Monthly Scorecard

June 6, 2017 | Portfolio Advisory Group – U.S. Equities

Performance (Total return % change)

Index	5/31/17	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	21,008.65	0.71	1.56	7.47	21.16	22.84
S&P 500	2,411.80	1.41	2.57	8.66	17.46	19.47
NASDAQ	6,198.52	2.70	6.76	15.76	26.86	25.49
Russell 2000	1,370.21	-2.03	-0.83	1.48	20.34	13.14
Russell 3000	1,426.10	1.02	2.16	7.96	17.68	17.93
S&P 500 Equal Wgt.	3,716.25	0.61	1.32	6.77	15.80	16.36
MSCI AC World	463.79	2.28	5.27	11.26	18.20	12.48
MSCI Europe	131.62	4.78	13.40	16.99	17.49	6.39
MSCI EAFE	1,890.06	3.76	9.55	14.39	17.09	6.37
MSCI Asia-Pacific	152.68	2.82	6.13	14.20	21.64	6.90
MSCI Emerg. Mkts.	1,005.33	2.97	7.94	17.32	27.88	5.71
60/40 Allocation[1]	N/A	1.15	2.14	6.15	11.11	13.53
S&P 500 Sector	**5/31/17**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	723.76	1.12	5.72	12.34	16.92	23.57
Consumer Staples	581.55	2.85	3.60	10.52	10.89	22.84
Energy	479.19	-3.40	-7.16	-12.46	-0.82	-10.87
Financials	385.26	-1.21	-4.76	0.43	23.07	21.44
Health Care	877.55	0.82	1.95	10.94	8.60	5.03
Industrials	575.95	1.51	2.58	8.01	21.76	25.76
Information Tech.	966.84	4.40	9.77	20.49	33.82	37.99
Materials	332.25	-0.10	1.78	7.23	15.40	9.60
Real Estate	196.25	0.72	-0.21	4.39	N/A	N/A
Telecom.	158.76	-0.98	-5.35	-8.06	-0.56	11.17
Utilities	271.69	4.24	4.86	11.77	13.54	30.14
FI, FX, & Commod.	**5/31/17**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[2]	2.20%	0.65	1.31	2.04	0.00	3.01
Invest-Grade Credit[3]	3.15%	1.15	1.99	3.48	4.26	8.04
High-Yield Credit[3]	5.48%	0.87	1.81	4.79	13.58	12.66
WTI Crude Oil[4]	$48.32	-2.05	-10.54	-10.05	-1.59	-19.87
Dollar Index[4]	$96.92	-2.15	-4.15	-5.17	1.08	0.02
Gold[4]	$1,268.94	0.05	1.65	10.13	4.41	6.58

[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 May 31, 2017, market close (unless otherwise stated).
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Rare air

Another day, another dollar. Another month, another all-time high, as it were. The global stock market as measured by the MSCI All Country World Index (2.28% m/m) logged several new all-time highs in May, while U.S. investors are also breathing rare air, as the S&P 500 Index (1.41% m/m) pressed north of 2,400 for the first time. Europe continues to lead the pack while U.S. market leadership has pivoted, thereby drawing questions as to whether the reflation trade is dead or simply dormant—we explore that topic in the "Chart of the month." In the "Technical corner," we ponder whether a strategy of selling lower and buying higher has merit.

Leader of the pack – Europe outperforms, again

European stocks continue to ride post-French-election optimism, having returned 4.78% in May and besting U.S. stocks by 3.37%, though roughly 60% of European stock outperformance derived from the euro's 3.2% appreciation versus the dollar. Nevertheless, currency fluctuations are indicative of global money flows; a stronger euro suggests investors are reallocating funds to Europe now that election headwinds have passed. Europe's fundamental picture also remains upbeat, as the May reading of the Eurozone Composite Purchasing Managers' Index (PMI), a leading economic indicator, registered a robust 56.8 and Q1 European corporate earnings per share likely grew by an impressive 23%, according to research compiled by RBC Capital Markets.

