RBC Dominion Securities Inc.

Wealth Management
Dominion Securities

Portfolio Advisory Group | September 2017

Kirkpatrick Wealth Management of RBC Dominion Securities
RBC Dominion Securities

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What moved the markets

North American bond yields and equity markets moved higher in September, driven by strong economic data and central bank actions. The Bank of Canada raised rates for a second time this year and the Federal Reserve hinted that it may raise interest rates for a third time in 2017 at its December meeting. It also announced it would begin to shrink the size of its balance sheet beginning in October.

The Bank of Canada raised its overnight interest rate to 1%, with this 25 bps hike coming just eight weeks after it made its first rate increase in seven years. Canadian bond yields and the Canadian dollar surged to multi year highs following the rate hike, as the market was only pricing in a ~40% probability of an interest rate increase prior to the release of the BoC statement. The statement concluded on a cautionary note which came into great focus later in the month. In the statement, the BoC noted "close attention will be paid to the sensitivity of the economy to higher interest rates" and this is a phrase BoC Governor Poloz repeated in late-September in his first public comments since the press conference that followed the July rate hike. In the same speaking engagement, Poloz outlined that the BoC was "particularly data dependent", had no pre-determined path for interest rates and would feel their way "cautiously" as the economy approaches full capacity. These comments caused bond yields and the Canadian dollar to retreat from the multi-year highs.

The US Federal Reserve moved markets as well, but unlike the BoC, the news was more about the lens the FOMC provided into potential future policy actions. The Federal Reserve left Fed fund rates unchanged between 1% and 1.25% and formally announced the beginning of balance sheet unwinding, which will commence at the beginning of October. They will begin to shrink the $4.5 trillion balance sheet that was amassed during the three rounds of quantitative easing. The Fed will begin allowing $6 billion in Treasury securities and $4 billion in mortgage back securities (MBS) to run off the balance sheet and the monthly caps will increase over time. The FOMC also reiterated a projected path of interest rate hikes that entails four rate hikes by the end of 2018. Markets had only been pricing in a single 25 bps hike over this time period and 2-year U.S. government yields traded at the highest level since October 2008 to end the month at 1.48% as shorter-term yields adjusted to the Fed's forecast. With the move higher in U.S. yields, gold had its largest monthly decline for the year, declining 3.2% to end the month at ~$1279 per oz.

All indices and figures priced in local currency as at September 30, 2017 (unless otherwise stated). For important disclosures, see page 10.

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Equity Market Update

Equity markets were mixed in North America, but mostly positive in September. The S&P/TSX moved up 3.1%, largely driven by the 7.7% gain in the Energy sector. However, the Materials and Utilities sectors offset gains by -3.8% and -2.0% respectively.

In the U.S., the S&P 500 closed up 2.1%, with almost all sectors ending the month in positive territory. The Energy sector led the U.S. markets with a strong 9.9% rally followed by Financials up 5.1%. The Consumer Staples and Utilities sectors were the only ones closing in the red, down 0.9% and 2.7%, respectively.

Fixed Income-Specific Developments

Canadian economic data lost some of its recent momentum, but remained solid. The economy added 22,200 jobs in August, slightly better than the 15,000 job gain expected by economists. The unemployment rate also declined to 6.2%, the lowest rate since October 2008. The monthly gain was driven by a 110,400 increase in part time jobs while 88,100 full time jobs were lost, more than reversing the report in July where full time jobs were the main contributor. Another positive data point was wage growth, which accelerated at its fastest pace in 10 months with average hourly pay rising 1.7% year over year. Governor Poloz in his speech in late September mentioned that the BoC continues to see remaining slack in wage growth despite it coming off its lows. The National Balance Accounts report published for the 2nd quarter showed a moderate decline in household net worth, resulting from a sharp increase in consumer credit growth. This trend suggests the ability of households to absorb higher interest rates continued to deteriorate. Canadian CPI rose 0.1% in August, which was lower than consensus estimates of a 0.2% gain. On a year over year basis, inflation was also lower than expected, reported at 1.4% lower than the 1.5% forecast by economists. Two out of the three core inflation measures moved 0.1% higher in August with the average of all three measures rising for a third consecutive month to 1.53% from 1.47%. Canadian retail sales rose 0.4% month over month in July to $45.9 billion, above expectations for a 0.2% increase. Total retail sales are 7.8% higher in value since July of last year. GDP growth stalled in July, ending a nine month growth streak, reported at 0.0% lower than 0.1% month over month consensus estimate. Despite the softer economic data, the S&P/TSX Index rallied 2.7% in September, the largest monthly gain in the index since May 2016.

