May 2, 2019

RBC WEALTH MANAGEMENT

Global Insight Weekly

A closer look

An earnings season plot twist?

Kelly Bogdanova – San Francisco

The Q1 earnings season began with the looming specter of an earnings recession. But when all is said and done, Q1 should eke out a bit of growth. As we deconstruct the narrative, we see four positive developments that point to modest growth for 2019 and support our constructive outlook for U.S. equities.

The U.S. equity market has been unusually calm during the earnings reporting season, taking conspicuous profit misses in stride and drifting to new highs.

But don't mistake the tranquil mood for a lack of developments. Some trends have emerged that are worth paying attention to regarding the trade tussle with China, the economy, pricing power, and the yield curve.

We think positive developments on these fronts support our recommendation to stick with U.S. equities by holding Market Weight or benchmark positions in portfolios.

Flipped, not flopped

With 61% of S&P 500 companies having released Q1 results so far, earnings per share (EPS) growth has flipped into positive territory at 0.5% y/y, up from the -2.3% consensus forecast when the reporting season began. We think it will finish a bit higher when all is said and done.

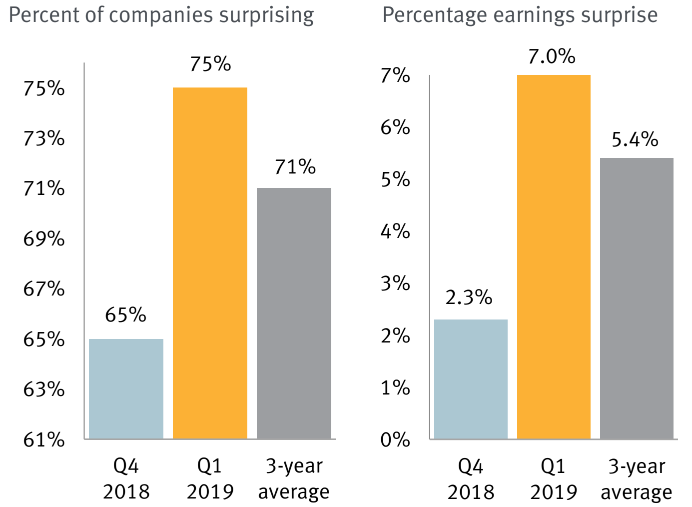
Such a tiny growth rate is normally something that would raise concerns. But it's not troubling this time considering the very high hurdle of 18.6% y/y EPS growth (26.6% including corporate tax cuts) that was set in the same period a year ago. Also, sales of goods and services have been firm. Q1 2019 revenue growth is tracking at a healthy 5.0% y/y rate.

Getting trendy

Behind the headline numbers, four trends have caught our attention:

- **What trade war?:** Fewer management teams have discussed various trade and tariff challenges than in the

S&P 500 Q1 2019 surprises outpacing previous periods



Source - National research correspondent, FactSet, Thomson Financial; data through 5/1/19 with 73% of S&P 500 market cap having reported Q1 2019 earnings

Market pulse

Click here for authors' contact information.

Priced (in USD) as of 5/2/19 market close, EST (unless otherwise stated).

