



Wealth Management
Dominion Securities

Portfolio Advisory Group | January 2017

What moved the markets

In January, investors were largely focused on new policies introduced by the Trump administration and fourth quarter corporate earnings.

In the U.S., the S&P 500 closed up 1.9%, with most sectors ending the month in positive territory.

Positive sentiment towards potential fiscal stimulus from the new Trump administration was somewhat offset by protectionist trade rhetoric and some unease about the implementation of travel restrictions to the U.S. As for corporate earnings, 207 companies from the S&P 500 have reported to date. Earnings are beating consensus estimates by 2.9% while revenues are surprising by 0.2%. Revenue, earnings, and EPS growth expectations are 4.2%, 5.2%, and 7.3%, respectively according to RBC Capital Markets. Companies beating on both the top- and bottom-lines performed better by 1.4% while those that missed, lagged by -3.2%.

On the central bank front, Federal Reserve officials expressed no need for significant fiscal stimulus given strong labour markets and signs of improving wage growth that are supportive of the central bank's forecast of three 25bps hikes in 2017. The European Central Bank left its benchmark interest rates unchanged after announcing a major package of quantitative easing measures in December. The ECB maintained its dovish bias, reiterating that interest rates would remain at present levels or lower for an extended period of time. The Bank of Canada kept its target for the overnight rate on hold at 0.50%.

Despite impressive economic data in recent months, Bank of Canada Governor Poloz noted that there remains material excess capacity in the Canadian economy. The central bank revised GDP growth in Canada higher by 0.1% to 2.1% for 2017 and left its 2.1% growth forecast for 2018 unchanged. Governor Poloz also expressed unease with regards to the recent strength in the Canadian dollar, which intensifies the competitiveness challenges with regards to exports. The Canadian dollar rallied 2.9% versus the U.S. dollar in January to the highest level since September.

Equity markets in North America were positive in January. The S&P/TSX moved up 0.8%, with rallies in the Material and Telecom Services sectors of 9.3% and 2.7%, respectively offset by declines in Energy and Healthcare sectors of 5.5% and 3.4%, respectively.

In the U.S., the S&P 500 closed up 1.9%, with most sectors ending the month in positive territory. Markets were led by the Materials, Information Technology, and Consumer Discretionary sectors which gained 4.65%, 4.4%, and 4.2%, respectively, while the Telecom Services and Energy sectors closed down by -2.5% and -3.6%, respectively.

Number crunching

| Equity indices* | Month | YTD* |
|---------------------------------|-------|------|
| S&P/TSX Composite Index TR | 0.8% | 0.8% |
| Dow Jones Industrial Average TR | 0.6% | 0.6% |
| S&P 500 Index TR | 1.9% | 1.9% |
| NASDAQ Composite Index TR | 4.3% | 4.3% |
| MSCI EAFE TR (USD) | 2.9% | 2.9% |
| MSCI World TR (USD) | 2.4% | 2.4% |

| S&P/TSX sector performance* | Month | YTD* |
|-----------------------------------|-------|-------|
| S&P/TSX Financials TR | 2.3% | 2.3% |
| S&P/TSX Energy TR | -5.5% | -5.5% |
| S&P/TSX Materials TR | 9.3% | 9.3% |
| S&P/TSX Industrials TR | 0.5% | 0.5% |
| S&P/TSX Consumer Discretionary TR | -0.5% | -0.5% |
| S&P/TSX Telecom Services TR | 2.7% | 2.7% |
| S&P/TSX Information Technology TR | 0.3% | 0.3% |
| S&P/TSX Consumer Staples TR | -1.4% | -1.4% |
| S&P/TSX Utilities TR | 1.4% | 1.4% |
| S&P/TSX Healthcare TR | -3.4% | -3.4% |

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

U.S. 10-year yields were unchanged in January, declining from the recent highs reached in mid-December at approximately 2.60%.

