RBC WEALTH MANAGEMENT

GLOBAL INSIGHT

PERSPECTIVES FROM THE GLOBAL PORTFOLIO ADVISORY COMMITTEE

Conviction Needed

Equity markets need conviction that the U.S.-led economic expansion is sustainable.

Jim Allworth | Page 4

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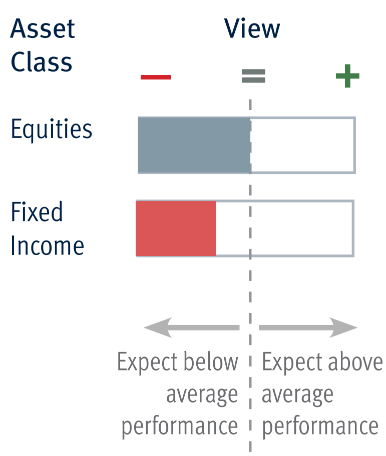
Inside the Markets

All values in U.S. dollars and priced as of July 31, 2015, market close, EST, unless otherwise noted.

RBC's Investment Stance

Global Asset Views



See "Views Explanation" below for details

Source - RBC Wealth Management

Equities – Average Performance =

- We recommend investors with a 12-month or longer time horizon maintain at least their targeted, full allocation to equities. Earnings growth should persist and valuations for most markets are reasonable given the low interest rate environment.
- While markets could remain "trendless" for some time, our expectation is that this impasse will resolve to the upside as we approach year end. Even though the Federal Reserve and Bank of England are headed toward their first rate hikes, global and U.S. equities normally bypass long and deep downturns until late in the rate hike cycle when the Fed has tightened enough to threaten the continuation of the economic advance. That should be some ways off.

Fixed Income – Below-Average Performance –

- In coming weeks, economic data should provide a clearer picture about when the Federal Reserve will begin its tightening cycle. At this stage, the market is pricing in a 50% probability it will occur in September. Regardless of the timing, we expect a gradual and shallow tightening cycle that leads to an eventual cresting of the Fed Funds rate at a lower level than in previous cycles.
- Our focus continues to be on opportunities in investment-grade corporate bonds. Once there is a clearer picture of central bank policy intentions, investment-grade yield spreads could very well tighten, rewarding investors. We still favor intermediate-term securities, as they provide a meaningful pickup in incremental yield. We believe they would be more stable than shorter-dated bonds amid any Fed-related volatility.

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

Conviction Needed

Equity markets have been contending with instability in energy markets, unexpected poor corporate results for many multinationals stemming from China's slowdown, and prospects for a first rate hike from both the Fed and Bank of England. We expect major markets will eventually follow corporate earnings higher over the next two years once conviction grows that the expansion in the U.S. and developed economies has much further to run.

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Tug-of-War

Big, sustained changes in share prices are usually driven by some significant shift in investors' expectations for future corporate profits. That's why the market doesn't pay any lasting attention to transitory events—like the port strike and freakishly bad weather that sideswiped the U.S. economy in Q1. They might knock a big hole in current earnings when they happen but have little or no impact on future cash flows.

On the other hand, something like the recent collapse of the longstanding $70–$110 per barrel equilibrium range for oil prices has had a very large negative effect on the value of energy company shares because it has forced a major reappraisal of their future earning potential.

Caught between stronger U.S. and Europe and weaker China and oil.

Most stock markets in developed economies have been confined to a range for the past six months. Some like the FTSE All-Share and Canada's TSX have gone net nowhere for more than a year. But we think it would be wrong to interpret this apparent surface stability as an indication all is quiet on the investor expectations front.

Rather, we would describe the situation as a tug-of-war between some very positive trends—the prospects for sustained above-trend growth for the U.S. domestic economy together with the emergence of a surprisingly robust cyclical recovery in much of Europe—and some countervailing weaknesses, notably the collapse of energy and most commodity prices and the related slowdown in China and many emerging economies.

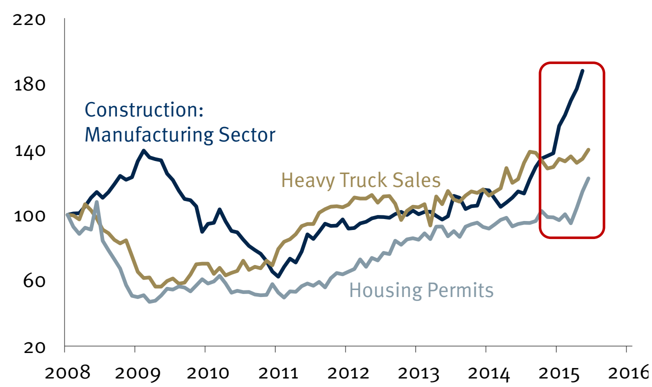
We have a great deal of confidence in the sustainability of the economic expansion in the U.S. and Europe.

U.S.: Forward Momentum

The American consumer (70% of GDP) is optimistic and confident. Employment is growing, unemployment is within reach of last cycle's lows, hourly earnings are rising, savings are solid, and household finances are in excellent shape.

This shows up in the important housing sector. Despite house prices bottoming late in 2011 and moving higher ever since, new home construction was slow to pick up. But homebuilder optimism, which tends to lead actual construction by a year, recently established a new cycle high, as did existing-home sales, which also lead. And, right on schedule, housing starts have moved above 1.1 million units after averaging less than 750,000 starts per annum over a seven-year span. Permits recently surged to more than 1.3 million.

Solid U.S. Momentum



Source - U.S. Federal Reserve, RBC Wealth Management

U.S. momentum accelerating.

... it's hard to ignore the momentum within the U.S. economy

We think housing construction will continue to contribute to U.S. GDP growth for several years because the U.S. dramatically under-built between 2008 and 2013; because family formations, suppressed by the dislocations of the financial crisis/recession, have lately surged back above the million mark; and because mortgage financing is available at affordable rates.

Add in the robust sales growth for autos and heavy trucks, as well as the very strong increase in construction spending in the manufacturing sector, and it's hard to ignore the momentum within the U.S. economy.

