**STRONG DOLLAR HERE TO STAY**

The dollar juggernaut should roll on and flex its muscle for the next few years.

**ALAN ROBINSON | PAGE 4**

**GLOBAL INSIGHT**

**GLOBAL EQUITY**
EVERY WHICH WAY

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THE FUTURE IS NOW

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With the pieces in place for further U.S. economic growth, the soaring dollar should fly even higher for the next few years. Investors would be wise to “follow the dollar” as the rally likely spells good news for global equities.

7 EVERY WHICH WAY
Investors may feel like it’s hard to get a good read on the global economy given all the conflicting regional cross-currents, but two stabilizing conditions should sustain equities.

10 THE FUTURE IS NOW
The long-expected divergence in global monetary policy is finally taking shape. The year ahead looks to be lively as central banks stand ready to use a number of tools at their disposal.

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RBC’s Investment Stance

Equities – Average Performance

- Our 2015 outlook for global equities remains constructive, although we expect bumps along the way.

- The deflationary forces that have intensified because of the crude oil price rout, and the modest easing of U.S. economic and corporate earnings momentum, should prove transitory. Lower oil prices are a net positive for the global economy and a number of industries; this should become evident in coming months.

- Among developed markets, valuations are attractive in Asia and select sectors in Europe. They could rise if confidence improves. While U.S. valuations remain somewhat elevated, they do not preclude the market from delivering worthwhile returns this year. Investors should maintain their targeted, full allocation to global equities.

Fixed Income – Below-Average Performance

- A number of government bond yields fell to historically low levels in January—some from Europe into negative territory. Select yields could rise modestly in coming months if the European Central Bank’s aggressive new quantitative easing program is successful in pushing inflation expectations higher and if oil prices stabilize.

- In this case, core European sovereign yields could rise, and longer-dated U.S. Treasury yields could drift higher. However, Canadian government yields may stay lower for longer as signaled by the Bank of Canada’s surprise rate cut.

- Segments of the market, including U.S. corporates and municipals and European corporates, seem attractive at current levels. We would continue to diversify holdings and deploy capital in a disciplined manner.

Views Explanation

(+/=−) represents the Global Portfolio Advisory Committee’s (GPAC) view over a 12-month investment time horizon.

+ Positive implies the potential for better-than-average performance for the asset class or for the region relative to other asset classes or regions.

= In-line implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

− Negative implies the potential for below-average performance for the asset class or for the region relative to other asset classes or regions.
STRONG DOLLAR HERE TO STAY

A strengthening U.S. economy has ushered in a dollar bull market that may have several more years to run. Investors should position for a “strong dollar” world.

Following is an executive summary of a special report, Strong Dollar Here to Stay. Please find the full report here.

In April 2014 we suggested the U.S. dollar was entering a period of sustained outperformance, but the magnitude of the currency’s rally has surprised us. The dollar ended 2014 up 13% against a trade-weighted basket of currencies, its largest annual gain since 1997, and was up against all 25 currencies followed by RBC Capital Markets.

Despite a broad-based rally that has now lasted four years, we expect this cycle to persist for several more years, with the larger part of the gains for the dollar likely still ahead.

Entering a Cyclical Bull Phase Within a Secular Decline

Overall, the dollar has declined during the era of free-floating exchange rates. But this decline has been punctuated by multiyear bull cycles during which the dollar has risen significantly.

Winners and Losers

Historically, global equities have performed better during periods of dollar strength than during dollar bear markets. Overall, U.S. stocks tend to benefit from the strong domestic economy that usually accompanies dollar rallies, and they also enjoy a tailwind from expanding valuations.

This multiple expansion reflects a perceived improvement in corporate earnings growth, and increased fund flows into U.S. equities by foreign investors seeking assets denominated in a rising currency.
Select foreign stocks can achieve above-market returns, while U.S. multinationals may be hampered by dollar strength.

Dollar-based investors can also achieve above-market returns from selected foreign stocks. The key, in our view, is to find stocks (or ADRs) for which the positive profit effect of a weak currency outweighs the negative effect of owning a security denominated in a declining currency.

As an example, a foreign company selling its products to U.S. customers will receive a large share of its revenue in U.S. dollars. If it makes these products outside the U.S., its costs will be largely denominated in foreign currencies. So in a strong dollar cycle, its dollar-based revenues will grow more quickly than its foreign currency costs, and its profitability will grow. As long as the pace of dollar appreciation is not too fast, the added profit growth can outpace the weaker currency, and the stock can potentially outperform in dollar terms too.

