THE GLOBAL INVESTMENT OUTLOOK

RBC GAM Investment Strategy Committee

SUMMER 2018

Global Asset Management

THE RBC GAM INVESTMENT STRATEGY COMMITTEE

The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC GAM. The Committee regularly receives economic and capital markets related input from internal and external sources. Important guidance is provided by the Committee's regional equity advisors (North America, Europe, Asia, Emerging Markets) and from the Global Fixed Income & Currencies sub-committee. From this, the Committee builds a detailed global investment forecast looking one year forward.

The Committee's view includes an assessment of global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits and stock prices.

From this global forecast, the RBC GAM Investment Strategy Committee develops specific guidelines that can be used to manage portfolios.

These include:

- the recommended mix of cash, fixed income instruments, and equities
- the recommended global exposure of fixed income and equity portfolios
- the optimal term structure for fixed income investments
- the suggested sector and geographic make-up within equity portfolios
- the preferred exposure to major currencies

Results of the Committee's deliberations are published quarterly in *The Global Investment Outlook*.

CONTENTS

EXECUTIVE SUMMARY

Eric Savoie, MBA, CFA
Senior Analyst, Investment Strategy
RBC Global Asset Management Inc.

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management Inc.

Financial markets were more volatile in the first half of 2018 as enthusiasm following U.S. tax cuts was met with concerns around protectionism, higher inflation and tighter financial conditions. Although economic growth has slowed, it remains quite good by post-crisis standards.

Solid economic growth in sight

The global economy is being buoyed by a variety of tailwinds. The most prominent is fiscal stimulus which, while mostly a U.S. story, could extend to other developed regions such as the U.K., Japan and Germany over the next few years. Supporting our above-consensus view on developed-market growth are elevated levels of optimism among businesses and consumers, the diminishing drag from the financial crisis and a boost from many years of ultra-low interest rates. In emerging markets, we expect growth to be a bit below consensus but double that in the developed world. Our forecast is for the global economy to expand by 4.0% in both 2018 and 2019, which would be the fastest rate since 2010.

A variety of risks could impact our positive view

The key risks to our outlook relate to escalating protectionist actions, the aging business cycle and tightening financial conditions. Also on the list are geopolitical risks, particularly given the unpredictable nature of U.S. foreign policy, as it relates to negotiations with North Korea and sanctions against Iran. In Europe, rising nationalist sentiment and political challenges in Italy and Spain are concerning. While the list of threats is constantly evolving, some issues could turn out more positive than anticipated. These include the possibility that the speed limit on global growth rises more than we had expected, that more countries implement fiscal stimulus, and that structural reforms in Japan deliver significantly more growth than we had forecast.

Expecting further U.S.-dollar strength

The U.S. dollar has resumed its upward trend after declining for more than a year. The trade-weighted greenback has risen by 5% since early April and, in our view, has the potential for more upside. Three main factors support further dollar strength. First, the dollar has yet to reach excessive valuation levels in the current cycle. Second, U.S. interest rates are more attractive than in other developed regions and are expected to increase at a faster pace. Third, the U.S. is enjoying better economic momentum relative to other major economies. Our 12-month forecasts suggest the dollar will be strongest against the British pound and the Canadian dollar, while the euro and yen should fare better. With these forecasts, we remain much more bullish on the U.S. dollar than the consensus.

Firming inflation appears manageable

Inflation is transitioning to normal levels after an extended period of too low inflation or even deflation. A business cycle in its later stages and a rapid increase in oil prices could push inflation briefly towards 3.0% in the near term. However, a surge in consumer prices is unlikely to be sustained into 2019 as other forces indicate inflation should be in the range of 2.0% to 2.5%. The increase in oil prices in 2018 versus 2017 is also not expected to repeat next year, and a number of structural factors related to demographics, globalization and technological change will continue to suppress developed-world inflation. In the end, we look for rising developed-world inflation and hold a slightly above-consensus view, but not to the extent that inflation is set to become a problem.

Central banks determined to dial back accommodation

Moderate growth and firming inflation will encourage central banks to continue dialing back accommodative monetary policies. The U.S. Federal Reserve is the furthest along and is now in the process of shrinking its balance sheet. The Bank of Canada and the Bank of England have also joined the tightening trend, but less so. Even with these actions, policy rates remain historically low. This is partly because the European Central Bank and Bank of Japan still have negative interest rates, but also because today's high debt levels mean neutral policy rates are now lower than they've been in the past. Rate hikes will indeed act as a headwind to economic growth, but gradual central-bank tightening is justified in this environment.

Rising bond yields could grind on fixed-income returns for many years

Our model for the U.S. 10-year bond suggests an upward bias to yields over the long term, but also that adjustments can be gradual and distributed over an extended period. The current yield on the U.S. 10-year Treasury is close to our modelled level of equilibrium, but that level increases over time paced by an increase in real (after-inflation) interest rates. The financial crisis and unorthodox central-bank policy reduced real interest rates to levels that were unsustainably low and investors are now starting to demand a higher real return on their savings as memories of the crisis fade. Our models assume real interest rates ultimately revert to their 40-year average, with the increase being evenly distributed over many years. A sustained rise in bond yields, even if gradual, would act as a headwind for sovereign-bond investments and lead to low, or even negative, total returns.

Bull market in stocks can resume as long as earnings come through

Global equities have fluctuated significantly in the past quarter and were essentially directionless as rapid corporate profit growth was offset by contracting price-to-earnings ratios. Expanding valuations have been a significant source of gains for stocks during this long bull market, but sustained earnings growth will be critical to drive stocks higher from here. Earnings have indeed been growing rapidly, helped in part by the tax cuts. In the first quarter, earnings grew 26% on a year-over-year basis and revenues climbed 8%. Analysts expect the positive trend in earnings to persist and our scenario analysis suggests a reasonable outcome is for stocks to deliver double-digit returns this year and next. We acknowledge, however, that any deterioration in the outlook for earnings would leave markets vulnerable to correction given currently demanding valuations.

Maintaining modest underweight bonds/ overweight stocks

Balancing the risks and opportunities in the short and long term, we feel it is still appropriate for a balanced investor to maintain a bias toward risk assets. Solid global growth should support higher interest rates and corporate profits. The former will act as a headwind to bond returns and the latter should support equity prices. However, given the maturation of the business cycle and the other potential risks to our base case, we feel it is prudent to reduce the degree of risk-taking in our portfolios. We remain underweight fixed income, but less so than at previous points in the cycle, since bonds should serve as ballast in a balanced portfolio if equities run into turbulence or the economy downshifts. We have also been reducing our equity weight from the substantial overweights held in prior quarters/years to more modest levels. In our view, the fact that our indicators suggest little chance of recession over our 1-year forecast horizon, combined with the potential upside in corporate profits, still justifies a mild overweight in stocks. For a balanced, global investor, we currently recommend an asset mix of 58% equities (strategic neutral position: 55%) and 40% fixed income (strategic neutral position: 43%), with the balance in cash.

ECONOMIC & CAPITAL MARKETS FORECASTS

Economic forecast (RBC GAM Investment Strategy Committee)

	UNITED STATES		CANADA		EUROPE		UNITED KINGDOM		JAPAN		CHINA		EMERGING MARKETS*	
	Summer 2018	Change from Spring 2018	Summer 2018	Change from Spring 2018	Summer 2018	Change from Spring 2018	Summer 2018	Change from Spring 2018	Summer 2018	Change from Spring 2018	Summer 2018	Change from Spring 2018	Summer 2018	Change from Spring 2018
REAL GDP														
2017A	2.27%		3.00%		2.50%		1.85%		1.71%		6.86%		5.41%	
2018E	3.00%	N/C	1.75%	N/C	2.25%	N/C	1.50%	N/C	1.50%	N/C	6.50%	0.25	5.50%	N/C
2019E	2.75%	N/C	1.50%	N/C	1.75%	N/C	1.50%	N/C	1.25%	N/C	6.25%	0.25	5.50%	N/C
CPI														
2017A	2.14%		1.61%		1.53%		2.68%		0.44%		1.52%		2.51%	
2018E	2.50%	0.25	2.25%	N/C	1.50%	N/C	2.50%	(0.25)	1.25%	N/C	2.25%	N/C	3.25%	N/C
2019E	2.25%	N/C	2.00%	N/C	1.75%	N/C	2.25%	(0.25)	1.50%	0.25	2.50%	N/C	3.25%	N/C

A = Actual E = Estimate *GDP Weighted Average of China, India, South Korea, Brazil, Mexico and Russia.

Targets (RBC GAM Investment Strategy Committee)

	MAY 2018	FORECAST MAY 2019	CHANGE FROM SPRING 2018	1-YEAR TOTAL RETURN ESTIMATE* (%)
CURRENCY MARKETS AGAINST USD				
CAD (USD–CAD)	1.30	1.35	N/C	(4.5)
EUR (EUR–USD)	1.17	1.17	N/C	(2.7)
JPY (USD–JPY)	108.81	102.00	(3.00)	4.1
GBP (GBP–USD)	1.33	1.25	0.05	(7.6)
FIXED INCOME MARKETS				
U.S. Fed Funds Rate	1.75	2.50	0.13	N/A
U.S. 10-Year Bond	2.86	3.00	N/C	1.7
Canada Overnight Rate	1.25	1.75	N/C	N/A
Canada 10-Year Bond	2.24	2.50	N/C	0.0
Eurozone Deposit Facility Rate	-0.40	-0.40	N/C	N/A
Germany 10-Year Bund	0.34	0.75	(0.25)	(5.9)
U.K. Base Rate	0.50	0.75	N/C	N/A
U.K. 10-Year Gilt	1.23	1.75	N/C	(3.5)
Japan Overnight Call Rate	-0.05	-0.10	N/C	N/A
Japan 10-Year Bond	0.04	0.10	N/C	(0.6)
EQUITY MARKETS				
S&P 500	2705	2925	25	10.1
S&P/TSX Composite	16062	16750	500	7.2
MSCI Europe	129	139	N/C	11.2
FTSE 100	7678	8250	550	11.7
Nikkei	22202	24650	650	13.0
MSCI Emerging Markets	1121	1250	(50)	14.4

*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD.

RECOMMENDED ASSET MIX

Asset mix – the allocation within portfolios to stocks, bonds and cash – should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor's profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter term fluctuations in markets.

Every individual has differing return expectations and tolerances for volatility, so there is no "one size fits all" strategic asset mix. Based on a 40-year study of historical returns[1] and the volatility[2] of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC GAM Investment Strategy Committee publishes a recommended asset mix based on our current view of the economy and return expectations for the major asset classes. These weights are further divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark setting is 55% equities, 43% fixed income, 2% cash.

A tactical range of +/- 15% around the benchmark position allows us to raise or lower exposure to specific asset classes with a goal of tilting portfolios toward those markets that offer comparatively attractive near-term prospects.

This tactical recommendation for the Balanced profile can serve as a guide for movement within the ranges allowed for all other profiles.

The value-added of tactical strategies is, of course, dependent on the degree to which the expected scenario unfolds.

Regular reviews of portfolio weights are essential to the ultimate success of an investment plan as they ensure current exposures are aligned with levels of long-term returns and risk tolerances best suited to individual investors.

Anchoring portfolios with a suitable strategic asset mix, and placing boundaries defining the allowed range for tactical positioning, imposes discipline that can limit damage caused by swings in emotion that inevitably accompany both bull and bear markets.

[1] **Average return:** The average total return produced by the asset class over the period 1978 – 2018, based on monthly results.

[2] **Volatility:** The standard deviation of returns. Standard deviation is a statistical measure that indicates the range around the average return within which 2/3 of results will fall into, assuming a normal distribution around the long-term average.

GLOBAL ASSET MIX

	BENCHMARK POLICY	PAST RANGE	SUMMER 2017	FALL 2017	NEW YEAR 2018	SPRING 2018	SUMMER 2018
CASH	**2.0%**	1.0% – 16%	3.0%	3.0%	3.0%	2.0%	**2.0%**
BONDS	**43.0%**	25.0% – 54.0%	38.0%	39.0%	39.0%	40.0%	**40.0%**
STOCKS	**55.0%**	36.0% – 65.0%	59.0%	58.0%	58.0%	58.0%	**58.0%**

Note: Effective September 1, 2014, we revised our strategic neutral positions within fixed income, lowering the 'neutral' commitment to cash from 5% to 2%, and moving the difference to bonds. This takes advantage of the positive slope of the yield curve which prevails over most time periods, and allows our fixed income managers to shorten duration and build cash reserves whenever a correction in the bond market, or especially an inverted yield curve, is anticipated.

REGIONAL ALLOCATION

GLOBAL BONDS	CWGBI* MAY 2018	PAST RANGE	SUMMER 2017	FALL 2017	NEW YEAR 2018	SPRING 2018	SUMMER 2018
North America	**38.8%**	18% – 44%	44.3%	34.1%	37.1%	43.5%	**43.8%**
Europe	**41.2%**	32% – 56%	34.1%	40.4%	38.1%	36.7%	**36.2%**
Asia	**20.0%**	17% – 35%	21.6%	25.5%	24.7%	19.8%	**20.0%**

Note: Past Range reflects historical allocation from Fall 2002 to present.

GLOBAL EQUITIES	MSCI** MAY 2018	PAST RANGE	SUMMER 2017	FALL 2017	NEW YEAR 2018	SPRING 2018	SUMMER 2018
North America	**61.0%**	51% – 62%	59.9%	59.9%	60.0%	60.0%	**61.5%**
Europe	**20.3%**	19% – 35%	21.3%	20.6%	20.6%	20.2%	**18.5%**
Asia	**11.5%**	9% – 18%	11.4%	12.0%	11.9%	12.4%	**12.5%**
Emerging Markets	**7.3%**	0% – 8.5%	7.5%	7.5%	7.5%	7.5%	**7.5%**

Our asset mix is reported as at the end of each quarter. The mix is fluid and may be adjusted within each quarter, although we do not always report on shifts as they occur. The weights in the table should be considered a snapshot of our asset mix at the date of release of the *Global Investment Outlook*.

GLOBAL EQUITY SECTOR ALLOCATION

	MSCI** MAY 2018	RBC GAM ISC SPRING 2018	RBC GAM ISC SUMMER 2018	CHANGE FROM SPRING 2018	WEIGHT VS. BENCHMARK
Energy	6.57%	5.11%	6.57%	1.46	100.0%
Materials	5.14%	5.24%	6.14%	0.89	119.5%
Industrials	11.45%	11.69%	10.25%	(1.44)	89.5%
Consumer Discretionary	12.81%	13.67%	14.81%	1.14	115.6%
Consumer Staples	8.03%	8.78%	7.03%	(1.75)	87.5%
Health Care	11.73%	13.74%	11.73%	(2.01)	100.0%
Financials	17.65%	19.38%	18.65%	(0.73)	105.7%
Information Technology	18.04%	18.91%	20.04%	1.14	111.1%
Telecom. Services	2.59%	1.69%	0.59%	(1.10)	22.7%
Utilities	2.99%	0.83%	2.49%	1.66	83.3%
Real Estate	3.00%	0.96%	1.70%	0.74	56.7%

*FTSE World Government Bond Index **MSCI World Index   Source: RBC GAM Investment Strategy Committee

At RBC GAM, we have a team dedicated to setting and reviewing the strategic asset mix for all of our multi-asset solutions. With an emphasis on consistency of returns, risk management and capital preservation, we have developed a strategic asset allocation framework for five client risk profiles that correspond to broad investor objectives and risk preferences. These five profiles range from Very Conservative through Balanced to Aggressive Growth.

VERY CONSERVATIVE

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	78%	55-95%	75.0%	75.0%
Total Cash & Fixed Income	80%	65-95%	77.0%	77.0%
Canadian Equities	10%	5-20%	10.8%	11.3%
U.S. Equities	5%	0-10%	6.3%	6.1%
International Equities	5%	0-10%	5.9%	5.6%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	20%	5-35%	23.0%	23.0%

	RETURN	VOLATILITY
40-Year Average	8.6%	5.5%
Last 12 Months	0.8%	3.5%

Very Conservative investors will seek income with maximum capital preservation and the potential for modest capital growth, and be comfortable with small fluctuations in the value of their investments. This portfolio will invest primarily in fixed-income securities, and a small amount of equities, to generate income while providing some protection against inflation. Investors who fit this profile generally plan to hold their investment for the short to medium term (minimum one to five years).

CONSERVATIVE

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	63%	40-80%	59.9%	59.9%
Total Cash & Fixed Income	65%	50-80%	61.9%	61.9%
Canadian Equities	15%	5-25%	15.8%	16.2%
U.S. Equities	10%	0-15%	11.3%	11.2%
International Equities	10%	0-15%	11.0%	10.7%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	35%	20-50%	38.1%	38.1%

	RETURN	VOLATILITY
40-Year Average	8.9%	6.5%
Last 12 Months	2.1%	3.6%

Conservative investors will pursue modest income and capital growth with reasonable capital preservation, and be comfortable with moderate fluctuations in the value of their investments. The portfolio will invest primarily in fixed-income securities, with some equities, to achieve more consistent performance and provide a reasonable amount of safety. The profile is suitable for investors who plan to hold their investment over the medium to long term (minimum five to seven years).

BALANCED

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	43%	20-60%	40.0%	40.0%
Total Cash & Fixed Income	45%	30-60%	42.0%	42.0%
Canadian Equities	19%	10-30%	19.7%	20.0%
U.S. Equities	20%	10-30%	21.2%	21.3%
International Equities	12%	5-25%	12.8%	12.4%
Emerging Markets	4%	0-10%	4.3%	4.3%
Total Equities	55%	40-70%	58.0%	58.0%

	RETURN	VOLATILITY
40-Year Average	9.3%	7.7%
Last 12 Months	4.2%	4.1%

The **Balanced** portfolio is appropriate for investors seeking balance between long-term capital growth and capital preservation, with a secondary focus on modest income, and who are comfortable with moderate fluctuations in the value of their investments. More than half the portfolio will usually be invested in a diversified mix of Canadian, U.S. and global equities. This profile is suitable for investors who plan to hold their investment for the medium to long term (minimum five to seven years).

GROWTH

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	28%	5-40%	24.9%	24.9%
Total Cash & Fixed Income	30%	15-45%	26.9%	26.9%
Canadian Equities	23%	15-35%	23.7%	24.0%
U.S. Equities	25%	15-35%	26.2%	26.3%
International Equities	16%	10-30%	16.8%	16.4%
Emerging Markets	6%	0-12%	6.4%	6.4%
Total Equities	70%	55-85%	73.1%	73.1%

	RETURN	VOLATILITY
40-Year Average	9.5%	9.4%
Last 12 Months	5.6%	4.7%

Investors who fit the **Growth** profile will seek long-term growth over capital preservation and regular income, and be comfortable with considerable fluctuations in the value of their investments. This portfolio primarily holds a diversified mix of Canadian, U.S. and global equities and is suitable for investors who plan to invest for the long term (minimum seven to ten years).

AGGRESSIVE GROWTH

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	0%	0-10%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-20%	2.0%	2.0%
Canadian Equities	32.5%	20-45%	32.2%	32.5%
U.S. Equities	35.0%	20-50%	35.3%	35.5%
International Equities	21.5%	10-35%	21.3%	20.8%
Emerging Markets	9.0%	0-15%	9.2%	9.2%
Total Equities	98%	80-100%	98.0%	98.0%

	RETURN	VOLATILITY
40-Year Average	10.1%	12.0%
Last 12 Months	8.4%	5.9%

Aggressive Growth investors seek maximum long-term growth over capital preservation and regular income, and are comfortable with significant fluctuations in the value of their investments. The portfolio is almost entirely invested in stocks and emphasizes exposure to global equities. This investment profile is suitable only for investors with a high risk tolerance and who plan to hold their investments for the long term (minimum seven to ten years).

CAPITAL MARKETS PERFORMANCE

Milos Vukovic, MBA, CFA
V.P. & Head of Investment Policy
RBC Global Asset Management Inc.

The U.S. dollar rose against all four major currencies during the three-month period ended May 31, 2018, driven by stronger relative domestic growth and interest rates. The greenback climbed 4.4% versus the euro and 3.6% versus the British pound. The U.S. dollar recorded gains of 2.0% against the yen and 1.0% versus the Canadian dollar. For the latest 12-month period, the U.S. dollar declined across the board, falling 4.0% versus the Canadian dollar and 3.9% against the euro. The decline was 3.1% versus the pound and 1.8% versus the yen.

Major global fixed-income markets outside North America fell during the three-month period due mostly to the rise in the U.S. dollar. The FTSE TMX Canada Universe Bond Index, Canada's fixed-income benchmark, dropped 0.3%, and the Barclays Capital Aggregate Bond Index, the U.S. fixed-income benchmark, gained 0.6%. Government-bond markets in Europe and Japan fell 3.8% and 1.5%, respectively, in U.S.-dollar terms, measured by the FTSE WGBI – Europe Index and the FTSE Japanese Government Bond Index.

Global equities were mixed during the three-month period, rising in Canada, the U.S. and the U.K., and falling in other markets due to the strong greenback. The small-cap and mid-cap U.S. benchmarks outperformed their large cap counterparts significantly. The S&P 500 Index rose 0.2%, while the MSCI Europe Index fell 1.8% and the MSCI Japan Index dropped 2.4% in U.S.-dollar terms. The MSCI U.K. rose 3.6%, while the MSCI Germany declined 3.5%. The MSCI France lost 0.9%. Over the 12-month period, the S&P 500 gained 14.4% and the MSCI Japan rose 14.6%. In Europe, the MSCI Germany returned 4.0%, the MSCI France gained 9.5% and the MSCI U.K. returned 8.9%, all in U.S. dollar terms. The S&P/TSX Composite Index gained 3.7% in U.S.-dollar terms during the three months. For the 12-month period, the Canadian benchmark index gained 12.3%.

Over the past year, growth stocks in the U.S. outperformed value stocks. The Russell 3000 Growth Index gained 21.3%, while the Russell 3000 Value Index returned 8.9%.

Just five of the 11 global equity sectors recorded gains in the quarter ending May 31, 2018. The best-performing sector was Energy with a return of 12.7%, followed by Utilities, which rose 4.4%, and Real Estate with a 3.9% gain. The worst-performing sector over the three-month period was Financials, which lost 6.5%, followed by Telecommunication Services and Consumer Staples, which declined 4.9% and 3.3% respectively.

EXCHANGE RATES
Periods ending May 31, 2018

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.2966	1.04	3.15	(4.02)	1.40	4.57
USD–EUR	0.8554	4.36	2.63	(3.91)	(2.06)	2.14
USD–GBP	0.7522	3.56	1.56	(3.08)	4.76	2.71
USD–JPY	108.7850	1.96	(3.45)	(1.77)	(4.30)	1.60

Note: all changes above are expressed in US dollar terms

CANADA
Periods ending May 31, 2018

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE TMX Canada Univ. Bond Index TR	(0.34)	(3.02)	3.16	0.19	(1.56)	0.70	(0.98)	1.59

U.S.
Periods ending May 31, 2018

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE U.S. Government TR	0.63	(1.49)	(0.40)	1.40	1.99	1.27	(4.78)	2.68
Barclays Capital Agg. Bond Index TR	0.61	(1.50)	(0.37)	1.39	1.98	1.66	(4.38)	2.81

GLOBAL
Periods ending May 31, 2018

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE WGBI TR	(1.32)	(1.28)	1.64	2.53	1.36	(0.69)	(2.83)	3.83
FTSE European Government TR	(3.80)	(2.66)	4.06	2.68	1.50	(2.79)	(0.12)	4.12
FTSE Japanese Government TR	(1.54)	4.26	2.81	6.77	0.81	(0.51)	(1.32)	8.26

CANADA
Periods ending May 31, 2018

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P/TSX Composite	3.74	(2.81)	12.26	3.91	3.32	4.83	7.75	5.36
S&P/TSX 60	3.77	(2.84)	12.59	4.49	3.98	4.85	8.07	5.95
S&P/TSX Small Cap	4.50	(4.37)	10.67	3.67	0.93	5.59	6.23	5.12

U.S.
Periods ending May 31, 2018

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P 500 TR	0.19	2.02	14.38	10.97	12.98	1.23	9.79	12.53
S&P 400 TR	4.82	3.05	14.86	10.25	12.17	5.92	10.24	11.79
S&P 600 TR	9.75	8.17	22.72	13.80	14.31	10.89	17.79	15.39
Russell 3000 Value TR	(0.14)	(1.43)	8.85	7.71	10.15	0.90	4.48	9.22
Russell 3000 Growth TR	2.32	6.43	21.32	13.69	15.51	3.39	16.45	15.28
NASDAQ Composite Index TR	2.33	7.80	20.06	13.65	16.58	3.39	15.24	15.24

Note: all rates of return presented for periods longer than 1 year are annualized

Source: Bloomberg/MSCI

GLOBAL
Periods ending May 31, 2018

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	(0.44)	0.48	11.57	7.65	9.40	0.80	7.15	9.04
MSCI EAFE TR *	(1.82)	(1.55)	7.97	4.33	5.93	(0.60)	3.70	5.67
MSCI Europe TR *	(1.80)	(2.58)	4.83	3.37	5.30	(0.59)	0.68	4.71
MSCI Pacific TR *	(1.91)	0.21	13.97	6.30	7.15	(0.70)	9.46	7.67
MSCI UK TR *	3.59	(0.08)	8.93	2.18	4.02	4.87	4.62	3.50
MSCI France TR *	(0.93)	0.87	9.51	8.05	7.37	0.29	5.18	9.44
MSCI Germany TR *	(3.48)	(5.15)	3.95	5.17	6.03	(2.29)	(0.17)	6.53
MSCI Japan TR *	(2.43)	0.51	14.57	6.54	8.29	(1.22)	10.03	7.91
MSCI Emerging Markets TR *	(5.76)	(2.61)	14.03	6.17	4.52	(4.59)	9.51	7.54

GLOBAL EQUITY SECTORS
Periods ending May 31, 2018

	USD					CAD		
Sector: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	12.72	5.30	20.68	3.02	1.13	14.11	15.90	4.35
Materials TR *	(0.62)	(1.52)	17.40	7.65	6.22	0.61	12.75	9.04
Industrials TR *	(2.06)	(1.26)	10.48	9.58	10.18	(0.85)	6.10	11.00
Consumer Discretionary TR *	0.51	4.76	15.57	9.28	11.75	1.75	11.00	10.69
Consumer Staples TR *	(3.26)	(8.41)	(5.84)	3.77	6.09	(2.06)	(9.57)	5.10
Health Care TR *	(0.68)	0.19	6.31	2.34	10.08	0.55	2.10	3.66
Financials TR *	(6.46)	(4.40)	11.53	7.14	8.22	(5.30)	7.11	8.53
Information Technology TR *	2.52	9.98	26.15	18.79	19.32	3.78	21.15	20.33
Telecommunication Services TR *	(4.87)	(9.13)	(6.95)	(0.52)	4.25	(3.70)	(10.64)	0.76
Utilities TR *	4.39	(1.42)	(1.45)	4.39	6.12	5.68	(5.35)	5.74
Real Estate TR *	3.89	(2.16)	4.60	NA	NA	5.18	0.45	NA

* Net of taxes   Note: all rates of return presented for periods longer than 1 year are annualized   Source: Bloomberg/MSCI

GLOBAL INVESTMENT OUTLOOK

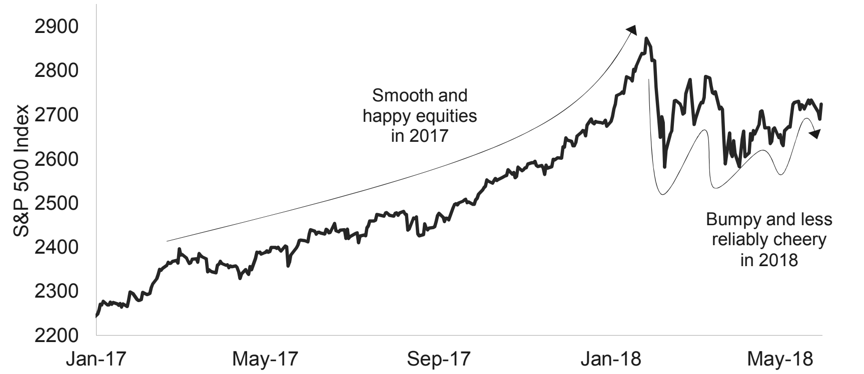
Macro and markets: Down, but not out

Eric Lascelles
Chief Economist
RBC Global Asset Management Inc.

Eric Savoie, MBA, CFA
Senior Analyst, Investment Strategy
RBC Global Asset Management Inc.

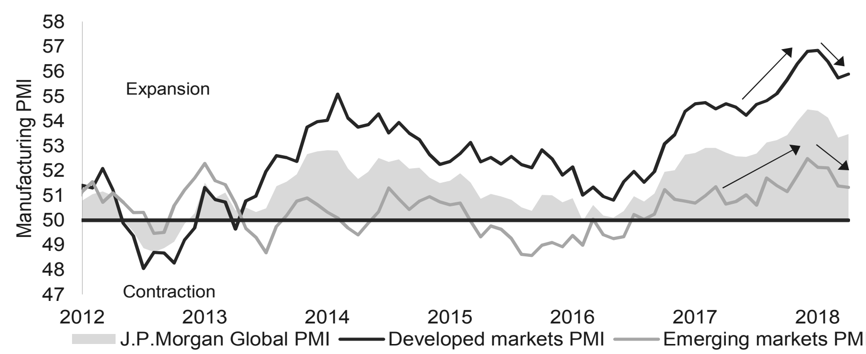
Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management Inc.