Fixed Income-Specific Developments

Economic data in Canada continued to be largely positive in January. The latest employment data showed the addition of 53,700 jobs in December and the unemployment rate increased to 6.9% thanks to a higher participation rate. Canada's trade balance reached a surplus for the first time since September 2014 of \$0.53 billion, higher than the deficit of \$1.60 billion expected by analysts. Canadian Manufacturing PMI was another bright spot rising to 51.8, the highest reading since July, as growth in orders for new work rose to the highest level in over two years. Conversely, retail sales rose 0.2% month over month in November, which was below economists' estimates for a 0.5% increase. CPI fell 0.2% in December on a month over month basis, lower than the 0.0% expected by economists but better than the -0.4% decline recorded in November. The tone shifted at the Bank of Canada's policy meeting as Governor Poloz emphasized that a rate cut remains on the table as uncertainty about the Trump administration's approach to cross-border trade has clouded the bank's outlook for the economy. Government of Canada 10-year yields were slightly lower from the start of the month, down approximately 2bps, while equity markets were unchanged through January after reaching the highest level since 2014 in late January.

In the U.S., the ISM manufacturing index, a key leading indicator, reached 54.7 in December, which was above analysts' expectation of 53.8 and the highest level in two years. The U.S. continued its track record of job creation with non-farm payrolls rising 156,000 jobs, which was below the consensus forecast of 175,000. Fourth quarter GDP reported at the end of the month rose 1.9% annualized, lower than the expectation of 2.2% and slower than the 3.5% annualized growth rate in the 3rd quarter. U.S. CPI rose 0.3% month-over-month in December, in line with economists' expectations and higher than the 0.2% increase in November. Fed Chair Yellen reiterated her view that it makes sense for the central bank to gradually push up short term rates in the face of a U.S. economy that is close to full employment and inflation showing signs of moving towards the Fed's 2% target. U.S. 10-year yields were unchanged in January, declining from the recent highs reached in mid-December at approximately 2.60%

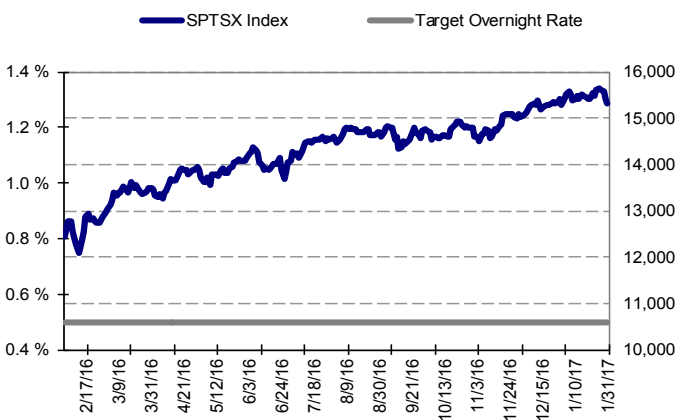
| Currencies (in Canadian dollars) | Exchange | Month | YTD* |
|----------------------------------|----------|-------|-------|
| U.S. Dollar | 1.3030 | -3.1% | -3.1% |
| Euro | 1.4070 | -0.4% | -0.4% |
| British Pound | 1.6391 | -1.1% | -1.1% |
| Japanese Yen | 0.0116 | 0.6% | 0.6% |

| Currencies (one Canadian dollar) | Exchange | Month | YTD* |
|----------------------------------|----------|-------|-------|
| U.S. Dollar | 0.7674 | 3.1% | 3.1% |
| Euro | 0.7107 | 0.5% | 0.5% |
| British Pound | 0.6101 | 1.2% | 1.2% |
| Japanese Yen | 86.5650 | -0.5% | -0.5% |

| Commodities (US\$) | Spot price | Month | YTD* |
|-------------------------------|------------|--------|--------|
| Crude Oil (WTI per barrel) | \$52.81 | -1.7% | -1.7% |
| Natural Gas (per million btu) | \$3.12 | -16.3% | -16.3% |
| Gold (per ounce) | \$1,210.65 | 5.1% | 5.1% |
| Silver (per ounce) | \$17.56 | 10.3% | 10.3% |
| Copper (per pound) | \$2.72 | 8.5% | 8.5% |
| Nickel (per pound) | \$4.49 | -0.6% | -0.6% |
| Aluminum (per pound) | \$0.82 | 6.5% | 6.5% |
| Zinc (per pound) | \$1.30 | 11.0% | 11.0% |

