Month in REVIEW

Wealth Management
Dominion Securities

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Portfolio Advisory Group | December 2017

What moved the markets

Tax reform and the Fed's policy dominated the news in December in the United States as both houses of Congress passed the GOP's tax reform bill which President Trump signed into law just ahead of the holidays.

In Canada, the central bank's intense focus on incoming economic data caused some sharp swings in interest rates amid a crowded year-end data release schedule. Elsewhere, growth in both China and Japan was revised upwards while the Bank of England and the European Central Bank kept their benchmark rates unchanged as the two parties made progress towards Brexit terms.

Equity markets comments

Equity markets were positive in North America, with the S&P/TSX outperforming the S&P 500 by 0.1%. The S&P/TSX climbed 1.2%, with outsized gains of 24% in the Healthcare sector, relative to the broader market. The Telecommunications sector was the weakest of the group, posting losses of -1.1% for the month of December.

Equity markets were positive in North America, with the S&P/TSX outperforming the S&P 500 by 0.1%.

In the U.S., the S&P 500 closed up 1.1%, with all sectors ending the month in positive territory, barring the Healthcare and Utilities sectors. The Telecommunications sector led the U.S. markets for the second consecutive month, followed by the Energy sector which rose 4.9%. The I.T. sector experienced muted performance for the month of December, ending the month unchanged.

Fixed income specific developments

The Government of Canada yields increased in December and the yield curve continued to flatten. 1 to 10 year yields increased 15 to 25 basis points, with the largest moves coming in shorter maturities, on the back of stronger data and signs that the Canadian economy is well positioned for the Bank of Canada to increase their benchmark rate in 2018. The central bank had long reiterated that it would pursue their monetary policy tightening while keeping close watch of the economy to ensure that their actions do not hinder growth and kept the overnight target rate unchanged at 1.00% in their early December meeting.

The third quarter GDP data showed that the Canadian economy grew by 1.7% with the contribution to growth being more heavily skewed towards personal consumption which was 2.9% of the 3.7% domestic growth while the remainder was split between business investment, housing and government spending.

All indices and figures priced in local currency as at December 31, 2017 (unless otherwise stated). For important disclosures, see page 11.

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Number crunching

Equity indices*	Month	YTD*
S&P/TSX Composite Index TR	1.2%	9.1%
Dow Jones Industrial Average TR	1.9%	28.1%
S&P 500 Index TR	1.1%	21.8%
NASDAQ Composite Index TR	0.5%	29.6%
MSCI EAFE TR (USD)	1.6%	25.6%
MSCI World TR (USD)	1.4%	23.1%

S&P/TSX sector performance*	Month	YTD*
S&P/TSX Financials TR	0.7%	13.3%
S&P/TSX Energy TR	1.1%	-7.0%
S&P/TSX Materials TR	3.7%	7.7%
S&P/TSX Industrials TR	2.3%	19.7%
S&P/TSX Consumer Discretionary TR	-0.5%	22.8%
S&P/TSX Telecom Services TR	-1.1%	14.8%
S&P/TSX Information Technology TR	0.4%	16.8%
S&P/TSX Consumer Staples TR	0.0%	7.8%
S&P/TSX Utilities TR	-0.9%	10.8%
S&P/TSX Healthcare TR	24.2%	34.2%

* All returns are on a Total Return basis. All indices are in local currency unless otherwise noted. Source: Bloomberg

The Canadian economy added 79,500 jobs in November, beating the modest gain expected by market economists. The monthly gain was driven by a 29,600 increase in full-time jobs and a 49,900 increase in part-time positions, the latter likely due to seasonal hiring. With a constant participation rate of 65.7%, the unemployment rate fell to 5.9% which is the lowest rate since February 2008 and the gains were more evenly split this month between Goods and Services. On a regional basis, almost the entirety of positions were added in Quebec and Ontario which took the unemployment rates down to 5.4% and 5.5% in the respective provinces. This ranks Quebec and Ontario within the lowest unemployment rates amongst provinces, trailing British Columbia which boasts a 4.8% rate.

