Monthly Scorecard

August 3, 2017

Portfolio Advisory Group – U.S. Equities

Performance (Total return % change)

Index	7/31/17	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	21,891.12	2.68	5.21	12.28	21.81	30.35
S&P 500	2,470.30	2.06	4.14	11.59	16.03	22.54
NASDAQ	6,348.12	3.42	5.30	18.69	24.52	27.04
Russell 2000	1,425.14	0.74	2.10	5.76	18.43	18.42
Russell 3000	1,462.32	1.89	3.86	10.98	16.12	21.28
S&P 500 Equal Wgt.	3,810.88	1.60	3.44	9.78	14.32	21.20
MSCI AC World	477.58	2.83	5.70	14.98	17.72	17.91
MSCI Europe	127.54	3.12	7.06	19.53	20.86	9.23
MSCI EAFE	1,936.91	2.90	6.61	17.53	18.42	10.15
MSCI Asia-Pacific	160.35	3.98	8.60	20.62	20.90	19.65
MSCI Emerg. Mkts.	1,066.23	6.04	10.35	25.74	25.28	24.79
60/40 Allocation[1]	N/A	1.41	2.92	8.04	9.41	15.68
S&P 500 Sector	**7/31/17**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	726.65	1.87	1.79	13.08	13.90	17.92
Consumer Staples	569.04	0.57	1.11	8.65	4.39	16.57
Energy	489.57	2.50	-1.16	-10.43	0.19	2.23
Financials	416.17	1.72	6.95	8.73	32.94	27.87
Health Care	923.11	0.77	6.29	16.97	8.00	8.02
Industrials	582.99	0.06	2.98	9.57	18.30	30.64
Information Tech.	980.40	4.33	5.97	22.31	29.48	42.13
Materials	342.02	1.54	3.32	10.90	14.58	24.21
Real Estate	201.24	1.20	3.88	7.68	N/A	N/A
Telecom.	161.84	6.36	2.25	-5.06	-7.03	17.53
Utilities	270.04	2.44	3.90	11.41	5.70	30.12
FI, FX, & Commod.	**7/31/17**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[2]	2.30%	0.17	0.66	2.04	-2.55	3.08
Invest-Grade Credit[3]	3.12%	0.73	2.20	4.56	1.55	10.46
High-Yield Credit[3]	5.41%	1.11	2.12	6.09	10.95	16.47
WTI Crude Oil[4]	$50.17	8.97	1.70	-6.61	20.60	6.47
Dollar Index[4]	$92.86	-2.89	-6.25	-9.14	-2.79	-4.60
Gold[4]	$1,269.44	2.25	0.09	10.17	-6.04	15.84

[1]60% S&P 500 and 40% Bloomberg Barclays U.S. Aggregate; [2]Yield reflects 10-year U.S. Treasury, total returns reflect Bloomberg Barclays U.S. Treasury Index; [3]Yield and total returns reflect that of the respective Bloomberg Barclays Index; [4]Spot prices and price returns.
Source - Bloomberg, RBC Wealth Management

Priced (in USD) as of July 31, 2017, market close (unless otherwise stated).
Click here for author information and important disclosures.

Shhhh .... earnings growth

There's been no summer slowdown so far. As equity markets navigate the oft-challenging summer months, July saw many global indexes move higher. The MSCI All Country World Index, a barometer of the global equity market, notched a 2.8% gain on a total-return basis. The S&P 500 returned 2.1% as Telecommunications shares were the best performers with 6.4% gains for the month. In terms of moving the market, 3 of 11 sectors were responsible for nearly three-quarters of the S&P 500 return. Tech shares were responsible for nearly half, 48% to be exact, of the index gains while Financials and Consumer Discretionary were tied for a distant second with much-smaller 12% contributions. Drilling down one level deeper, three Tech stocks were responsible for nearly one-fourth of the index returns. Monthly gains of 12.1% for Facebook, Inc. (FB), 5.5% for Microsoft Corporation (MSFT), and 3.3% for Apple Inc. (AAPL) propelled the Technology sector and broader market higher.

