RBC Dominion Securities Inc.

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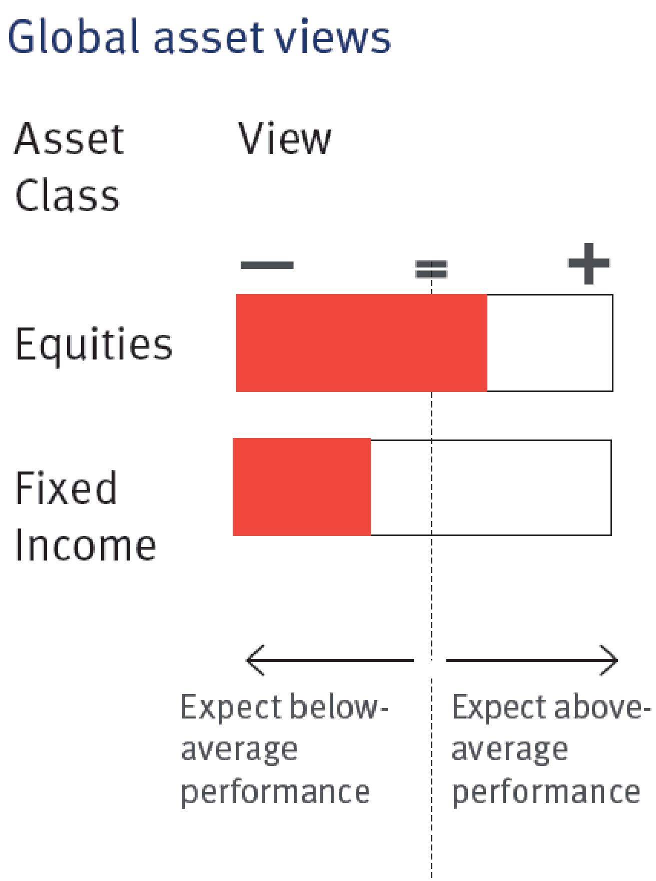
December 2017 Conference Call

Wealth Management
Dominion Securities

December, 2017

Reflecting on 2017's Big Trends…

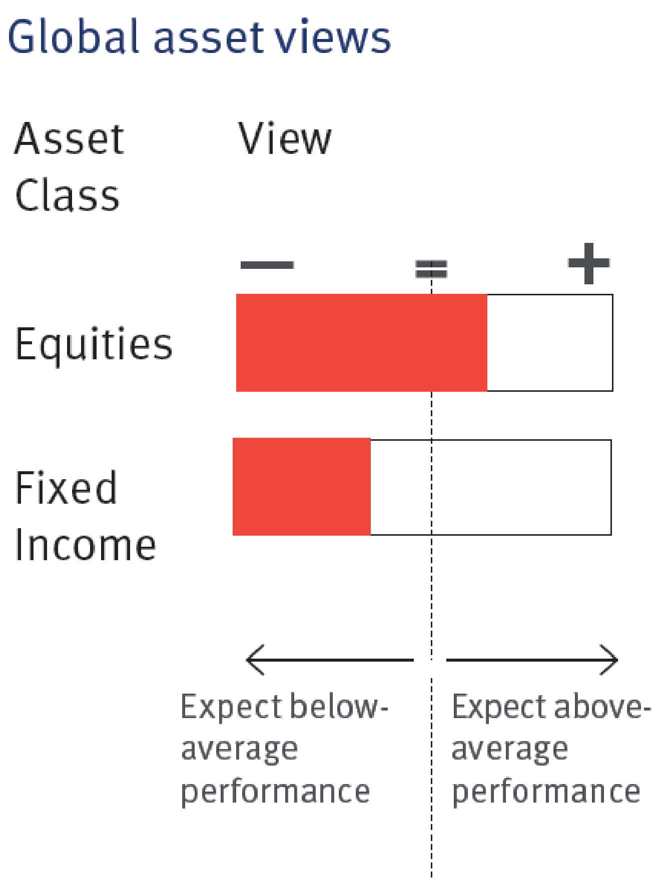
- The global economy continues to fire on all cylinders for the first time in years, leading to healthy earnings growth and optimism as we head into 2018.
- This has been most clearly reflected in the U.S. which is leading returns year to date, with the technology sector on top.
- Short term interest rates in the U.S. continue to creep higher, but longer term debt has been stubbornly unchanged year to date.
- The TSX has lagged badly this year, but on a two year basis performance is much more in line.
- We are starting to see some late cycle forms of speculation, but not in the places they have showed up in the past.
- Cryptocurrencies and closer to home, marijuana stocks, have become the latest objects of investors' affections, but we are cautious.



