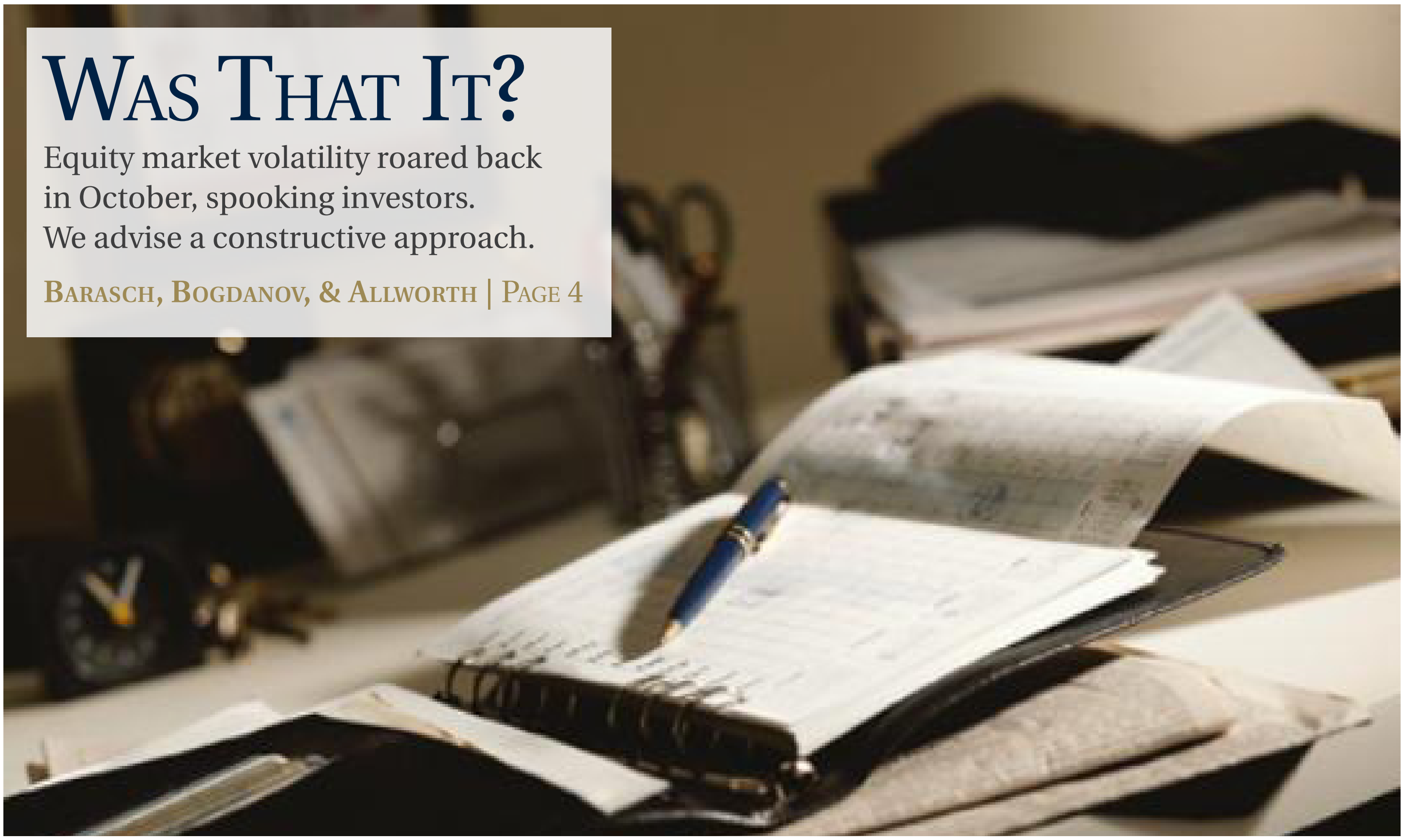
RBC WEALTH MANAGEMENT

GLOBAL INSIGHT

PERSPECTIVES FROM THE GLOBAL PORTFOLIO ADVISORY COMMITTEE



WAS THAT IT?

Equity market volatility roared back in October, spooking investors. We advise a constructive approach.

BARASCH, BOGDANOV, & ALLWORTH | PAGE 4

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All values in U.S. dollars and priced as of market close, October 31, 2014, unless otherwise stated.

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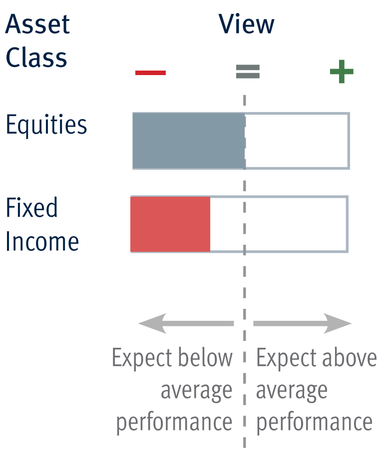

See "Views Explanation" below for details
Source - RBC Wealth Management

Equities – Average Performance =

- The sell-off in the first half of October, followed by the recovery in the second half, is a reminder to stay focused on long-term portfolio positioning, rather than get caught up in short-term market gyrations.
- While we would expect volatility to persist near term and would not be surprised if some markets retest their October lows in the coming months, we continue to believe equities will deliver worthwhile returns in 2015.
- Corporate earnings should continue to grow as the U.S. economy gains traction and the eurozone slowly regains its footing. Valuations, while slightly above historical averages for most markets, have room to expand if confidence improves. Investors should maintain their targeted, full allocation to equities.

Fixed Income – Below-Average Performance –

- The volatility that shook fixed income markets in October could resurface as investors contend with divergent monetary policies. The Federal Reserve and Bank of England seem on a path toward slowly hiking interest rates at some point in 2015, while the European Central Bank appears headed for greater, non-conventional stimulus, and the Bank of Japan is set to become extraordinarily loose.
- Despite the likely shift in Federal Reserve policy, low interest rates should linger for some time. The eurozone's below-trend economic growth and deflation risks should help keep a lid on yields across the globe.
- Forthcoming market volatility could create select opportunities in the credit sector, as key segments should be supported by solid corporate earnings growth and low default rates. We would continue to position portfolios defensively by concentrating on high-quality, liquid intermediate-duration securities that are diversified across sectors.

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.

Focus Article

Was That It?

The equity correction came and went in almost a blink of an eye. We can't rule out additional volatility before year end. However, we think most equity markets have already tipped their hands with respect to where they could be headed in 2015—higher.

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Equities sold off sharply during the first half of October as Europe reopened some old concerns. Recession and deflation risks resurfaced for the region alongside complaints about timid policy actions and a steep decline in crude oil prices. Softness in some U.S. economic indicators and shifting views about Federal Reserve policy added to global slowdown risks.

Despite some very large daily drops and even larger intraday moves, the S&P 500 failed to post the 10% decline most correction-watchers have been waiting three years to see. However, other major indexes obliged including: the NASDAQ, Canada's TSX, Japan's TOPIX, the FTSE All-Share, and the Eurostoxx.

