

Davidson Professional Wealth Management

of RBC Dominion Securities

Your Money, Well Managed



Spring Market Commentary

May 2017

PROFESSIONAL WEALTH MANAGEMENT SINCE 1901



RBC Wealth Management
Dominion Securities

In this Issue

- Market Recap
- Global Manufacturing- Activity beginning to reaccelerate
- Interest Rates- The Canadian 10 year trading near historic lows but for how long?
- Potential headwinds- Three main risks to the global economy
- Charts of Interest

Market Recap

The past quarter was a continuation of the post election Trump rally for most global equity markets. Optimism surrounding President Trump's promise of growth and tax reform helped to propel the US and Canadian equity markets to new all time highs during the past quarter.

The Canadian housing market continues to experience significant upward pressure as home prices in the GTA and surrounding areas to experience annual growth at a double digit pace. Currently prices are disconnected from traditional valuations metrics such as housing affordability and median income and appear to be trading based on fear and greed.

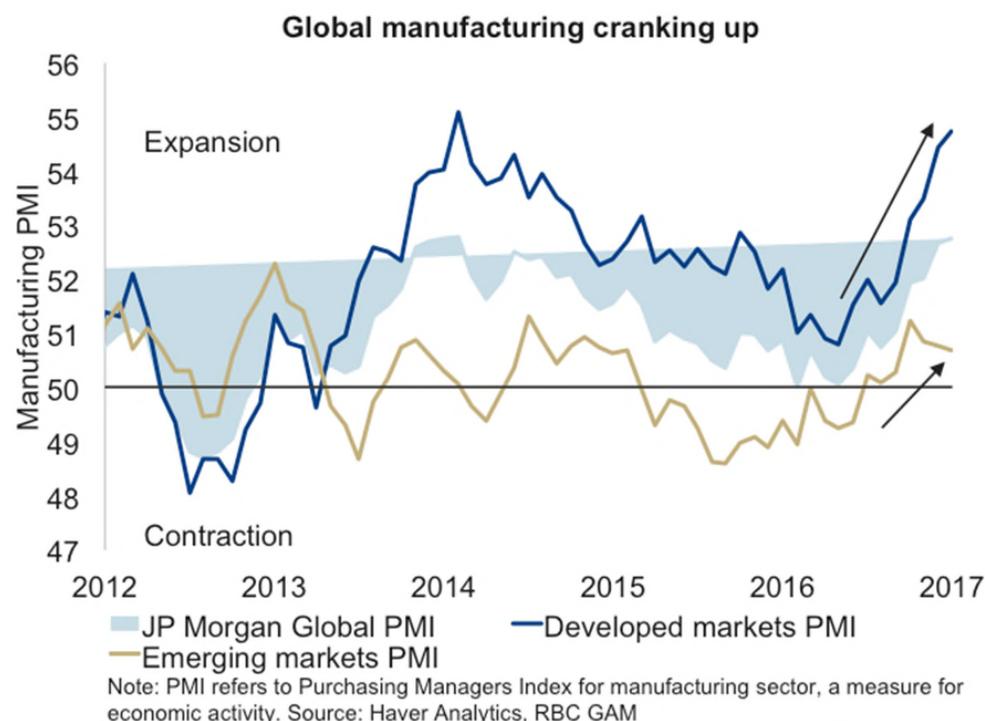
Global economic growth appears to be on the increase with developed markets leading the way. Central bank stimulus in Europe and Japan is helping to bolster growth at the expense of ultra low and even negative interest rates. Emerging markets are beginning to show signs of life as investors adjust to lower growth rates in China and monitor Brazil's reform progress.

We are well positioned for the current market environment and continue to focus on good quality companies that have a strong commitment to shareholders. As such we continue to favour dividend paying and growing equities and tactical management of cash levels.

Clients within our Private Investment Management program (PIM) and Third Party Pension Management program should receive their quarterly update and personalized portfolio reports within the next few days.

