OCTOBER 2015

RBC WEALTH MANAGEMENT

GLOBAL INSIGHT

PERSPECTIVES FROM THE GLOBAL PORTFOLIO ADVISORY COMMITTEE

UNCOMMON SENSE

There's often plenty of angst over market collapses, but we look at some misconceptions with an eye-opening dose of reality.

MATT BARASCH | PAGE 4

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RBC Wealth Management

There's Wealth in Our Approach.™

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All values in U.S. dollars and priced as of September 30, 2015, market close, EST, unless otherwise noted.

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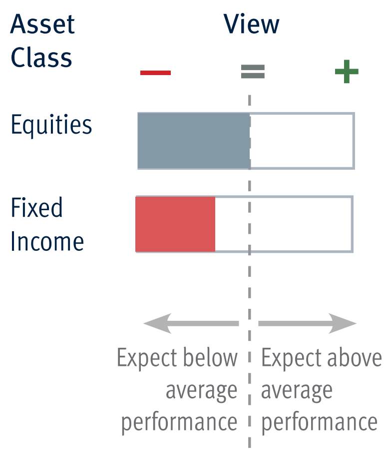

See "Views Explanation" below for details

Source - RBC Wealth Management

Equities – Average Performance =

- Volatility and weakness in the global equity market could persist as tax-loss selling plays out over the next couple months and because some of the issues weighing on the market are unlikely to be resolved overnight. However, we view the correction in developed equity markets as a short-term setback. The U.S. and European economies should continue to grow, which should help offset the headwinds coming from China and other emerging markets.
- In 2016, earnings growth should persist for Europe and reassert itself for the U.S. Valuations for most markets are reasonable following the recent correction, particularly given the low interest rate environment. We recommend investors with a 12-month or longer time horizon maintain a targeted, full allocation to equities.

Fixed Income – Below-Average Performance –

- The Federal Reserve's decision to hold off on hiking interest rates merely delays the inevitable. From our vantage point, the U.S. economy is strong enough for the Fed to begin to raise rates later this year. Regardless of when the first hike comes, we believe the path to normalized interest rates will be slow, gradual, and shallow, and that the Fed Funds rate will eventually crest at a lower level than in previous cycles.
- Volatility will likely persist near-term given uncertainty about Fed policy and dislocations in the high-yield market, particularly the energy sector. We see selective value in investment-grade corporate bonds given recent spread widening and the high likelihood monetary policy of other major central banks will remain accommodative for the foreseeable future.

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

Uncommon Sense

This summer's upheaval in stock markets around the world brought talk of a market collapse back to the fore. But this line of thought seemed off-kilter to us. So we decided to take a deeper look at how often and why bad years really happen. What we found will probably surprise you.

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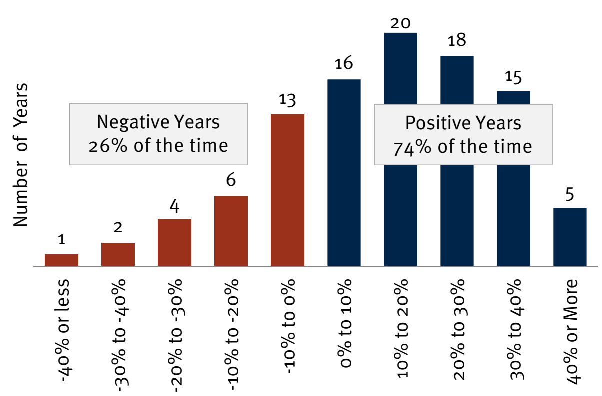
Over the past couple of years, we have dealt with the issue of market corrections (see *Corrections by the Numbers*) and secular bull markets (see *Higher to Climb?*). This month, we are dealing with some common misconceptions about how the stock market typically performs and just how rare bad years (especially really bad ones) are when the U.S. economy is growing.

A Neat Chart on Market Performance

If we look back over 100 years of market performance (1915–2014), we can start to get a pretty good sense as to how the market performs (see chart).

S&P 500 Total Return (1915–2014)



Source - *Irrational Exuberance*, Princeton University Press, 2000, 2005, 2015; Bloomberg, RBC Wealth Management

The positive return years far outpace the negative ones.

So what are we looking at? Going back 100 years, the stock market has had 74 positive years and 26 negative years. Of those negative years, one-half (13) have ranged between 0% and 10%, while seven have seen losses of more than 20%.

Think about that for a moment.

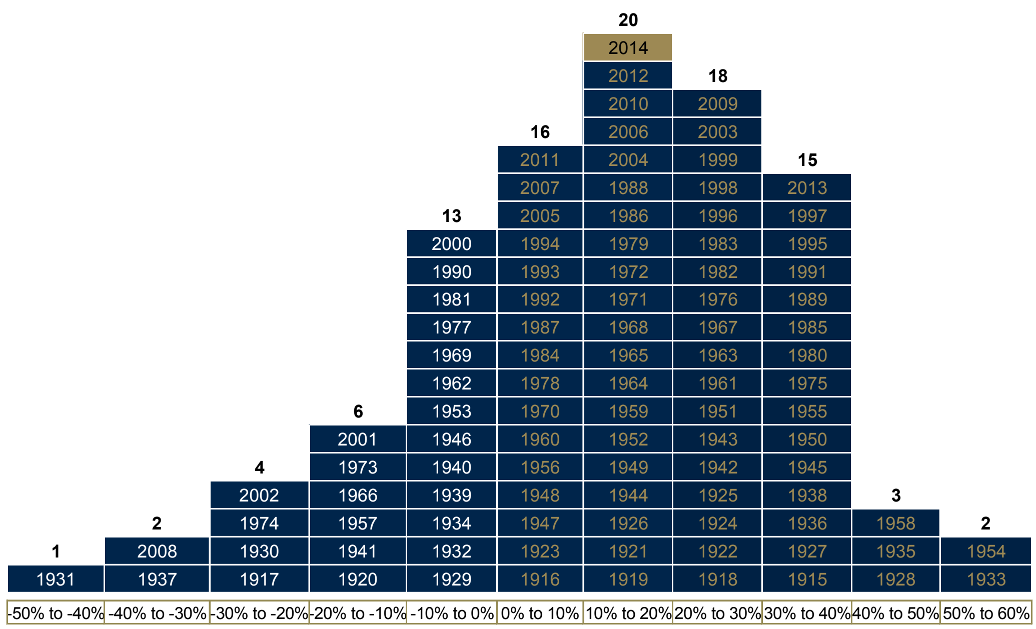
While we spend an awful lot of time worrying about market collapses, if we define a collapse as a loss of 20% or more, they happen about 7% of the time or about once every 15 years. And that's if you start in 1915. If you start in 1945 (we'll call this "the Modern Era"), the number of 20% down years would drop to three, meaning since the beginning of the Modern Era, big down years have occurred about 4% of the time or roughly once every quarter-century. One other note, every one of these big down years has been associated with a U.S. recession, so getting the recession call right is of paramount importance.

