



RBC Capital Markets 2016 Outlooks

January 2016

STRATEGY

RBC Canadian Strategy – The Investment Outlook: RBC Capital Markets' (RBC CM) Strategy publication is the outcome of senior representatives of the firm regularly meeting to compare and contrast their views on the investment outlook. Strategy consists of three parts: first, the consensus strategy resulting from these discussions; second, a series of tactics designed to capitalize on this strategy; and third, some of the working papers that guided us to our conclusions. At times, the views of individual analytic disciplines will differ from the group's consensus. These divergences will be apparent in the working papers. We believe readers will want to be aware of the full range of views shaping Strategy and have, therefore, included commentary that may appear to be at odds with the consensus view of the committee.

RBC Investment Strategy Playbook: We revised our 2016 S&P 500 price target to 2,225 (representing 8.9% upside) to reflect the recent fall in oil and softer economic trends. This was accompanied by lower EPS estimates for 2016 and 2017 at \$124 and \$133 from \$128 and \$137, respectively. Our new target is based on a 16.7x multiple (essentially unchanged) applied to \$133 of 2017E EP. The S&P 500 finished the year down 0.7% (up 1.4% with dividends). Earnings were flat on the back of falling commodity prices, with oil declining 39% over the course of the year. However, ex-Energy earnings rose 5.4%, an indication of greater strength. While 2015 stock returns were lackluster, growth stocks performed much better. With global growth scarce, we believe these names will deliver superior performance in the year ahead. Furthermore, growth themes are substantially more abundant in the U.S. than other developed markets.

RBC Canadian Economic and Financial Outlook 2016: The Canadian outlook for 2016 sees two conflicting forces at play. The first is an energy sector still licking its wounds from the approximate halving in prices over the past year and a half. The second is a long-disappointing non-energy sector that is tentatively showing signs of life, poised to benefit from firm US domestic demand and a weak Canadian dollar. The speed and magnitude of how these forces play out will dictate the path of monetary policy and the reaction in financial markets. Heading into 2016, the BoC really has no significant bias or pre-determined path for interest rates and has emphasized its commitment to a flexible approach to inflation targeting—the latter likely to lead to one or more new measures of core inflation being adopted.

RBC'S 2016 Investment Stance: One of the most important events facing markets in 2016 is also the most anticipated—the first U.S. Federal Reserve rate hike cycle in nearly a decade matched against other major central banks, which are likely to remain on hold or even loosen further. While markets have already begun positioning for this watershed year in central bank policy, there could be periods of uncertainty or policy surprises that increase volatility and create buying opportunities.

RBC Growth, Stability, Valuation & Sectors: While equity returns have been uninspiring in 2015, growth stocks have performed quite well. Not surprisingly, this has led investors to question the future sustainability of their leadership. Growth stocks always trade at a premium to the broad market, however our research shows that this relationship is far from stretched. With growth scarce and valuations reasonable, we would expect these names to deliver superior performance in the year ahead.

RBC Capital Markets U.S. Equity Top Picks List: RBC Capital Markets' Equity Research Department is pleased to present the US Equity Top Picks List update for December 2015. The Top Picks List consists of the Top Pick-rated US equities as chosen by individual analysts in the RBC Capital Markets Global Equity Research Department. A Top Pick-rated stock represents an analyst's best idea in the sector and is expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio. The list is revised on an ongoing basis as stocks are upgraded and downgraded throughout the year and a published update is released on a monthly basis, detailing the companies rated as Top Pick and highlighting any changes over the past month.

RBC Top 30 Global Ideas for 2016: Our strategists and economists predict a healthy backdrop for equity investing in 2016. Steady, but uninspiring economic growth across North America and Europe, reset expectations, and a normalizing rate policy in the United States should support a positive path for equities in the coming year. Our Chief US Market Strategist, Jonathan Golub, maintains his optimistic outlook for equities as he looks ahead to 2016. He sees the S&P 500 trading to 2300 by year-end, driven by a higher earnings trajectory and modest multiple re-rating. As Jonathan thinks about opportunities in a "slower for longer" world, he is particularly positive on secular and stable growth ideas.