*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

Global Developments

In the Eurozone, data continued to show gradual improvement to end the year. GDP in the region rose 0.5% in the 4th quarter, taking the annual growth rate to 1.7% for 2016. The region's unemployment rate improved to 9.6%, the lowest since May 2009. Inflation in the region rose more than expected to 1.8% from 1.1% in December and higher than economists' expectations of 1.5%. With improving economic data and rising inflation, Eurozone bond yields continue to move higher with the 10-year German bunds closing the month at approximately 0.50%, a 13-month high.

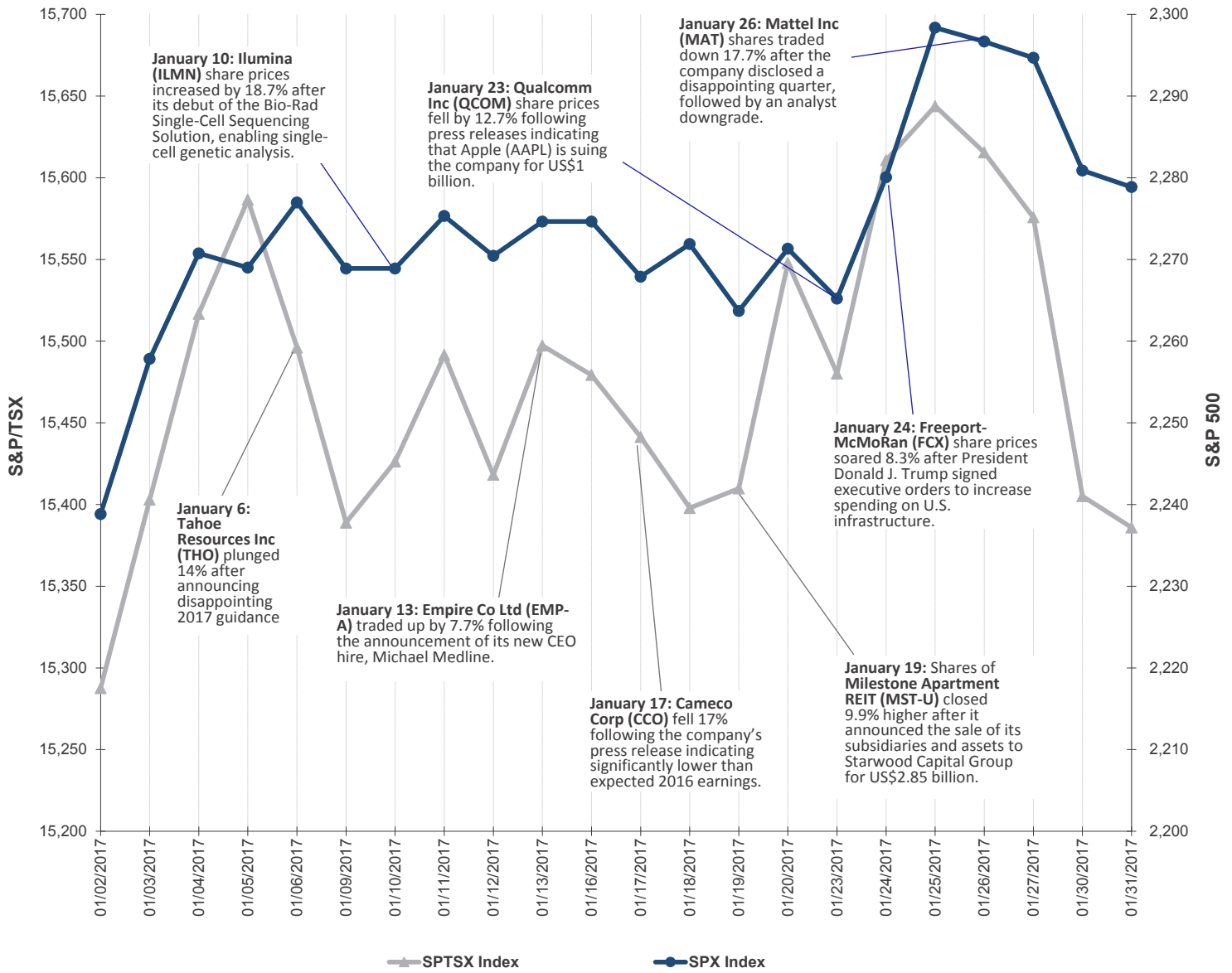
In China, the economy expanded at an annual rate of 6.8% in the fourth quarter, taking its full year gross domestic product growth in 2016 to 6.7%. This is in line with the government's target range of 6.5% -6.7% of growth and a modest deceleration compared with the 6.9% growth in 2015. Foreign exchange reserves fell for a 6th straight month and reached the lowest level since March 2011. China's forex reserves declined by ~\$320 billion in 2016, in addition to the record \$513 billion in 2015.