Eurozone: Cyclical Recovery

The eurozone, the second-largest economy after the U.S., is experiencing a surprisingly brisk cyclical pick-up after a prolonged period of stagnation. Unemployment is (very) gradually falling, wages and consumer spending rising, and house prices firming. This is a big change from last year when the region looked ready to slip back into recession.

We expect eurozone growth will improve further in 2016.

Our confidence stems from the fact that the region's banks, after a year of intense capital raising, appear to be back in the business of lending money—loans to the private sector have been growing on a year-over-year basis every month since late last year, after declining for almost three years. This is happening as the credit demands from individuals and businesses are rising and is underpinned by an ultra-accommodative European Central Bank (ECB) committed to quantitative easing until fall 2016.

China: A Different Story

China is a different story. Its economy continues to slow. This is not unexpected, nor undesirable, from a long-term standpoint, but potentially painful in the near term.

The market is already familiar with the slowdown in infrastructure and fixed asset investment in China. This has played back into global markets for industrial commodities like coal, iron ore, and copper. Copper prices have fallen in half over the past four years as Chinese consumption of the metal has consistently been less than producers have expected. Other commodity prices have suffered a similar fate, as have the share prices of most commodity producers.

Conviction Needed

... weak corporate earnings for companies exposed to the Chinese economy

Now a new problem has appeared. Unsold inventories of some manufactured goods have built up in China as exports have fallen year over year and the growth rate of domestic consumption has slowed. This became apparent when a number of prominent multinationals announced poor Q2 results due to slumping sales from their China operations accompanied by weak guidance for the coming quarter. Unwinding these excess inventories is likely to take at least two quarters, suggesting weak corporate earnings for companies exposed to the Chinese economy.

Shares of many of the affected companies have already fallen substantially, but until analysts and investors become convinced the worst is over, earnings estimates may be revised even lower and share prices remain on the back foot.

The Chinese government has lowered its overnight policy rate three times since November and bank reserve-requirement ratios twice. We expect more cuts are coming. But monetary easing acts with a lag, and we think any related pick-up in activity won't arrive much before next year. Encouragingly, house prices in some markets have firmed and transaction levels have increased.

What It Will Take

In our view, most major equity markets are set to follow corporate earnings higher over the next one to two years. However, moving beyond prevailing trading ranges will require investor conviction to coalesce on several fronts:

- **Stability in energy markets**: It matters less at what oil price this is achieved than that some balance emerges. Only then can the future earning power of this important market segment be recalibrated with any confidence.
- **Some re-acceleration in global growth**: This mostly depends on China. The market will be watching for indications that inventories have been right-sized and that exports are growing once again. Signs that monetary easing is working would be welcome, as would any new fiscal initiatives.
- **Sustained expansion in developed economies**: This requires conviction that the credit cycle remains in a constructive phase. In Europe the ECB has taken every opportunity to underscore its commitment to "easy money." That said, the Fed and the Bank of England are headed toward an eventual first rate hike. In both cases, in our judgment, this represents an intention to "normalize" policy, not to tighten. We think it will require quite a number of hikes, probably over more than one year, to move rates to a level that would make an economic downturn probable.

Equity markets could remain "trendless" for some time yet. However, we expect this impasse will resolve to the upside closer to year end as the energy and China factors approach easier year-over-year comparisons and the sustainability of growth in both the U.S. and Europe becomes apparent.

Focus Article

Crude Awakening

Oil headed back down to depressed levels in July as robust production data as well as uncertainties about the Iran nuclear deal and Chinese demand hit the market. While China fears may be overstated, we believe OPEC and U.S. production have the potential to overshoot.

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OPEC Shows No Signs of Pulling Back

We continue to believe crude oil prices remain highly dependent on OPEC and U.S. production levels. Demand is a factor, but supply matters more this cycle. In our view, there is greater risk supplies could overshoot market expectations than undershoot, particularly as OPEC vies for a bigger piece of the Asian market.

Even as crude oil prices have dropped, OPEC has persistently produced above its target (see chart). Saudi Arabia hiked production in June to a record level, up about 600,000 barrels per day (bbl/d) year over year.

Overlooked Nigeria has had a big impact on prices. Largely shut out of the U.S. due to reduced demand for oil imports, Nigeria needs to unload a glut of light, sweet crude and has slashed prices to gain share in India and other Asian markets. Nigerian supplies currently have the greatest influence on Brent and WTI benchmarks, according to RBC Capital Markets, and could continue to weigh on near-term prices.

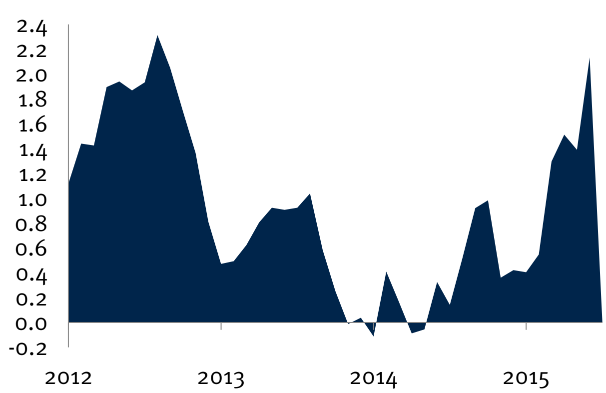
Iraq, OPEC's second-largest producer, has delivered significant supply growth as it works toward its ambitious target of 6 million bbl/d by 2020. Iraq has increased production by about 33% in one year to just over 4 million bbl/d, with more likely to come in 2016.

Iran Important, but Not Decisive

The nuclear accord between Iran and world powers, if fully approved, could add more OPEC supply to a roughly 93 million bbl/d global market, which is already oversupplied by about 1.5 million bbl/d.

OPEC Deviation From Oil Production Target

(in millions of barrels per day)



Source - RBC Capital Markets, Bloomberg; monthly data through 7/31/15

OPEC has consistently overproduced regardless of whether oil prices were strong or weak.

The International Atomic Energy Agency has until December 15 to provide its assessment of Iran's compliance with the accord's terms. We highly doubt the U.S. Congress will be able to block the deal considering that would require a two-thirds majority in both chambers.

