Monthly Scorecard

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

Performance (Total return % change)

Index	2/28/18	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	25,029.20	-3.96	3.64	1.69	23.10	59.21
S&P 500	2,713.83	-3.69	2.95	1.83	17.09	46.32
NASDAQ	7,273.01	-1.73	6.07	5.54	26.27	63.52
Russell 2000	1,512.45	-3.86	-1.75	-1.35	10.51	50.38
Russell 3000	1,600.15	-3.69	2.40	1.39	16.21	46.76
S&P 500 Equal Wgt.	4,078.82	-4.35	1.10	-0.08	12.73	42.86
MSCI AC World	518.08	-4.16	2.94	1.27	19.43	46.67
MSCI Europe	128.02	-5.44	1.15	-0.77	21.49	36.65
MSCI EAFE	2,051.73	-4.48	1.96	0.32	20.76	40.57
MSCI Asia-Pacific	177.36	-3.49	4.46	2.19	25.64	57.48
MSCI Emerg. Mkts.	1,195.19	-4.63	7.11	3.31	30.94	70.39
60/40 Allocation[1]	N/A	-2.59	1.11	0.26	10.46	28.56
S&P 500 Sector	**2/28/18**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	827.35	-3.46	8.08	5.54	22.13	44.48
Consumer Staples	548.98	-7.76	-4.22	-6.30	-0.32	11.19
Energy	490.67	-10.82	-2.90	-7.42	-2.80	22.66
Financials	478.88	-2.78	5.50	3.51	19.90	75.42
Health Care	971.88	-4.45	1.25	1.90	14.31	31.65
Industrials	642.76	-3.95	3.05	1.15	16.26	48.41
Information Tech.	1,188.55	0.10	7.74	7.73	36.26	81.15
Materials	372.92	-5.26	0.58	-1.33	15.98	48.17
Real Estate	185.98	-6.71	-8.94	-8.47	-3.02	9.00
Telecom.	153.36	-7.06	-1.15	-6.55	-5.00	3.94
Utilities	247.70	-3.86	-12.53	-6.81	-1.99	13.57
FI, FX, & Commod.	**2/28/18**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[2]	2.86%	-0.75	-1.80	-2.10	-0.56	-1.79
Invest-Grade Credit[3]	3.71%	-1.62	-1.67	-2.56	2.20	8.76
High-Yield Credit[3]	6.14%	-0.85	0.05	-0.26	4.18	26.92
WTI Crude Oil[4]	$61.64	-4.77	7.39	2.02	14.13	82.64
Dollar Index[4]	$90.61	1.66	-2.62	-1.64	-10.39	-7.74
Gold[4]	$1,318.38	-1.99	3.41	1.18	5.61	6.43

[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 February 28, 2018, market close (unless otherwise stated).

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Good riddance February

We're not sorry to see the books close on February 2018, although March's start hasn't been any better given the fears around a potential trade war. February was the most volatile month of the past two years, demonstrated by half of its trading days having moved by 1% or more in either direction. This level of volatility has not been seen since January 2016. That month, investors feared rapidly slowing growth in China, the collapse in oil prices to $26 per barrel, and widening of high-yield spreads. Investor concerns today are more closely related to those often seen in accelerating economies prior to the overheating phase—primarily from rising inflation and real interest rates.

Recap

U.S. stocks saw the broad-based weakness at the end of January bleed into February, as the pace of the selloff accelerated into the early February lows and was underscored by the one-day 4.1% decline in the S&P 500 on February 5. For the month, the S&P 500 lost 3.7% on a total-return basis while the DJIA declined 4.0%. The Tech- and Health Care-heavy NASDAQ was a relative outperformer, seen in the -1.7% total return in February. Small caps fared no better, as the Russell 2000 sold off 3.9%, largely in line with its large cap peers.

Global stocks were slightly weaker than their U.S. counterparts, as the MSCI All Country World Index lost 4.2% on a total-return basis. The loss was fueled by European equities, which declined 5.4%, while the Asia-Pacific region was a relative outperformer with a 3.5% loss.

Tech the lone gainer in U.S.

Technology stocks were the lone standout in February, as the group gained 0.1% on a total-return basis. Apple and Cisco Systems were the two biggest supports after gaining 6.8% and 7.8%, respectively, for the month. Financials fell into the bucket of posting losses that were

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simply less bad than most, as the sector declined 2.8% with Wells Fargo and Co. and Berkshire Hathaway labeled as the two primary detractors. Discretionary fell 3.5%, as the gain in Amazon.com buoyed the group and Under Armour appreciated nearly 20%. Auto parts and components had a noticeably bad month within the Discretionary space. The three sectors mentioned were the only ones to beat the S&P 500, marking the rare month in which only three groups outperform the index. This was largely due to the fact that they are three of the four sectors with the greatest weighting within the S&P 500.

