

GLOBAL INSIGHT

PERSPECTIVES FROM THE GLOBAL PORTFOLIO ADVISORY COMMITTEE


PREFERRED SHARES: A TURN FOR BETTER

Promising evidence suggests the preferred share market is starting to look up.

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For Important and Required Non-U.S. Analyst Disclosures, see page 22.
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RBC Wealth Management

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All values in U.S. dollars and priced as of March 31, 2016, market close, EST, unless otherwise noted.

RBC's INVESTMENT STANCE

EQUITIES

- The global equity market demonstrated resiliency once again as it rallied in March, putting the correction in the rear-view mirror. Most developed markets are now fairly valued rather than compellingly valued, although this does not preclude additional price appreciation.
- Investor sentiment remains fickle, shifting with the global market's latest direction. We recommend to resist reacting to short-term market moves and instead to focus on opportunities. Global equities seem likely to deliver worthwhile returns this year. U.S. recession risks have diminished, China policy stresses have eased, and developed markets' earnings should rise moderately excluding the Energy Sector.
- We would accumulate high-quality stocks, particularly if the market pulls back, and maintain a full commitment to equities at the long-term targeted allocation level.

FIXED INCOME

- Credit markets recovered much of their lost ground, and spreads narrowed significantly in March as global economic data firmed, Europe loosened its unconventional monetary policies further, and commodities rallied. This lifted credit market valuations, pushing parts of the high-yield market to extended levels. We recommend being more selective about adding exposure to credit markets, although there are still attractive opportunities in investment-grade securities and select high-yield sectors.
- Central bank policy should remain a key focus of fixed income markets throughout 2016. A U.S. rate hike seems highly unlikely in the near term due to lingering global risks but could occur in the summer and/or later this year. For other major central banks, the marginal benefits of implementing additional stimulus measures are low, in our view.

Views Explanation

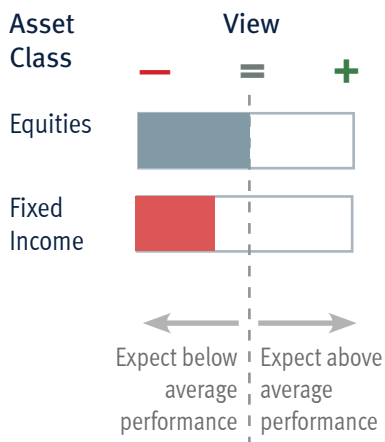
(+/-/-) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

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

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

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

Global Asset Views



See "Views Explanation" below for details

Source - RBC Wealth Management



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PREFERRED SHARES: A TURN FOR BETTER

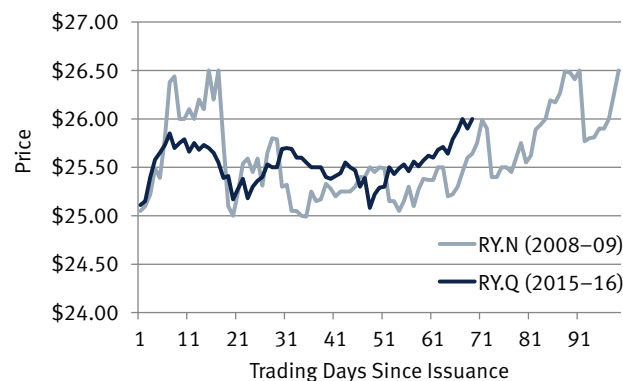
After being beaten up for more than a year, the worst for the preferred share market may have passed, in our opinion. A recovery in the new issue market, which has seen an influx of new money, has been a welcome signal. We see compelling opportunities for investors to add exposure to preferred shares.

The preferred share market has recently exhibited signs that a sustainable bottom has formed after a turbulent 2015 and difficult start to 2016. Some of the most promising indications have emerged from the new issue market where we have witnessed new money coming into the market and a broadening of the investor base. Meanwhile, prices of newly issued securities have remained stable even as more supply has come to market. While some investors may take comfort in knowing this market is finally showing signs of stabilizing, others with capital to deploy may want to consider select pockets of the market where we continue to see compelling value.

FRESH CAPITAL FOR NEW ISSUES

There has been fresh capital entering the preferred share market to purchase newly issued securities, a welcome departure from 2015, when sales of existing holdings were the source of capital for new issues. Recent issues completed in December (RY.Q and BNS.E) have continued to trade above their \$25 issue price even though subsequent offerings from the same issuers have possessed higher reset spreads. This suggests to us that investors are participating in new issue deals and holding on to their existing positions because valuations have become so compelling.

RY.Q Needs to Hold \$25 Like RY.N in 2008–09



A sign new money is coming into the market: Similar to in 2009, the first bank issue with a large reset spread has traded very well even as other issues with better terms come to the market.

Source - Bloomberg, RBC Dominion Securities Inc.

All values in this article in Canadian dollars.

Another piece of evidence that points to fresh capital coming into the market has been the size of deals completed by the Canadian banks (nearly one-third of the overall preferred market). Canadian banks have successfully completed six deals in the past three months that raised an average of nearly \$600M after not trying any deals of such size since January 2015. Success completing these deals suggests the banks are now ahead of schedule as they move to issue \$22B worth of securities to replace legacy issues that will likely need to be retired between now and 2022 under Basel 3 regulations.

BROADENING OF DEMAND EXEMPLIFIES BETTER TONE

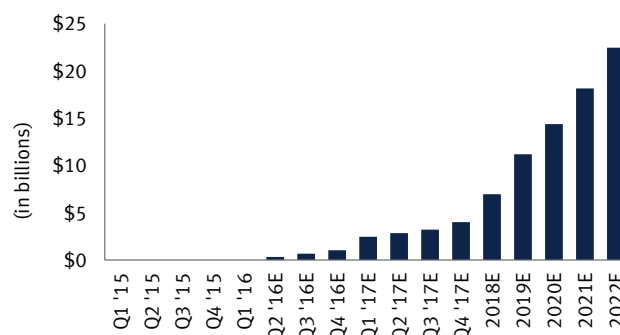
It is also noteworthy that many of recently issued preferred share deals have drawn interest from institutional investors; a further indication that cheap valuations are drawing fresh capital into the market. Institutional demand is evidenced by the fact the average deal size on bank rate-reset new issues over the last three months has been nearly doubled the level recorded in the first half of 2015. In our view, a big driver of this stepped up interest is the large yield advantage preferred shares offer over corporate bonds. Newly issued preferred shares, in our opinion, are the best way for institutional investors to get meaningful exposure to the asset class since liquidity in the secondary market is not always sufficient.