If the accord is approved, we expect Iranian exports could take three to five years to reach the pre-sanctions level because significant infrastructure development is needed to restart major oil fields.

Iranian exports could take three to five years to reach the pre-sanctions level.

RBC Capital Markets believes Iran will bring an additional 375,000–500,000 bbl/d by late Q2 2016. It would likely target China, where it previously held 15%–18% market share compared to only 8% currently. This should not disrupt oil prices, all other supply/demand factors being equal. But if Iran achieves its stated, more-aggressive production goal of 1 million bbl/d, it would likely weigh on prices. An additional wild card is Iran's 40–50 million barrels of floating crude oil storage, equivalent to 1.3–1.7 times the country's current monthly production.

Non-OPEC Supply Growth to Slow

Despite a massive 50% reduction in exploration and development activity since autumn 2014, total U.S. oil production has continued to advance throughout much of this correction, with a leveling off appearing to take shape over the last five to six weeks.

RBC Capital Markets forecasts U.S. oil production will continue to rise, but at a slower rate compared to previous years. It expects growth of 450,000–650,000 bbl/d in 2015 and 500,000–700,000 bbl/d in 2016, down markedly from 1.1 million and 1.6 million bbl/d in 2013 and 2014, respectively. This would substantially cool a key driver of global supply growth. However, we believe there are risks U.S. production could overshoot, particularly if the industry cost profile declines further.

Russia, the world's third-largest producer, is pumping oil at full throttle, and has incentives to keep the pedal to the metal. With costs in depressed rubles and revenues in appreciating U.S. dollars, Russian producers have sidestepped some of the worst effects of the oil rout. Also, the tax rate on Russian oil exports declines as crude oil prices drop. The net effect is the take-home value of oil exports has remained stable.

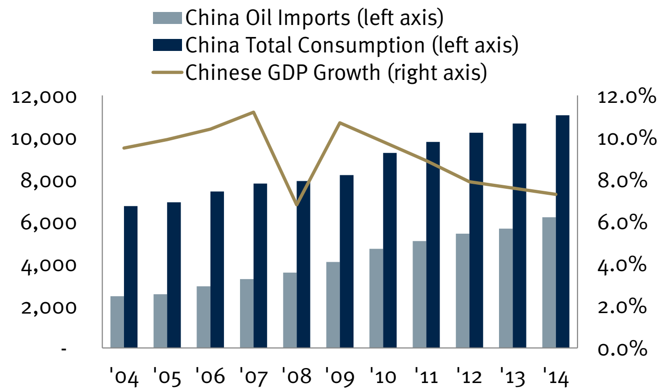
According to the estimates of RBC Capital Markets' commodity strategist, overall non-OPEC supplies should increase by 1.1 million bbl/d in 2015, slower than the 2.4 million bbl/d increase in 2014, and then decline by 500,000 bbl/d in 2016.

Demand Is Expected to Rise

As oil prices decline, global demand often rises. Demand from OECD countries has increased so far in 2015, particularly in parts of Europe, the U.S., and South Korea. This should be the first annual OECD demand gain since the Great Recession.

Emerging-market demand is the most important factor. While it has remained consistently strong, the slowing Chinese economy has weighed on oil market sentiment. We are not overly concerned at this stage. China's crude oil consumption and imports increased annually and steadily from 2010 to 2014 even as GDP growth

Consumption and Imports in Thousands of Barrels Per Day



Source - RBC Dominion Securities, BP Statistical Review of World Energy June 2015

China's oil demand and dependence on foreign oil have risen even though GDP growth slowed in recent years.

slowed meaningfully (see chart). It seems to have risen again so far this year. And Chinese oil stockpiling should remain strong as strategic storage capacity comes online in the second half of 2015.

The International Energy Agency forecasts global demand will increase by 1.4 million bbl/d this year and 1.2 million bbl/d in 2016. These expectations represent a significant jump from weak demand growth of 700,000 bbl/d in 2014, but do not seem unrealistic in light of similar annual demand increases in 2012 and 2013.

Viewpoint on Oil & Energy Equities

WTI and Brent crude oil ended July at $47.12 and $52.21/bbl, respectively. RBC Capital Markets' commodity strategy team sees WTI averaging $52 this year and $63 in 2016, with Brent at $63 and $68, respectively. These forecasts are lower than those previously published and are below consensus estimates.

Our strategists are constructive on the crude oil market over the medium and longer term. They estimate production will need to rise by 4.5–6.0 million bbl/d merely to offset normal declines that are slated to occur each year. New supplies of that order may only come at higher prices.

In the context of the industry cost profile, we think a reasonable range of $60–$80/bbl (WTI) might be expected over the long term, once the oil market rebalances. That said, the cost profile is dynamic and shifting lower as industry participants are forced to become more efficient. Therefore, there is some downside risk to this projected range.

In light of the challenging operating environment, which should persist at least into 2016, we recommend equity investors focus on companies with three characteristics:

- **Strong balance sheets**: We favor companies with debt loads that can be handled even if a low price regime persists longer than forecast. Such companies can avoid being forced to make untimely asset divestitures and may be in a position to acquire assets at distressed valuations.
- **Lower-tier cost structures**: Companies with relatively low costs and strong cash flow have the ability to sustain operations in a low oil price environment.
- **"Prospectivity"**: We prefer companies that have the potential to develop assets already on the books, even in a weak price environment, offering the prospect of growing production per share.

Earnings Dependent

Corporate earnings driven by economic activity in developed economies are faring well. Those tied to energy markets or exposed to China's slowdown, not so much.

Regional Highlights

United States

- The S&P 500 weakened recently as commodity prices declined and the Q2 earnings season got off to a mixed start. The market's leadership narrowed to the financials sector and a small group of growth stocks. The energy and materials sectors were the biggest drags, falling 7.8% and 5.0% in July, respectively.

- Q2 S&P 500 earnings are pacing ahead of analysts' consensus forecast, but revenue growth and forward guidance have been disappointing thus far, particularly among some high-profile U.S.-based multinationals. Companies' struggles are typically falling into one of three categories: exposure to the slowing Chinese infrastructure sector; consequences of poor strategic decisions, particularly among mature technology companies; or the negative impact of the strong dollar. We view these challenges as transitory, although some will take more time to resolve than others. For example, we doubt the Chinese infrastructure slowdown is fully priced into U.S. earnings estimates.

