Monthly Scorecard

May 3, 2017

Portfolio Advisory Group – U.S. Equities

Performance (Total return % change)

Index	4/28/17	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	20,940.51	1.45	6.06	6.71	20.90	23.62
S&P 500	2,384.20	1.03	5.16	7.16	17.91	19.32
NASDAQ	6,047.61	2.35	8.02	12.72	28.26	25.56
Russell 2000	1,400.43	1.10	3.18	3.58	25.60	18.13
Russell 3000	1,414.84	1.06	4.89	6.86	18.57	18.35
S&P 500 Equal Wgt	3,701.45	0.68	3.94	6.13	16.80	16.56
MSCI AC World	455.17	1.60	5.85	8.77	15.79	9.89
MSCI Europe	130.59	3.74	9.59	11.65	11.81	0.90
MSCI EAFE	1,833.70	2.62	7.09	10.21	11.92	2.06
MSCI Asia-Pacific	148.87	1.37	5.78	11.01	16.72	2.83
MSCI Emerg. Mkts.	977.96	2.21	8.03	13.94	19.58	-1.43
60/40 Allocation[1]	N/A	0.93	3.65	4.93	11.08	13.02
S&P 500 Sector	**4/28/17**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	716.73	2.44	6.58	11.09	15.78	23.81
Consumer Staples	566.54	1.03	5.71	7.45	8.64	20.44
Energy	498.95	-2.89	-6.00	-9.38	2.08	-12.13
Financials	390.76	-0.84	1.43	1.66	27.11	25.19
Health Care	872.26	1.54	7.63	10.04	10.09	8.90
Industrials	569.18	1.76	4.92	6.40	19.38	24.30
Information Tech.	928.33	2.52	10.54	15.41	35.36	35.23
Materials	333.17	1.39	2.58	7.33	15.18	10.23
Real Estate	195.37	0.10	3.71	3.65	N/A	N/A
Telecom.	160.33	-3.31	-4.79	-7.15	0.45	10.29
Utilities	262.16	0.78	5.90	7.23	10.57	25.69
FI, FX, & Commod.	**4/28/17**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[2]	2.28%	0.69	1.15	1.37	-0.65	2.16
Invest-Grade Credit[3]	3.24%	1.07	1.99	2.30	3.00	6.12
High-Yield Credit[3]	5.63%	1.15	2.40	3.89	13.30	12.03
WTI Crude Oil[4]	$49.33	-2.51	-6.59	-8.17	7.43	-17.27
Dollar Index[4]	$99.05	-1.30	-0.46	-3.09	6.41	4.70
Gold[4]	$1,268.29	1.52	4.76	10.07	-1.91	7.09

[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 April 28, 2017, market close (unless otherwise stated).
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Multiple faces of multiples

As the calendar closed on the month of April, equity markets looked to enter May with a semblance of fundamental momentum not seen 30 days ago. The U.S. earnings story has taken center stage, as we're past the midpoint of what was anticipated to be the strongest quarter of earnings since Q4 2011. Furthermore, the European equity story looks cleaner every day, given the reduced geopolitical risk, continued strength in economic data, and constructive earnings season. U.S. stocks, as measured by the S&P 500, returned 1.0% on a total-return basis for April, bringing the year-to-date total return to 7.2%. Additionally, we highlight the Technology sector in the "Technical corner."

U.S. earnings and multiples

Equity prices move for one of two reasons: valuation multiples change with investor perceptions or underlying earnings trends move the narrative in one direction or another. As we witnessed after the U.S. election in November, equity price moves had been fueled by multiple expansion as the S&P 500 burgeoned on new growth expectations. The trailing 12-month P/E grew from 19.6x pre-election to 21.6x, a trend that is also seen in the forward 12-month P/E at 16.4x pre-election vs. 17.8x currently. Gains from multiple expansion certainly benefitted investors with the same profits as do price moves from higher earnings. However, our view is that there's a ceiling on multiple growth while growing earnings has no upper bound.

Fortunately, the other side of the stock price equation is beginning to accept the torch in terms of advancing the narrative. S&P 500 earnings are on track for 14% growth in Q1 with 65% of the S&P 500 market cap having reported. This assumes an average beat rate for the companies yet to report. Drilling down one level deeper, economically sensitive stocks are on track for 19.8% growth in the

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first quarter, meaningfully outdoing the non-cyclical pace of 3.2%. Furthermore, eliminating skewed growth rates in the Energy sector related to weak comps still shows double-digit earnings growth for the quarter.

