THE GLOBAL INVESTMENT OUTLOOK

RBC GAM Investment Strategy Committee

SPRING 2018

Global Asset Management

THE RBC GAM INVESTMENT STRATEGY COMMITTEE

The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC GAM. The Committee regularly receives economic and capital markets related input from internal and external sources. Important guidance is provided by the Committee's regional equity advisors (North America, Europe, Asia, Emerging Markets) and from the Global Fixed Income & Currencies sub-committee. From this, the Committee builds a detailed global investment forecast looking one year forward.

The Committee's view includes an assessment of global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits and stock prices.

From this global forecast, the RBC GAM Investment Strategy Committee develops specific guidelines that can be used to manage portfolios.

These include:

- the recommended mix of cash, fixed income instruments, and equities
- the recommended global exposure of fixed income and equity portfolios
- the optimal term structure for fixed income investments
- the suggested sector and geographic make-up within equity portfolios
- the preferred exposure to major currencies

Results of the Committee's deliberations are published quarterly in *The Global Investment Outlook*.

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EXECUTIVE SUMMARY

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The macro environment is transitioning away from slow growth, low inflation and highly stimulative monetary policies to faster growth, normal inflation and tightening central banks. The expansion is highly synchronized and global growth is running at its fastest pace in eight years.

Global macroeconomic environment remains positive

Benefiting from positive momentum in 2017, the economic backdrop is quite good by post-crisis standards. Many of the macroeconomic indicators we monitor are at or near cycle highs. Financial conditions are still reasonably supportive, fiscal stimulus should provide a tailwind, and the headwinds of secular stagnation may be fading as evidenced by reviving risk appetite and improving productivity growth. We upgraded several of our developed-world growth forecasts for 2018 and they are mostly above consensus. Our emerging-market growth forecasts are slightly below the consensus but still suggest robust growth ahead. Taken together, our global growth forecast for 2018 is 4.0%, which would be the fastest growth rate since the global financial crisis.

Risks are constantly evolving, but potential upside exists too

Key risks to our outlook are the aging business cycle, rising interest rates and protectionism. Several factors suggest the business cycle is in its later stages: a closed output gap, extremely low unemployment rates, a U.S. Federal Reserve (Fed) that has been tightening for some time, narrow credit spreads and optimistic sentiment. Financial conditions remain supportive but have tightened somewhat as a result of higher interest rates. Were this upward trend to continue, it could drag on growth and highlight debt vulnerabilities. Tariffs imposed by the U.S. and the renegotiation of NAFTA represent headwinds to global trade, and other risks we are monitoring relate to European populism, geopolitical risks and Chinese debt. Although the economy faces a number of challenges, we should not ignore clear upside potential from structural reforms in Japan and U.S. fiscal stimulus. On balance, we expect the positives to outweigh the negatives, enabling further growth in the global economy.

U.S. fiscal stimulus provides tailwind to already solid economy

Although it is unusual to deliver fiscal stimulus at a time when economies are strong enough to justify central-bank tightening, tax cuts and increased government spending in the U.S. will help push along an already strong economy. The tax-cut package amounts to US$1.5 trillion of stimulus over the next decade and will likely boost U.S. GDP by 0.4% in 2018 and 0.3% in 2019. The additional government spending in the budget should add a further 0.2% to growth in 2018 and 0.1% in 2019.

Currency movements to be driven largely by country-specific factors rather than broad U.S. dollar trend

Our currency outlook has been shifting in recent quarters away from double-digit returns for the U.S. dollar as we recognize changes in economic and monetary trends. Uncertainty associated with turns in long-term trends justifies our patient approach in calling the start of a downtrend, which, once firmly established, we expect to last for many years. Past turning points in broad dollar trends have unfolded through a process whereby the greenback makes highs versus different currencies in sequence rather than all at once. This pattern is repeating, and we see an environment that is shifting in favour of the euro and yen, while we retain a less rosy outlook on the British pound and Canadian dollar.

Inflation transitions to more normal regime

For a significant portion of the post-crisis era, deflation had been a concern, but investors may now be recognizing that a regime shift is underway. Our view is that inflation is simply transitioning to more normal levels after many years of being too low, rather than shifting higher to problematic levels. In fact, a number of structural headwinds related to demographics, globalization, technological change and sector-level shifts may limit just how fast prices can ultimately rise.

Era of extreme monetary stimulus is ending

Faster economic growth and higher inflation warrant the gradual removal of highly accommodative monetary policies. The Fed has made the most progress among the major central banks: it has raised interest rates five times this cycle and appears on course to hike four more times over the next year, and is actively shrinking its balance sheet. The Bank of England and Bank of Canada have also joined the tightening trend. Central banks in Europe and Japan are still delivering quantitative easing to stimulate their economies, but the pace of their bond-buying has slowed. Global monetary policies are still quite easy by historical standards, but the transition from extraordinary stimulus to normality is clearly underway.

Increase in yields alleviated valuation risk in sovereign bonds

Our models continue to suggest the long-term direction for bond yields is higher, but that the meaningful increase in yields over the past quarter has alleviated valuation risk in the near term. Bond yields are already reflecting an inflation premium close to our expectations so, barring an inflation shock, any meaningful increase in the U.S. 10-year bond yield over the coming years is likely to come from a rise in real (after-inflation) interest rates. In our view real interest rates are unlikely to remain well below their long-term average now that the economy has regained its footing. The resulting upward pressure from rising real rates on nominal bond yields means that fixed income may act as a drag on investment returns for many years.

Stock markets undergo correction, earnings outlook remains solid but valuations are vulnerable

Stocks corrected last month after a year of strong performance and unusually low volatility. Investors were unsettled by the prospect of higher inflation and interest rates. Our models do see these as a drag on equity-market valuations, but the impact is relatively small. Much more important to valuations is investor confidence, which is currently high and bolstered by solid growth in corporate profits. Earnings have been growing quite nicely and, bolstered by the U.S. tax cuts, are expected to advance 19% in 2018 and another 10% in 2019. Of course, earnings forecasts have always had a tendency to slip as time moves forward and demanding valuations are vulnerable to disappointment. In this environment it may be prudent to lower total-return expectations and anticipate higher sustained levels of volatility.

Asset mix: reducing bond underweight and maintaining slight overweight in stocks

Reflecting the balance of risks and opportunities, our asset mix is now closer to neutral than it has been in many years. We have been dialing back our equity exposure as the cycle advanced and valuations became less compelling. That said, we think it’s too early to call the end of the bull market. We recognize that equities are not as attractive as they were at previous points in the cycle but, in our view, the potential upside in corporate profits is worth a mild overweight in stocks. In fixed income, we have held big underweights for a long time but have been narrowing that gap as the business cycle matures and yields move higher. In fact, we added one percentage point to our fixed-income position this quarter, sourced from cash. The outlook for bonds remains unexciting, but the recent rise in yields has lowered valuation risk, and bonds serve as ballast against rising volatility and/or unexpected deterioration in corporate profits. For a balanced, global investor, we currently recommend an asset mix of 58% equities (strategic neutral position: 55%) and 40% fixed income (strategic neutral position: 43%), with the balance in cash.

ECONOMIC & CAPITAL MARKETS FORECASTS

Economic forecast (RBC GAM Investment Strategy Committee)

	UNITED STATES		CANADA		EUROPE		UNITED KINGDOM		JAPAN		CHINA		EMERGING MARKETS*	
	Spring 2018	Change from New Year 2018	Spring 2018	Change from New Year 2018	Spring 2018	Change from New Year 2018	Spring 2018	Change from New Year 2018	Spring 2018	Change from New Year 2018	Spring 2018	Change from New Year 2018	Spring 2018	Change from New Year 2018
REAL GDP														
2017A[1]	2.25%		3.00%		2.48%		1.72%		1.59%		6.86%		5.49%	
2018E	3.00%	0.25	1.75%	0.25	2.25%	0.25	1.50%	N/C	1.50%	N/C	6.25%	0.25	5.50%	N/C
2019E	2.75%	N/C	1.50%	N/C	1.75%	N/C	1.50%	N/C	1.25%	N/C	6.00%	N/C	5.50%	N/C
CPI														
2017A	2.14%		1.61%		1.53%		2.68%		0.44%		1.52%		2.51%	
2018E	2.25%	0.25	2.25%	0.25	1.50%	N/C	2.75%	N/C	1.25%	N/C	2.25%	N/C	3.25%	0.25
2019E	2.25%	N/C	2.00%	N/C	1.75%	N/C	2.50%	N/C	1.25%	N/C	2.50%	N/C	3.25%	N/C

A = Actual E = Estimate *GDP Weighted Average of China, India, South Korea, Brazil, Mexico and Russia. [1]Awaiting actual Q4 2017 GDP releases for Canada, Brazil and Russia. As a result, Canada and Emerging Markets real GDP growth figures for 2017 are forecasts.

Targets (RBC GAM Investment Strategy Committee)

	FEBRUARY 2018	FORECAST FEBRUARY 2019	CHANGE FROM NEW YEAR 2018	1-YEAR TOTAL RETURN ESTIMATE* (%)
CURRENCY MARKETS AGAINST USD				
CAD (USD–CAD)	1.28	1.35	(0.02)	(5.3)
EUR (EUR–USD)	1.22	1.17	0.05	(6.5)
JPY (USD–JPY)	106.68	105.00	(5.00)	(0.7)
GBP (GBP–USD)	1.38	1.20	0.05	(14.1)
FIXED INCOME MARKETS				
U.S. Fed Funds Rate	1.50	2.38	0.50	N/A
U.S. 10-Year Bond	2.86	3.00	0.25	1.7
Canada Overnight Rate	1.25	1.75	0.25	N/A
Canada 10-Year Bond	2.24	2.50	0.25	(0.1)
Eurozone Deposit Facility Rate	(0.40)	(0.40)	N/C	N/A
Germany 10-Year Bund	0.66	1.00	0.10	(2.6)
U.K. Base Rate	0.50	0.75	N/C	N/A
U.K. 10-Year Gilt	1.50	1.75	N/C	(0.8)
Japan Overnight Call Rate	(0.05)	(0.10)	N/C	N/A
Japan 10-Year Bond	0.05	0.10	N/C	(0.4)
EQUITY MARKETS				
S&P 500	2714	2900	100	8.8
S&P/TSX Composite	15443	16250	(100)	8.4
MSCI Europe	128	139	N/C	12.2
FTSE 100	7232	7700	N/C	10.9
Nikkei	22068	24000	(1000)	10.6
MSCI Emerging Markets	1195	1300	85	11.5

*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD.

RECOMMENDED ASSET MIX

Asset mix – the allocation within portfolios to stocks, bonds and cash – should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor's profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter term fluctuations in markets.

Every individual has differing return expectations and tolerances for volatility, so there is no "one size fits all" strategic asset mix. Based on a 40-year study of historical returns[1] and the volatility[2] of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC GAM Investment Strategy Committee publishes a recommended asset mix based on our current view of the economy and return expectations for the major asset classes. These weights are further divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark setting is 55% equities, 43% fixed income, 2% cash.

A tactical range of +/- 15% around the benchmark position allows us to raise or lower exposure to specific asset classes with a goal of tilting portfolios toward those markets that offer comparatively attractive near-term prospects.

This tactical recommendation for the Balanced profile can serve as a guide for movement within the ranges allowed for all other profiles.

The value-added of tactical strategies is, of course, dependent on the degree to which the expected scenario unfolds.

Regular reviews of portfolio weights are essential to the ultimate success of an investment plan as they ensure current exposures are aligned with levels of long-term returns and risk tolerances best suited to individual investors.

Anchoring portfolios with a suitable strategic asset mix, and placing boundaries defining the allowed range for tactical positioning, imposes discipline that can limit damage caused by swings in emotion that inevitably accompany both bull and bear markets.

[1] **Average return:** The average total return produced by the asset class over the period 1978 – 2018, based on monthly results.

[2] **Volatility:** The standard deviation of returns. Standard deviation is a statistical measure that indicates the range around the average return within which 2/3 of results will fall into, assuming a normal distribution around the long-term average.

GLOBAL ASSET MIX

	BENCHMARK POLICY	PAST RANGE	SPRING 2017	SUMMER 2017	FALL 2017	NEW YEAR 2018	SPRING 2018
CASH	**2.0%**	1.0% – 16%	2.0%	3.0%	3.0%	3.0%	**2.0%**
BONDS	**43.0%**	25.0% – 54.0%	38.0%	38.0%	39.0%	39.0%	**40.0%**
STOCKS	**55.0%**	36.0% – 65.0%	60.0%	59.0%	58.0%	58.0%	**58.0%**

Note: Effective September 1, 2014, we revised our strategic neutral positions within fixed income, lowering the ‘neutral’ commitment to cash from 5% to 2%, and moving the difference to bonds. This takes advantage of the positive slope of the yield curve which prevails over most time periods, and allows our fixed income managers to shorten duration and build cash reserves whenever a correction in the bond market, or especially an inverted yield curve, is anticipated.

REGIONAL ALLOCATION

GLOBAL BONDS	CWGBI* FEB. 2018	PAST RANGE	SPRING 2017	SUMMER 2017	FALL 2017	NEW YEAR 2018	SPRING 2018
North America	**38.5%**	18% – 44%	44.2%	44.3%	34.1%	37.1%	**43.5%**
Europe	**41.7%**	32% – 56%	36.4%	34.1%	40.4%	38.1%	**36.7%**
Asia	**19.8%**	17% – 35%	19.5%	21.6%	25.5%	24.7%	**19.8%**

Note: Past Range reflects historical allocation from Fall 2002 to present.

GLOBAL EQUITIES	MSCI** FEB. 2018	PAST RANGE	SPRING 2017	SUMMER 2017	FALL 2017	NEW YEAR 2018	SPRING 2018
North America	**60.3%**	51% – 61%	60.8%	59.9%	59.9%	60.0%	**60.0%**
Europe	**20.7%**	20% – 35%	20.3%	21.3%	20.6%	20.6%	**20.2%**
Asia	**11.8%**	9% – 18%	11.4%	11.4%	12.0%	11.9%	**12.4%**
Emerging Markets	**7.3%**	0% – 8.5%	7.5%	7.5%	7.5%	7.5%	**7.5%**

Our asset mix is reported as at the end of each quarter. The mix is fluid and may be adjusted within each quarter, although we do not always report on shifts as they occur. The weights in the table should be considered a snapshot of our asset mix at the date of release of the *Global Investment Outlook*.

GLOBAL EQUITY SECTOR ALLOCATION

	MSCI** FEB. 2018	RBC GAM ISC NEW YEAR 2018	RBC GAM ISC SPRING 2018	CHANGE FROM NEW YEAR 2018	WEIGHT VS. BENCHMARK
Energy	6.11%	4.37%	5.11%	0.74	83.6%
Materials	5.24%	6.09%	5.24%	(0.85)	100.0%
Industrials	11.69%	13.29%	11.69%	(1.61)	100.0%
Consumer Discretionary	12.67%	14.06%	13.67%	(0.38)	107.9%
Consumer Staples	8.78%	8.87%	8.78%	(0.09)	100.0%
Health Care	11.74%	12.85%	13.74%	0.90	117.0%
Financials	18.38%	18.02%	19.38%	1.36	105.4%
Information Technology	16.91%	19.18%	18.91%	(0.27)	111.8%
Telecom. Services	2.69%	0.71%	1.69%	0.98	62.8%
Utilities	2.83%	1.25%	0.83%	(0.42)	29.4%
Real Estate	2.96%	1.32%	0.96%	(0.36)	32.4%

*Citigroup World Global Bond Index **MSCI World Index

Source: RBC GAM Investment Strategy Committee

At RBC GAM, we have a team dedicated to setting and reviewing the strategic asset mix for all of our multi-asset solutions. With an emphasis on consistency of returns, risk management and capital preservation, we have developed a strategic asset allocation framework for five client risk profiles that correspond to broad investor objectives and risk preferences. These five profiles range from Very Conservative through Balanced to Aggressive Growth.

VERY CONSERVATIVE

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
Cash & Cash Equivalents	2%	0-15%	2.9%	2.0%
Fixed Income	78%	55-95%	74.1%	75.0%
Total Cash & Fixed Income	80%	65-95%	77.0%	77.0%
Canadian Equities	10%	5-20%	10.6%	10.8%
U.S. Equities	5%	0-10%	6.0%	6.3%
International Equities	5%	0-10%	6.4%	5.9%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	20%	5-35%	23.0%	23.0%

	RETURN	VOLATILITY
40-Year Average	8.7%	5.5%
Last 12 Months	2.0%	3.7%

Very Conservative investors will seek income with maximum capital preservation and the potential for modest capital growth, and be comfortable with small fluctuations in the value of their investments. This portfolio will invest primarily in fixed-income securities, and a small amount of equities, to generate income while providing some protection against inflation. Investors who fit this profile generally plan to hold their investment for the short to medium term (minimum one to five years).

CONSERVATIVE

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
Cash & Cash Equivalents	2%	0-15%	2.9%	2.0%
Fixed Income	63%	40-80%	59.0%	59.9%
Total Cash & Fixed Income	65%	50-80%	61.9%	61.9%
Canadian Equities	15%	5-25%	15.6%	15.8%
U.S. Equities	10%	0-15%	11.0%	11.3%
International Equities	10%	0-15%	11.5%	11.0%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	35%	20-50%	38.1%	38.1%

	RETURN	VOLATILITY
40-Year Average	9.0%	6.5%
Last 12 Months	3.3%	3.8%

Conservative investors will pursue modest income and capital growth with reasonable capital preservation, and be comfortable with moderate fluctuations in the value of their investments. The portfolio will invest primarily in fixed-income securities, with some equities, to achieve more consistent performance and provide a reasonable amount of safety. The profile is suitable for investors who plan to hold their investment over the medium to long term (minimum five to seven years).

BALANCED

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
Cash & Cash Equivalents	2%	0-15%	3.0%	2.0%
Fixed Income	43%	20-60%	39.0%	40.0%
Total Cash & Fixed Income	45%	30-60%	42.0%	42.0%
Canadian Equities	19%	10-30%	19.5%	19.7%
U.S. Equities	20%	10-30%	20.9%	21.2%
International Equities	12%	5-25%	13.3%	12.8%
Emerging Markets	4%	0-10%	4.3%	4.3%
Total Equities	55%	40-70%	58.0%	58.0%

	RETURN	VOLATILITY
40-Year Average	9.4%	7.7%
Last 12 Months	5.7%	4.3%

The **Balanced** portfolio is appropriate for investors seeking balance between long-term capital growth and capital preservation, with a secondary focus on modest income, and who are comfortable with moderate fluctuations in the value of their investments. More than half the portfolio will usually be invested in a diversified mix of Canadian, U.S. and global equities. This profile is suitable for investors who plan to hold their investment for the medium to long term (minimum five to seven years).

GROWTH

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
Cash & Cash Equivalents	2%	0-15%	3.0%	2.0%
Fixed Income	28%	5-40%	23.9%	24.9%
Total Cash & Fixed Income	30%	15-45%	26.9%	26.9%
Canadian Equities	23%	15-35%	23.5%	23.7%
U.S. Equities	25%	15-35%	25.9%	26.2%
International Equities	16%	10-30%	17.3%	16.8%
Emerging Markets	6%	0-12%	6.4%	6.4%
Total Equities	70%	55-85%	73.1%	73.1%

	RETURN	VOLATILITY
40-Year Average	9.7%	9.4%
Last 12 Months	7.3%	4.8%

Investors who fit the **Growth** profile will seek long-term growth over capital preservation and regular income, and be comfortable with considerable fluctuations in the value of their investments. This portfolio primarily holds a diversified mix of Canadian, U.S. and global equities and is suitable for investors who plan to invest for the long term (minimum seven to ten years).

AGGRESSIVE GROWTH

ASSET CLASS	BENCH-MARK	RANGE	LAST QUARTER	CURRENT RECOMMENDATION
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	0%	0-10%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-20%	2.0%	2.0%
Canadian Equities	32.5%	20-45%	31.8%	32.2%
U.S. Equities	35.0%	20-50%	34.9%	35.3%
International Equities	21.5%	10-35%	22.1%	21.3%
Emerging Markets	9.0%	0-15%	9.2%	9.2%
Total Equities	98%	80-100%	98.0%	98.0%

	RETURN	VOLATILITY
40-Year Average	10.3%	12.1%
Last 12 Months	10.1%	5.8%

Aggressive Growth investors seek maximum long-term growth over capital preservation and regular income, and are comfortable with significant fluctuations in the value of their investments. The portfolio is almost entirely invested in stocks and emphasizes exposure to global equities. This investment profile is suitable only for investors with a high risk tolerance and who plan to hold their investments for the long term (minimum seven to ten years).

CAPITAL MARKETS PERFORMANCE

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The U.S. dollar fell against all four major currencies during the three-month period ended February 28, 2018, declining most against the euro and the yen. The greenback dropped 5.2% versus the yen and 2.4% versus the euro. The decline versus the pound was 1.8%, and 0.5% against the Canadian dollar. For the latest 12-month period, the U.S. dollar dropped 13.2% versus the euro, 9.9% versus the pound, 5.0% against the yen and 3.4% against the Canadian dollar.

Global fixed-income markets were mixed, with indexes falling in the U.S. and Canada, while Europe and Japan were marginally higher, helped by the relative currency strength. The FTSE TMX Canada Universe Bond Index, Canada's fixed-income benchmark, dropped 0.5% in U.S. dollar terms, and the Barclays Capital Aggregate Bond Index, the U.S. fixed-income benchmark, declined 1.6% during the three months.

Global equities were also varied in their performance. Larger-cap indexes outperformed smaller-cap benchmarks amid heightened volatility in global financial markets. The S&P 500 Index rose 3.0% and the MSCI Japan gained 3.7% during the three-month period. The MSCI France rose 1.6% and the MSCI U.K. returned 1.2%, while the MSCI Germany lost 1.7%. Over the 12-month period, the S&P 500 gained 17.1% and the MSCI Japan rose 21.8%. In Europe, the MSCI Germany returned 20.9%, the MSCI France gained 29.9% and the MSCI U.K. returned 14.2%, all in U.S. dollar terms. The S&P/TSX Composite Index lost 2.7% in U.S. dollar terms during the three months. For the 12-month period, the Canadian benchmark index gained 6.9%.

Over the past year, growth stocks in the U.S. significantly outperformed value stocks. The Russell 3000 Growth Index gained 25.5%, while the Russell 3000 Value Index returned only 7.4%.

Just six of the 11 global equity sectors recorded gains during the quarter ended February 28, 2018. The best-performing sector was Information Technology with a return of 7.2%, followed by Consumer Discretionary, which rose 6.5%, and Financials with a 4.2% gain. The worst-performing sector over the three-month period was Utilities, which lost 10.1%.

EXCHANGE RATES
Periods ending February 28, 2018

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.2832	(0.54)	2.08	(3.39)	0.87	4.47
USD–EUR	0.8197	(2.44)	(1.65)	(13.16)	(2.84)	1.37
USD–GBP	0.7264	(1.77)	(1.93)	(9.87)	3.89	1.96
USD–JPY	106.6950	(5.20)	(5.31)	(5.03)	(3.74)	2.86

Note: all changes above are expressed in US dollar terms

CANADA
Periods ending February 28, 2018

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE TMX Canada Univ. Bond Index TR	(0.52)	(2.68)	4.55	(0.02)	(1.58)	(1.06)	1.01	0.85

U.S.
Periods ending February 28, 2018

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Citigroup U.S. Government TR	(1.65)	(2.11)	0.52	1.15	1.71	(2.18)	(2.89)	2.04
Barclays Capital Agg. Bond Index TR	(1.64)	(2.09)	0.51	1.14	1.71	(2.17)	(2.90)	2.02

GLOBAL
Periods ending February 28, 2018

	USD					CAD		
Fixed Income Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Citigroup WGBI TR	0.36	0.04	6.17	2.39	1.28	(0.18)	2.58	3.29
Citigroup European Government TR	1.31	1.18	14.77	2.82	2.45	0.77	10.88	3.72
Citigroup Japanese Government TR	5.88	5.89	6.16	5.97	(0.61)	5.31	2.56	6.90

CANADA
Periods ending February 28, 2018

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P/TSX Composite	(2.70)	(6.32)	6.85	2.57	2.35	(3.23)	3.23	3.47
S&P/TSX 60	(2.82)	(6.37)	7.36	3.04	2.93	(3.34)	3.73	3.94
S&P/TSX Small Cap	(3.64)	(8.48)	(1.10)	2.68	(0.45)	(4.16)	(4.45)	3.57

U.S.
Periods ending February 28, 2018

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P 500 TR	2.96	1.83	17.10	11.14	14.73	2.41	13.13	12.11
S&P 400 TR	(1.47)	(1.69)	9.53	9.10	12.81	(2.00)	5.82	10.06
S&P 600 TR	(1.95)	(1.44)	10.29	10.61	14.04	(2.48)	6.56	11.57
Russell 3000 Value TR	(0.03)	(1.30)	7.39	8.02	11.93	(0.57)	3.75	8.96
Russell 3000 Growth TR	4.77	4.02	25.52	13.15	16.77	4.21	21.26	14.14
NASDAQ Composite Index TR	5.81	5.35	24.85	13.58	18.14	5.24	20.62	14.58

Note: all rates of return presented for periods longer than 1 year are annualized

Source: Bloomberg/MSCI

GLOBAL
Periods ending February 28, 2018

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	2.28	0.92	17.36	8.19	10.70	1.73	13.54	9.13
MSCI EAFE TR *	1.89	0.28	20.13	5.65	7.06	1.34	16.22	6.57
MSCI Europe TR *	0.70	(0.79)	20.54	4.27	6.58	0.16	16.62	5.17
MSCI Pacific TR *	3.88	2.16	19.85	8.45	8.01	3.32	15.95	9.39
MSCI UK TR *	1.24	(3.55)	14.17	1.17	4.19	0.69	10.46	2.05
MSCI France TR *	1.60	1.82	29.85	8.58	8.91	1.05	25.62	9.52
MSCI Germany TR *	(1.70)	(1.73)	20.92	5.43	8.03	(2.23)	16.98	6.34
MSCI Japan TR *	3.73	3.01	21.77	9.69	10.44	3.17	17.81	10.64
MSCI Emerging Markets TR *	7.05	3.34	30.51	8.97	5.02	6.47	26.26	9.91

GLOBAL EQUITY SECTORS
Periods ending February 28, 2018

	USD					CAD		
Sector: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	(2.22)	(6.59)	3.29	(1.30)	(0.84)	(2.75)	(0.07)	(0.44)
Materials TR *	2.83	(0.90)	20.52	7.23	5.58	2.27	16.60	8.16
Industrials TR *	2.47	0.82	19.63	10.27	11.65	1.92	15.74	11.22
Consumer Discretionary TR *	6.50	4.22	23.07	9.62	13.83	5.92	19.06	10.57
Consumer Staples TR *	(3.49)	(5.33)	4.43	4.45	7.60	(4.01)	1.03	5.35
Health Care TR *	0.80	0.87	11.79	3.94	12.28	0.26	8.15	4.83
Financials TR *	4.22	2.20	19.81	10.44	11.01	3.66	15.91	11.39
Information Technology TR *	7.22	7.28	35.47	18.38	20.35	6.64	31.06	19.40
Telecommunication Services TR *	(3.32)	(4.48)	0.55	1.14	6.57	(3.84)	(2.73)	2.01
Utilities TR *	(10.10)	(5.57)	2.46	2.93	6.21	(10.59)	(0.87)	3.82
Real Estate TR *	(5.08)	(5.82)	3.11	NA	NA	(5.60)	(0.25)	NA

* Net of taxes Note: all rates of return presented for periods longer than 1 year are annualized Source: Bloomberg/MSCI

GLOBAL INVESTMENT OUTLOOK

Market turbulence, macro calm

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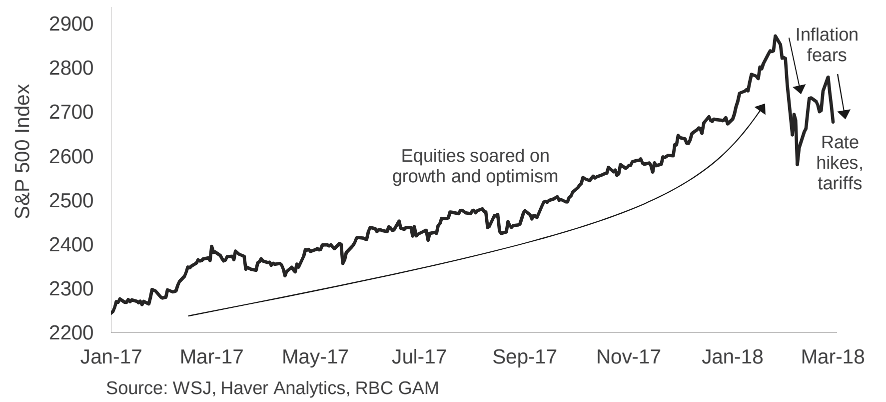
The recent flare of financial-market turbulence serves as a useful reminder not to become too complacent after a long period of uninterrupted growth and market gains. While the stock market's decline has since been partially unwound (Exhibit 1), other developments have stuck. In light of this, there are several key themes and risks worth highlighting.

First, the global economy is still quite strong (Exhibit 2). The rate of growth is the fastest in years, and the geographic breadth of the upturn suggests a degree of durability to the trend.