- Our 12-month outlook remains constructive, but there could be bumps along the way as the market adjusts to the Federal Reserve's upcoming tightening cycle. It is not uncommon for the S&P 500 to pull back modestly before or after the Fed's first rate hike. Even if this occurs, we believe the market can deliver worthwhile returns over the next year. The economy seems positioned to at least achieve moderate growth, if not speed up. The S&P 500's valuation—17.6x based on trailing earnings and 16.9x on the forward consensus estimate—is reasonable considering interest rates and inflation should remain relatively low.

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.

Canada

Weak commodity prices have weighed heavily on the Canadian equity index and the currency. We continue to recommend market weight exposure to Canadian stocks but would be highly selective on a sector-specific basis. We recommend the following:

- **Market weight financials**: Credit likely to deteriorate in back half of year; however, valuations appear compelling.
- **Underweight telecom**: Lack of secular drivers.
- **Overweight consumer**: Low oil prices are likely to provide some further stimulus for the consumer.
- **Overweight industrials**: Overreaction to weaker Q1 growth provides a compelling entry point for many

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names. The weaker loonie should provide a boost to sales and earnings.

- **Underweight energy and materials**: Slowing Chinese growth continues to weigh on demand for most commodities. Oil oversupply remains a concern.

Against this backdrop, we recommend domestic Canadian investors continue to allocate money to the U.S. market, which we believe offers more compelling opportunities.

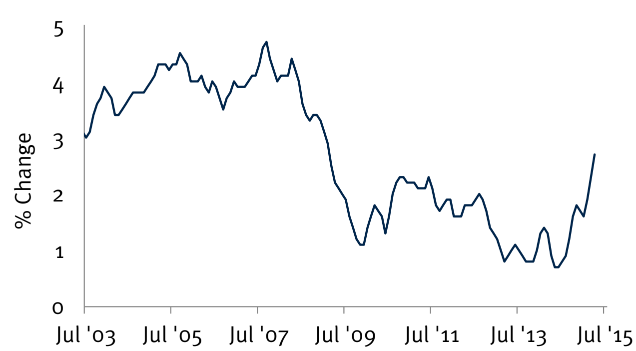
Continental Europe & U.K.

- The European Central Bank quantitative easing programme and euro currency depreciation remain positive catalysts for European equities. Indexes have recovered most of the underperformance experienced since the Greek turmoil at the beginning of July. The €7B bridge loan financing to Greece from the European Union and the new €82B rescue plan proposal should reassure markets over short-term risks of contagion. However, the saga is not over, and further volatility cannot be excluded, especially given risks of populist political parties gaining traction in other eurozone countries.

- Early signals from earnings season have been positive with most companies reporting better-than-expected results, mainly thanks to currency weakness and some improvements in the macro environment. Valuations remain attractive compared to other developed countries on both a P/E and P/BV basis. We favour companies with a high percentage of international revenues and benefitting from long-term positive sector fundamentals. New immuno-oncology cancer drugs represent a strong catalyst for the pharmaceutical sector. The media sector, trading at attractive multiples, is favourably exposed to digital and emerging markets revenues. Domestically, we believe telecom companies can benefit from consolidation among operators through better pricing power.

- The U.K. enjoyed increased wage growth despite a steady unemployment rate (see chart). We believe that a potential first bank rate hike by the Bank of England in November should not be particularly disruptive for equity markets. However, we remain underweight U.K. equities given their high exposure to the oil and mining sectors, which we think could continue to be affected by declining commodity prices. Although valuations may look attractive, we believe the risk of potential dividend cuts and profit warnings remain.

U.K. Average Weekly Earnings Ex Bonus (% 3mo. y/y)



Source - RBC Capital Markets, Haver Analytics

Wage growth is fastest in six years.

Asia: China Stock Frenzy

The MSCI AC Asia Pacific Index moved lower for the third consecutive month and remains marginally higher in 2015. The index is down 10.2% from its April peak, the highest level since 2007. Japanese equities have been consolidating, holding onto robust gains earlier in the year. We maintain our positive stance toward Japanese stocks. Please see our special report *Japan: The Road to Reflation*.

Mainland Chinese equities have witnessed some most unusual price action. After a bull market run of over 150% in less than a year, equities corrected sharply over several weeks up to July 8. A-shares then rallied for three consecutive weeks before registering their largest single-day decline since 2007 on July 27.

By far the most unusual aspect has been the great lengths that the Chinese authorities have gone to in order to support the equity market. Some of the measures employed have been unprecedented (see table on following page). In stark contrast, government support was absent both in 2008, when mainland stocks fell by considerably more, and in subsequent years when equity prices reached record-low valuations as the economy decelerated. For possible reasons regarding recent government actions, please see *Global Insight Weekly* (July 10).

The short- to medium-term outlook for mainland Chinese stocks remains uncertain with a wide range of potential outcomes. Equity valuations appear reasonable in aggregate, but vary significantly among sectors and market capitalizations. Meanwhile, Chinese equities trading in Hong Kong (H-shares) have begun to look increasingly attractive due to a combination of low valuations, ongoing policy support for the mainland economy, and more rational price behavior.

Perhaps more important for global investors is the nascent improvement in China's housing market, aided by a series of interest rate cuts, looser housing policies, and lower prices.

National sales volumes contracted year over year throughout 2014 and early 2015. Prices declined moderately, but didn't tumble. Developers reacted quickly, however. Land purchases plummeted in 2014 and new construction activity was significantly weaker, pressuring economic growth, as housing inventories rose.

In recent months, primary residential sales volumes in China's largest cities have registered sizeable gains. Prices have also begun to pick up. More importantly, national sales have also begun to improve, although it is too early to judge if this will be sustained and the data is mixed across cities. However, the resurgence in sales has begun to eat into inventories. If the trend continues, it could have meaningful implications in 2016, in our view.

In the meantime, China's manufacturing and construction sectors remain relatively weak. In contrast, the services sector, which is now the largest component of the economy and the largest employer, continues to register robust growth.

