Monthly Scorecard

December 7, 2018

Portfolio Advisory Group – U.S. Equities

Performance (Total return % change)

Index	11/30/18	1 mo.	3 mos.	YTD	1 yr.	2 yrs.
Dow (DJIA)	25,538.46	2.11	-1.07	5.59	7.62	39.93
S&P 500	2,760.17	2.04	-4.40	5.10	6.26	30.56
NASDAQ	7,330.54	0.50	-9.35	7.26	7.79	40.82
Russell 2000	1,533.27	1.58	-11.63	0.97	0.56	18.98
Russell 3000	1,625.99	2.00	-5.35	4.48	5.52	29.01
S&P 500 Equal Wgt.	4,113.91	2.76	-4.51	2.30	3.50	22.97
MSCI AC World	490.86	1.51	-5.62	-2.07	-0.45	24.77
MSCI Europe	120.99	-0.76	-7.87	-10.44	-8.71	19.16
MSCI EAFE	1,809.56	-0.10	-7.19	-8.92	-7.43	18.43
MSCI Asia-Pacific	153.58	2.88	-6.59	-9.30	-7.28	19.74
MSCI Emerg. Mkts.	994.72	4.13	-5.41	-12.02	-8.77	21.59
60/40 Allocation[1]	N/A	1.46	-2.98	2.34	3.22	19.07
S&P 500 Sector	**11/30/18**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
Consumer Disc.	853.59	2.81	-7.83	10.03	12.68	35.39
Consumer Staples	576.42	1.93	5.37	0.80	3.03	18.02
Energy	486.42	-1.65	-10.47	-6.21	-1.63	-5.37
Financials	447.08	2.80	-4.24	-1.98	-0.09	24.35
Health Care	1,096.84	7.05	2.82	16.50	15.75	43.27
Industrials	607.87	3.84	-5.36	-2.90	-1.08	18.09
Information Tech.	1,189.88	-1.88	-10.00	8.93	8.94	53.58
Materials	341.11	4.05	-7.77	-8.38	-6.61	13.60
Real Estate	208.88	5.63	1.11	5.60	5.07	22.15
Comm. Services[2]	149.86	-0.65	-2.37	-5.66	-0.21	0.73
Utilities	280.71	3.58	4.98	8.47	1.81	27.62
FI, FX, & Commod.	**11/30/18**	**1 mo.**	**3 mos.**	**YTD**	**1 yr.**	**2 yrs.**
U.S. Treasuries[3]	2.99%	0.89	-0.53	-1.27	-0.96	0.91
Invest-Grade Credit[4]	4.37%	-0.17	-1.98	-3.92	-3.04	2.93
High-Yield Credit[4]	7.22%	-0.86	-1.90	0.06	0.36	9.55
WTI Crude Oil[5]	$50.93	-22.02	-27.03	-15.71	-11.27	3.01
Dollar Index[5]	$97.27	0.15	2.24	5.59	4.54	-4.17
Gold[5]	$1,222.50	0.64	1.76	-6.18	-4.11	4.20

[1] 60% S&P 500 and 40% Bloomberg Barclays U.S. Aggregate; [2] Communication Services returns include data from the previously labeled Telecom sector for returns including dates prior to 9/30/18. [3] Yield reflects 10-year U.S. Treasury, total returns reflect Bloomberg Barclays U.S. Treasury Index; [4] Yield and total returns reflect that of the respective Bloomberg; Barclays Index; [5] Spot prices and price returns.
Source - Bloomberg, RBC Wealth Management

Priced (in USD) as of November 30, 2018, market close (unless otherwise stated).

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Style points matter

Global equity markets moved erratically higher in November, evidenced by the S&P 500's intramonth moves of +3.9%, -6.5%, and +4.9% that combined to push the index up 2.0% for the month on a total-return basis. Global markets exhibited less downside and delivered less volatile performance than their U.S. peers. The MSCI All Country World Index gained 1.5% as strength in Asia (+2.9%) and Emerging Markets (+4.1%) was somewhat offset by the 0.8% decline in Europe. U.S. small caps lagged their large cap peers and the value-centric Dow Jones Industrial Average led major U.S. indexes with its 2.1% gain. The NASDAQ underwhelmed, appreciating 0.5% on the heels of a near 10% decline in October.

