RBC Dominion Securities Inc.

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Wealth Management
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Welcome dear client

It is already mid April and 2018’s first quarter has ended.

Below is a table illustrating returns for major market indices and bonds (before management fees) for 2018 first quarter.

Return of different asset classes as of March 31, 2018		
Asset Class	Index	After 3 months
Bonds	Dex bond universe	0,10%
Canadian Equity	S&P/TSX	-4,52%
US Equity	S&P 500	1,71%
European Equity	MSCI Europe	-2,50%
Emerging Markets	MSCI Emerging Markets	3,45%
(1) Returns converted in Canadian dollar		

You probably noticed how returns were low or negative throughout 2018’s first quarter.

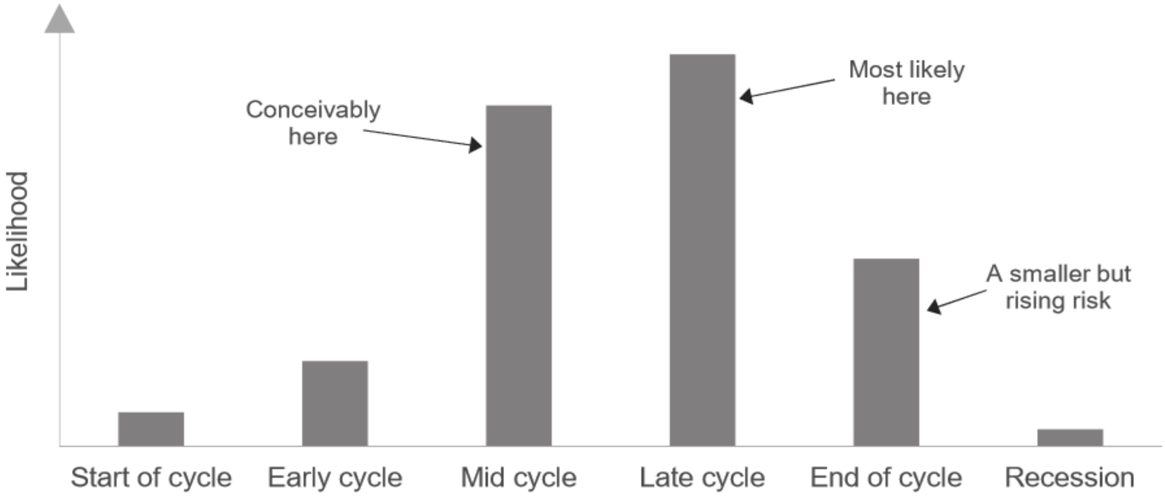
We believe, the start of the year was affected by the fear of inflation (wage increases, etc.), by the actual and anticipated rise in interest rates and, finally, by the fear of potential custom tariffs imposed by the US administration. The return of volatility, since the beginning of 2018, can be explained with these three causes previously mentioned, amongst others. The graph on the following page (Exhibit 1) illustrates the return of volatility since the beginning of the year.