But no sooner than the correction arrived, most indexes surged back and erased much or all of their losses by month's end.

A slight uptick in European data threw cold water on the notion that the region was about to slide back into the abyss. And unexpected, unorthodox easing moves by the Bank of Japan jolted equity markets upward at month's end.

The moves were forceful and broad-based. Japan's market led the resurgence. The S&P 500 rallied convincingly to an all-time high. Markets in Europe managed to recoup about half of their losses, and Canada bounced modestly.

Corrections Come in Different Flavors

We wrote back in May about the nature of stock market corrections. We broke down market corrections into three buckets:

- *Mild corrections:* Pullbacks of 5%–10% that take about one month to reach a bottom and an additional two months to see the market recover to prior highs.
- *Intermediate corrections:* Drops of 10%–20% that take about four months to reach a bottom and another four months for the market to reach prior highs.
- *Bear markets:* Declines of greater than 20% that take 18 months to reach a bottom and an additional 26 months for the market to climb to prior highs. They are almost always associated with a U.S. recession. We continue to rate U.S. recession risks as very low; the usual precursors of such an extended economic downturn are nowhere in evidence.

Even if volatility reasserts itself in coming weeks or months, we believe it would likely fall into the "mild" category for most equity markets, where the sell-off is generally swift and the recovery often just as rapid.

U.S. Is Positioned to Lead

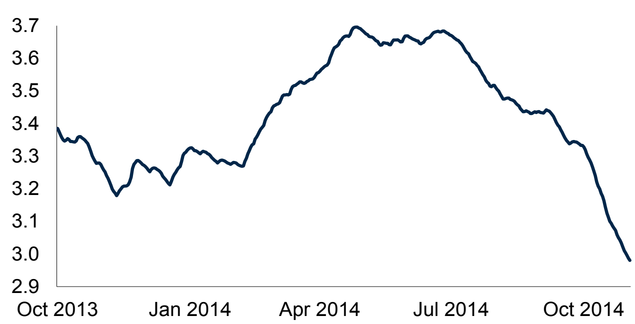
The global backdrop is supportive of higher equity prices in 2015, in our view, because it is underpinned by the world's largest economy. After exceeding expectations with 3.5% growth in Q3, we estimate U.S. GDP can grow above trend at 3% in Q4 and 3.2% in 2015.

Recently, U.S. manufacturing activity rose to its highest level since early 2011. More importantly, the new orders leading indicator signaled this sector should be sturdy, at the very least, or could even accelerate, in the months ahead. The service sector, which comprises roughly 70% of economic activity and 80% of employment, remains strong. The U.S. economy has created an average of more than 225,000 jobs per month this year and while wage growth has been muted, most surveys suggest the jobs picture is becoming tighter, which we believe will translate into wage growth in coming quarters.

Add to this the sharp decline in gasoline prices, which acts as a de facto tax cut for consumers, and the stronger U.S. dollar, which can have a similar effect via lower import prices, and we believe the U.S. set-up remains constructive. The economy should be able to withstand headwinds from Europe, particularly because it is so insular—it's mainly driven by domestic services activity.

The Plunge in Gasoline Is a De Facto Tax Cut

Daily National Average Regular Unleaded U.S. Gasoline Price



Source - RBC Wealth Management, RBC Capital Markets US Economics, American Automobile Association, Bloomberg

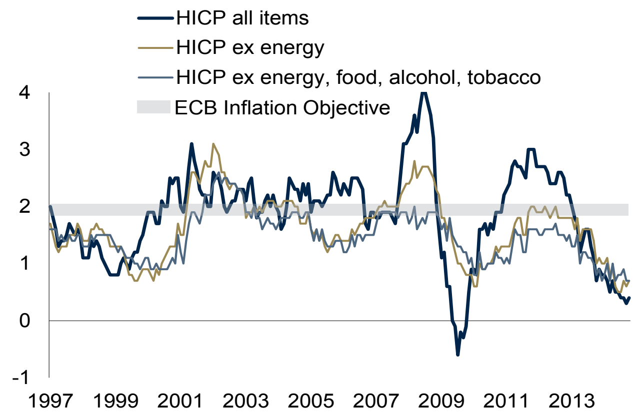
If gasoline stays near the current level for the rest of the year, it would add roughly $20B to consumers' pocketbooks in Q4 vs. last year.

Europe Will Take More Time

The region's economy remains the great restraining force globally. A fresh batch of negative German, French, and Italian economic data, persistently low eurozone inflation, and ongoing discord among central bank and national policymakers have heightened risks the region is downshifting again.

However, this is nothing new. European fiscal and labor reforms have been too timid for years, and the European Central Bank has yet to use all of the arrows in its quiver. It will likely take some time and more political compromise for Europe to emerge from its multiyear slump, in our view. If the region does indeed slip back into recession, we believe it would be mild and would force policymakers to deliver more stimulus and reforms.

Eurozone Consumer Inflation (% y/y)



Source - RBC Wealth Management, Bloomberg, European Central Bank; October 2014 data (final data points) are preliminary, subject to revision.

The ECB's policies have yet to arrest low and declining inflation. More stimulus may be forthcoming.

China's Transition Impacts Commodities

Chinese growth has slowed from 10%+ a few years ago to around 7% today. And the nature of this growth has changed as China is in the midst of transforming its economy from an investment-driven model to one that focuses on consumption. This will take many years to play out, and we believe it will eventually make China more stable, albeit slower growing.

In the interim, China should contribute less to global growth, and its consumption-driven model will be less "commodity-centric." This creates a headwind for more commodity-heavy economies such as Canada, Australia, and many emerging markets. But this transition period should not cause the global economy to buckle.

Valuations have room to expand if confidence improves. We would hold equity exposure at the benchmark level.

What About "Wild Card" Risks?

Outside factors have the potential to weigh on global equity prices at times. We view these as "wild card" risks that are difficult to quantify:

Ukraine/Russia: The conflict remains a source of uncertainty and instability and has had a significant negative impact on eurozone sentiment, particularly in Germany.

Middle East: The rise of ISIS has raised risks the U.S. may again get dragged into an open-ended Middle East conflict, and has increased terrorism risks in North America.

Ebola: While the risks of a developed market outbreak remain low, should more cases emerge in the U.S. or another major developed country, it could negatively impact consumer confidence and pressure growth.

We are not dismissive of these risks; they can generate volatility from time to time. But we would avoid making major portfolio decisions based on the possibility these could surface because their impact on the market would likely be transitory.

RBC Is Constructive for 2015

We believe the quick snap-back of global equity markets, coupled with strength in the U.S. economy, bodes well for equity prices in 2015. Corporate earnings should continue to grow as the U.S. economy gains traction and the eurozone slowly regains its footing. Valuations, while not cheap for most markets, have room to expand if confidence improves. We would hold overall global equity exposure at the recommended benchmark weighting.

