Monthly Scorecard

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

Performance (Total return % change)

Index	9/29/17	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	22,405.09	2.16	5.58	15.45	25.45	44.85
S&P 500	2,519.36	2.06	4.48	14.24	18.60	36.89
NASDAQ	6,495.96	1.11	6.07	21.73	23.79	44.27
Russell 2000	1,490.86	6.24	5.67	10.93	20.71	39.37
Russell 3000	1,495.43	2.44	4.57	13.91	18.70	36.45
S&P 500 Equal Wgt.	3,871.05	2.92	3.60	11.94	16.22	34.96
MSCI AC World	486.88	1.96	5.31	17.74	19.30	34.37
MSCI Europe	131.01	3.21	6.25	23.16	22.88	26.33
MSCI EAFE	1,973.81	2.50	5.47	20.47	19.73	28.25
MSCI Asia-Pacific	161.17	0.57	5.27	22.12	18.54	37.77
MSCI Emerg. Mkts.	1,081.72	-0.39	8.01	28.08	22.87	44.00
60/40 Allocation[1]	N/A	1.05	3.03	9.8	11.19	24.24
S&P 500 Sector	**9/29/17**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	717.47	0.84	0.84	11.93	14.52	25.56
Consumer Staples	555.39	-0.86	-1.35	6.57	4.42	20.89
Energy	506.72	9.94	6.84	-6.63	0.16	19.15
Financials	429.08	5.14	5.24	12.48	36.16	46.24
Health Care	946.31	0.99	3.65	20.31	15.49	27.86
Industrials	604.38	4.00	4.22	14.13	22.34	46.45
Information Tech.	1,018.15	0.64	8.65	27.36	28.88	58.30
Materials	356.15	3.52	6.05	15.82	21.26	48.24
Real Estate	199.20	-1.39	0.93	7.39	NA	NA
Telecom.	162.37	3.52	6.78	-4.69	-0.14	26.65
Utilities	268.97	-2.74	2.87	11.87	12.03	31.49
FI, FX, & Commod.	**9/29/17**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[2]	2.33%	-0.86	0.38	2.26	-1.67	2.35
Invest-Grade Credit[3]	3.16%	-0.17	1.34	5.18	2.21	10.96
High-Yield Credit[3]	5.45%	0.90	1.98	7.00	8.88	22.74
WTI Crude Oil[4]	$51.67	9.40	12.23	-3.82	7.11	14.59
Dollar Index[4]	$93.08	0.44	-2.67	-8.94	-2.50	-3.40
Gold[4]	$1,280.15	-3.12	3.11	11.10	-2.71	14.80

[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 September 29, 2017, market close (unless otherwise stated).

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Keeping it warm

As fall begins, equity markets refuse to cool off. Multiple indexes set several new all-time highs in September as stocks successfully navigated a historically volatile time of the year. Looking around the world, the global economy continued to perform admirably and equities were the beneficiaries. The MSCI All Country World Index—a barometer of global stock returns—gained 2.0% on a total return basis for the month. Europe, the U.S., and developed foreign markets were notable leaders. The S&P 500 returned 2.1% while the DJIA climbed 2.2%, on a total return basis. European shares gained 3.2% in September while the MSCI EAFE Index appreciated 2.5%. France and Germany both saw equites earn more than 4% for the month while emerging markets were a drag on global returns, declining 0.4%.

Pivoting to the U.S., markets were characterized by a broadening of stock leadership seen through the lens of a resumption in the reflation trade. The Russell 2000 stood as the primary beneficiary, earning 6.2% this past month. The tech- and health care-heavy Nasdaq returned a relatively muted 1.1%, when compared to other major indexes. Reflation was widely seen as a catalyst to equity returns in September as the four top-performing sectors would all be categorized as economically sensitive. Energy led with 9.9% gains while oil posted its best return since April 2016, gaining 9.4%. Crude rose above $50 and held the gains, closing at $51.67/barrel. Financials, Industrials, and Materials round out the top four sectors, returning 5.1%, 4.0%, and 3.5%, respectively. One theory behind these recent gains points to the debt compromise between President Trump and democrats in Washington. Of the nine S&P 500 all-time highs posted in September, all came after the agreement was reached and seven were prior to the tax reform announcement.

