



THE HARBOUR GROUP OF RBC DOMINION SECURITIES

All For One: You™

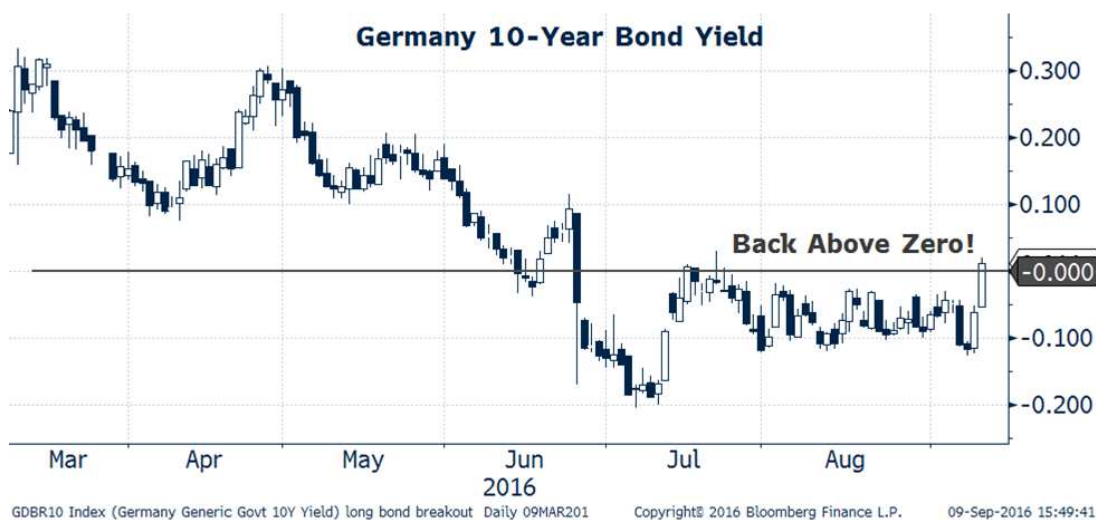
There's Wealth in Our Approach.™

September 2016 Market Note

Late Summer Slumber – Interrupted

Investors were blessed with a stress-free August, with the monthly range on the S&P 500 index the narrowest it has been in any month for over 50 years. That sense of calm didn't make it far into September, however, with the “most volatile month” living up to its billing the first week back from Labour Day.

As we write this, markets are undergoing their sharpest sell off since the Brexit vote in late June, but for reasons much different than we saw back then. After a dearth of volatility in everything from bonds to equities to currencies, last week saw a dramatic shift in the bond market, largely driven by foreign forces. The European central bank met on Thursday, and the market expected them to lay the groundwork for further stimulus but no such thing happened. That has caused German bonds to sell off significantly, which has leaked to our bond markets - low European rates were a large factor keeping global bond yields down, so when they go up the other markets follow. Ironically, it was the Brexit vote and expected central bank response that started the large decline in rates earlier in the summer, and it is now the lack of expected follow through from the central banks that is turning rates higher.



All data as of September 9, 2016



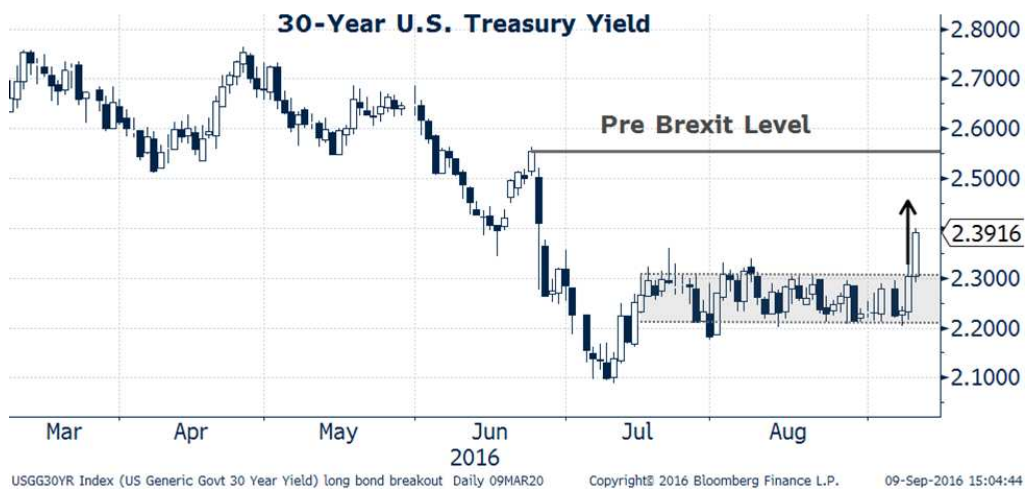
RBC Wealth Management
Dominion Securities