Focus Article

The Cure Within

A radical approach in the fight against cancer is raising the possibility of markedly better treatment outcomes for some types of cancer. Immuno-oncology harnesses the immune system's natural abilities to fight cancer as if it were an infection. Successes on this front in recent years have set off a wave of new therapy development and clinical trials within the pharmaceutical industry.

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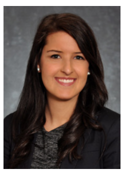

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Nearly everyone has been touched by cancer in one way or another.

Cancer is the second-leading cause of death worldwide after heart disease. The American Cancer Society estimates roughly 1.66 million Americans will be diagnosed with some form of cancer in 2014, with nearly 600,000 fatalities expected this year. The American Cancer Society estimates that by 2030 there will be 21.4 million cases of cancer globally per annum from 12.7 million in 2008.

Cancer is such a pervasive disease that the medical industry has spent trillions of dollars and decades of research attempting to fight it. IMS Health estimates spending on oncology drugs totaled a whopping $91B in 2013 alone. While the struggle remains daunting, a small mountain of evidence is growing that an emerging treatment—immuno-oncology (I-O)—could be a long-term solution.

Some in the medical community have already deemed I-O a "breakthrough," which is not a term researchers and physicians—cautious by nature—bandy about loosely. While immunotherapies are still in the early stages of development, we believe this groundbreaking research could permanently change the fight against cancer. With several therapies already showing positive clinical trial results, there is hope I-O could turn cancer into a manageable disease.

What Is I-O?

The immune system normally detects invasive cells, such as tumours, and in most situations controls or destroys them. However, cancer cells are unique as they evade the immune system by escaping these response pathways.

Understanding how cancer does this is the foundation of I-O research. I-O centers on the development and delivery of therapies that harness the body's natural ability to generate an effective immune response against cancer via several mechanisms:

- Block the immune system's inhibitory signals ("release the brakes")
- Activate immune stimulatory pathways ("step on the gas")
- Recruit the immune system to eliminate cancer cells

This is a radical departure from most established cancer treatments including radiation, surgery, and chemotherapy, which attack the tumour. A beneficial side effect of I-O is that by targeting the immune system and not the cancer, these therapies have the potential to teach the body how to react to and battle various tumour types, creating a lasting defence against recurring cancer.

Opening the Door

Cancer immunotherapy dates back to the late 19th century. In 1891, William Coley, a pioneer of cancer immunotherapy, injected streptococcal organisms into a patient with inoperable cancer and observed that the resulting infection shrank the malignant tumour. However, despite this discovery I-O encountered many setbacks and criticisms.

In the 1970s, I-O exploded as a field of interest for researchers, but clinical trials failed to produce conclusive results. In 1984, a team at the National Cancer Institute achieved its first successful treatment on a patient. The biggest breakthrough in the last 20 years was the U.S. FDA's approval in 2011 of Bristol-Myers Squibb's first I-O drug ipilimumab (a.k.a. Yervoy), which had been in development since the early 2000s.

Today, there are hundreds of promising cancer immunotherapy treatments making their way through clinical trials.

Paired with the rapidly developing capabilities of DNA-sequencing machines that can map a patient's genetic makeup, recent oncology treatments have shown unprecedented results on various types of cancer. Technological innovation and advancements in oncology therapies are opening the door for various cell-based gene therapies and targeted treatments for cancer patients, and may inspire new approaches to treat other diseases in the future.

I-O Focused on Lead Indications of Lung, Skin, and Kidney Cancer

Company	Agents	Core Indications	Consensus 2020 Estimate ($B)
Bristol-Myers Squibb Co.	Yervoy, Nivolumab	lung, skin, kidney	7.2
Merck & Co., Inc.	MK-3475	lung, skin	3.3
Roche Holding AG	RG-7446	lung, skin	1.4
AstraZeneca PLC	Tremelimumab, MEDI 4736	multiple	1.5
	TOTAL		~$13

Source - National research correspondent, company data, Bloomberg, EvaluatePharma

Data suggests these therapies are set to redefine standard of care in lung cancer, melanoma, and renal cancer.

The Silver Bullet?

Until recently, I-O has been considered an experimental approach. But recent developments, paired with promising clinical trial results, have some touting I-O as the most exciting development in cancer care in years.

The most optimistic outcome from I-O treatment would obviously be a cure. A more-realistic—yet still groundbreaking—result would transform cancer into a chronic, manageable disease for many patients. So, the question remains: Have scientists found a potential silver bullet?

The short answer is it's too early to tell. I-O is a rapidly evolving field that is changing patients' survival expectations, and it is important to remember I-O is still in its infancy. I-O's ultimate success hinges on its ability to boost survival rates and the number of cancer types it is effective against. I-O has had early success on melanoma, lung, and renal cell carcinomas, which the immune system is relatively good at recognizing as they develop. Researchers are now looking to combination therapies (pairing I-O with traditional targeted therapies) to broaden the range of tumours against which I-O might be successful.

Investing in the I-O Theme

I-O could prove to be a multi-decade pursuit for the pharmaceuticals industry. Currently, there are seven major I-O therapies at various stages in over 50 drug trials. Analysts estimate peak sales for the therapies in development could represent a $20–$40B opportunity. The table provides a look at the four largest I-O drugs in development.

Agent	Developing Company	Treatment Potential	Estimated Sales Potential
Yervoy	Bristol-Myers Squibb Co.	Antibody for metastic melanoma	$16.0 billion
Nivolumab (nivo)	Bristol-Myers Squibb Co.	Multiple indicators including melanoma, non-small-cell lung cancer, and renal carcinoma (kidney).	$14.1 billion
Lambrolizumab (lambro)	Merck & Co., Inc.	Focused on melanoma. Likely to reach market before BMY's nivo.	$7.5 billion
MPDL3280AS	Roche Holding AG	Bladder cancer	$2.2 billion

Source - JP Morgan

Bristol-Myers Squibb Co. (BMY, $58.19)

JPMorgan, Overweight (PT: $60); S&P, Hold (PT: $57)

I-O remains a core focus of Bristol-Myers. The company was the first to bring a viable checkpoint inhibitor therapy to market (Yervoy), is the furthest along in combination therapy development, and recently doubled the R&D investments in its I-O pipeline. There should be data on numerous catalysts over the next 12–18 months.

At a forward P/E of roughly 27x, BMY shares carry the most demanding multiple of the major pharma names. But its earnings growth profile appears to be the most attractive of its peers. As an established leader in I-O, and with numerous near-term pipeline prospects, we view this as the best-positioned name in the I-O space.

Merck & Co., Inc. (MRK, $57.94)

JPMorgan, Overweight (PT: $65); S&P, Hold (PT: $60)

While not as advanced as Bristol-Myers in I-O, Merck's risk/reward is compelling given the company's relatively underappreciated I-O platform. Some investors believe Merck's lambrolizumab could be more effective than Bristol-Myers' anticipated blockbuster, nivo. Merck has relatively limited experience in oncology compared to its competitors. Long term, we view MRK as an interesting I-O opportunity; near term, non-core asset divestitures and its Hep-C launch should be meaningful catalysts for the stock.

