

Market Outlook

November 2017

AWF Luncheon

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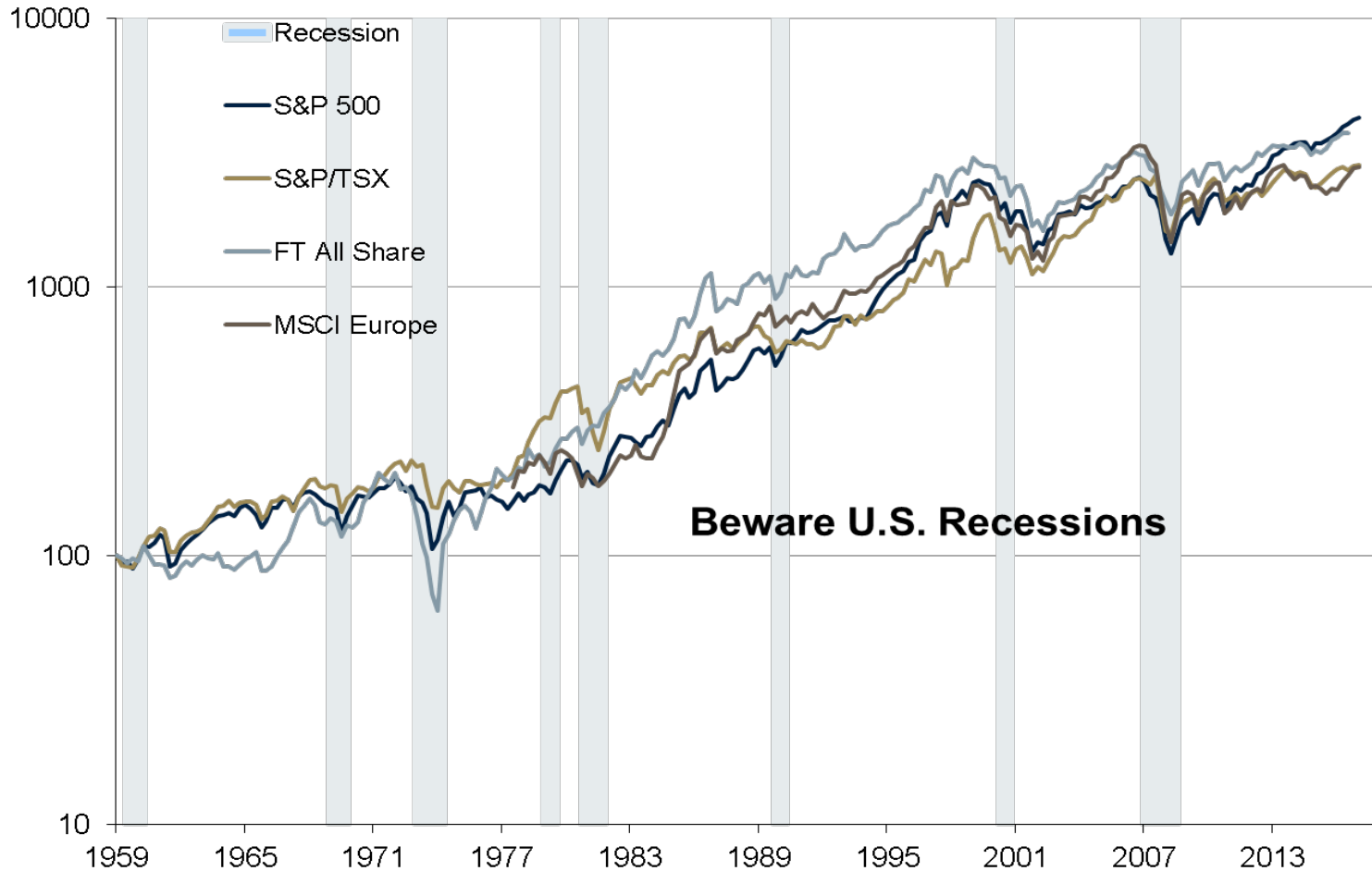
October 2017

Our Long-Term Operating Framework

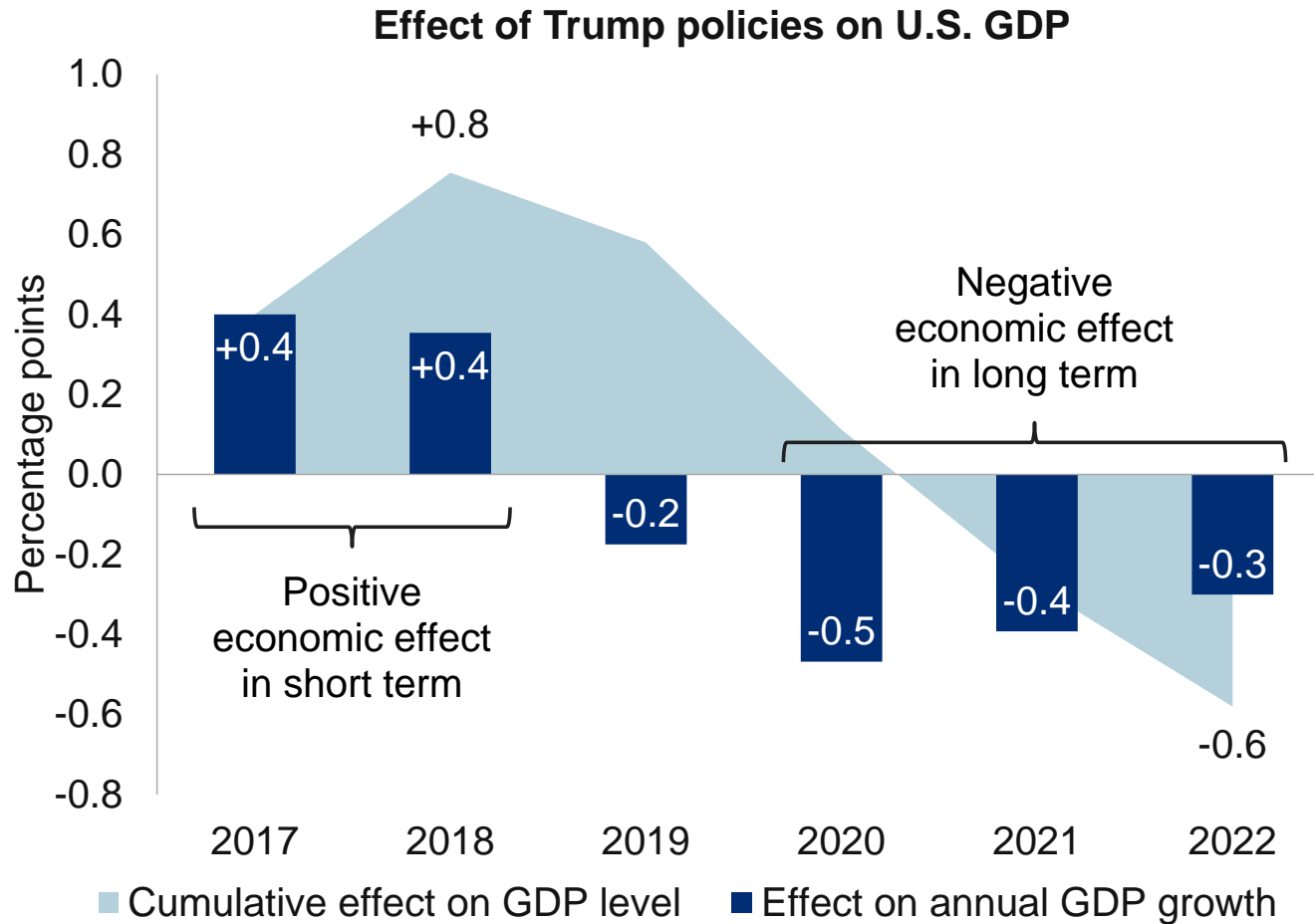
- Credit conditions remain extremely accommodative
- Every U.S. recession but two in the past 100 years has been preceded by the arrival of “tight money”
- Every U.S. recession has been associated with a “bear market” for stocks
- It could be a year, probably longer, before credit tightens enough to make a U.S. recession inevitable
- Give equities the benefit of the doubt until then