Select Initiatives in 2015 to Support China's Stock Market

June 27

- People's Bank of China (PBoC) stepped in one day after a steep decline in stocks: 25 basis point cut in 1-year benchmark lending rate; cut in reserve-requirement ratio (RRR) for select financial institutions.

June 29

- Ministry of Finance (MoF) announced a draft proposal to allow pension funds to invest as much as 30% in equities.
- China Securities Regulatory Commission (CSRC) said margin trading at brokerages was "controllable."

July 1

- Shanghai and Shenzhen Stock Exchanges lowered transaction costs by 30%.
- CSRC abolished mandatory requirement on margin calls and liquidation for margin loans.

July 2

- CSRC stated it would organize a probe on cross-market manipulation and "strictly" punish offences.

July 3

- CSRC announced it will raise money to provide funds to China Securities Finance Corporation (CSFC) to expand its capacity to stabilize the equity market; PBoC to provide liquidity support.

July 4

- Twenty-one securities firms jointly stated they will invest the equivalent of 15% of net assets (no less than RMB 120B in total) in a market stabilization fund. The brokerages pledged not to sell proprietary trading positions in equities as long as the Shanghai Composite is below 4,500.
- China Insurance Regulatory Commission (CIRC) asked insurers to be net buyers of stocks every day.
- Top executives from 25 Chinese mutual funds promised to "actively" buy stock funds and hold them for at least one year, according to a statement on the Asset Management Association of China's official website.

July 5

- Temporary suspension of IPOs; recently approved IPOs already in the subscription process to be halted and money returned to investors.
- Central Huijin announced it bought equity ETFs and would continue to do so.
- *Caixin* reported the suspension of new equity issuance over RMB 5B by listed companies.

July 6

- *Caijing* reported the China Social Security Council ordered all social security portfolios to only be buyers of stocks; selling shares is prohibited.

July 8

- The PBoC will actively assist CSFC to obtain necessary liquidity to stabilize the equity market.
- The State-owned Assets Supervision and Administration Commission (SASAC) requested state-owned enterprises (SOEs) not to cut shareholdings. It supports SOEs that wish to increase holdings of undervalued shares.
- MoF promised not to cut holdings of listed shares and encouraged state-owned financial institutions to raise their holdings of undervalued shares.
- CIRC raised the ceiling on qualified insurers' investments in single blue-chip stocks to 10% of total assets from 5%.
- CSFC to provide RMB 260B credit to brokers.
- CSFC bought five equity mutual funds for a total of RMB 200B.

July 9

- Ministry of Public Security to probe "malicious" short selling.
- CSRC asked listed companies to pick one investor-friendly measure from five choices: major shareholders to increase stock holdings, executives to increase stock holdings, share buybacks, equity incentives, and employee stock ownership plans.
- China Banking Regulatory Commission (CBRC) announced banks could adjust loan terms that use stock as collateral, it encouraged banks to offer financing to the CSFC, encouraged banks to offer collateralized loans to listed companies to repurchase their own shares, and loosened requirements for banks to sell stocks that have fallen in value under agreements with clients who had bought wealth management and trust products.

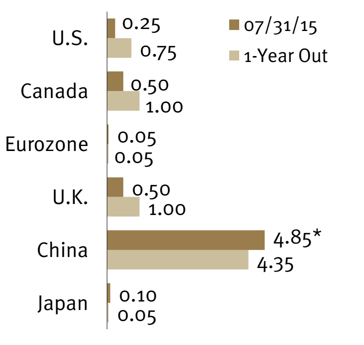
July 10

- Premier Li Keying said China has the ability and confidence to prevent regional systematic risks and provide a good financial environment for economic development.

Source - Government websites, media channels, *Caixin - China Economics & Finance*, *Caijing*, Bloomberg

Oh, What a Tangled Web ...

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

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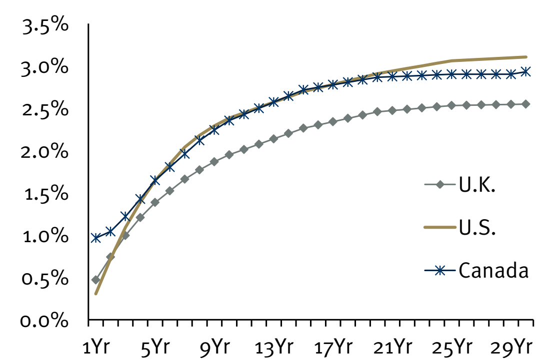
As financial markets slog through the dog days of summer, they have been buffeted by many issues. Developments in Greece and China have generated headline events and produced volatility. Both will continue to command market attention. Meanwhile, lurking in the background has been the policy presence of global central banks.

In coming months, based upon forward guidance from the Federal Reserve and the Bank of England (BoE), we think both are likely to begin tightening policy. At the same time the Bank of Canada, People's Bank of China, and European Central Bank appear committed to staying on "Easy Street." However, the far-reaching impact from international developments (China specifically) could have a spillover effect on global economies and potentially scrub the policy launches for the Fed and the BoE. Clearly, "data dependency" has global connotations.

Developments in China have created volatile conditions in the commodity and energy space, which has been weighing on high yield; until oil finds a bottom, we expect the sector will likely remain under pressure. Our focus continues to be on opportunities in investment-grade credits, both corporates and, in Canada, select rate-reset preferred shares. Given where we are in the current credit cycle, once we have a clearer picture of central bank policy intentions in coming weeks, spreads could very well tighten, rewarding current investors.

Sovereign Yield Curves



Source - Bloomberg

Regional Highlights

United States

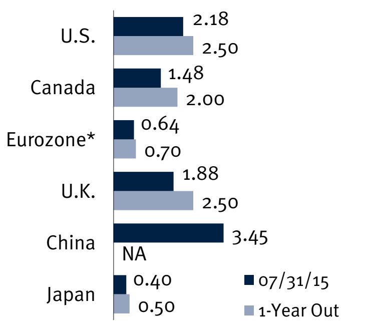
- The July FOMC statement offered little in the way of new information or guidance, but the bar for a September rate hike edged slightly lower as the FOMC is now only looking for "some" further improvement in labor markets—all eyes are on the two payroll reports coming before the next FOMC meeting in mid-September.