Global Manufacturing near best level in years

- The purchasing manager indices (PMIs) for developed and emerging economies are above 50, indicating expansion.
- The JP Morgan Global PMI is close to its highest point in two years, with much of the expansion coming from the developed markets
- This rally comes after two years of slowly declining growth and suggests continued economic growth through the next 6 months



Interest rates- The 10 Year Government of Canada Bond Yield

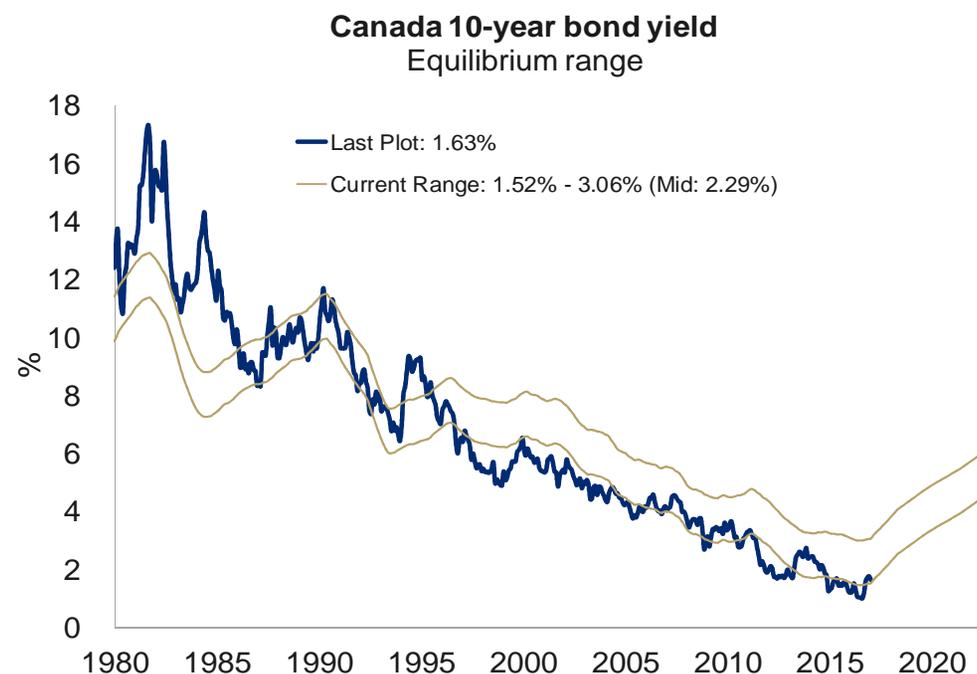
- The yield on the 10 year Government of Canada benchmark bond touched historic lows last year, extending a 35 year trend even lower

- Rates have rebounded slightly post US election although still remain near the bottom end of the equilibrium range

- Most economist expect that rates in Canada will begin to rise over the next number of years

- The Bank of Canada has limited effect on longer term interest rates which are tied more closely to longer term economic growth