Roche Holding AG (RHHBY, $36.81/CHF 283.70)

JPMorgan, Overweight (PT: CHF 290)

In the pharmaceuticals industry, Roche is the most exposed to cancer at about 48% of sales. Roche has lagged Bristol-Myers' and Merck's I-O pipeline progress. However, its breadth and depth of experience in oncology gives us confidence it can emerge as a formidable player. Near term, Roche plans to publish data on four drug trials. If these trials meet end points, we believe earnings guidance could move higher.

Global Equity

Shaken But Still On Track

October saw all major equity markets correct, most quite substantially. Most major indexes corrected by more than 10%, although the S&P 500 decline stopped just short.

A rally took hold mid-month that has taken American indexes convincingly back up to all-time highs. The Shanghai and Tokyo markets are also near their highs of the past couple years. Most other indexes remain roughly half way between their correction lows and their earlier highs.

At an undemanding 15x forward earnings, with its newfound economic momentum forecast to extend through next year, and with the precursors of any future economic/earnings downturn nowhere in sight, we expect the U.S. market will deliver worthwhile returns in the year ahead. We also like the equity equation facing markets in Japan, China, and much of the rest of Asia.

Canada, the U.K., and Europe should benefit from stronger U.S. growth, but equity market performance is likely to be less vibrant as they contend respectively with the continuing depressing effect of slower Chinese growth on commodity prices, the policy uncertainties attending the upcoming U.K. election, and the debilitating impact of the Russia/Ukraine impasse on confidence.

For a fuller discussion of our assessment of the correction and equity market expectations see "Was That It?" on page 4.

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Equity Views

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

Source - RBC Wealth Management

Regional Highlights

United States

- Following the sharp sell-off in the first half of October, the S&P 500 and Dow Jones Industrial Average rebounded forcefully, and closed the month at all-time highs. Strong corporate profits, particularly from bellwether companies, and above-consensus Q3 GDP growth of 3.5% helped boost the market.
- While the major indexes could consolidate their recent gains over the near term and may be confronted with more volatility, we expect solid gains next year. We forecast 3.2% GDP growth in 2015, which would support S&P 500 earnings growth of close to 10% y/y.
- Furthermore, 2015 will represent the third year of the presidential cycle (the year that precedes a new election). The third year is typically the strongest for the stock market. Between 1945 and 2013, the S&P 500 rose 88% of the time during the third year, with a 16.1% average annual gain (see chart next page). Both major political parties typically have an incentive to "do no harm"—and even some good—ahead of a presidential election (although we

acknowledge that given the rancor in Washington, this time could be different).

- We continue to favor large-cap stocks and maintain overweight stances for the health care, industrials, and financials sectors. Health care fundamentals should remain sturdy. Solid earnings and positive forward guidance from leading industrial companies bode well for the sector. Bank stocks should strengthen heading into the Fed's first rate hike, which may come in mid-2015.

Canada

- We recommend market weight exposure to Canadian equities.

- We like the set-up for the Canadian banks over the next three to five years as valuations remain near historic norms, while dividend yields and dividend growth are likely to offer investors a compelling alternative to the fixed income market. The housing market remains a concern; however, we believe that absent a marked deterioration in domestic economic fundamentals, a sharp downdraft in prices is unlikely.

- We favour exposure to Canadian banks and life insurance companies, as well as consumer and utility names, given broad market volatility. Energy and energy services stocks may present more aggressive trading opportunities given current valuations.

- We would continue to avoid exposure to gold companies, preferring direct bullion exposure, while we would be cautious with overall exposure to midstream pipeline companies as we believe valuations are stretched.

Continental Europe & U.K.

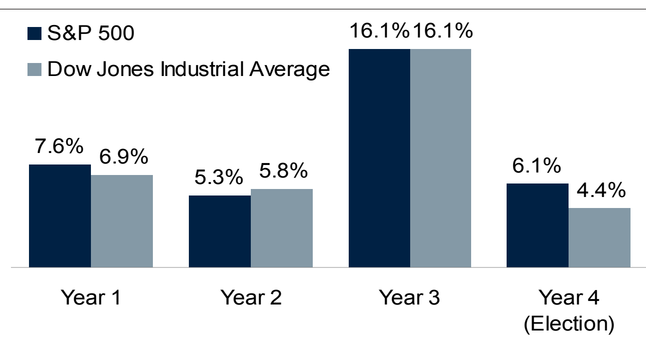
- High levels of government debt, stubborn fiscal deficits, austerity, deflation, and 2015 elections in the U.K. and Spain make for a complicated equities picture.

- In the short term, the weakening of the eurozone's economy is taking its toll. Corporate consensus earnings downgrades have resumed. This is less an issue in the U.K., where 2015 consensus expectations of 5% EPS growth are modest; but in Europe, analysts have penciled in a lofty 15%, which seems vulnerable.

- With the recent correction, value is starting to emerge in the U.K., but less so in Europe, which is still trading above its 10-year P/E average just as earnings forecasts are retreating.

- The recent stress tests for banks could pave the way for a eurozone credit recovery. Nevertheless, we would retain a defensive bias going forward.

Average Annual U.S. Returns by Election Year (1945–2013)



Source - RBC Wealth Management, Bloomberg

U.S. returns tend to be strongest during the third year (the year before the presidential election).

- We would position portfolios for European quantitative easing (QE) given the weak economic environment, favouring stocks with high and growing dividends and/ or a high percentage of international revenues (such as in the food & beverage and health care sectors). QE should not only contribute to currency weakness, but also ensure the search for yield continues.

- QE, however, is no panacea. Without deep reforms, there is less chance of sustainable growth. A rumoured fiscal stimulus in the eurozone (the Juncker Plan) would need to be convincing to have a lasting effect.

Asia

- Equities in Asia ex-Japan pulled back sharply in the first half of October, although the Shanghai A-share index has been strong in recent months. We reiterate our positive view based on strong earnings growth combined with undemanding equity valuations. Consensus forecasts for 2015 show double-digit earnings growth for China, India, South Korea, and Taiwan.

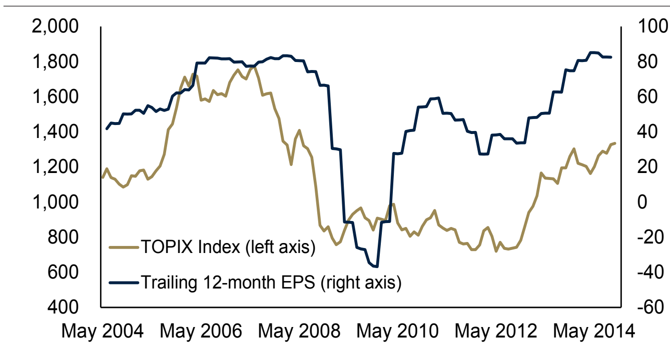
- Economic data in China has been steady, although housing remains in a period of weakness. The leadership continues to push through policies that encourage the influence of market forces in the economy, increasingly positioning the market as "decisive," a critical change of direction, in our view, established in the Third Plenum at the end of 2013.