Source: RBC Wealth Management

…And Looking Forward to 2018

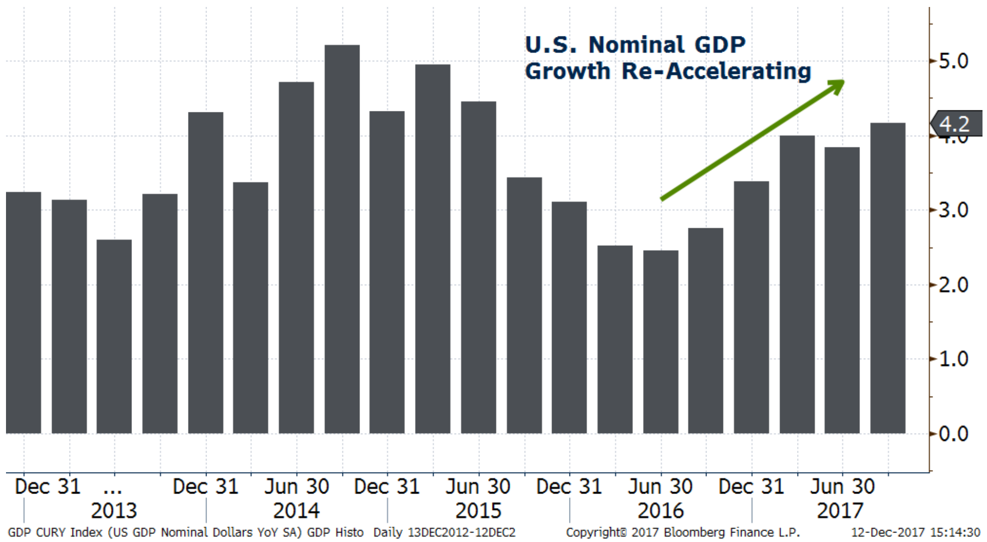
- The handoff to 2018 looks to be one of the strongest we have seen in years as forward looking indicators suggest more growth ahead.
- Successful passage of U.S. tax reform will give a boost to S&P 500 earnings which is likely to be spent on shareholder-friendly initiatives.
- As interest rate normalization continues and commodities come off the mat, we see a positive outlook for Canada as our market is heavily levered to these factors.
- Near-term recession risks remain low, but the bigger risk is an uptick in pricing pressures and the associated central bank response.
- After a year of essentially no volatility in the U.S., we would expect a return to normalcy in 2018, and as such believe we should maintain exposure to portfolio stabilizers such as fixed income.

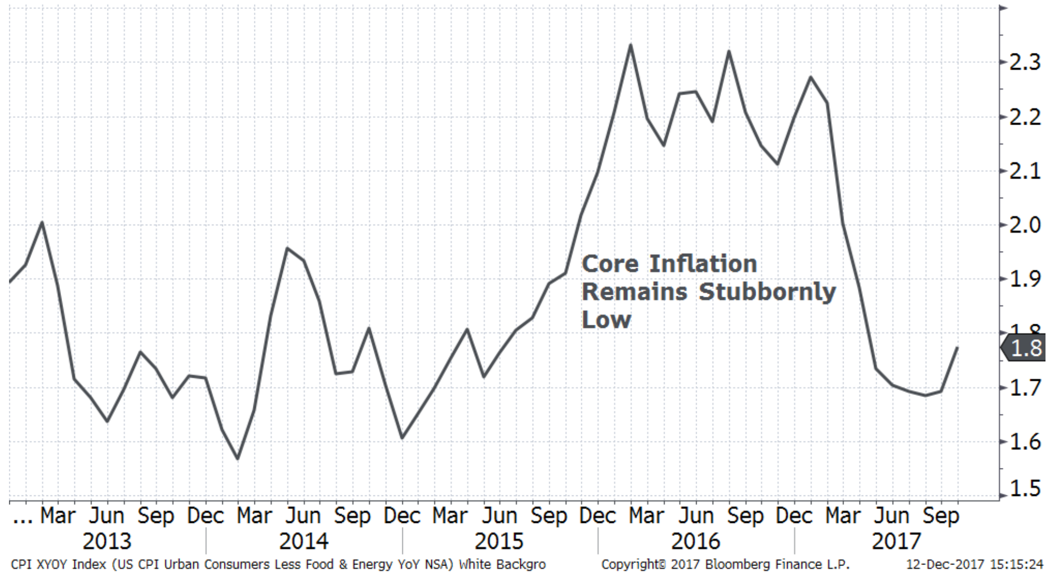


Source: RBC Wealth Management

Economic Growth Remains Solid, Inflation Soft

- GDP growth around the world has rebounded in 2017 in the first bout of synchronized global growth we have seen in years.
- Despite stronger growth, inflation remains sluggish in most of the world, allowing central bankers to take their time in raising interest rates.
- Strong growth and benign inflation have proven to be a powerful combination for equity markets.