Assuming earnings growth continues, there are three ways valuations can change. First, and least likely in our opinion, is that multiples unwind while earnings grow. In this situation, equity levels remain relatively flat as valuations decline on improved bottom lines. We deem this path as least likely because research from RBC Capital Markets shows that the only time multiples retreat is during a recession, of which we don't see one occurring in the next 12 months. The second scenario would be continued multiple expansion that's accelerated by the continued earnings growth. We deem this scenario as less likely, given the current market valuation. Finally, we arrive at what we view as the most likely path, in which valuations remain roughly constant at current levels and equity prices are moved primarily by earnings. Assuming valuations remain relatively stable, we would continue to be constructive on equities in light of the current earnings environment and expectations for the coming months.

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Improving fundamentals and slower summer months—what gives?

We're in the midst of interesting times as one considers a confluence of several factors swirling around equity markets. Equities have appreciated 33.7%, as measured by the S&P 500 on a total-return basis in the past 15 months, and current earnings growth would appear to be a tailwind for continued advancement. However, those same gains could prove to be a headwind for further moves higher over the next few months, especially in the context of summer malaise.

Last year at this time, we addressed the "Sell in May and Go Away" thesis and proved that equity returns are certainly lower in summer months, but remain in positive territory. We highlighted the demonstrably smaller 2.1% median return from May through October while the November through April median return of 6.2% was appreciably higher. Bearing this context in mind and considering the underlying market fundamentals in tandem with an improving global economic outlook, we would not make any major portfolio adjustments. In our opinion, weak returns over the summer months would not represent an end to the current bull market. Instead, we believe investors should adjust expectations for lower returns in coming months that do not mirror returns of the past 15 months. Defining a recession as the most likely end to the current bull market, we don't see one occurring in the next 12 months and retain our conviction on the current bullish thesis for international equities.

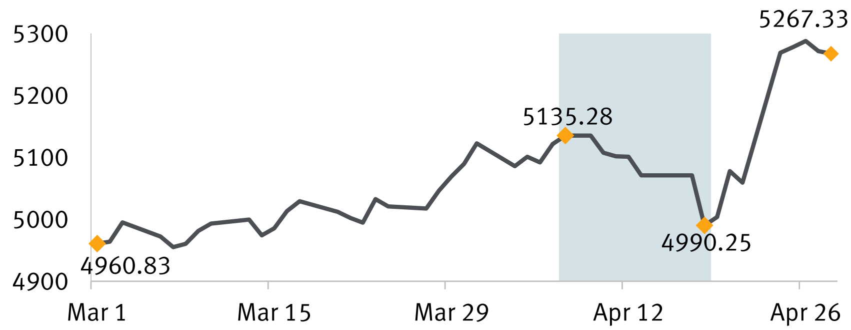
Chart of the month: Revisiting a bullish Europe

As we addressed last month, European stocks appeared poised to gain on their U.S. counterparts, despite political headwinds. The challenges we foresaw were

French political concerns of a runoff vote featuring only extreme options (highlighted on the chart) have abated and equities have run higher since.

Chart of the month: French equities retreat then rally on the political winds

CAC 40 Index



Source - RBC Wealth Management, Bloomberg; data through 4/28/17

When reduced political headwinds are coupled with constructive fundamental growth expectations, the appeal of European equities is hard to deny.

primarily related to the French election. Hindsight being 20/20, we now have the knowledge that Emmanuel Macron and Marine Le Pen won the first round of the French presidential election as they head into the final runoff vote on Sunday, May 7. Given that investors were fearful of a runoff vote between Le Pen of the far-right and Jean-Luc Mélenchon of the far-left, the fact that we arrived at this outcome has comforted investors in European stocks, as evidenced by the surge of the CAC 40 from the first round of the election on April 23 into the end of April. This is underscored by the index gaining 5.6% as the possibility of a Mélenchon/Le Pen faceoff fell in the days prior to the first round vote. The late surge led to a 2.8% gain in April. When reduced political headwinds are coupled with constructive fundamental growth expectations, the appeal of European equities is hard to deny, and we maintain our constructive stance on the Continent.

