Wealth Management
Dominion Securities

Portfolio Advisory Group | June 2016

What moved the markets

The United Kingdom's referendum on European Union membership was the dominant story of the month. More specifically, the U.K.'s surprising decision to leave the EU.

The large price swings in the wake of the vote stemmed from the fact that the prevailing market view leading up to the vote was for the U.K. to remain. This left global markets surprised when the final votes were tallied and 52% of voters favoured an exit. Not surprisingly, this prompted U.K. Prime Minister David Cameron to resign. Equity markets declined as a risk-off tone drove investment flows away from equities and into safe-haven assets. In the immediate aftermath, gold climbed to $1,300 for the first time since June 2014, crude oil lost more than 6%, Treasury bond yields dropped over 20 bps, and the British Pound experienced its biggest one-day loss as it fell to levels not seen since 1985. On the other side, the Japanese Yen and the U.S. dollar were beneficiaries of investors looking for defense, with both currencies strengthening significantly.

The "Brexit" vote diverted investor focus from some positive economic developments in North America. Prior to the vote, solid employment and retail sales data were reported in Canada. Meanwhile, in the U.S., positive consumer spending data suggested consumers could drive growth in the coming months. Also, the narrative around the risk of a rapid slowdown in Chinese growth began to fade from the headlines as signs of a stabilization of activity emerged.

The "Brexit" vote diverted investor focus from some positive economic developments in North America.

North American equity indices closed flat this month with the S&P/TSX closing 0.3% higher. A rally in the Materials and Utilities sectors of 13.0% and 4.2%, respectively, was offset by weakness in the Healthcare and Information Technology sectors, which fell 21.2% and 7.0%, respectively. Overall, 6 of 10 sectors finished the month in negative territory.

In the U.S., the S&P 500 recovered from a 4% post-"Brexit" fall to also close the month 0.3% higher, with 7 of 10 sectors ending the month in negative territory. The Financials and Information Technology sectors gained 3.6% and 2.9%, respectively, while the Telecommunications and Utilities sectors fell by 8.5% and 7.0%, respectively.

Fixed income-specific developments

The Canadian economy posted positive data in June, bouncing back from a string of disappointing reports. In a speech, Bank of Canada (BoC) Governor Stephen Poloz provided an optimistic update to the BoC's April

Number crunching

Equity indices*	Month	YTD*
S&P/TSX Composite Index TR	0.3%	9.8%
Dow Jones Industrial Average TR	0.9%	4.3%
S&P 500 Index TR	0.3%	3.8%
NASDAQ Composite Index TR	-2.1%	-2.7%
MSCI EAFE TR (USD)	-3.3%	-4.0%
MSCI World TR (USD)	-1.1%	1.0%

S&P/TSX sector performance*	Month	YTD*
S&P/TSX Financials TR	-2.5%	5.1%
S&P/TSX Energy TR	1.9%	19.3%
S&P/TSX Materials TR	13.0%	52.3%
S&P/TSX Industrials TR	-0.9%	5.3%
S&P/TSX Consumer Discretionary TR	-4.6%	0.1%
S&P/TSX Telecom Services TR	2.6%	14.8%
S&P/TSX Information Technology TR	-7.0%	-5.7%
S&P/TSX Consumer Staples TR	-3.0%	2.7%
S&P/TSX Utilities TR	4.2%	17.3%
S&P/TSX Healthcare TR	-21.2%	-72.3%

* All returns are on a Total Return basis. All indices are in local currency unless otherwise noted. Source: Bloomberg

forecasts. Poloz noted that "it does seem that our core forecast narratives around the U.S. economy and around Canada's exports remain intact. Continued patience is required, but we have the right to be optimistic." Poloz also stated that "Many export sectors are operating near their capacity limits, which augurs well for future investment and job creation." These comments were encouraging in light of Q1 GDP figures published this month which fell short of expectations, at 2.4% annualized compared to the 2.8% expected by economists. Q2 GDP is expected to be negatively impacted by the devastating Fort McMurray wildfires, however Governor Poloz revised the expected impact from a 1.25% reduction to a range of 1.0–1.25%.