POSITIONING RECOMMENDATION:

SELECT MIX OF RATE RESET AND PERPETUAL ISSUES

We believe the best way for investors to get exposure to preferred shares is through a basket of rate reset and perpetual issues. In a world where the direction of interest rates over the next five years is very uncertain, we believe such an approach makes sense as it will deliver investors a 5%–7% average yield provided the yield on the Government of Canada 5-year bond yield is between 0% and 1.5%. Select rate reset securities that are trading well below par provide an attractive level of income and the potential for worthwhile capital gains should interest rates rise. Conversely, we believe that high-dividend straight perpetual preferred shares and recently issued rate resets with large reset spreads should be a more-stable source of income in the event rates remain low for an extended period of time

Forecasted Bank Preferred Share Issuance



Banks are expected to issue \$15 billion in preferred shares by 2020 and are ahead of schedule as they have issued ~\$3.4 billion since December 2015.

Source - RBC Capital Markets



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THE NEXT BIG THING COULD BE SMALL

We think it's time that investors start thinking small. When economic growth is subdued, you should tilt portfolios toward the market's stronger-growing areas. We see some compelling reasons that lead us to believe small caps could outperform in 2016.

An attractive opportunity in U.S. small-capitalization stocks seems to be shaping up for investors with growth-oriented portfolios and above-average risk tolerances.

Small-cap stocks have been out of favor for the past two years compared to large caps as the Russell 2000 and S&P SmallCap 600, the main small-cap benchmarks, have trailed the S&P 500 Index in a meaningful way (see lower left chart). The underperformance was even more pronounced during the recent equity market correction as the Russell 2000 slid 26% from June 2015 through the market low on February 11, while the S&P 500 declined 14% during the same period.

However, two fundamental factors—stronger growth prospects and attractive valuations—along with recent price momentum lead us to believe small caps are headed toward positive returns and possibly outperformance in 2016.

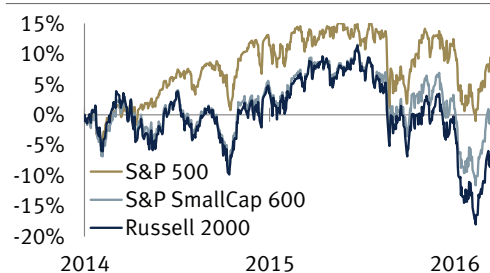
REVVING UP

The growth potential of small-cap stocks exceeds that of large caps, and is especially attractive in this subpar economic environment, in our opinion.

This year, profit growth should be difficult to come by for many mature, large companies because we believe U.S. GDP is likely to advance by only 2% or so, well below the pace recorded at this stage of previous expansion cycles. Looking a bit further out on the calendar, the consensus forecast is for the large-cap S&P 500 to grow earnings by 5% in the next 12 months. That is a respectable growth rate given global economic headwinds, but is below the high single-digit to low double-digit level we would expect if the economy were firing on all cylinders.

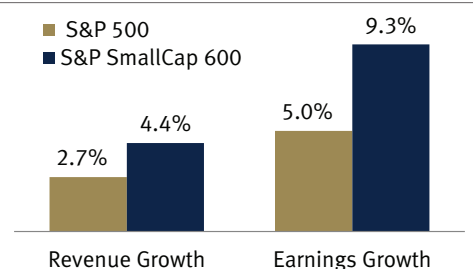
The S&P SmallCap 600 seems well positioned to deliver earnings growth at almost twice the rate of the S&P 500 in the next 12 months, and should achieve higher revenue growth (see right chart). The magnitude of expected excess earnings growth is above the average rate of this expansion period.

Large- vs. Small-Cap Performance



Source - RBC Wealth Management, Bloomberg; data through 3/23/16

Small-Cap vs. Large-Cap Growth Estimates



Source - RBC Capital Markets, FactSet; data as of 3/21/16; 12-month forward consensus estimates

When we break the data down by sector, small caps also have the advantage. Specifically, we believe there is superior revenue growth potential for small caps in the Financials, Health Care, Information Technology, and Materials Sectors versus large-cap peers. In contrast, we expect large caps to record higher revenue growth in the slow-growing, defensive Utilities and Telecommunications Services Sectors and the beleaguered Energy Sector.

Small caps fit in well with our longstanding recommendation to tilt portfolios toward growth stocks during this subdued period of economic growth. We believe investors will “pay up” for growth when there are fewer instances of it occurring, which should result in greater demand for small caps.

IN THE SWEET SPOT

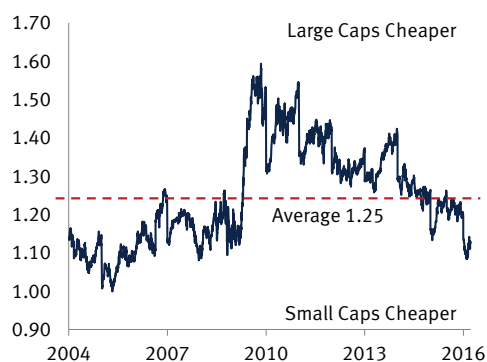
Attractive small-cap valuations present those investors with an above-average risk tolerance another reason to allocate exposure to this category.

In the past two years, small-cap price-to-earnings (P/E) ratios—the amount investors are willing to pay for every dollar of earnings—have compressed to a greater degree than for large caps. As a result, small caps are trading at the lower end of their long-term range compared to large caps, and are just off their lowest level since this economic recovery began in March 2009 (see left chart).

Because small caps and large caps are two very different categories, especially when it comes to growth profiles, it is appropriate to compare P/E ratios based on expected earnings growth—known as P/E-to-growth (PEG). The SmallCap 600 trades at a slightly higher P/E than the S&P 500, but has stronger earnings growth prospects, so its PEG ratio is much more attractive. In this apples-to-apples comparison, small caps are nearly as cheap as they have been anytime during this bull market (see right chart).

S&P SmallCap 600 vs. S&P 500 P/Es

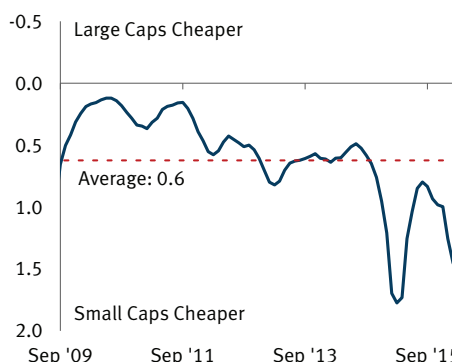
Small-Cap P/E Ratio Divided by Large-Cap P/E Ratio



Source - RBC Wealth Management, Bloomberg; 12-month forward data through 3/21/16

S&P Smallcap 600 vs. S&P 500 P/E-to-Growth

Large-Cap PEG Minus Small-Cap PEG (inverted)