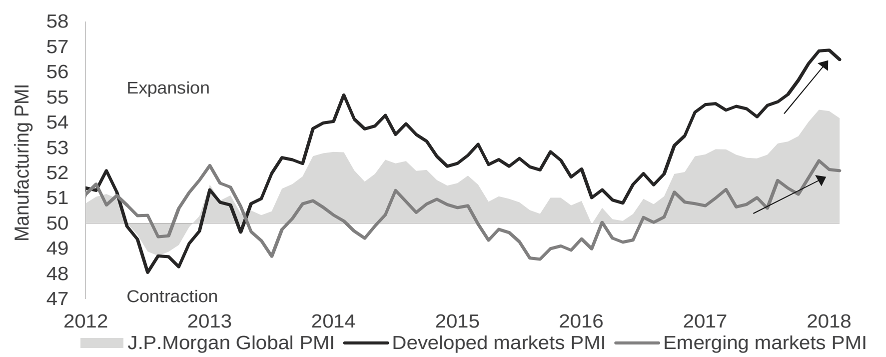
Second, inflation is undergoing a metamorphosis. We have long maintained an above-consensus inflation forecast, but the market has only recently awoken to the reality that economies operating at their full capacity (Exhibit 3) must eventually translate into normalizing inflation (Exhibit 4). The risk of inflation becoming problematically high seems limited, but there is no denying that a more leisurely regime shift from low to normal inflation is

Exhibit 1: Stock market encounters turbulence



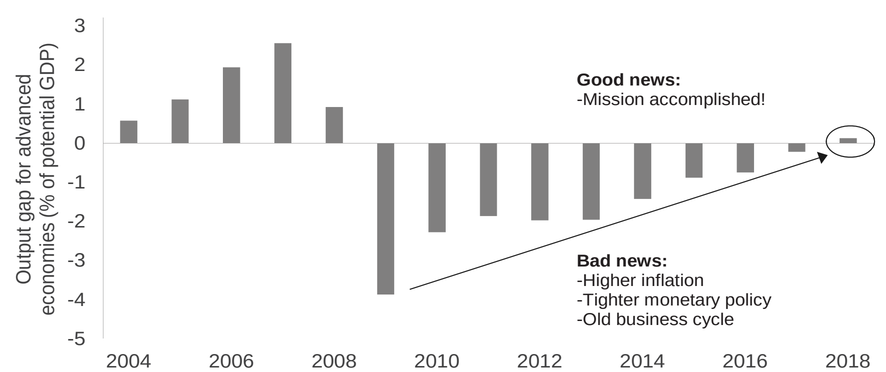
Source: WSJ, Haver Analytics, RBC GAM

Exhibit 2: Global manufacturing remains in high gear



Note: PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM

Exhibit 3: Economic slack finally gone in developed world



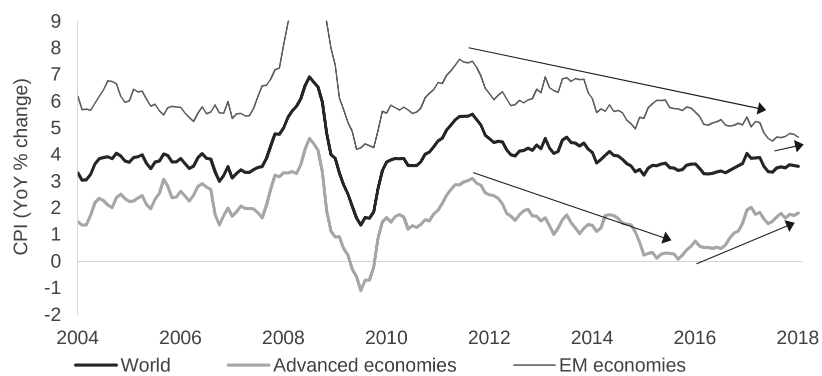
Note: IMF estimate for 2018. Source: IMF, Haver Analytics, RBC GAM occurring. This has implications – albeit fairly tame ones – for bond yields and stock valuations.

A third theme is tightening financial conditions. After a long period of easy and loosening conditions, the past few months have witnessed a partial reversal. Although the stock market's travails capture most of the attention, the financial tightening is mostly the result of higher bond yields (Exhibit 5). Fortunately, the damage should be slight. Financial conditions are still fairly easy even after the change, the rise in bond yields is mostly for good or benign reasons, and, for the U.S., a weak dollar provides a handy offset.

Fourth, a great deal of fiscal stimulus is now being delivered in the U.S., mainly via tax cuts. This is an enormous positive for corporate earnings, and a moderate positive for the economy.

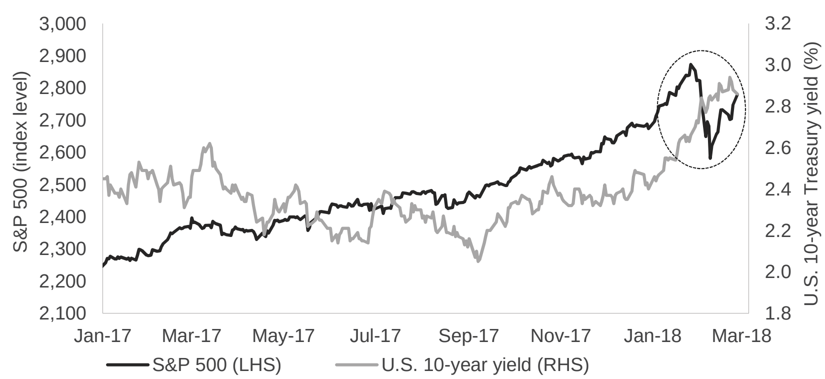
All told, the U.S. economy comes out of these various changes slightly improved, while other developed countries look a hair worse. Of course, there is much that we don't yet know, with prominent downside risks in the form of protectionism and the aging business cycle. Concerning the former, a steady pitter-patter of anti-trade actions taken by the U.S. threatens to dilute the country's recent fiscal stimulus and undermine growth elsewhere. On the latter, the business cycle is now undeniably old, if not yet clearly at the end of its rope.

Exhibit 4: Global inflation now on the rise



Source: IMF, Haver Analytics, RBC GAM

Exhibit 5: Market jitters: higher yields, lower equities



Source: Haver Analytics, RBC GAM

Exhibit 6: Global macro forecast summary

	Vs. market	Key points
Growth	Modestly above consensus	• Strong momentum • Fairly friendly financial conditions • Classic late-cycle behavior • U.S. tax cuts • Other fiscal stimulus (UK, DE) • Secular stagnation fading?
Inflation	Modestly above consensus	• Higher oil • Economies are tight • Wages to rise – Phillips curve • Protectionism is inflationary

Source: RBC GAM

Against this backdrop, we maintain a mild overweight in equities given the strong earnings and growth environment, but have reduced the degree of this overweight in recent quarters. In the latest quarter, we have taken a percentage point out of cash and allocated it to bonds, with an eye to taking advantage of the recent rise in yields and adding ballast to the portfolio in the event that the aging cycle, full equity valuations or protectionist threats become binding constraints.

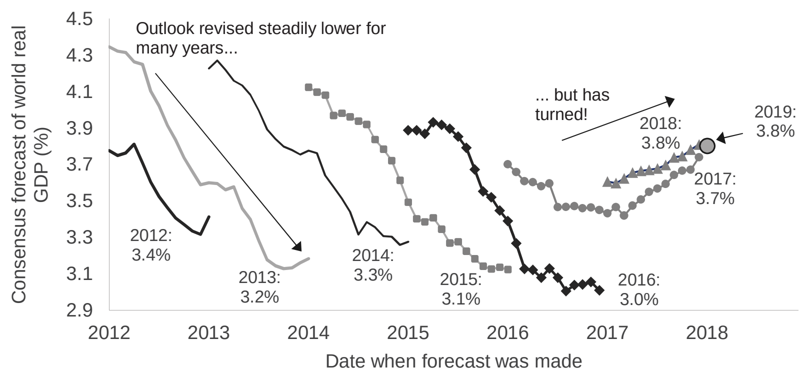
Strong macro conditions

The global economic environment remains positive, with exuberant macro indicators providing their best readings in the better part of a decade (refer back to Exhibit 2). We continue to flag a number of reasons for this good growth, and why it may be sustained (Exhibit 6). These include a strong economic handoff from 2017, decent financial conditions, classically fast late-cycle growth, a burst of fiscal stimulus and retreating secular stagnation.

A few of these tailwinds are becoming a bit less positive:

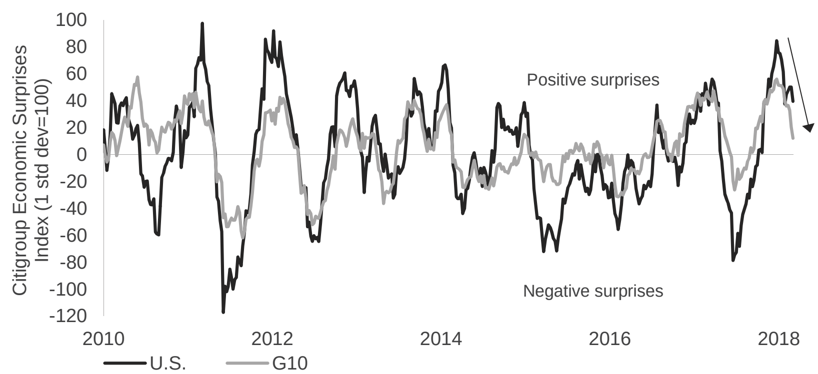
- Economic momentum is still helpful, though becoming more mixed. The consensus global growth forecast is still actively rising (Exhibit 7), but economic surprises are becoming less reliably positive (Exhibit 8).
- Easy and improving financial conditions were long a key growth support thanks to low yields, narrowing credit spreads

Exhibit 7: Consensus forecast trending higher



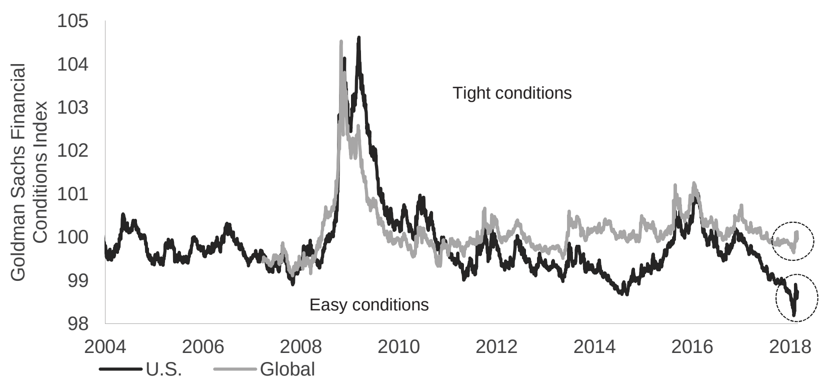
Source: Consensus Economics, IMF, RBC GAM

Exhibit 8: Global economic surprises reversing



Source: Citigroup Alpha Surprise Index, Bloomberg, RBC GAM

Exhibit 9: Global financial conditions deteriorate



Source: Goldman Sachs, Bloomberg, RBC GAM and rising stocks. Financial conditions are still easy by any metric today, but less so. They have tightened in recent months, mainly as interest rates have risen (Exhibit 9).

Other tailwinds are strengthening:

- The aroma of fiscal stimulus is very much in the air. Some wafts from Europe, where the U.K. and Germany are set to deliver slightly more fiscal support. But the main source is the U.S., where a major fiscal package was just delivered.
- Finally, and perhaps most importantly, secular stagnation may now be fading (Exhibit 10). In plain English, the grit that gummed up the economic system in the years after the financial crisis is starting to wash away, as demonstrated by reviving risk appetite and tentatively reviving productivity growth. This last component is crucial as declining secular stagnation permits a higher speed limit going forward and not just a one-off shot of extra growth.

Of course, for all of the talk about faster growth, several structural constraints must be kept in mind (Exhibit 11). Prominent considerations include worsening demographics, maturing emerging-market economies, populist inclinations and high debt loads. The point is that future growth appears set to be better than the post-crisis norm, but still less than the pre-crisis standard.

Exhibit 10: Is secular stagnation ending?

Passage of time	• Drag from crises usually gone in a decade • Now 10 years from onset of crisis
Animal spirits revive	• Confidence finally back to pre-crisis levels • Market-based risk appetite is high
Higher productivity?	• Productivity growth tentatively reviving • Productivity undercounted?

If "YES" = faster economic speed limit

Source: RBC GAM

Exhibit 11: Keep structural headwinds to economic growth in mind

Human factors	Economic structure	Post-crisis
• Demographics: – Slower pop. growth – Rising retired % • Decelerating gains in: – Education – Health – Urbanization • Rising complacency: – Low labor mobility – More segregated – Less risk-taking • Falling societal trust • Higher inequality	• Fading globalization • Declining creative destruction: – Lower firm turnover – Higher firm concentration • Goods ➡ services • Maturing EM economies **Technology** • Running out of big new innovations?	• Populism/protectionism • Secular stagnation: – Diminished expectations – Less business investment – Skill decay • Debt excesses – Servicing – Deleveraging

Source: RBC GAM

Economic forecast refresh

Several of our developed-world growth forecasts for 2018 have been upgraded slightly this quarter, reflecting a strong handoff from 2017 and the favourable drivers identified in the prior section. At the global level, this means we now look for 4.0% growth in 2018, the zippiest expansion in eight years.

Next year may not be quite as strong as fiscal stimulus fades, central banks tighten rates and the effects of protectionism mount, but should still be notably above the post-crisis norm at 3.8% growth.

We remain moderately above consensus in our developed-world growth forecasts (Exhibit 12). This is motivated by our view that secular stagnation is fading, and given the fact that the consensus forecast has been steadily trending higher.

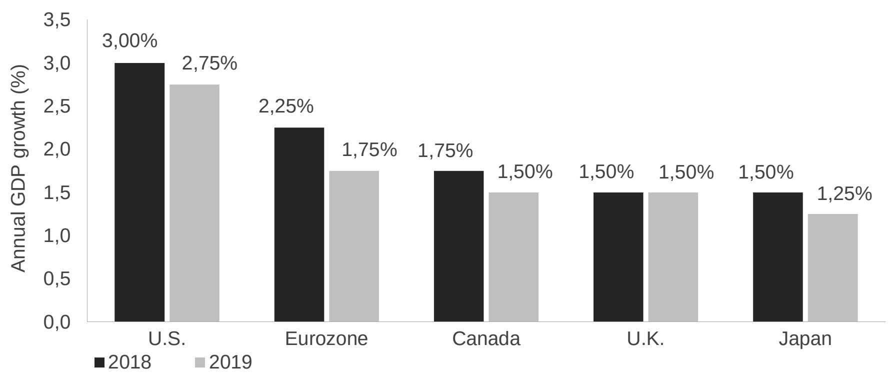
On the other hand, we are a little below the consensus with our emerging-market forecasts (Exhibit 13). To be clear, emerging markets have accelerated nicely after a long swoon in recent years (Exhibit 14) and will on average grow much more quickly than the developed world. But as they mature, their natural speed limit is declining. In fact, for 2018, our growth forecasts for China, South Korea and Mexico are slightly below consensus.

New inflation regime

For a significant part of the post-crisis era, markets have been on "deflation watch," concerned about falling rather than rising prices. Even as economies began to mount their recovery, inflation remained stubbornly low. This situation prompted chatter that the link between economic activity and inflation had been irreparably severed. Inflation expectations were accordingly depressed.

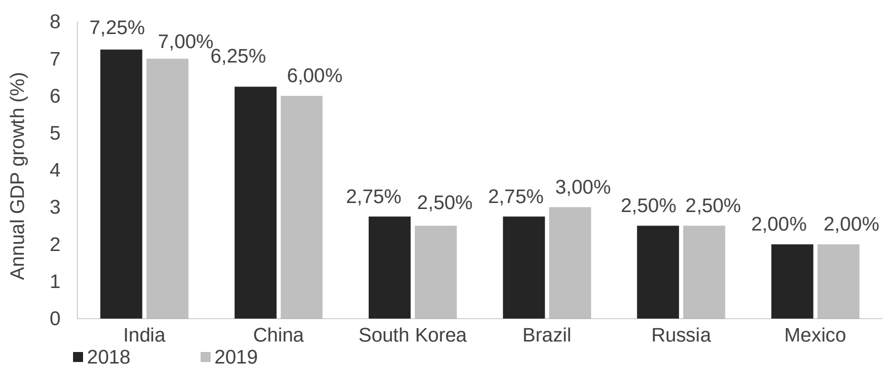
We were always dubious of the deflation narrative. It would theoretically take an economic shock far worse than the financial crisis to get stuck in a deflationary loop, and a proper accounting of wage growth has shown life for some time. Yes, it is harder for inflation to rise than in the past due to a variety of structural depressants related to demographics, globalization, technological change and sector-level shifts (Exhibit 15).

Exhibit 12: RBC GAM GDP forecast for developed markets



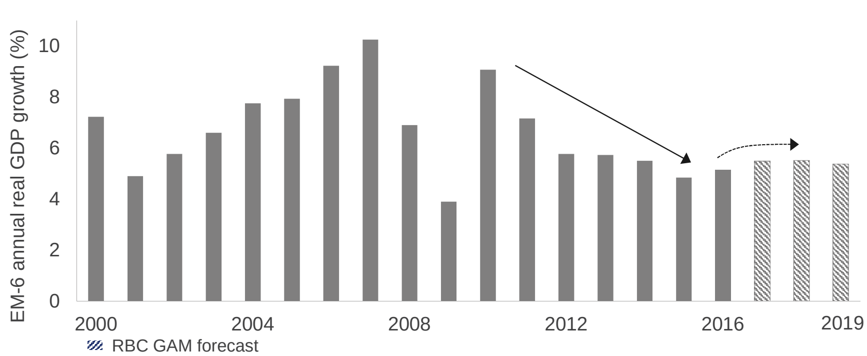
Source: RBC GAM

Exhibit 13: RBC GAM GDP forecast for emerging markets



Source: RBC GAM

Exhibit 14: Emerging markets rebound, but only partially



Note: EM-6 includes Brazil, China, India, Mexico, Russia and South Korea.
Source: Haver Analytics, RBC GAM

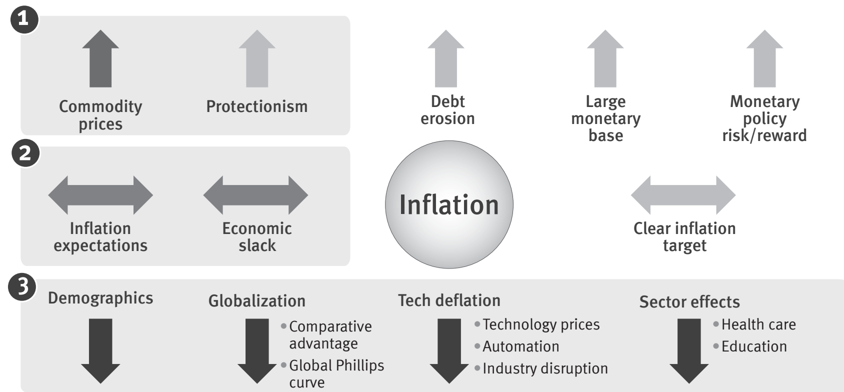
But to focus only on the depressants would neglect equally relevant factors pointing in the opposite direction. Developed-world economies no longer suffer from billowing economic slack. Inflation expectations have been marching higher – potentially creating a self-fulfilling prophecy. Commodity prices are up and a wave of protectionism is inherently inflationary.

Markets have finally abandoned their deflationary mindsight, recognizing that an inflation regime shift is underway (Exhibit 16). But in contrast to the breathless idea that a deflationary environment is abruptly transitioning to a high-inflation one, we instead view the ongoing transformation as a rather gentler shift from a low inflation regime to a normal one. Market-based measures themselves support this assertion: inflation expectations have risen but still fall short of normal, let alone high.

This tame transformation is important but much less problematic than the alternative hypothesis. It endorses higher yields – more on that shortly – but not a blast-off into the stratosphere. More normal inflation could trim what constitutes a fair price-to-earnings ratio, but not to any great extent.

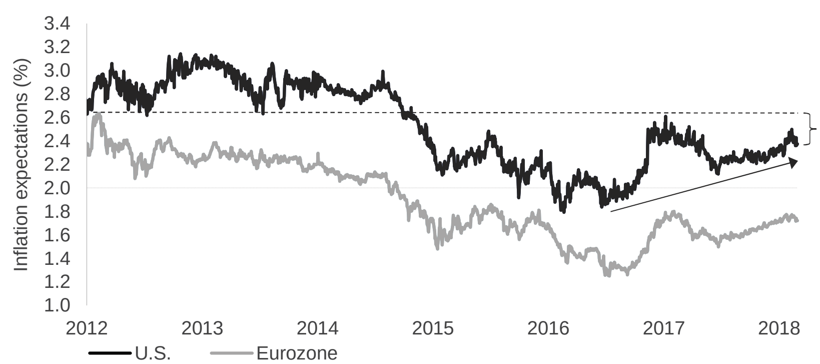
With all of this in mind, we anticipate an orderly increase in developed-world inflation measures to slightly above-consensus levels (Exhibit 17). Don't be fooled by an imminent leap in second-quarter U.S. inflation; it is the product of temporary base

Exhibit 15: Inflation barometer edging higher



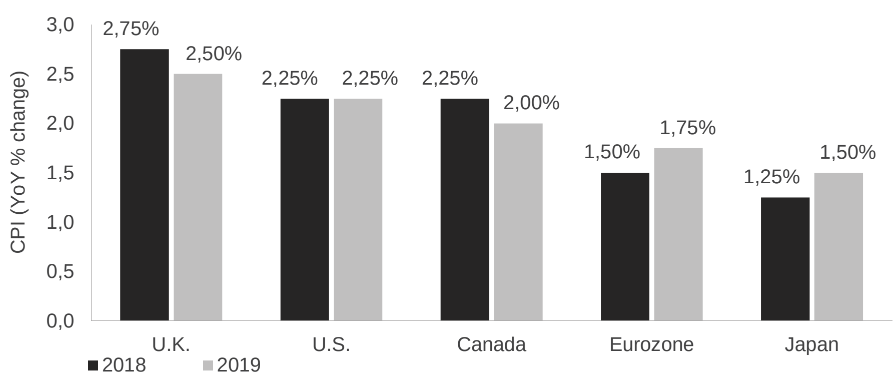
Source: RBC GAM

Exhibit 16: Inflation expectations well up, but not high



Note: Measured as USD and EUR 5-year, 5-year inflation forward swap rate.
Source: Bloomberg, RBC GAM

Exhibit 17: RBC GAM CPI forecast for developed markets



Source: RBC GAM

effects that should fade as time passes.

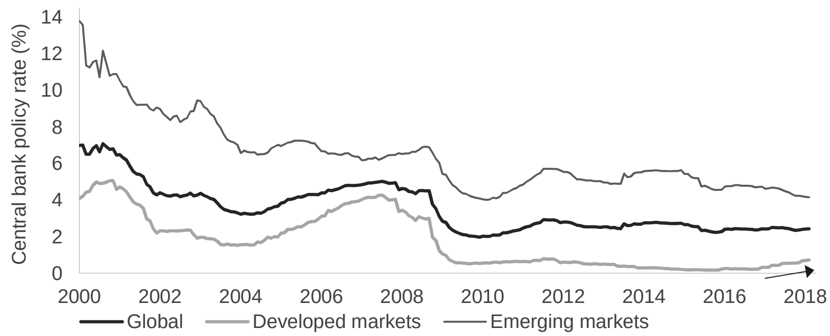
Emerging-market inflation is something of a different story. It has largely declined on the back of more credible monetary policies and maturing economies. This is a very good thing, as it removes something of a friction that previously held back countries such as India, Brazil and Russia.

Tighter financial conditions

The recent tightening of financial conditions is disproportionately the result of higher interest rates. Yields began rising in the fall of 2017 before jumping higher in early 2018 due to several drivers:

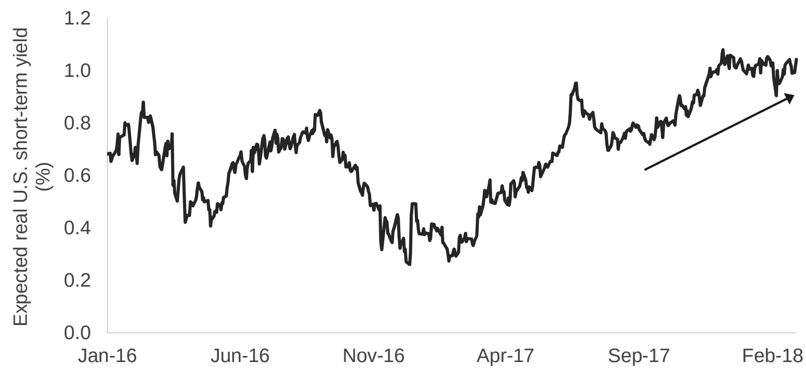
- A handful of central banks – prominently, the U.S. Federal Reserve (Fed), the Bank of Canada (BOC) and the Bank of England (BOE) are all actively hiking rates due to tautness in their economies. This is the right move, and we look for a steady drumbeat of further increases. The era of extreme monetary stimulus is clearly coming to an end, if gradually (Exhibit 18). The effect is to increase short-end rates, which bleed into longer-term bond yields. Fortunately, the bond market has now priced in the bulk of future actions, meaning that yields need not rise significantly further as this additional tightening is delivered.
- The Fed is selling off its enormous bond portfolio, materially altering the supply-demand dynamic for longer-dated bonds.
- Faster economic growth and anticipation that this will persist are increasing the expected real short-term policy rate over the next decade, which is embedded in the price of the 10-year yield (Exhibit 19).
- Rising inflation, and rising inflation expectations, are also key contributors to the increase in nominal yields.
- Lastly, the bond market has now priced in a larger term premium, meaning that investors are demanding more of a return to hold longer-lived bonds. This is at least in part the result of central banks unwinding their holdings and it is probably the most growth-negative aspect of the yield increase. However, the

Exhibit 18: Monetary policy tightening has started in developed countries



Note: Policy rates of the U.S., Canada, U.K., Eurozone, Switzerland, Sweden, Norway, Japan, Australia, China, India, South Korea, Russia, Brazil and Mexico aggregated and weighted by PPP-based GDP share. Source: Haver Analytics, RBC GAM

Exhibit 19: Expected real short-term rate has increased significantly



Source: Federal Reserve Bank of New York, Bloomberg, Haver Analytics, RBC GAM term premium is still extremely depressed versus historical norms. Indeed, it remains slightly negative, and so the economy cannot complain too strenuously about this move (Exhibit 20).

The increase in yields and the resultant tightening of financial conditions are notable, but not extreme. Yields are still low by any historical standard, and financial conditions are merely less easy than they were before rather than tight.

The U.S. dollar weakness of the past year largely neutralizes the sting of this development in the U.S. But in regions where borrowing costs and currencies have risen concurrently – such as the Eurozone and Japan – the macro outlook is slightly dimmed as a result.

Late-cycle indicators

The aging U.S. business cycle remains a key downside risk for the coming few years. We evaluate a larger number of inputs to reach a "late-cycle" diagnosis (Exhibit 21). Reflecting the fickle nature of economic and market signals, many of the inputs disagree vehemently with one another. Some would have us believe that the business cycle is merely beginning, while others argue that it is already over. Neither is especially plausible. But the central tendency of the measures is toward the aforementioned "late-cycle" conclusion (Exhibit 22). This is distinct from "end of

Exhibit 20: Term premium is still low, but rising

Source: Federal Reserve Bank of New York, Bloomberg, Haver Analytics, RBC GAM

Exhibit 21: U.S. business-cycle scorecard

	Start of cycle	Early cycle	Mid cycle	Late cycle	End of cycle	Recession
Inventory ratio						
Equity profitability						
Consumer durables						
Housing						
Prices						
Bonds						
Monetary policy						
Business investment						
Credit						
Economic trend						
Economic slack						
Loan growth						
Leverage						
Stock direction						
Employment						
Sentiment						
Cycle age						
Expected market volatility						
Votes for each stage of business cycle	1	2.5	11.5	13	4.5	0

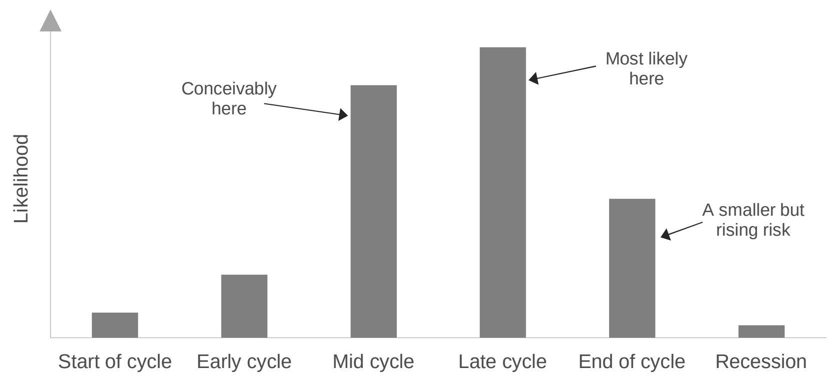
Note: Darker shade indicates the most likely stage of business cycle (full weight); lighter shade indicates alternative interpretation (0.5 weight). Source: RBC GAM cycle," suggesting that the economic expansion remains alive and well, but that it would on average end within the next few years.

Examples of indicators that endorse this late-cycle assessment include a closed output gap, a rock-bottom unemployment rate, the fact that the Fed is now well into its tightening journey, narrow credit spreads and very high sentiment readings. In fairness, it is also possible, though less likely, that the economy is merely at a mid-cycle juncture.

Although there is little precision to this type of analysis, we are inclined to assign a 20% U.S. recession risk to 2018, followed by a higher 35% risk in 2019 as the economic expansion grows truly long in the tooth (Exhibit 23). This means that the economy is more likely to grow than not in any one year, but the risks are building and cumulative.

