



RBC Global
Asset Management



Sour Markets / Sweeter Growth

December 2014

Presented by:
Eric Lascelles, Chief Economist

Oil Prices Collapse...

Oil Prices Tumble on Global Growth Concerns and Supply Glut

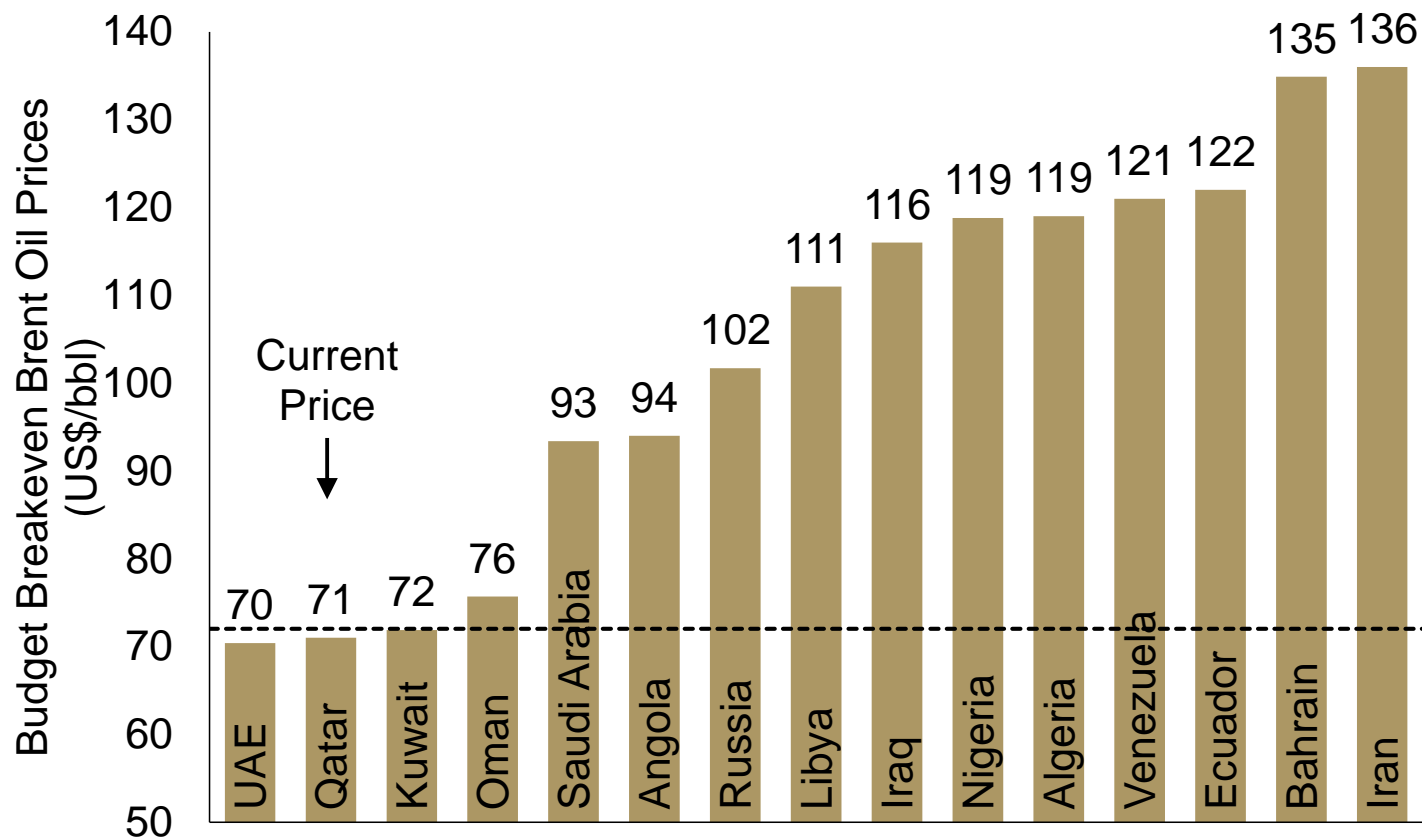


Source: Bloomberg, RBC GAM



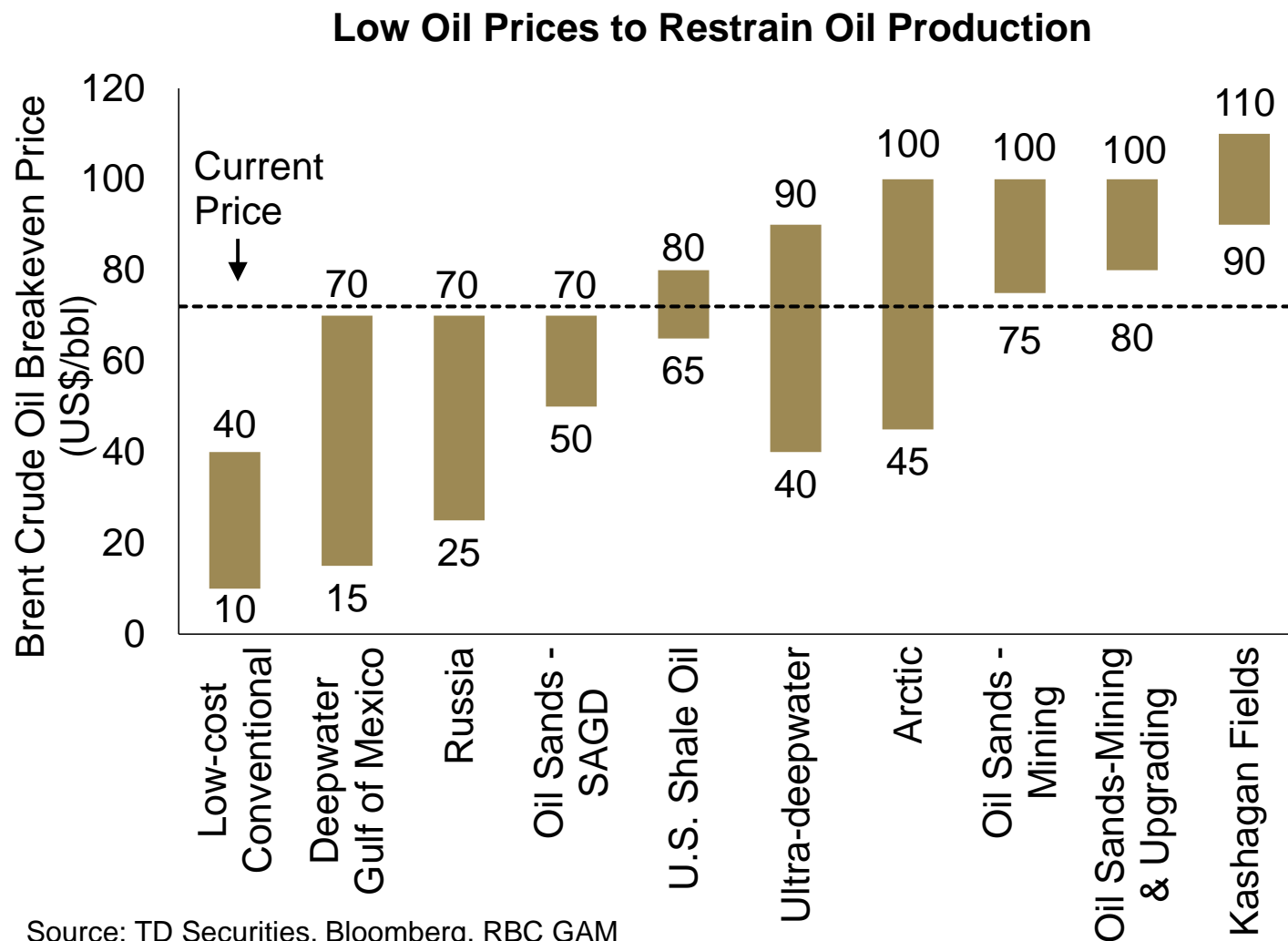
...But OPEC Cannot Tolerate This For Long

