SPECIAL REPORT

RBC WEALTH MANAGEMENT

GLOBAL INSIGHT

2016 OUTLOOK

RBC Wealth Management

There's Wealth in Our Approach.™

A Look Ahead

Last year in this space, we observed how unsynchronized the world economy had suddenly become after five years of marching very much in step to the drumbeat of an all-encompassing, risk-on/risk-off global crisis. 2015 saw more profound divergences as the Federal Reserve expressed a readiness to hike interest rates while other central banks moved to ease further, emerging market performance was linked to a commitment (or lack thereof) to structural reforms, while oil-producing economies digested sharply lower commodity prices that were welcomed by oil importers.

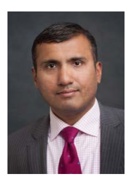
But by the last half of the year some important synchronicity had emerged: the developed economies—North America, Europe, and Japan—were all posting positive economic growth, which looked like it might improve further in 2016. Indeed, that is our forecast.

This encouraging outlook is about to meet its first test as the Fed embarks on what we expect will be a gradual, multiyear policy normalization. At the same time, many other central banks will likely continue to ease further.

Market volatility would seem to be one potential outcome. The key question is whether there are negative implications for economic growth. For developed economies, particularly the U.S., we think not.

We expect stock and bond markets will spend some part of the first half of 2016 adjusting to this new regime. But as the year moves on, equity markets will focus on the improved earnings outlook that should accompany moderate economic growth. Given even modest stability in energy markets, we believe it should be a good year for equity investors, with more to follow.

Bond markets are priced for the "moderate growth" outcome. Faster-than-expected global growth—a possibility—would present greater challenges.



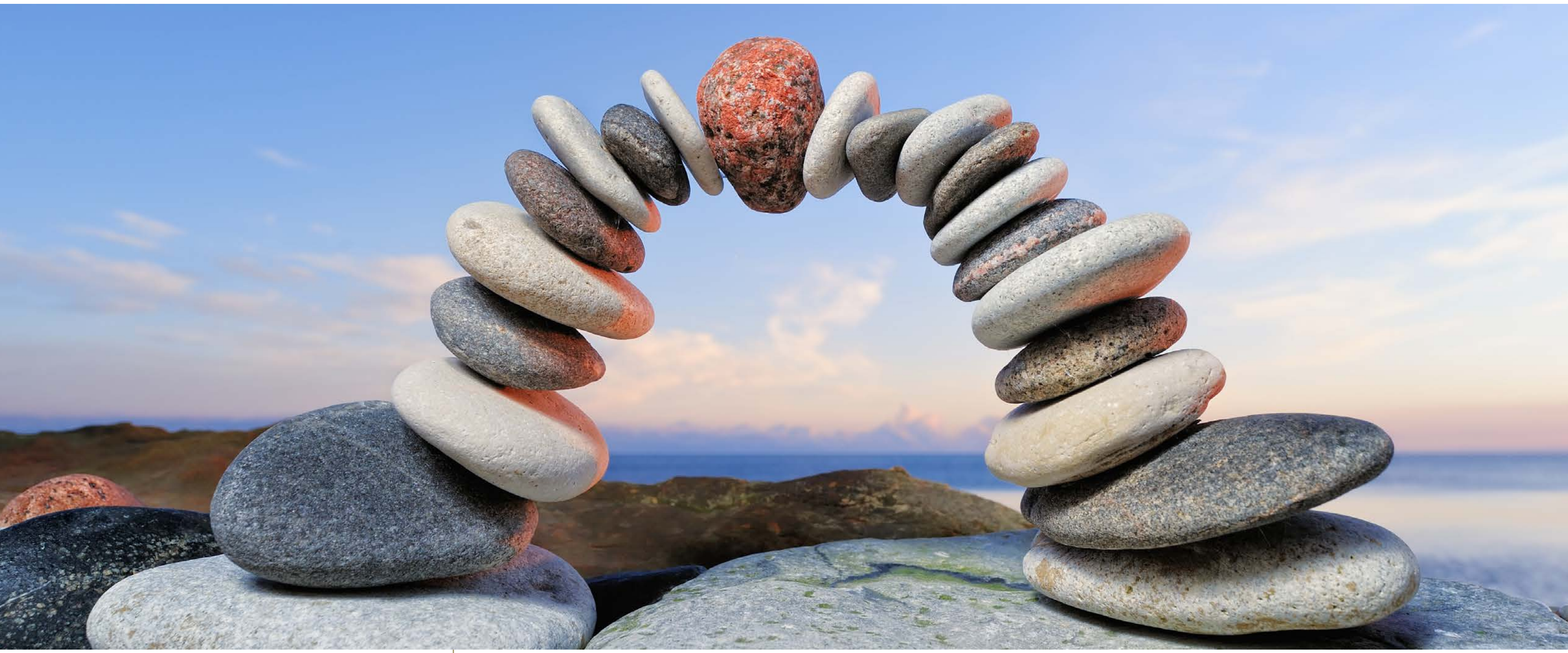
Rajan Bansi
Co-chair
Global Portfolio Advisory Committee
Toronto, Canada

Jim Allworth
Co-chair
Global Portfolio Advisory Committee
Vancouver, Canada

Table of Contents

For Important Disclosures, see page 29.

All values in U.S. dollars and priced as of market close, November 30, 2015, unless otherwise stated.



A Wealth Building Foundation

The compounding effect of reinvesting dividends is a powerful tool for portfolio construction. We think a good strategy to maximise a portfolio's potential is to seek out high-quality companies that have a track record of consistently raising dividends.

Mark Allen
Toronto, Canada
mark.d.allen@rbc.com

Peter Dawkins
Toronto, Canada
peter.dawkins@rbc.com

In recent years investors have struggled with income generation given low bond yields and equity market volatility. Dividends can help assuage both of these concerns by providing attractive yields and delivering a component of equity return that is more reliable than share price appreciation. Sustained dividend growth is a simple but generally effective indicator of investment quality. We believe companies with track records of consistent dividend growth provide a strong cornerstone for equity portfolios.

The Importance of Dividends

The power of dividends comes from the compounding effect of reinvestment. This effect is readily demonstrated by looking at the total returns of an equity portfolio (price appreciation + reinvested dividends) versus price appreciation alone.

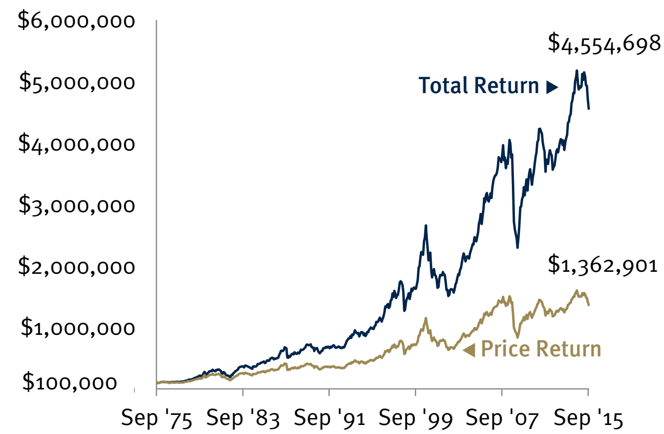
Over long periods of time, the deviation between the two becomes quite pronounced. The value of $100,000 invested in the S&P/TSX Composite four decades ago would have advanced to over $4.5M today with dividends reinvested, whereas price appreciation alone would have taken the portfolio to $1.3M. Under this scenario, dividend reinvestment accounts for 66% of the portfolio's total present value, while price appreciation comprises 32%, and the initial $100,000 investment represents just 2%.

All values in Canadian dollars for this article.

Wealth Building

Dividend reinvestment is clearly powerful ...

S&P TSX Total Returns vs. Price Appreciation on $100,000



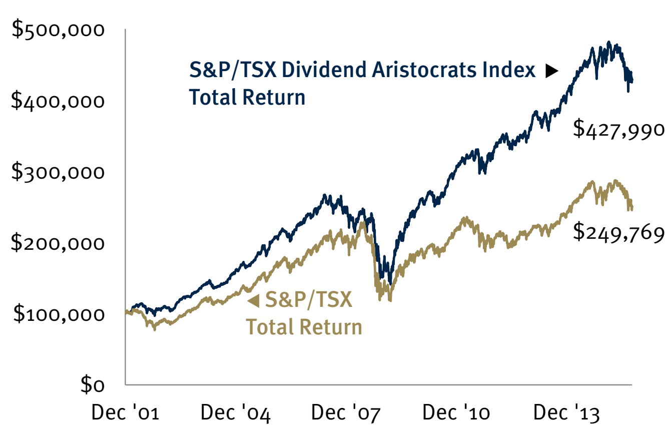
Source - RBC Wealth Management, Bloomberg; data from Q3 1975 – Q3 2015

Reinvest your dividends to compound your wealth.