- A risk to our positive view on Asia ex-Japan equities would be a deceleration in global growth.

- We advise accumulating Japanese equities. Please see our special report, *Japan: Abe, Abe, and Away*. Further, significant stimulus from the Bank of Japan at the end of October is bullish for stocks. The bank has increased its target for enlarging the monetary base to ¥80T from ¥60–70T; will extend its purchases of Japanese ETFs; extend the duration of its bond portfolio; and increase the size of bond purchases. The Government Pension Investment Fund, the largest such fund in the world, announced that it will raise its target asset allocation for Japanese stocks to 25%.

- Reporting season has begun strongly. Consensus forecasts moved higher again, helped by another leg down in the yen and lower oil prices. The current forecast of 95 for TOPIX earnings is very close to the peak earnings forecast of 102 in 2008, at which time the index was approximately over 40% higher. The TOPIX trades at an undemanding 13x, low relative to global stocks.

Japan's Equity Index vs. Earnings

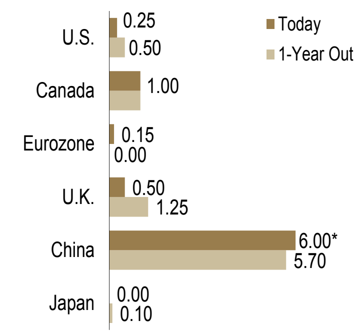


Source - RBC Dominion Securities Inc., Bloomberg; data through 10/31/14

While earnings for the benchmark TOPIX Index have reached the high of the prior cycle in 2008, stock prices remain significantly lower.

Recent Volatility Could Linger

Central Bank Rate (%)



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

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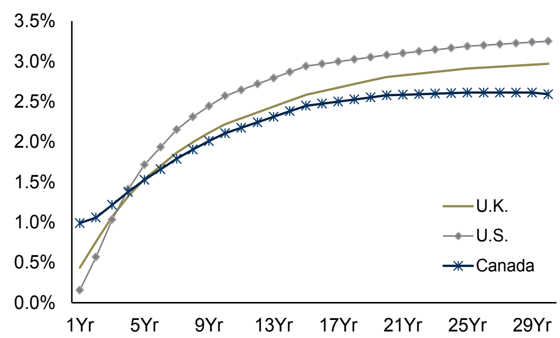
Recent fixed income market volatility could become the norm as 2015 approaches. Concurrent with a move toward more-normal monetary policy in the U.S., the European Central Bank (ECB) is embracing greater stimulus to ignite growth and combat the prospect of deflation in the eurozone. This policy divergence could lead to greater interest rate and credit markets volatility as investors digest future policy and the likely implications for capital flows.

In the U.S. and Canada, we continue to believe the greatest risk is not in interest rates but in credit risk. Thanks to voracious investor demand, U.S. investment grade spreads remain close to the tightest levels of the cycle, despite global macroeconomic headwinds and mixed domestic data in October. In Canada, spreads in the investment grade space are at the 15-year average despite BBB credits comprising the highest proportion of the sector on record. Thus, investors are receiving only average compensation for above-average risk. A selective approach to credit, targeting specific parts of the yield curve, remains our core strategy in both markets.

In Europe, we remain constructive on select financial issues within the corporate sector as monetary stimulus is transmitted into the real economy. We are less sanguine outside of the financial sector as tight spreads do not adequately compensate investors for the risk of M&A activity or worse-than-expected earnings.

Sovereign Yield Curves



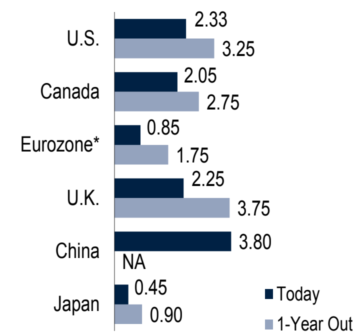
Source - RBC Wealth Management, Bloomberg; data through October 2014

Regional Highlights

United States

- Federal Reserve officials, at the most recent FOMC meeting, struck a more-hawkish tone citing gradually diminishing underutilization of labor resources and linking current low inflation to low energy prices. They do, however, continue to emphasize the "data dependency" of future policy decisions, which could result in the first rate hike coming sooner or later than expected. At this point, however, the consensus remains it will deliver the first rate hike in eight years at the June 2015 FOMC meeting.

- Credit market volatility kicked into high gear in October as the addition of liquidity risk to global growth concerns created a combustible mix. This mix suggests volatility will be a factor to deal with going forward. In our opinion, this may create much-better opportunities for investors than those available in the "yield-chasing" days earlier this year. Strong corporate earnings and low default rates will continue to support credit, 10-Year Rate (%)



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

and we think selective, patient investors will be rewarded.

- Our views remain largely unchanged—rates will stay lower for longer and there are/will be opportunities in credit. We believe that by positioning portfolios in intermediate maturities and by diversifying across credit, investors will benefit from relatively steep yield curves and attractive cash flows. In our opinion, structuring a portfolio this way is far better as a defensive alternative than looking at cash, which still earns nothing.

Canada

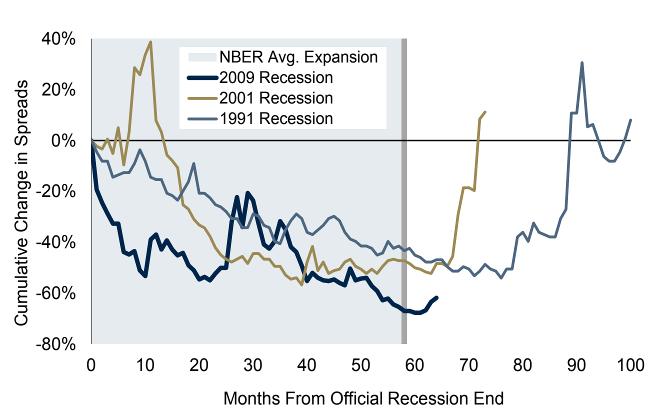
- Recent market activity and comments from the Bank of Canada have reduced the immediacy of rate hike expectations in Canada. Investors should focus on intermediate maturity bonds with exposure to selective credits, enabling investors to benefit from yield roll-down and credit enhanced yield without taking on undue duration risk.
- As a result of oil price weakness, we are monitoring the credit profile of bonds in the energy sector as recent spread widening may present buying opportunities.
- Significant selling pressure has resulted in the preferred share market declining about 1.35% from September 1 to October 15. While the market rebounded somewhat at the end of the month, we caution that there may be another leg of selling before year end. Investors should continue to be selective, keeping investments to high dividend perpetuals yielding 5% or more and high rate-reset issues.
- Although GIC yields came down during the month as a result of lower government bond yields, GICs continue to offer among the best coupon returns in the 1- to 5-year space. However, the income pickup on offer for the past several months has now diminished, leaving GIC yields in line with investment grade yields. Investors should look at options in the GIC and corporate spaces before deploying cash into the shorter-dated space.

Continental Europe & U.K.