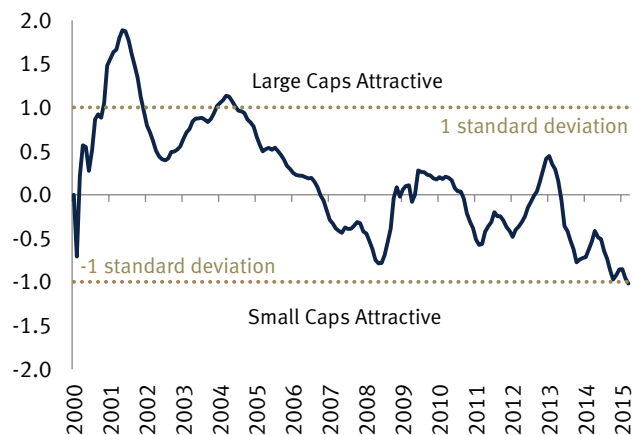


Source - RBC Capital Markets, FactSet; data as of 3/21/16; 12-month forward consensus estimates

Small-cap valuations also score well based on our more robust proprietary multifactor model that not only includes P/E ratios, but incorporates price-to-book ratios and free cash flow yields, and is adjusted by sector. The chart on the following page illustrates that small-cap stocks are the most attractive they’ve been relative to large caps in over 16 years based on this complex valuation model.

U.S. Large Caps vs. Small Caps

Relative Valuations – Six-month Average Z-score



Small-cap valuations are the most attractive compared to large-caps in over 16 years.

Note: S&P 500 represents large-caps; S&P 600 represents small-caps. Composite valuation is made up of the following metrics which are adjusted by sector: Price-to-Earnings (trailing 12-mo.), Price-to-Book, Free Cash Flow Yield (trailing 12-mo.). Chart represents six-month moving averages of the composite valuations (S&P 600 minus S&P 500). Z-score is a statistical measurement of a score's relationship to its mean. A Z-score of 0 occurs when the current score is equal to the historical mean. A Z-score of 1 represents a 1 standard deviation event; 68% of all events fall within 1 standard deviation (assuming a normal distribution curve).

Source - RBC Wealth Management, Bloomberg; data through 2/29/16

A SMALL INDICATION

Small-cap price momentum has been building recently. We view this as a positive indicator for the U.S. economy, and it could ultimately trigger a technical buy signal.

Since the market's low on February 11, the Russell 2000 and SmallCap 600 were first out of the gate. They have each climbed almost 17%, outperforming the 12.6% advance in the large-cap S&P 500.

The moves for all three indexes, particularly the small-cap benchmarks, support our thesis that the U.S. economy will avoid a recession over the next 12 months, at least. Small caps generally do not perform this well when GDP is about to wilt because small-cap profits are more directly tied to the domestic economy compared to large caps.

Additionally, the recent outperformance of small caps has moderately improved the technical indicators for this category. While it will take more to generate a technical buy signal, one could occur sometime this year as institutional investors become more confident in U.S. economic prospects.

In our view, there is enough fundamental support from stronger earnings prospects and attractive valuations to warrant a position in small caps that is above the strategic recommended level for investors with growth-oriented portfolios and above-average risk tolerances. Small caps are not appropriate for more conservative investors because they are usually volatile, and while their profits tend to grow faster than large caps, that growth is not always predictable.

We recommend investors with higher risk tolerances, especially those underinvested in this category, use any market weakness to add small-cap exposure.



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APPROACHING THE BREXIT RAMP

In or out? The U.K.'s referendum on EU membership will have profound consequences on the economies of the U.K. and Europe—and beyond. We ask our London-based equities analyst for her take on this potential divorce and what investors can expect from the ramifications of this landmark vote.

Q. Could you share a quick primer on the potential for an exit by Britain (or “Brexit”) from the EU?

A. Sure. On June 23, Britons will go to the polls to vote on whether or not to remain a member of the EU, a membership which gives the U.K. unfettered access to the world's largest common market. Currently, the “Remain” camp leads by a slight majority. A vote to leave is not our base case, but with odds of some 35%, it is a significant risk. The repercussions would be felt not only in the U.K. and in the EU, but also possibly globally. For now, we expect volatility to increase for U.K. and European assets ahead of the referendum.

Q. How will investors outside of the U.K. and Europe feel the impact of Brexit in their portfolios?

A. With just over 7% of S&P 500 revenues coming from the U.K. and Europe, the impact of a Brexit vote might seem inconsequential. Yet, we urge investors not to be too dismissive.

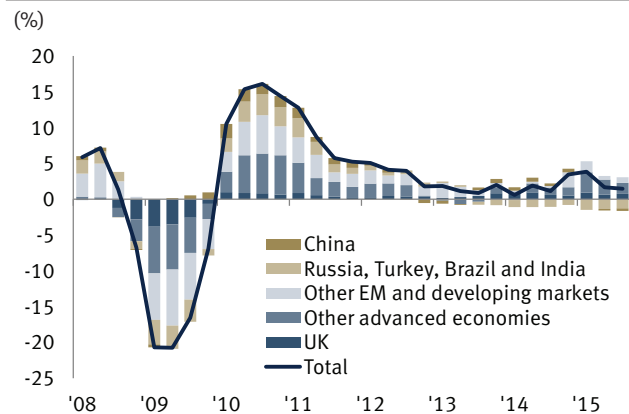
An expected setback in U.K. and European domestic demand due to uncertainty and potentially long negotiations following the vote would dent the profitability of U.S. businesses with British and perhaps European operations. It is also conceivable that the uncertain implications for the EU from Brexit could help push the U.S. dollar even higher, further crimping corporate earnings. We would thus be cautious on U.S. companies with particularly large U.K. and European exposures. Heightened volatility is also likely, in our view, and the prospect for weaker earnings could hurt investor sentiment.

Q. What are the implications for European equity markets if Brexit occurs?

A. We would expect an initial negative knee-jerk reaction which may be soothed by monetary policy intervention by the Bank of England and the European Central Bank. A Brexit vote would lead to some uncertainty in the EU and impact its fragile economic recovery. We have been advocating a bias towards domestic cyclicals in European portfolios. A Brexit vote would see us reduce this bias.

One impact of Brexit on the EU would be through the trade channel. The EU sends 10% of its exports to the U.K., and this has made a positive contribution to EU growth.

Regional Contributions (pp) to Annual Euro Area Export Growth



The U.K. has consistently made a positive contribution to EU export growth.

Source - Haver Analytics, ECB, RBC Capital Markets estimates; data through Q3 2015

The expected fall in domestic demand in the U.K. following a Brexit vote could affect demand for these imported EU goods and services.

Ireland, a member of the EU with strong economic ties with the U.K., would be particularly exposed: as much as 15% of its total exports are destined to the U.K.

Importantly, a vote to leave does not bode well for the cohesion of the EU. Other countries, emboldened by the U.K.'s move, could also demand special rights to better suit their own interests. Moreover, without the U.K. the EU would lose a reform-minded member, which could erode its resolve to move towards more market friendly policies in the long term.