The Power of Dividend Growers

Dividend reinvestment is clearly powerful. But we believe investors can maximise a portfolio's potential by selecting high-quality companies with sustainable and growing dividends. S&P Dow Jones Indices tracks the performance of dividend growers through its S&P/TSX Canadian Dividend Aristocrats Index, which measures the performance of companies included in the S&P Canada Broad Market Index that have consistently increased dividends for at least five years. Data back to the inception of this index (December 2001) demonstrates the power of investing in dividend growers, with $100,000 invested at that time advancing to $427,990 today versus $249,769 for that same investment made in the S&P/TSX Composite.

Total Returns on $100,000 Invested



Source - RBC Wealth Management, Bloomberg; data from Q4 2001 – Q3 2015

Dividend growers have compounded faster than the broad index.

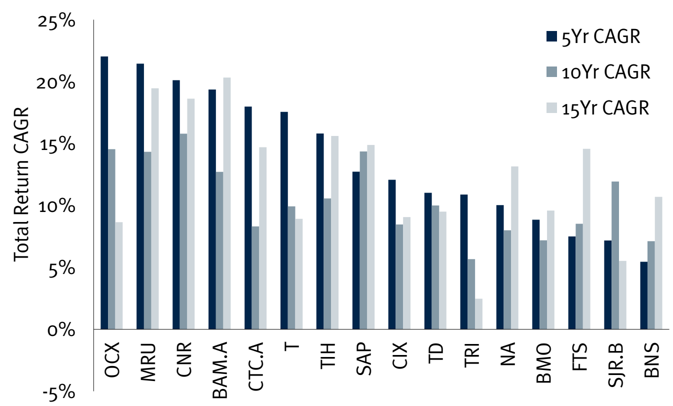
Which Stocks to Buy?

To identify stocks that offer attractive opportunities using this theme, we reviewed the dividend growth for all non-resource S&P/TSX-listed stocks over the last 15 years. We then selected the names that consistently hiked dividends over the 15-year period and also corresponded with the recommendations on our Canadian Focus List and Equity Income Guided Portfolio.

Through this approach, we identified 16 stocks, and their returns have been impressive. On a 5-year total return basis, all 16 stocks delivered annualized total returns of 5% or better and 12 delivered returns of 10% or better. On a 15-year total return basis, 15 of the stocks delivered annualized total returns of 5% or better and nine delivered returns of 10% or better. Also notable is that none of these stocks showed negative total returns in any of the 5-, 10-, or 15-year periods.

Total Return Compound Annual Growth Rate

Selected S&P/TSX Dividend Growers



Source - RBC Wealth Management, Bloomberg; data through Q3 2015

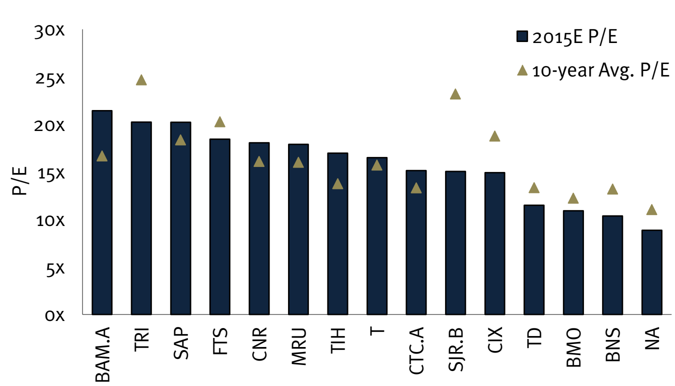
Dividend growers have a history of consistently strong and steady returns.

Valuation and Dividend Outlook

To determine which of these 16 stocks currently offer more attractive valuations, the chart below shows current price-to-earnings ratios in the context of a 10-year average. We would note that many financial sector names appear at the right-hand side of the chart, indicating that they are trading below historical averages. At the opposite end, we note many of the consumer sector names look more fully valued in the historical context. As you can see on the following page, the individual stocks amongst our selected group that appear to possess the best dividend growth outlook next year are: Canadian National Railway (CNR), Brookfield Asset Management (BAM/A), Saputo (SAP), and TELUS (T).

Price-to-Earnings Ratios

Selected S&P/TSX Dividend Growers

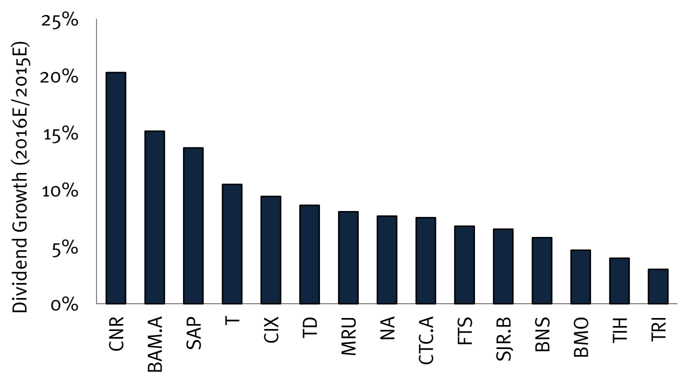


Note: Excludes OCX, which is better assessed on a net asset value (NAV) basis
Source - RBC Wealth Management, RBC Capital Markets, Bloomberg consensus estimates; data through Q3 2015

Canadian banks are trading at modest valuations.

Dividend Growth (2016E/2015E)

Selected S&P/TSX Dividend Growers



Note: Bloomberg consensus dividend forecast unavailable for OCX
Source - RBC Wealth Management, Bloomberg consensus estimates; data through Q3 2015

Continued dividend growth is expected for all our selected stocks.

Conclusion

Companies with a demonstrated ability to increase their dividends over a long period of time tend to be high-quality, well-managed businesses that should have more reliable performance over a long time horizon. As the earnings of these businesses rise and investors reinvest the dividends, we believe the wealth building effect of compounding can be compelling.

Extended Cycle

Our longer-term investment stance will continue to tilt toward equities until credit conditions tighten enough to make an economic downturn inevitable. As things stand, we expect that is several years off.

In the near term, equity markets may be unsettled by the Fed's first rate hike, currency volatility, and energy sector instability. It is not clear if the correction/consolidation of the past several months has fully run its course.

By the second half of the year, we expect the secular bull market that began in early 2009 to resume its course.

Janet Engels
New York, United States
janet.engels@rbc.com

Jim Allworth
Vancouver, Canada
jim.allworth@rbc.com

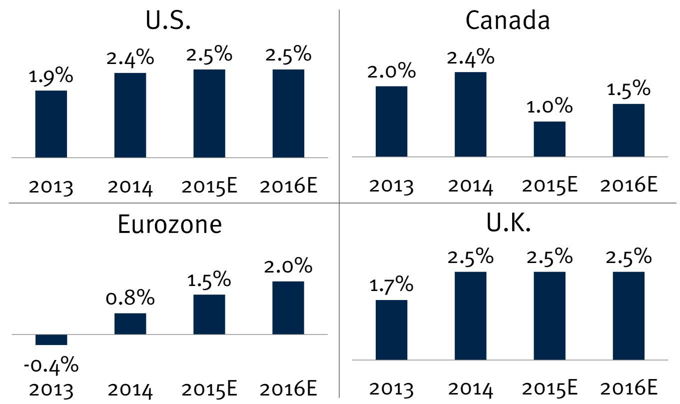
For the past four years, our investment stance has flowed from the premise that the global economy would gradually return to something approaching normal led by the U.S. That remains our thesis.

Much remains to be done. Unconventional monetary policies of many central banks will not be fully wound down for at least three to five years, in our view, while bringing assorted national debt levels back to pre-crisis levels may take a generation.

That said, the U.S. economy has settled in at a satisfactory 2%–2.5% growth rate, with the private sector pacing at a more energetic 3%+ for each of the past three years. This materialized despite a succession of massive weather events (including Hurricane Sandy), a West Coast port strike, and a GDP-growth-sapping retrenchment within the energy sector.

Outside the U.S., developed country economic growth is improving in almost every case. The pace of expansion in Europe has moved above the 1% per annum threshold, with something closer to 2% forecast for 2016. The U.K. is already running ahead of that.

Gross Domestic Product – Select Regions



Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Cmte.

GDP growth increasingly entrenched in the developed economies.

Canada, although staggered by the energy collapse in the first half of 2015, has returned to positive growth. Meanwhile, China appears to be holding its own, as monetary easing and new fiscal initiatives should lend additional tone to 2016.

We think the stage is set for more countries to return to growth over the coming one to two years and the pace of global growth to pick up somewhat.

The lynchpin on which this positive outlook rests is a continuation of the U.S. economy's 2%–3% per annum expansion. Put another way, if U.S. growth were to throttle back to 1.5% or below, with very few exceptions, the outlook for every other country would worsen.

The U.S. economy will have added almost 2.5 million jobs in 2015.