- The European fixed income market experienced a sharp increase in

Investment Grade Corporate Bond Spreads

Cumulative Spread Change From Official End of Previous Three Recessions



Source - RBC Wealth Management, Barclays, NBER, Bloomberg

Though there are reasons to expect that this expansion will last longer than average, the risk of higher credit spreads is growing.

volatility during October. The cause looks, for now, to be rooted in the fear of economic deterioration rather than a significantly different macro picture. The increasing spread gap between the U.K. Gilts and the German bond markets broke down and may suggest that the market has established a ceiling to the interest rate differentials it can handle in the global low yield environment.

- The eurozone bond market has been torn between global growth concerns and the actions of the ECB. The ECB has introduced further measures to kick start inflation, but so far there has been little evidence it has had an impact. The market is flirting with further QE measures by the ECB, which is supporting peripheral bonds. We continue to see value in the second tier sovereign issuers in response to any spread widening.

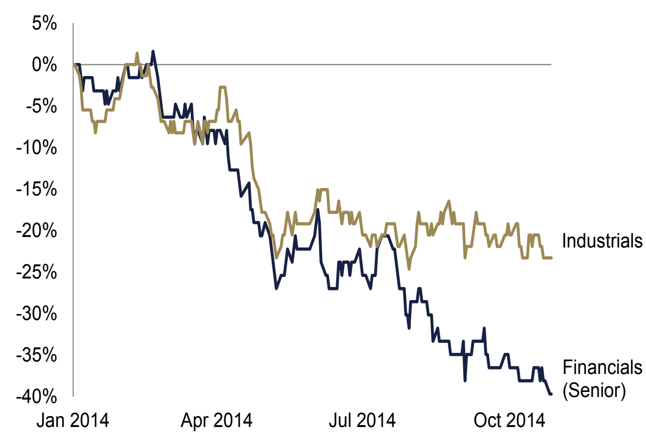
- The corporate bond market has not been immune to the recent bout of volatility. However, the ECB's latest Comprehensive Assessment, which combines an asset quality review with a macro stress test, gave a relatively reassuring picture of the European banking landscape. We remain constructive on the financial space and see scope for further spread compression as the ECB's actions are starting to have an impact on the real economy.

- Spreads on non-financial corporate issues remain vulnerable to weak quarterly results or potential M&A activities, which can have a severe impact on issuer-specific spread performance. We remain selective on non-financial corporate issuers with an active management approach to limit any impact from a potential sell-off in specific issuers.

The eurozone bond market has been torn between global growth concerns and the actions of the ECB.

Corporate Spreads: European Financials Outpacing Industrials

Percentage Change in Spreads Year to Date



Source - RBC Wealth Management, Bloomberg

The ECB's May announcement of further policy support triggered a rally in financials. Economic concerns have weighed on industrials.

Commodities

Commodity Forecasts

	2014E	2015E
Oil (WTI $/bbl)	96.09	86.50
Natural Gas ($/mmBtu)	4.39	4.00
Gold ($/oz)	1,285	1,300
Copper ($/lb)	3.15	3.00
Corn ($/bu)*	3.55	3.92
Wheat ($/bu)*	5.20	5.68

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

Gold

- Gold slumped to a new multi-year low at month end.
- With systemic risks fading, a mixed set of macro drivers, and levelling supply/demand trends, our expectations for the price of gold are limited. Gold has traded between roughly $1,200 and $1,400/oz over the last year. We do not see a significant change in fundamental factors that would drive it meaningfully beyond this range for the time being.

Energy

- Weaker-than-expected economic data from China and Europe have tempered global oil demand expectations.
- This diminished demand outlook combined with a surge in supply from Libya and, to a lesser extent, Nigeria has led to a sharp sell-off.
- In the medium term, we expect oil prices (WTI) to remain broadly in the $75–$100/bbl range. Key catalysts include current sanction talks with Iran ending November 24 and the next OPEC meeting on November 27.
- Natural gas storage is a little light heading into winter; however, production gains have been strong in 2014. We continue to expect broadly $3.50–$5.00/mmBtu prices with winter weather the primary near-term driver.

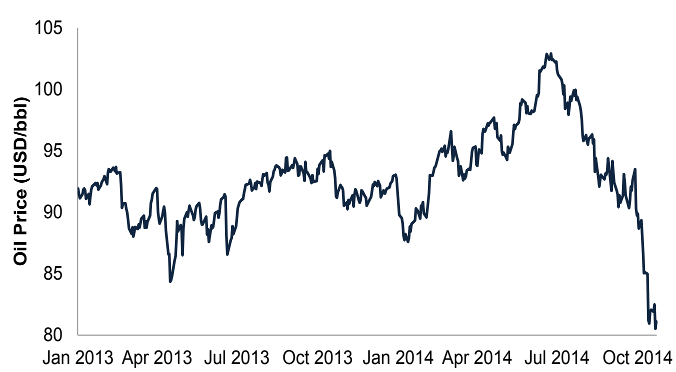
Copper & Industrial Metals

- Despite weakening economic data and a property market correction in China, copper prices have remained resilient around the $3/lb mark.
- RBC Capital Markets forecasts a slight surplus in 2015, and a deficit in 2016.
- If demand conditions were to deteriorate, we could see renewed weakness, but would expect some stabilization of the market around the $2.50/lb level given the industry cost profile.

Corn & Ag Commodities

- Corn and wheat prices have recently moved modestly higher, but remain low on bumper crops this year.
- Potash market conditions have improved modestly with demand forecast at 58–60 million tonnes per annum, at the upper end of recent years; however, this is likely to come down as some one-off factors dissipate.

Oil Price (WTI, January 2013 to Present)



Source - RBC Dominion Securities Inc. and Bloomberg; data through 10/23/14

Oil prices continue to experience a sharp fall due to weaker demand and rising supply.

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Currencies

Currency Forecasts

Currency Pair	Current Rate	Forecast Dec 2015	Change*
USD Index	86.92	93.08	7%
CAD/USD	0.89	0.85	-5%
USD/CAD	1.13	1.18	4%
EUR/USD	1.25	1.17	-6%
GBP/USD	1.60	1.43	-11%
USD/CHF	0.96	1.06	10%
USD/JPY	112.32	120.00	7%
AUD/USD	0.88	0.85	-3%
NZD/USD	0.78	0.75	-4%
EUR/JPY	140.68	140.40	0%
EUR/GBP	0.78	0.82	5%
EUR/CHF	1.21	1.24	2%
Emerging Currencies			
USD/CNY	6.11	6.20	1%
USD/INR	61.37	65.00	6%
USD/SGD	1.29	1.32	2%
USD/TRY	2.22	2.20	-1%
USD/PLN	3.38	3.38	0%
USD/MXN	13.48	12.55	-7%
USD/BRL	2.48	2.25	-9%

* Defined as the implied appreciation or depreciation of the first currency in the pair quote. Examples of how to interpret data found on page 19. Source - RBC Capital Markets, Bloomberg

U.S. Dollar

- Over the last month, we have made significant changes to our year-out currency forecasts. The common theme is for an even-stronger dollar against all major currencies.

