Amid the good news about peripheral Europe is a sobering political consideration. Public support for austerity and reform remains poor. This is not an immediate problem as Europe is midway through an unusually long election-free sabbatical. Indeed, the calendar remains bare for most of the next year (Exhibit 30). This is a useful window for delivering reforms and building up a head of economic steam to blunt voter displeasure.

However, there is a serious risk of a snap election in Greece over the coming months given difficulties in choosing a new figurehead president. Polls clearly signal that an election would bring the austerity-skeptic Syriza to power – a serious risk even if their more extreme views were moderated by the realities of governing and the compromises necessary to lead a coalition.

Stingy credit has been a hallmark of Europe's economic malaise in recent years. Fortunately, lending conditions may be starting to loosen. A massive recent bank stress-testing exercise by the European Central Bank (ECB) has uncovered a few remaining holes, but mostly confirms that the bulk of Europe's major banks are credibly back

EXHIBIT 29. Sentiment in Germany Still Broadly Normal

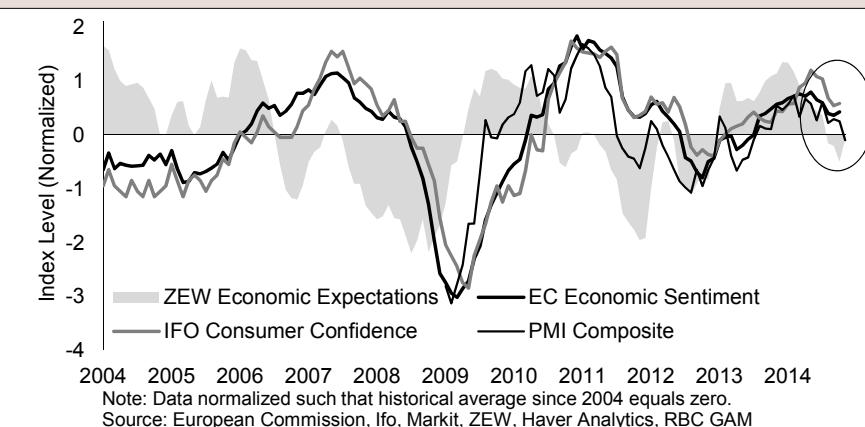
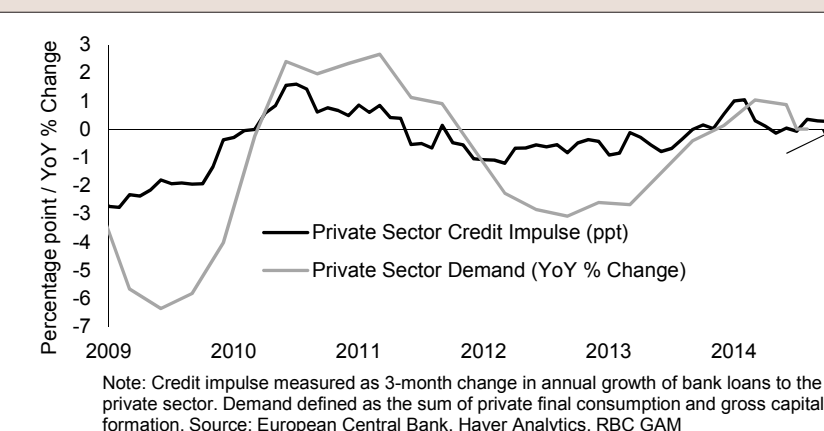


EXHIBIT 30. European Election Schedule Offers Breathing Room

Upcoming election	Country	Political stability index (percentile rank)
2015	Portugal	69
	Spain	47
2016	Greece	39
	Ireland	74
	Netherlands	90
	France	62
2017	Germany	77
	Austria	97
2018	Cyprus	65
	Italy	64

Note: Political Stability Index percentile ranks for 2013. Source: World Bank, Haver Analytics, RBC GAM

EXHIBIT 31. Stronger Credit Good for Eurozone



in business. The Eurozone's loan officer survey confirms improving sentiment among lenders and borrowers alike. Finally, the credit impulse – the extent to which credit growth is improving – has recently turned positive. This correlates well with faster economic growth (Exhibit 31).

The ECB has lately returned to stimulus-delivery mode by cutting short-term interest rates (Exhibit 32) and expanding its balance sheet (Exhibit 33). Recent speeches have revealed a likely extension into sovereign debt purchases. Accordingly, we believe the euro will fall significantly over the coming year.

Japan stumbles

The Japanese economy recently stumbled (Exhibit 34), with two consecutive quarters of declining output meeting the literal definition of a “recession.” Fortunately, this is not as bad as it first looks.

The second-quarter drop in GDP was due to a sales-tax hike, and so is both artificial and temporary. In contrast, the third-quarter decline has no easy explanation. It is nevertheless odd (in much the same fashion as the U.S. first-quarter weakness), since other economic proxies did just fine: the very same quarter managed rising retail sales, rising industrial production, an improving trade balance and a solid TANKAN survey. It is thus our suspicion that the latest Japanese weakness will either be revised away or unwound in subsequent quarters.

Abenomics in review

There continues to be at least some evidence that the Abenomics stimulus

EXHIBIT 32. Eurozone Repo Rate Equilibrium Range

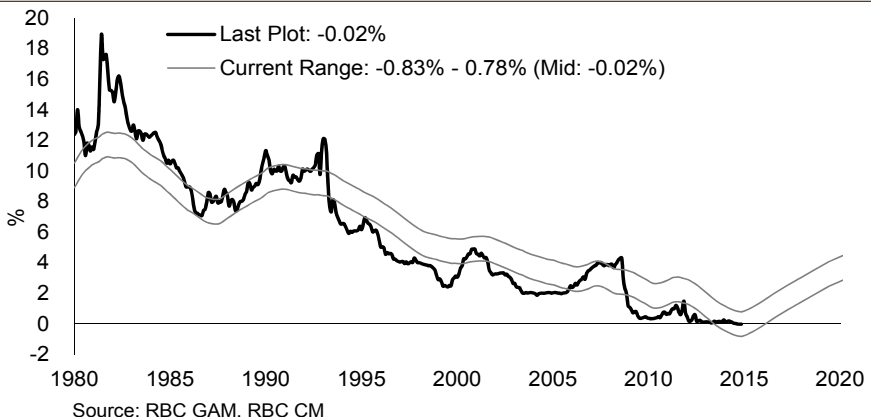


EXHIBIT 33. ECB Expands Balance Sheet

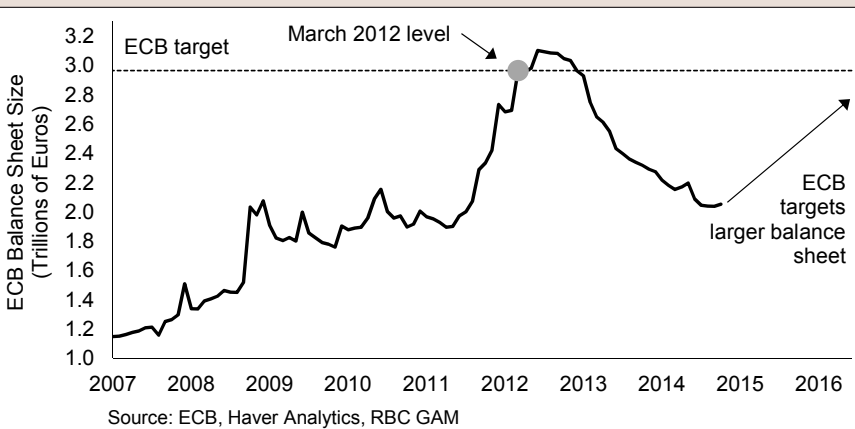
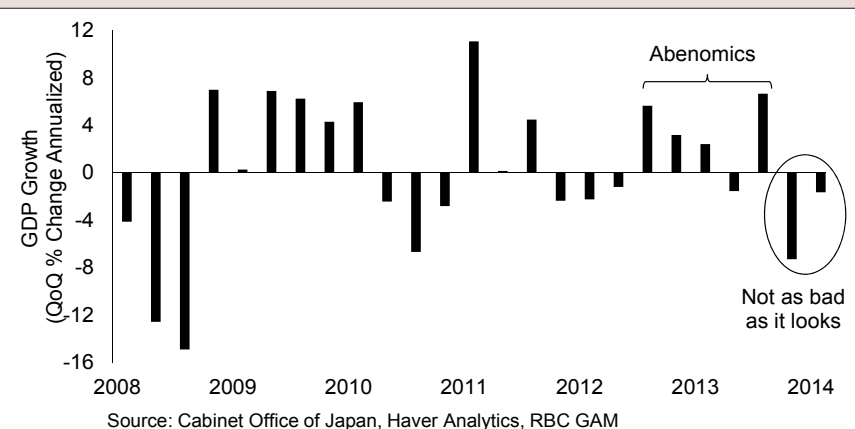


EXHIBIT 34. Japan Is Poised for a Return to Growth



program is working, given higher corporate profits, positive inflation, bank-lending growth, rising wages and a tightening labour market that now claims the best job openings-to-job applicants ratio in 20 years (Exhibit 35).

However, Abenomics has not yet delivered on all of its promises. In theory, the program of stimulus and reforms should be sufficient to generate rollicking growth. In practice, the effects have been more tepid (Exhibit 36). To illustrate, consumers have yet to respond to the inducement of higher wages and higher wealth, even as newly positive inflation burns a hole in their wallets. Businesses have similarly failed to significantly expand their capital expenditures despite soaring profits, tightening capacity constraints and the remarkable gain in competitiveness generated by the falling yen.

The question is whether this stimulus is simply missing the mark, or whether Japan is progressing along the mother of all J-curves (meaning that the upfront pain of a new and unfamiliar policy direction eventually yields to significant benefits). We still lean toward the latter interpretation, but it is hard to make a clear assessment.

Unbroken will

Japanese policymakers certainly aren't giving up on growth. Prime Minister Abe recently deferred the next sales-tax increase until 2017 in an effort to prioritize economic growth over debt reduction. The snap election called by Abe for December returned him to power with an additional two years tacked onto his mandate, providing more time to implement reforms.

EXHIBIT 35. Japan's Job Openings Ratio Best in 20 Years

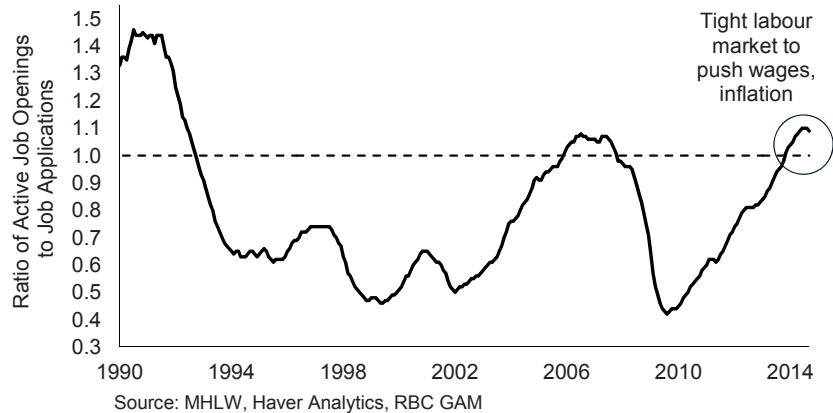


EXHIBIT 36. Economic Theory Is Better Than Reality for Japan

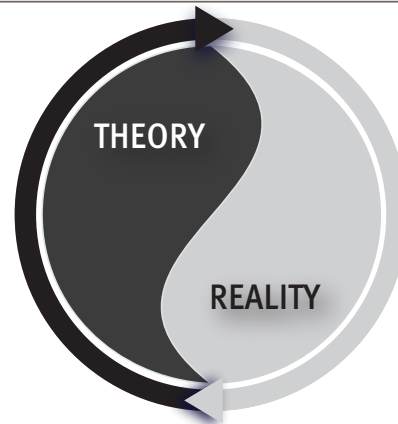
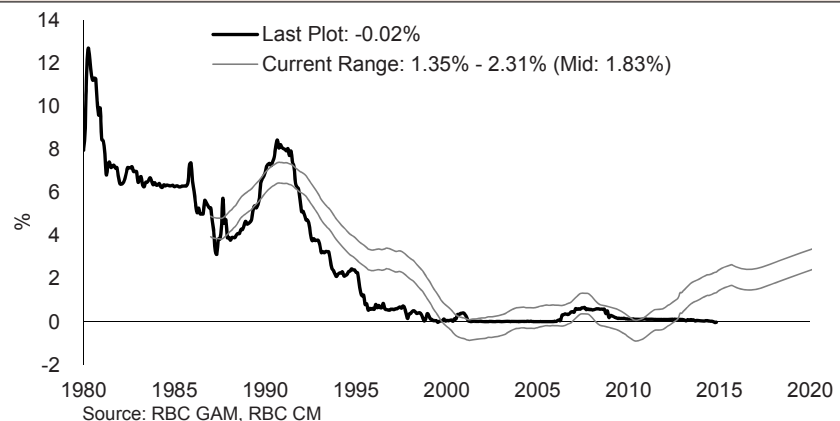


EXHIBIT 37. Japan Overnight Call Rate Equilibrium Range



In a renewed effort to force inflation closer to the 2% target, the Bank of Japan (BOJ) has aggressively increased the pace of quantitative easing by about 25% (Exhibit 37). For all of the distance the yen has already travelled, the currency retains scope for further weakness. All of this should help sustain positive inflation.

Resilient Canada...

The Canadian economy remains fine, if jittery. A strong second-quarter GDP performance was followed by a solid third quarter. Our composite leading indicator continues to signal a fairly positive environment (Exhibit 38).

However, it is premature to judge whether this brisk clip can be sustained given several powerful forces waging war with one another.

...threatened by oil

The precipitous decline in oil prices could be quite painful for an oil-exporting nation like Canada, depending on how far prices drop and how long the lower prices are sustained. Fortunately, this impact is muted by a substantially weaker Canadian dollar (Exhibit 39).

Of course, these battling giants nevertheless generate significant regional scars. Manufacturing-oriented provinces like Ontario and Quebec are benefiting from the weaker Canadian dollar, whereas falling oil prices are the dominant (negative) consideration for energy producers such as Alberta and Newfoundland (Exhibit 40). There is already some tentative evidence of this shift, at least in the cases of Ontario and Newfoundland.

EXHIBIT 38. Canadian Economic Composite Improves

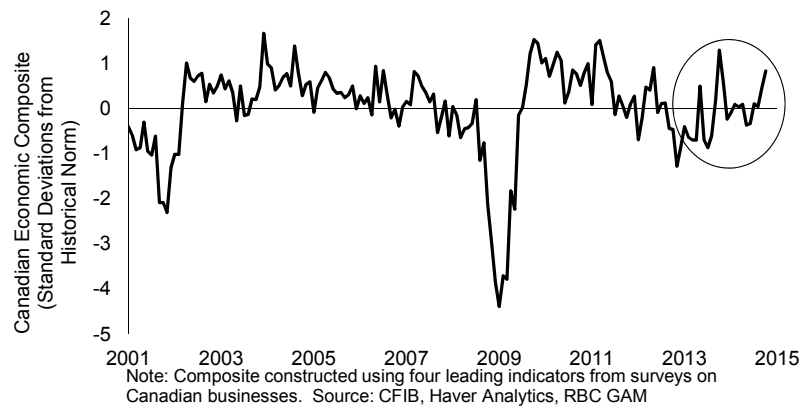


EXHIBIT 39. Canadian Dollar and Oil Offset One Another

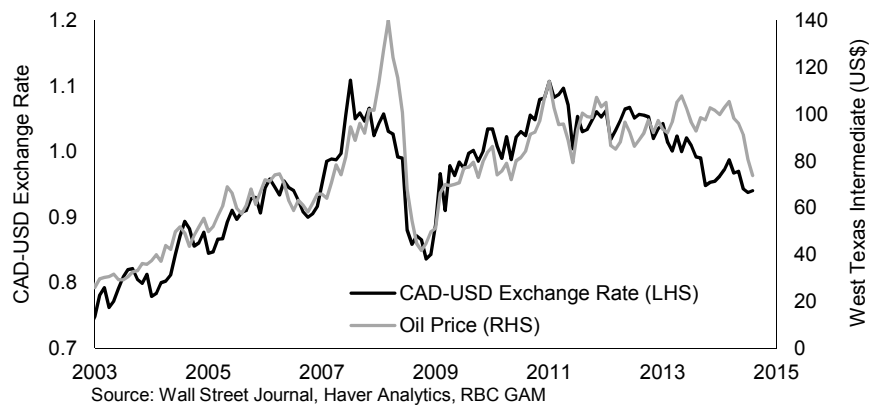
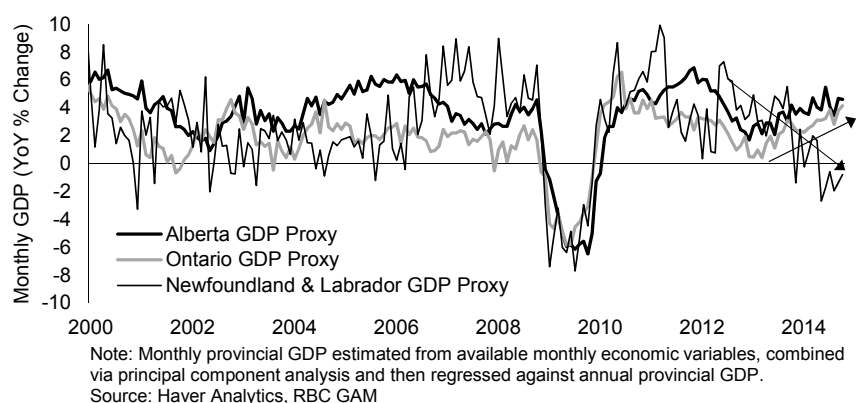


EXHIBIT 40. Ontario Rises; Newfoundland Falls; Can Alberta Strength Be Sustained?



Canadian contradictions

Another example of Canada's opposing forces is a multi-year trend of decelerating hiring (though the last few months have been strong), pitted against stronger productivity growth. These two have fought to a standstill, permitting normal economic growth despite the turmoil below. Their antagonism could ebb in the future. Labour-market internals argue that hiring is improving, while productivity growth has a long, hard history of disappointing expectations.

The final pair of indicators offering divergent signals on the economy's direction are exports and business investment. The Bank of Canada looks to both as likely propellants of economic growth. We concur wholeheartedly with this assessment of exports. These are benefiting from a weaker currency and stronger U.S. economy, and our model argues that a further acceleration is possible (Exhibit 41). However, we are skeptical about business investment. Critically, global resource firms have lately expressed regret about the extent of prior excessive investments, and the recent decline in oil prices must surely cement that attitude. Business investment may grow as manufacturers regain their feet, but it is hard to fathom that the overall growth rate could be robust.

Canadian housing revisited

We recently analyzed Canada's housing market in a report titled *Canadian Housing in Six Questions*. The housing market demonstrates no distress right now, though affordability is set to

EXHIBIT 41. Canadian Export Prospects Looking Up

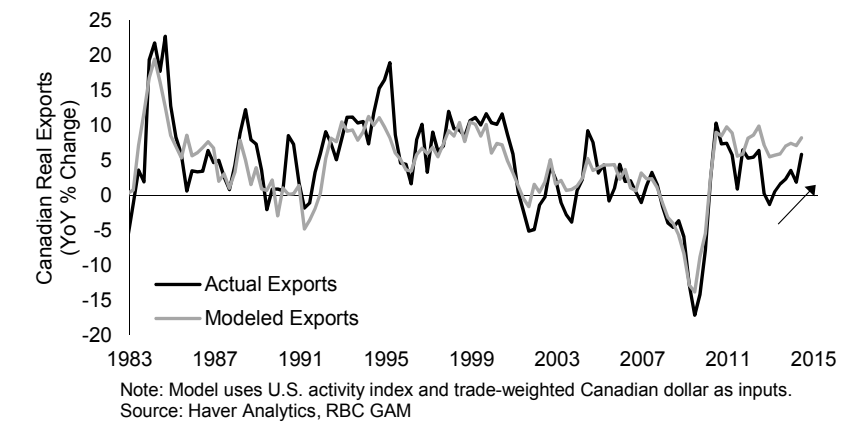


EXHIBIT 42. Canada's Household Credit Vulnerability Has Faded

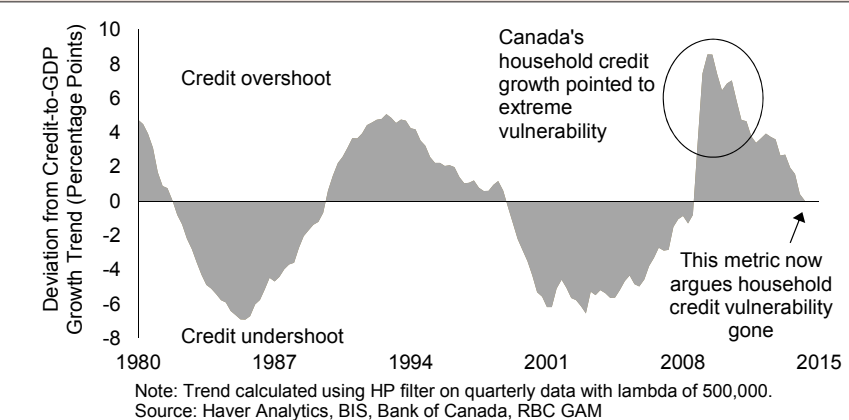
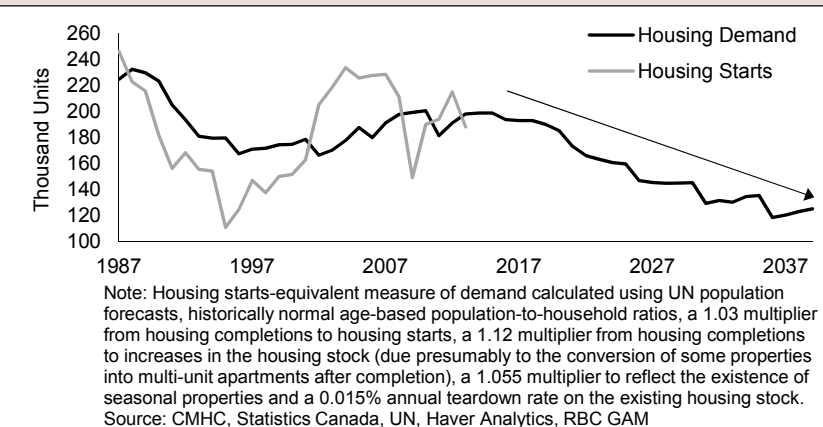


EXHIBIT 43. Construction in Canada Matches Current Demand, but Must Gradually Fall



fall as much as 15% offside over the medium term.

Beyond this, however, even the medium-term outlook is fairly benign. While household debt levels are high, they are nowhere near the world's highest, and household debt vulnerability has retreated back to a normal risk level (Exhibit 42).

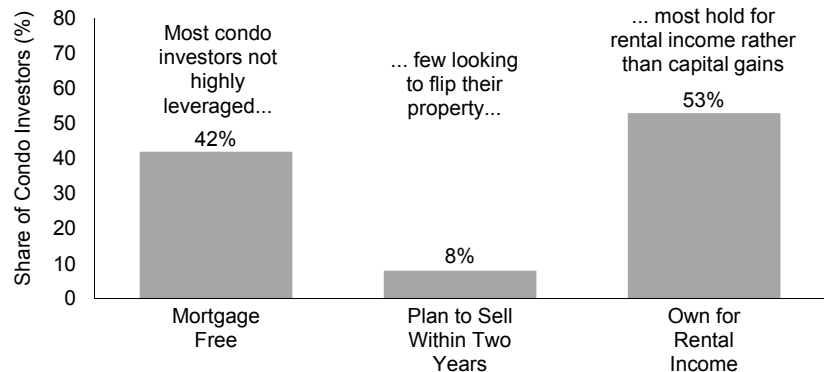
Housing demand argues that construction need not decline significantly over the next five years (Exhibit 43), while condo investors may be a tamer lot than feared (Exhibit 44).