The moderate 2%–3% growth case for the U.S. economy is intact, in our opinion, and carries with it a constructive outlook for U.S. equities.

Everything Depends on the Consumer

The U.S. consumer accounts for some 70% of U.S. GDP. Every assessment of U.S. economic prospects must begin with this all-important sector where several factors underpin our positive outlook:

- **More Americans are working.** The economy will have added almost 2.5 million jobs in 2015 (+1.8%). Meanwhile, weekly initial claims for unemployment benefits are at 40-year lows. Further, the number of unfilled job openings has jumped to almost 6 million from less than 4 million a year ago, while small businesses continue to report an intention to hire more workers in the coming year as well as an inability to find the people they want. This suggests upward pressure on wage growth.
- Incomes are rising. Real consumer income gains have recently approached a 4% per annum rate. Real consumer spending has been growing somewhat more slowly as households continue to save about 5% of after-tax income.
- **Consumers are feeling secure.** Not only has the unemployment rate fallen in half and initial claims fallen to new lows, but the most watched consumer sentiment measures continue to deliver elevated readings.
- **Households have financial staying power.** Americans are sitting on savings accounts totalling $8 trillion (45% of GDP), up from $4 trillion (27%) at the end of

Cheap, accessible credit means no recession in sight.

2008. This does not include trillions of dollars held directly in money market funds, T-bills, bonds, equity mutual funds, or stocks, which in aggregate are much larger.

Credit card delinquencies are down from 7% in the recession to just above 2%, the lowest level ever recorded. Mortgage delinquencies have fallen in half and continue to decline.

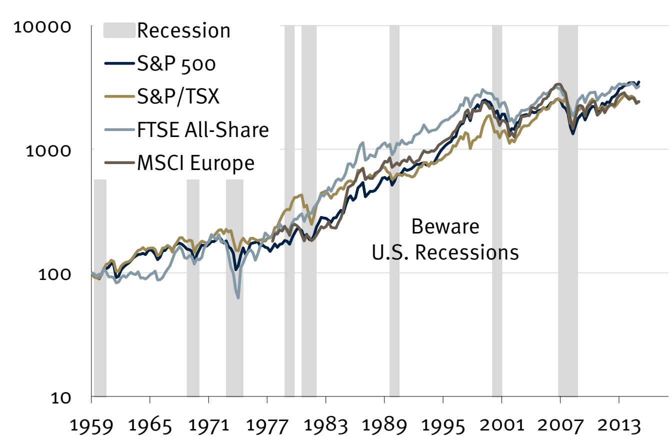
Household debt service payments as a percentage of disposable income are approaching the lowest levels in the 35 years they have been recorded. Further, most of this debt is in the form of 15- and 30-year fixed rate mortgage obligations, insulating many Americans from any backup in interest rates.

The Credit Cycle Will Remain Supportive

The credit cycle argues persuasively for an extended U.S. expansion. Rates are extraordinarily low and banks are actively looking to lend to credit-worthy businesses and individuals.

As a result, the Fed has concluded the economy no longer needs the unprecedented emergency support in place since the financial crisis. In the *Slow and Low* article, we argue the Fed will remove that support slowly and deliberately over the next year or longer. "Tight money"—rates that are high enough to discourage most borrowers coupled with banks that are more reluctant to lend—eventually leads to recessions and bear markets. While rates are likely to begin moving higher, we believe tight money remains some ways off and credit conditions for borrowers and lenders should stay favorable throughout 2016 and probably beyond.

Bull Markets Die of Recession Not Old Age



Source - RBC Capital Markets, National Bureau of Economic Research, RBC Wealth Management

With no recession in sight, stock markets should be headed for new high ground.

Since virtually every bear market has been associated with a U.S. recession and every recession has been triggered by a sharp worsening in credit conditions, monitoring where we are in the credit cycle is "job one" for equity investors. As things stand, we expect it will be 2018 or later before conditions tighten enough to put a U.S. recession/bear market on the radar.

Valuation Is No Impediment

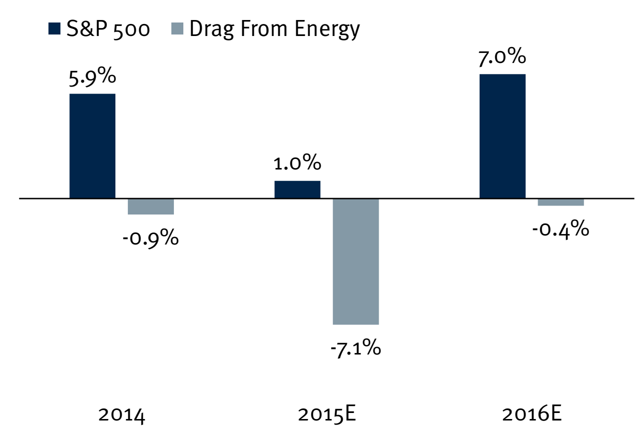
At 17.5x 2015 earnings and 16.3x the 2016 consensus estimate, the S&P 500 is trading only slightly above its long-term norm.

So, in relation to stock market history, U.S. equities are neither expensive nor cheap. However, compared to T-bonds, the S&P offers potentially lavish returns—roughly the same current income (2.1%) from dividends coupled with the prospect of sustained dividend growth of better than 5% per annum. Comparing the market multiple to that of "BBB"-rated corporate bonds (perhaps more apt than with Treasuries) suggests that the stock market has roughly two multiple points of upside over the next year or more, in addition to earnings growth.

Earnings to Get Back in Gear

After a year of going nowhere, largely due to the collapse of the energy sector, S&P 500 earnings look set to grow at a mid-to-high single-digit pace in 2016–17. In both years, a significant part of the improvement will come from some stability returning to the energy sector, which should be facing easier quarterly comparisons by mid-2016.

S&P 500 Operating EPS Growth Rate With Energy Sector Drag



Source - RBC Capital Markets, Global Portfolio Advisory Committee

Earnings are getting back in gear mostly due to diminishing energy sector drag.

Some Potential for Consolidation/Correction Early in the Year …

The first half of 2016 could be challenging for stock markets:

- The three to four months following the first Fed rate hike have typically seen some volatility in equity markets. Fed rate hikes may be occurring alongside further easing by the ECB and the central banks of Japan, China, and India, adding currency volatility to the mix.
- The presidential campaign season can introduce unwelcome policy uncertainty for select sectors. The health care sector has been a victim more than once.
- The energy sector remains on very uneven footing as debt taken on during the boom years of 2010–14 begins to mature in 2016.
- Commodity groups continue to be pressured by excess inventories, too much production capacity, and slowing Chinese demand.
- Geopolitics, including Europe's migrant crisis, is a source of unpredictable instability and concern.
- Recent terrorist acts in France, the U.S., and the Middle East continue to fray nerves.

Extended Cycle

Embarking on a new sustainable up-leg, in our view, will require investor conviction on several fronts …

Markets often encounter and climb such a "wall of worry." But embarking on a new sustainable up-leg, in our view, will require investor conviction on several fronts:

- **Stability in energy markets:** Some sustainable balance is more important than price level. Only then can the future earnings power of this important market segment be recalibrated with confidence.
- **Some reacceleration in global growth:** This mostly depends on China. The market needs indications that inventories have been right-sized and that exports are growing again. Signs that monetary easing is working would be welcome, as would new fiscal initiatives.
- **Sustained expansion in developed economies:** This requires conviction that the credit cycle remains in a constructive phase. We think it is, although we expect the market will remain uncertain—and at times skeptical—on this issue over the next few months.