- This partly reflects the momentum of the dollar after breaking out of multi-year ranges, but also acknowledges that global rate hike cycles will likely continue to favor the greenback.

Euro

- The ECB implemented a negative deposit facility in June 2014, prompting diversification out of the euro into other currencies. This should please the ECB as a weaker euro may stimulate inflation via an increase in import prices.

- However, the rapid depreciation of the euro this year raises the risk of counter-trend rallies on any positive macro news, such as October's better-than-expected European bank stress tests.

Canadian Dollar

- Canadian terms-of-trade, or the ratio of export prices to import prices, have been flat for several years. But unless the recent decline in oil prices reverses over the winter, there is a risk that deteriorating terms of trade may drag the loonie lower next year.

- Overall, we remain bearish on the currency over the long term as we believe currency depreciation is the most likely tool to correct Canada's stubborn current account deficit.

British Pound

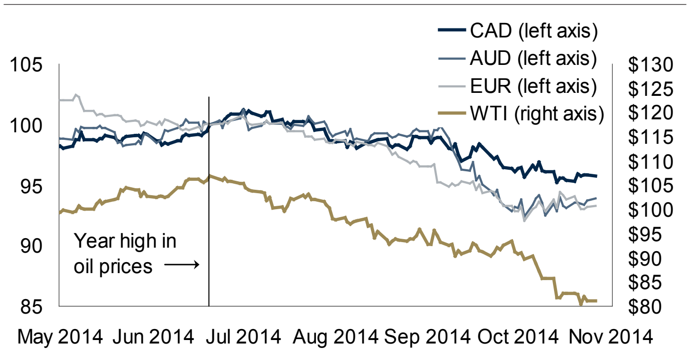
- Over the near term, we think political concerns will take a back seat to rate hike expectations as the key driver of sterling. This may support the currency into year-end given our forecast of a rate hike in February 2015 compared to the market consensus of June.

- However, we are much-more bearish on the pound through 2015, having dropped our 2015 year-end GBP/USD forecast to 1.43 from 1.56. The U.K. has the largest current account deficit of any G10 nation at 5.5% of GDP. If next year's general election results in looser fiscal policies, the pound will likely suffer.

Japanese Yen

- We believe the USD/JPY rate is more leveraged to the U.S. rate cycle than any other currency, because wider interest rate spreads will make selling the yen a cheaper alternative to hedging the yen for Japanese investors. For this reason, we have increased our year-end 2015 target to 120 from 110.

The Swoon of the Loon May Have Further to Run If Oil Remains Weak



Source - RBC Wealth Management and FactSet. WTI represents the front futures contract for light sweet crude oil. All currencies normalized to 100 on 6/20/2014.

The CAD has held up well compared to other "risk-on" currencies since oil peaked in June. But $80 oil may weaken the currency further.

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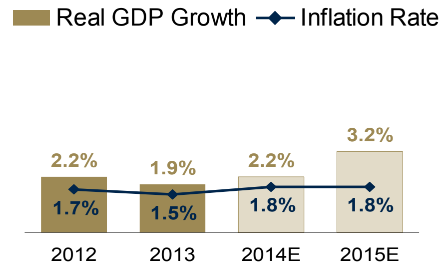
Key Forecasts

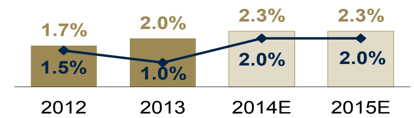


United States — Strengthening

- Q3 GDP growth stronger than expected at 3.5%. Consumer solid but subdued. Gov't, trade, and capex led the way. Housing moderating. Leading indicators, CEO confidence elevated.
- ISM manufacturing output and new orders strong in October. Non-manufacturing data elevated. Unemployment claims continue to fall, employment to grow. Consumer confidence at 7-year high.

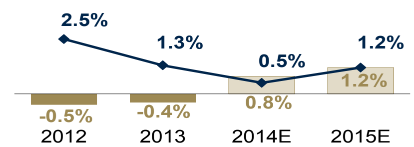
Canada — Trade Driven

- Q3 GDP may ease from strong Q2 due to unusual auto production profile. However, RBC Canadian PMI surged in October. New orders and employment strong.
- Mfg. unfilled orders flat, but near record level. Capex intentions elevated. Housing construction steady. Energy development outlook remains clouded.



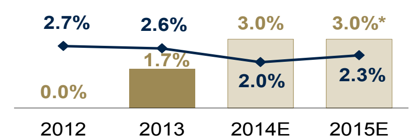
Eurozone — Stagnation

- Q2 the 5th successive quarter of positive growth, still mostly Germany. Italy lagging. Spain GDP growth positive for four quarters.
- Q3 likely weak. Composite PMI still in expansion zone but no discernible momentum. Germany positive but uneven. France/Italy in contraction. Spain readings positive. Bank stress tests–a hurdle cleared.



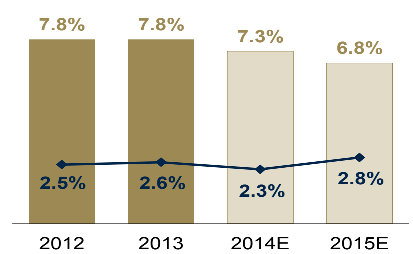
United Kingdom — Strengthening

- Q3 GDP solid, up six quarters running. Led by services, construction, industrial production. October PMIs mixed but elevated. New orders rebounded. Business confidence stronger.
- Employment growing, but wages stagnant. Retail sales off over the summer. GDP pace sustainable for rest of 2014 and 2015, but vulnerable to weak Europe.



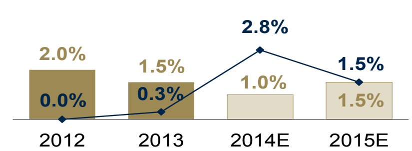
China — Stabilising

- Q3 GDP eased slightly to 7.3%. Manufacturing PMI weaker but still in expansion, Services PMI stronger. New orders keeping factory activity elevated. Exports stronger over the summer.
- Loan growth slowing but still faster than GDP growth. House prices and construction weaker on balance. Government easing liquidity squeeze, but policy growth initiatives remain targeted.



Japan — Volatile

- Q2 GDP weak, but noise from April tax hike still a factor. Leading indicators backed off in August as new orders weakened. Corporate earnings beating expectations.
- Buying/spending on autos and machinery ahead of sales tax increase made for weak Q2 comparisons. Retail sales improving in Q3. Construction spending soft.