Employment also proved to be a positive data point as the Canadian economy surprised the market by adding 13,800 jobs in May, significantly higher than the 1,750 increase forecasted by economists. The unemployment rate unexpectedly dropped to 6.9% in May vs. the 7.2% estimated by economists, representing the lowest unemployment rate since last July. Retail sales also beat expectations, rising 5.3% year-to-date in April, posting the best start to the year since 2010. Despite the positive economic momentum, the post-"Brexit" vote focus has shifted to how the Canadian economy is positioned to withstand a potential slowdown in global growth. The probability of a 2016 rate cut in Canada rose following the "Brexit" vote, and currently sits at ~24%, compared to 8% prior to the referendum. The benchmark Canada 10-year bond closed the month at 1.06%, 26 bps lower than last month's closing yield of 1.32%.

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In the U.S., the FOMC unanimously voted to keep the Fed funds rate unchanged at its June meeting. Prior to the U.K. referendum, Fed Chair Janet Yellen said that "A U.K. vote to exit the European Union could have significant economic repercussions…the Committee is closely monitoring global economic and financial developments and their implications for domestic activity, labour markets and inflation". The forward market's expectations for the Fed's rate path shifted meaningfully following the "Brexit" vote. The market is now pricing in a ~15% probability of a U.S. rate hike in 2016, compared with a ~50% probability of a rate hike prior to the vote. In terms of June's U.S CPI report, inflation came in at 1.0% on a year-over-year basis, slightly lower than the 1.1% recorded in April. Although core CPI came in above the 2% mark in May at 2.2% on a year-over-year basis, the PCE deflator, the Fed's preferred inflation indicator, remains well below 2%.

U.S. employment data was disappointing. The monthly report showed that only 38,000 jobs were created in the U.S. in May, less than the 160,000 expected by economists. Surprisingly, the unemployment rate fell to 4.7% from 4.9%, but this drop appears to be the result of a falling participation rate rather than strong job gains. Despite this, consumer spending data came in positively. It climbed

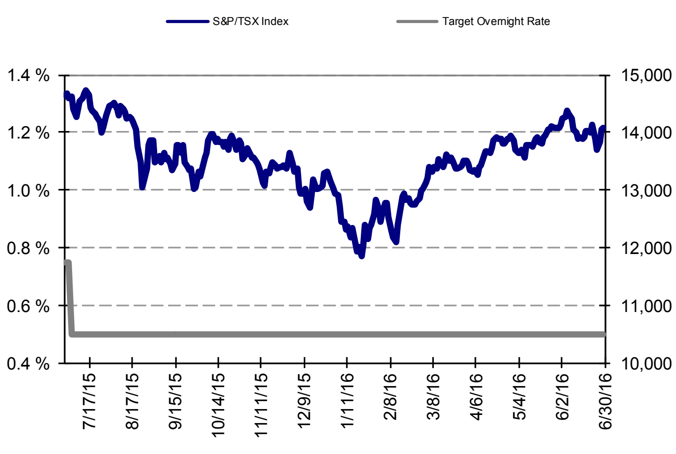
Currencies (in Canadian dollars)	Exchange	Month	YTD*
U.S. Dollar	1.2924	-1.3%	-6.6%
Euro	1.4355	-1.5%	-4.5%
British Pound	1.7205	-9.3%	-15.6%
Japanese Yen	0.0125	5.9%	8.8%

Currencies (one Canadian dollar)	Exchange	Month	YTD*
U.S. Dollar	0.7737	1.3%	7.1%
Euro	0.6967	1.5%	4.7%
British Pound	0.5813	10.2%	18.5%
Japanese Yen	79.8500	-5.6%	-8.1%

Commodities (US$)	Spot price	Month	YTD*
Crude Oil (WTI per barrel)	$48.33	-1.6%	30.5%
Natural Gas (per million btu)	$2.92	27.8%	25.1%
Gold (per ounce)	$1,322.20	8.8%	24.6%
Silver (per ounce)	$18.72	17.0%	35.0%
Copper (per pound)	$2.20	3.0%	2.9%
Nickel (per pound)	$4.26	12.1%	7.1%
Aluminum (per pound)	$0.75	6.4%	9.5%
Zinc (per pound)	$0.95	9.4%	30.8%

*All returns are on a Total Return basis All indices are in local currency unless otherwise noted.