Exhibit 1: Stock market encounters turbulence

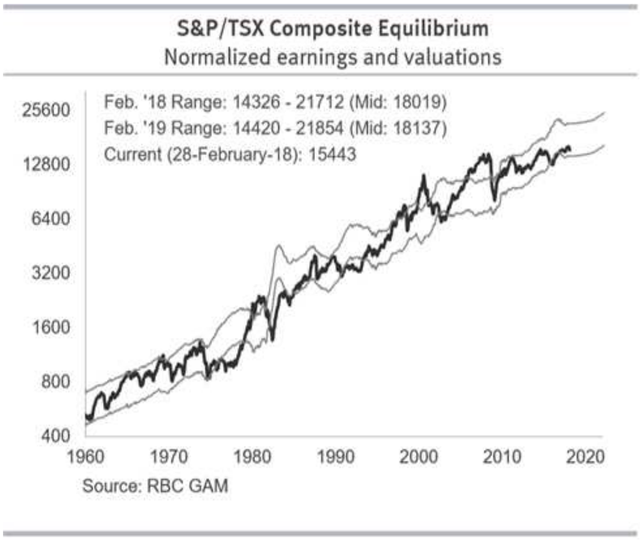
Source: WSJ, Haver Analytics, RBC GAM

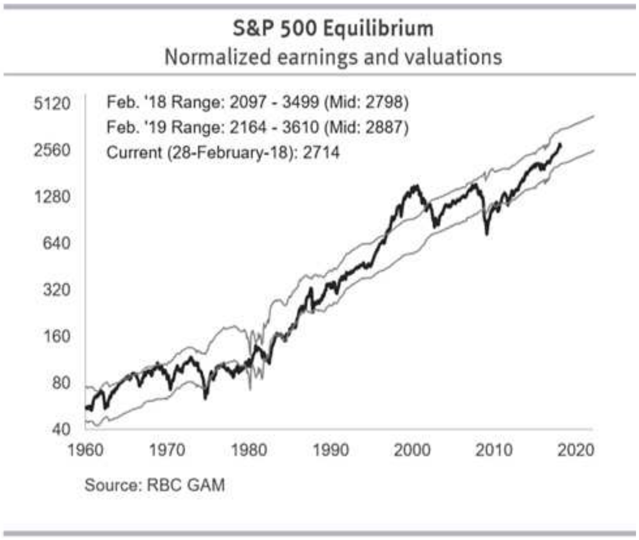
The following graph (Exhibit 22), provided by RBC GAM, presents the relative probability regarding where the American economy should be situated within the business cycle. Based on RBC GAM, the economy is probably at a "late-cycle" but has not entered a recession or an "end of cycle". This suggests a continuous economic expansion for societies and market conditions improvement for individuals for a few more years still.

Exhibit 22: U.S. business cycle probability



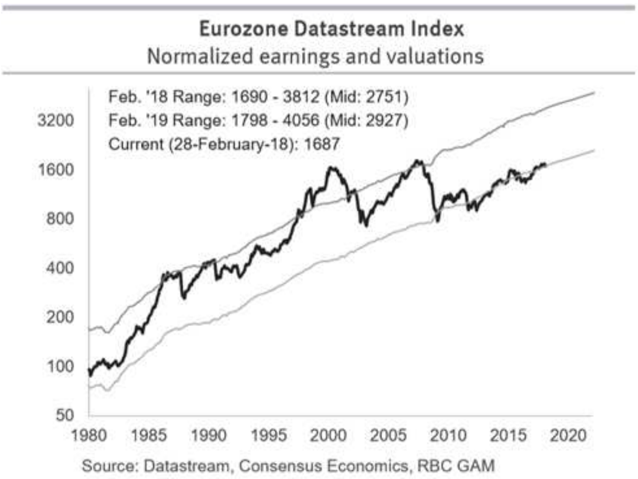
Note: Calculated via scorecard technique by RBC GAM. Source: RBC GAM





RBC Global Asset Management (GAM) has designed a model measuring the level of valuation of a stock market index based on societies normalized earnings' composing the index. 2008 overevaluation of Canadian stock markets can be observed, the over-evaluation does not seem to be the case currently which is very reassuring.

Based on RBC GAM model, the American market was situated in the middle of the assessment range on February 28th.



Based on RBC GAM, the Euro Zone stock market was situated slightly under the assessment range which suggests this market is under-evaluated.

Finally, the same observations can be made for Emerging market based on RBC GAM's model, which is very attractive for investors.

In summary, based on the previous market valuations graphs, there is still room for market indices growth despite a significant appreciation since 2009. In the future, we expect that corporates' profit growth will allow for a continuous increase in market stock indexes.

Portfolios rebalancing.

For several months, we began the portfolios rebalancing process to bring portfolios' mix back to their target asset allocation, based on the investors' profile.

Since existing stock positions have significantly progressed in 2017, the equity exposure (%) has increased versus fixed income (bonds). The portfolios rebalancing process has allowed for a better realignment of the mix of assets based ont the investors' profils. Since equities in portfolios have increased during 2016/2017, the portfolios rebalancing process also allows to take profits.

Another instance, which will allow to better understand the type of benefit that can result from a portfolio rebalancing, is a market downturn. Let's take, for example, a 15% decrease in equities. This situation requires to rebalance portfolios since a low equity exposure will allow to repurchase equities at a lower cost, which is very beneficial in the short to mid term.

The following investors' behaviour can sometimes be observed: investors have less desire to purchase during a downturn market while this desire increases (due to confidence) during stock market appreciations. In terms of investment opportunities, such behaviour is not ideal.

Our proven process of portfolio management combining analysis, discipline, rigor and portfolio rebalancing, reduces portfolio risks and aim to improve portfolio performances.

Transactions since the beginning of 2018.

Transactions

Date	Position (CAD$ Account)	Type	Price	Purchased Price	Variation
January 24, 2018	Metro	Reduction	41.24	41.30	-0.1%
January 24, 2018	Canadian National Railway	Buy	99.34		
April 10, 2018	Metro	Sell	41.10	41.30	-0.5%
April 11, 2018	Transcanada Corp	Buy	53.20		

Date	Position (US$ Account)	Type	Price	Purchased Price	Variation
January 31, 2018	Vanguard FTSE Europe ETF	Buy	62.58		

As always, if you have any questions whatsoever, about your portfolios or anything else, do not hesitate to contact us.

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