However, our view is that the key underpinnings to the constructive month, on a domestic and global scale,

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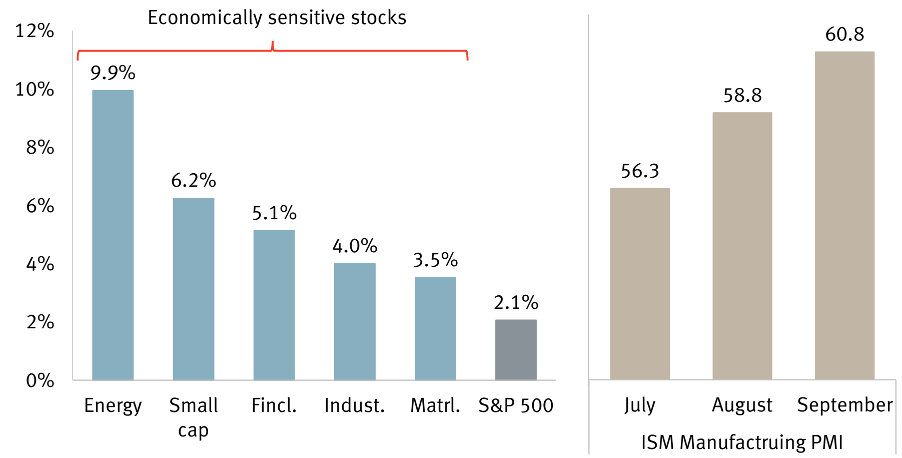
As U.S. activity trends accelerate, reflation trade-friendly equities outperform.

were economic in nature. This can be seen when looking at Chinese, Japanese, Eurozone, U.K., and U.S. manufacturing PMI's; all well above the expansionary line. For example, in the U.S. specifically, the ISM PMI reading of 60.8, led by new orders and pricing, was the highest since 2004. We note that there are some hurricane-related influences in the reading, but the trend is demonstrating incremental improvement. Additionally, the U.S. GDP revision higher to 3.1% for the second quarter, an acceleration in inflation, and the rising of the U.S. 10-year Treasury yield to 2.33% lent further support to rising equity prices.

Monthly returns of economically sensitive stocks and economic activity



Source - RBC Wealth Management, Bloomberg; data through 9/29/17

U.S. tax reform

Potential U.S. tax reform dominated headlines in the final week of September, as the primary negotiators published an initial framework with the following core components: Lowering corporate tax rates to 20%, simplifying the individual tax brackets, and expanding the standard deduction, among other initiatives. There are controversial aspects in the proposal's current state, such as state income tax deductions at the federal level and the repeal of the death tax. But this plan represents the first salvo and we anticipate several changes and compromises before the final bill is voted on.

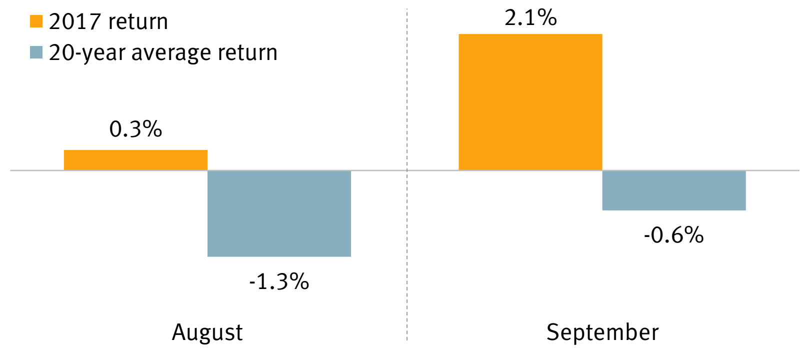
If major tax reform were to be passed in coming months, whether 2017 or 2018, the equity classes most levered to the reform would be U.S. small caps and large caps with a domestic tilt. These firms typically have the greatest percentage of revenues derived from the U.S., and would thus benefit proportionally more to tax reform. That being said, equity markets are not dependent upon tax reform to move higher. Economic and corporate earnings growth remain the primary drivers behind this bull market, and those drivers appear to be in place for the foreseeable future.