S&P/TSX Index – target overnight rate, LTM



Source: RBC Wealth Management, Bloomberg

the most in seven years, rising 1.0% in April, beating economists' forecast for a 0.7% increase, and substantially higher than the 0.1% recorded in March. The benchmark U.S. Treasury 10-year bond closed the month at 1.47%, 38 bps lower than last month's closing yield of 1.85%.

Global Developments

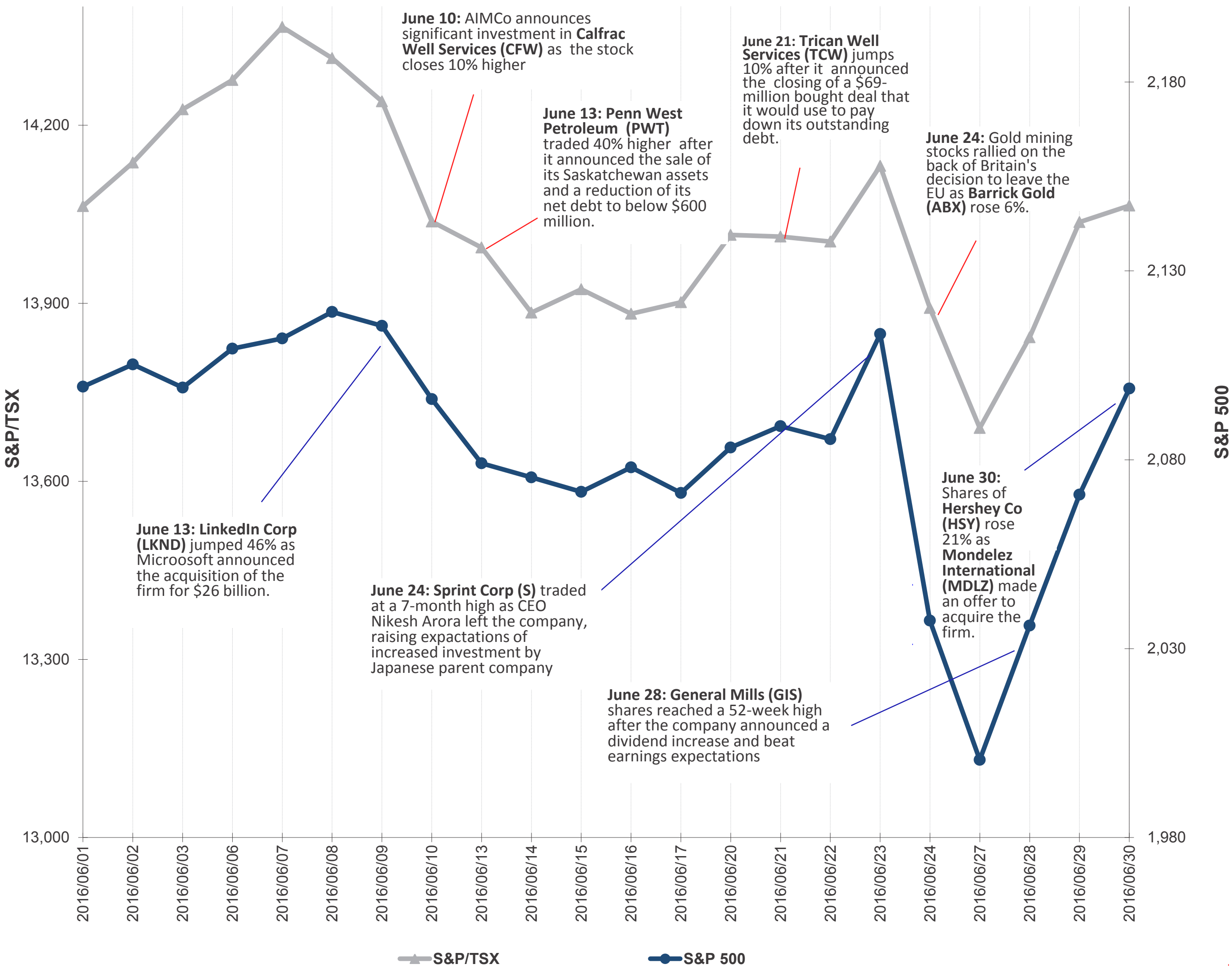
Central banks around the world were largely on hold at their June meetings, awaiting the results of the U.K. referendum. Attention has now shifted to the July meetings for insight into what the global monetary policy response will entail. Both the European Central Bank (ECB) and the Bank of England (BoE) immediately reacted to the "Brexit" vote by saying that they would be able to provide substantial liquidity if required to stabilize the economy and financial markets. In a speech shortly after the vote, BoE Governor Mark Carney stated the BoE pledged to provide an extra £250 billion of liquidity to the market. Meanwhile, the ECB continued to urge patience as the effects of the previously announced stimulus package worked their way through the economy. It left its key interest rate and deposit facility rate unchanged at 0.0% and -0.4%, respectively. The massive corporate bond purchase program of EUR 80 billion aimed at reviving rock-bottom inflation and economic growth in the Eurozone commenced earlier in June. The probability of a 2016 rate cut in the U.K. and the Eurozone rose following the "Brexit" vote. Expectations for a 2016 rate-cut in the U.K currently sit at ~88%, compared to 24% prior to the result. In the Eurozone, the odds have moved to 78% from 50%.