Energy leads the underperformance

U.S. sector underperformance was highlighted by Energy which didn't see a single constituent post gains in February. In fact, Noble Energy was the "best performer" with its -2.3% return. The sector as a whole lost 10.8% on a total-return basis. This comes on the heels of oil prices declining less than half as aggressively as the stocks with its much-smaller 4.8% decline. In last month's Scorecard, we noted the underperformance of energy stocks relative to oil prices despite the ongoing improvement in Energy sector earnings estimates. That trend has continued in recent weeks, as oil was a relative outperformer and next-twelve-months sector earnings estimates rose 5.5%. The result is an interesting valuation story, as the sector trades at 7.5x Enterprise Value to EBITDA and is 1 standard deviation below average on a basis measuring the sector against the S&P 500. We're taking note of the underperformance, manageable valuation, and earnings revisions in the energy patch.

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Poor performance in the other sectors was largely related to rising interest rates in the U.S., as bond proxies as a group managed an average return for the month of -7.3%. WalMart's 15.6% decline damaged the Staples space on its earnings miss.

Which sectors fair the best when the 10-year Treasury rate is rising?

If our assumption is that 10-year Treasury yields will continue to move higher and global economic growth continues, how do you want to position your equity portfolio in order to invest in the sectors that benefit from higher interest rates? To answer that question, we went back over the past 27 years to examine what happens during periods of rising 10-year bond yields. We looked at the data by quarter and found 10 periods when bond yields rose 59 basis points or more. In our analysis, we found that Financials had the best returns during a rising interest rate environment while Utilities had the worst. This makes sense as financials stocks are in a position

S&P 500 sector performance during a rising rate environment

Higher average return --->

	Avg.	Mar '94	Jun '09	Dec '16	Mar '92	Dec '10	Mar '96	Jun '04	Mar '90	Jun '13	Mar '99
BPS change in 10-yr	77.0 bps	94.4 bps	87.0 bps	85.0 bps	82.9 bps	78.4 bps	75.5 bps	74.6 bps	69.3 bps	63.7 bps	59.4 bps
S&P 500	3.03%	-4.43%	15.22%	3.25%	-3.21%	10.20%	4.80%	1.30%	-3.81%	2.36%	4.65%
Financials	6.95%	-4.94%	35.08%	20.48%	-0.28%	11.18%	7.79%	-2.94%	-10.65%	6.78%	6.98%
Tech	6.89%	4.17%	19.35%	0.78%	4.99%	9.97%	5.20%	2.77%	8.28%	1.22%	12.16%
Industrials	5.55%	-2.60%	18.01%	6.58%	0.26%	11.19%	6.91%	7.97%	1.33%	2.23%	3.65%
Disc.	5.49%	-4.04%	17.65%	1.86%	5.19%	12.15%	7.84%	-0.49%	-2.14%	6.43%	10.44%
Materials	5.04%	0.33%	15.53%	4.10%	4.63%	18.50%	12.78%	1.97%	-5.78%	-2.39%	0.75%
Energy	3.84%	-3.45%	10.06%	6.56%	-9.89%	20.86%	4.75%	6.98%	-1.69%	-0.93%	5.15%
Real Estate	0.85%	1.99%	26.99%	-4.20%	-1.20%	6.39%	1.07%	-7.16%	-5.84%	-2.98%	-6.56%
Staples	-0.95%	-4.90%	8.87%	-2.70%	-4.45%	5.31%	3.08%	-0.01%	-5.97%	-0.17%	-8.52%
Health Care	-1.20%	-11.35%	8.27%	-4.42%	-13.24%	3.12%	3.50%	2.34%	-6.19%	3.33%	2.68%
Telecom	-1.50%	-5.87%	1.90%	3.53%	-7.66%	5.92%	-4.93%	-1.77%	-9.05%	-0.07%	3.01%
Utilities	-4.07%	-12.43%	8.83%	-0.79%	-8.98%	-0.02%	-3.20%	-2.27%	-7.77%	-3.67%	-10.40%

Source - RBC Wealth Management, Bloomberg; quarterly data through 12/31/17 to earn more interest income and we believe should benefit from higher loan activity as the economy strengthens. In addition, we discovered that Technology was surprisingly strong with positive gains in every period despite a higher discount rate on future cash flows. In addition, and not surprisingly, Materials, Industrials, and Energy also outperformed during a rising rate environment. While we are not making a call on the end to the 30-year bond bull market, we do think it is appropriate to have ideas in place to evaluate how your portfolio is positioned for this potential outcome.