S&P 500: Correction Within a Long-Term Uptrend

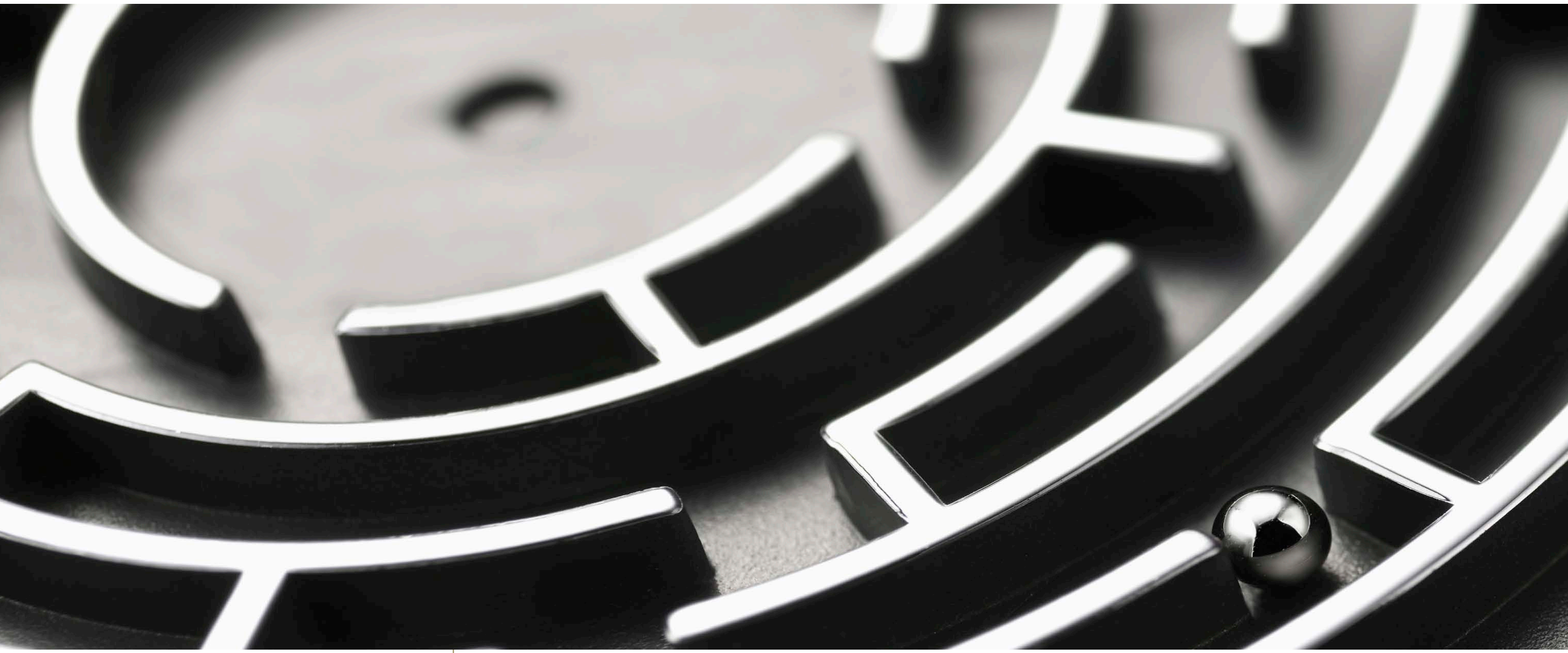
Source - RBC Capital Markets, Global Portfolio Advisory Committee

The first correction in four years may have further to run. Long-term uptrend expected to resume by the second half.

… With the Bulls Back in Control in the Second Half

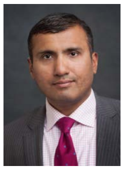
Our outlook for an extended economic and stock market cycle depends on the continuation of accommodative credit conditions over the next few years. We do not think the Fed's efforts to "normalize" rates (as distinct from tightening) jeopardize that forecast. We are encouraged by the employment and financial condition of the American consumer and the lack of destabilizing imbalances in the U.S. and most developed economies.

We expect the long-term uptrend in equity prices, in place since the financial crisis lows of 2009, will reassert itself by the second half of the coming year.



Slow and Low

The end of the era of extraordinarily easy money is at hand. But investors shouldn't be alarmed by the impending rate hike. It's a sign that the U.S. economy is strong enough to stand on its own. And the Fed intends for this rate hike cycle to play out differently—it will be cautious and gradual so as to not choke off economic growth.



Rajan Bansi
Toronto, Canada
rajan.bansi@rbc.com

Craig Bishop
Minneapolis, United States
craig.bishop@rbc.com

Financial markets are prepared for the Federal Reserve (the Fed or FOMC) to begin an interest rate hike cycle at its next policy meeting on December 16, exactly seven years to the day after the central bank established its zero interest rate policy in response to the financial crisis.

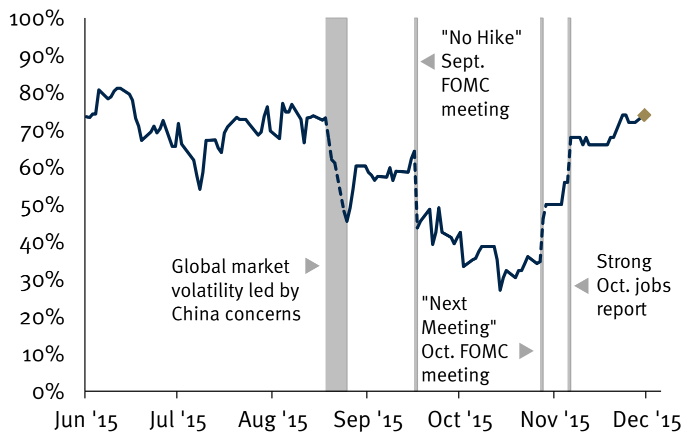
We expect subsequent rate hikes in 2016 to be "data dependent" and the pace of the increases to be slow as the Fed takes great care not to upend economic growth as it normalizes monetary policy. The market is likely to focus on the pace of rate increases and the eventual peak in short-term rates. We anticipate the pace of hikes to be slow and the peak in rates to be well below that of prior cycles, perhaps as low as 2%.

Don't Fear the Hike

Financial markets are prepared to close 2015 with a rate hike by the Fed after a series of false starts earlier in the year. Market expectations for a hike, which currently exceed 70%, reached an inflection point with the release of the FOMC's official statement at the conclusion of its October policy meeting. The FOMC statement indicated the committee would consider raising rates at "at its next meeting" (December 15–16), a much more specific commitment from prior statements, which signaled a potential shift in policy was near. The chart on the next page illustrates where expectations for a December rate hike currently stand and how they have evolved over the course of the last six months.

Slow and Low

Evolution of December 2015 Rate Hike Odds



Source - RBC Wealth Management, Bloomberg

Expectations for a December rate hike have evolved over the last six months.

We view the upcoming Fed hiking cycle as a long and gradual process of policy normalization.

U.S. economic data has remained resilient despite global headwinds, suggesting extraordinary policy support is no longer needed and the journey to interest rate normalization can begin. Employment data has been consistently strong in recent months and when combined with firming inflation, rate normalization becomes the appropriate Fed response consistent with its dual mandate of maximum employment and stable prices.

Job Growth and Inflation Justify a Hike

Entering 2016, it is clear, in our view, that the U.S. economy no longer requires emergency support. No recession is in sight and growth will likely remain close to current levels of approximately 2.5%. This should allow the Fed to undertake a long, gradual process of policy normalization.

For the past four years, the U.S. economy has averaged employment gains of better than 200,000 per month with recent momentum strengthening. The latest jobs report highlighted an impressive 211,000 gain in November which comes on the heels of a blowout report in October that had the best gains of the year (271,000). We believe employment growth is likely to remain robust in 2016. This should drive the unemployment rate, which was as high as 10% in 2009, below 5%, a level that has not been seen since early 2008.

The inflation picture is murkier, but Fed officials appear satisfied that the backdrop is supportive of a rate hike. Members of the FOMC acknowledged that inflation remained stubbornly low at the October FOMC meeting, but blamed this on "transitory" issues. Committee members expressed confidence that inflation would rise gradually toward 2% over the medium term. Core inflation is currently running at around 1.5% y/y.

Pace Supersedes Timing

In 2016, if domestic and global financial conditions continue to progress, we expect the Fed to hike rates by 25 basis points once per quarter (every other meeting) in an effort to normalize interest rates. However, we also expect each move will continue to be data dependent with employment, inflation, and financial conditions guiding the Fed's pace.

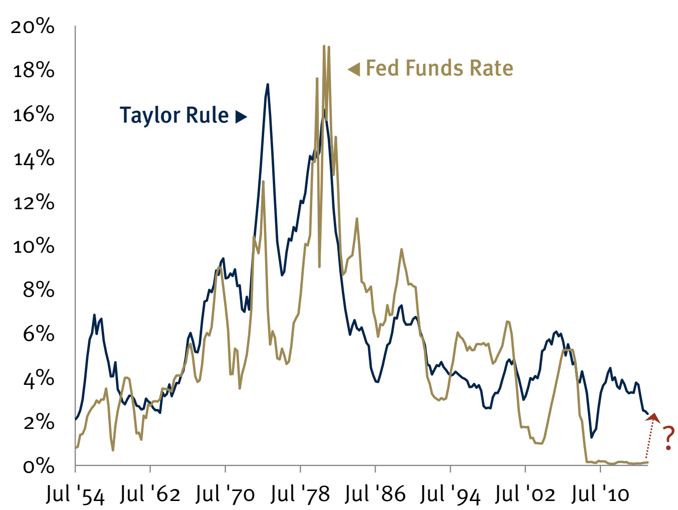
Slow and Low

Our expectation for a peak Fed Funds rate of around 2% assumes the Fed wants to remove emergency policy measures.

The Taylor Rule is a formula used by policymakers to help calculate the appropriate level for the Fed Funds rate. The Taylor Rule currently suggests the Fed Funds rate should be 2.34%, which is marginally above our expectation for the Fed to cease its hiking cycle around the 2.00% level. The chart below illustrates how the Taylor Rule has served as a useful tool to determine the appropriate level of short-term interest rates.