On the flip side, up years tend to be roughly evenly distributed across 0%–10%, 10%–20%, 20%–30%, and 30%–40%. Most market forecasters will predict at the start of the year, "I expect the market to rise [7%–10% or so]," which is not far off the average growth of earnings over time. But, in fact, this rarely happens with 0%–10% years occurring only 16% of the time. In fact, years in which the market rises 10%–20% and 20%–30% are more common than years in which the market rises 0%–10%, and years in which the market rises 30%–40% are almost as common (15 vs. 16).

Looking at a Yearly Breakdown

There are a number of ways to present the data on market performance. In the chart below, we look at the same data as in the previous chart, except now we actually can see which years delivered good and bad performance.

Market Performance



Source - *Irrational Exuberance*, Princeton University Press, 2000, 2005, 2015; Bloomberg, RBC Wealth Management

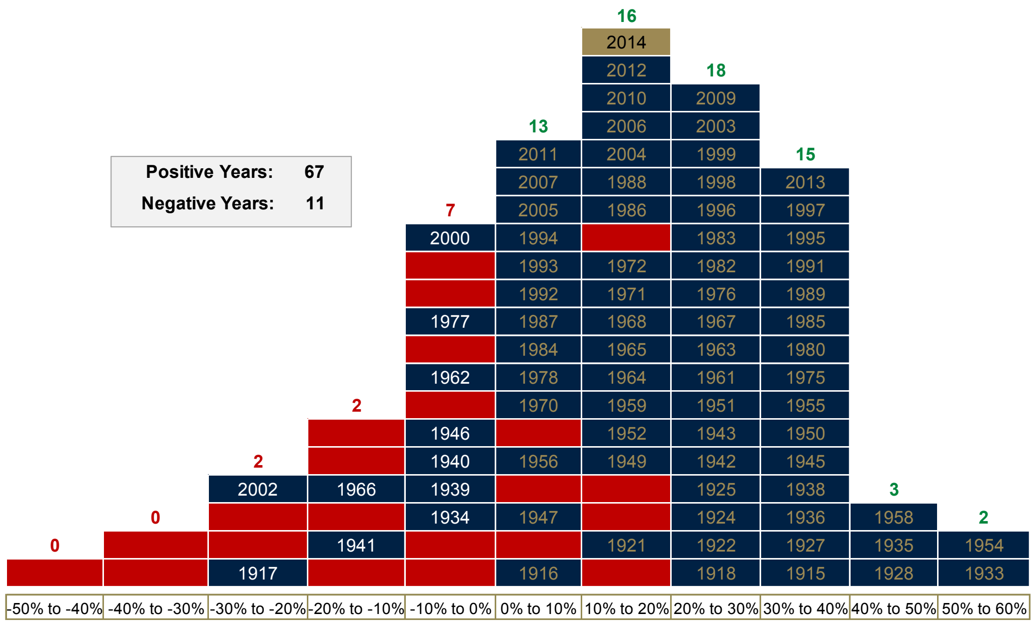
Recessions Matter

Over the past 100 years, the U.S. has been in recession for roughly one in every five years, although over the past three decades, as the economy has transitioned from more manufacturing-based to more services-based, this has stretched to closer to one in 10.

Recessions matter an awful lot to market performance with most down years associated with years that experienced some level of contraction in U.S. economic activity. With that in mind, the chart on the following page takes out all years in which the market was impacted by a recession.

We are left with 78 years of data with 11 (14%) generating a negative total return (ironically, should the S&P 500 fail to rally into year-end, 2015 could be just such a year). Of the 11 remaining down years, only four experienced a loss of greater than 10% with two of these—1917 and 1941—occurring during world wars.

The Good and the Bad, Sans the Ugly



Source - *Irrational Exuberance*, Princeton University Press, 2000, 2005, 2015; Bloomberg, RBC Wealth Management

Again, let's consider that for a moment—over the past 100 years, when the U.S. economy has been growing and the U.S. has not been embroiled in a world war, the S&P 500 experienced only two years in which the market declined more than 10%.

Recession Risks

Considering the importance of recessions to market performance, we always keep an eye on recession risks and various indicators, which can often give reliable signals when those risks are rising.

Every month, RBC Capital Markets Chief U.S. Market Strategist Jonathan Golub publishes a recession scorecard that focuses on some of these key indicators (see chart below). These indicators, which include the shape of the yield curve, the ISM Manufacturing Index, and Housing Starts among others are all either pointing toward continued growth in the U.S. economy over the next 12 months or are giving a "neutral signal." None at present are indicating heightened recession risks.

RBC's Recessionary Indicator Scorecard

Start of Recession	Yield Curve	ISM Mfg.	Inf. Trends	Capacity Utilization	Housing Starts	Avg. Weekly Hours
Dec 1969	X	X	X	X	X	X
Nov 1973	X	X	X	X	X	X
Jan 1980	X	X	X	X	X	X
Jul 1981	X	X	✓	✓	X	✓
Jul 1990	X	X	X	X	X	X
Mar 2001	X	X	X	X	–	X
Dec 2007	X	X	X	X	X	–
Present	✓	✓	✓	–	✓	–

Key: X Recessionary Territory; ✓ Expansionary Territory; – Neutral
Source - RBC Capital Markets, Haver Analytics, U.S. Census Bureau, ISM, BLS, Federal Reserve, NBER, S&P

Recession risks remain low.

