Monthly Scorecard

May 8, 2018 — Portfolio Advisory Group – U.S. Equities

Performance (Total return % change)

Index	4/30/18	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	24,163.15	0.34	-7.09	-1.63	18.09	42.77
S&P 500	2,648.05	0.38	-5.77	-0.38	13.26	33.54
NASDAQ	7,066.27	0.08	-4.40	2.68	18.17	51.57
Russell 2000	1,541.88	0.86	-1.78	0.79	11.53	40.09
Russell 3000	1,569.91	0.38	-5.26	-0.27	13.04	34.03
S&P 500 Equal Wgt.	4,045.06	0.41	-4.86	-0.61	11.34	30.05
MSCI AC World	509.69	1.01	-5.21	0.16	14.77	32.94
MSCI Europe	130.04	2.83	-3.71	1.05	14.31	27.81
MSCI EAFE	2,043.66	2.37	-3.89	0.95	15.10	28.85
MSCI Asia-Pacific	174.17	0.87	-4.70	0.90	20.19	40.37
MSCI Emerg. Mkts.	1,164.43	-0.43	-6.78	0.98	22.12	46.29
60/40 Allocation[1]	NA	-0.07	-3.88	-1.11	7.83	20.33
S&P 500 Sector	**4/30/18**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	825.31	2.36	-3.49	5.51	16.80	35.23
Consumer Staples	517.25	-4.32	-12.52	-11.13	-6.14	1.97
Energy	544.56	9.36	-0.86	2.92	12.43	14.76
Financials	455.35	-0.37	-7.32	-1.32	18.56	50.70
Health Care	951.27	1.22	-6.25	-0.02	10.91	22.10
Industrials	607.17	-2.79	-9.13	-4.31	8.83	29.92
Information Tech.	1,141.98	0.09	-3.72	3.62	24.65	68.72
Materials	356.71	0.15	-9.14	-5.37	9.18	25.75
Real Estate	190.59	-0.62	-3.79	-5.61	0.95	4.47
Telecom.	148.24	-0.98	-8.89	-8.39	-2.58	-2.14
Utilities	261.39	2.10	1.85	-1.27	3.22	14.13
FI, FX, & Commod.	**4/30/18**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[2]	2.95%	-0.81	-0.63	-1.98	-1.07	-1.71
Invest-Grade Credit[3]	3.92%	-0.93	-2.29	-3.22	0.67	3.69
High-Yield Credit[3]	6.26%	0.65	-0.81	-0.21	3.26	16.99
WTI Crude Oil[4]	$68.57	5.59	5.93	13.49	39.00	49.32
Dollar Index[4]	$91.84	2.08	3.04	-0.31	-7.28	-1.33
Gold[4]	$1,315.35	-0.73	-2.22	0.94	3.71	1.73

[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 30, 2018, market close (unless otherwise stated).

Click here for authors' information and important disclosures.

Energetic Energy

The Energy sector was energetic in April, as the exposure singlehandedly dragged U.S. markets into positive territory. Global returns inched into green territory for the month, with the best returns coming from developed, commodity-centric geographies. Oil prices propelled April returns by gaining 5.6% for the month, to say nothing of the 13.5% gain so far in 2018. The MSCI All Country World Index, our trusty barometer of global returns, gained 1.0% on a total-return basis. Europe posted its best month, in local currency terms, since December of 2016 as the relative overweight to commodities propelled the sector. The region was up 2.8% on a U.S. dollar basis, 4.1% in euro terms. The greenback's recent 3.7% rise from the mid-February low is being taken note of by investors the world over. Asian equities, with a sector composition much less focused on energy exposures, gained a muted 0.9%. Developed markets overall, measured by the MSCI EAFE Index, gained 2.4% on a total-return basis while emerging markets actually gave up a little ground, declining 0.4%.