SECTOR

Oil Strategy: Ministry of Fear: The confluence of macroeconomic worries, negative news flow, and poor data points, has resulted in incredibly poor sentiment towards crude. Lacking bullish drivers, the start to this year looks sloppier than we originally anticipated and we now expect WTI to average \$40/bbl this year and \$57/bbl in 2017.

RBC 2016 Global Energy Outlook: Oil price volatility during the first-half, against the backdrop of an El Niño winter in North America, augers for a defensive energy posture until mid-year. An improving oil price landscape during the second-half suggests a pivot towards energy stocks with slightly higher beta, which are anchored by strong balance sheets, solid execution capability, and advantaged cost structures.

RBC 2016 Global Oilfield Services: We expect OIH and Oil prices to be range bound throughout 2016. This translates to \$25-40 for the OIH and \$45-60 for WTI. The primary themes for the OFS industry in 2016 will be capacity absorption and cost reduction. It now appears that any hope of an OFS cycle recovery has been pushed into 2017 despite the fact that OFS stocks seem to be discounting \$50-60 oil.

RBC Integrated Oil & Gas – 2016 Outlook: The steep decline in oil prices has forced the majors to accelerate cost-reduction programmes, whilst also providing a catalyst for rapid change in an industry where value creation has remained elusive for some time. We think that in the current environment, management teams have the opportunity to drive corporate change, which should mean greater operating leverage when oil prices eventually increase. Of course, this could have been said five years ago, and the sustainability of business models for big oil has worsened considerably since then. However, with oil below \$40/bbl, we see significant low-hanging fruit for cost reduction, which should be supportive for investment cases in 2016.

RBC U.S. E&P: Valuation Slope – 2016 Beta Opportunities: The bifurcation of US E&P stocks is more prevalent now than in recent history. Investors have moved to "safety" and "quality" given the backdrop of both lower oil and natural gas prices. There is a high correlation with lower leverage and stock price performance over the past year. Ownership in the E&P space has become more consolidated with most long only and hedge fund investors focusing on a few names (long side), including CPE, CXO, EOG, EQT, MTDR, PDCE, PXD, RSPP, PE, OXY, NFX.

RBC Global Metals & Mining 2016 Outlook: Following the dismal price performance in 2015, we expect a modest improvement in 2016: We expect an improvement in global economic growth, combined with ongoing production curtailments, to lead to a bottom in non-precious metal commodity prices in 2016 and a gradual improvement in prices beginning in 2017.

Global Gold Outlook: After the start of the long awaited Fed rate hike cycle, in 2016 we expect gold to trade in a broad \$1,050 to \$1,200 range. We see fundamental demand, from both emerging market participants buying on weakness and regular central bank purchases, providing support for gold prices. We expect gold and silver prices to continue to be volatile over the next 12 months as the market assesses the impact of this FOMC rate hike cycle. As published December 6, 2015, we expect non-precious metals commodity prices to consolidate in 2016 and a gradual improvement to begin in 2017, driven by improving global economic growth as well as production curtailments. As seen in 2004, we expect gold to lead a commodity recovery.

RBC Diamond Digest: Recent tenders and the De Beers Sight were better than many hoped. But we think this is largely because activity was very quiet before and during the Diwali holiday; this created shortages of good-make polished in some areas. We see 2016 remaining uncertain though good yearend holiday jewelry sales could encourage a brisk start to January before falling back again. The two critical components for the market are continued restraint in rough supply and further give in prices.

RBC 2016 EU Steel Sector Outlook: As 2015 comes to an end we think it is an opportune time to assess the opportunities which have developed after a tough 12 months. We have revised our price deck lower and we expect the European steel sector will struggle to deliver earnings and FCF growth in 2016. Under this backdrop, names with strong balance sheets, credible cost savings stories and relative protection from cheap imports should continue to outperform in 2016.