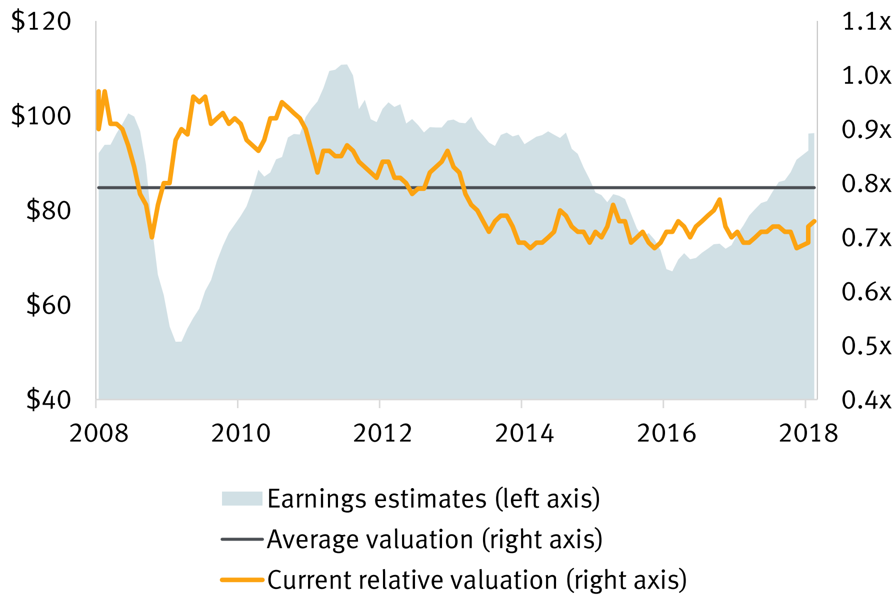
Quick hits: Vol and emerging markets

Building on the rising rate trend above, the next question is what geographic exposure do we believe best mirrors the above trends and provides an additional valuation benefit? The answer: emerging markets. The MSCI Emerging Markets Index offers greater exposure to technology, financials, materials, and energy firms than its S&P 500 counterpart, emphasizing the greater economic sensitivity of emerging markets in an environment characterized by synchronized global growth, rising rates, and rising inflation.

We found that the outperformance and underperformance trade of emerging markets versus the U.S. typically lasts for prolonged periods of time. The last two cycles saw six years of outperformance from 1988 to 1994 and 10 years of outperformance from 2001 to 2011. We're currently only in year two. This idea is furthered along by attractive valuations. On a standalone and relative forward price to earnings ratio, emerging markets look attractive. The group currently trades at 12.4x its next-twelve-months earnings and offers a discount of 10% against the S&P 500. Investors may find that emerging markets offer an attractive opportunity for those believing the global economic expansion has more runway ahead.

Emerging markets are trading at a relative discount to the U.S. during a period in which international earnings are accelerating.

Emerging markets trading at a discount to the U.S.



Note: U.S. is S&P 500, Emerging Markets is MSCI Emerging Markets Index
Source - RBC Wealth Management, FactSet; data through 2/28/18

2017 was sublime for volatility and the investor experience. 2018 feels drastically different, but the reality is that volatility has picked up in a manner only slightly higher than that of its 50-year average.

Volatility remains a noticeable mountain in the investor landscape in 2018, as February continued to see a rise in uncertainty. Whether someone measures the VIX Index, rising from a monthly average of 11.3 in January to 18.6 in February, or realized volatility, it's clear the 2018 experience is unlike that of recent years, as we're on track for the most volatile year since 2011 if the market continues to move with the rapidity of the first two months.