Canadian markets

The Bank of Canada is increasingly difficult to read. Part of this is by design. Governor Poloz is consciously shying away from the sort of forward guidance that markets have come to expect. This is actually a well-thought-out strategy. Excessive transparency can be damaging for a central bank's credibility when forecasts go awry. Holding the market's hand was arguably warranted during the dark days of the financial crisis, but less necessary today. Markets are often more accurate and enjoy greater resiliency when they reflect a range of expectations.

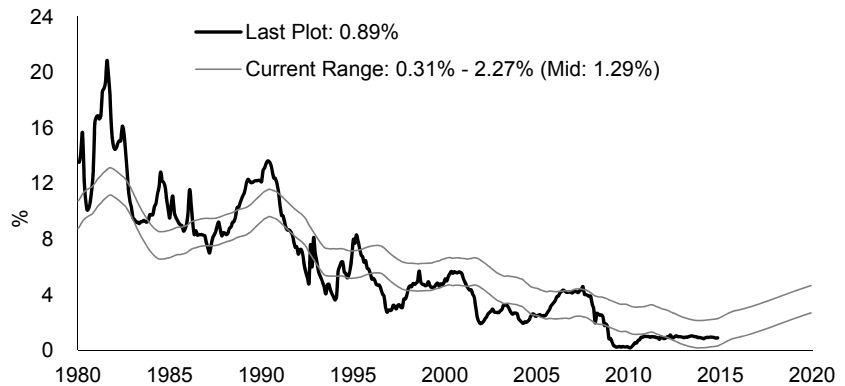
Despite recent encouragement from the OECD, Bank of Canada rate hikes do not appear to be imminent (Exhibit 45). The central bank has argued, rightly, we believe, that a recent uptick in inflation is temporary. It has also made clear that it believes housing is the domain of macroprudential rules rather than monetary policy. While we suspect the Canadian economy is almost out of economic slack, its growth rate isn't about to rocket up.

EXHIBIT 44. Condo Investors Are a Level-Headed Bunch



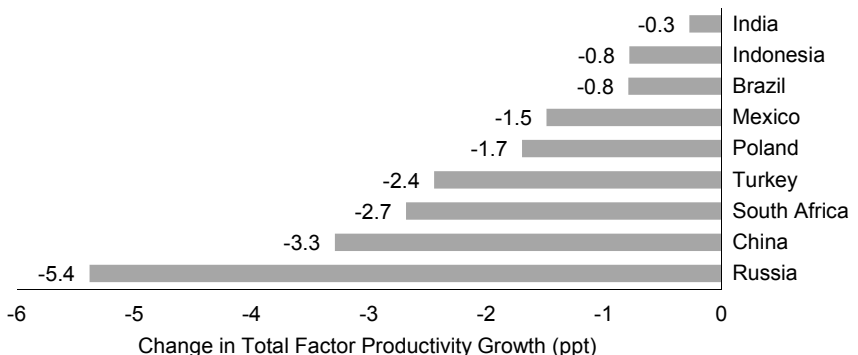
Note: Based on survey conducted in 2013. Source: CMHC, RBC GAM

EXHIBIT 45. Canada Overnight Rate Equilibrium Range



Source: RBC GAM, RBC CM

EXHIBIT 46. Decelerating Efficiency Gains in EM Countries



Source: Measured as difference of average annual total factor productivity (TFP) growth from 2000 to 2007 and average from 2008 to latest. Source: The Conference Board Total Economy Database™, January 2014, <http://www.conference-board.org/data/economydatabase/>; RBC GAM

As such, the Bank of Canada has breathing room to delay its first rate hike until early 2016, well after the U.S. Naturally, this should help the Canadian dollar shed a few more cents.

Emerging-market trajectory

Almost all emerging-market economies have slowed over the past several years. Two central themes help to explain this.

The first is that emerging economies are managing fewer efficiency gains than previously (Exhibit 46). This is not entirely shocking. As they have gotten better and better at mimicking developed-world management techniques, factory-floor arrangements and supply chains, the scope for further gains has declined.

The second theme is that emerging-market credit growth was too fast (Exhibit 47) and is now slowing. This is a good thing. Nonetheless, less credit growth means less economic growth. As a silver lining, it is better that this moderation happens gradually now rather than abruptly when the Fed begins tightening rates in 2015.

Layered on top of these universal themes have been some specific regional forces (Exhibit 48). While Asian economies have been somewhat resilient, Latin America has suffered from weaker commodity prices and emerging European economies have been squeezed between a stagnant Eurozone and a militarily assertive Russia.

Looking forward, we believe the era of universally deteriorating emerging-market growth may be nearing an

EXHIBIT 47. Rapid Emerging-Market Credit Growth Is a Risk

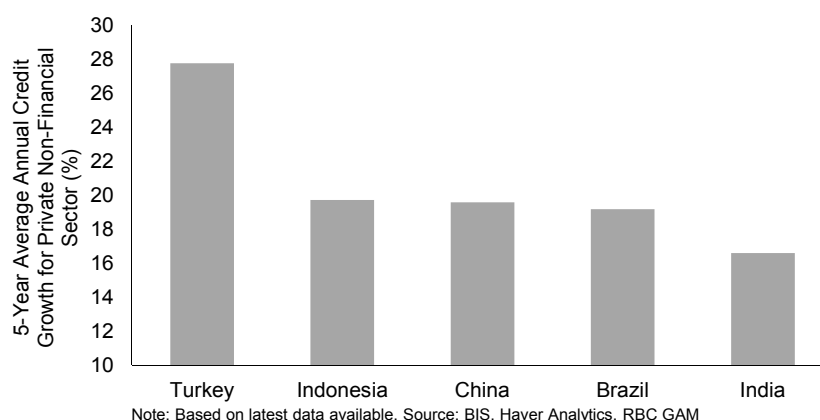
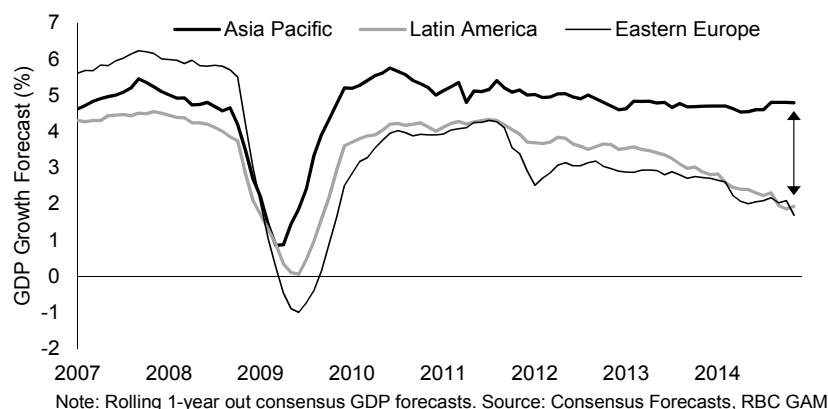


EXHIBIT 48. Emerging-Market Economies Diverge



end. Some countries, such as China and Russia, will continue to slow. But several others appear to be bottoming out, partly for natural reasons and partly because they, too, benefit from the trio of lower oil, interest rates and exchange rates, alongside improving developed-world growth.

China slowdown

China is an exception to the emerging-market stabilization theme. It has steadily slowed, and likely isn't done

yet. Chinese economic surprises remain slightly negative, and consumer confidence is declining (Exhibit 49).

China's deceleration is most obvious in its stumbling housing market (Exhibit 50). This is a good thing in that it begins the process of unwinding prior excesses. Necessarily, it also exacts an economic toll given that housing and related industries contribute around 35% of Chinese GDP and absorb around 45% of bank loans.

The extent of the coming housing weakness is murky. For instance, it is difficult to say just how much underbuilding took place in China over prior decades (which helps neutralize recent overbuilding). Another complication is that banks, builders and local governments are all so intertwined that it is difficult to gauge the vulnerability of each group. It is absolutely conceivable that the housing boom could end messily for China, though it remains more likely that the national government will step in and bail everyone out.

In the meantime, we look for Chinese growth to dip below 7% over the coming year – a disappointing performance by Chinese standards – if no one else's. The People's Bank of China may continue to deliver half-hearted monetary stimulus, but it recognizes that creating another credit bubble trades short-term salvation for long-term pain. China's best hope for sustaining rapid growth lies in pursuing its corruption crackdown and instituting structural reforms.

Emerging-market reforms

The medium- and long-term outlook right across the emerging-market space will be determined in large part by the breadth and depth of the coming structural reforms. Expectations are increasingly optimistic, for two reasons. First, a period of slower economic growth like the current one usually provides the necessary motivation to enact difficult reforms. Second, the spate of recent emerging-market elections offers a useful honeymoon period in which such actions could be pushed through.

EXHIBIT 49. Chinese Consumer Confidence Ebbs

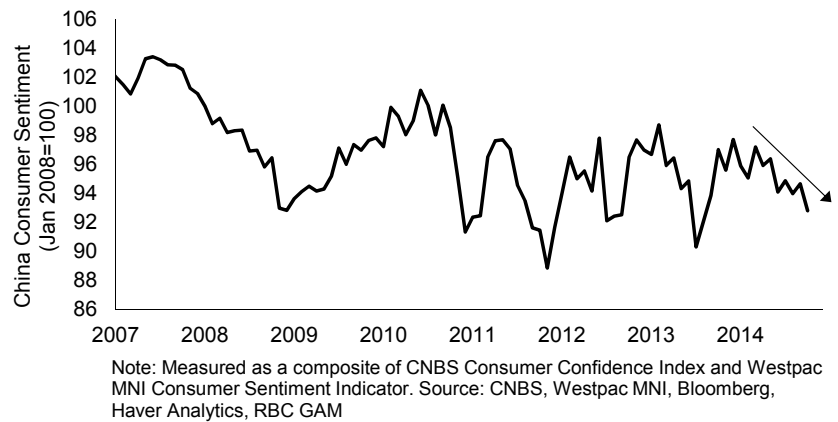


EXHIBIT 50. Chinese Home Prices Soften

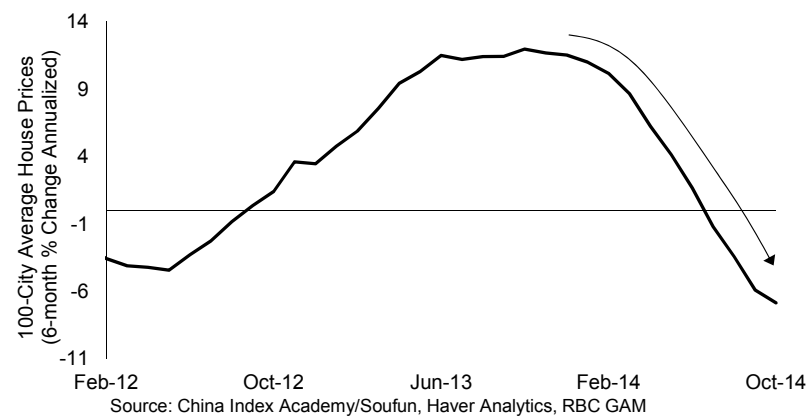
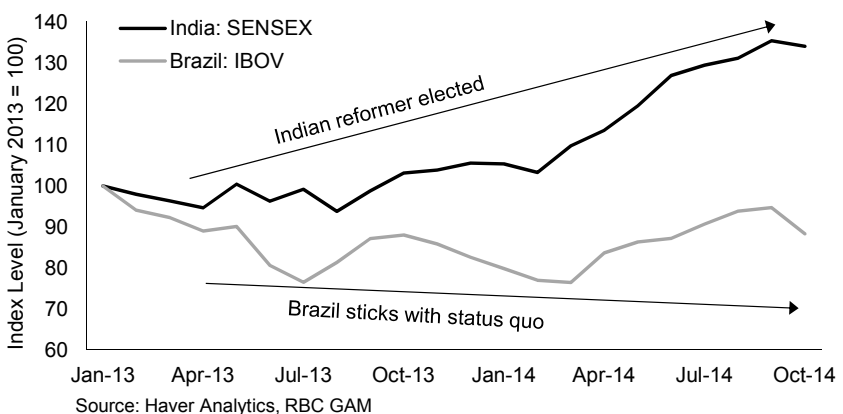


EXHIBIT 51. Emerging Equities Diverge on Election Outcome



At the highest level, structural reforms are mainly about allowing free-market forces to play a bigger role in the economy. This often involves reducing red tape and corruption, reforming labour-market rules and improving governance. These do not always bear immediate economic fruit, but financial markets are nevertheless usually able to look through the initial adjustment period, much as they have for Mexico and India recently. It is striking how differently investors view countries with poor reform prospects (such as Brazil) versus those on the reform “fast track,” such as India (Exhibit 51).

Going forward, the key will be whether laggards like Brazil – which once grew at a swift 4% to 6% per year, but is now stagnating – will be able to muster up sufficient reforms. This is certainly not automatic: Dilma Rousseff, whose policies contributed to Brazil’s disastrous economic turn, was re-elected in October. Not all hope is lost given the recent appointment of a new economic team, but much will depend on how much leeway they are granted to act. The stakes are certainly high and the first order of business must surely be to revive Brazil’s collapsing capital investment (Exhibit 52).

Monetary-policy divergences to stretch wider

The monetary policy environment remains unusually diverse. Two main camps of central banks are pressing ahead in entirely opposite directions (Exhibit 53). The Fed and Bank of England (BOE) appear set to tighten in 2015. In contrast, the BOJ and the ECB are actively delivering more stimulus. Our bias remains that this

EXHIBIT 52. Brazil’s Fixed-Capital Investment Declining

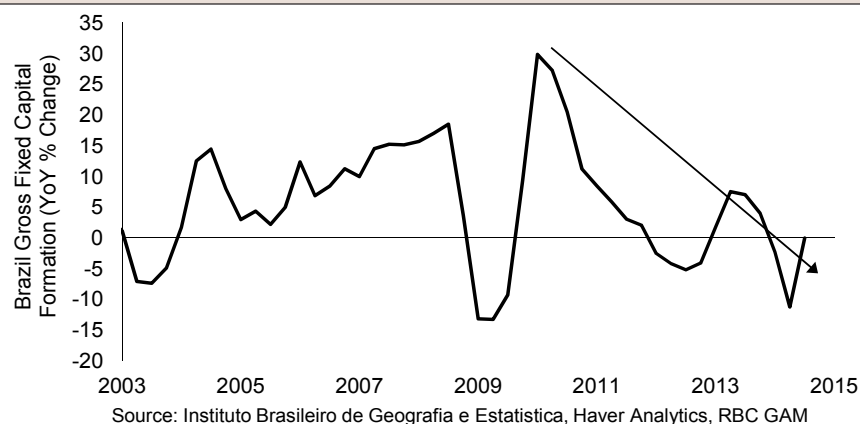
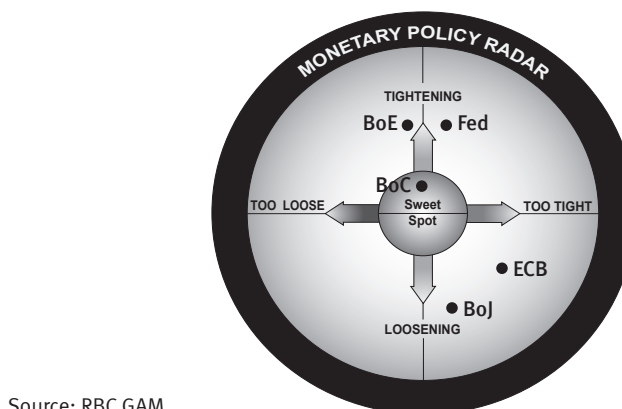


EXHIBIT 53. Decoupling Central Banks



could widen over the next year, with the former group acting in a slightly more hawkish-than-expected fashion and the latter plausibly increasing stimulus. This has created and should continue to drive, a wedge between bond yields across jurisdictions (Exhibit 54).

Of course, the purpose of divergent central-banking actions is to eventually reduce the extent of economic divergence. Central bankers do not want economies to overheat (and seek a buffer so that they

have room to cut rates in the event of future weakness), while those presiding over weak economies wish to join the ranks of the strong.

Cautiously rising rates

Very different central-banking trajectories bring varied implications for the path and level of bond yields. Still, there is one common theme. Bond yields are unusually low everywhere and are more likely to rise than fall within the next few years as developed-world growth moves ahead.

The case for higher yields is well known, but bonds rallied significantly throughout the year, firmly defying consensus estimates for a sell-off. Bond yields in all major regions now sit below fair value (Page 39). We continue to believe that the strong probability of Fed rate hikes in 2015, alongside our expectation that growth and inflation will tick upwards, making higher yields a likely outcome. This should help nudge real rates (Exhibit 55) and term premiums (Exhibit 56) somewhat closer to historical levels.

“Nudge” is arguably the operative word, as any increase in yields should be gradual. The “taper tantrum” of 2013 demonstrated that a rapid rise in yields could undermine the housing market and economic growth. Central-bank demand for bonds through stimulus programs will likely continue to exert downward pressure on yields at the same time that rapidly shrinking fiscal deficits reduce the supply of available bonds. For that matter, an aging population and rising emerging-market wealth increase the appetite for developed-world government bonds. Yields can rise, but probably not too quickly or too far.

Accordingly, we have lowered our 12-month yield forecasts across all regions and now anticipate a 3.00% yield on the U.S. 10-year Treasury, down from 3.25%. While this is a material reduction in our forecast, rising yields still pose a substantial risk to bond holders. If yields increase to our forecast levels, capital losses would more than wipe out coupon income, leaving T-bond investors with a negative total return of -5.0% at the benchmark 10-year maturity. Exhibit 57 is a useful gauge of bond-market

EXHIBIT 54. Yield Spreads Widening as ECB and Fed Diverge

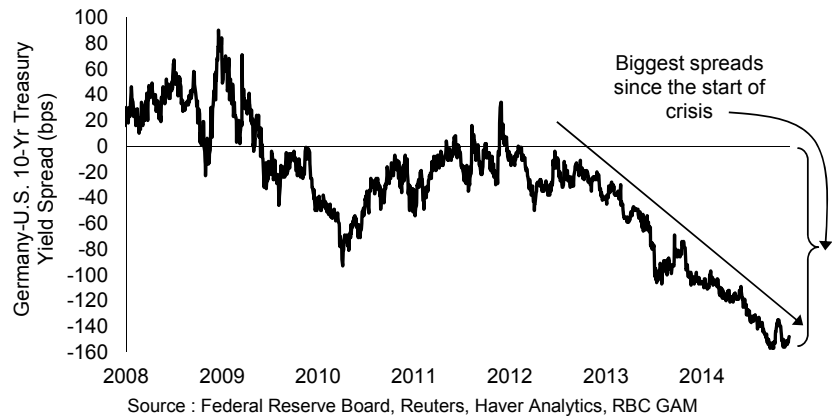


EXHIBIT 55. U.S. Real Yields Have More Room to Rise

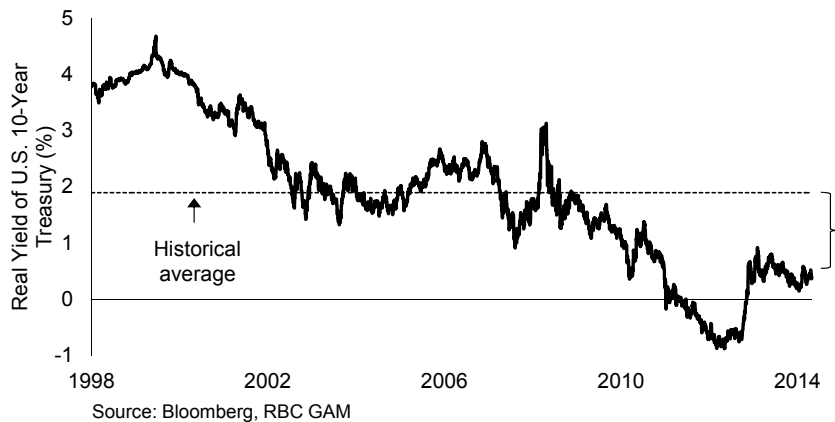
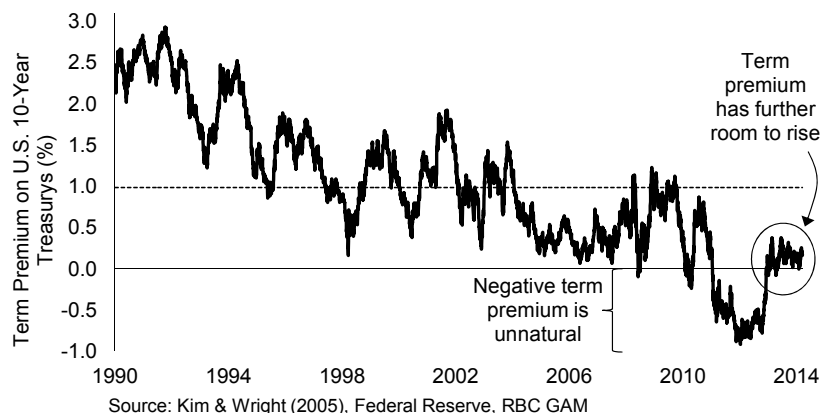


EXHIBIT 56. Term Premium Can Rise Further



risk, plotting the rise in bond yields that would result in capital losses being equal to coupon income (the break-even). Currently this measure suggests that a mere 24-basis-point increase in 10-year U.S. yields to 2.40% is enough to erase a year's worth of income. This risk isn't confined to U.S. bond markets, with break-evens in Europe and Japan now approaching all-time lows.

Given the risks to the sovereign-bond market, corporate bonds remain a compelling alternative. Exhibit 58 shows that, while credit spreads are lower than long-term averages, current spreads are fairly attractive once periods of recession are excluded. While we are not ignoring the possibility of a downturn, the current operating and macroeconomic environment suggests that the risks are well contained. Demand for corporate debt remains strong in the low-rate environment, default rates are modest and corporations have significant cash to service debt (Exhibit 59). We continue to monitor the market for signs of stress, either in the demand for corporate debt or the quality of supply, but investment-grade and high-yield bonds still appear to offer reasonable value.

Equities: A year in review

Global equities continued to rally through 2014, pushing the S&P 500 above fair value for the first time since the financial crisis. That said, valuations for most major equity markets remain below equilibrium, reflecting lingering uncertainty over global growth and geopolitical stability (Page 40).

EXHIBIT 57. 10-Year Government Bond Break-Evens

Required Move in Yields for Break-Even Return Against Money Market

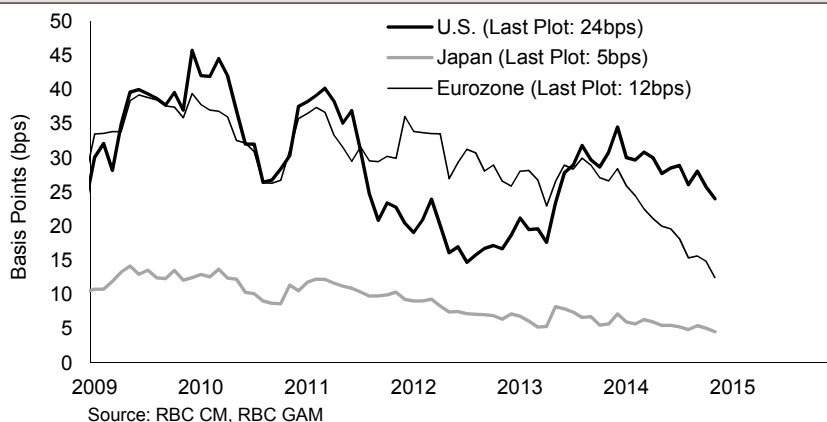


EXHIBIT 58. High-Yield Bond Spread

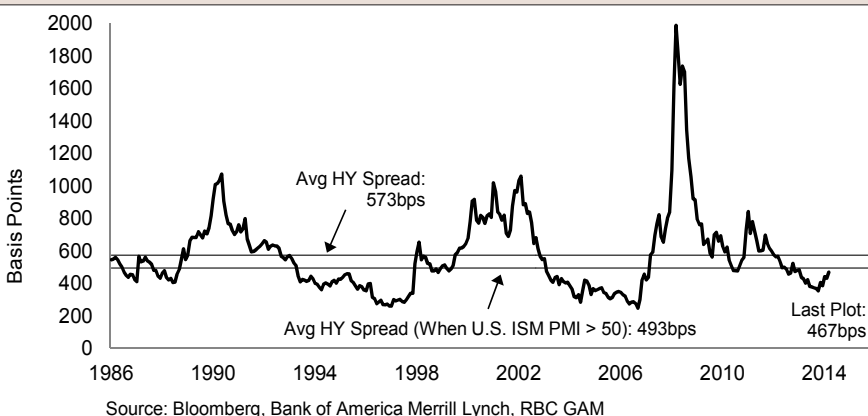
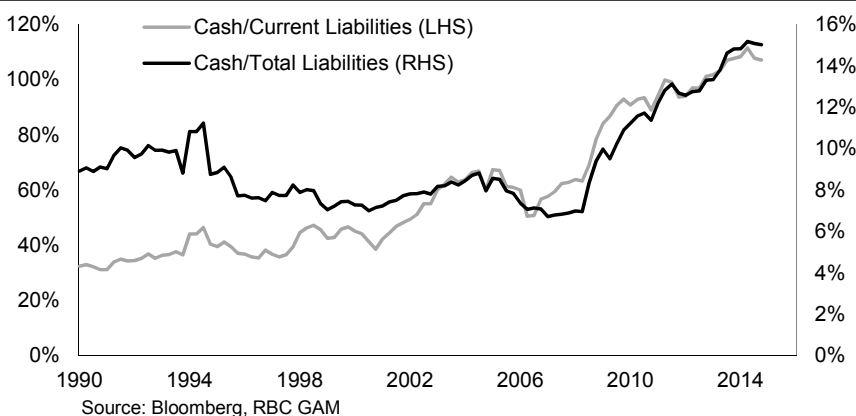


EXHIBIT 59. S&P 500 – Cash as a Percentage of Debt



To help us forecast where markets will head in 2015, it is useful to examine some factors that drove equity markets higher this year. The bear case for equities typically argues that revenues aren't growing, that profit margins are peaking and that valuations are rich. In our view, plenty of fuel exists for follow-on gains and, importantly, the sources of returns so far this year have been quite balanced. Exhibit 60 decomposes the S&P 500 total return for the first 11 months of the year and shows that earnings-per-share growth is almost evenly distributed between revenue growth, expanding margins and a reduction in corporations' share counts. The increase in earnings accounted for more than half of the market gains, with modestly higher valuations contributing the balance. Including dividends, the S&P 500 produced a total return of 14% between January and November of this year.

