



# MONTH IN REVIEW

Portfolio Advisory Group

December 2015

## WHAT MOVED THE MARKETS

Market volatility remained elevated in December. For the first time in almost a decade, the Federal Reserve raised rates, acknowledging an improving U.S. backdrop, while promising a gradual path of future increases. Meanwhile, Bank of Canada Governor Stephen Poloz acknowledged a divergence with Fed policy and indicated that investors should not expect the central bank to match potential rate hikes by the Fed.

With an overall balanced statement, the Fed increased the overnight interest rate 25bps to 0.50%. Investors are now anticipating a slow and gradual increase as rate hikes remain dependent on continued growth of the U.S. economy. In Canada, the downward pressure on oil prices continues to hamper the economy as the impact of a weaker energy sector weighs on the broader market. The U.S. dollar index continued to strengthen, reaching its highest level since mid-April, while crude approached its lows for the year.

North American indices were generally weak. The S&P/TSX fell 3.1% as an impressive gain of 14.6% in the Healthcare sector was offset by the Telecom Services, Consumer Discretionary and Energy sectors, which fell 6.6%, 5.6% and 5.1%, respectively. Overall, 7 of 10 sectors finished the month in negative territory.

In the U.S., the S&P 500 posted a 1.6% loss with 6 out of 10 sectors posting negative results as moderate strength in Consumer Staples (2.9%) and Utilities (2.2%) was more than offset by weakness in Energy (-9.9%) and Materials (-4.4%).



RBC Wealth Management  
Dominion Securities

There's Wealth in Our Approach.™

## FIXED INCOME-SPECIFIC DEVELOPMENTS

The Bank of Canada (BOC) left rates unchanged at 0.50%. Overall, the BOC statement was quite balanced and saw minimal market reaction following the announcement. Expectations of any rate cut out of the Bank over the next 12 months have slightly increased as the impact of a weaker energy sector continues to weigh on the broader Canadian market. The recent drop in oil prices may portend a cautious approach for the central bank in 2016. In a December speech, Governor Stephen Poloz opined that the central bank would be open to using “negative interest rates” in the future, if needed, to combat a severe economic or financial crisis, adding that “the bank is now confident that Canadian financial markets could also function in a negative interest rate environment”. Furthermore, Poloz went to great lengths to note he was speaking theoretically and negative interest rates are not necessary right now, given the current state of the economy.

Overall, Canadian economic data was weaker than expected. While September GDP unexpectedly contracted 0.5%, third quarter GDP rose 2.3%, which matched estimates. In October, GDP was unchanged versus market expectations of a 0.2% rise. Retail sales rose by a meager 0.1%, below expectations of a 0.4% gain. On the other hand, inflation rose by 1.4% (1.5% expected) the fastest pace in a year. While gasoline prices declined 10.6% in November, food prices advanced 3.4%, thus keeping the inflation rate at the lower end of the Bank of Canada’s target range of 1% to 3%. Inflation is expected to remain muted until the start of 2017. The benchmark Canada 10-year bond closed the month at 1.39%, 18 bps lower than last month’s closing yield of 1.57%.

U.S. policymakers unanimously voted to raise the overnight target rate to 0.50%. Overall, the statement accorded a greater weight to a strong labour market versus weak inflation data in determining that a 50bps target rate is appropriate. In an effort to reassure investors on the future path of rates, Fed Chair Janet Yellen stressed the central bank would take a cautious approach to subsequent hikes and the likely trajectory of policy tightening would be shallow. Third quarter U.S. GDP was revised to 2% (from a previous estimate of 2.1%). November U.S. CPI remained steady at 0.2%, in-line with expectation. Lower energy prices and a strong U.S. dollar are acting as disinflationary forces, keeping inflation below the Fed’s 2% target. The benchmark U.S. Treasury 10-year bond closed the month at 2.27%, 6 bps higher than last month’s closing yield of 2.21%.