U.S. multinationals often experience the opposite effect. If the dollar is strong, revenues from their foreign subsidiaries decline in dollar terms, as do their repatriated profits. Savvy CFOs can mitigate this impact by hedging their overseas currency exposure, but this can be costly in volatile markets or if currency trends are changing.

**Industry Sectors**

The impact of a strong dollar can be felt in different ways, even by companies within the same industry. But certain industry groups have more exposure to non-U.S. customers than others, which can act as a headwind unless other non-currency factors offset the strong dollar impact.

This observation is backed up by correlations between sector stock returns and dollar strength.

Since the recession, the performance of U.S. companies in the **telecoms, health care, financials, and technology** sectors have correlated most strongly with dollar strength, while those of **energy and materials** companies have performed the worst.

**Subsector Ideas**

Within the larger industry categories, a handful of specific businesses show strong correlations, both positive and negative, to dollar strength.
Notable outperformers include:

- **Regional banks**: These companies have limited exposure to international assets and are levered to a healthy U.S. consumer sector.
- **Airlines**: A strong dollar drives down fuel costs, and boosts passenger miles and margins.
- **Pharmaceuticals**: Discretionary health care spending in the U.S. tends to grow in tandem with a strong dollar.
- **Retailers**: Margins improve on foreign-sourced goods sold in dollars, and volumes increase if dollar strength keeps a lid on price inflation.

Areas to avoid during dollar bull markets include:

- **Commodity companies**: With prices of most industrial commodities denominated in dollars, global demand declines in a strong dollar market. Within the materials sector, metals and mining companies have a strongly negative correlation to a rising dollar, as do drilling companies within the energy sector.

  A slowing commodity market can also act as a headwind to emerging market stocks, particularly those based in countries that are net exporters of commodities.

- **Machinery sales and manufacturing**: This subsector has a high exposure to foreign sales, and is particularly sensitive to dollar-induced deflation overseas.

### Commodity Markets Struggle in a Strong Dollar Environment

![Graph showing Trade-Weighted Dollar Index and CRB Commodity Index](image)

Most global commodities trade in U.S. dollars, so periods of dollar strength make them less affordable for non-U.S.-based buyers.

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**The Trend Is Your Friend**

Globalization has made the impact of a strong dollar even more pervasive than during previous cycles. As the U.S. economy continues to pull ahead of the slower recoveries experienced by many of its trading partners, we believe the dollar rally will continue, perhaps for several more years.

For a fuller analysis of this topic, see our complete report, *Strong Dollar Here to Stay*. 
Every Which Way

The “wall of worry” is getting higher. Give equities the benefit of the doubt.

On the face of it, the world is a confused and disparate place:

- Soon to be the world’s largest oil producer, the U.S. is nonetheless cheering lower oil prices for their stimulative effect on consumers and business.

- The eurozone’s economy and banking system are showing signs of improvement—led most consistently by Spain in recent quarters—even as European politics lurches toward another existential test of the currency union.

- China’s GDP growth has recently appeared to stabilize above 7%. But, leading indicators together with sagging consumer and business confidence strongly suggest there is more slowdown to come.

- Russia and Brazil both look headed for recession, the result of extreme monetary tightening and the crude oil rout. Meanwhile, India, in sick bay the past two years, has eased rates on the back of falling inflation, improved growth, and a strengthening currency.

- Canada must contend with a potential recession in oil-rich Alberta, an important growth engine for many years, while it waits for further revival within the manufacturing sector spurred by a falling dollar and strengthening U.S. demand.

- Developed economy equity markets are holding their own, but dramatic currency shifts are making it hard to keep score.

Amidst the cross-currents of a desynchronized world, there are two sustaining conditions likely to keep the ship moving forward:

1. **Monetary easing abounds.** The European Central Bank is embarking on a large QE programme. The Bank of Canada (unexpectedly) cut its overnight rate and left the door open for more. The Bank of England, regarded just two months ago as likely to boost rates before the Fed, appears to have moved firmly to the sidelines. India and China have cut policy rates with more to come.

Against this, the Fed has prepared the market for an initial rate increase in June—hardly the kick-off of a new era of tighter money, given the Federal Open Market Committee’s expressed preference for gradualism when it comes to any subsequent hikes and the fact that even this first increase may be postponed as inflation sags and the dollar ratchets ever higher.