Canada's current account deficit widened by $3.8 billion in the third quarter to $19.3 billion, in line with market expectations, with the deficit moving back to the widest level since the first quarter of 2015. The lack of export growth was a key contributor as the goods deficit rose $3.6 billion to $8.9 billion over the third quarter, the third consecutive increase of the goods deficit and the second highest deficit on record. Offsetting the current account deficit was foreign direct investment in the financial account as strong and continued investment in Canadian bonds led the inflows into the economy. GDP growth was flat for the month of October, hinting towards a sluggish start to the fourth quarter for the economy but the 1.5% rise in retail spending and the 2.1% YoY growth in headline CPI may provide the Bank of Canada with a basis to pursue their policy tightening efforts in 2018.

In the United States, tax reform took the center stage both in policy and headlines. President Donald Trump secured his first legislative win after signing the GOP's much debated tax reform bill into law in late December. The bill was passed by Congress December 20, marking the most extensive revision of the US tax code in over 30 years. The new bill reduces corporate tax rate to 20% as well as the top federal income tax rate for individuals (now 38.5%), while increasing the threshold limits for each bracket. While the reform was welcomed by many with companies such as AT&T and Comcast giving additional bonuses to their employees, financial institutions stand to take heavy write-down charges on their deferred tax assets and need to budget for additional taxes on foreign holdings. The Senate also approved a stop-gap government funding bill, which will keep the government funded through to January 19. The bill marked the latest in a series of short-term spending measures Congress has passed while struggling to hammer out a broader budget deal.

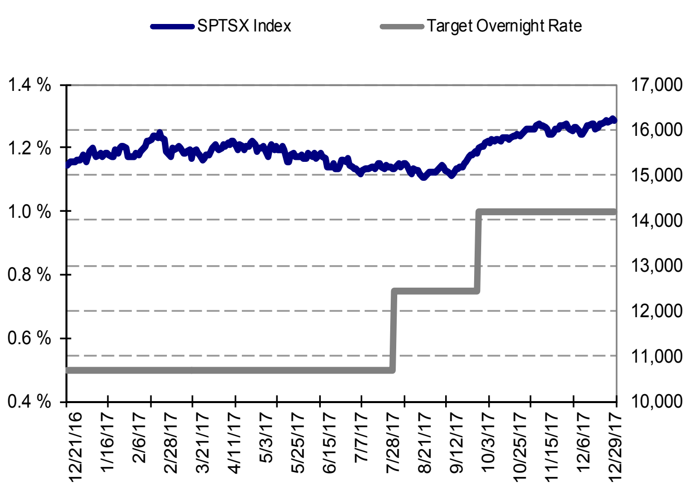
Currencies (in Canadian dollars)	Exchange	Month	YTD*
US Dollar	1.2571	-2.5%	-6.5%
Euro	1.5089	-1.7%	6.8%
British Pound	1.6985	-2.6%	2.5%
Japanese Yen	0.0112	-2.6%	-2.9%

Currencies (one Canadian dollar)	Exchange	Month	YTD*
US Dollar	0.7955	2.6%	6.9%
Euro	0.6627	1.7%	-6.3%
British Pound	0.5887	2.7%	-2.3%
Japanese Yen	89.6600	2.7%	3.0%

Commodities (US$)	Spot price	Month	YTD*
Crude Oil (WTI per barrel)	$60.42	5.3%	12.5%
Natural Gas (per million btu)	$2.95	-2.4%	-20.7%
Gold (per ounce)	$1,303.05	2.2%	13.1%
Silver (per ounce)	$16.94	3.1%	6.4%
Copper (per pound)	$3.27	7.0%	30.5%
Nickel (per pound)	$5.76	15.0%	27.5%
Aluminum (per pound)	$1.02	10.9%	32.4%
Zinc (per pound)	$1.51	5.2%	28.8%

*All returns are on a Total Return basis All indices are in local currency unless otherwise noted.