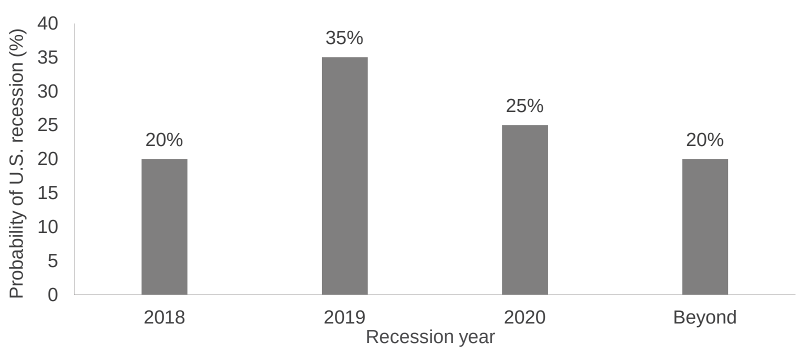
The gradual deterioration of this risk-reward dynamic is a key factor in our decision to advise a diminishing recommended equity overweight over the past year.

Exhibit 22: U.S. business cycle probability



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

Exhibit 23: Probability of U.S. recession by year



Note: Recession year refers to starting year of recession. Estimated by RBC GAM Economics group. Source: RBC GAM

The year of protectionism

Protectionism has been a risk for some time, but is particularly prominent in 2018. Brexit's contours must be hashed out this year in advance of an early 2019 deadline. With U.S. tax cuts now delivered, the White House would appear to be turning toward trade issues. The U.S. has already imposed tariffs on softwood lumber, aerospace products, solar panels, washing machines and now steel and aluminum. As such, protectionism is not merely a risk but also an economic drag.

NAFTA negotiations are ongoing. Negotiators are largely spinning their wheels as they struggle to reconcile aggressive U.S. demands with what Canada and Mexico are willing to accept. We continue to see four conceivable outcomes (Exhibit 24).

The two most likely scenarios, each assessed at a 35% chance, are also the two most extreme and reflections of the considerable uncertainty plaguing the economic outlook. The first is that NAFTA is terminated, and the other is that NAFTA survives unchanged.

NAFTA could easily be killed based on the chasm between negotiating positions, given U.S. political rhetoric and the country's recent pattern of protectionist actions. The Canadian economy would lose around 0.8% of GDP in a NAFTA-less world, and the U.S. would shed around 0.4%. The scenario would be several times worse if a trade war were to erupt. The BOC figures that the sheer uncertainty regarding NAFTA's fate is already beginning to subtract from Canadian growth.

On the other hand, Canada and Mexico have every incentive to attempt to run out the clock on negotiations, with a Mexican presidential election and U.S. midterms capable of closing the negotiating window before anything is settled.

The remaining two scenarios involve a 25% chance of a modest reworking of NAFTA that permits a few of the less offensive U.S. demands without significantly undermining the North American economy, and a 5% chance that the U.S. gets its way with a new deal that does significant damage to North American trade.

Amid the mind-numbing details, one crucial point is that there is a large difference between the U.S. announcing its intent to withdraw from NAFTA and actually leaving. The U.S. must give six months' notice before leaving. This window is a tempting tool for American politicians in two ways. First, it provides leverage in negotiating with the Canada and Mexico. Second, the White House could curry political favour by announcing its intent to leave before the November midterm elections, but wouldn't be obliged to actually leave once the votes are in. As such, we assign a greater than 50% chance that an announcement to withdraw is made, but a lower chance that the U.S. actually follows through.

Exhibit 24: NAFTA renegotiation scenarios

Scenarios	Odds	Assumptions	Economic effect
Termination	35%	• NAFTA scrapped • Prior Canada-U.S. trade deal might also be scrapped • Default WTO tariffs apply • Trade war possible? Would be 3-4x worse	Problematic, resulting in higher costs, supply-chain headaches, worker permit problems • U.S. GDP -0.4% • Cdn GDP -0.8% • Mex GDP -1.4%
Substantial changes	5%	• U.S. gets its way: NAFTA defanged • Trade dispute tribunals scrapped • U.S. can impose safeguard exclusions • U.S. protects procurement • U.S. carves out minimum auto share • Pact renewal necessary every 5 years	Negative economic effects, possibly worse than killing NAFTA depending on how substantially pact is undermined
Modest changes	25%	• Mix of good, bad and neutral changes • Better integration of intellectual property and modern industries • Some limitations on certain sectors	Limited economic effect, ranging from slight negative to slight positive
No change	35%	• White House fails to get way; bluff called • Canada and Mexico run out the clock • Congress disinclined to change trade policy	Prolonged uncertainty; no long-term effect

Source: Moody's, RBC GAM

China is now in the crosshairs over its intellectual-property practices, with a broader trade war between the world's two economic superpowers entirely conceivable based on recent U.S. inclinations.

One can hope that the U.S. protectionist bark will be worse than its bite, but this has not been the case so far. Furthermore, the U.S. is not alone in evincing protectionist tendencies. The U.K. is heading down a very similar path in its plan to secede from the EU, Canada is experiencing interprovincial trade wars and non-tariff trade barriers are subtly rising in many countries.

To be sure, some are fighting back against this protectionist wave. Canada has filed complaints about U.S. actions with the World Trade Organization and via the NAFTA dispute-resolution system. Whether this helps to blunt the U.S. assault or backfires by attracting unwanted ire is unclear.

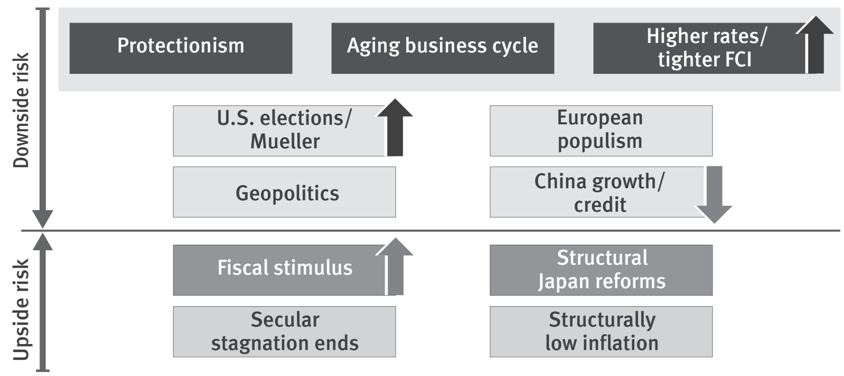
A further smidgen of good news is that globalization is not in complete retreat. World trade has actually increased nicely over the past year, though entirely because of stronger global demand rather than fewer trade frictions. Happily, there are also a few new trade deals that have been struck, including a CPTPP deal that binds a number of Pacific Rim nations including Japan with Canada and Mexico. The U.S. was meant to be in the deal but dropped out last year. The ink on Canada's trade deal with Europe is still fairly fresh.

All of this is to say that everything is not lost on the trade front, but some big chips are on the table in 2018. A lucky break would leave the global economy largely unaltered. But a bout of bad fortune could erode a fair swath of the good news unleashed by U.S. tax reform.

Probing other risks

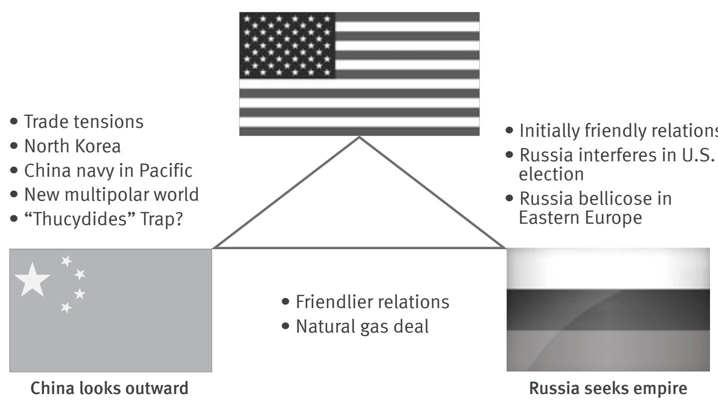
Every base case forecast is bracketed by risks (Exhibit 25). We have already discussed the three largest of these: protectionism, an aging business cycle and tightening

Exhibit 25: Macro risks: a number of new items for consideration



Source: RBC GAM

Exhibit 26: Geopolitical power shift after several quiet decades



Source: RBC GAM

financial conditions. Other notables include:

- U.S. political risks in the form of the U.S. mid-term elections and the FBI investigation into President Trump, either of which could destabilize or alternately paralyze the application of U.S. public policy.
- European populism is still a simmering risk, with nationalist inclinations in Eastern Europe, a messy recent election in Italy and significant uncertainty with regard to Brexit outcomes.
- Geopolitical risks are substantial, including tensions among Israel and Iran/Syria/Lebanon, Saudi Arabia and Iran, and between North Korea and the U.S. A key longer-term issue involves the retreat of the U.S. from the world stage, and the ascent of China (Exhibit 26).

- Chinese debt and financial-system risks have shrunk but not disappeared altogether over the past two years.

Alternately, the future could be brighter than we are budgeting for. Prominent scenarios include:

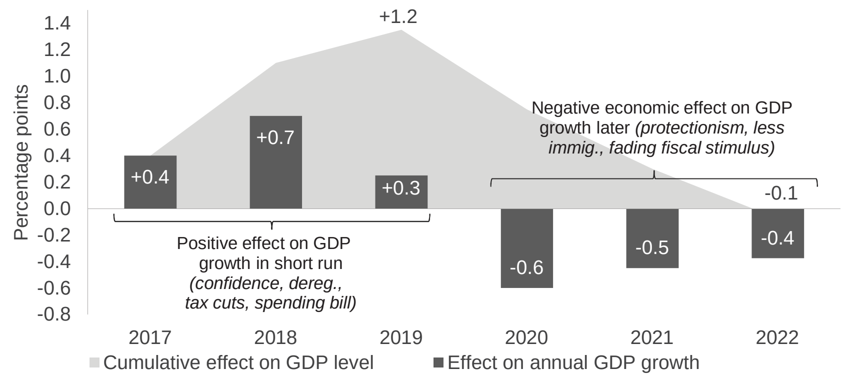
- Secular stagnation could fade more quickly than expected.
- Despite recent evidence to the contrary, inflation could take longer to unfurl than expected (and so extend the business cycle).
- More global fiscal stimulus could be delivered than currently assumed.
- Japanese structural reforms could gain traction and allow the world's third-largest economy to contribute more forcefully to global growth.

A dose of fiscal stimulus

Fiscal stimulus is not usually sought or delivered when economies are already strong enough to require central-bank rate hikes. But political considerations have nevertheless unleashed fiscal stimulus in several jurisdictions today. The U.K. budget has become more expansive due to concerns about Brexit damage; the new German grand coalition has been struck largely on the promise of government largesse; and U.S. President Trump was elected in significant part on his promise of major tax cuts.

The timing of this fiscal stimulus is not perfect in the sense that when a hot economy receives a further boost, it is liable to overheat and so obliges the central bank to be even more vigilant in its monetary tightening. Thus, the economic boost from each dollar of fiscal stimulus is smaller than it would be otherwise, even though the increase in the public debt is no less significant.

Exhibit 27: Effect of Trump policies on U.S. GDP



Source: RBC GAM assumptions and calculations

The main fiscal thrust comes from the U.S. We budget for notably more U.S. growth in 2018 thanks to this, and for a bit of extra growth in 2019 as well (Exhibit 27). Underlying this assessment are several things: a big boost in confidence that followed the last U.S. election; the dividends of a deregulatory push; the prominent tax cuts delivered several months ago; and a further dripline of fiscal spending that emerged from a recent budget pact.

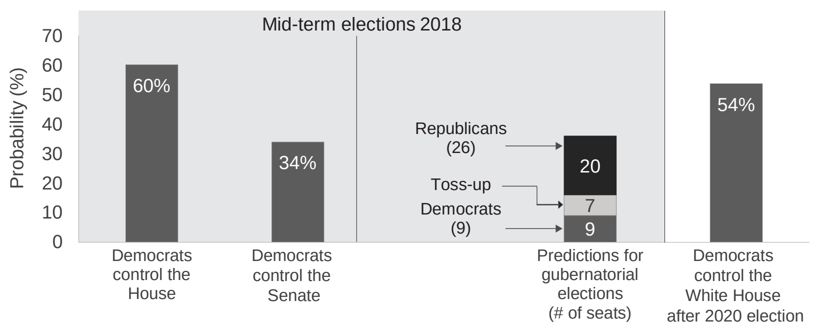
U.S. tax cuts have rightly occupied a place of prominence given a hefty US$1.5 trillion of fiscal stimulus front-loaded over the coming decade, led by a large cut to the U.S. corporate income-tax rate, smaller cuts to personal tax rates and a variety of other changes to the business-tax environment. We estimate a marked 0.4% boost to GDP growth in 2018 from tax reform, followed by a 0.3% addition in 2019. From an investment perspective, the benefits are far greater: a nearly 10% addition to after-tax earnings.

Much less discussed, though hardly trivial, is the subsequent delivery of U.S. fiscal stimulus that arrived in February. Politicians agreed to create additional spending room in the budget, adding a further 0.2% to growth in 2018 and 0.1% in 2019.

The Trump policy agenda is not necessarily complete. Infrastructure plans and immigration reform are pending, but the window for delivering such changes could be narrowing. Betting markets imply that the Democrats have a 60% chance of winning the House of Representatives in November (Exhibit 28), an outcome that would bring the Republican policy agenda to a screeching halt.

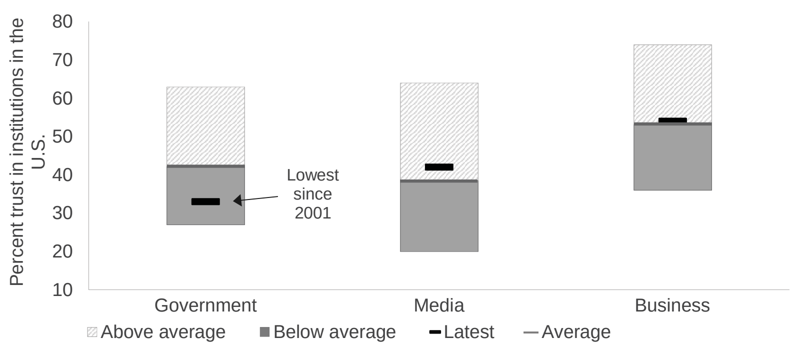
Although U.S. politicians have never been more divided and the public trust in them is accordingly low, it is heartening to learn that trust has not vanished altogether from U.S. society (Exhibit 29). The public's trust in the media and in businesses is actually slightly above average, according to a recent survey. The glue that holds the U.S. together has not come completely undone, despite claims to the contrary.

Exhibit 28: U.S. elections ahead



Note: There will be 36 gubernatorial elections in 2018. Numbers in brackets are the current number of governors affiliated with each party. One incumbent governor is an independent. Source: Center for Politics, University of Virginia; PredictIt; RBC GAM

Exhibit 29: American public do not trust their government



Note: Based on historical survey data from 2000 to 2017. Trust in instituions of informed public in the U.S. in percentage. Source: Edelman Trust Barometer, RBC GAM

U.S. economy soars

The U.S. economy is being buffeted by several powerful forces. Despite negatives in the form of tighter higher interest rates and creeping protectionism, the positives related to the weaker dollar, a high level of economic optimism and fiscal stimulus appear to be winning out.

Accordingly, consumer spending is strong and housing still has room to improve. Business investment is impressive thanks to tax cuts plus a resurgent energy industry. Government spending is now on the ascent and the weak currency brightens the trade picture, though protectionism casts a shadow. We therefore look for a muscular 3.00% advance in real GDP in 2018, followed by a 2.75% increase in 2019. The slight economic deceleration in the second year is a function of our belief that the U.S. dollar could temporarily reclaim some of its lost ground, a recognition that monetary tightening should continue, the fact that fiscal stimulus becomes a bit less powerful as time goes on, and the presumption of mounting protectionist actions. For business-cycle reasons, the recession risk also arguably rises over time.

The U.S. economy is now pressing up against its natural constraints. The country's strong labour market makes this argument persuasively, as the smallest percentage of Americans is unemployed or underemployed since the peak of the prior cycle (Exhibit 30). This makes the case for more U.S. inflation, with 2.25% inflation forecast for both 2018 and 2019.

As a result of fortifying economic and price trends, the Fed has quite rightly taken the global lead in monetary tightening, having raised rates on five occasions so far, and is on track for another four increases over the coming year (Exhibit 31). This will still leave the policy rate depressed by historical standards, but significant progress will have been made from the record lows.

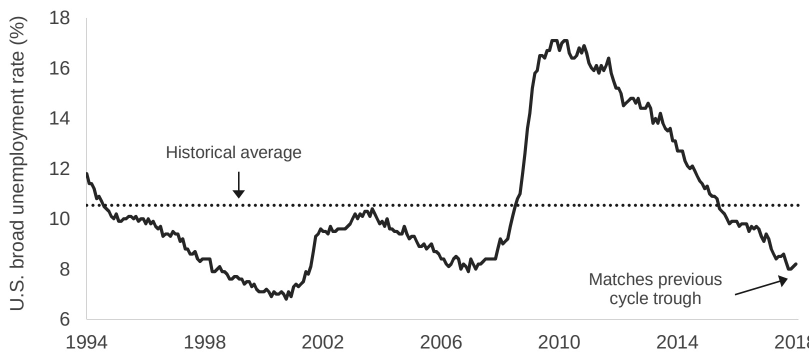
Our forecast for a stronger U.S. dollar over the coming year is in significant part due to this pattern of fast growth and rate hikes. But U.S.-dollar strength will not likely last forever (Exhibit 32). We think the greenback is in the midst of a multi-year peaking process, and may then begin to decline as per the "weak dollar" policy seemingly espoused by the U.S. Treasury secretary. The effects of protectionism on the currency are blurry: theory argues for a stronger U.S. dollar, but history suggests the opposite outcome.

While the U.S. public debt load is still manageable, it is undeniable that the level of debt is high, that the budget deficit is now bulging in response to the latest round of fiscal stimulus, and that borrowing costs are now beginning to rise. These factors will eventually hinder economic growth. We are not particularly concerned over the next few years, but persistently large deficits will eventually become problematic if not addressed. The subject is far from the public discourse at present, with the bond market seemingly unconcerned for the time being.

U.K. stares Brexit in the face

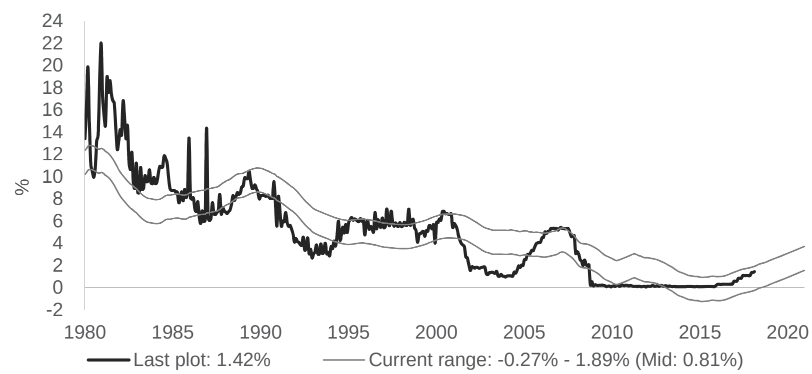
The British economy continues to grow, but has failed to partake in the

Exhibit 30: Broadest measure of U.S. unemployment falls nicely



Note: Broad unemployment rate defined as U-6 unemployment rate. Historical average since 1994. Source: BLS, Haver Analytics, RBC GAM

Exhibit 31: U.S. fed funds rate
Equilibrium range



Source: Federal Reserve, RBC GAM

Exhibit 32: U.S. dollar weakened over past year

Source: J.P. Morgan, Haver Analytics, RBC GAM synchronized acceleration enjoyed elsewhere. This would appear to relate to the uncertainty and potential bad outcomes that may emerge from the U.K.'s negotiations to leave the EU. Business investment is palpably weaker and we figure the economy has already underperformed its erstwhile trajectory by at least 1 percentage point of GDP.

There is evidence that the U.K. is overextending itself in light of low and declining personal savings rates and a substantial current-account deficit. Both reflect excessive spending and may eventually have to be given back.

The pound has weakened since the Brexit vote, though the currency has been more stable recently. We anticipate a return to the prior trend of depreciation (Exhibit 33). The resultant import inflation has British inflation running considerably higher than in other countries.

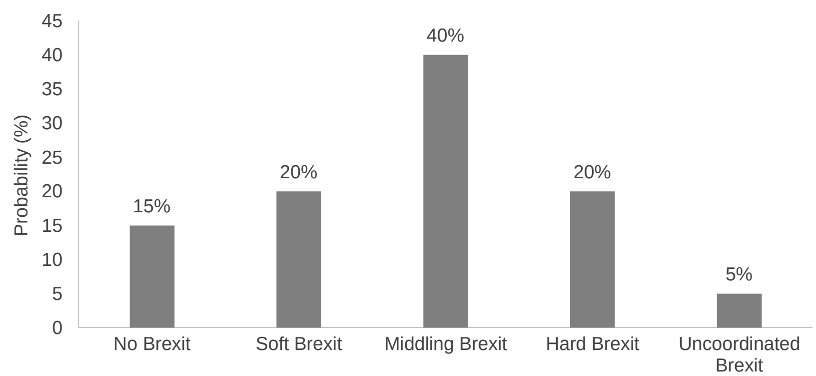
Of course, the British story revolves around Brexit. There is still a range of conceivable outcomes, some more likely than others (Exhibit 34). Given a minority government and the unpopularity of Prime Minister May, it is not impossible that Brexit is ultimately avoided altogether via some outlandish combination of election, second referendum or Parliamentary revolt. At the opposite extreme, an agreement might not be reached, resulting in chaos.

A sprinkling of more likely scenarios could find the U.K. replicating

Exhibit 33: Pound under pressure since Brexit announcement

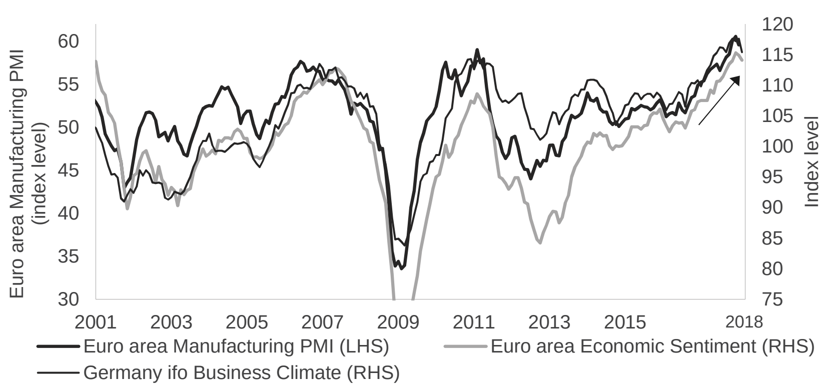
Source: J.P. Morgan, Haver Analytics, RBC GAM

Exhibit 34: Brexit probabilities and implications



Source: RBC GAM

Exhibit 35: Sentiment and manufacturing in Eurozone remain high



Source: European Commission, ifo Institute, Haver Analytics, RBC GAM

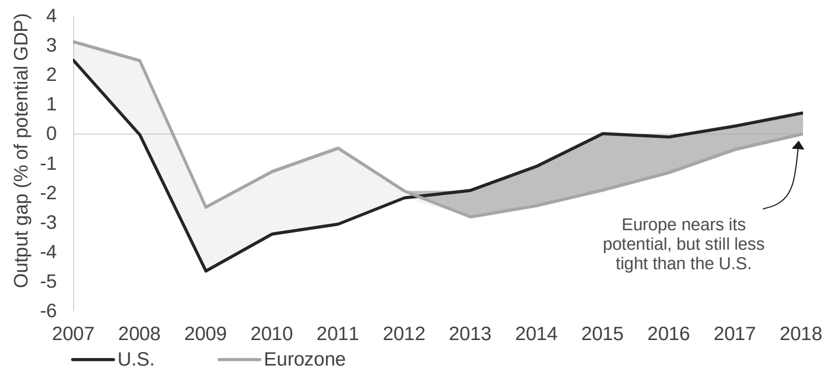
EU relationships maintained by Norway, Switzerland or Turkey, or alternately fending for itself under World Trade Organization rules. However, the most likely scenario is for a "middling Brexit" that permits the free flow of goods, but not of services or people. This outcome would translate into a few more percentage points of GDP being shed over the coming years. As such, the U.K. looks set for further underwhelming growth, to the tune of a 1.5% gain in both 2018 and 2019.

With much of the Brexit damage yet to be experienced and inflation running hot, the British economy somehow finds itself within shouting distance of full potential. This obliges the BOE to raise interest rates slightly, though a secondary strategic motivation surely relates to the desire to secure dry powder against future Brexit headwinds.

Eurozone growth persists for now

The Eurozone economy continues to cruise along a welcome trajectory, having accelerated no less notably than in the U.S. (Exhibit 35). Furthermore, Europe is theoretically capable of extending this performance for longer than the U.S., as the European Central Bank (ECB) is still actively delivering monetary stimulus and the region's economy is not quite as tight as it is in the U.S. (Exhibit 36). Credit growth is accelerating, with Germany set to deliver additional fiscal stimulus.

Exhibit 36: Eurozone output gap to close; U.S. already above potential



Source: IMF, Haver Analytics, RBC GAM

Others, like France, are in the midst of important structural reforms that should unleash additional growth. This adds up to a strong 2.25% GDP gain in 2018.

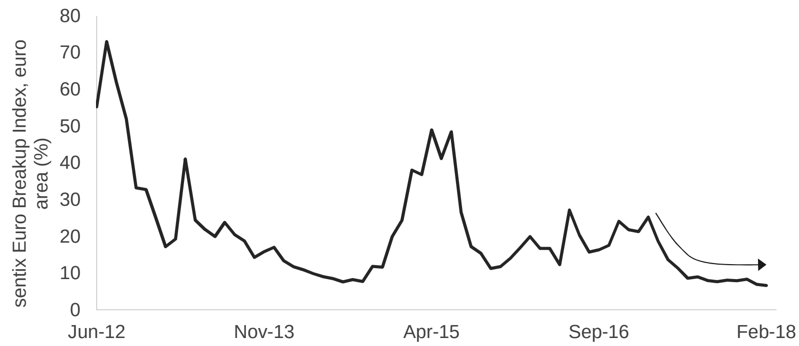
However, European financial conditions have tightened recently. The region's bond yields have increased and the euro is much stronger than it was a year ago. This argues that the region has lost a significant financial tailwind. In turn, it is no longer as clear that European equities will outperform other regions over the year ahead. Even with some of the euro's strength likely to fade over the coming year, the damage has been done and we have downgraded our 2019 Eurozone growth forecast to 1.75%. This, it should be noted, is still higher than the post-crisis norm.

Because the Eurozone economy is not as tight as elsewhere, inflation should lag somewhat. We project 1.50% inflation in 2018 and 1.75% inflation in 2019 – an upward, normalizing trend, but short of U.S. readings. As a result, the ECB likely does not need to tighten rates over the coming year, though it should further curtail its bond-buying operations.

Two prime criticisms of Europe in recent years have related to the continent's weak banks and populist politics. Fortunately, progress is occurring. European banks are not exactly bastions of strength, but thanks to gradual fortification they no longer seem likely to bring about the region's downfall.

The European political environment remains complex. The recent Italian election was a messy affair, but the far-left Five Star Movement appears unlikely to succeed in forming a government. More likely is a right-leaning coalition that should avoid the worst populist instincts. Spain's Catalonia region failed last year in its push for independence, though reverberations continue. Several Eastern European countries have elected nationalist governments that challenge some of the EU's basic principles. But an empirical assessment of the likelihood of the Eurozone shattering into pieces suggests that this scenario is actually fairly low when compared to the past several years (Exhibit 37). Let's not forget that the Netherlands, France and Germany all held major elections in 2017 that cemented centrist control in key economies for years to come.

Exhibit 37: Probability of a euro breakup is fairly low

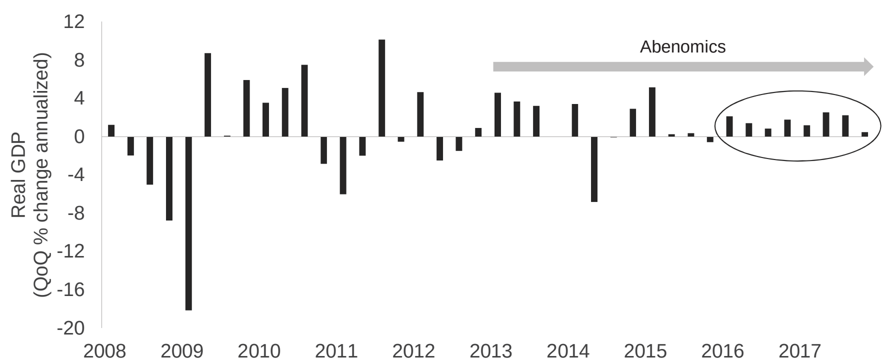


Note: Index measures the percentage of investors that expect at lease one country to leave the euro area within the next 12 months. Source: sentix GmbH, Haver Analytics, RBC GAM

Japan keeps chugging along

Japan remains a fascinating situation. Its current macro environment shares certain features with the Eurozone. The country's economy is enjoying a particularly impressive upswing (Exhibit 38), its central bank is still in stimulus-delivery mode, and it is now grappling with the effects of a stronger currency.