South of the border, economic data were mostly better than expected. The nonfarm payroll report showed that the U.S. economy added 156,000 jobs in August, falling short of the consensus estimate of 180,000 jobs being added. The unemployment rate also increased to 4.4%. ISM manufacturing index was a bright spot, increasing to 58.8 in August, which was a six year high and above the 56.3 recorded in July. Headline CPI also topped expectations, with the August reading coming in at 1.9% year over year, above the consensus estimate of 1.8%. The core PCE price Index on the other hand rose by 1.3% year over year, the slowest level of growth in almost two years and much less than the Fed's 2% target. For the second meeting in a row, the Fed lowered its estimate of the unemployment rate, with its median projection for 2018 and 2019 hitting just 4.1%, which would be the lowest since the economic cycle of the early 2000's. The committee also lowered their 2018 inflation median forecast from 2% down to 1.9%, indicating that the Fed is beginning to accept the reality that low inflation may actually be a longer term trend rather than transitory. Retail sales unexpectedly declined by 0.2% month over month in August, lower than the 0.1% increase expected by economists. Second quarter annualized GDP increased 3.1% and was the fastest pace of growth since the first quarter in 2015. U.S. Equity markets continued to strengthen and ended the month near new record highs.

Number crunching

Equity indices*	Month	YTD*
S&P/TSX Composite Index TR	3.1%	4.4%
Dow Jones Industrial Average TR	2.2%	15.5%
S&P 500 Index TR	2.1%	14.2%
NASDAQ Composite Index TR	1.1%	21.7%
MSCI EAFE TR (USD)	2.5%	20.5%
MSCI World TR (USD)	2.3%	16.5%

S&P/TSX sector performance*	Month	YTD*
S&P/TSX Financials TR	3.9%	7.2%
S&P/TSX Energy TR	7.7%	-7.6%
S&P/TSX Materials TR	-3.8%	2.5%
S&P/TSX Industrials TR	3.7%	14.7%
S&P/TSX Consumer Discretionary TR	5.6%	17.4%
S&P/TSX Telecom Services TR	-0.2%	10.1%
S&P/TSX Information Technology TR	2.8%	12.9%
S&P/TSX Consumer Staples TR	-0.1%	1.5%
S&P/TSX Utilities TR	-2.0%	7.9%
S&P/TSX Healthcare TR	5.3%	-8.5%

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

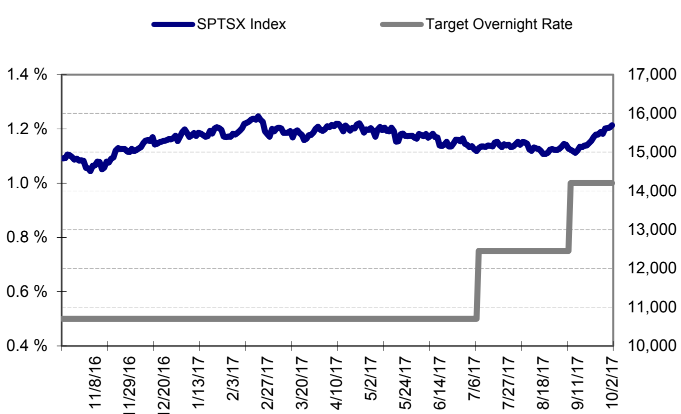
Currencies (in Canadian dollars)	Exchange	Month	YTD*
U.S. Dollar	1.2472	-0.1%	-7.2%
Euro	1.4736	-0.9%	4.3%
British Pound	1.6712	3.6%	0.8%
Japanese Yen	0.0111	-2.4%	-3.5%

Currencies (one Canadian dollar)	Exchange	Month	YTD*
U.S. Dollar	0.8019	0.1%	7.8%
Euro	0.6788	0.9%	-4.0%
British Pound	0.5986	-3.4%	-0.7%
Japanese Yen	90.2160	2.4%	3.7%