Our expectation that the hiking cycle will end around 2.00% assumes the Fed is looking to remove emergency levels of accommodation and not battle inflationary pressures through tighter monetary conditions. We would recalibrate our expectations for the peak in the Fed Funds rate should inflation rise more rapidly.

Taylor Rule Suggests Fed Funds Set to Rise



Source - RBC Wealth Management, Board of Governors of the Federal Reserve System (US), *Effective Federal Funds Rate* (FEDFUNDS), retrieved from FRED, Federal Reserve Bank of St. Louis https://research.stlouisfed.org/fred2/series/FEDFUNDS/, December 3, 2015.

The Taylor Rule points to a Fed Funds rate of 2.34%, marginally above our expectation for the hiking cycle to cease around 2.00%.

Such a peak in the Fed Funds rate would be below the 4% level policymakers have historically targeted as the peak in a hiking cycle and it is also below the FOMC's own 3.5% forecast for the peak of the current cycle as expressed in the most recent "dot plot."

Conclusion

We expect the pace of rate hikes subsequent to the first move in December to become the primary focus of investors in 2016. Fed guidance has been clear, in our view, that the tightening cycle will be different this time with the pace of hikes more gradual than in the past as the central bank is more sensitive to the tenuous nature of the recovery and the negative impact tightening financial conditions could have on growth.

Emerging (Not So Much) Markets

Most major emerging markets were anything but that over the past year. RBC Global Asset Management's chief economist looks at the issues facing emerging markets in 2016 and beyond. Countries that implement difficult but necessary structural reforms will likely grow faster than peers in both the developed and developing world over the long term.

Eric Lascelles
Toronto, Canada
eric.lascelles@rbc.com

Q. The "emerging markets" (EM) category entails a disparate group of economies from the likes of China and India to Hungary and Taiwan. There is a tendency to group them geographically, but is there another more useful and germane way to organise our thinking?

A. We tend to think of "emerging markets" in a fairly loose manner, pinning just about every country that isn't at the absolute upper echelon of productivity with the label. This is why relatively prosperous nations like Korea (with an annual GDP per capita of $26,000) find themselves alongside much poorer countries such as Nigeria (with an annual GDP per capita of just $3,000).

Of course, there are several more nuanced ways of sorting these countries.

Along geographic lines, the historical performance and prospects of EM nations vary quite significantly depending on whether they are in Asia, Latin America, Africa, the Middle East, or Eastern Europe.

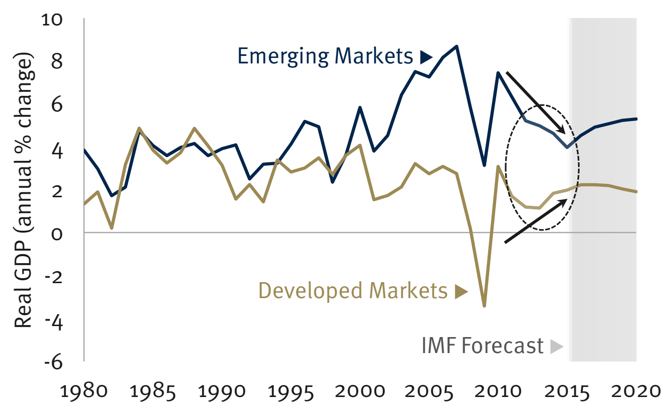
Categorized by income, the "emerging market" term is often used in a narrower sense to represent only the most prosperous of developing nations, while "frontier market" is used to describe the next tier down—a group that includes many African and Middle Eastern nations, in addition to the poorest European and Asian countries.

One can also slice EM nations into groups in a more case-dependent manner, such as differentiating based on whether countries are commodity importers or exporters and whether countries are delivering structural reforms or not. These strategies have recently proven quite fruitful.

Q. We became used to the idea that emerging economies would always grow faster than developed ones. For a while "decoupling," the idea that EM growth didn't depend on continued expansion in the developed world, was in fashion. Were both of those expectations wrong?

A. Most larger emerging-market countries—where the bulk of EM investments are placed—have reliably outgrown the developed world, and continue to do so even as their economies have decelerated in recent years. It is unlikely that EM nations will prove capable of continuing to outpace the developed world as remarkably as they did through the first decade of the millennium, but there are still several reasons why they should manage moderately faster growth than their developed peers.

Emerging and Developed Market Growth 1980–2020



Source - International Monetary Fund (IMF), Haver Analytics, RBC Global Asset Management, RBC Wealth Management

Emerging markets should continue to grow moderately faster than their developed peers.

On the second question, emerging-market countries have not truly decoupled from the developed world. They are still quite reliant on foreign demand to power their manufacturing bases, and they are no less susceptible to financial shocks, such as declining commodity prices, the rising U.S. dollar, or the possibility of rising interest rates in the future.

Q. What effect has the dollar rally of the past two years had on capital flows and economic prospects for these economies?

A. The stronger dollar presents a challenge for emerging-market countries on two fronts. First, the strengthening currency encourages investors to shift out of EM investments and into the relatively stronger U.S. currency. Capital outflows have been notable this year, though not yet on par with the "Taper Tantrum" of 2013.

Second, the stronger dollar makes external debt priced in U.S. dollars—a popular means of borrowing for emerging-market countries—much more expensive in local currency terms.

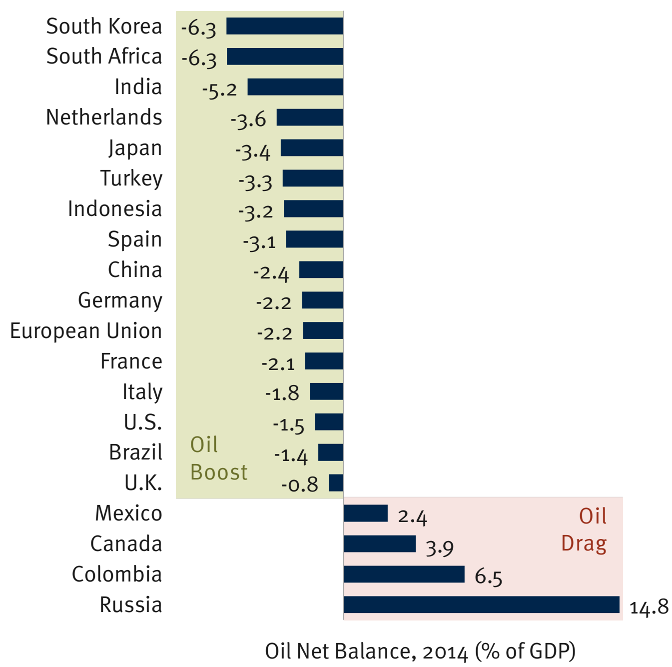
Of course, we should not forget that emerging-market countries stand to enjoy improved competitiveness thanks to their weaker exchange rates. This is normally only a small consolation, but is proving a particularly valuable offset this time around.

Q. And how do oil prices fit in the EM outlook? Which EM countries benefit from low commodity prices, and which suffer?

A. The EM slowdown is a big reason for the decline in base metals prices, and a minor reason for the decline in oil prices.

As to the implications of the commodity shock, it drives a wedge between emerging-market nations. Some, disproportionately those in Latin America and the Middle East, absolutely despise this commodity shock as they are resource exporters. Most, however, relish this outcome because they must import raw resources. China and India head the latter list.

Low Oil Prices: Likes vs. Dislikes



Source - BP Statistical Review of World Energy 2015, Haver Analytics, RBC Global Asset Management, RBC Wealth Management

Most EMs relish lower oil prices as they import raw resources.

Q. Are there any bright spots that stand out in the EM world?

A. Among the major EM nations, we continue to think that India, Poland, Mexico, and Korea have aligned themselves for fairly good growth by terms of benefiting from a low commodity price environment, avoiding too much geopolitical intrigue, dodging credit excesses, and delivering reforms.

Others, such as China and Indonesia, have a few marks against them, but also seem committed to structural reforms and so should have reasonably good long-term prospects, regardless of their near-term challenges.

Emerging Market Economic Scorecard

	Country	Reforms	Credit	Resource	Geopolitics
BETTER PROSPECTS	India	✓	–	✓	✓
	Poland	–	✓	✓	✓
	Mexico	✓	✓	–	–
	Korea	–	–	✓	✓
	China	✓	X	✓	✓
	Indonesia	✓	–	X	✓
	Turkey	X	X	✓	–
	Brazil	–	–	X	–
	Nigeria	–	–	X	–
	South Africa	–	–	X	–
	Ukraine	–	X	–	X
WORSE PROSPECTS	Russia	X	X	X	X

Note: Credit "X" means credit curtailment or large risk. Resource "X" means commodity exporter.
Source - RBC Global Asset Management, RBC Wealth Management

We continue to think that India, Poland, Mexico, and Korea have aligned themselves for fairly good growth.