Looking ahead

Despite the remarkable returns generated in recent years, the S&P 500 breached fair value only this summer, according to our equilibrium models. Although valuations remain reasonable, there is understandably concern over how far they can rise. Support from expanding multiples will likely be much less going forward, but there is evidence that valuations could continue to rise. Work done by Cornerstone Macro indicates that P/Es tend to move in decade-long cycles, with the most recent phase beginning in 2011 and is now only entering its third year (Exhibit 61). This data suggests that slow, steady growth, controlled inflation and

EXHIBIT 60. S&P 500 Total-Return Decomposition
2014 YTD as of November 28, 2014

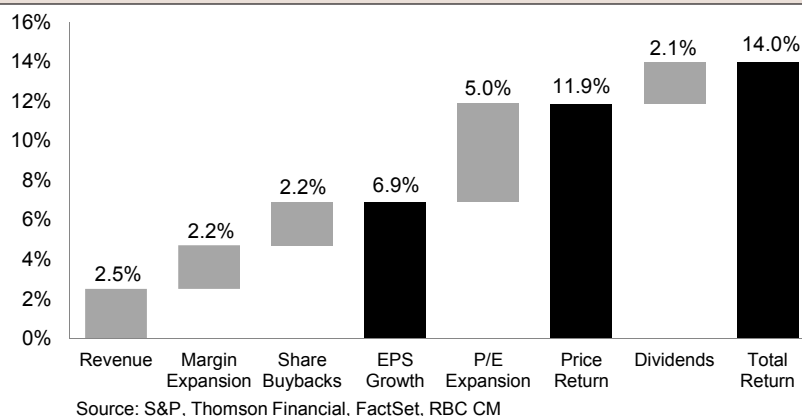
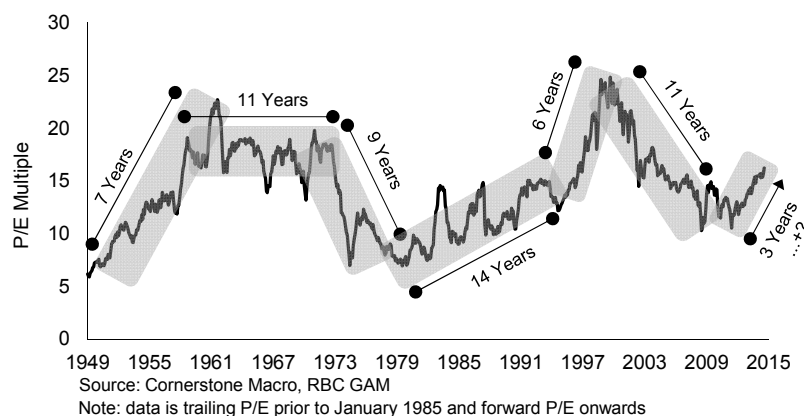


EXHIBIT 61. S&P 500 – Price-to-Earnings Ratio



growing confidence in the global recovery could sustain a prolonged, if more gradual, expansion in valuations.

However, with fuller valuations frequently come lower average returns and greater volatility. Exhibit 62 displays a version of our equilibrium model for the S&P 500 that has been standardized to position fair value at the centre of the horizontal channel. We have identified four valuation buckets in which the market trades during a typical cycle. Currently, the

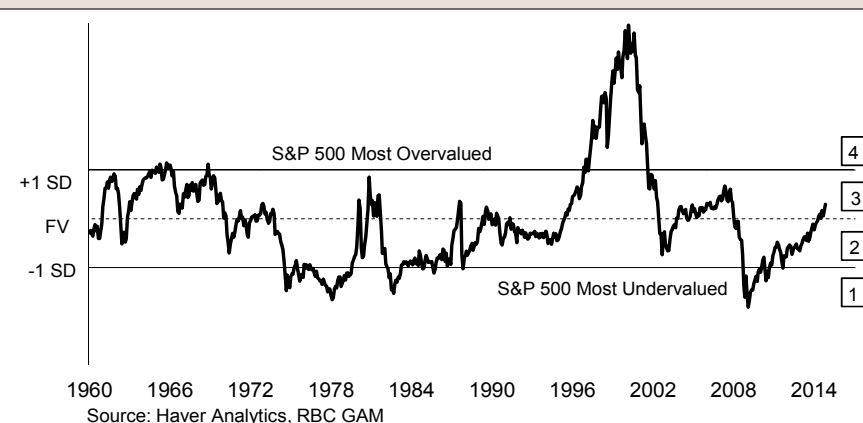
S&P 500 rests in Bucket 3, which lies above fair value but is less than one-standard deviation above the mid-point. In this bucket, average returns and the batting average (the incidence of positive monthly returns) are much lower than in buckets 1 or 2, where we started the rally and spent most of 2013 (Exhibit 63). As a result, we are somewhat more cautious on stocks at these valuation levels. Indeed, the reappearance of volatility through the fall may validate this analysis and the related subtle shift in our outlook.

It is also interesting to focus on the column in Exhibit 63 that shows the returns to stocks in each bucket during positive years (“wins”). A “win” in Bucket 3 is not materially lower than in Bucket 2, suggesting that attractive returns are possible even when the index is above fair value, but tactical trading becomes increasingly important. Again, the sell-off in equities during the quarter may be a good example of this. In early October the S&P 500 dropped 5% over the course of a week, and subsequently rebounded 8% over the following two weeks. Exhibits 64 and 65 show the magnitude of the increase in volatility with the VIX spiking and the number of days where the S&P 500 rose or fell more than 1% rising 10-fold over the previous month. Macroeconomic concerns combined with low liquidity and somewhat fragile confidence have the ability to quickly send an orderly market into a tailspin. Reflecting our still-positive outlook for the economy and markets, we took advantage of the downturn to reload our equity exposure and will continue to tactically manage our allocation as opportunities arise.

Earnings matter

With reduced tailwinds from valuations, returns will depend more on earnings than at any point thus far in the cycle. As a result, it is important to identify any risks to corporate profitability. Profit margins present a tempting target (Exhibit 66). Earnings have persistently outpaced revenues over the past few years – and, indeed, decades. Can profit margins continue to stay so strong given the spectre of rising corporate borrowing costs and wage bills?

EXHIBIT 62. Standardized S&P 500 Fair-Value Bands



**EXHIBIT 63. S&P500
Return Prospects by Valuation Zone**

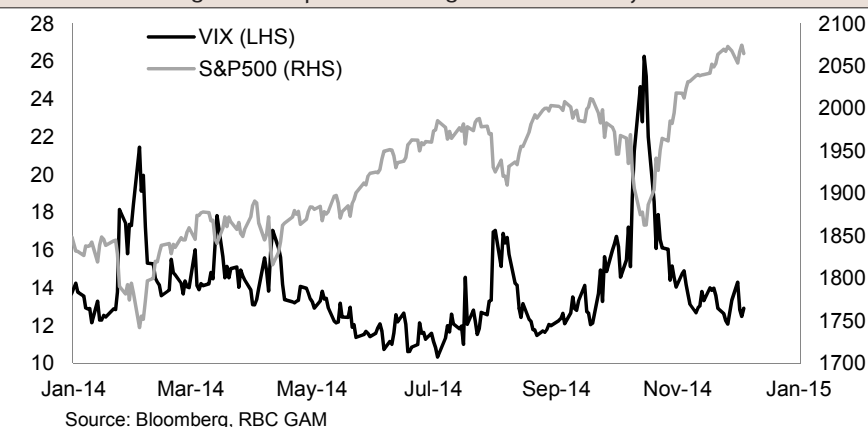
Valuation	Data Set	1-Year Average Return	Batting Average [^]	1-Year Average Return in Win [*]	Max Loss
(S&P 500 most overvalued) 1 SD Above	4	(0.7%)	50.0%	14.8%	(27.5%)
Equilibrium	3	3.6%	62.1%	13.3%	(41.4%)
1 SD Above	2	12.0%	83.2%	16.3%	(44.8%)
(S&P 500 most undervalued) 1 SD Below	1	14.7%	80.2%	19.9%	(12.8%)

^{*}Win = Periods where returns are above 0%

[^]Batting Average = Incidence of winning in any given period

Source: RBC GAM

**EXHIBIT 64. Market Volatility
Chicago Board Options Exchange Market Volatility Index**



In September of this year, we published a report that concluded profit margins should remain robust enough to support stocks over the long term. There are a number of credible reasons why margins have risen as they have, and why they can remain fairly high in the future. These include the benefits that accrue from globalization, automation, declining corporate tax rates and falling unionization. As a result, while it is no longer prudent to assume that earnings will significantly outpace revenues, we needn't fear a sudden collapse.

For now, corporations continue to deliver robust earnings. Exhibit 67 shows the typical decline in earnings forecasts that happens over the course of a year. History shows that analysts are most bullish at the beginning of every year and that they cut their forecasts by an average of 1% each month as the year progresses. This year, the pattern has been markedly different - with analysts actually raising estimates by 2%! As the global economic recovery becomes self-sustaining, we expect rising corporate profits to continue to support the bull market.

The potential for upside

Exhibit 68 helps frame the possibilities for market levels using our equilibrium models and consensus earnings estimates. We look primarily at two measures of earnings with top-down (or macro-driven) estimates typically being more conservative and bottom-up forecasts (aggregate of individual company estimates) being more aggressive. At an equilibrium price-to-earnings ratio (P/E) of 17.0 (i.e. the valuation level consistent

EXHIBIT 65. S&P 500 Composite Index Monthly Volatility
Number of Days/Month That the S&P 500 Index Rises or Falls More Than 1%

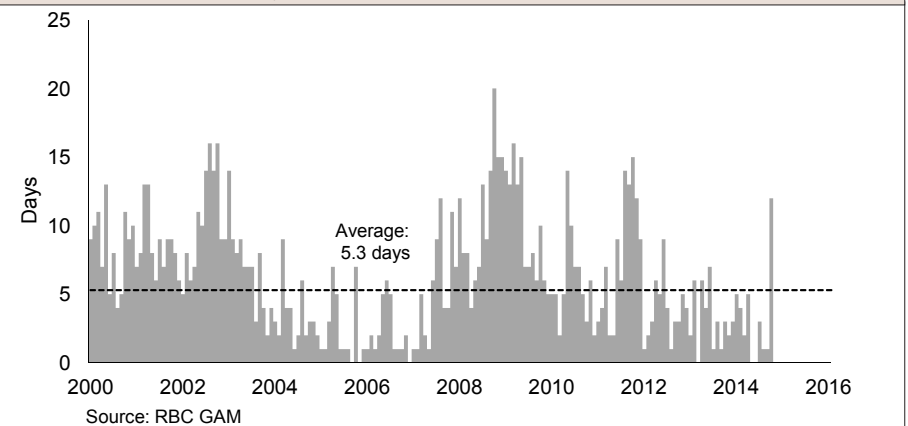


EXHIBIT 66. S&P 500 Net Margin

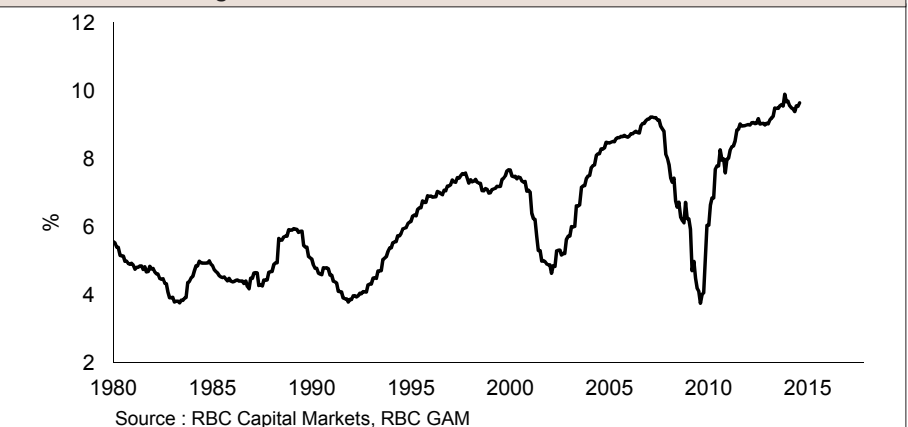
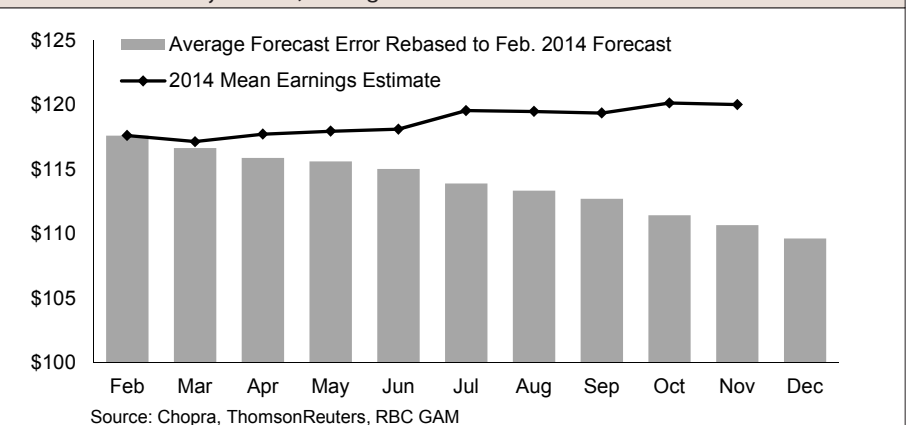


EXHIBIT 67. U.S. Analyst Overoptimism in S&P 500 EPS Estimates
Monthly Pattern, Averages for 1985-2013



with the past relationships between prevailing interest rates, inflation and corporate profitability) and 2015 top-down earnings of \$125, we could expect the index to trade at 2126 next year, just 3% above the current level. Using bottom-up estimates, the index could trade as high as 2214 for an upside of 7%. Should valuations continue to expand, however, the S&P 500 could possibly move to 2372 and still trade only 0.5 standard deviation above equilibrium, not far from the current valuation level (Exhibit 69). While we reiterate our cautious tone as equities rise further above fair value, it is clear that there could still be meaningful upside as the global recovery gains traction.

Style shifts

Among the most important shift in returns to investing styles this year has been the fall-off in small-cap leadership and the emergence of large-cap stocks (Exhibit 70). Part of this change could be the result of a rotation to bigger and more global companies as the economic recovery becomes increasingly broad-based, but it could also be that small stocks have become quite expensive following five years of leadership. Exhibit 71 shows the relative valuation for small and large companies based on each group's premium to its respective fair value, as determined by our equilibrium models. The deterioration in small-cap performance coincided with relative valuations reaching their highest level since the financial crisis.

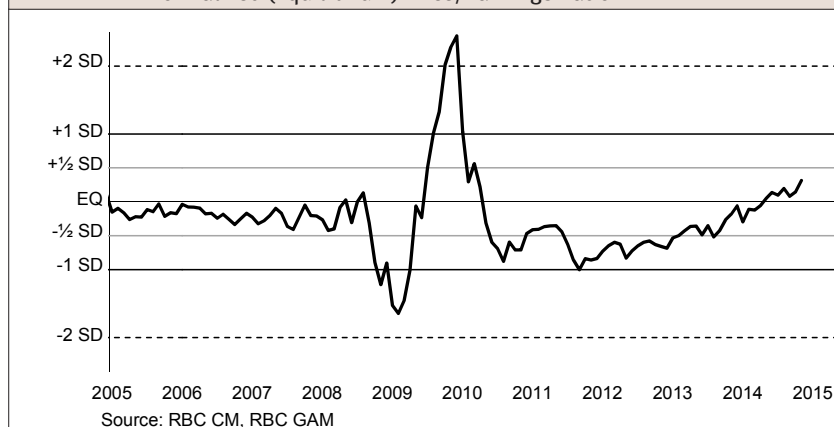
Aside from size-related factors, 2014 saw the continued domination of value stocks, a style that should continue to outperform as economic growth

EXHIBIT 68. Earnings Estimates and Alternative Scenarios for Valuations and Outcomes for the S&P 500

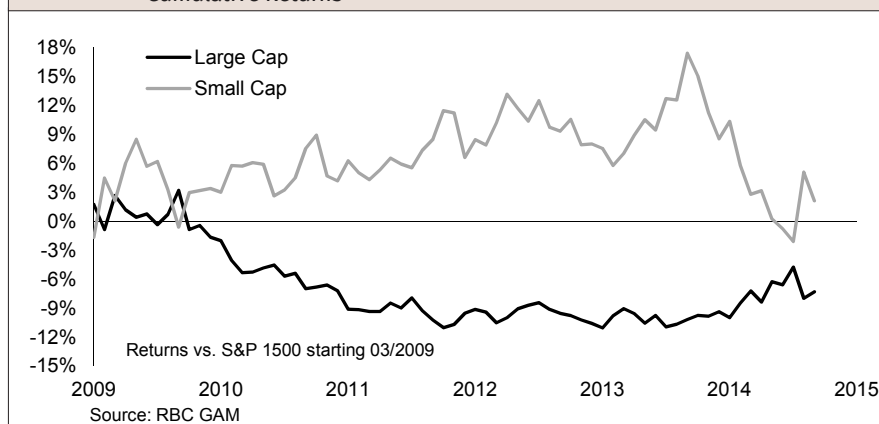
		Consensus			
		2014 Top Down	2014 Bottom Up	2015 Top Down	2015 Bottom Up
	P/E	\$117.2	\$120.0	\$125.0	\$130.1
+1 Standard Deviation	20.9	2455.6	2513.8	2617.9	2726.0
+0.5 Standard Deviation	19.0	2225.0	2277.8	2372.1	2470.0
Equilibrium	17.0	1994.4	2041.7	2126.3	2214.1
-0.5 Standard Deviation	15.0	1763.9	1805.7	1880.5	1958.1
-1 Standard Deviation	13.1	1533.3	1569.7	1634.7	1702.2

Source: Bloomberg, Thomson Reuters, RBC GAM

**EXHIBIT 69. S&P 500 Index
Normalized (Equilibrium) Price/Earnings Ratio**



**EXHIBIT 70. U.S. Factor Returns Relative to the S&P 1500
Cumulative Returns**



picks up. In addition, the hardest-hit style during the crisis, momentum, has beaten the market consistently since 2010 and could soon recover all relative losses sustained during the downturn (Exhibit 72).

Asset mix

Our long-held preference for stocks over bonds has not changed, and the protracted low-interest-rate environment highlights the relative value in equities. While it's clear to us that global interest rates will remain low by historical standards, the long-term case for rising bond yields is still intact, placing downward pressure on returns to fixed-income investors, and perhaps for many years. Exhibit 73 demonstrates that the best estimate for returns on 10-year bonds bought today and held for the coming decade is the current yield. With the U.S. 10-year yield now at 2.16%, and with yields far lower in Europe and Japan, it is not hard to make the case for stocks.

Exhibit 74 expands on this point, displaying the prospective total returns to various asset classes if they were to reach our estimates for fair value over the indicated time periods. Returns to bonds in the near-term would be close to zero, or even negative, and in the long-term are less than 2%. Stocks, on the other hand, could produce total returns of as much as 9%, outperforming bonds across all time periods.