Exhibit 1: A tale of two very different years



Source: WSJ, Haver Analytics, RBC GAM

Exhibit 2: Global manufacturing growth eases slightly



Note: PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM

The first half of 2018 has provided quite a contrast to the sunny trends that smiled on 2017. Last year's silky smooth markets have hit turbulence. Economic growth has dipped and the euphoria following tax cuts is now mixed in equal parts with concern about protectionism. Inflation and interest rates are no longer at rock-bottom readings and have been trending higher. Against this backdrop, risk assets like equities have struggled to make the kind of headway that came so easily last year (Exhibit 1).

But for all of these negative developments, we ultimately believe that macroeconomic trends and market prospects are merely down rather than out. Let us start by recognizing just how unbelievably perfect, and therefore unsustainable, last year was. The experience this year is much closer to the norm, and is hardly all bad. Economic growth may be slower, but it remains quite good by post-crisis standards (Exhibit 2). Higher interest rates, a stronger U.S. dollar and increased oil prices are all theoretical drags on growth, but the burden looks to be fairly small so far and probably won't have a materially negative impact until next year. Furthermore, we hypothesize that the underlying economic speed limit has increased, suggesting further solid growth over the remainder of this cycle.

The yin and yang of fiscal stimulus versus protectionism is a complicated one, but for now the "good" of fiscal stimulus is easily outmuscling the "bad" of protectionism. Higher inflation and rising interest rates are entirely appropriate given the advanced state of the business cycle, and neither is likely to soar from here.

From an investment perspective, we remain slightly overweight equities, balancing the superior valuation of stocks relative to bonds with the recognition that the business cycle is now fairly old (Exhibit 3). Our bias remains toward a further gradual reduction in risk-taking, encouraged by the ongoing advancement of the business cycle.

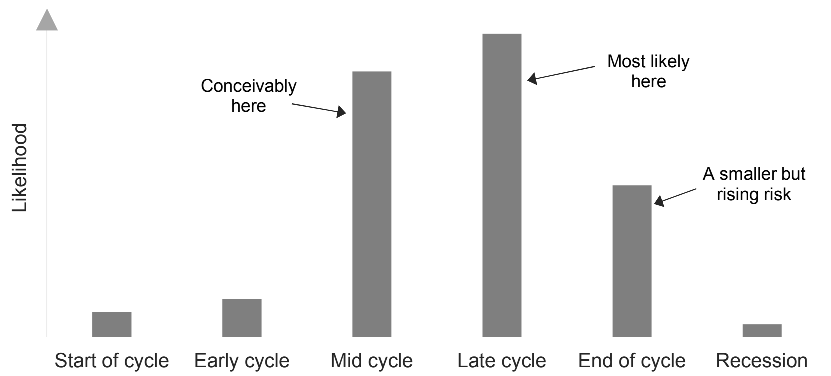
Financial conditions tighten

Financial markets have experienced large swings in 2018, with particularly notable recent increases in bond yields, oil prices and the U.S. dollar. Beyond the obvious and immediate implications for investors positioned in these assets, the swings also affect the economy. Higher yields exert a universal economic drag, higher oil is bad for some countries and good for others, while a stronger U.S. dollar hurts U.S. competitiveness but is helpful for everyone else.

Financial-conditions indexes helpfully combine these various financial-market perturbations into a single economy-relevant metric. Financial conditions have indisputably tightened in 2018, but only enough to unwind about half of the easing that took place in 2017 (Exhibit 4). On an absolute basis, financial conditions are still reasonably friendly to growth, though given the lags involved their recent turn may start to bite a bit more in 2019.

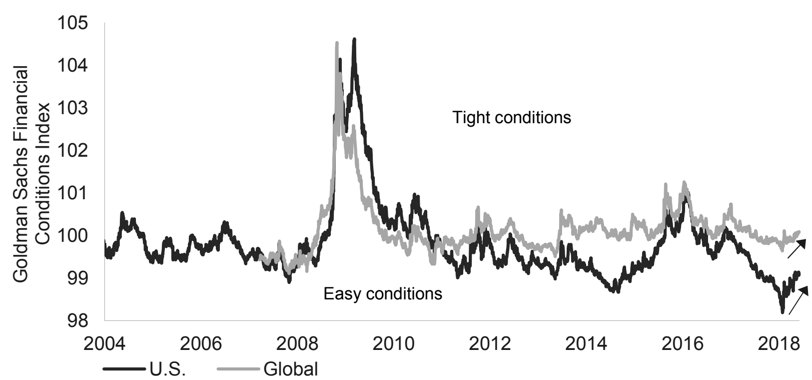
The increase in interest rates is an unambiguous economic drag. Yields are almost universally higher, with the benchmark U.S. 10-year yield up considerably (Exhibit 5). Further modest gains are likely, but high global debt loads ultimately

Exhibit 3: U.S. business-cycle probabilities



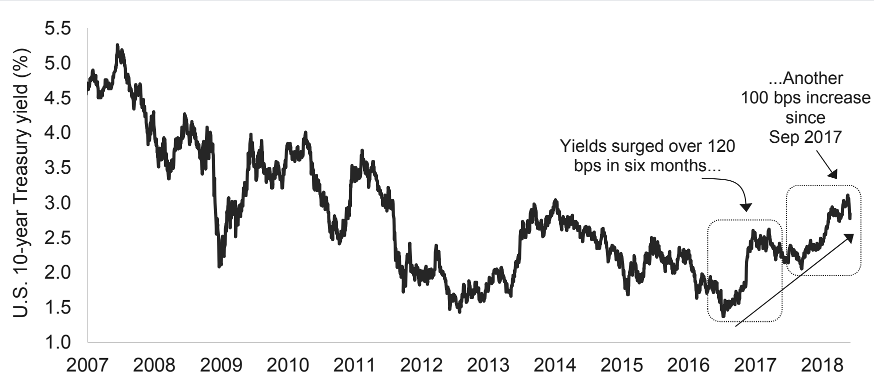
Note: Calculated via scorecard technique by RBC GAM. Source: RBC GAM

Exhibit 4: Global financial conditions deteriorate, but still loose



Source: Goldman Sachs, Bloomberg, RBC GAM

Exhibit 5: U.S. Treasury yields on the rise



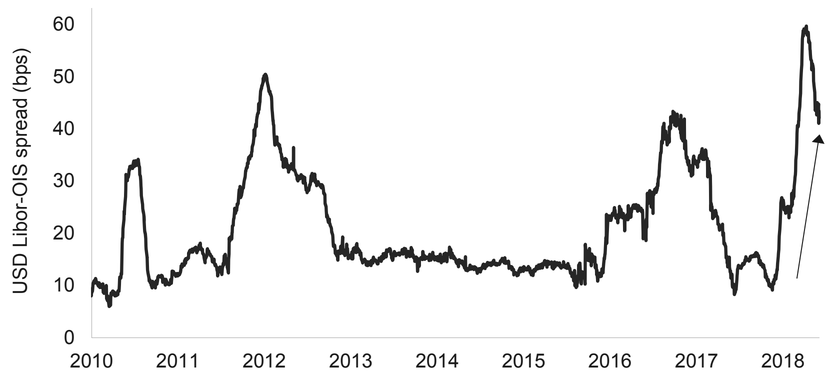
Source: U.S. Department of the Treasury, Haver Analytics, RBC GAM limit how much further yields can advance from here.

The increase in borrowing costs is even more substantial for the several trillion dollars of loans that are linked to the LIBOR rate, which has increased considerably (Exhibit 6). Fortunately, in contrast to the ominous signal it sent during the financial crisis of 2008-2009, a wider LIBOR spread has more to do with technical gremlins than with bank-solvency concerns (though LIBOR-linked borrowing costs are nevertheless higher all the same). For now, home-buying aspirations remain mostly intact, though a slight retreat is visible (Exhibit 7).

Higher oil prices are a theoretical drag on global growth, though the limited boost resulting from low oil prices in 2015-2016 has called into question the strength of the effect in both directions. As such, we don't budget for too much economic damage from higher oil prices. Yes, U.S. consumers will be hurt, but oil-oriented businesses will benefit enough to mostly offset this effect. By virtue of its shale-oil boom, the U.S. is transitioning from a period when high oil prices were a clear negative to one in which they have more ambiguous implications. The Eurozone and Japan are clearly hurt by higher oil prices, while Canada benefits.

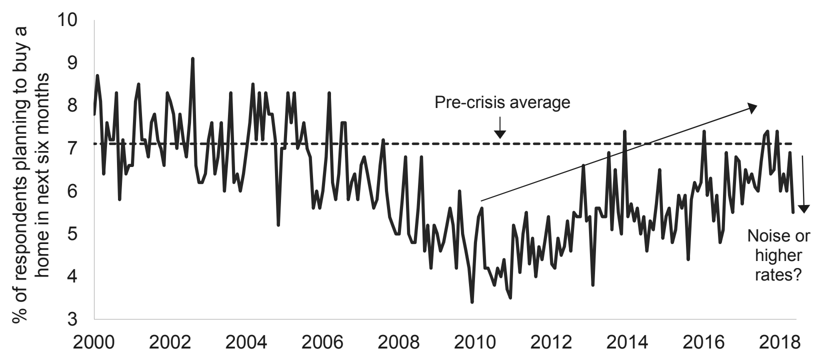
Recent U.S.-dollar strength delivers a competitiveness blow to the U.S. economy and furthermore reduces the value of U.S. corporations' foreign earnings. But the pain should be limited in the sense that recent dollar strength has unwound only a fraction of the dollar weakness that dominated 2017.

Exhibit 6: Libor-OIS spread is wider than normal



Source: Bloomberg, RBC GAM

Exhibit 7: U.S. home purchase intentions fine but rates now rising



Note: Pre-crisis average from year 2000 to 2006. Source: The Conference Board Consumer Confidence Survey, RBC GAM

Fiscal stimulus helps – at a cost

Fiscal stimulus remains a key support for economic growth. This is mostly a U.S. phenomenon, but also plausible in such developed nations as the U.K., Japan and Germany over the next few years.

From a U.S. fiscal perspective, the combination of a post-election confidence boost, deregulation, tax cuts and expanded government spending add up to a significant 0.7 percentage point boost to U.S. 2018 growth (Exhibit 8). The boost is set to be smaller in 2019 at 0.3 percentage point. The benefit to the U.S. corporate sector is several times bigger and even more front-loaded given the centrality of corporate-tax cuts to the mix.

From a longer-term perspective, however, a few serious offsets emerge. First, various fiscal-policy-related economic drags start to accrue in the U.S. at a later date. Beginning in 2020, we look for additional protectionism, diminished immigration and the partial unwinding of tax cuts to begin relinquishing much of the extra growth being banked today.

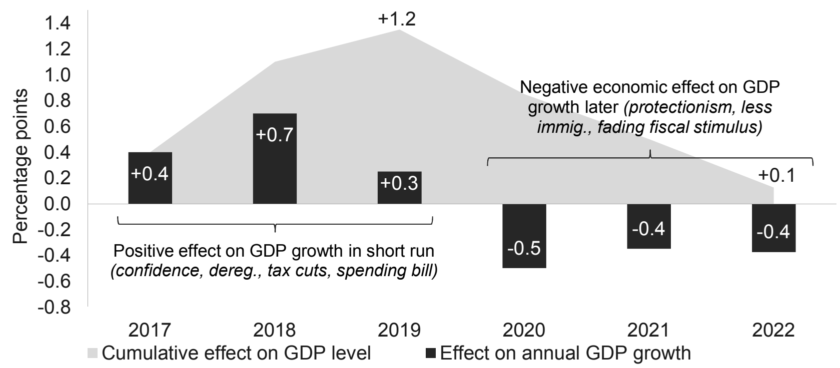
Second, tax cuts come at the cost of additional public debt. It is virtually unprecedented for the U.S. government to deliver such a large fiscal boost when the unemployment rate is already so low (Exhibit 9). This is for good reason as the efficacy of such stimulus is reduced when the economy is already hot.

While any suggestion of serious debt troubles would be an exaggeration, the U.S. public debt is again growing quickly by virtue of recent fiscal largesse and also becoming more expensive as interest rates rise. As a result, the cost of servicing U.S. federal debt is set to double as a fraction of GDP over the next decade (Exhibit 10). Future governments will be constrained by this development, with less room to stimulate the economy in subsequent downturns.

Faster economic speed limit?

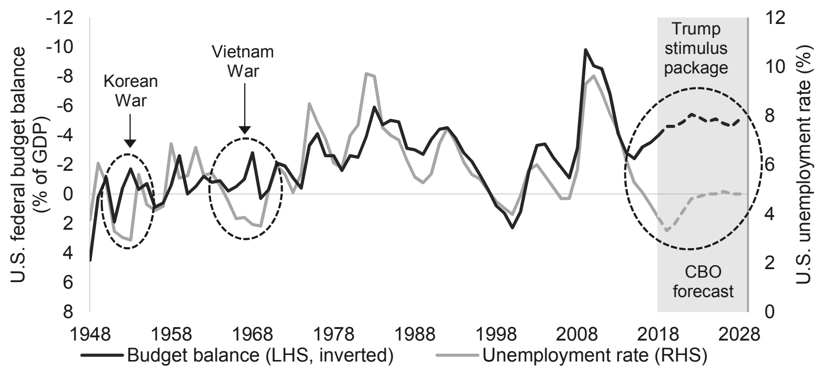
We continue to hypothesize that the speed limit on developed-world economic growth is finally rising after a challenging decade (Exhibit 11). Several observations nudge us in this direction, though

Exhibit 8: Effect of Trump policies on U.S. GDP



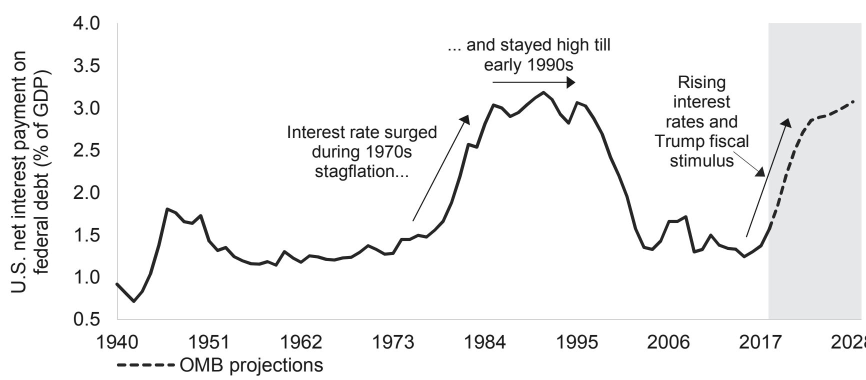
Source: RBC GAM assumptions and calculations

Exhibit 9: U.S. fiscal deficit is much bigger than it should be



Source: CBO, OMB, Haver Analytics, RBC GAM

Exhibit 10: U.S. debt-servicing costs to rise quickly



Source: OMB, Haver Analytics, RBC GAM

more evidence is needed before a definitive conclusion can be reached.

First, studies of prior financial crises have found that their negative effects usually fade within a decade. With roughly 10 years now under the bridge, it would make sense if the recent acceleration in growth was at least in part the sloughing-off of financial-crisis baggage.

Second, there is evidence that a degree of optimism and risk-taking – what we call animal spirits – has returned to the economy. Consumer and business confidence are now high and measures of market-based risk appetite are good, translating into additional business-investment plans (Exhibit 12).

Third, productivity has been staging a long-awaited comeback. It still falls well short of anything that could be described as impressive, but a number of countries are nevertheless reporting clear gains. The IMF believes the economic speed limit for the developed world is now notably higher than it was several years ago (Exhibit 13).

To be fair, all of this could yet prove to be an illusion. But it has now lasted long enough that we think it more likely than not that the potential growth rate has actually risen sustainably. And let us recall that the outlier in all of this is not the recent acceleration in growth, but instead the span of very slow growth that preceded it.

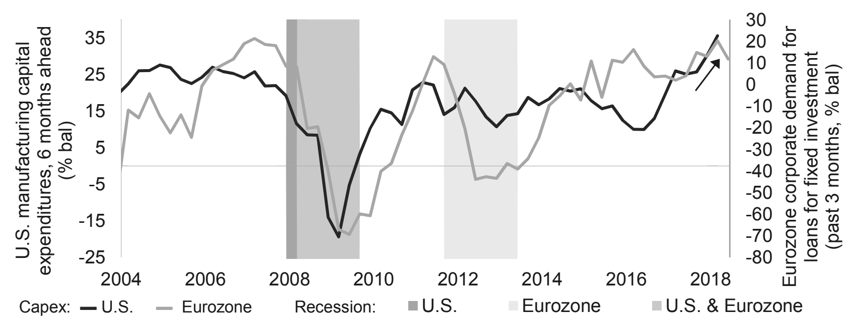
Exhibit 11: Is secular stagnation ending?

Passage of time	• Drag from crises usually gone in a decade • Now 10 years from onset of crisis
Animal spirits revive	• Confidence finally back to pre-crisis levels • Market-based risk appetite is high • Business investment picking up
Higher productivity?	• Productivity growth tentatively reviving • Productivity undercounted? • IMF upgrades its potential growth estimate

If "YES" = faster economic speed limit

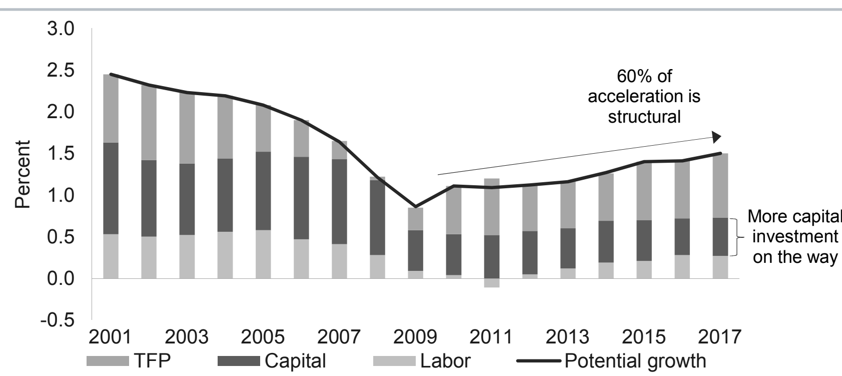
Source: RBC GAM

Exhibit 12: Company investment intentions are up



Note: U.S. expected capex (% balance) is an average of the results from manufacturing outlook surveys conducted by Federal Reserve Banks - Dallas, Kansas, New York, Philadelphia, and Richmond.
Source: Haver Analytics, RBC GAM

Exhibit 13: Economic speed limit is rebounding



Note: IMF calculations for composition of growth in advanced economies. TFP is total factor productivity, the more efficient interplay of capital and labor. Source: IMF, RBC GAM

Putting it all together

Our global growth forecasts for 2018 and 2019 have been raised slightly this quarter, mainly due to a small forecast upgrade for China. Global GDP growth appears set to expand at around 4.0% in both years, the fastest rate since 2010.

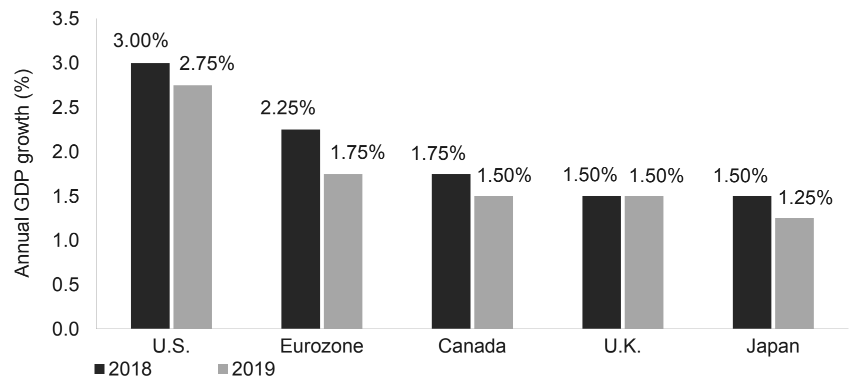
The current year's developed-market outlook is supported by high levels of consumer and business confidence, tax cuts, the diminishing drag from the financial crisis and a lingering boost from easy financial conditions.

Solid growth may be in the cards next year, but probably not quite to the standards of 2018 as the lagged effect of tightening financial conditions latches on.

Our developed-world growth forecasts are unchanged from last quarter, with the U.S. set to lead thanks in large part to fiscal stimulus. Overall, our developed-world outlook is slightly above consensus, though with considerable variation among individual countries. The U.S. and Japan may manage to exceed market expectations in 2018, the U.K. may meet the market, while the Eurozone and Canada may miss them (Exhibit 14).

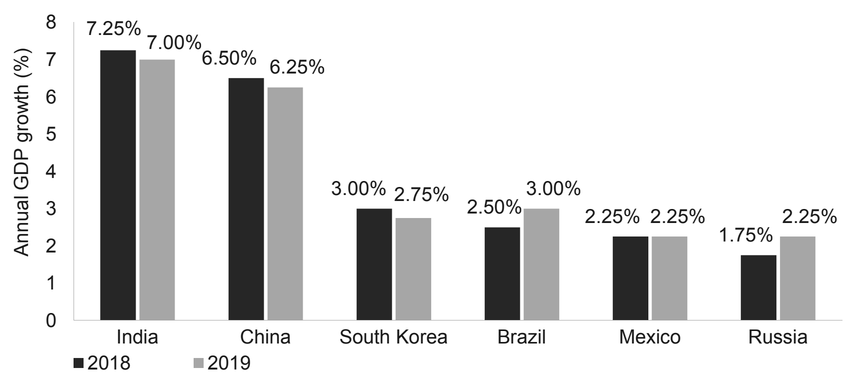
For emerging markets, we are a little below consensus overall. Despite the aforementioned upgrade to our China forecast, we remain slightly below consensus on Chinese growth. Our Indian and Brazilian growth forecasts are also somewhat below the consensus (Exhibit 15).

Exhibit 14: RBC GAM GDP forecast for developed markets



Source: RBC GAM

Exhibit 15: RBC GAM GDP forecast for emerging markets



Source: RBC GAM

To be clear, the pace of emerging-market economic growth is still projected to be double that of the developed world. But emerging markets may have slightly less capacity to positively surprise as key countries such as China mature.

Turning from the sheer amount of economic growth toward the distribution of growth within countries, a key criticism of economic gains in recent decades is that it has left many behind. There is a degree of truth to this: inequality is indeed higher than it was a generation ago. However, the popular notion that the average American household has therefore outright stagnated is mistaken. When properly measured, the median American household income has actually increased by more than 50% since the late

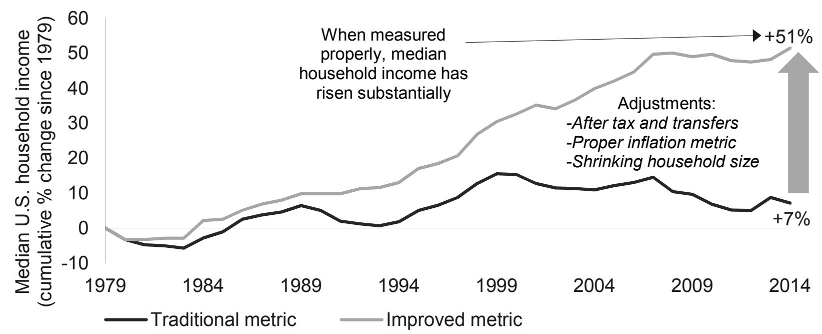
1970s (Exhibit 16). This estimate is supported by other, simpler observations such as the fact that American car ownership is higher today and the average U.S. home is more than 50% larger than it was in the late 1970s.

A bucketful of risks

There are a variety of risks that could yet interfere with our cozy base case forecast (Exhibit 17). Central among the potential negatives is that trade protectionism could be worse than we have budgeted for; the aging business cycle could finally expire; or the rising-rate/tightening financial-conditions story could accelerate, perhaps spurred by inflation concerns. We address each of these risks in subsequent sections.

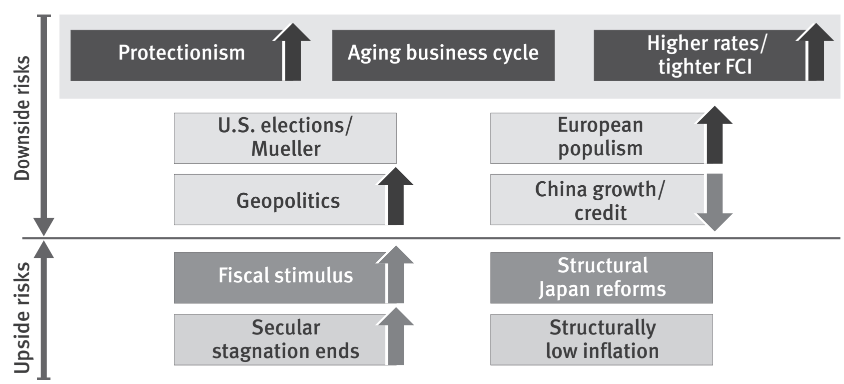
There are also some smaller downside risks worth reckoning with. U.S. political uncertainty is high due to the basic unpredictability of President Trump, a midterm election that threatens to alter the political power dynamic, and an FBI investigation that could conceivably upend the president himself. If the Democrats win the House of Representatives in November's midterm elections as betting markets currently anticipate, various Republican initiatives related to immigration, deregulation and NAFTA become less likely to survive Congress (Exhibit 18). Of course, U.S. presidents still have considerable sway over foreign policy and the application of tariffs.

Exhibit 16: U.S. household income stagnation is a fiction



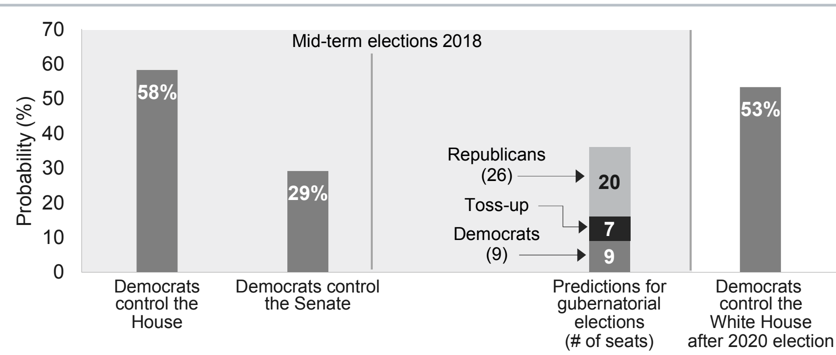
Note: Traditional metric is U.S. median household income deflated by CPI. Improved version deflates with PCE deflator, adjusts for a shrinking household size over time, and reports the change in after-tax and after-transfer income. Source: CBO, Haver Analytics, RBC GAM

Exhibit 17: Macro risks: A wide range of issues



Source: RBC GAM

Exhibit 18: U.S. elections ahead



Note: There will be 36 gubernatorial elections in 2018. Numbers in brackets are the current number of governors affiliated with each party. One incumbent governor is an independent.
Source: Center for Politics, University of Virginia; PredictIt; RBC GAM

European political risks have risen in part as Eastern Europe has tilted toward nationalism and political challenges have emerged again in Italy and Spain – more on these in the Eurozone section.

Geopolitical risks are high on a number of fronts, related in large part to the unpredictability of U.S. foreign policy, with particular relevance to negotiations with North Korea and sanctions against Iran. Other oil-relevant geopolitical risks revolve around Venezuela, Nigeria and Libya. Long term, China's rising clout presents a threat to U.S. foreign-policy hegemony.

While the discussion so far has dwelled on downside risks, there are a few things that could unfold more positively than expected. These include the possibility that the global-growth speed limit picks up even more than we have budgeted for, that inflation fails to rise as much as expected, that more countries implement fiscal stimulus, and that Japanese reforms significantly revive the world's third-largest economy.

Trade threats

U.S. protectionism remains a key and constantly mutating risk. Our base case outlook budgets for a mild economic drag from protectionism, but a slew of scenarios are conceivable ranging in effect from quite bad to slightly positive (Exhibit 19). The worst-case scenario, with perhaps a 20% risk, is a full-on

Exhibit 19: U.S. trade scenarios

Scenario	Worst case	Negative	Slightly negative	Neutral	Best case
Likelihood	20%	25%	30%	15%	10%
Detail	Trade war w/ blanket tariffs	Substantial increase in tariffs	Small Trump tariffs persist	Reverse Trump tariffs	Foreign barriers fall to pressure
Economic effect	U.S.: -1.0% China: -1.6%	U.S.: -0.3% China: -0.3%	U.S.: -0.1% China: -0.1%	U.S.: 0.0% China: 0.0%	U.S.: positive China: ?

U.S. could be hit a bit worse than China

Complications:

- Most trade models say protectionism damage is fairly small (see above).
- Ossa (2015) argues standard models understate gains to trade by factor of 2-3
- Trade **uncertainty** likely exerting economic drag in meantime.
- Integrated U.S.-China and North American supply chains could reduce economic damage in short run but increase it in long run.

Source: RBC GAM

Exhibit 20: Key protectionist risks

Source: RBC GAM

trade war involving tariffs on a wide range of products and affecting many countries, resulting in a big economic hit to all involved parties. Theoretically, such damage should fall somewhat short of a recession, but much would depend on how badly markets react. At the opposite extreme, the best case scenario occurs if the U.S. successfully bullies other countries via the merely temporary application of tariffs into reducing their own barriers, unshackling the world for more trade.