For important disclosures and required non-U.S. analyst disclosures, see page 6

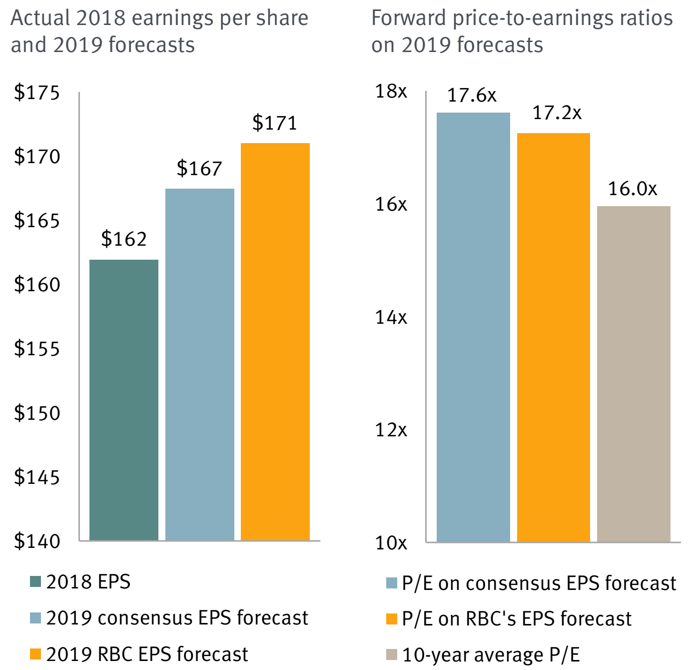
two prior reporting periods, according to a study by RBC Capital Markets. So far this go around, less than 4% of companies have stated tariffs are having a negative impact compared to 8% in the previous period. 3M, Caterpillar, FedEx, and Stanley Black & Decker are four high-profile examples in the Industrials sector. Shares of 3M dropped almost 13% the day of its Q1 earnings release due to slower growth in China and other factors.

But for every company that has been adversely impacted, many others have not. Roughly 13% of firms have signaled that trade and tariff issues are manageable or minimal, and a smaller share has acknowledged these challenges generate uncertainties. An overwhelming 75% of companies have made no comments at all about trade and tariff disputes.

- **Resiliency reigns:** Management teams have largely reaffirmed what recent economic data have shown—the U.S. and global economies are more resilient than the pessimists thought. Thus far, 58% of companies have cited healthy overall demand. Many of the 42% that cited "mixed or weak" demand during Q1 have noted improvements in March or April, or anticipate conditions will pick up in the second half of this year, according to RBC Capital Markets. The four primary sources of demand weakness cited by companies should be no surprise: the European economy (which has been flat on its back for months) and the auto sector, followed by the Chinese and U.K. economies.
- **Pricing power without inflation:** A number of firms have successfully pushed through price increases, including Colgate-Palmolive, Kimberly Clark, and Coca-Cola—companies in mature, slow-growing industries that normally aren't associated with pricing power. And likewise for paint and coatings company Sherwin-Williams, which continues to benefit from price hikes that have been implemented during the past year.

  Thus far, it has been the best of both worlds—pricing power for select companies yet no discernable spillover into inflation rates. Because the U.S. tends to import disinflation from other countries and inflation rates are relatively low worldwide, and because some domestic industries such as technology also exert disinflationary pressure, domestic inflation can be kept at bay even when certain industries have pricing power.
- **Banks are not yielding to the yield curve:** U.S. banks are holding their own despite the relatively flat Treasury yield curve. The S&P 500 Banks Index has outperformed the broader market since the reporting season began. Most management teams have maintained their profit outlooks and signaled that loan growth and stronger returns on excess capital can offset yield curve headwinds—barring a meaningful curve inversion (when short-term Treasury yields climb higher than long-term rates). Also, disciplined expense management and cost cutting should help banks' operating leverage. RBC Capital Markets believes improved profitability will drive bank valuations higher.

S&P 500 valuation is elevated, but is not extremely high



Source - RBC Wealth Management, RBC Capital Markets (RBC forecast), Refinitiv I/B/E/S, Bloomberg; data through 5/1/19

Room to grow

We think these developments support RBC Capital Markets' above-consensus $171 EPS forecast for 2019. If achieved, this would represent modest 5.6% y/y growth. The consensus forecast of $167 seems too pessimistic to us.

For guidance on how to position portfolios in light of the "better-than-feared" earnings season and the recent rally, see our *Defense mechanisms* article published in the May edition of *Global Insight*.

United States

Ben Graham, CFA – Minneapolis

- After receiving news of U.S. GDP expanding at 3.2% in Q1—well ahead of consensus calls for 2.3%—U.S. equities subsequently sold off. **A slew of worse-than-hoped-for earnings releases**, notably from Google-parent Alphabet and the Energy sector, **contributed to the market's weekly decline** thus far, led by the 1.4% decline in the NASDAQ and 0.4% drop in the DJIA. The S&P 500 split the difference, falling 0.8%, while the small-cap Russell 2000 shed 0.6% with an assist from its greater relative domestic economy sensitivity.