Exhibit 38: Japan revival in sync with global economies



Source: Cabinet Office of Japan, Haver Analytics, RBC GAM

It is perhaps not a surprise, then, that we look for Japanese growth to decelerate slightly in 2019 to 1.25% from 1.50% this year. This forecast is based in part on the currency- and rates-induced tightening of financial conditions, but also because Japan is set to raise its sales tax again in 2019. A higher sales tax, while a useful tool for addressing Japan's gigantic public debt, is a reliable growth dampener.

Although the aforementioned growth rates may seem uninspiringly low, they are actually quite good for Japan in the context of the country's poor demographics and long history of economic stagnation. Japan's performance has actually been a great success in recent years, with big corporate-profit growth, a low unemployment rate and wages that are finally beginning to creep higher. The Bank of Japan (BOJ) has begun to muse about reducing stimulus, but seems unlikely to hike rates anytime soon given a long history of deflation. We believe Japanese inflation should continue to trend higher, to 1.25% in 2018 and then 1.50% in 2019. Inflation in the second year should be aided by the sales-tax hike.

In recent years we have come around to the view that Prime Minister Abe's economic stimulus has ultimately been a success. Fiscal and monetary stimulus has revived growth, and structural reforms are now finally clicking with regard to the labour market, corporate governance and trade (Exhibit 39). Further improvement could continue to be a powerful tonic for Japanese equities.

China addresses its debt

The Chinese economy pleasantly surprised over the past year, stabilizing after a long period of deceleration. We budget for it to begin slowing again, to 6.25% in 2018 and 6.00% in 2019. Fortunately, this is for good reasons. One of the key goals that emerged from China's National Congress summit last fall was a reduction in the nation's obsession with the quantity of economic growth, instead focusing on maximizing the quality of growth. This has many implications, but crucially argues for less reliance on credit to boost growth. We find this initiative welcome, as China's spiraling debt load had become concerning (Exhibit 40).

Fortunately, that debt profile is now changing (Exhibit 41). First, the rate of credit growth has slowed to the point that it barely exceeds the rate of economic growth. Second, China's heavy industries, previously the source of the bulk of the country's non-performing loans, have been significantly reformed. Third, local-government debt has become considerably less dangerous thanks to a debt swap enacted a few years ago, followed by a number of restrictions. Fourth and finally, shadow finance no longer seems quite as dangerous in China thanks to a raft of rule changes that improve transparency and reduce uncertainty.

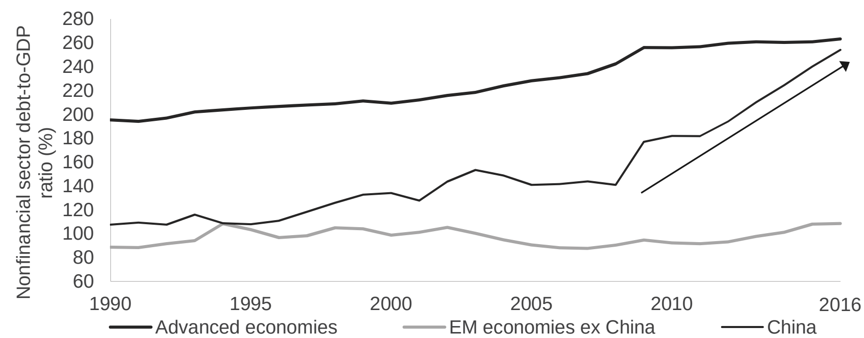
It is entirely natural for the Chinese economy to slow over time given the

Exhibit 39: Japan reforms offer some promise

Labour	• Efforts underway to reduce two-tier nature of labour market • Underutilized pools of potential workers being tapped
Governance	• Tokyo Stock Exchange mandates independent directors on boards • Shareholder activism comes to Japan • Declining cross-holdings of shares
Trade	• CPTPP and EU-Japan Economic Partnership agreement finalized

Source: RBC GAM

Exhibit 40: China's debt growth has accelerated since 2010



Note: Nonfinancial sector debt of G20 countries includes government, household and nonfinancial corporation debt. Source: IMF GFSR October 2017, RBC GAM

Exhibit 41: China's four shrinking debt risks

%	**Declining leverage** • Credit growth no longer hugely outpacing GDP • Though absolute debt load still high
$	**Heavy industry debt** • Stronger global demand and restructuring fixes heavy industries • Heavy industries were responsible for bulk of Chinese bank bad loans
	Local government debt • Local government debt was precarious and reliant on housing boom • But debt swap, stricter oversight and rebalancing of gov't revenues fixes
	Shadow finance • Shadow finance enabled market forces but was dangerous • New rules improve transparency, duration mismatch, liability

Source: RBC GAM

incredible pace of recent decades, and as the country transitions toward a consumption-oriented growth model. Still, even as its economy slows, China's growth will remain the envy of many. It appears well positioned to transition toward more knowledge-intensive sectors as its manufacturing cost advantage fades.

The National Congress meetings revealed two further priorities (Exhibit 42). One is that China is pushing to re-centralize economic decision-making. This may work swimmingly in the short and medium run given the impressive track record of Chinese policymakers. But the country may eventually come to regret sidelining market forces.

In addition, China now clearly plans to increase its geopolitical influence. This is an entirely natural thing for a country of China's economic, military and population might to aspire to, though it will complicate global affairs after a long period of U.S. hegemony.

Exhibit 42: China's new policy goals

Goals	Main points	Implications
Growth quality over quantity	• Slightly lower growth target, suggesting slower growth to come • Focus instead on quality of growth: – Less reliance on credit – Address inequality – Environment – Tech innovation	• Ultimately, a positive pivot • Begins to reduce Chinese debt risks • Improves political stability • Nevertheless, expect a bit less steady-state growth from China • Slightly less global growth, as China generates 1/3 of global growth
Central role for state	• Sharp reversal from prior plan • Consolidation of power at two levels: – Communist Party strengthened – President Xi for life? • Market forces lose, gov't control wins • Gov't wants to maximize employment	• Easier to implement policy agenda • Supply-side reforms: – Less SOE privatization – More consolidation, nat'l champs • Hard to boost productivity and profits without market influence • Autocracy bad for long-run growth
Outward focus	• China has long punched below weight in foreign policy, now finally engaging • Rising global leadership (i.e. Davos) • One Belt One Road plan builds influence, foreign supply & demand • Expanding footprint in Pacific • Seeks to export socialist ideas	• Implications mainly over long run • 2035: "Great modern socialist nation" • 2050: "Global leader" • Marshall Plan for Asia and Africa • Thucydides Trap = friction with U.S. • From hegemonic to multipolar world = slightly slower global growth

Source: RBC GAM

Canadian turbulence to come

The Canadian economy enjoyed a stellar 2017, buoyed by stabilizing oil prices, strong global demand and support from domestic fiscal and monetary policy. Some of those supports remain. The global economy is still evidently strong, for instance – but the fiscal and monetary environment is not as stimulative as it was a year ago.

Benchmark oil prices are slightly higher than a quarter ago and well above year-ago levels. This is a function of several things. Global economic growth is fast, boosting demand for oil. Gaping excess oil inventories have finally been worked down, changing the dynamic in the oil market from one of excessive supply to the prospect of imminently inadequate inventory (Exhibit 43). For now, OPEC is sticking to its supply cuts.

This period of oil undersupply may prove short-lived, however. The U.S. is the new swing producer in the crude market and has responded to higher prices by rapidly increasing production (Exhibit 44). Robust prices in the US$60-US$65 range may thus be sustainable in the short run, but a more realistic medium-term appraisal is for US$50 oil, or even below.

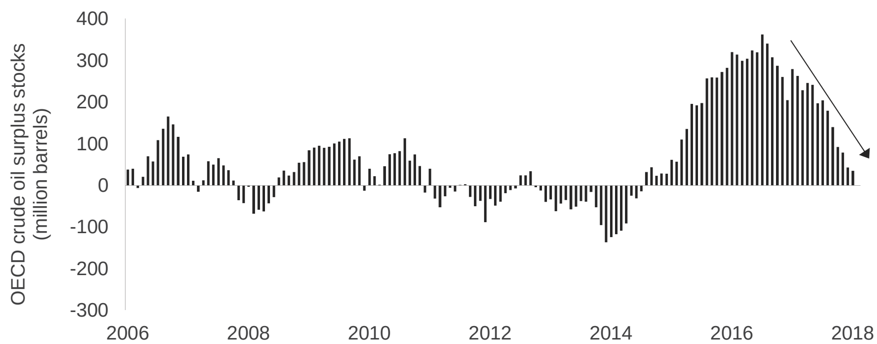
While the rebound in oil prices from the extreme lows of two years ago has been a clear positive for Canada, the country has failed to benefit from the most recent leg higher. That is because the price for oil received by Canadian producers has languished amid transportation bottlenecks.

Thanks to earlier heroics, the Canadian economy now sports its lowest unemployment rate in four decades (Exhibit 45). But without as much help from oil and with several key headwinds on the way, 2018 and 2019 appear set for less growth. We anticipate just 1.75% growth in 2018 and a decline to 1.50% in 2019. These are both well short of anticipated U.S. readings. Inflation should be around 2.25% this year, elevated in part by higher commodity prices and in part by a sizeable minimum wage hike, before settling at 2.00% next year. The BOC can likely push rates higher given past successes, but there is no urgency.

Canada's future growth challenges revolve around two key themes: competitiveness and housing.

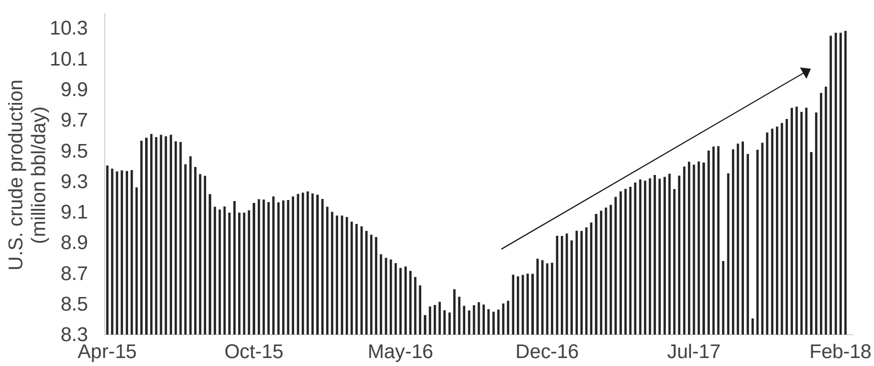
Canadian competitiveness is deteriorating quickly due to falling U.S. tax rates, rising Canadian minimum wages, tougher Canadian environmental regulations and new American tariffs that restrict Canadian exports (Exhibit 46). Whereas Canada's marginal effective corporate-tax rate was recently less than half the U.S. level, it is now higher (Exhibit 47). The NAFTA risk

Exhibit 43: Global oil surplus essentially gone



Note: OECD commercial crude oil inventory less 5-year average of commercial stocks.
Source: EIA, RBC GAM

Exhibit 44: U.S. shale production growing at a brisk pace



Source: EIA, Haver Analytics, RBC GAM

Exhibit 45: Big improvement in Canadian job market recently

Source: Statistics Canada, RBC GAM

is also material, with a bad outcome capable of subtracting 0.8% from Canadian GDP. All of this argues that the Canadian dollar should soften further in the coming year as a partial offset to this competitive shortfall.

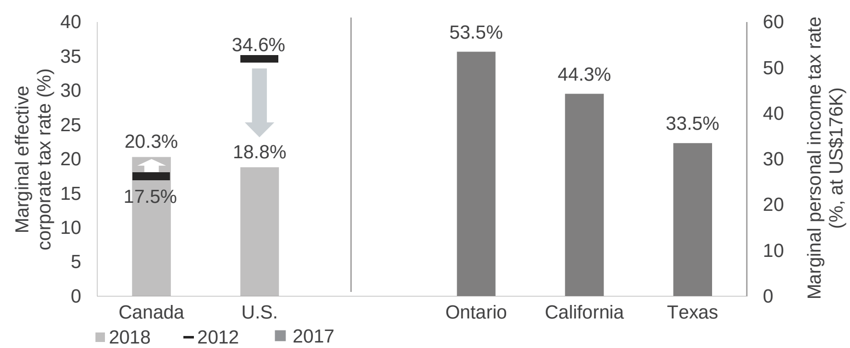
The second potential headwind is the possibility of a more intense Canadian housing slowdown. The risk would seem to be elevated given the rapid rise of household debt in Canada in recent years (Exhibit 48) and poor affordability. Regulators are finally serious about halting the price spiral of recent years, with a spate of recent rule changes at the national and regional levels. Home sales are already materially lower in Vancouver and Toronto (Exhibit 49). Attempting to predict the exact outcome is folly, but at a minimum it seems unlikely that housing will be able to continue driving growth artificially higher over the next decade in the way that it did over the past 10 years.

Exhibit 46: Canadian medium-term competitiveness challenges

	Canadian competitiveness threats versus U.S.
Mid-2017 baseline comparison	• Canadian labour competitiveness slightly better than U.S., though smaller market size neutralizes advantage
Moral suasion	• President Trump threatens companies that consider major expansions outside U.S.
Labour	• Tougher labour laws in Canada (ON, AB, BC) – Higher minimum wage – Easier unionization – FT/PT equivalency
Environment	• Canada in Paris agreement, U.S. out • New carbon taxes ramp up over next five years • More extensive resource consultation process
Regulations	• U.S. deregulating, Canada regulating
Taxes	• U.S. taxes fell sharply, Canadian taxes have mostly risen
Tariffs	• U.S. applying tariffs to Canada (competitiveness hit)
Others	• *Housing rules:* tightening in Canada, easing in U.S. • *Interest rates:* Lower in Canada but rising in both nations • *Electricity?:* But Canada actually cheaper than U.S. on average

Source: RBC GAM

Exhibit 47: Canadian tax disadvantage



Source: Bazel & Mintz, IRS, Canada Revenue Agency, RBC GAM

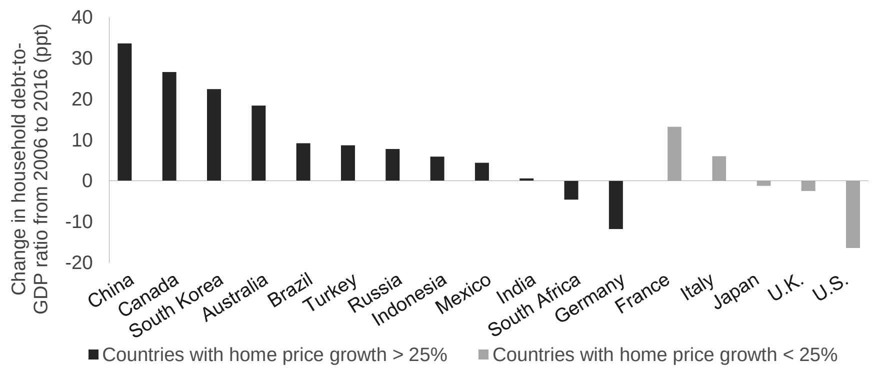
Transitioning to a more normal environment for capital markets

Although Canada's economy is slowing, the global backdrop is quite constructive. As growth accelerates and inflation quickens, some of the unusual conditions in financial markets that persisted for many years may be coming to an end. In the aftermath of the global financial crisis, investors had grown used to an environment of sluggish growth and low inflation, accompanied by ultra-low or even negative interest rates and aggressive central-bank bond-buying programs. As a result, bond yields fell to historical lows, equity-market valuations rose, and volatility across many asset classes plunged. Such conditions are atypical in a historical context. Growth and inflation are now both picking up, and markets appear to be transitioning to more normal settings as evidenced by a shift towards higher short-term interest rates and bond yields and, perhaps, higher sustained volatility.

Fed on course for further tightening

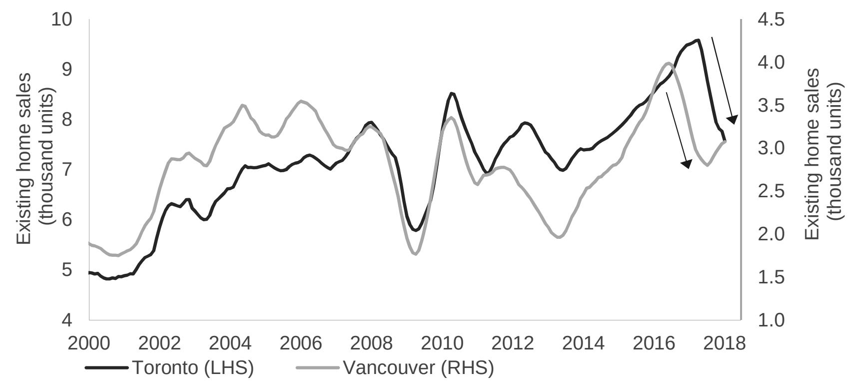
Marked improvement in the U.S. economy since the financial crisis continues to reduce the need for extremely low interest rates. One of the models the Fed likely considers when setting policy rates is the Koenig-Taylor Rule, which establishes an optimal short-term interest rate based on economic growth, inflation and unemployment. The rule suggests the fed funds rate should be as high as 3.60%, which is a fair distance above the current 1.38% (Exhibit 50), and while we don't expect the Fed to fill that gap anytime soon, it's likely to maintain a tightening bias for the foreseeable future. As mentioned earlier in this article, the Fed appears on track to raise interest rates four times over the next 12 months, in line with our forecast. This view is supported by our observation that the Fed's own interest-rate forecasts have stabilized in recent quarters and also

Exhibit 48: Household debt soared with rapid home-price gains



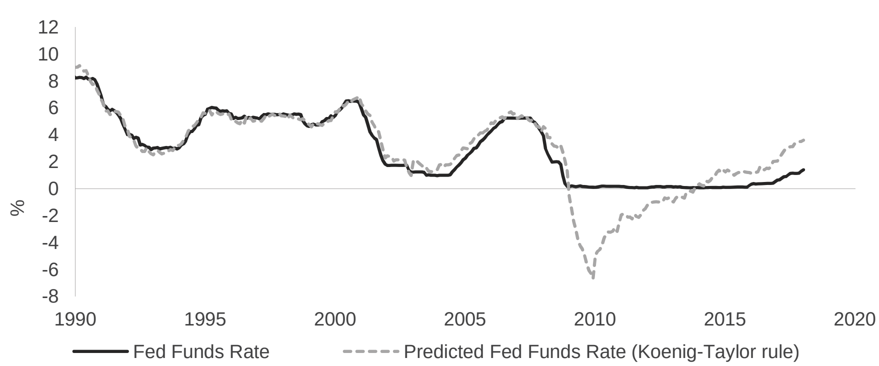
Note: Nominal home price growth from 2006 to 2016. Source: IMF GFSR October 2017, RBC GAM

Exhibit 49: Existing home sales slumping



Note: 12-month moving average of monthly existing home sales. Source: CREA, Haver Analytics, RBC GAM

Exhibit 50: Koenig-Taylor rule and fed funds rate



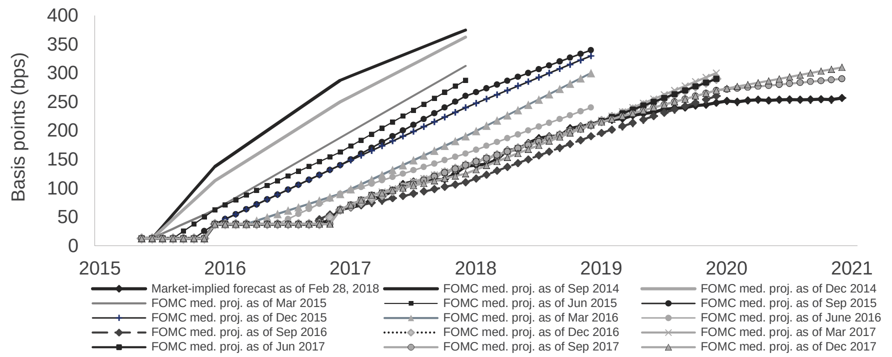
Source: Federal Reserve Bank of Dallas, RBC GAM that market expectations of where rates are headed have converged with the Fed's. (Exhibit 51) As a result, there is little doubt that the Fed will continue normalizing monetary policy at a gradual pace.

Global bond sell-off reduced valuation risk in the near term

Sovereign-bond yields rose meaningfully in the past quarter, extending a trend that had been in place since mid-2016. As alluded to earlier, some of the factors pushing yields higher have been the prospect of sustainably faster growth and inflation, as well as the Fed's shrinkage of its balance sheet and the dialing-back of bond-buying programs in Europe and Japan. The rise in the U.S. 10-year yield has been particularly steep, climbing more than 50 basis points to as much as 2.95%, its highest level in four years. Longer-term bonds in Europe and Japan have also sold off, although yields in these areas remain far below our modelled estimates of equilibrium. Meanwhile, valuation gaps have closed in the Canadian and U.S. fixed-income markets (page 44).

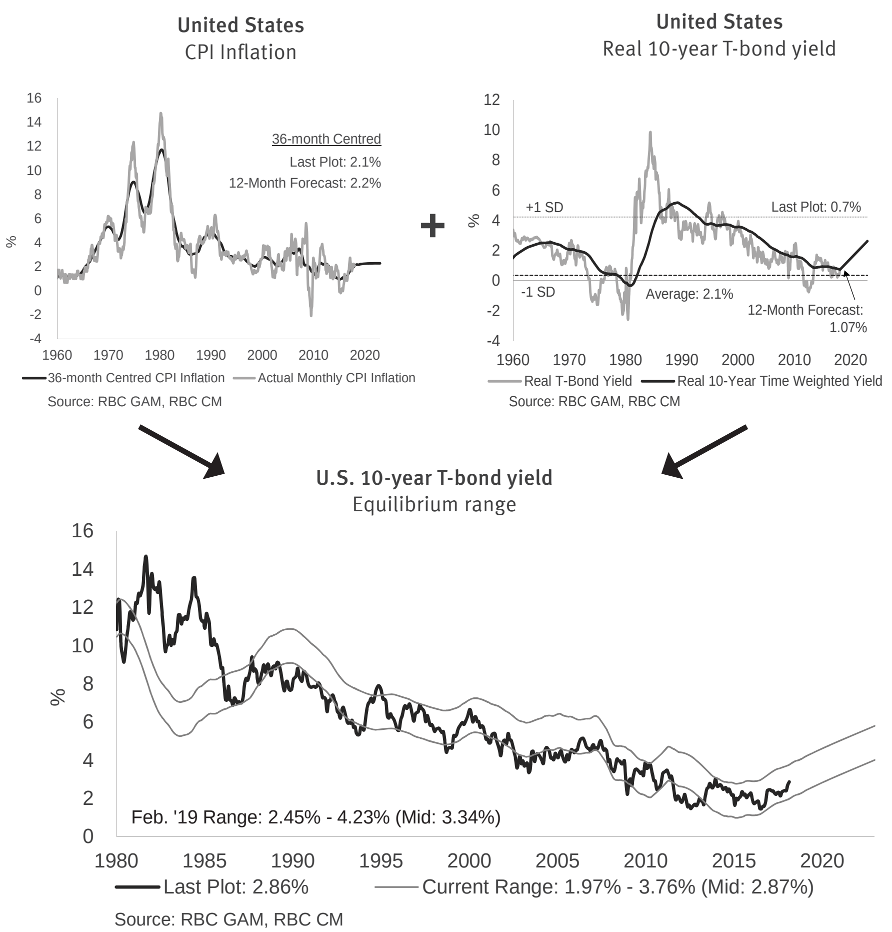
Our fixed-income models suggest the current yield on U.S. 10-year Treasuries is appropriate, representing minimal valuation risk in the near term, but that yields should rise gradually over the longer term. Exhibit 52 illustrates the components of our model, which consists of an inflation premium and a real, or after-inflation, rate of interest. Together, these two

Exhibit 51: Implied fed funds rate
12-months futures contracts



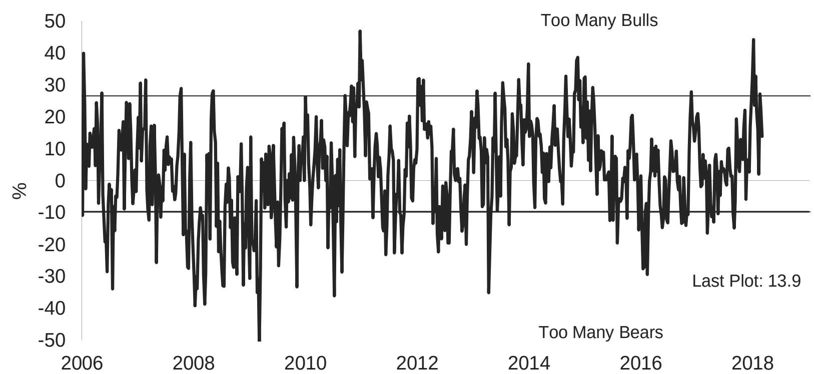
Source: Bloomberg, U.S. Federal Reserve, RBC GAM

Exhibit 52: U.S. 10-year bond yield
Fair-value estimate composition



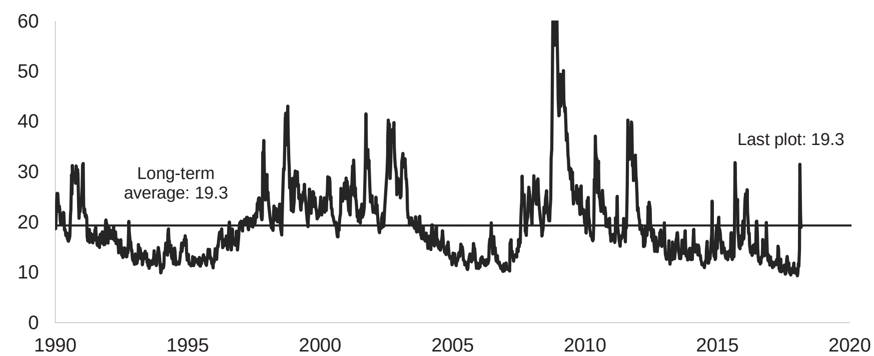
factors suggest yields should rise by approximately 50 basis points over the year ahead, with the bulk of the increase coming from a projected rise in real interest rates. The inflation premium is expected to add just 10 basis points to our modelled level for yields over the next year given that inflation is already close to our expectations. Barring an inflation shock, any meaningful increase in the 10-year bond yield over the coming years is likely to come from a rise in real interest rates. Real rates, in our view, are unlikely to remain well below their long-term average now that the economy has regained its footing, as investors will ultimately demand an above-inflation return for saving rather than spending. Our model assumes the real yield on the 10-year Treasury bond reverts to its 40-year trailing average of 2.62% over the next five years. If distributed evenly, the increase in real interest rates would add roughly 40 basis points per year to nominal bond yields. Considering other factors such as Fed policy and yields in international markets, we are forecasting slightly less of an increase in bond yields than our model suggests. We look for the U.S. 10-year yield to rise to 3.00% one year out.

Exhibit 53: AAII Sentiment Survey
Percentage of bulls minus percentage of bears



Source: American Association of Individual Investors (AAII), RBC GAM

Exhibit 54: Volatility Index (VIX)
Chicago Board Options Exchange Market Volatility Index



Source: Haver Analytics, RBC GAM

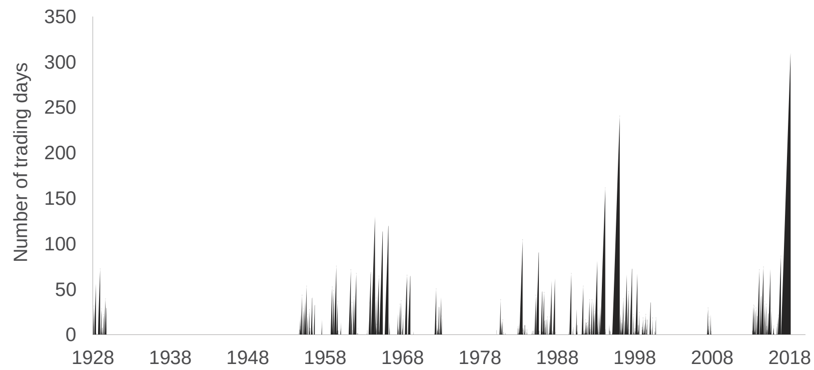
Stock markets end unusually long period of calm

Stocks corrected last month after a year of strong performance and unusually low volatility. Most major markets rallied into the New Year, extending a period of solid gains in 2017, but followed with a sharp pull-back that some investors argued was long overdue. Prior to the decline in stocks, investor sentiment was extremely optimistic, the VIX had reached a record low, and the S&P 500 had gone over 300 days without a 3% correction – the longest streak on record (exhibits 53 to 55). While stocks are off their lows in most regions, many indexes had suffered declines of up to 10%. As a result, stocks are moderately more attractive than they were prior to the correction, according to our global stock-market valuation composite, but the potential for upside is much lower than at earlier points in the bull market (Exhibit 56). While valuations vary from region to region, no market is trading at extremely rich levels according to our models (page 45). The S&P 500 Index's global importance makes this benchmark's valuations worth a closer look.