2. **The American economy continues to gather momentum.** The private sector economy grew by a robust 3.7% in 2014, despite a weather-decimated first quarter. 2015 should be at least as strong, led by a consumer buoyed by jobs and earnings growth. Capacity utilization moving above 80%, and the need to renew aging capital stock suggest capex will build on last year’s gains.
At 24% of global GDP, a strengthening U.S. economy has a “tractor” effect on much of the rest of the world. The displacement of foreign oil by domestic production, amplified by lower prices, likely means more spending on manufactured goods and services from abroad with its larger “multiplier” effect on the global economy.

We expect the global economy will grow in 2015 as will corporate earnings—although the sector make-up of those earnings will be materially different. Absent a U.S. recession or renewed global economic downturn, both of which we view as unlikely, we regard the set-up for equities as favorable.

**Regional Highlights**

**United States**
- The U.S. market is wrestling with a challenging earnings environment and a modest easing of domestic economic momentum. While we view these issues as manageable and transitory, earnings estimates remain vulnerable.
- The consensus now expects full-year S&P 500 earnings to grow 4.1%, suggesting an EPS target of $122. Forecast growth was 8.1% as recently as last month. The main culprit has been the energy sector, where estimates have plunged along with the oil price. Until energy estimates stabilize, we expect some further reductions to consensus earnings growth forecasts.
- In the near term, domestically-oriented companies should post stronger earnings growth than multinationals because of the U.S. economy’s relative strength versus Europe and Asia and the strong dollar. We continue to favor health care, technology, and financials.

**Canada**
- We maintain our market weight exposure to Canadian equities; however, a shift to underweight in the coming months is likely should certain factors not fall into place. The factors include a steeper yield curve, definitive signs that oil and other commodities have bottomed, and indications that global growth (ex-U.S.) has begun to improve.
- Financials and commodities account for about 70% of the Canadian index. For Canadian banks, valuations had reached levels in which 3- to 5-year potential returns appeared favourable. However, with the recent flattening of the yield curve, which could pressure net interest margins, and a likely rise in credit losses stemming from energy sector turmoil, the valuation readjustment for the group may have some time to run. Life insurance companies need higher rates to drive profitability growth.
- As for the commodity complex, the supply readjustment process has begun with significant curtailments to capital expenditures already announced and many more likely to come. Demand has picked up as consumers have begun to respond to low prices. Some meaningful production curtailments would be welcome but have not yet materialised. These forces should combine to eventually bring the oil market into balance; however, the adjustment period could take months if not years, as new supply sources can be brought back on line very quickly.

**Continental Europe & U.K.**
- It is widely expected that QE in Europe will succeed in fending off deflation threats. However, given the ECB’s patchy track record, many are skeptical of the programme’s impact on the real economy, although euro
Global Equity

Weakness should help in this regard. In our view, QE is no panacea, and without deep structural reforms, the programme may not be successful. Nevertheless, QE is likely to be positive for sentiment in the short term.

- Stripping out the heavyweight financials sector (22% of MSCI Index), Europe trades at 2.2x book value, a steep discount to the U.S. market. Overall, European equities markets currently trade at 15.2x 2015 earnings and 16.8x earnings on an ex financials basis. However, we note that many sectors in Europe trade at similar multiples to their U.S. peers (health care, consumer staples, and industrials most notably). Only shares with substantial risk trade at distressed valuations or, put another way, the shares whose prospects are good are not particularly cheap.

- We would hold a healthy allocation of exporters and U.S. dollar earners who will benefit from a weaker euro, as well as stocks paying sustainable and growing dividends. These should continue to be attractive in a low yield environment.

- The recent Greek election, which put in power the first non-mainstream radical party since the crisis, should act to remind investors that the region is not without political risk.

Asia

- Our positive view regarding Asia ex-Japan equities in 2015 has taken a knock from recent downward revisions to global growth forecasts. However, we note that significantly lower energy prices should be a tailwind as many Asian countries are net importers of oil. Chinese equities still have the potential to continue to re-rate on looser policy and domestic reforms, and regional equity valuations are relatively attractive compared to earnings growth. A risk to our positive view would be further global growth deceleration.