U.S. leadership was found in Health Care (+7.1%), Real Estate (+5.6%), Materials (+4.1%) and Industrials (+3.8%). Value-oriented names pushed these sectors higher. Pharma and Biotech gains were led by AbbVie's 21.1% move, and Real Estate is inherently a value exposure. Furthering this theme, Materials climbed on strength in Construction Materials and the Containers & Packaging industry while double-digit returns for Airlines propelled the Transports higher.

U.S. laggards were Tech (-1.9%), with Apple's decline of nearly 20% accounting for most of Tech's negative performance, and Energy (-1.7%). Semiconductors were relatively flat and Software & Services gained more than 4%. Energy dropped on weakness in Services (-11.3%) while Oil, Gas, & Consumables (-0.4%) demonstrated greater relative resiliency.

U.S. performance has been more challenging to stomach in recent months and our sense is that investors are growing more fearful than they were during the February correction. However, it should be comforting to observe the credit cycle, where data is particularly benign. Assuming end-of-cycle fears, debt levels, and equity market valuations manifest into further downside or, in

RBC Wealth Management

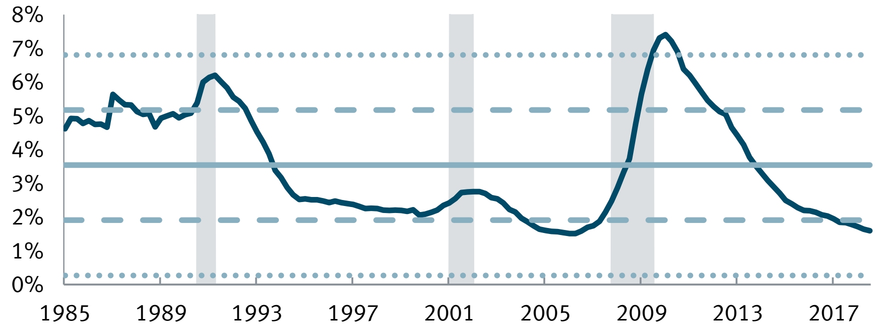
Charge-off and delinquency trends are supportive of a healthy credit market and in a worst-case scenario, the capital on bank balance sheets is more than sufficient to protect against losses similar to those seen during the Great Recession.

Furthermore, we view a repeat of 2008/2009 credit trends as an extremely low probability event. This setup displays our positive view on the credit cycle and the support it will lend to the health of the financial system in the event of an economic slowdown.

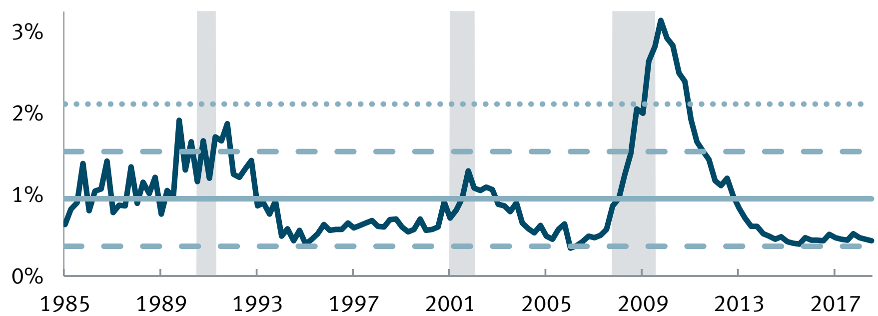
a worst-case scenario, economic recession, the health of the credit cycle will be the backstop that prevents a generational scar like the Great Recession, in our opinion.