High-Breakeven Countries Vulnerable to Falling Oil Prices

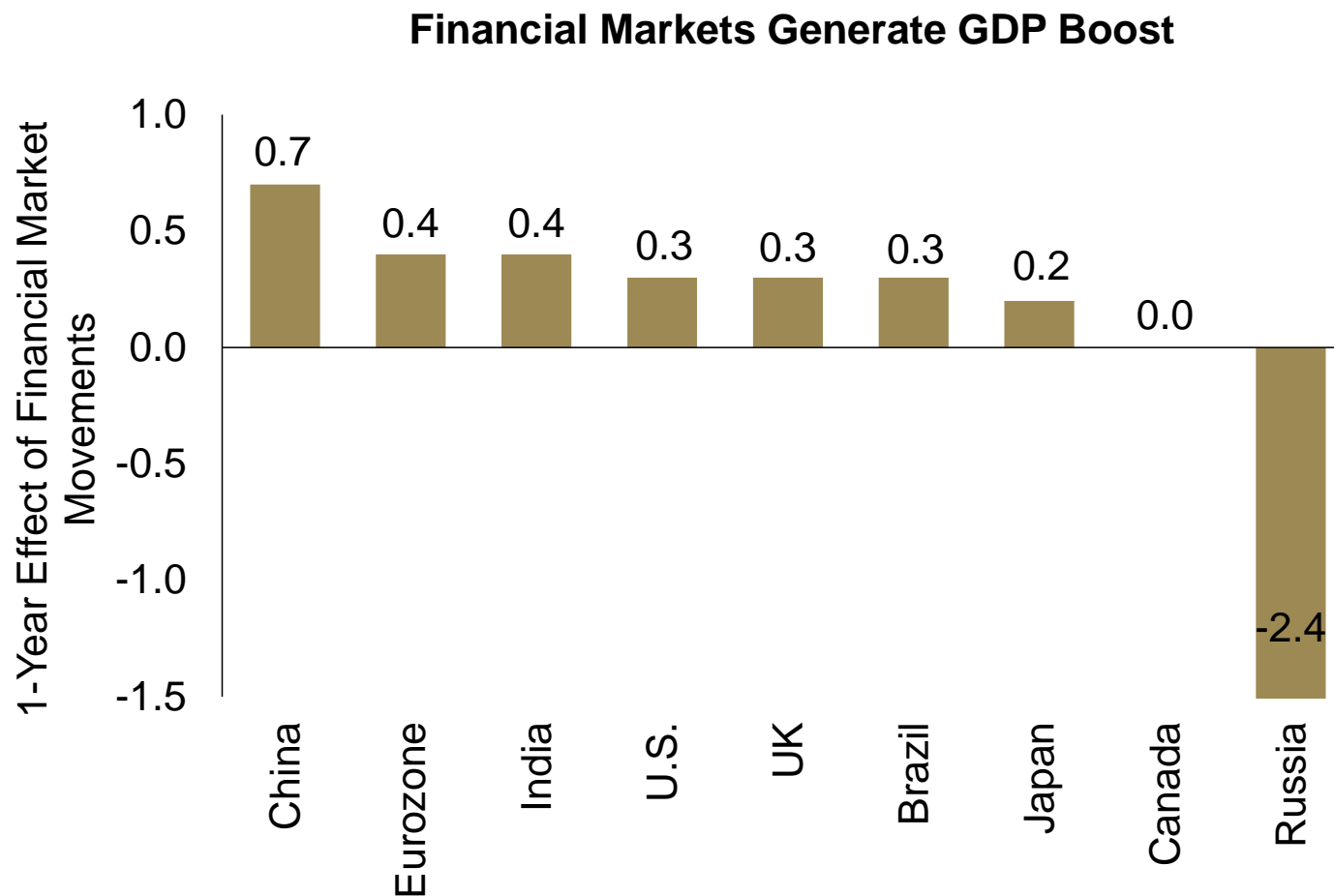


Note: Brent oil prices required for oil-producing countries to balance government budgets.
Source: Deutsche Bank, Haver Analytics, RBC GAM

...And Other Oil Producers Don't Like It, Either

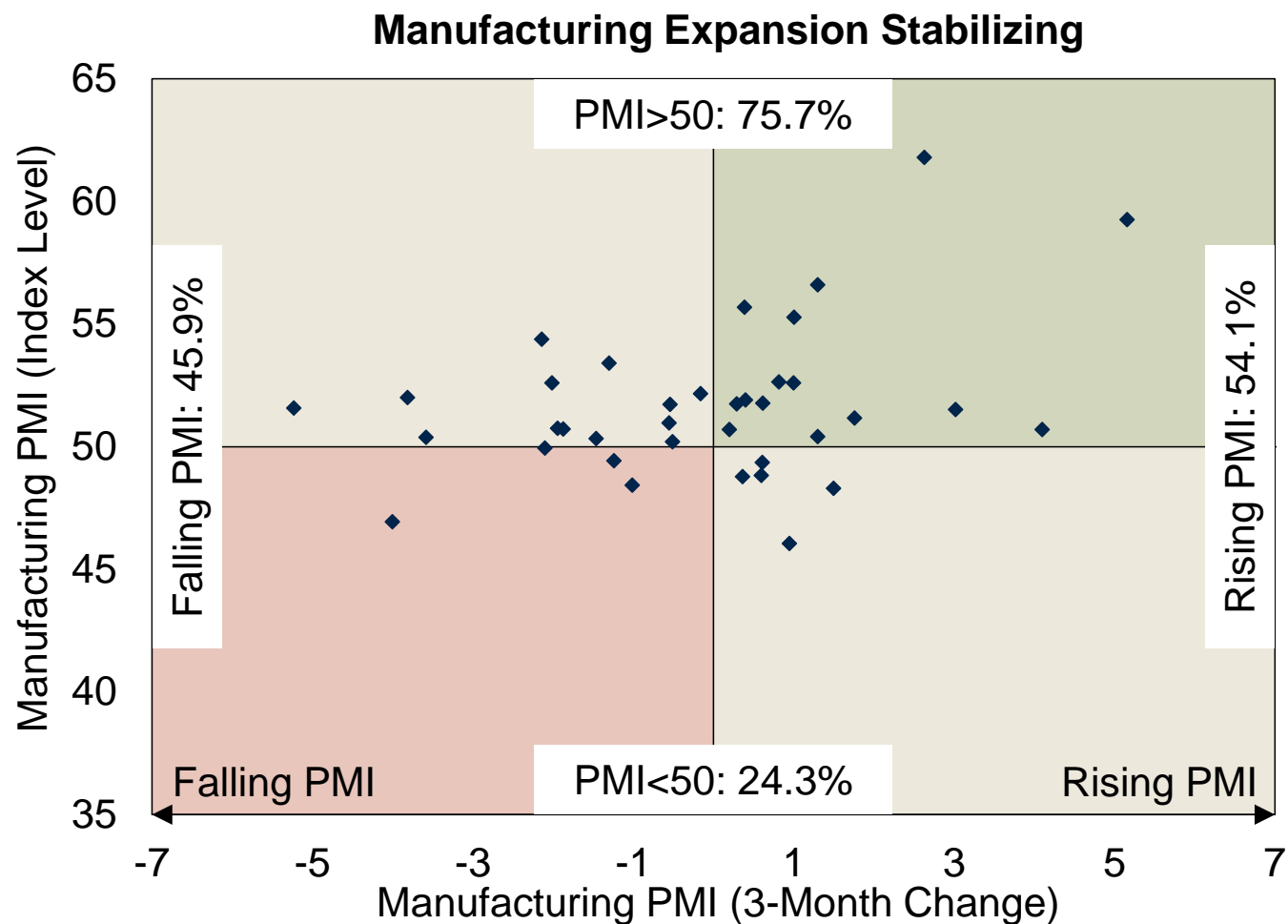


Financial Variables Deliver Positive Impulse



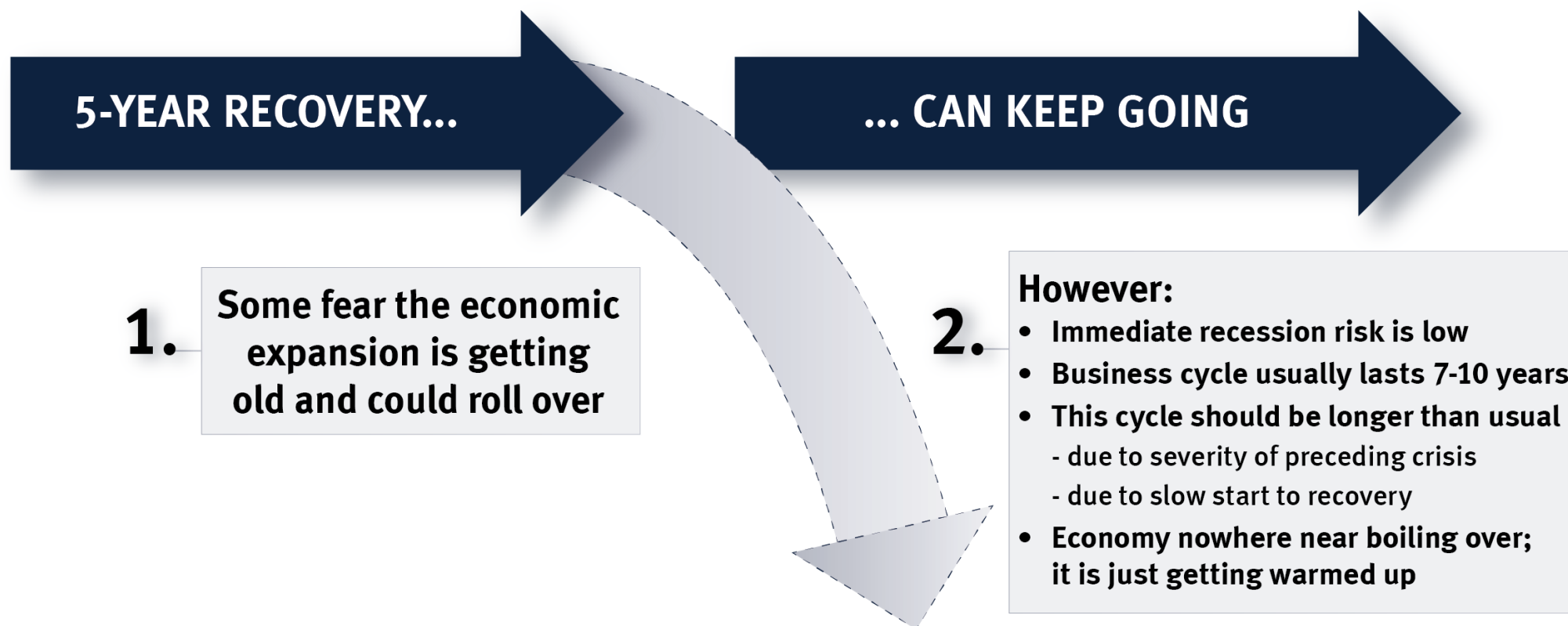
Note: Lower oil, lower yields, stronger U.S. dollar.
Source: OECD, Oxford Economics, RBC GAM