Commodities (US$)	Spot price	Month	YTD*
Crude Oil (WTI per barrel)	$51.67	9.4%	-3.8%
Natural Gas (per million btu)	$3.01	-1.1%	-19.3%
Gold (per ounce)	$1,280.15	-3.1%	11.1%
Silver (per ounce)	$16.65	-5.4%	4.6%
Copper (per pound)	$2.92	-4.8%	16.5%
Nickel (per pound)	$4.72	-11.3%	4.5%
Aluminum (per pound)	$0.94	-0.9%	22.1%
Zinc (per pound)	$1.43	0.5%	22.7%

*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



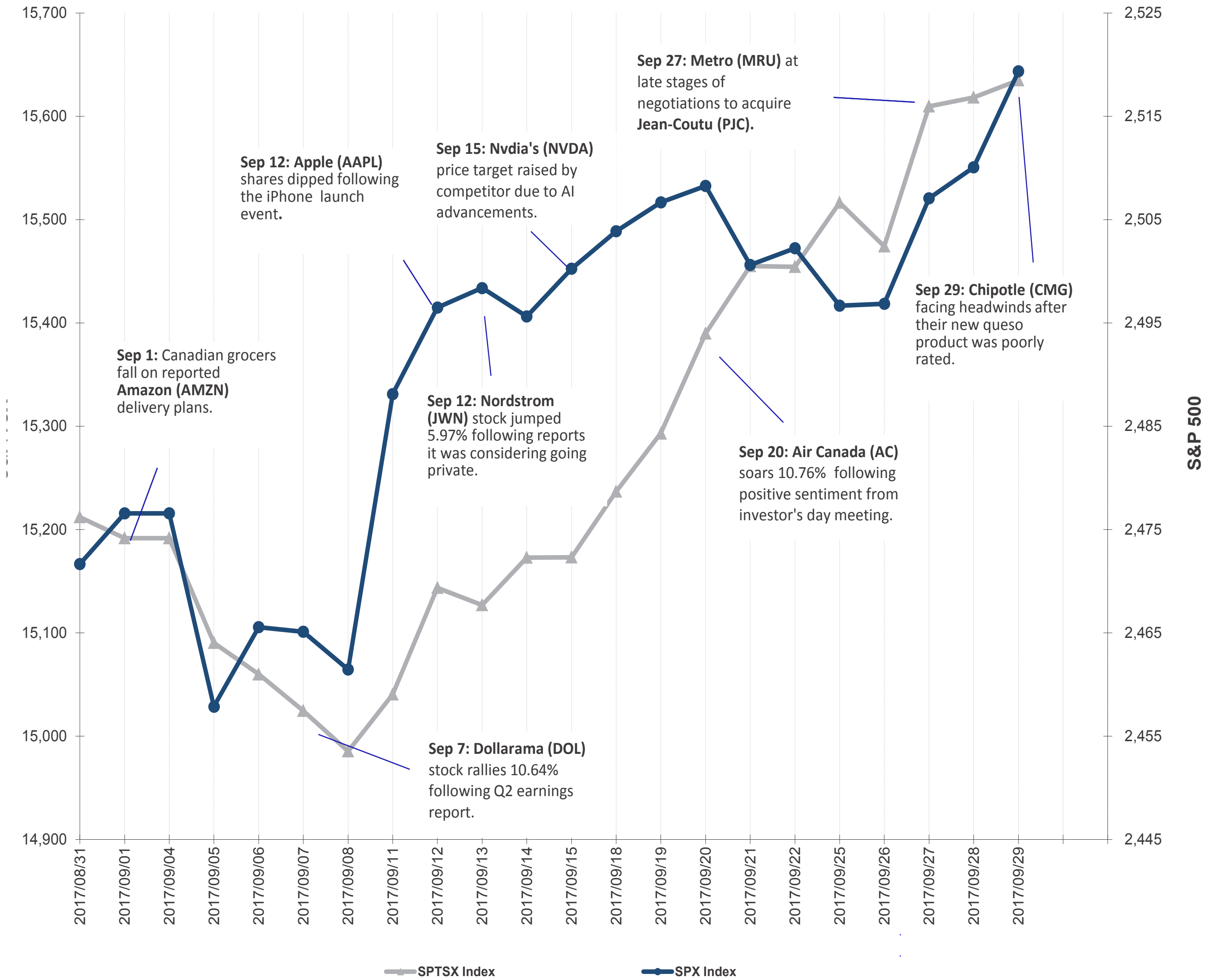
Source: RBC Wealth Management, Bloomberg