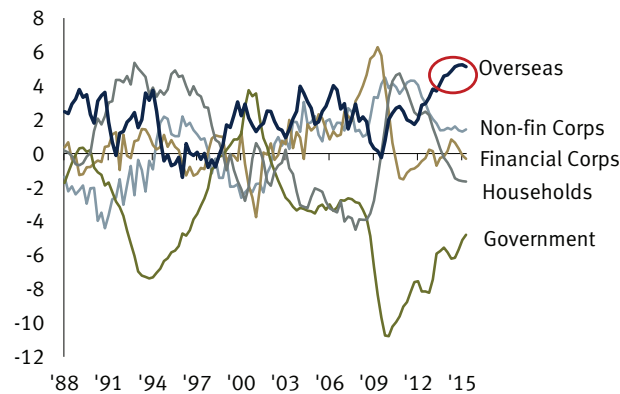
Many people view the U.K. as a counterweight to the dominating influence of France and Germany, and its absence would alter the delicate balance of power within the EU. For a region where political cohesion is key but facing a myriad of challenges, such as populist politics, a refugee crisis, and government bankruptcy in Greece and perhaps Portugal, this would be an unwelcome additional challenge. An eventual existential crisis cannot be ruled out.

Q. What would be the economic impact of a vote to leave for the U.K.?

A. In the short term, we would expect weaker economic activity for two reasons. First, U.K. exports, roughly half of which are currently sent to the EU, would fall as they would no longer benefit from reduced trade barriers. Second, capital investment would decline. The U.K. has been a large recipient of foreign direct investment (FDI), as it is seen as a market with flexible labour laws with full access to the European single market. Without this access, we would expect investment to be deterred, though incentives, such as tax breaks, could eventually soften the blow.

Lower FDI would be a concern to the U.K. economy, which depends on it to fund its yawning current account deficit that is the largest in the developed world at 4.7% of GDP. Without FDI, we would expect the GBP to have to weaken in order to redress balance, raising the prospect for episodes of intense currency volatility.

U.K. Sector Financial Balances, % GDP



Overseas inflows are key to finance the external balance.

Source - RBC Capital Markets; data through Q2 2015

Volatility and GBP weakness would likely dent consumer confidence as well. We would expect monetary policy to remain loose even though inflation may increase due to a weaker pound.

In the long term, the economic impact of Brexit would depend on the kind of relationship a departing U.K. would form with the EU. Maintaining access to the EU's single market will be the key, yet it may be largely out of the U.K.'s hands. The EU is unlikely to give better terms to the U.K. for fear of encouraging other potential leavers.

Q. What are the implications for the U.K. from a financial markets perspective for fixed income and equities?

A. As the most liquid U.K. financial asset, we would expect the GBP to weaken further against the USD and to a lesser extent against the EUR in the case of a leave vote. Conversely, GBP would likely bounce back should the probability of Brexit decline.

For fixed income, we would expect risk aversion to increase Gilt yields and credit spreads to widen if the probability of Brexit increases. In a Brexit scenario, credit downgrades should not be ruled out.

As for equities, Brexit would create a considerable headwind, in our opinion. A weaker GBP would benefit non-commodity exporters and overseas earners, such as Health Care companies. Large-cap stocks, which tend to have a large international exposure, should fare better than mid- and small-cap stocks, which tend to be more domestically focused.

Furthermore, domestic cyclicals, in particular non-food retailers, which import much of their merchandise, and transport companies, whose cost of goods sold is largely USD-based, could struggle. Real estate would likely also feel the pinch, as occupation needs might be reassessed to the benefit of the Continent. Construction could also suffer were it to be deprived of the abundance of EU workers. Finally, nowhere would regulatory uncertainty be felt more than in the Financials Sector, which may also face the repatriation of key functions, such as forex trading, where the U.K. accounts for 78% of foreign exchange trading in the EU.

DATA DRIVEN

What a difference a few short weeks can make.

Through most of January and February, investors worried the bottom might be falling out—especially for commodities. Oil plummeted below \$30/bbl, hitting fresh lows every day and prompting panicky speculation that sub-\$20 oil was just around the corner. Short contract positions in oil soared. Copper and other industrial commodities slumped.

Some of the more excitable pundits asserted this was all evidence the U.S., and by implication all other developed economies, were about to slide imminently into recession. Investors apparently took note—not only did equity markets sink to new cycle lows, but measures of investor pessimism reached levels last seen at the worst moments of the financial crisis.

And then markets rallied—a “relief” rally by many accounts. Oil surged by 50% off its distress lows, iron ore prices moved sharply higher, while copper and most other metals strengthened.

Interest rates on less-than-investment-grade bonds, which had spiraled up to extreme heights early in the year, implying widespread corporate defaults to come, fell and have continued to fall. Importantly, most U.S. economic data releases over the past two months have exceeded market expectations, capped off by the latest solid employment report and the re-acceleration of the manufacturing economy.

We think a U.S. recession is off the table—if it was ever on it. On the other hand, we acknowledge it’s difficult to make a case that growth in the U.S. and

Equity Views

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

Source - RBC Wealth Management; see [RBC's Investment Stance](#) for “Views Explanation.”

other developed economies is poised to accelerate to a more satisfying, comfortable pace.

For our part, equity investors should resist embracing extreme views. We look for most developed economies to continue to muddle along for as long as credit conditions remain constructive.

GDP growth should be fast enough to permit corporate sales to advance by 3%–5% in the coming 12 months, and earnings by 4%–7%. Combined with dividends, this would imply all-in returns from equities in the 6%–9% range. It’s not mouth-watering—in fact, somewhat disappointing by historical standards—but more than adequate compared to available alternatives.

We continue to recommend global portfolios maintain a full benchmark commitment to equities.

REGIONAL HIGHLIGHTS

UNITED STATES

- Following the S&P 500’s swift 12.6% rally off the February low, we anticipate the market will consolidate or pull back in the near term. In our view, investors should be prepared to build or add to positions in high-quality stocks.