European stock markets experienced a rather muted month, despite building earnings momentum. Asian bourses were generally higher as Chinese equities moved on regulatory changes and incrementally more open equity markets. Hong Kong's Hang Seng was up 5.9% while China's Shanghai Composite traded 2.5% higher for July. An earnings season update, perspective on Financials, and commentary on the changes in oil prices round out this month's Scorecard docket.

Insight into earnings season

Continued noise out of Washington, D.C., escalating geopolitical tensions, and sluggish U.S. economic activity continue to dominate headlines while an underappreciated earnings season materializes. To recap where we're at today, Thomson Reuters I/B/E/S anticipates second-quarter earnings growth of 10.9% for

RBC Wealth Management

the S&P 500 with approximately 70% of the S&P 500 market cap having reported. Energy, Technology, and Financials shares look to be delivering the lion's share of growth, as seen in the 534.1% (weak comps from the second quarter of 2016), 14.2%, and 12.4% growth rate estimates, respectively. Revenue growth estimates appear to be landing in the 5% ballpark for the quarter.

Full-year earnings growth estimates feel different from today's perspective than they did seven months ago, at the start of the year. To say that low double-digit earnings growth for 2017 felt like a bit of a stretch at the beginning of the year would be fair. However, with nearly half of the annual earnings data in the rear view mirror, we would say double-digit earnings growth is now believable. If the 11.5% annual earnings estimate from Thomson Reuters I/B/E/S is achieved, it would mark the best result since the recovery-fueled reading of 14.7% in 2011. No year since then has cracked double digits.

Furthermore, equities are being punished at worse-than-average rates when missing on their top- and bottom-line numbers. Tech and Discretionary shares get penalized the most when this occurs. The punishment theme holds true for firms beating on the top and bottom line also, as they're receiving less of a share price bump than historical averages would indicate. Technology falls victim to this trend also, as do Health Care shares. Company-specific examples include Amgen Inc. (AMGN) trading down 4.8% in the immediate aftermath of beating Street estimates for the second quarter and Google parent Alphabet Inc. (GOOGL) losing 4.6% in the days following its top- and bottom-line beats. These heightened negative reactions may be related to profit taking, heightened expectations entering the quarter, and elevated valuations.

Despite the disconnection between strong earnings and outside noise, our view is that U.S. equities are poised to move higher, albeit in fits and starts, while earnings growth outpaces price appreciation. This would result in slight multiple contraction within an accelerating earnings environment. Assuming this theme plays out, we would see indexes continue to set new all-time highs while valuations tick incrementally lower.

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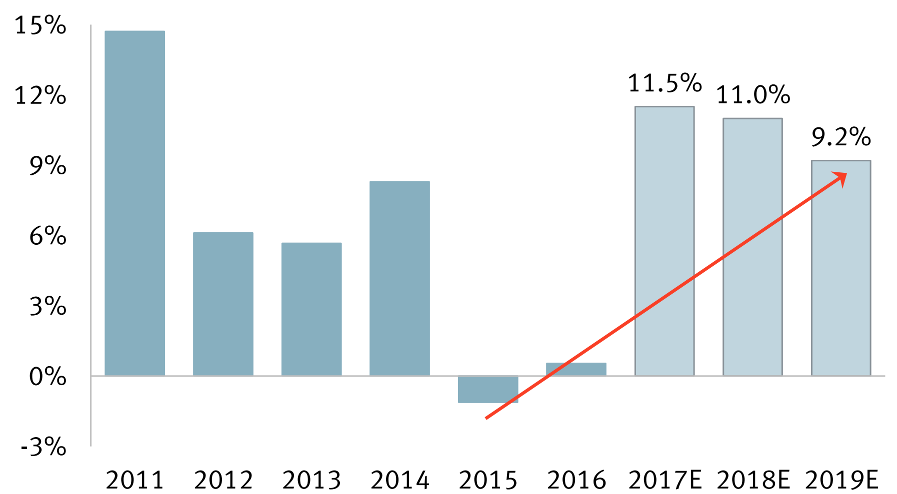
S&P 500 annual earnings growth rates