The three key protectionist narratives revolve around NAFTA, U.S.-China trade relations and a series of blanket U.S. tariffs on steel, aluminum and (threatened) autos (Exhibit 20). The risks surrounding all three have increased in recent months.

NAFTA is suddenly looking more complicated as deadlines are missed, the window for political approval narrows due to upcoming elections, progress on the auto file slows, and a proposed sunset clause creates a new schism. The recent expansion of U.S. steel and aluminum tariffs and the threat of a large motor-vehicle tariff could either prod negotiations forward or cause efforts to break down altogether.

We believe a new NAFTA deal is truly a coin toss with a collective 50% chance though with a variety of possible deal permutations (Exhibit 21). Two main thoughts support this view:

Exhibit 21: NAFTA renegotiation scenarios

Scenarios	Odds	Assumptions	Economic effect
Termination	25%	• NAFTA scrapped • Prior Canada-U.S. trade deal also at risk • Default WTO tariffs apply • Trade war possible? 3-5x worse • Market now thinks <10% chance	Problematic: higher costs, supply-chain issues • U.S. GDP -0.4% • Cdn GDP -0.8% • Mex GDP -1.4%
U.S. wins	15%	• U.S. gets its way: NAFTA defanged • Trade dispute tribunals scrapped • Safeguard exclusions permitted • U.S. gov't procurement protected • High U.S./N.A. domestic auto share • Sunset: Pact to be renewed every 5yrs	Negative economic effects, possibly worse than killing NAFTA depending on how substantially pact is undermined
Compromise	35%	• NAFTA weakened but still functional • Increased N.A. domestic auto share • 5 year review mechanism; dairy?	Moderately negative economic effects, but at least uncertainty lifted
Modernize	<1%	• Mix of good, bad and neutral changes • Better integration of intellectual property and modern industries	Limited economic effect, ranging from slight negative to slight positive
No change	25%	• White House fails to get way; bluff called • Congress disinclined to change NAFTA	Prolonged uncertainty; no long-term effect

Source: Moody's, RBC GAM

- The U.S. is likely to return its focus to China and so conceivably content with a small or symbolic NAFTA victory, particularly in the run-up to midterm elections.
- We believe the NAFTA deal essentially boils down to giving the U.S. auto sector a bigger slice of the pie. Other issues are ultimately less critical.

We assign a 25% chance to NAFTA being terminated – bad for all parties – and at the opposite extreme a 25% chance that the existing NAFTA accord simply remains in place. Of course, the uncertainty in the meantime is problematic, chopping as much as half a percentage point from Canadian GDP.

It is not surprising that China is now attracting a great deal of the U.S. trade ire given the mercantilist philosophy of the present administration and the gaping trade imbalance between the two countries (Exhibit 22). This heated up in a big way over the past quarter as the U.S. made preparations for sizeable tariffs on more than US$50 billion of Chinese exports, and China readied to reciprocate in kind. A further US$100 billion in tariff threats have subsequently been lobbed in each direction. The U.S. has also hobbled ZTE, a prominent Chinese telecom company for what the U.S. says are illicit dealings with North Korea and Iran. Additional actions are entirely conceivable.

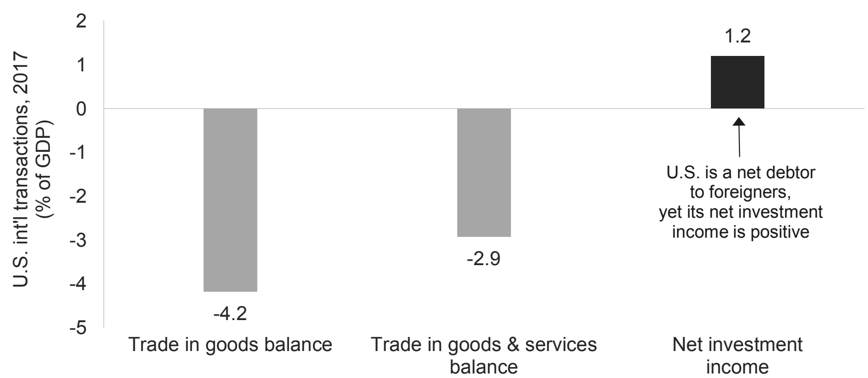
The trade file clearly merits close monitoring given its importance and the rapid-fire changes occurring. But it is worth emphasizing that it would take quite a significant dust-up – well beyond current threats – to do a large amount of economic harm. As it stands now, U.S. fiscal stimulus is set to generate a considerably bigger tailwind than protectionism will subtract as a headwind in all but the worst-case scenario. Further to this point, a review of U.S. protectionist flare-ups over the past half century finds that the U.S. has usually emerged unscathed, deploying tariffs as a temporary means to negotiate a competitive advantage.

Given all of the talk about the U.S. seeking to shrink its trade deficit, it is worth reflecting on two additional things. First, as the possessor of the world's reserve currency, achieving a neutral trade balance may prove hard to accomplish for the U.S. Any country printing the world's dominant currency enjoys easy access to capital, encouraging

Exhibit 22: U.S. slaps tariffs on imports from China

Note: 2017 exports shown in chart. Tariffs on China include tariffs on steel and aluminum products estimated based on 2017 imports and tariffs on $150 billion of goods from China announced on April 3, 2018 and April 5, 2018. Source: U.S. Census Bureau, Haver Analytics, RBC GAM

Exhibit 23: U.S. trade deficit less burdensome than it looks



Source: BEA, Haver Analytics, RBC GAM

domestic borrowing and thus overspending. This is the very underpinning of a trade deficit. Second, the U.S. trade deficit is actually sustainable indefinitely since the effective net interest rate on all of the country's foreign lending is negative (Exhibit 23)!

Late business cycle

We maintain our view that the U.S. economy is at a fairly late point in the business cycle (Exhibit 24). To be clear, this is an exercise in probabilities rather than absolutes. Some of the inputs we use in reaching this view still indicate that the cycle is merely beginning, while others argue that we are already at the end. Both views cannot be correct. But the overall takeaway is that we are likely late in the economic cycle, meaning that it is likely within its last year or two of life.

While a superficial analysis of our scorecard would appear to only slightly favour a late-cycle claim over a mid-cycle view, we prefer the first interpretation because a) the cycle indicators are clearly creeping forward over time; and b) when taking a simpler view by dividing the inputs into just two buckets, there are 50% more that argue for at least a late-cycle diagnosis as opposed to mid-cycle or earlier.

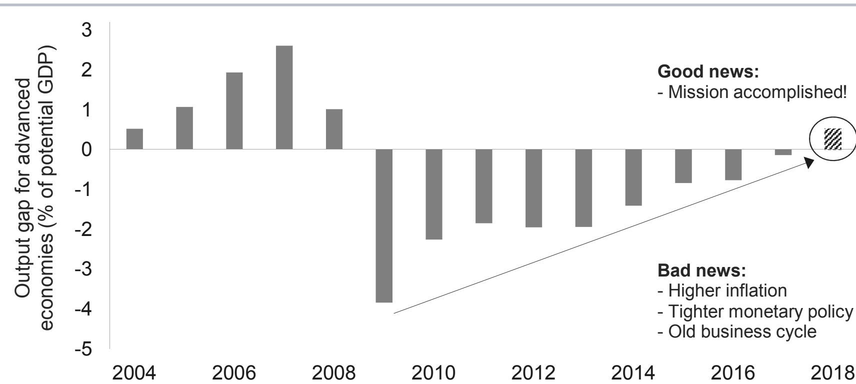
A slew of metrics point to economic tightness (Exhibit 25). Supporting this assessment of a tight economy, U.S. manufacturing-overtime hours are now running near their

Exhibit 24: U.S. business-cycle scorecard

	Start of cycle	Early cycle	Mid cycle	Late cycle	End of cycle	Recession
Inventories						
Consumer durables						
Housing						
Prices						
Bonds						
Monetary policy						
Business investment						
Leverage						
Equity profitability						
Economic trend						
Credit						
Sentiment						
Equity direction						
Employment						
Economic slack						
Cycle age						
Volatility						
Votes for each stage of business cycle	1	1.5	10.5	12	6.5	0.5

Note: Dark shading indicates the most likely stage of business cycle (full weight); light shading indicates alternative interpretation (0.5 weight). Source: RBC GAM

Exhibit 25: Economic slack finally gone in developed world



Note: IMF estimate for 2018. Source: IMF, Haver Analytics, RBC GAM highest level in a decade (Exhibit 26). This is good news in that it means unemployment is low and economies are back to firing on all cylinders. But equally relevant is that this is precisely the environment in which inflation rises and central banks tighten. These things are now happening, and both are traditional precursors to the end of the expansion. While it might seem strange that economic strength is signaling the approaching end of the cycle, the simple fact is that economies become very slippery once they hit full capacity.

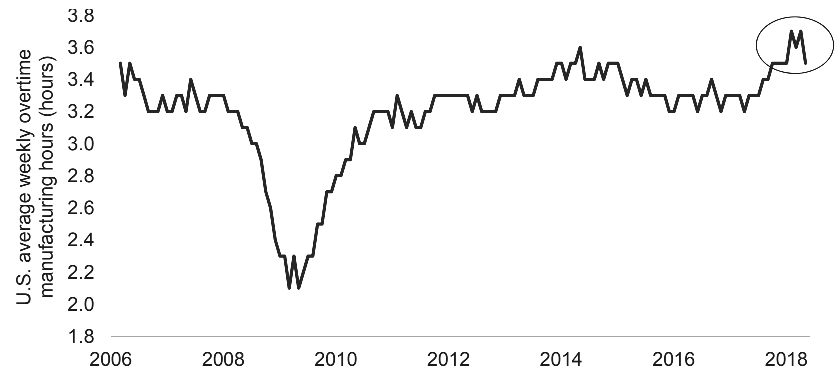
In credit markets, narrow credit spreads plus a hint of higher delinquency rates point to an aging cycle (Exhibit 27). The fraction of covenant-lite loans is also high, suggesting a degree of complacency in credit markets.

The state of the business cycle can also be assessed by a different methodology that attempts to specifically quantify the likelihood of a recession in the near future. We monitor seven such models. The good news is that none are blinking red. It is crystal clear that we are not presently in a recession, and nor does anything suggest that one is imminent. However, a number of recession gauges are rising (Exhibit 28).

Inflation materializes

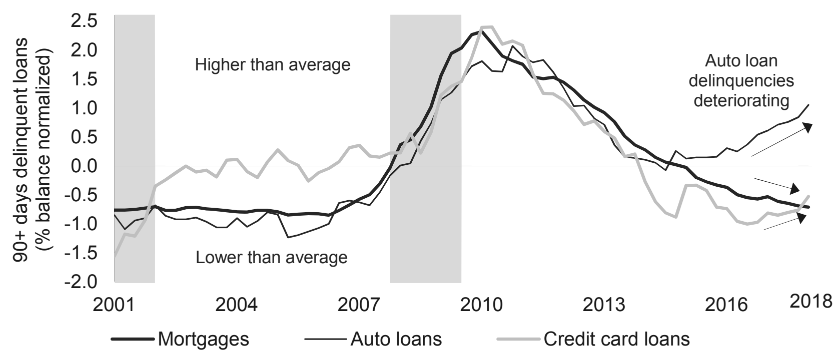
Inflation is rising in the developed world (Exhibit 29). An era of very low inflation, punctuated at times by outright deflation, is being

Exhibit 26: Manufacturing overtime highest in over a decade



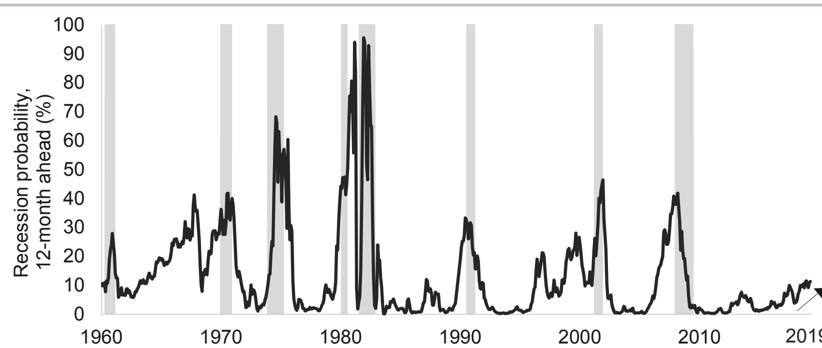
Source: BLS, Haver Analytics, RBC GAM

Exhibit 27: U.S. consumer-loan delinquencies creeping up



Note: Percent of balance of 90+ days delinquent loans normalized. Shaded area represents recession. Source: FRBNY Consumer Credit Panel/Equifax, Haver Analytics, RBC GAM

Exhibit 28: Yield-curve based U.S. recession probability rises



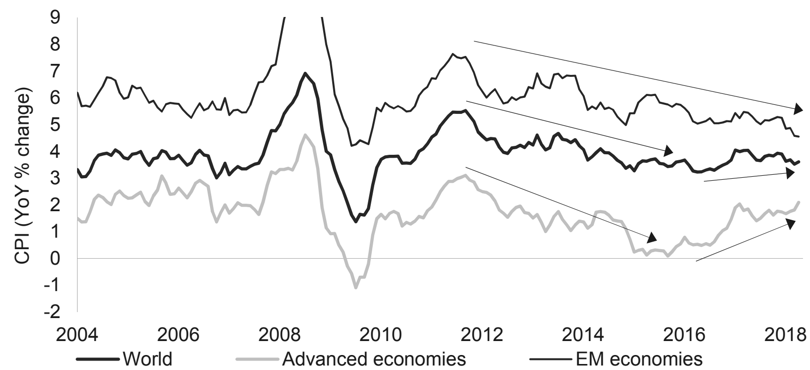
Note: Probabilities of a recession twelve months ahead estimated using the difference between 10-year and 3-month Treasury yields. Shaded area represents recession. Source: Federal Reserve Bank of New York, Haver Analytics, RBC GAM supplanted by a period of normal-to-brisk price increases as the business cycle advances and oil prices surge.

This inflation inflection has captured the attention of financial markets, and arguably caused the stock market's initial swoon near the start of 2018. Rising inflation is an issue for both fixed-income and equity investors. Bondholders demand a higher yield when inflation rises, forcing bond prices to equilibrate downward. Higher yields then lure investors from the stock market and increase corporate borrowing costs, compressing equity valuations. For these reasons, inflation scares must be taken seriously: they are the one occasion when stocks and bonds do not provide a helpful counterweight to one another.

How problematic is rising inflation likely to be? The short answer is that it should be manageable (Exhibit 30). Several macro developments are helping to push up the price level, including the recent spurt in oil and U.S. trade measures. U.S. inflation could briefly graze 3.0% – high by the standards of recent decades. However, any surge is unlikely to be sustained into 2019 as other forces indicate inflation should be closer to a tame 2.0% to 2.5%. These factors include anchored inflation expectations and economies operating in the vicinity of their potential.

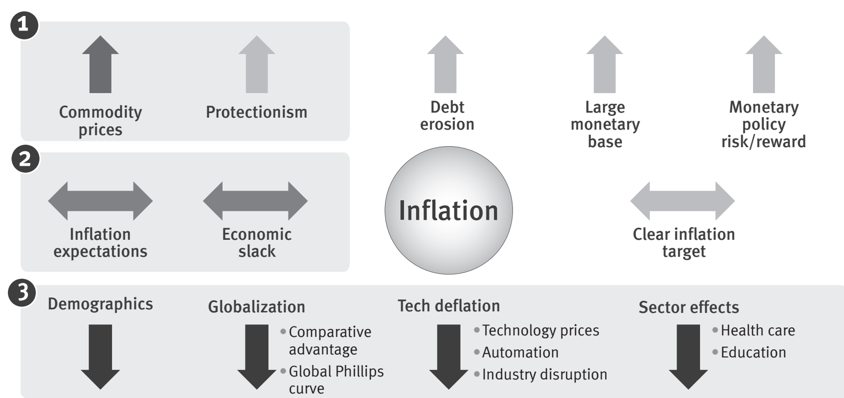
While the relationship between a tight economy and rising inflation is subtler than it once was, we can still

Exhibit 29: Rising developed-world inflation



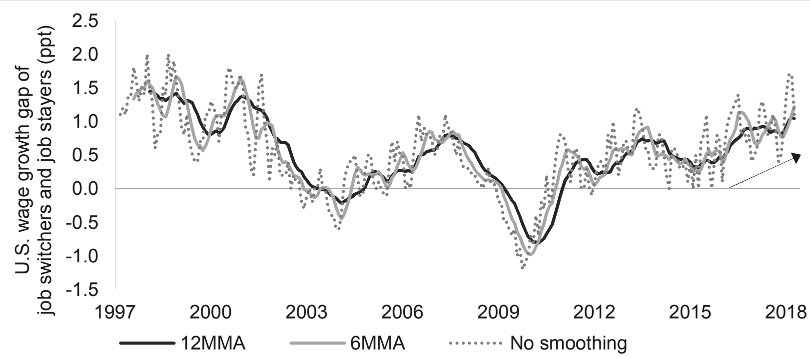
Source: IMF, Haver Analytics, RBC GAM

Exhibit 30: Inflation barometer edging higher but still anchored



Source: RBC GAM

Exhibit 31: U.S. companies are paying more to hire



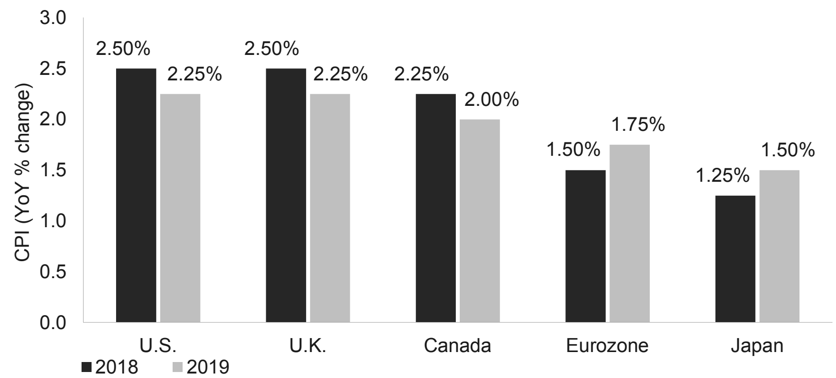
Note: Wage growth gap measured as difference in year-over-year percent change of wages of job switchers and job stayers. Source: Federal Reserve Bank of Atlanta, Haver Analytics, RBC GAM see clear linkages. A case in point is that companies are now willing to pay a premium when poaching employees (Exhibit 31).

There are a number of structural drags that argue firmly against unhinged inflation. Demographic forces now suppress developed-world inflation, as does globalization and technological change. This last force is strengthening, depressing prices through ever-cheaper technology costs and automation.

In the end, we look for rising developed-world inflation and hold a slightly above-consensus view, but not to the extent that inflation is set to become a problem. And some of the pressure should begin to abate in 2019 as the recent oil-price spike falls out of the equation (Exhibit 32).

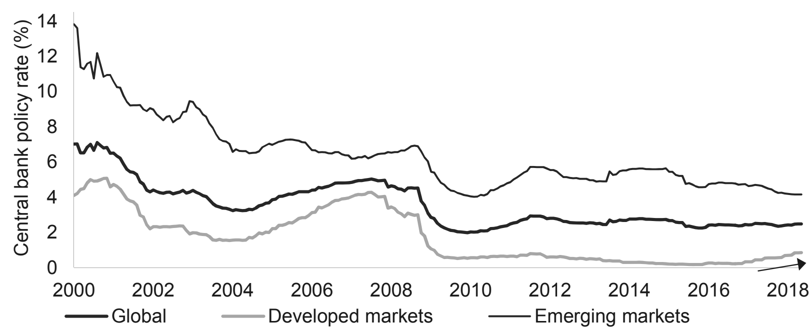
Emerging-market inflation is not immune to these upward forces, though ultimately seems capable of remaining tame relative to the historical norm. A number of countries with chronically high inflation seem to have cracked the code for taming their excesses thanks to better governance.

Exhibit 32: RBC GAM CPI forecast for developed markets



Source: RBC GAM

Exhibit 33: Developed countries in monetary-tightening mode



Note: Policy rates of the U.S., Canada, U.K., Eurozone, Switzerland, Sweden, Norway, Japan, Australia, China, India, South Korea, Russia, Brazil and Mexico aggregated and weighted by PPP-based GDP share. Source: Haver Analytics, RBC GAM

Monetary policy marches on

A number of developed-world central banks are now exiting the era of extreme monetary stimulus. The U.S. Federal Reserve (Fed) has been the leader, dragging the fed funds rate off the floor while simultaneously beginning the long process of shrinking its balance sheet. The Bank of Canada (BOC) and the Bank of England (BOE) have also moved gingerly in this direction. These actions have been a key contributor to rising bond yields, alongside improved economic growth and higher inflation.

Despite these moves, policy rates remain low by historical standards (Exhibit 33). This is partially because big central banks like the European Central Bank (ECB) and the Bank of Japan (BOJ) have not yet budged, and partially because even the active central banks have no interest in returning policy rates to prior peaks.

In an environment of more constrained growth (relative to the pre-crisis norm), an appropriate policy rate is simply not as high as it once was. Furthermore, high debt levels mean that every rate hike today packs a bigger punch than it once did. In turn, developed-world policy makers have generally concluded that a neutral policy rate is now merely 2.75% or so.

While rate hikes act as a brake on economic growth, there are no obvious policy errors occurring. Central banks are right to be tightening at a time of rising inflation, solid growth and vanishing economic slack.

U.S. sails along

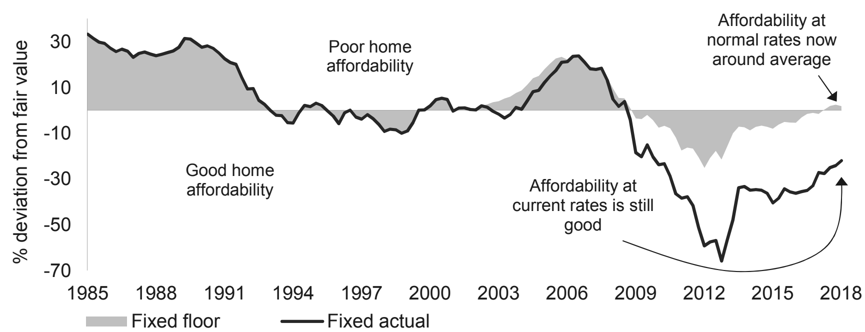
The U.S. economy continues to move nicely, even if the first part of 2018 has not quite lived up to the heroics of 2017. Growth is tentatively reviving into the middle of the year. The big boost from U.S. tax cuts remains a key support, financial conditions have not yet begun to hurt, and we see evidence of a higher potential U.S. growth rate.

Consumer spending is still strong but set to moderate because of higher oil prices. On the other hand, businesses are eager to invest. Unlike in prior periods of oil strength, the U.S. petroleum sector is now large and nimble enough to buttress overall economic growth.

The U.S. housing market remains a source of untapped economic upside. Residential construction remains tame relative to demographic need, and affordability is still good even after years of rising home prices (Exhibit 34).

Altogether, we anticipate strong and above-consensus GDP growth of 3.00% in 2018, followed by a rise of 2.75% in 2019 – the latter dimmed slightly as fiscal stimulus and

Exhibit 34: U.S. housing-affordability gap

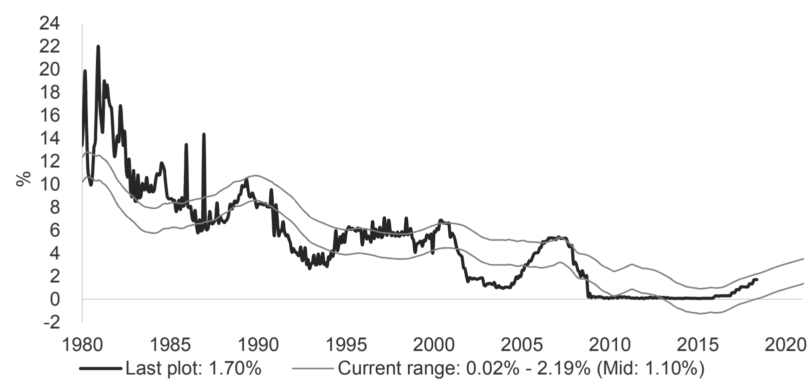


Note: Fixed floor imposes a minimum "normal" mortgage rate in the affordability calculations, and so reveals how affordability would look at normal mortgage rates. Fixed actual calculates the current carrying cost of a home versus the historical norm. Source: Haver Analytics, RBC GAM

Exhibit 35: U.S. dollar recovered some lost ground recently

Source: J.P. Morgan, Haver Analytics, RBC GAM

Exhibit 36: U.S. fed funds rate
Equilibrium range



Source: Federal Reserve, RBC GAM

financial conditions become less helpful.

U.S. inflation is already above the 2.00% threshold, and we have upgraded our price forecast in recognition that it could touch 3.00% as oil prices bleed through. Inflation should average 2.50% in 2018 and then drop to 2.25% in 2019.

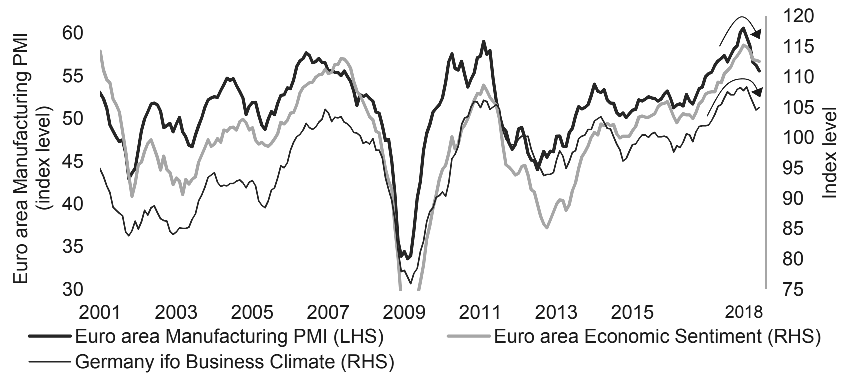
The U.S. dollar is not far from its cyclical peak, but could advance a bit further in 2018 (Exhibit 35). For the Fed, we anticipate another three to four rate hikes over the next year, essentially in line with the market and not far from the Fed's own dot-plot projections (Exhibit 36).

Eurozone complications

While Eurozone growth of 2.4% in 2017 was the fastest since the financial crisis, the region has seemingly decelerated more than most in recent months (Exhibit 37). The region is still growing fairly well, but the euro's strength in 2017 may be having a lagged negative effect. As a result, we forecast a slightly below-consensus 2.25% GDP growth for 2018, a bit less than in 2017. Growth should slow again in 2019, to 1.75%.

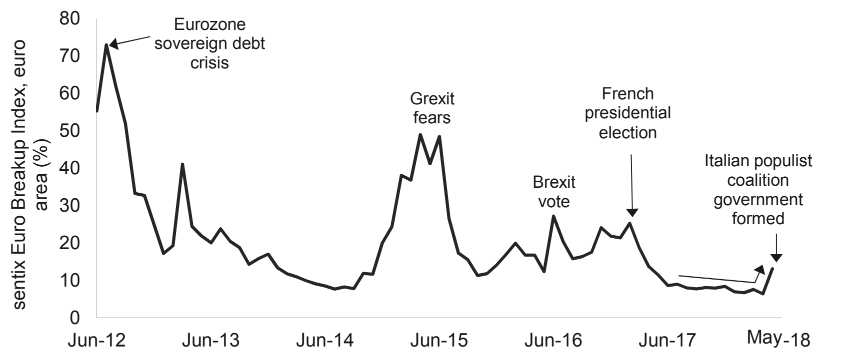
A saving grace for the Eurozone remains that it has more room to grow before overheating than the U.S., the U.K. or Canada. In turn, the Eurozone expansion could last longer than the rest, or it could more significantly exceed its sustainable growth rate in the meantime.

Exhibit 37: Macro conditions in Eurozone weakened



Source: European Commission, ifo Institute, Haver Analytics, RBC GAM

Exhibit 38: Euro breakup risk rises, but still low



Note: Index measures the percentage of investors that expect at lease one country to leave the euro area within the next 12 months. Source: sentix GmbH, Haver Analytics, RBC GAM

No discussion of continental Europe would be complete without an acknowledgement of the complicated political environment there. Eastern Europe's nationalist governments are straining the European Union (EU), the Spanish prime minister was just ousted, and Italy is now ruled by the first populist government in a major Eurozone economy.

Italy deserves particular attention. After a great deal of misdirection, Italy's two populist parties have succeeded in forming a government. This is probably not good for the Italian economy and certainly hasn't been good for Italian financial markets. The key question is whether it imperils the integrity of the Eurozone. While it is clear that some within the government coalition would prefer that Italy leave the Eurozone, we ultimately think this is unlikely given public support for the Eurozone and constitutional limitations on exiting.

For now, surveys suggest the risk of a Eurozone breakup has increased but remains low by the standards of recent years (Exhibit 38).

The ECB is signaling a gradual shift in policy away from the current setting of stimulus delivery, but only very slowly. Italy's complications could yet delay such moves. We think the euro is set to relinquish part of its 2017 gains.

U.K. bad news increasingly priced in

The British economy remains underwhelming by virtue of Brexit-related uncertainties and frictions. The country just recorded its slowest rate of annual growth in many years at the same moment that other countries were surging (Exhibit 39).

We forecast further modest growth on the back of anemic business investment and a soft London housing market. Consumers have remained fairly keen to spend, but this support comes at the expense of an unsustainably falling savings rate. This economic backdrop translates into GDP growth of just 1.5% in both 2018 and 2019, in line with the consensus.