Technical corner: This Tech setup is different—really

Given the recent highs of the Technology-heavy NASDAQ Composite and current P/E levels on the Tech sector, we thought it was prudent to address some of the consternation market prognosticators have been bellyaching about in recent weeks. With a 48.7% weighting to the Tech sector, we believe it's safe to say that the recent NASDAQ highs have been fueled, at least in part, by the Technology constituents within the index. Drilling into the Tech sector specifically, we see that the forward P/E on the space has increased from the 2011 low of 11.2x, to 16.7x at year-end 2016, and finally to its current level of 18.1x.

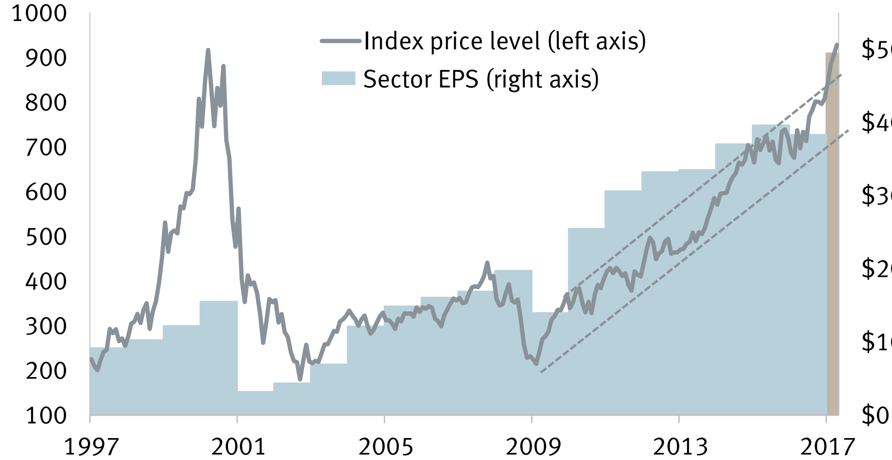
With this in mind, it is imperative to understand the sector in greater historical context. The ratio maxed out at 52.6x right before the tech bubble burst, and has posted a 20-year median of 16.7x. Furthermore, 2001 EPS on the Information Technology Index was $3.22 as compared to current trailing 12-month EPS of $40.22. The sector ended 2001 with a trailing P/E of 109.5x, compared to its current reading of 23.1x.

Finally, take this in context with the current market setup: relative to the S&P 500, the Tech sector valuation is not elevated and is, in fact, exactly average. The bottom line is that we feel confident the current P/E is warranted in light of the sector's track record in recent years, growth prospects in coming quarters, and its specific positioning against the broader market. The Tech sector has helped fuel the NASDAQ to new all-time highs, and we are upbeat it will continue to do so.

The Information Technology sector is at price levels similar to the tech bubble of the early 2000s, but EPS is a drastically different story.