Whether European outperformance persists over the short term—from a U.S. investor's perspective—is subject to two factors: Europe's economy and the euro. We remain confident that Europe's economic backdrop will support its equity markets; however, short-term currency fluctuations are largely influenced by regional interest rate differentials and central bank rhetoric. In June, investors will hear from both the European

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Central Bank (ECB) and the Federal Reserve. Should ECB President Mario Draghi acknowledge an improving European backdrop and project a willingness to wind down monetary policy accommodation while Fed Chair Janet Yellen backs away from additional 2017 rate hikes after a widely anticipated June hike, the euro should strengthen further and remain a tailwind for European equity investments. Conversely, should Draghi appear reluctant to remove accommodation while Yellen attempts to prepare markets for a third 2017 rate hike, a rebound in the dollar and U.S. rates is possible and would present a headwind to European equity investments.

U.S. stocks at all-time highs, but leadership has changed

Post-election leaders, such as Financials, Industrials, and small caps, have become laggards.

U.S. stocks continue to log new all-time highs, as the S&P 500 ended May north of 2,400. What's driving the market, however, has changed. Post-election leaders, such as Financials, Industrials, and small caps, have become laggards as inflation expectations, interest rates, and the dollar have rolled over, thereby highlighting concerns over delays in pro-growth policies from the White House and that hard economic data has yet to catch up with leading indicators. Indeed, the old guard of secular growers, e.g., Technology stocks (20.49% YTD) that don't require an economic tailwind to sustain growth, and defensive stocks, e.g., Utilities (11.77% YTD) and Consumer Staples (10.52% YTD), have reassumed the mantle of leadership. A reflation trade rebound largely depends on several factors outlined in the "Chart of the month."

Oil just won't play ball

West Texas Intermediate crude oil ended the month at $48.32 per barrel, down 2.05% m/m and 10.05% YTD. The S&P 500 Energy sector returned -3.40% m/m and is the worst-performing sector on the year, having returned -12.46% YTD. Yet OPEC recently reached an agreement to extend production cuts another nine months in an ongoing effort to drive oil prices higher. What gives?

Oil's failure to respond highlights concerns that the cartel is no longer the market influencer of old, as its efforts have not meaningfully reduced the oversupply of global crude inventories, particularly in the U.S. Indeed, U.S. crude inventories are at a 5-year seasonally adjusted high while U.S. crude production has surged by nearly one million barrels per day over the past year, partially on the back of rebounding U.S. shale production. Whether U.S. oversupply abates, thereby allowing oil prices to rise, depends on three factors, according to RBC Capital Markets' Commodity Strategy Team: (1) whether U.S. refineries can pull more crude oil through the supply chain via increased gasoline exports to Central and South America, (2) whether the U.S. reduces crude imports, and (3) whether the U.S. begins to export more crude abroad. Should those factors coalesce, crude oil prices may find a path higher.

Chart of the month: Stocks and bonds – *Something's gotta give*

We suspect that either stocks fall or yields rise.