S&P/TSX Index – target overnight rate, LTM



Source: RBC Wealth Management, Bloomberg

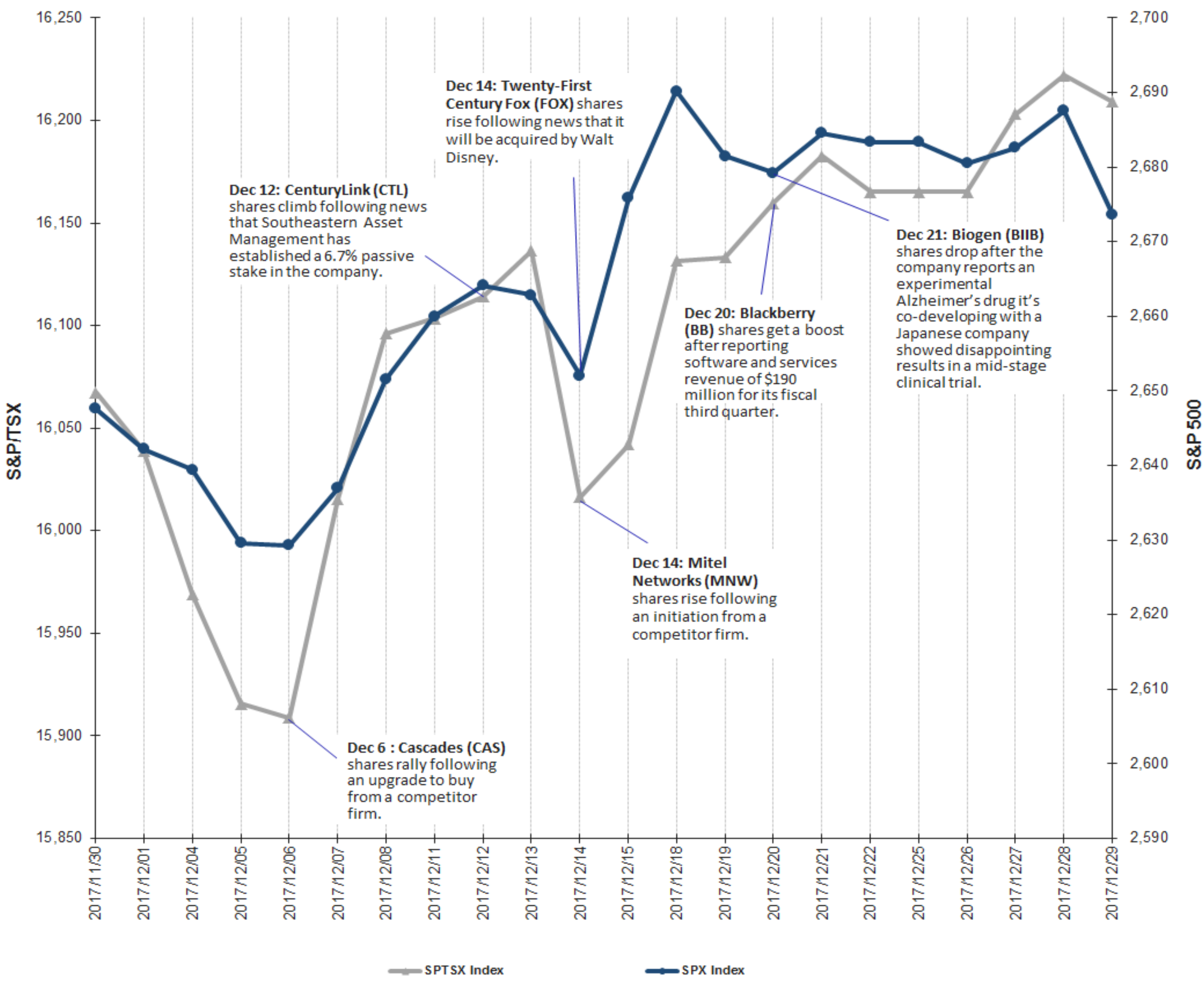
In a move that was well-telegraphed, the Federal Open Market Committee (FOMC) increased the benchmark Fed Funds rate by 25 basis points on December 13, bringing the upper bound to 1.50%. The decision to hike also meant that the Fed met its annual rate hike forecast for the first time since Chairman Bernanke introduced the policy to provide forward guidance in 2011. While the language from the statement was mostly in line with their long held stance on the economy, members noted that monetary policy will continue to support the strong labor market conditions. The Fed left their target forecast for core inflation unchanged at 2% and the committee continues to believe that the level of low inflation is a result of transitory issues and it expects the 2% target to be achieved in 2019. The Fed's dots still tell the same story over the next two years with three hikes projected in 2018 and a further two in 2019.