This preference for stocks versus bonds may appear to be a mature call, but equities only began to outperform bonds in 2009 during the depths of the financial crisis and following a decade of underperformance. Stable

EXHIBIT 71. S&P SmallCap 600 Equilibrium Relative to S&P 500 Equilibrium
U.S. Equity Styles: Relative Valuation

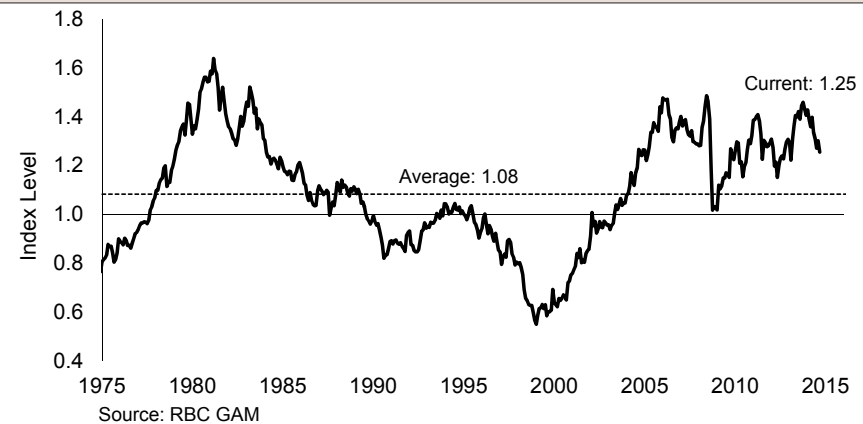


EXHIBIT 72. U.S. Factor Returns Relative to the S&P 1500
Cumulative Returns

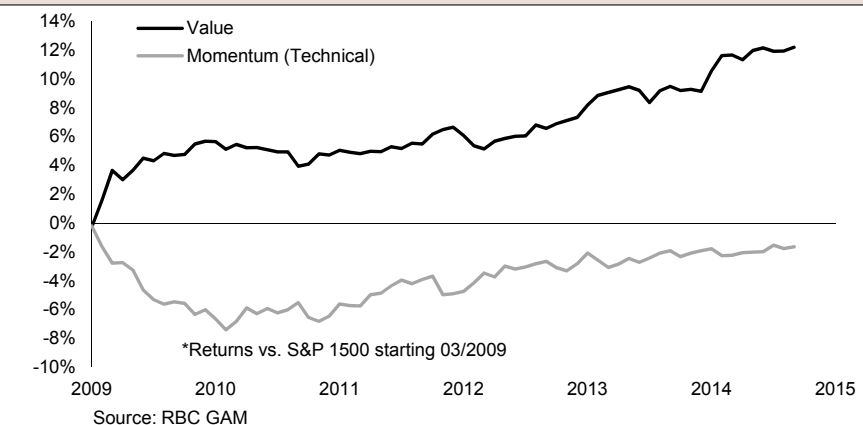


EXHIBIT 73. U.S. 10-Year Treasury Note and Returns

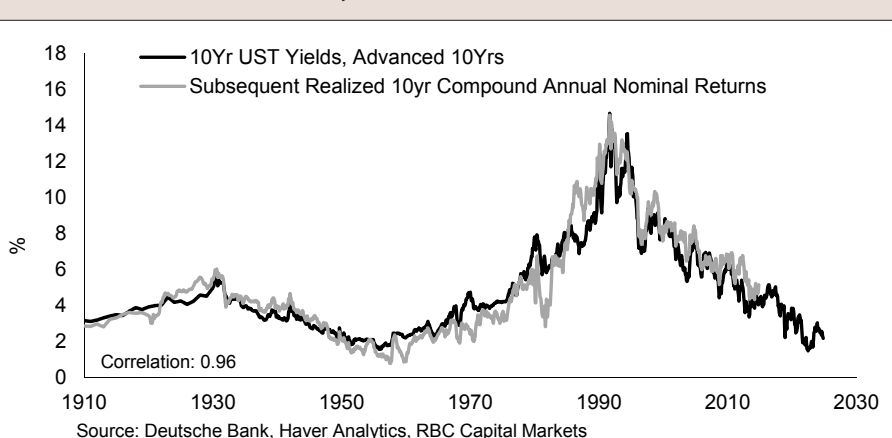


EXHIBIT 74. Asset-Class Forward Returns

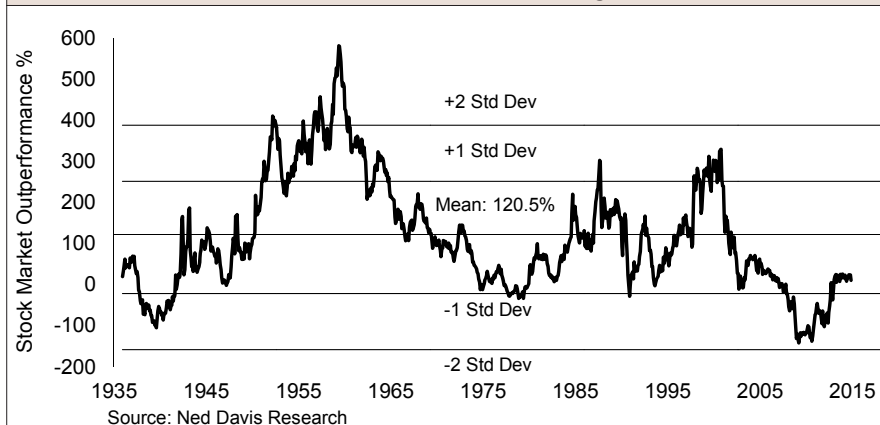
Asset Class	Current Return ¹	1-Year Forward Return	2-Year* Forward Return	3-Year* Forward Return	5-Year* Forward Return	10-Year* Forward Return	15-Year* Forward Return	20-Year* Forward Return
U.S. Treasury Bill	(0.07%)							
U.S. 10 Year Treasury Bond	(2.99%)	(2.01%)	(0.17%)	0.42%	0.90%	1.32%		
U.S. 30 Year Treasury Bond	(9.42%)	(8.48%)	(3.13%)	(1.34%)	0.13%	1.34%	1.81%	2.07%
Canada 10 Year Government Bond	(7.58%)	(7.55%)	(2.77%)	(1.39%)	(0.30%)	0.57%		
U.S. Investment Grade Bond**	(4.40%)	(1.98%)	0.57%	1.42%	2.12%	2.70%		
Canada Investment Grade Bond**	(7.38%)	(6.04%)	(1.36%)	0.00%	1.09%	1.97%		
U.S. High Yield Bond***	(7.30%)	(0.84%)	3.26%	4.65%	5.78%	6.66%		
U.S. Stocks (S&P 500) Total Return	(5.03%)	14.16%	13.54%	12.03%	10.04%	9.58%	9.30%	9.10%
Canadian Stocks (TSX) Total Return	7.30%	5.77%	7.31%	7.98%	9.22%	9.13%	9.01%	8.92%

¹If market moves to equilibrium. *Annualized Returns **Bank of America ML Indexes, assuming long-term reversion to normal spread to T-bond, evenly through to end date
Source: RBC GAM, Bloomberg

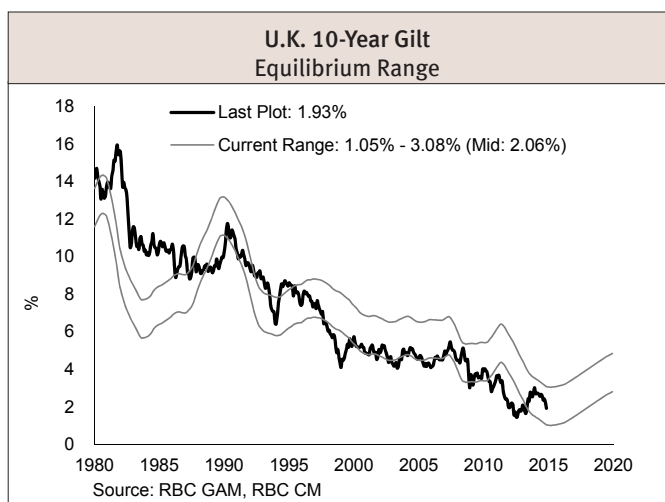
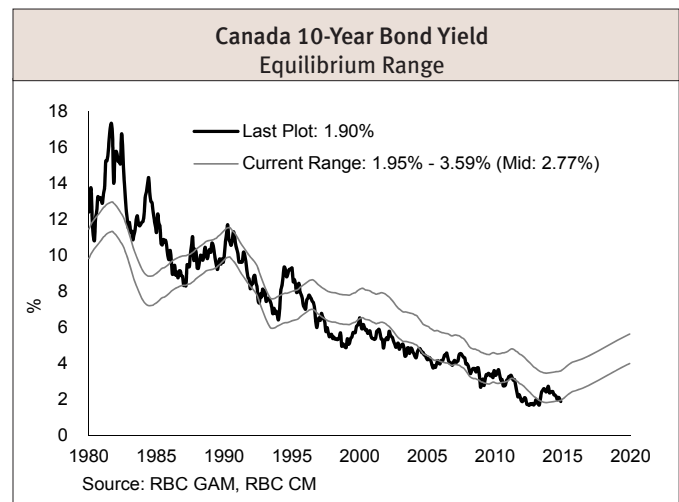
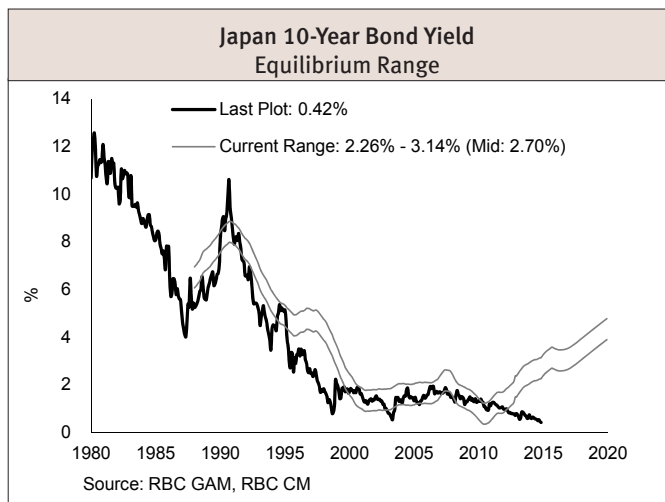
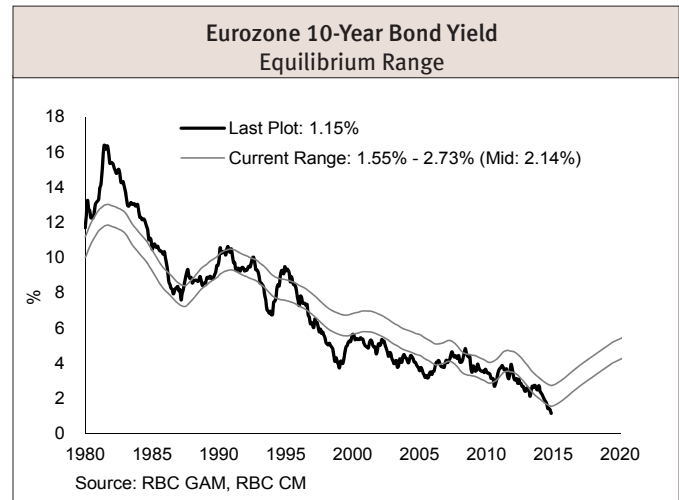
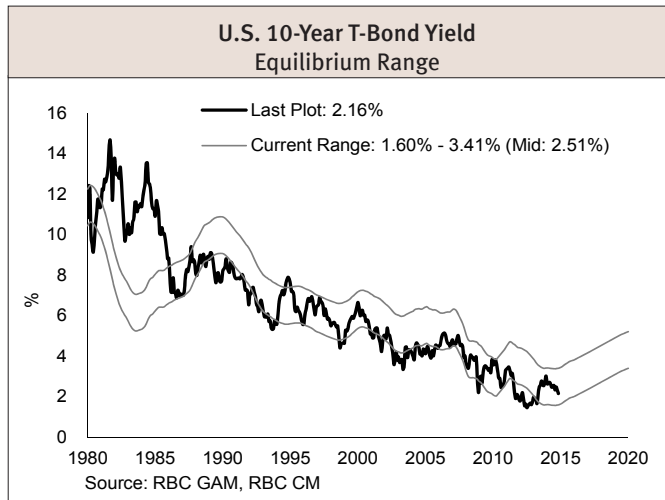
growth, accommodative monetary policies and benign inflation all provide a supportive backdrop for equity markets. Exhibit 75 highlights the potential upside given that the relative performance of stocks is still well below the long-term average. This relationship, combined with our outlook for the global economy, suggests that stocks remain well-positioned to outperform bonds, although both markets are likely to produce below-average total returns going forward. During the sell-off in October, we took the opportunity to add two percentage points to our equity allocation, funded from bonds. For a balanced, global investor, we now recommend an asset mix of 61% equities (strategic neutral position: 55%), and 38% fixed income (strategic neutral position: 40%), with the balance in cash.

EXHIBIT 75. 10-Year U.S. Stock and Bond Performance

Stock Market 10-Year Total Return Minus Long-Bond Total Return

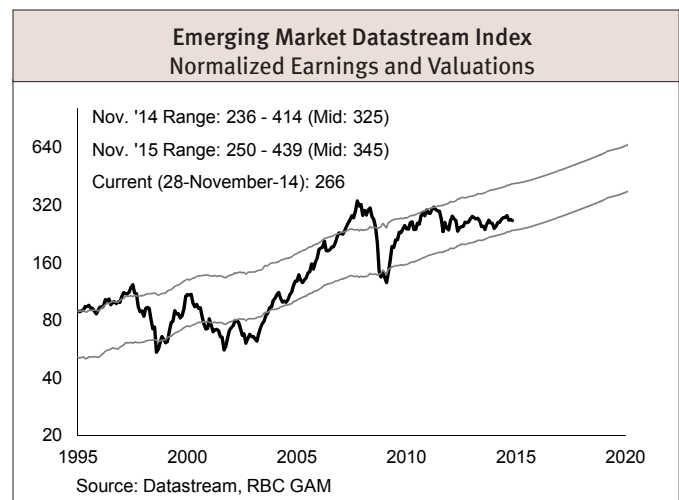
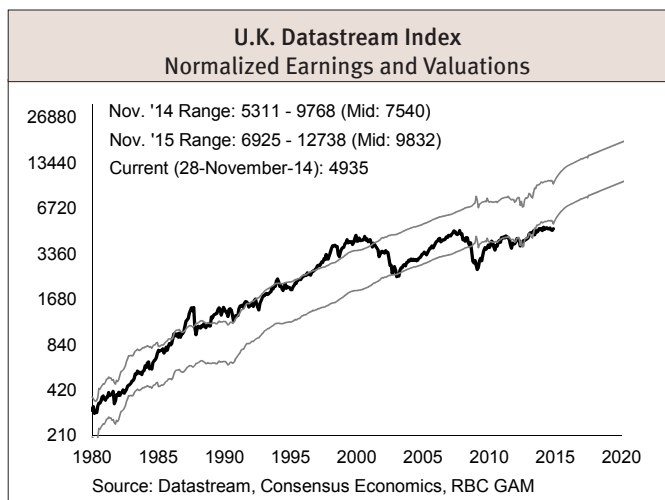
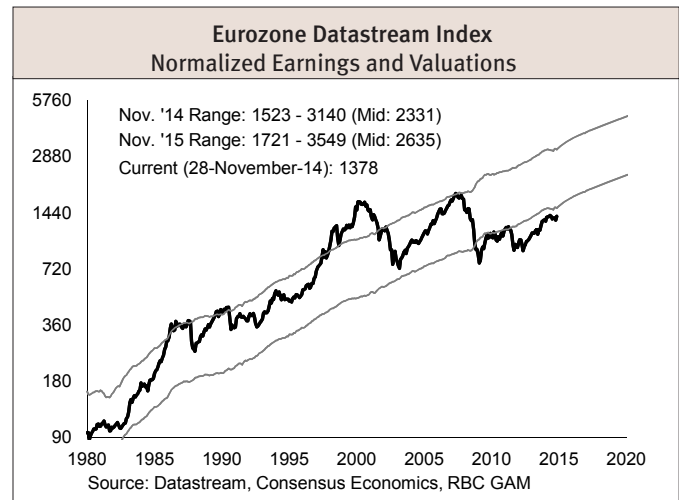
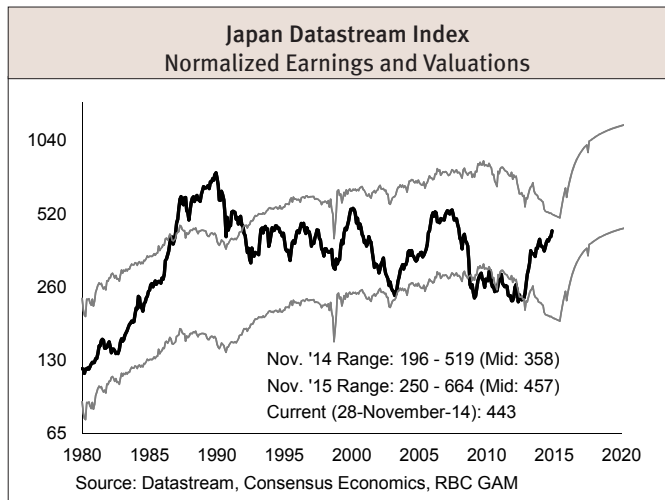
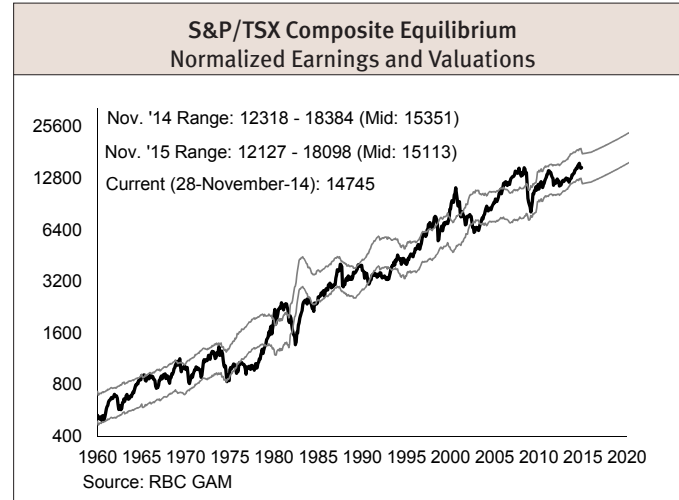
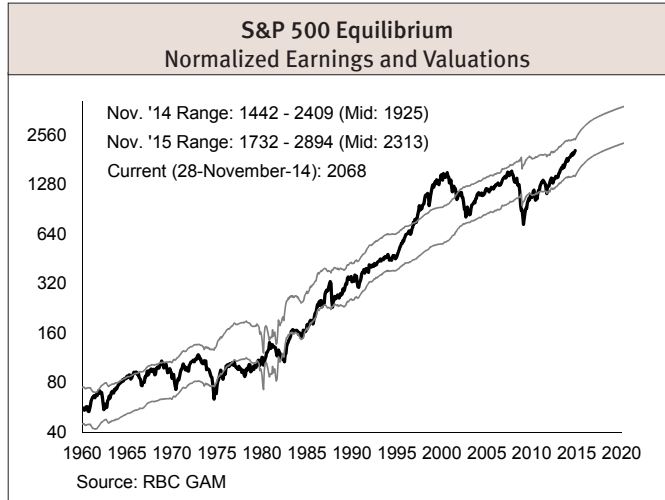


GLOBAL FIXED INCOME MARKETS



“Bonds rallied significantly throughout the year, firmly defying consensus estimates for a sell-off. Bond yields in all major regions now sit below fair value.”

GLOBAL EQUITY MARKETS



GLOBAL FIXED INCOME MARKETS

Soo Boo Cheah, CFA

Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

Suzanne Gaynor

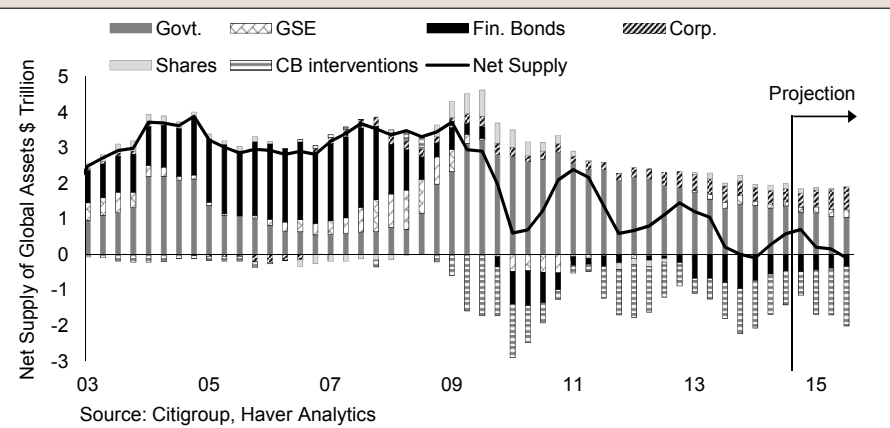
V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

Market views

Most mainstream investors have been confidently – and incorrectly – predicting that the end of quantitative easing would herald the onset of significantly higher bond yields. With the European Central Bank (ECB) and the Bank of Japan (BOJ) planning to embark on \$2 trillion of bond purchases over the next year – more than double the \$720 billion bought by the U.S. Federal Reserve (Fed) in the 12 months ended October – it is becoming increasingly clear that yields will remain in check for some time. It's hard to envision Treasury yields moving much higher when two major central banks are going full-bore on bond purchases. As a result, developed-market bond yields are expected to remain trapped within recent ranges and we are further reducing our rate forecasts across the major regions.

To understand why we are reducing our yield forecasts, let's review the mechanics of QE. Central-bank asset purchases have two main objectives: 1) to bolster asset prices and 2) to keep borrowing costs lower than they would otherwise be. Central bankers consider this the least disruptive way to keep money circulating in the world's highly indebted financial system. To accomplish this goal, central banks acquire significant quantities of financial assets, usually government and quasi-government bonds, and thereby restrict the volume of assets available for purchase by investors.

EXHIBIT 1. ECB and BOJ Intervention Reduces Assets Available for Purchase by Investors



We expect non-Fed QE (1 trillion euros by the ECB and 80 trillion yen by the BOJ) to reduce the availability of assets globally and that these purchases will continue to prop up prices of global stocks and bonds. Citigroup researchers estimate that, over the next 12 months, central-bank interventions will absorb almost every new dollar of financial assets coming to market, creating a net shortage toward the end of our forecast horizon (Exhibit 1). On a regional basis, the U.S. is the only net producer of new assets, while central banks in both Japan and the Eurozone are buying more assets than their economies are producing. A sudden surge in the supply of assets in the U.S. would, under normal circumstances, result in higher yields and assets with rich valuations would fall more. However, with the ECB and BOJ buying aggressively, savers in the Eurozone and Japan will need to invest offshore if they are to have any chance of garnering attractive nominal yields. Of course, any drop in prices for U.S.

assets will ultimately intensify demand by making them more attractive to foreigners.

Our expectation is that the first U.S. rate hike will arrive by the summer of 2015, and that the Fed will continue to hold the \$4.2 trillion of bonds now on its balance sheet, since selling them would likely bring an end to the multi-year QE-driven bull markets in stocks and bonds. After an initial hike in the benchmark interest rate, we expect the Fed to adopt a wait-and-see approach before embarking on further tightening. This is the consensus view, judging from prices of short-rate derivatives compared to the median forecast by Fed members (Exhibit 2). While keeping the size of its balance unchanged – the legacy of QE – we expect the Fed to introduce measures aimed at reviving the money market so that fed-funds hikes can prove effective when they eventually occur.

In Europe, we believe that the region's historically low bond yields already reflect the risks of moderate deflation, as seen in the fact that expectations of where European long-term interest rates will be in 10 years are in line with expectations for Japanese government bonds (JGBs) (Exhibit 3). As a result, Europe's bond market is highly vulnerable to positive economic news and other recent developments including decisions in France and Italy to increase government spending, and the emergence in November of a Eurozone banking union. Furthermore, it is hard to see Europe falling into a prolonged recession when, according to RBC GAM's chief economist, the U.S. economy is projected to grow at a nominal rate of 5% in 2015.

In Japan, the BOJ's goal is to be the largest owner of JGBs, raising its share of outstanding Japanese government bonds to 35% by the end of 2015 from the current 20%. The BOJ's announcement in October that it would increase its JGB purchases to between 60 trillion yen and 70 trillion yen from 50 trillion yen came as the Fed completed its asset purchases and was timed to avoid creating market volatility. Going forward, the BOJ will buy 100% of the JGBs sold by Japan's Ministry of Finance and, in order to minimize bond-market volatility, absorb a significant portion of the JGBs being sold by Japanese insurance companies and pension funds.

The BOJ's intervention has fashioned the JGB yield curve into the shape of a hockey stick – the curve flat-lines out to the seven-year maturity before sloping upwards. Commercial banks have been liquidating their holdings of

EXHIBIT 2. Fed Funds Hike Will Be Gradual and Timid

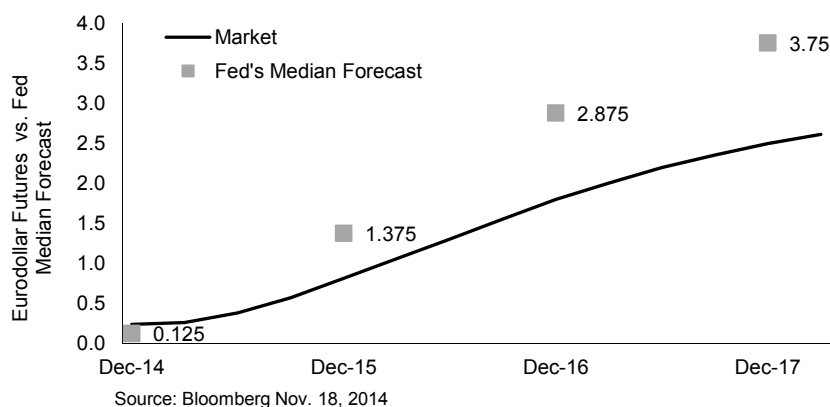
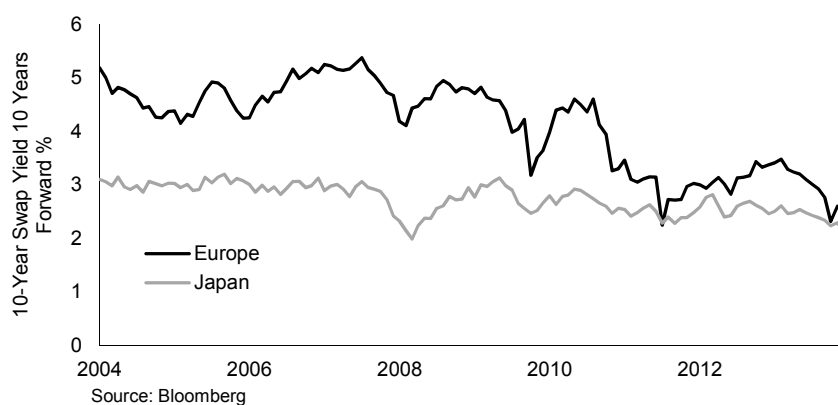


EXHIBIT 3. European Disinflation Trade Is Already Well Telegraphed in the Long-Rate Expectation



short-dated JGBs and depositing the proceeds at the BOJ to earn two basis points more than they can get on the JGBs (Exhibit 4). As volatility in front-end JGBs disappears, the longer end of the yield curve exposes investors to selling by life insurers and pension plans, both of which are expected to follow recent announcements by the Government Pension Investment Fund, the world's largest pension plan, to reduce JGB holdings in favour of the higher yields offered abroad.