In the United Kingdom, the Supreme Court ruled that Prime Minister Theresa May must obtain approval from Parliament before triggering Article 50, which is the formal mechanism to leave the European Union. The ruling means PM May must hold a vote in both houses of parliament before Article 50 can be initiated. The British pound rallied 3.7% through the month to the highest level since early December.

Saudi Arabia trimmed crude output in January by at least 486,000 barrels per day to approximately 10.06 million bpd, bringing the world's largest oil exporter into line with OPEC's deal to cut production. OPEC reached an accord on November 30th to reduce production by 1.2 million bpd to 32.5 million bpd. WTI oil prices continued to hold firmly above \$52 per barrel. Gold ended the month above \$1,200 per ounce, with increasing political uncertainty and a weaker U.S. dollar driving some of the strength.

North American equity highlights

January 2017

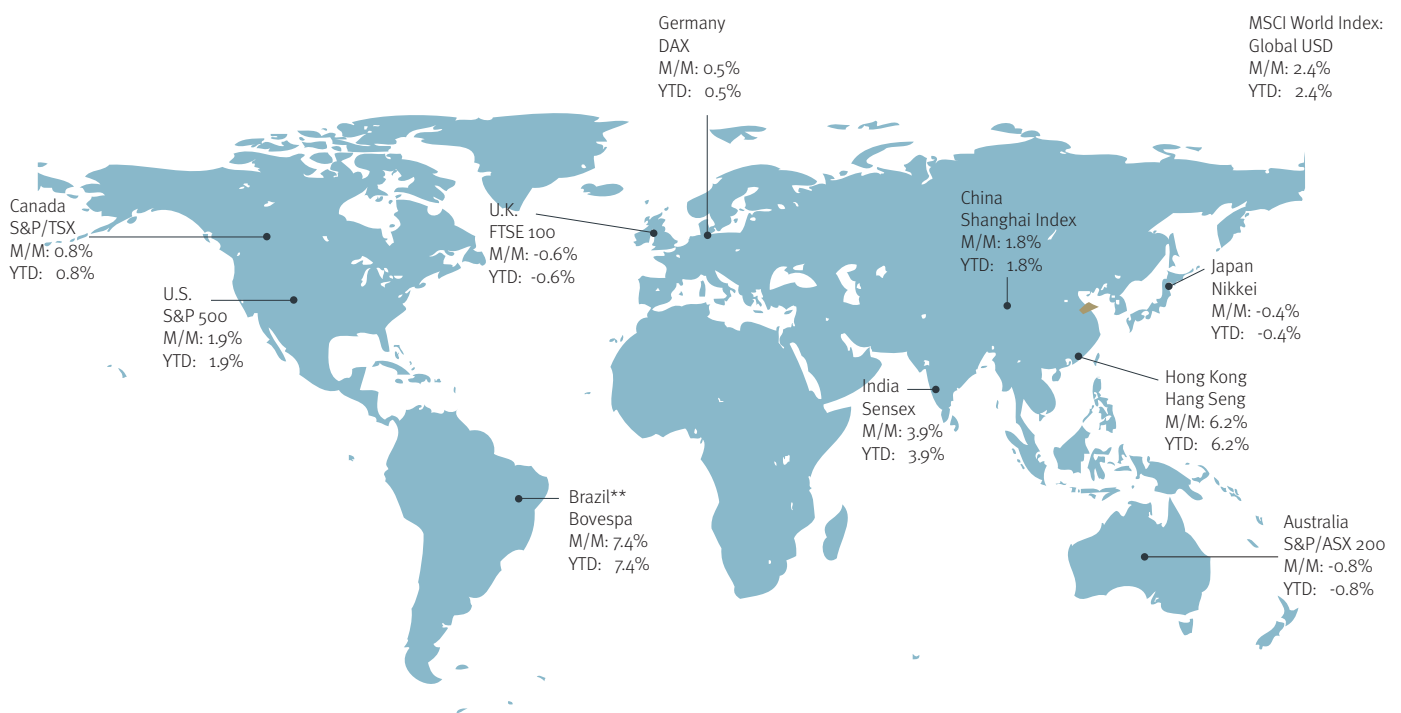


¹Bloomberg ²RBC Capital Markets Pricing Data
Source: Bloomberg

World markets

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

For the month of January, most global indices ended in positive territory. In the Americas, the S&P 500, S&P/TSX, Brazil's Bovespa rose by 1.9%, 0.8%, and 7.4% respectively. In Europe, Germany's DAX moved slightly higher by 0.5% and the U.K.'s FTSE moved slightly lower by -0.6%. In Asia, China's Shanghai Index, Hong Kong's Hang Seng, and India's Sensex closed the month up 1.8%, 6.2%, and 3.9%, respectively. Australia's S&P/ASX 200 and Japan's Nikkei's closed lower by -0.8% and -0.4%. Overall, the MSCI World Index increased by 2.4% YTD.



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

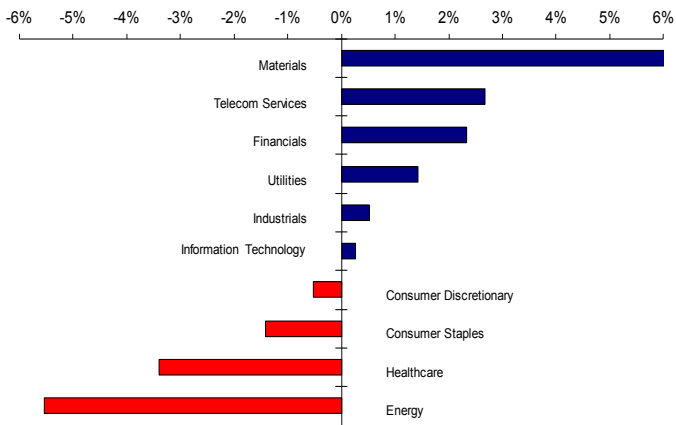
** These indices are calculated on a price return basis