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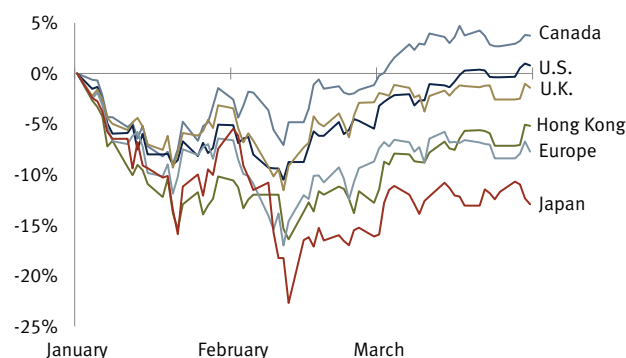
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- Economic fundamentals are strong enough to ultimately push the market higher from current levels. Risks of a U.S. recession have diminished, S&P 500 earnings should grow in the mid-single digits in the next 12 months, and the market's valuation is near the long-term average. While price-to-earnings ratios have risen recently, they are not so high as to greatly hinder price appreciation.
- Among our three Overweight-rated sectors—Information Technology, Consumer Discretionary, and Consumer Staples—we would focus on adding exposure to Technology in coming weeks. Among tech companies that have reported earnings or provided guidance recently, sales in Europe have firmed and domestic trends are stable-to-improved. We believe the Technology Sector is well positioned to deliver earnings growth at a higher rate than the S&P 500 this year and could beat the consensus forecast. Additionally, technical indicators have strengthened and compare favorably to most sectors. We expect Technology to be among the leaders during the U.S. market's next move higher.

CANADA

- The federal budget contained new spending initiatives that were broadly in line with expectations. Incremental infrastructure spending in excess of CA\$10B over the next two fiscal years should provide a tailwind to engineering and construction firms.
- Canadian banks have outperformed since reporting better-than-expected Q1 results with higher oil prices providing an additional tailwind. Following recent share price appreciation, the group's valuation discount relative to historical levels has compressed. We believe valuations offer limited scope for further expansion in the near term absent additional upside in crude oil.
- Despite the recent rally in crude oil prices, many Energy companies remain overleveraged. We maintain our bias towards high-quality, well-capitalized companies with the financial flexibility to take advantage of a sustained improvement in commodity prices. We expect Energy company cash flows to benefit from considerable cost savings realized during the energy bear market.
- We are cautious on base metal producers given slowing growth

Year-to-Date Equity Returns



Canada is leading, Japan is lagging the most.

* The country labels represent the following indexes: S&P/TSX, S&P 500, FTSE All-Share, Hang Seng, STOXX Europe 600, TOPIX
Source - RBC Wealth Management, Bloomberg; data through 3/31/16

in China amidst a shift from investment-led growth to a more services/consumer-oriented economy. The debt-burdened capital structures that are prevalent within this part of the Materials Sector could deliver extreme share price volatility in response to shifts in global risk sentiment.

CONTINENTAL EUROPE & U.K.

- We remain neutral on European equities. We view last month's fresh stimulus from the European Central Bank (ECB) as a positive for investor sentiment in the short term, but not a long-term game changer. The economic recovery remains fragile, and the consensus earnings expectation has gradually come down.
- The ECB's most recent stimulus package was bolder than the market anticipated but also accompanied by a substantial downgrade of inflation expectations. The move deeper into negative interest rate territory is not a panacea, given the experience to date hasn't had a discernable impact on economic growth. European earning expectations have been scaled down to a mere 3.2% for 2016 based on consensus estimates. Valuations are supportive, but the region faces many challenges, such as the rise of anti EU populist parties, the refugee crisis, and a potential Brexit. The latter could not only impact economic growth but also impair, in the long term, the political cohesion on which the EU depends.

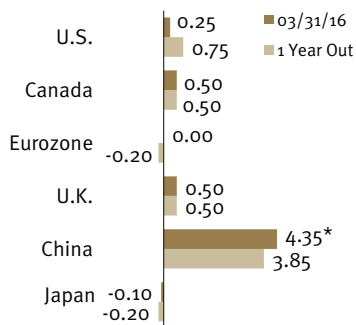
- As for U.K. equities, we remain cautious. The recovery in oil and materials prices, to which the index has a relatively large exposure, bodes well. However, Brexit is a significant risk which could upset the apple cart. Our preferred exposure in Europe and U.K. remains the Consumer Discretionary, Health Care, and Telecom Sectors.

ASIA

- Asian equity markets continued to rise in March. Chinese equities were amongst the best performers thanks to more pro-growth-oriented rhetoric from the government. Japanese equities lagged, from a performance perspective, as a stronger yen served as a meaningful headwind to sentiment. We continue to have a favorable view of Japanese equities, given valuation of the TOPIX Index, which trades at 1.1x book value.
- The *Report on the Work of the Government* and the 13th Five-Year Plan for China were released last month. In the work report, Chinese policy makers revised expectations for GDP growth in 2016 to a 6.5%–7.0% range from a 7.0% target in 2015. A targeted 13% growth in the money supply and an increase in the budget-deficit-to-GDP level (to 3% in 2016 from 2.3% in 2015) represent evidence of how policy makers are utilizing monetary and fiscal measures to stimulate the slowing.
- The Bank of Japan left its benchmark rate unchanged at -0.1%. Governor Haruhiko Kuroda noted further stimulus is possible, through use of asset purchases and/or further cuts to benchmark interest rates.

EASIER SAID THAN DONE

Central Bank Rate (%)



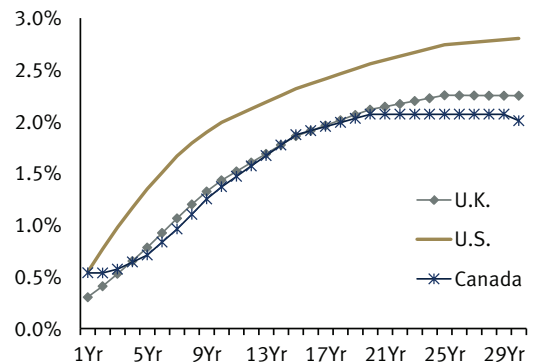
*1-yr base lending rate for working capital, PBoC
 Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee (GPAC), Consensus Economics

Credit spreads tightened materially over the course of March as investors reacted to firm economic data and a renewed commitment amongst central banks to ensure monetary policy remains accommodative. The sharp pivot in investor sentiment and dramatic shift in risk appetite have been such that we have become more selective on adding to positions in credit markets.

Central banks took center stage in March and announced various forms of policy accommodation that were generally in line with expectations. While the Federal Reserve passed on the opportunity to hike its benchmark rate, and simultaneously set the table for fewer rates hikes over the rest of 2016, the European Central Bank announced a broad array of fresh stimulus measures. While “easier” policy has been enacted around the globe, the more-difficult task of reigniting growth and stoking inflation lies ahead. The prevailing sentiment amongst the world’s central banks appears to be that tighter conditions are unlikely to develop but the marginal benefits of further monetary stimulus is low.

We continue to believe that investors should maintain appropriate levels of duration exposure in portfolios given shorter-term yields are most susceptible to future interest rate cuts. Select opportunities continue to exist in the investment-grade and high-yield bond markets, as well as the Canadian preferred share market, but investors must be much more discerning than was the case just one month ago.