- For Japan, the constructive thesis laid out in our special report, Japan: Abe, Abe, and Away, remains intact. The election victory for the Liberal Democratic Party provided Prime Minister Shinzo Abe with a new, four-year mandate that he quickly took advantage of to reduce taxes. The overall effective corporate tax rate will be reduced by 2.51% to 32.1% from April, and an additional reduction is likely next year. We expect further reform measures this year. Close to $2T cash is held by Japanese companies, excluding financials. The benchmark TOPIX index trades at an attractive 13.5x consensus earnings forecasts.

Central Bank Balance Sheets as a Percentage of GDP

QE and other easing policies are set to boost the ECB’s balance sheet at least back up to its peak.
The Future Is Now

For more than a year in *Global Insight*, we have described what we saw as the eventual divergence of monetary policy amongst the world’s major central banks. January saw this divergence begin to take shape. On one side, the European Central Bank (ECB) announced a larger-than-expected quantitative easing (QE) program and the Bank of Canada (BoC) unexpectedly cut rates; on the other, the U.S. Federal Reserve continued to prepare the market for eventual rate hikes.

The debate on the possibility of rate hikes in the U.S. appears over, but the timing of such hikes remains open. Yield spreads in many areas of the market currently look attractive and we would encourage investors to continue with a disciplined approach to deploying capital.

We believe the ECB’s bond-buying program will lead to a sustained rally in peripheral sovereign bonds versus core European government bonds, while corporate spreads should tighten. This would be consistent with the experience of previous bond-buying programs in Japan and the U.S., where an increase in liquidity resulted in lower risk premiums.

Investors in Canada should adjust to an environment of lower rates for a longer period of time. We believe the BoC may cut rates again in 2015 as insurance for an economy that faces the headwind of lower oil and gas-related investment.

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### Regional Highlights

#### United States

- The ECB exceeded market expectations with its QE program as it looks to boost inflation expectations in the region. Should that come to fruition in the coming months, it could be the catalyst that finally puts U.S. Treasury yields on a sustained, albeit modest, path higher.

- The performance of investment grade credit products, including corporate and municipal bonds, has lagged in recent months as government yields have approached record lows. However, we believe spreads on corporates and the ratio of municipal yields to Treasury yields are at the most attractive levels of the past year, and, in our opinion, offer investors good relative value and extra cushion against rising yields.

- Municipalities in general continue to reap the benefits of steadily improving economies. However, oil-dependent states such as North Dakota, Texas, and Oklahoma could come under pressure in a prolonged period of lower oil prices, which could stress credit metrics.
Global
Fixed Income

**CANADA**
- The BoC announced a surprise 25-basis point cut to its benchmark overnight lending rate (to 0.75%) on January 21. BoC Governor Stephen Poloz cited the negative economic effect from the dramatic slide in oil prices as the primary determinant of the cut, and he left the door open for further reductions.
- Short- and intermediate-dated bonds, floating rate preferred shares, and the Canadian dollar recorded the most notable moves after the rate cut announcement.
- The current environment is favourable for corporations looking to issue debt with a maturity less than 10 years. Lower rates, alongside stable credit spreads, creates a compelling environment for debt issuance, which we believe will rise over the coming months.

**CONTINENTAL EUROPE & U.K.**
- The ECB’s bold step of initiating a €60B per month QE programme is likely to dictate the direction of fixed income markets in the medium term.
- Peripheral sovereign bonds should see support from the ECB’s moves, whereas core markets may be at some risk of a sell-off depending on the programme’s success at raising market inflation expectations. We believe the outcome of the recent Greek election is unlikely to trigger contagion to other peripheral countries for now.
- The U.K. Gilts market has been driven by the recent eurozone developments, as well as a shift by the Bank of England to a firmer stance of no rate hike on the horizon. Falling oil prices have also benefitted the Gilts market. However, we believe Gilts remain vulnerable to any sign of additional strength in the U.K. economy. Despite the recent rally, we remain cautious on longer-dated issues.
- Corporate bonds are likely to further benefit from the ECB’s actions, lower oil prices, and low government bond yields. M&A activities remain isolated and earnings season has had little impact on spreads so far. Overall, we believe corporate spreads should continue to tighten from current levels.

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**10-Year Rate (%)**

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>Canada</th>
<th>Eurozone*</th>
<th>U.K.</th>
<th>China</th>
<th>Japan</th>
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<tr>
<td>01/30/15</td>
<td>1.65</td>
<td>1.35</td>
<td>0.30</td>
<td>3.25</td>
<td>NA</td>
<td>0.80</td>
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*Under review *Eurozone utilizes German bunds.