Global PMIs Stabilizing; Better Prospects



Note: Based on latest data of 37 countries. Source: Haver Analytics, RBC GAM

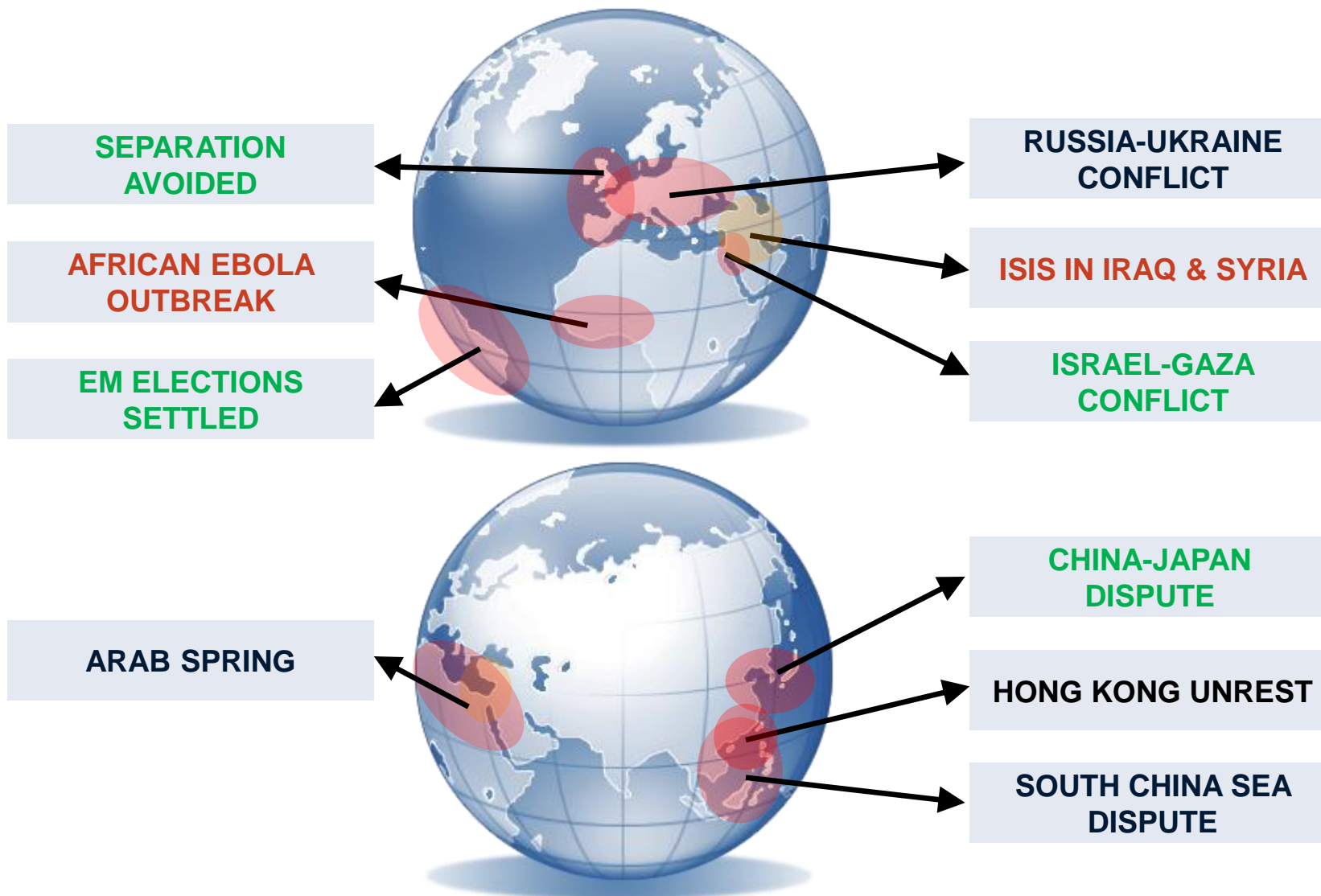
Longer Business Cycle



Time →

Source: RBC GAM

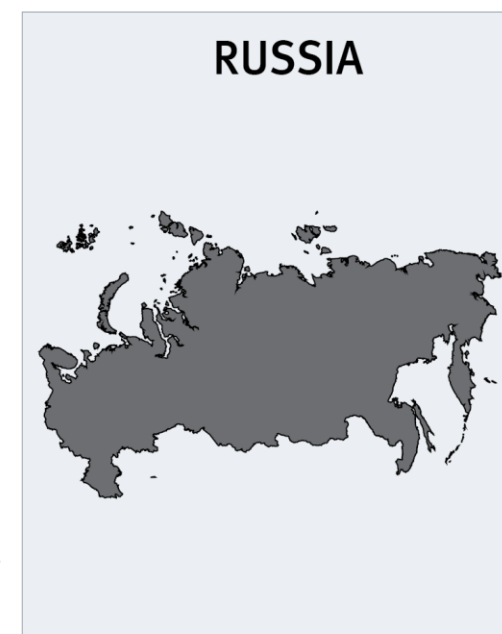
Geopolitical Risks More Tame Than They Seem



Ukraine-Russia In Frozen Conflict



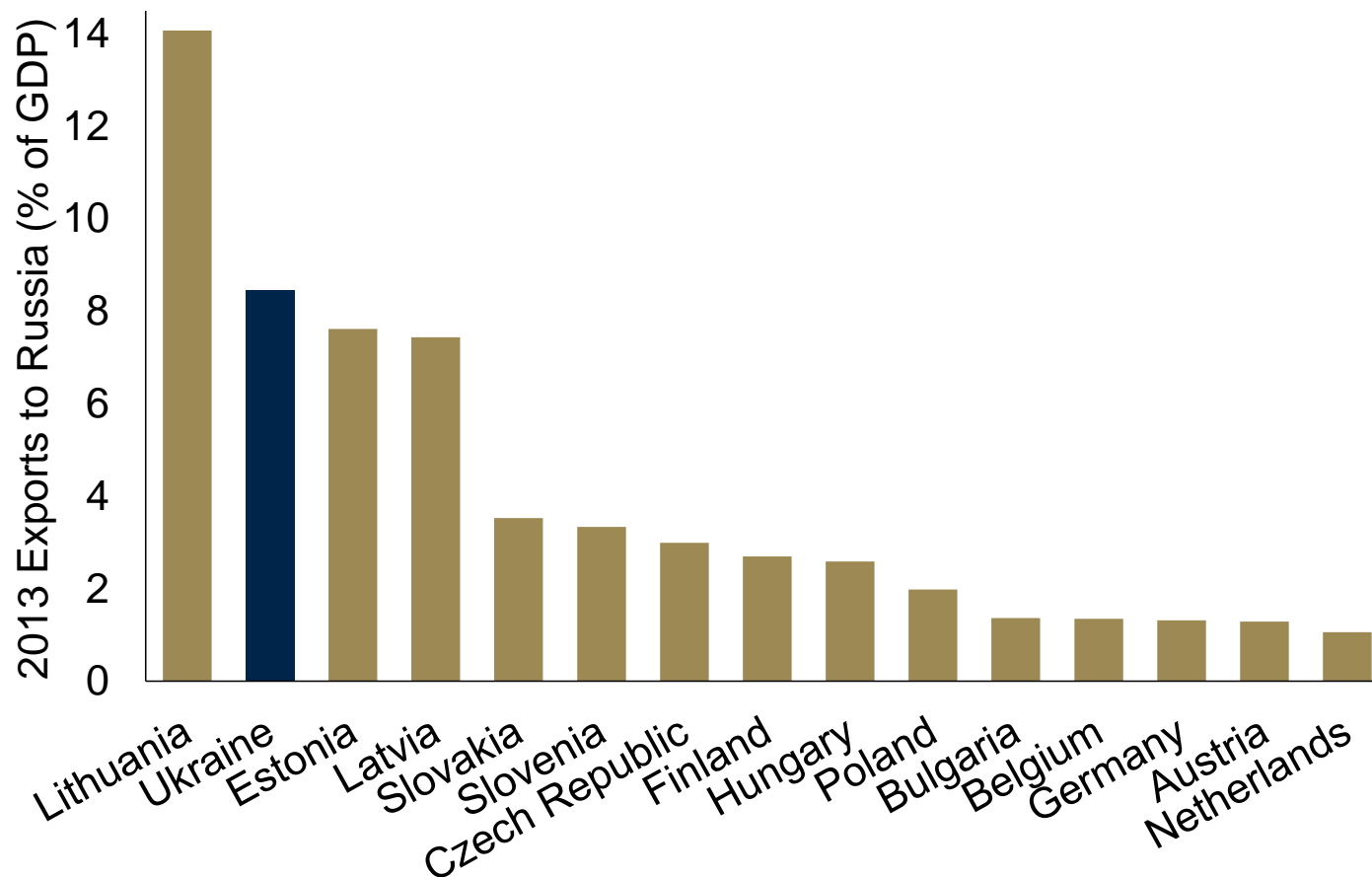
+	Borrowing costs	-
-	Equities	-
+	Capital flows	-
-	Currency movements	+
-	Confidence	-
-	European trade sanctions	-
?	Retaliatory Russian sanctions?	?
?	Spiral of trade sanctions?	?