THE HARBOUR GROUP
OF RBC DOMINION SECURITIES

One trend we noticed over the summer was a growing view that interest rates were never going to rise. As we said in our August Monthly Note, “never” is one of the most dangerous words in the investment business – the more it is used to describe the probability of an event, the **more** likely it is to happen. It was not meant to be an imminent prediction, but with the ink barely dry on that piece we find ourselves with the price on the 30-year U.S. Treasury down over 3% month to date, significantly more than the 2.23% annual yield that was on offer at month end. Put another way, more than a year’s worth of income has been wiped out in a matter of days.

The move higher in 10 and 30 year yields in the US and Canada constitutes a breakout of the tight trading range they have been in, with a medium term target around the levels last seen before the Brexit vote.



September Living Up To Its History of Volatility

As we discussed on our August conference call, stock and bond prices have been moving in the same direction since the spring, which is unusual. The “low rates forever” view emboldened investors to pay a higher price for stocks, so the market rose as bond yields hit lows. Now that bond yields are higher (and prices lower), the equity market is doing the same.



All data as of September 9, 2016



RBC Wealth Management
Dominion Securities



THE HARBOUR GROUP
OF RBC DOMINION SECURITIES

Make no mistake – a lessening of central bank intervention and the associated higher interest rates are a necessary condition for the economy to return to normal. But with a market that has been hooked on ever lower interest rates and central bank accommodation, the adjustment is sure to come with volatility. As we have said during all of the corrections this cycle, we keep our eyes on the fundamentals, and so long as they are pointing in the right direction (as they are now) we believe volatility creates opportunity.

What to do?

We have all been here before – a higher rates scare that turns out to be just a blip in the well-entrenched trend of ever lower interest rates. In those instances, the right course of action was to double down on rate sensitive securities like telcos, REITs, and utilities on any weakness. This time could be yet another replay of the worries we’ve all had about rate sensitive securities in the past, or perhaps we have seen “THE” lows in bond yields. In the off chance it is the latter, we suggest keeping an eye on securities that will benefit from rate increases (life insurance, U.S. Banks, etc.) which should act as a hedge against rising rates.

If nothing else, this little bout of volatility, paired with U.S. Election, and the potential for the Federal Reserve to raise interest rates may lead to further market undulations which would most probably create some buying opportunities. We have been waiting since 2013 for any meaningful value to surface in the investment grade bond market, and stand willing and able to take advantage of any opportunities that may come along.

Our base case view remains that we are in a well-entrenched bull market and that corrections are to be bought, not sold. We take confidence in the fact that recession risk is low and earnings look set to return to growth. We can’t control when the market decides to sell off, but the actions we take in these times are instrumental in setting the path of future returns.

P.S.: Two sectors that have proven frustrating this year are showing their respective worth, in our view: U.S. dollar exposure is buffering the volatility of our U.S. holdings and doing its job as a hedging tool. On the other hand, gold and gold companies are showing their unreliability as a hedge for market volatility. Gold bullion traded lower on September 9, and gold companies were down more than twice as much as the TSX.

The Harbour Group
416-842-2300

Putting you first, every time, to help you navigate the complexities of managing your wealth. All of our team members, all of our resources, all of our collective insight: ALL FOR ONE: YOU™.



RBC Wealth Management
Dominion Securities



THE HARBOUR GROUP
OF RBC DOMINION SECURITIES

All data as of September 9, 2016

The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc. and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. RBC Dominion Securities Inc. and its affiliates also may issue options on securities mentioned herein and may trade in options issued by others. Accordingly, RBC Dominion Securities Inc. or its affiliates may at any time have a long or short position in any such security or option thereon. Mutual funds are sold by RBC Dominion Securities Inc. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member CIPF. ®Registered Trademark of Royal Bank of Canada. Used under licence. RBC Dominion Securities is a registered trademark of Royal Bank of Canada. Used under licence. ©Copyright 2016. All rights reserved.

All data as of September 9, 2016



RBC Wealth Management
Dominion Securities



THE HARBOUR GROUP
OF RBC DOMINION SECURITIES