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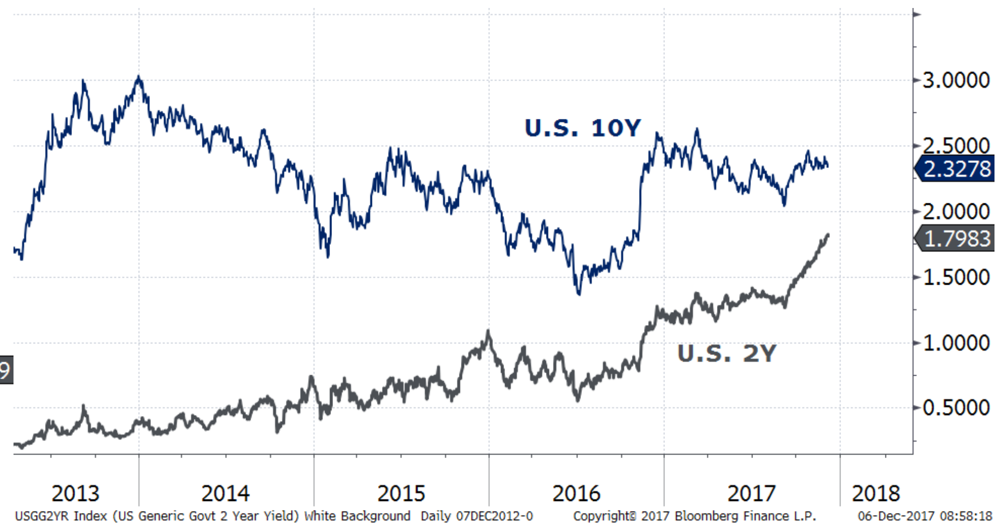
Making sense of the flattening yield curve

- Why is the media making such a big deal about a flattening yield curve, and what the heck is a flattening yield curve?
- We would note that it is entirely normal for the curve to flatten as the Fed raises rates, and we are encouraged that the flattening this year is almost all due to 2-year yields rising.
- In the late 1990s and 2000s, the curve flattened out to zero, and then both 2-year and 10-year rates rose further as the Fed completed the hiking cycle.