## NUMBER CRUNCHING

Equity Indices*	Month	YTD*
S&P/TSX Composite Index TR	-3.1%	-8.3%
Dow Jones Industrial Average TR	-1.5%	0.2%
S&P 500 Index TR	-1.6%	1.4%
NASDAQ Composite Index TR	-1.9%	7.0%
MSCI EAFE TR (USD)	-1.3%	-0.4%
MSCI World TR (USD)	-1.7%	-0.3%

S&P/TSX Sector Performance*	Month	YTD*
S&P/TSX Financials TR	-3.2%	-1.7%
S&P/TSX Energy TR	-5.1%	-22.9%
S&P/TSX Materials TR	-2.2%	-21.0%
S&P/TSX Industrials TR	-4.3%	-11.1%
S&P/TSX Consumer Discretionary TR	-5.6%	-1.5%
S&P/TSX Telecom Services TR	-6.6%	3.6%
S&P/TSX Information Technology TR	1.2%	15.6%
S&P/TSX Consumer Staples TR	-0.1%	12.4%
S&P/TSX Utilities TR	2.1%	-3.5%
S&P/TSX Healthcare TR	14.6%	-15.6%

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

**GLOBAL DEVELOPMENTS**

As expected, the ECB unveiled new easing measures to bolster the Eurozone’s economic and inflation outlook, slashing its deposit rate to a historic low of -0.3% and extending its EUR60 billion-a-month asset purchase program for another six months through March 2017 “or beyond”.

Markets were dissatisfied with the modest actions from the ECB as some forecasters had anticipated a sharper cut to the deposit rate and an increase in the size of the quantitative easing program.

The Bank of England left its benchmark rate untouched at 0.5%. The bank also dampened its prospects of raising interest rates anytime soon as a result of subdued inflation. Headline inflation, which has swung in a narrow band between 0.1% and -0.1% since February, is forecasted to remain below 1% well into 2016, which suggests the central bank will probably exercise patience with regards to hiking interest rates.

With final GDP figures for the current year set to be released in the interim, Chinese policymakers will be watching the current target of 7% as a key barometer to judge whether more significant reforms are needed. As part of its plan for the coming year, China will focus on reducing industrial overcapacity, reducing the supply of unsold homes and mitigating financial risks.

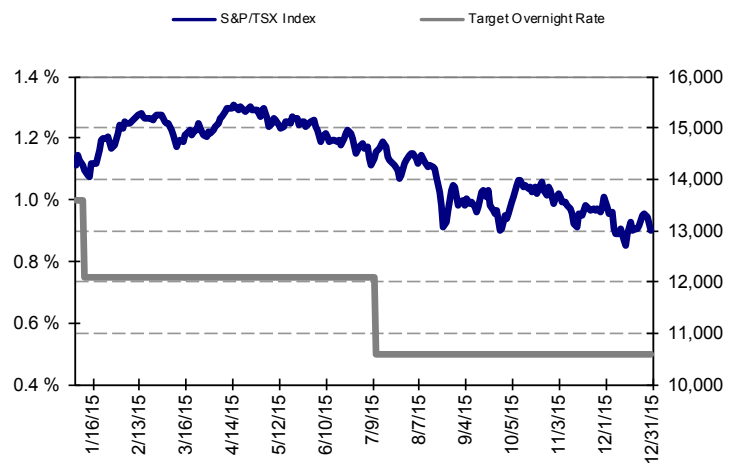
Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.3839	3.6%	19.1%
Euro	1.5034	6.5%	6.9%
British Pound	2.0396	1.4%	12.7%
Japanese Yen	0.0115	6.1%	18.5%

Currencies (One Canadian Dollar)	Exchange	Month	YTD*
US Dollar	0.7227	-3.4%	-16.0%
Euro	0.6655	-6.1%	-6.4%
British Pound	0.4904	-1.3%	-11.2%
Japanese Yen	86.8640	-5.7%	-15.7%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$37.04	-11.1%	-30.5%
Natural Gas (per million btu)	\$2.34	4.6%	-19.1%
Gold (per ounce)	\$1,061.42	-0.3%	-10.4%
Silver (per ounce)	\$13.86	-1.6%	-11.7%
Copper (per pound)	\$2.13	2.3%	-26.1%
Nickel (per pound)	\$3.98	-1.0%	-41.8%
Aluminum (per pound)	\$0.68	4.4%	-17.8%
Zinc (per pound)	\$0.73	2.9%	-26.1%