Stocks hover near boundary of lower-return/higher-volatility zone

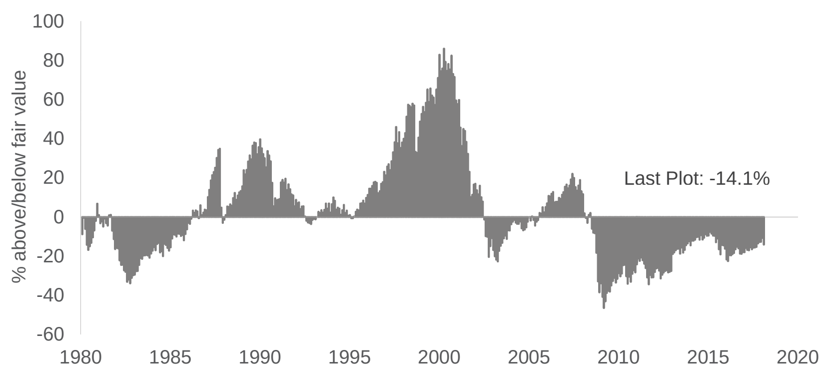
The S&P 500 is situated just below our modelled estimate of fair value – the level consistent with current and expected interest rates, inflation, and corporate profitability. A look at past stock-market performance in different valuation regimes can provide a sense of what to expect when stocks are trading at these levels. To accomplish this analysis, we segmented our fair-value model into four zones, or buckets, delineated by fair value and one standard deviation above and below the equilibrium level. Exhibit 57 plots a standardized version of our S&P 500 fair-value model, where the dotted line running down the centre of the chart represents fair value and the solid horizontal lines show standard deviations one level above and below equilibrium (note: one standard deviation captures approximately two thirds of all past movement above and below the mean). The volatile line on the chart is the S&P 500 index plotted in terms of number of standard deviations from fair value. Return statistics were computed over one-year periods and grouped according to which zone stocks were trading in at the start of the each measurement (Exhibit 58). The bull market since 2009 began with the S&P 500 Index in Bucket 1 (more than one standard deviation *below* fair value), a zone characterized by historically high returns. The bulk of this bull market occurred within Bucket 2 (between

Exhibit 55: S&P 500 Index
Trading days without 3% drawdown



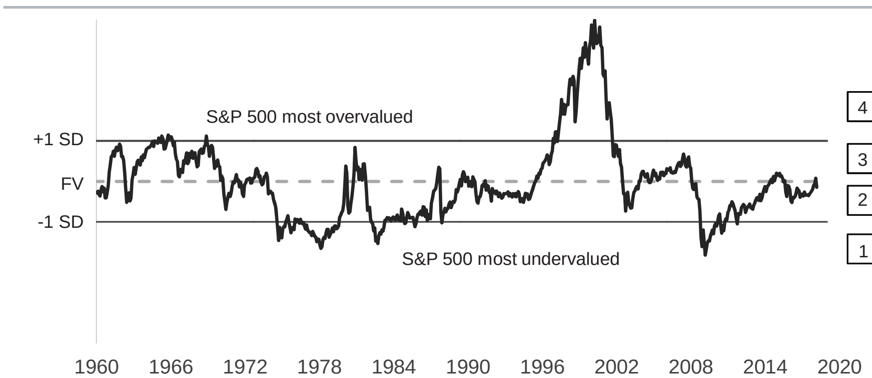
Source: Pension Partners, Bloomberg, RBC GAM

Exhibit 56: Global stock-market composite
Equity market indexes relative to equilibrium



Source: RBC GAM

Exhibit 57: Standardized S&P 500 fair-value bands



Source: Haver Analytics, RBC GAM

fair value and one standard deviation *below*). This zone has the second-highest average return over one-year periods, along with the highest incidence of success and lowest levels of volatility. Prior to the recent correction, stocks had climbed briefly into Bucket 3 (between fair value and one standard deviation *above*) and have since fallen back into Bucket 2, but not by much. A transition from Bucket 2 to Bucket 3 is critical because according to our historical statistics, returns in the third bucket are meaningfully lower, with lower odds of positive returns and increased levels of volatility. *In this environment it may be prudent to lower total-return expectations and anticipate higher sustained levels of volatility.*

Although our proprietary fair-value model suggests stocks are appropriately valued, a composite of other popular valuation metrics suggests stocks may be approaching expensive territory. Exhibit 59 shows a composite of eight valuation metrics and indicates the S&P 500 is currently trading close to one standard deviation above its historical norm. The eight equally weighted inputs to the composite are broken out in Exhibit 60, which plots each one in standard deviations from its historical average, or equilibrium. It's worth noting that none of these measures suggests stocks are particularly cheap, and half of them indicate the stock market is trading at more than one standard deviation above its valuation norm. Critically, the two measures that derive their

Exhibit 58: S&P 500 Index
Return prospects by valuation zone

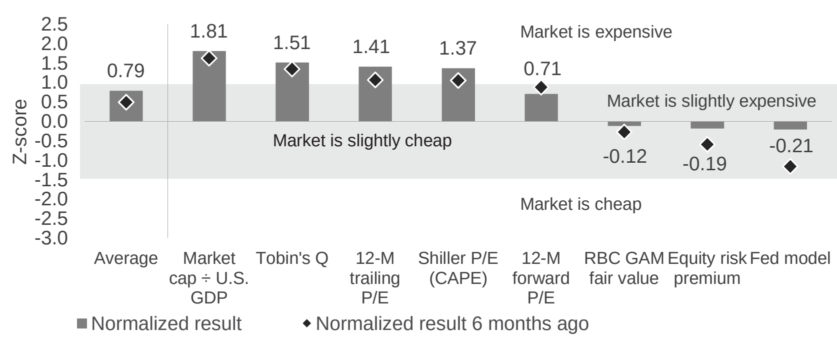
Valuation	Data set (Bucket)	1-year average return	Batting average^	1-year average return in win*	Max loss	1-year return Std. dev.
(S&P 500 most overvalued)	4	(0.7%)	48.6%	14.8%	-27.5%	17.0%
1 SD Above	3	3.5%	62.3%	13.0%	(41.4%)	15.6%
Equilibrium	2	12.1%	83.9%	16.0%	(44.8%)	13.5%
1 SD Below (S&P 500 most undervalued)	1	14.7%	80.2%	19.9%	(12.8%)	16.3%

*Win = Periods where returns are above 0%. ^Batting average = Incidence of winning in any given period. Source: RBC GAM

Exhibit 59: S&P 500 Index
Simple average of valuation metrics

Notes: Historical data from Jan 1956 for 12-M Trailing P/E, 12-M Forward P/E, Equity risk premium, Shiller P/E, Tobin's Q and Fed model. Historical data from Mar 1956 for market cap ÷ U.S. GDP. Historical data from Jan 1960 for RBC GAM fair value. Source: Haver Analytics, RBC CM, RBC GAM

Exhibit 60: S&P 500 Index
Normalized valuation metrics, as at February 2018

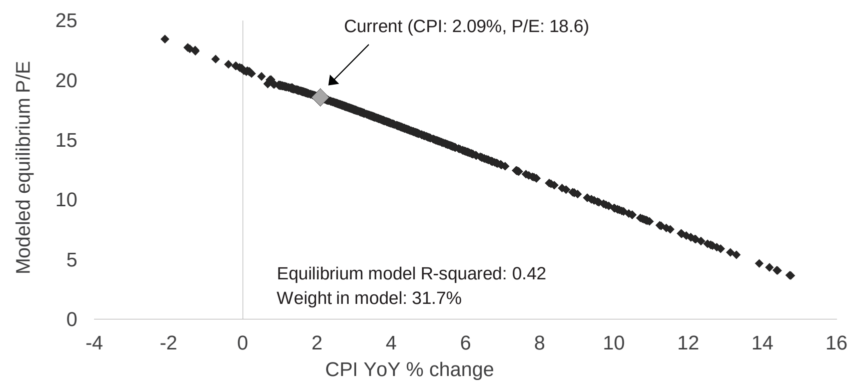


Notes: Historical data from Jan 1956 for 12-M Trailing P/E, 12-M Forward P/E, Equity risk premium, Shiller P/E and Fed model. Historical data from Mar 1956 for market cap ÷ U.S. GDP. Historical data from Jan 1960 for RBC GAM fair value. Source: Haver Analytics, RBC CM, RBC GAM valuations primarily from the relative attractiveness between stocks and fixed income (i.e. the Fed Model and the Equity Risk Premium) have moved significantly closer to equilibrium from being meaningfully below six months ago.

Rising interest rates and inflation pose a mild threat to valuations

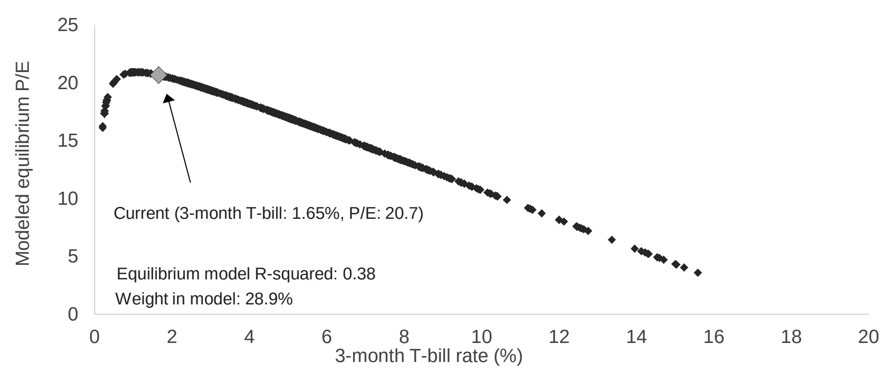
Equity markets have enjoyed rock-bottom interest rates and low inflation since the global financial crisis, but sustained increases in both may pose a headwind to valuations going forward. Exhibits 61 to 63 plot inflation, short-term interest rates and bond yields separately against the P/E component of our fair-value model. Weighted by the strength of their relationships, these three factors account for a combined 82% weighting in our multi-factor equilibrium P/E calculation. Notice that increases in any of these variables result in a lower modelled P/E. Interestingly, though, the relationships for interest rates and bonds yields reverses at extremely low levels, likely reflecting the fact that a crisis environment is not good for stocks. What this also suggests is that the initial rise in interest rates and bond yields from crisis levels leads to an increase in P/Es, which is exactly what happened. Note, however, that we are now past the point on short-term interest rates where the normal relationship is restored and approaching that level for long-term bond yields.

Exhibit 61: S&P 500 fair-value model
P/E factor as a function of CPI



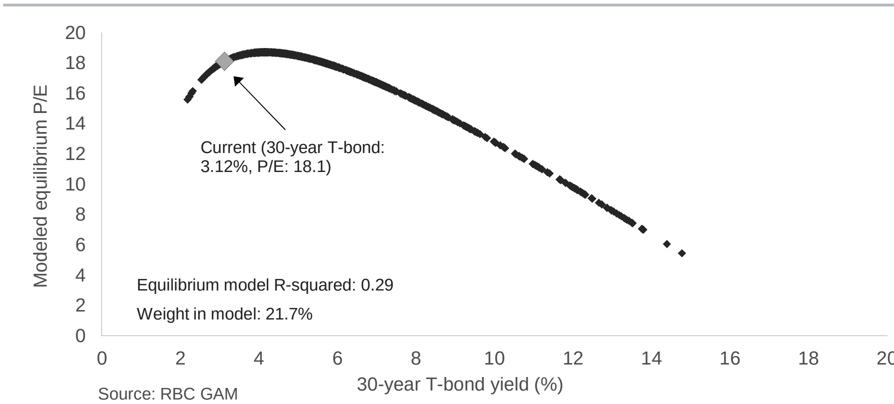
Source: RBC GAM

Exhibit 62: S&P 500 fair-value model
P/E factor as a function of 3-month T-Bill rate



Source: RBC GAM

Exhibit 63: S&P 500 fair-value model
P/E factor as a function of 30-year bond yield



Source: RBC GAM

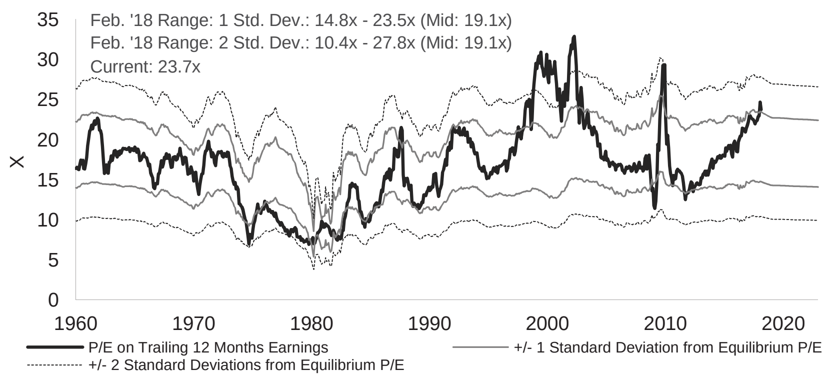
While the expected change in these variables amounts to a relatively small contraction in multiples to the tune of 0.5 to 1.0 point, the fact that we may be transitioning to a more normal environment for inflation, interest rates and bond yields suggests we have likely maximized gains from P/Es in this cycle.

The mild contraction in multiples in our modelled P/E is not as much of a concern as a potential shift in investor confidence and the more meaningful impact it could have on P/Es. While our modelled level for P/Es declines only slightly when interest rates and inflation move back toward long-term normal levels, more important, perhaps, is the fact that P/Es are currently one standard deviation above equilibrium (Exhibit 64). The risk to equity markets is that, if investor confidence fizzled for whatever reason, be it rising interest rates, inflation or some external shock, stocks could be vulnerable. Confidence is captured in valuations. Reducing the current P/E ratio for the S&P 500 from 23.7 (one standard deviation above its current normalized level) to 19.1 (the current normalized level) would reduce share prices by 19% in the absence of an offsetting lift in earnings.

Solid earnings growth bolstered by U.S. tax cuts

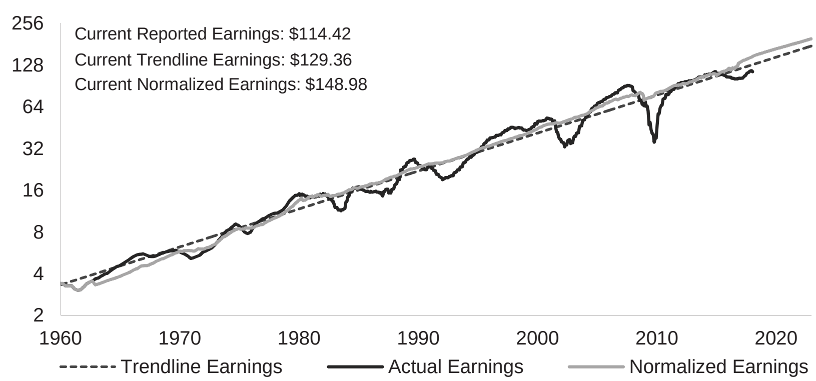
P/Es may also be elevated because investors are pricing in an eventual recovery in earnings to their long-term trend. Exhibit 65 plots S&P 500 earnings alongside their long-term trend as well as our modelled level for normalized earnings based on normalized returns on equity and book value. The collapse in oil prices and surge in the U.S. dollar from 2014 to 2016 pulled S&P 500 earnings below their long-term trend but they have been recovering since. Corporate profits rose 15% last year and are expected to advance 19% in 2018. We mentioned last quarter that the passage of U.S. tax cuts could add as much as US$10 to S&P 500 earnings per share and it appears that analyst estimates have boosted their forecasts by roughly that amount since the plan was finalized (Exhibit 66). While the tax cuts serve as a one-time boost to earnings, it sets a new base upon which further growth will occur. Markets are a discounting mechanism and investors may be pricing in this rapid earnings growth through higher P/Es.

Exhibit 64: S&P 500 fair-value model
Normalized (Equilibrium) Price/Earnings Ratio



Source: RBC GAM

Exhibit 65: S&P 500 earnings comparison



Source: RBC GAM, RBC Capital Markets

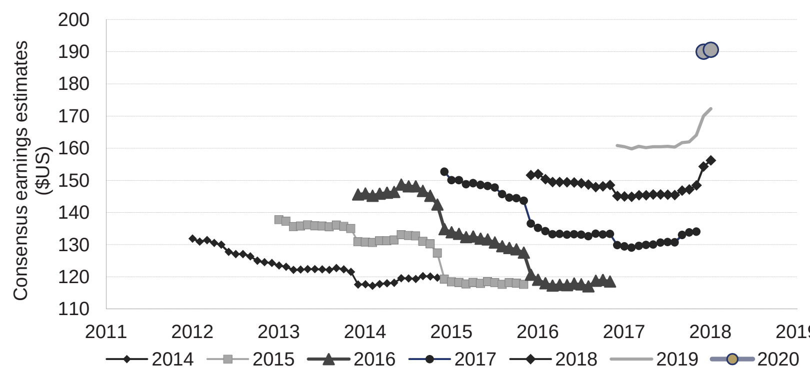
Scenario analysis suggests reasonable upside for stocks

Although current valuations may act as a headwind to future returns, the fact that earnings are expected to rise so quickly can more than offset any decline in P/E ratios. Exhibit 67 presents a table outlining several scenarios for earnings and valuations to frame the potential for stocks over the next two years. Assuming the S&P 500 trades at our modelled equilibrium P/E – the level consistent with today's interest rates, inflation and corporate profitability – and earns this year's top-down consensus estimate of US$157.89 per share, the index would climb to 3019 by year-end and generate a total return of 13% from the end of February 2018. Applying the same multiple to next year's earnings estimate of US$174.20 would result in the S&P 500 climbing to 3329, representing a 26% total return over the next 22 months. Of course, earnings forecasts have in the past had a tendency to slip as time moves forward and valuations are vulnerable to actual changes in rates and inflation – both of which currently feature meaningful upside risks – and also to the vagaries of confidence. We treat these very attractive potential outcomes with caution, especially in a maturing business and market cycle.

Large-cap growth style resumes leadership

Growth stocks resumed leadership over value stocks in the past quarter and small caps lagged large caps.

Exhibit 66: S&P 500 Index
Consensus earnings estimates



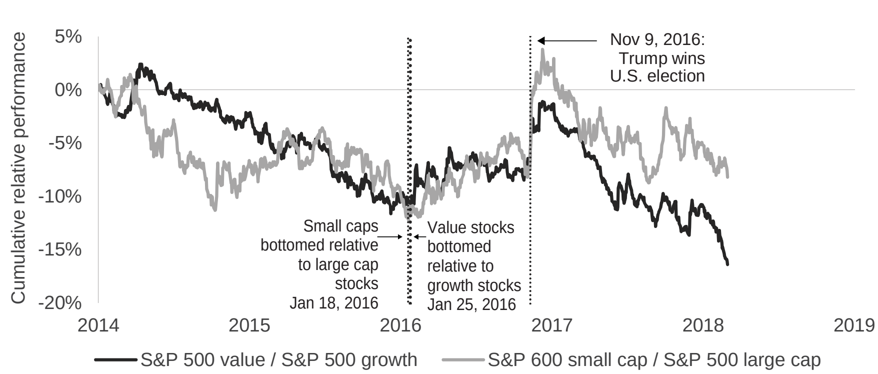
Source: Thomson Reuters, Bloomberg

Exhibit 67: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500 Index

		Consensus		Consensus	
		2018 Top down	2018 Bottom up	2019 Top down	2019 Bottom up
	P/E	$157.96	$156.19	$174.20	$172.28
+1 Standard Deviation	23.5	3,707.38	3,665.83	4,088.54	4,043.47
+0.5 Standard Deviation	21.3	3,363.35	3,325.66	3,709.14	3,668.26
Equilibrium	19.1	3,019.32	2,985.49	3,329.74	3,293.04
-0.5 Standard Deviation	16.9	2,675.29	2,645.31	2,950.34	2,917.82
-1 Standard Deviation	14.8	2,331.26	2,305.14	2,570.94	2,542.61

Source: RBC GAM

Exhibit 68: Relative style performance



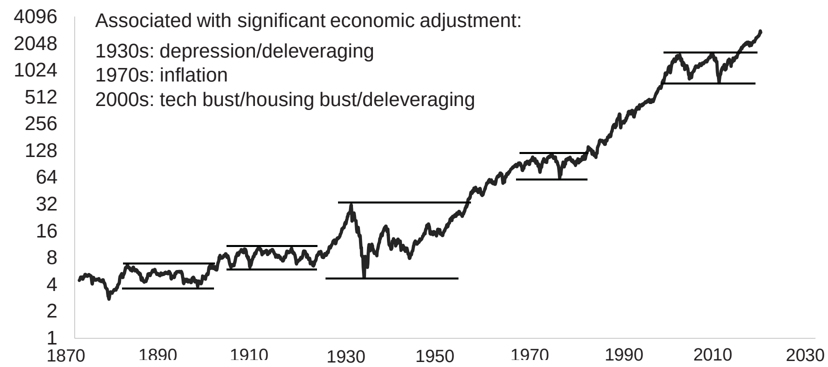
Source: Bloomberg, RBC GAM

Growth stocks outperformed value stocks by 3.5% over the past three months, bringing the outperformance since the start of 2017 to 15.0% (Exhibit 68), and also moved ahead of large caps. Since the U.S. election in November 2016, small-cap and value stocks have underperformed, perhaps suggesting a lack of investor confidence in President Trump's economic plan to generate substantially better domestic growth and higher inflation on a sustained basis. Strength in the value and small/mid-cap styles is often a sign that economic growth is about to accelerate because investors can access earnings growth more cheaply through value stocks in that environment, and smaller-cap stocks have more leverage to an improving economy than do large caps. The fact that small-cap and value stocks are lagging more recently is somewhat concerning as it may be an early indication, contrary to our view, that economic growth is about to slow.

Asset mix: reducing underweight in bonds and maintaining slight overweight in stocks

The global expansion is highly synchronized and we appear to be entering a period of firmer growth than we've experienced in many years. The economy is transitioning away from one of mild growth, low inflation and highly simulative monetary policies to one of faster growth, normal inflation and tightening central banks. That said, rising interest rates may eventually become headwinds to economic growth, and other risks to our outlook relate to the aging business cycle and the threat of U.S. protectionist measures. All things considered, we expect the global economy to continue growing and deliver a bit faster growth in 2018 than last year.

Exhibit 69: Range-bound markets and cyclical bull phases
S&P 500 – 1870-2018



Source: RBC GAM, Robert J. Shiller

In an environment of faster growth and firming inflation, prospective returns for sovereign bonds remain unimpressive. Our models continue to suggest the long-term direction for bond yields is higher, and that fixed income may act as a drag on investment returns for many years. Over the year ahead, our forecasts suggest low or even slightly negative total returns for sovereign bonds in the developed regions.

While the return potential for equities is superior to fixed income, we recognize that the cycle is mature and that valuations are demanding. Rising interest rates and inflation pose a mild threat to equities, but more important is that investors' appetite for risk is currently bolstered by the positive outlook for corporate profits. Without further support from valuations, earnings growth will be critical to sustaining the bull market.

Our view persists that we are in a secular bull market for stocks. Powerful and lasting advances spanning many years often occur following extended periods of little to no upward progress (Exhibit 69). It took more than a decade for stocks to break above the high set at the peak of the technology bubble in 2000. The current bull market is approximately nine years old, which is still many years shy of the nearly 17 years that a secular bull market lasts on average (Exhibit 70). Corrections are on average shorter and shallower during secular bull markets than in secular bear markets (Exhibit 71). If we truly are in a secular bull market, investors will ultimately be rewarded for above-average equity exposures in their portfolios.

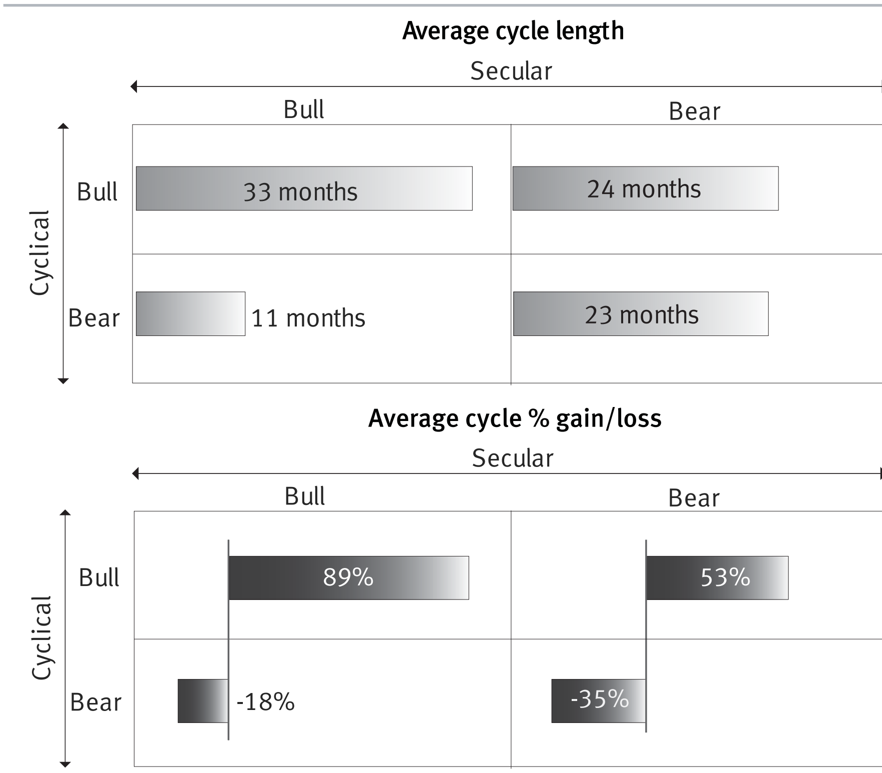
Reflecting the balance of risks and opportunities, our asset mix is now closer to neutral than it has been in many years. We have been dialing back our equity exposure as the cycle advanced and valuations became less compelling. Our equity weight in this cycle has been as high as 62% and is now at 58%. We think it's too early to call the end of the bull market. We recognize that equities are not as attractive as they were at previous points in the cycle but, in our view, the potential upside in corporate profits is worth a mild overweight in stocks. In fixed income, we have held big underweights for a long time but have been narrowing that gap as the business cycle matures and yields move higher. In fact, we added one percentage point to our fixed-income position this quarter, sourced from cash. The outlook for bonds remains somewhat unappealing, but the recent rise in yields has lowered valuation risk, and bonds serve as ballast against rising volatility and/or unexpected deterioration in corporate profits. For a balanced, global investor, we currently recommend an asset mix of 58% equities (strategic neutral position: 55%) and 40% fixed income (strategic neutral position: 43%), with the balance in cash.

Exhibit 70: U.S. secular bull markets

Secular bull market began	Secular bull market ended	Duration (years)	S&P 500 at cycle start	S&P 500 at cycle end	S&P 500 cycle % change
Aug. 1896	Sept. 1906	10.1	3.8	10.0	163%
Aug. 1921	Sept. 1929	8.1	6.5	31.3	385%
April 1942	Nov. 1968	26.6	7.8	108.4	1282%
Febr. 1978	Aug. 2000	22.5	87.0	1517.7	1644%
Average		16.8			869%
Median		16.3			834%
Current cycle					
Febr. 2009	?	8.9?	735.09	2823.81?	284%?

Note: uses Robert Shiller's historical U.S. stock market data since January 1870. Data based on monthly closing prices. Source: Robert J. Shiller, RBC CM, RBC GAM

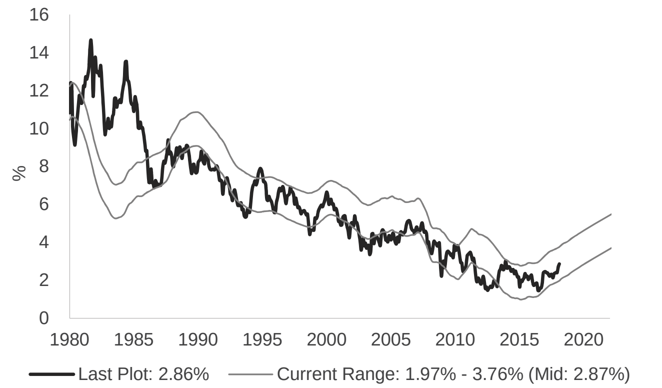
Exhibit 71: U.S. equity-market cycle statistics



Source: RBC GAM

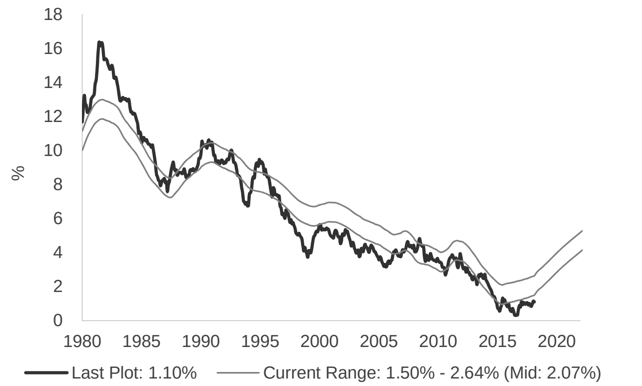
GLOBAL FIXED INCOME MARKETS

U.S. 10-Year T-Bond Yield
Equilibrium range



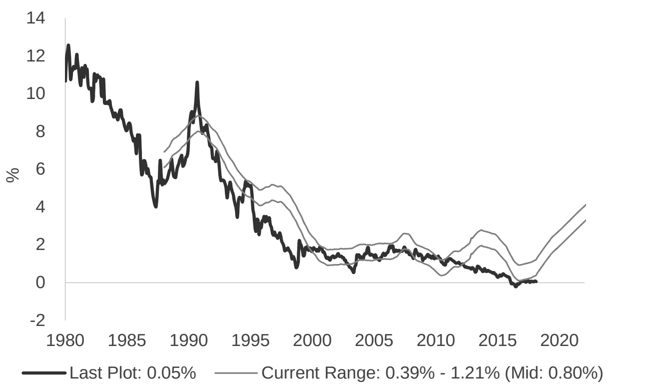
Source: RBC GAM, RBC CM

Eurozone 10-Year Bond Yield
Equilibrium range



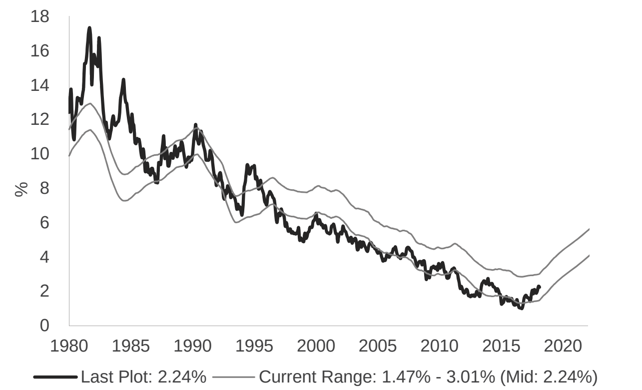
Source: RBC GAM, RBC CM

Japan 10-Year Bond Yield
Equilibrium range



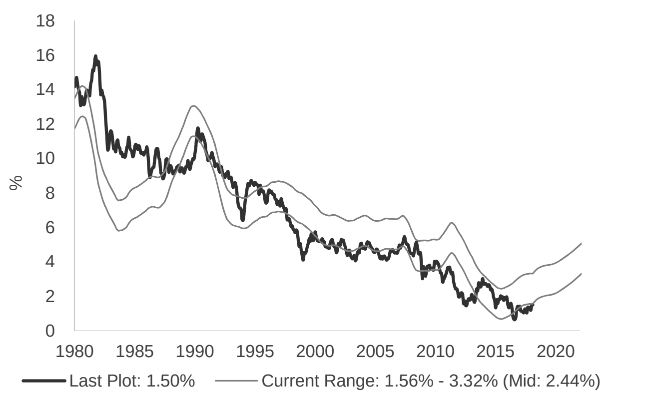
Source: RBC GAM, RBC CM

Canada 10-Year Bond Yield
Equilibrium range



Source: RBC GAM, RBC CM

U.K. 10-Year Gilt
Equilibrium range

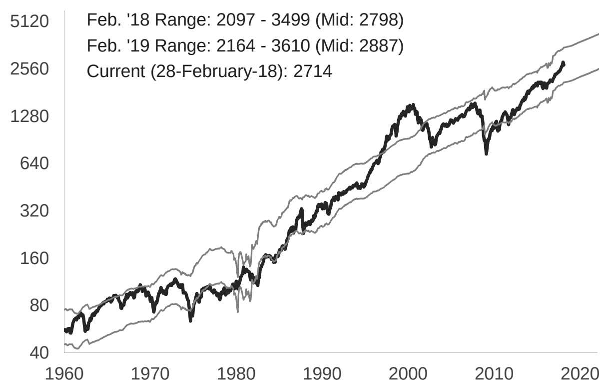


Source: RBC GAM, RBC CM

"Our fixed-income models suggest the current yield on U.S. 10-year Treasuries is appropriate, representing minimal valuation risk in the near term, but that yields should rise gradually over the longer term."