Source - RBC Investment Strategy Committee, RBC Capital Markets, GPAC

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**Divergence in Corporate Bond Spreads**

Yield Compensation Over Government Bonds

Falling oil is driving U.S. spreads wider, ECB is supporting spreads in Europe.

Source - RBC Wealth Management, Barclays, Bloomberg
Commodities

Commodity Forecasts

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2015E</th>
<th>2016E</th>
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</thead>
<tbody>
<tr>
<td>Oil (WTI $/bbl)</td>
<td>65.00</td>
<td>74.00</td>
</tr>
<tr>
<td>Natural Gas ($/mmBtu)</td>
<td>3.75</td>
<td>4.00</td>
</tr>
<tr>
<td>Gold ($/oz)</td>
<td>1,250</td>
<td>1,300</td>
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<tr>
<td>Copper ($/lb)</td>
<td>3.00</td>
<td>3.25</td>
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<tr>
<td>Corn ($/bu)</td>
<td>3.94</td>
<td>4.19</td>
</tr>
<tr>
<td>Wheat ($/bu)</td>
<td>5.75</td>
<td>5.99</td>
</tr>
</tbody>
</table>

Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (corn and wheat).

Oil

- The oil market should eventually see a meaningful supply response as drilling activity slows and the onset of natural declines takes effect. Higher cost production could see shut-ins, and surprise disruptions could swiftly tighten market conditions.
- Saudi Arabia is capable of rebalancing the market with a single decision. Speculation abounds as to its motivations for failing to do so.
- We see a $60–$80/bbl (WTI) range as reasonable in the medium term, given the industry cost profile. The adjustment period and the bottom in price are difficult to predict.

Natural Gas

- With relentless U.S. natural gas production increases, the market appears set up to be oversupplied this year. A major driver will likely be incremental flows expected from the low-cost Marcellus region as new pipeline capacity comes on-stream.
- Power utilities should begin to increase their consumption of natural gas over coal. In 2012, this fuel switching led to an incremental 4 bcf/d of demand. New air quality requirements should drive older coal plant retirements in 2015.
- Lower shale oil drilling activity may reduce associated natural gas production; however, the impact of this is likely muted in H1 2015.
- We see $2.00–$3.50/mmBtu as a reasonable range for natural gas, given the strong supply growth expected in 2015.

Metals

- Between late 2007 and early 2013, investors looked for safe-haven investments, and central banks sought to diversify their currency reserves. With a more benign macroeconomic outlook, rising equity markets, and a strengthening U.S. dollar, the intermediate-term trend for gold remains negative.
- In the short term, gold is up on quantitative easing in Europe and increased equity market volatility. Physical demand may also be improving following the withdrawal of India’s 80:20 re-export rule.
- We remain neutral on gold and see the prevailing price band of $1,150–$1,400/oz as a reasonable expectation for the future.
- For copper, RBC Capital Markets forecasts a slight surplus in 2015 followed by a deficit in 2016. Weak construction activity in China and declining cost prospects (lower diesel prices and weaker producing country currencies versus the U.S. dollar) may continue to pressure copper prices.

![Natural gas production continues its relentless climb higher.](source)
The dollar’s strength since mid-2014 has been largely due to market expectations of a rate hike in 2015 against a backdrop of continued stimulus elsewhere. Should rate hikes unfold more slowly than the market expects, some dollar weakness could ensue. However, we would regard any pullback as an opportunity to add to dollar positions. Our long-term targets for the currency are under review, with a bias toward further dollar strength.

Euro
The announcement of the ECB’s larger-than-expected quantitative easing program pushed the euro to 11-year lows. Some further weakness is likely, in our view. Deflation and austerity have stoked nationalist sentiment in most of Europe. This will likely delay much-needed structural reforms and may further pressure the euro.

Canadian Dollar
The Bank of Canada’s recent rate cut was driven by the bank’s desire to provide some insurance for an economy that is contending with a decline in oil and gas activity. Currency investors looking to profit from an eventual rebound in energy may find better opportunities outside of North America (see chart).

British Pound
The conversion of the only two dissenters on the Bank of England’s Monetary Policy Committee to the “no rate hike” camp at its recent meeting underscored the shift in sentiment toward the pound. With interest rates and inflation likely to remain low, we believe weakness will persist through the May 2015 general election.