Direction of rates

We are not expecting any meaningful climb in global bond yields, as central-bank demand for bonds will more than offset the upward pressure created by the improving U.S. economic outlook. Our view is that the Fed will take a timid approach to raising its policy rate, while the Bank of England (BOE) will continue to find reasons to delay raising rates until the Fed delivers its first hike. As a result, short- and medium-maturity yields in the U.S. and

U.K. will increase at a slower speed than we previously anticipated, while strong global demand will hold down yields on longer-term securities.

We expect the ECB to accelerate asset purchases after first hinting back in September that it would do so. In Japan, yields on shorter-maturity JGBs should move little, but holders of longer-term securities will be exposed to the threat of rising yields as big investors pivot away from JGBs. Yields on U.K. gilts will rise a bit more than Treasury yields, leading to U.K. underperformance. This forecast assumes that BOE Governor Mark Carney raises interest rates sooner than many investors anticipate. The Bank of Canada (BOC) appears committed to leaving short-term benchmark interest rates where they are, and it need not follow the U.S. in raising rates because Canada's economy is weaker and the BOC has as one of its principal goals making domestic manufacturers more competitive.

U.S. – Until the Fed is ready to hike the fed-funds rate, FOMC members will continue to keep investors off-balance by vacillating between hawkish and dovish public comments. We expect the 10-year Treasury yield to range between 2.0% and 3.25% as the lower-yield effect of huge global demand for U.S. assets vies with the higher-yield effect of improving U.S. economic fundamentals (Exhibit 5).

To guide us in forecasting 10-year yields in an environment of Fed tightening, we looked at the past two tightening cycles, 1994 and 2004. In both cycles, we found that yields

EXHIBIT 4. Bank Deposits With BOJ Earn a Better Yield Than Investing in JGBs

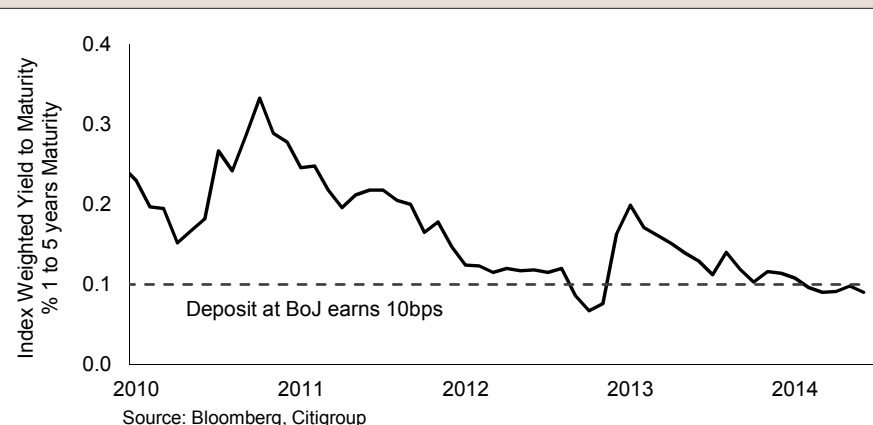


EXHIBIT 5. 10-Year Treasury Yield Is Expected to Trade Between 2.0% and 3.25%

	CURRENT OCT. 2014	U.S. INTERNAL FACTORS	MODERATE ECB AGG. BOJ	AGGRESSIVE ECB & BOJ	
Fed Fund	0.25%	0.50%	0.50%	0.50%	
3mos vs 2's	0.48%	1.25%	1.00%	0.75%	
2's vs 10's	1.84%	1.50%	1.25%	1.25%	
Lack of asset premiums	-0.25%		-0.25%	-0.50%	
UST 10's forecast	2.32%	3.25%	2.75%	2.00%	
					Exp Outcome
Probability		60%	30%	10%	3.0%

Source: RBC GAM

on 2-year Treasuries tended to rise significantly ahead of the first fed-funds hike, and that the current 50-basis-point spread between 3-month and 2-year securities could reach 125 basis points by the time the Fed delivers its first hike (Exhibit 6). We also found that the spread between 2-year and 10-year bonds tended to fall ahead of the first Fed hike, and that the current spread of 185 basis points could fall to 150 basis points (Exhibit 7). Taking into account the likelihood of a Fed rate hike and the previous behaviour of the yield curve during tightening cycles suggests

a 10-year yield of 3.25% (0.50% + 1.25% + 1.50% in Exhibit 5). However, the 10-year yield may have trouble rising much above 2.75% amid strong international demand for U.S. assets, and in the unlikely event that both the ECB and BOJ become even more aggressive with their asset purchases, could even fall to 2.00%.

We are keeping our fed-funds forecast at 50 basis points and lowering our yield forecast for the 10-year Treasury by 25 basis points to 3.00%.

Germany – We are keeping our policy-rate forecast at 0% to reflect stepped-up efforts by the ECB to deliver its own QE program, which would include purchases of asset-backed securities, corporate bonds, covered bonds and government securities as a last resort. The expanded monetary easing and fiscal spending announced recently across Europe offer a glimmer of hope to investors eyeing an end to the economic gloom that has overshadowed Europe for so long. We are sticking with our forecast that the yield on the 10-year bund will be 150 basis points lower than the comparable U.S. Treasury. That leaves a 1.50% yield forecast for the 10-year German bund, 25 basis points lower than our previous forecast.

Japan – We do not believe that JGBs are attractive on a risk-adjusted basis. Our forecast for the 10-year JGB drops to 80 basis points from 90 basis points because we think that BOJ purchases will more than offset selling by Japanese pension funds and life insurers. We expect no change to the 0% policy rate.

Canada – While the BOC sounded decidedly less dovish at its September meeting, reflecting a more positive outlook for U.S. demand and Canadian exports, not even the recent uptick in inflation will shake Governor Poloz's neutral stance. The upturn in CPI to the 2% target has been downplayed by the BOC, as falling commodity prices suggest muted inflation and sluggish economic growth. We expect policy rates to rise in 2015, a few months after the Fed's first hike. This will keep the front end of the yield curve lower over a longer horizon. We expect rising

EXHIBIT 6. 2-Year Treasury Yield Always Prices in More Fed Tightening

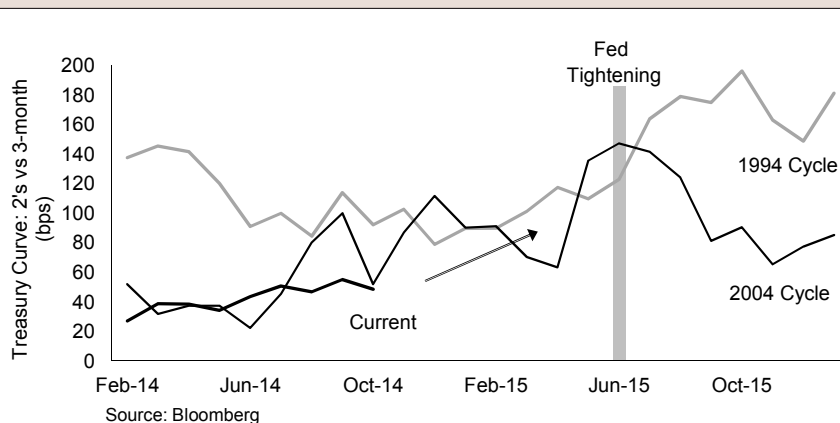
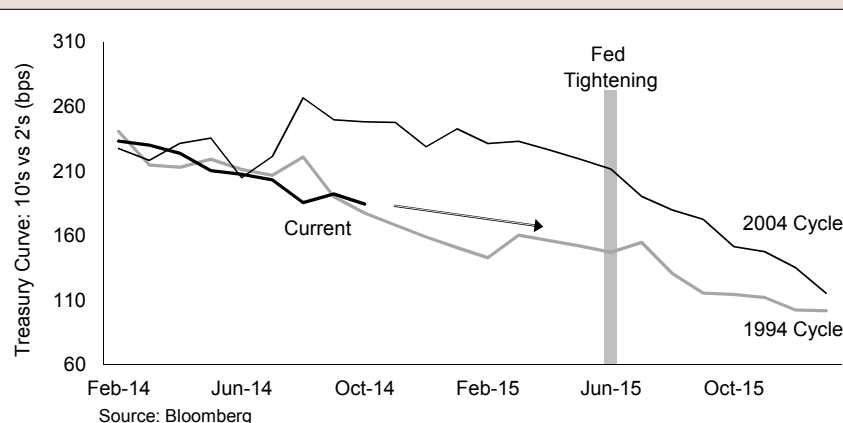


EXHIBIT 7. Yield Curve Tends to Flatten Heading Into the First Fed Funds Hike



U.S. Treasury yields to pull Canadian longer-term yields higher as well.

Our expectations for the Bank of Canada policy rate remain unchanged at 1.00%. We are lowering our yield forecast on the 10-year bond by 25 basis points to 2.50%.

U.K. – We expect the U.K. economy to track the U.S., and as a result gilt yields should rise with those on Treasuries. However, Britain's proximity to a Europe haunted by fears of deflation will lead the BOE to

resist calls for higher policy rates until the Fed is ready to start tightening. The market is currently pricing in an ultra-accommodative BOE in the years ahead. Early next year, investors will turn their attention to polls showing that the U.K. general election is too close to call, and this uncertainty should hold down gilt yields in the near term. Given these political concerns and the persistence of low global yields, we have reduced our 12-month forecast for the 10-year gilt to 3.25%, 50 basis points lower than

the previous quarter. We also reduced our policy-rate forecast by 25 basis points to 1.00%.

Regional preferences

We forecast that global yields will remain within recent ranges, and head higher toward the end of our forecast horizon. The higher income paid by U.S. Treasuries relative to bunds and JGBs offers a cushion in the event of losses created by a rise in yields. We recommend overweighting Treasuries by 5%, funded from equal underweights in bunds and JGBs.

INTEREST RATE FORECAST: 12-MONTH HORIZON						
Total Return Calculation: November 14, 2014 – November 15, 2015						
U.S.						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.50%	1.75%	2.50%	3.00%	3.65%	(1.24%)
Change to prev. quarter	0.00%	0.00%	0.00%	(0.25%)	(0.30%)	
High	1.00%	2.00%	3.20%	3.75%	4.30%	(3.85%)
Low	0.25%	0.60%	1.60%	2.25%	3.00%	2.39%
Expected Total Return US\$ hedged: (1.14%)						
GERMANY						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.00%	0.40%	0.90%	1.50%	2.20%	(3.74%)
Change to prev. quarter	0.00%	(0.10%)	(0.10%)	(0.25%)	(0.20%)	
High	0.00%	1.00%	1.50%	2.00%	2.60%	(7.35%)
Low	0.00%	0.00%	0.00%	0.50%	1.40%	3.61%
Expected Total Return US\$ hedged: (3.11%)						
JAPAN						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.10%	0.25%	0.40%	0.80%	2.00%	(3.99%)
Change to prev. quarter	0.00%	0.00%	(0.10%)	(0.10%)	0.00%	
High	0.10%	0.50%	0.65%	1.30%	2.20%	(6.43%)
Low	0.00%	0.00%	0.10%	0.40%	1.60%	0.10%
Expected Total Return US\$ hedged: (3.55%)						
CANADA						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.00%	1.50%	2.00%	2.50%	3.00%	(0.95%)
Change to prev. quarter	0.00%	0.10%	(0.10%)	(0.25%)	(0.25%)	
High	1.50%	2.25%	3.00%	3.50%	3.90%	(7.36%)
Low	0.50%	0.90%	1.20%	2.00%	2.60%	2.88%
Expected Total Return US\$ hedged: (4.20%)						
U.K.						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.00%	1.70%	2.65%	3.25%	3.45%	(4.48%)
Change to prev. quarter	(0.25%)	(0.30%)	(0.60%)	(0.50%)	(0.45%)	
High	2.00%	2.50%	3.50%	4.00%	3.90%	(9.62%)
Low	0.50%	0.50%	1.60%	2.25%	3.10%	0.91%
Expected Total Return US\$ hedged: (2.40%)						

Source: RBC GAM

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CURRENCY MARKETS

Dagmara Fijalkowski, MBA, CFA

Head, Global Fixed Income & Currencies (Toronto & London)

The trade-weighted U.S. dollar has gained 20% in the past three years against its major trading partners, and half of that move has occurred since July. Over the three-year period, the greenback has gained against every G10 currency, ranging from as little as 2% against the British pound to as much as 32% against the Japanese yen. Among emerging-market currencies, only the Chinese renminbi has risen against the greenback, up 5.2%. Such broad gains underscore the power of the trend, and that power must be reflected in our conviction about the trend's longevity and in our forecasts.

Judging by past dollar cycles, we expect the U.S. dollar to rise by at least another 20% over the next few years (Exhibit 1). As in previous cycles, the current cycle started with a choppy bottoming process and eventually found support from faster economic growth and higher expected policy rates in the U.S. versus other developed markets. While the U.S. dollar has gained on a three-year horizon against all currencies, the fact that most of the gains have come against the euro and the yen has given rise to skepticism about the rally's sustainability. Exhibit 2 shows the progression of the greenback's climb. The U.S. dollar bottomed out with the Eurozone debt crisis in 2012 and then rose steadily, courtesy of intensive efforts by Japanese Prime Minister Abe to conquer deflation. The trade-weighted greenback got a further boost from perceptions that the

EXHIBIT 1. Current USD Bull Market Versus Previous Bull Markets

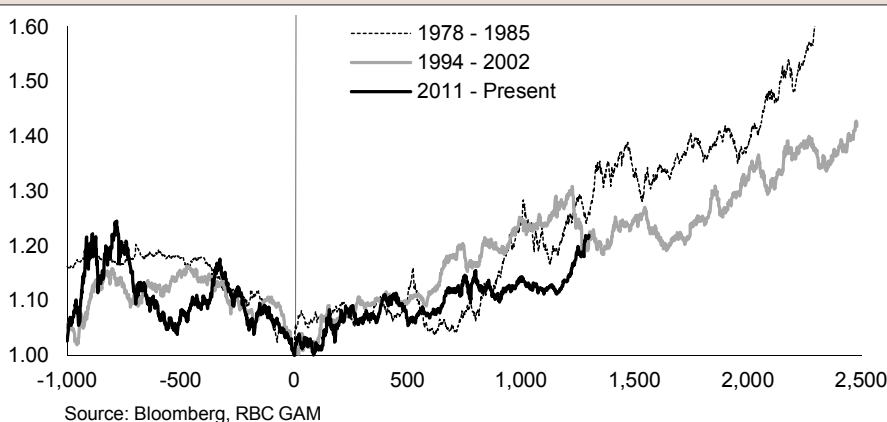
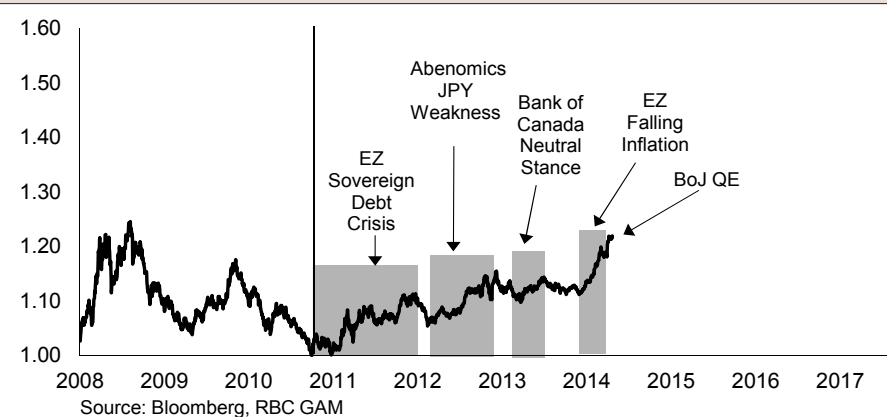


EXHIBIT 2. Phases of Dollar Strength



Bank of Canada (BOC) was reluctant to raise interest rates and, subsequently, euro weakness stemming from falling inflation expectations in the Eurozone. Recent actions by the Bank of Japan (BOJ) give us reason to believe that the next leg of U.S. dollar strength is in motion. That's why taking a long-term look at U.S. dollar cycles is so important: it helps determine whether we are in the midst of a bull or bear

market, and aids those who do their homework to take advantage of short-term volatility. In a U.S. dollar bull market, short-term declines in the 4%-10% range shake out skeptics, but provide opportunities for those focused on the longer term.

From a valuation perspective, the U.S. dollar remains consistently on the cheap side against most major

currencies, but no longer near the extremes (Exhibit 3). In fact, the only currencies trading beyond the so-called lines in the sand are the dollars of New Zealand and Australia – countries that make up a small percentage of America’s total trade. The fading of long-term valuations as a driver forces us to focus more diligently on other drivers.

Taking the place of long-term valuations for now are relative monetary policies. This is a theme we’ve been anticipating for several quarters, but with Fed quantitative easing now out of the way and some evidence that U.S. wages are rising, we’re starting to see interest-rate hikes being priced into 2-year yields, and correlations of rates with the greenback are steadily rising (Exhibit 4). The rise in 2-year yields leads to a flattening of the yield curve, and that is historically the most supportive environment for the U.S. dollar.

Equal in importance to what the Fed is up to is what other central banks are doing, and both the BOJ and the European Central Bank (ECB) are still easing, with inflation well below their targets. This divergence in central-bank policies continues to provide a significant tailwind for the greenback.

Aside from monetary-policy divergences, financial flows form the other tailwind for the U.S. dollar. Let’s look at the U.S. balance of payments, which is registering a significant improvement in trade (Exhibit 5). Trade has been improving due to increased domestic energy production from shale deposits and U.S. manufacturers shifting production onshore to benefit from a more cost-

EXHIBIT 3. Purchasing Power Parity Valuations
November 2014

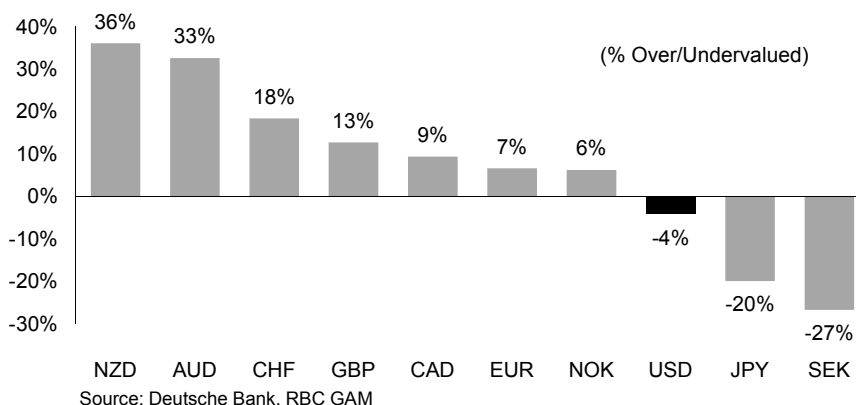


EXHIBIT 4. USD Correlation With Major Drivers

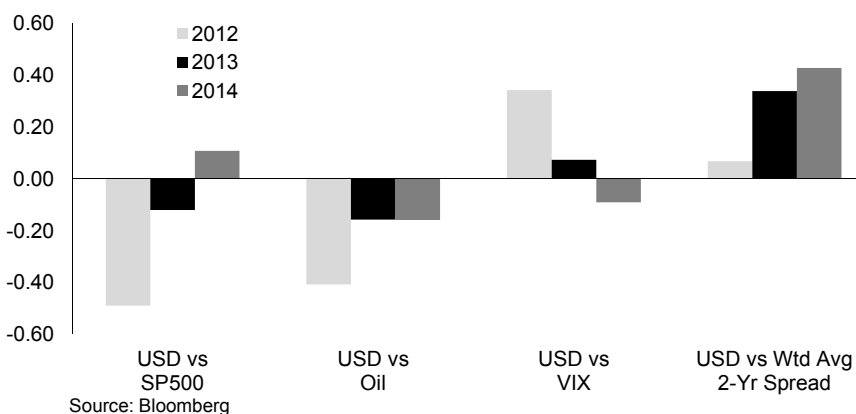
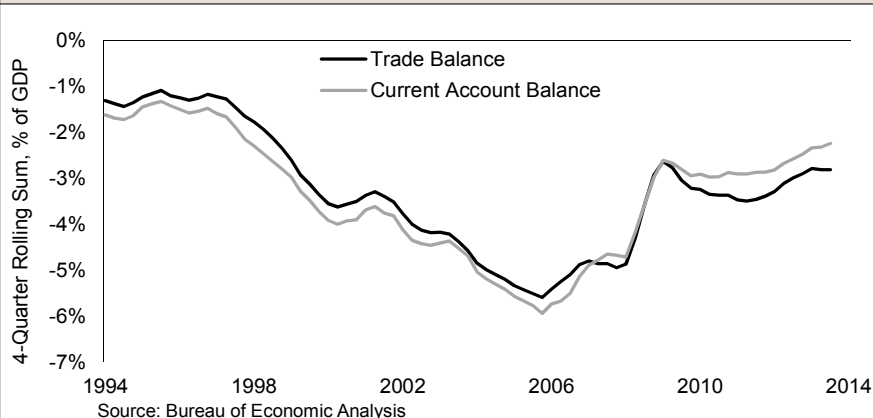


EXHIBIT 5. U.S. Current-Account and Trade Balances



effective and efficient labour force and proximity to consumers. Portfolio flows have yet to reverse meaningfully but we already see early signs that global asset managers are choosing to invest more in U.S. securities. Finally, anecdotal evidence suggests that Foreign Direct Investment (FDI) from Europe has picked up recently, with German companies announcing US\$65 billion of deals this year as of mid-September, up from US\$3.7 billion in the same period last year. Additionally, we have observed the growing tendency of U.S. asset managers to currency-hedge their foreign holdings, a process that involves selling euros.

When discussing the strength of the U.S. dollar, it is important to address the concern that a stronger dollar might crimp economic growth and lower estimates of future inflation, and perhaps prompt the Fed to become more dovish. To analyze the U.S. dollar's impact on competitiveness, we should look at currencies in trade-weighted terms and adjusted for relative rates of inflation – real effective exchange rates (REER) – rather than nominal exchange rates. Based on REER, the U.S. dollar is up only about 8% from its 2011 bottom. The effect of changes in foreign-exchange rates can take between 18 and 48 months to be reflected in trade, so the small appreciation combined with time lags has so far had a relatively insignificant effect on competitiveness and growth. In addition, changes in the value of the U.S. dollar have in the past had relatively little impact on core inflation, according to research from Goldman Sachs (Exhibit 6). Finally, while a rising U.S. dollar could theoretically

EXHIBIT 6. U.S. Broad Dollar Index and Core Inflation

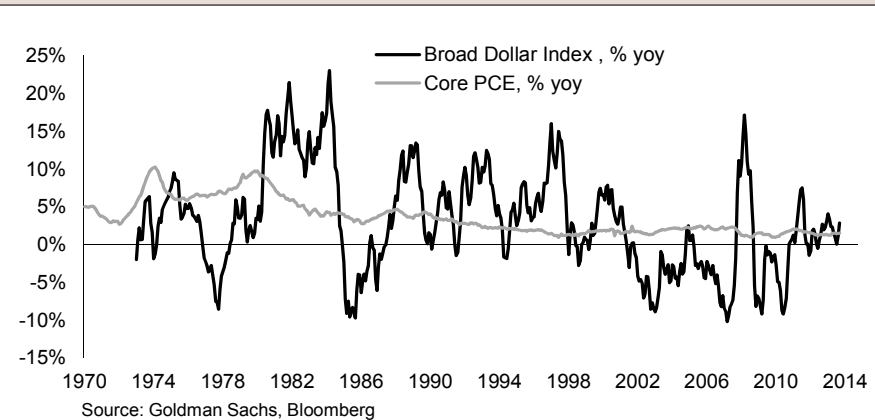
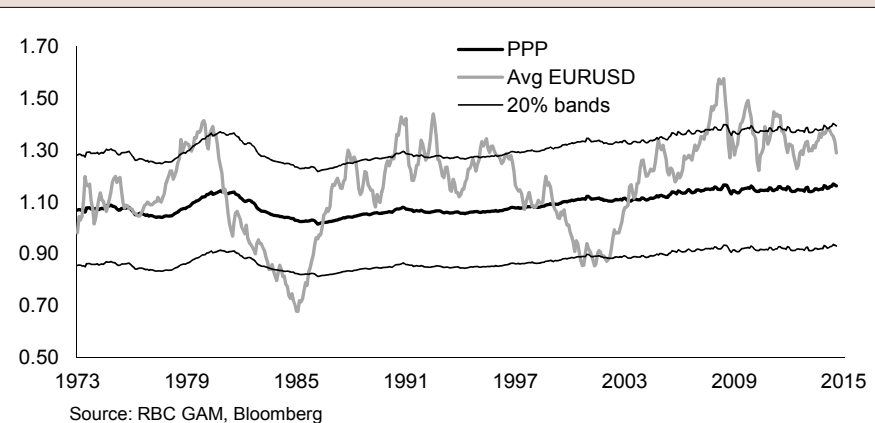


EXHIBIT 7. EURUSD Purchasing Power Parity Valuation



slow growth via a hit to exports, we note that the U.S. is a net importer and that trade is not a big contributor to U.S. GDP. A much bigger impact on growth comes from consumer spending, and consumers benefit from lower energy prices. Falling fuel prices will hurt energy-related parts of the economy, but energy does not constitute a significant portion of U.S. GDP. Capital expenditures by energy firms accounted for just 1% of U.S. GDP in 2013, while capital expenditures of non-energy companies accounted

for 15%. Consumer activity makes up 68% of U.S. GDP. In the end, our sense is that the U.S. dollar will have to rise significantly more before the currency effect slows the economy or has a more measurable impact on inflation.