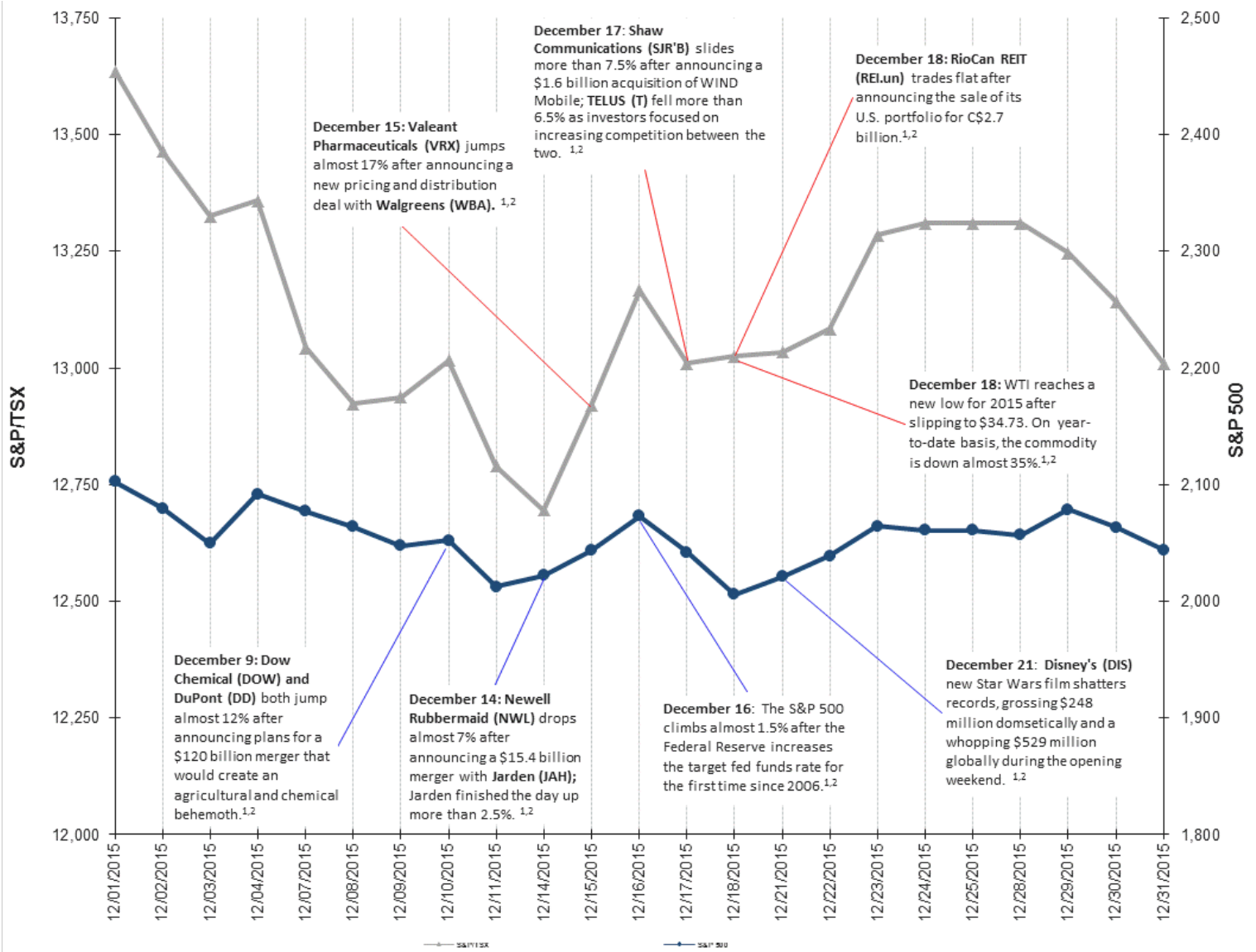
\*All returns are on a Total Return basis All indices are in local currency unless otherwise noted.