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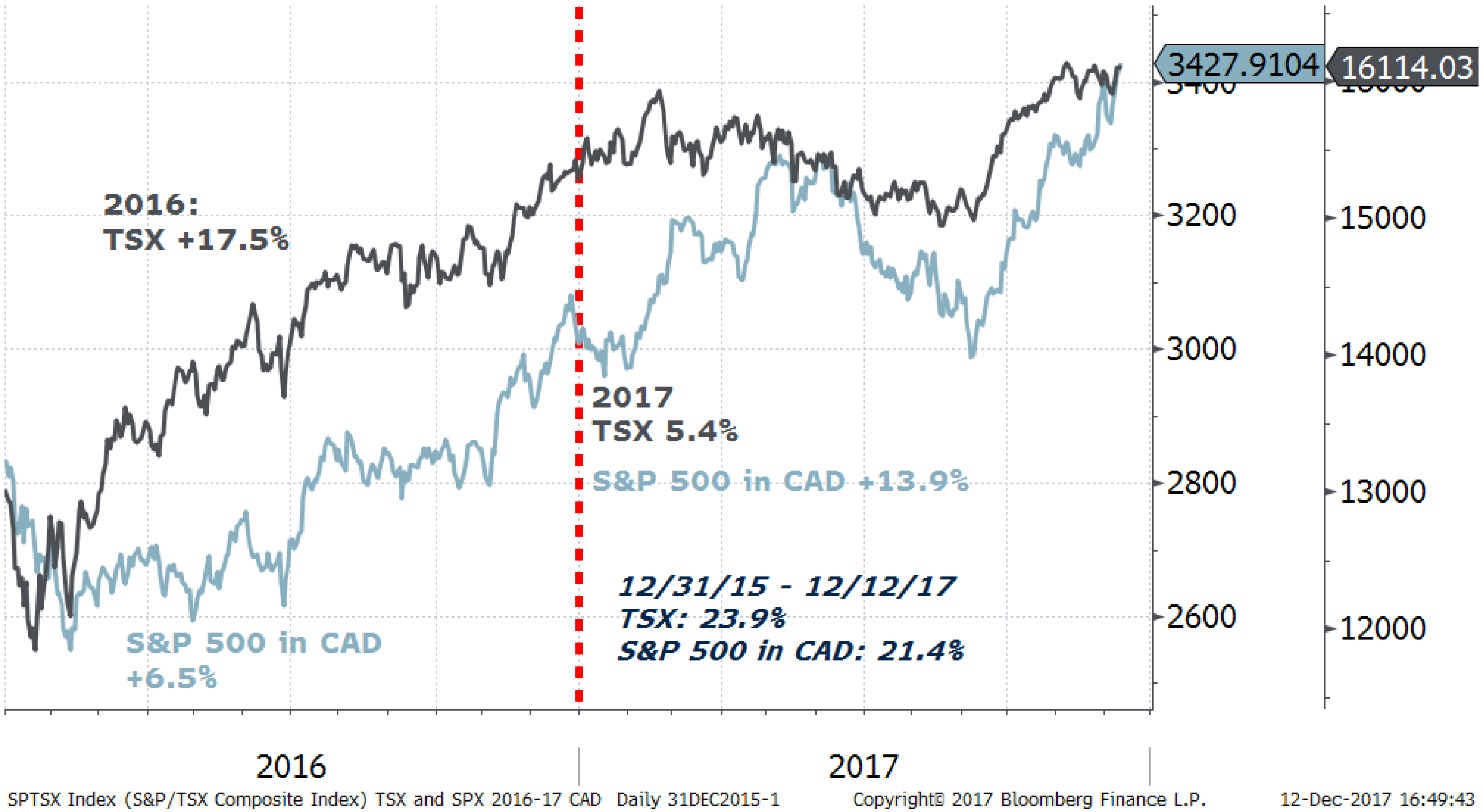
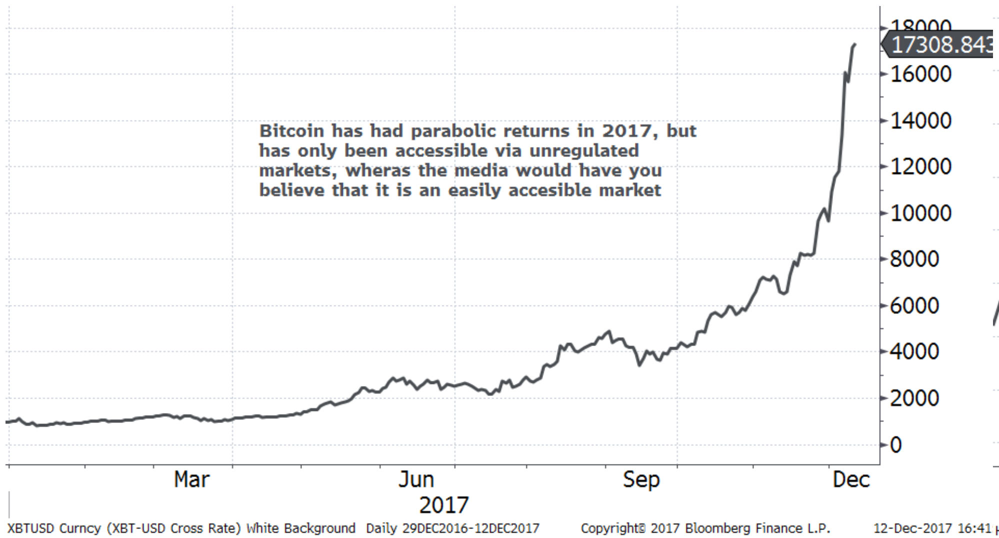
Canada Leads One Year, U.S. The Next – Similar Results