- With Greece on the back burner, investors are left to contend with the ramifications of a commodity complex that has seen prices decline over 30% during the past year, and nearly 10% lower just in July. We see slowing China growth and supply gluts across energy and metals continuing to weigh on prices into year-end, and to some extent anchoring intermediate- and longer-term Treasury yields on lower inflation expectations.

- For investment-grade corporate bond investors, we think this credit cycle is in the middle innings and spreads have scope to tighten again once the uncertainty around the Fed dissipates after the first rate hike, particularly if the market sees the liftoff as a vote of confidence for the economy.

Global Fixed Income

10-Year Rate (%)



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

Canada

- The Canadian dollar sits at the lowest level versus the U.S. Dollar in over 10 years. A commodities selloff has resulted in further accommodative policy moves by the Bank of Canada (BoC). At the July 15 BoC policy meeting, Governor Stephen Poloz acknowledged that “Canada’s economy is undergoing a significant and complex adjustment” which highlighted the difficulties in boosting the non-energy export sector despite a tumbling Canadian dollar.

- Bonds issued by a number of resource companies that face a challenging operating environment traded significantly lower in July. In our view, the speed at which some of these bonds, particularly high-yield bonds, have sold off emphasizes the impact that a lack of liquidity can have in times of weakness.

- The rate-reset component of the preferred share market has continued to trade lower as the messaging from the BoC appears to have investors dubious of an eventual rise in rates. We continue to believe that select rate-reset preferred shares trading well below their par value will offer superior returns, should interest rates move higher in the future.

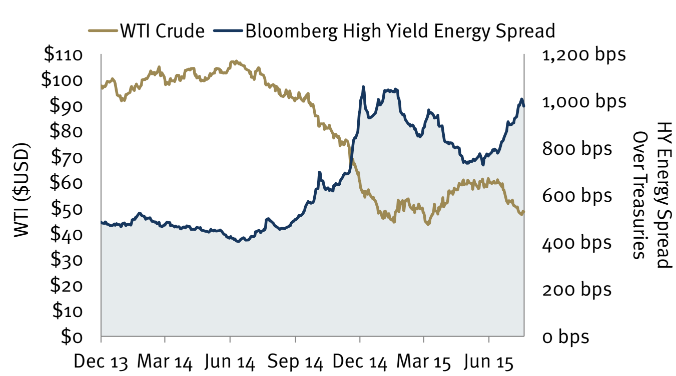
Continental Europe & U.K.

- The Greek debt crisis looks to have been resolved at the 11th hour by a renewed commitment to Eurogroup demands. We have seen a relief rally on the back of the positive developments with peripheral government bonds moving to tighter spreads against bunds. We expect the core government bond market to be range-bound from here as the Greek story rumbles on, inflation abates somewhat, and the European Central Bank’s Quantitative Easing continues to take up any slack in demand from the market.

- The Bank of England looks likely to hike rates “at the turn of the year.” We have a somewhat more-hawkish view than the market regarding timing of the first rate hike, and the recent uptick in wage growth might be the final piece in the jigsaw for the central bank. We believe this leaves the front end of the curve extra vulnerable to rising yields. We see better value at the intermediate part of the curve, which should fare better in the current market conditions.

- Corporate yield spreads widened during the recent uncertainty around Greece but have since started to tighten. There should be plenty of scope for further tightening based on the moves already seen in synthetic spreads and as corporate earnings are coming in with few surprises. We remain optimistic on performance within the corporate space over the coming months.

Low Oil Prices & Rising High Yield Energy Bond Spreads



Source - RBC Wealth Management, Bloomberg

Oil back below $50 per barrel has put the “v-shaped” recovery in doubt, pressuring spreads higher as “lower for longer” worries set in.

Commodities

Oil

- The price of West Texas Intermediate benchmark crude oil has remained mostly within the $45–$60 per barrel range since December 2014.
- Recent prices have been enough to see capex budgets cut globally to a level where industry experts expect non-OPEC supply growth to grind to a halt in 2016.
- RBC Capital Markets forecasts the oversupply lasting into 2016.

Natural Gas

- With shale gas volumes driving growth, RBC Capital Markets forecasts U.S. dry gas production to be up nearly 5% this year.
- Despite the weak oil price environment, solid production volumes from U.S. shale basins suggest associated gas production is not likely to abate. Indeed, RBC Capital Markets looks for an additional 2 billion cubic feet per day of associated natural gas volumes from the top shale oil plays.
- The U.S. market for natural gas is around 2 bcf/d oversupplied, which we believe likely will weigh on pricing for the coming quarters.
- We believe $2.25–$3.00/mcf is a reasonable near-term price range.

Gold

- Gold has recently plunged, falling below the $1,150–$1,200/oz. lows of the last two years. From a technical perspective, the long-term downtrend appears very much intact.
- With a more-benign macroeconomic outlook, rising equity markets, and a stronger U.S. dollar, investor sentiment for gold has waned.
- We are cautious on the gold outlook given the current negative momentum and its failure to rally during recent Grexit concerns.

Copper

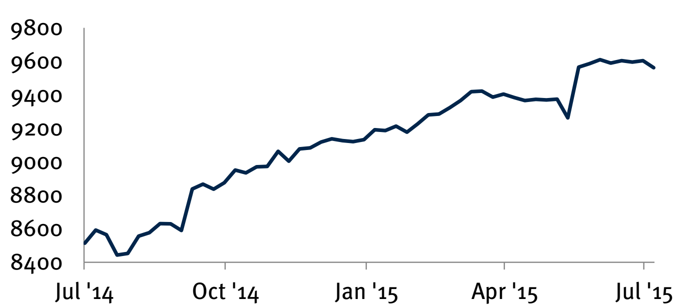
- RBC Capital Markets expects the copper market to remain roughly balanced in 2015 and 2016 followed by a deficit in 2017 and beyond. We believe the key risk to this outlook is the strength of the Chinese economy which accounts for nearly one-half of global demand.
- The OECD Composite Leading Economic Indicator, a reliable harbinger of industrial commodity demand, has performed poorly since the beginning of 2014.
- We see $2.25–$2.75/lb. as a reasonable near-term range for copper.