**S&P/TSX Index - Target Overnight Rate, LTM**



Source - RBC Wealth Management, Bloomberg

# NORTH AMERICAN EQUITY HIGHLIGHTS – DECEMBER 2015

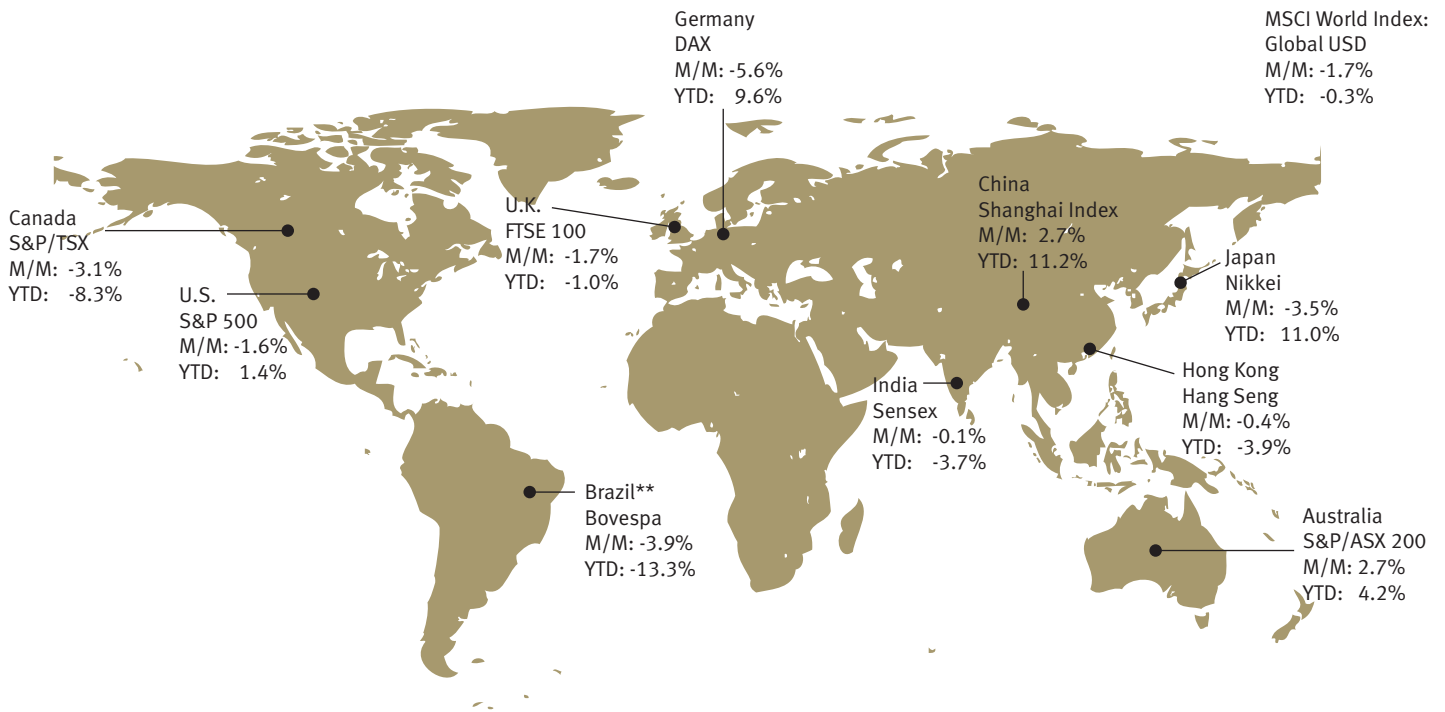


<sup>1</sup>Bloomberg <sup>2</sup>RBC Capital Markets Pricing Data  
Source: Bloomberg

# WORLD MARKETS

## December Month-over-Month and Year-to-Date Performance

China's Shanghai Index and Australia's S&P/ASX 200 were the only two major global indices in positive territory for the month of December, both finishing the month up 2.7%. Germany's DAX was the clear loser, closing the month down 5.6%. Weakness was broadly spread across North and South America, with Brazil's Bovespa leading the way lower, falling 3.9%, while the S&P 500 declined 1.6% and the S&P/TSX fell 3.1%. In Europe, the U.K.'s FTSE 100 also saw declines, falling 1.7%. In Asia, Japan's Nikkei was the clear loser, closing the month down 3.5%, while India's Sensex and Hong Kong's Hang Seng showed moderately better performance, closing the month down 0.1% and 0.4%, respectively. Overall, the MSCI World Index closed down 1.7% for the month and down 1.3% for the year.



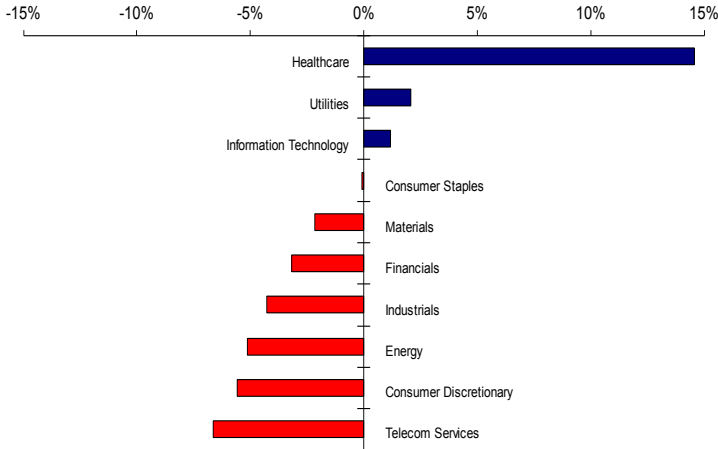
Source – Bloomberg, RBC Wealth Management, 12/31/15