RBC 2016 U.S. Chemicals Outlook: We believe many of the headwinds that affected our coverage in 2015 remain in 2016, albeit to a lesser extent, namely: 1) compression in the oil-to-gas ratio, 2) gradual slowdown in China, 3) weak LATAM and Ag markets, 4) FX, and 5) slower global industrial production. We also see the following positive factors: 1) potential better than expected recovery in Europe, 2) continued strength in US consumer-driven markets (plastics), and 3) company-specific initiatives to increase growth and shareholder returns. With this backdrop, we favor high-quality companies with organic growth and internal cost takeout initiatives. Our overall Top Pick remains LYB, followed by self-help stories, AXTA and OLN.

RBC Fertilizer Insights 2016 Outlook: We believe fertilizer fundamentals remain challenging, although there are potential positives to watch for in 2016 that may present investment opportunities including: (1) higher US corn acreage and supportive crop economics; (2) steady phosphate producer margins; (3) a more stable potash S&D in 2016; and (4) short-term nitrogen price improvement in 1H/16. Longer-term, we see challenges in our nitrogen and potash S&D outlook and prefer companies with diversified business models and company-driven catalysts. We continue to favour Agrium (continued FCF improvement and steady Retail performance) and Mosaic (relatively stable phosphate margins and strong balance sheet).

MLPs - 2016 a Year to Prove Out MLP Structure and Build a Coverage Cushion: MLP valuations have remained under heavy pressure as sustained weakness in commodity prices has increased concerns over the sustainability of distributions. It seems that volatility in MLP equities this year has put the MLP structure itself on trial. In this note, we address a few common concerns on the MLP structure, primarily regarding sustainability of distributions and how these distributions are ultimately funded.

RBC 2016 U.S. Banks Outlook: Looking out over the next 12 months, we believe investors should continue to overweight the bank stocks. Our bullish stance is based upon the following expectations: accelerating loan growth, higher short term interest rates, greater amounts of capital returned to shareholders and increased merger & acquisition activity. From 2009-13 we were bullish on banks, primarily due to an expected credit recovery. Beginning in 2014, we pointed to a transition from credit recovery to revenue growth as the reason to own bank stocks. In 2016, we expect revenue growth to become more important since the benefit of improved credit has run its course for almost all banks.

RBC U.S. Asset Management 2016 Outlook: As 2016 begins, we like asset managers that ideally check three boxes: Good investment performance, innovativeness, and problem-solving capability. We view these qualities as key for future success in money management given the backdrop. Underperformance has been long-standing, not just something recent, and has been severe. Investors, individuals and institutions alike, have shown an increased willingness to switch money managers and to swap out of individual products and categories; the velocity of invested capital is increasing. And the continued low level of interest rates, with the stock-market volatility that saw the Dow Jones Industrial Average drop a record 1,000 points last August, means that if anything investors' insistence that money managers go beyond just "beating the market" will become even greater in 2016 than it was in 2015. Investors want money managers who can address investors' many needs – from the need for more current income to the need for absolute return to the natural investor preference for low volatility.

RBC Life Insurance Outlook: There likely won't be many growth engines in 2016 lifting the results of all life insurers, with longstanding secular headwinds, such as slumping demand for life insurance persisting, the interest rate picture expected to be negative, a final ruling from the Department of Labor on the definition of and responsibilities of fiduciaries expected to dampen variable-annuity sales, and new capital rules from the Federal Reserve for SIFI's MetLife and Prudential potentially leading to a slowdown in growth of certain businesses.

RBC 2016 Non-Life Insurance Outlook: Our short answer is that it pays to be cautious, but don't go overboard. Pressures are building on pricing and margins. Cat losses are unlikely to stay low and higher interest rates, while good for earnings, are a book value headwind and make other financials more attractive. Still, there is much to like. Combined ratios in the low 90s, ROEs in the 8–11% range and active capital management provide support for current valuations which at 1.4–1.6x book value are still reasonable. The biggest risk could be the sector's own success having matched or beaten the S&P for four straight years.