In Japan, the Bank of Japan (BoJ) held its key rate at -0.1% amidst "Brexit" concerns, despite weak inflation and rapid appreciation of the yen. Shortly after the result of the U.K. referendum, BoJ Governor Kuroda announced that the central bank would respond as needed to "extremely nervous" currency moves that brought the yen to a two-year high against the U.S. dollar. In China, the government expressed its commitment to continue their "prudent and proactive monetary and fiscal policies, aiming to maintain reasonable growth in aggregate credit," according to Chinese Premier Li Keqiang. However, recent economic data suggests that past growth rates in the region may no longer be sustainable. Evidence of this includes the fact corporate spending is now only increasing by 3.9% vs. 23.3% for the public sector and Chinese fixed asset investment growth slowed to 9.6% in April, the slowest pace since 2000.

After reaching a nine-month high of $51.23 per barrel in the first week of the month, the price of WTI declined following the U.K. referendum. Nevertheless, the International Energy Agency believes crude oil markets are on course for rebalancing, as unexpected disruptions in supply in Canada and Nigeria, combined with resilient demand, contributed to reduce the excess supply to 800,000 barrels a day from the previous estimate of 1.5 million.

North American equity highlights

June 2016

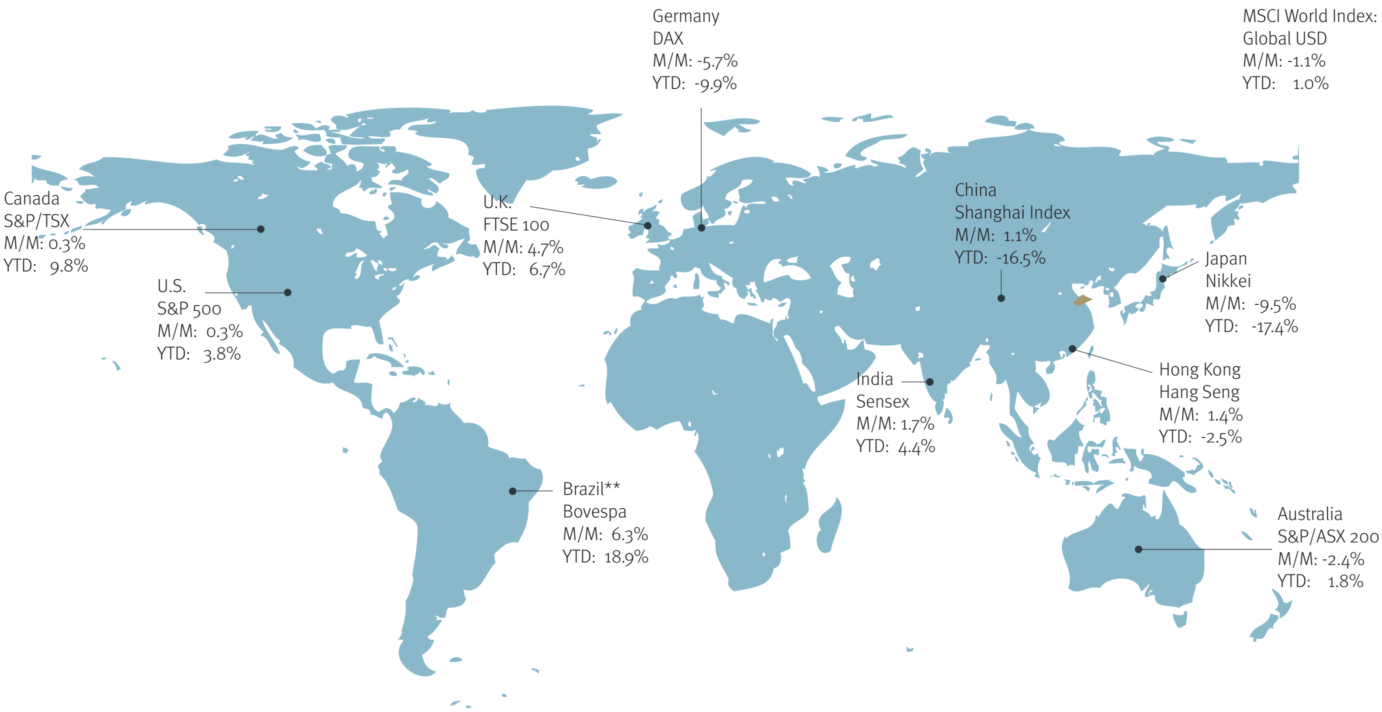


[1]Bloomberg [2]RBC Capital Markets Pricing Data
Source: Bloomberg

World markets

June month-over-month and year-to-date performance

For the month of June, global markets were fairly mixed. Across North and South America, the S&P 500 and S&P/TSX were both up 0.3%, while Brazil's Bovespa rose by 6.3%. In Europe, Germany's DAX fell by 5.7% and U.K.'s FTSE increased by 4.7%. In Asia, India's Sensex was the clear winner, closing the month up 1.7% while China's Shanghai Index and Hong Kong's Hang Seng both increased by 1.1% and 1.4%, respectively. These gains were dampened by poor showings in Japan's Nikkei, which fell by 9.5%. Lastly, Australia's S&P/ASX 200 finished the month down 2.4%. Overall, the MSCI World Index fell by 1.1% for the month but is up 1.0% for the year.



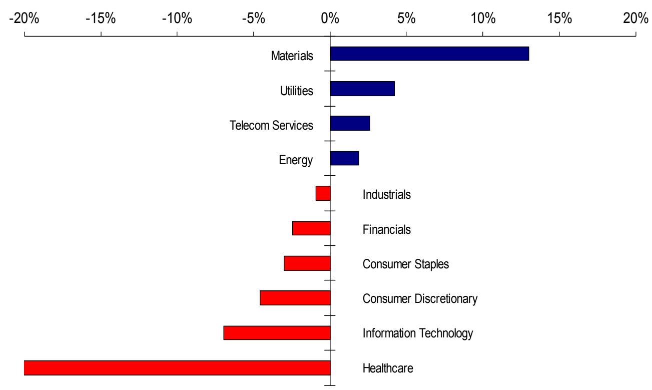
All returns are on a total return basis unless otherwise noted. All returns calculated in local currency except for MSCI World
** These indices are calcuated on a price return basis