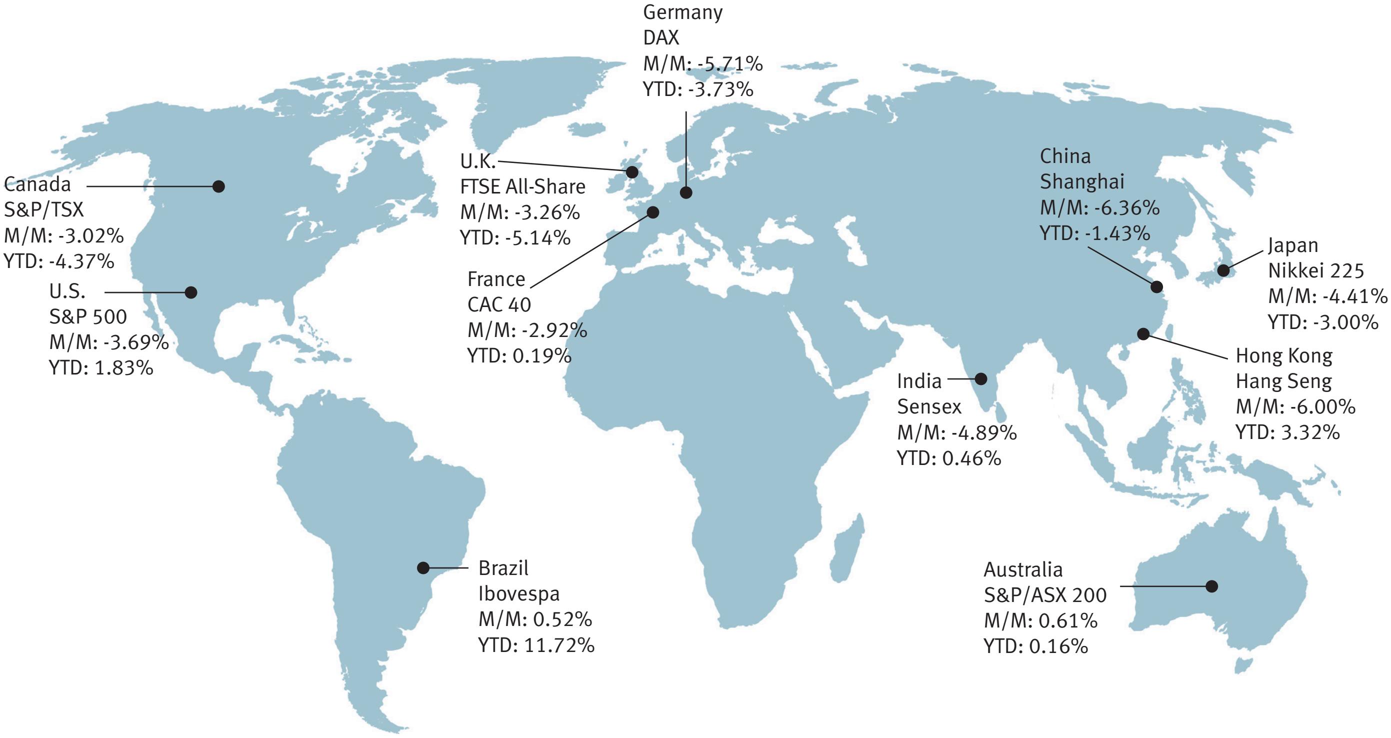
S&P 500 and realized volatility

Year	# of days with moves greater than +/- 1%	# of days with moves greater than +/- 2%
50-year avg.	58	13
2018 pace	78	18
2017	8	0
2016	48	9
2015	72	10
2014	38	6
2013	38	4
2012	50	6
2011	96	35
2010	76	22
2009	117	55
2008	134	72

Source - RBC Wealth Management, Bloomberg; data through 2/28/18

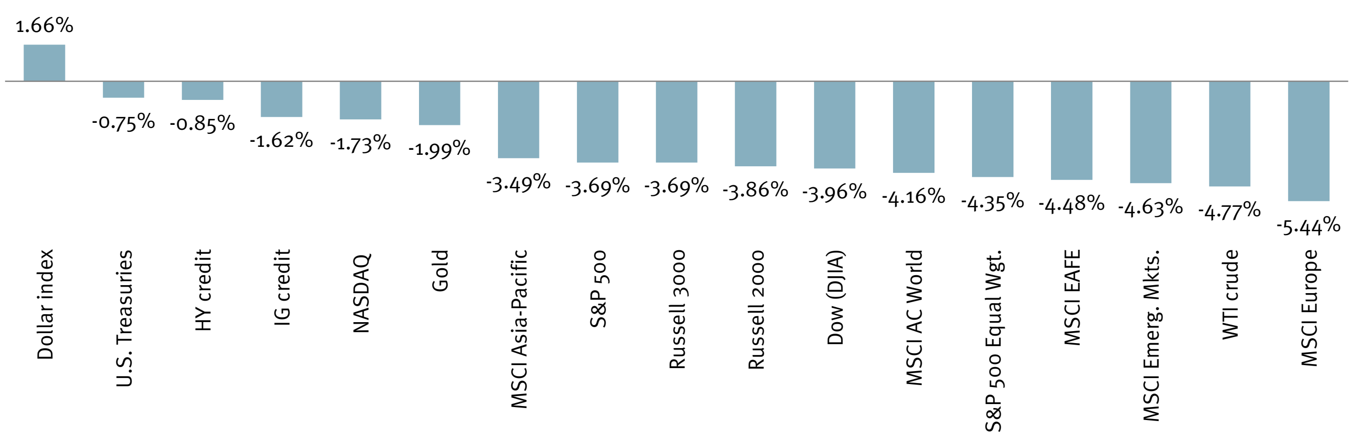
World markets

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



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – February 2018



Source - Bloomberg

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