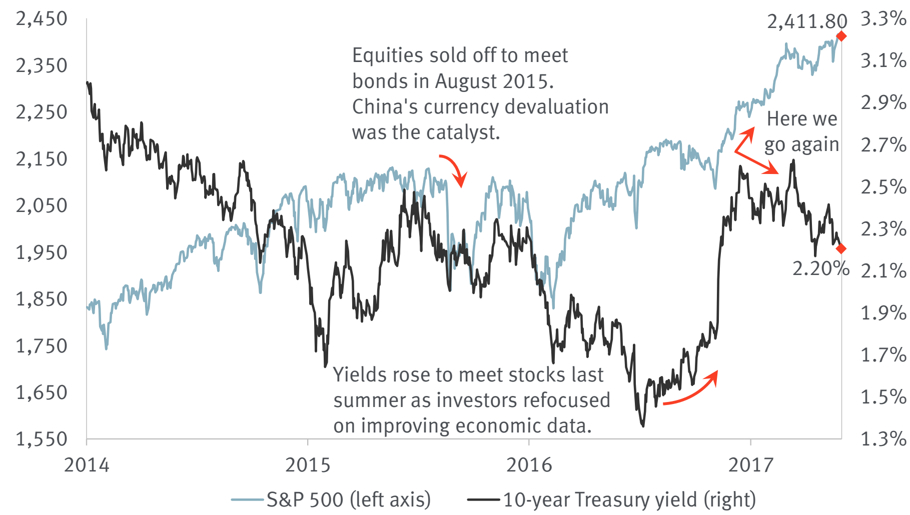
There they go again—stock prices and bonds yields are diverging. The S&P 500 continues to march higher as bulls buy into the thesis that a solid economic backdrop and rising corporate profits will sustainably fuel the rally. Yet the 10-year Treasury yield has fallen 43 basis points from its March high of 2.63%, as bears pile into government bonds on concerns that the past year's economic momentum is waning, pro-growth policy will not materialize, inflation will not reach the Fed's 2% target, and the next recession looms on the not-too-distant horizon. As seen in years past, *something's gotta give*. We suspect that either stocks fall, as was the case during the summer of 2015 when a Chinese currency devaluation unnerved equity investors, or yields rise, as was the case last summer when moving beyond Brexit allowed investors to refocus on improving U.S. economic data. The eventual resolution likely depends on the following factors.

Bulls will look for a reflation trade resurgence; bears will look for trepidation from Janet Yellen.

Bulls will look for a reflation trade resurgence. A reassertion of confidence in the U.S. economy from Yellen during her remarks following the June 14 meeting of the Federal Open Market Committee, as well as a reiteration of plans to move forward with monetary policy normalization would be a start. An eventual drawdown of U.S. crude oil inventories would not only help to bolster oil prices and the Energy sector, in our view, but also raise inflation expectations and steepen the yield curve, thereby supporting bank profitability and rejuvenating the flailing Financials sector. Robust Q2 GDP would also help to dispel lingering hard data concerns.

Bears will look for trepidation from Yellen, which would suggest that the U.S. remains mired in a low-growth status. Sustained inaction from Washington may eventually have a deleterious effect on consumer and business confidence, thereby resolving the hard/soft data debate in a dismal conclusion. Finally, China concerns may again come to the fore, as its manufacturing sector recently flagged signs of contraction while its government seems intent on curtailing excessive lending.

Chart of the month: *Something's gotta give*



Source - RBC Wealth Management, Bloomberg; data through 5/31/17

Technical corner: Sell lower and buy higher? Food for thought

There are several schools of thought in portfolio management. The common mantra is buy low and sell high—it's ingrained in the human psyche and helps to explain why many investors are reluctant to buy stocks at all-time highs despite having long-term investment horizons. Yet selling lower and buying higher is also a proven strategy. Which strategy prevails largely depends on the current market environment.

Selling lower and buying higher performs best in non-volatile, trending markets.