Source: RBC GAM

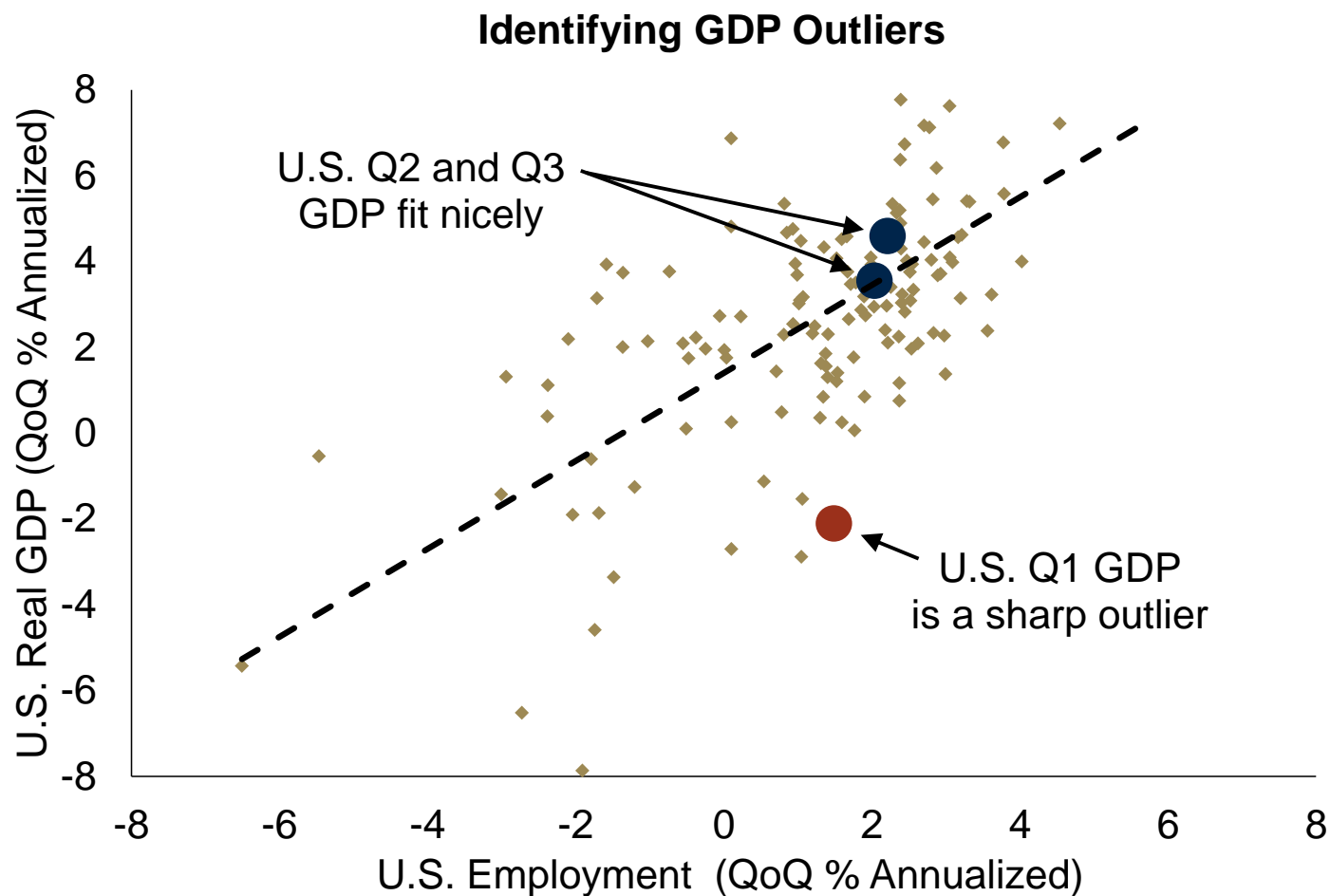
EU Trade Ties With Russia Are Small

EU Exports At Risk



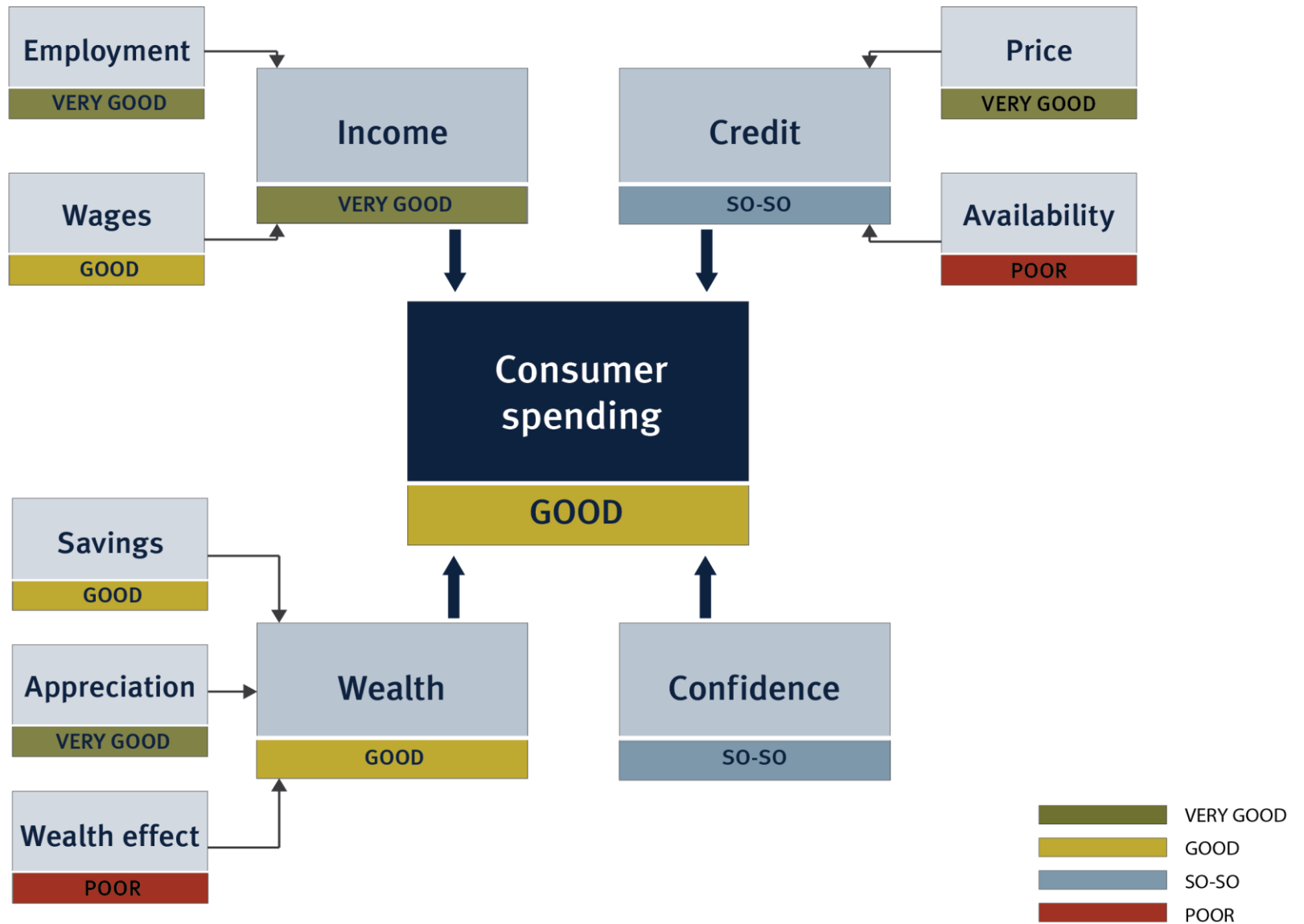
Source: Haver Analytics, RBC CM, RBC GAM

U.S. Economy Eventually Delivered on 2014 Promise



Note: Shows annualized percent change in employment versus GDP for each quarter beginning in 1980. Source: Haver Analytics, RBC GAM