This view jibes with that of the St. Louis Federal Reserve, which publishes a recession probability indicator. This indicator, which has been shown to provide a reasonable assessment of recession risks over the ensuing six–nine months, is currently predicting a less-than-1% chance of a U.S. recession.

Conclusion

We would remind investors that past performance is not necessarily predictive of future returns and thus it is possible that what the past 100 years has mapped out for us in terms of market performance may not presage what the next 100 years or even the next year might offer.

That said, if we look back over the past century, we can conclude that up years have been far more common than down years and really good years are far more common than really bad years. Furthermore, when the U.S. economy is expanding as it is now and as we expect to in 2016, the market has generated a positive return about 85% of the time and a return of greater than 10% almost 70% of the time.

Focus Article

The Deep Divide

The flood of refugees across Europe's borders has driven a sharp wedge through the EU. Member nations are grappling with the practical and moral ramifications of the crisis, while an anti-EU backlash could have ominous repercussions on the EU's core values of collaboration and free movement of goods, capital, and labour.

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A refugee crisis is engulfing Europe. We do not believe it will have an impact on asset prices, nor make a meaningful short-term dent in government finances. However, we believe this issue is so divisive, that it could, if taken to its extreme, threaten the eurozone project. It is inconceivable that in the U.S. or Canada, a state or province would leave the country because it disagrees with the federal government's immigration policy. Not so in Europe: with anti-immigration often intertwined with an anti-EU connotation, the rise of such sentiment could threaten the region's status quo, in our view.

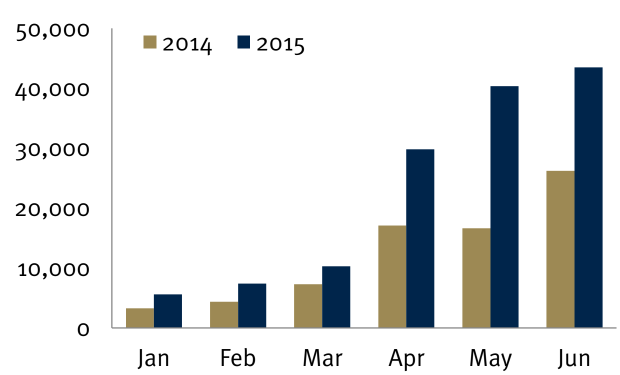
They Keep on Coming …

So far this year, some 400,000 people have used irregular means to reach Europe in search of a better life.

Some, the refugees, are forced out of their homes and escape persecution, while others, migrants, have voluntarily left their countries, motivated by the prospect of better economic opportunities. According to the United Nations High Commissioner for Refugees (UNHCR), the top five countries of origin of refugees arriving in Europe are war-torn Syria (34%), Afghanistan (12%), Eritrea (12%), Somalia (5%), and Nigeria (5%).

Europe, a relatively stable, safe region, has long attracted immigrants. However, since the Arab Spring, and ensuing national crises, the pace of arrivals has accelerated. The chart below shows figures for refugees and migrants arriving by sea in Europe in

Refugees and Migrants Arriving by Sea to Europe (2014 & 2015)



Source - United Nations High Commissioner for Refugees (UNHCR)

The waves of boat people swell higher and higher.

the first half of this year compared to the same period last year, and points to a sharp acceleration. Indeed, 50,000 asylum seekers reportedly reached Greece in July alone.

The surge in numbers and the continued conflict in the Middle East suggest the inpouring is likely to continue to swell. The UNHCR estimates there are 59 million forcibly displaced people worldwide, of which 19 million are refugees. Not all, clearly, will head for Europe, but the region's proximity to the upheaval zones makes it a relatively reachable destination.

Creating Tensions …

The unprecedented influx of migrants to Europe since the World War II has greatly increased tensions among EU members regarding how to best cope with—and share—the burden.

EU President Jean-Claude Juncker initially called for member countries to accept their share of the 120,000 refugees using a quota system. This initially failed with the greatest resistance coming from Eastern European countries that worried the influx would encourage more migrants and threaten their own populations' work prospects and stretched public services. The proposal was eventually accepted, though it is being legally challenged by some members.

> … putting up of national barriers not only betrays European values, but also undermines one of the key achievements of the EU.

Unfounded Fears?

These are valid concerns; however, much of Europe is struggling with aging populations and low birth rates and could benefit in the long term by taking in immigrants if they can be successfully assimilated.

Germany is a case in point. With a high average age of 45 and 20.8% of the population 65 or older, Germany has one of the oldest populations in the eurozone. As populations age, workforces shrink, thus holding back economic growth. Immigration can help in the long term to mitigate this process.

This may explain why Chancellor Angela Merkel has worked hard to get European countries to work together on the immigration issue, and why Germany has taken a comparatively large intake of immigrants so far this year.

A Threat to the Union?

Merkel's efforts at collaboration have stalled so far. Several countries have recently reinstated national border checks and controls. Frustrated, some ministers are calling for EU subsidy cuts to countries who do not take in their share of refugees. This has led to a potentially vicious cycle marked by a lack of cooperation and then retaliation. The crisis escalates, and relationships are embittered.

The EU was built on the principle of free movement of goods, services, capital, and labour among member states. The Schengen zone was established in the 1990s allowing near unlimited migration among EU countries. In practice, there is no need for a passport or border control across 26 member states.

As such, the putting up of national barriers not only betrays European values, but also undermines one of the key achievements of the EU. The current backlash threatens the viability of the Schengen zone.

Should it be suspended, the consequences would be more than ideological. It would highlight the difficulty EU countries have working together, an ominous sign for a system based on collaboration. Moreover, blocking free movement risks undermining the single European labour market, which in turn can crimp trade, and perhaps affect foreign direct investment.