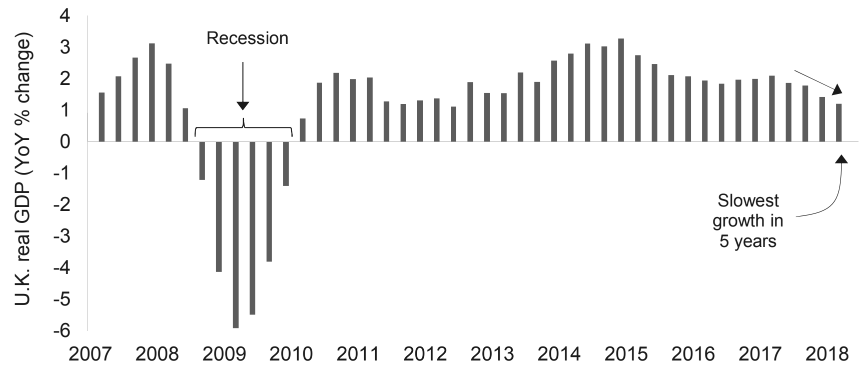
Brexit negotiations loom over the country, with an early-2019 deadline for a deal followed by a transition period through the end of 2020. There remain a number of possible outcomes (Exhibit 40). We believe a middling or softish Brexit are the two most likely scenarios, translating into a cumulative economic drag of as much as 5% spread over a number of years. Fortunately, 1% to 2% of this drag has already materialized, leaving less economic underperformance remaining. The pound should soften further, helping to temper the pain of losing unimpeded market access to continental Europe.

British inflation spiked to above 3.00% in 2017 on a weak pound, but has since settled back down. We have lowered our CPI forecast to 2.50% in 2018 followed by 2.25% in 2019. The Bank of England is in no rush to tighten given the economic environment, but the fact that the economy is already bumping up against natural constraints suggests a smidgen of tightening over the next year.

Holding out hope for Japan

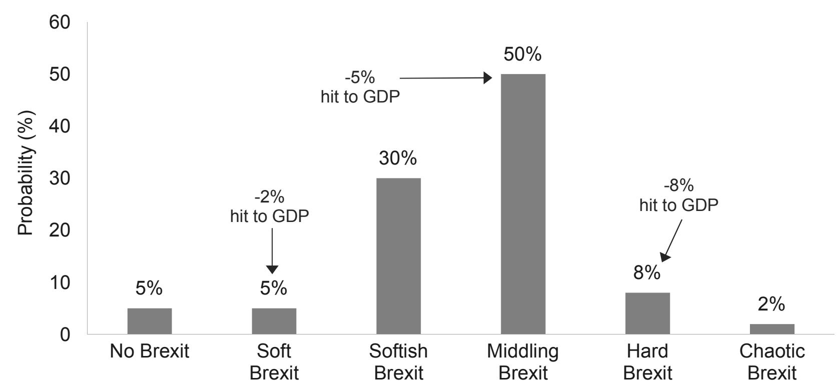
Japan had strung together a few years of strong GDP before slowing in early 2018. We continue to

Exhibit 39: U.K. overshadowed by Brexit



Source: ONS, Haver Analytics, RBC GAM

Exhibit 40: Brexit probabilities and implications



Source: RBC GAM

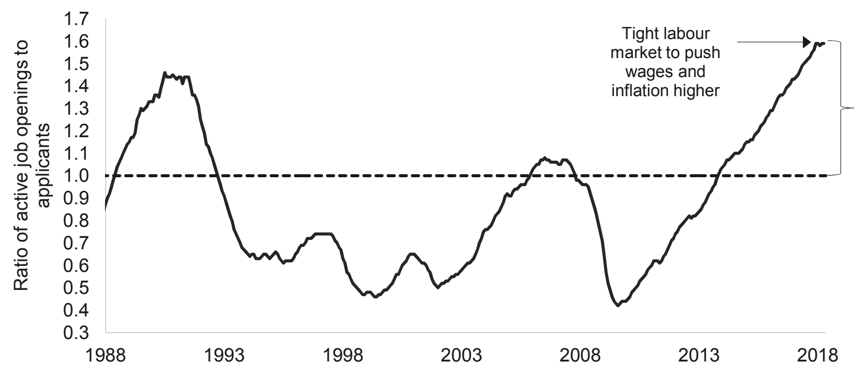
anticipate decent progress from the long-dysfunctional economy.

Japan has unquestionably made headway from a cyclical perspective. The economy is now quite tight by virtually any metric, most especially the labour market (Exhibit 41).

More than for most countries, this labour constraint is an important development in that it raises the prospect of Japanese inflation continuing its gradual climb after a decade of deflation. We believe the country's extreme monetary stimulus is beginning to revive inflation expectations, leading to our above-consensus 1.25% inflation forecast for 2018 followed by 1.50% for 2019. Changes are already visible within Japan's consumer price index. For one thing, prices for durable goods have stabilized after being the primary source of deflation for many years (Exhibit 42).

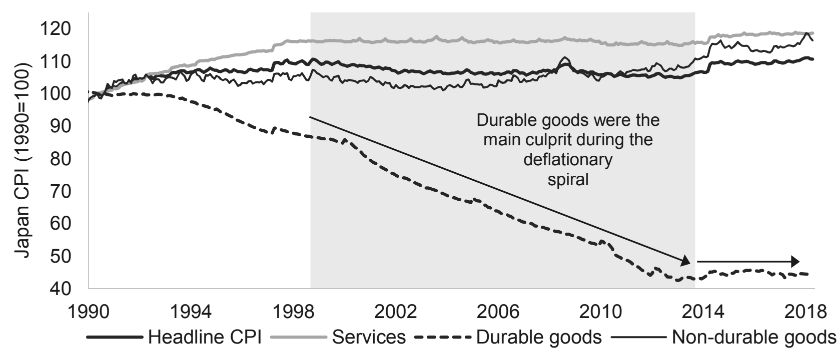
Structural-reform efforts may allow Japan to grow a bit more quickly than the market assumes. We budget for 1.50% GDP growth in 2018 followed by 1.25% in 2019. Japan's labour force is luring more workers, the country recently penned a pan-Pacific trade deal and Tokyo could benefit from a boost in capital expenditures in the lead-up to the 2020 Summer Olympics. On the horizon, Japan's proposed sales-tax hike in late 2019 could pull activity forward in advance of the event, and then temporarily depress it afterward. Prime Minister Abe, the architect of the country's revival, has encountered some political hot water lately but seems capable of surviving.

Exhibit 41: Japan's labour market is now very tight



Source: MHLW, Haver Analytics, RBC GAM

Exhibit 42: Prices of durable goods in Japan no longer falling



Note: Shaded area represents Japan's deflationary spiral. Source: Ministry of Internal Affairs and Communication, Haver Analytics, RBC GAM

Unlike other developed countries, Japan is still some distance from its central bank having to raise rates. Until inflation has risen further, there simply isn't the need even though the economy is strong. Instead, the Bank of Japan continues buying bonds (albeit at a slowing pace). We expect the yen to strengthen slightly given the currency's undervaluation.

China claims a share of centre stage

China's economy has long been a story of remarkable success, even more so as it now nears the U.S. in economic might and begins projecting its power. It is nevertheless consciously opting to downshift in the hope of relying less on dangerous credit-induced growth. As a result, we budget for Chinese GDP to slow from nearly 7.00% in

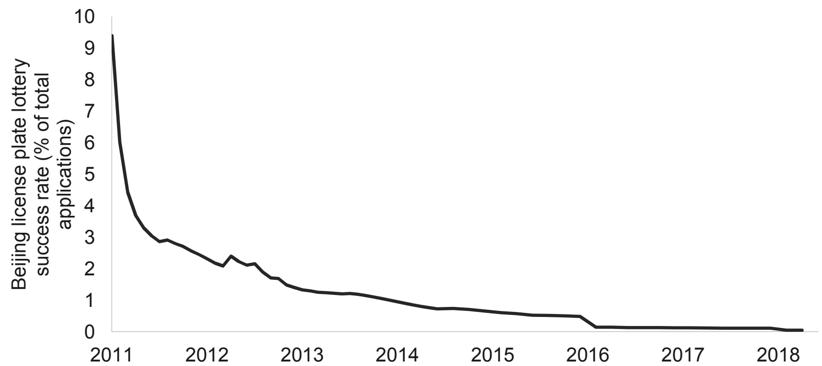
2017 to 6.50% in 2018 and then 6.25% in 2019. That puts us a little below the consensus.

As it grows wealthier, China continues to morph from a manufacturing-oriented nation to a consumer-led one. Other countries have run into trouble while navigating these shoals, and none have had to do it on China's incredible scale. Reflecting the herculean size of China's biggest cities and their notorious traffic, only one in 1963 Beijing residents were successful in their application for a car license in the latest year (Exhibit 43). One would think that such fundamental transportation constraints would eventually impinge on economic growth, though there is little evidence of pain so far.

Housing, until recently a key Chinese economic driver, is now moving less quickly. This is a key part of the country's goal of reducing its reliance on credit (Exhibit 44). To this end, China has made significant progress on the debt excesses that were so worrying just a few years ago (Exhibit 45).

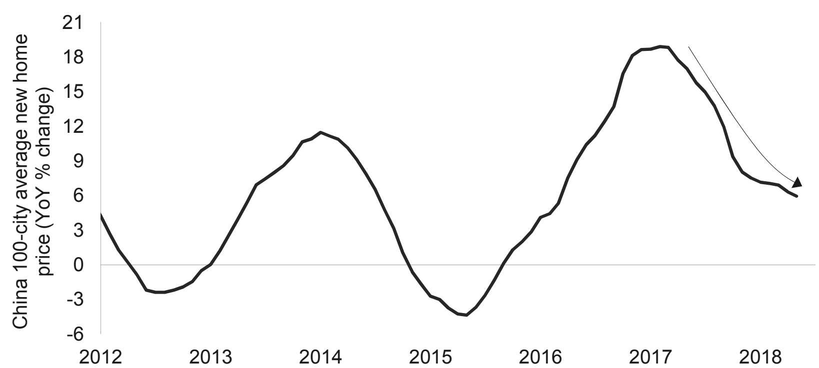
China is vulnerable to a U.S. trade war, though the country is less reliant on U.S. exports than many think (refer back to the estimates in Exhibit 19). It is reasonable to expect trade and geopolitical fireworks between the two countries in the years to come as the U.S. faces its first genuine global rival in decades.

Exhibit 43: You can own a car in Beijing if you win the lottery



Source: Beijing Passenger Car Index Regulatory Office, RBC GAM

Exhibit 44: Chinese home prices have decelerated, but are still rising



Source: China Index Academy/Soufun, Haver Analytics, RBC GAM

Exhibit 45: China's four shrinking debt risks

Declining leverage
- Credit growth no longer hugely outpacing GDP
- Though absolute debt load still high

Heavy industry debt
- Stronger global demand and restructuring fixes heavy industries
- Heavy industries were responsible for bulk of Chinese bank bad loans

Local government debt
- Local government debt was precarious and reliant on housing boom
- But debt swap, stricter oversight and rebalancing of gov't revenues fixes

Shadow finance
- Shadow finance enabled market forces but was dangerous
- New rules improve transparency, duration mismatch, liability

Source: RBC GAM

Emerging markets settle in

Among emerging markets, China, India and Brazil may underperform market expectations, explaining our slightly below-consensus emerging-market growth forecast (see Exhibit 15 earlier in the report).

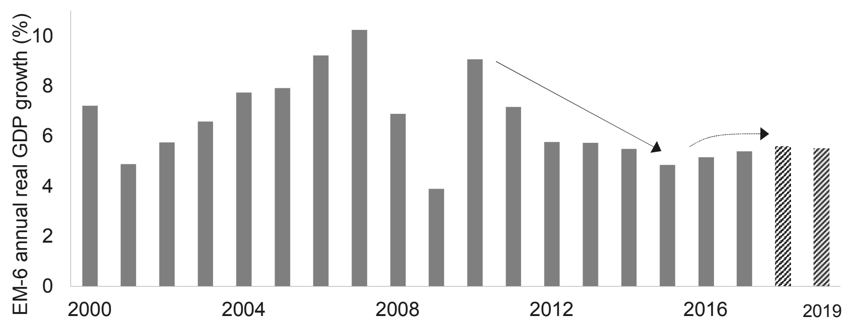
The recent increase in interest rates, oil prices and the U.S. dollar are all relatively challenging for emerging-market economies. However, so far they have not shown much ill effect and it is worth keeping in mind that they have been battle-hardened by other economic headwinds in recent years.

Despite our relative caution, emerging-market countries have staged something of a recovery in recent years after a lengthy post-crisis deceleration (Exhibit 46). We believe emerging markets will experience their strongest growth in a while in 2018 with an overall 5.5% GDP gain, supported by strong global demand.

Another point in favour of emerging markets is their attractive valuations – which offer a hint that developing economies may be earlier in the economic cycle than developed markets. The IMF believes that emerging markets may even manage to stretch their growth advantage over developed nations across the next few years (Exhibit 47).

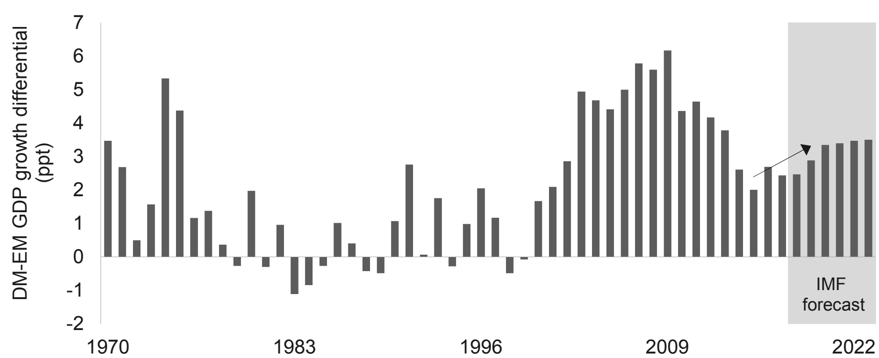
A final thought on emerging economies is that their much discussed tendency to produce more than they spend – the so-called savings glut – is in retreat

Exhibit 46: Emerging markets rebound, but only partially



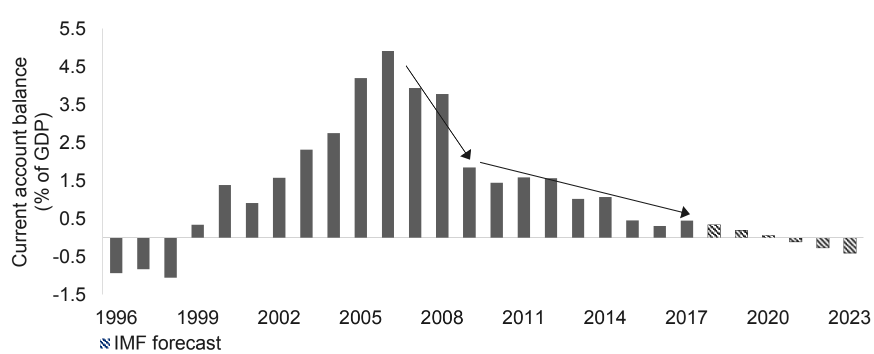
Note: EM-6 includes Brazil, China, India, Mexico, Russia and South Korea. Source: Haver Analytics, RBC GAM

Exhibit 47: Growth gap between developed and emerging markets growing



Note: Real GDP growth differential measured as the difference between annual real GDP growth of developed and emerging countries. Source: IMF, Haver Analytics, RBC GAM

Exhibit 48: EM current-account surplus has shrunk a lot



Note: GDP-weighted average of current account balance of 30 emerging market countries. Source: IMF, Haver Analytics, RBC GAM

(Exhibit 48). This makes sense as China has become less competitive and so has a smaller current-account surplus, while the profits of OPEC oil producers have shrunk as shale oil has muscled in on their space. In turn, downward pressure on global interest rates becomes a bit less intense.

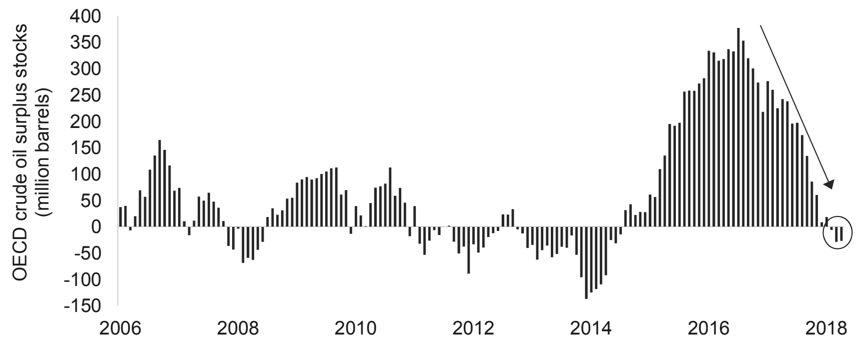
Oil in play

Oil prices have risen by more than 40% over the past year, and are up even more from the nadir of early 2016. This increase is largely a function of two things.

First, the inventory glut at the heart of the oil shock has finally been worked off (Exhibit 49). What is more, insufficient investment in the sector during the doldrums of a few years ago is now resulting in a production shortfall, despite U.S. shale-oil efforts. The supply shortfall may get worse before it gets better, allowing oil prices to remain elevated or even to ascend a bit further.

Second, geopolitical risks and drags abound for major oil producers. The recent U.S. decision to re-apply sanctions to Iran threatens to reduce the country's oil exports by up to 500,000 barrels per day by the end of this year and by up to 700,000 barrels by the end of 2019. Venezuela's economy remains in freefall and this is reducing the country's oil production. Output in Libya and Nigeria is also uncertain due to internal conflicts, though OPEC could yet boost output to smooth these concerns.

Exhibit 49: Global oil glut cleared



Note: OECD commercial crude oil inventory less 5-year average of commercial stocks. Source: EIA, RBC GAM

Exhibit 50: U.S. shale boom 2.0

Source: EIA, Haver Analytics, RBC GAM

Over the medium and long run, however, prices may be under the opposite pressure. U.S. shale-oil firms are now the true swing producers, capable of nimbly ramping up and scaling back production fast enough to limit big swings in prices (Exhibit 50). During the 2015-2016 plunge in oil prices, the producers succeeded in quickly cleaving 1 million barrels from daily production. Since late 2016, the U.S. sector has managed to add a hefty 2 million daily barrels of supply, putting the U.S. on track to soon surpass Saudi Arabia and Russia as the biggest oil producer.

The question, then, is what constitutes fair value for these U.S. oil price-setters? U.S. firms report that the break-even cost necessary to motivate additional production sits at just US$50 per barrel (Exhibit 51). In turn, that's as good a guess as any for where oil prices should gravitate over the medium to long run.

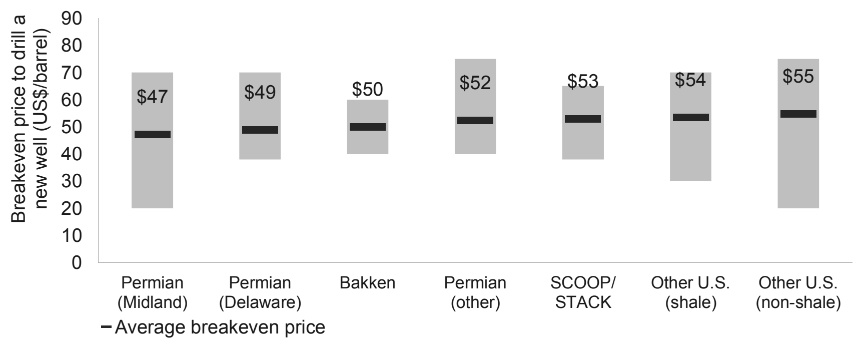
Canadian challenges

Canada's economy expanded by a relatively strong 3.00% in 2017, and statistics show that growth remains steady so far in 2018. Higher oil prices are a welcome development for the energy sector's profitability, but there is little evidence of any response in the form of additional capital expenditures due to the high extraction cost of the country's reserves. Transportation constraints are also a concern, and the federal government's recent takeover of the Trans Mountain Pipeline project symbolizes the uncertainty surrounding the sector.

Two familiar threats continue to loom over the Canadian economy: a competitiveness shortfall and a slowing housing sector. These result in our below-consensus forecast for just 1.75% GDP growth for the entirety of 2018 followed by 1.50% growth in 2019. Both are vague in their timing and implications, but indicate economic underperformance over time.

Canadian competitiveness has taken a number of steps backwards as infrastructure projects become harder to deliver (Canada now ranks 34th out of 35 OECD nations for the time it takes to approve a construction permit), taxes rise, the minimum wage goes up and environmental laws tighten. Simultaneously, the U.S. has made efforts to become more competitive. The resultant competitiveness wedge is considerable (Exhibit 52).

Exhibit 51: Profitability threshold for U.S. oil producers



Note: Bars show the maximum and minimum breakeven prices (WTI price) in the top two areas in which the respondent firm is active. Source: Federal Reserve Bank of Dallas Energy Survey Q1 2018, RBC GAM

Exhibit 52: Canadian competitiveness challenges

	Loss of Canadian competitiveness versus U.S.
Taxes	• U.S. taxes fell, Canadian taxes have mostly risen (-0.25% GDP)
Tariffs	• U.S. hitting Canada with tariffs (-0.5% to -1.0% GDP)
Regulations	• U.S. deregulating, Canada regulating
Moral suasion	• White House threatens companies that expand outside U.S.
Environment	• Canada in Paris agreement, U.S. out • New carbon taxes ramp up over five years (-0.5% GDP) • More extensive resource consultation process
Labour	• Tougher labour laws in Canada (ON, AB, BC) – Sharply rising minimum wage (-0.1% GDP) – Easier unionization, FT/PT equivalency
Other?	• *Transportation constraints:* Both pipeline and rail are problematic • *Housing rules:* tightening in Canada, easing in U.S. • *Household debt:* very high in Canada, middling in U.S. • *Electricity?:* Big jump in Ontario
On the other hand...	• *Free trade:* Canada signs CETA, CPTPP, interprovincial deals • *Immigration:* More and higher quality in Canada than U.S. • *Public debt:* Lower public debt than U.S. even with provinces • *Interest rates:* Lower in Canada (but rising in both nations) • *New IP strategy?*

Source: RBC GAM

Businesses appear to be responding to Canada's diminished competitiveness. Surveys anticipate that business investment will decline in 2018 for the fourth consecutive year (Exhibit 53). Foreign direct investment in Canada is also falling.

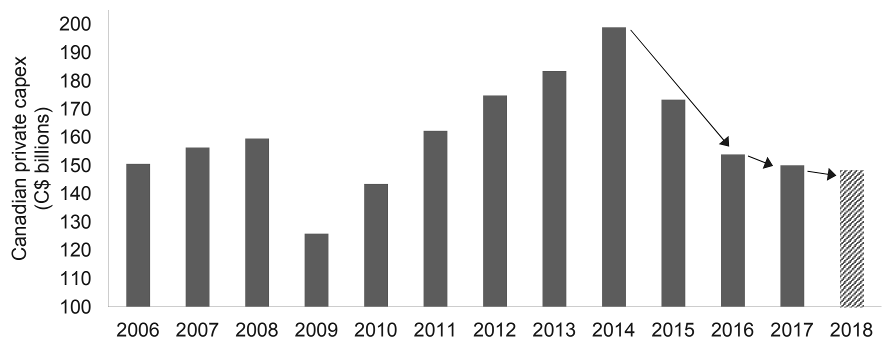
Canada's frothy housing market constitutes another threat, in part because it now accounts for a much larger portion of economic growth than it has generally been the case in the past and because serious economic problems have historically been spawned by a country's housing sector. There is also evidence that a mix of rising mortgage rates and other measures designed to slow the market are beginning to have an effect.

This year marks the first time in a decade that mortgage holders with the standard 5-year term are encountering a higher 5-year rate upon renewal. The value of existing home sales across Canada is down by nearly 30% since the end of 2017, and by over 40% in the Toronto region (Exhibit 54). The Bank of Canada continues to point to housing as the country's largest financial-system vulnerability (Exhibit 55).

Given threats to competitiveness and housing plus NAFTA uncertainty, there is no need for rapid rate-hiking in Canada, though the central bank has hinted at a tentative summer rate increase.

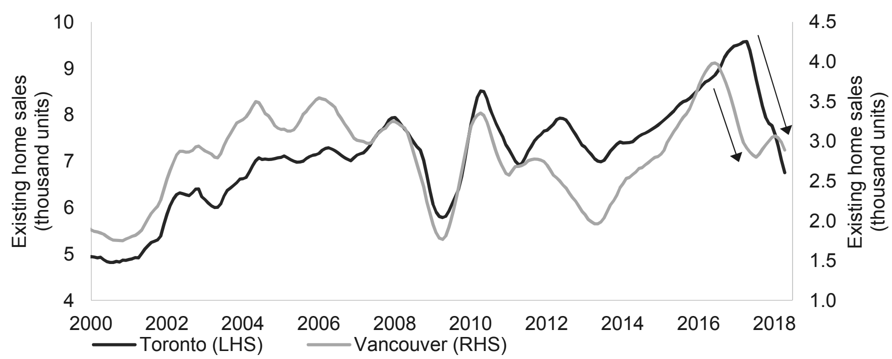
Canadian inflation should come in at 2.25% this year and 2.00% next

Exhibit 53: Canadian business investment to fall again in 2018



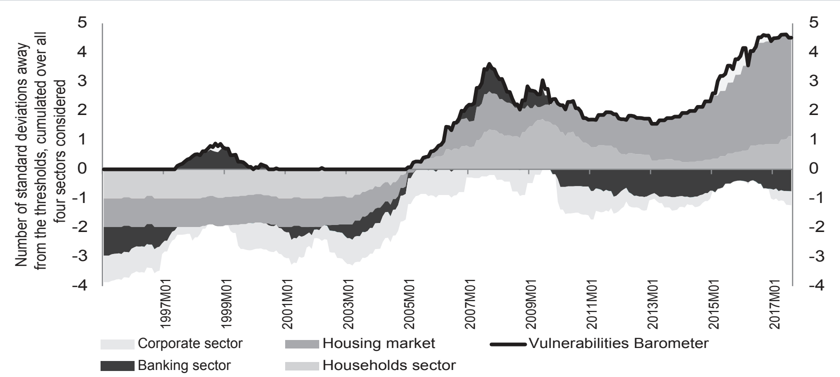
Note: Capital expenditures for latest 2 years are preliminary actuals and intentions.
Source: Statistics Canada, Haver Analytics, RBC GAM

Exhibit 54: Existing-home sales plunged in biggest markets



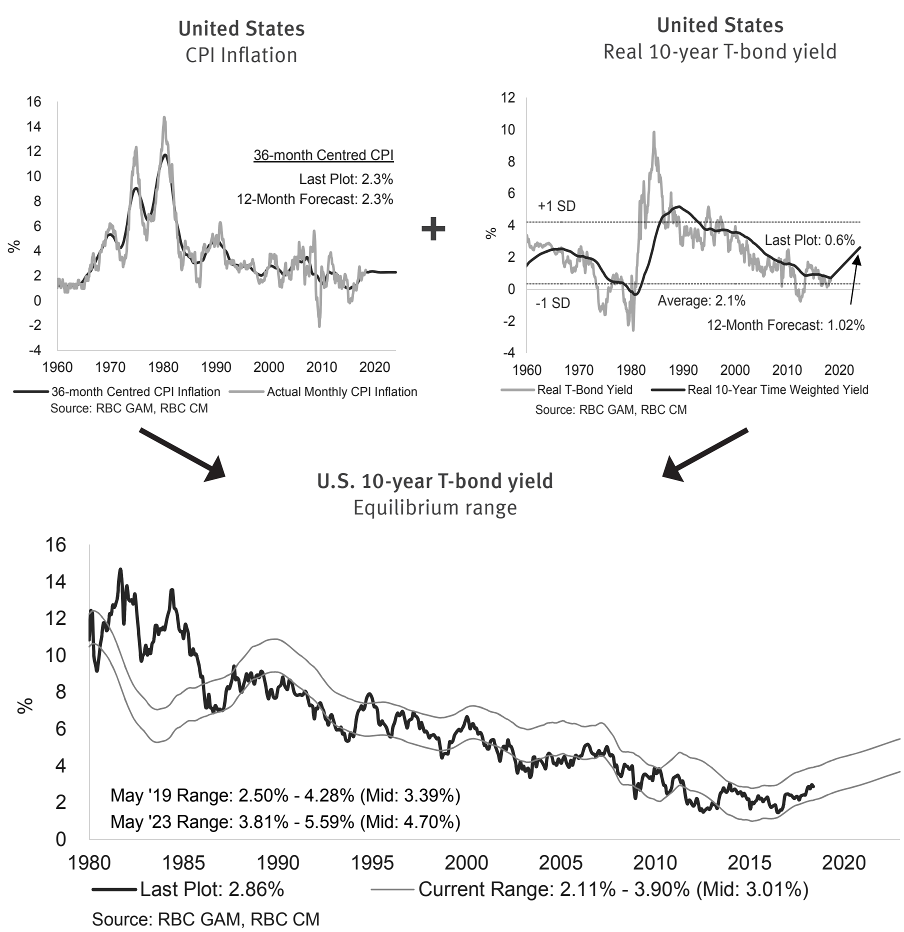
Note: 12-month moving average of monthly existing home sales. Source: CREA, Haver Analytics, RBC GAM

Exhibit 55: The Vulnerabilities Barometer around record high



Notes: The areas below zero show the evolution of the indicators for each sector before they breach the vulnerability threshold. The barometer is restricted to be positive. However, each sectoral measure is bounded below at -1 since no individual indicator is allowed to be lower than one standard deviation away from the warning threshold. Source: Bank of Canada year. Provincial minimum-wage hikes are responsible for only part of this increase. The rest comes from oil plus a tight economy. The Canadian dollar seems capable of shedding several additional cents due mainly to the competitiveness shortfall.