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

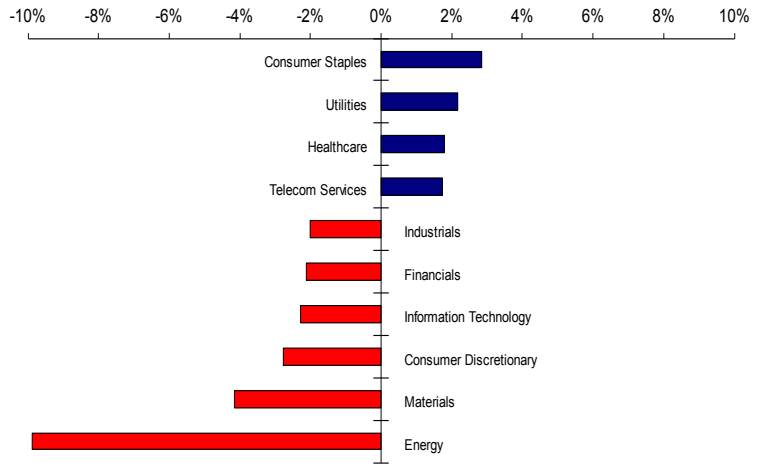
\*\* These indices are calculated on a price return basis

# CANADIAN & U.S. EQUITIES – DECEMBER 2015

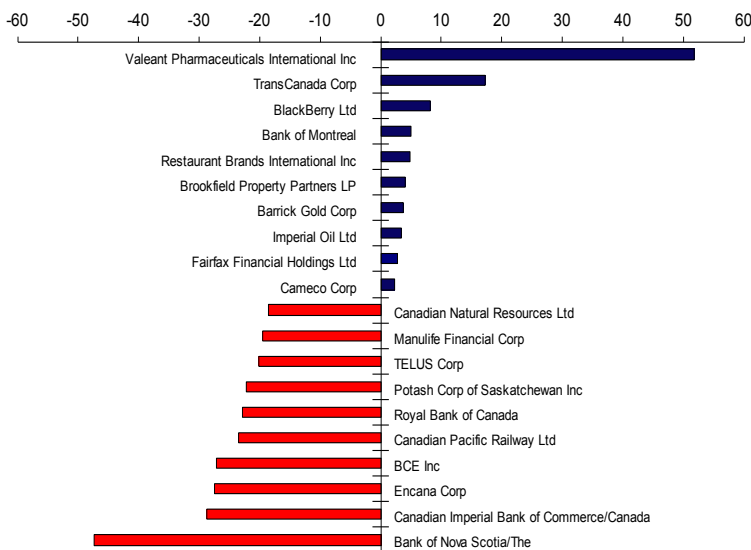
S&P/TSX Composite Sector Movement



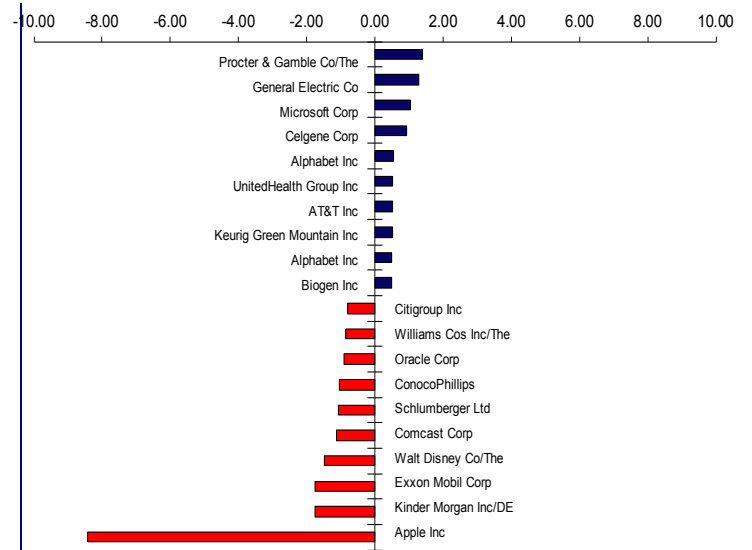
S&P 500 Sector Movement



Top 10 S&P/TSX Contributors/Decliners by Index Points



Top 10 S&P 500 Contributors/Decliners by Index Points



Source: Bloomberg

## CANADIAN AND U.S. ECONOMIC DATA – DECEMBER 2015

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
12/23/2015	Gross Domestic Product (m-o-m, SA)	Oct	0.20%	0.00%	-0.50%
12/23/2015	Gross Domestic Product (y-o-y, SA)	Oct	-0.10%	-0.20%	0.10%
	<b>Labour market</b>				
01/08/2016	Net Change in Employment (000, SA)	Dec	10.0	--	-35.7
01/08/2016	Participation Rate (SA)	Dec	65.80%	--	65.80%
01/08/2016	Unemployment Rate (SA)	Dec	7.10%	--	7.10%
	<b>Housing market</b>				
12/08/2015	Housing Starts (000, SAAR)	Nov	200	211.9	197.7
12/10/2015	New Housing Price Index (y-o-y)	Oct	1.30%	1.50%	1.30%