Rising Political Risk

We see this refugee crisis as a source of political risk. As anti-immigration parties in Europe tend to be also anti-EU, their rise can potentially have consequences not only for the eurozone, but also for Great Britain.

How this crisis is handled and evolves could have far-reaching implications much beyond the management of the influx of refugees.

The crisis could increase the chances of the U.K. leaving the EU (the so-called "Brexit") in a number of ways. It could decrease the probability that Prime Minister David Cameron would be able to secure the changes he wants made to the U.K.'s relationship with the EU before the U.K. referendum on EU membership, penciled in for late 2016. It could also undermine public support for staying in the EU. These two factors could coalesce to precipitate an exit.

Moreover, tensions over immigration, should they continue to grow, could influence the results of key 2017 political contests: France's presidential and Germany's federal elections. In France, the Front National, with its anti-immigration, anti-European, and anti-austerity sentiment is gaining popularity. This could influence the current policies of French President François Hollande.

Finally, there could also be a backlash in Germany against Merkel's party, the Christian Democratic Union, as her more-open approach to immigration could prove unpopular.

How this crisis is handled and evolves could have far-reaching implications much beyond the management of the influx of refugees. We do not think its destabilizing potential should be underestimated by investors. European equities' valuations are not stretched and compare favourably on a historical basis. Moreover, quantitative easing is supportive. However, we retain a neutral position as the corporate sector is meaningfully exposed to the slowdown in emerging markets and political risk remains.

Correction

Many investors have found it hard to commit to equities for at least the last two years, worried that a correction was just around the corner. It's been a long wait, but August and September saw a selloff in all markets that would qualify. It featured: a growing feeling of investor panic; a string of days featuring big price declines on heavy volume; and investors indiscriminately selling high-quality businesses at distress prices afraid of what might come next.

Equity Views

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

Source - RBC Wealth Management; see "Views Explanation" on page 3 for details.

Are there any reasons to believe the correction has further to run, or at least for share prices to remain weak for some further weeks or months?

The rebound in share prices since the late-August lows has been much less dynamic than was the precipitous decline—the volume of shares traded each day has been much lower and the percentage of stocks participating in the upswing uninspiring. But these disparities can correct themselves as time goes on.

Of more concern is the likely emergence of tax-loss selling over the October–November stretch. Stocks in most major markets have risen a long way in the past several years. There will be a temptation to cover taxable gains with losses that may have emerged in the downturn, potentially keeping stocks "backfooted" closer to year end.

We believe the proper response is to look for opportunities to buy outstanding businesses at what we expect will prove to be temporarily depressed prices.

In our view, the market decline of the past few weeks and months is a correction not the start of a bear market. Bear markets in developed economy stock markets have been closely associated with U.S. recessions and accompanying declines in corporate earnings. We believe the prospects for a U.S. recession are very low. Reliable leading indicators of future economic activity point to a continuation of the U.S. expansion, perhaps even an acceleration.

Most importantly, credit conditions remain extremely supportive of economic growth. Rates are low and affordable, and it will take a long succession of rate hikes to change that condition. The Fed has indicated the path it favors to more normal rates will be a long, shallow, and deliberate one.

In our experience, "tight money"—rates high enough to discourage borrowers and to push banks to become much choosier about to whom they lend—arrives many months before a serious economic downturn begins. Since, in our view, those sort of restrictive credit conditions lie a long way off, possibly several years, we expect the long-term uptrend in share prices, dating from the financial crisis lows in 2009, will reassert itself in the coming months.

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Global Equity

Regional Highlights

United States

- During what is the market's worst month historically, the S&P 500 declined 2.6% in September and has fallen 9.9% from its peak in May. The ongoing commodity correction, further weakness in China's manufacturing sector, and uncertainty about Fed policy contributed to the selloff. A sharp decline in biotech and pharma stocks due to concerns about proposals to regulate drug prices also weighed heavily on the broader market.

- Volatility could persist near term, and additional downside could occur before year end, particularly since government shutdown risks have increased with the impending resignation of House Speaker John Boehner. The U.S. market, however, should ultimately regain its footing as the domestic economy continues to grow and corporate earnings improve in 2016.

- RBC Capital Markets lowered its S&P 500 EPS estimate for 2015 from $125 to $120, or up 1% y/y. It cut its 2016 forecast from $135 to $128, below the $131 consensus estimate. Next year's estimate represents almost 7% growth and a P/E ratio of 15.0x—a below-average valuation.

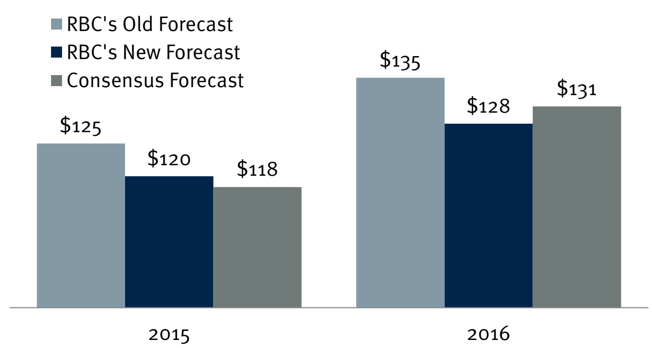
Canada

- A slowing domestic economy and broad-based weakness in commodities continue to represent significant headwinds for Canadian equities.

- Bank stocks remain under pressure on concern over slowing loan growth, pressure on net interest margins, and the risk of increasing credit losses. While the direct exposure of Canadian banks to energy loans appears quite manageable, the indirect impact of a prolonged period of depressed oil prices on unemployment and consumer credit losses remains somewhat more difficult to gauge. We continue to recommend a market weight position in Canadian financials, balancing attractive valuations with a challenging near-term outlook.

- With crude oil prices remaining at uncomfortably low levels, the focus in the energy sector is now squarely on balance sheets. Companies with high debt loads and limited access to liquidity have seen their shares come under significant pressure lately. While we see interesting long-term value in some of the well-capitalized, high-quality names, the near-term outlook for energy producers continues to be difficult given persistent oversupply and weakening demand trends.