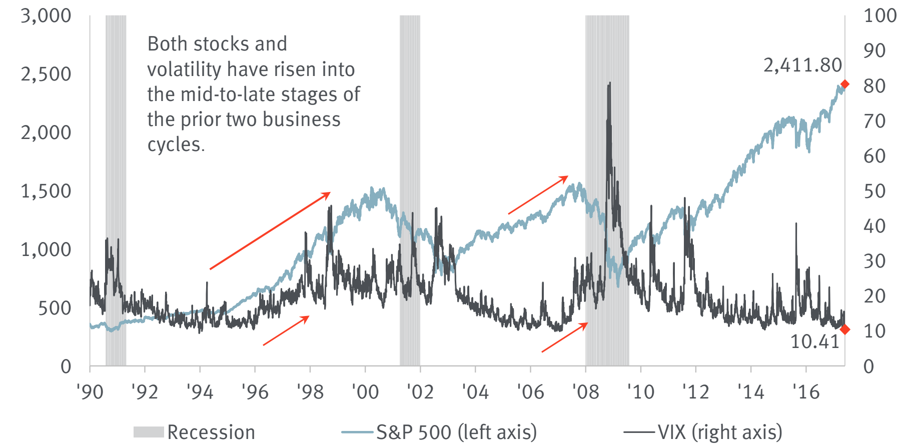
Historically, buy low and sell high outperforms in volatile, trendless—i.e., range-bound—markets. Put differently, a wide, flat trading range with many ups and downs provides ample opportunity for investors to profit from buying stocks at low prices and selling at high prices without fear of neglecting a long-term trend.

Conversely, selling lower and buying higher performs best in non-volatile, trending markets. Put differently, investors profit from continuously investing in a long-term uptrend and mitigate losses by continuously selling into long-term downtrends. Readers of RBC Capital Markets, LLC Technical Analyst Bob Dickey's *Market Maps* will recall there is a case to be made that U.S. stocks are currently in a secular bull market, i.e., a long-term uptrend. Moreover, volatility as measured by the Chicago Board Options Exchange's Volatility Index, better known as the VIX, is currently near an all-time low, thereby suggesting that opportunities to buy low and sell high are fleeting. And while contrarians highlight that a VIX at all-time lows has nowhere to go but up and that stocks tend to sell off in conjunction with spikes in volatility, the chart below provides historical evidence of rising equities during periods of gradually rising volatility.

In conclusion, we believe a long-term-oriented investor with a well-defined investment strategy that prescribes investing a portion of savings on a regular basis would do well to maintain that strategy, especially if that investor agrees with the notion that the market is currently in a secular bull phase.

Equities have pushed higher during periods of gradually rising volatility.

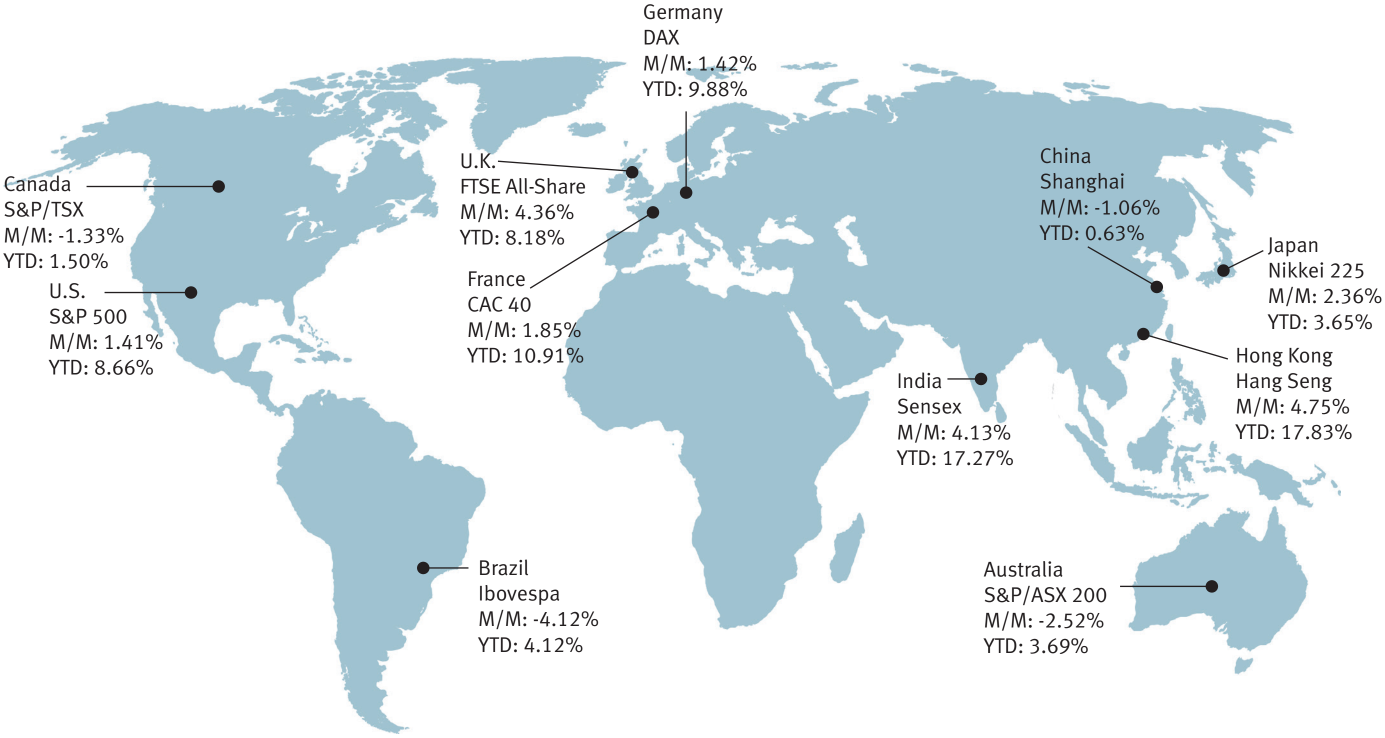
Low volatility does not guarantee the next move in stocks is lower