Global Developments

In Europe, the European Central Bank (ECB) decided to maintain a pace of €60 billion monthly bond purchases as part of its quantitative easing program. The ECB also held key interest rates steady, notably the deposit rate at 0.40%. Growth remained robust in August with IHS Markit Composit PMI for the euro zone reported at 55.7 in August, slightly below an estimate of 55.8. Services PMI on the other hand declined to a seven month low of 54.7 from 55.4 in July. Inflation in the region rose at an annual rate of 1.5% in September, slightly below the consensus estimate of 1.6%. The European Central Bank revised their forecasts for inflation lower, reflecting the impact of the 12.5% appreciation in the Euro versus the US Dollar year-to-date. The ECB forecast for inflation is now expected to be 1.6% year over year vs. previous expectation of 1.7% year over year in Q4 2019. Their forecast for growth in 2018 and 2019 were left unchanged while they upgraded their growth forecast for 2017 up to 2.2% reflecting the better than expected growth experienced this year. In the U.K., the Bank of England also held rates steady, although the majority of MPC members from the latest MPC minutes believe a withdrawal of some monetary stimulus is appropriate in the next few months. The market is now pricing in a 25ps increase in rates by February 2018 and another hike by mid-2018. Prior to the MPC minutes, the first rate hike wasn't priced in until the thirdquarter of 2019. For its asset purchase program, the BOE kept both the government treasury stock and corporate bond targets unchanged at £435bn and £10bn respectively. The British pound rallied 3.5% through the month and traded at a 15-month high in mid-September.