S&P 500 EPS Estimates



Source - RBC Capital Markets, Thomson Reuters; consensus data is from 9/30/15

RBC's new forecasts represent 7% y/y growth in 2016.

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- Overall, we remain market weight with a negative bias for Canadian equities. We note that the recent indiscriminate selling in some sections of the market has created interesting entry points in certain high-quality names, particularly in the industrials and consumer sectors.

Continental Europe & U.K.

- European economic data is encouraging. The ECB's quantitative easing (QE) programme is clearly supportive to the credit environment, reviving private sector lending and business investment. However, the corporate sector's exposure to emerging markets—at just under 20% of revenues the highest of all developed markets—is cause for concern. The erosion of the weak euro competitive edge is another headwind. Another round of earnings downgrades may be in the offing.

- The domestic recovery may no longer be a sufficient driver of ECB decisions. Financial conditions are worsening for most emerging economies. The ECB has hinted it may extend its QE programme beyond the original September 2016 deadline.

- European equities' valuations do not appear stretched and compare favourably on a historical basis. Moreover, QE is supportive. However, we retain a neutral position as the corporate sector is meaningfully exposed to the slowdown in emerging markets and political risk remains, as discussed in *The Deep Divide*. We favour domestic sectors such as telecoms and media. Financials look particularly attractively valued, though riskier, and we remain selective.

- We remain underweight the U.K. due to its comparatively large exposure to energy and mining, two sectors which are likely to see companies struggle to maintain dividends, in our view, given commodity price levels.

Asia

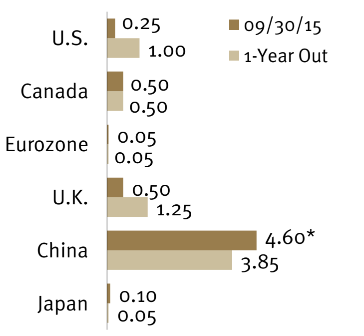
- After a sharp correction in late August, mainland China markets stabilized somewhat in September. Valuations appear reasonable in aggregate, but vary among market capitalizations. Large-cap stocks are beginning to look attractive, while mid-small cap valuations remain at an elevated level. Outside China, a number of Asian equity markets, including Hong Kong, Indonesia, Korea, Malaysia, Singapore, and Taiwan, are trading at depressed price-to-book multiples.

- Industrial activities slowed further in China. Fixed investment, industrial production, and producer prices were weaker than expected. The preliminary Caixin Manufacturing PMI dropped to the lowest level in more than six years in September, indicating persistent pressure on China's economy and global commodity markets. On the positive side, retail sales and export growth remained stable. Home sales continued to strengthen, rising 16% y/y in August.

- The China Securities Regulatory Commission (CSRC) further strengthened the supervision of leverage financing. Brokers were required to clear up all non-real-name accounts which are commonly used in structured trust products. Following tightened regulations on brokerages' margin businesses and private financing companies, structured trusts are the only remaining leverage tools to be regulated. CSRC data shows 64% of unregulated accounts had been cleared as of September 16. This progress could signal that China's active deleveraging is nearly complete which may remove a key weight from the equity market.

Deferral of the Inevitable

Central Bank Rate (%)



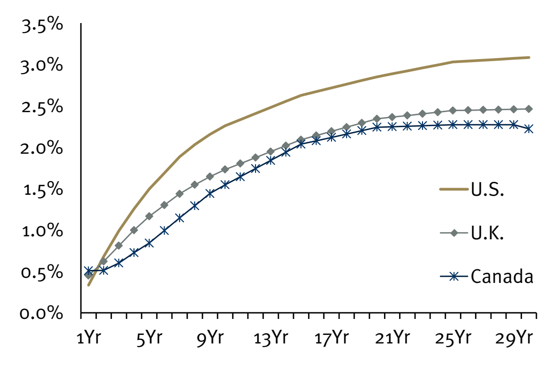
*1-yr base lending rate for working capital, PBoC
Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee (GPAC), Consensus Economics

We believe the odds remain high the Federal Reserve will increase interest rates before the end of 2015. Members of the Federal Open Market Committee expressed a desire at the September meeting for more time to determine if economic tremors in emerging markets had reverberated through to the domestic economy. Recent data suggests the U.S. has shaken off these wobbles and the domestic economy has progressed to a point where emergency support through near-zero interest rates is no longer necessary.

Evidence of green shoots in Canada's manufacturing industry is likely of critical importance to the Bank of Canada given oil prices remain at depressed levels. The Bank of Canada, having cut its overnight rate by a cumulative 50 basis points, is likely to stand pat through the end of 2015 in order to assess the effect of these cuts on the economy. The combination of a U.S. rate hike and an accommodative Bank of Canada could prove to be a powerful headwind for the Canadian dollar, potentially returning the currency to its lows for the year against the greenback.

Growth and inflation considerations have replaced political risks in Europe, which is a welcome development for investors. We see value in the corporate space given recent spread widening and the high likelihood that monetary policy will remain accommodative for the foreseeable future.

Sovereign Yield Curves



Source - Bloomberg

Regional Highlights

United States

- The Fed took a pass at the September FOMC meeting to buy itself time to assess the economic impact of recent market volatility in a self-described "prudent" risk-management move, suggesting only a delay to its policy normalization plan. The October 28 meeting won't offer sufficient time, putting the focus on the December meeting.

- While the incoming data will continue to be important for both the Fed and for markets, we now see the burden falling onto Fed communications. Fed officials have valued the flexibility that "data dependency" has provided, but with December prospects at just 50/50 amid lingering uncertainty over what global developments they are watching, officials will likely have to sacrifice that flexibility and provide more explicit guidance to the markets.