Commodity Forecasts

	2015E	2016E
Oil (WTI $/bbl)	52.00	63.00
Natural Gas ($/mmBtu)	2.96	3.45
Gold ($/oz)	1,250	1,300
Copper ($/lb)	2.75	2.75
Corn ($/bu)	3.87*	4.18
Wheat ($/bu)	5.29*	5.56

*H2 2015
Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (corn and wheat)

U.S. Oil Production (thousand b/d)



Source - EIA (weekly data as of 7/10/15)

U.S. oil production has leveled off in recent weeks; however, a meaningful rollover has not yet emerged.

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Currencies

Currency Forecasts

Currency Pair	Current Rate	Forecast Jun 2016	Change*
USD Index	97.34	93.04	-4%
CAD/USD	0.76	0.78	3%
USD/CAD	1.31	1.28	-2%
EUR/USD	1.10	1.16	5%
GBP/USD	1.56	1.71	10%
USD/CHF	0.97	0.97	0%
USD/JPY	123.89	126.00	2%
AUD/USD	0.73	0.74	1%
NZD/USD	0.66	0.67	2%
EUR/JPY	136.08	146.16	7%
EUR/GBP	0.70	0.68	-3%
EUR/CHF	1.06	1.13	6%
Emerging Currencies			
USD/CNY	6.21	6.80	10%
USD/INR	64.14	66.00	3%
USD/SGD	1.37	1.53	12%
USD/TRY	2.77	2.80	1%
USD/PLN	3.77	3.45	-8%
USD/MXN	16.11	14.50	-10%
USD/BRL	3.42	3.65	7%

* 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

U.S. Dollar

- An increasing number of Fed officials, from Chair Janet Yellen on down, have been leaning toward more-hawkish commentary regarding the timing of the first rate hike.

- We believe this is designed to push market expectations toward a September hike, which should allow for more dollar strength. We still expect the dollar to end the year higher, albeit with much more modest gains than in 2014.

Euro

- The apparent calming of Greek tensions appears to have persuaded traders to re-focus on European economic fundamentals rather than the potential for a "Grexit."

- But data has largely missed expectations recently, which brings quantitative easing back into the spotlight. Given this, we expect relative interest rates to re-emerge as the main driver of the currency which should continue to pressure the euro until growth improves.

Japanese Yen

- We expect the yen to weaken further through year-end as Japanese pension funds liquidate their domestic bond holdings into increasingly attractive unhedged foreign currency bonds.

- Periods of global stock market weakness over the last few years have seen investors seek refuge in the yen, but these correlations have recently broken down (see chart). We believe this apparent loss of safe-haven status over recent months opens the door to further yen weakness.

British Pound

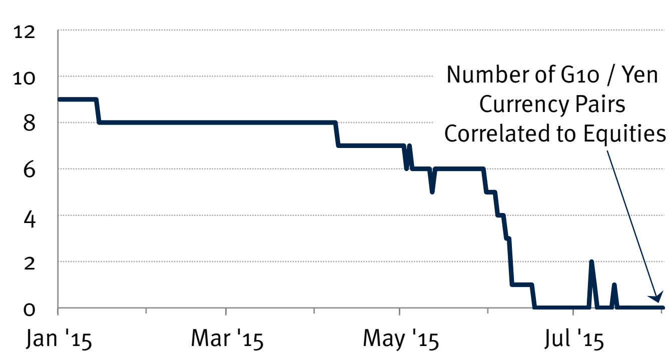
- The U.K. budget was less fiscally conservative than the market had expected, and Bank of England Governor Mark Carney reminded investors that monetary accommodation is on borrowed time, thanks to the recent upward pressure on wages.

- We expect sterling to slowly strengthen into 2016 as the first rate hike draws closer.

Canadian Dollar

- The Bank of Canada's second rate cut of the year (in July) significantly weakened the Canadian dollar. We believe a pick-up in non-energy exports or an increase in energy capex plans for 2016 would be required to signal an end to those rate cuts; meanwhile, we expect further loonie weakness until the market gains more clarity on those drivers.

And Then There Were None ...



Source - RBC Wealth Management, RBC Capital Markets, Bloomberg

The yen is no longer supported by its traditional "risk-off" status.

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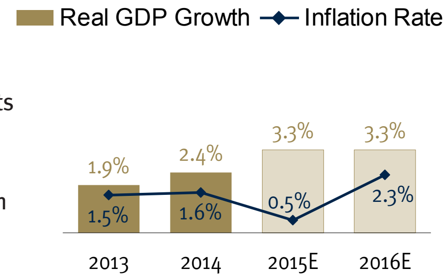
Key Forecasts

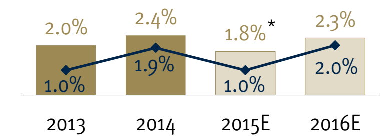
United States — Solid Growth

- In H1, private sector grew by 3.1% despite severe Q1 weather and port strike. Home sales solid. Housing permits surged to highest in 8 years. Unemployment claims at 40-year low. Leading indicators, confidence elevated.
- ISM indexes, including new orders, all solidly in expansion territory. Construction spending higher.



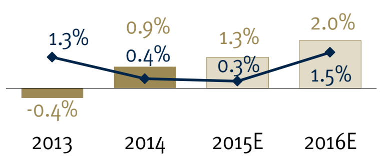
Canada — Weak

- Q2 may be second quarter of GDP decline. House construction firm, but business capex and government weak. Consumer attitude restrained by job loss in the resource sector, stagnant wage growth.
- Mfg. unfilled orders weakening, but still near all-time high. Energy capex plans down sharply. Bank of Canada cut interest rate for a second time. Loonie weakness helping services and tourism, but not yet manufacturing.



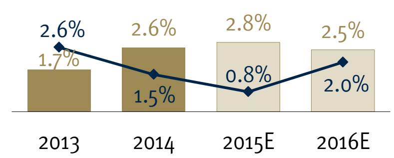
Eurozone — Improving

- Q2 will have been 8th successive quarter of positive growth, including for Spain, which has been accelerating. France picking up, Italy lagging. Private sector lending up y/y for 7 mos. running after almost 3-year decline.
- PMIs solid, business confidence, industrial production on the rise. Spanish/Portuguese elections in the fall could be contentious, dampen sentiment.