RBC U.S. Specialty and Consumer Finance Outlook 2016: Value opportunities are plentiful among our coverage, while select businesses are also expected to deliver strong EPS growth and ROE. We see the greatest fundamental appeal in the aircraft leasing sector, given a combination of strong fundamentals and modest valuations, while select card issuers also remain attractive. Picks from our coverage given fundamentals and valuation – Top-Pick rated Air Lease (AL) and Discover Financial (DFS) remain stand-out favorites, while Outperform rated AerCap (AER), FLY Leasing (FLY), and Colony Financial (CLNY) continue to offer high appeal as well. We also see value in several mortgage REITs and BDCs.

RBC 2016 U.S. Hardline Retail Outlook: Best stock ideas for 2016 – DLTR, HD, FIVE, and AAP – Dollar Tree remains our favorite stock, as we believe it has the best combination of earnings growth, upside earnings potential, and multiple expansion from current levels. Home Depot continues to gain market share and leverage the ongoing growth in the home improvement segment. After several years of multiple compression (reaching nearly a PEG of 1.0 heading into 2016), we believe Five Below is now/soon poised to appreciate closer to its expected earnings growth rate of 20%+. Finally, while Advance experienced sizable integration-related disruptions during 2015, it gets to anniversary all of these issues in 2016, the stock seems relatively inexpensive relative to its earnings power, and activist investors already control 25% of the BOD.

RBC Household Personal Care, Beverages and Tobacco 2016 Playbook: Using a combination of key areas of dialogue at the sub-sector level (across Tobacco, Beverages, and Household and Personal Care), we have created 3 "investable buckets" for various investment styles (growth, value, income, etc.). As our Macro Strategy team highlighted in RBC's Global Market Trajectories 2016 Outlook, multiples should broadly continue to inflate for names where growth is not necessarily higher, but rather where the risk is lowest—justifying a preference for staples versus other sectors. Within this context, we prefer names across our HPC, Beverage and Tobacco coverage in three investable buckets: de-risked opportunities (COT, ENR), special situations (EPC) and yield hedgers (RAI, STZ, EL). We see NWL as both a yield-hedger and a special situations play. Similar to prior years, our current preferences are more US-centric than global mainly due to ongoing pressure on international macros and the risk of a further appreciating dollar.

RBC U.S. Restaurants 2016 Outlook: We are forecasting a market cap weighted upside for our restaurant coverage of 13% over the next year: We believe 2016 will look very similar to the way 2015 is ending—with scale advantages (e.g., digital, national advertising of value, etc.) of large chains playing an increasingly important role in fundamental performance. Our base case macro backdrop for 2016 includes: (1) fast food industry SSS growth of 2–3%; (2) nearly flat casual dining industry SSS growth; (3) food costs declining and wage costs growing; and (4) diminishing FX headwinds. Our favorite stocks heading into 2016 are YUM, MCD, and WEN.

U.S. Food Retail: 2016 Playbook: 2016 Themes: 1) Inflation/Deflation: While we don't expect the total basket to improve, we think Produce reverses from a headwind to a tailwind and beef reverses from a tailwind to a headwind. 2) Gross margin contraction: With PPI deceleration greater than CPI moderation, industry gross margin fared better than competition alone would suggest. We believe industry gross margin contraction resumes in 2016. 3) Conventional Performance/Organic Strength: By increasing assortment and offering lower entry price points, Conventional stores dramatically outpaced Specialty stores in Natural/Organic growth and comparable store sales. With low-hanging assortment gains already achieved, we believe the headwind to Specialty stores lessens from here. 4) Specialty Stores Fight Back: To combat Conventional grocers' encroachment, Specialty players have two levers: store size and value investment. We believe the movement to smaller format and ability to offset value investment with SG&A savings will be key. The smaller, cheaper stores are best reviewed by customers and employees. 5) Technology/Big Data: Following Kroger's continued success with loyalty programs, big data, and ecommerce, competitors are quickly rolling-out their own solutions. 6) Buybacks: Given industry share price performance, the sector has been quick to institute new buyback programs (WFM, TFM, SFM, SFS).