Bull markets don't die of old age.... ...they are murdered by U.S. recessions



Trump economic effect: short term boost, longer term drag



Source: RBC GAM assumptions and calculations



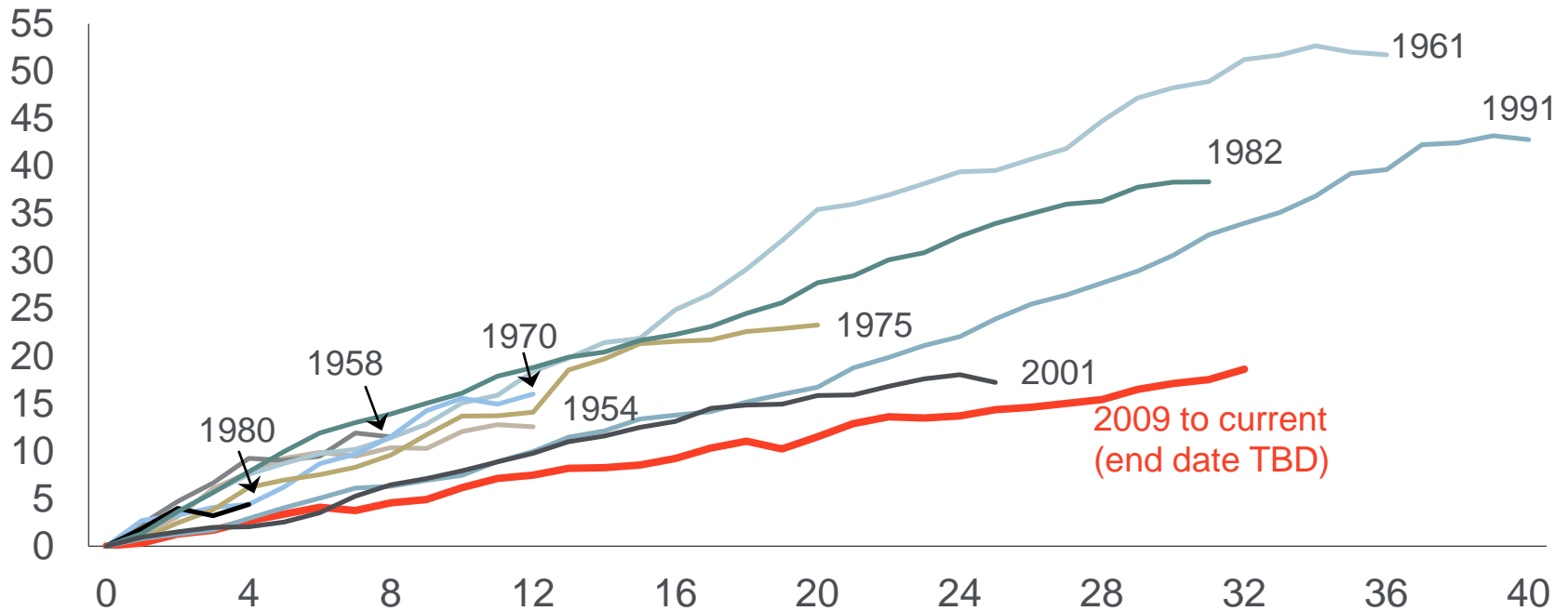
Watch the U.S. consumer

- Unemployment rate near 18 lows (50 year lows reachable), UI claims recently at all time lows, more than 6 million jobs going begging
- Large percentage (30%) of small/medium sized businesses unable to get qualified job applicants but only 2% say credit is a problem.
- \$9 trillion (50% of GDP) sitting in bank accounts owned by individuals earning nothing. More than twice that in money, bond, and stock funds, in ETFs, and in direct ownership of securities. Credit card delinquencies very low.
- Labour tightness gradually pushing wage inflation higher – average hourly wages of “job stayers” growing at 4%+ - but so far the Fed looks to be ahead of the curve.



This is a long-lasting, but slow-growing recovery

of quarters each recovery lasted



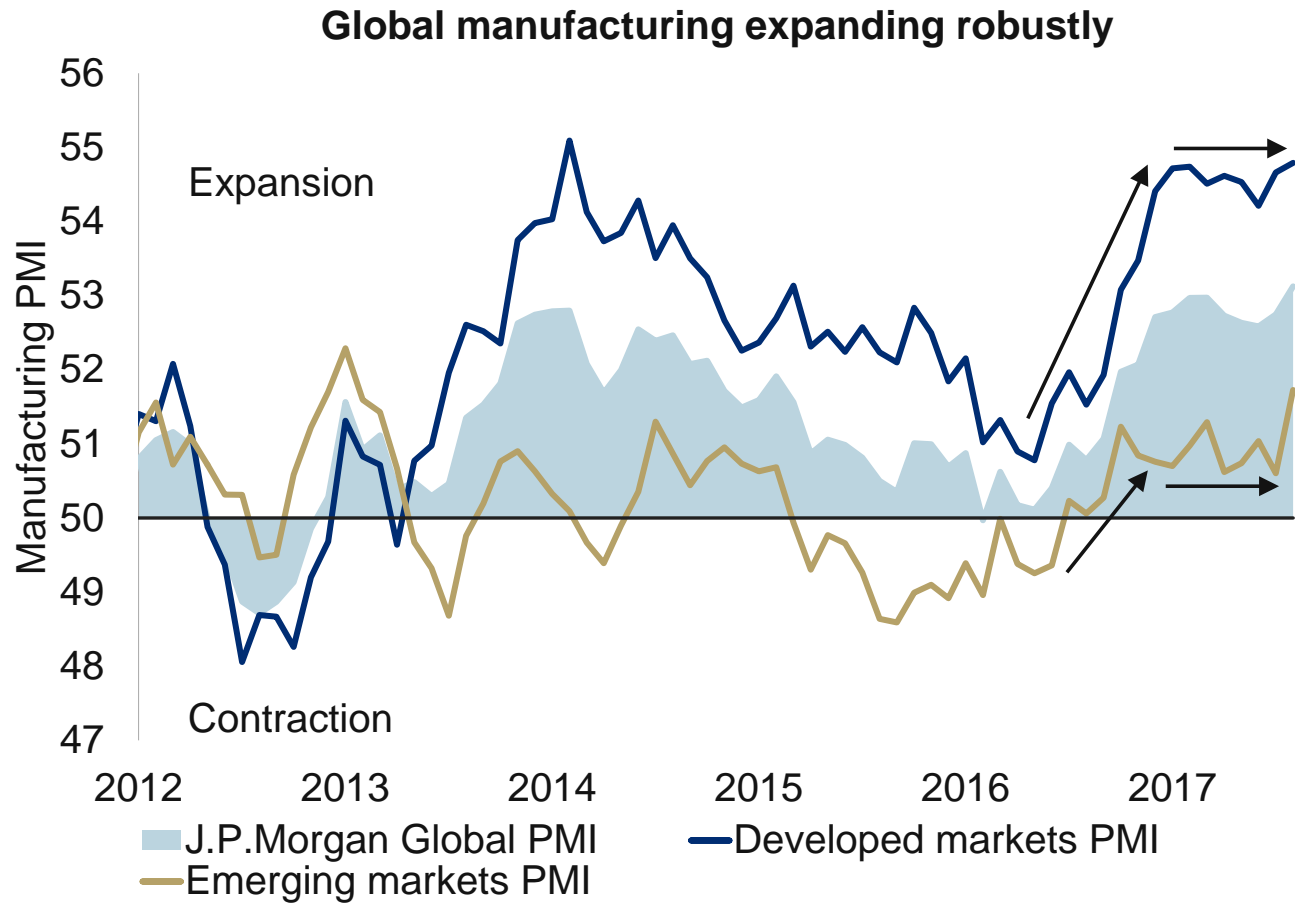
No Boom, No Bust?