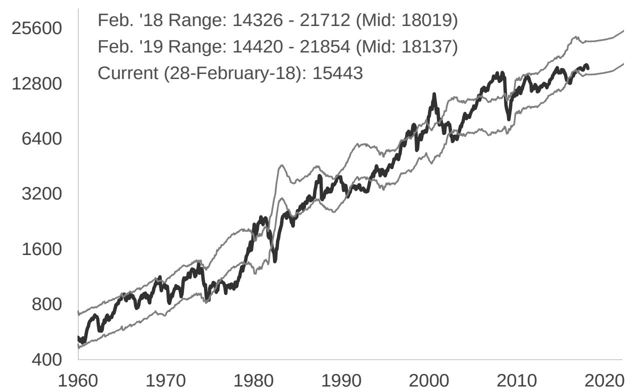
GLOBAL EQUITY MARKETS

S&P 500 Equilibrium
Normalized earnings and valuations



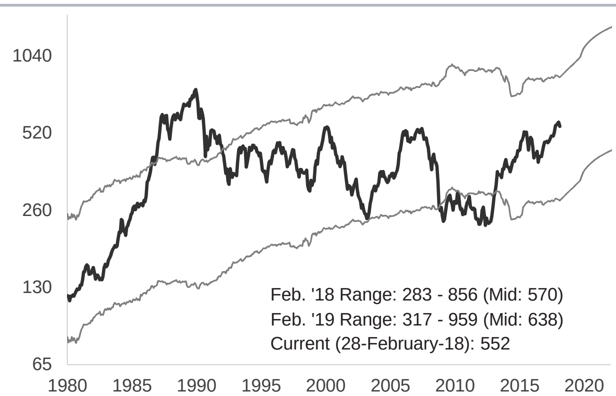
Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



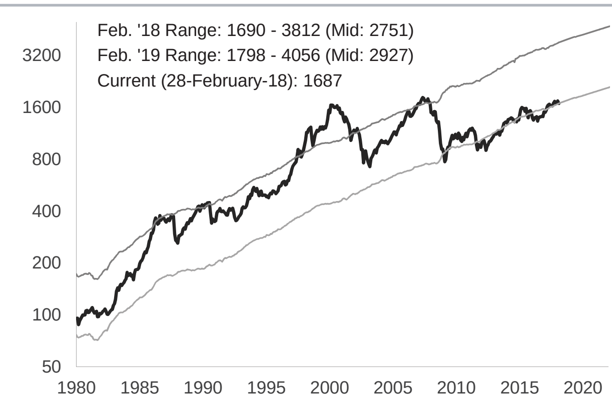
Source: RBC GAM

Japan Datastream Index
Normalized earnings and valuations



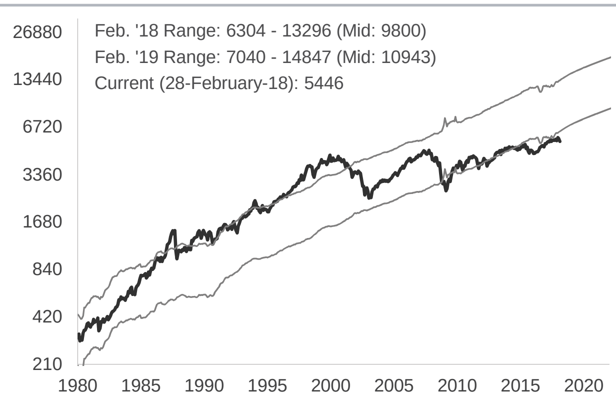
Source: Datastream, Consensus Economics, RBC GAM

Eurozone Datastream Index
Normalized earnings and valuations



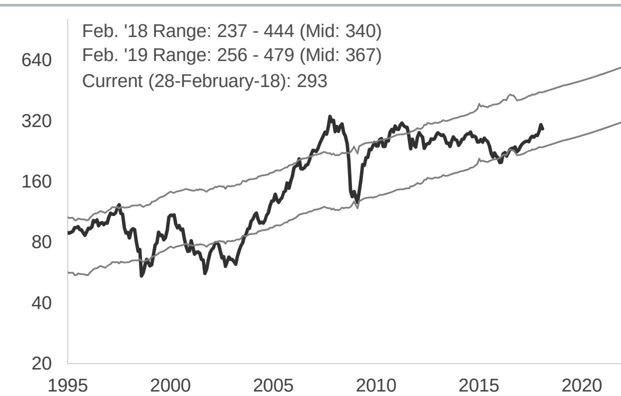
Source: Datastream, Consensus Economics, RBC GAM

U.K. Datastream Index
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM

Emerging Market Datastream Index
Normalized earnings and valuations



Source: Datastream, RBC GAM

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GLOBAL FIXED INCOME MARKETS

The bond-market outlook

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Our confidence that bond yields can show sustained increases is on the rise, as most of the factors that have been holding down yields over the past decade are now fading. Among these factors have been quantitative easing; the widespread presence of negative-yielding bonds in Europe; lacklustre inflation and wage growth; increased demand for safe assets; and central banks' falling long-term interest-rate forecasts.

The prospective end of quantitative easing has been telegraphed by central-bank policymakers, and ebbing demand for safe assets has also been baked into investors' forecasts. However, the emerging possibilities of unexpectedly high inflation and quickening wage growth are less predictable and have the potential to be much more disruptive, and recently enacted U.S. tax cuts and rising fiscal deficits add to the uncertainty. Our call for rising yields over the next 12 months assumes that global economic growth continues unabated.

Let's start with quantitative easing. On an overall basis, major central banks will continue to slow the pace at which they add liquidity to the global financial system in 2018. The U.S. Federal Reserve (Fed) is reducing the size of its balance sheet, while the Bank of Japan (BOJ) continues to reduce the pace of asset purchases and the European Central Bank (ECB) begins the process of tapering them. These moves serve to reduce demand coming from large, price-insensitive buyers of global government bonds. The supply of bonds that is either being returned to the market, in the case of the Fed, or would have otherwise been purchased by central banks, in the case of Japan and Europe, will now need to be absorbed by the private sector. These developments suggest that market-clearing yields for bonds will likely need to be higher.

Meanwhile, demand for safe assets in the private sector will likely decline as purchases by banks and insurers driven by tighter financial regulation start to recede. We believe that the transitional phase for this source of demand has passed and is now more likely to grow in line with underlying businesses. In other words, private purchases probably won't be able to offset the increased supply of government bonds.

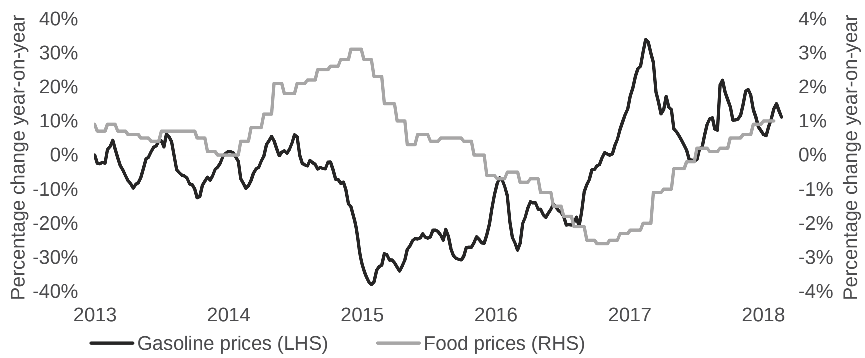
Just as quantitative easing loses traction, the ECB is readying to raise short-term interest rates, further reducing the number of negative-yielding bonds in Europe. Rising short-term rates in Europe will dissuade regional investors from heading elsewhere for returns and lower demand for bonds outside the region. We believe that negative yields on a substantial portion of global bonds have acted as an anchor on all bond yields, given the influence of negative short-term interest rates in the Eurozone and the ECB's substantial asset-purchase program. The ECB's asset purchases could be curtailed even faster than expected over the next 12 months if unexpectedly strong economic growth unfolds in the Eurozone.

Since the financial crisis a decade ago, lacklustre inflation and wage growth have played important roles in keeping global bond yields low. In response to this modest inflation, the Fed has tightened monetary policy very gradually even as the economy has continued to strengthen. The Fed has maintained a policy stance that is more accommodative than many economic models would predict. When interest rates and inflation are low, the cost of a policy mistake for a central bank is very high, as policymakers will not have much room to provide additional easing if the economy begins to stumble. In practical terms, however, the combination of persistently low inflation and the very gradual removal of monetary stimulus by central banks over the past few years mean that market expectations have coalesced around the idea that inflation will remain low and that central banks will continue to be able to remove stimulus gradually. The effect of these assumptions has been to make investors comfortable with the current stretch of historically low long-term bond yields, perhaps unreasonably so.

This scenario might be about to change. In the case of inflation and wage growth, we believe that 2018 could mark a turning point in demand for higher wages, a key consideration for Fed decision makers. For one thing, food and energy prices are rising simultaneously for the first time since early 2014 (Exhibit 1). Moreover, Eurozone wage growth and inflation are showing similar patterns.

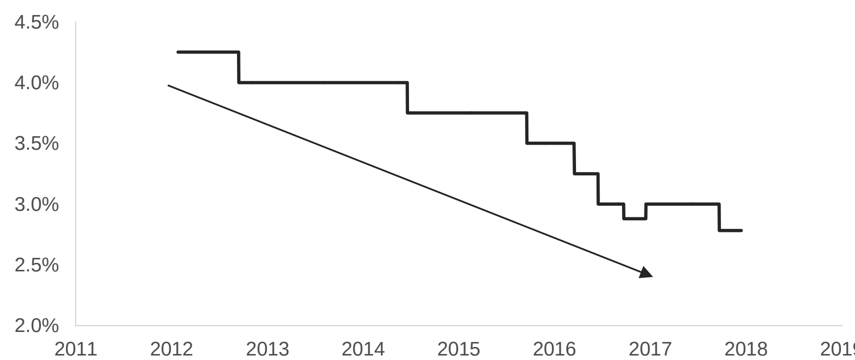
We are also wary that the Fed may soon raise its forecast of where it expects the policy rate to be over the long term (Exhibit 2), reversing years of declining forecasts. This forecast, known as the long-term neutral policy rate, has a powerful influence on long-term bond yields. While the policy rate fluctuates through the economic cycle, the neutral rate is used by investors to estimate the average short-term interest rate over time. Since the long-term bond yield is comprised of expectations of current and future short-term interest rates, the estimate of this long-term anchor plays an important role in any fair-value projection of long-term yields. A rise in the neutral rate would increase uncertainty surrounding the policy outlook, with the natural response being higher government-bond yields.

Exhibit 1: Food and gasoline prices are both rising



Source: Energy Information Administration (EIA), U.S. Bureau of Labor Statistics (BLS), Macrobond, RBC GAM

Exhibit 2: Long-run estimate of the neutral policy rate



Source: U.S. Federal Reserve, Macrobond, RBC GAM

Tax reform in the U.S. is another variable that we believe will contribute to upward pressure on global bond yields. The bond issuance required to cover a burgeoning fiscal deficit will double this year as the U.S. cuts income and corporate taxes, and boosts spending on defence and infrastructure. Expanded government spending, especially at a time when the economy is already at or beyond most estimates of full employment and growing strongly, may prompt the Fed to hike rates more quickly than investors envisioned. The expansion of the budget deficit will also add to concerns about the long-term sustainability of U.S. government finances, which could push up the return demanded by investors in exchange for holding Treasuries.

In addition to boosting debt issuance, the tax law could roll back the amount that U.S. companies invest in bonds. Previously, U.S. profits earned abroad were not subject to U.S. taxes as long as they were held offshore. As a result, much of the US$1 trillion of such money that has piled up overseas was invested in U.S. government bonds and U.S. dollar-denominated corporate debt.

Why does this matter for global bond yields? Because corporate profits that have been “stuck” in offshore accounts are now free to be used for mergers and acquisitions, stock and debt buybacks, capital improvements and increased dividends. The “release” of these assets means that an important source of demand for U.S. bonds will be at least marginally less robust.

The upward pressures on yields described above need not be disastrous for fixed-income investors, as the pace at which bond yields eventually rise is more important than whether they do. Steadily rising bond yields in response to continued economic growth and slowly firming inflation are a fairly benign scenario for global fixed-income markets. Economic growth supports equities and other asset classes, while a fall in bond prices can be at least partially offset by coupon income. In contrast, rapidly rising yields in response to higher-than-expected inflation or faster-than-expected Fed tightening could undermine valuations of financial-market assets beyond fixed income.

GLOBAL FIXED INCOME MARKETS

Direction of rates

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We expect bond yields to rise over the next 12 months, and are increasing our yield forecasts. The global economy is expanding and government spending in the U.S. and Europe is on the rise at the same time that labour markets are tightening and central banks have either begun or are expected to begin tightening monetary policy. In this scenario, investors will require higher yields to own bonds. Investors with a time horizon of more than 12 months shouldn't feel too uncomfortable acquiring fixed-income investments since we should never underestimate the willingness of central banks to intervene were rising yields to interfere with the smooth functioning of financial markets.

U.S. – We expect the Fed to deliver four rate hikes in the fed funds rate over the next 12 months, while proceeding with plans to scale back reinvesting in its portfolio of Treasuries and mortgage-backed securities. Consistent with gradual policy tightening, we expect the yield curve to flatten. Our 12-month target for the 10-year Treasury yield is 3.00%, a 25-basis-point increase from the previous forecast. Given

Interest rate forecast: 12-month horizon
Total Return calculation: Feb. 23, 2018 – Feb. 22, 2019

U.S.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.38%	2.75%	2.85%	3.00%	3.15%	2.17%
Change to prev. quarter	0.51%	0.35%	0.25%	0.25%	0.05%	
High	2.63%	3.30%	3.50%	3.50%	3.60%	(0.62%)
Low	1.38%	1.50%	1.65%	1.75%	2.10%	9.26%
Expected Total Return US$ hedged: 2.60%						

GERMANY

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.40%)	0.00%	0.50%	1.00%	1.50%	(1.53%)
Change to prev. quarter	0.00%	(0.00%)	0.15%	0.10%	0.00%	
High	(0.20%)	0.44%	1.00%	1.50%	1.90%	(5.48%)
Low	(0.40%)	(0.40%)	0.05%	0.50%	1.10%	2.67%
Expected Total Return US$ hedged: 0.61%						

JAPAN

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.10%)	(0.05%)	0.02%	0.10%	0.92%	(1.35%)
Change to prev. quarter	0.00%	0.00%	0.02%	0.00%	0.02%	
High	0.00%	0.10%	0.10%	0.25%	1.10%	(3.69%)
Low	(0.10%)	(0.10%)	(0.10%)	(0.10%)	0.70%	1.65%
Expected Total Return US$ hedged: 1.05%						

CANADA

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.75%	2.30%	2.40%	2.50%	2.70%	(0.32%)
Change to prev. quarter	0.25%	0.40%	0.35%	0.25%	0.10%	
High	2.13%	2.45%	2.80%	3.00%	3.00%	(3.08%)
Low	0.75%	1.10%	1.30%	1.50%	1.80%	8.50%
Expected Total Return US$ hedged: 0.95%						

U.K.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.75%	1.00%	1.30%	1.75%	2.10%	(0.62%)
Change to prev. quarter	0.00%	0.00%	0.00%	0.00%	(0.05%)	
High	1.00%	1.25%	1.60%	2.00%	2.25%	(2.83%)
Low	0.25%	0.25%	0.30%	0.75%	1.55%	8.17%
Expected Total Return US$ hedged: 1.59%						

Source: RBC GAM

our expectation for higher volatility, our range for the next 12 months is between 1.75% and 3.50%. The fed funds rate will rise to 2.38% from 1.38% currently, in our view.

Germany – We expect the ECB to keep its overnight repo rate at negative 0.40%, but are raising our 12-month target for the 10-year bund yield to 1.00%, a 25-basis-point increase. A robust economic expansion and a reduction in ECB bond purchases suggest higher Eurozone yields, a view that is tied to an overall rise in global yields.

Japan – The expected re-appointment of Governor Kuroda to another term at head of the BOJ all but assures policy continuity. We expect the BOJ to maintain accommodative policy over the next 12 months. Inflation in Japan is set to rise modestly but is unlikely to move sustainably above the BOJ's 2% target. As a result, our deposit-rate forecast remains at negative 0.10% and our BOJ target yield forecast for the 10-year bond is unchanged at 0.00%, an expression of the BOJ's yield-curve-control policy.

Canada – The Bank of Canada (BOC) raised its short-term interest rate as expected in January. We believe, however, that the BOC will raise rates at a slower pace than the Fed given relatively high household debt levels, tighter mortgage regulations and uncertainty surrounding the survival of the North American Free Trade Agreement. As a result, Canadian yields will likely rise more slowly and Canadian bonds will outperform the U.S., at least in the near term. Unexpectedly fast inflation would be most likely reason for bond yields to exceed our forecast.

We expect the BOC to boost its short-term interest rate by 50 basis points to 1.75% over the 12-month forecast time horizon. Our forecast for the 10-year government bond rises to 2.50%, a 25-basis point increase.

U.K. – The Bank of England (BOE) should continue along the path of moderate tightening over the next 12 months, as economic activity has been much more resilient than expected in the aftermath of Brexit. Meanwhile, U.K. inflation remains near 3%. As a result, it is reasonable to believe that the BOE will continue to raise rates from emergency levels. Higher yields in the Eurozone should also buoy U.K. yields. We expect Brexit negotiations to be taking place for a good part of our forecast horizon. Even with the talks' increasing frailty, we have penciled in a 25-basis-point BOE rate hike, to 0.75%, premised on an extension of the global economic expansion. We are keeping our 10-year gilt yield forecast at 1.75%.

Regional preferences

We are changing our regional recommendation to overweight U.S. Treasuries by 5 percentage points and underweight German bunds by the same amount. U.S. Treasuries are trading closer to our targets while German bunds are still behind them, so this is a relative-value strategy in a rising rate environment. We expect bonds in most regions to underperform cash, an outlook that we recognize may appear inconsistent with our asset-mix decision this quarter to add to our bond position, sourced from cash. The move represented a slight reduction in our fixed-income underweight stance and simply reflected profit-taking after markets performed as we had predicted.

CURRENCY MARKETS

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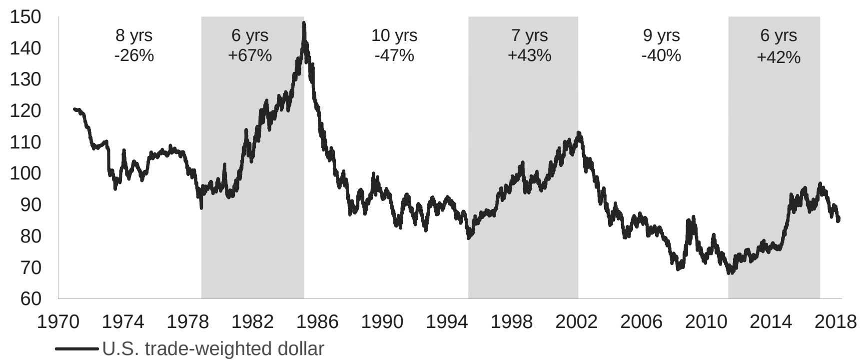
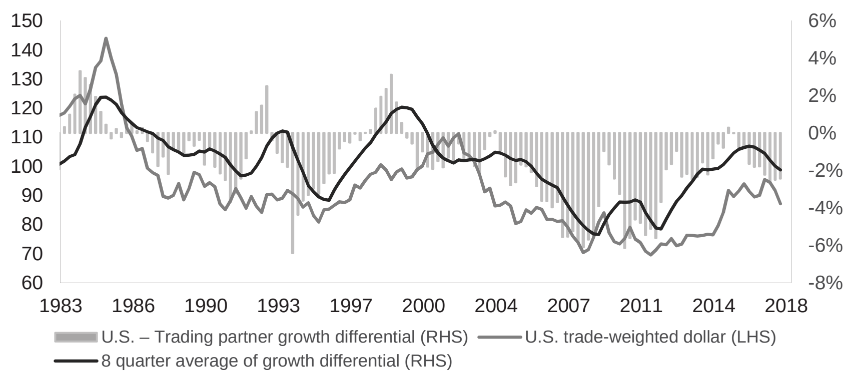
Exhibit 1: Long-term cycles in the U.S. trade-weighted dollar



Source: U.S. Federal Reserve, Bloomberg

Exhibit 2: U.S. dollar tends to track growth differentials



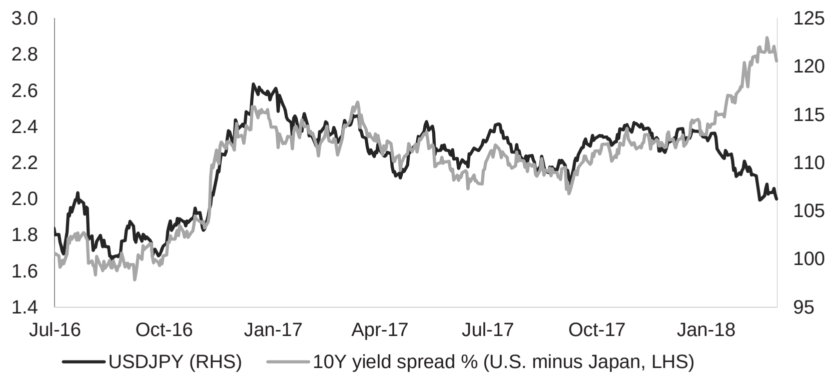
Source: Westpac, Bloomberg, RBC GAM

The U.S. dollar has been on the minds of many investors lately, not just currency traders. Equity strategists used its weakness as a justification of higher return expectations, and bond traders added its weakness to the long list of reasons to expect higher inflation. This keen interest is natural in the wake of a year that witnessed a 10% decline in the currency (Exhibit 1). Our currency outlook has been shifting in recent quarters away from double-digit returns for the U.S. dollar as we recognize changes in economic and monetary trends. Uncertainty associated with turns in long-term trends justifies our patient approach in calling the start of a downtrend, which, once firmly established, we expect to last for many years. Calling inflection points is a challenge: the peak in the U.S. dollar will be obvious only in hindsight, encouraging us to focus our efforts instead on individual currencies and opportunities within a shorter-term horizon.

The U.S. dollar weakness of 2017 made us review our assumptions. Over the course of the year, we recognized that the U.S. dollar's upswing was maturing but downplayed the risks of weakening because the U.S enjoyed the advantage of stronger economic growth and higher bond yields – traditionally the two main drivers of exchange rates – than other regions. Also consequential were the new U.S. administration's policies, which had the potential to boost demand for the greenback in the form of capital inflows. These three longer-term positives have fallen by the wayside due to improving economic conditions elsewhere. Economic growth in the Eurozone rebounded sharply last year, thanks to the stimulative effect of very cheap money, lower energy prices and a weak euro. A similar backdrop has also supported Japanese growth, and emerging-market economies have been pulled along by improving exports to the developed world. This global improvement eroded the American growth advantage, lowering capital inflows and spelling a trend of U.S. dollar weakness (Exhibit 2).

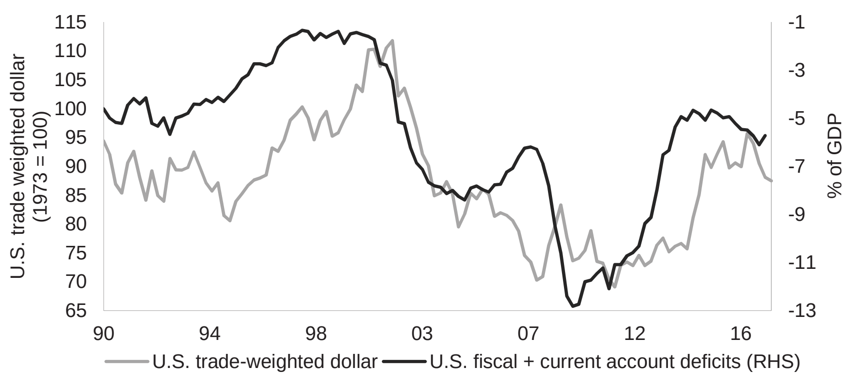
One additional consequence of the broadening global economic expansion is that central banks outside the U.S. are increasingly expected to tighten monetary policies over the next few years. The fact that this tightening will occur at a slower pace than the U.S. Federal Reserve (Fed) does not matter because financial markets have been reacting to marginal changes in policy expectations, not the level of interest rates. More recently, however, the link between interest rates and exchange rates has broken down. Exhibit 3 shows the yen overlaid on 10-year interest-rate differentials, a relationship that seemed ironclad until a few weeks ago. A similar break can be seen for other major currencies and is also evident in correlations, which have collapsed for most currency pairs. The breakdown of this link tells us that U.S. fiscal and trade concerns have been commanding investors' attention. The substantial tax cuts signed into law late last year will have a positive impact on economic growth this year and next, but present a concern for longer-term investors as the extra issuance required to fund deficits adds to the country's debt burden. Similarly, current-account deficits are not narrowing as much as hoped because reduced imports of crude oil have been offset by higher imports in other areas. Together, U.S. fiscal and current-account deficits form the "twin-sin" index, which tends to align fairly well with the U.S. dollar over longer time frames (Exhibit 4).

Exhibit 3: Breakdown in yield / FX relationship



Source: Bloomberg, RBC GAM

Exhibit 4: U.S. dollar and twin deficits



Source: Bloomberg, RBC GAM

This is not to say that interest rates won't reassert themselves in the next few months. For one thing, we believe that the European Central Bank (ECB) is likely to tighten monetary policy more slowly than investors expect. In contrast, the Fed debate over how fast to hike rates is starting to point to a quicker pace than many had anticipated.

Another element that may help the U.S. dollar's fortunes, at least temporarily, is risk aversion – a topic of great discussion after the early February selloff in U.S. and global equity markets. To quantify the safe-haven status of the U.S. dollar, we ranked 15 years of weekly data into 10 deciles, with the first decile representing weeks of poorest S&P 500 performance. Exhibit 5 illustrates that the U.S. dollar and Japanese yen showed the strongest tendencies to outperform during times of market stress while the Canadian, Australian and New Zealand dollars suffered.

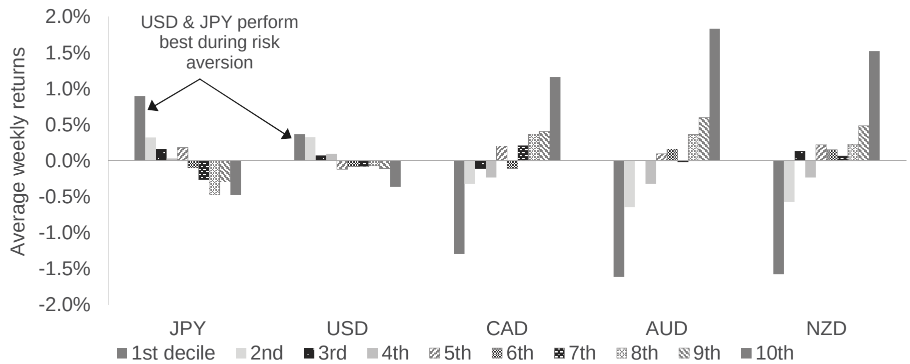
Past turning points in broad dollar trends have unfolded through a process whereby the greenback makes highs versus different currencies in sequence rather than all at once. This pattern is repeating, and we see an environment that is shifting in favour of the euro and yen, while we retain a less rosy outlook on the British pound and Canadian dollar.