U.S. Consumer Outlook: Good

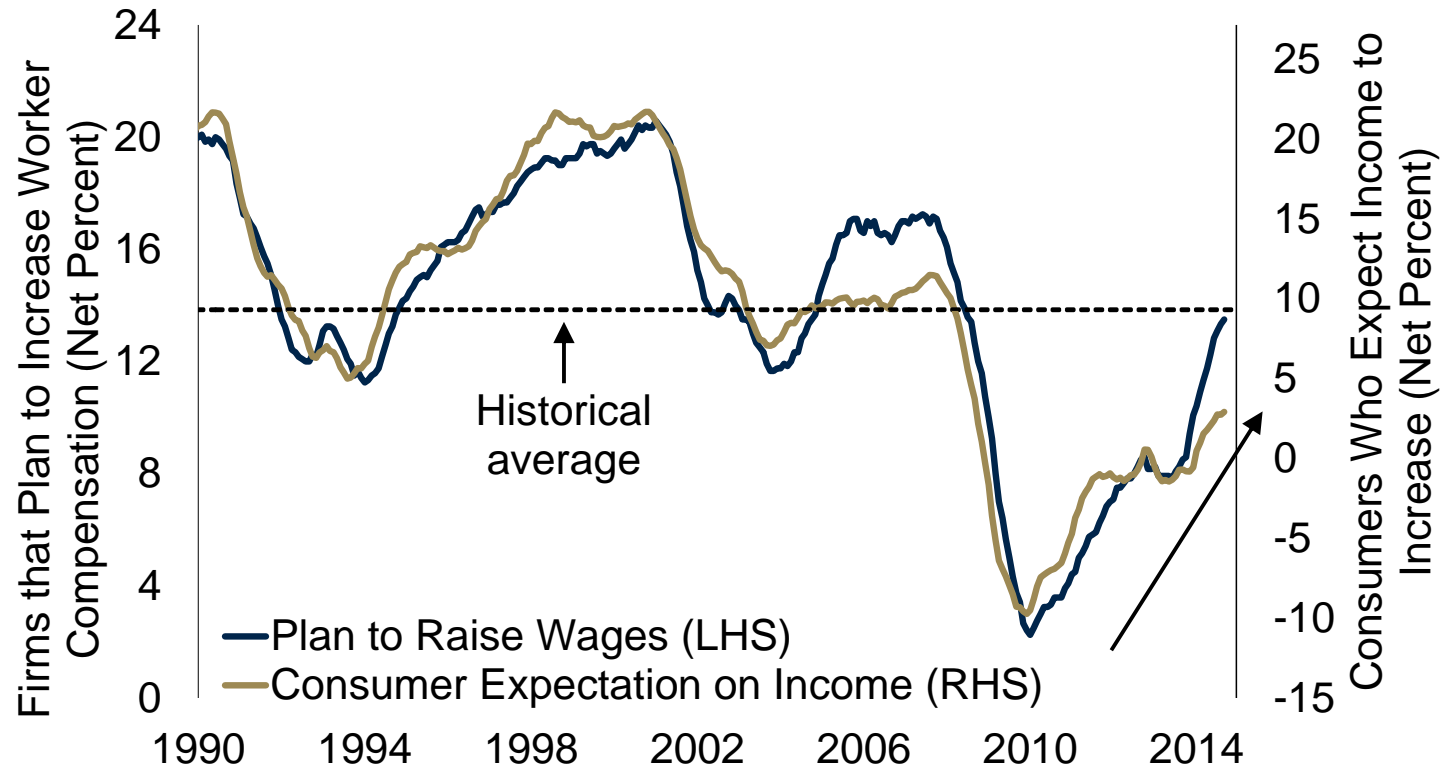


Source: RBC GAM



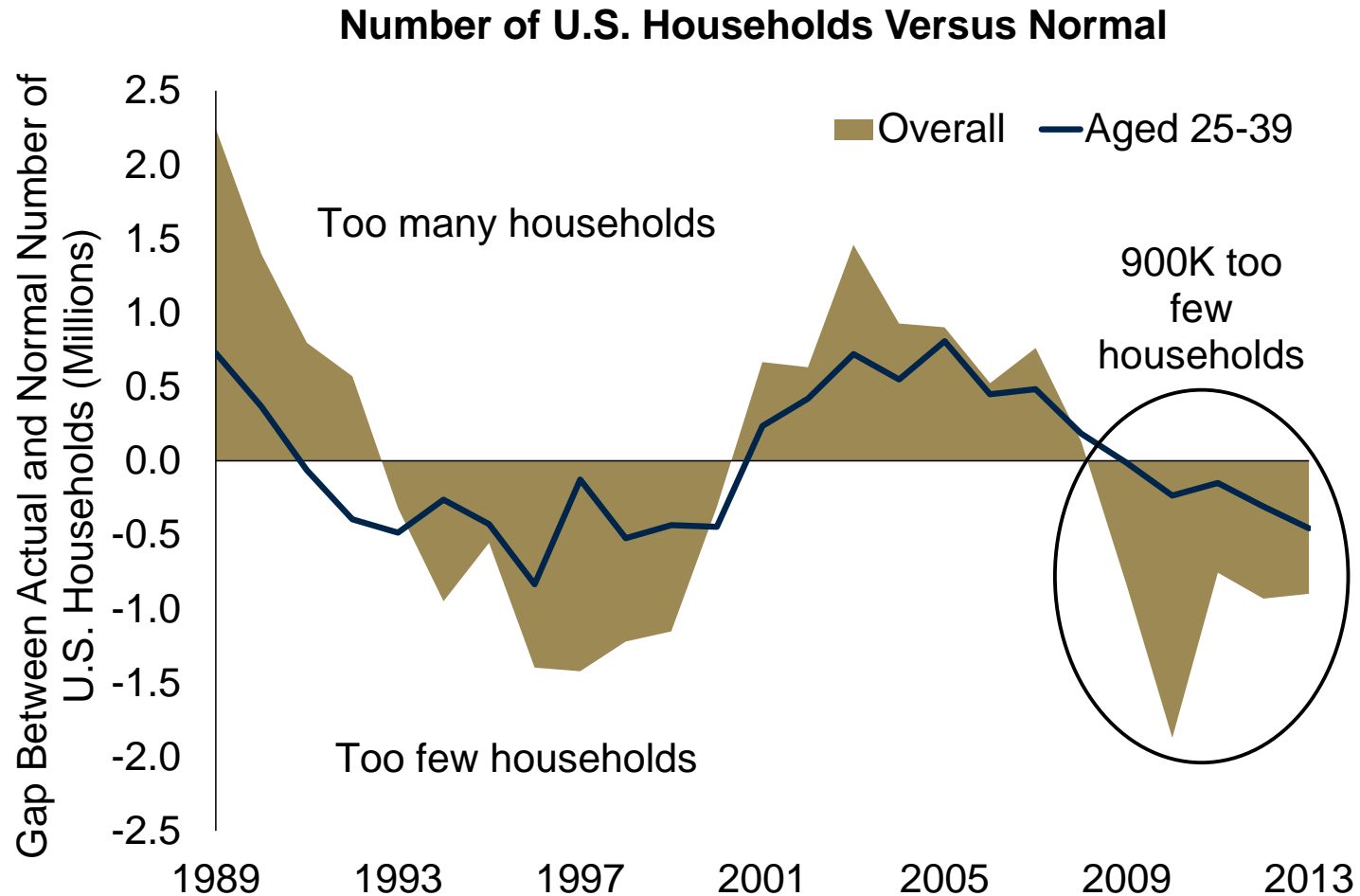
Higher Wages Likely

Employers and Workers Both Expect Higher Wages



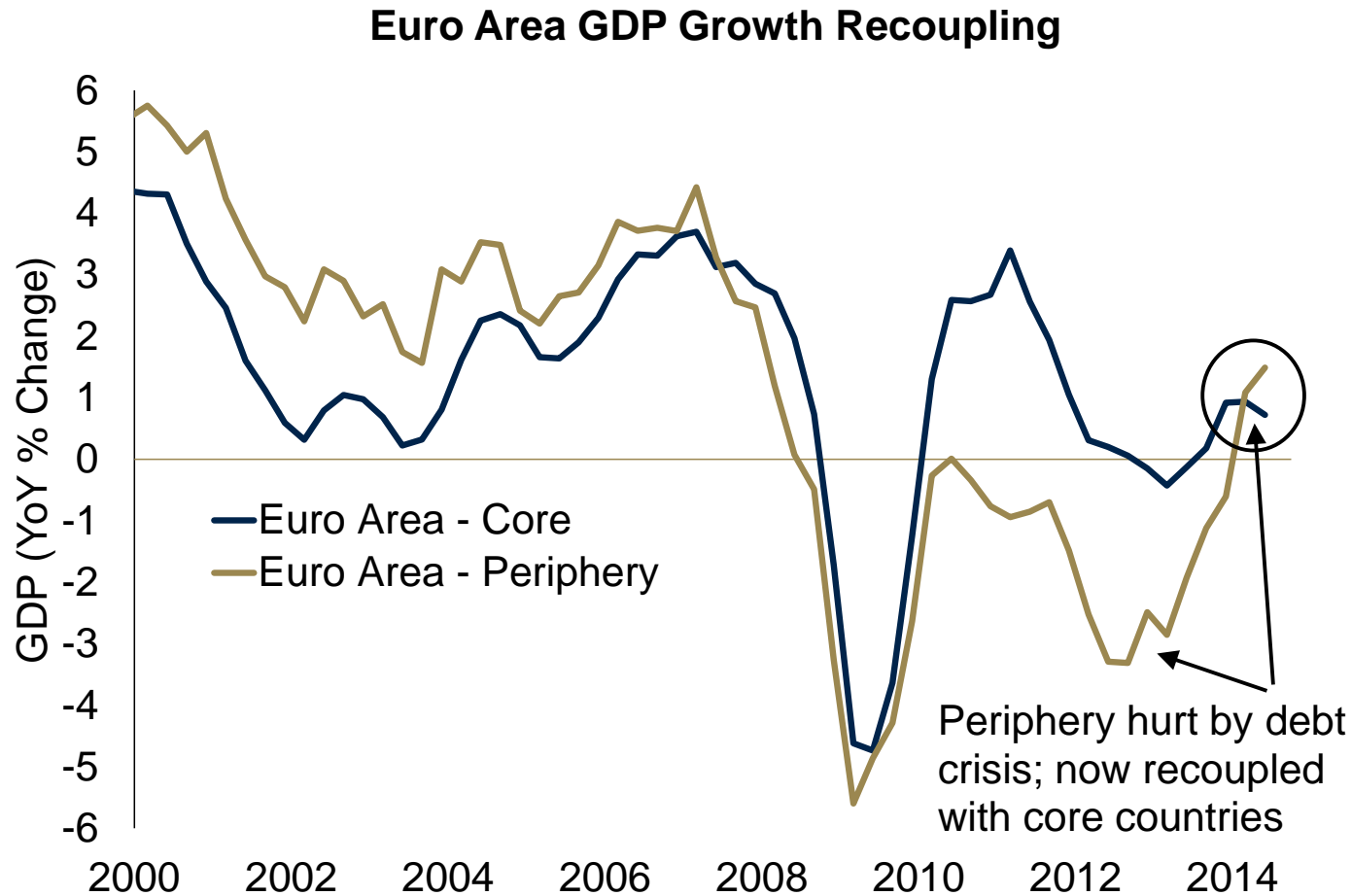
Note: 12-month moving average (12MMA) of percent of firms planning to increase wages less percent planning to decrease wages in the next three months. 12MMA of percent of consumers who expect income to increase less percent expecting income reduction. Historical average since 1990 for both series shown as one dotted line. Source: The Conference Board Consumer Confidence Survey, NFIB Small Business Economic Survey, RBC GAM

Pent-up Household Formation = More Housing



Note: "Normal" calculated relative to age-adjusted population statistics.
Source: Census Bureau, Haver Analytics, RBC GAM