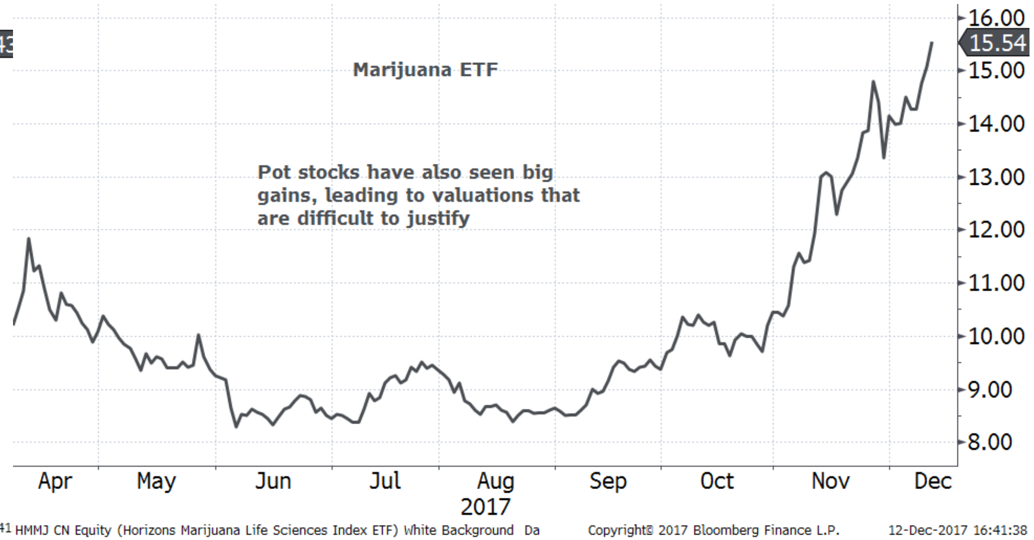
- The TSX and S&P 500 have taken turns in leading the return table over the past two years.
- The remarkable thing is that both have produced a very similar end result over the last two years.



Speculation coming back, but not the usual places

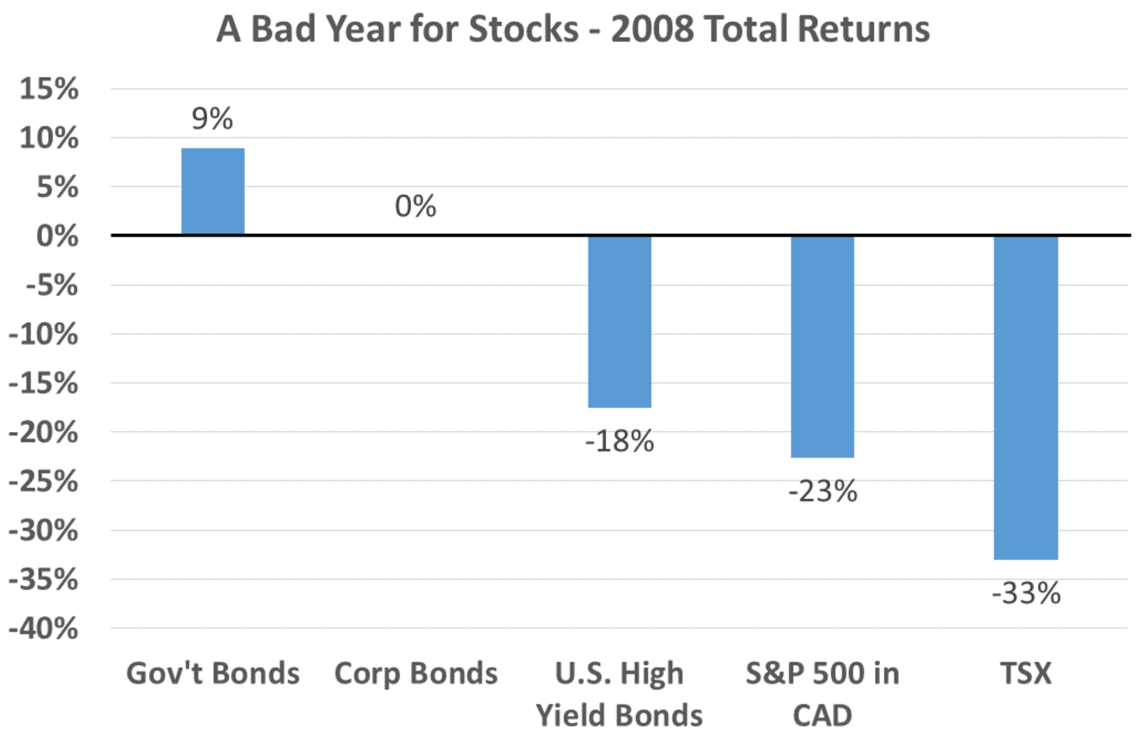
- While many are comparing tech in 2017 to the late 1990s, the big difference today is that these companies for the most part generate very high profits and valuations are nowhere near as stretched as back then, with some obvious exceptions.
- That doesn't mean there is no speculation – it is just showing up in other places, namely bitcoin and related blockchain plays, and marijuana stocks in Canada.
- Both of these don't fit with our strategy of buying cash flow generative companies at reasonable valuations, and our fear is that these manias will end in tears but we have learned that they can go on for a long time before that happens.