12/15/2015	Existing Home Sales (m-o-m)	Nov	--	1.80%	1.80%
12/14/2015	Teranet/National Bank HPI (m-o-m)	Nov	-0.20%	0.20%	0.10%
	<b>Consumer &amp; Manufacturing</b>				
12/23/2015	Retail Sales (m-o-m, SA)	Oct	0.40%	0.10%	-0.40%
12/23/2015	Retail Sales Less Autos (m-o-m, SA)	Oct	0.40%	0.00%	-0.40%
12/15/2015	Manufacturing Sales (m-o-m, SA)	Oct	-0.50%	-1.10%	-1.50%
	<b>Trade</b>				
01/06/2016	Merchandise Trade (billion, SA)	Nov	-2.60	--	-2.76
	<b>Prices</b>				
12/18/2015	Consumer Price Index (m-o-m)	Nov	0.10%	-0.10%	0.10%
12/18/2015	Consumer Price Index (y-o-y)	Nov	1.50%	1.40%	1.00%
12/18/2015	Bank of Canada CPI Core (m-o-m)	Nov	0.00%	-0.30%	0.30%
12/18/2015	Bank of Canada CPI Core (y-o-y)	Nov	2.30%	2.00%	2.10%
01/05/2016	Industrial Product Price (m-o-m)	Nov	0.10%	-0.20%	-0.50%
01/05/2016	Raw Materials Price Index (m-o-m)	Nov	-2.50%	-4.00%	0.00%
	<b>Other Indicators</b>				
12/18/2015	Wholesale Sales (m-o-m, SA)	Oct	0.10%	-0.60%	-0.30%
01/07/2016	Ivey Purchasing Managers Index (SA)	Dec	55.0	--	63.6
01/08/2016	Building Permits (m-o-m, SA)	Nov	-3%	--	9%