The euro

The euro's 11% decline since early May returned the single currency to well within the 20% PPP valuation band (Exhibit 7). The euro is still expensive on this measure, but the overvaluation matters less now that it is no longer at

the extreme. Shorter-term measures such as interest-rate differentials point to a weaker euro. We have observed that 2-year interest-rate differentials have proven a useful guide to fluctuations in the single currency. The ECB is keenly aware of this relationship, which was made evident by a recent comment from ECB member Benoit Coeure that the “exchange rate will follow monetary policy.”

Considering our expectation that U.S. 2-year yields will rise faster than euro yields, the euro should head lower still. While falling inflation reflects temporary factors such as food and oil prices, longer-term price expectations reflect slower growth due to fiscal spending, Russian sanctions and the negative effect of China’s anti-corruption campaign on high-end European exports. Most indicators used by the ECB to gauge inflation expectations have indicated uncomfortably low inflation, and this is why the ECB rolled out easing measures including negative deposit rates, expanded programs to encourage bank lending and a plan to purchase covered bonds and asset-backed securities. More easing is expected down the road.

While financial flows supported the euro after ECB President Mario Draghi’s ‘whatever it takes’ speech in 2012, they are now becoming more negative amid Draghi’s increased commitment to policy tools that would tend to drive down the single currency. Exhibit 8 shows the “basic balance” – the sum of the current account, FDI and portfolio flows – which is turning lower and dragging the euro down with it. Of the three components, it is portfolio flows that

EXHIBIT 8. Eurozone Basic Balance of Payments

Sum of Current Account, Foreign Direct Investment and Portfolio Flows

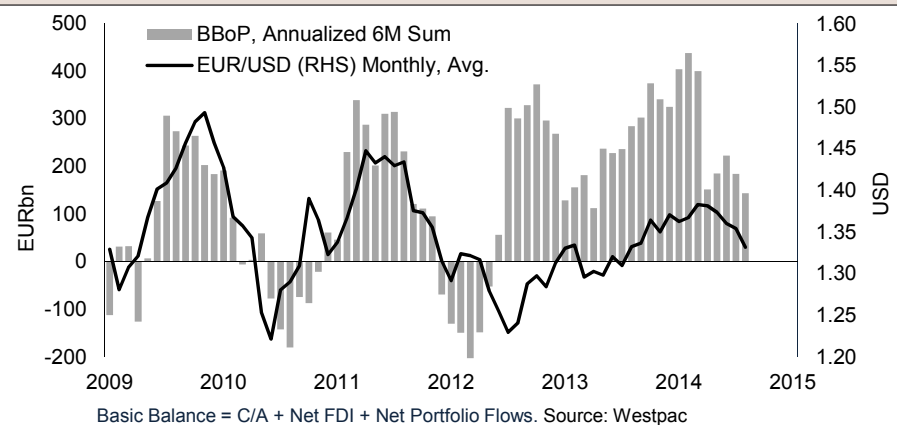
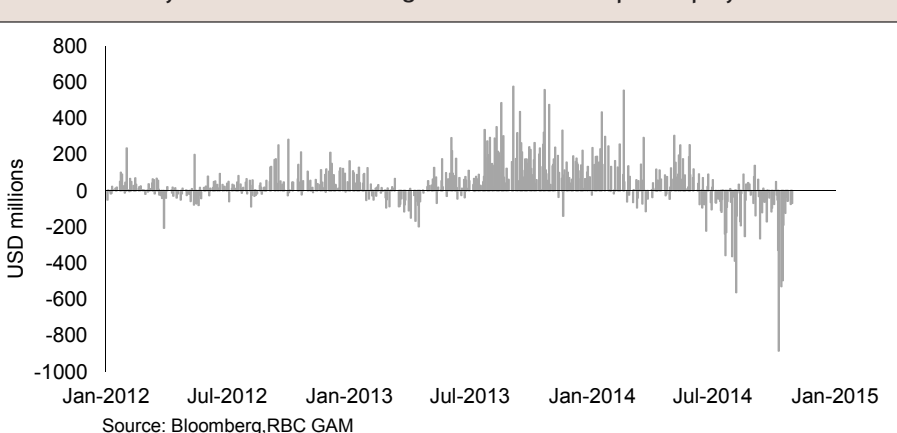


EXHIBIT 9. Daily Fund Flows to Five Largest U.S.-Based European Equity ETFs



have been falling the most. We follow three measures as proxies for these flows: the U.S. appetite for European Equity ETFs (Exhibit 9); increasing aggregate hedges on Eurozone assets as reported by State Street; and the euro’s allocation within global foreign-exchange reserves (Exhibit 10).

Taken together, falling inflation and slower growth will pressure the ECB to ease further, leading us to believe that the euro will keep declining. The ECB is not out of tools to influence inflation expectations, and Draghi has

been a master of playing seemingly weak hands. We expect the euro to fall to 1.14 sometime in 2015.

The yen

Thinking about where the yen is headed is a bit more complicated than it is for the euro. That’s because two important drivers – valuations and the combination of monetary and fiscal policies suggest different directions for the Japanese currency. We have pointed out before that yen valuations are cheap (based on

both PPP and real effective exchange rates), and that they don't argue for a weaker yen (Exhibit 11). However, a number of other factors do.

The first is the BOJ's abrupt decision in early November to ramp up quantitative easing, which came amid investor skepticism that the central bank was sufficiently committed to fighting deflation. Investors had started questioning whether it was possible for the bank to achieve its May 2015 target of boosting inflation to 2%. Doubts began to creep in after economic indicators started teetering and inflation turned lower. Whether it was brilliant timing or a stroke of luck, the BOJ waited just long enough to surprise the markets when it finally turned aggressive again. The yen weakened about 4% after the BOJ not only expanded QE bond purchases by 10 trillion yen, but also boosted the effectiveness of QE by purchasing longer-dated securities, and devoted a much greater allocation to ETFs and REITs. BOJ Governor Kuroda commented that "there are no limits to our policy tools in order to overcome a chronic disease of deflation."

The BOJ was joined in its monetary-stimulus efforts by the government. About the time that the BOJ increased its stimulus, the US\$1.1 trillion Government Pension Investment Fund, the world's biggest pension fund, said it would increase its allocation to foreign assets. In the first three weeks of November, the yen weakened by more than 7% and Prime Minister Abe had called an election for December to secure support for his policies.

Guided by the experience of the Fed, the BOJ expects balance-sheet growth

EXHIBIT 10. Euro's Allocation Within Global FX Reserves

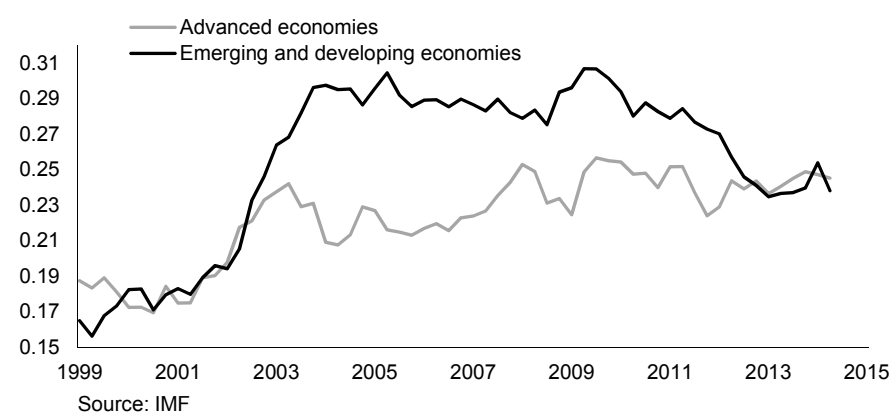


EXHIBIT 11. Japanese Yen Real Effective Exchange Rate

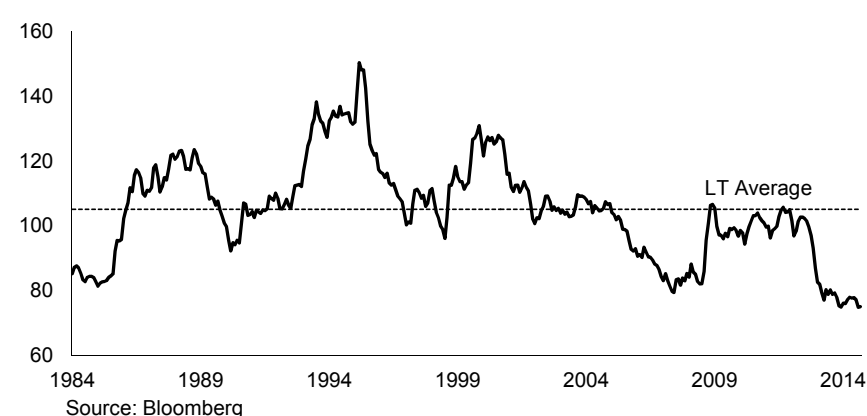
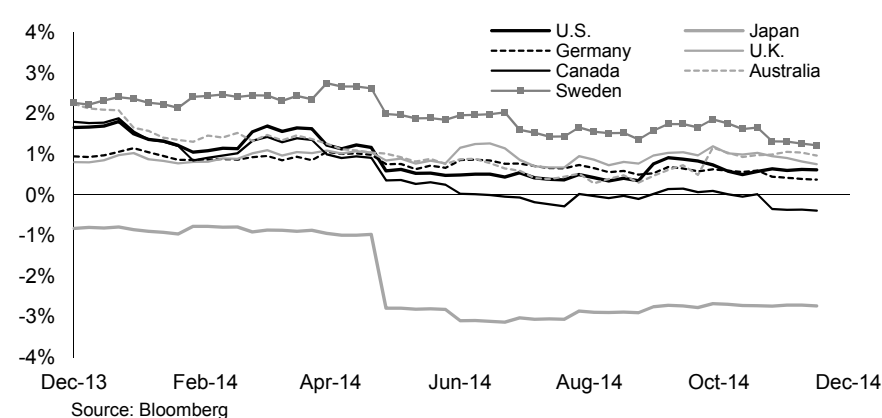


EXHIBIT 12. Japan Has Lowest Real 10-Year Yields



to encourage a shift into riskier assets overseas. With inflation rising and the BOJ capping yields at the longer end of the curve, real yields have been pushed to their lowest levels in at least two decades and rank as the lowest inflation-adjusted levels in the developed world (Exhibit 12). Domestic savers are not being compensated for inflation and so are exploring the abundance of relatively attractive foreign instruments. Almost all fixed-income markets outside Japan yield more than domestic ones, even after hedging currency risk.

In addition to portfolio flows, which are expected to contribute to yen weakness, the current-account deficit continues to be a detractor as well. The bulk of the deficit is due to large bills for the energy imports, and since the benefits of weaker oil prices are partially offset by the weaker yen, those bills remain a sizeable chunk of the trade deficit. One development that could shift the dynamics is the restarting of Japan's nuclear facilities, which were closed after the 2011 earthquake. Another is the opening of liquid natural gas exporting facilities in Australia, expected to take place over the next three years.

Considering the determination of Japanese authorities to weaken the yen and the strength of the dollar trend, we believe that the yen will weaken further and we take our forecast to 125/U.S. dollar.

British pound

Sterling is another currency subject to contrasting influences, although to a lesser extent than the yen. Earlier this year the pound was

EXHIBIT 13. Pound Sterling Valuations According to Various Models

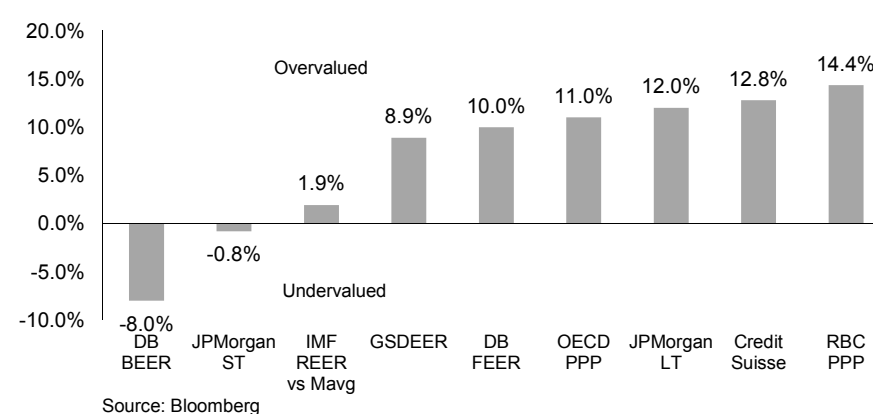
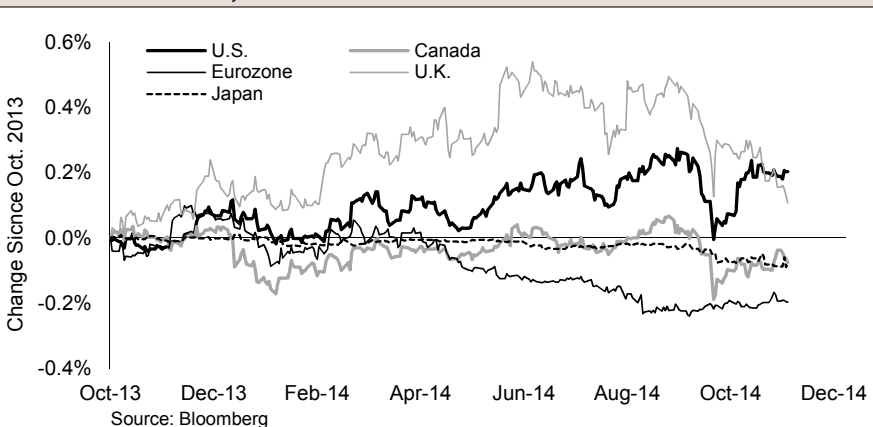


EXHIBIT 14. Monetary Policy Expectations Proxied by 2-Year Yields



clearly overvalued on PPP and other valuation models (Exhibit 13), which together with the general U.S. dollar trend weighed on sterling. On the other hand, expectations that the BOE would be the first major central bank to hike interest rates, combined with decent economic growth, kept the currency buoyant. This led us to forecast little change in the currency through the first half of 2015.

This delicate balance started shifting in late summer. First, fear that Scotland would secede from the

U.K. in the September referendum weakened the pound by over 5%. Soon after the vote, Governor Mark Carney embarked on a clear shift in monetary policy. The BOE is no longer in a hurry to hike rates given falling inflation, the stronger currency, stagnant wages, fiscal austerity and slow growth in the Eurozone, Britain's closest trading partner. As a result, expectations of a hike early next year have now come down, causing the pound to weaken (Exhibit 14).

Another consideration for investors is the U.K.'s current-account deficit, which at 5% of GDP is the worst among major industrialized nations and ranks alongside South Africa and Turkey (Exhibit 15). This puts Britain in the company of the “Fragile Five.” What’s worse is that the U.K. has been moving down the list – driven mostly by the fact that the U.K. is now paying out more to foreigners than it is earning on its investments abroad at the same time that most of the Fragile Five have been making serious efforts to improve their standing.

Overall we expect sterling to weaken slightly versus the U.S. dollar and become more aligned with valuations and the deteriorating current account. Our forecast is US\$1.50/pound.

Canadian dollar

As with the euro, the factors that influence the direction of the Canadian dollar generally point toward a weaker loonie. Let’s start with valuations. The Canadian dollar remains overvalued on longer-term measures, albeit not to the extreme anymore, which means that valuations are taking a back seat to shorter-term influences (Exhibit 16).

Unfortunately, none of the other usual drivers rank high in correlations these days, with the most important one at the moment being the trend of a rising U.S. dollar (Exhibit 17). Taken together, most of these drivers line up against the loonie.

Among the short-term drivers are interest-rate differentials, and we note that the expectations of 2-year yields two years in the future have risen faster in the U.S. than in Canada. Although Canadian 2-year rates tend

EXHIBIT 15. Current-Account Balances
% of GDP

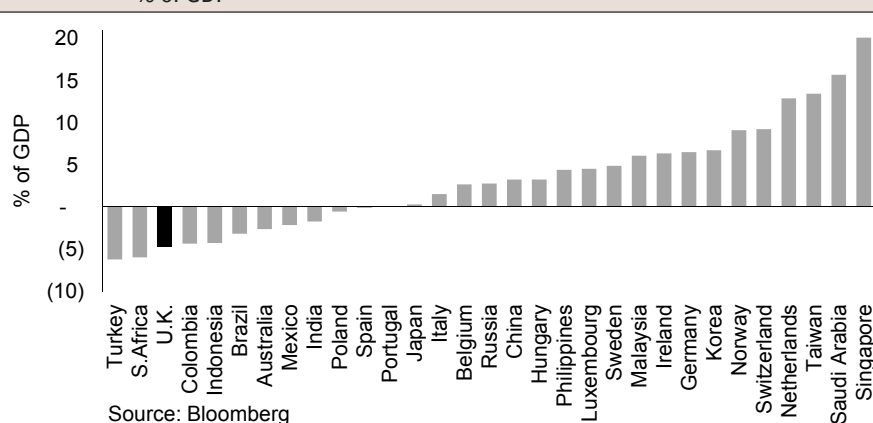


EXHIBIT 16. USDCAD Purchasing Power Parity Valuations

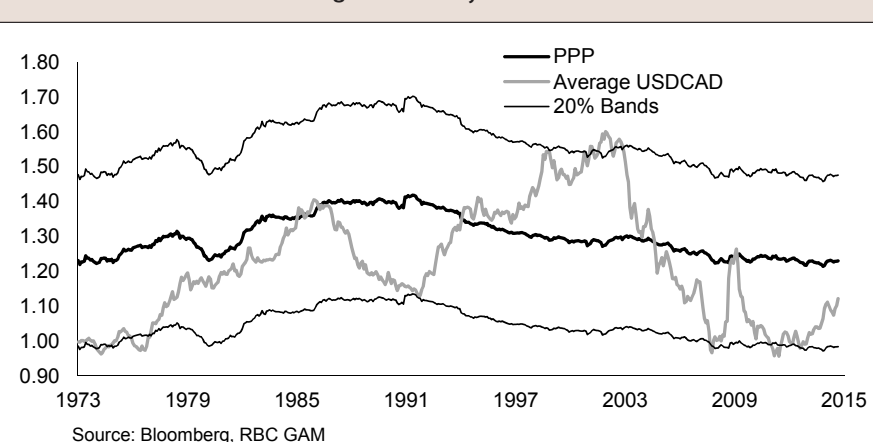
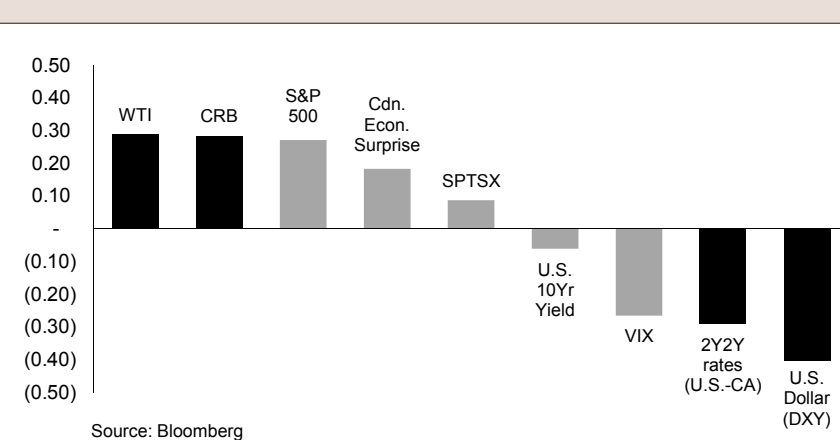


EXHIBIT 17. Correlations With the Canadian Dollar



to move in tandem with U.S. rates, the Canadian currency stands to lose some of its advantage as the market starts pricing in more hikes from the Fed while the BOC stays on hold. Members of the BOC board of governors haven't been too concerned about inflation and have dismissed the recent uptick as temporary. The board worries instead about evidence that the Canadian economy is being driven by much stronger growth in the energy industry than in manufacturing (Exhibit 18).

Additionally, while Governor Poloz took a stand against the use of "forward guidance" as a monetary policy tool at this stage of the economic cycle, the intention was not to make the message more hawkish. Rather, by being less explicit about the direction and timing of the next rate move, he is forcing investors to do their own analysis and think more about potential risks in the market.