North American equity highlights

September 2017

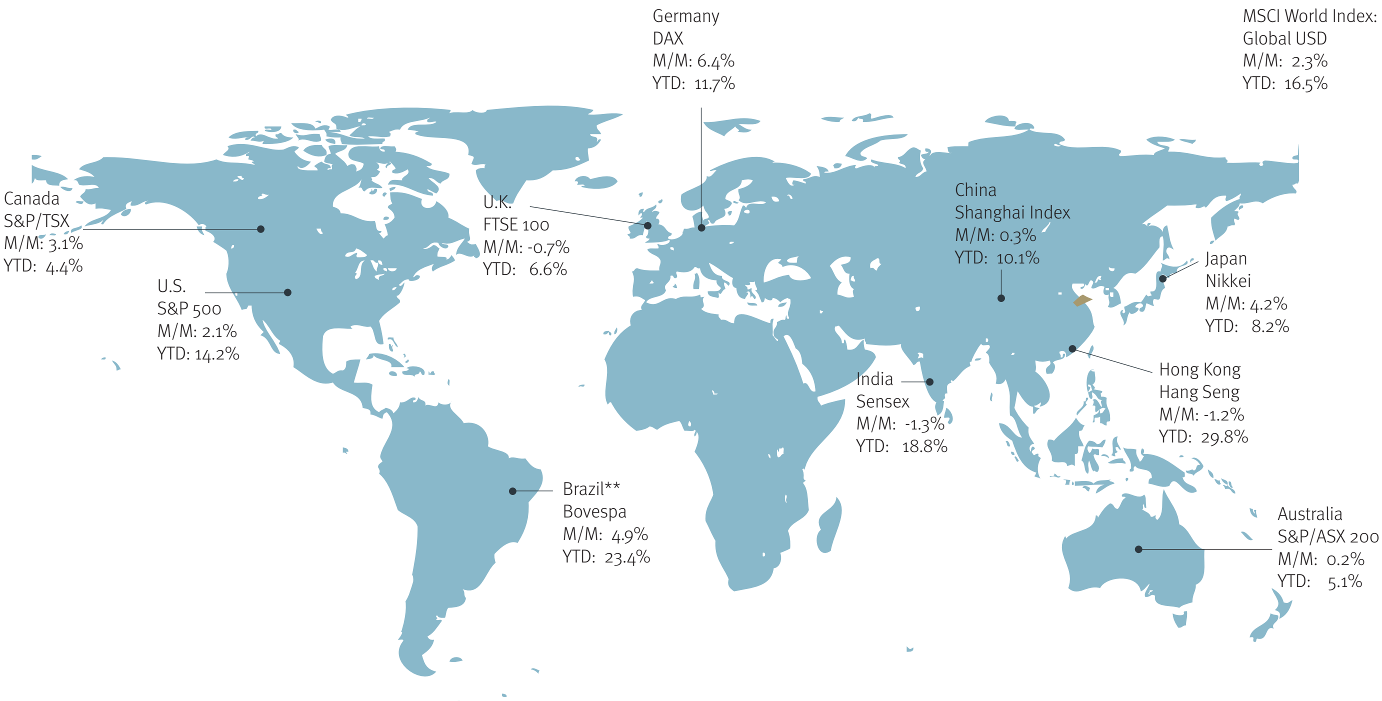


[1]Bloomberg [2]RBC Capital Markets Pricing Data
Source: Bloomberg

World markets

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

For the month of September, most global indices ended in positive territory. In the Americas, the S&P 500 and Brazil's Bovespa rose by 2.1% and 4.9%, respectively while the S&P/TSX rose by 3.1%. In Europe, Germany' DAX moved higher by 6.4% while the U.K.'s FTSE moved lower by 0.7%, respectively. In Asia, China's Shanghai Index and Hong Kong's Hang Seng closed the month down -0.3% and -1.2%, along with India's Sensex moving down -1.3%. Japan's Nikkei moved higher by 4.2% and Australia's S&P/ASX 200 rose higher by 0.2%. Overall, the MSCI World Index increased by 16.5% YTD.



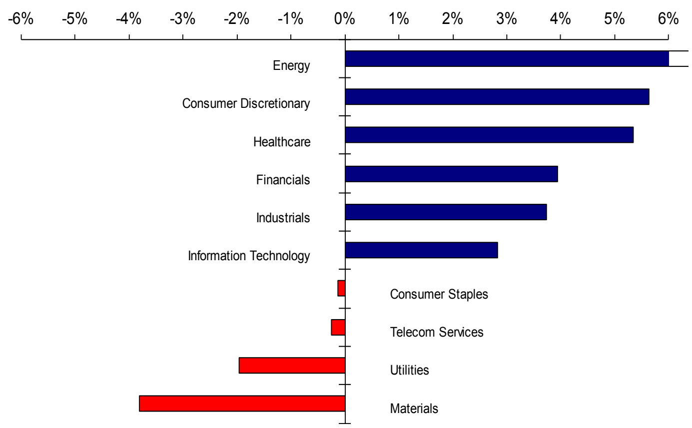
All returns are on a total return basis unless otherwise noted. All returns calculated in local currency except for MSCI World
** These indices are calcuated on a price return basis