Emerging-market currencies

The goldilocks economic environment that we have described, one involving synchronous growth and predictable monetary-policy shifts, has been kind to emerging-market currencies (Exhibit 6). Certainly, rising commodity prices and the year-long decline in the U.S. dollar have also helped, and the resulting gravitational pull of capital into emerging-market equities and bonds has been powerful (Exhibit 7). In truth, a bearish outlook on the U.S. dollar is not a precondition for stronger emerging-market currencies because these countries have improving fundamentals in the form of higher economic growth, falling inflation and strengthening institutional frameworks. Emerging markets also offer more attractive returns in terms of cheaper valuations, higher yields and faster earnings growth than their developed-market peers.

While the threat of spikes in market volatility continues to loom, emerging-market assets have been surprisingly resilient as investors are underweight and have been quick to bump up allocations on any sign of weakness, as was the case during the market rout in early February. Perhaps the more significant risks to these currencies are from domestic politics and the geopolitical sphere. The vocally protectionist stance of President Trump could have meaningful economic implications for large trading partners such as China and Mexico amid threatened tariffs on imports of Chinese aluminum and steel and heated negotiations surrounding the fate of the North American Free Trade Agreement (NAFTA). Important national elections will take place in Mexico, Brazil, Colombia and Russia in the year ahead and that uncertainty has been holding back investors' enthusiasm. In South Africa, on the other hand, a leadership change has led to heightened uncertainty surrounding the implementation of electoral promises, which could reverse economic optimism currently priced in. A careful look at opportunities in these countries is required, and decisions must be made on a case-by-case basis.

Exhibit 5: JPY & USD are clearly safe-haven currencies



Source: Bloomberg, RBC GAM

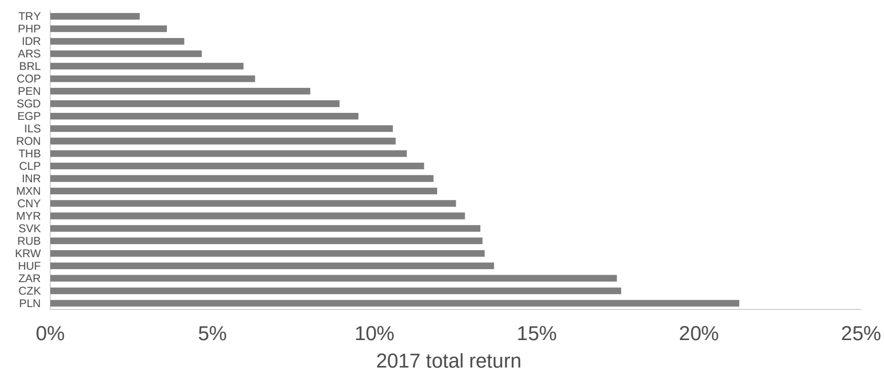
With these considerations in mind, we are rather optimistic about long-term returns from emerging-market currencies. We find them to be especially attractive for Canadian investors owing to Canada's vulnerable fundamentals. Since the Canadian dollar is sensitive to many of the same headlines as emerging markets, Canadian investors experience less volatility when owning those currencies.

Euro

In recent editions of the *Global Investment Outlook*, we pointed to European economic and political trends that had improved the outlook for the euro. These developments – stronger-than-expected economic growth and the calming of political risks after the election last year of French President Macron – are slow-moving and continue to unfold, but they have created a little too much confidence that the ECB will bring forward interest-rate hikes. As a result, domestic fixed-income investors who had been looking abroad for positively yielding bonds are now starting to find more value in European assets than those in other regions (Exhibit 8). This sentiment may also be true for non-European managers of international reserves, whose euro portfolio holdings have begun to rise, according to IMF data (Exhibit 9).

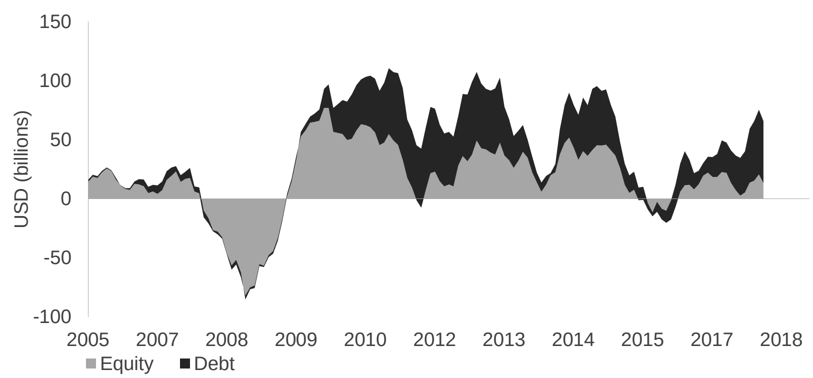
This is not to say that economic and political risks in the euro area are exhausted. Pockets of uncertainty still surround Brexit negotiations and the formation of a new government in Italy. In fact, we believe financial markets have become too smitten with a region that still has a fair share of challenges ahead. Recent economic optimism has caused a significant tightening of financial conditions, for example, as German bund yields have risen by 50 basis points from early 2017 levels and the currency has rallied 8% on a trade-weighted basis (Exhibit 10). These headwinds, alongside a rally in crude-oil prices, will act to curb economic activity in the year ahead and put pressure on the ECB to delay or slow the pace at which it is expected to hike rates in 2019. A euro trading near US$1.25 assumes too much optimism about economic and policy realities. We expect some euro depreciation as the U.S. dollar finds its footing and expect the exchange rate to gravitate toward our forecast of US$1.17.

Exhibit 6: Emerging-market currencies performed well in 2017



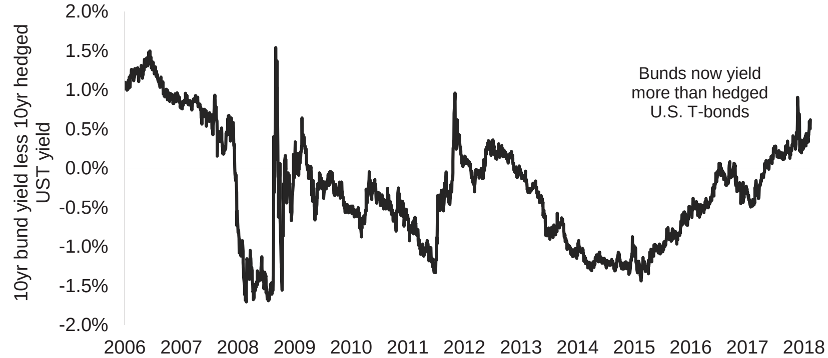
Source: RBC GAM

Exhibit 7: Emerging-market portfolio inflows (12-month sum)



Note: Estimated using portfolio flows for 10 E.M. countries. Source: Bloomberg, RBC GAM

Exhibit 8: For European investors bunds now yield more than U.S. Treasuries



Source: Bloomberg, RBC GAM

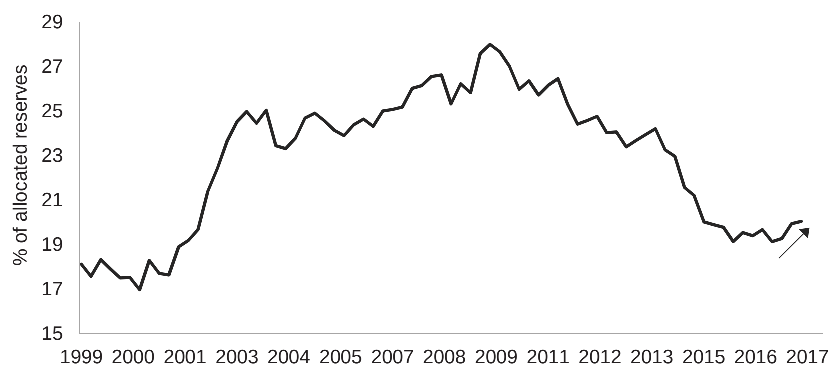
Japanese yen

Japan's backdrop has improved similarly to Europe's. The Japanese economy, having posted eight straight quarters of growth, may forge further gains from infrastructure investment ahead of the 2020 Olympics and from rising exports to trade partners whose economies are also growing, like the U.S. and Europe.

While signs of inflation are emerging as the Japanese economy operates faster than potential, we don't subscribe to recent speculation that the Bank of Japan (BOJ) could soon end quantitative easing. Any reduction in asset purchases has more to do with the fact that the central bank needs to buy fewer bonds to enforce its aim of keeping the 10-year government-bond yield between -0.10% and +0.10%. If anything, the re-appointment of Haruhiko Kuroda as BOJ governor to a second five-year term and selection of two new dovish members of the monetary policy committee suggest to us that the central bank will maintain its very accommodative policy stance.

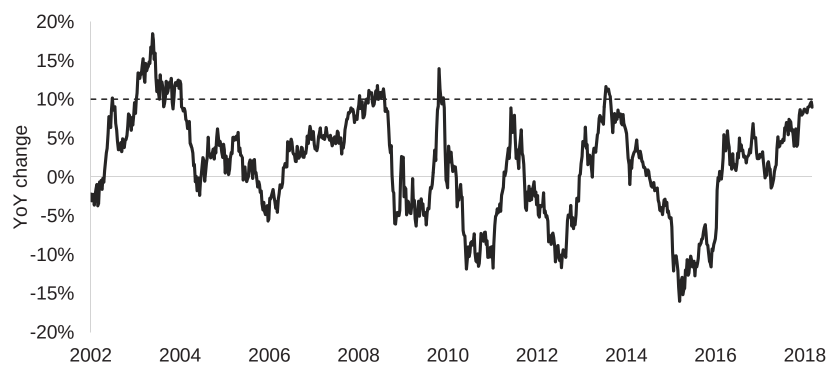
While Japanese yields are lower than in other regions, we expect the Japanese yen to appreciate slightly for two reasons. A cheaper valuation is the first. The yen is among the most undervalued of the world's major currencies, according to all longer-term models that we follow (Exhibit 11). The second is a more yen-supportive balance of capital flows. The country's substantial current-account surplus is no longer being reinvested abroad, which creates steady demand for the currency domestically as foreign trade and income proceeds are repatriated. Recognizing that the Japanese currency also benefits from risk aversion, we expect less short-term U.S.-dollar strength versus the yen than against other currencies. Our expectation is that the yen will trade within the range of 100-110 per U.S. dollar this year, and feel comfortable revising our forecast for a slightly stronger yen at 105 per dollar.

Exhibit 9: Euro's share of global reserves



Source: COFER, RBC GAM

Exhibit 10: Year-over-year change in trade-weighted euro



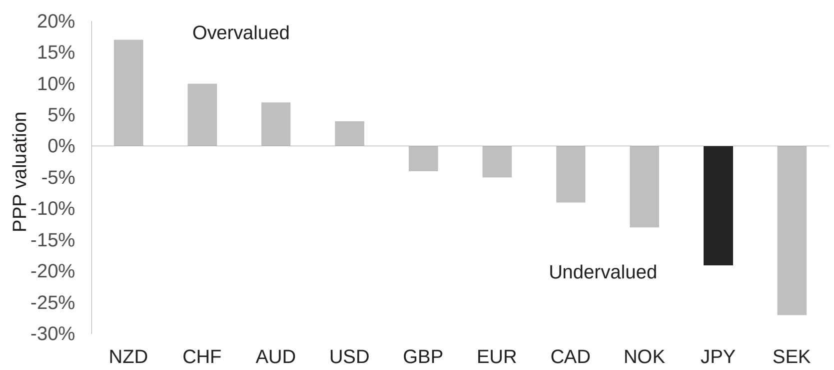
Source: Bloomberg, RBC GAM

British pound

In the U.K., we are finally seeing the economic outcome that we had predicted last year. Faced with rising import prices and falling real incomes due to a weaker pound after the Brexit vote, households borrowed to maintain their spending. While such loans have been a helpful cushion to the economic impact of the vote, they represent unsustainable consumption that has essentially borrowed from future economic growth. Indeed, more than a year later, we are beginning to see a reversal of the U.K.'s fortunes as retail activity grinds to a halt (Exhibit 12). So far, financial markets have paid little attention to the evolution of this trend given that their focus sits squarely on negotiations that are to decide the future relationship between Britain and the EU. From our vantage point, these negotiations do not seem to be progressing smoothly and the scope for the U.K. to extract concessions from the EU appears limited given Prime Minister May's weak leadership position. Against this backdrop, we admit to being surprised by the resilience of the pound and to the extent to which options markets continue to ignore downside risks (Exhibit 13).

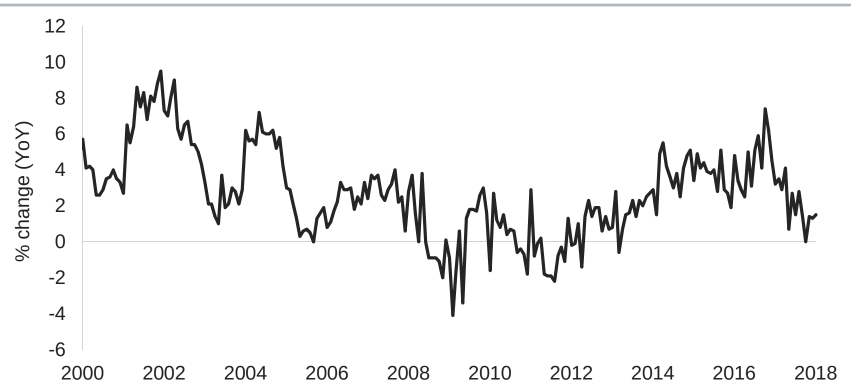
We expect the pound to underperform other currencies, whether developed or emerging, with a one-year forecast of US$1.20.

Exhibit 11: Purchasing power parity valuation



Source: RBC GAM

Exhibit 12: U.K. retail sales



Source: Macrobond, RBC GAM

Canadian dollar

Canada has been among the fastest-growing economies in the developed world, with consumption, government spending and business investment running at a solid pace throughout 2017. That economic strength seems centred in the labour market, with an impressive 427,000 new jobs created during the year. The loonie's strength has, in part, reflected this economic strength as the Bank of Canada (BOC) raised interest rates three times from 0.50% last year to the current policy setting of 1.25%. Investors expect at least two more hikes through the end of 2018, but perhaps more important for the currency are expectations of where the policy rate will settle in the longer term. This so-called terminal rate can be estimated by overnight index swaps that estimate the 1-month yield, three years into the future. Exhibit 14 illustrates that the terminal rate for Canada is indicated to exceed that of the U.S., an argument that fails to find purchase even among Canadian dollar bulls.

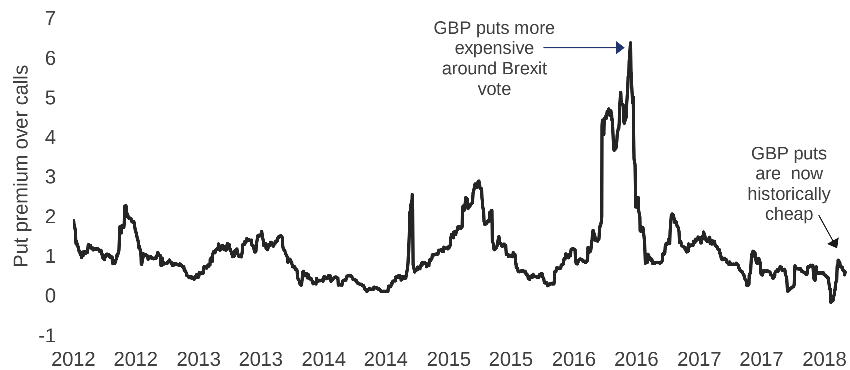
We are skeptical that the short- and long-term outlooks for the Canadian economy will be strong enough to justify such a view on Canadian yields. This is especially the case in the short term in light of the uncertainty surrounding NAFTA negotiations, which are holding back businesses from reinvesting in plants and equipment. Statistics

Canada reported recently that foreign direct investment dropped last year to the lowest since 2010, and another StatsCan report projects that private capital expenditures will decline 1.1% in 2018, led by the oil and gas industry. The dispute between Alberta and British Columbia over whether a proposed Kinder Morgan pipeline gets built shines a spotlight on the long-standing discount that Canada has been receiving for crude oil and will do little to restore such investment activity.

We should also be concerned about indebted Canadian households, who now face an environment of rising interest rates. We don't expect any crisis to result, but do caution that consumption, which comprises about two-thirds of gross domestic product, cannot support economic growth as it has in the past. Exports, too, will remain challenged even beyond the risks posed by NAFTA. Canada's attractiveness as an investment destination declined given higher income taxes, a diminished advantage on corporate taxes, rising minimum wages, tighter regulatory requirements and carbon levies. This development means that Canada's current-account deficit is here to stay (Exhibit 15), and could keep widening absent a decline in the loonie.

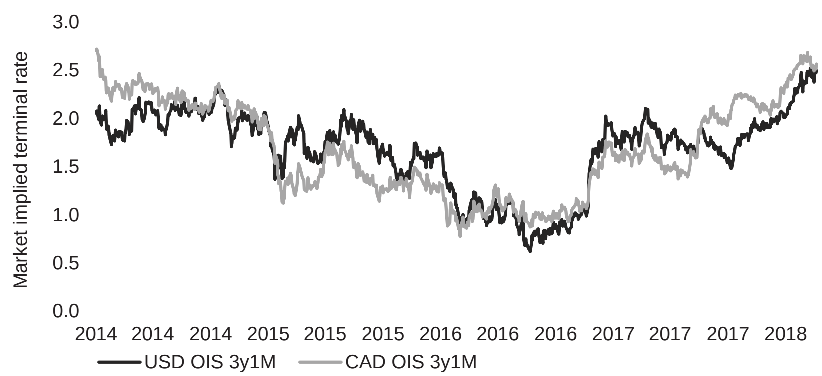
This scenario leaves government spending to pick up the slack, but the federal budget released on February 27 suggests that uncomfortably large deficits are

Exhibit 13: GBP puts offer cheap downside protection



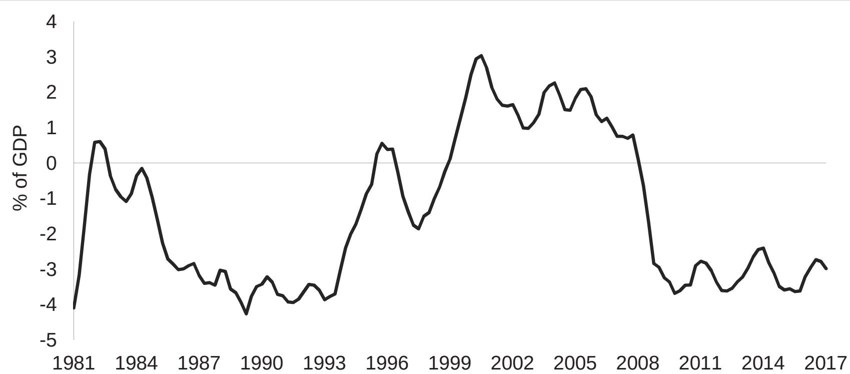
Source: Bloomberg, RBC GAM

Exhibit 14: The market expects the Bank of Canada to finish the cycle with a higher rate than the Fed



Source: Macrobond, RBC GAM

Exhibit 15: Canadian current-account balance



Note: GDP measured as a four quarter rolling sum. Source: Macrobond, RBC GAM already projected as far out as 2022. A much cheaper currency is part of the solution, and will help provide some relief in the event that economic activity slows. Our 12-month forecast for the loonie sits at 1.35. We expect this to be the result of near-term U.S. dollar strength combined with a more moderate BOC rate-hiking path.

Conclusion

As we said earlier calling cyclical inflection points is a challenge, they don't lend themselves easily to broad dollar up or down generalizations. We have to look more than ever at individual currencies and evaluate their shorter term prospects. Fortunately, the funds we manage allow flexibility when taking active currency positions to adjust our time horizon and size of positions to the market conditions. We take advantage of that. For example, at the stage of the currency cycle when valuations of the dollar are extreme we can have high level of confidence that prospective returns are attractive so our positions can be larger. We can have more tolerance for their volatility.

That's not the stage we are at now, we are at an inflection point in the dollar cycle. Based on our review of the fundamental and technical factors we expect the dollar to trade in a broad range over the next few months. We expect drivers of currency to rotate between deficits, interest rates and other factors. In the short term we favour tactically trading U.S. dollar long versus the Canadian dollar and sterling, while shorting the U.S. dollar versus the Japanese yen and the euro, but our confidence in predicting outcomes is lower and our position sizes are appropriately smaller. We are more tactical in our views, have lower tolerance for volatility, are quicker to take profits and cut the losses. We adjust our style to market conditions to be able to lock value added from tactical trading of currencies.

REGIONAL OUTLOOK – U.S.

Brad Willock, CFA
V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

The U.S. stock market recorded returns that were about average over the past three months, rising 2.5%, on the back of solid returns from the cyclical sectors such as Consumer Discretionary, Information Technology, Financials and Industrials. Returns were pressured by weak performance from bond-proxy sectors including Real Estate, Utilities, Consumer Staples and Telecommunication Services. The performance of the economically sensitive sectors was driven by the continuation of the synchronized global economic expansion, still accommodative global central-bank policies and low market interest rates and inflation, which led to better-than-expected profits for many U.S. companies. Bond yields rose significantly during the period, providing a headwind for some interest-sensitive sectors.

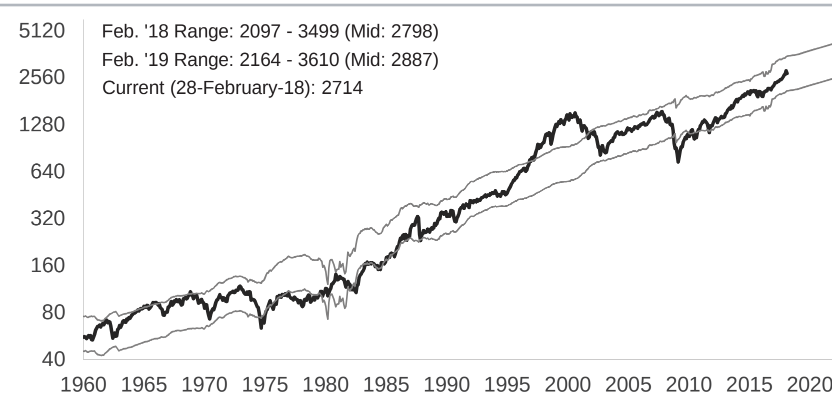
The U.S. economic backdrop remained solid, as real GDP growth has been roughly 3% in the last two quarters compared with the 2% trend seen since the global financial crisis. Growth appears to have decent momentum as we head into the latter part of the first quarter. Surveys of economic activity, which correlate well with GDP, have been coming in at high levels and in line with high expectations. According to the Federal Reserve Bank of Atlanta, real GDP growth for the current quarter is rising at a roughly 2.5% pace. In addition, the University of Michigan's Consumer Sentiment survey recently hit a 13-year high. The unemployment rate stayed at 4.1% in January, helping support consumer spending. Consumer spending has remained solid, but there has been some weak data in the housing sector as sales of new and existing homes fell over the past two months. Investors have become increasingly anxious about housing as the average 30-year fixed mortgage rate has increased 65 basis points to 4.35% since the fall, but it is still too early to call an end to the U.S. housing cycle given the possibility that sales were disrupted

United States – Recommended sector weights

	RBC GAM Investment Strategy Committee Feb. 2018	Benchmark S&P 500 Feb. 2018
Energy	5.0%	5.6%
Materials	2.8%	2.9%
Industrials	10.3%	10.2%
Consumer Discretionary	12.8%	12.7%
Consumer Staples	7.3%	7.6%
Health Care	14.5%	13.8%
Financials	16.0%	15.0%
Information Technology	27.0%	25.1%
Telecommunication Services	1.8%	1.9%
Utilities	1.5%	2.7%
Real Estate	1.3%	2.6%

Source: RBC GAM

S&P 500 Equilibrium
Normalized earnings and valuations



Source: RBC GAM

by harsh weather in the southern U.S. and fires in California. The low unemployment rate and improving availability of mortgage credit should support further growth in the housing market, but affordability is becoming stretched and needs to be monitored closely.

The S&P 500 rose about 13% during the year ended February 28, driven primarily by solid earnings and recent legislation that lowered the corporate-tax rate. After three years of essentially flat earnings, the S&P 500 looks like it will have generated roughly 12% profit growth in 2017. The drop in the oil price from mid-2014 until early 2016, plus the 20% rally in the trade-weighted U.S. dollar over a similar period, depressed earnings in the Energy sector. The negative effect of a strong U.S. dollar and low oil prices started to wane a year ago and earnings growth has rebounded strongly. In the most recent quarter, earnings per share for the S&P 500 were driven by top-line growth of over 8%, which was the best in six years. Profitability remains exceptional as net-profit margins were roughly 13%, and the incremental margin on each dollar of new sales was 16%, similar to the percentage of the prior four quarters. The remarkable profitability is being led by the technology area, with a 13% year-over-year revenue increase, followed by retailers, transports and industrial capital-equipment makers with 8%-9% gains. While these results are excellent, they are what one would expect to see in a global synchronized expansion. What is different in this cycle is that the top quintile of companies with the best profit margins are twice as profitable as the rest of the market.

Since the turn of the year, market conditions have clearly changed. Last year was one of the least volatile years in the last 100, with the S&P 500 going the full year without experiencing a peak-to-trough decline of 3%. It is normal and even healthy for the market to have two pullbacks of 3% to 5% and one or two corrections of 10% during a 12-month period.

Looking forward, our base case assumption is that the economy continues to expand and that short-term interest rates rise slowly over the next year, but that stock volatility is likely to be markedly higher. The U.S. Federal Reserve (Fed) is raising short-term interest rates, inflation is rising, and earnings expectations and investor sentiment are high. We must recognize that asset prices have gone up substantially, and that the tailwinds of low corporate borrowing costs, falling energy prices and inflation, and a weakening U.S. dollar are likely to turn into headwinds. However, it is still too early to position portfolios for a bear market given that the earnings cycle appears to be intact and that credit markets remain supportive.

While our base case is for stocks to rise modestly over the next year, there are several scenarios that could lead to declines, including a policy mistake by the Fed or protectionist trade moves by the U.S. government. Recent moves by the Trump administration to place tariffs on aluminum and steel imports are not helpful as they raise inflation and could lead to retaliation by trading partners. They are also unlikely to lead to more jobs. An escalation of tensions with North Korea would also likely result in a volatility spike and lower equity valuations. A recession is the main risk to the earnings cycle and our indicators suggest that the odds of one remain fairly low. The key point is that as long as growth remains relatively strong and the Fed raises rates at a slow and measured pace, stocks should make some headway this year, but investors should expect single-digit returns.

REGIONAL OUTLOOK – CANADA

Sarah Neilson, CFA
Portfolio Manager
RBC Global Asset Management Inc.

Irene Matsyalko, CFA
Portfolio Manager
RBC Global Asset Management Inc.

The S&P/TSX Composite Index closed out 2017 as the worst-performing developed-world equity market and continued to underperform during the first two months of 2018. The underperformance was likely due in part to concerns about the sustainability of domestic economic growth and competitiveness, and uncertainty around the outcome of NAFTA negotiations.

The benchmark Canadian stock index fell 2.7% during the three-month period, while the S&P 500 Index gained 3.0% and the MSCI World Index advanced 2.3%, all in U.S. dollar terms. Global equity markets had a strong start in 2018, buoyed by a robust economic outlook and supported by anticipation of the positive impact of U.S. tax reform taking effect this year. However, concerns about rising inflation and interest rates caused markets to retreat in early February and they have remained volatile since then.

Market expectations for S&P/TSX aggregate earnings are $990 in 2018 and about $1,100 in 2019, representing increases of 10% and 12%, respectively. The biggest contributions to earnings growth this year are expected to come from the Financials, Energy and Materials sectors. The S&P/TSX is fairly valued trading at 15.5 times its 2018 EPS estimate. The valuation of the S&P/TSX is currently around two multiple points lower than the S&P 500, a gap that seems justified given the concerns outlined above and the fact that the Financials and Energy sectors account for more than half of the Canadian market's earnings.

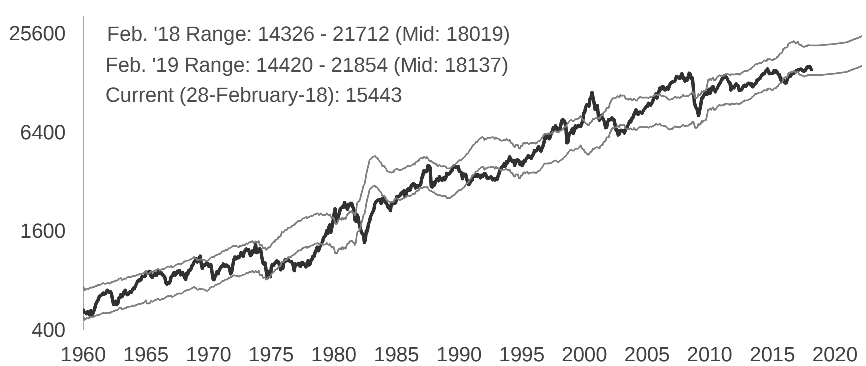
The NAFTA negotiations remain a potential headwind for the Canadian economy and equity markets. Slight progress has been achieved over a year of negotiations, although finding common ground remains elusive on the issues of dispute resolution, rules of origin for automobiles, Canada's provincial dairy monopolies and U.S. calls for a five-year limit on the length of any new agreement. The

Canada – Recommended sector weights

	RBC GAM Investment Strategy Committee Feb. 2018	Benchmark S&P/TSX Composite Feb. 2018
Energy	17.8%	18.2%
Materials	11.3%	11.6%
Industrials	11.0%	9.9%
Consumer Discretionary	6.0%	5.5%
Consumer Staples	4.0%	3.7%
Health Care	0.0%	0.9%
Financials	36.3%	35.2%
Information Technology	4.8%	3.8%
Telecommunication Services	4.0%	4.6%
Utilities	3.0%	3.7%
Real Estate	2.0%	3.0%

Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



Source: RBC GAM

current, seventh round of discussions recently ended without an agreement, and uncertainty around the eventual outcome could impede Canada's ability to attract capital investment.