Source: U.S. Bureau of Economic Analysis



Wealth
Management

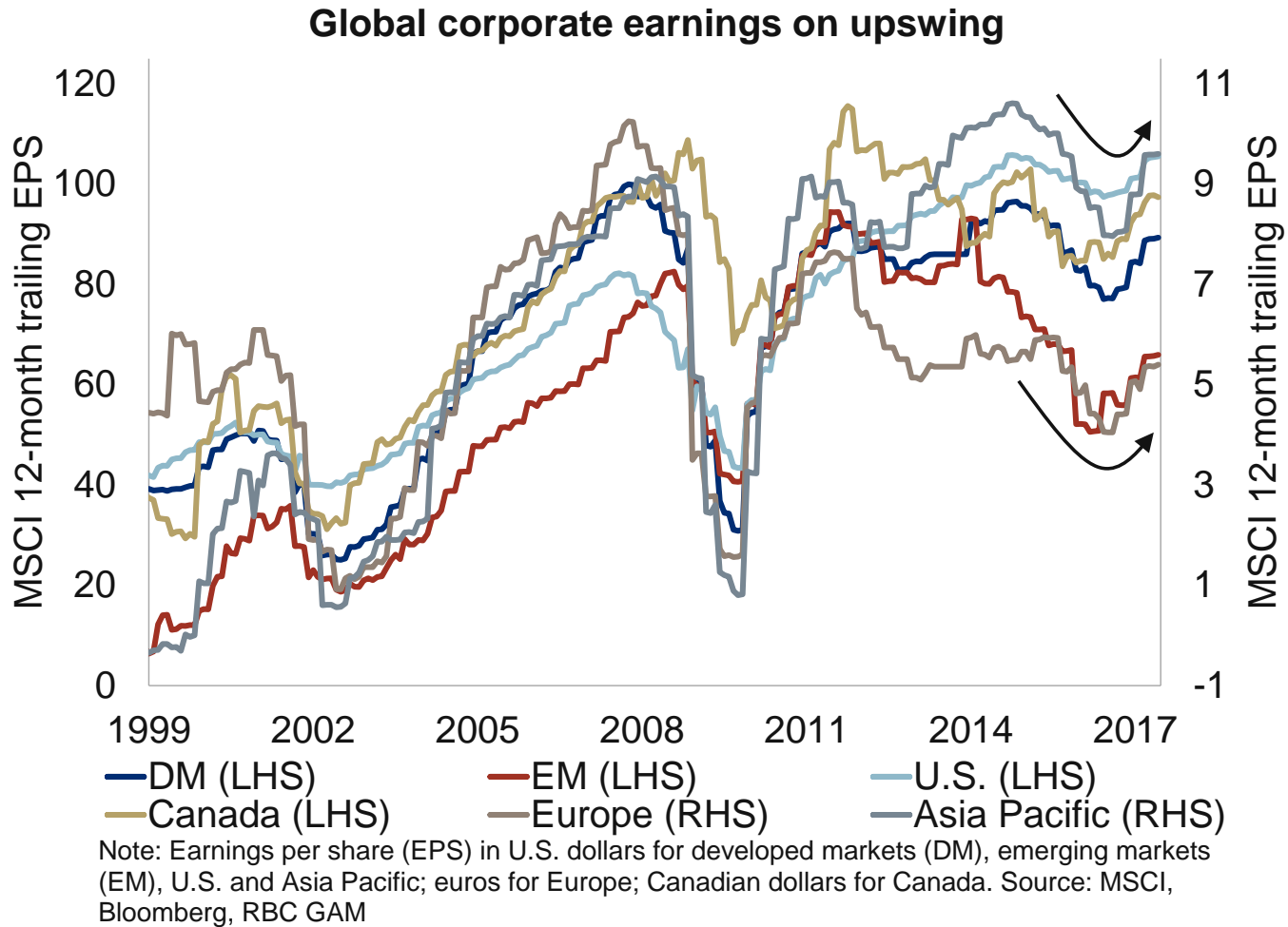
Global economic signal has improved nicely, but peaking?



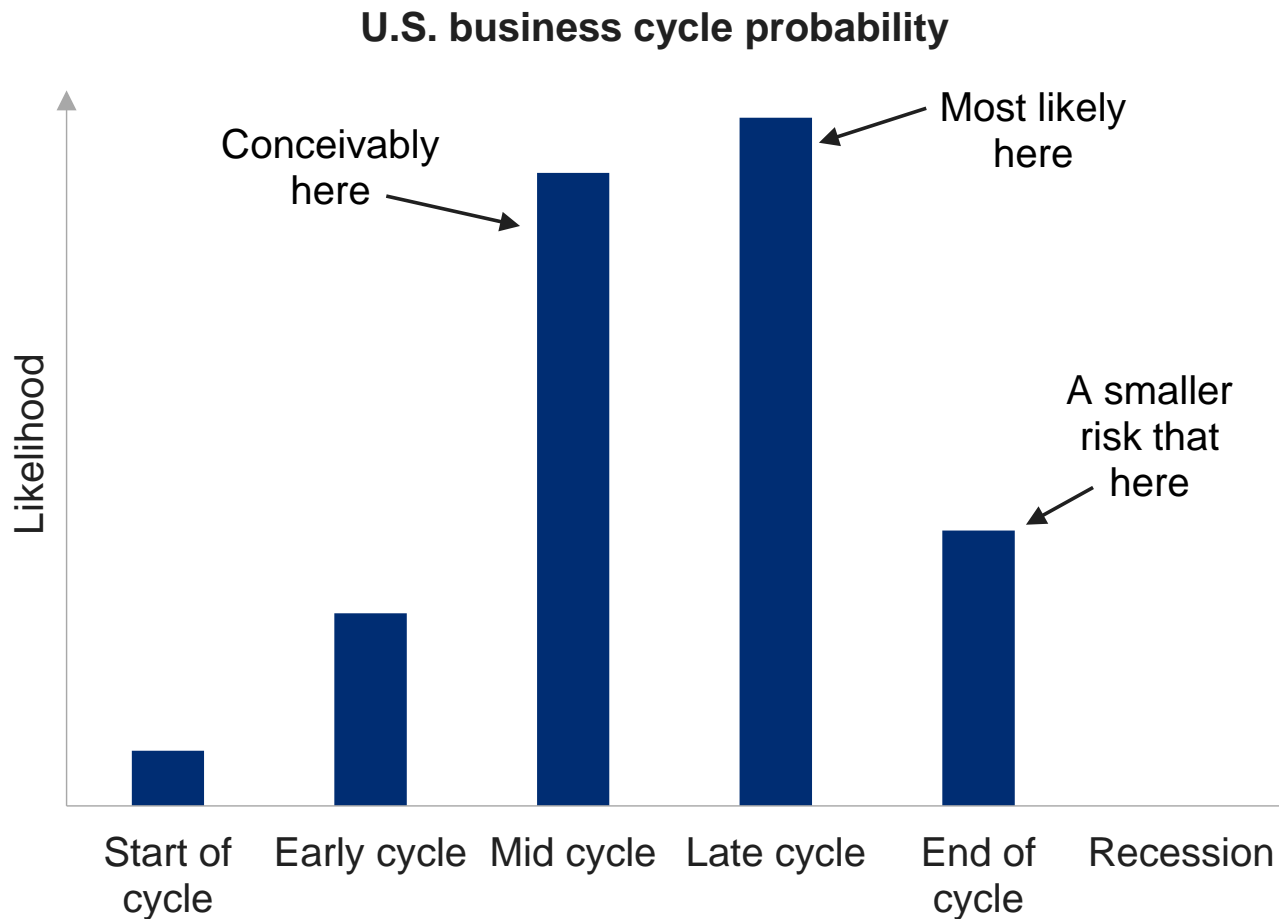
Note: PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM



Corporate profits rising, even before tax cut

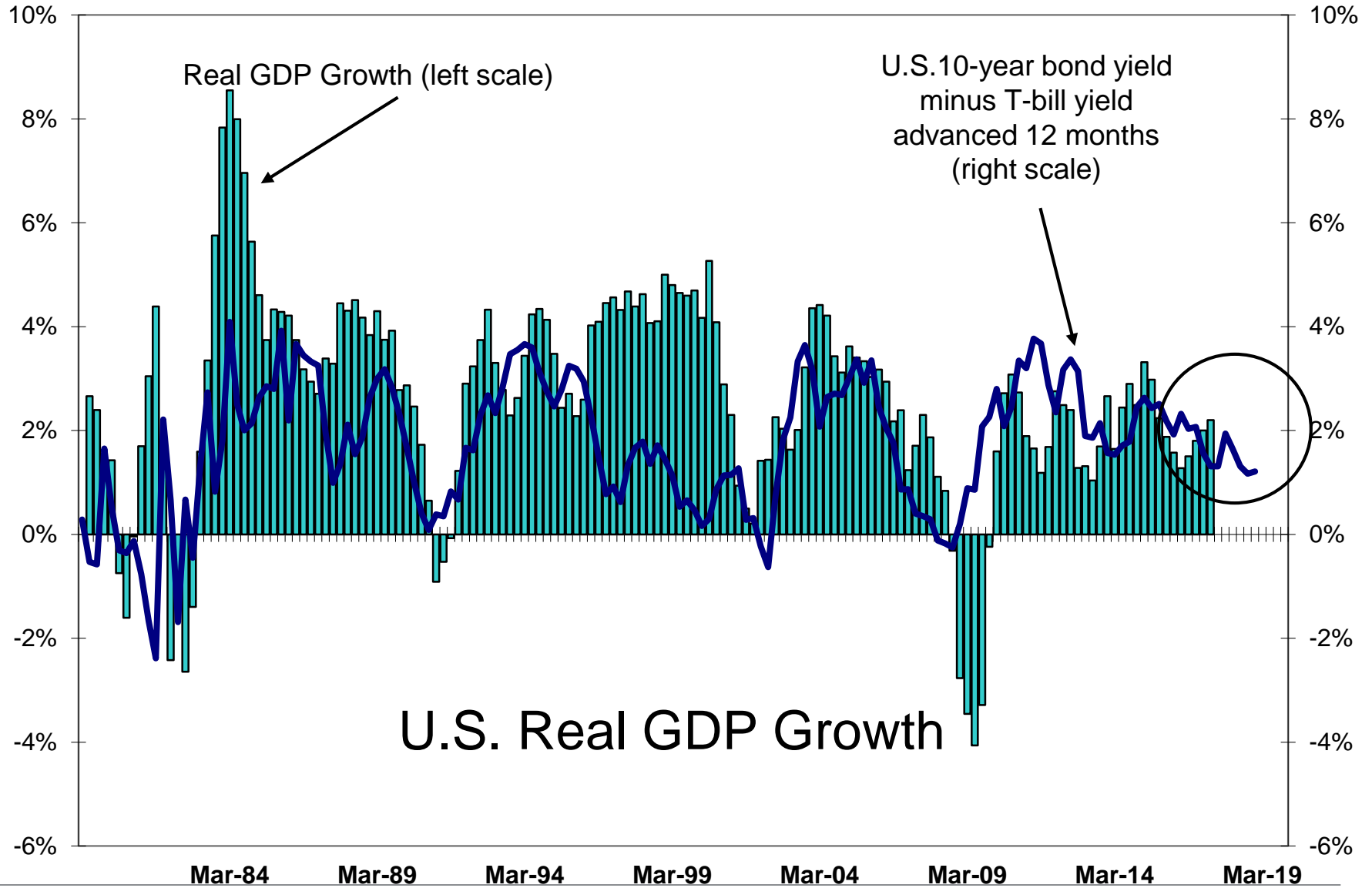


U.S. economy most probably in late cycle



Note: Calculated via scorecard technique by RBC GAM. Source: RBC GAM

The yield curve is not signalling a recession,
but it does suggest growth may stay slow(ish) through next year.