Sovereign Yield Curves



Source - Bloomberg

REGIONAL HIGHLIGHTS

UNITED STATES

- We don’t believe the Federal Reserve will increase interest rates in April, despite recent comments from some Fed officials, as concerns about global economic developments and financial conditions persist. Instead, we believe policy makers will likely use the April Federal Open Market Committee meeting to prepare markets for a potential move in June, even though the market is currently pricing in a rate hike probability of just 22% at that meeting.
- High-yield corporate bonds have rallied amidst near-record inflows into mutual funds and exchange-traded funds after major policy shifts from the Fed and the European Central Bank. However, we now view valuations as expensive and would recommend that risk-averse investors who have “reached for yield” by taking on greater credit risk consider this an opportunity to reallocate some funds back into investment-grade BBB-rated credits.
- There have been few signs of tax-loss selling pressures so far this year in the municipal market. For investors who were waiting for more attractive entry

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points, we suggest taking advantage of a recent increase in new issuance, and attractive valuations beyond 15 years, to put money to work.

looking to add to this space should do so in tranches, as ongoing volatility may result in more attractive opportunities.

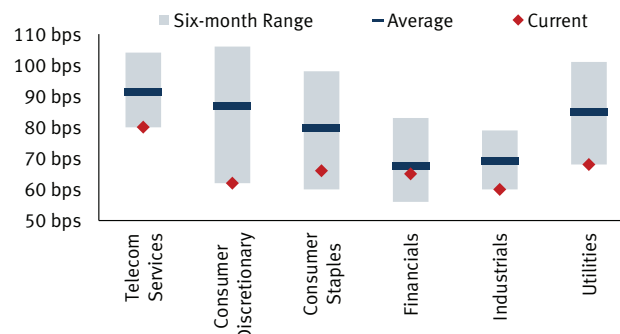
CANADA

- Stimulus measures included in the federal budget tabled by the Government of Canada on March 22 should add 0.5% to GDP in each of the next two years, according to the Department of Finance. This, coupled with recent strength in economic data, is supportive of RBC Capital Markets' view that the Bank of Canada will hold off on further rate cuts this year.
- The preferred share market rallied approximately 9% in March. Interest rates moving higher, credit spreads tightening, and strong new issue performance have been supportive of this move higher. A continuation of these themes would be supportive of this tone lasting.
- We remain constructive on preferred shares for investors with a medium- to long-term outlook. Investors should look to add 5.50% dividend bank rate-resets, deeply discounted rate-resets in the pfd-3 space, and perpetuals from life insurance companies for a diversified basket of preferred shares.
- Corporate bond spreads in both the high-yield and investment-grade sectors of the market tightened significantly in March. Investors

CONTINENTAL EUROPE & U.K.

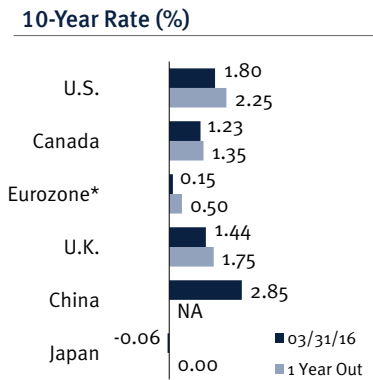
- Last month, the European Central Bank (ECB) delivered the meaningful policy stimulus that the market had been craving. We continue to look at headline and expected inflation in the eurozone for evidence that policy measures have proven successful. With current expectations for inflation and growth remaining stubbornly low, we remain comfortable advocating for longer duration in portfolios.
- The Gilt market is bracing for a difficult few months as market participants assess the probability of a Brexit. Quantifying the likelihood of all the various scenarios is an impossible task and, as a result, we are expecting volatility in Gilt yields to persist. For U.K. investors, we favor U.K. exporters that rely less heavily on the EU or global issuers that have GBP-denominated bonds in issuance.
- Periphery government and corporate bonds have been the main beneficiaries post the March ECB meeting. We continue to see better value in corporate markets than in government bonds, although we note that valuations now look less appealing in more-conservative sectors such as Utilities and Industrials.

European IG Corporates: Many Sector Spreads at Six-month Lows



Corporate bonds have rallied on the ECB's plan to buy corporate bonds, but valuations in conservative sectors are now less compelling.

Source - RBC Wealth Management, Bloomberg Investment Grade Index



*Eurozone utilizes German bunds.
Source - RBC Investment Strategy Committee, RBC Capital Markets, GPAC

THE PATH TO REBALANCING

Commodity Forecasts

	2016E	2017E
Oil (WTI \$/bbl)	40.28	56.53
Natural Gas (\$/mmBtu)	2.50	3.00
Gold (\$/oz)	1,150	1,200
Copper (\$/lb)	2.00	2.25
Corn (\$/bu)	3.80	3.95
Wheat (\$/bu)	4.80	5.28

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

Oil prices have rebounded on improving sentiment and short covering following coordination amongst major producing nations, falling U.S. oil production, and recent production outages in Nigeria and Iraq.

A pact struck in February by Saudi Arabia, Russia, Qatar, and Venezuela to freeze oil production has helped to send oil prices higher. This pact, which was in response to mounting political pressure on officials governing oil-dependent nations, is an important step that could lead to an eventual cut in production. Production cuts of perhaps 1.5–2 million bbl/d, about 1.5%–2% of worldwide supply (94.5 million bbl/d) and a fraction of what was agreed during the global financial crisis, would swiftly rebalance the market. A key challenge to realizing a coordinated cut in output is cooperation from Iran, which has stated that it would only consider a cap on production once it reached pre-sanction levels of 4 million bbl/d.

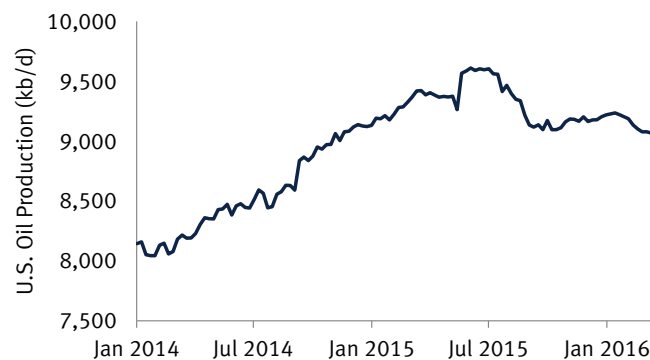
In the absence of such an agreement, the path to rebalancing the oil market depends on the slow grind lower in non-OPEC production that should occur in response to deep spending cuts. RBC Capital Markets forecasts spending cuts will deliver a contraction

in non-OPEC production of 800,000 bbl/d in 2016. U.S. exploration and production companies have slashed oil drilling activity by more than 70%, which is a leading indicator of a continued decline in U.S. production. However, global spending cuts may have a deeper and longer-term impact. Wood Mackenzie, an industry consulting firm, estimates that 68 large projects totaling \$380B of capital spending have been deferred. Delays of such scope and magnitude may impact supply additions for years to come.