* Under Review

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

Market Scorecard

Index (local currency)	Level	1 Month	YTD	12 Month
S&P 500	2,018.05	2.3%	9.2%	14.9%
Dow Industrials (DJIA)	17,390.52	2.0%	4.9%	11.9%
NASDAQ	4,630.74	3.1%	10.9%	18.1%
Russell 2000	1,173.51	6.5%	0.8%	6.7%
S&P/TSX Comp	14,613.32	-2.3%	7.3%	9.4%
FTSE All Share	3,503.46	-0.9%	-2.9%	-2.3%
STOXX Europe 600	336.80	-1.8%	2.6%	4.5%
German DAX	9,326.87	-1.6%	-2.4%	3.2%
Hang Seng	23,998.06	4.6%	3.0%	3.4%
Shanghai Comp	2,420.18	2.4%	14.4%	13.0%
Nikkei 225	16,413.76	1.5%	0.8%	14.6%
India Sensex	27,865.83	4.6%	31.6%	31.7%
Singapore Straits Times	3,274.25	-0.1%	3.4%	2.0%
Brazil Ibovespa	54,628.60	0.9%	6.1%	0.7%
Mexican Bolsa IPC	45,027.52	0.1%	5.4%	9.7%
Bond Yields	**10/31/14**	**9/30/14**	**10/31/13**	**12 mo chg**
US 2-Yr Tsy	0.491%	0.567%	0.305%	0.19%
US 10-Yr Tsy	2.335%	2.489%	2.554%	-0.22%
Canada 2-Yr	1.023%	1.124%	1.112%	-0.09%
Canada 10-Yr	2.048%	2.146%	2.424%	-0.38%
UK 2-Yr	0.655%	0.826%	0.421%	0.23%
UK 10-Yr	2.247%	2.425%	2.617%	-0.37%
Germany 2-Yr	-0.056%	-0.082%	0.115%	-0.17%
Germany 10-Yr	0.841%	0.947%	1.674%	-0.83%
Commodities (USD)	**Price**	**1 Month**	**YTD**	**12 Month**
Gold (spot $/oz)	1,173.48	-2.9%	-2.7%	-11.3%
Silver (spot $/oz)	16.16	-4.8%	-17.0%	-26.3%
Copper ($/ton)	6,761.50	0.6%	-8.3%	-6.6%
Uranium ($/lb)	36.50	0.0%	0.7%	5.0%
Oil (WTI spot/bbl)	80.54	-11.7%	-18.2%	-16.4%
Oil (Brent spot/bbl)	85.86	-9.3%	-22.5%	-21.1%
Natural Gas ($/mmBtu)	3.87	-6.0%	-8.4%	8.2%
Agriculture Index	318.74	9.0%	-9.4%	-12.4%
Currencies	**Rate**	**1 Month**	**YTD**	**12 Month**
US Dollar Index	86.92	1.1%	8.6%	8.4%
CAD/USD	0.89	-0.6%	-5.7%	-7.4%
USD/CAD	1.13	0.6%	6.1%	8.0%
EUR/USD	1.25	-0.8%	-8.9%	-7.8%
GBP/USD	1.60	-1.3%	-3.4%	-0.3%
AUD/USD	0.88	0.6%	-1.3%	-7.0%
USD/CHF	0.96	0.8%	7.8%	6.1%
USD/JPY	112.32	2.4%	6.7%	14.2%
EUR/JPY	140.68	1.6%	-2.8%	5.3%
EUR/GBP	0.78	0.5%	-5.7%	-7.6%
EUR/CHF	1.21	0.0%	-1.8%	-2.1%
USD/SGD	1.29	0.8%	1.8%	3.5%
USD/CNY	6.11	-0.4%	1.0%	0.3%
USD/BRL	2.48	1.3%	4.9%	10.6%

Canada's TSX lagged as commodities slumped.

10-year yields closed down for the month, but not nearly as low as they were mid-month.

Oil declined for the fourth straight month on supply and demand concerns.

The dollar consolidated its broad-based gains.

Surprise QE from BoJ hit the yen.

Equity returns do not include dividends, except for the German DAX. Equity performance and bond yields in local currencies. U.S. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing. Examples of how to interpret currency data: CAD/USD 0.89 means 1 Canadian dollar will buy 0.89 U.S. dollar. CAD/USD -7.4% return means the Canadian dollar has fallen 7.4% vs. the U.S. dollar during the past 12 months. USD/JPY 112.32 means 1 U.S. dollar will buy 112.32 yen. USD/JPY 14.2% return means the U.S. dollar has risen 14.2% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 10/31/14.

Research Resources

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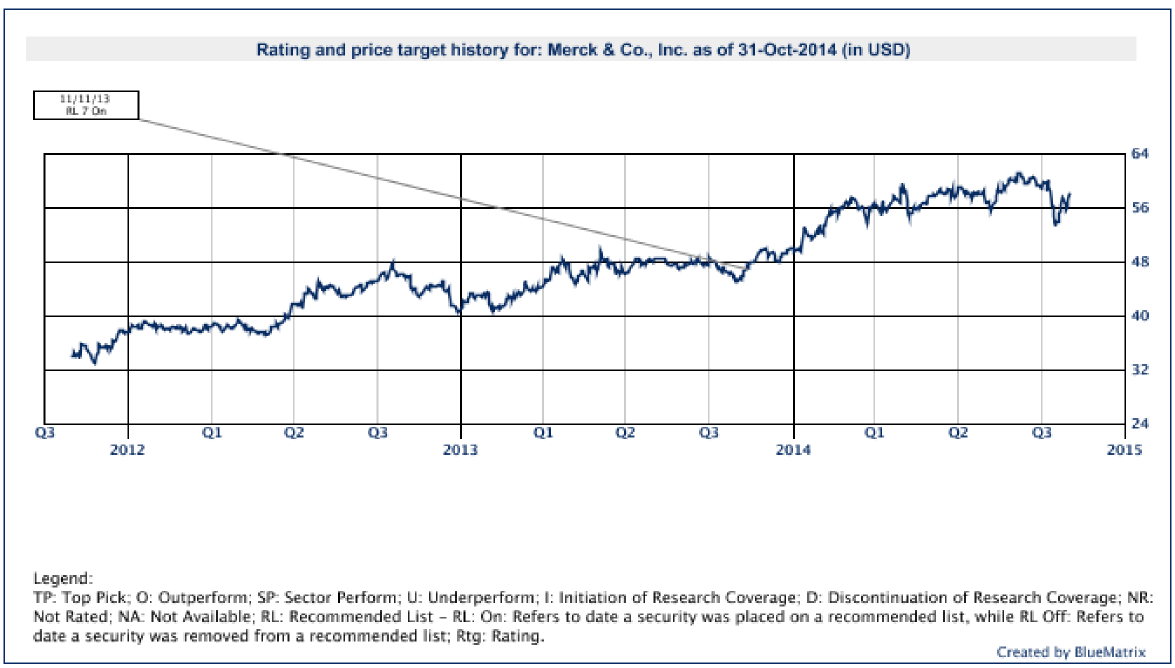

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For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets, LLC ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP) and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of Ratings - RBC Capital Markets, LLC Equity Research
As of September 30, 2014

Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months Count	Investment Banking Services Provided During Past 12 Months Percent
Buy [Top Pick & Outperform]	858	52.35	308	35.90
Hold [Sector Perform]	683	41.67	151	22.11
Sell [Underperform]	98	5.98	8	8.16

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Ratings:
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Outperform (O): Expected to materially outperform sector average over 12 months.

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