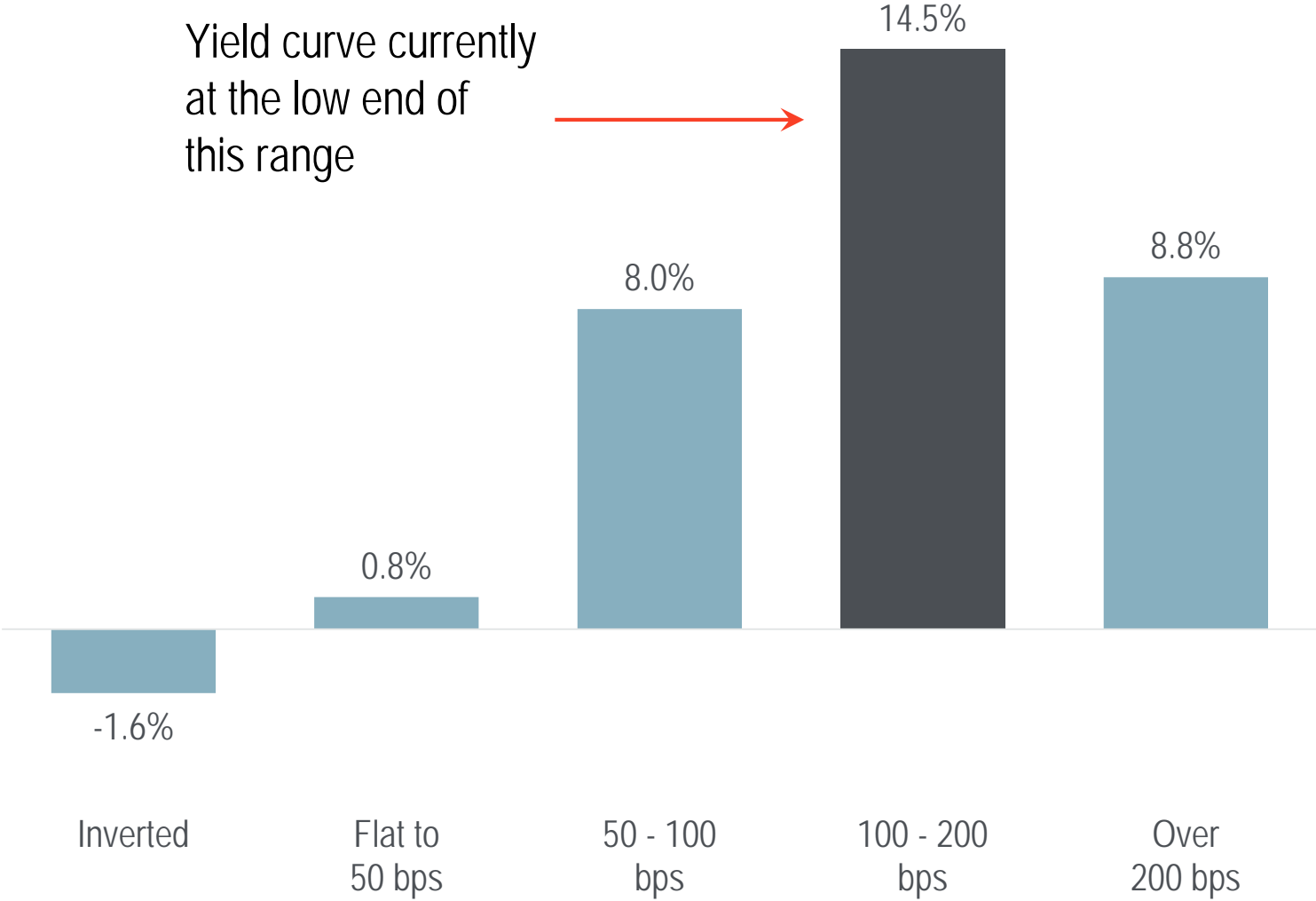


Source: U.S. Bureau of Economic Analysis; U.S. Federal Reserve

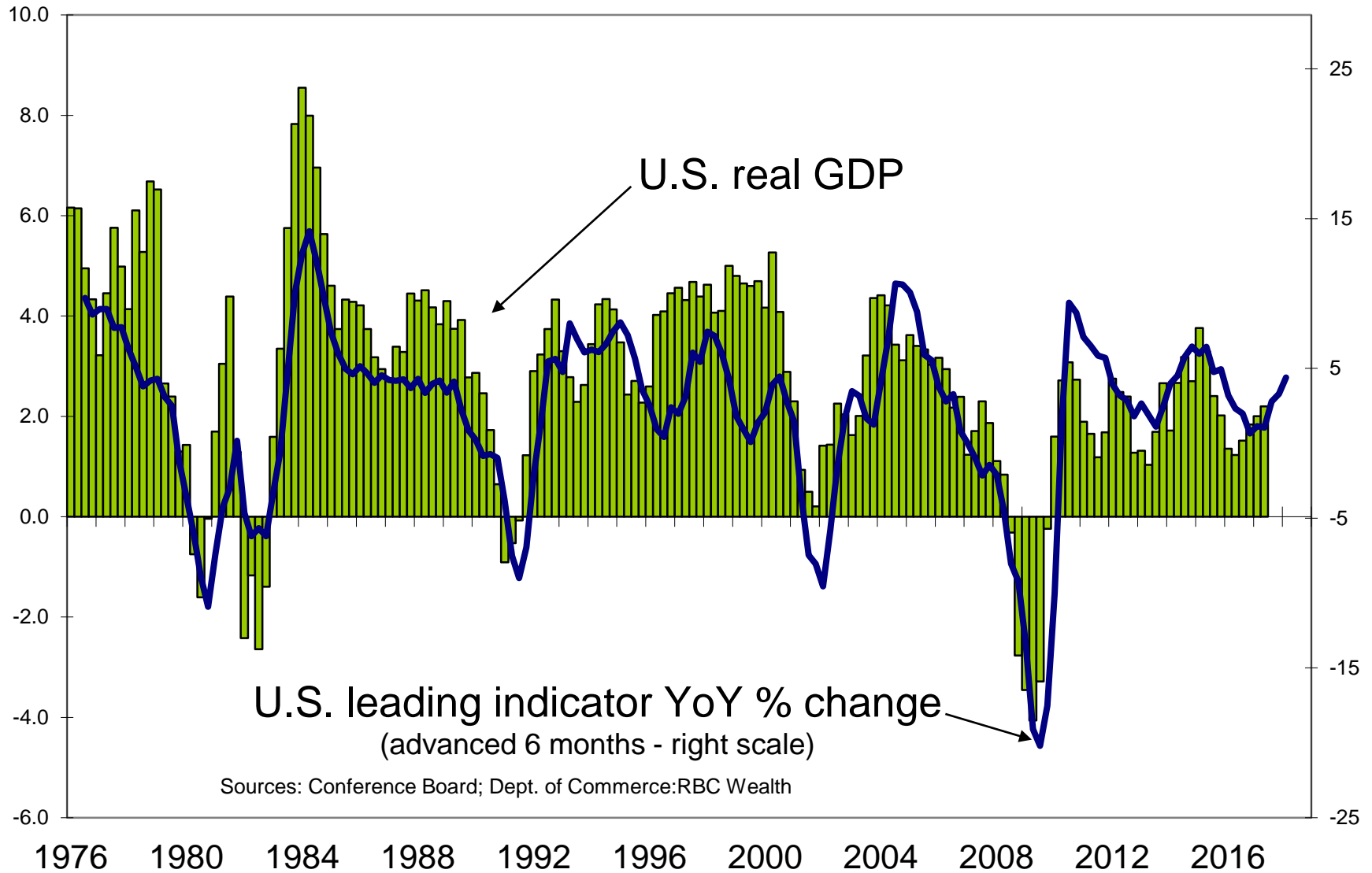


Wealth Management

Yield curve currently
at the low end of
this range



The Leading Indicator suggests GDP growth has picked up a bit in the second half.