Exhibit 56: U.S. 10-year bond yield
Fair-value estimate composition

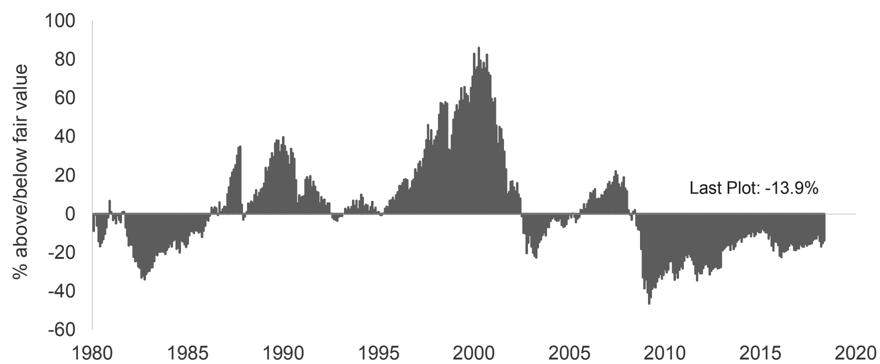


Rise in bond yields stalled by Italy's political turbulence

Global bond yields paused in the past quarter after having risen steadily since mid-2016 on the back of an improving economy and firming inflation. The formation of a populist government in Italy led to concerns about the banking system, prompting investors to chase safe-haven assets later in the quarter. The U.S. 10-year yield backtracked after briefly rising above 3% and was effectively unchanged over the three-month period ended May 31, 2018. In Germany and the U.K., 10-year government bond yields ended the quarter lower while in Italy they soared by more than 100 basis points. Compared to our modelled estimates of equilibrium, yields in Germany, the U.K. and Japan are at risk of significant upward adjustment, whereas yields in the U.S. and Canada are already near our modelled expectations (page 44).

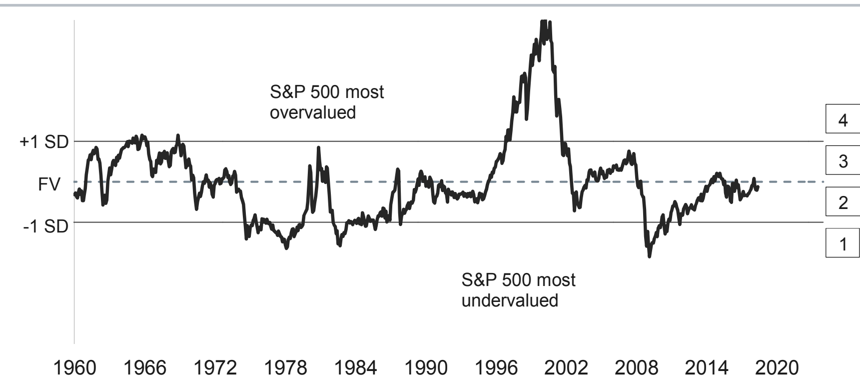
Our model for the U.S. 10-year bond suggests an upward bias to yields over the long term, but also that adjustments can be gradual and distributed over an extended period. Exhibit 56 lays out the components of our fixed-income model, which combines an inflation premium with a real rate of interest to determine an appropriate level for the nominal yield. The current yield on U.S. 10-year Treasuries is close to our modelled estimate. That's because reported inflation is currently at the modelled level and, while real rates of interest are historically low, they are at appropriate levels based on our approach which places greater emphasis on recent experience. Note, however, that the model forecasts a rise in real interest rates going forward. The financial crisis and unorthodox central-bank policy pounded real interest rates to levels that were unsustainably low and investors are now starting to demand a higher real (after-inflation) return on their savings as memories of the crisis fade. It is difficult to predict real interest rates with certainty, but our model assumes they ultimately revert to their 40-year average, with the difference being distributed evenly, over the next five years. The entire increase in yields forecast by the model is predicated on rising real interest rates because we don't anticipate much change in inflation over the longer term. The current modelled equilibrium level for the U.S. 10-year yield is 3.01% and moves to 4.70% in five years. This shift higher is not necessarily our forecast, but it's not a bad guess for where bond yields are headed. A sustained rise in bond yields, even if gradual, would act as a headwind for sovereign-bond investments and lead to low, or even negative, total returns. Our forecast for the U.S. 10-year yield is 3.00% over the next year, with risks tilted to the upside.

Exhibit 57: Global stock-market composite
Equity market indexes relative to equilibrium



Source: RBC GAM

Exhibit 58: Standardized S&P 500 fair-value bands



Source: Haver Analytics, RBC GAM

Equity-market volatility persists amid solid/improving fundamentals

Stocks fluctuated significantly in the past quarter, reacting to an abundance of headlines related to tariffs and the possibility of a trade war, as well as the growing threat of populism in Europe. Offsetting many of these concerns was the still positive macroeconomic backdrop and robust earnings growth. U.S., European and Japanese equities were essentially flat over the three-month period ended May 31, 2018, but some indexes had more notable movements. Canadian equities gained approximately 4% over the quarter, as rising oil prices boosted energy stocks. Emerging markets declined roughly 6% in U.S. dollars, due in part to depreciation in emerging-market currencies. In aggregate, our global stock-market composite equilibrium model continues to suggest stocks offer attractive risk premiums at current levels (Exhibit 57). Equities have enjoyed a long bull market. While valuations are much more demanding than at earlier stages of the cycle, stocks are not overpriced. In Europe and emerging markets, stocks look especially attractive (page 45).

In the U.S., the S&P 500 Index is trading at a slight discount to fair value, boding well for future stock-market performance. Exhibit 58 plots a standardized version of our S&P 500 fair value model. The dotted line running down the centre of the chart is fair value, and the solid lines represent one standard deviation above and below that level. We have segmented the chart into four buckets and compiled past returns based on where the S&P 500 was situated at the start of any one-year measurement. The S&P 500 is currently in Bucket 2 – bounded by fair value and one standard deviation below. The return statistics in Exhibit 59 show that Bucket 2 is home to the highest batting average, the second-highest rate of return and the lowest volatility compared with the other buckets. On average, the S&P 500 delivers gains of 12.1% in any one-year period when starting from this valuation zone and produces a positive result in 84% of months.

Earnings growth is critical to sustaining U.S. equity bull market

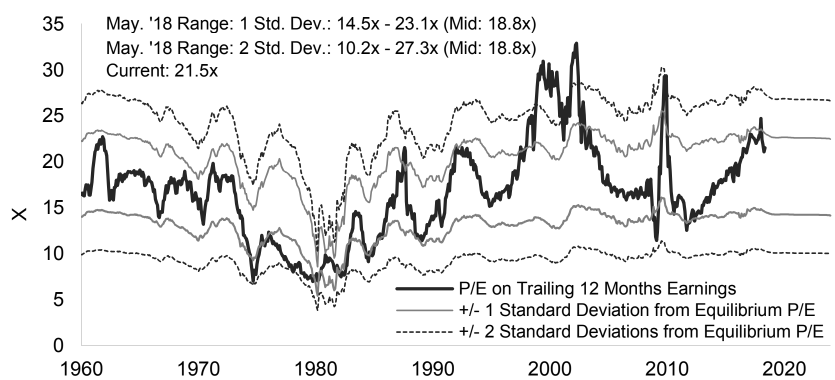
A deeper dive into our model reveals that earnings will likely be the main driver of equity-market returns since gains from price-to-earnings multiples have likely been exhausted. Our models combine an equilibrium P/E ratio with a normalized level of earnings to arrive at what we deem to be fair value for the index. The S&P 500 price-to-earnings ratio began this bull market more than one standard deviation *below* equilibrium and rose to more than one standard deviation *above* (Exhibit 60). Only during the late 1990s have valuations been higher, driven by speculation and an insatiable demand for internet technology stocks. Barring a return to extreme levels of optimism and risk appetite that fueled the tech bubble, it would be unlikely for multiples to expand much beyond where they rest today. In the absence of rising P/Es, earnings will be critical to sustaining further gains in stocks. Fortunately, our normalized measure of corporate

Exhibit 59: S&P 500 Index
Return prospects by valuation zone

Valuation	Data set (Bucket)	1-year average return	Batting average^	1-year average return in win*	Max loss	1-year return Std. dev.
(S&P 500 most overvalued)	4	(0.3%)	50.7%	14.7%	(27.5%)	16.9%
1 SD Above	3	3.5%	62.3%	13.0%	(41.4%)	15.6%
Equilibrium	2	12.1%	83.9%	16.0%	(44.8%)	13.5%
1 SD Below (S&P 500 most undervalued)	1	14.7%	80.2%	19.9%	(12.8%)	16.3%

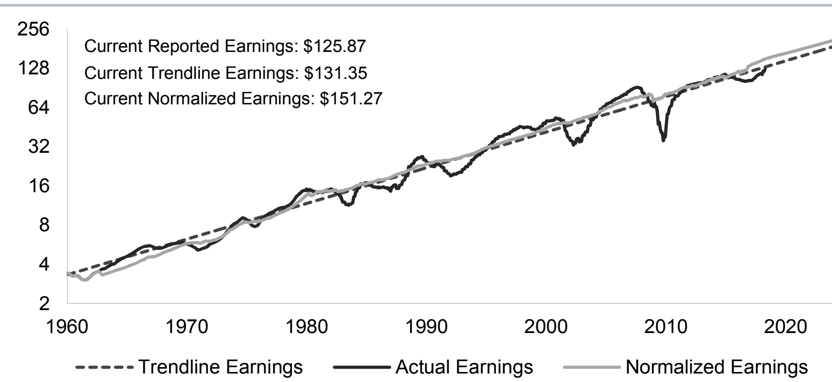
*Win = Periods where returns are above 0%. ^Batting average = Incidence of winning in any given period. Source: RBC GAM

Exhibit 60: Global stock-market composite
Equity market indexes relative to equilibrium



Source: RBC GAM

Exhibit 61: S&P 500 earnings comparison



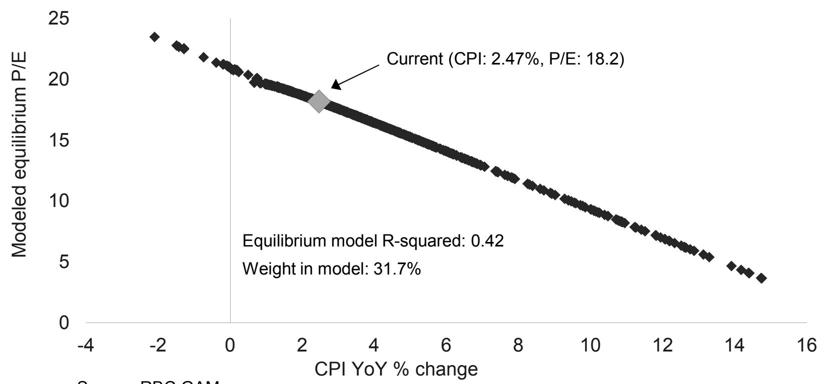
Source: RBC GAM, RBC Capital Markets

profits suggests earnings have the potential to increase significantly from here (Exhibit 61). Without earnings growth, though, markets are vulnerable given current demanding P/Es.

Not only are P/Es unlikely to expand, but a variety of factors suggest that they could come under pressure. Our models compute the appropriate, or equilibrium, level of the S&P 500 P/E based on its historical relationship with six inputs. Let's focus on three of these – inflation, short-term interest rates and long-term bond yields – which together account for 80% of the model. Relationships between each of these variables with P/Es are plotted in exhibits 62 to 64, from which we can observe that an increase in any of the three leads to a lower equilibrium P/E. Obviously then, lower yields would be associated with higher P/Es. Note, however, that readings below 1.25% on the T-bill rate and below 3.25% on a 30-year bond yield correlate with a reversal in the usual relationship between interest rates and valuations.

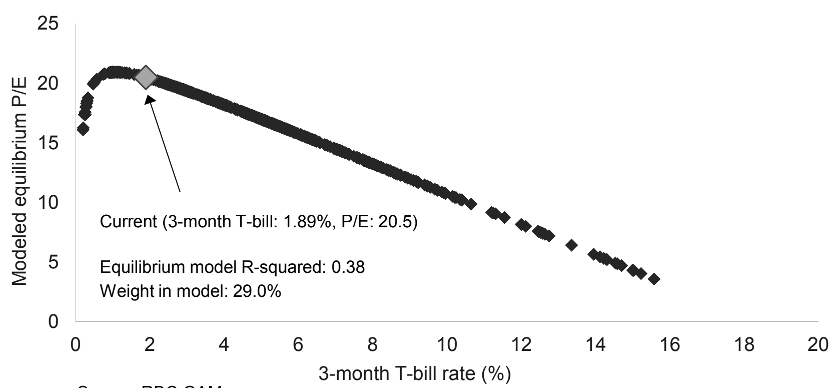
Interest rates falling towards the zero bound generally coincide with some sort of crisis in the economy, which is often accompanied by a decline in P/Es. What these relationships also suggest is that, as economies move away from a crisis mode, the initial rise in interest rates and bond yields actually correlates with higher P/Es. However, short-term interest rates are now past the peak inflation point on the chart (about 1.25%) and

Exhibit 62: S&P 500 equilibrium model
P/E factor as a function of CPI



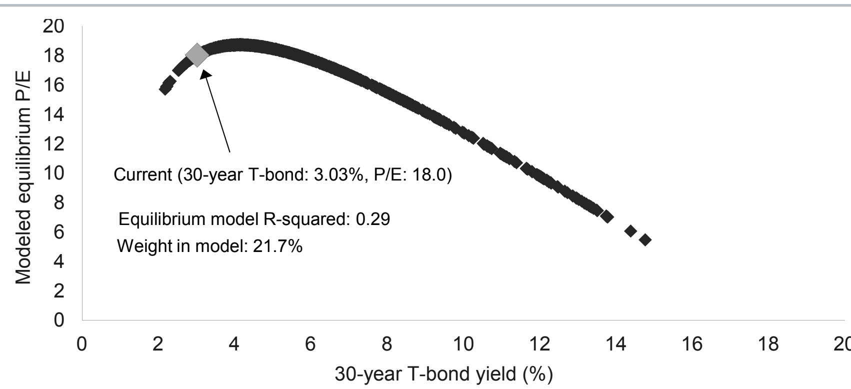
Source: RBC GAM

Exhibit 63: S&P 500 equilibrium model
P/E factor as a function of 3-month T-Bill rate



Source: RBC GAM

Exhibit 64: S&P 500 equilibrium model
P/E factor as a function of 30-year bond yield



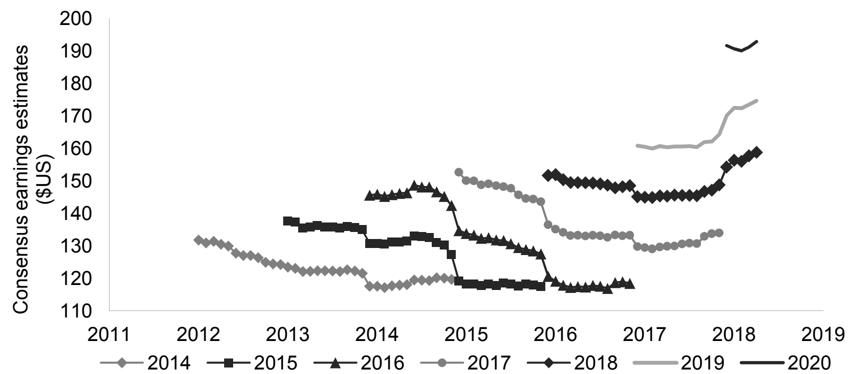
Source: RBC GAM

any further increases will likely act as a drag on valuations. A possible inflation shock could also have a meaningful negative impact on P/Es. Investors should keep these relationships in mind because they contextualize why P/Es are currently high and what might cause them to fall.

Earnings surge, propelled by tax cuts

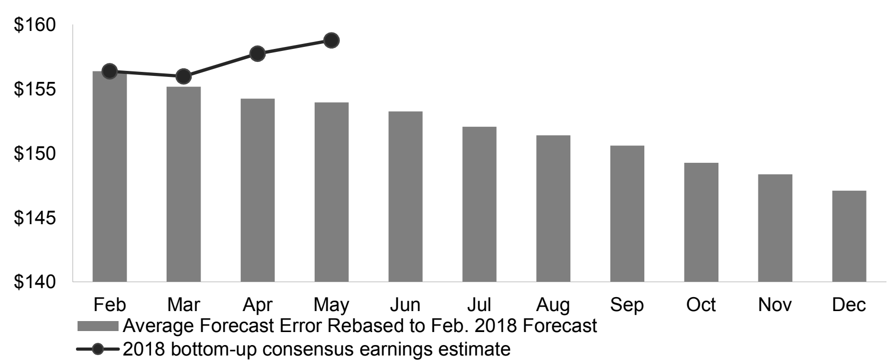
Another reason P/Es may have reached elevated levels is that investors are pricing in a sustained increase in corporate profits. Earnings have indeed been growing rapidly. In the first quarter, earnings grew an impressive 26% on a year-over-year basis versus estimates of 18% prior to the reporting season. President Trump's tax cuts were responsible for roughly half of those gains, based on our analysis. Moreover, revenues, which cannot be manipulated by changes in tax rates, rose 8% – the fastest year-over-year increase since 2011. Part of what is driving strong earnings growth is that profits have bounced back from almost two years without improvement between 2014 and 2016. A lack of upward progress for those two years due to collapsing oil prices and a surge in the U.S. dollar pulled profits well below their long-term trend (refer back to Exhibit 61). As a result, it wouldn't be unusual for earnings to continue to rise at above-average rates until being restored to trend. Analysts expect the positive trend in earnings to persist and have been raising their

Exhibit 65: S&P 500 Index
Consensus earnings estimates



Source: Thomson Reuters, Bloomberg

Exhibit 66: U.S. analyst overoptimism in S&P 500 EPS estimates
Monthly pattern, averages for 1985-2016



Source: Chopra, ThomsonReuters, RBC GAM

Exhibit 67: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500 Index

		Consensus			
		2018 Top down	2018 Bottom up	2019 Top down	2019 Bottom up
	P/E	$159.6	$158.8	$175.1	$174.7
+1 Standard Deviation	23.1	3679.5	3661.1	4036.9	4026.5
+0.5 Standard Deviation	20.9	3338.8	3322.1	3663.0	3653.6
Equilibrium	18.8	2998.1	2983.0	3289.2	3280.8
-0.5 Standard Deviation	16.6	2657.3	2644.0	2915.4	2907.9
-1 Standard Deviation	14.5	2316.6	2305.0	2541.6	2535.0

Source: RBC GAM

earnings forecasts in recent months, counter to the typical pattern of downgrades as a year progresses (exhibits 65 and 66).

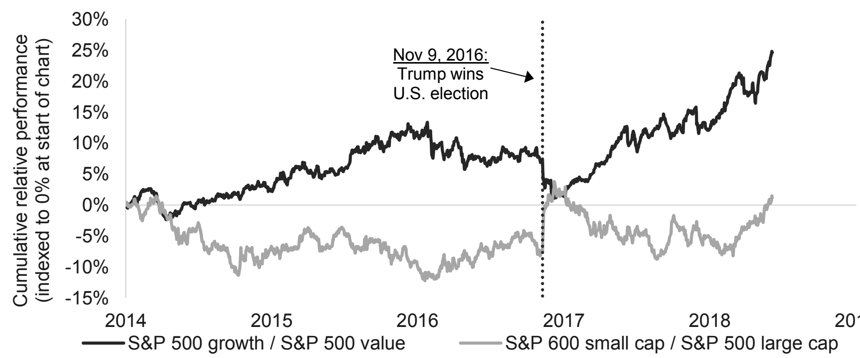
Base case scenario for stocks offers decent upside potential

Exhibit 67 outlines several combinations of consensus earnings estimates with various P/E levels to gauge the possibilities for the S&P 500 over the next two years. Stocks could deliver double-digit returns as long as earnings rise as analysts expect and the market trades at our modelled equilibrium P/E. Multiplying the consensus of top-down earnings estimates for this year of US$159.60 by the equilibrium P/E of 18.8 – the level consistent with current and prevailing interest rates, inflation and corporate profitability – suggests the S&P 500 would trade at 2998 by year-end representing a 12% total return from the close on May 31, 2018. The same math applied to figures for 2019 would boost that return to 25% for the coming 18 months! It is difficult to ignore the upside potential offered by equities in an environment where a somewhat conservative view can lead to double-digit returns.

Styles: small caps and growth stocks lead the way

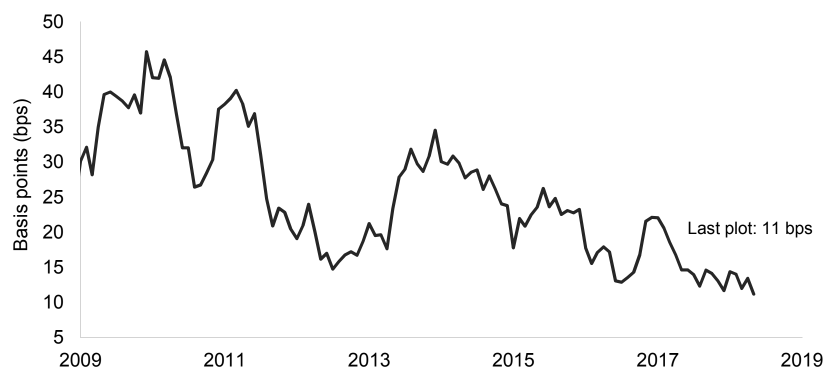
Growth stocks extended their gains relative to value stocks during the latest three-month period, and small-cap stocks resumed their leadership over large-cap stocks. The 3% advantage in growth stocks over value in the past quarter brought their relative gain to 25% since December 2016 (Exhibit 68). While investors initially favoured value stocks immediately following the U.S. presidential election on the prospect of increased economic activity, they ultimately gravitated towards stocks with a proven ability to generate meaningful and sustained earnings growth regardless of economic conditions. In terms of market capitalization, small caps have exhibited significant strength relative to large caps, outperforming them by 10% in the past three months. One factor helping small-cap stocks is that intensifying protectionism benefits smaller companies with a domestic focus. Small-cap outperformance may also be a sign of increasing investor risk appetite because smaller companies are generally more levered to changes in economic growth.

Exhibit 68: Relative style performance



Source: Bloomberg, RBC GAM

Exhibit 69: U.S. 10-year Treasury
Required move in yields for break-even return against 30-day T-Bill



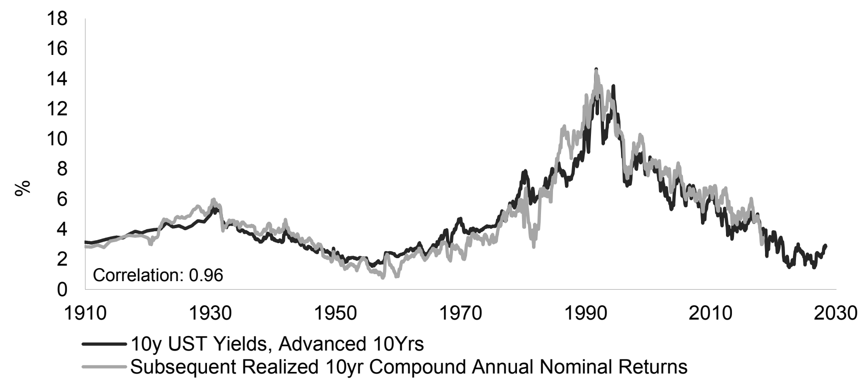
Source: RBC CM, RBC GAM

Asset mix – maintaining modest underweight bonds/ overweight stocks

Economies are advancing in all regions and, while growth slowed a bit in the first half of the year, the rate of global growth remains fairly good by post-crisis standards. The business cycle is in its later stages, but evidence of a looming recession is scarce. Risks to our outlook include rising interest rates, the ebb and flow of protectionism and the rising threat of populism in Europe. Our base case, however, is that the global economy successfully navigates these challenges and continues to expand.

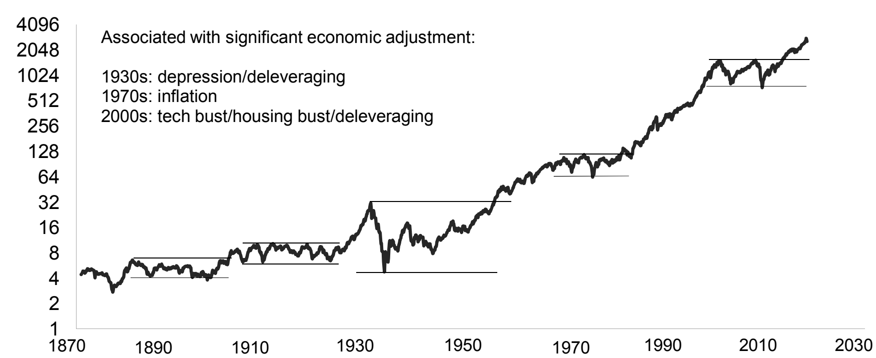
Fixed-income investments are unlikely to deliver attractive returns in an environment of moderate growth, firming inflation and gradual central-bank tightening. Rising rates will act as a headwind to bond returns and could lead to low or even negative returns for bonds for many years. In fact, the capital loss from a mere 11-basis-point increase in the U.S. 10-year yield would offset any incremental return offered on bonds relative to cash over the year ahead (Exhibit 69). While our forecasts don't look for meaningfully higher bond yields over the next year, sovereign bonds are likely to generate low single-digit returns over the longer-term. Supporting this conclusion is Exhibit 70, which plots the yield to maturity for U.S. 10-year T-bond, advanced 120 months, against realized 10-year returns. The high correlation between the two

Exhibit 70: U.S. 10-year Treasury note and returns



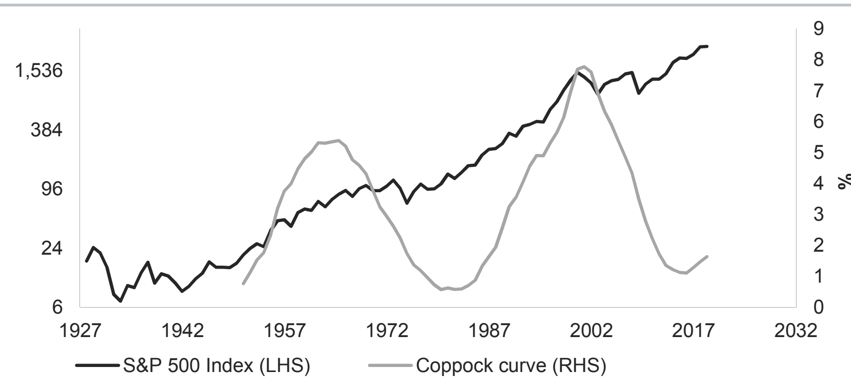
Source: Deutsche Bank, Haver Analytics, RBC Capital Markets

Exhibit 71: Range bound markets and cyclical bull phases
S&P 500 – 1870-2018



Source: RBC GAM, Robert J. Shiller

Exhibit 72: S&P 500 Index
Long-term price momentum

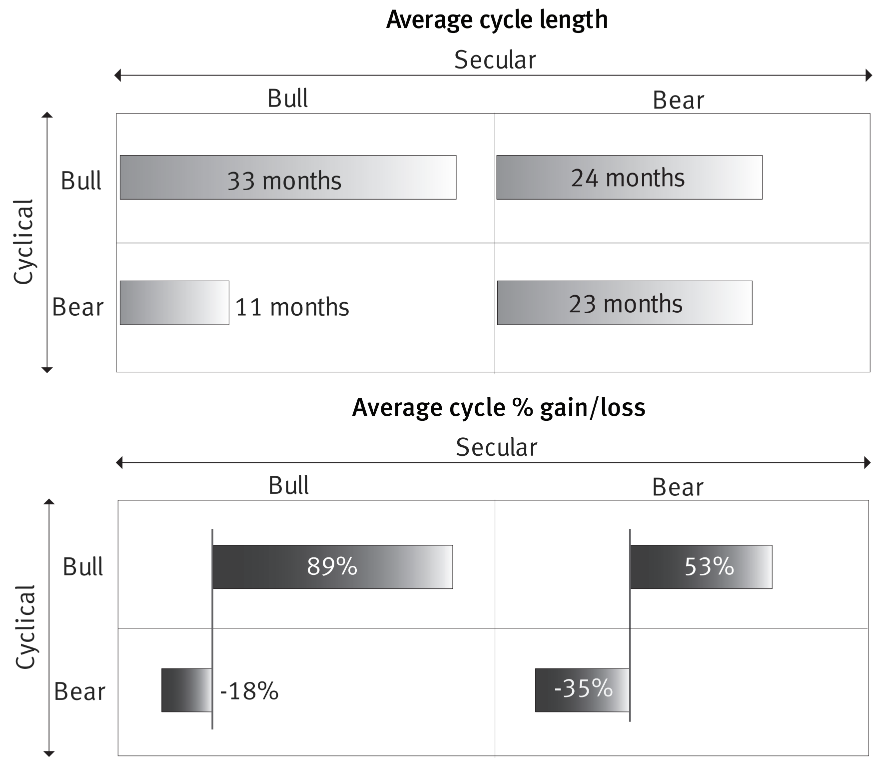


Note: coppock curve based on yearly data. Source: Bloomberg, RBC CM, RBC GAM series offers a pretty good guess for what a 10-year T-Bond will return over the next 10 years. At 2.86% as of May 31, 2018, the way ahead for sovereign-bond investors is hardly exciting.