RBC 2016 U.S. Packaged Food Outlook: Packaged food stocks have outperformed in 2015 (up 12% vs. -3% for the S&P 500), and valuations are toward the high end of 5-year ranges (20x 2016e EPS vs. 5-yr avg 17x). In spite of this outperformance, we continue to see modest overall upside potential for the group (15% average for our big cap names to our targets) and even more for our favorite names—Mondelez (+18%), Kraft Heinz (+25%), and Pinnacle Foods (+17%). Earnings continue to be the major driver for food stocks—and the key themes for 2016 should continue to support earnings growth and positive revisions. Three themes are clearly supportive: 1) the higher bar for efficiency set by 3G Capital's success, 2) increasing focus on promotion inefficiency, and 3) benign food and energy costs. Given our focus (and that of the market) on profitable volume, we will be even more keenly focused on base volume trends as determinants of brand health and future upside.

RBC U.S. Multi-Industry Sector 2016 Outlook: As we enter 2016, we expect a continuation of the “industrial recession” operating conditions, with ongoing havoc from weak oil & gas, foreign exchange, commodity deflation/low pricing power, and slowing China/emerging markets growth. It seemed like only a short time ago we were all talking about a US manufacturing renaissance. On top of this challenging backdrop, with the economic expansion in its long-in-the-tooth sixth year and the onset of the Fed tightening cycle, we believe investors should start deliberately inching up the quality curve with an eye towards positioning a bit more defensively. To be clear, we are not calling for an economic recession in 2016, but there are plenty of reminders in the ongoing slow-growth/ no-growth environment that a recession, the inevitable next phase of the economic cycle, is lurking somewhere down the road.]

RBC Machinery 2016 Outlook: Machinery endured a rough 2015 reflecting weak developing markets/low global growth, commodity headwinds, and lack of pricing. Looking ahead, our Outperform-rated stocks are WABCO, United Rentals, H&E Equipment, and Mueller Water. With many cycles past peak but trough not certain, we see some stocks in no-man's land and expect tough sledding to continue. Cost actions should help but won't reverse the tide without volume. With sentiment generally cautious/short positions for many stocks elevated, potential positive catalysts could include a bounce in oil, upturn in China, improving EU, and US construction strength; likewise, healthy capital structures/cash generation among the large caps should support dividends. Downside risks include another leg down in commodities, continued developing market volatility, steep declines in used equipment values, and slow bleed of estimate cuts.

RBC 2016 Outlook: Homebuilders and Building Products: 2015 was a strong year for a number of sectors: aggregates and infrastructure, select homebuilders, and especially stocks leveraged to repair and remodel spending. In contrast, returns for stocks leveraged to commercial construction suffered. Heading into 2016, we think it is worth pausing to address the most relevant topics that investors are discussing both in terms of macro-trends and sector-specific developments.

RBC Airfreight & Surface Transportation 2016 Outlook: In looking forward to 2016, we admit this may be the most difficult outlook report we've written since the one for 2009. At that point, we were in the midst of the Great Recession and there was little information or data on which to build a meaningful and accurate outlook. While the circumstances aren't as challenging, there are a number of confusing signals right now about the strength of the economy. We continue to believe that our coverage universe is likely to generate modest y/y earnings growth. When compared to other industrial sectors, any growth may make the freight transportation sector the outlier. We've repeatedly heard the cliché "nice house in a bad neighborhood" recently to describe this outlook. However, the industrial sector broadly speaking is currently more like a slum so any house may be nice. Ultimately, whatever earnings growth our coverage universe generates is likely to be uninspiring, at least until the economy shows a better growth profile itself.

RBC 2016 Rails Outlook: Q4/15 is shaping up to be a very difficult quarter for the rails and we are cutting our estimates across the board. Very few segments have been spared, with the worst trends in Bulk (particularly Coal), Metals Ores & Metals and Petroleum & Petroleum Products. With overall rail traffic down -6%Y/Y QTD as a group (an acceleration from -3%Y/Y for Q3), volumes are notably lower than our prior forecast.