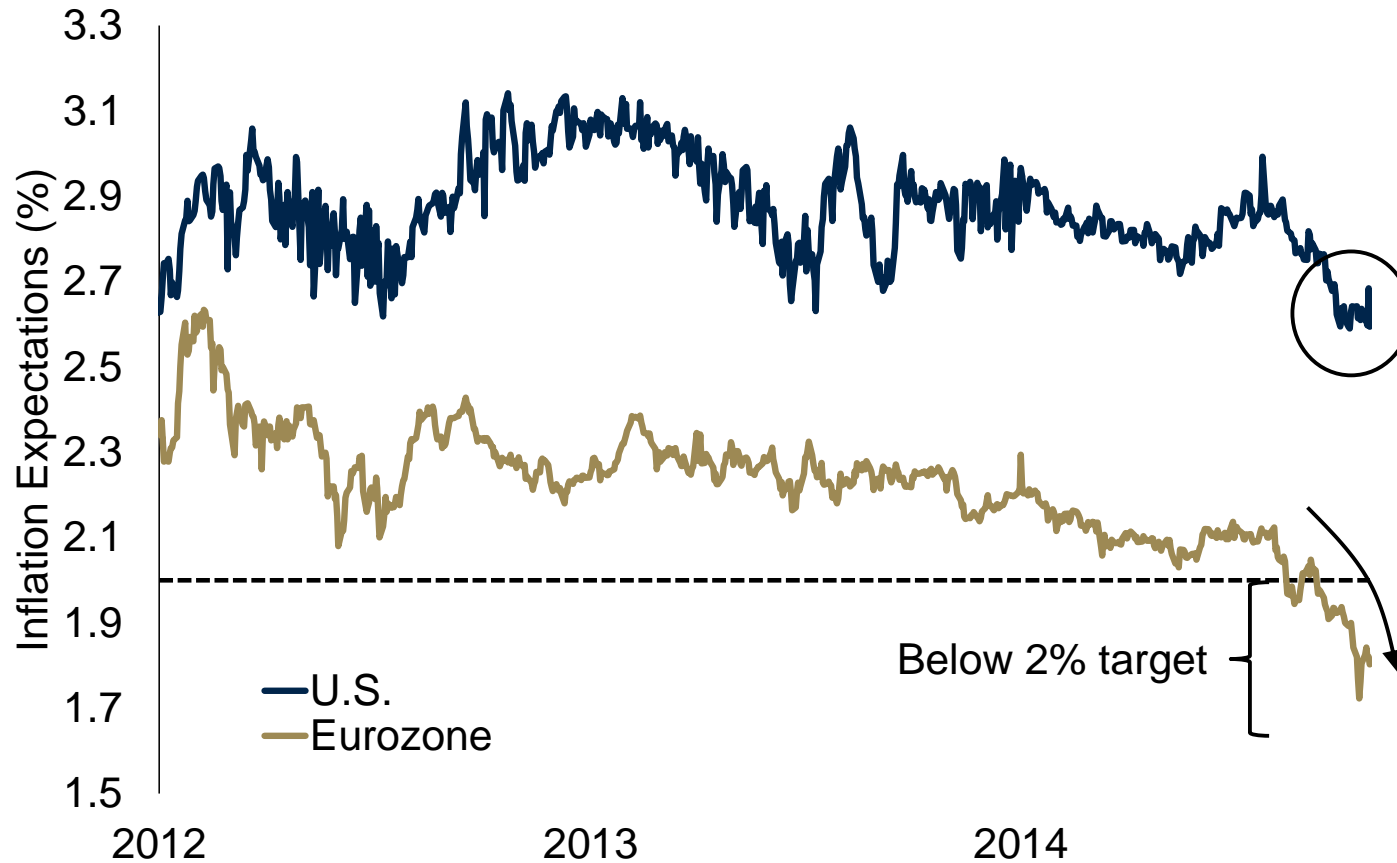
Peripheral Europe Now Caught Up with Core



Note: Core is equally weighted Germany, France, Netherlands, Austria, Belgium; periphery is Italy, Spain, Ireland, Portugal, Greece. Source: Haver Analytics, RBC GAM

Eurozone Deflation Risk Is Not Trivial

Eurozone Inflation Expectations Slid Lower



Note: Measured as USD and EUR 5-year, 5-year inflation forward swap rate.
Source: Bloomberg, RBC GAM

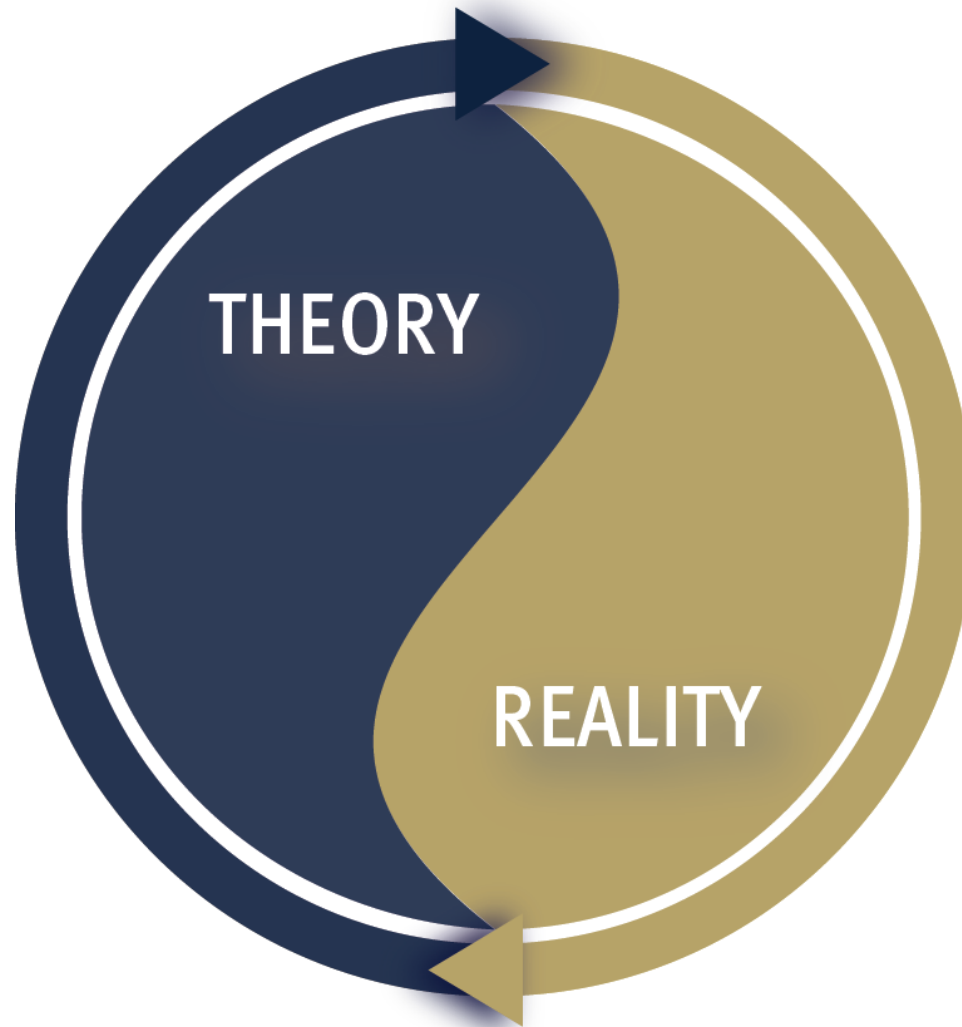
Scheduled Eurozone Elections Still Distant; But Snap Elections a Risk

Upcoming Election	Country	Political Stability Index (Percentile Rank)
2015	Portugal	69
	Spain	47
2016	Greece	39
	Ireland	74
	Netherlands	90
2017	France	62
	Germany	77
2018	Austria	97
	Cyprus	65
	Italy	64

Note: Political Stability Index percentile ranks for 2013.
Source: World Bank, Haver Analytics, RBC GAM



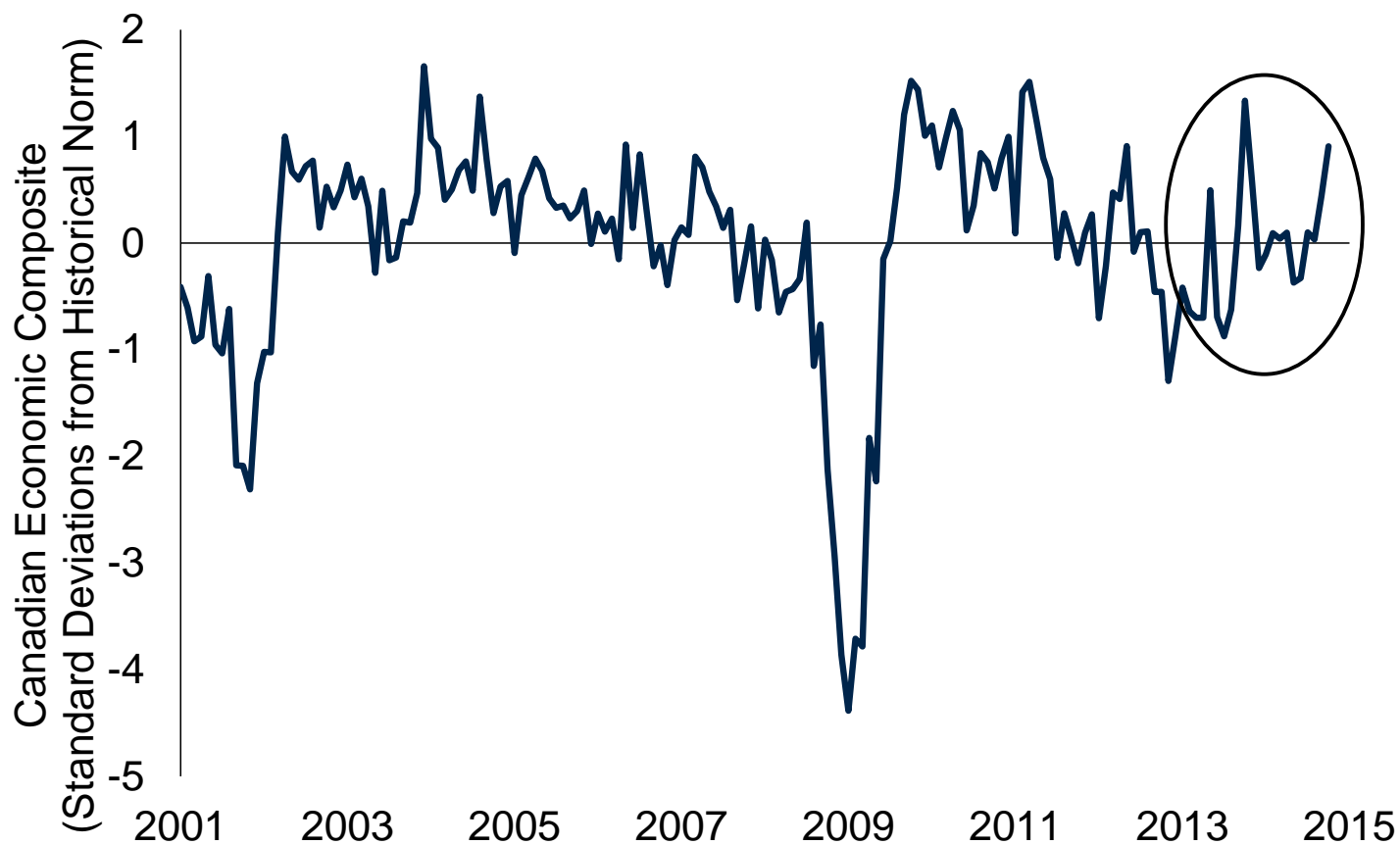
Japanese Debate – Good Theory vs. Underwhelming Reality