- The greater-than-20% rally in U.S. indexes from their Christmas Eve lows has led to a phenomenon that lends credibility to the "sell in May and go away" adage. While not an advisable rule of thumb simply on its own merits, **there is one fundamental underpinning that would indicate modest return expectations over the short term may be appropriate**. Market valuations have run higher in tandem with equities over the last four-plus months. The forward price-to-earnings ratio of the S&P 500 is 16.8x. This compares to a 5-year average of 16.4x and 20-year average of 15.7x. The current valuation backdrop—particularly in light of modest earnings growth expectations—lends itself to modest return expectations in the near term and supports our Market Weight recommendation in U.S. equities.

- Despite public pressure from the current administration, **the Fed unanimously voted to maintain the target fed funds range and continued to indicate it will maintain its patient approach** to monetary policy after the May 1 meeting. In his post-meeting statement, Fed Chair Jerome Powell commented that the economy evolved as expected. This means he saw a rebound in economic growth, as compared to the beginning of the year, and a bounce in hiring after February's weak data. Furthermore, inflationary pressures are nowhere to be found and continue to drift lower.

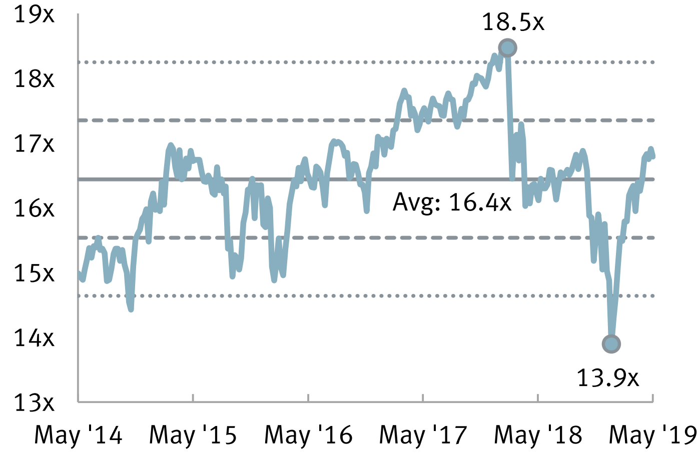
Canada

Christopher Girdler, CFA – Toronto

- Data released during the week showed that the **Canadian economy cooled in February**, corroborating the more dovish outlook delivered by the Bank of Canada (BoC) on April 24. The causes of the -0.1% m/m slowdown were wintry weather, minimal credit growth, and a protracted slowing within the oil & gas sector beyond what was expected from mandatory production cuts. With a widening output gap, **the BoC is likely to remain firmly on hold until the data improves**. The BoC optimistically expects this **will begin to occur later this year**, although the bond market remains skeptical and is pricing in the probability of a rate cut by December this year at 50%.

The current valuation shows a moderate balance between the 2018 high and low

S&P 500 next-twelve-month price-to-earnings ratio



Note: The gray lines represent standard deviation bars
Source - RBC Wealth Management, FactSet; 5 years of data through 5/1/19

- With monetary policy unlikely to change anytime soon, it **should leave shorter-dated government bond yields rooted**. In turn, we think this **increases the relative attractiveness of Guaranteed Investment Certificates** (GICs) that offer rates that are markedly higher than both corporate and government bond alternatives. **The advantage of GICs to corporate bonds has increased recently** as GIC rates have been slower to adjust lower to moves in government bond yields. Alternatively, the yield advantage on corporate bonds relative to government bond yields is back close to the lowest level in a decade.

- One part of the market that has yet to benefit from the demand for yield is **Canadian preferred shares**. While the compensation available for corporate bonds—on top of equivalent government bonds—has decreased over the past six months, it has actually widened for preferred shares. Due to higher volatility than traditional bonds, **we would warn against being too heavily exposed to the sub-asset class**; however, the relative value case is presenting itself and keeps us constructive over the medium term.