RBC U.S. Autos & Auto Parts 2016 Outlook: In this report, we identify 13 key topics for 2016 along with our view on each topic and how it can impact the different companies and stocks. In addition, we summarize our view and thesis for each company as we turn the page to 2016. Please see Exhibit 102 and 103 for our estimate and PT changes. The topics we tackle include: 1) US cycle debate (our view: stay near current levels for ~2 more years before decline starts); 2) autos in a rising rate environment (shouldn't impact demand too much, but stocks historically haven't fared well); 3) US vehicle pricing (peak); 4) OEMs content costs rising (hurts profitability); 5) OEM/supplier relations (rhetoric on more onerous price downs could pick up); 6) China (we are bulls again); 7) Europe (slower growth); 8) auto-tech (active safety to deflect); 9) capacity (increasing, but more flexible than in past); 10) CV & Off-highway (challenging); 11) currency (headwind) and commodities (margin savior?); 12) FCF/balance sheet (still cash returns, but need to start considering the cycle); 13) valuation.

RBC Global Aerospace & Defense 2016 Outlook: So another fun packed year in A&D ends - and we look forward to what 2016 will now bring us. Fundamentally, we find defense to be both the most attractive and most predictable of the two sides of the sector as we start the year. By contrast, we expect the doubt around aerospace that surfaced last year to linger, especially as this up-cycle moves into its 7th year. Throw in the macro issues of geopolitical risk, the global economy, oil, FX and maybe M&A, then investors have plenty of things to keep their eye on as we start yet another campaign.

RBC Smidcap Aerospace & Defense 2016 Outlook: 2015 was fairly tumultuous in Smidcap A&D with some notable outperformers (BAH +16%, HRS +21%) and underperformers (TGI -41%, KLXI -25%). Thematically not a lot has changed for us as we move into 2016 with a general preference for Defense > Aero. However, given the more stock-specific nature of Smidcap A&D we think there's a variety of investment strategies.

RBC 2016 Outlook: Health Care Services: 2015 proved to be one of the more volatile years for investing in healthcare services. Despite generally decent performance leading up to the SCOTUS ruling on ACA in June, sentiment began changing into early Fall as a result of negative headlines on drug inflation, political rhetoric from Presidential candidates, and an increasingly nagging worry over the sustainability of the benefits of the ACA, all of which was immediately followed by generally disappointing 3Q15 results. While we acknowledge the disappointment in 3Q15 earnings seasons, we would argue that a good portion of what disappointed investors was either company-specific or issues that are generally fixable.

RBC Specialty Pharma 2016 Outlook: There is clear debate heading into next year around whether or not the "specialty trade" is over following three years of meaningful outperformance. The headwinds that emerged in 2H2015 eclipsed much of the year-to-date upside and have weighed on sentiment, shifting focus back to fundamentals. While M&A will continue and for some be an important driver, there will be greater deal scrutiny in an environment with fewer targets. But the bottom line is this: fundamentals remain intact against valuations that are back to previous 2013 lows and we think the sector can "grind higher" in 2016. Performance varied widely within the group in 2015, and we want to be selective in 2016. Our top two long ideas in large cap are ENDP and TEVA, top binary small-cap longs are FLXN and AGRX, and favored out of consensus ideas are INSY and SGNT.

RBC 2016 Biotech Roadmap: After five years of a historically bullish outlook and consistent 30%+ returns for the NBI in each of the last three years (vs S&P500 2012-2014 CAGR of +20%), we expect much less outperformance in 2016 for the biotech sector than prior years. We believe the sector could trade in a more modest 15-20% trading band and importantly – investors will have to be much better stock pickers to find winners than in prior years where most stocks simply went up with a tidal wave of investor capital pouring into the space in 2013-2015.