Looking to the U.S., small caps led large caps, with the Russell 2000 outpacing the S&P 500 by a tally of 0.9% to 0.4% on a total-return basis. The megacap Dow Jones gained 0.3% while the Tech- and Health Care-heavy NASDAQ was barely positive with its 0.1% gain. The Energy sector drove performance, climbing 9.4% to post its best return since September. In fact, without Energy, the S&P 500 would have lost 0.2% for the month. Within the sector, the Refining and Exploration & Production (E&P) industries were the top performers, gaining 15.9% and 10.8%, respectively.

The second-best-performing sector in the U.S. was Consumer Discretionary, primarily fueled by the strong earnings print by Amazon.com. The sector gained 2.3% as the stock jumped 8.2% and accounted for 69% of the sector's April gains. Utilities rounded out the top three with a gain of 2.1%. In terms of U.S. laggards, Consumer

Wealth Management

Staples was the worst-performing sector, declining 4.3% largely on the 14.2% correction in Tobacco. Industrials was second-worst, down 2.8%. Capital Goods stocks were broadly weaker, evidenced by Machinery's 5.4% drop and Aerospace & Defense's 3.3% retreat.

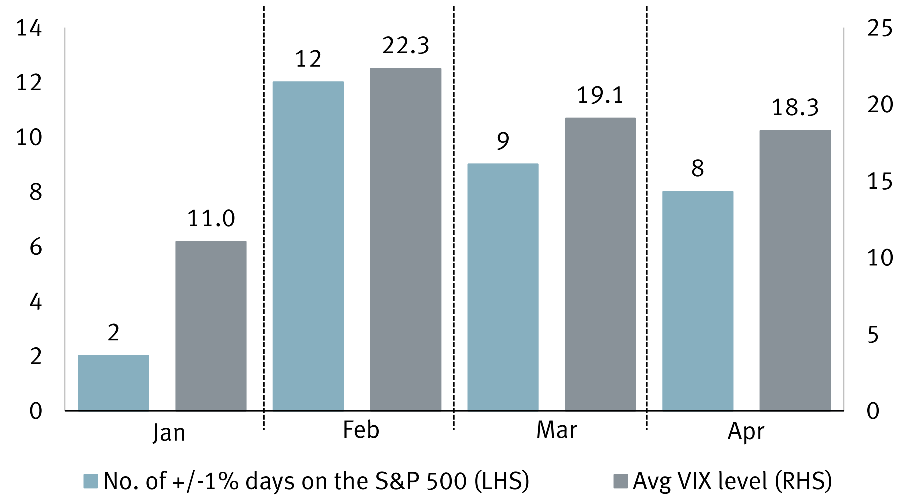
Technology was uneventful as a group, eking out a mere 0.1% gain in April. However, going one level lower shows that there was a fairly wide dispersion of returns within its subsectors. Specifically, Semiconductors and Equipment declined 4.5% as the Apple supply chain came under pressure when the management team at Taiwan Semiconductor Manufacturing Company highlighted its expectation of softening smartphone sales. On the other hand, software firms gained 2.4% as bellwether firm Microsoft gained 2.5% itself.

Volatility revisited

Most investors felt the burn of the volatility spike in February, but it's interesting to note the measured moderation we've been experiencing since then. To be sure, January was a below-average month in terms of volatility, but we may be seeing the early stages of the regression to the mean process in the months since the spike. On average, the S&P 500 has experienced five moves of 1% or more in either direction per month for the last 50 years. As seen in the chart below, following February's spike in volatility there have been incremental declines in each of the last two months. This same trend is also seen in the VIX Index averages. As we all know, predicting the future of volatility is an exercise in futility, but it is good to note the underlying data and slowly shifting volatility trends when considering the daily bombardment of doomsday scenarios from the pundit class.

After sharply rising in February, two key volatility measures have been moderating in recent months.