The other key to rebalancing the oil market is steady demand growth. RBC Capital Markets forecasts solid demand growth of 1.2 million bbl/d in 2016. Demand is predicated on the outlook for global economic growth, where expectations have declined in recent months, but by a rather modest margin.

RBC Capital Markets forecasts the oil market rebalancing in the latter half of this year. Should oil prices rebound, we would expect U.S. shale oil development to pick up once prices reach about \$55–\$60/bbl, in a repeat of the response observed last year. Should prices reach these levels, rising U.S. rig counts combined with lingering, bloated oil inventories may temper the potential for a further sustained rally.

U.S. Oil Production



U.S. oil production has been contracting in recent weeks.

Source - EIA, RBC Wealth Management; data through 3/11/16

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Currency Forecasts

Currency Pair	Current Rate	Forecast Dec 2016	Change*
USD Index	94.59	103.50	9%
CAD/USD	0.77	0.75	-2%
USD/CAD	1.30	1.33	2%
EUR/USD	1.14	1.02	-11%
GBP/USD	1.44	1.48	3%
USD/CHF	0.96	1.12	17%
USD/JPY	112.57	128.00	14%
AUD/USD	0.77	0.65	-16%
NZD/USD	0.69	0.58	-16%
EUR/JPY	128.11	131.00	2%
EUR/GBP	0.79	0.69	-13%
EUR/CHF	1.09	1.14	5%
Emerging Currencies			
USD/CNY	6.45	6.95	8%
USD/INR	66.25	71.00	7%
USD/SGD	1.35	1.60	19%
USD/TRY	2.82	3.10	10%
USD/PLN	3.73	3.92	5%
USD/MXN	17.28	16.00	-7%
USD/BRL	3.59	5.10	42%

* Defined as the implied appreciation or depreciation of the first currency in the pair quote.

Examples of how to interpret data found in the Market Scorecard.

Source - RBC Capital Markets, Bloomberg

U.S. DOLLAR

The March Federal Open Market Committee (FOMC) meeting resulted in a downward adjustment of the Fed's own rate hike "dot plot," bringing the FOMC closer to market expectations for closer to two rate hikes in 2016. While the initial market saw a sharp selloff in the dollar, we believe this decline will prove transitory. We remain bullish on the greenback, given the comparatively robust U.S economic outlook.

EURO

The European Central Bank (ECB) delivered a wide range of bold measures at its most recent meeting, including cuts to all three of its main policy interest rates and extending its QE program to include purchases of corporate bonds. While the initial reaction from markets appears to be one of disappointment, we think that the ECB could ultimately be successful in ensuring that banks increase lending, while also keeping the euro weak. These are both key to ensure that the euro area economy gets back on the ascendency.

BRITISH POUND

Brexit fears remain the primary driver of sterling moves, and shorting the currency has been the preferred transmission mechanism for markets to price in the forthcoming risks to the U.K. While the outcome appears binary in nature—a weaker pound on a "leave" vote or a stronger currency on a relief rally with a successful "remain" vote—it seems certain to us that sterling

holistically is likely to see periods of extended volatility until June. We remain cautious on the immediate prospects for the pound as a result.

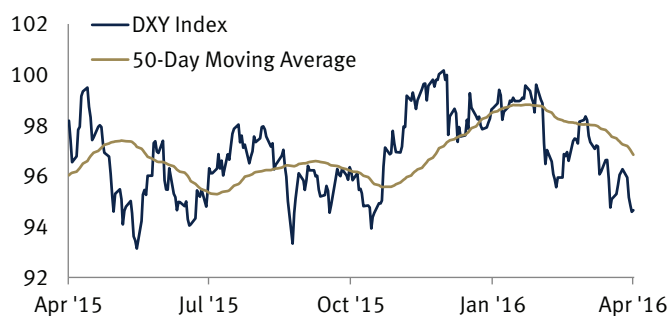
CANADIAN DOLLAR

The recent federal budget aimed to provide stability to the Canadian economy, with higher fiscal spending resulting in projected deficits that will hopefully stimulate growth. While the budget announcement wasn't overly CAD-positive, we believe that it gives the Bank of Canada scope to keep rates on hold, rather than to ease further. This means that monetary policy bias should hopefully be less of a barrier to any strength in the loonie. Partnered with the recovery in the oil price, we are becoming more positive on the loonie, although we do expect some short-term noise.

JAPANESE YEN

The yen continues to defy fundamentals, and it trades on the back of general risk appetite. Even policy makers saying that they saw scope to cut deposit rates to as low as -0.50% failed to stop USD/JPY trading on a 110 handle for the first time since Governor Haruhiko Kuroda's radical policy changes back in October 2014, where expansion of the QQE program sent USD/JPY into the 120s. With the Bank of Japan and the market seeing the yen heading in opposite directions, we would expect volatile trading within a broad range.

Recent Dollar Weakness Only Transitory



Dollar index reaching key support levels.

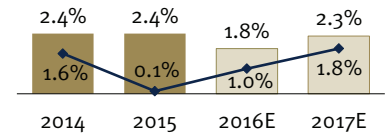
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Source - RBC Wealth Management, Bloomberg; data through 3/31/16

■ Real GDP Growth ◆ Inflation Rate

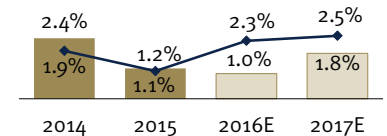
United States — Sustained Growth

- Q1 GDP growth likely no better than 1.0%. But inventory drag now over. Manufacturing new orders and production picking up. Consumer balance sheets, income growth, employment all strong. Spending in line with incomes. New home sales, permits firm. Capex, exports softer. Leading indicators, confidence point to sustained, albeit slow, domestic growth.



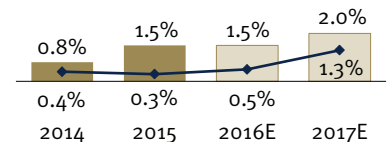
Canada — In Transition

- Q4 was the second quarter of positive growth in 2015. Q1 should extend the streak. House construction firm, business capex (mostly energy), and government weak. Consumer attitude restrained by resource sector weakness. Mfg. sales ex-petroleum products growing consistently, led by autos. Ditto for exports including services and tourism all helped by weak loonie. Energy capex plans still falling.



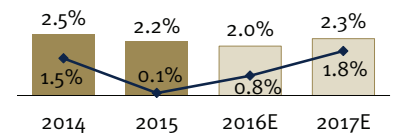
Eurozone — Strengthening

- Q4 was 11th successive quarter of positive growth. Spain GDP up a very solid 3.5% in 2015. France uneven, Italy lagging. Bank lending standards continue to ease, loans to private sector up year over year.
- PMIs weaker in Feb., but improved in March. Q1 growth should improve on Q4. Refugee crisis, fractious politics is weighing on consumer sentiment. Full year GDP growth to hold steady in 2016, improve in 2017.