Source - RBC Wealth Management, Thomson Reuters I/B/E/S; data through 7/31/17

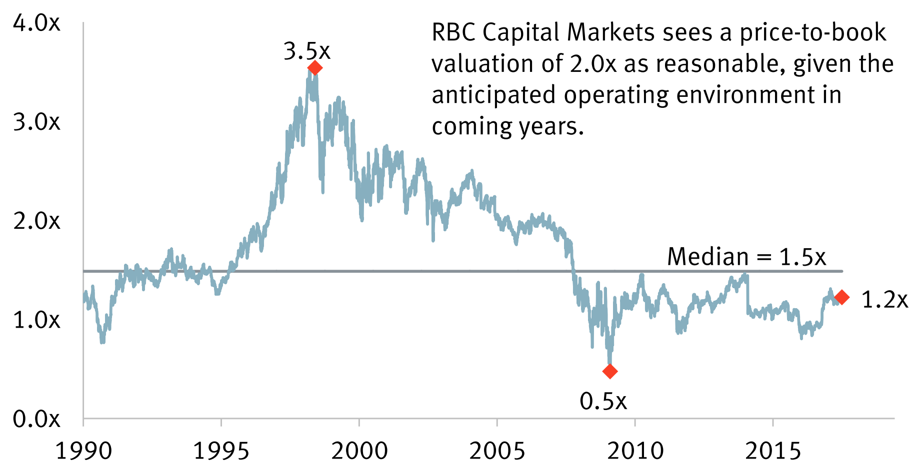
Banks are currently less expensive than their long-term averages and still trade below their post-recession highs.

Financials post strong results

Fundamentals at U.S. banks demonstrated meaningful improvements in the second quarter as the sector saw 13 of 20 banks in the RBC Capital Markets large cap coverage universe beat both RBC Capital Markets and Street estimates. Median core EPS results were up 14% y/y and 12% q/q. Profitability and asset quality both improved. Higher interest rates and a steeper yield curve are key catalysts to continued improvements in both measures, as the result would be an increasing spread between the interest rate earned on loans and the interest rate paid on deposits, known as the net interest margin. RBC Capital Markets sees the short end moving higher on continued and clearly communicated Fed Funds rate hikes. There is also potential for an indirect impact on the long end of the curve by the Fed: as the Fed unwinds its $4.5T balance sheet, upward pressure will be applied to long-term rates over a period of approximately 24 months. Returning excess capital to shareholders is another tailwind for the industry, as several banks received the green light from stress test administrators to return greater than 100% of earnings to investors.

Adding valuations to the mix, the sector appears even more attractive despite the 29.7% run-up in the S&P 500 Banks Index since the U.S. election. A discount to longer-term averages can be seen in the current price-to-book ratio of 1.2x relative to the long-term median of 1.5x. Furthermore, RBC Capital Markets sees potential for a return to a price-to-book-ratio of 2.0x as the environment these companies operate in changes, demonstrating that this sector appears to have headroom for further moves higher.