The Canadian housing market remains important for the economy and bank profitability. Toronto's residential market has shown signs of softening following regulatory changes enacted in January of this year. As well, we are aware of the economy's sensitivity to higher interest rates given the run-up in household debt. That said, the persistent improvement in labour markets is setting up an acceleration in income growth, which should mitigate some of the pressure.

The news is not all negative. Canada may benefit from accelerating U.S. growth and its positive impact on industrial spending, which could strengthen Canadian exports. Moreover, the Canadian economy has exhibited some strength, with impressive employment gains last year. We expect Canadian GDP growth to moderate in 2018 to 1.75% after last year's solid 3.0% gain. The Bank of Canada (BOC) recently raised its policy rate by 25 basis points to 1.25% and slightly lifted its GDP growth forecasts, noting that business and infrastructure investment will supplant consumer spending and housing as the drivers of economic growth. We expect the BOC to hike the policy rate to 1.75% over the next 12 months, and the forecast for the U.S. is for an increase to 2.38% from 1.38%. Policy-rate and yield differences between Canada and the U.S. are likely to set the path for the Canadian dollar over the foreseeable future.

Shares of Canadian banks and bank earnings both gained about 11% last year. As a result, multiples stayed steady and slightly ahead of the historical average. Looking to 2018, the operating environment supports consensus estimates of mid-to-high single-digit growth. The banks have benefited from the BOC's more hawkish rate outlook, which should translate into rising net-interest margins. As well, continued loan growth, expense controls and solid credit quality all bode well for bank profits. Rising short- and long-term borrowing rates could weigh on the performance of interest-sensitive sectors such as Real Estate, Utilities and Telecommunication Services. While valuations are fair, with most REITs trading in line with their net asset values, investment returns will be driven by improving operating income and solid cash-flow growth.

Grocers continue to face competitive pressures from online retailers such as Amazon, as well as headwinds from rising minimum wages, NAFTA uncertainty and declining prices for generic drugs. Investors will be monitoring how well these companies control costs to offset the burden of the minimum-wage increases. The multiples of these stocks have fallen over the past year given the above concerns.

Crude-oil prices have rallied as global inventories stabilized amid solid demand growth and OPEC members' continued compliance with production limits. Production growth from U.S. shale producers will largely determine the direction of crude prices. In Canada, energy producers have not benefited as much from the oil rally due to pipeline bottlenecks and the resulting pricing discounts for Canada's heavy crude. No new pipeline capacity is expected to come online until late 2019, and rail transportation has been slow to clear the glut. Producers of Canadian natural gas are also experiencing issues getting their exports to areas of demand. While Canada's Energy sector appears attractively priced relative to commodity prices, we expect volatility will persist until clarity emerges about the outlook for demand and infrastructure projects.

In the Materials sector, we forecast that copper, zinc and coking coal (used to make steel) will extend their price gains into 2018, as the growing global economy demands more of these commodities. While some of this optimism may be priced into the sector's equities, there is still room for estimates to move higher as we progress through 2018. Gold equities, which make up roughly half the Materials sector, declined 2.5% in 2017, belying the 12% rise in gold prices for their best gain since 2010. Into 2018, the outlook for gold prices is likely muted given rising interest rates. However, a weaker U.S. dollar, the potential for surging inflation and heightened geopolitical concerns could drive prices higher.

REGIONAL OUTLOOK – EUROPE

Dominic Wallington
Head, European Equities &
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

European equities remained fairly robust into the end of 2017 and rallied further during the early part of January 2018 before falling back. The MSCI Europe Index rose about 10% during 2017 in euro terms, and 2018 offers prospects for further gains, albeit with a likely pick-up in volatility. The economic expansion looks synchronized and robust, but the polarization of valuations that we see in European markets will probably become an area of greater investor focus. Valuations for companies with good prospects look stretched, while those for companies with poor outlooks assume little or no improvement in their business is possible. This means that movements in the bond market and/or the equity discount rate would have an amplified effect.

Brexit remains a key area of uncertainty. While some progress has been made in negotiations, it would be foolish to dismiss the potentially disruptive impact of any eventual failure of Britain and the EU to reach an agreement. While the worst-case scenario is probably not written into prices, valuations still appear low in the likelihood of something closer to a muddle-through. At the market level, Europe still appears to offer value in absolute terms and most especially relative to the U.S. The trend P/E ratio is sitting at a discount to the U.S. that is more substantial now than at any time in the past 40 years. We remain constructive on markets for 2018 but believe that the risks are higher than they were last year. We have reduced our long-term sector biases and have a more balanced approach than has been the case for several quarters.

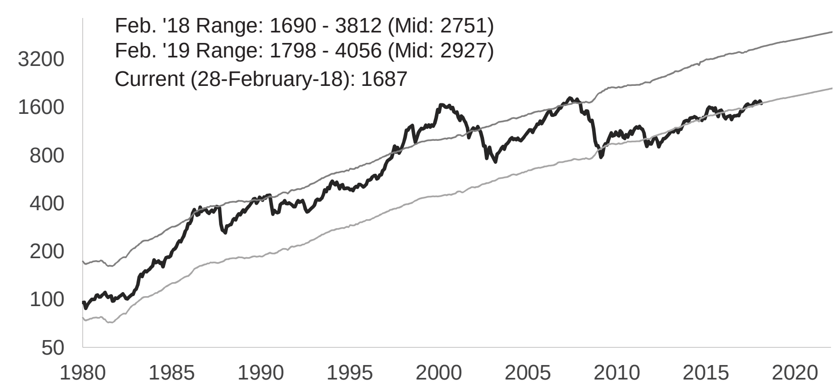
We have been overweight the Consumer Discretionary sector for some time and remain committed to the structural dynamics of media, especially regarding companies that have reduced their capital intensity and broadened their exposure to the internet. We have exposure to luxury because we can see great value in scarce and powerful brands.

Europe – Recommended sector weights

	RBC GAM Investment Strategy Committee Feb. 2018	Benchmark MSCI Europe Feb. 2018
Energy	6.3%	7.3%
Materials	9.0%	8.5%
Industrials	13.3%	13.2%
Consumer Discretionary	11.5%	10.8%
Consumer Staples	13.0%	13.0%
Health Care	13.0%	11.9%
Financials	22.0%	21.9%
Information Technology	6.0%	5.0%
Telecommunication Services	3.0%	3.7%
Utilities	2.0%	3.4%
Real Estate	1.0%	1.3%

Source: RBC GAM

Eurozone Datastream Index Equilibrium
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM

The portfolio has been rotated slightly within consumer durables to increase exposure to general retailers and other areas where valuations have fallen, and reduce holdings whose valuations have climbed to levels that are no longer deemed as attractive.

Over the course of the past year, we sold some holdings in the Consumer Staples sector to fund purchases in more cyclical parts of the market. We are focused on beverages, food ingredients and household goods because these areas offer the best mix of growth and valuation. We continue to be underweight food manufacturing. Most of our exposure to this sector is global in nature to capitalize on the growing middle class in emerging markets.

Our concerns about rising capital costs and weak production growth in the Energy sector have ebbed somewhat. Valuations are at almost unprecedentedly low levels, both in absolute and relative terms, but are not low enough to completely offset the fundamental backdrop. Dividend yields are high, but high capital expenditures are eroding the cash flow of many international oil companies. The stabilization in oil prices, coupled with new technologies in oil services, means break-even oil prices have dropped.

Our preference among banks is for institutions with high returns on equity and strong balance sheets. For some time this has resulted in a bias toward the Nordic region, but we are now detecting similar levels of discipline and strength in banks domiciled in other countries. As a result, we have begun lowering our exposure to Nordic banks in order to pick up cheaper valuations elsewhere in Europe. Still, insurance companies with good pricing and high returns tend to be restricted for now to Scandinavia. The dividend yield of the Financials sector remains attractive. We see greater appeal in the diversified financials, and asset managers in particular, given their high-return, capital-light business models. They have proven to be more than the 'market proxies' they are often assumed to be.

In Health Care, our exposure is predominately focused on a number of large-cap pharmaceuticals companies, where either valuations appear unjustifiably low or long-term growth prospects are underappreciated. Our preference within the Industrials sector has been for companies with returns that are high and stable, or that exhibit good operational momentum. Due to the constituents of this sector, our exposure focuses on mid-cap stocks.

Information Technology is still one of our preferred sectors in Europe. We view software companies as later-cycle and beneficiaries of increasing corporate spending over the coming years. Expectations remain relatively low after underperformance in the years leading up to 2009 and managements are demonstrating a higher degree of capital discipline. Coupled with sound balance sheets, the global industry is beginning to consolidate these attractive businesses.

We have steadily become more optimistic about prospects for the Materials sector over the past 12 months, and this is reflected in construction-related and mining exposure. We feel more comfortable with the economics of copper than other metals, and we believe that earnings estimates will rise as they begin to take into account higher commodity prices. Our long-term preference is in specialty chemicals and niche areas of enzymes and flavours and fragrances, where we see high barriers to entry and good growth and return profiles.

The positive momentum driving the Telecommunication Services sector has dissipated following a period of improvement driven by incumbent telecom operators and a brightening regulatory backdrop. The only companies in the sector that engender optimism on our part are franchises that have fixed, mobile and content offering, as falling capital costs will quickly translate into gains in free cash flow.

We remain underweight the Utilities sector. The sector trades at a valuation discount to the overall market. However, any valuation support is undermined by weak underlying fundamentals. Excess capacity exists in many markets which, alongside a weak demand backdrop, continue to put downward pressure on power prices.

REGIONAL OUTLOOK – ASIA

Mayur Nallamala
Head & Senior Portfolio Manager
RBC Investment Management (Asia) Limited

Asia-Pacific markets managed to edge higher in the three-month period, rebounding from a broad global stock sell-off in the wake of rising U.S. bond yields in late January. The resilience was due to confidence that the region's earnings momentum will continue in 2018. The macroeconomic environment remains supportive of Asian equities given a weaker outlook for the U.S. dollar, relatively low commodity prices and a stable Chinese economy. Signs of synchronized global growth are a positive for export-dependent Asian markets, and the lower U.S. dollar is a boon for liquidity in the region.

Chinese equity markets outperformed the regional benchmark, with a broad index of Hong Kong-listed Chinese companies adding about 18% in the three-month period as Beijing emphasizes a path of slower but more sustainable growth in 2018. Key areas that the Chinese government is focusing on include the prevention of systemic risks, as well as the alleviation of poverty and pollution. Japanese equity returns in U.S. dollar terms were dragged down by a stronger yen as an optimistic quarterly report about the Japanese economy sent the currency to a four-month high in January. The yen received another boost from its safe-haven status during the market turbulence.

The strongest-performing Asian markets over the period were China, Thailand and Indonesia, while South Korea and Taiwan underperformed. Rising oil prices will largely be negative for Asia, with India and the Philippines most negatively affected. In Asia, Malaysia is the clear beneficiary of higher oil prices.

Japan

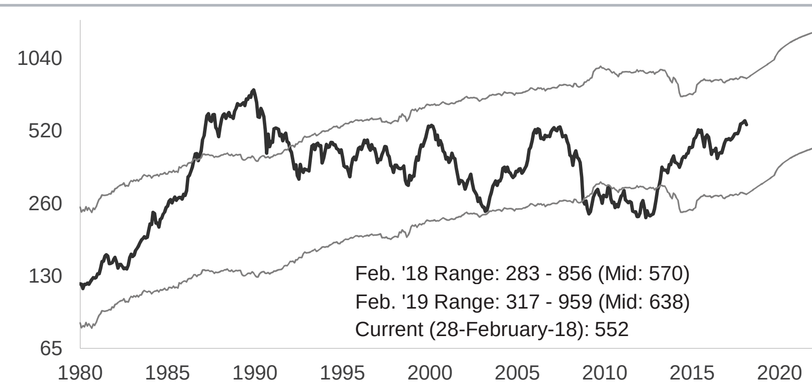
Japanese equity markets advanced about 4% in local currency during the three-month period versus a 8.1% gain in U.S. dollar terms due to the strengthening of the Japanese yen against the U.S. dollar. Japan's

Asia – Recommended sector weights

	RBC GAM Investment Strategy Committee Feb. 2018	Benchmark MSCI Pacific Feb. 2018
Energy	2.0%	3.2%
Materials	6.8%	6.7%
Industrials	12.3%	12.2%
Consumer Discretionary	13.5%	12.7%
Consumer Staples	6.0%	6.0%
Health Care	6.0%	5.1%
Financials	22.0%	21.3%
Information Technology	22.5%	21.2%
Telecommunication Services	3.0%	4.0%
Utilities	2.0%	2.3%
Real Estate	4.0%	5.3%

Source: RBC GAM

Japan Datastream Index Equilibrium
Normalized earnings and valuations



Source: Datastream, Consensus Economics, RBC GAM current bull market is well supported by strong earnings growth, with the majority of companies exceeding expectations, and the positive cycle in earnings revisions seen in recent quarters is intact. Japanese bourses were also buoyed by continued inflows into Japanese equities from overseas investors in light of the landslide victory of Prime Minister Shinzo Abe and his ruling Liberal Democratic Party in October's lower-house elections.

Growth has been solid for Japan's economy and equity markets, which must overcome the country's declining population. The improved economic outlook and robust corporate profits favoured more cyclical areas of the market, including machinery and trading companies. Japan's 2.8% unemployment rate marks the country's tightest labour market in decades and is boosting demand for labor-saving investments that are good for the country's capital-goods sectors. The Bank of Japan (BOJ) recently said it's more optimistic that inflation will quicken, displaying its conviction that a strengthening recovery could push price growth to its 2% target.

The BOJ made no major changes to monetary policy in 2017, and since September 2016 has complemented asset purchases with a policy of yield-curve control aimed at maintaining 10-year yields around zero. In recent months, this target has been achieved quite easily. That said, Japan's current monetary policy is likely unsustainable over the long term.

We expect political factors to affect Japan's central-bank decisions, the most important being the scheduled increase in the consumption tax in October 2019. While we are likely to see a sustained pickup in inflation, the BOJ is likely to refrain from making any significant moves in the near future.

Asia-Pacific excluding Japan

For the first time in many years, China's equity markets did not disappoint in 2017 in terms of corporate earnings growth. Underscoring the economy's robust profits have been China's decisions to depress interest rates and crack down on shadow banking and unregulated investments known as wealth-management products, all without crimping growth too much. On the economic front, China is emphasizing the quality and sustainability of growth, rather than absolute GDP targets. This suggests that China GDP could slow to about 6.3% in 2018 from 6.6% in the fourth quarter of 2017. Financial stability remains a top priority for the Chinese government and financial deleveraging will take many years. We expect the continued rollout of tightening measures in the quarters ahead, the closure of regulatory loopholes and the crackdown on financial speculation. The further development of multi-layered capital markets is an important part of deleveraging, so market reforms are expected to continue.

South Korea and North Korea recently held their first official talks since December 2015, a development that could help reduce the risk of a miscalculation that leads to war on the Korean peninsula. The spread on South Korean credit-default swaps narrowed in the fourth quarter of 2017, indicating that investors think the risk of armed conflict has lessened.

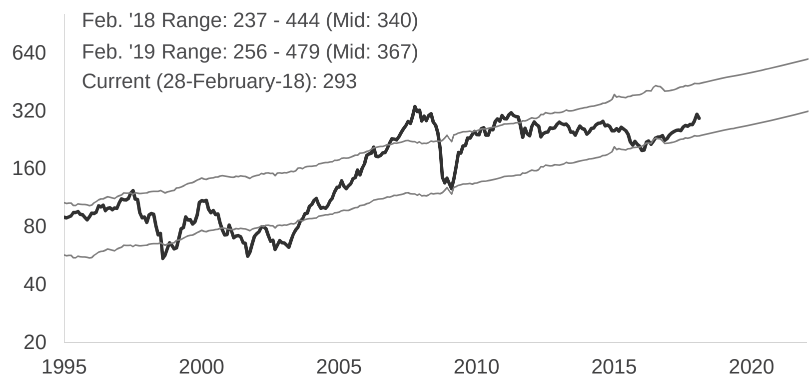
In Indonesia, an investment-led recovery and healthy reform prospects support the case for a sovereign-ratings upgrade by Moody's, perhaps as early as the first half of 2018. Fitch upgraded Indonesia's sovereign rating to BBB from BBB- in December 2017. President Jokowi's approval rating has increased to 74% in recent surveys, reducing risk of a shift to more populist policies ahead of regional elections in June of this year and a presidential election in 2019.

Australia is showing mixed trends. On the positive front, global growth should support commodities exports, and increased infrastructure spending is also a positive. However, consumers look stretched as debt levels are high amid slower wage growth, while a weaker housing market will be negative for consumer sentiment. Retail competition in Australia has been fierce, boosted by the arrival of Amazon in late 2017. We expect the Reserve Bank of Australia to lag other central bank in hiking rates this year, as there is limited inflation pressure and the housing market has lost momentum.

REGIONAL OUTLOOK – EMERGING MARKETS

Laurence Bensafi, CFA
Portfolio Manager &
Deputy Head – Emerging Market Equities
RBC Global Asset Management (UK) Limited

Emerging Market Datastream Index Equilibrium
Normalized earnings and valuations



Source: Datastream, RBC GAM

In 2017, emerging-market equities had their best year since 2009, returning 37% in U.S. dollar terms. This presentation will look at the reasons for such a turnaround and what we should expect for 2018.

We have identified three main drivers for the better performance of emerging-market equities, and we expect all three to continue to support the market. The first is better fundamentals. Economic growth has accelerated all around the world, but the strongest acceleration is found in emerging markets, notably due to Brazil and Russia coming out of recession. This improving backdrop is very important when considering the strong relationship of the difference in economic-growth rates between emerging markets and developed markets, and the relative performance of the two broad equity markets.

Another positive aspect of the fundamental backdrop is the improved political environment that we have witnessed in emerging markets. Usually reforms come in waves and happen after periods of crisis, and we saw this pattern repeating itself after the global financial crisis of 2008-2009 and the sovereign-debt crisis of 2011.

In the past few years, we have seen several emerging-market political leaders impeached on charges of corruption, with Brazil and South Korea being the most striking examples. In South Africa, against all expectations, the reformist candidate Cyril Ramaphosa was elected leader of the ruling African National Congress and he is now the new president, creating huge optimism in the country. In Brazil, the very popular former President Lula is likely to be jailed for corruption, leaving space for much needed reforms to be implemented by a more pro-business government. Those events have been well received by investors and continue to add to the positive perception of emerging markets.

China has proved over the past few years that far-reaching reforms can transform both the economy and the outlook of a country. In China's case, years of reform targeting corruption, overcapacity and low wages have enabled a country with a bloated public sector and focus on low-value manufactured exports to transition to an economy geared towards consumption. The private sector now makes up the majority of the market capitalization of the country.

Globally, the better macroeconomic environment since 2016 is now translating into better performance at the company level. Notably, we have seen an increase in returns on equity in 2017 after five years of collapse. Returns on equity stabilized in 2016 and improved in 2017, rising by 15% to approximately 11.5%. The main driver for this turnaround was higher profit margins. This improvement was the result of better top-line growth in a recovering economic environment, but also the fact that companies have worked hard to cut costs and become more efficient during difficult times. The reward should be seen in the coming years and we expect returns on equity to continue to rise.

In a similar vein to the recovery in returns on equity since 2016, we have seen an increase in earnings growth in emerging markets. Historically, such gains have been the main reason for investors to allocate money to emerging markets. However, since 2011 emerging markets have actually seen earnings declines, which explains the poor performance of our markets. Again, 2015 was the low point and earnings growth has since picked up significantly.

Also, in terms of top-down positive drivers for emerging markets, we expect capital spending to start to recover in the coming years.

The second driver for the sustained outperformance of emerging markets is their still attractive valuations in absolute and relative terms. Emerging-market equities trade at 1.8 times price-to-book-value, higher than the low of 1.3 reached in the core index in January 2016, but still in line with the long-term average.

Looking now at relative valuations, emerging-market equities still trade at a 25% discount to developed markets, and we would argue that going forward this discount will narrow. In the future, it is unlikely we will again see such a large gap, as emerging countries have changed from cyclical plays to consumption-driven economies.

Finally, emerging-market currencies are still trading at attractive levels, having hardly recovered from five years of devaluation. We expect stronger emerging-market currencies to add to emerging-market performance.

We also believe that technical indicators are and will continue to have an impact on emerging markets. Particularly strong inflows are adding to performance, which in turn is leading to a virtuous cycle of even more buying. We estimate that at least another US$100 billion will be invested into emerging-market equities in the coming months, potentially pushing markets higher.

Another technical reason for continued inflows is the fact that emerging markets still have room for improvement versus developed markets, given that the gap in favour of developed-market outperformance has not closed over the past two years. It is also interesting to note that global equity funds remain underweight emerging markets despite a rise in the weight of emerging-market equities in the MSCI All Country World Index over the past two years.

Risks to our outlook exist, and they are mainly geopolitical. In particular, U.S. relationships with many large countries have deteriorated since President Trump was elected in November 2016. Tensions with North Korea seem to have receded recently, but we do not rule out the potential for further escalation.

In terms of the macroeconomic environment, the risks to our outlook would be a significant slowdown in economic growth in the developed world, notably in the U.S., or conversely, a significant rise in inflation that causes central banks to tighten policy quickly in order to slow growth. Under those scenarios, we would probably see the U.S. dollar appreciate and emerging-market currencies weaken. Emerging-market equities would also be weak. Those are two realistic scenarios for after 2019.

The increase in U.S. 10-year bond yields is not negative for equities as some may perceive, but rather a signal that global economies are doing well. There is a strong correlation between the global purchasing managers' index and 10-year bond yields, and a positive correlation between price-to-earnings ratios and U.S. 10-year bond yields.

RBC GAM INVESTMENT STRATEGY COMMITTEE

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Daniel E. Chornous, CFA

Chief Investment Officer
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Chair, RBC GAM Investment Strategy Committee

Dan Chornous is Chief Investment Officer of RBC Global Asset Management Inc., which has total assets under management of approximately $422 billion. Mr. Chornous is responsible for the overall direction of investment policy and fund management. In addition, he chairs the RBC Investment Strategy Committee, the group responsible for global asset-mix recommendations and global-fixed income and equity portfolio construction for use in RBC Wealth Management's key client groups including retail mutual funds, International Wealth Management, RBC Dominion Securities Inc. and RBC Phillips, Hager & North Investment Counsel Inc. He also serves on the Board of Directors of the Canadian Coalition for Good Governance and is Chair of its Public Policy Committee. Prior to joining RBC Asset Management in November 2002, Mr. Chornous was Managing Director, Capital Markets Research and Chief Investment Strategist at RBC Capital Markets. In that role, he was responsible for developing the firm's outlook for global and domestic economies and capital markets as well as managing the firm's global economics, technical and quantitative research teams.

Stephen Burke, PhD, CFA

Vice President and Portfolio Manager
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Stephen is a fixed-income portfolio manager and Head of the Quantitative Research Group, the internal team that develops quantitative research solutions for investment decision-making throughout the firm. He is also a member of the PH&N IM Asset Mix Committee. Stephen joined Phillips, Hager & North Investment Management in 2002. The first six years of his career were spent at an investment-counselling firm where he quickly rose to become a partner and fixed-income portfolio manager. He then took two years away from the industry to begin his Ph.D. in Finance and completed it over another three years while serving as a fixed-income portfolio manager for a mutual-fund company. Stephen became a CFA charterholder in 1994.

Dagmara Fijalkowski, MBA, CFA

Head, Global Fixed Income & Currencies
RBC Global Asset Management

As Head of Global Fixed Income and Currencies at RBC Global Asset Management, Dagmara leads investment teams in Toronto, London and Minneapolis in charge of almost $100 billion in fixed income assets. In her duties as a portfolio manager, Dagmara heads management of several bond funds, manages foreign-exchange hedging and active currency overlay programs across a number of funds. Dagmara chairs the Fixed Income Strategy Committee. She is also a member of the Investment Policy Committee, which determines asset mix for balanced and multi-strategy products, and the RBC Investment Strategy Committee. In 2016, she was appointed to the RBC GAM Executive Committee. Dagmara, who began her investment career in 1994, holds an MBA from the Richard Ivey School of Business in Canada and a Master's degree in economics from the University of Lodz in Poland. Dagmara has been a CFA charterholder since 1997.

Stuart Kedwell, CFA

Senior Vice President and
Senior Portfolio Manager
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Stu co-leads the North American Equity team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities in the firm's Generalist program, a two-year internship in which participants rotate through different areas of the firm. In 1998, he joined the RBC Investments Portfolio Advisory Group, which provides investment ideas and recommendations to RBC DS Investment Advisors. He was also a member of the RBC DS strategy & focus list committees. Stu has been with the firm since 2002 and is a CFA charterholder.

Eric Lascelles

Chief Economist
RBC Global Asset Management

Eric is the Chief Economist for RBC Global Asset Management Inc. (RBC GAM) and is responsible for maintaining the firm's global economic forecast and generating macroeconomic research. He is also a member of the RBC GAM Investment Strategy Committee, the group responsible for the firm's global asset-mix recommendations. Eric is a frequent media commentator and makes regular presentations both within and outside RBC GAM. Prior to joining RBC GAM in early 2011, Eric spent six years at a large Canadian securities firm, the last four as the Chief Economics and Rates Strategist. His previous experience includes positions as economist at a large Canadian bank and research economist for a federal government agency.

Hanif Mamdani

Head of Alternative Investments
RBC Global Asset Management

Hanif Mamdani is Head of both Corporate Bond Investments and Alternative Investments. He is responsible for the portfolio strategy and trading execution of all investment-grade and high-yield corporate bonds. Hanif is Lead Manager of the PH&N High Yield Bond and Alternative strategies, including a multi-strategy hedge fund. He is also a member of the Asset Mix Committee. Prior to joining the firm in 1998, he spent 10 years in New York with two global investment banks working in a variety of roles in Corporate Finance, Capital Markets and Proprietary Trading. Hanif holds a master's degree from Harvard University and a bachelor's degree from the California Institute of Technology.

Martin Paleczny, CFA

Vice President and
Senior Portfolio Manager
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Martin Paleczny, who has been in the investment industry since 1994, began his career at Royal Bank Investment Management, where he developed an expertise in derivatives management and created a policy and process for the products. He also specializes in technical analysis and uses this background to implement derivatives and hedging strategies for equity, fixed-income, currency and commodity-related funds. Since becoming a portfolio manager, Martin has focused on global allocation strategies for the full range of assets, with an emphasis on using futures, forwards and options. He serves as advisor for technical analysis to the RBC GAM Investment Strategy Committee.

Sarah Riopelle, CFA

Vice President and
Senior Portfolio Manager
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Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions. Sarah is a member of the RBC GAM Investment Strategy Committee, which sets global strategy for the firm, and the RBC GAM Investment Policy Committee, which is responsible for the investment strategy and tactical asset allocation for RBC Funds' balanced products and portfolio solutions. In addition to her fund management role, she works closely with the firm's Chief Investment Officer on a variety of projects, as well as co-manages the Global Equity Analyst team.

William E. (Bill) Tilford

Head, Quantitative Investments
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Bill is Head, Quantitative Investments, at RBC Global Asset Management and is responsible for expanding the firm's quantitative-investment capabilities. Prior to joining RBC GAM in 2011, Bill was Vice President and Head of Global Corporate Securities at a federal Crown corporation and a member of its investment committee. His responsibilities included security-selection programs in global equities and corporate debt that integrated fundamental and quantitative disciplines, as well as management of one of the world's largest market neutral/overlay portfolios. Previously, Bill spent 12 years with a large Canadian asset manager, where he was the partner who helped build a quantitative-investment team that ran core, style-tilted and alternative Canadian / U.S. funds. Bill has been in the investment industry since 1986.

Milos Vukovic, CFA

Vice President, Investment Policy
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Milos, who joined RBC in 2003, oversees investment-management activities including new-fund launches, performance analytics and trade-cost analysis. He is also responsible for developing and monitoring investment mandates and implementing tactical asset allocation for the RBC GAM investment solutions. Milos earlier worked for a Big 4 accounting firm and two top-tier securities firms. He earned an MBA at the Schulich School of Business and has held the CFA designation since 2004. He is a board member of both the Canadian Buy-Side Investment Management Association and the Canadian Advocacy Council for Canadian CFA Institute Societies, and recently joined IIROC's Market Structure Advisory Committee.

Brad Willock, CFA

Vice President and
Senior Portfolio Manager
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Brad Willock joined RBC Global Asset Management in July 2002 and is a Senior Portfolio Manager and CFA charterholder. In his current role, Brad has responsibility for RBC Global Asset Management's core and income-oriented U.S. equity strategies. He joined RBC in May 1996 after receiving a bachelor's of commerce degree with distinction from the University of Calgary. Prior to that, Brad obtained a bachelor's of science degree at the University of British Columbia and represented Canada at the 1992 Barcelona Summer Olympics in volleyball.

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