RBC Surgical Robotics & 2016 Market Outlook: Based on our channel checks we see continued strength for ISRG's U.S. general surgery procedures and Xi system placements into 2016. We expect worldwide da Vinci procedures to grow ~14% y/y in 2015/2016. In 2015, we estimate that U.S. general surgery will comprise around half of ISRG's worldwide procedure growth. Our recent U.S. checks support our expectation for continued strong colorectal and hernia trends. Regarding international procedures, we believe there is still plenty of runway ahead. We estimate that ISRG is only ~30-40% penetrated in its target international prostatectomy markets and ~10%-15% penetrated in international hysterectomy markets. Separately, regarding da Vinci Xi, we note that da Vinci Si system sales did not peak until ~3-3.5 years after initial launch. Xi has comprised ~3/4 of ISRG's total system placements over the past 12 months. We believe ISRG still has several years of solid growth with da Vinci Xi.

RBC U.S. Health Care IT 2016 Outlook: We are adjusting our outlook for the Health Care Information Technology sector to a more positive bias given that our channel checks indicate a demand environment that is gradually returning to health. While we believe that the "Demand Gap" that we called out in 2014 remains largely in place today, the perceived imminence of new reimbursement models for health systems and physicians is—after several years of anticipation by market participants—finally driving the provider market to prepare for the next investment wave in the form of "Population Health" applications and infrastructure to manage these new reimbursement environments more efficiently.

RBC 2016 Medical Supplies and Devices Outlook: Key Themes, Catalysts and Ideas: We were cautious on the Medical Supplies and Devices sector going into the early part of 2015, as we were concerned that the stronger US dollar would lead to conservative forward-looking guides. Accordingly, we recommended that investors buy the sector on dips last January and February. Today, we are far more bullish on the sector going into 2016, as any currency headwind should be offset by the suspension of the med tech tax. To be clear, while the med tech tax will not serve as a perfect offset for all our companies, and management teams will likely reinvest some of the gains, we believe the set up to be long the sector at the beginning of the year is far more favorable today than one year ago. On a constant-currency basis, we believe that our large-cap universe is set up to post another year of mid-single-digit revenue growth and high-single digit to low-double-digit EPS growth, and valuation for the sector remains compelling. Excluding outliers (EW, HOLX and ISRG), our large cap universe trades in-line with the S&P 500 on 2017 earnings multiples, despite superior EPS growth. In our small to mid-cap universe, we believe that 2016 will be a catalyst filled year, owing to clinical trial read-outs and new product launches.

RBC Pharmaceutical/ Medical Distribution 2016 Outlook: We expect low-single-digit inflation for generic drugs and low-double-digit to mid-teens inflation for branded drugs to continue in 2016. When combined with our low-single-digit prescription growth forecast, we target sales US pharmaceutical market growth of 5% to 6% in 2016 (versus 12% in 2015), assuming no repetition of the "Hepatitis C" phenomenon of 2014/2015 and, on the flip side, no draconian price-cuts forced on the pharmaceutical industry (which we view as a low-probability event at this time). Growth continues, but at a slower pace than in recent years.

RBC Telecom & Infrastructure 2016 Outlook: We would overweight datacenters/hosting followed by the competitive broadband providers and towers. Underlying demand drivers remain robust for both datacenters and broadband services.

RBC 2016 U.S. Internet Sector Outlook: Going into 2015, our top 3 picks were AMZN, FB and NFLX. Turns out 2015 was the year of FANG, with Facebook, Amazon, Netflix and Google (FANG) rising an average 81%. While valuations today aren't nearly as compelling as they were going into 2015, we remain very positive on fundamental trends, view valuations as offering modest upside, and believe 2016 could be the year of the BAGEL: BABA, AMZN, GOOGL, EXPE & LNKD.

RBC IT Hardware and Semiconductors: 2016 Outlook: 2015 proved to be a substantially more volatile year for IT Hardware/ Semiconductor companies, in Hardware we saw companies struggle within acceleration of public cloud solutions coupled with headwinds in PC/server markets. In semiconductor & component land we saw challenges from muted organic growth not just from slowing legacy technology but also the industrial vector. In 2016, we think growth will remain muted but key upside/downside vectors include: China economic dynamics and Industrial recovery on a global basis. The names we would focus on are: IT Hardware (AAPL large-cap, CDW small-cap & for high risk/high reward – STX or WDC). In Semiconductor sector (AVGO and TXN in large cap, ADI in mid-cap, and MSCC and DLG in small-cap). Finally in the Technology supply chain (APH & TEL in mid-cap and FLEX in small-cap).