Source: Bloomberg, RBC Wealth Management, 01/30/17

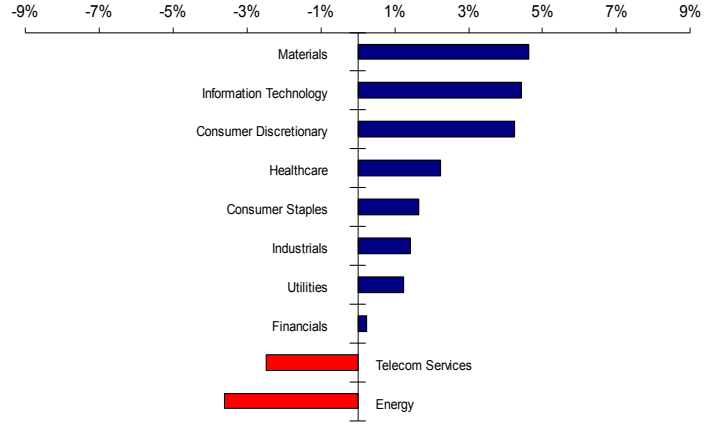
Canadian & U.S. equities

January 2017

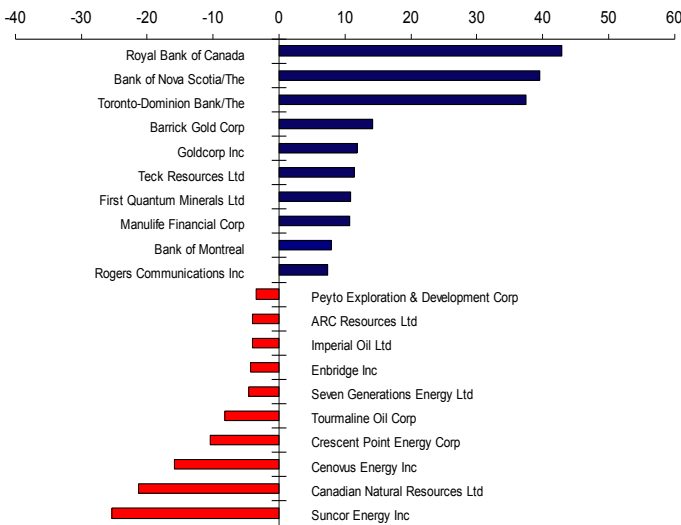
S&P/TSX composite sector movement



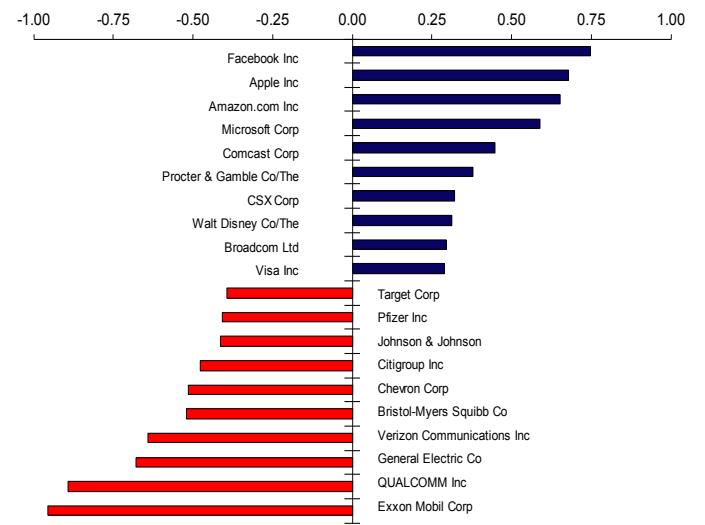
S&P 500 sector movement



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

January 2017

| Release Date | Economic Indicators: Canada | Period | Consensus | Actual | Prior |
|-------------------------------------|-------------------------------------|--------|-----------|--------|--------|
| 01/31/2017 | Gross Domestic Product (m-o-m, SA) | Nov | 0.30% | 0.40% | -0.20% |
| 01/31/2017 | Gross Domestic Product (y-o-y, SA) | Nov | 1.40% | 1.60% | 1.60% |
| Labour market | | | | | |
| 01/06/2017 | Net Change in Employment (ooo, SA) | Dec | -2.5 | 53.7 | 10.7 |
| 01/06/2017 | Participation Rate (SA) | Dec | 65.60% | 65.80% | 65.60% |
| 01/06/2017 | Unemployment Rate (SA) | Dec | 6.90% | 6.90% | 6.80% |
| Housing market | | | | | |
| 01/10/2017 | Housing Starts (ooo, SAAR) | Dec | 190 | 207.0 | 187.3 |
| 01/12/2017 | New Housing Price Index (y-o-y) | Nov | 3.10% | 3.00% | 3.00% |