Swiss Franc
The Swiss National Bank’s (SNB) move to abandon its currency’s ceiling against the euro triggered a 20% jump in the currency, which has since been only partially unwound. But the concurrent drop in deposit interest rates to -0.75% should act as a headwind to the franc as long as other central banks don't pursue similar negative interest rate policies. With Swiss exporters now feeling the pinch, we believe SNB intervention to weaken the currency cannot be ruled out.

Currency Forecasts

<table>
<thead>
<tr>
<th>Currency Pair</th>
<th>Current Rate</th>
<th>Forecast Dec 2015</th>
<th>Change*</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD Index</td>
<td>94.80</td>
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<tr>
<td>CAD/USD</td>
<td>0.79</td>
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<tr>
<td>USD/CAD</td>
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<td>GBP/USD</td>
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<td>USD/CHF</td>
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<td>0.78</td>
<td>0.80</td>
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<td>NZD/USD</td>
<td>0.73</td>
<td>0.74</td>
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<td>EUR/JPY</td>
<td>132.65</td>
<td>154.44</td>
<td>16%</td>
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<td>EUR/GBP</td>
<td>0.75</td>
<td>0.82</td>
<td>9%</td>
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<td>EUR/CHF</td>
<td>1.04</td>
<td>1.22</td>
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Emerging Currencies

<table>
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<tr>
<th>Currency Pair</th>
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<th>Forecast Dec 2015</th>
<th>Change*</th>
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</thead>
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<td>USD/CNY</td>
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<td>USD/INR</td>
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<td>USD/SGD</td>
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<td>USD/TRY</td>
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<td>USD/PLN</td>
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<td>USD/MXN</td>
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<tr>
<td>USD/BRL</td>
<td>2.68</td>
<td>2.80</td>
<td>4%</td>
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</tbody>
</table>

* Defined as the implied appreciation or depreciation of the first currency in the pair quote.

Examples of how to interpret data found on page 15.

Source - RBC Capital Markets, Bloomberg

Krone Likely the Best Currency to Play an Eventual Energy Bounce

Energy accounts for 21% of Norway’s GDP and the currency has been hit hard recently. With average oil break-even prices of $35–$40/bbl we think the krone’s sell-off may be overdone.

All currencies weekly versus US$, rebased to 100 on December 1, 2013. Oil price reflects WTI front futures contract. Data through 1/30/15.

Source - RBC Wealth Management, RBC Capital Markets, Thomson Reuters
United States — Strengthening
- Q4 growth disappointed at 2.6%, but private sector up a solid 3.7% for the year. Gov’t spending the big drag. Consumer spending up 4.3% in Q4. Housing steady. Leading indicators, CEO confidence elevated. Consumer confidence at 8-year high.
- ISM mfg. output and new orders off highs, but still above the 50 expansion/contraction boundary. 14-year low for unemployment claims. Jobs up 2% in last 12 months.

Canada — Trade Driven
- After strong Q3, growth likely weakened in Q4 as oil troubles hit employment and confidence. RBC Canadian PMI has fallen 2 mos. running to Jan. Remains above 50. New orders fell.

Eurozone — Stagnation
- Q3 the 5th successive quarter of positive growth (barely). Q4 will be another “squeaker,” although Spain already in ahead of estimates, its 6th quarter running of expansion. Bank private sector lending up first time in two years.
- Regional PMIs suggest some improvement for 2015. Germany positive, but uneven. Italy lagging badly. Spain positive. Russia, Greece weighing on outlook.

United Kingdom — Solid
- Q4 GDP up (8th in a row), but softer than expected. Services strong, construction and industrial production off. Unemployment lowest since Aug. 2008. PMIs up in Dec. and Jan. New export orders at 5-mo. high, suggesting good start to 2015.
- Growth pace sustainable for 2015, but potentially vulnerable to weak Europe and May parliamentary elections.

China — Still Slowing
- Q4 GDP at 7.3%, slightly better than expected. But manufacturing PMI below 50 and weak LEIs, confidence suggest slowdown not over. New orders have weakened. Trade stronger into Jan.

Japan — Volatile
- GDP growth rate looks to have rebounded in Q4. Leading indicators and PMI reasonable. New orders lack momentum. Corporate earnings beating expectations.
- Consumer confidence stabilizing, retail sales flat. Construction spending soft. Falling oil prices putting inflation targets in jeopardy.