RBC 2016 Software Sector Outlook: Although our software universe as a whole was effectively flat vs. the market in 2015, large-cap software was dominated by names such as PANW +53%, CRM +33%, ADBE +31%, NOW +29% and MSFT +21%. Similar to 2015, a core tenet in picking our favorite names is next generation/ disruptive software or names that have reinvented themselves coupled with improving margins. We don't see a change to that thesis in 2016 and expect the SPAWNS (Salesforce, Palo Alto, Adobe, Workday, ServiceNow, Mr. Softy (Microsoft) and Splunk) to outperform again.

RBC Mobile, Cloud, IoT Technologies- Outlook 2016: Workloads are migrating at a fast rate to the public cloud, leaving investors debating about future prospects of vendors relying on hybrid/private clouds. Our analysis shows an accelerating public cloud adoption for AWS, GovCloud, Azure, and other services, which means a narrowing opportunity for traditional vendors and subsequent stock multiple compression.

RBC 2016 U.S. Power & Utility Best Ideas Portfolio: After a disappointing year during which the Philadelphia Utility index (UTY) was down 9.8% (versus the S&P 500 down 0.7%), we believe we have found a better entry point for defensive utilities. P/E multiples have come down from their peak a year ago and trade at a 4% discount to the SPX versus a 14% premium a year ago. Gas utilities (LDCs) are experiencing higher P/E valuations over other utilities, driven by merger activity. We are upgrading Black Hills to Outperform from Sector Perform to add to our list of stocks with defensive characteristics; a successful implementation to rate base gas reserves this year should de-risk Black Hills' earnings. It joins Edison International and PNM Resources as one of our top defensive names. On the other hand, we are downgrading The Laclede Group to Sector Perform from Outperform, due to its outperformance in 2015. Among diversified utilities, we favor NextEra Energy.

RBC U.S. REIT 2016 Outlook: Early in 2015, we noted that REIT fundamentals were strong but that the 2014 stock price performance had been excessive. As such, we called for a down year in the RMZ, with our target 1100. At YE15, after 12 months of significant volatility, the RMZ indeed settled at 1100.94, down 1.5%. The RMS total return index eked out a modest gain of 2.5%. This year marked only the fourth year in the last 16 of a single digit total return for the RMS. Fundamentals, however, were largely strong in 2015, and we expect that they will be just as strong in 2016, setting the table for a nice move higher in the RMZ. Our target for 2016 is 1175, suggesting an RMZ increase of 6.7% and a total return of 10.7% when a 4.0% average dividend yield is included. Don't get us wrong, we don't expect much from the overall US economy in 2016. With a ~50 basis point increase in interest rates already priced into REIT shares, new supply still moderate, and the REITs bigger and stronger than ever, however, we don't really need a roaring economy to drive strong real estate fundamentals for the public sector players. In this report, we detail our outlook for fundamentals, provide extensive reviews of internal and external growth components, and dive deeply into each of the nine key REIT sectors.

Canadian REIT Quarterly – Q1 2016: Eight Themes and Things to watch for in 2016 – We expect lower: 1) investment volumes (at \$22–23B versus \$23–24B in 2015) with the REIT/REOC share dropping as low as 15%; 2) equity issuance (at ~\$1.5B, down from \$1.9B in 2015); and, 3) unsecured debt issuance (also at ~\$1.5B, down from \$3B in 2015). We expect more: 4) fair-value write downs, originating largely from Alberta and certain tertiary markets/assets; 5) currency tailwinds, at least in H1/16 for those with US portfolios; 6) “profile”, with an eleventh GICS sector by September and a REIT within the “TSX 60” index; 7) retailer failures, due to rapidly changing and competitive dynamics; and, 8) M&A and corporate actions, which we believe could result in the loss of one or more “core” names this year. We comment extensively on all herein.