In Europe, the European Central Bank kept the key ECB interest rates unchanged, stating they continue to expect them to remain at their present levels for an extended period of time, past the horizon of their net asset purchases. In the United Kingdom, the Bank of England reported through its latest stress test results, that the UK's biggest banks have the ability to keep lending through a disorderly Brexit. The stress tests included severe adverse scenarios such a 4.7% drop in economic output, a further 27% fall in Sterling versus the US Dollar, a plunge in house prices by one third and a further GBP 40 billion in misconduct charges, the latter being a significant hindrance to bank earnings since the financial crisis. The BoE noted that a particularly messy divorce with the European Union combined with a severe global recession and additional misconduct costs could cause the banks to fail the tests, which would likely have an impact on lending to the real economy.

Elsewhere, the Japanese government revised its growth projections upwards on the back of improving consumer demand but the 1.1% forecast for inflation 2018 remains shy of Bank of Japan's 2% target. Back on the continent, the World Bank raised its growth forecast for China to 6.8%, noting that personal consumption and foreign trade supported stronger growth. Leverage in the non-financial sector and uncertainty around housing prices remain the main challenges for growth.

North American equity highlights

December 2017

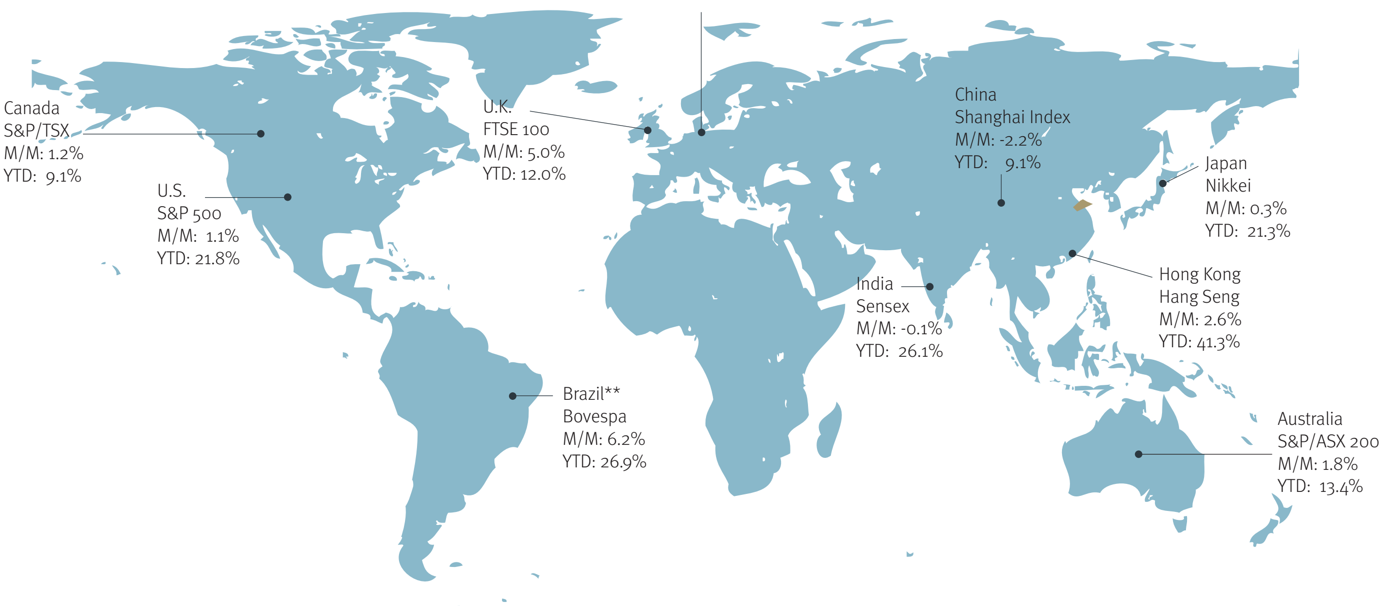


Source: Bloomberg

World markets

December month-over-month and year-to-date performance

December was a favorable month for global indices, with most markets closing in positive territory. In North America, the S&P 500 and S&P/TSX rose by 1.1% and 1.2% respectively. The Brazil Bovespa and the U.K.'s FTSE rallied, climbing 6.2% and 5% respectively. China's Shanghai Index and Germany's DAX Index closed the month the lowest of the group, down 2.2% and 0.8% respectively. India's Sensex moved higher by 2.7% and Hong Kong's Hang Seng climbed 2.6%. Finally, Japan's Nikkei ended the month up 0.3%, while Australia's S&P/ASX200 edged higher by 1.8%. Overall, the MSCI World Index increased by 1.4% for the month of December and ended the year up 23.1%.



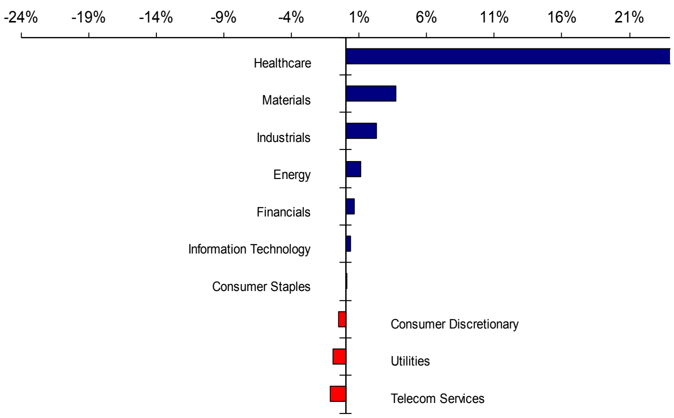
All returns are on a total return basis unless otherwise noted. All returns calculated in local currency except for MSCI World
** These indices are calcuated on a price return basis