Source - RBC Investment Strategy Committee, RBC Capital Markets, and GPAC
## Market Scorecard

**Index (local currency)**

<table>
<thead>
<tr>
<th>Index</th>
<th>Level</th>
<th>1 Month</th>
<th>YTD</th>
<th>12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>1,994.99</td>
<td>-3.1%</td>
<td>-3.1%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Dow Industrials (DJIA)</td>
<td>17,164.95</td>
<td>-3.7%</td>
<td>-3.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>4,635.24</td>
<td>-2.1%</td>
<td>-2.1%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>1,165.39</td>
<td>-3.3%</td>
<td>-3.3%</td>
<td>3.1%</td>
</tr>
<tr>
<td>S&amp;P/TSX Comp</td>
<td>14,673.48</td>
<td>0.3%</td>
<td>0.3%</td>
<td>7.1%</td>
</tr>
<tr>
<td>FTSE All Share</td>
<td>3,621.81</td>
<td>2.5%</td>
<td>2.5%</td>
<td>3.6%</td>
</tr>
<tr>
<td>STOXX Europe 600</td>
<td>367.05</td>
<td>7.2%</td>
<td>7.2%</td>
<td>13.8%</td>
</tr>
<tr>
<td>German DAX</td>
<td>10,694.32</td>
<td>9.1%</td>
<td>9.1%</td>
<td>14.9%</td>
</tr>
<tr>
<td>Hang Seng</td>
<td>24,507.05</td>
<td>3.8%</td>
<td>3.8%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Shanghai Comp</td>
<td>3,210.36</td>
<td>-0.8%</td>
<td>-0.8%</td>
<td>57.9%</td>
</tr>
<tr>
<td>Nikkei 225</td>
<td>17,674.39</td>
<td>1.3%</td>
<td>1.3%</td>
<td>18.5%</td>
</tr>
<tr>
<td>India Sensex</td>
<td>29,182.95</td>
<td>6.1%</td>
<td>6.1%</td>
<td>42.3%</td>
</tr>
<tr>
<td>Singapore Straits Times</td>
<td>46,907.68</td>
<td>0.8%</td>
<td>0.8%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Brazil Ibovespa</td>
<td>24,507.05</td>
<td>-6.2%</td>
<td>-6.2%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Mexican Bolsa IPC</td>
<td>40,950.58</td>
<td>-5.1%</td>
<td>-5.1%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

**Bond Yields**

<table>
<thead>
<tr>
<th>Yield</th>
<th>1/30/15</th>
<th>12/31/14</th>
<th>1/31/14</th>
<th>12-mo Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>US 2-Yr Tsy</td>
<td>0.449%</td>
<td>0.665%</td>
<td>0.328%</td>
<td>0.12%</td>
</tr>
<tr>
<td>US 10-Yr Tsy</td>
<td>1.641%</td>
<td>2.171%</td>
<td>2.644%</td>
<td>-1.00%</td>
</tr>
<tr>
<td>Canada 2-Yr</td>
<td>0.394%</td>
<td>1.012%</td>
<td>0.947%</td>
<td>-0.55%</td>
</tr>
<tr>
<td>Canada 10-Yr</td>
<td>1.251%</td>
<td>1.788%</td>
<td>2.339%</td>
<td>-1.09%</td>
</tr>
<tr>
<td>UK 2-Yr</td>
<td>0.351%</td>
<td>0.446%</td>
<td>0.494%</td>
<td>-0.14%</td>
</tr>
<tr>
<td>UK 10-Yr</td>
<td>1.330%</td>
<td>1.756%</td>
<td>2.707%</td>
<td>-1.38%</td>
</tr>
<tr>
<td>Germany 2-Yr</td>
<td>-0.184%</td>
<td>0.068%</td>
<td>-0.25%</td>
<td></td>
</tr>
<tr>
<td>Germany 10-Yr</td>
<td>0.302%</td>
<td>1.659%</td>
<td>-1.36%</td>
<td></td>
</tr>
</tbody>
</table>