Another short-term negative for the Canadian dollar has been the country's outsized exposure to energy prices and the impact of a faster-than-expected ramp-up of oil supply. Canada has been hit less hard than other oil exporters, given its bigger leverage to U.S. growth. Norway's currency, for example, has fallen more given that it is also exposed to economic weakness in Europe. Even so, Canada has a sizeable current-account deficit of roughly 2.5% of GDP, which is funded by more precarious sources like portfolio and other short-term flows rather than FDI (Exhibit 19). Exhibit 20 shows that FDI interest in Canada has not recovered since the financial crisis. The drop in Chinese interest probably has something to do with the Canadian government's decision

EXHIBIT 18. Canadian 2-Speed Economy: Energy Versus Manufacturing Exports

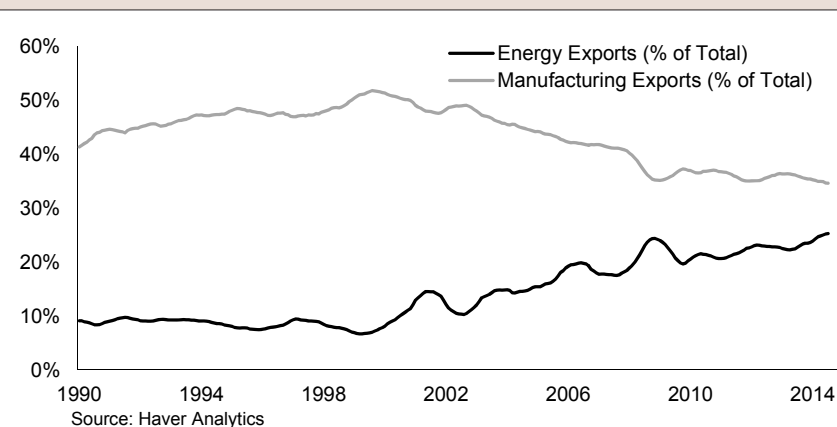


EXHIBIT 19. Sources of Funding for Canada's Current Account

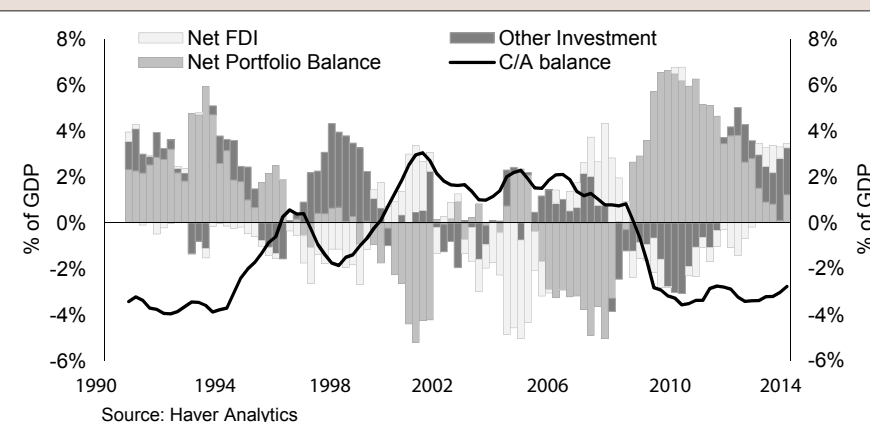
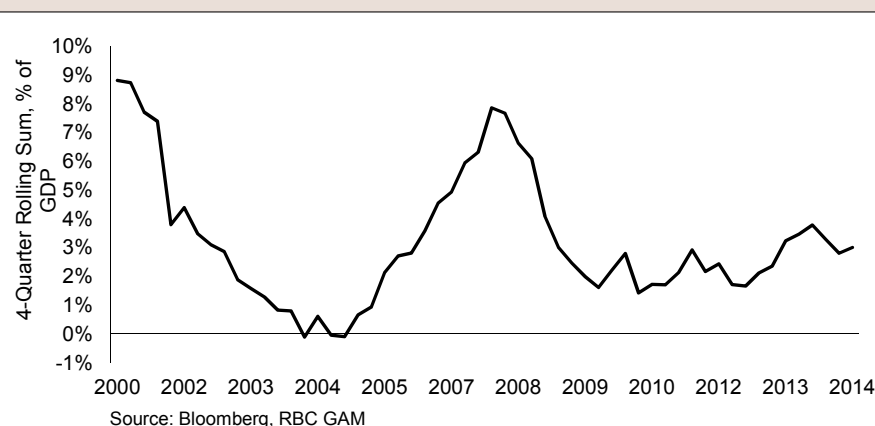


EXHIBIT 20. Canada Net Inward Foreign Direct Investment



to put new restrictions on foreign investments after approving CNOOC's 2012 takeover of Nexen, but given slower Chinese growth the drop might have happened anyway. In floating-currency regimes with current-account deficits, such as Canada, currency weakness typically acts as a relief valve to restore the attractiveness of domestic assets to foreigners.

Our view is that given the U.S. dollar trend, increased oil supply, weaker

global growth and monetary-policy divergence, more weakness in the loonie will be necessary. Our forecast of 1.18 calls for the Canadian dollar to fall against the U.S. dollar, but to rise versus the euro and yen.

Conclusion

The U.S. dollar is in the midst of a powerful bull market. We don't see any signs of a turn in this trend, but rather short-term declines in

the greenback will offer trading opportunities. Our forecasts are supported in large part by monetary-policy divergences and by investment flows that are positive for the U.S. dollar. Much of the strength should come at the expense of the euro and the yen. Slower global growth will also weigh on commodity currencies.

THE CURRENCY OUTLOOK: KEY FACTORS

EURO

SUPPORTIVE	NEGATIVE
<p>SHORT TERM</p> <ul style="list-style-type: none"> ▪ Sentiment overly negative and expectations depressed. ▪ Improvement in credit-growth momentum. <p>LONG TERM</p> <ul style="list-style-type: none"> ▪ Current-account surplus. ▪ The ECB took over euro-area bank supervision. Steps toward a banking union scheduled over the next two years. ▪ Diversification of global foreign-exchange reserves requires euro as the U.S. dollar alternative with liquid bond markets. 	<p>SHORT TERM</p> <ul style="list-style-type: none"> ▪ Monetary easing by the ECB in response to deflationary concerns. ▪ Eurozone PMIs are worsening. ▪ Foreign-exchange investors switching funding of their currency positions from U.S. dollar to euros. ▪ Sovereign spreads near 5-year lows. ▪ Break below 1.24 is bearish technically. ▪ Bank lending to small- and medium-sized enterprises (SMEs) hasn't accelerated. <p>LONG TERM</p> <ul style="list-style-type: none"> ▪ Low GDP growth potential. ▪ Structural unemployment in peripheral countries. ▪ Lack of population growth. ▪ Austerity and reform fatigue result in potential for political and social unrest; potential change of governments with a more adversarial agenda on Europe.
12-MONTH FORECAST: weaker euro, 1.14	

POUND STERLING

SUPPORTIVE	NEGATIVE
<p>SHORT TERM</p> <ul style="list-style-type: none"> ▪ Real rates advantage improving. ▪ Perception of tail risk in Europe reduced. ▪ Excessive optimism and long positioning have been reduced. <p>LONG TERM</p> <ul style="list-style-type: none"> ▪ Beneficiary of any potential risk aversion in Europe. ▪ Inflation no longer eroding pound's long-term fair value. ▪ Stronger growth potential than Europe. 	<p>SHORT TERM</p> <ul style="list-style-type: none"> ▪ Market has shifted expectations of BOE hikes from ahead of the Fed to behind the Fed. ▪ Short-term strength beyond that justified by interest-rate differentials. ▪ Growth and housing prices rolling over. <p>LONG TERM</p> <ul style="list-style-type: none"> ▪ High vulnerability to renewed stress in global financial system. ▪ Current-account deficit among the worst in the world and the trend is deteriorating. ▪ Referendum on EU membership on the horizon.
12-MONTH FORECAST: weaker pound, 1.50	

CANADIAN DOLLAR

SUPPORTIVE

SHORT TERM

- Small positive carry in a low-yield world.
- Stronger employment data recently.
- CPI in upper part of the BOC band.

LONG TERM

- U.S. economic recovery benefits Canada.
- Fiscal situation much better than peers.
- AAA rating puts a price floor under Canadian bonds.
- TransCanada pipeline project between Alberta and New Brunswick would reduce oil imports if it's built.
- Healthy banking sector.

NEGATIVE

SHORT TERM

- Dovish Bank of Canada.
- Inward foreign direct investment from China and others has slowed.
- Decline in energy prices.
- Precarious funding of current-account deficit.

LONG TERM

- Two-speed economy: manufacturing suffered long-term blow as businesses closed or moved south.
- Weakness in commodity markets as global growth slows and supply added faster than expected.
- Housing valuations are a long-term risk.

12-MONTH FORECAST: weaker Canadian dollar, 1.18

YEN

SUPPORTIVE

SHORT TERM

- Excessive speed of devaluation attracts G20 resistance.
- U.S. dollar is over 3.5 standard deviations above its 200-day moving average.

LONG TERM

- Safe haven during periods of risk aversion.
- Valuations among cheapest in G10.
- Real effective exchange rates cheapest in 30 years.
- Low global short-term rates make foreign assets attractive on a currency hedged basis (even without taking foreign-exchange risk).
- Access to other energy sources (LNG) will reduce trade deficit over the next three years.

NEGATIVE

SHORT TERM

- BOJ determined to ease as much as required to achieve its inflation goal.
- Politicians determined to weaken yen and support asset markets.
- Trade deficits expected to continue on persistently high energy imports.
- Real yields deeply negative.

LONG TERM

- Pension-fund reform to pave the way for outflows.
- Worst public debt/GDP of any major economy.
- Worst demographic profile of any major economy over the next 40 years.
- BOJ to be the last major central bank to hike rates.
- Yen very sensitive to bullish U.S. dollar trend.

12-MONTH FORECAST: weaker yen, 125

REGIONAL OUTLOOK – U.S.

Ray Mawhinney

Senior V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

Brad Willock, CFA

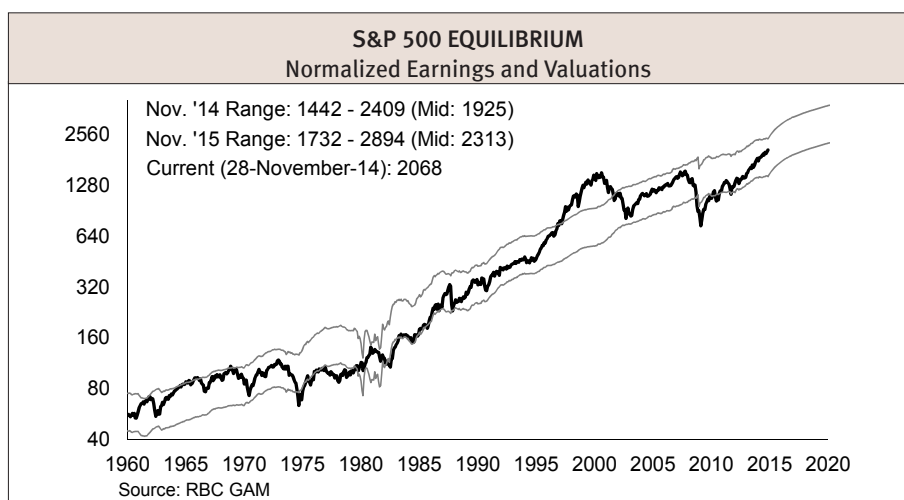
V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

U.S. stocks continue to march higher. The equity bull market, which started almost six years ago, is now the fifth-longest since 1928. The ride, bumpy during the first few years, had been significantly smoother until the most recent three-month period, when volatility spiked to levels not seen since late 2011. The increase in daily price swings was broadly attributed to a sharper-than-expected slowdown in economic activity in Europe, Germany in particular, as well as general anxiety over the U.S. Federal Reserve's (Fed) pending shift to tighter monetary policy. After setting an all-time high in mid-September, the market dropped 10% and hit a low in mid-October before rebounding to set an all-time high in early November. The S&P 500 continued to grind higher through the remainder of the period and has generated a total return of over 14% in the past year, 10% year-to-date and 4% in the past three months. These results place the U.S. market among the top major markets over the past year. It has been a very good time to be invested in U.S. equities.

Despite the stock market's impressive gain, many questions remain. One of the principal debates over the market's future direction concerns the involvement of central banks in global debt markets. Bears suggest that the Fed's manipulation of interest rates is the main reason that stock markets have soared and that "it will all end badly" as central banks reduce their meddling in the bond market. Bulls, on the other hand, believe that

UNITED STATES RECOMMENDED SECTOR WEIGHTS		
	RBC INVESTMENT STRATEGY COMMITTEE NOVEMBER 2014	BENCHMARK S&P 500 NOVEMBER 2014
Energy	8.0%	8.5%
Materials	2.4%	3.2%
Industrials	11.6%	10.4%
Consumer Discretionary	11.6%	11.9%
Consumer Staples	9.8%	9.9%
Health Care	15.4%	14.4%
Financials	15.8%	16.3%
Information Technology	21.0%	19.9%
Telecommunication Services	1.4%	2.4%
Utilities	3.1%	3.1%

Source: RBC GAM



the economy is on solid footing and that there will be no impact on stocks as the Fed normalizes interest-rate policy. As usual, the truth likely lies somewhere between these two views, and there is much we cannot know. As of October, the Fed had stopped buying U.S. Treasuries, so investors are highly focused on signs that the

economy and markets continue to function normally. So far so good, but it is too early to declare victory.

In the U.S., the fundamentals appear to be on track. Employment is improving as the number of people applying for unemployment insurance continues to drop and more long-term unemployed

re-enter the workforce. In surveys, small businesses say they are more optimistic about their future than they have been since 2008. Small business owners also say they intend to hire more people than last year and that it is harder to find the workers they need. Individuals report that they are more confident in the job market than at any time since July 2008, and more people are voluntarily quitting their current job to take a better one. The aggregate number of hours worked per week, the average wage gain and the number of people being added to the ranks of the employed are all improving. The economy has added 235,000 jobs per month over the past six months, and if that pace is sustained into early 2015, the unemployment rate should drop to about 5.5%, a level at which wage gains have accelerated in the past.

While labour inflation is certainly something to worry about for 2015, other signs of inflation are muted. Commodity prices have been broadly under pressure over the past year, with oil and gasoline down roughly 40%, while soy beans, corn, wheat and cotton have fallen 10% to 20%. Most industrial metals are down in the mid-single digits over the same time frame. A stronger U.S. dollar has also helped keep inflation at bay, as the price of imports into the U.S. has fallen 1.8% over the past 12 months. Lower commodity prices this year should provide a tailwind to the economy during the first half of 2015 and may give a lift to corporate earnings and stock valuations as well.

Earnings appear to reflect this positive backdrop. In the most recent quarter, S&P 500 companies generated year-over-year profit growth of over 10% on revenue growth of just over 4%. While these numbers are just slightly better than long-term averages, they are quite impressive considering the Eurozone is barely growing, China's growth is slowing significantly and Brazil and Russia are in or near recession. More impressive is that profit margins expanded again, despite the drag from a stronger U.S. dollar. Skeptics have been looking for profit margins to fall toward their long-term mean but there are no signs that is about to happen. Globalization of the manufacturing base, the use of robotics and healthy competition among foreign exporters are providing a margin tailwind that does not appear to be exhausted. For companies that make stuff, these are the best of times.

The biggest risks to the market are likely to come from Europe, where the economy continues to stagnate. Consumer and business confidence is weak and Russia/Ukraine tensions are not helping matters. Credit growth remains negative, with European banks under regulatory pressure to shrink their balance sheets, while households and companies continue to reduce their debt levels. Slower growth in emerging markets is another source of potential risk as policymakers attempt to deflate credit bubbles, cool inflation and adapt to China's move toward being a more consumer-oriented economy. In the U.S., the Fed is in

the process of normalizing monetary policy, and clearly there is a risk that this process does not go well. Nobody can know how this will turn out, but rather than taking a side ahead of time, we intend to remain vigilant for signs of systemic stress. If companies can still access capital markets and take out bank loans, we will likely conclude the process is going well. If not, we will position more defensively.

While most fundamentals continue to improve, the big run in the stock market since the beginning of 2013 suggests that much of this improvement in the economy is already reflected in equity valuations. The S&P 500 currently trades slightly above its historical average at 15.8 times estimated earnings for the next 12 months, but remains attractive based on free cash flow and earnings yields relative to bond yields. In our opinion, the key assumption for assessing the outlook for the stock market is that the U.S. is unlikely to fall into recession next year. As a result, we should position portfolios in stocks that benefit from modest domestic growth, with revenue growth in the mid-single-digit range and earnings growth in the high single digits. Investors can reasonably expect a mid- to high-single-digit total return from the S&P 500 over the next year, assuming that corporations remain aggressive buyers of their own stock and continue to raise dividends.

REGIONAL OUTLOOK – CANADA

Stuart Kedwell, CFA

Senior V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

Like many global markets, the S&P/TSX Composite Index fell during September, with a peak-to-trough decline of about 11%. Unlike many other markets, which rebounded strongly, the S&P/TSX finished the quarter down 5%. The resource sector, most notably the energy component, recorded a decline that was about five times the drop for the broader Canadian market. Between January and November, the S&P/TSX posted a total return of 11%, trailing the 14% gain for the S&P 500 Index. This difference is magnified when the decline in the Canadian dollar is taken into consideration.

While many commodities fell, crude oil led the breakdown with a decline exceeding 30% during the three-month period. The drop began amid concerns about the balance between supply and demand, but accelerated after a decision by OPEC late in the quarter to keep production unchanged. Canada's energy sector declined almost 30% over the three-month period.

The Consumer Staples and Health Care sectors were standouts. Valeant performed well, rising more than 30% during the quarter, as the pharmaceuticals company ended its efforts to acquire Botox maker Allergan.

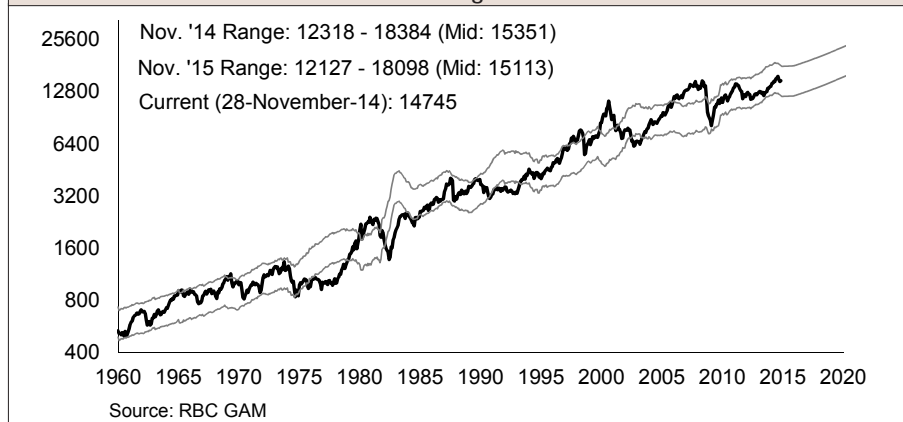
Despite modestly better Canadian economic data, the Canadian dollar was weak throughout the quarter and finished down 5%. We believe that continued weakness is in the cards for the Canadian dollar, albeit at a slower pace than that seen recently.

CANADA RECOMMENDED SECTOR WEIGHTS

	RBC INVESTMENT STRATEGY COMMITTEE NOVEMBER 2014	BENCHMARK S&P/TSX COMPOSITE NOVEMBER 2014
Energy	20.5%	21.4%
Materials	9.7%	10.7%
Industrials	9.5%	8.5%
Consumer Discretionary	7.0%	6.4%
Consumer Staples	4.0%	3.5%
Health Care	3.0%	3.5%
Financials	37.0%	36.7%
Information Technology	3.0%	2.1%
Telecommunication Services	4.0%	5.0%
Utilities	2.5%	2.2%

Source: RBC GAM

S&P/TSX COMPOSITE EQUILIBRIUM Normalized Earnings and Valuations



Our forecast for the exchange rate is \$1.18. Our 2015 GDP growth forecast for the U.S. remains higher than that for Canada, and our inflation expectations for the two countries are the same. Weaker Canadian growth, falling energy prices and a fully valued housing market are likely to remain headwinds for the Canadian dollar.

The aggregate 2015 earnings estimate for the S&P/TSX Composite currently sits near \$1,000, valuing the index at about 14.5 times earnings. With the S&P 500 hitting new highs, the multiple of the U.S. benchmark has expanded to over 16 times earnings. Earnings growth for S&P 500 companies has proven less volatile

than Canadian companies. Valuation differences between the two markets would suggest opportunity in Canadian stocks versus the U.S. However, the fact that non-financial, non-resource areas of the Canadian market are valued at the same or slightly higher than the comparable S&P 500 segments means investors should consider Canadian investments on their individual merits rather than allocate assets willy-nilly to the broad index basket.

Sector Analysis

Valuations in the banking industry are near-average, and both earnings and dividend growth for next year are projected to be in the mid-single-digit range. While bank stocks provide attractive total-return potential, returns are unlikely to match those seen in the last couple of years. Expense management will be a key focus for investors going into next year, as revenue growth slows and the tailwind from declining provisions for credit recedes.

Insurance stocks were largely flat during the quarter, but continue to look interesting over the intermediate term. Uncertainty pertaining to regulatory and capital rules appears to be fading, and valuations are reasonable given the potential for high-single-digit to low-double-digit earnings growth. The industry's focus on wealth management and markets outside Canada should result in increasing capital returns and lead to improved earnings and stock performance.

While performance has been strong, the recovery in Canadian commercial

real estate has not matched that seen in the U.S. property sector. We believe the underperformance has to do with lagging cash-flow growth expectations in Canada. Our primary focus in real estate continues to be on net-asset-value growth, as managements increasingly finance asset purchases from proceeds generated by sales, and amid cash-flow growth augmented by lower interest rates.

Shares of pipelines and other energy-distribution companies extended rallies early in the quarter to reach extremely robust cash-flow valuations. The abrupt change in oil prices has led many companies to reconsider the timing of expansion projects, and this has weighed significantly on the industry, bringing cash-flow and other valuation measures down to levels not seen in some time.

The other major energy-sector news of the quarter was the move in TransCanada Pipelines. The company's share price climbed early in the quarter to an all-time high on speculation that activists would seek to make the company split off its power business, more fully exploit its U.S. limited partnership and accelerate dividend increases. Such financial activism involves pulling forward value for short-term shareholders, sometimes to the detriment of longer-term investors. Operational activism focuses on improving a company's internal operations and has the potential to create more value for all shareholders over time. In our view, financial activism would face significant resistance, and while these developments created significant volatility in TransCanada's share price,

the company's handling of the situation left the long-term potential intact.

Oil prices are difficult to forecast in the short run, but it now appears that prices will be lower on average and more volatile than we have seen in the recent past. Longer term, we are more optimistic that prices will stabilize and then rise. Assuming the global economy can sustain growth of 3% to 4%, energy-efficiency gains of around 2% each year and the substitution of other fuels such as natural gas, we believe oil-demand growth should run at approximately 1% per year. The imbalance between supply and demand is actually fairly small – between 500,000 and 2 million barrels per day out of a global market of 93 million barrels. Paradoxically, the best cure for low oil prices has often been a prolonged period of low oil prices, as lower cash flow feeds through to lower exploration and development spending and demand is stimulated by lower prices. We continue to believe that the long-term price of oil will be in the \$80-to-\$85-per-barrel range. In the short term, a declining Canadian dollar offsets the negative scenario to some degree for Canadian producers as the falling currency reduces costs.

Share prices of many companies already reflect the possibility of even lower prices for crude oil, but the uncertain outlook means we believe that investors should maintain exposure to companies with relatively conservative balance sheets, long-life reserves and moderate annual production declines.

REGIONAL OUTLOOK – EUROPE

Dominic Wallington

Chief Investment Officer

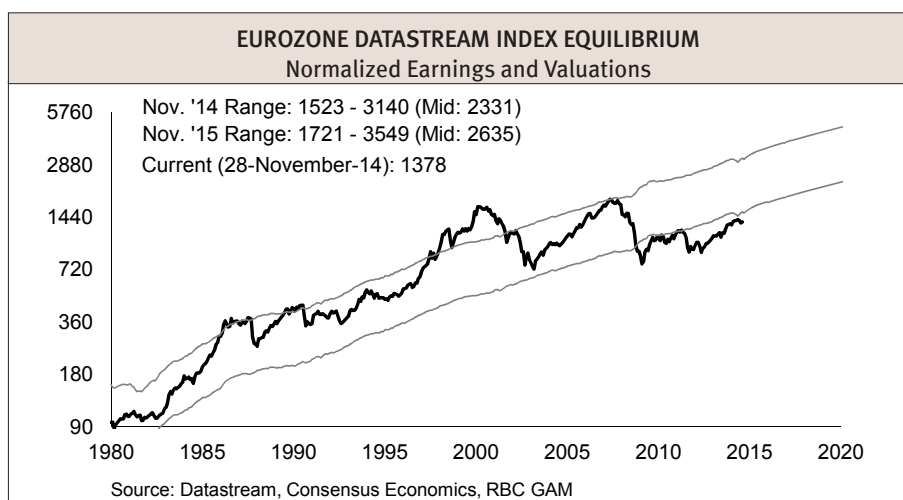
RBC Global Asset Management (UK) Limited

We have been watching the growing maturity of the current phase of the economic cycle in Europe since the end of the first quarter of this year. In October, our composite leading indicator turned down for the first time in three years and we began to consider that there might be a risk to the equity markets. We suspect that this leading indicator is by itself a poor predictor of market direction, but in tandem with other developments might presage a less robust market. One of the factors is the tremendous run-up in equity markets over the past few years. Stocks have more than doubled from the low of 2009 – 15% on an annualized basis – and are up 50% from the trough of 2012. These substantial gains mean that market valuations have arrived at something closer to long-term averages from deeply oversold levels. The apparent intention of the U.S. Federal Reserve (Fed) to return U.S. monetary policy to a more normalized stance is also helping to shift the recovery into a different phase.