Equities offer a much more attractive proposition for investors. In addition, it seems increasingly likely that stocks are in a secular bull market. Stocks have historically generated significant gains over long periods after extended phases of little-to-no progress such as the first decade of the new millennium (Exhibit 71). Our proprietary measure of long-term price momentum turned up at the end of 2016. The last time this happened was in 1980, which was followed by a 20-year bull market in stocks (Exhibit 72). The notion that we may be in a secular bull market is important because rallies last 1.5 times longer and are nearly twice as powerful in secular bull markets as in secular bear markets (Exhibit 73). Furthermore, corrections are half as severe in depth and duration in secular bulls versus secular bears.

Balancing the risks and opportunities in the short and long term, we feel it is appropriate for a balanced investor to maintain a slight bias toward risk assets. While stocks are likely to outperform over the longer term, it may be prudent to maintain a smaller allocation to risk assets in the shorter term given the maturation of the business cycle.

Exhibit 73: U.S. equity-market cycle statistics

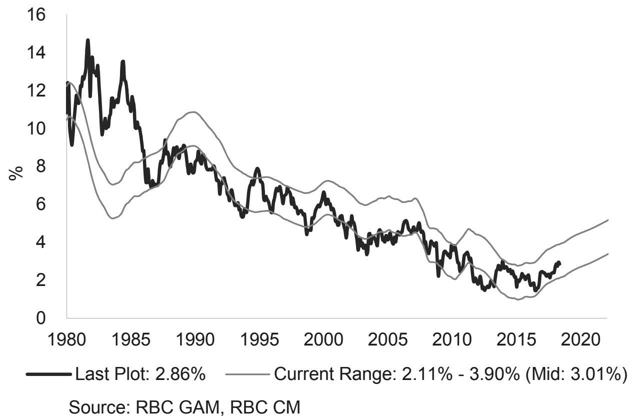


Source: RBC GAM

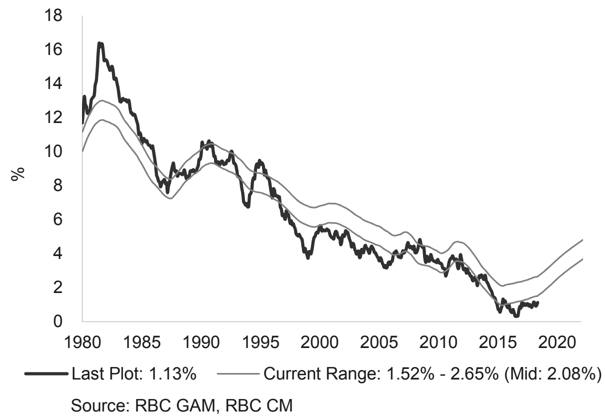
We have been dialing back our risk-taking as the cycle has progressed. Last quarter we reduced our underweight in bonds, adding one percentage point to our fixed-income position as U.S. 10-year bond yields approached 3%. We remain underweight bonds, but less so than at previous points in the cycle since bonds should serve as ballast in a balanced portfolio if equities run into turbulence or the economy downshifts. We opted this quarter to leave our asset mix unchanged because we think the potential upside in corporate profits justifies a mild overweight in stocks and our indicators suggest a low risk of recession over our forecast horizon. For a balanced, global investor, we currently recommend an asset mix of 58% equities (strategic neutral position: 55%) and 40% fixed income (strategic neutral position: 43%), with the balance in cash.

GLOBAL FIXED INCOME MARKETS

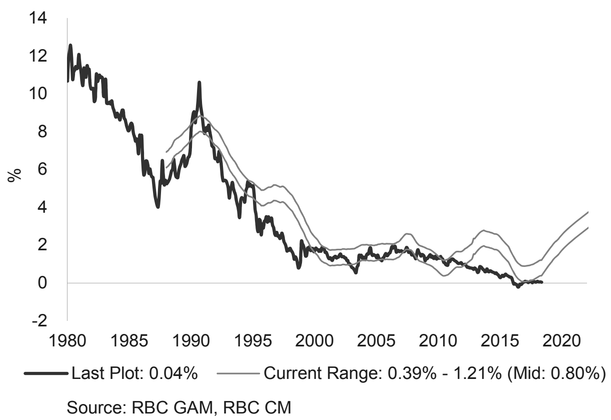
U.S. 10-Year T-Bond Yield
Equilibrium range



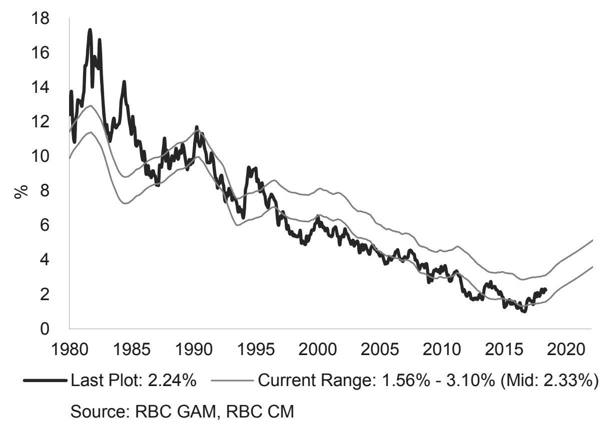
Eurozone 10-Year Bond Yield
Equilibrium range



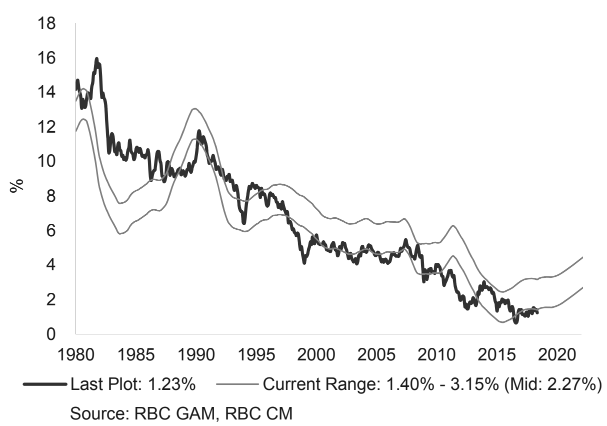
Japan 10-Year Bond Yield
Equilibrium range



Canada 10-Year Bond Yield
Equilibrium range



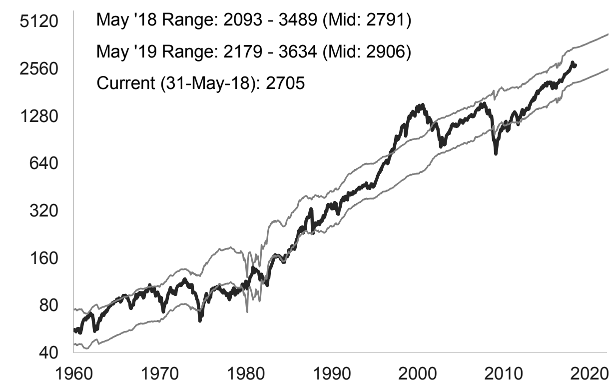
U.K. 10-Year Gilt
Equilibrium range



"Yields in Germany, the U.K, and Japan are at risk of significant upward adjustment, whereas yields in the U.S. and Canada are already near our modelled expectations."

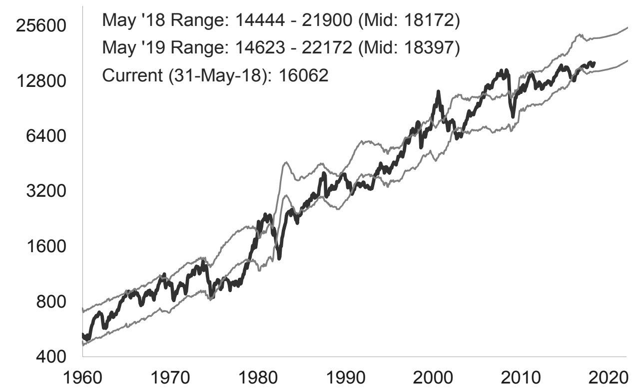
GLOBAL EQUITY MARKETS

S&P 500 Equilibrium
Normalized earnings and valuations



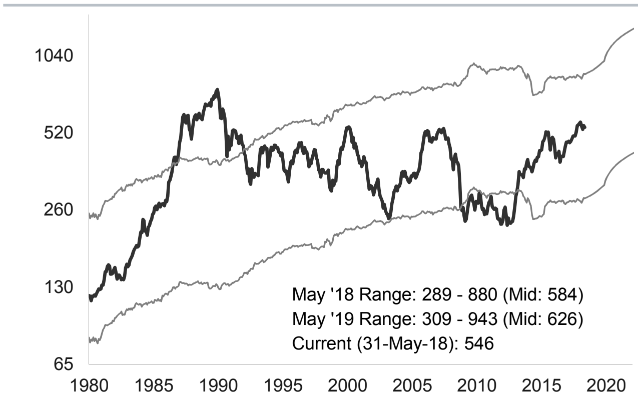
Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



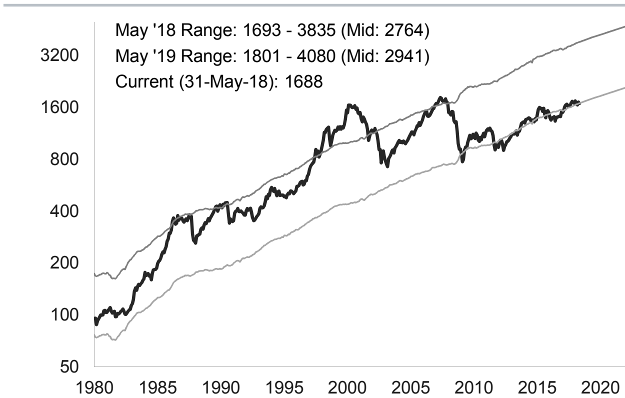
Source: RBC GAM

Japan Datastream Index
Normalized earnings and valuations



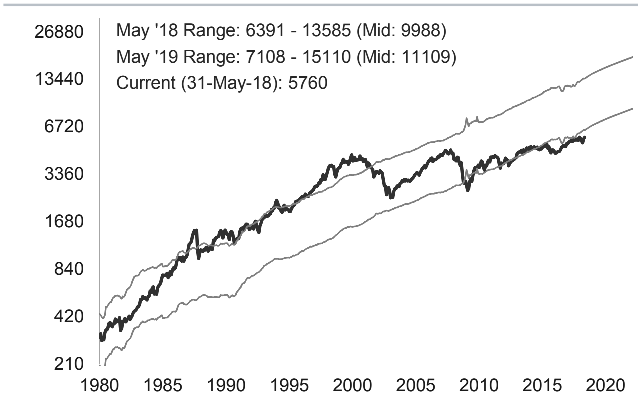
Source: Datastream, Consensus Economics, RBC GAM

Eurozone Datastream Index
Normalized earnings and valuations



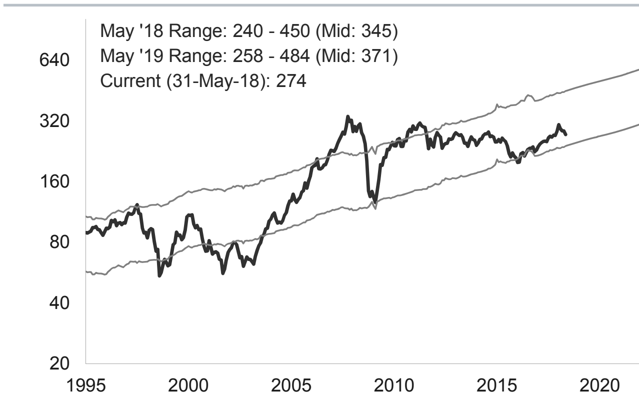
Source: Datastream, Consensus Economics, RBC GAM

U.K. Datastream Index
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM

Emerging Market Datastream Index
Normalized earnings and valuations



Source: Datastream, RBC GAM

GLOBAL FIXED INCOME MARKETS

The bond-market outlook

Soo Boo Cheah, MBA, CFA
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

Taylor Self, MBA
Analyst
RBC Global Asset Management (UK) Limited

The upward pressures on global bond yields appear significant. Economic growth around the world continues to be strong, inflation is picking up and labour markets are tighter than they have been in over a decade. Meanwhile, the monetary policies of most major central banks remain remarkably accommodative. Against this backdrop, continued policy tightening should not only be expected, but encouraged. At the same time, yields have risen to important long-term technical levels, unsettling market participants and increasing the stridency of calls for a long-term bear market in bonds.

With the case for higher bond yields appearing so strong, it is fair to wonder why we forecast that yields will be practically unchanged in a year's time. Our forecasts are based, in part, on the realization that the macroeconomic forces prevailing over the past year will likely shift downwards. Moreover, we believe that long-term structural factors are conspiring to keep bond yields low. We also believe that central-bank tightening is unlikely to lead to excessive increases in bond yields. In Europe, policy tightening will mostly affect the short end of the curve should the European Central Bank (ECB) deliver on rate-hike expectations. Meanwhile, the U.S. Federal Reserve (Fed) is closer to the end of its hiking cycle than the beginning, and further upward pressure on bond yields is likely to be modest.

To get some perspective, let's look at why bond yields have risen over the past year. A significant portion of the increase has been related to the restoration of a meaningful inflation premium to bonds – the compensation that investors receive to reflect higher expected levels of inflation. In Europe, especially, the risk of deflation has receded, replaced by concerns that inflation will accelerate amid rising prices for oil and other commodities. However, inflation that is driven by higher commodity prices is likely to be temporary, and we don't expect long-term inflation expectations to move meaningfully beyond most central banks' target ranges. We believe that long-term factors such as aging populations and technological advancement will continue to mute inflation, and therefore don't expect inflation to accelerate to levels that would jeopardize financial-market stability.

Long-run expectations are important for bond holders, and have historically provided a good estimate of the level of yields over time. In the short term, however, there are indications that yields could move higher given that economists have been raising their estimates for productivity growth and GDP growth. Such revisions are not surprising because econometric growth estimates tend to follow the direction of the economy. A case in point is the forecast of unemployment expectations known as the long-run equilibrium rate of unemployment, which has fallen to less than 5% from over 10% just after the deep recession of 2010.

Investors' appetite for stocks and other risky assets has been flagging in recent months after strong gains in 2017 and early 2018 as central banks withdraw liquidity and borrowing costs rise. Earlier this year, we said that the quicker pace of central-bank policy normalization would make investors more discerning in assessing risk than they had been in previous years. In particular, we highlighted that the withdrawal of liquidity from global financial markets via the end of quantitative-easing programs would be negative for risky assets. Since then, equity markets have wobbled, and emerging markets, which were judged to have among the brightest prospects early this year, have suffered. As asset-price volatility continues to rise, the safe-haven status of government bonds should strengthen and limit the pace at which yields can sustainably rise.

At the core of our outlook for bond yields is the belief that expectations about levels of future interest rates are much lower than has historically been the case. For some time we have spoken about the structural reasons why such long-run equilibrium rates should be lower, including demographic changes, slower productivity growth and growing demand for safe assets. Nothing suggests that these long-term forces have meaningfully faded.

Lower equilibrium interest rates have had an important effect on the decision-making framework of central bankers, as these low rates restrict the ability of policymakers to respond to negative shocks. Given that the structural factors holding down global interest rates are largely beyond the control of central banks, monetary policymakers have become more cautious about tightening policy – one area that they can control. In Europe, we can see this phenomenon at the ECB, which has maintained an exceptionally accommodative policy stance considering the strength of the Eurozone's economy. Meanwhile, the Fed's current hiking cycle represents the shallowest and most gradual normalization of policy ever.

The final part of our argument in favour of rates staying in check are today's historically high consumer- and government-debt levels, which we believe have dampened interest-rate expectations and restrained the pace at which central banks can raise interest rates without hurting economic growth. On the surface, this development is counterintuitive. All else being equal, economic theory suggests that the increase in global demand for borrowing would be accompanied by an increase in interest rates. Our view, however, is that higher debt levels cannot be divorced from lower global interest rates.

Let's analyze this connection in the context of current economic conditions. As overall debt in the economy increases, two things happen. First, potential GDP falls, and lower growth expectations tend to result in lower real interest rates. Moreover, any rise in interest rates must occur very slowly to facilitate continued borrowing and the rollover of existing debts, which must be adjusted to the new, lower expectations for economic growth. If interest rates rise too quickly, borrowers will need to devote more of their income and/or sacrifice planned investments to servicing debt and will have less left over for economy-strengthening consumption.

This lesson can be extended to governments and central banks, which have historically taken steps to offset a slowdown in economic growth by boosting government spending and cutting interest rates. The question is: what happens when these circuit breakers are impaired by already high government-debt levels and central banks limited by already rock-bottom interest rates?

In the U.S., tax cuts have increased the U.S. government's borrowing needs over the next several years, and it has long been clear that the federal budget was on an unsustainable path. What the recent tax reforms have accomplished, apart from providing fiscal stimulus to an economy requiring none, is to accelerate fiscal deterioration.

While the expansion of the fiscal deficit is now providing stimulus to the U.S. economy, it has also reduced the government's ability to provide fiscal stimulus tomorrow. With fiscal-stimulus levers impaired, more of the burden for supporting the economy in future recessions will fall to the Fed, resulting in longer spells of accommodative policy.

Wrapping up, global bond yields may well rise over the next three to six months given global economic strength and concern about inflation. However, we then expect longer-term structural factors to reassert themselves, pulling bond yields back down and in line with fair value.

GLOBAL FIXED INCOME MARKETS

Direction of rates

Soo Boo Cheah, MBA, CFA
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

Suzanne Gaynor
V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

The U.S. Federal Reserve (Fed) raised the fed funds rate in March, and we expect another three to four hikes over the next 12 months. However, heightened financial-market volatility relative to prior years will keep Treasury prices well supported, with bond yields remaining near current levels unless inflation is faster than expected. Our forecasts envisage the Fed continuing to gradually tighten policy through rate hikes and the continued shrinking of its balance sheet. We forecast that the 10-year yield will remain near 3.00% over the next 12 months, and that the fed funds rate will rise to about 2.50% from 1.68% currently.

Germany – German bund yields remain below most of our estimates of fair value. The European Central Bank's (ECB) low policy rate and bond-purchase program have kept government bond yields low across Europe. We expect the ECB to continue progressing towards eventual policy normalization assuming continued economic expansion and sustainable, but not-too-fast, inflation. The ECB should end bond purchases sometime late this year, with the first rate hike coming in the latter part of 2019, in our view. One risk to this outlook is the growing political crisis in Italy, where some major parties are vocalizing anti-EU platforms.

Investor anticipation of ECB policy normalization should put upward pressure on bund yields, and the absence of additional bund purchases by the ECB should relieve a shortage of German government bonds and allow yields to gravitate higher. Our 12-month forecast for the 10-year bund yield is 0.75%, which is higher than today's level. Our forecast is that the short-term benchmark deposit rate will not move much over the next year from the current level of -0.40%.

Japan – Inflation continues to lag the Bank of Japan's (BOJ) target of 2% even after years of extraordinary policy measures. More recently, the BOJ dropped its prediction that inflation would reach 2% by the end of next year. We believe this shift reinforces the open-ended nature of the BOJ's commitment to generating inflation and our expectation that sustainable inflation isn't coming anytime soon. The key impediment is Japan's aging population, a trend that shows no sign of improving. There simply are not enough young people projected to enter the workforce to offset the impact of retirees spending down their pensions. Japan's disinflation reflects, in part, the fact that young people do not earn enough to afford the assets that their elders are liquidating to finance retirements. Economy-wide wages and prices are also being held back by the rising use of robots and government efforts to hold down health-care costs. Structural disinflation pressures in Japan are here to stay.

With bond yields rising in Europe and at multi-year highs in the U.S., we expect that the 10-year Japanese government-bond yield will trade towards the upper end of its target range of 0.00% to 0.10%. We do not expect the BOJ to change its short-term policy rate over the next 12 months.

U.K. – We expect the Bank of England (BOE) to slow the pace at which it tightens policy over the next 12 months. U.K. economic growth has moderated in line with global peers and inflation pressures have eased a bit. However, in light of steady growth and inflation above the BOE's 2% target, it is reasonable to believe that the central bank will continue to raise rates from emergency levels. We expect the U.K. to be negotiating the terms and timeline of Brexit for a good part of our forecast horizon. Even with the talks' increasing frailty, we have pencilled in a 25-basis-point BOE rate hike, to 0.75%, premised on an extension of the global economic expansion. We are keeping the 10-year gilt yield forecast at 1.75%.

Canada – The Bank of Canada (BOC) has been sidelined since January, although Governor Stephen Poloz has indicated that "higher interest rates will be warranted over time." The BOC seems to be assessing the effect of new mortgage rules and higher interest rates on the economy.

Canadian yields have traded at historically low levels since the financial crisis due in part to huge demand from foreign investors. That demand seems to have hit a wall earlier this year. Investors sold a net $3.1 billion of Canadian bonds in the first quarter, compared with an influx of $25.5 billion during the same period of 2017. The bulk of the recent selling has been in Government of Canada bonds, but demand for provincial bonds has also faded somewhat, while corporate securities continued to attract buyers. Early signs in the second quarter show a return of foreign interest in provincial bonds. This is good news since the Ontario government has big funding requirements after expanding benefit promises in the run-up to a provincial election this month.

Central-bank tightening has led to curve-flattening in both the U.S. and Canada, as short yields have risen faster than longer-term yields. We note that the yield on Canada's 30-year government bond recently briefly fell below the yield on the 10-year security. Such an inversion had not occurred since 2006-2007, when the BOC was tightening aggressively in the approach to the financial crisis. Meanwhile, the yield on the 30-year U.S. Treasury is about 15 basis points higher than on the

Interest rate forecast: 12-month horizon
Total Return calculation: May 29, 2018 – May 28, 2019

U.S.	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.50%	2.75%	2.95%	3.00%	3.15%	1.88%
Change to prev. quarter	0.12%	0.00%	0.10%	0.00%	0.00%	
High	2.75%	3.20%	3.50%	3.50%	3.60%	(0.71%)
Low	1.63%	1.65%	1.65%	1.75%	2.00%	9.31%
Expected Total Return US$ hedged: 2.37%						

GERMANY	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.40%)	(0.20%)	0.50%	0.75%	1.30%	(3.27%)
Change to prev. quarter	0.00%	(0.20%)	0.00%	(0.25%)	(0.20%)	
High	0.00%	0.50%	1.00%	1.50%	1.90%	(9.01%)
Low	(0.40%)	(0.40%)	0.05%	0.50%	1.10%	(0.85%)
Expected Total Return US$ hedged: (1.27%)						

JAPAN	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.10%)	(0.05%)	0.02%	0.10%	0.90%	(1.69%)
Change to prev. quarter	0.00%	0.00%	0.00%	0.00%	(0.02%)	
High	0.00%	0.10%	0.10%	0.25%	1.10%	(4.30%)
Low	(0.10%)	(0.10%)	(0.10%)	(0.10%)	0.65%	1.72%
Expected Total Return US$ hedged: 0.95%						

CANADA	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.75%	2.30%	2.40%	2.50%	2.65%	(0.16%)
Change to prev. quarter	0.00%	0.00%	0.00%	0.00%	(0.05%)	
High	2.25%	2.35%	2.70%	2.75%	3.00%	(2.78%)
Low	1.00%	1.20%	1.40%	1.50%	1.70%	9.04%
Expected Total Return US$ hedged: 1.43%						

U.K.	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.75%	1.00%	1.50%	1.75%	2.05%	(3.49%)
Change to prev. quarter	0.00%	0.00%	0.20%	0.00%	(0.05%)	
High	1.00%	1.25%	1.60%	2.00%	2.20%	(5.58%)
Low	0.25%	0.25%	0.50%	0.75%	1.55%	4.66%
Expected Total Return US$ hedged: (1.12%)						

Source: RBC GAM

10-year security. We do not think the inversion in Canada portends an imminent negative shock to the Canadian economy.

The overnight indexed swap (OIS), an indicator of where interest rates are headed, is pricing in 70 basis points of tightening by the first quarter of 2019. We think that much will need to go right in the economy to get almost three BOC hikes in the next 10 months. Our forecast stays unchanged from the previous quarter, with the short-term interest rate rising to 1.75 (50 basis points higher than current levels). We are keeping our forecast for 10-year government bond yields at 2.50%

Regional Preferences

Setting forecasts asides, bond yields in most major markets are now close to our estimate of fair value. Where global bonds were previously expensive, they are now fairly valued or even a little undervalued. For markets that remain expensive, such as Germany's, our regional allocation is underweight. We are maintaining a 5% overweight in U.S. Treasuries and a 5% underweight in German bunds. U.S. bond valuations are fair to cheap, while bunds remain expensive. We expect bond returns in most regions to underperform cash on a currency-hedged basis.

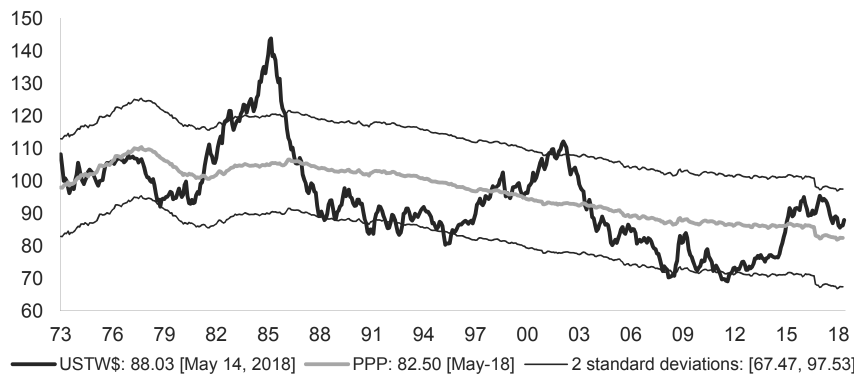
CURRENCY MARKETS

Dagmara Fijalkowski, MBA, CFA
Head, Global Fixed Income & Currencies
RBC Global Asset Management Inc.

Daniel Mitchell, CFA
Portfolio Manager
RBC Global Asset Management Inc.

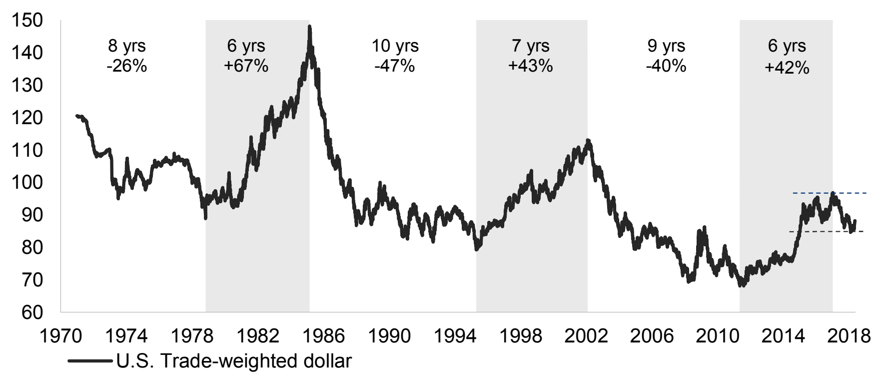
After more than a year of declines, the U.S. dollar has regained its footing. Since early April, the dollar has risen by 5% on a trade-weighted basis and, in our view, still has room to run. We have been among the minority of investors believing that the dollar could still strengthen. Unlike in past cycles, the dollar hasn't reached extreme levels of overvaluation (Exhibit 1). Without excessive valuations, the topping process marking the end of the dollar's uptrend will likely be an extended one (Exhibit 2). Our 12-month forecasts suggest further gains will be strongest against the British pound and Canadian dollar, while the euro and yen should fare better. With these forecasts, we remain much more bullish on the U.S. dollar than the consensus.

Exhibit 1: USD purchasing power parity valuation



Source: Bloomberg, RBC GAM

Exhibit 2: Long-term cycles in the U.S. trade-weighted dollar



Source: Bloomberg, RBC GAM

In the 14 months ended February, the U.S. dollar experienced a decline of 12%, a move that both helped to extend risk-taking behaviour in global asset markets and prematurely ended the debate about the dollar's direction. As 2017 progressed, investors became more emboldened in their calls for a weakening dollar. Negative sentiment toward the dollar was due, in part, to the Trump administration's preference for a weaker greenback and inflationary policies such as tariffs and sanctions, which should erode the dollar's value over time. Also responsible were America's fiscal and current-account "twin" deficits, which commanded more attention in a year when large tax cuts and trade protectionism were top of mind.

It was the sudden rise in U.S. interest rates in April that helped to turn the U.S. dollar around. The yield on the 10-year Treasury jumped to more than 3.0% from 2.7% in fewer than six weeks and caused the greenback to rally sharply over that period. The fact that the dollar has remained strong once yields settled speaks to some of the other reasons why we should expect further gains in the short term.