Seasonal survival

After averaging returns of -1.3% in August and -0.6% in September over the past 20 years, the S&P 500 posted gains of 0.3% and 2.1%, respectively, in the past two months. This feat gives us increased confidence in the durability of the current bull market. When several indexes spanning various geographies and sector exposures are setting all-time or 52-week highs in tandem, there is typically further room to run. Additionally, the fact that we're seeing such an array of U.S. indexes—including the S&P 500, Dow Jones, Nasdaq, and Russell 2000—closing consistently at all-time highs, supports our belief that we're in the midst of a secular bull market.

2017 saw U.S. equities buck their historical trend as stocks climbed during these oft-challenging months.

S&P 500 seasonal returns



Source - RBC Wealth Management, FactSet; data through 9/29/17

Bulls and pulls

We recently looked at the S&P 500 in the context of corrections of varying degrees, and found reasons to be constructive long-term despite what some have labeled as stretched valuations. Over the last 60 years, we've averaged 77 weeks between 10% pullbacks. Stated differently, one 10% contraction occurs every 1.5 years. The current market has gone 85 weeks, or a mere 1.6 years, since the conclusion of the 2016 correction related to Chinese growth concerns and bottoming oil prices. We see a similar pattern with the 20% pullback data, where the current stretch of 6.1 years without a 20% retreat is slightly beyond the average 5.2 years. This most recent pullback was related to the U.S. debt downgrade. The record lengths of time between 10% and 20% pullbacks are 7.6 and 12.3 years, respectively, and both instances spanned the bull market of the late 1980's and 90's.

Generally, we view pullbacks through one of two lenses: Those that are part of the natural ebb and flow within markets, and those that are associated with some sort of economic downturn or market mania. The former are more frequent and usually smaller in magnitude, often accounting for 10%–15% contractions, while the latter are more problematic. Equity bear markets connected to economic downturns are often when the most severe contractions can be seen. The Great Recession is such an example. Our point is that not all pullbacks are created equal and the bursting of the tech bubble and ensuing Great Recession were "once-in-a-generation" corrections that occurred a mere 7 years apart.

The bottom line as it relates to this concept is that a short-term, hiccup-like retreat would not surprise us. However, the most severe pullbacks that are usually accompanied by economic troubles appear unlikely given the current economy and the scarcity of investor euphoria in the aftermath of the painful market corrections this millennium. Our view is that the risk of a bear market is very low at this time and we remain convinced that, over the long term and regardless of the potential return of volatility, we are in the midst of a secular bull market.