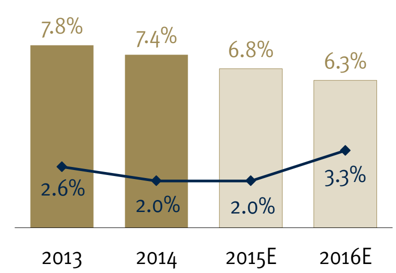
United Kingdom — Growing

- Q2 GDP met expectations up 2.6% y/y, led by large services sector. Construction, business capex flat. Oil sector weak. Employment flat, household earnings up. PMIs positive. New orders healthy.
- Growth pace sustainable for 2015, but uncertainty around EU membership referendum may weigh on business investment/confidence.



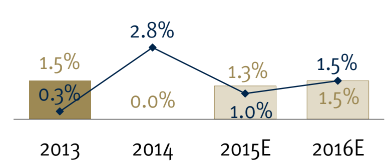
China — Slowing

- Q2 GDP at 7.0% in line with gov't full-year target, but internals are mixed. Fixed asset investment slowing, as is loan growth. Manufacturing PMI has turned lower. Consumer confidence softer.
- Gov't easing credit conditions, more to come. Some firming in house prices.



Japan — Conflicted

- GDP growth rate improved again in Q1. Leading indicators, PMIs, corporate earnings, and business confidence all firm.
- Consumer confident, but spending flat. Weak oil prices putting inflation targets in jeopardy.



* Under review

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

Market Scorecard

Index (local currency)	Level	1 Month	YTD	12 Months
S&P 500	2,103.84	2.0%	2.2%	9.0%
Dow Industrials (DJIA)	17,689.86	0.4%	-0.7%	6.8%
NASDAQ	5,128.28	2.8%	8.3%	17.4%
Russell 2000	1,238.68	-1.2%	2.8%	10.6%
S&P/TSX Comp	14,468.44	-0.6%	-1.1%	-5.6%
FTSE All-Share	3,652.79	2.3%	3.4%	1.9%
STOXX Europe 600	396.37	3.9%	15.7%	18.0%
German DAX	11,308.99	3.3%	15.3%	20.2%
Hang Seng	24,636.28	-6.1%	4.4%	-0.5%
Shanghai Comp	3,663.73	-14.3%	13.3%	66.4%
Nikkei 225	20,585.24	1.7%	18.0%	31.8%
India Sensex	28,114.56	1.2%	2.2%	8.6%
Singapore Straits Times	3,202.50	-3.5%	-4.8%	-5.1%
Brazil Ibovespa	50,864.77	-4.2%	1.7%	-8.9%
Mexican Bolsa IPC	44,752.93	-0.7%	3.7%	2.1%
Bond Yields	**7/31/15**	**12/31/14**	**7/31/14**	**12-mo. Chg**
US 2-Yr Tsy	0.661%	0.643%	0.528%	0.13%
US 10-Yr Tsy	2.180%	2.353%	2.558%	-0.38%
Canada 2-Yr	0.409%	0.484%	1.098%	-0.69%
Canada 10-Yr	1.441%	1.683%	2.159%	-0.72%
UK 2-Yr	0.568%	0.562%	0.840%	-0.27%
UK 10-Yr	1.882%	2.024%	2.602%	-0.72%
Germany 2-Yr	-0.232%	-0.227%	0.025%	-0.26%
Germany 10-Yr	0.644%	0.764%	1.155%	-0.51%
Commodities (USD)	**Price**	**1 Month**	**YTD**	**12 Months**
Gold (spot $/oz)	1,095.82	-6.5%	-7.5%	-14.6%
Silver (spot $/oz)	14.78	-6.1%	-5.9%	-27.5%
Copper ($/metric ton)	5,221.50	-9.3%	-18.0%	-26.8%
Uranium ($/lb)	36.00	-1.4%	-10.0%	28.6%
Oil (WTI spot/bbl)	47.12	-20.8%	-11.5%	-52.0%
Oil (Brent spot/bbl)	52.21	-17.9%	-8.9%	-50.8%
Natural Gas ($/mmBtu)	2.72	-4.1%	-6.0%	-29.3%
Agriculture Index	285.97	-12.4%	-11.3%	-10.4%
Currencies	**Rate**	**1 Month**	**YTD**	**12 Months**
US Dollar Index	97.34	1.9%	7.8%	19.5%
CAD/USD	0.76	-4.5%	-11.2%	-16.7%
USD/CAD	1.31	4.8%	12.6%	20.0%
EUR/USD	1.10	-1.5%	-9.2%	-18.0%
GBP/USD	1.56	-0.6%	0.3%	-7.5%
AUD/USD	0.73	-5.2%	-10.6%	-21.4%
USD/CHF	0.97	3.3%	-2.8%	6.3%
USD/JPY	123.89	1.1%	3.4%	20.5%
EUR/JPY	136.08	-0.3%	-6.1%	-1.1%
EUR/GBP	0.70	-0.9%	-9.5%	-11.3%
EUR/CHF	1.06	1.9%	-11.7%	-12.7%
USD/SGD	1.37	1.8%	3.5%	10.0%
USD/CNY	6.21	0.1%	0.1%	0.6%
USD/BRL	3.42	10.3%	28.7%	51.1%

Europe led as Greek risks subsided.

China fell the most since the global financial crisis.

10-yr yields fell on oil, China concerns.

Worst month for WTI oil since mid-2009.

Commodity currencies struggling.

Stagflation takes its toll.

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 0.76 means 1 Canadian dollar will buy 0.76 U.S. dollar. CAD/USD -16.7% return means the Canadian dollar has fallen 16.7% vs. the U.S. dollar during the past 12 months. USD/JPY 123.89 means 1 U.S. dollar will buy 123.89 yen. USD/JPY 20.5% return means the U.S. dollar has risen 20.5% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 7/31/15.

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Sell [Underperform]	117	6.65	6	5.13

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