The most important of these is relative economic momentum, which has slowed much more in other major economies than in the

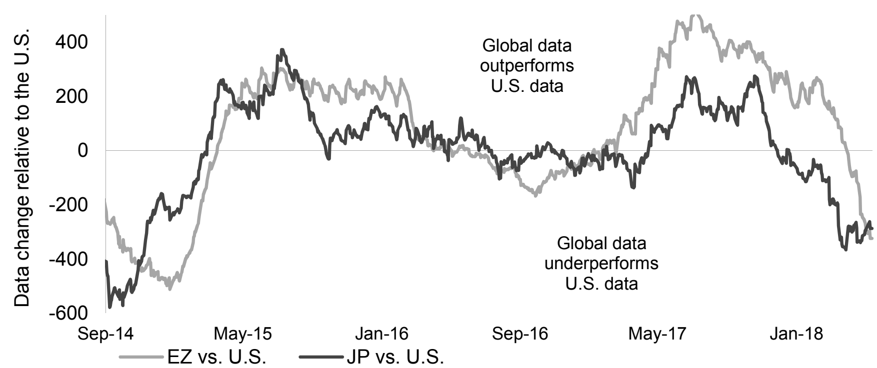
U.S. (Exhibit 3). This development reverses the trend that had largely driven U.S. dollar weakness last year with an almost simultaneous dovish response from central banks in continental Europe, the U.K., Canada and Sweden. All have backpedaled on earlier plans to tighten policy and, in turn, offered the greenback a boost. Until European economic data accelerates more convincingly, the path of least resistance will be for continued U.S. dollar strength.

It is also important to recognize that the current policy backdrop remains supportive for the greenback. Higher fiscal spending offset by monetary tightening tends to support the U.S. dollar because such a scenario will usually reflect stronger economic growth and the higher yields that go with it. The same can be said about a bear-flattening of the yield curve, where short-term interest rates are rising faster than the longer end of the curve.

Also at play is positioning. Investors speculating on the direction of the greenback remain underweight the U.S. dollar, and the cost of maintaining those bearish bets has become prohibitive as the U.S. Federal Reserve (Fed) hikes faster than other central banks (Exhibit 4). The unwinding of these bets has amplified the dollar's gains, and will continue to do so as dollar bears are wrong-footed.

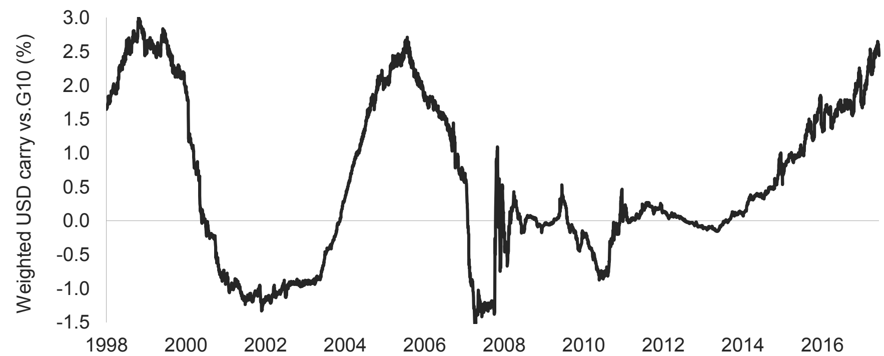
Most recently, there are signs that U.S. dollar strength may get an additional safe-haven boost from

Exhibit 3: Relative economic momentum



Source: Citibank, RBC GAM

Exhibit 4: Cost of hedging USD nearing two-decade highs



Source: Bloomberg, RBC GAM

European political uncertainty, which would enable the dollar to rise even in an environment where yields are falling. We acknowledge that the twin deficits and other longer-term negative factors will burden the greenback over time, but still believe that short-term elements can drive strength in the interim.

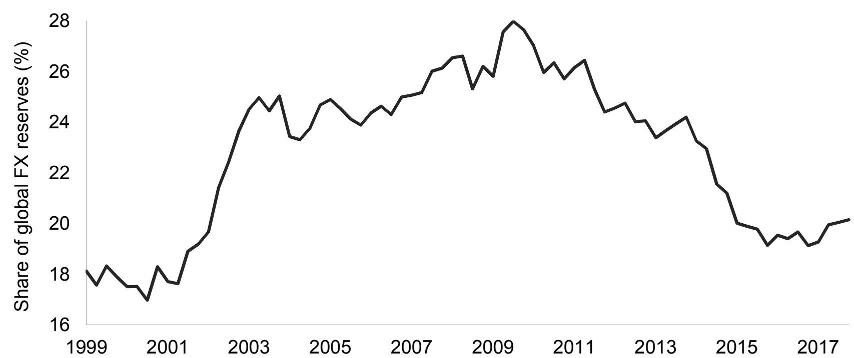
Euro

We are keeping our one-year euro forecast at 1.17, in line with our view that the installation of a populist government in Italy will not lead to the break-up of the Eurozone – this type of political news causing only short-term volatility. We had grown less bearish on the euro last quarter in recognition of more muted political risks after the election of Emmanuel Macron as French president, faster European economic growth and a current-account surplus that provides steady support to the currency. After recent euro weakness, those forecasts imply an expectation that the single currency will be trading at current levels in a year's time. However, consistent with our stronger U.S. dollar view, we expect that risks to our outlook lie toward a weaker euro throughout 2018. We think that the euro's strength in 2017 far overshot the fundamental improvement in growth, politics and flows. A euro at 1.25 was not sustainable, and it appears as though investors have begun to acknowledge the eventual impact that rising oil prices, higher yields and a stronger euro would impose on economic activity.

The impact of these negatives for European growth has dampened speculation that reserve managers are buying euros instead of U.S. dollars, a much trumpeted theme cited in favour of euro strength in recent quarters (Exhibit 5). The lack of availability and overvaluation of European debt don't support increased allocations by reserve managers given that the ECB is set to purchase almost 80% of net Eurozone sovereign debt issuance in 2018.

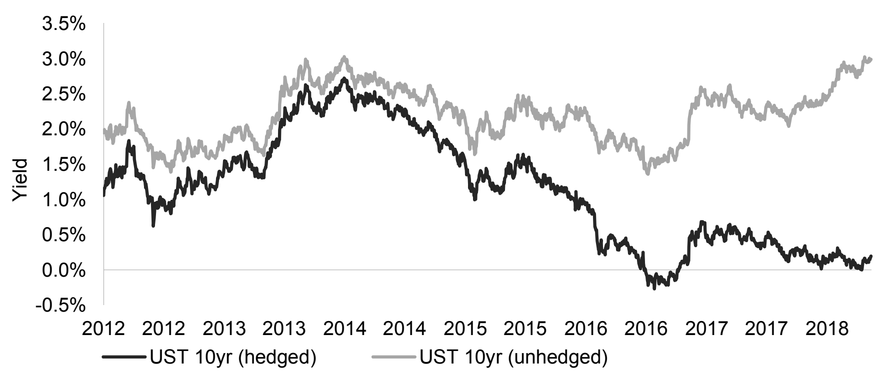
Finally, even with the plethora of euro-negative developments, we note that most forecasters haven't cut their outlooks yet, a sign of capitulation that will likely drive the euro lower still when it happens.

Exhibit 5: EUR share of FX reserves



Source: IMF COFER, RBC GAM

Exhibit 6: Unhedged yields are more attractive to Japanese investors



Source: Bloomberg, RBC GAM

Japanese yen

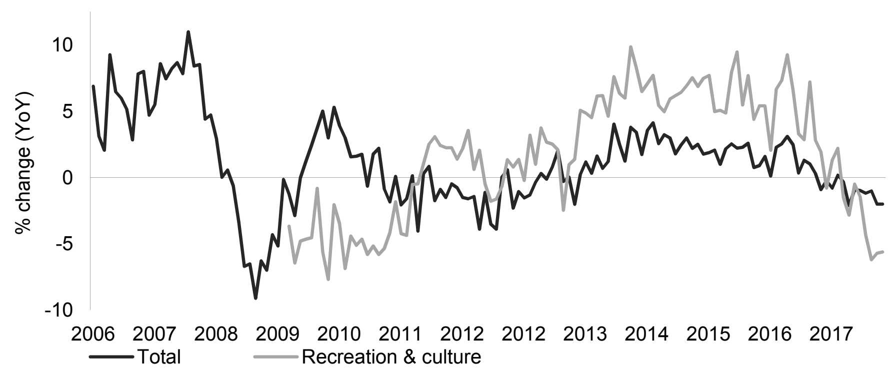
Our view on the Japanese yen has evolved to a more positive one, based on three factors. The first of these is valuation. The Japanese yen is the most undervalued of 31 important global currencies. The fact that the yen has been so cheap acts to limit the extent to which the currency can decline further before triggering investor demand. Second, Japan enjoys one of the biggest current-account surpluses in the G10, now amounting to 4% of GDP and representing steady inflows of capital from domestic exporters and investors. Third is the yen's safe-haven qualities characterized by the tendency of Japanese investors to repatriate capital when equity, fixed-income and currency markets become more volatile.

The one factor that could prevent the yen from strengthening is the increased cost of hedging borne by Japanese investors to immunize their portfolios from currency fluctuations. It is likely that some investors will choose to remove hedges on existing U.S. Treasury holdings in order to earn the much higher yields on offer (Exhibit 6). While this may limit the currency's gains beyond 100 per dollar, it hasn't deterred us from nudging our forecast in the direction of further yen strength toward 102 per dollar.

British pound

We have been taken aback by the resilience of the pound over the past year. The currency has fallen 8% from its mid-April peak, and, in our view, should trade much lower. For one thing, Britain has a weak government and Brexit-related political uncertainty has worsened. What concerns us more, however, is the outlook for household consumption in the U.K. For several years, households have relied on uncollateralized borrowing to maintain their spending amid slower inflation-adjusted income growth. This trend has come at a time of weakness in the housing market, historically a source of wealth used to bolster spending on consumer goods. This borrow-to-spend mentality limits future economic growth, as consumers will need to deleverage in order to raise the savings rates to more sustainable levels. Several indicators, including one prepared by Visa, suggest that the deleveraging we have been expecting has finally begun. The measure shows declines in credit-card spending by consumers both online and in retail stores (Exhibit 7).

Exhibit 7: Visa U.K. Consumer Sentiment Index



Source: Visa, Macrobond, RBC GAM

What's more, the cutbacks are most pointed in discretionary segments. The onset of belt-tightening is one of the reasons our economic forecasts call for slower growth in the U.K. than in other major economies. As this consumer-led economic weakness continues, and as the March 2019 Brexit deadline nears, we expect the pound to weaken to 1.25 by this time next year.

Canadian dollar

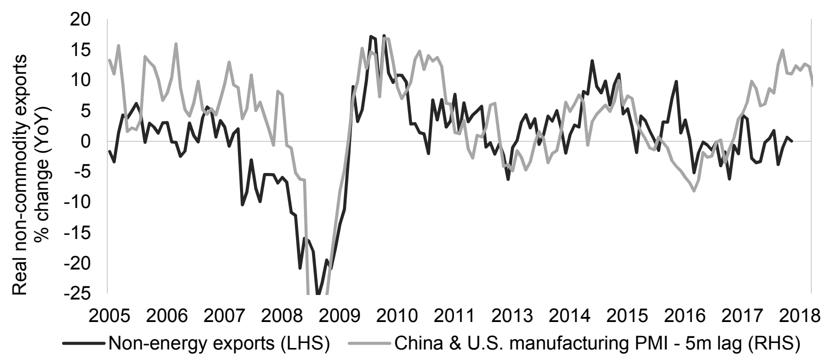
The Canadian dollar has been the least volatile of the major currencies, outperforming in the latest period simply by moving sideways. The muted price action, we think, reflects tension between some of the short- and long-term drivers of the currency. The Bank of Canada's insistence since last year that short-term interest rates will need to rise continues to surface as an argument for owning the loonie. Crude oil has also lent a helping hand of late, with prices of Canadian heavy crude trading at narrower discounts to American blends and generally stronger global oil prices. Expectations that the North American Free Trade Agreement would be successfully resolved had also been supporting the loonie. However, these hopes were dealt a blow at the end of May by Trump's decision to end the tariff exemption on Canadian steel.

Without these short-term positives, the Canadian dollar would almost certainly be weaker given the longer-term headwinds. Rising interest rates and stricter mortgage rules will make it more challenging for consumers to finance home renovations and other purchases, even as wages rise.

Second, economic drag will come from businesses, as Canadian companies choose to invest in manufacturing capacity south of the border rather than in Canada, where regulations, business taxes and wages are all rising.

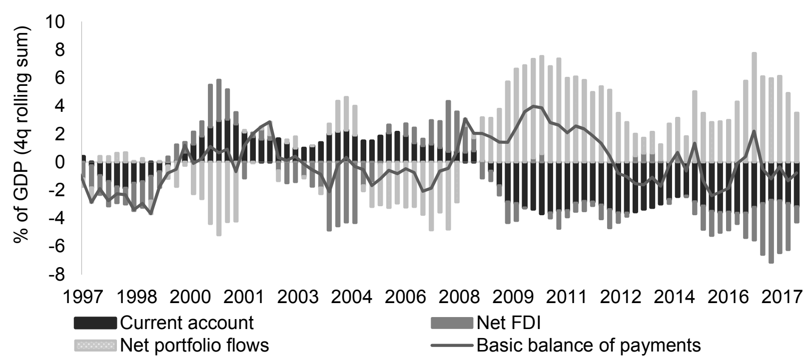
Exports are also a problem. Excluding the impact of commodities, Canadian exports are lower than we would expect given improvement in manufacturing indexes in the U.S. and China, Canada's two largest export destinations (Exhibit 8). We attribute the export weakness to factors such as the U.S. government's efforts to stimulate demand for U.S. goods over imports, as well as the continued decline in Canada's competitiveness. The competitiveness challenge is evident in Canada's current-account balance, which has hovered around a deficit of 3%-4% of GDP for almost a decade (Exhibit 9). Coupled with the growing outflows from foreign direct investment, Canada's current-account deficit represents a consistent outflow of capital and vulnerability for the currency should foreign demand for Canadian bonds falter. We expect that these longer-term themes will result in the loonie's decline against the U.S. dollar toward our 1.35 forecast, which lies closer to levels of extreme undervaluation of the Canadian dollar.

Exhibit 8: Canadian exports lagging global economic improvement



Source: CANSIM, Bloomberg, RBC GAM

Exhibit 9: Canada basic balance of payments



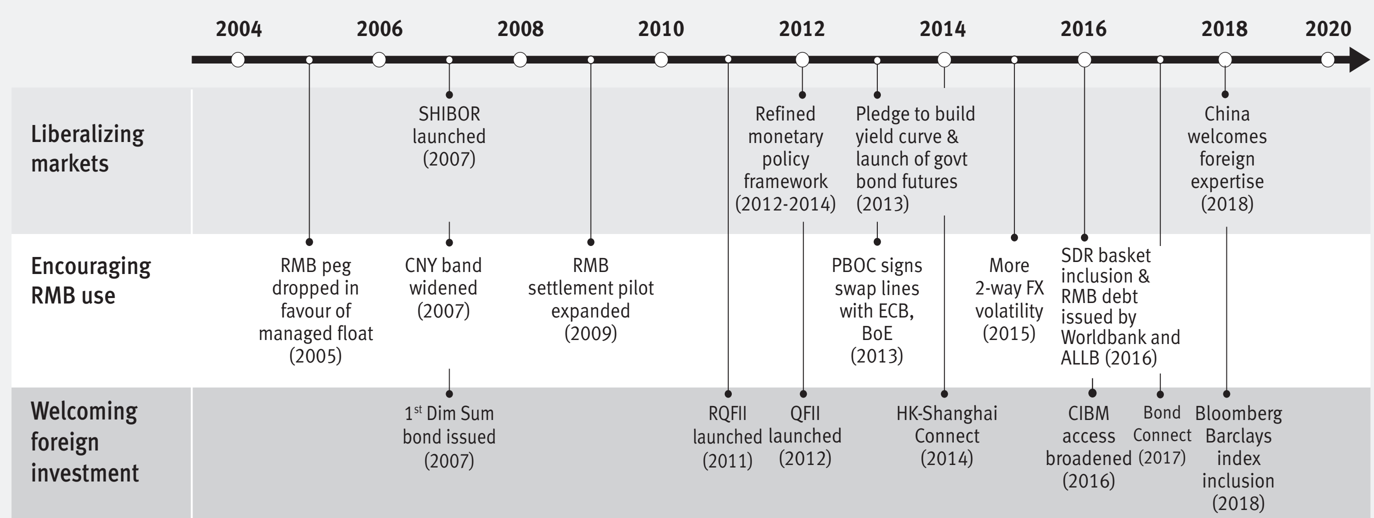
Source: Statistics Canada, RBC GAM

Negotiating trade with Trump: How China will get what it wants

Trade wars have been all over the news lately. While various aspects of the NAFTA negotiations have been discussed before in the *Global Investment Outlook*, we want to put the spotlight on the China-U.S. trade negotiations. The current White House administration has been putting pressure on China to reduce its trade surplus with the U.S. That surplus is responsible for 60% of the U.S. trade deficit, so the attention is understandable. To that end, the U.S. imposed tariffs first on Chinese aluminum (10%) and steel (25%), and then announced them on a long list of other products, trying to find a way to punish Chinese trade practices without hurting American consumers. That's a tall order and even though the new tariffs have been suspended for now, markets have been rocked by waves of concerns about the potentially negative impact on inflation and interest rates.

There were rumours a few weeks ago that China offered ways to reduce its annual trade surplus with the U.S. to US$200 billion from the current US$350 billion. The number seemed ambitious, and the rumours were denied. In this case, we are inclined to think that where there is smoke, there is fire. That's because we view these trade tribulations in a longer-term context and within longer-term Chinese objectives. President Xi's goal is to solidify China's ascendancy as a global superpower. Recent policy shifts through the Belt & Road initiative and the 'Made in China 2025' plan hint at these strategic aims to increase China's global political and economic influence. This also includes a special role for its currency. Plans to promote the use of the renminbi outside China consist of increasing the country's role in international payment systems, international reserves and international capital markets. To that end, China has been executing incremental steps since 2005 (Exhibit A), pushed

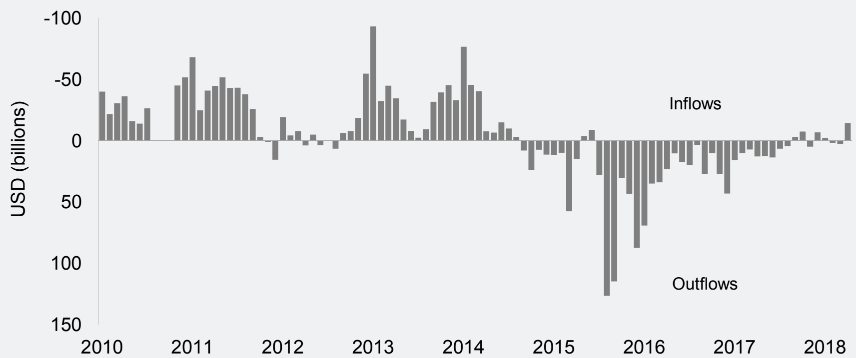
Exhibit A: Chinese reforms to internationalize the renminbi



for inclusion in the IMF's basket of currencies in 2015 and, more recently, has gradually started to open its equity and bond markets.

The long-term objective is for the renminbi to become truly floating, but the fear is that, without adequate preparation, opening the door to capital outflows will lead to massive currency depreciation. We need only remember what happened in 2015/2016, when outflow pressure was so heavy (Exhibit B) that it caused currency weakness of 10% despite capital controls and other government interventions to prop it up. The problem lies in very low ownership of Chinese assets by foreigners who, for example, hold less than 3% of renminbi-denominated government bonds. So the master plan is simply to allow for greater foreign ownership of renminbi assets in China to pave the way for liberalizing outbound flows. Chinese nationals want to be able to invest globally, but the Chinese government can't allow that without offsetting inflows, so it has a strong motivation to have the renminbi's role as an international currency enhanced. The complexity comes from the sheer size of the inflows required to offset the amount of renminbi that would flood out of the country should barriers be relaxed, and a desire to avoid excessive currency fluctuation.

Exhibit B: Net FX transactions by banks on behalf of clients



Source: SAFE, RBC GAM

China's commitment to acting in what its leaders see as the country's long-term interests suggest that China is more likely to be patient and even accommodating to U.S. demands. China has the power to accommodate by substituting U.S. imports for those of other countries, like Boeing for Airbus, or U.S. soybeans for Brazilian soybeans. The Chinese government has the advantage of wielding stronger control than other countries, which is why a true trade war is not our base case scenario. China's efforts to appease the U.S., at least in the short term, however, would be negative for the currencies of U.S. export competitors.

REGIONAL OUTLOOK – U.S.

Brad Willock, CFA
V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

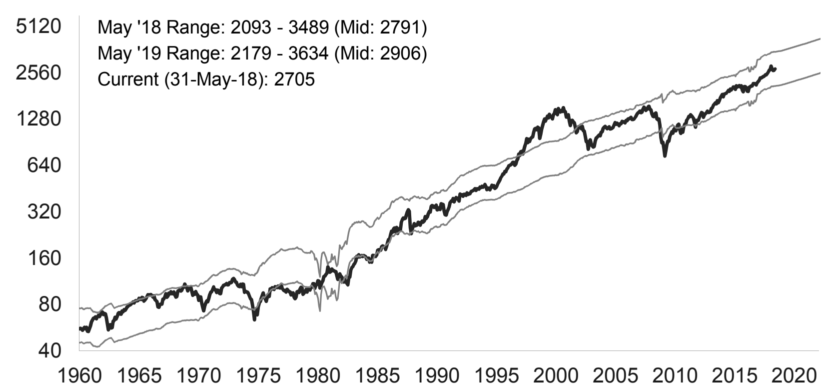
The S&P 500 was flat in U.S. dollar terms during the past three months as concerns regarding trade, rising inflation and interest rates, and increasing geopolitical turmoil outweighed the positive impact of strong corporate earnings. Robust returns from the Energy sector plus solid results from the interest-rate-sensitive Utilities and Real Estate sectors, as well as economically sensitive Information Technology and Consumer Discretionary sectors were offset by negative performance in Financials and Consumer Staples. While the global economy continues to expand, growth in the U.S. is accelerating, causing interest rates and inflation to rise and the U.S. dollar to move higher versus currencies of major trading partners.

United States – Recommended sector weights

	RBC GAM Investment Strategy Committee May 2018	Benchmark S&P 500 May 2018
Energy	6.7%	6.3%
Materials	3.5%	2.8%
Industrials	9.0%	9.9%
Consumer Discretionary	13.5%	12.9%
Consumer Staples	5.7%	6.7%
Health Care	13.9%	13.9%
Financials	15.0%	14.2%
Information Technology	27.0%	26.0%
Telecommunication Services	1.0%	1.8%
Utilities	2.8%	2.8%
Real Estate	2.0%	2.7%

Source: RBC GAM

S&P 500 Equilibrium
Normalized earnings and valuations



Source: RBC GAM

The U.S. economic backdrop remained solid, as real GDP growth has been roughly 3% in the last three quarters compared with the 2% trend seen since the global financial crisis. Growth appears to have had decent momentum heading into the last part of the second quarter. Surveys of economic activity, which correlate well with GDP, have been coming in at high levels and exceeding already high expectations. The U.S. Manufacturing ISM rose 1.4 points to 58.7 suggesting that activity in the manufacturing economy is robust (a level of 48 indicates a recession). In addition, internal data showed hiring was strong and customer inventories had fallen and were lean. Importantly, the new-orders sub-index jumped 2.5 points indicating that activity is likely to remain high for at least the next several months. According to the Federal Reserve Bank of Atlanta, real GDP growth for the calendar-year second quarter is rising at a roughly 4.7% pace, while the New York Fed's estimate is about 3.3%. In the most recent jobs report, the unemployment rate dropped to 3.8%, marking a low not seen since 1969. Job growth is strong, but slowing as businesses report that it is increasingly hard to fill positions.

Wage growth is accelerating in response, mostly for young new entrants in the job market and for those changing jobs, for whom wage growth exceeds 4%. According to surveys, the main problem for business is finding suitable workers.

The S&P 500 has risen over 12% during the past year, driven primarily by solid corporate fundamentals and the recent passage of legislation that lowered the corporate-tax rate. After three years of essentially flat earnings, the S&P 500 generated roughly 12% earnings growth in 2017. In the most recent quarter, earnings per share for the S&P 500 climbed about 24% driven by top-line growth of over 8% - the best in six years. Profitability remains exceptional as net-profit margins were roughly 13%, near all-time highs, and the incremental margin on each dollar of new sales was 19%, similar to the percentage of the prior five quarters. The remarkable profitability is being driven by the Information Technology sector, which was the top sector with incremental margins of 42%, including 73% for the semiconductor industry.

Although corporate financial performance has been exceptional, the S&P 500's returns so far this year have not been. While this dynamic may seem odd, it is quite typical of what happens as the business cycle ages. On the one hand, robust earnings growth makes stocks attractive. On the other hand, macroeconomic factors such as higher interest rates and inflation, weigh on valuations because they suggest that earnings growth is likely to decline. In addition, rising uncertainty about the sustainability of the business cycle, increased market volatility or deteriorating credit conditions will also weigh on valuations. We expect rising anxiety about all three of these issues to increasingly hold back valuations as we move through the latter part of the economic expansion.

The U.S. Federal Reserve (Fed) is raising short-term interest rates, inflation is rising, corporate-earnings growth is peaking, the market's return on equity of 18% is near an all-time high and pretax margins are at records. We must recognize that asset prices have gone up substantially over the past nine years, and that most of the tailwinds to improved returns are in the process of reversing. Interest rates, which moved lower for about 35 years, appear to have bottomed in mid-2016 following the Brexit vote. Labour costs as a percentage of total costs have fallen as supply chains were made global, particularly after China entered the WTO in 2001, and now a potential trade war with China and others threatens to undermine the margin structure of U.S. multinationals. We remain cautious but note it is still too early to position portfolios for a bear market given that the earnings cycle appears to be intact and credit markets remain supportive.

While our base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to different outcomes. On the downside, a policy mistake by the Fed or escalation of protectionist trade moves by the Trump administration are the most likely causes of a downturn given the potential for both to crimp the expansion. The market could also experience a downturn if the euro-skeptic parties in control of Italy push the case for exiting the euro and thereby cause a credit crisis. On the upside, if investors become convinced that the business cycle is likely to remain intact through 2021, then earnings for 2020 could be roughly US$190 and the market would likely trade near 3000 sometime in 2019. The key point is that as long as growth remains positive and the Fed raises rates at a slow and measured pace, stocks should make some headway this year, but investors should continue to expect returns ranging in the high single digits to low double digits.

REGIONAL OUTLOOK – CANADA

Sarah Neilson, CFA
Portfolio Manager
RBC Global Asset Management Inc.

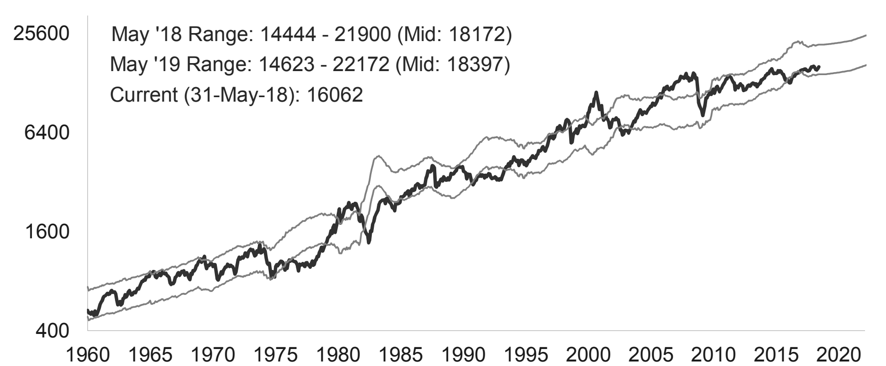
Irene Fernando, CFA
Portfolio Manager
RBC Global Asset Management Inc.

Canada – Recommended sector weights

	RBC GAM Investment Strategy Committee May 2018	Benchmark S&P/TSX Composite May 2018
Energy	20.0%	19.5%
Materials	12.0%	11.7%
Industrials	10.0%	10.3%
Consumer Discretionary	6.0%	5.6%
Consumer Staples	3.0%	3.4%
Health Care	1.0%	1.3%
Financials	34.5%	33.8%
Information Technology	4.8%	4.0%
Telecommunication Services	3.4%	4.4%
Utilities	3.0%	3.5%
Real Estate	2.3%	2.8%

Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



Source: RBC GAM

Volatility in equity markets remained elevated in the three-month period as investors digested the impact of firming inflation expectations and rising bond yields on the economy, earnings outlook and valuations. U.S. President Trump's focus on imposing trade restrictions stoked investor anxiety. During the period, higher prices for crude oil and the solid global economic backdrop underpinned a 5.2% total return for the S&P TSX Composite Index, outperforming the 0.4% gain in the S&P 500 Index. So far in 2018, the S&P TSX has been essentially flat, while the S&P 500 has risen 2.4% and the MSCI World is up 0.8%.

The Canadian economy expanded at a 3% clip in 2017, and our forecast is for a drop to about 1.8% this year. Consumption is expected to ebb in 2018 as consumers feel the effects of a slowing housing market and rising interest rates. Continued labour-market strength and minimum-wage increases could act as offsets. Last month, the Bank of Canada (BOC) maintained the benchmark interest rate at 1.25% and slightly lowered its GDP growth forecasts, reflecting the housing-market softness and faltering energy exports. Even with inflation running at close to 2%, the BOC remains cautious about hiking interest rates amid uncertainty regarding NAFTA negotiations and Trump's recent imposition of tariffs on Canadian steel. As a result, the pace of interest-rate increases in Canada is likely to continue lagging the U.S.