- In credit markets, Fed uncertainty and global growth concerns continue to weigh on high-yield corporate spreads outside of the energy sector, which are now approaching three-year highs. The primary markets have also

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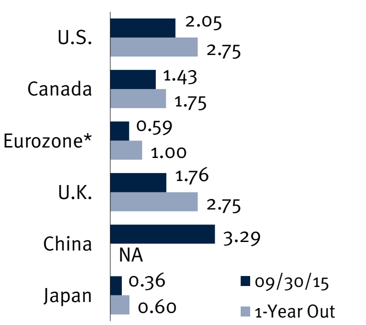
Global Fixed Income

10-Year Rate (%)



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

been less receptive to new issuance by speculative-grade-rated firms. We want to see signs of stabilization in high-yield markets before taking a more-constructive stance on corporate bonds broadly.

Canada

- Canadian credit spreads continue to hover near the widest levels in three years as low oil prices pressure the space. A significant amount of new supply was absorbed during the month as investors looked to take advantage of attractive yields.

- Preferred shares, particularly rate-reset issues, continue to trade lower. The risk of low rates persisting and ongoing concerns that new issues will offer higher dividends and better terms continue to pressure the market.

- Canadian economic data was mixed with some evidence of a bounceback in activity during Q3. Exports for July increased 2.3% m/m, the third consecutive improvement. Retail sales, also up for the third month in a row in July, expanded at a slower pace of 0.5% m/m. Government bond yields trended higher over September and the Government of Canada 5-year yield reached 0.90% for the first time since June.

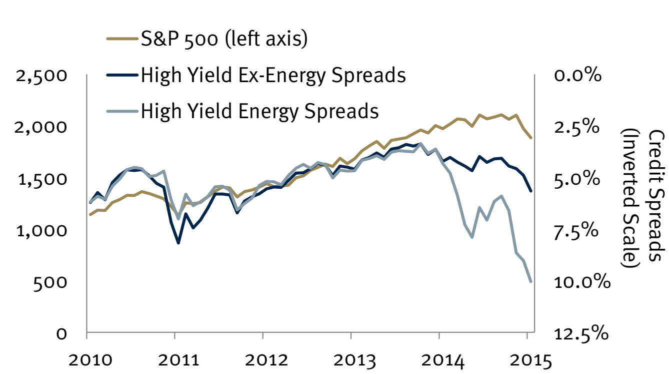
Continental Europe & U.K.

- The ECB continues to deliver a dovish tone and has even expressed a willingness to increase its quantitative easing program if required. Inflation remains at very low levels and is not likely to move markedly higher in the near term. Political headwinds in the region have receded for the time being, and market swings should be dictated by central bank action and economic data in the coming months.

- The U.K. gilt market has been a beneficiary of the Fed not increasing interest rates. We believe the Bank of England is unlikely to be a first mover amongst the major central banks with respect to hiking rates, which could put it on hold into 2016. We expect global growth and inflation to trump domestic factors with respect to catalysts for the gilt market.

- Corporate cash spreads continue to widen. We see some value in the corporate space as "lower for longer" rates and slowly improving domestic economies will likely underpin demand.

Follow the Leader: Credit Concerns Extending Beyond Energy



Source - RBC Wealth Management, Bloomberg, Barclays; high yield indexes represent U.S. data

Investors will likely need to see signs of stability in high yield credit markets before risk assets in general can find a bottom.

Commodities

Commodity Forecasts	2015E	2016E
Oil (WTI $/bbl)	51.00	57.00
Natural Gas ($/mmBtu)	2.78	3.25
Gold ($/oz)	1,165	1,200
Copper ($/lb)	2.45	2.50
Corn ($/bu)	3.85*	4.15
Wheat ($/bu)	5.18*	5.38

*H2 2015

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

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Oil

- Rebalancing of the oil market continues; however, it has been pushed out by rising OPEC production, the potential for rising volumes from Iran, and economic concerns related to China.
- U.S. oil production has experienced persistent declines since mid-August, based on EIA weekly field data.
- Estimates of breakeven prices for U.S. shale plays from RBC Capital Markets range widely depending on the quality of the rock within the formation. In the Eagle Ford, the best acreage may be as low as $40 per barrel (/bbl) while the fringe areas may be as high as $75/bbl, with an average at $60/bbl. For the Bakken, the range is $45–$80/bbl, with an average of $65/bbl. For the Permian, the range is $40–$80/bbl, with an average of $60/bbl.
- As opportunities in the best acreage are used up, pressure on U.S. oil production will likely mount in a sub $50/bbl oil environment given cash flows are down 40%–50% this year for U.S. E&Ps and access to capital will become more limited as bank lines are reassessed.
- OPEC supply is high but has ebbed lower from its recent three-year high.
- Demand continues to show strong growth, driven by the developed world, with U.S. vehicle miles traveled up about 4% y/y.

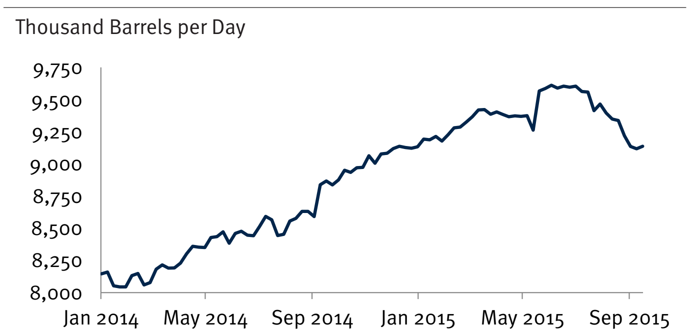
Potash

- U.S. potash prices have declined about 20% YTD on soft crop prices, weaker currencies for major importing nations, and looming supply increases.
- Depressed farm returns have hurt demand. While corn prices spiked over $4 per bushel (/bu) mid-summer on wet weather threats to corn yields, prices have softened to the mid-$3/bu range as conditions improved.
- Weaker emerging market currencies have also negatively impacted demand from key regions such as Brazil, Indonesia, and Malaysia.
- Poor demand conditions combined with significant new potash supply additions slated for the back half of this decade lead us to a cautious outlook for potash.

Copper

- Chinese copper consumption has been weaker than expected this year given a back-up in certain exports (e.g., electronics), lower housing construction, and a slower pace of investment in the power grid.
- Lower prices have spurred production cuts from Asarco and Glencore.
- The cost curve has been shifting lower on cheaper diesel prices, lower wages given currency moves, and ongoing investments from operators.
- We see a reasonable $2.00–$2.75 per pound range for copper in the near term.