Monetary stimulus is passing its peak



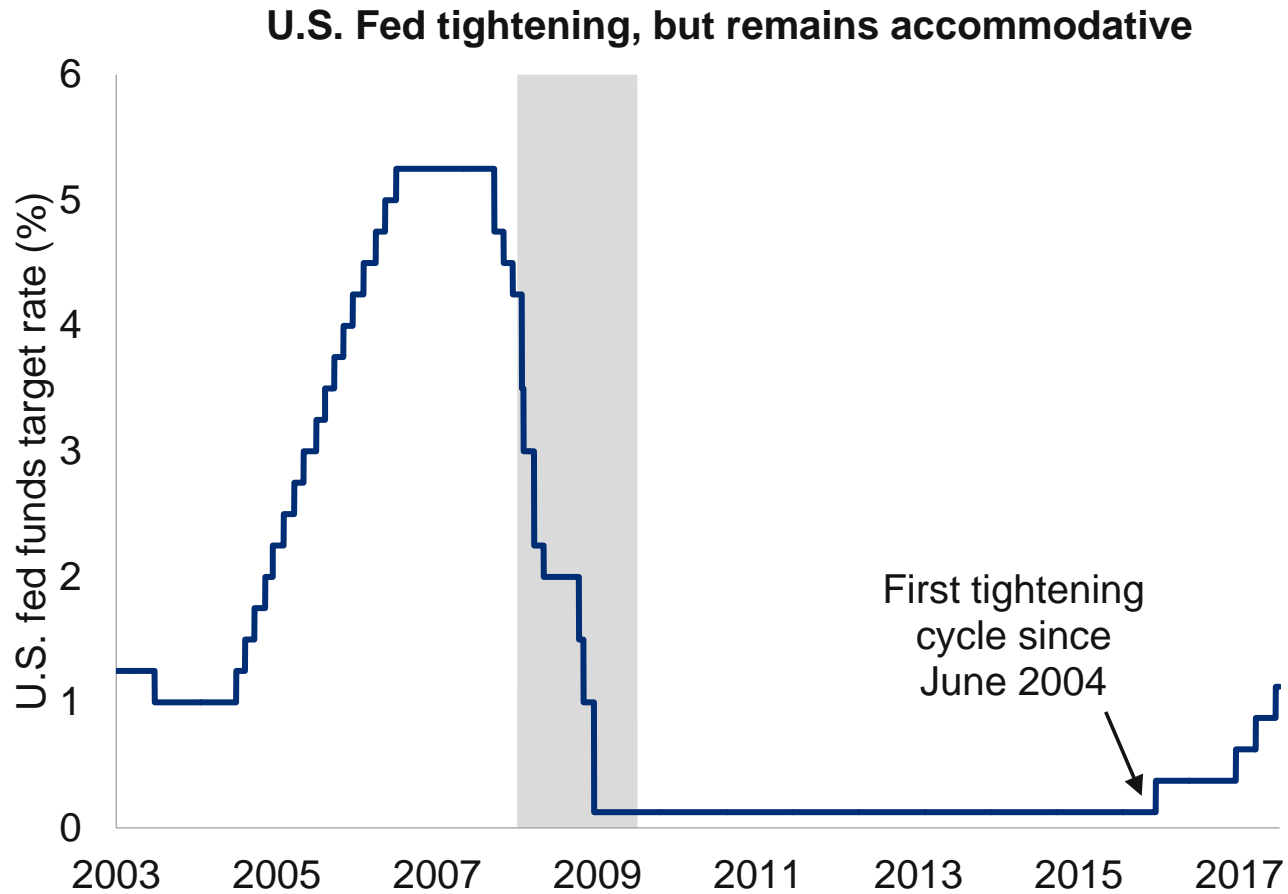
- Improving growth/inflation
- Diminishing economic slack
- Fed rate hikes, staged balance sheet decline
 - BoE QE ending next year?
- ECB QE monthly purchases cut in half, ending next year?
 - Rising yields?

Source: RBC GAM



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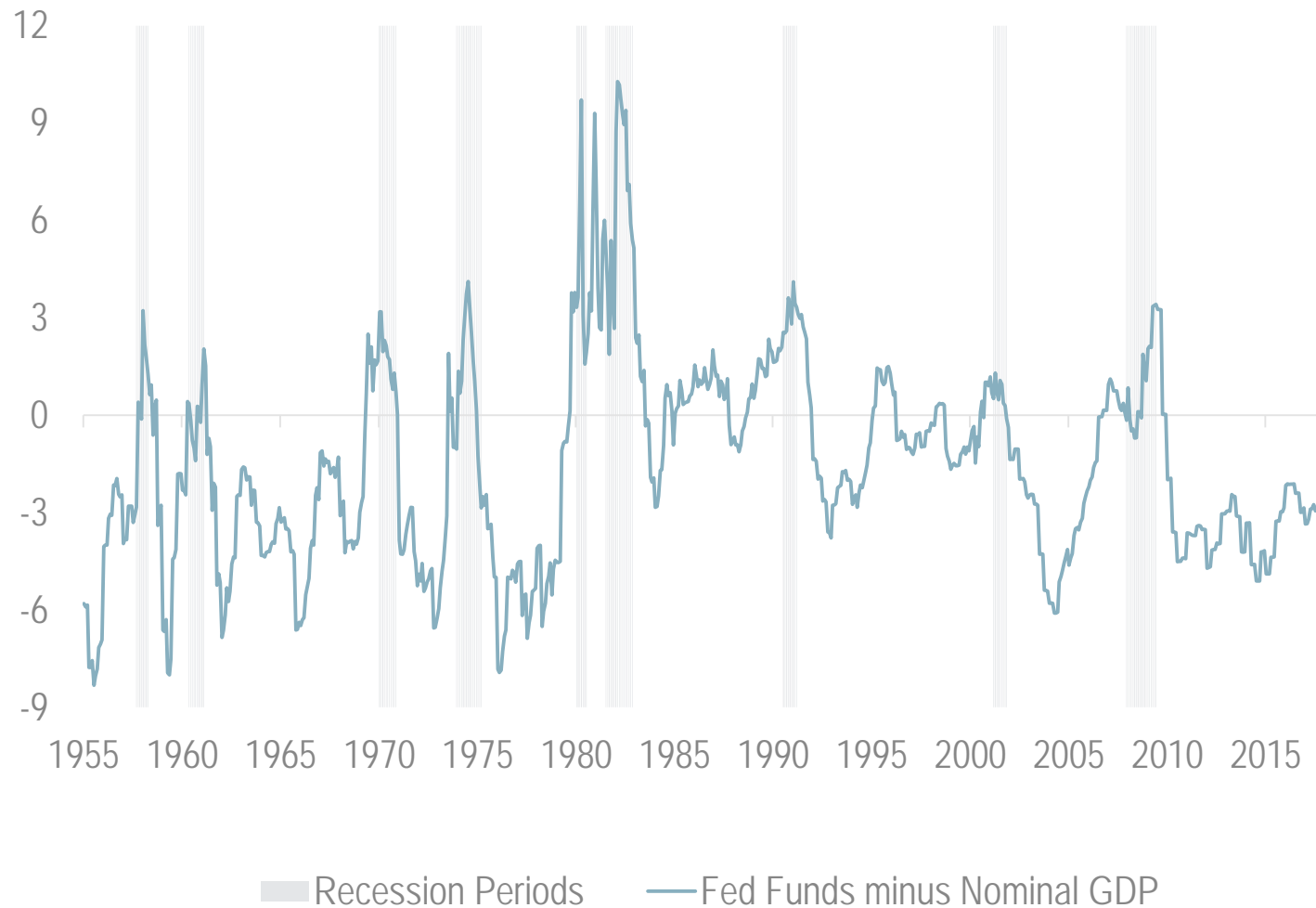
U.S. rate hikes continue to putter along