Source: Bloomberg, RBC Wealth Management, 09/30/17

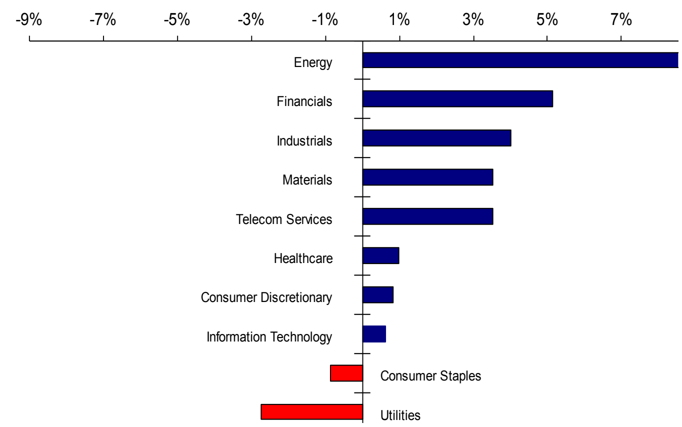
Canadian & U.S. equities

September 2017

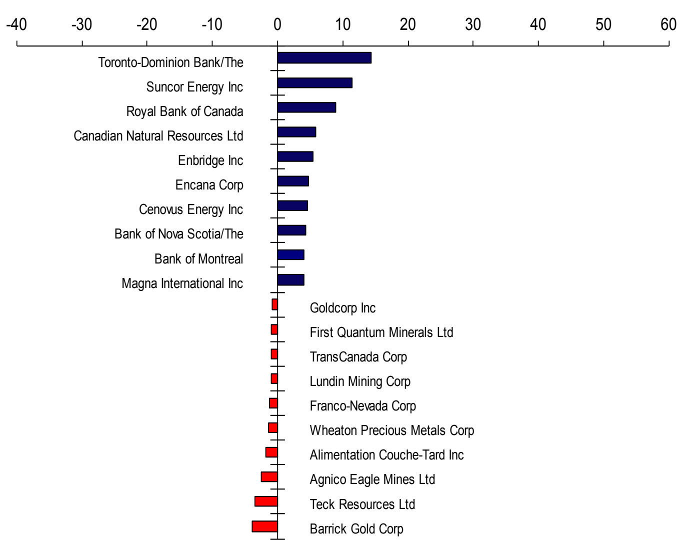
S&P/TSX composite sector movement



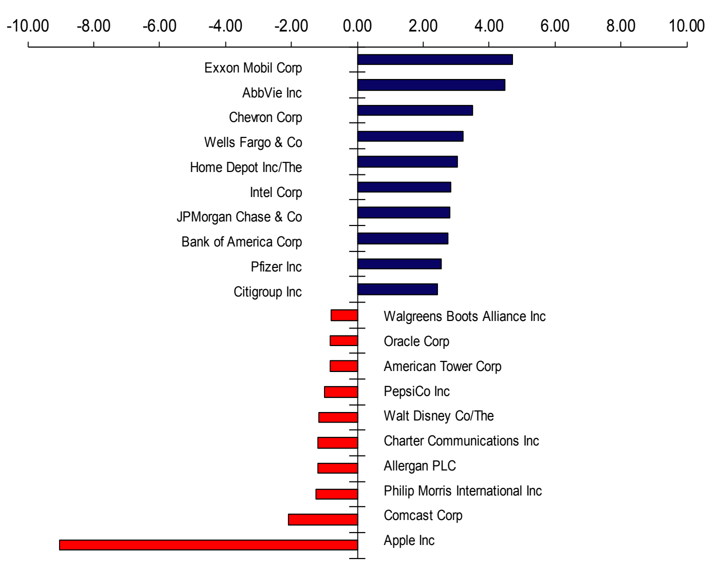
S&P 500 sector movement



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

September 2017

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
08/31/2017	Gross Domestic Product (m-o-m, SA)	Jun	0.10%	0.30%	0.60%
08/31/2017	Gross Domestic Product (y-o-y, SA)	Jun	4.10%	4.30%	4.70%
	Labour market				
09/08/2017	Net Change in Employment (000, SA)	Aug	15.0	22.2	10.9
09/08/2017	Participation Rate (SA)	Aug	--	65.70%	65.70%
09/08/2017	Unemployment Rate (SA)	Aug	6.30%	6.20%	6.30%
	Housing market				
09/11/2017	Housing Starts (000, SAAR)	Aug	216	223.2	222.0
09/14/2017	New Housing Price Index (y-o-y)	Jul	--	3.80%	3.90%
09/15/2017	Existing Home Sales (m-o-m)	Aug	--	1.30%	-2.10%
09/13/2017	Teranet/National Bank HPI (m-o-m)	Aug	--	0.60%	2.00%
	Consumer & manufacturing				
09/22/2017	Retail Sales (m-o-m, SA)	Jul	0.20%	0.40%	0.00%
09/22/2017	Retail Sales Less Autos (m-o-m, SA)	Jul	0.40%	0.20%	0.40%
09/19/2017	Manufacturing Sales (m-o-m, SA)	Jul	-1.90%	-2.60%	-1.90%
	Trade				
09/06/2017	Merchandise Trade (billion, SA)	Jul	-3.30	-3.04	-3.76
	Prices				
09/22/2017	Consumer Price Index (m-o-m)	Aug	0.20%	0.10%	0.00%
09/22/2017	Consumer Price Index (y-o-y)	Aug	1.50%	1.40%	1.20%
09/29/2017	Industrial Product Price (m-o-m)	Aug	0.50%	0.30%	-1.60%
09/29/2017	Raw Materials Price Index (m-o-m)	Aug	0.30%	1.00%	-0.90%
	Other indicators				
09/21/2017	Wholesale Sales (m-o-m, SA)	Jul	-0.70%	1.50%	-0.60%
09/07/2017	Ivey Purchasing Managers Index (SA)	Aug	--	56.3	60
09/07/2017	Building Permits (m-o-m, SA)	Jul	-2%	-4%	4%