The S&P/TSX is trading just below 16 times 2018 EPS estimates, which is a little more than one multiple point lower than the S&P 500. However, the gap between higher U.S. multiples and Canadian multiples has narrowed in favour of Canada over the past year and we think the spread should continue to narrow. S&P/TSX earnings expectations are for $1,010 in 2018 and about $1,140 in 2019, representing annual increases of 13% in each of the next two years. The earnings outlook has been upgraded to reflect higher crude-oil prices, underpinning Energy sector earnings, as well as earnings momentum in the Financials sector. The global economic backdrop supports continued momentum in commodity prices as the global economy appears to be entering the later part of the cycle.

Interest-rate-sensitive sectors such as Telecommunication Services and Utilities have underperformed this year amid higher bond yields. Tax reform in the U.S. has also contributed to volatility, with Enbridge in the Utilities sector being forced to wind up master limited partnerships based south of the border. The Information Technology sector is benefiting from a strong appetite for takeovers and industry growth.

Canadian bank stocks fell 0.7% during the three-month period and are down 2.3% so far in 2018. The latest quarterly results showed strong operational performance, with earnings growth up 12% year over year. Investors expect bank earnings per share to grow 10% in 2018 and 6% in 2019, based on consensus estimates. Valuations have contracted to 11 times 2018 earnings from the recent peak of more than 12, and banks now trade at slightly below the post-crisis average. The banks' earnings trajectory has benefited from the BOC's more hawkish rate outlook, which should translate into rising net interest margins.

High Canadian consumer leverage, supported by low 5-year mortgage rates and falling unemployment, remains a concern for domestically exposed banks such as CIBC. In the wake of stricter mortgage-underwriting guidelines enacted in January, Canadian house prices are up 6.6% on a year-over-year basis but 2% below their 2017 peak. Mortgage rates are up 70 basis points year over year, and will affect the relatively large number of renewals this year. Banks are reporting a slowdown in residential loan growth, partially offset by commercial lending. The result is aggregate loan growth of 6%.

Life-insurance companies are also poised for strong profit growth in 2018, given higher long-term interest rates and stable equity markets. New capital standards were imposed by Canadian regulators on life insurers in the first quarter of 2018. Valuations remain attractive at 10.5 times projected 2018 earnings, which is one multiple point lower than where the group traded one year ago.

The Energy sector was the top performer over the past three months given the rise in the North American benchmark oil price to over US$65 per barrel from less than US$50 a year ago. In Canadian-dollar terms, producers are receiving $75 per barrel for their light oil barrels today. Global demand for crude oil has increased as India and China boost consumption. Supply remains balanced, with limited OPEC production allowing increased U.S. shale output to be absorbed. Going forward, OPEC's production strategy will be a key determinant of the direction of oil prices. Canadian energy producers continue to deal with local price discounts due to the lack of distribution pathways for both crude oil and natural gas. A number of proposed crude-oil pipelines are stalled due either to lengthy regulatory processes or public opposition. Canadian producers will find it hard to secure space on existing pipelines, forcing them to ship oil by the more costly train option. Rail transportation itself currently has capacity constraints, but we expect that these will be overcome in the latter half of the year. As a result, the discounted price at which Canadian oil sells should improve.

Also impacted by the stalled pipeline environment are the major energy-infrastructure companies, TransCanada and Enbridge. The shares of both companies have been under pressure given a combination of higher leverage, sizeable funding requirements, regulatory uncertainty regarding future projects and rising rates. Both companies have significant project backlogs, and the ability to make progress on these projects without relying on debt financing will be key.

REGIONAL OUTLOOK – EUROPE

David Lambert
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

Given the political backdrop in Europe over the past few years, our commentary on European markets has consistently tried to address the risk of political upheaval at the macro level, while trying to stay focused on what is really happening in the economy and within the companies that populate it.

Along those lines, we thought that a new government in Germany would still the political noise in Europe. However, Italy has become the first major European country in recent history to experiment with a populist government after far-left and far-right parties cobbled together a coalition earlier this month. The coalition eliminated the need for new elections but raised the possibility that dissatisfaction with the euro will become a bigger political issue. We also are in the midst of Brexit negotiations. Progress has certainly been made, but the one big hurdle is whether a trade-hindering, politically sensitive border will be drawn between Ireland and Northern Ireland, which is part of the U.K. In the next few weeks, we should get more clarity on this matter, but the uncertainty does pose a risk.

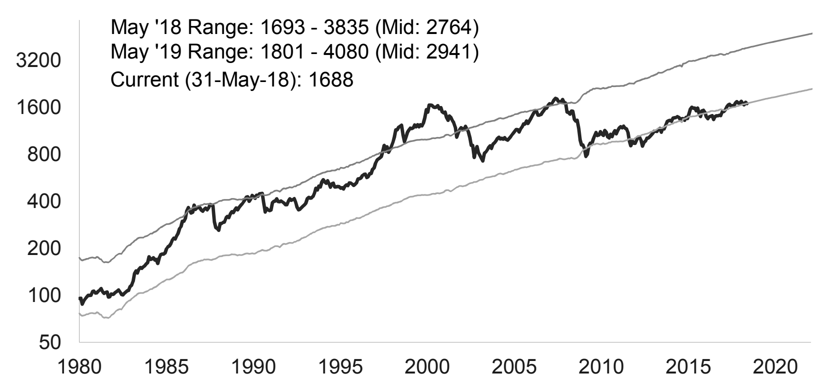
Focusing on business fundamentals, we still see a relatively robust backdrop, but acknowledge that there are some potential flags worth monitoring. On the positive side:

Europe – Recommended sector weights

	RBC GAM Investment Strategy Committee May 2018	Benchmark MSCI Europe May 2018
Energy	7.8%	8.3%
Materials	9.0%	8.7%
Industrials	13.0%	13.2%
Consumer Discretionary	12.0%	11.0%
Consumer Staples	13.0%	13.2%
Health Care	12.0%	12.2%
Financials	19.1%	19.5%
Information Technology	7.4%	5.4%
Telecommunication Services	3.0%	3.4%
Utilities	2.8%	3.6%
Real Estate	1.0%	1.5%

Source: RBC GAM

Eurozone Datastream Index Equilibrium
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM

- Europe's earnings base remains depressed relative to other major markets, and we see significant medium-term upside potential
- Credit conditions are supportive, with real interest rates remaining low
- Relative valuations in Europe versus other equity regions sit at a discount, and are also discounted versus the bond market

However, a few negatives have caught our eye:

- The euro has been robust, particularly leading up to the Italian election. This is a headwind for exporters, but has become less so since the election

- Although purchasing managers' indexes (PMIs) remain strong, they are turning downwards. This can signal a market shift toward defensive stocks
- Plans by the European Central Bank and the Bank of England to tighten monetary policy could have a negative impact on equities given elevated P/E multiples

The indicator measuring Eurozone economic surprises has declined over the first part of 2018, and we have also seen leading indicators begin to move downwards from very high levels. The rolling-over of leading indicators is not necessarily bearish for the market as a whole, but can have implications for sector rotation.

PMIs at their current high levels are still consistent with double-digit earnings growth and we are not seeing elevated expectations for earnings. This profit trend gives us comfort as it indicates that there is not too much exuberance built into bottom-up forecasts.

Eurozone earnings are still depressed at 19% below their 2008 highs, whereas in the U.S. they are 54% above where they were a decade ago. Drilling down, however, we see that Eurozone earnings have been polarized between globally exposed companies and those reliant on commodity prices or domestic revenues. In fact, earnings at the Eurozone's global companies have kept pace with the U.S. market since the 2009 trough. Ultimately, we still see the potential for European profits to progress further as the domestic/commodity-exposed areas rebound.

From a valuation perspective, market P/Es are close to fair value, and dividend yields in all markets look attractive relative to yields on bonds. On the basis of price-to-book value, Europe appears cheap versus the broad market and, in particular the U.S., against which Europe rests near a 40-year low.

At the market level, we see data that generally supports further earnings growth in Europe. Moreover, the beginning of a decline in leading indicators reminds us that the market can continue to advance at times when sector rotation would suggest otherwise. For instance, we have seen a very strong run in cyclical sectors over the past 24 months. The strength has been such that, on a price-to-book basis, cyclical stocks are trading more than one standard deviation above the long-term average versus defensive issues, and are at levels where we historically have seen a reversal. We would expect this reversal pattern to continue over the next six to 12 months.

This scenario fits with the 'style-cycle' work that we have monitored for a number of years. Here we are seeing the composite leading indicator (similar to PMIs and the IFO measure of German business confidence) moving down from high levels, while remaining positive. This movement normally signals a shift to the slowdown phase, where large-cap stocks and those considered high quality and low risk tend to outperform small caps. Since 1995, stocks have spent an average of 10 months in the slowdown phase, and have proceeded to a recession phase seven of nine times. The last time that a slowdown didn't transition to recession was in 2010, when a second round of quantitative easing reignited the stock market with a rush of liquidity.

From a sector perspective, the principal changes to our sector positioning have been an increase in exposure to Financials given reasonable valuations, generally better capital positions and the potential uplift to banks' profit margins and earnings from a rising-rate environment. We still remain underweight banks, with a preference in the Financials sector for diversified financial companies and Insurance. The increase in exposure to the Financials sector has come at the expense of the Industrials sector, which is home to many companies dependent on a relatively fast pace of economic growth.

REGIONAL OUTLOOK – ASIA

Derek Au
Research Analyst
RBC Investment Management (Asia) Limited

Asia – Recommended sector weights

	RBC GAM Investment Strategy Committee May 2018	Benchmark MSCI Pacific May 2018
Energy	3.3%	3.3%
Materials	7.5%	6.7%
Industrials	11.5%	12.2%
Consumer Discretionary	13.5%	12.5%
Consumer Staples	6.0%	6.5%
Health Care	5.4%	5.4%
Financials	21.0%	20.5%
Information Technology	22.3%	21.2%
Telecommunication Services	3.0%	3.9%
Utilities	2.0%	2.5%
Real Estate	4.5%	5.3%

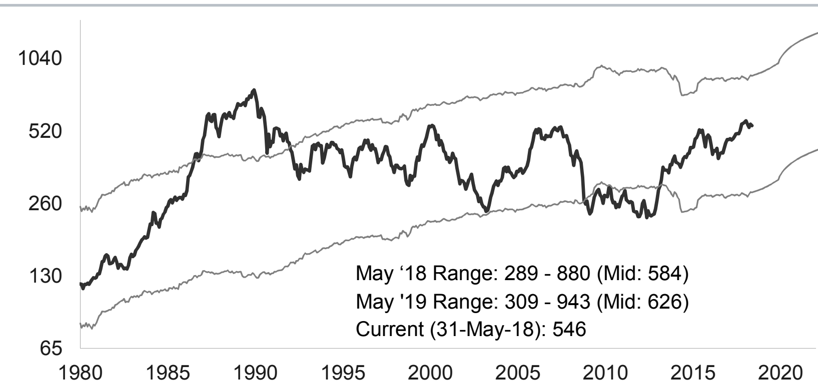
Source: RBC GAM

Asian equities, in line with global stocks, sold off for much of March and April. However, they had pared most of the losses by the end of May, as investor sentiment improved on hopes for advancement in the U.S.-China trade dispute and a better-than-expected earnings outlook for the region's Information Technology and Health Care sectors. Asian equity markets excluding Japan have been a major beneficiary of global economic growth over the past year.

Japanese equities were something of a mixed bag during the three-month period amid trade threats from U.S. President Donald Trump, domestic political concerns and a softening yen. Japanese bourses were roughly flat from March to May as the yen fell 2 percent during the period after strengthening more than 5 percent in January and February.

Apart from Japan, the strongest-performing markets in Asia were South Korea and Taiwan, while Thailand and Indonesia underperformed. Discussions aimed at facilitating peace talks among South Korea, North Korea and the U.S. have helped ease geopolitical tensions and boosted investor optimism about South Korean conglomerates and the country's construction industry. Rising oil prices, however, will be largely negative for Asia, with India and the Philippines most affected.

Japan Datastream Index Equilibrium
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM

Japan

The benchmark Nikkei 225 Stock Index has been flat since the start of 2018, following a 20% gain in 2017 that was due in part to a softening in the yen. At the macro level, the Bank of Japan (BOJ) left its assessment unchanged that the economy is gradually recovering, signalling that growth will rebound from a slowdown in the first quarter. Business investments and private consumption remain solid, but a contraction in government expenditures could lead to slower growth in 2018. Consumer prices have been stubbornly slow to recover as inflation tracks well below the BOJ's 2% target.

The risks to our view on Japanese equity markets are a weakening of the U.S. dollar versus the yen because of the Japanese currency's reputation as an investor safe haven, and Prime Minister Abe's diminishing approval rating. Externally, Trump's plan to impose trade tariffs could become a stronger headwind for the U.S. dollar and would have a negative impact on Japanese corporate earnings. It is fair to say that the threat of a trade war has captured investors' concern.

Meanwhile, Abe's approval ratings are weighed down by allegations of cronyism and he now faces a backlash over dealings with a conservative school in acquiring public land at a steep discount. Abe's sagging political support could dash his hopes of winning a third three-year term as leader of the governing Liberal Democratic Party in a September party ballot. A victory would put him on track to become Japan's longest-serving premier. One political tailwind for the prime minister is the success of Abenomics: the financial and economic reforms that he spearheaded have been a policy boon for Japan and its economy.

Asia Pacific ex-Japan

Asia-Pacific markets edged lower during the three-month period on fears of a global trade war. At the sector level, Health Care and Utilities outperformed, while Financials and Consumer Discretionary underperformed. By country, Australia and Taiwan outperformed, while the Philippines and Indonesia lagged the benchmark.

South Korea's benchmark equity bourse, the Kospi, rallied and was one of the best performers in the region after optimism increased about the possibility of peace talks between North Korean leader Kim Jong Un and the South Korean administration.

Australia's economy has shown gradual progress, driven by increased public infrastructure spending and solid commodity prices. Consumer demand remains respectable with solid retail-sales figures, but consumers remain constrained by high debt levels and relatively low wage growth. Savings rates in Australia have declined over the past six months, but the federal budget in May provided some support via a modest personal-tax cut. Elsewhere, a sustained rally in oil prices should provide a tailwind for the broader economy.

Economic growth has held up in Singapore due mainly to an improvement in manufacturing output at the start of the year, and with growth in services exceeding market expectations. Singapore and Hong Kong are more exposed than the rest of Asia to global economic cycles, rising interest rates and financial-market volatility.

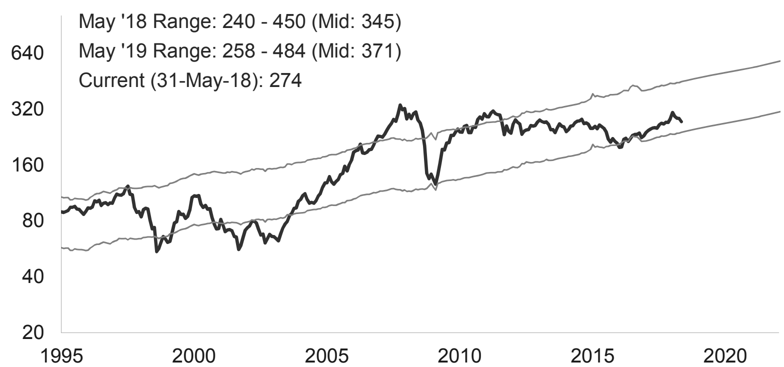
In Indonesia, the central bank raised its benchmark interest rate by 25 basis points on May 17 to 4.5% and is expected to raise it by another 25 points in early June to support the Indonesian rupiah. The Philippines's central bank has cut its bank-reserve requirement ratio to 18% from 19%, effective June 1, to inject liquidity into the financial system.

President Trump has started to deliver on his protectionist threats and continues to up the ante against China. Trump's view is benefiting from the fact that the U.S. trade deficit with China has increased over his presidency to its highest ever - US$386 billion at the end of February 2018. U.S. protectionism clearly has global and regional ramifications in Asia. Chinese President Xi Jinping appears to have opened the door to trade negotiations with the U.S., and China has reinforced its desire to further open up its economy and become more involved in global cooperation.

REGIONAL OUTLOOK – EMERGING MARKETS

Philippe Langham
Head & Senior Portfolio Manager
Emerging Market Equities
RBC Global Asset Management (UK) Limited

Emerging Market Datastream Index Equilibrium
Normalized earnings and valuations



Source: Datastream, RBC GAM

The case for emerging markets to continue outperforming is largely predicated on the view that these markets are relatively early in their growth cycle. The MSCI Emerging Markets Index returned 38% in 2017 and 12% in 2016, making it the best performing major global benchmark by some margin over this period. However, there was severe underperformance between 2010 and 2015, creating the potential for further catch-up in the years ahead. The gap in economic growth favouring emerging markets over developed markets, so instrumental in driving equity returns over the past few decades, continues to accelerate.

Emerging-market profit margins are coming back from the 2016 cyclical trough, supporting a recovery in returns on equity and future earnings growth. Even with the equity recovery in emerging markets, the benchmark is trading at mid-cycle valuations, with the price-to-book ratio at its long-term average of 1.8 times and a 25% discount to developed markets. The emerging-market discount relative to developed markets, and the U.S. specifically, is significantly wider when the cyclically adjusted Shiller P/E ratio is applied over the past 10 years.

Our view that we are midway through a multiyear upturn in emerging markets remains intact, but it is also worth considering any developments that could disrupt this thesis. The most significant threats in our view are trade; a correction in developed equity markets; a stronger U.S. dollar; a sell-off in the Information Technology sector; and disappointing earnings.

We are least concerned, at least in the short term, by the one that has perhaps made the most noise so far this year: trade. The good news is that signs point to Trump moving away from a widely targeted trade war to a narrower and more justified dispute versus China's business practices. The dispute appears to be shifting from a focus on trade and tariffs towards an emphasis on technology-related investment. This is likely to be a drawn-out battle, but one where the implications are very much long term.

One area of concern, given our view that emerging markets are relatively early in the cycle, is how we can expect emerging-market equities to perform in the event of a downturn in developed markets. The first quarter of 2018 was unusual in that it was one of seven quarters since 1995 during which U.S. equities fell and emerging markets outperformed. Over that period, the U.S. market had 27 down quarters. Similarly, if we look back at periods where the MSCI World Index has been down over the past two decades, emerging markets have generally underperformed.

Another significant potential headwind for emerging markets is a stronger U.S. dollar. Historically, the dollar and emerging markets have moved in opposite directions. In 2017, the trade-weighted dollar weakened 11%, and the softening continued into the first quarter of this year. However, this trend reversed recently. While a stronger U.S. dollar would represent a headwind for emerging-market equities, our view is that any U.S. dollar strength would be more likely to occur versus developed-market currencies, as was the case in 2016, than against emerging markets.

There are three key reasons for this currency view. First, real interest rates in emerging markets are much higher than they are in developed markets. Second, emerging-market currencies look undervalued on a range of measures following the weakness between 2010 and 2015. Third, economic fundamentals in the vast majority of emerging markets have improved, with Turkey being the only significant one to have a current-account deficit greater than 3% of GDP.

One factor that has become very relevant for the performance of emerging markets is the Information Technology sector's large weighting in the index. Last year's gains at the index level were driven primarily by stocks in this sector, with five large-cap stocks accounting for more than 40% of the emerging-market benchmark's gains. The Information Technology sector now accounts for 29% of the index weight, up from 10% 10 years ago.

Following last year's stellar performance, Information Technology has been underperforming so far this year, and our stance on the sector is to be underweight for a number of reasons. First, earnings momentum has started to decline sharply. Second, valuations in the Information Technology sector, while not extreme, have become somewhat extended.

We also believe that too many investors are chasing performance in the Information Technology sector and that the sector's current popularity limits gains going forward. Finally, the internet stocks that have been leading the sector face risks from regulation, government interference and lower returns from new investments. As earnings in the sector moderate, we would expect a much more even distribution in earnings growth by sector to unfold in 2018. Any short-term weakness linked to these concerns could offer opportunities for rebuilding positions to take advantage of the sector's long-term structural growth.

After a period of acceleration, we are seeing a moderation in emerging-market growth surprises, and it is a similar story with earnings expectations, which have begun to moderate after last year's consistent upgrades. Current expectations are for 14% EPS growth in 2018 and 11% in 2019. We believe these numbers are reasonable given our view that emerging-market profit margins will continue to expand from a low base, although we feel that the low end of a 10% to 15% EPS growth range is more realistic. Earnings growth could be put at risk if we were to see any change in the emerging-market reform agenda spurring productivity improvements such as, for example, backtracking on supply-side reform in China.

RBC GAM INVESTMENT STRATEGY COMMITTEE

Members

Daniel E. Chornous, CFA

Chief Investment Officer
RBC Global Asset Management

Chair, RBC GAM Investment Strategy Committee

Dan Chornous is Chief Investment Officer of RBC Global Asset Management Inc., which has total assets under management of approximately $425 billion. Mr. Chornous is responsible for the overall direction of investment policy and fund management. In addition, he chairs the RBC Investment Strategy Committee, the group responsible for global asset-mix recommendations and global-fixed income and equity portfolio construction for use in RBC Wealth Management's key client groups including retail mutual funds, International Wealth Management, RBC Dominion Securities Inc. and RBC Phillips, Hager & North Investment Counsel Inc. He also serves on the Board of Directors of the Canadian Coalition for Good Governance and is Chair of its Public Policy Committee. Prior to joining RBC Asset Management in November 2002, Mr. Chornous was Managing Director, Capital Markets Research and Chief Investment Strategist at RBC Capital Markets. In that role, he was responsible for developing the firm's outlook for global and domestic economies and capital markets as well as managing the firm's global economics, technical and quantitative research teams.

Stephen Burke, PhD, CFA

Vice President and Portfolio Manager
RBC Global Asset Management

Stephen is a fixed-income portfolio manager and Head of the Quantitative Research Group, the internal team that develops quantitative research solutions for investment decision-making throughout the firm. He is also a member of the PH&N IM Asset Mix Committee. Stephen joined Phillips, Hager & North Investment Management in 2002. The first six years of his career were spent at an investment-counselling firm where he quickly rose to become a partner and fixed-income portfolio manager. He then took two years away from the industry to begin his Ph.D. in Finance and completed it over another three years while serving as a fixed-income portfolio manager for a mutual-fund company. Stephen became a CFA charterholder in 1994.

Dagmara Fijalkowski, MBA, CFA

Head, Global Fixed Income & Currencies
RBC Global Asset Management

As Head of Global Fixed Income and Currencies at RBC Global Asset Management, Dagmara leads investment teams in Toronto, London and Minneapolis in charge of almost $100 billion in fixed income assets. In her duties as a portfolio manager, Dagmara heads management of several bond funds, manages foreign-exchange hedging and active currency overlay programs across a number of funds. Dagmara chairs the Fixed Income Strategy Committee. She is also a member of the Investment Policy Committee, which determines asset mix for balanced and multi-strategy products, and the RBC Investment Strategy Committee. In 2016, she was appointed to the RBC GAM Executive Committee. Dagmara, who began her investment career in 1994, holds an MBA from the Richard Ivey School of Business in Canada and a Master's degree in economics from the University of Lodz in Poland. Dagmara has been a CFA charterholder since 1997.

Stuart Kedwell, CFA

Senior Vice President and
Senior Portfolio Manager
RBC Global Asset Management

Stu co-leads the North American Equity team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities in the firm's Generalist program, a two-year internship in which participants rotate through different areas of the firm. In 1998, he joined the RBC Investments Portfolio Advisory Group, which provides investment ideas and recommendations to RBC DS Investment Advisors. He was also a member of the RBC DS strategy & focus list committees. Stu has been with the firm since 2002 and is a CFA charterholder.

Eric Lascelles

Chief Economist
RBC Global Asset Management

Eric is the Chief Economist for RBC Global Asset Management Inc. (RBC GAM) and is responsible for maintaining the firm's global economic forecast and generating macroeconomic research. He is also a member of the RBC GAM Investment Strategy Committee, the group responsible for the firm's global asset-mix recommendations. Eric is a frequent media commentator and makes regular presentations both within and outside RBC GAM. Prior to joining RBC GAM in early 2011, Eric spent six years at a large Canadian securities firm, the last four as the Chief Economics and Rates Strategist. His previous experience includes positions as economist at a large Canadian bank and research economist for a federal government agency.

Hanif Mamdani

Head of Alternative Investments
RBC Global Asset Management

Hanif Mamdani is Head of both Corporate Bond Investments and Alternative Investments. He is responsible for the portfolio strategy and trading execution of all investment-grade and high-yield corporate bonds. Hanif is Lead Manager of the PH&N High Yield Bond and Alternative strategies, including a multi-strategy hedge fund. He is also a member of the Asset Mix Committee. Prior to joining the firm in 1998, he spent 10 years in New York with two global investment banks working in a variety of roles in Corporate Finance, Capital Markets and Proprietary Trading. Hanif holds a master's degree from Harvard University and a bachelor's degree from the California Institute of Technology.

Martin Paleczny, CFA

Vice President and
Senior Portfolio Manager
RBC Global Asset Management

Martin Paleczny, who has been in the investment industry since 1994, began his career at Royal Bank Investment Management, where he developed an expertise in derivatives management and created a policy and process for the products. He also specializes in technical analysis and uses this background to implement derivatives and hedging strategies for equity, fixed-income, currency and commodity-related funds. Since becoming a portfolio manager, Martin has focused on global allocation strategies for the full range of assets, with an emphasis on using futures, forwards and options. He serves as advisor for technical analysis to the RBC GAM Investment Strategy Committee.

Sarah Riopelle, CFA

Vice President and
Senior Portfolio Manager
RBC Global Asset Management

Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions. Sarah is a member of the RBC GAM Investment Strategy Committee, which sets global strategy for the firm, and the RBC GAM Investment Policy Committee, which is responsible for the investment strategy and tactical asset allocation for RBC Funds’ balanced products and portfolio solutions. In addition to her fund management role, she works closely with the firm’s Chief Investment Officer on a variety of projects, as well as co-manages the Global Equity Analyst team.

William E. (Bill) Tilford

Head, Quantitative Investments
RBC Global Asset Management

Bill is Head, Quantitative Investments, at RBC Global Asset Management and is responsible for expanding the firm’s quantitative-investment capabilities. Prior to joining RBC GAM in 2011, Bill was Vice President and Head of Global Corporate Securities at a federal Crown corporation and a member of its investment committee. His responsibilities included security-selection programs in global equities and corporate debt that integrated fundamental and quantitative disciplines, as well as management of one of the world’s largest market neutral/overlay portfolios. Previously, Bill spent 12 years with a large Canadian asset manager, where he was the partner who helped build a quantitative-investment team that ran core, style-tilted and alternative Canadian / U.S. funds. Bill has been in the investment industry since 1986.

Milos Vukovic, CFA

Vice President, Investment Policy
RBC Global Asset Management

Milos, who joined RBC in 2003, oversees investment-management activities including new-fund launches, performance analytics and trade-cost analysis. He is also responsible for developing and monitoring investment mandates and implementing tactical asset allocation for the RBC GAM investment solutions. Milos earlier worked for a Big 4 accounting firm and two top-tier securities firms. He earned an MBA at the Schulich School of Business and has held the CFA designation since 2004. He is a board member of both the Canadian Buy-Side Investment Management Association and the Canadian Advocacy Council for Canadian CFA Institute Societies, and recently joined IIROC’s Market Structure Advisory Committee.

Brad Willock, CFA

Vice President and
Senior Portfolio Manager
RBC Global Asset Management

Brad Willock joined RBC Global Asset Management in July 2002 and is a Senior Portfolio Manager and CFA charterholder. In his current role, Brad has responsibility for RBC Global Asset Management’s core and income-oriented U.S. equity strategies. He joined RBC in May 1996 after receiving a bachelor’s of commerce degree with distinction from the University of Calgary. Prior to that, Brad obtained a bachelor’s of science degree at the University of British Columbia and represented Canada at the 1992 Barcelona Summer Olympics in volleyball.

GLOBAL EQUITY ADVISORY COMMITTEE

› **Philippe Langham**
Head & Senior Portfolio Manager,
Emerging Market Equities
RBC Global Asset Management (UK) Limited

› **Brad Willock, CFA**
V.P. & Senior Portfolio Manager,
North American Equities
RBC Global Asset Management Inc.

› **Mayur Nallamala**
Head & Senior V.P., Asian Equities
RBC Investment Management (Asia) Limited

› **Martin Paleczny, CFA**
V.P. & Senior Portfolio Manager,
Asset Allocation & Derivatives
RBC Global Asset Management Inc.

› **Dominic Wallington**
Head, European Equities &
Senior Portfolio Manager,
RBC Global Asset Management (UK) Limited

GLOBAL FIXED INCOME & CURRENCIES ADVISORY COMMITTEE

› **Dagmara Fijalkowski, MBA, CFA**
Head, Global Fixed Income & Currencies
RBC Global Asset Management Inc.

› **Soo Boo Cheah, MBA, CFA**
Senior Portfolio Manager,
Global Fixed Income & Currencies
RBC Global Asset Management (UK) Limited

› **Suzanne Gaynor**
V.P. & Senior Portfolio Manager, Global
Fixed Income & Currencies
RBC Global Asset Management Inc.

› **Eric Lascelles**
Chief Economist
RBC Global Asset Management Inc.

DISCLOSURE

Global Asset Management

100537 (06/2018)