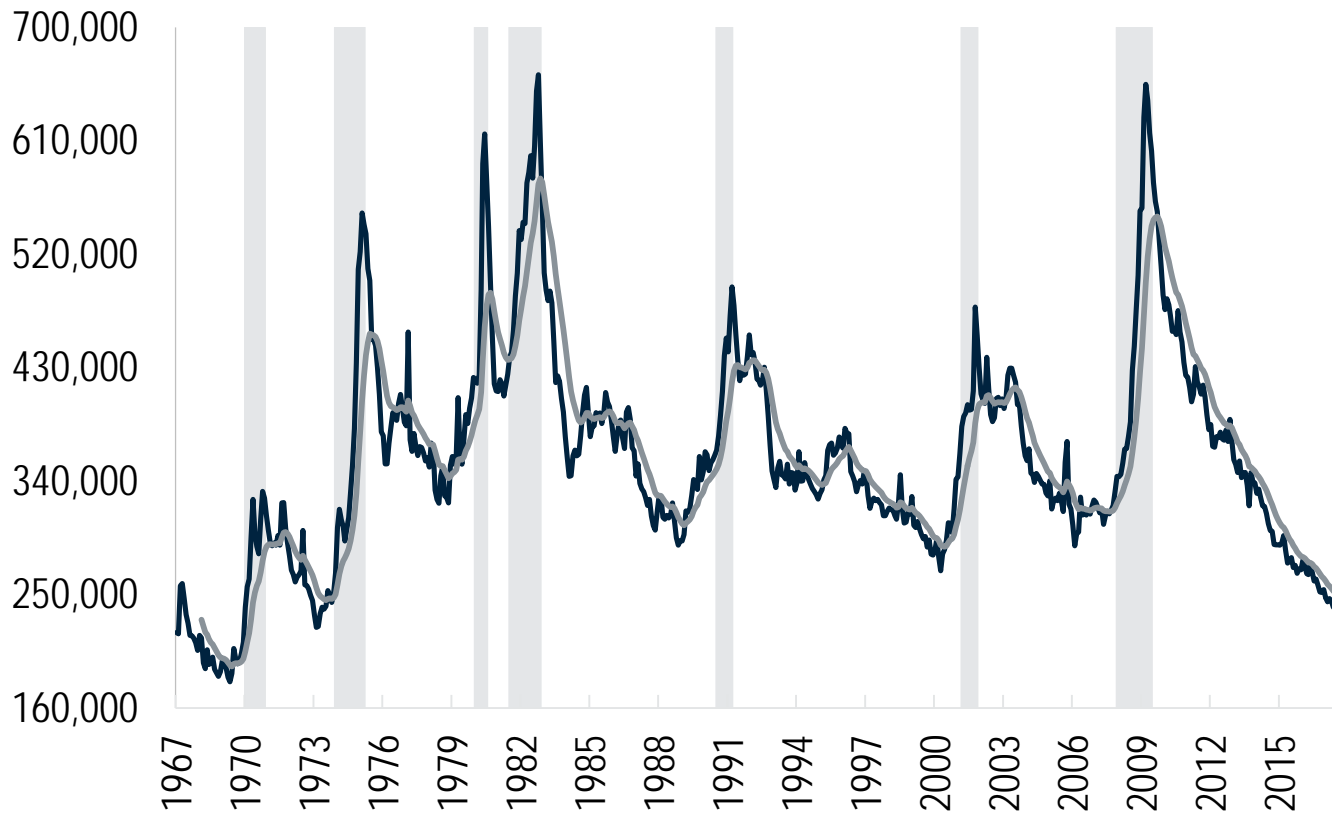


Note: Shaded area represents recession.

Source: Federal Reserve Board, Haver Analytics, RBC GAM

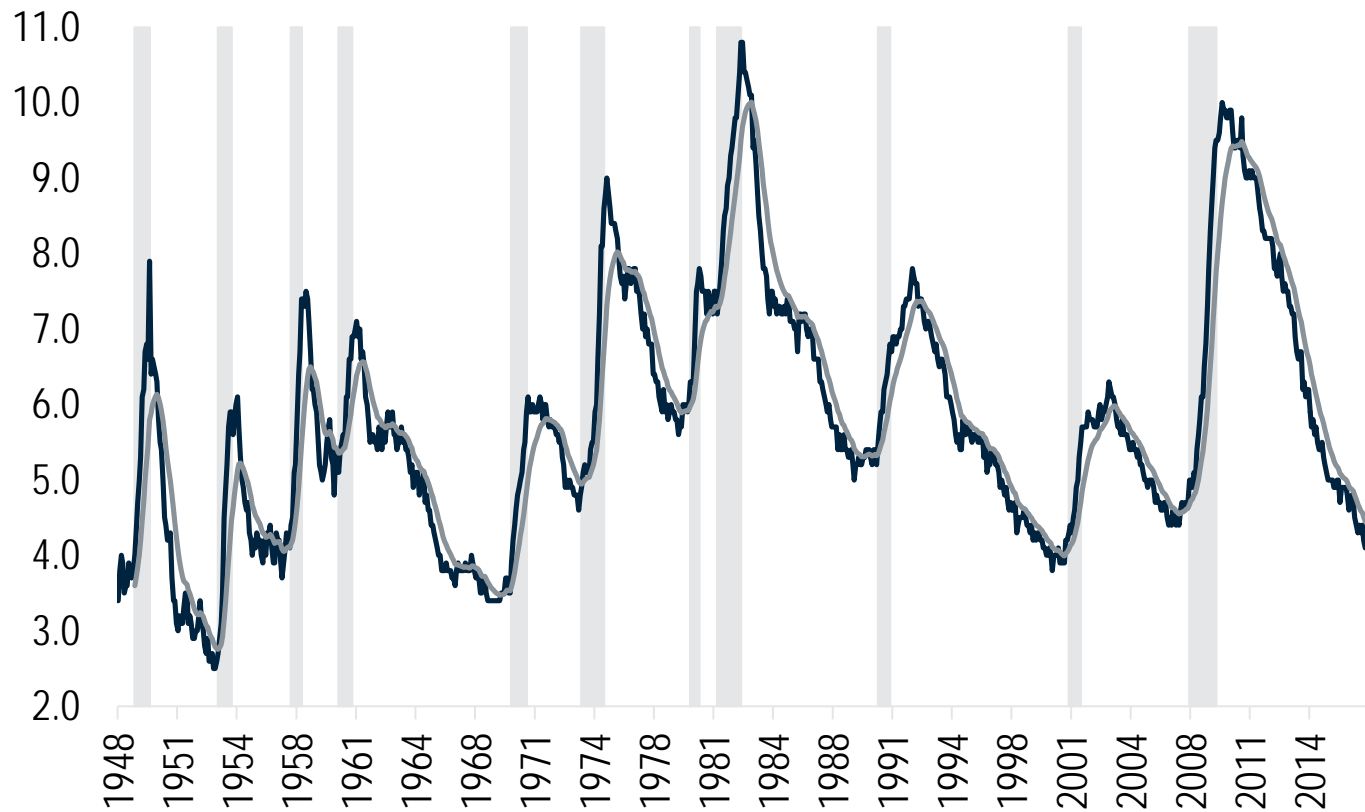
How high do rates have to go?