**Commodities (USD)**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Price</th>
<th>1 Month</th>
<th>YTD</th>
<th>12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold (spot $/oz)</td>
<td>1,283.77</td>
<td>8.3%</td>
<td>8.3%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Silver (spot $/oz)</td>
<td>17.26</td>
<td>9.9%</td>
<td>9.9%</td>
<td>-10.0%</td>
</tr>
<tr>
<td>Copper ($/metric ton)</td>
<td>5,541.00</td>
<td>-13.0%</td>
<td>-13.0%</td>
<td>-21.9%</td>
</tr>
<tr>
<td>Uranium ($/lb)</td>
<td>36.75</td>
<td>-8.1%</td>
<td>-8.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Oil (WTI spot/bbl)</td>
<td>48.24</td>
<td>-9.4%</td>
<td>-9.4%</td>
<td>-50.5%</td>
</tr>
<tr>
<td>Oil (Brent spot/bbl)</td>
<td>52.99</td>
<td>-7.6%</td>
<td>-7.6%</td>
<td>-50.2%</td>
</tr>
<tr>
<td>Natural Gas ($/mmBtu)</td>
<td>2.69</td>
<td>-6.9%</td>
<td>-6.9%</td>
<td>-45.6%</td>
</tr>
<tr>
<td>Agriculture Index</td>
<td>298.28</td>
<td>-7.5%</td>
<td>-7.5%</td>
<td>-14.1%</td>
</tr>
</tbody>
</table>

**Currencies**

<table>
<thead>
<tr>
<th>Currency</th>
<th>Rate</th>
<th>1 Month</th>
<th>YTD</th>
<th>12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Dollar Index</td>
<td>94.80</td>
<td>5.0%</td>
<td>5.0%</td>
<td>16.6%</td>
</tr>
<tr>
<td>CAD/USD</td>
<td>0.79</td>
<td>-8.7%</td>
<td>-8.7%</td>
<td>-12.6%</td>
</tr>
<tr>
<td>USD/CAD</td>
<td>1.27</td>
<td>9.6%</td>
<td>9.6%</td>
<td>14.4%</td>
</tr>
<tr>
<td>EUR/USD</td>
<td>1.13</td>
<td>-6.7%</td>
<td>-6.7%</td>
<td>-16.3%</td>
</tr>
<tr>
<td>GBP/USD</td>
<td>1.51</td>
<td>-3.3%</td>
<td>-3.3%</td>
<td>-8.4%</td>
</tr>
<tr>
<td>AUD/USD</td>
<td>0.78</td>
<td>-5.1%</td>
<td>-5.1%</td>
<td>-11.4%</td>
</tr>
<tr>
<td>USD/CHF</td>
<td>0.92</td>
<td>-7.5%</td>
<td>-7.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>USD/JPY</td>
<td>117.49</td>
<td>-1.9%</td>
<td>-1.9%</td>
<td>15.1%</td>
</tr>
<tr>
<td>EUR/JPY</td>
<td>132.65</td>
<td>-8.4%</td>
<td>-8.4%</td>
<td>-3.6%</td>
</tr>
<tr>
<td>EUR/GBP</td>
<td>0.75</td>
<td>-3.5%</td>
<td>-3.5%</td>
<td>-8.6%</td>
</tr>
<tr>
<td>EUR/CHF</td>
<td>1.04</td>
<td>-13.6%</td>
<td>-13.6%</td>
<td>-15.0%</td>
</tr>
<tr>
<td>USD/SGD</td>
<td>1.35</td>
<td>2.2%</td>
<td>2.2%</td>
<td>6.1%</td>
</tr>
<tr>
<td>USD/CNY</td>
<td>6.25</td>
<td>0.7%</td>
<td>0.7%</td>
<td>3.1%</td>
</tr>
<tr>
<td>USD/BRL</td>
<td>2.68</td>
<td>1.0%</td>
<td>1.0%</td>
<td>11.2%</td>
</tr>
</tbody>
</table>

Equity returns do not include dividends, except for the German DAX. Equity performance and bond yields in local currencies. U.S. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing. Examples of how to interpret currency data: CAD/USD 0.79 means 1 Canadian dollar will buy 0.79 U.S. dollar. CAD/USD -12.6% return means the Canadian dollar has fallen 12.6% vs. the U.S. dollar during the past 12 months. USD/JPY 117.49 means 1 U.S. dollar will buy 117.49 yen. USD/JPY 15.1% return means the U.S. dollar has risen 15.1% vs. the yen during the past 12 months.

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Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 1/30/15.

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Continental European equities surged on the ECB’s aggressive QE plans.

Government yields headed lower on ECB QE, and as inflation eased again and growth concerns persisted.

Copper prices tumbled as metals commodities followed crude oil lower, and on weak Chinese construction activity.

The U.S. dollar surged as monetary policies began to diverge.

Weak crude oil prices and the Bank of Canada’s surprise rate cut vaulted the dollar against the loonie.
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![Distribution of Ratings - RBC Capital Markets, LLC Equity Research](image)

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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.

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