S&P 500 Bank Index price-to-book valuation



Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 7/31/17

Oil rallies

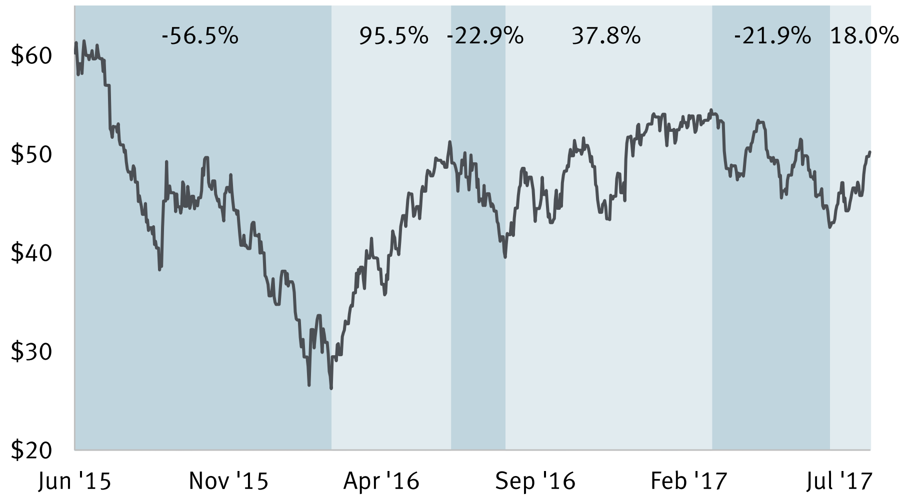
Oil prices rallied 9.0% in July, marking the largest one-month move since April 2016. July's performance comes on the heels of a short-term oil bear market. From the end of February to the middle of June, oil prices dropped 21.9%.

Drivers to the commodity price's monthly rebound came from varied and global data points. Outside of the U.S., Saudi Arabia announced potential production cuts on top of those already in place. The announcement came on the heels of OPEC extending the current cuts already in place into 2018. Venezuelan political turmoil is also impacting production and perception of oil prices as production risk for the country is growing. Pivoting to the U.S., inventory levels have reached their lowest

Despite the volatility of oil prices, the commodity appears range-bound over the near term.

readings since January 2017, and U.S. shale production is experiencing outlook revisions to the downside. The bottom line on oil is that we're in the midst of a bounce after several months of selling off, but we don't expect a return to 2014 price levels any time soon.