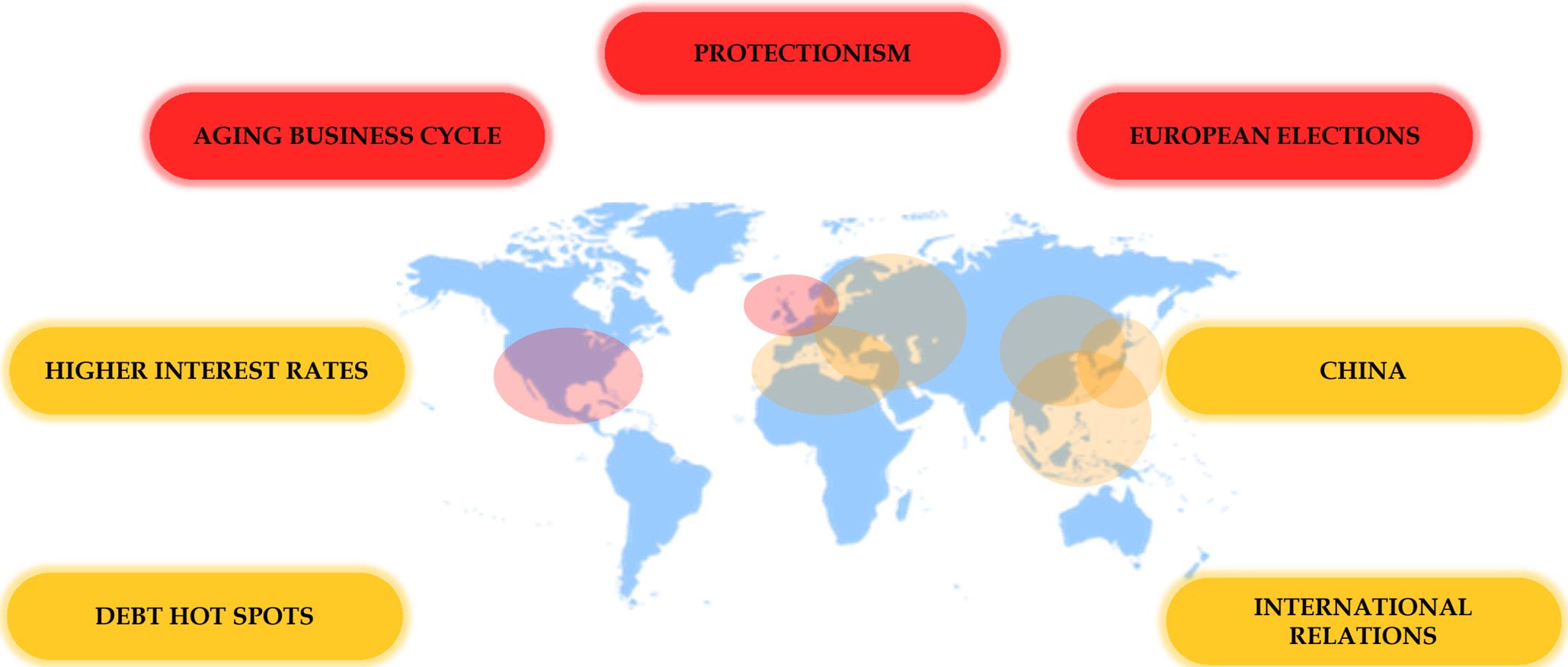
- Canadian consumers should be aware given the level of consumer and mortgage debt that is currently outstanding