Measures of credit health for all loans at all U.S. banks

Delinquency rate on all loans



Charge off rate on all loans



Source - RBC Wealth Management, Saint Louis FRED economic data; data through 11/26/18

Consider that credit trends for the U.S. consumer are essentially as strong as they've ever been and that this same consumer comprises approximately 60% of U.S. economic output. Furthermore, after an energy-driven hiccup in 2016, Commercial and Industrial (C&I) loans are grinding higher while their delinquency rates fall. Finally, capital on bank balance sheets is near all-time highs and we believe will sufficiently act as a buffer in the event of an economic slowdown. Recessions and equity market corrections are frequently less painful and shorter in nature in the midst of secular bull markets characterized by a healthy credit cycle, an environment we believe exists today.

Valuable value

The current bout of volatility in equity markets during recent months differs from that which we experienced in the first quarter of the year, setting the table for our preference of value stocks at this time. The primary difference between 2018's two corrections is the change in views of forward earnings. Today, earnings growth rates are decelerating as opposed to clearly being on the cusp of cycle highs as they were in February and March. This backdrop helps support our view that value appears more favorable than growth at this time.

Furthermore, value stocks have delivered relative underperformance of more than 20 percentage points since the start of 2017, characterized by average monthly "wins" that are less frequent and smaller in nature than the more frequent and larger-scaled months when growth outperformed value.

Value stocks outperformed in consecutive months for the first time since March and April of this year, and the combined outperformance of 3.7% marks the best two-month stretch since the 2016 presidential election, which also happens to be the last time value put together a win streak of three straight months.

S&P 500 growth versus value since 2016

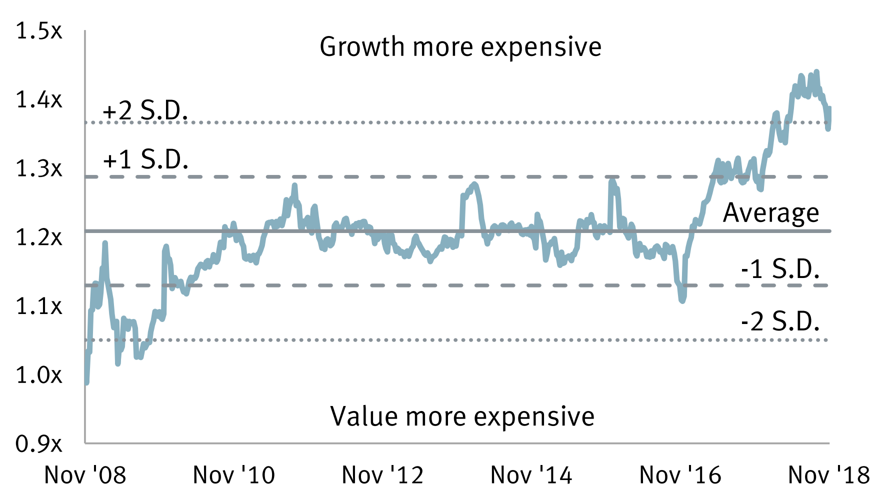
	2016			2017			2018		
	S&P 500 Value	S&P 500 Growth	Dif.	S&P 500 Value	S&P 500 Growth	Dif.	S&P 500 Value	S&P 500 Growth	Dif.
January	-5.0%	-5.1%	0.1%	0.5%	2.9%	-2.4%	4.0%	7.2%	-3.2%
February	0.2%	-1.0%	1.2%	3.6%	3.9%	-0.3%	-5.7%	-2.2%	-3.6%
March	6.6%	6.6%	0.1%	-1.4%	1.1%	-2.5%	-2.2%	-3.1%	0.9%
April	1.9%	-1.3%	3.3%	-0.2%	1.9%	-2.1%	0.3%	0.2%	0.1%
May	0.6%	2.5%	-1.9%	-0.6%	2.6%	-3.2%	0.0%	4.1%	-4.2%
June	0.7%	-0.5%	1.2%	1.7%	-0.5%	2.3%	0.5%	0.5%	0.0%
July	2.6%	4.6%	-2.0%	1.2%	2.5%	-1.3%	3.9%	3.4%	0.5%
August	0.3%	-0.5%	0.8%	-1.5%	1.3%	-2.8%	1.1%	4.7%	-3.7%
September	-0.5%	0.3%	-0.8%	3.1%	1.0%	2.1%	0.2%	0.6%	-0.4%
October	-1.7%	-2.2%	0.5%	1.0%	3.2%	-2.2%	-5.5%	-8.1%	2.7%
November	5.9%	1.0%	5.0%	3.1%	2.6%	0.5%	2.3%	1.3%	1.0%
December	2.4%	1.3%	1.1%	1.5%	0.5%	1.0%			
Full Year	14.3%	5.1%	9.2%	12.6%	25.4%	-12.8%	-1.8%	8.0%	-9.8%