- Finally, **the price differential between West Texas Intermediate oil and Western Canada Select has widened**

recently to $13/barrel (bbl) from $7/bbl in January. It remains a long way from the roughly $50/bbl differential in October 2018 but **bears monitoring for its macro implication on growth and inflation**, as well as the outlook for a range of Canadian companies.

Europe

Frédérique Carrier & Thomas McGarrity, CFA – London

- **More encouraging data came out of Europe suggesting economic growth is stabilizing.** Euro area Q1 GDP was in line with consensus expectations at 0.4% q/q, an improvement on Q4 2018's reading of 0.2% q/q. On the heels of French Q1 GDP growth of 0.3% q/q, Spanish Q1 GDP came in at a strong 0.7% q/q, ahead of market expectations. Italy eked out growth of 0.2% q/q, lifting the economy out of a technical recession in the last two quarters of 2018. Taken together, these numbers suggest that German GDP growth has recovered, after contracting 0.1% in Q3 2018 and remaining flat in Q4. German Q1 GDP data will be released in mid-May.

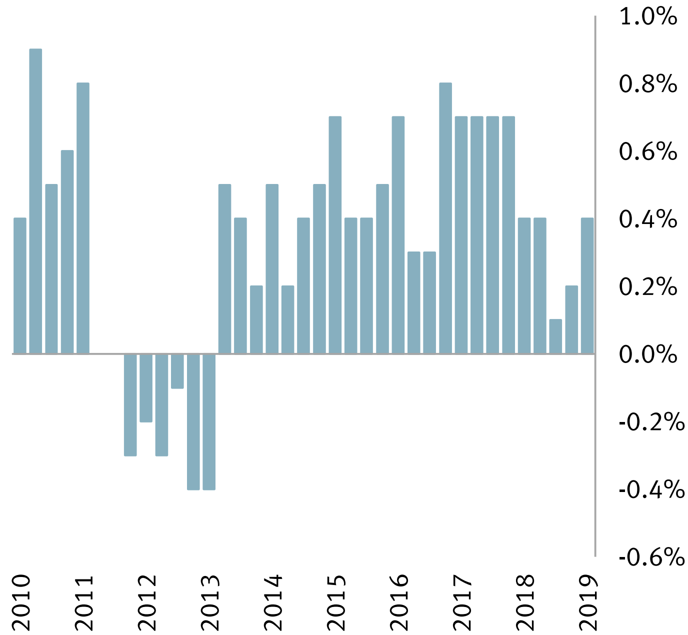
- Moreover, April manufacturing Purchasing Managers' Indexes (PMIs) suggested Q2 is starting on a better footing, with activity stabilizing or picking up. PMIs in Spain, France, and Italy jumped to 51.8, 50.0, and 49.1, respectively, all beating consensus expectations. By contrast, the German manufacturing PMI was flat at 44.4. **Germany remains the pocket of weakness in Europe;** a turnaround there is key for the health of the region's economy and will require an improvement in global demand for capital and intermediate goods.

- **March euro area unemployment continued to decline**, reaching 7.7%, down from 7.8% the previous month and the lowest level in 11 years. German unemployment was in line with consensus expectations of 4.9%, while Italian unemployment came in much lower than expected at 10.2%. This is **encouraging for consumer confidence in the region.**

- **The U.K. also delivered good news.** The April U.K. manufacturing PMI was 53.1, stronger than RBC Capital Markets' expectations, though below the prior month's level of 55.1. Activity was again boosted by stockpiling as Brexit contingency planning continues. Though stockpiling slowed during April thanks to the Article 50 extension, it remains at record levels.