Source: Bloomberg, RBC Wealth Management, 06/30/16

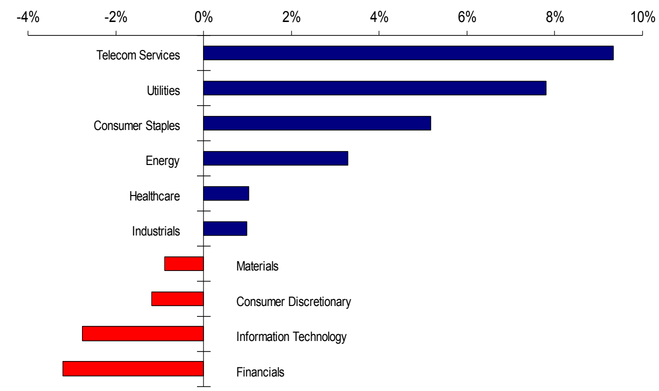
Canadian & U.S. equities

June 2016

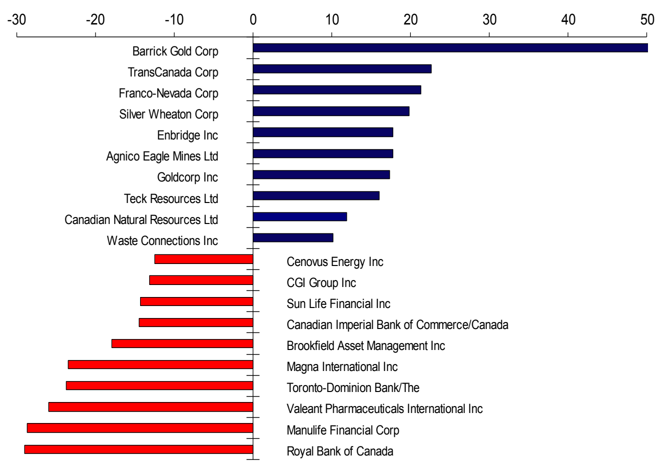
S&P/TSX composite sector movement



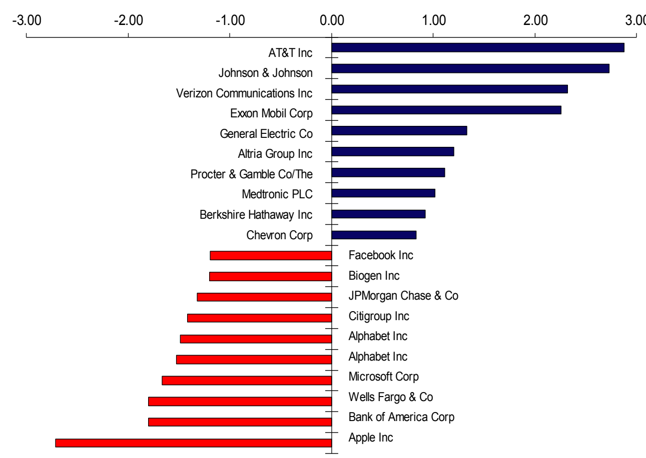
S&P 500 sector movement



Top 10 S&P/TSX dontributors/decliners by index points



Top 10 S&P 500 contributors/decliners by index points



Source: Bloomberg

Canadian and U.S. economic data

June 2016

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
06/30/2016	Gross Domestic Product (m-o-m, SA)	Apr	0.10%	0.10%	-0.20%
06/30/2016	Gross Domestic Product (y-o-y, SA)	Apr	1.40%	1.50%	1.20%
	Labour market				
06/10/2016	Net Change in Employment (000, SA)	May	1.8k	13.8k	-2.1k
06/10/2016	Participation Rate (SA)	May	--	65.70%	65.80%
06/10/2016	Unemployment Rate (SA)	May	7.20%	6.90%	7.10%
	Housing market				
06/08/2016	Housing Starts (000, SAAR)	May	189.0k	188.6k	191.4k
06/09/2016	New Housing Price Index (y-o-y)	Apr	2.10%	2.10%	2.00%
06/15/2016	Existing Home Sales (m-o-m)	May	--	-2.80%	3.10%
06/14/2016	Teranet/National Bank HPI (m-o-m)	May	--	1.80%	1.20%
	Consumer & manufacturing				
06/22/2016	Retail Sales (m-o-m, SA)	Apr	0.80%	0.90%	-0.80%
06/22/2016	Retail Sales Less Autos (m-o-m, SA)	Apr	0.70%	1.30%	-0.10%
06/15/2016	Manufacturing Sales (m-o-m, SA)	Apr	0.60%	1.00%	-0.90%
	Trade				
06/03/2016	Merchandise Trade (billion, SA)	Apr	-2.55b	-2.94b	-3.18b
	Prices				
06/17/2016	Consumer Price Index (m-o-m)	May	0.50%	0.40%	0.30%
06/17/2016	Consumer Price Index (y-o-y)	May	1.60%	1.50%	1.70%
06/17/2016	Bank of Canada CPI Core (m-o-m)	May	0.30%	0.30%	0.20%
06/17/2016	Bank of Canada CPI Core (y-o-y)	May	2.10%	2.10%	2.20%
06/30/2016	Industrial Product Price (m-o-m)	May	0.30%	1.10%	-0.50%
06/30/2016	Raw Materials Price Index (m-o-m)	May	5.00%	6.70%	0.70%
	Other indicators				
06/20/2016	Wholesale Sales (m-o-m, SA)	Apr	0.50%	0.10%	-0.80%
06/07/2016	Ivey Purchasing Managers Index (SA)	May	51.0	49.4	53.1
06/08/2016	Building Permits (m-o-m, SA)	Apr	2%	0%	-6%