Release Date	Economic Indicators: U.S.	Period	Consensus	Actual	Prior
12/22/2015	GDP (q-o-q, SAAR)	3Q T	1.90%	2.00%	2.10%
12/22/2015	GDP Price Index (q-o-q, SAAR)	3Q T	1.30%	1.30%	1.30%
12/22/2015	Core PCE (q-o-q, SAAR)	3Q T	1.30%	1.40%	1.30%
	<b>Labour market</b>				
01/08/2016	Change in Nonfarm Payrolls (000, SA)	Dec	200.0	--	211.0
01/08/2016	Unemployment Rate (SA)	Dec	5.00%	--	5.00%
	<b>Housing market</b>				
12/16/2015	Building Permits (000, SAAR)	Nov	1150	1289	1161
12/16/2015	Housing Starts (000, SAAR)	Nov	1130	1173	1062
12/23/2015	New Home Sales (000, SAAR)	Nov	505	490	470
12/22/2015	Existing Home Sales (million, SAAR)	Nov	5.35	4.76	5.32
12/15/2015	NAHB Housing Market Index (SA)	Dec	63	61	62
01/04/2016	Construction Spending (m-o-m, SA)	Nov	0.60%	-0.40%	0.30%
	<b>Consumer &amp; Manufacturing</b>				
12/11/2015	Advance Retail Sales (m-o-m, SA)	Nov	0.30%	0.20%	0.10%
12/11/2015	Retail Sales Less Autos (m-o-m, SA)	Nov	0.30%	0.40%	0.10%
12/29/2015	Consumer Confidence (SA)	Dec	93.5	96.5	92.6
12/23/2015	U. of Michigan Confidence	Dec F	92.0	92.6	91.8
12/22/2015	Personal Consumption (q-o-q, SAAR)	3Q T	2.90%	3.00%	3.00%
01/06/2016	Durable Goods Orders (m-o-m, SA)	Nov F	--	--	0.00%
01/06/2016	Factory Orders (m-o-m, SA)	Nov	-0.20%	--	1.50%
	<b>Trade</b>				
12/10/2015	Import Price Index (m-o-m)	Nov	-0.80%	-0.40%	-0.30%
12/10/2015	Import Price Index (y-o-y)	Nov	-9.60%	-9.40%	-10.70%
01/06/2016	Trade Balance (billion, SA)	Nov	-44.0	--	-43.9
	<b>Prices</b>				
12/15/2015	Consumer Price Index (m-o-m, SA)	Nov	0.00%	0.00%	0.20%
12/15/2015	Consumer Price Index (y-o-y)	Nov	0.40%	0.50%	0.20%
12/15/2015	CPI Core Index (SA)	Nov	244.09	244.14	243.70
12/23/2015	PCE Deflator (y-o-y, SA)	Nov	0.40%	0.40%	0.20%
	<b>Other Indicators</b>				
01/04/2016	ISM Manufacturing Index (SA)	Dec	49.0	48.2	48.6
12/31/2015	Chicago Purchasing Manager Index	Dec	50.0	42.9	48.7
12/17/2015	Philadelphia Fed Index	Dec	1.0	-5.9	1.9
12/17/2015	Leading Indicators (m-o-m)	Nov	0.10%	0.40%	0.60%
12/11/2015	Business Inventories (m-o-m, SA)	Oct	0.10%	0.00%	0.10%

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 – DECEMBER 2015

INCREASES				
Company	\$ Change		Ex-Date	% Change
Canadian Western Bank (CWB)	Prior: \$0.22	New: \$0.23	December 11, 2015	4.5%
National Bank (NA)	Prior: \$0.52	New: \$0.54	December 17, 2015	3.8%
C.I.B.C. (CM)	Prior: \$1.12	New: \$1.15	December 23, 2015	2.7%
Laurentian Bank (LB)	Prior: \$0.56	New: \$0.58	December 30, 2015	3.6%
Bank of Montreal (BMO)	Prior: \$0.82	New: \$0.84	January 28, 2016	2.4%
Enbridge Income Fund Holdings (ENF)	Prior: \$0.1414	New: \$0.1555	January 28, 2016	10.0%
Enbridge Inc (ENB)	Prior: \$0.465	New: \$0.53	February 11, 2016	14.0%

DECREASES				
	\$ Change		Ex-Date	% Change
Twin Butte Energy (TBE)	Prior: \$0.003	New: \$0.00	December 29, 2015	Cancelled
Canadian Energy Services (CEU)	Prior: \$0.0275	New: \$0.018	December 29, 2015	-34.5%
Westshore Terminals (WTE)	Prior: \$0.25	New: \$0.16	December 29, 2015	-36.0%
Mullen Group (MTL)	Prior: \$0.10	New: \$0.008	January 27, 2016	-20.0%
Bonterra Energy Corp (BNE)	Prior: \$0.15	New: \$0.10	TBA	-33.3%

Source: Bloomberg

# IMPORTANT DISCLOSURES

This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)\*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Global Asset Management Inc. (RBC GAM), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the “Companies”) and their affiliates, RBC Direct Investing Inc. (RBC DI) \*, RBC Wealth Management Financial Services Inc. (RBC WM FS) and Royal Mutual Funds Inc. (RMFI). Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. \*Members-Canadian Investor Protection Fund. “RBC advisor” refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC and the private client division of RBC DS, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WM FS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI, Royal Trust Corporation of Canada, The Royal Trust Company, or RBC DS. Estate & Trust Services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC WM FS, a subsidiary of RBC DS. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC WM FS. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC WM FS. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WM FS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. ©Registered trademarks of Royal Bank of Canada. Used under license. ©2016 Royal Bank of Canada. All rights reserved. 16\_90087\_005