Market volatility measures



Source - RBC Wealth Management, Bloomberg; data through 4/30/18

Earnings update

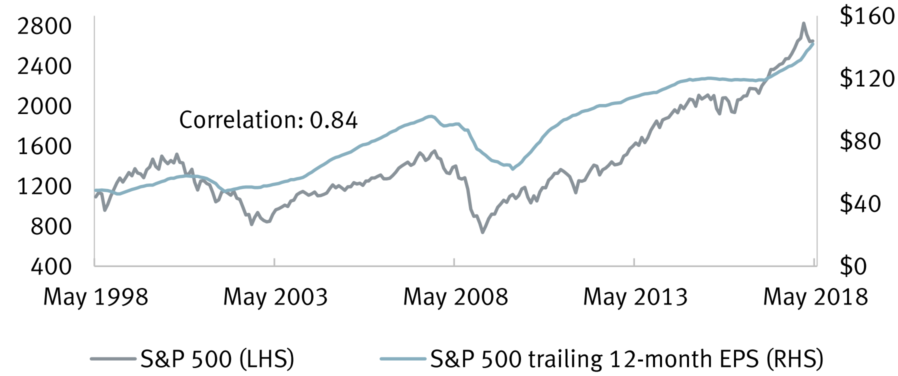
Strong Q1 earnings continue to go unrewarded by investors, a fact that causes us to prove the strength of this earnings season and highlight the S&P 500's relationship with trailing earnings. As of month end, with 67% of the S&P 500 market cap having released Q1 results, 78% of companies delivered earnings beats. Furthermore, the average beat rate was 8.3% above consensus estimates, as compared to 4.7% over the last three years. The sectors delivering the most consistent beat rates include Technology (95% of firms beating estimates) and Health Care (92%), while Telecom and Utilities have been the worst, with their matching 50% beat rates.

Trailing earnings grew 2.0% in April, which is 26.8% on an annualized basis, despite the continuation of the correction of recent months.

As the spread between U.S. and German yields rises, the relative attraction of U.S. bonds for foreign investors grows.

Pulling it all together, earnings that have been reported are, by definition, now a component of the trailing earnings data set. What we've found is that the market is highly correlated to trailing earnings, which we just demonstrated are growing faster than anticipated. We view this decoupling of equity market index levels from the very real and delivered upon earnings growth environment as an opportunity to continue giving U.S. equities the benefit of the doubt. Chalk one up for stocks.

S&P 500 and trailing earnings



Note: A correlation of 1 indicates a perfectly positive relationship, a correlation of 0 indicates no relationship
Source - RBC Wealth Management, FactSet; data through 4/30/18

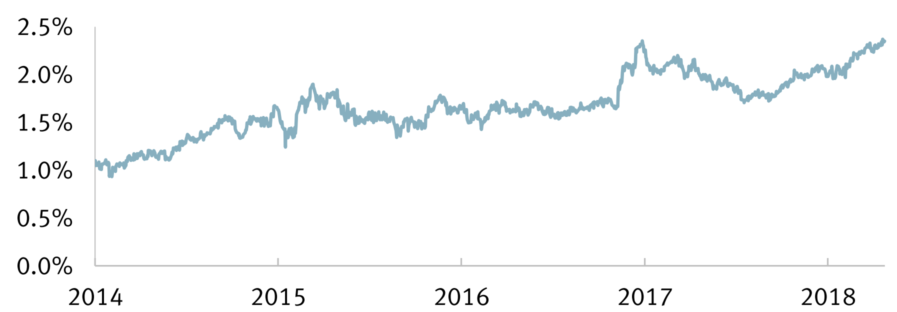
Flattening yield curve: A technical perspective

In an attempt to assist in the cognitive dissonance required to make sense of the flattening yield curve and synchronized global economic improvement, we present a technical reason for the flattening of the yield curve that supports our belief in its benign nature at this time: interest rate differentials.

In plain English, the long end of the curve (think U.S. Treasuries dated 10 years or longer) has risen less than the short end because of the relative attractiveness U.S. government yields provide to foreign investors. As the Federal Reserve continues to hike rates, foreign investors continue to prefer U.S. yields to those in their home countries. The chart below shows the spread between the U.S. 10-year yield and the German 10-year yield. When looking at the relationship between U.S. and German interest rates, the preference of foreign investors for U.S. returns should be clear.