| 01/16/2017 | Existing Home Sales (m-o-m) | Dec | -- | 2.20% | -5.30% |
| 01/12/2017 | Teranet/National Bank HPI (m-o-m) | Dec | -- | 0.30% | 0.20% |
| Consumer & manufacturing | | | | | |
| 01/20/2017 | Retail Sales (m-o-m, SA) | Nov | 0.50% | 0.20% | 1.20% |
| 01/20/2017 | Retail Sales Less Autos (m-o-m, SA) | Nov | 0.00% | 0.10% | 1.40% |
| 01/19/2017 | Manufacturing Sales (m-o-m, SA) | Nov | 1.00% | 1.50% | -0.60% |
| Trade | | | | | |
| 01/06/2017 | Merchandise Trade (billion, SA) | Nov | -1.60 | 0.53 | -1.02 |
| Prices | | | | | |
| 01/20/2017 | Consumer Price Index (m-o-m) | Dec | 0.00% | -0.20% | -0.40% |
| 01/20/2017 | Consumer Price Index (y-o-y) | Dec | 1.70% | 1.50% | 1.20% |
| 01/31/2017 | Industrial Product Price (m-o-m) | Dec | 0.50% | 0.40% | 0.40% |
| 01/31/2017 | Raw Materials Price Index (m-o-m) | Dec | 2.80% | 6.50% | -1.60% |
| Other indicators | | | | | |
| 01/23/2017 | Wholesale Sales (m-o-m, SA) | Nov | 0.50% | 0.20% | 1.30% |
| 01/06/2017 | Ivey Purchasing Managers Index (SA) | Dec | -- | 60.8 | 56.8 |
| 01/10/2017 | Building Permits (m-o-m, SA) | Nov | -6% | 0% | 11% |