Recession periods
 Unemployment claims
 Unemployment claims smoothed trend



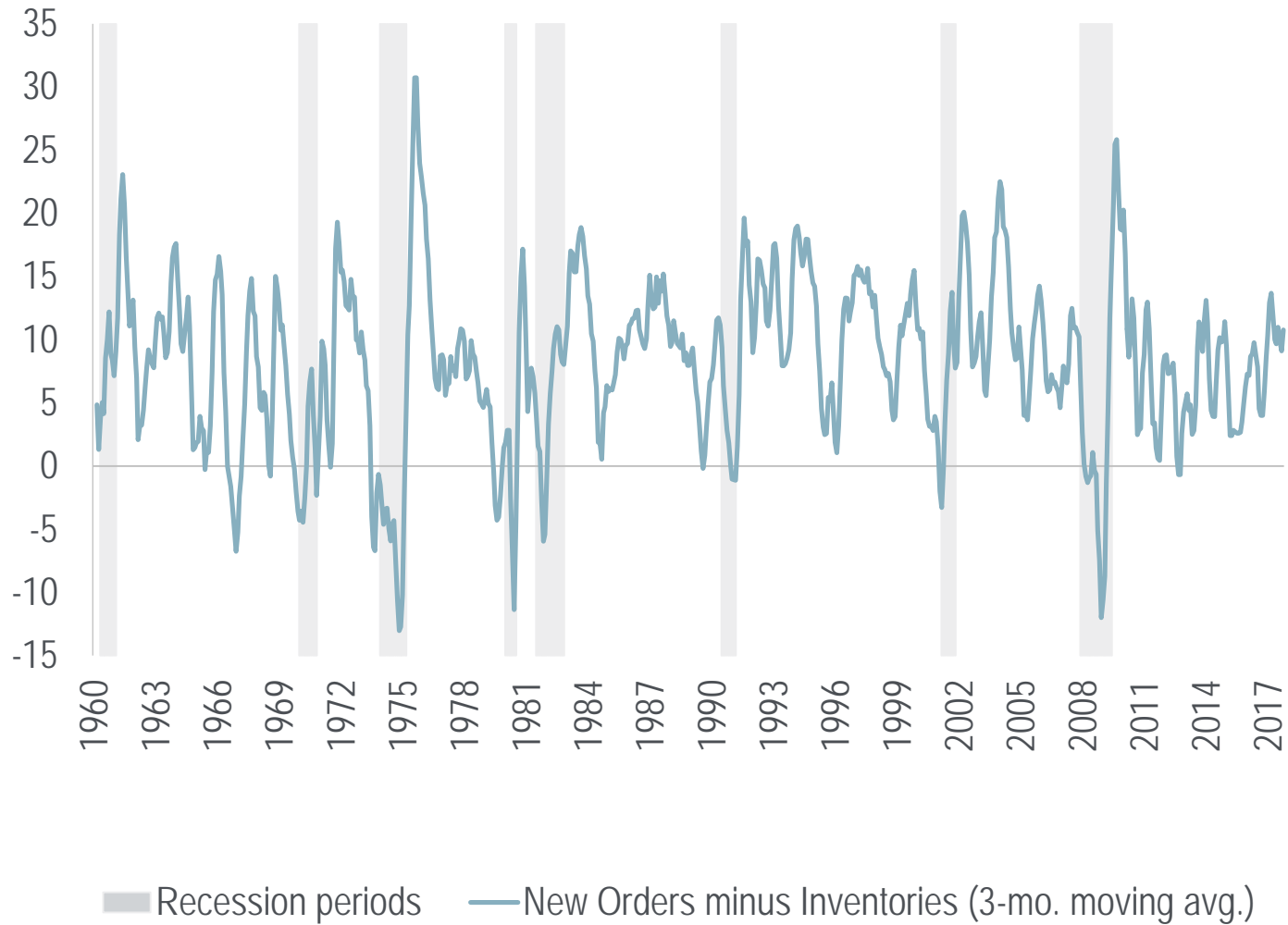


- Recession Periods
- Unemployment Rate
- Unemployment Rate smoothed trend

Source: U.S. Dept. of Labor; National Bureau of Economic Research



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Management**

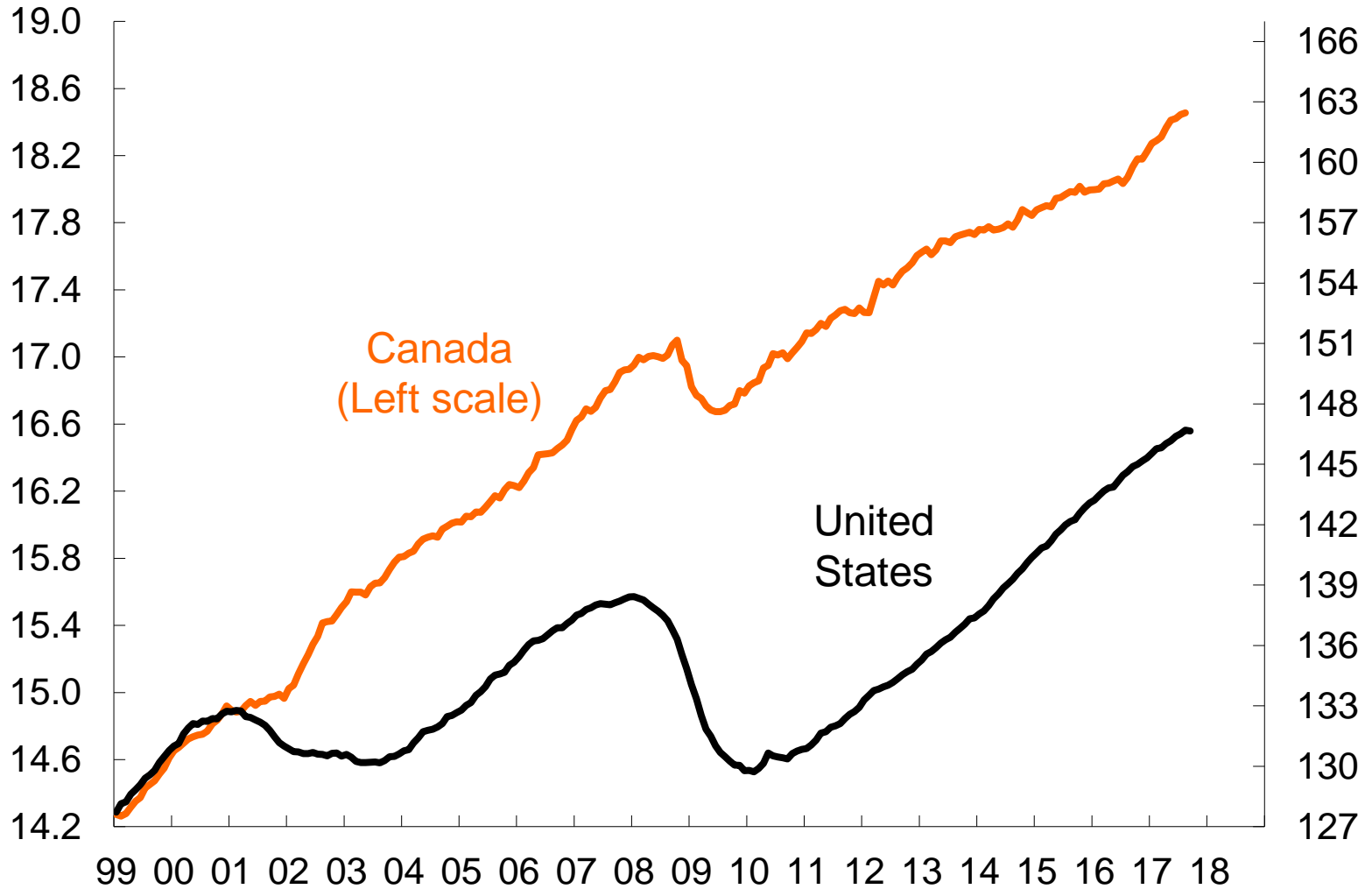


Employment

millions

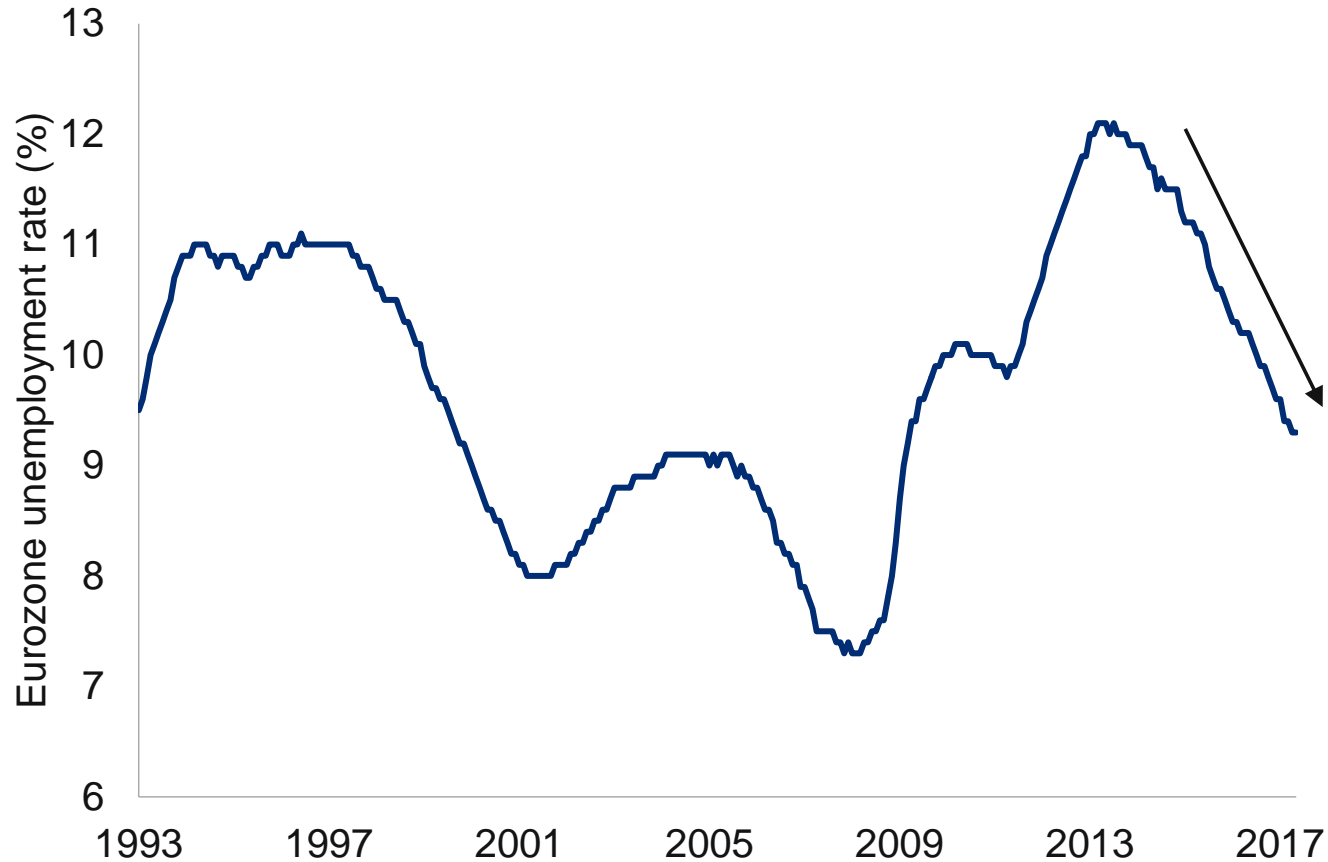
Sources: U.S. Labor Department; Statscan