The result of this dynamic is that foreign investor demand is depressing the U.S. yield curve, despite the Fed hiking rates on the short end and the realization of economic growth here in the U.S. That is how we balance the cognitive dissonance of a flattening yield curve on the one hand, and an interest rate normalization process from the Fed and an improving economy on the other.

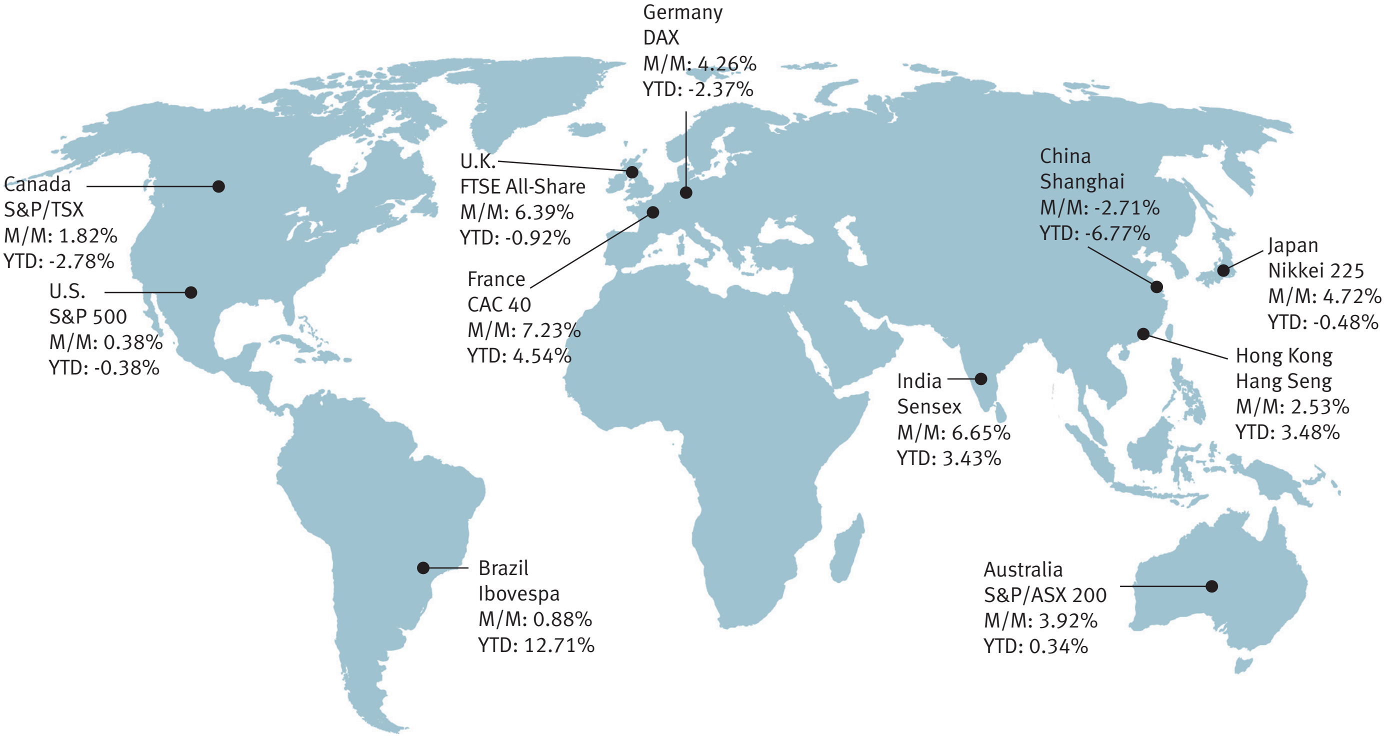
U.S. 10-year Treasury and German 10-year Bund spread