Source: RBC GAM

Canadian Conditions Tick Higher

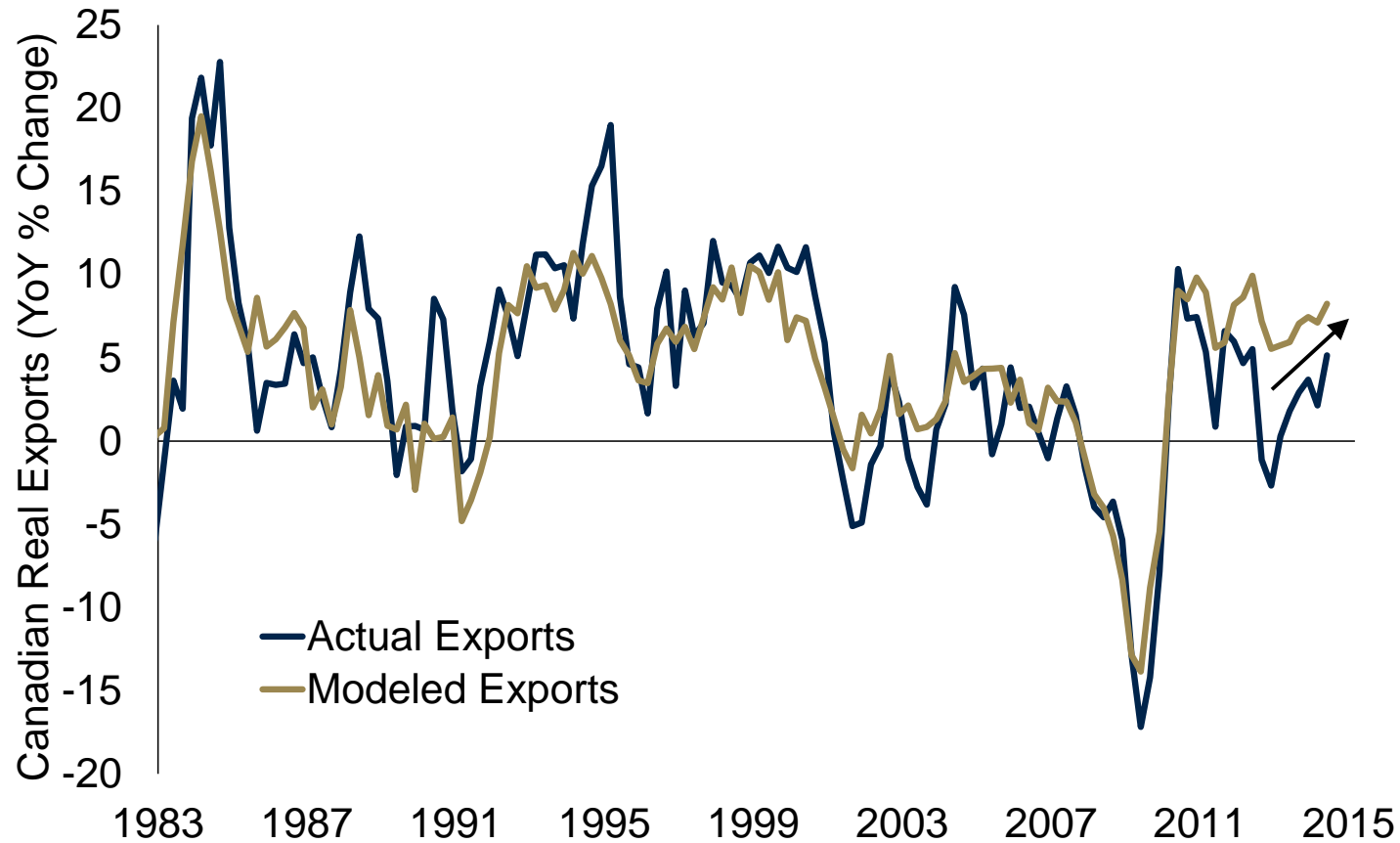
Canadian Economic Growth Improves



Note: Composite constructed using four leading indicators from surveys on Canadian businesses. Source: CFIB, Haver Analytics, RBC GAM

Better Canadian Exports

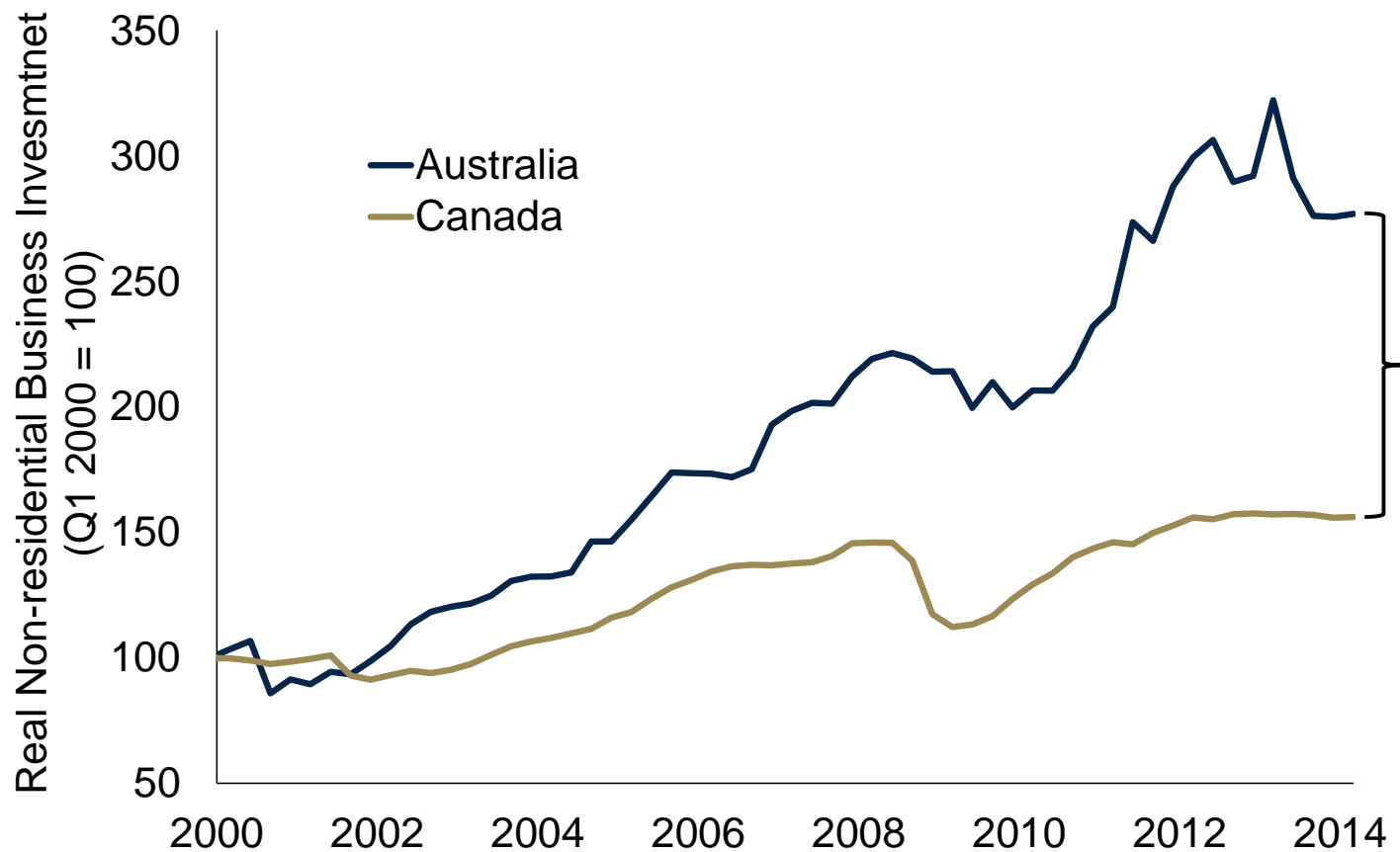
Canadian Export Prospects Looking Up



Note: Model uses U.S. activity index and trade-weighted Canadian dollar as inputs.
Source: Haver Analytics, RBC GAM

Capital Investment Downside?