Release date	Economic indicators: U.S.	Period	Consensus	Actual	Prior
09/28/2017	GDP (q-o-q, SAAR)	2Q T	3.00%	3.10%	3.00%
09/28/2017	GDP Price Index (q-o-q, SAAR)	2Q T	1.00%	1.00%	1.00%
09/28/2017	Core PCE (q-o-q, SAAR)	2Q T	0.90%	0.90%	0.90%
	Labour market				
09/01/2017	Change in Nonfarm Payrolls (000, SA)	Aug	180.0	156.0	189.0
09/01/2017	Unemployment Rate (SA)	Aug	4.30%	4.40%	4.30%
	Housing market				
09/19/2017	Building Permits (000, SAAR)	Aug	1220.00	1300.00	1230.00
09/19/2017	Housing Starts (000, SAAR)	Aug	1174.00	1180.00	1190.00
09/26/2017	New Home Sales (000, SAAR)	Aug	585.00	560.00	580.00
09/20/2017	Existing Home Sales (million, SAAR)	Aug	5.45	5.35	5.44
09/18/2017	NAHB Housing Market Index (SA)	Sep	67	64	67
09/01/2017	Construction Spending (m-o-m, SA)	Jul	0.50%	-0.60%	-0.80%
	Consumer & manufacturing				
09/15/2017	Advance Retail Sales (m-o-m, SA)	Aug	0.10%	-0.20%	0.30%
09/15/2017	Retail Sales Less Autos (m-o-m, SA)	Aug	0.50%	0.20%	0.40%
09/26/2017	Consumer Confidence (SA)	Sep	120.0	119.8	120.4
09/01/2017	U. of Michigan Confidence	Aug F	97.5	96.8	97.6
09/28/2017	Personal Consumption (q-o-q, SAAR)	2Q T	3.30%	3.30%	3.30%
09/05/2017	Durable Goods Orders (m-o-m, SA)	Jul F	-2.90%	-6.80%	-6.80%
09/05/2017	Factory Orders (m-o-m, SA)	Jul	-3.30%	-3.30%	3.20%
	Trade				
09/19/2017	Import Price Index (m-o-m)	Aug	0.40%	0.60%	-0.10%
09/19/2017	Import Price Index (y-o-y)	Aug	2.20%	2.10%	1.20%
09/06/2017	Trade Balance (billion, SA)	Jul	-44.7	-43.7	-43.5
	Prices				
09/14/2017	Consumer Price Index (m-o-m, SA)	Aug	0.30%	0.40%	0.10%
09/14/2017	Consumer Price Index (y-o-y)	Aug	1.80%	1.90%	1.70%
09/14/2017	CPI Core Index (SA)	Aug	252.34	252.54	251.91
08/31/2017	PCE Deflator (y-o-y, SA)	Jul	1.40%	1.40%	1.40%
	Other Indicators				
09/01/2017	ISM Manufacturing Index (SA)	Aug	56.5	58.8	56.3
08/31/2017	Chicago Purchasing Manager Index	Aug	58.5	58.9	58.9
09/21/2017	Philadelphia Fed Index	Sep	17.1	23.8	18.9
09/21/2017	Leading Indicators (m-o-m)	Aug	0.30%	0.40%	0.30%
09/15/2017	Business Inventories (m-o-m, SA)	Jul	0.20%	0.20%	0.50%

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 – September 2017

Increases				
Company	$ Change		Ex-Date	% Change
West Fraser Timber Co Ltd.	Prior: $0.0700	New: $0.1100	September 25, 2017	57.14%

Source: Bloomberg

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