Source - RBC Wealth Management, Bloomberg; data through 4/30/18

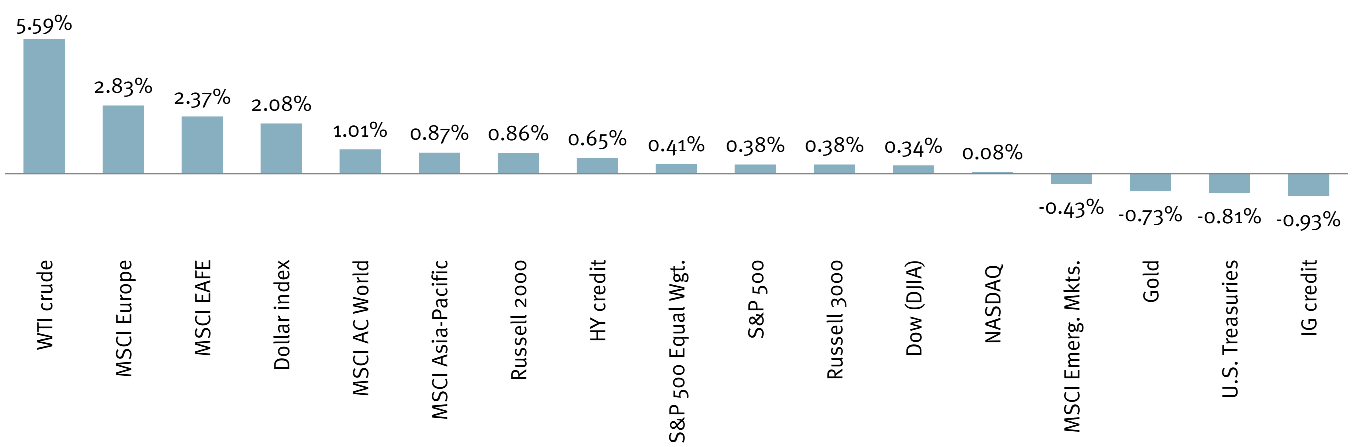
World markets

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



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – April 2018



Source - Bloomberg

Disclosures and disclaimers

Authors
Sean Naughton, CFA, Senior Manager
Portfolio Advisory Group - U.S. Equities
sean.naughton@rbc.com; RBC Capital Markets, LLC

Ben Graham, Research Associate
benjamin.graham@rbc.com; RBC Capital Markets, LLC

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC., which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

With respect to the companies that are the subject of this publication, clients may access current disclosures of RBC Wealth Management and its affiliates by accessing our web site at https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2 or by mailing a request for such information to RBC Wealth Management Research Publishing, 60 South Sixth Street, Minneapolis, MN 55402.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets, LLC ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of Ratings - RBC Capital Markets, LLC Equity Research
As of March 31, 2018

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Top Pick & Outperform]	865	53.49	275	31.79
Hold [Sector Perform]	667	41.25	147	22.04
Sell [Underperform]	85	5.26	7	8.24

Explanation of RBC Capital Markets, LLC Equity Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio. Outperform (O): Expected to materially outperform sector average over 12 months. Sector Perform (SP): Returns expected to be in line with sector average over 12 months. Underperform (U): Returns expected to be materially below sector average over 12 months. Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. Not Rated (NR): The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

Risk Rating:

The Speculative risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Risks to rating and price target

When RBC Capital Markets, LLC assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Risks to rating and price target", respectively.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of RBC Capital Markets, LLC, and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets, LLC and its affiliates.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our website at https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2. Conflicts of interests related to our investment advisory business can be found in Part II of the Firm's Form ADV or the Investment Advisor Group Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part II of the ADV, or Disclosure Document at any time.

The author is employed by RBC Wealth Management, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including clients who are affiliates of RBC Wealth Management, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither RBC Wealth Management nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Wealth Management. In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC. Additional information available upon request.