Note: The "difference" (Dif.) columns are green when value outperforms and red when it does not. This is simply for alignment with the text and not intended to say that periods when growth outperforms is bad.
Source - RBC Wealth Management, FactSet; data through 11/30/18

These performance trends are reflected in valuations that are clearly favorable for value over growth. In fact, for the last decade, value stocks have not offered better relative valuations than they have this year. The below chart shows a relative valuation trend that we believe indicates mean reversion will occur over time. Statistically speaking, the reversal in valuation trends that has been underway since this fall appears to have much further to go. The last time value stocks exhibited any sort of meaningful outperformance was in the run-up to and immediate aftermath of the most recent U.S. presidential election. Growth stocks have beaten value, mostly unabated, since December 2016.

Growth stocks performing better than value stocks in recent years has caused value stocks to look much more attractive relative to their growth peers.

Relative valuation of growth versus value



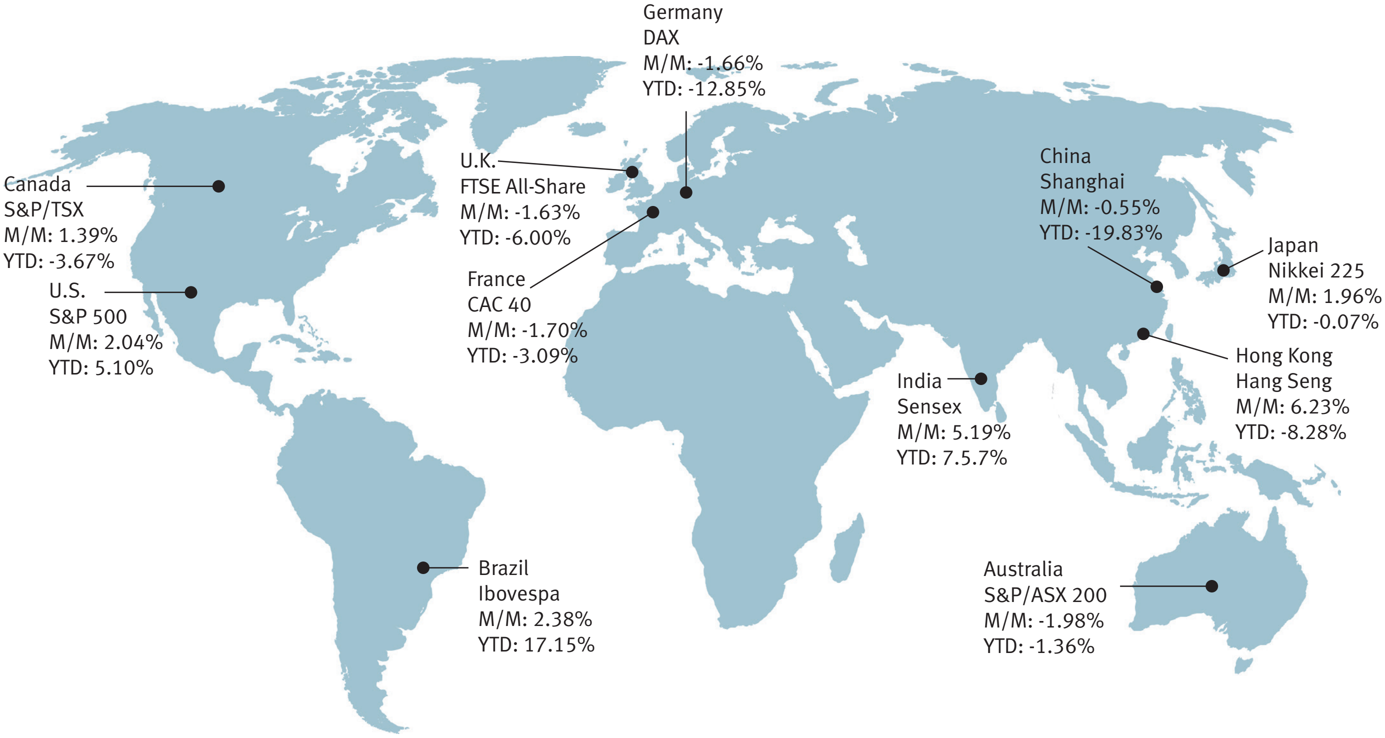
Note: Next twelve-month P/Es for the S&P 500 growth index relative to the S&P 500 Value Index
Source - RBC Wealth Management, FactSet; data through 11/30/18