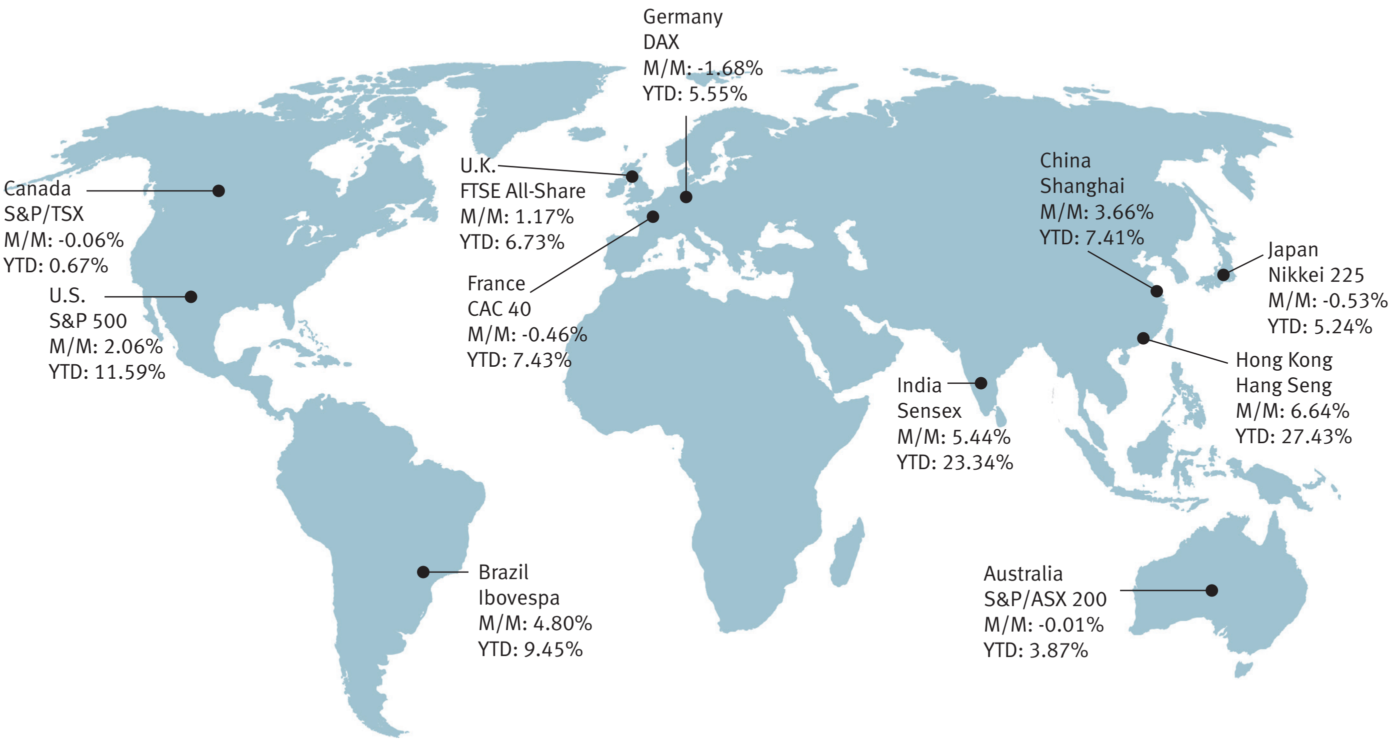
Oil prices and swings since June 2015



Note: Darker shading represents periods of price declines, lighter shading represents periods of price appreciation
Source - RBC Wealth Management, Bloomberg; data through 7/31/17;

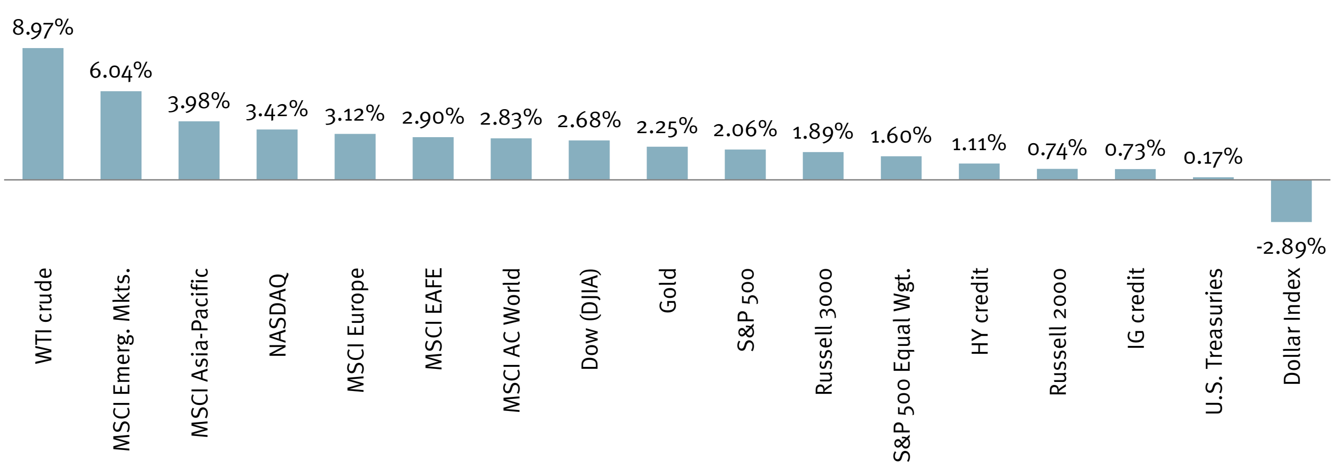
World markets

July month-over-month and year-to-date total return



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – July 2017



Source - Bloomberg

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As of June 30, 2017

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Hold [Sector Perform]	657	41.37	144	21.92
Sell [Underperform]	105	6.61	7	6.67

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