Weekly U.S. Field Production of Crude Oil



Source - Bloomberg, RBC Dominion Securities; data through 9/18/15

Sharply lower drilling activity and steep decline rates are starting to bite into U.S. oil production.

Currencies

Currency Forecasts

Currency Pair	Current Rate	Forecast Sep 2016	Change*
USD Index	96.35	93.42	-3%
CAD/USD	0.75	0.76	2%
USD/CAD	1.33	1.31	-2%
EUR/USD	1.12	1.16	4%
GBP/USD	1.51	1.68	11%
USD/CHF	0.97	0.98	1%
USD/JPY	119.88	126.00	5%
AUD/USD	0.70	0.67	-4%
NZD/USD	0.64	0.58	-9%
EUR/JPY	133.99	146.16	9%
EUR/GBP	0.74	0.69	-7%
EUR/CHF	1.09	1.14	4%
Emerging Currencies			
USD/CNY	6.36	6.90	8%
USD/INR	65.59	69.50	6%
USD/SGD	1.42	1.57	11%
USD/TRY	3.03	2.75	-9%
USD/PLN	3.80	3.41	-10%
USD/MXN	16.92	15.50	-8%
USD/BRL	3.95	3.95	0%

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

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U.S. Dollar

- The Fed's decision to keep rates on hold hurt the dollar, but not for long. No other G-10 central bank wants its currency to appreciate, so the delay in raising U.S. interest rates just means that all other trading partners' rates will be on hold (or falling) for longer too.
- This means the dollar's rise will likely persist until foreign inflation overtakes that in the U.S. We don't expect this to happen any time soon, so we remain constructive on the dollar.

Euro

- Global market turmoil has been a tailwind for the euro recently because the currency has become a risk-off proxy, rallying when stock markets are weak.
- However, we saw the limits of this behavior when ECB President Mario Draghi sought to talk the euro down from its post-Fed meeting strength (see chart). We believe this political sensitivity will serve to cap the euro near 1.15 against the dollar, and we expect long-term buyers to emerge only on weakness toward parity.

Canadian Dollar

- The loonie declined to fresh lows against the dollar in September, following the trajectory of lower market estimates for longer-term oil prices.
- However, as we head into 2016, we expect a gradual stabilization in the Canadian dollar as exports should start to pick up due to the more-competitive currency.

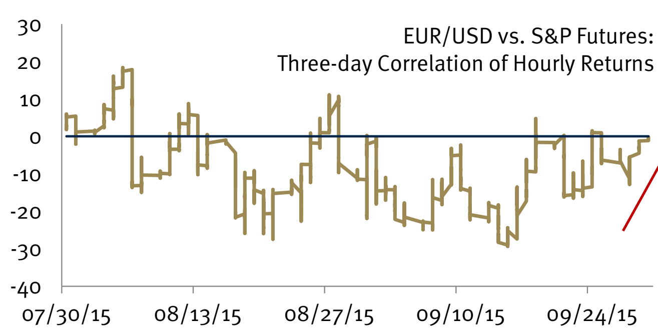
British Pound

- The Bank of England is in no hurry to raise interest rates until after rates rise in the U.S., and this should limit sterling's gains over the near term.
- However, as the global interest rate cycle normalizes, the pound should benefit from a quicker pace of rate hikes given the likely inflationary pressures caused by a robust U.K. labor market. We are positive on sterling over the long term.

Japanese Yen

- We expect continued outflows of investment funds from Japan as the Government Pension Investment Fund (GPIF) seeks to meet its asset allocation target by buying foreign equities.
- The recent pace of outflows will need to be maintained for at least six months, and we believe this should contribute to yen weakness into Q1 2016, at which point we expect the yen's decline to level off.

Euro's Safe-Haven Characteristics Are Fading



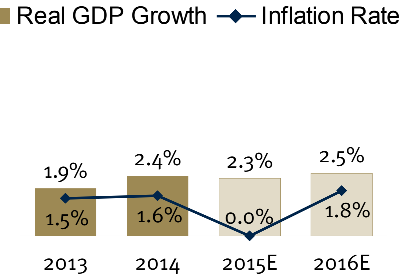
Source - RBC Wealth Management, Bloomberg

"Verbal intervention" from the ECB has reduced the euro's allure as a "risk-off" currency.

Key Forecasts

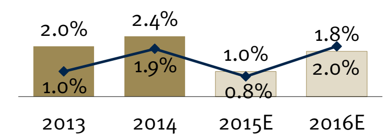
United States — Solid Growth

- In H1, private sector grew by 3.3% y/y despite severe Q1 weather and port strike. Home sales surging. Housing permits, starts near 8-year high. Unemployment claims at 40-year low. Leading indicators, confidence elevated.
- ISM indexes, including new orders, all in expansion territory. Construction spending, capex higher.



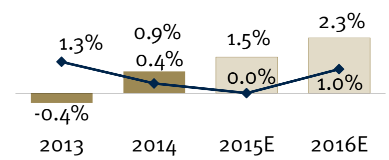
Canada — Weak

- Q2 was 2nd quarter of GDP decline, but June saw first monthly GDP increase this year. House construction firm, business capex and government weak. Consumer attitude restrained by resource sector job loss, stagnant wage growth.
- Mfg. sales and new orders up 3 mos. running. Energy capex plans down sharply. Loonie weakness helping services, tourism, and perhaps beginning to assist mfg.



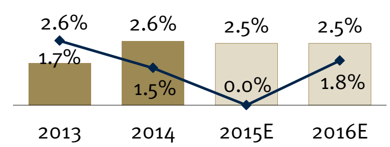
Eurozone — Improving

- Q2 was 9th successive quarter of positive growth. Q1 growth revised higher. Spain solid, France picking up, Italy improving. Private sector lending up year over year for 7 mos. running after almost 3-year decline.
- PMIs solid, business confidence, industrial production on the rise. Spanish/Portuguese elections, refugee crisis could weigh on sentiment.