S&P 500 correction data

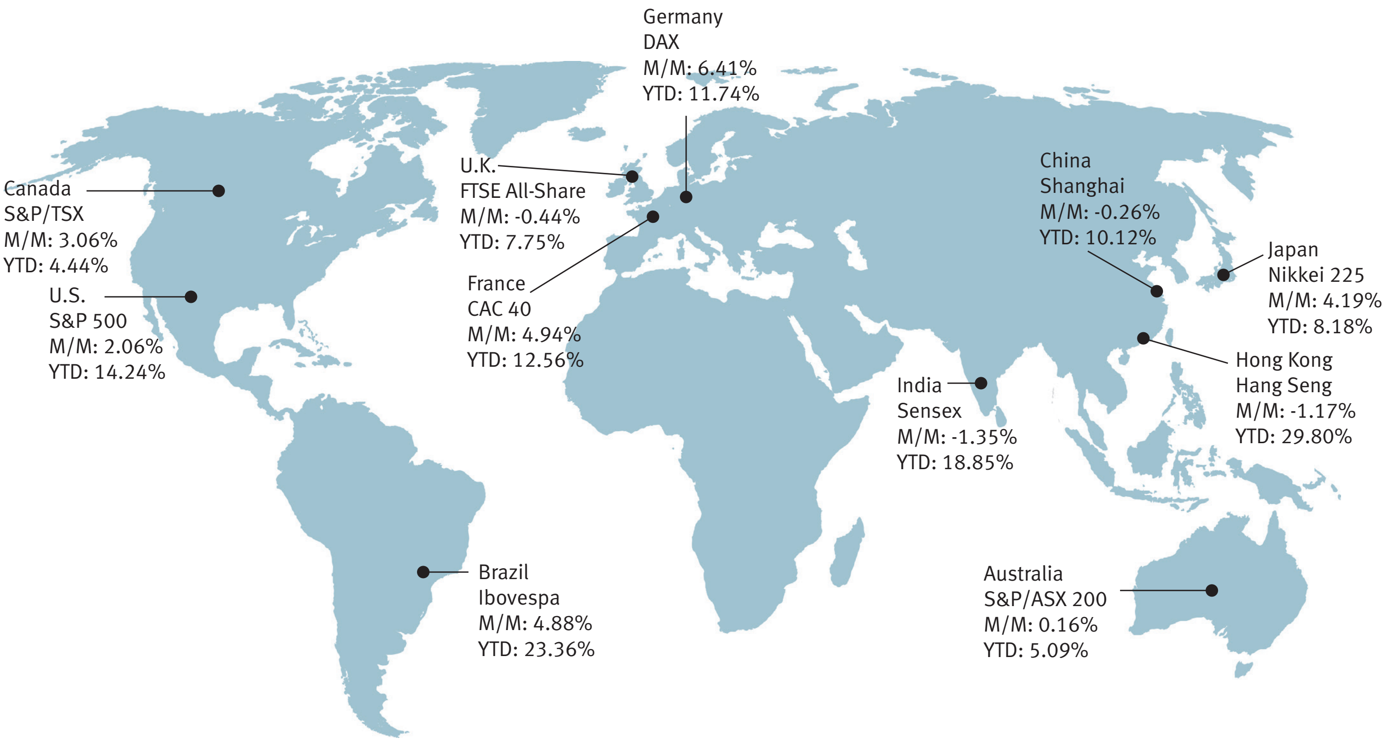
Degree of pullback	Frequency, last 60 years	Avg. period of time between pullbacks	Period of time since last pullback
10%	NMF	2 weeks	2 weeks
20%	9	269 weeks	314 weeks
30%	5	9.7 years	7.8 years
35%	3*	14.8 years	7.8 years

*Of the three pullbacks, 2 have ocurred since 2000. The other was in 1974.

Source - RBC Wealth Management, Bloomberg; data through 9/29/17

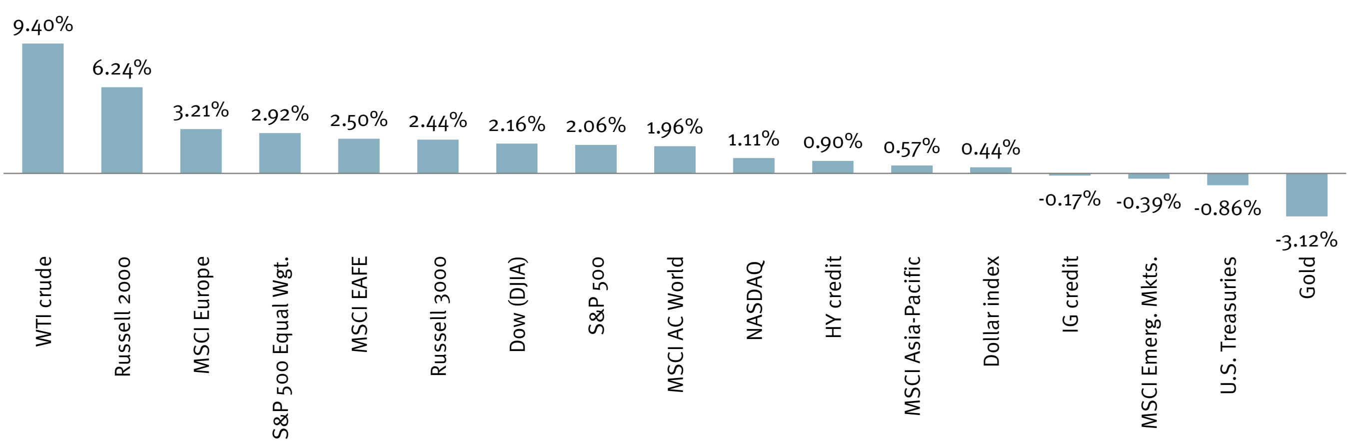
World markets

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



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – September 2017



Source - Bloomberg

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Author

Janet Engels, Head, Portfolio Advisory Group - U.S. Equities
janet.engels@rbc.com; RBC Capital Markets, LLC

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

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