Q. If you had a more pessimistic disposition, what would keep you up at night? Where can things go really wrong within the EM world?

A. A few things could go wrong for emerging markets. We still don't have a clear signal that their growth is bottoming, so it is conceivable that the deceleration persists for some time longer. EM nations have some clear debt vulnerabilities, and several catalysts threaten to make trouble for the sector. China is a particularly prominent concern here. Lastly, there is a risk that emerging-market countries could succumb to recent stressors by electing populist governments rather than rising to the challenge and delivering structural reforms. The short-term outlook for EM countries remains highly uncertain, but I'd like to think that the longer-term prospects remain fairly good.

Election 2016: Expect the Unexpected

The U.S. presidential election will be a front-and-center news story through all of 2016. Polls suggest the election may be a toss-up with recent history favoring and working against each party. The emergence of a third-party candidate, should it occur, would further complicate the electoral arithmetic. History suggests presidential election years deliver below-average equity market returns relative to non-election years; however, we believe 2016 may be set up to do better than the averages suggest.

Matt Barasch
Toronto, Canada
matt.barasch@rbc.com

Kelly Bogdanov
San Francisco, United States
kelly.bogdanov@rbc.com

The Trend Is Your Friend

The leading candidates for the Democratic and Republican nominations have vastly different views on taxes, health care, immigration, the environment, entitlement reform, and a host of other issues. The ultimate victor is likely not only to shape the long-term course of the nation, but also to impact several sectors of the U.S. equity market over time.

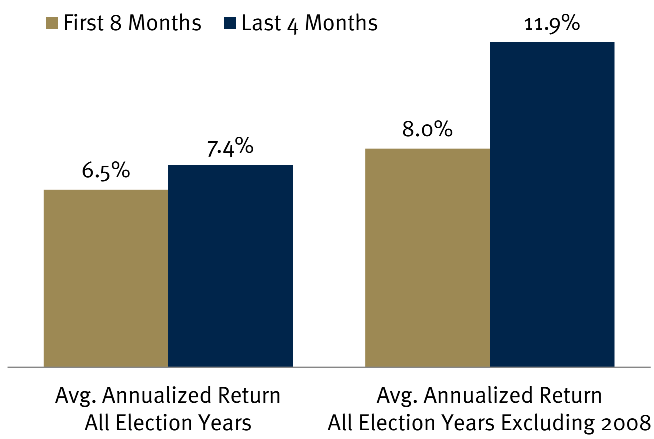
However, the market's near-term path is not necessarily dictated by who will represent each party or their respective platforms, or even who will become president. Rather, history has demonstrated that absent a recession, the stock market tends to continue on whatever glide path it was on leading into the election year. As we wrote last year, we believe that the stock market remains in a secular bull phase that began in 2009 and has some years left to run.

Since 1945, the S&P 500 has risen an average of 6.1% during presidential election years, about 3% worse than the average for all other years since the end of WWII. However, this average is pulled down significantly by 2008 when the S&P 500 declined nearly 40%. Exclusive of that one huge decline, which we would argue was almost entirely unrelated to the fact an election was taking place, the average for presidential election years rises to about 8.5%, roughly in line with the average of non-election years.

One interesting takeaway is that performance tends to be back-end loaded. Since WWII, the last four months (September through December) of presidential election years have been stronger than the first eight months (see chart). We chalk this up primarily to investors becoming more confident as the uncertainties over who will be running for president and ultimately who will be elected are resolved.

S&P 500 Performance in First 8 Months vs. Last 4 Months

Presidential Election Years Since WWII



Source - RBC Wealth Management, Bloomberg; elections from 1948 through 2012

The market tends to perform better during the last four months of election years.

History's Lesson on How This Election Might Play Out

History suggests winning three consecutive presidential elections has been difficult for the incumbent party in the White House. Since WWII, there have been seven presidential elections—1952, 1960, 1968, 1976, 1988, 2000, and 2008—in which the incumbent party was seeking to occupy the White House for a third consecutive term. Only once—1988—did the incumbent party succeed.

This would seem to support a Republican taking the White House in the upcoming election; however, the math will be challenging. 270 electoral votes are needed to win the election, and if we focus just on the past six elections (1992 through 2012), the Democrats may hold the upper hand. The exhibit on the following page breaks down the states that have voted for the same party in each of the past six elections.

In those elections, the Democratic candidate has managed to win the same 18 states and the District of Columbia, carrying 242 electoral votes, 90% of the total necessary to win the election. We would also add that three other states—Iowa (six electoral votes), New Mexico (five), and New Hampshire (four)—voted Democrat in five of the past six elections, bringing the electoral total to 257 (95% of the total needed).

In contrast, if we use the same criteria for the Republican Party, 13 states, totaling 102 electoral votes have voted consistently for the Republican candidate (38%), while another five—Georgia (16 electoral votes), North Carolina (15), Arizona (11), Indiana (11), and Montana (3)—have voted that way in five of six elections (bringing the total to 59%).

Over the past six elections, voter trends have become increasingly consistent.

The Blue vs. Red Wall

Blue Wall		Red Wall	
California	55	Texas	38
New York	29	Alabama	9
Illinois	20	South Carolina	9
Pennsylvania	20	Oklahoma	7
Michigan	16	Kansas	6
New Jersey	14	Mississippi	6
Washington	12	Utah	6
Massachusetts	11	Nebraska	5
Maryland	10	Idaho	4
Minnesota	10	Alaska	3
Wisconsin	10	North Dakota	3
Connecticut	7	South Dakota	3
Oregon	7	Wyoming	3
Hawaii	4		
Maine	4		
Rhode Island	4		
D.C.	3		
Delaware	3		
Vermont	3		
Total	242		102
% Needed	90%		38%

Source - RBC Wealth Management, Bloomberg; elections from 1948 through 2012

However, as the 2000 and 2004 elections demonstrated, it is not impossible for the Republicans to overcome this so-called "blue wall"—but it won't be easy. Without flipping one or more of these persistently Democrat-leaning states, the Republican candidate would need to come close to running the table on all of the so-called "swing states" (those states that have flipped more than once over the past six elections) in order to win.

Third-Party Spoilers

Since the Republican and Democratic Parties began dominating the political scene in the late 19th century, viable third-party or independent presidential candidacies have been rare. No third-party candidate has ever been elected president nor have they achieved more than 27% of the popular vote and 88 electoral votes (Theodore Roosevelt in 1912, when he finished in second place).

A viable third-party candidate could emerge this cycle. If billionaire businessman Donald Trump fails to win the Republican nomination, he has the ability to self-finance an independent campaign, and could differentiate himself on key issues.

Third-party candidates—viable or not—can play the spoiler role. Even when they have only garnered a small, single-digit proportion of the popular vote, at times they have altered the outcome, often benefitting the candidate at the opposite end of the ideological spectrum. Most recently, the left-wing candidacy of Ralph Nader shaved votes from Democratic nominee Al Gore in key swing states in 2000, benefitting Republican George W. Bush.

Expect a Hands-On Fed

Federal Reserve actions may be a consideration in 2016. The Fed is thought by some to take a restrained approach to policy during presidential election years to avoid any perception of helping or hurting either candidate.

However, the Fed views policy as having a lag of 12–18 months. That is, interest rate hikes are unlikely to be felt immediately by the economy, but rather 12–18 months after tightening begins, as the transmission of higher rates takes time to filter through the economy.

Thus, the Fed has tended to be reluctant to raise rates in the year leading into the election year (i.e., 2015) for fear of causing a slowdown as the election is taking place.

In any event, the whole notion the Fed is reluctant to act in the months leading up to the election is not borne out by the record. Fed rate hikes have occurred in all quarters of election years including leading up to the vote. For example, the Fed raised interest rates in the third quarter of five presidential election years in the post-WWII era: 1948, 1956, 1980, 1988, and 2004. The S&P 500 rose in four of those years by an average of 12.4%. The one year the market traded lower, 1948, it fell only fractionally.

2016 Should Be an Exciting Election Year

We remain positive on the equity market outlook, although 2016 may play out in fits and starts as the uncertainty over who will represent each party in the general election and who will ultimately stand as the 45th president of the United States is resolved.

Both parties face challenges. The Democrats must overcome the country's desire for change, which has made it difficult over the past seven decades for the incumbent party to win more than two consecutive terms. The Republicans must overcome what has recently been a "blue wall" of persistently Democrat-leaning states accounting for between 90% and 95% of the electoral votes needed for election.