This time, Tech earnings are fueling the sector

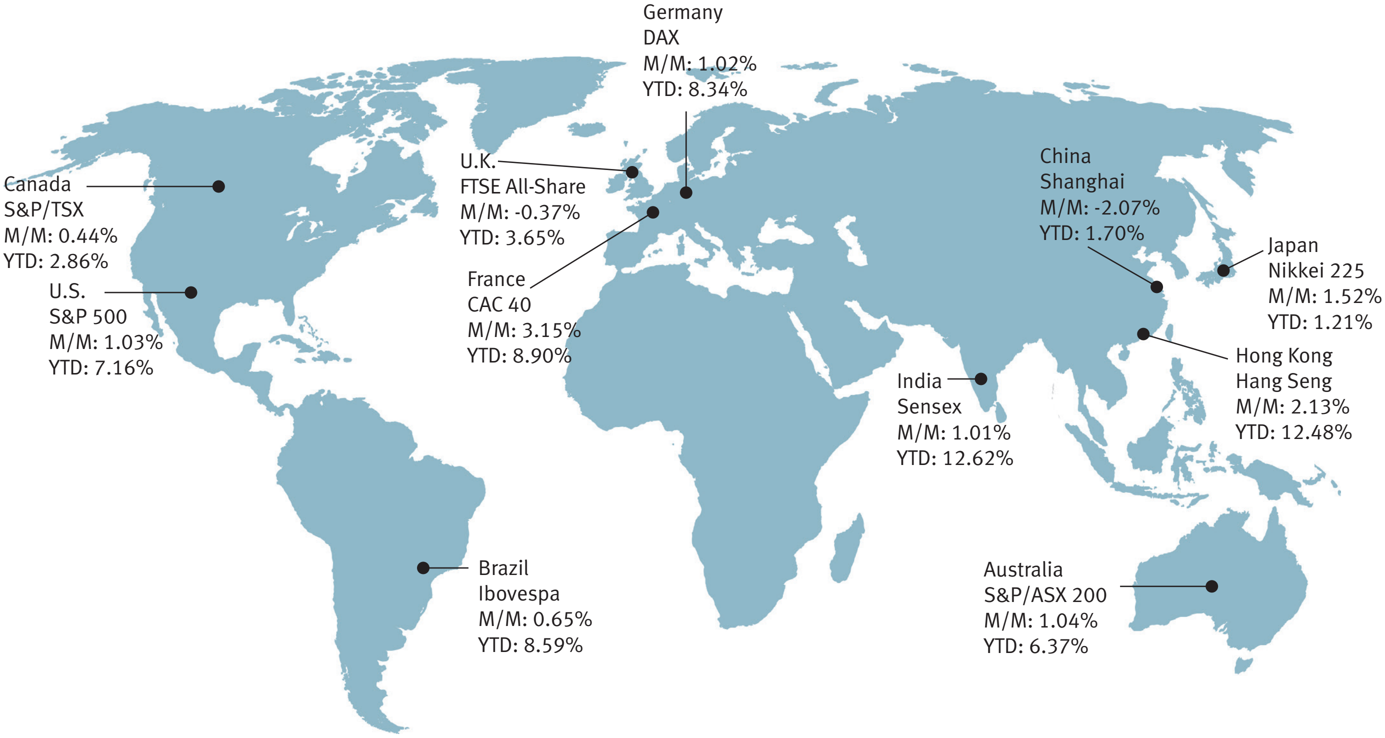
S&P Technology Index levels and earnings



Source - RBC Wealth Management, Bloomberg; data through 4/28/17

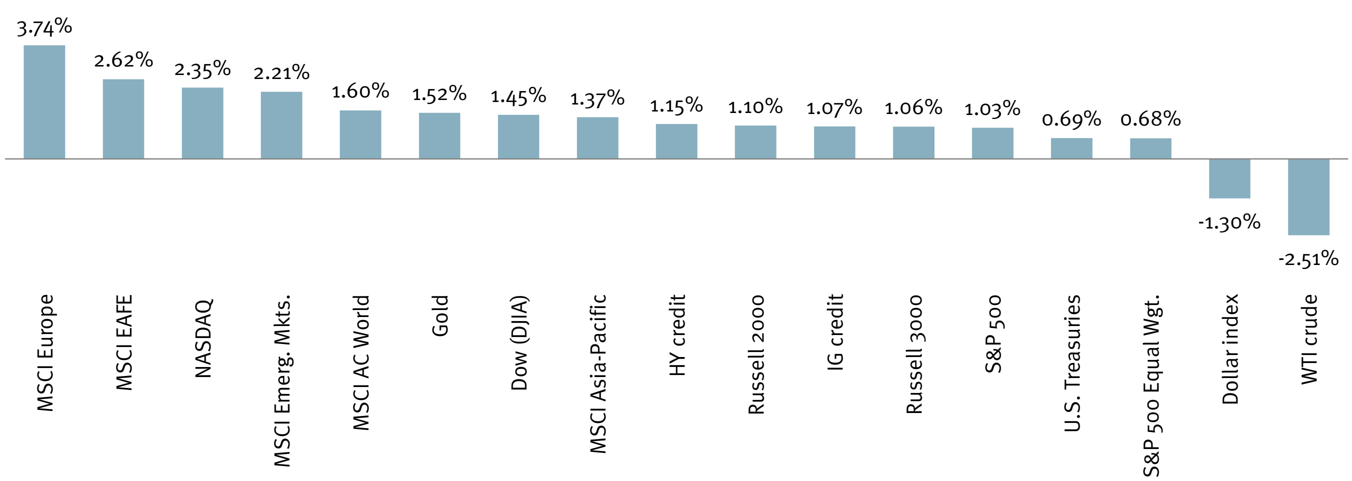
World markets

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



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – April 2017



Source - Bloomberg

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