Euro area economic improvement evident

Euro area GDP since 2010, quarter over quarter



Note: U.S. GDP is quoted on a quarter-over-quarter annualized basis, European GDP is not. The most recent European quarterly GDP reading of 0.4% q/q would be equivalent to a U.S. reading of 1.6%.
Source - RBC Wealth Management, Bloomberg, Eurostat; data through Q1 2019

MARKET SCORECARD

Data as of May 2, 2019

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	2,917.52	-1.0%	16.4%	10.7%	22.0%
Dow Industrials (DJIA)	26,307.79	-1.1%	12.8%	10.0%	25.6%
NASDAQ	8,036.77	-0.7%	21.1%	13.2%	31.9%
Russell 2000	1,582.65	-0.5%	17.4%	1.8%	13.1%
S&P/TSX Comp	16,410.88	-1.0%	14.6%	5.0%	5.1%
FTSE All-Share	4,033.03	-0.9%	9.7%	-2.8%	1.1%
STOXX Europe 600	388.84	-0.6%	15.2%	0.4%	-0.2%
EURO STOXX 50	3,488.93	-0.7%	16.2%	-1.8%	-2.5%
Hang Seng	29,944.18	0.8%	15.9%	-2.5%	21.3%
Shanghai Comp	3,078.34	0.0%	23.4%	-0.1%	-2.1%
Nikkei 225	22,258.73	0.0%	11.2%	-1.0%	14.5%
India Sensex	38,981.43	-0.1%	8.1%	10.8%	30.3%
Singapore Straits Times	3,393.33	-0.2%	10.6%	-6.1%	5.7%
Brazil Ibovespa	95,527.62	-0.9%	8.7%	13.0%	43.2%
Mexican Bolsa IPC	44,312.43	-0.6%	6.4%	-7.3%	-10.6%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	1,270.96	-1.0%	-0.9%	-2.6%	1.3%
Silver (spot $/oz)	14.63	-2.1%	-5.6%	-10.6%	-13.1%
Copper ($/metric ton)	6,225.25	-3.1%	4.6%	-8.2%	7.9%
Oil (WTI spot/bbl)	61.81	-3.3%	36.1%	-9.0%	29.7%
Oil (Brent spot/bbl)	70.47	-3.2%	31.0%	-3.9%	39.7%
Natural Gas ($/mmBtu)	2.59	0.4%	-12.0%	-6.1%	-19.1%

Govt bonds (bps chg)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Tsy	2.543%	4.1	-14.1	-42.3	26.3
Canada 10-Yr	1.765%	5.3	-20.2	-59.5	25.1
U.K. 10-Yr	1.187%	0.2	-9.0	-27.0	9.9
Germany 10-Yr	0.030%	1.7	-21.2	-55.1	-29.8
Fixed Income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	2.98%	0.0%	3.0%	5.5%	5.0%
U.S. Invest Grade Corp	3.61%	0.0%	5.8%	6.9%	7.3%
U.S. High Yield Corp	6.10%	0.0%	8.8%	6.8%	10.1%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	97.8280	0.4%	1.7%	5.7%	-1.2%
CAD/USD	0.7423	-0.6%	1.2%	-4.4%	1.8%
USD/CAD	1.3470	0.6%	-1.2%	4.5%	-1.7%
EUR/USD	1.1173	-0.4%	-2.6%	-6.5%	2.2%
GBP/USD	1.3033	0.0%	2.2%	-4.0%	0.7%
AUD/USD	0.6998	-0.7%	-0.7%	-6.6%	-7.1%
USD/JPY	111.5000	0.1%	1.7%	1.5%	-0.4%
EUR/JPY	124.6000	-0.3%	-1.0%	-5.1%	1.8%
EUR/GBP	0.8573	-0.4%	-4.6%	-2.6%	1.5%
EUR/CHF	1.1391	-0.4%	1.2%	-4.6%	5.1%
USD/SGD	1.3628	0.1%	0.0%	2.0%	-2.2%
USD/CNY	6.7349	0.0%	-2.1%	5.9%	-2.3%
USD/MXN	19.1092	0.9%	-2.8%	0.1%	1.8%
USD/BRL	3.9628	1.1%	2.3%	11.6%	25.7%

Source - Bloomberg. Note: Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Wednesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing. Data as of 8:35 pm GMT 5/2/19.

Examples of how to interpret currency data: CAD/USD 0.74 means 1 Canadian dollar will buy 0.74 U.S. dollar. CAD/USD 1.2% return means the Canadian dollar rose 1.2% vs. the U.S. dollar year to date. USD/JPY 111.50 means 1 U.S. dollar will buy 111.50 yen. USD/JPY 1.7% return means the U.S. dollar rose 1.7% vs. the yen year to date.