Source - RBC Wealth Management, Bloomberg; data through 5/31/17

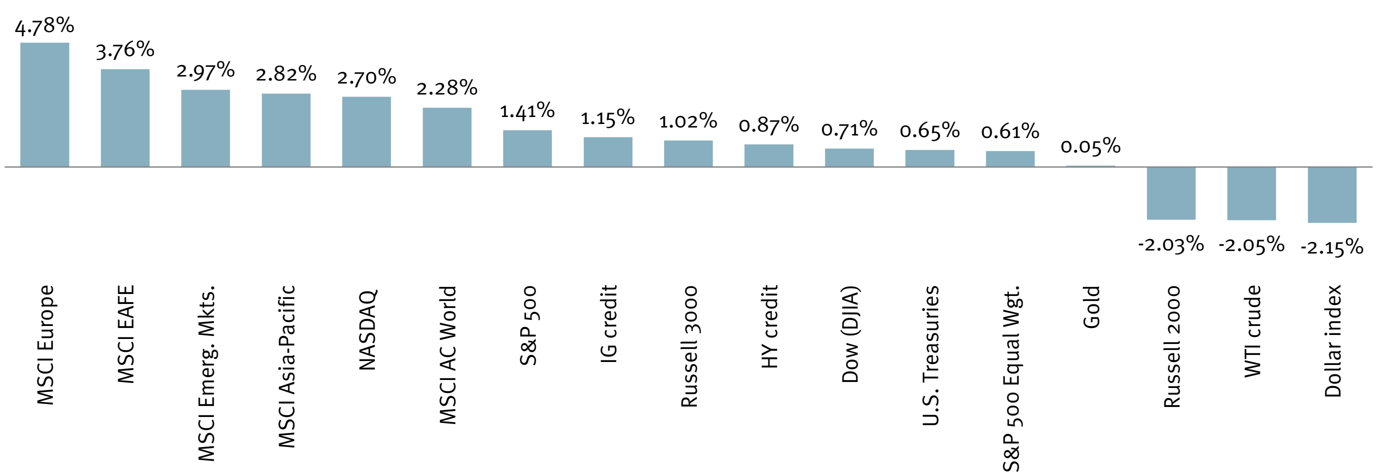
World markets

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



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – May 2017



Source - Bloomberg

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As of March 31, 2017

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