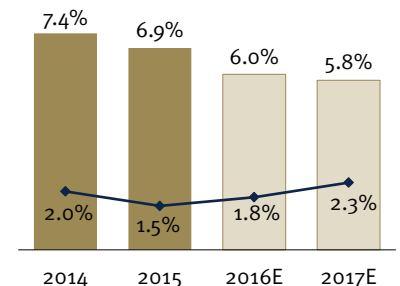
United Kingdom — Growing

- Q4 GDP revised up to 0.6%. Led by dominant services sector, consumer spending. Construction, oil sector subtracted from growth. Employment strong, but household earnings growth stuck at 2%. PMIs and new orders positive.
- Growth pace sustainable for 2016, but uncertainty around EU membership referendum is weighing on business/investment confidence.



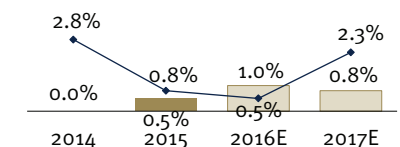
China — Slowing

- Full year GDP at +6.8%, but internals remain mixed/weaker. Fixed asset investment steady. Domestic loans surged in January as cos. paid down \$US debt. Mfg. PMI still in contraction territory but improving, service sector PMI doing somewhat better. Employment, wages, retail sales all growing. Exports weak.
- Government reduced bank reserve ratio in Feb. for sixth time in 14 months. House prices higher year over year in major centers.



Japan — Conflicted, Weaker

- GDP growth slipped back in Q4, but finished up on the year. Leading indicators have weakened, but new orders have firmed recently. Services PMI in expansion zone, manufacturing weak. Corporate earnings solid, but business confidence weak.
- Wages growing slowly, consumer confident, but household spending weak. Low oil prices putting inflation targets in jeopardy.



Market Scorecard

Index (local currency)	Level	1 Month	YTD	12 Months
S&P 500	2,059.74	6.6%	0.8%	-0.4%
Dow Industrials (DJIA)	17,685.09	7.1%	1.5%	-0.5%
NASDAQ	4,869.85	6.8%	-2.7%	-0.6%
Russell 2000	1,114.03	7.7%	-1.9%	-11.1%
S&P/TSX Comp	13,494.36	4.9%	3.7%	-9.4%
FTSE All-Share	3,395.19	1.5%	-1.4%	-7.3%
STOXX Europe 600	337.54	1.1%	-7.7%	-15.0%
German DAX	9,965.51	5.0%	-7.2%	-16.7%
Hang Seng	20,776.70	8.7%	-5.2%	-16.6%
Shanghai Comp	3,003.92	11.8%	-15.1%	-19.9%
Nikkei 225	16,758.67	4.6%	-12.0%	-12.7%
India Sensex	25,341.86	10.2%	-3.0%	-9.4%
Singapore Straits Times	2,840.90	6.5%	-1.5%	-17.6%
Brazil Ibovespa	50,055.27	17.0%	15.5%	-2.1%
Mexican Bolsa IPC	45,881.08	5.0%	6.8%	4.9%
Bond Yields	3/31/16	2/29/16	3/31/15	12-mo. Chg
US 2-Yr Tsy	0.721%	0.774%	0.555%	0.17%
US 10-Yr Tsy	1.769%	1.735%	1.923%	-0.15%
Canada 2-Yr	0.542%	0.519%	0.506%	0.04%
Canada 10-Yr	1.227%	1.191%	1.357%	-0.13%
UK 2-Yr	0.441%	0.378%	0.423%	0.02%
UK 10-Yr	1.415%	1.337%	1.576%	-0.16%
Germany 2-Yr	-0.487%	-0.571%	-0.252%	-0.24%
Germany 10-Yr	0.153%	0.107%	0.180%	-0.03%
Commodities (USD)	Price	1 Month	YTD	12 Months
Gold (spot \$/oz)	1,232.71	-0.5%	16.1%	4.1%
Silver (spot \$/oz)	15.44	3.6%	11.4%	-7.3%
Copper (\$/metric ton)	4,880.50	3.7%	3.7%	-19.5%
Uranium (\$/lb)	29.15	-8.9%	-14.9%	-26.0%
Oil (WTI spot/bbl)	38.34	13.6%	3.5%	-19.5%
Oil (Brent spot/bbl)	39.60	10.1%	6.2%	-28.1%
Natural Gas (\$/mmBtu)	1.96	14.5%	-16.2%	-25.8%
Agriculture Index	283.25	3.4%	-0.1%	-3.5%
Currencies	Rate	1 Month	YTD	12 Months
US Dollar Index	94.59	-3.7%	-4.1%	-3.8%
CAD/USD	0.77	4.1%	6.4%	-2.5%
USD/CAD	1.30	-4.0%	-6.0%	2.5%
EUR/USD	1.14	4.7%	4.8%	6.0%
GBP/USD	1.44	3.2%	-2.6%	-3.1%
AUD/USD	0.77	7.2%	5.1%	0.7%
USD/CHF	0.96	-3.7%	-4.0%	-1.1%
USD/JPY	112.57	-0.1%	-6.4%	-6.3%
EUR/JPY	128.11	4.6%	-1.9%	-0.6%
EUR/GBP	0.79	1.4%	7.5%	9.4%
EUR/CHF	1.09	0.8%	0.6%	4.9%
USD/SGD	1.35	-4.1%	-4.9%	-1.7%
USD/CNY	6.45	-1.5%	-0.6%	4.1%
USD/BRL	3.59	-10.6%	-9.3%	12.4%

Emerging markets led amid a strong global rally.

Dovish Fed pushes U.S. yield curve moderately steeper.

Crude oil's strongest monthly gain in almost one year.

The dollar's biggest decline in almost one year.

Equity returns do not include dividends, except for the German DAX. Equity performance and bond yields in local currencies. U.S. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing. Examples of how to interpret currency data: CAD/USD 0.77 means 1 Canadian dollar will buy 0.77 U.S. dollar. CAD/USD -2.5% return means the Canadian dollar has fallen 2.5% vs. the U.S. dollar during the past 12 months. USD/JPY 112.57 means 1 U.S. dollar will buy 112.57 yen. USD/JPY -6.3% return means the U.S. dollar has fallen 6.3% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 3/31/16.

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Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Top Pick & Outperform]	887	51.78	258	29.09
Hold [Sector Perform]	722	42.15	115	15.93
Sell [Underperform]	104	6.07	8	7.69

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Ratings: Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio. **Outperform (O):** Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months.

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