Authors

Kelly Bogdanova – San Francisco, United States
kelly.bogdanova@rbc.com; RBC Capital Markets, LLC

Ben Graham, CFA – Minneapolis, United States
benjamin.graham@rbc.com; RBC Capital Markets, LLC

Christopher Girdler, CFA – Toronto, Canada
christopher.girdler@rbc.com; RBC Dominion Securities Inc.

Frédérique Carrier – London, United Kingdom
frederique.carrier@rbc.com; Royal Bank of Canada Investment Management (U.K.) Ltd.

Thomas McGarrity, CFA – London, United Kingdom
thomas.mcgarrity@rbc.com; Royal Bank of Canada Investment Management (U.K.) Ltd.

Disclosures and Disclaimer

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC. which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

Non-U.S. Analyst Disclosure: Christopher Girdler, an employee of RBC Wealth Management USA's foreign affiliate RBC Dominion Securities Inc.; and Frédérique Carrier and Thomas McGarrity, employees of RBC Wealth Management USA's foreign affiliate Royal Bank of Canada Investment Management (U.K.) Limited contributed to the preparation of this publication. These individuals are not registered with or qualified as research analysts with the U.S. Financial Industry Regulatory Authority ("FINRA") and, since they are not associated persons of RBC Wealth Management, they may not be subject to FINRA Rule 2241 governing communications with subject companies, the making of public appearances, and the trading of securities in accounts held by research analysts.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2 to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 60 South Sixth St, Minneapolis, MN 55402.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets, LLC ratings of Top Pick/Outperform, Sector Perform, and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Distribution of Ratings - RBC Capital Markets, LLC Equity Research
As of March 31, 2019

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Top Pick & Outperform]	794	54.01	202	25.44
Hold [Sector Perform]	589	40.07	107	18.17
Sell [Underperform]	87	5.92	5	5.75

Explanation of RBC Capital Markets, LLC Equity Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings:

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio. **Outperform (O):** Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. **Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

Risk Rating:
The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Risks to Rating and Price Target

When RBC Wealth Management assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Risks to Rating and Price Target", respectively.

The analyst(s) responsible for preparing this research report have received (or will receive) compensation that is based upon various factors, including total revenues of RBC Capital Markets, LLC, and its affiliates, a portion of which are or have been generated by investment banking activities of RBC Capital Markets, LLC and its affiliates.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management or a designated third party will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our website at https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2. Conflicts of interests related to our investment advisory business can be found in Part 2A Appendix 1 of the Firm's Form ADV or the RBC Advisory Programs Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part 2A Appendix 1 of the Form ADV, or the RBC Advisory Programs Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; by RBC Investment Services (Asia) Limited, a subsidiary of RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Hong Kong, China; and by Royal Bank of Canada Investment Management (U.K.) Limited, an investment management company with principal offices located in London, United Kingdom.

Research Resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC WM Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's Investment Advisors / Financial Advisors who are engaged in assembling portfolios incorporating individual marketable securities. The Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee, providing additional tactical and thematic support utilizing research from the RBC Investment Strategy Committee, RBC Capital Markets, and third-party resources.

Third-party disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of Royal Bank of Canada. Additional information is available upon request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. ®Registered trademark of Royal Bank of Canada. Used under license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

RBC Wealth Management (British Isles): This publication is distributed by Royal Bank of Canada Investment Management (U.K.) Limited and RBC Investment Solutions (CI) Limited. Royal Bank of Canada Investment Management (U.K.) Limited is authorised and regulated by the Financial Conduct Authority (Reference number: 146504). Registered office: Riverbank House, 2 Swan Lane , London, EC4R 3BF, UK. RBC Investment Solutions (CI) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business in Jersey. Registered office: Gaspé House, 66-72 Esplanade, St Helier, Jersey JE2 3QT, Channel Islands, registered company number 119162.

To Hong Kong Residents: This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ('SFC'), and RBC Investment Services (Asia) Limited, which is regulated by the SFC. Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521).

To Singapore Residents: This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.