Source: Bloomberg, RBC Wealth Management, 12/31/17

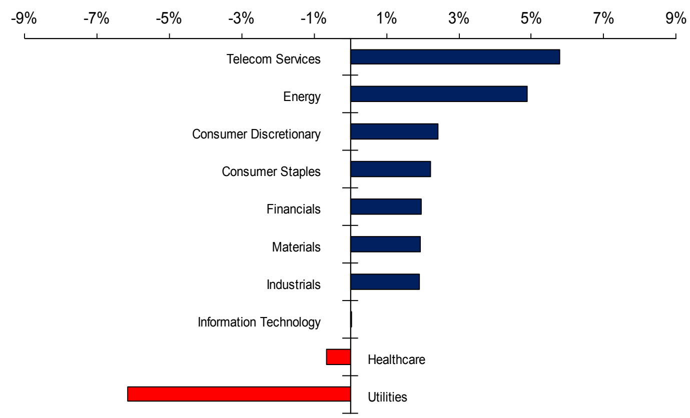
Canadian & U.S. equities

December 2017

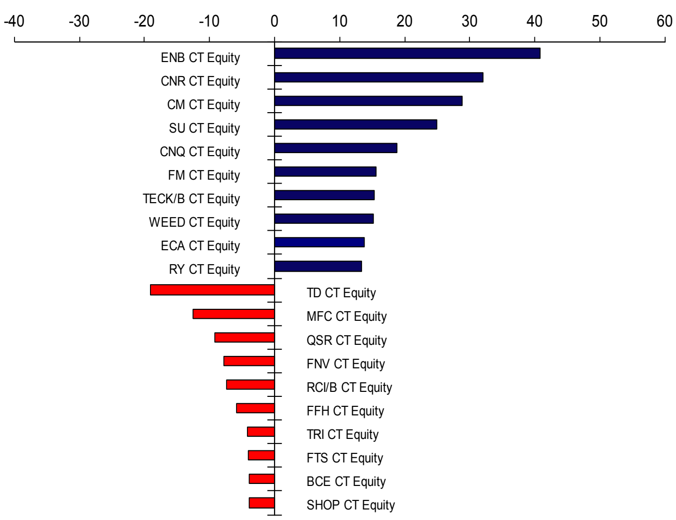
S&P/TSX composite sector movement



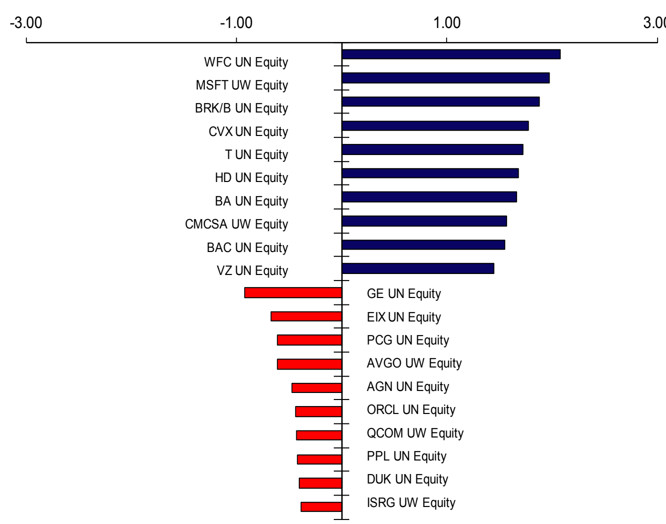
S&P 500 sector movement



Top 10 S&P/TSX contributors/decliners by index points



Top 10 S&P 500 contributors/decliners by index points



Source: Bloomberg

Canadian and U.S. economic data

December 2017

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
12/22/2017	Gross Domestic Product (m-o-m, SA)	Oct	0.20%	0.00%	0.20%
12/22/2017	Gross Domestic Product (y-o-y, SA)	Oct	3.50%	3.40%	3.30%
	Labour market				
12/01/2017	Net Change in Employment (000, SA)	Nov	10.0	79.5	35.3
12/01/2017	Participation Rate (SA)	Nov	--	65.70%	65.70%
12/01/2017	Unemployment Rate (SA)	Nov	6.20%	5.90%	6.30%
	Housing market				
12/08/2017	Housing Starts (000, SAAR)	Nov	213	252.2	222.7
12/14/2017	New Housing Price Index (y-o-y)	Oct	--	3.50%	3.80%
12/14/2017	Existing Home Sales (m-o-m)	Nov	--	3.90%	0.90%
12/13/2017	Teranet/National Bank HPI (m-o-m)	Nov	--	-0.50%	-1.00%
	Consumer & manufacturing				
12/21/2017	Retail Sales (m-o-m, SA)	Oct	0.30%	1.50%	0.20%
12/21/2017	Retail Sales Less Autos (m-o-m, SA)	Oct	0.40%	0.80%	0.40%
12/15/2017	Manufacturing Sales (m-o-m, SA)	Oct	1.00%	-0.40%	0.40%
	Trade				
12/05/2017	Merchandise Trade (billion, SA)	Oct	-2.65	-1.47	-3.36
	Prices				
12/21/2017	Consumer Price Index (m-o-m)	Nov	0.20%	0.30%	0.10%
12/21/2017	Consumer Price Index (y-o-y)	Nov	2.00%	2.10%	1.40%
	Other indicators				
12/20/2017	Wholesale Sales (m-o-m, SA)	Oct	0.50%	1.50%	-1.10%
12/07/2017	Ivey Purchasing Managers Index (SA)	Nov	62.5	63	63.8
12/07/2017	Building Permits (m-o-m, SA)	Oct	1%	4%	5%