Source: RBC GAM, RBC CM

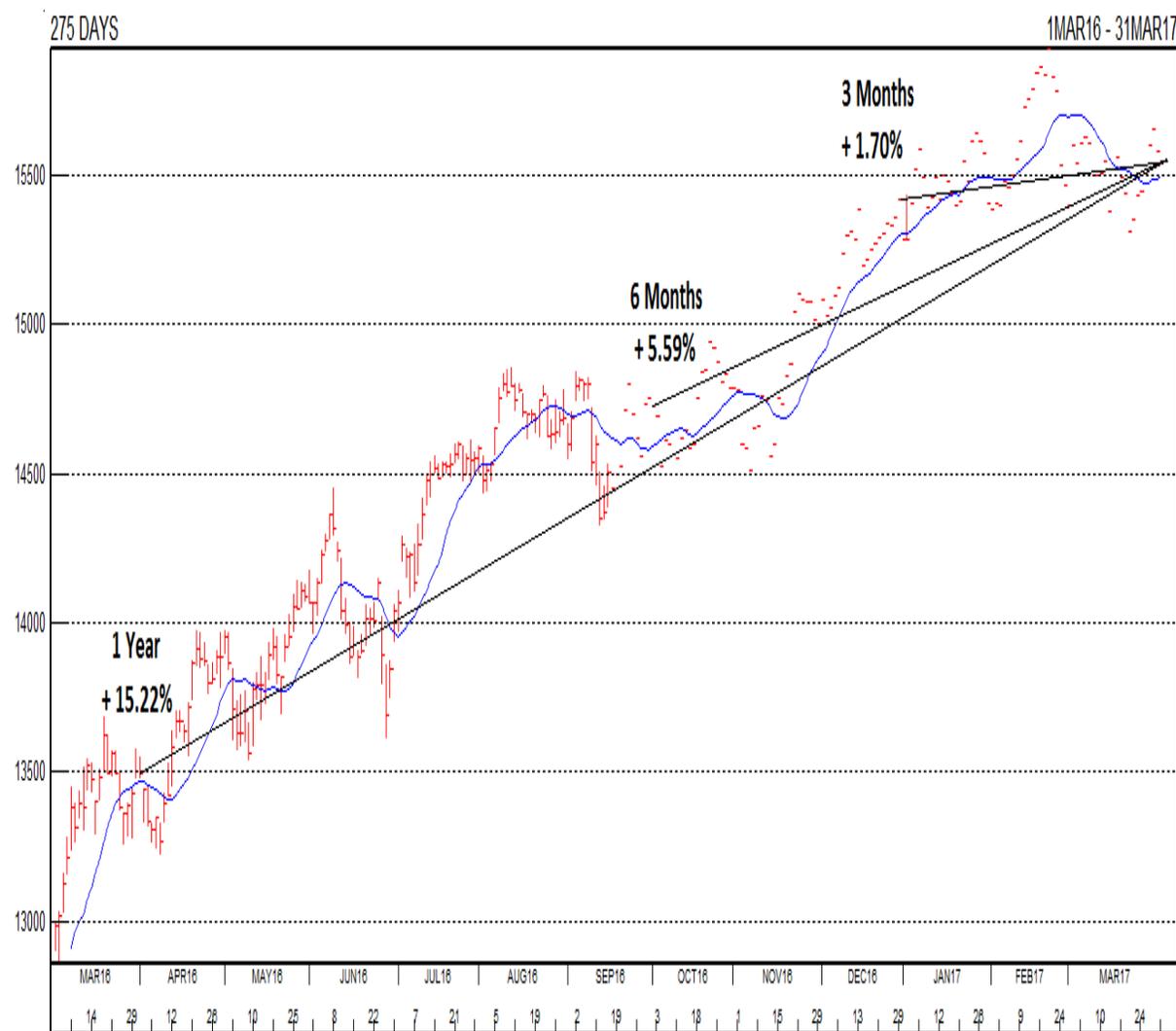
Recap of risks to growth forecast

- Three main risks: protectionism, European elections and the aging business cycle.



TSX Performance: Annual, YTD & 3 Months

- The TSX surged to an all-time high in February on the back of strong performance from the financial sector
- The market tailed off in March but was still a respectable +1.70% for the quarter
- Energy prices remain quite muted with supply from the US shale fields ramping up again
- Concerns continue to grow around the spectre of a Canadian housing market correction as any negative impact would likely be felt throughout the broader economy



Data Source: Trend & Cycle

S&P Performance: Annual, YTD & 3 Months

- The US markets surged to a series of all time highs throughout February
- Performance was strong across most sectors with the exception of the energy sector
- Economic data was generally positive although preliminary US GDP numbers came in lower than expected for the first quarter
- Overall the US has enjoyed a strong run over the past year so a pause may be due as we enter the traditionally quiet summer months



Data Source: Trend & Cycle

EAFE Performance: Annual, 6 & 3 Months

- International markets have performed well through the first part of this year, buoyed by economic stimulus packages in both Europe and Japan
- Europe in particular has a number of hurdles to clear including French elections, a newly announced UK election and ongoing Brexit negotiations
- Equity valuations remain quite low throughout Europe and the UK relative to other developed nations as investors remain on the sidelines until some of these issues are resolved



Data Source: Trend & Cycle

EAFE = Europe, Australasia, and Far East Developed Markets

Emerging Markets Performance: Annual, YTD & 3 Months

- Emerging markets have enjoyed strong performance since the start of 2017

- The outlook for global growth has improved and thus far appears to be outweighing any concerns about potential trade wars and protectionist policy espoused by the Trump administration

- Some of the concerns from 2016 seem to be abating as Brazil works towards structural reforms and China's ongoing debt concerns move to the background



Data Source: Trend & Cycle

■ This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. 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. This commentary is based on information that is believed to be accurate at the time of writing, and is subject to change. All opinions and estimates contained in this report constitute RBC Dominion Securities Inc.'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. Interest rates, market conditions and other investment factors are subject to change. Past performance may not be repeated. The information provided is intended only to illustrate certain historical returns and is not intended to reflect future values or returns. 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 licence. RBC Dominion Securities is a registered trademark of Royal Bank of Canada. Used under licence. ©Copyright 2017. All rights reserved.