Even with valuations closer to fair value, corporate performance is substantially better than would be suggested by headline GDP numbers. Europe's management elite continues to run the continent's big companies efficiently and is investing successfully outside the Eurozone, and so overly critical articles in the British and U.S. press often obscure the fact that many of Europe's corporations are global champions. Given that more than 50% of the average European listed company's revenues

EUROPE RECOMMENDED SECTOR WEIGHTS		
	RBC INVESTMENT STRATEGY COMMITTEE NOVEMBER 2014	BENCHMARK MSCI EUROPE NOVEMBER 2014
Energy	7.0%	7.8%
Materials	7.0%	7.6%
Industrials	11.8%	11.0%
Consumer Discretionary	11.5%	10.4%
Consumer Staples	13.7%	13.7%
Health Care	15.0%	13.8%
Financials	21.5%	22.8%
Information Technology	4.5%	3.4%
Telecommunication Services	4.0%	5.2%
Utilities	4.0%	4.3%

Source: RBC GAM



come from overseas, and a decent portion of that from Southeast Asia, it is as vital to understand what is going on in emerging markets as it is at the centre of Europe.

We are currently less upbeat after a long bull market in Europe. The market is unlikely to turn up again substantially until leading indicators

become more positive. The third-quarter reporting season was generally robust, which in the absence of another financial crisis, is supportive of valuations. Our focus remains on high-quality franchises and we fully expect them to outperform the wider equity market given the low-growth, low-inflation environment in which

we find ourselves. We remain, for the most part, overweight northern Europe with a special focus on the stable and robust Nordic countries, the Netherlands and the U.K. We have also focused on sectors and companies whose earnings tend to rise steadily even when the economy is slowing because they often perform well during this part of the cycle.

Our areas of focus in the Consumer Discretionary sector have been in media and gaming. While we are committed to media companies that have reduced their capital intensity and broadened their exposure through the Internet, we have become somewhat less positive about the sector as a whole on concerns about a cyclical downturn. Consumer Staples is a natural home for us given the high-quality companies that exist in the sector, but valuations had been challenging until relatively recently. We remain focused on beverages, food Ingredients and household goods because these areas offer the best mix of growth and attractive valuation.

In Energy, near-record-low valuations make us a bit more comfortable with the sector, even though we are concerned about increased capital expenditures and weak production growth. Valuations are at almost unprecedentedly low levels, both in absolute and relative terms, but are not enough to completely offset the fundamental backdrop. While

dividend yields are fairly attractive, high levels of capital expenditure mean that in some cases payouts are only just covered by cash flows.

Valuations in the Health Care sector remain attractive, and recent mergers and acquisitions and asset swaps represent substantial progress toward creating an industry with focused, high-return franchises. The sector's strong balance sheets, robust cash flows, low earnings volatility and focus on capital returns have proved an attractive home for the increased investment flows into equity markets.

Bank-stock performance, Eurozone banks in particular, has ebbed and flowed of late in line with macroeconomic data. A lack of growth in loan demand and a tighter regulatory backdrop mean that the banking industry is unlikely to return to levels of profitability achieved before the financial crisis, and many banks will struggle to generate returns above their cost of equity. Among banks, our preference remains for institutions with high returns on equity and strong balance sheets. This results in a bias toward the Nordic region, but limited exposure to the Eurozone. Our insurance exposure remains to companies with multiple business lines and mainly in far-north countries.

Our preference in the Industrials sector has been for predictable growth and returns that are high

and stable or companies with good operational momentum, especially where the momentum comes internally and not from acquisitions. Due to the constituents of this sector, our exposure is more to mid-cap companies that are quite sensitive to the economic cycle. Information Technology is still one of the preferred sectors in Europe. We view software companies as later-cycle investments and as beneficiaries of increasing corporate spending over the coming years.

The Telecommunication Services sector has been one of the best performing in Europe over the past year. This has been driven by an improvement in the traditional telecom operators and the brightening regulatory backdrop. However, the growth outlook is weak and balance sheets remain stretched. In the Materials sector, mining companies have dramatically under-performed and valuations have declined so that the sector has largely ceded the growth multiple that it sported for much of the past decade.

The Utilities sector trades at a valuation discount to the overall market and has the highest dividend yield. However, any valuation support is undermined by weak fundamentals. Excess capacity exists in many markets and, alongside weak demand, continues to put downward pressure on power prices.

REGIONAL OUTLOOK – ASIA

Mayur Nallamala

Head & Senior Portfolio Manager

RBC Investment Management (Asia) Limited

Asia

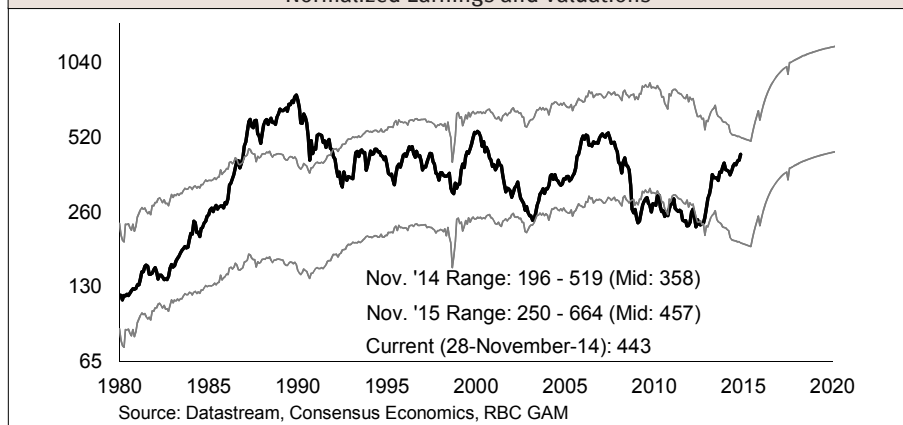
After rising for much of the year, Asian markets fell back during the period, in line with other global stock indexes. By the end of October, however, markets had rebounded due in large part to policy action in Asia and elsewhere. The U.S. Federal Reserve's (Fed) reluctance to provide explicit monetary guidance was very much under scrutiny, while forward-looking Asian central banks were more explicit in signalling a willingness to act. Bank of Japan Governor Kuroda responded particularly aggressively to diminishing inflation data. Action by the Japanese central bank, coupled with plans by the huge Government Pension Investment Fund to invest more of its assets overseas, managed to spark a renewed sell-off in the yen. This had a predictably positive short-term impact on the equity markets. Meanwhile, investor access to Chinese equities improved after the introduction of a program that makes it easier for Chinese investors to trade stocks on the Hong Kong exchange and for foreign investors to trade Shanghai-listed stocks from Hong Kong. There have also been new efforts by the Chinese government to bolster the housing market and to stimulate the overall economy through looser monetary policies. Elsewhere in Asia, post-election markets in India and Indonesia are moving in different directions following the election of new leaders in both countries. India shares continue to make new highs

ASIA RECOMMENDED SECTOR WEIGHTS

	RBC INVESTMENT STRATEGY COMMITTEE NOVEMBER 2014	BENCHMARK MSCI PACIFIC NOVEMBER 2014
Energy	2.2%	3.3%
Materials	3.8%	6.9%
Industrials	14.2%	12.5%
Consumer Discretionary	18.9%	13.4%
Consumer Staples	6.2%	6.3%
Health Care	4.4%	4.1%
Financials	23.8%	29.9%
Information Technology	18.5%	14.8%
Telecommunication Services	5.6%	5.6%
Utilities	2.4%	3.2%

Source: RBC GAM

JAPAN DATASTREAM INDEX EQUILIBRIUM Normalized Earnings and Valuations



as optimism abounds regarding reform and the relatively early stage of the economic cycle. The outlook for Indonesia is more clouded, as political machinations from the opposition may stymie the agenda of new President Joko Widodo.

Japan

Japanese equities were hugely volatile during the period as pessimism regarding Abenomics gave way to unbridled optimism about Bank of Japan (BOJ) Governor Kuroda's announcement in mid-October that Japan will double-down on monetary

easing. The central-bank move followed concern regarding the economy after the increase in April of the consumption tax led to weaker-than-expected growth and lower-than-expected inflation.

In the near term, the aggressive BOJ response, and the corresponding fall in the yen toward or beyond 110-120 per U.S. dollar, should have a positive impact on both corporate profitability and equity markets. Given the unexpectedly negative response to April's consumption-tax hike, it now seems possible that the next increase in the tax will be delayed or scaled back. The longer-term impact and success of Abenomics continues to depend on the government's ability to push through structural reforms and change mindsets. We think the jury is still out on whether Japan can be successful on these fronts. For now, we think Japan's stock market will continue to be largely driven by developments in the global economy and the direction of the yen.

China

China continues to move strongly to reaffirm its commitment to the anti-corruption campaign instituted by President Xi Jinping. The campaign has had a strong negative effect on certain sectors in the market – the Consumer Discretionary sector and the gaming industry in particular – but has also trickled down into the economy. More recently, there have been moves to buttress flailing growth with looser housing restrictions and monetary

policies to stimulate the property market. In conjunction with the Hong Kong-Shanghai stock agreement, there has been increased optimism about the local equities market. We expect near-term momentum in stock markets can be maintained, but we remain concerned about rising overall leverage in the Chinese economy. In addition, we highlight our concerns about wealth-management products sold by banks to retail investors. We believe that this segment's extension beyond the reach of government control is a key area of vulnerability in the Chinese financial system, as there is now a significant source of capital that is not entirely controlled by state-owned enterprises. We believe that increased defaults in wealth-management products could present a degree of risk to China's financial system as retail investors seek to withdraw capital.

South and Southeast Asia

Valuations of Indian stocks look somewhat challenging as the market continues to climb on optimism about the economic-growth outlook. Economic data continue to surprise to the upside and we are at the bottom of the economic cycle, but it is worth bearing in mind that stock valuations increasingly leave little margin for error in the near term. The new prime minister, Narendra Modi, enjoys strong popularity and his mandate has allowed him to embark on a reform agenda that, while less aggressive than we would like, is wide-ranging and tangible.

Markets in the ASEAN trade block, except for Indonesia, have been quiet of late, with data continuing to be relatively stable in most markets. In Indonesia, economic data has been more negative than positive given moves by the political opposition to counter initiatives by Widodo. We expect the head-butting to continue in the near term, but recent history shows that politicians in Indonesia have been able to compromise and that pragmatism eventually rises above partisanship. Lower oil prices, meanwhile, will have a positive impact on the current-account deficit.

Australia

Commodity prices have extended their move downward, with iron ore leading the way as huge supply increases in recent years come home to roost. The fall in oil prices also has negatively impacted resources industries. The drop in the Australian dollar appears to be gaining momentum after repeated jawboning from the Reserve Bank of Australia and the longer-term change in the outlook for commodity prices. There is still optimism that there will be strength in certain sectors. Property markets should benefit from expected rate cuts, and a pick-up in federal spending after years of inaction should bolster infrastructure-linked industries. We think that a tilt toward shares of companies that derive significant revenues from overseas is the favoured investment strategy as mining companies and related industries experience downward pressure on earnings.

REGIONAL OUTLOOK – EMERGING MARKETS

Richard Farrell

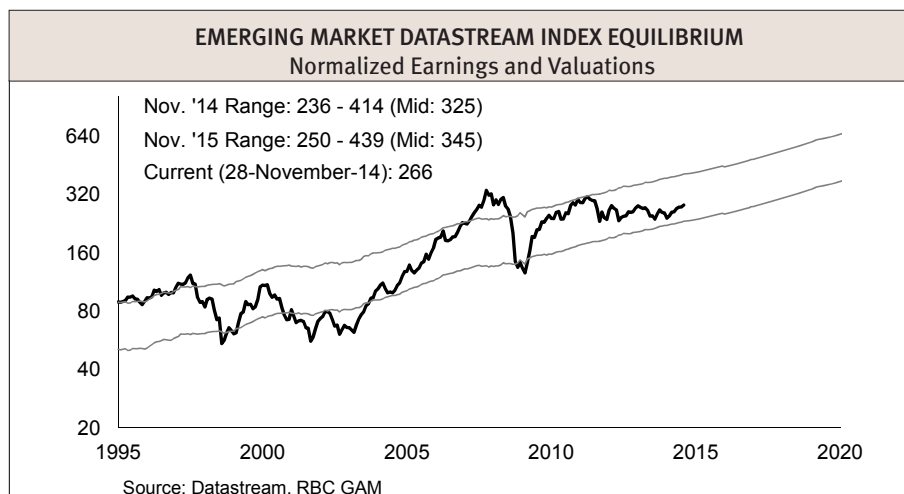
Investment Analyst

RBC Global Asset Management (UK) Limited

Emerging-market equities have continued to perform in line with developed markets this year, rising until October as the improving economic outlook in China and other emerging markets outweighed headwinds including an appreciating U.S. dollar and falling commodity prices. While emerging markets began to underperform late in the year amid the sharp decline in crude-oil prices, lower fuel prices will actually be a positive for large oil-importing economies such as China and India.

The stronger dollar and falling commodity prices are helping to drive short-term performance, as they did last year. However, a longer-term perspective suggests that the key driver of emerging-market performance remains the gap between growth rates in emerging and developed markets, and in particular, any change in this difference. In fact, given the market's current fixation on the effect of U.S. tightening, it is important to note that emerging markets outperformed strongly during the last rate-hike cycle from mid-2004 to mid-2006. The fall in the overall growth rate of emerging markets appears to be the main factor responsible for emerging-market equity underperformance since 2010.

With this paradigm in mind, a view on the expected growth gap is the key to forecasting emerging-market performance over the long term. In this respect, shorter-term economic indicators point to an improvement in the gap between growth in emerging and developed markets,



as suggested by the fact that the emerging-market earnings surprise index has improved over the past 12 months. With China's third-quarter GDP and export volumes rising faster than expected, this economic measure will likely improve further.

The slowly improving emerging-market GDP outlook, coupled with the fall in developed-market GDP growth expectations, particularly in the Eurozone and Japan, means that growth differences have already started to stabilize after three years of contraction. The IMF expects this gap to be stable over the next 12 to 24 months, and history suggests that in periods where this gap is stable, secondary factors such as Chinese economic growth, the direction of U.S. interest rates and political reform are more important.

After a disappointing start to the year, China's economy shows signs of stabilization. Economic data ticked

up in the second quarter, due largely to policy easing earlier this year. Third-quarter GDP growth came in at 7.3%, slightly ahead of consensus expectations of 7.2%. We see an increasing chance of further monetary stimulus by year-end, and although China will probably miss its target of 7.5% GDP growth in 2014, the miss is likely to be marginal with three-quarters of the year behind us. We expect the Chinese government to announce a 2015 GDP growth target of around 7% by the end of the year, in line with the IMF's 7.1% forecast. Finally, we remain of the view that the public crackdown on corruption by President Xi Jinping and Premier Li Keqiang's stated preference for reform over further stimulus are positives for Chinese growth in the longer term. While Chinese GDP growth will likely continue to decelerate, we believe that economic reforms such as the curtailment of over-investment and increased capital allocation to the

private sector, will result in more balanced growth even as the rate of growth slows. It is important to highlight that the size of China's economy has more than doubled in the past decade, meaning that growth of around 7% is still significant in absolute terms.

Also boosting the performance of emerging-market equities relative to developed markets is a global “deflationary scare,” which has resulted in a number of dovish comments from Fed members. This small dovish shift in rate expectations is a potential near-term positive at the margin for emerging markets.

Another factor that will affect the performance of individual stock markets is political reform. In India, we are starting to see key reforms being announced by the new BJP government now that two important state elections are out of the way. On October 20, the government announced the complete deregulation of diesel prices and a

near-50% increase in natural-gas prices. These policy changes will reduce the fiscal burden of energy subsidies and offer incentives for domestic gas production, ultimately helping to alleviate India's chronic energy shortages.

We expect unprecedented reforms to drive economic growth in the longer term. For now, India and Indonesia have had contrasting success in moving to reduce their current-account deficits over the past 12 months. India's deficit continues to narrow as a result of import restrictions and the fall in the rupee over the past 12 months. As a net importer of oil, the recent fall in crude prices means that this deficit will likely close further. Indonesia, whose current account remains large, will also benefit from the fall in crude prices, and with the recent election of reformist President Joko Widodo, we remain hopeful that policy changes will improve the country's monetary balance in the next 12 months.

Widodo's swearing-in was a large positive after a last-ditch attempt by the opposition to invalidate his victory in the Supreme Court. Like India, Indonesia suffers from the high cost of energy subsidies due to regulated fuel prices. A reduction in this subsidy burden and the reinvestment of money saved into infrastructure will be a huge boost to long-term growth given Indonesia's notoriously poor infrastructure. Indonesia currently spends significantly more on fuel subsidies than on capital investment, and this situation is expected to reverse in the next few years. We expect Widodo to use his fresh political capital to start phasing out fuel subsidies in the next 12 months. Further positives for the market would be supply-side reforms to help address fiscal policy, trade and a weak currency.

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MEMBERS



DANIEL E. CHORNOUS, CFA
CHIEF INVESTMENT OFFICER
RBC GLOBAL ASSET MANAGEMENT
CHAIR, RBC INVESTMENT STRATEGY COMMITTEE

Dan Chornous is Chief Investment Officer of RBC Global Asset Management Inc., which has total assets under management of \$353 billion. Mr. Chornous is responsible for the overall direction of investment policy and fund management. In addition, he chairs the RBC Investment Strategy Committee, the group responsible for global asset-mix recommendations and global-fixed income and equity portfolio construction for use in RBC Wealth Management's key client groups including retail mutual funds, International Wealth Management, RBC Dominion Securities Inc. and RBC Phillips, Hager & North Investment Counsel Inc. He also serves on the Board of Directors of the Canadian Coalition for Good Governance and is Chair of its Public Policy Committee. Prior to joining RBC Asset Management in November 2002, Mr. Chornous was Managing Director, Capital Markets Research and Chief Investment Strategist at RBC Capital Markets. In that role, he was responsible for developing the firm's outlook for global and domestic economies and capital markets as well as managing the firm's global economics, technical and quantitative research teams.



STEPHEN BURKE, PHD, CFA
VICE PRESIDENT AND PORTFOLIO MANAGER
RBC GLOBAL ASSET MANAGEMENT

Stephen is a fixed-income portfolio manager and Head of the Quantitative Research Group, the internal team that develops quantitative research solutions for investment decision-making throughout the firm. He is also a member of the PH&N IM Asset Mix Committee. Stephen joined Phillips, Hager & North Investment Management in 2002. The first six years of his career were spent at an investment-counselling firm where he quickly rose to become a partner and fixed-income portfolio manager. He then took two years away from the industry to begin his Ph.D. in Finance and completed it over another three years while serving as a fixed-income portfolio manager for a mutual-fund company. Stephen became a CFA charterholder in 1994.



DAGMARA FIJALKOWSKI, MBA, CFA
HEAD, GLOBAL FIXED INCOME & CURRENCIES
(TORONTO AND LONDON)
RBC GLOBAL ASSET MANAGEMENT

As Head of Global Fixed Income & Currencies at RBC Global Asset Management, Dagmara oversees 15 investment professionals in Toronto and London, with more than \$40 billion in assets under management. In her duties as a portfolio manager, Dagmara looks after foreign-exchange hedging and active currency-management programs for fixed-income and equity funds, and co-manages several of the firm's bond portfolios. Dagmara chairs the RBC Fixed Income & Currencies Committee. She is also a member of the RBC Investment Policy Committee, which determines the asset mix for RBC balanced products, and the RBC Investment Strategy Committee, which establishes global strategy for the firm.



STUART KEDWELL, CFA
SENIOR VICE PRESIDENT AND
SENIOR PORTFOLIO MANAGER
RBC GLOBAL ASSET MANAGEMENT

Stu began his career with RBC Dominion Securities in the firm's Generalist program and completed rotations in the Fixed Income, Equity Research, Corporate Finance and Private Client divisions. Following this program, he joined the RBC Investments Portfolio Advisory Group and was a member of the RBC DS Strategy and Stock Selection committees. He later joined RBC Global Asset Management as a senior portfolio manager and now manages the RBC Canadian Dividend Fund, RBC North American Value Fund and a number of other mandates. He is co-head of RBC Global Asset Management's Canadian Equity Team.



ERIC LASCELLES
CHIEF ECONOMIST
RBC GLOBAL ASSET MANAGEMENT

Eric is the Chief Economist for RBC Global Asset Management Inc. (RBC GAM) and is responsible for maintaining the firm's global economic forecast and generating macroeconomic research. He is also a member of the Investment Strategy Committee, the group responsible for the firm's global asset-mix recommendations. Eric is a frequent media commentator and makes regular presentations both within and outside RBC GAM. Prior to joining RBC GAM in early 2011, Eric spent six years at a large Canadian securities firm, the last four as the Chief Economics and Rates Strategist. His previous experience includes positions as economist at a large Canadian bank and research economist for a federal government agency.



HANIF MAMDANI
HEAD OF ALTERNATIVE INVESTMENTS
RBC GLOBAL ASSET MANAGEMENT

Hanif Mamdani is Head of both Corporate Bond Investments and Alternative Investments. He is responsible for the portfolio strategy and trading execution of all investment-grade and high-yield corporate bonds. Hanif is Lead Manager of the PH&N High Yield Bond Fund and the PH&N Absolute Return Fund (a multi-strategy hedge fund). He is also a member of the Asset Mix Committee. Prior to joining the firm in 1998, he spent 10 years in New York with two global investment banks working in a variety of roles in Corporate Finance, Capital Markets and Proprietary Trading. Hanif holds a master's degree from Harvard University and a bachelor's degree from the California Institute of Technology (Caltech).



RAY MAWHINNEY
SENIOR VICE PRESIDENT AND
SENIOR PORTFOLIO MANAGER
RBC GLOBAL ASSET MANAGEMENT

As Chairman of the U.S. Equity Committee, Ray and his team are responsible for managing U.S. stock investments. Ray brings a wealth of expertise to his role, having specialized in U.S. equities since 1984, and has been involved in managing almost all of the firm's U.S. equity funds. He joined the firm in 1992. Ray is also a member of the RBC Investment Policy Committee, which determines asset mix for balanced products, and the RBC Investment Strategy Committee, which establishes a global asset mix covering mutual funds, as well as portfolios for institutions and high-net-worth private clients. Ray graduated from the University of Manitoba with a bachelor's of commerce degree in finance, with honours.



MARTIN PALECZNY, CFA
VICE PRESIDENT AND SENIOR PORTFOLIO MANAGER
RBC GLOBAL ASSET MANAGEMENT

Martin Paleczny, who has been in the investment industry since 1994, began his career at Royal Bank Investment Management, where he developed an expertise in derivatives management and created a policy and process for the products. He also specializes in technical analysis and uses this background to implement derivatives and hedging strategies for equity, fixed-income, currency and commodity-related funds. Since becoming a portfolio manager, Martin has focused on global allocation strategies for the full range of assets, with an emphasis on using futures, forwards and options. He serves as advisor for technical analysis to the RBC Investment Strategy Committee.



SARAH RIOPELLE, CFA
VICE PRESIDENT AND
SENIOR PORTFOLIO MANAGER
RBC GLOBAL ASSET MANAGEMENT

Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions, including the RBC Select Portfolios, RBC Select Choices Portfolios, RBC Target Education Funds and RBC Managed Payout Solutions. Sarah is a member of the RBC Investment Strategy Committee, which sets global strategy for the firm, and the RBC Investment Policy Committee, which is responsible for the investment strategy and tactical asset allocation for RBC Funds' balanced products and portfolio solutions. In addition to her fund management role, she works closely with the firm's Chief Investment Officer on a variety of projects, as well as co-manages the Global Equity Analyst team.



WILLIAM E. (BILL) TILFORD
HEAD, QUANTITATIVE INVESTMENTS
RBC GLOBAL ASSET MANAGEMENT

Bill is Head, Quantitative Investments, at RBC Global Asset Management and is responsible for expanding the firm's quantitative-investment capabilities. Prior to joining RBC GAM in 2011, Bill was Vice President and Head of Global Corporate Securities at a federal Crown corporation and a member of its investment committee. His responsibilities included security-selection programs in global equities and corporate debt that integrated fundamental and quantitative disciplines, as well as management of one of the world's largest market neutral/overlay portfolios. Previously, Bill spent 12 years with a large Canadian asset manager, where he was the partner who helped build a quantitative-investment team that ran core, style-tilted and alternative Canadian / U.S. funds. Bill has been in the investment industry since 1986.

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100537 (12/2014)