RBC's 2016 Investment Stance

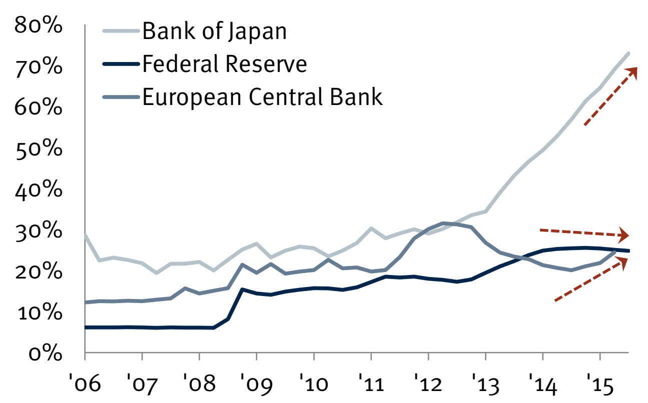
With the Fed about to slowly unwind its unprecedented loose policy, how markets navigate through global central bank divergence may be the key issue for 2016. We like the setup for equities as an improving economic environment feeds through to corporate earnings.

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.

The divergence in interest rates should take place amid modestly improving global GDP growth, led by the U.S., and featuring a stronger Europe together with some stabilization in commodity prices. An expected slow drift higher of inflation could influence asset prices. We believe this sets the table for attractive returns for risk assets in 2016.

Following are our thoughts on how to position fixed income and equity portfolios in 2016, and our views on currencies and commodities.

Central Bank Balance Sheets as a % of GDP

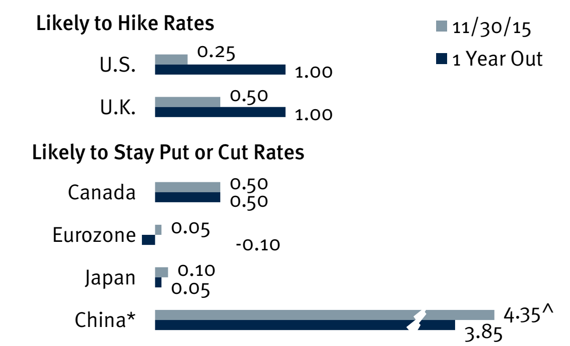


Source - RBC Wealth Management, Bloomberg; data through Q3 2015

Fixed Income

In 2016, the focus will be on the Fed as the first to begin removing monetary policy stimulus. Attention has already shifted to just how forceful and drawn-out the hiking cycle will be. We believe the Fed is moving to merely "normalize" interest rate policy above emergency levels, not to tighten financial conditions outright.

Central Bank Rates (%)



*China data truncated in order to depict proportions of other data. ^1-yr base lending rate for working capital, PBoC. Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee (GPAC), Consensus Economics

United States

- Following its initial rate hike, a patient Federal Reserve will likely undertake a slow, gradual march toward policy normalization. Ongoing policy deliberations should result in periodic bouts of Fed-induced volatility.
- We expect the U.S. economy to remain in a slow growth phase for an extended time; but, the later innings are approaching. Security selection and knowing what you own will be key. Broad-based opportunities will become less available, but selective ones will present themselves from among "BBB"-rated investment-grade and high-yield (non-energy) corporates, fixed/float preferred securities, and munis. Financials and consumer discretionary are attractive corporate sectors.
- Credit spreads are at historically attractive levels across many products. Current levels provide favorable entry points for long-term, total return-oriented investors.
- Portfolio positioning, diversification, and sector selection are essential to managing volatility. Focus on intermediate maturities; the optimal point on the curve is six to eight years, in our view.

Canada

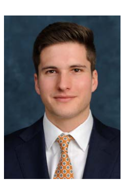
- The direction of oil prices will be a significant determinant of the level of Canadian growth for 2016. Fiscal stimulus and an improving manufacturing sector could be positive offsets. The theme of slow growth and low rates should continue. Canada is unlikely to follow the U.S. with a move higher in overnight rates before 2017. This is supportive of maintaining a disciplined 10-year bond ladder.
- Absent any significant improvement in oil prices, we continue to favour investment-grade non-energy and non-financial credits as well as diversification outside of Canada. Weakness in the energy-heavy Canadian high-yield market should continue.
- Volatility is likely to persist in preferred shares; however, they present an attractive credit risk opportunity. Currently, the outsized yield available in preferred shares offers adequate compensation for the structural subordination versus bonds.

United Kingdom/Continental Europe

- We could see a first rate hike by the Bank of England during 2016. This would likely have negative implications for Gilts, supporting our general underweight view and emphasizing that curve positioning is key for this market.
- Solid consumer demand in the U.K., supported by real wage growth, underscores opportunities within the consumer goods and service sectors.
- The European Central Bank (ECB) is likely to increase total stimulus for the eurozone in 2016; this should keep yields low. Main beneficiaries should be periphery countries rather than German government bonds.
- In EUR- and GBP-denominated corporate markets, financials offer an attractive yield pickup. They benefit from significant central bank support and ultraloose monetary policy, as well as improving capitalization ratios and declining nonperforming loans.

Craig Bishop
Minneapolis, United States
craig.bishop@rbc.com

Alana Awad
Toronto, Canada
alana.awad@rbc.com

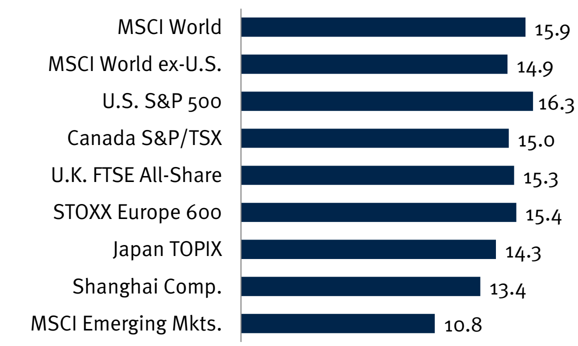


Christopher Girdler
London, United Kingdom
christopher.girdler@rbc.com

Equity

We anticipate worthwhile global equity returns in 2016 and favor the U.S., Japan, and Europe. Valuations are reasonable given interest rates are likely to remain contained, and most markets are cheap relative to bonds. Investors should maintain their targeted, full allocation to equities. Share values should follow earnings and dividends higher.

P/E Ratios Based on 2016 Consensus Forecasts



Source - RBC Wealth Management, Bloomberg; data as of 12/1/15

United States

- Stronger GDP growth than that of other developed countries should help push the U.S. market ahead of peers in 2016. The S&P 500 seems positioned to grow earnings at a faster rate than 2015 as the oil sector drag diminishes significantly. We forecast $128 EPS in 2016, up about 7% y/y. Revenue growth, however, will likely remain muted. The market's valuation could expand modestly as interest rates rise off of extraordinarily low levels.
- We favor secular and stable growers in tech, consumer discretionary, and consumer staples, with an emphasis on new economy companies. Health care has strong long-term prospects, but there could be periodic setbacks due to election campaign rhetoric; buy on dips.

Canada

We remain cautious on Canadian stocks entering 2016 for the following reasons:

- While valuations on banks are below historical norms, earnings growth is likely to be constrained by net interest margins, slowing loan growth, and some deterioration in credit.
- We expect the supply of oil to continue to outpace demand for much of 2016. We favour energy companies with strong balance sheets but are cautious overall.
- Tradable rallies may emerge for base and precious metal stocks, but acute supply/demand imbalances in most commodities are likely to make any gains transitory. We remain underweight the group.

United Kingdom/Continental Europe

- The U.K. recovery is well advanced, but the EU membership referendum blurs the outlook. A Brexit isn't our base case, but is a significant risk. U.K. equities could underperform due to the index's large exposure to commodities and banks. The market's dividend yield is attractive, but dividend cover ratios have deteriorated.
- We are cautiously optimistic on Continental Europe. The economic recovery is seeping through to corporate earnings. Upside potential exists as margins are below precrisis levels. QE-induced euro weakness could boost earnings further. Valuations are not stretched. However, the region is challenged by the refugee crisis. We have a preference for domestic plays, telecoms, and consumer discretionary. Health care is at a discount to U.S. peers. Despite improving nonperforming loans, low rates hurt financials.

Asia

- A return to an inflationary environment is a central tenet of our constructive Japanese equities thesis. The government's efforts have been moderately successful so far. Should this falter, the Bank of Japan would likely expand policy. With tight employment, we expect further wage inflation, another critical component. Japanese equities remain inexpensive versus other developed markets. Changes in investor asset allocation and corporate governance reforms are catalysts.
- For Asia ex-Japan equities, investor attitudes about the Fed's interest rate cycle have improved. While the Chinese economy continues to decelerate, it is nevertheless expanding at a superior rate. The "two speed" economy shows a marked divergence between slower areas (heavy industry, manufacturing, construction) and faster-growing areas (consumption, services). The Chinese government still has many levers it can pull.