The economic cycle should also be favorable for value stocks.

The economic cycle should also be favorable for value stocks. Assuming we're in the latter stages of the current expansion—a view that is supported by the yield curve, housing, auto, and corporate leverage trends while slightly offset by a re-acceleration in ISM Purchasing Managers' Index data—value stocks should outperform growth. This would be a normal occurrence in the latter stages of an economic expansion. As outlined in our *2019 Outlook*, we prefer value to growth given we believe economic and market cycles are mid-to-late cycle. This view is amplified by the magnitude of growth's outperformance coupled with what we view as likely mean reversion in valuation trends.

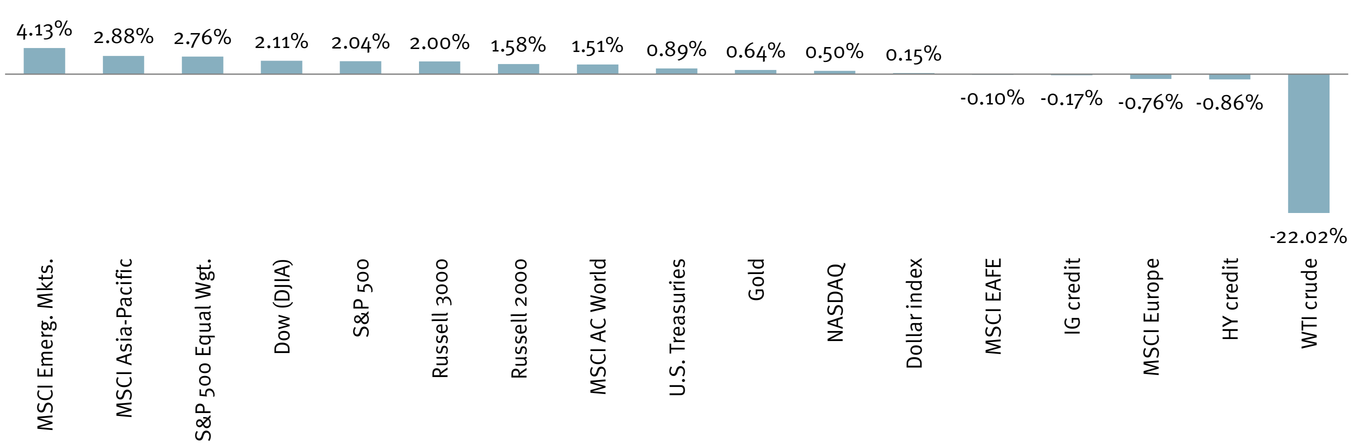
World markets

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



Source - Bloomberg; priced in local currency

Total monthly returns for select indexes – November 2018



Source - Bloomberg

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