| Release date | Economic indicators: U.S. | Period | Consensus | Actual | Prior |
|-------------------------------------|--------------------------------------|--------|-----------|---------|---------|
| 01/27/2017 | GDP (q-o-q, SAAR) | 4Q A | 2.20% | 1.90% | 3.50% |
| 01/27/2017 | GDP Price Index (q-o-q, SAAR) | 4Q A | 2.10% | 2.10% | 1.40% |
| 01/27/2017 | Core PCE (q-o-q, SAAR) | 4Q A | 1.30% | 1.30% | 1.70% |
| Labour market | | | | | |
| 01/06/2017 | Change in Nonfarm Payrolls (ooo, SA) | Dec | 175.0 | 156.0 | 204.0 |
| 01/06/2017 | Unemployment Rate (SA) | Dec | 4.70% | 4.70% | 4.60% |
| Housing market | | | | | |
| 01/19/2017 | Building Permits (ooo, SAAR) | Dec | 1225.00 | 1210.00 | 1212.00 |
| 01/19/2017 | Housing Starts (ooo, SAAR) | Dec | 1188.00 | 1226.00 | 1102.00 |
| 01/26/2017 | New Home Sales (ooo, SAAR) | Dec | 588.00 | 536.00 | 598.00 |
| 01/24/2017 | Existing Home Sales (million, SAAR) | Dec | 5.52 | 5.49 | 5.65 |
| 01/18/2017 | NAHB Housing Market Index (SA) | Jan | 69 | 67 | 69 |
| 01/03/2017 | Construction Spending (m-o-m, SA) | Nov | 0.50% | 0.90% | 0.60% |
| Consumer & manufacturing | | | | | |
| 01/13/2017 | Advance Retail Sales (m-o-m, SA) | Dec | 0.70% | 0.60% | 0.20% |
| 01/13/2017 | Retail Sales Less Autos (m-o-m, SA) | Dec | 0.50% | 0.20% | 0.30% |
| 01/31/2017 | Consumer Confidence (SA) | Jan | 112.8 | 111.8 | 113.3 |
| 01/27/2017 | U. of Michigan Confidence | Jan F | 98.1 | 98.5 | 98.1 |
| 01/27/2017 | Personal Consumption (q-o-q, SAAR) | 4Q A | 2.50% | 2.50% | 3.00% |
| 01/27/2017 | Durable Goods Orders (m-o-m, SA) | Dec P | 2.50% | -0.40% | -4.80% |
| 01/06/2017 | Factory Orders (m-o-m, SA) | Nov | -2.30% | -2.40% | 2.80% |
| Trade | | | | | |
| 01/12/2017 | Import Price Index (m-o-m) | Dec | 0.70% | 0.40% | -0.20% |
| 01/12/2017 | Import Price Index (y-o-y) | Dec | 1.80% | 1.80% | 0.10% |
| 01/06/2017 | Trade Balance (billion, SA) | Nov | -45.4 | -45.2 | -42.4 |
| Prices | | | | | |
| 01/18/2017 | Consumer Price Index (m-o-m, SA) | Dec | 0.30% | 0.30% | 0.20% |
| 01/18/2017 | Consumer Price Index (y-o-y) | Dec | 2.10% | 2.10% | 1.70% |
| 01/18/2017 | CPI Core Index (SA) | Dec | 249.75 | 249.93 | 249.36 |
| 01/30/2017 | PCE Deflator (y-o-y, SA) | Dec | 1.70% | 1.60% | 1.40% |
| Other indicators | | | | | |
| 01/03/2017 | ISM Manufacturing Index (SA) | Dec | 53.8 | 54.7 | 53.5 |
| 01/31/2017 | Chicago Purchasing Manager Index | Jan | 55.0 | 50.3 | 53.9 |
| 01/19/2017 | Philadelphia Fed Index | Jan | 15.3 | 23.6 | 19.7 |
| 01/26/2017 | Leading Indicators (m-o-m) | Dec | 0.50% | 0.50% | 0.10% |
| 01/13/2017 | Business Inventories (m-o-m, SA) | Nov | 0.60% | 0.70% | -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 – January 2017

| Increases | | | | |
|------------------------------------|-----------------|---------------|-------------------|----------|
| Company | \$ Change | | Ex-Date | % Change |
| Enbridge Inc. | Prior: \$0.5300 | New: \$0.5830 | February 13, 2017 | 10.0% |
| Algonquin Power & Utilities Corp. | Prior: \$0.1059 | New: \$0.1165 | March 29, 2017 | 10.0% |
| Metro Inc. | Prior: \$0.1400 | New: \$0.1625 | February 13, 2017 | 16.1% |
| Canadian National Railway Co. | Prior: \$0.3750 | New: \$0.4125 | March 10, 2017 | 10.0% |
| Canadian Utilities Ltd. | Prior: \$0.3250 | New: \$0.3575 | February 2, 2017 | 10.0% |
| Atco Ltd. | Prior: \$0.2850 | New: \$0.3275 | March 8, 2017 | 14.9% |
| Enbridge Income Fund Holdings Inc. | Prior: \$0.1555 | New: \$0.1711 | January 27, 2017 | 10.0% |

| Decreases | | | | |
|------------------------------------|-----------------|---------------|------------------|----------|
| Company | \$ Change | | Ex-Date | % Change |
| Canadian Apartment Properties REIT | Prior: \$0.1042 | New: \$0.1042 | January 27, 2017 | -0.01% |

Source: Bloomberg



**Wealth Management
Dominion Securities**

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