Kelly Bogdanov
San Francisco, United States
kelly.bogdanov@rbc.com

Matt Barasch
Toronto, Canada
matt.barasch@rbc.com

Frédérique Carrier
London, United Kingdom
frederique.carrier@rbc.com

Jay Roberts
Hong Kong, China
jay.roberts@rbc.com

Currencies

United States Dollar

- We're likely two-thirds of the way through a dollar upcycle that started in 2011. But the Fed rate hike trajectory appears to be largely priced into the market.
- We expect only moderate, low single-digit upside against most EAFE currencies compared to double-digit gains in 2014 and 2015. Gains against most EM currencies, especially those with current account deficits should be stronger.

Canada Dollar

- We expect the loonie to hover around the US$0.75 level (CA$1.33) in early 2016, given Canada's muted growth and inflation profile. A sharp rally would occur if oil prices rebound, given the implications for inflation and interest rates.

Euro

- Continued weakness is likely, given the ECB's bias to further monetary easing. Although Europe runs a current account surplus, euro bulls may be frustrated by "verbal intervention" to talk down the currency. We expect a broad €1.00–€1.15 range to persist against the dollar.

British Pound

- Sterling is likely to lag the U.S. dollar in 2016 on delayed rate hikes. But the U.K. economy should be strong enough to boost the currency against most other majors. The EU membership referendum and the U.K. current account deficit are risks, but both should be manageable.

Japanese Yen

- Valuation is unlikely to constrain further yen selling pressure, unless "flight to safety" flows resume. Portfolio outflows from government pension funds into foreign stocks and bonds should pick up steam in 2016. As U.S. rates rise, most of these flows will be unhedged, adding to yen weakness.

Commodities

A combination of oversupply, slowing economic conditions in China, and a strong U.S. dollar have made for a challenging environment for many commodities.

Oil

- Forecasts by the International Energy Agency see demand growing by 1.2M barrels per day (bbl/d) and non-OPEC supply contracting by 600,000 bbl/d through Q4 2016. All else equal, these moves would close the current 1.6M bbl/d gap between supply (96.9M bbl/d) and demand (95.3M bbl/d).
- Balancing limited OPEC spare capacity, high inventory levels, and unpredictable supply-side dynamics, we are neutral on oil.

Natural Gas

- Increased demand from power generation, and exports to Mexico have been insufficient to curb substantial supply growth from the Marcellus shale.
- An El Niño year threatens warmer-than-normal winter conditions.
- We see currently depressed prices as overdone, and are overweight on natural gas.

Gold

- Improved global economic and equity market stability has reduced the need for investors to seek safe-haven investments. Given this backdrop and an appreciating U.S. dollar ahead of expected Fed rate hikes, we are underweight gold.

Base Metals

- Base metal prices have suffered from China's poor economic data, currency depreciation, and the sharp equity market decline in the summer.
- Given the slowing Chinese economy and its reduced emphasis on fixed asset investment, we are underweight base metals.

Alan Robinson
Seattle, United States
alan.robinson@rbc.com

Mark Allen
Toronto, Canada
mark.d.allen@rbc.com

Research Resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC Wealth Management Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's Investment Advisors / Financial Advisors who are engaged in assembling portfolios incorporating individual marketable securities. The Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee, providing additional tactical and thematic support utilizing research from the RBC Investment Strategy Committee, RBC Capital Markets, and third-party resources.

Global Portfolio Advisory Committee members:

Jim Allworth – Co-chair; Investment Strategist, RBC Dominion Securities Inc.

Rajan Bansi – Co-chair; Head of Fixed Income Strategies, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Maarten Jansen – Head, Investments & Trading, RBC Wealth Management Global Wealth Services Group, RBC Dominion Securities Inc.

Mark Allen – Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Matt Barasch – Head of Canadian Equities, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Craig Bishop – Lead Strategist, U.S. Fixed Income Strategies Group, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Kelly Bogdanov – Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Frédérique Carrier – Director, European Equities, Royal Bank of Canada Investment Management (U.K.) Ltd.

Janet Engels – Head of U.S. Equities, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Alan Robinson – Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Jay Roberts – Head of Equity Advisory, Wealth Management Hong Kong, RBC Dominion Securities Inc.

The RBC Investment Strategy Committee (RISC), consists of senior investment professionals drawn from individual, client-focused business units within RBC, including the Portfolio Advisory Group. The RBC Investment Strategy Committee builds a broad global investment outlook and develops specific guidelines that can be used to manage portfolios. RISC is chaired by Daniel Chornous, CFA, Chief Investment Officer of RBC Global Asset Management Inc.

Required Disclosures

Analyst Certification
All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

Non-U.S. Analyst Disclosure: Mark Allen, Jim Allworth, Alana Awad, Rajan Bansi, Matt Barasch, and Jay Roberts, employees of RBC Wealth Management USA's foreign affiliate RBC Dominion Securities Inc.; Frédérique Carrier and Christopher Girdler, employees of RBC Wealth Management USA's foreign affiliate Royal Bank of Canada Investment Management (UK) Limited; and Eric Lascelles, an employee of RBC Global Asset Management Inc., contributed to the preparation of this publication. These individuals are not registered with or qualified as research analysts with the U.S. Financial Industry Regulatory Authority ("FINRA") and, since they are not associated persons of RBC Wealth Management, they may not be subject to NASD Rule 2711 and Incorporated NYSE Rule 472 governing communications with subject companies, the making of public appearances, and the trading of securities in accounts held by research analysts.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to http://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2 to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 60 South Sixth St, Minneapolis, MN 55402.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Distribution of Ratings
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, 2015

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]	958	54.40	281	29.33
Hold [Sector Perform]	701	39.81	118	16.83
Sell [Underperform]	102	5.79	4	3.92

Explanation of RBC Capital Markets, LLC Equity Rating System
An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. 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).

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

Risk Rating: As of March 31, 2013, RBC Capital Markets, LLC suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Price Target Impediments
When RBC Wealth Management assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Price Target Impediment", respectively.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of RBC Capital Markets, LLC, and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets, LLC and its affiliates.

RBC Capital Markets has fundamental research of the following companies:
Bank of Montreal (BMO; Sector Perform; $77.11)
The Bank of Nova Scotia (BNS; Outperform; $60.89)
Brookfield Asset Management Inc. (BAM.A; Outperform; $45.85)
Canadian National Railway Company (CNR; Outperform; $79.71)
Canadian Tire Corporation, Limited (CTC.A; Top Pick; $125.12)
CI Financial Corp. (CIX; Outperform; $31.74)
Fortis Inc. (FTS; Outperform; $36.88)
Metro Inc. (MRU; Outperform; $38.46)
National Bank of Canada (NA; Sector Perform; $43.77)
Onex Corporation (OCX; Outperform; $82.24)
Saputo Inc. (SAP; Outperform; $32.69)
Shaw Communications Inc. (SJR.B; Sector Perform; $27.72)
TELUS Corporation (T; Outperform; $42.44)
Thomson Reuters Corporation (TRI; Sector Perform; $54.01)
Toromont Industries Ltd. (TIH; Outperform; $31.23)
Toronto-Dominion Bank (TD; Outperform; $54.54)

RBC Capital Markets analysts have received (or will receive) compensation based in part upon the investment banking revenues of RBC Capital Markets.

Portfolio Advisory Group personnel, including the portfolio advisor or any individuals directly involved in the preparation of the report hold(s) or exercise(s) investment discretion over a long position in the common shares of Thomson Reuters Corporation.

The portfolio advisor responsible for this report or a member of his/her team hold(s) or exercise(s) investment discretion or control over a long position in the non-convertible fixed income securities of Bank of Montreal and The Bank of Nova Scotia.

Portfolio Advisory Group personnel, including the portfolio advisor or any individuals directly involved in the preparation of the report hold(s) or exercise(s) investment discretion over a long position in warrants, rights or securities convertible into the common shares of Fortis Inc.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our Web site at http://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2. Conflicts of interests related to our investment advisory business can be found in Part II of the Firm's Form ADV or the Investment Advisor Group Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part II of the ADV, or Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; by RBC Investment Services (Asia) Limited, a subsidiary of RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Hong Kong, China; and by Royal Bank of Canada Investment Management (U.K.) Limited, an investment management company with principal offices located in London, United Kingdom.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of Royal Bank of Canada. In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC. Additional information is available upon request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. ®Registered trademark of Royal Bank of Canada. Used under license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

To European Residents: Clients of United Kingdom subsidiaries may be entitled to compensation from the UK Financial Services Compensation Scheme if any of these entities cannot meet its obligations. This depends on the type of business and the circumstances of the claim. Most types of investment business are covered for up to a total of £50,000. The Channel Islands subsidiaries are not covered by the UK Financial Services Compensation Scheme; the offices of Royal Bank of Canada (Channel Islands) Limited in Guernsey and Jersey are covered by the respective compensation schemes in these jurisdictions for deposit taking business only.

To Hong Kong Residents: This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, licensed corporations under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited, RBC Investment Management (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).