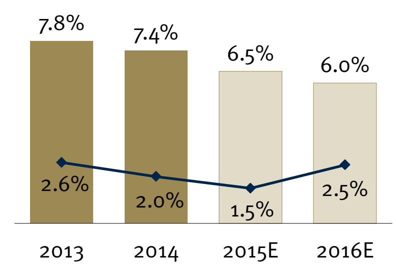
United Kingdom — Growing

- Q2 GDP met expectations, up 2.6% y/y. Led by large services sector, trade. Construction and business capex flat. Oil sector subtracted from growth. Employment softer. PMIs and new orders positive but off best levels.
- Growth pace sustainable for 2015, but uncertainty around EU membership referendum may weigh on business investment/confidence.



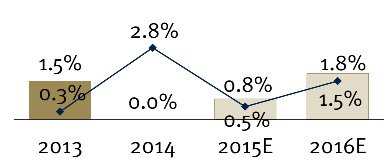
China — Slowing

- Q2 GDP at 7.0% in line with gov't full-year target, but internals are mixed/weaker. Fixed asset investment slowing, as is loan growth. Manufacturing PMI has turned negative again. Consumer, business confidence softer.
- Government has cut rates five times, more likely to come. Some firming in house prices.



Japan — Conflicted

- GDP growth sagged in Q2, but up year over year. Leading indicators softer, PMIs, corporate earnings, and business confidence all firm.
- Consumer confident, spending somewhat firmer. Weak oil prices putting inflation targets in jeopardy.



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

Market Scorecard

Index (local currency)	Level	1 Month	YTD	12 Months
S&P 500	1,920.03	-2.6%	-6.7%	-2.6%
Dow Industrials (DJIA)	16,284.70	-1.5%	-8.6%	-4.4%
NASDAQ	4,620.17	-3.3%	-2.4%	2.8%
Russell 2000	1,100.69	-5.1%	-8.6%	-0.1%
S&P/TSX Comp	13,306.96	-4.0%	-9.1%	-11.1%
FTSE All-Share	3,335.92	-2.9%	-5.6%	-5.6%
STOXX Europe 600	347.77	-4.1%	1.5%	1.4%
German DAX	9,660.44	-5.8%	-1.5%	2.0%
Hang Seng	20,846.30	-3.8%	-11.7%	-9.1%
Shanghai Comp	3,052.78	-4.8%	-5.6%	29.1%
Nikkei 225	17,388.15	-8.0%	-0.4%	7.5%
India Sensex	26,154.83	-0.5%	-4.9%	-1.8%
Singapore Straits Times	2,790.89	-4.5%	-17.1%	-14.8%
Brazil Ibovespa	45,059.34	-3.4%	-9.9%	-16.7%
Mexican Bolsa IPC	42,632.54	-2.5%	-1.2%	-5.2%
Bond Yields	**9/30/15**	**12/31/14**	**9/30/14**	**12-mo. Chg**
US 2-Yr Tsy	0.629%	0.738%	0.567%	0.06%
US 10-Yr Tsy	2.037%	2.218%	2.489%	-0.45%
Canada 2-Yr	0.519%	0.439%	1.124%	-0.61%
Canada 10-Yr	1.432%	1.493%	2.146%	-0.71%
UK 2-Yr	0.563%	0.687%	0.826%	-0.26%
UK 10-Yr	1.762%	1.962%	2.425%	-0.66%
Germany 2-Yr	-0.252%	-0.203%	-0.082%	-0.17%
Germany 10-Yr	0.587%	0.798%	0.947%	-0.36%
Commodities (USD)	**Price**	**1 Month**	**YTD**	**12 Months**
Gold (spot $/oz)	1,115.07	-1.7%	-5.9%	-7.7%
Silver (spot $/oz)	14.52	-0.7%	-7.5%	-14.5%
Copper ($/metric ton)	5,176.50	0.6%	-18.7%	-23.0%
Uranium ($/lb)	36.50	-0.7%	-8.8%	2.8%
Oil (WTI spot/bbl)	45.09	-8.4%	-15.4%	-50.5%
Oil (Brent spot/bbl)	48.37	-10.7%	-15.6%	-48.9%
Natural Gas ($/mmBtu)	2.52	-6.1%	-12.6%	-38.8%
Agriculture Index	290.69	3.8%	-9.9%	-0.6%
Currencies	**Rate**	**1 Month**	**YTD**	**12 Months**
US Dollar Index	96.35	0.5%	6.7%	12.1%
CAD/USD	0.75	-1.3%	-12.7%	-15.9%
USD/CAD	1.33	1.3%	14.6%	18.9%
EUR/USD	1.12	-0.3%	-7.6%	-11.5%
GBP/USD	1.51	-1.4%	-2.9%	-6.7%
AUD/USD	0.70	-1.3%	-14.2%	-19.8%
USD/CHF	0.97	0.6%	-2.1%	1.9%
USD/JPY	119.88	-1.1%	0.1%	9.3%
EUR/JPY	133.99	-1.4%	-7.5%	-3.2%
EUR/GBP	0.74	1.1%	-4.9%	-5.2%
EUR/CHF	1.09	0.3%	-9.6%	-9.8%
USD/SGD	1.42	0.7%	7.3%	11.5%
USD/CNY	6.36	-0.4%	2.4%	3.5%
USD/BRL	3.95	9.0%	48.5%	61.3%

Markets down across the board in September, historically the worst month for equities.

Treasury yields retreated when the Fed stood pat.

Crude oil declined, but closed well above the August lows.

Risk-off helped yen.

Approaching fair value.

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 0.75 means 1 Canadian dollar will buy 0.75 U.S. dollar. CAD/USD -15.9% return means the Canadian dollar has fallen 15.9% vs. the U.S. dollar during the past 12 months. USD/JPY 119.88 means 1 U.S. dollar will buy 119.88 yen. USD/JPY 9.3% return means the U.S. dollar has risen 9.3% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 9/30/15.

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