Release date	Economic indicators: U.S.	Period	Consensus	Actual	Prior
12/21/2017	GDP (q-o-q, SAAR)	3Q T	3.30%	3.20%	3.30%
12/21/2017	GDP Price Index (q-o-q, SAAR)	3Q T	2.10%	2.10%	2.10%
12/21/2017	Core PCE (q-o-q, SAAR)	3Q T	1.40%	1.30%	1.40%
	Labour market				
12/08/2017	Change in Nonfarm Payrolls (000, SA)	Nov	195.0	228.0	244.0
12/08/2017	Unemployment Rate (SA)	Nov	4.10%	4.10%	4.10%
	Housing market				
12/19/2017	Building Permits (000, SAAR)	Nov	1270.00	1298.00	1316.00
12/19/2017	Housing Starts (000, SAAR)	Nov	1250.00	1297.00	1256.00
12/22/2017	New Home Sales (000, SAAR)	Nov	655.00	733.00	624.00
12/20/2017	Existing Home Sales (million, SAAR)	Nov	5.53m	5.81m	5.50
12/18/2017	NAHB Housing Market Index (SA)	Dec	70	74	69
12/01/2017	Construction Spending (m-o-m, SA)	Oct	0.50%	1.40%	1.30%
	Consumer & manufacturing				
12/14/2017	Advance Retail Sales (m-o-m, SA)	Nov	0.30%	0.80%	0.50%
12/14/2017	Retail Sales Less Autos (m-o-m, SA)	Nov	0.60%	1.00%	0.40%
12/27/2017	Consumer Confidence (SA)	Dec	128.0	122.1	128.6
12/22/2017	U. of Michigan Confidence	Dec F	97.2	95.9	96.8
12/21/2017	Personal Consumption (q-o-q, SAAR)	3Q T	2.30%	2.20%	2.30%
12/22/2017	Durable Goods Orders (m-o-m, SA)	Nov P	2.00%	1.30%	-0.40%
12/04/2017	Factory Orders (m-o-m, SA)	Oct	-0.40%	-0.10%	1.70%
	Trade				
12/14/2017	Import Price Index (m-o-m)	Nov	0.70%	0.70%	0.10%
12/14/2017	Import Price Index (y-o-y)	Nov	3.20%	3.10%	2.30%
12/05/2017	Trade Balance (billion, SA)	Oct	-47.5	-48.7	-44.9
	Prices				
12/13/2017	Consumer Price Index (m-o-m, SA)	Nov	0.40%	0.40%	0.10%
12/13/2017	Consumer Price Index (y-o-y)	Nov	2.20%	2.20%	2.00%
12/13/2017	CPI Core Index (SA)	Nov	253.93	253.72	253.43
12/22/2017	PCE Deflator (y-o-y, SA)	Nov	1.80%	1.80%	1.60%
	Other Indicators				
12/01/2017	ISM Manufacturing Index (SA)	Nov	58.3	58.2	58.7
12/28/2017	Chicago Purchasing Manager Index	Dec	62.0	67.6	63.9
12/21/2017	Philadelphia Fed Index	Dec	21.0	26.2	22.7
12/21/2017	Leading Indicators (m-o-m)	Nov	0.40%	0.40%	1.20%
12/14/2017	Business Inventories (m-o-m, SA)	Oct	-0.10%	-0.10%	0.00%

Source: Bloomberg
SA = Seasonally Adjusted; SAAR = Seasonally Adjusted Annual Rate; m-o-m = Month-over-month % change;
q-o-q = Quarter-over-quarter % change; y-o-y = Year-over-year % change.

Notable Canadian dividend activity – December 2017

Increases				
Company	**$ Change**		**Ex-Date**	**% Change**
Bank of Montreal	Prior: $0.90	New: $0.93	January 31, 2017	3.30%
TFI International Inc.	Prior: $0.19	New: $0.21	December 28, 2017	10.50%
Labrador Iron Ore Royalty Corp.	Prior: $0.25	New: $0.30	December 28, 2017	Special Cash

Increases				
Company	**$ Change**		**Ex-Date**	**% Change**
Granite Oil Corp.	Prior: $0.42	New: $0.276	December 28, 2017	-34.3%

Source: Bloomberg

Research resources

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			Investment Banking Serv./Past 12 Mos.	
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HOLD [Sector Perform]	683	41.24	155	22.69
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