millions



Labour market in Europe has made significant progress

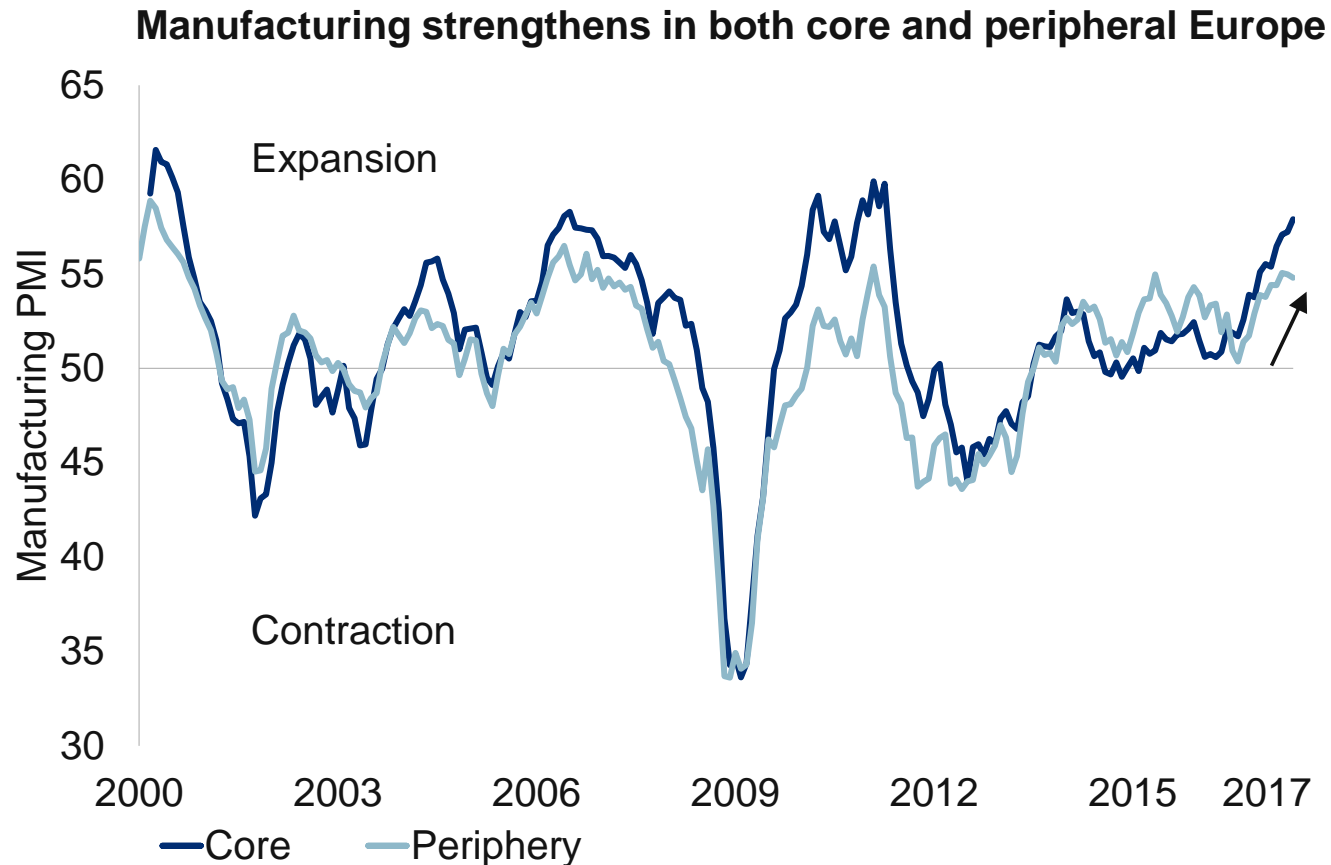
Eurozone unemployment can continue falling



Source: Statistical Office of the European Communities, Haver Analytics, RBC GAM



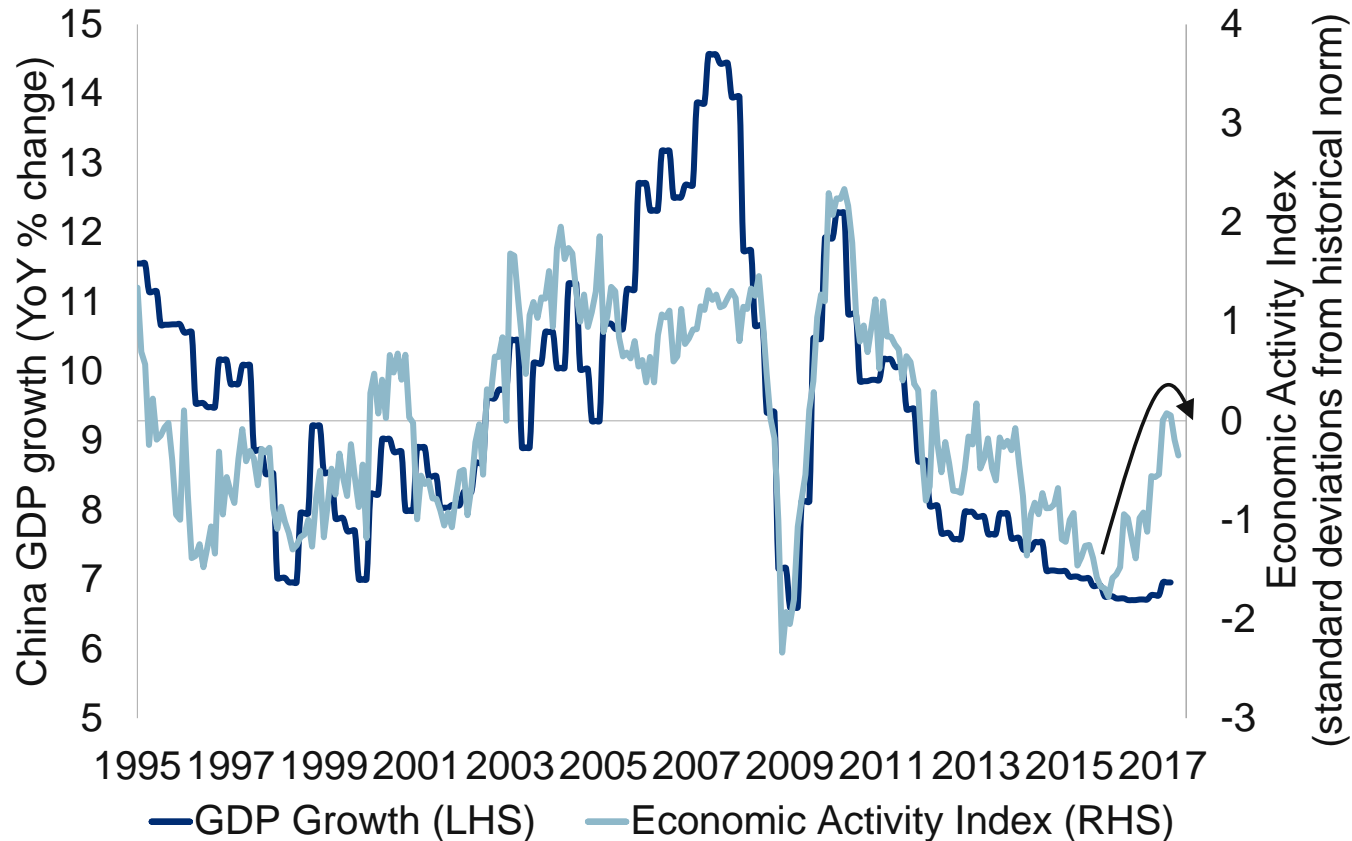
Eurozone growing nicely in core and periphery



Note: Core countries include Germany, France, the Netherlands and Austria.
Periphery countries include Greece, Ireland, Italy and Spain.
Source: Haver Analytics, RBC GAM

Chinese economy has strengthened recently

China's economy has defied expectations



Note: Index constructed using sixteen proxies for real economic activity in China.

Source: Bloomberg, Haver Analytics, RBC GAM

Chinese policymakers hit the brakes

**Tighter
monetary
policy**

**Tighter
fiscal
policy**

**Tighter
housing
rules**

**Higher
auto
tax**

Source: RBC GAM

Summary Thoughts

Bull market intact and likely to be so until a recession arrives – probably not before 2019, perhaps beyond. Give equities the benefit of the doubt.

Watch Fed, unemployment, credit availability.

Likely at least one correction before bear market arrives.

Market oscillating between an attractive 16X earnings and a riskier 20X earnings.

Focus on rebalancing, culling/replacing stocks that no longer earn high conviction.



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Publication date: October 1, 2016