Why bother owning fixed income?

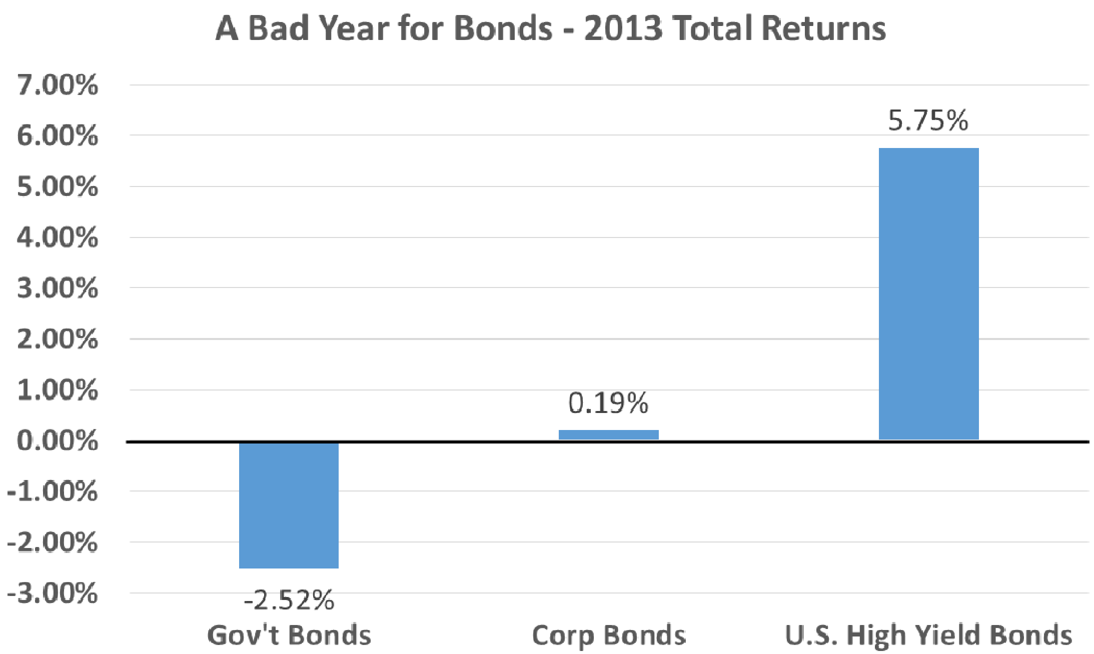
- Traditional fixed income has lagged equity markets for the past few years, leading some investors to question the purpose of holding this diversifier in portfolios.
- It is times like this that we want to remind ourselves what a bad year for stock returns can look like and the stabilizing effect an allocation to bonds has had on portfolios.



Source: The Harbour Group, Bloomberg

Not all fixed income is created equal

- Within the broader bucket of “fixed income”, we have a variety of options available to us across the risk spectrum.
- By allocating our fixed income dollars across various strategies, we can tilt portfolios toward securities that tend to outperform when bond yield fall or when they rise.



Source: The Harbour Group, Bloomberg

In Summary

- Global growth is the strongest it has been in years, leading to healthy earnings growth in 2017 and the expectation of more in 2018, boosted by the potential for U.S. tax cuts.
- The TSX has underperformed year to date, but valuations in Canada are more attractive than the U.S. and Energy is still deeply undervalued.
    - On a two year basis, the TSX and S&P 500 in Canadian dollars are remarkably in-line.
- The Canadian dollar’s extraordinary run is likely over for the near term as the Bank of Canada slows down its rate hiking path while the Fed continues to raise rates.
- Recession risk continues to be low, and therefore so is the risk of a bear market in stocks. We actually believe the larger risk is an overheating that leads to central banks raising rates more quickly than currently anticipated.
- Speculation is starting to percolate in formerly obscure corners of finance that bear watching, but have little influence on our investment strategy for now.

Disclaimer

There are many opportunities and solutions available to assist you in meeting your investment and estate planning goals. However, because of the complexity of integrating your corporate and personal goals, considering the different tax systems, it is essential that you involve the appropriate professionals in order to maximize these opportunities and accomplish your goals in the most tax-effective manner.

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