Release date	Economic indicators: U.S.	Period	Consensus	Actual	Prior
06/28/2016	GDP (q-o-q, SAAR)	1Q T	1.00%	1.10%	0.80%
06/28/2016	GDP Price Index (q-o-q, SAAR)	1Q T	0.60%	0.40%	0.60%
06/28/2016	Core PCE (q-o-q, SAAR)	1Q T	2.10%	2.00%	2.10%
	Labour market				
06/03/2016	Change in Nonfarm Payrolls (000, SA)	May	160k	38k	123k
06/03/2016	Unemployment Rate (SA)	May	4.90%	4.70%	5.00%
	Housing market				
06/17/2016	Building Permits (000, SAAR)	May	1145k	1138k	1130k
06/17/2016	Housing Starts (000, SAAR)	May	1150k	1164k	1167k
06/23/2016	New Home Sales (000, SAAR)	May	560k	551k	586k
06/22/2016	Existing Home Sales (million, SAAR)	May	5.55m	5.53m	5.43m
06/16/2016	NAHB Housing Market Index (SA)	Jun	59	60	58
06/01/2016	Construction Spending (m-o-m, SA)	Apr	0.60%	-1.80%	1.60%
	Consumer & manufacturing				
06/14/2016	Advance Retail Sales (m-o-m, SA)	May	0.30%	0.50%	1.30%
06/14/2016	Retail Sales Less Autos (m-o-m, SA)	May	0.40%	0.40%	0.80%
06/28/2016	Consumer Confidence (SA)	Jun	93.5	98.0	92.4
06/24/2016	U. of Michigan Confidence	Jun F	94.1	93.5	94.3
06/28/2016	Personal Consumption (q-o-q, SAAR)	1Q T	2.00%	1.50%	1.90%
06/24/2016	Durable Goods Orders (m-o-m, SA)	May P	-0.50%	-2.20%	3.30%
06/03/2016	Factory Orders (m-o-m, SA)	Apr	1.90%	1.90%	1.70%
	Trade				
06/14/2016	Import Price Index (m-o-m)	May	0.70%	1.40%	0.70%
06/14/2016	Import Price Index (y-o-y)	May	-5.90%	-5.00%	-5.30%
06/03/2016	Trade Balance (billion, SA)	Apr	-$41.0b	-$37.4b	-$35.5b
	Prices				
06/16/2016	Consumer Price Index (m-o-m, SA)	May	0.30%	0.20%	0.40%
06/16/2016	Consumer Price Index (y-o-y)	May	1.10%	1.00%	1.10%
06/16/2016	CPI Core Index (SA)	May	247.05	247.07	246.57
06/29/2016	PCE Deflator (y-o-y, SA)	May	1.00%	0.90%	1.10%
	Other indicators				
06/01/2016	ISM Manufacturing Index (SA)	May	50.3	51.3	50.8
06/30/2016	Chicago Purchasing Manager Index	Jun	51.0	56.8	49.3
06/16/2016	Philadelphia Fed Index	Jun	1.0	4.7	-1.8
06/23/2016	Leading Indicators (m-o-m)	May	0.10%	-0.20%	0.60%
06/14/2016	Business Inventories (m-o-m, SA)	Apr	0.20%	0.10%	0.30%

Source: Bloomberg
SA = Seasonally Adjusted; SAAR = Seasonally Adjusted Annual Rate; m-o-m = Month-over-month % change;
q-o-q = Quarter-over-quarter % change; y-o-y = Year-over-year % change.

Notable Canadian dividend activity – June 2016

Increases				
Company	**$ Change**		**Ex-Date**	**% Change**
Onex Corp (OCX)	Prior: $0.0625	New: $0.0688	July 6, 2016	10.0%
Empire Co (EMP/A)	Prior: $0.1000	New: $0.1025	July 13, 2016	2.5%

Source: Bloomberg

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