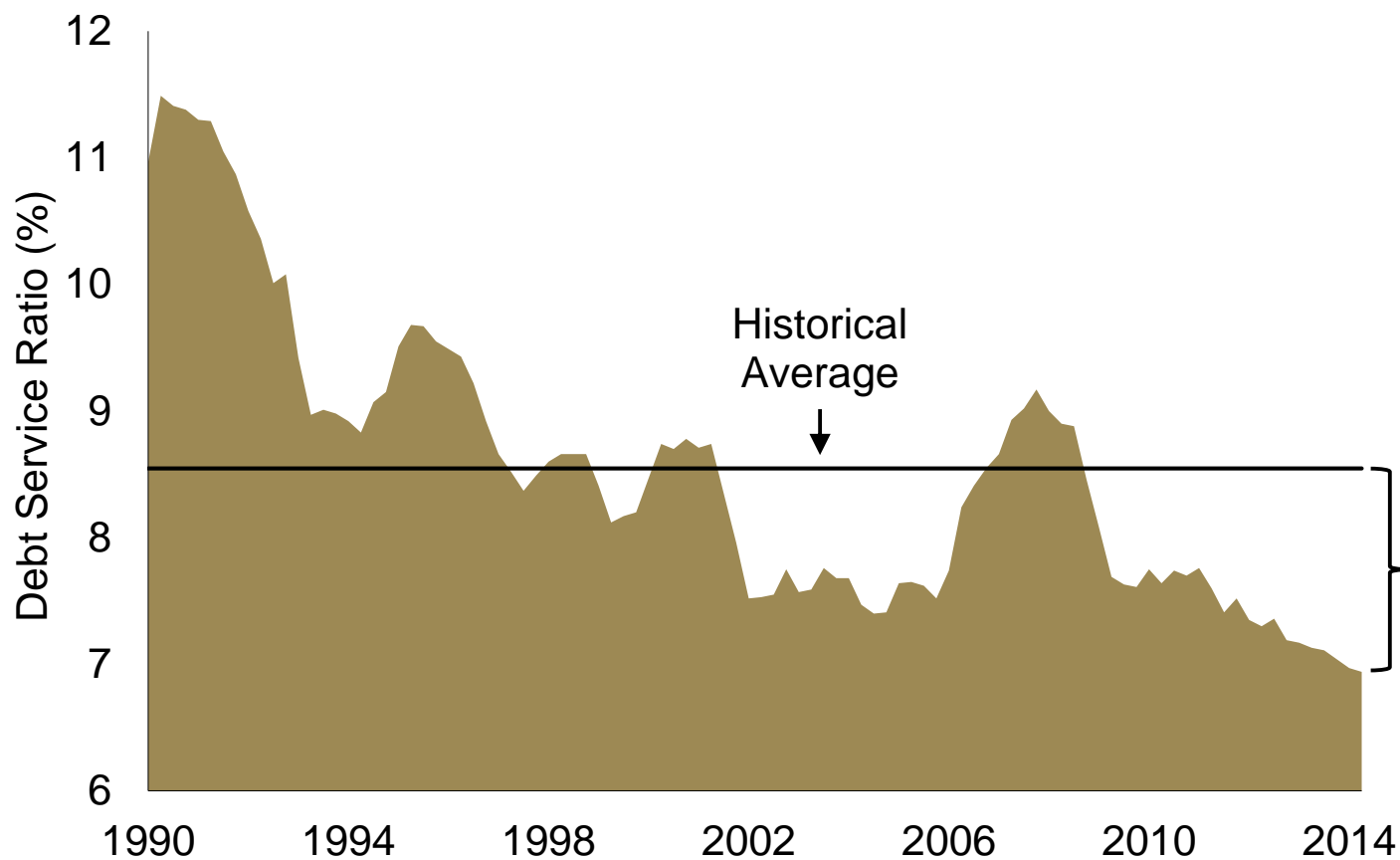
Capital Investment in Australia Outpaced That in Canada



Source: Australian Bureau of Statistics, Statistics Canada, Haver Analytics, RBC GAM

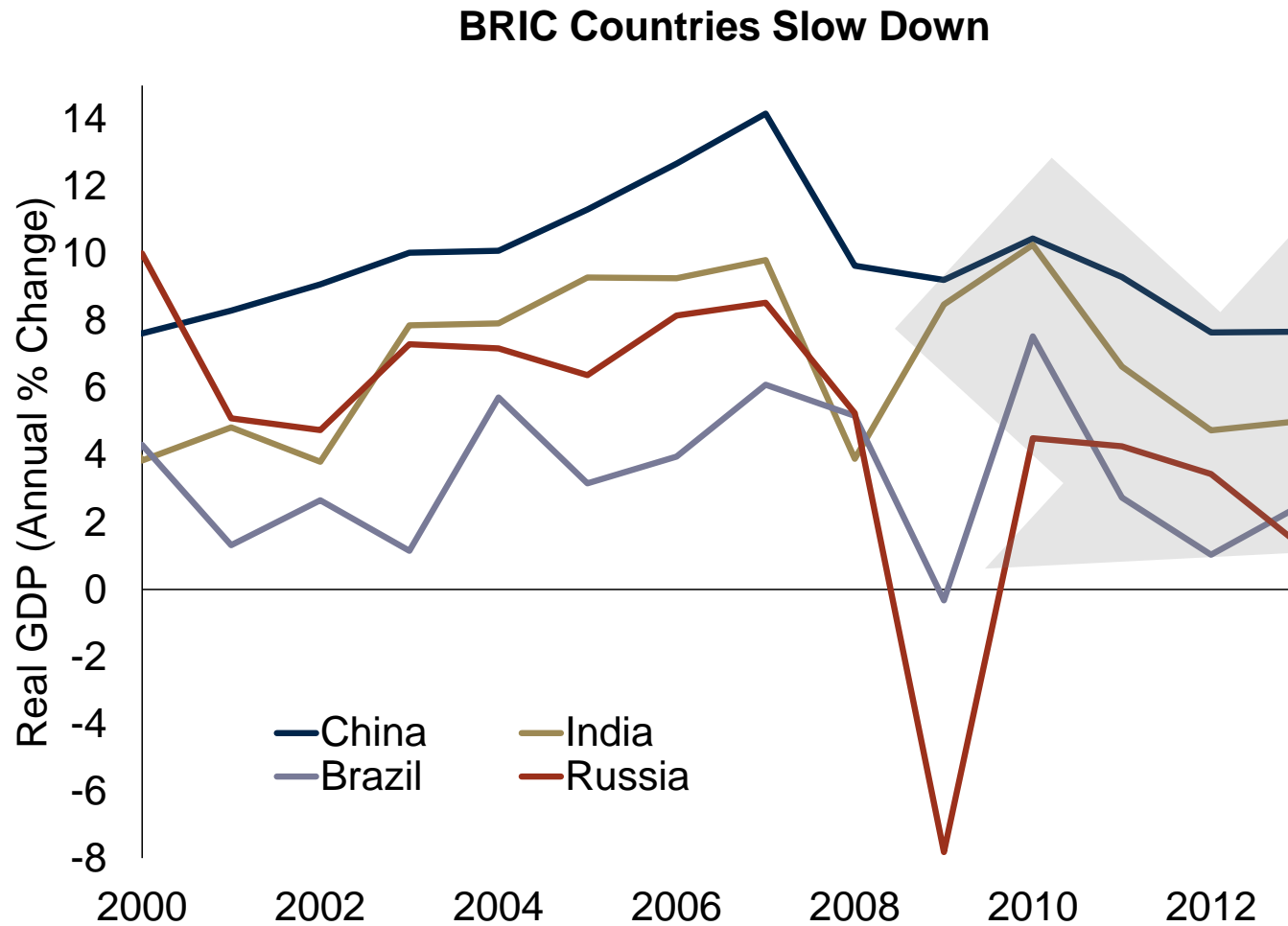
Household Debt Still Affordable at Current Rates

Canadian Household Debt Service Ratio at Historic Low



Source: Statistics Canada, RBC GAM

BRIC Growth Slowdown

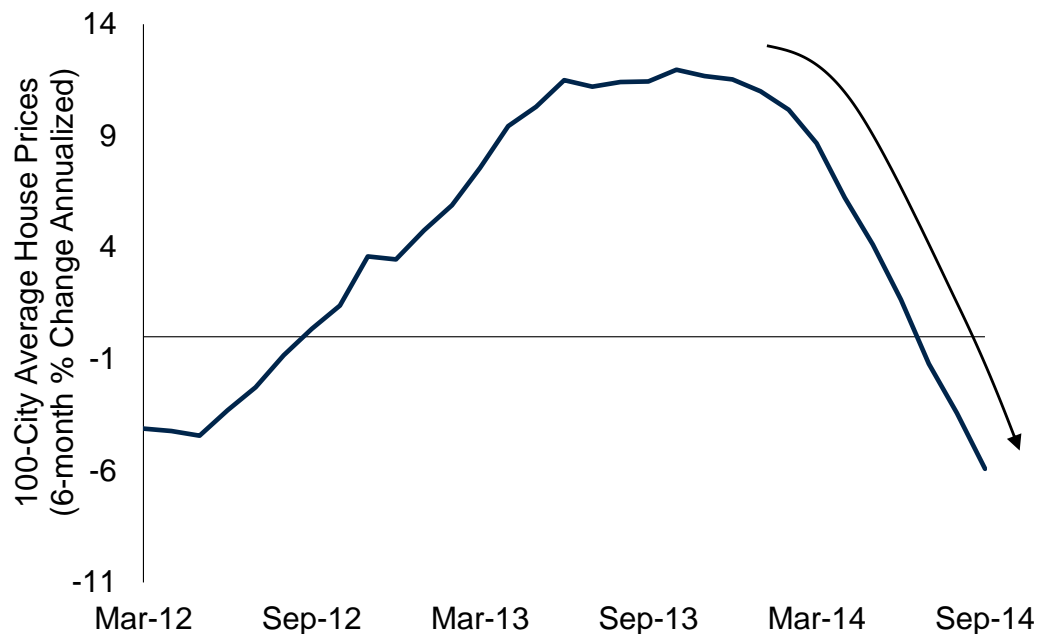


Source: World Bank, Haver Analytics, RBC GAM



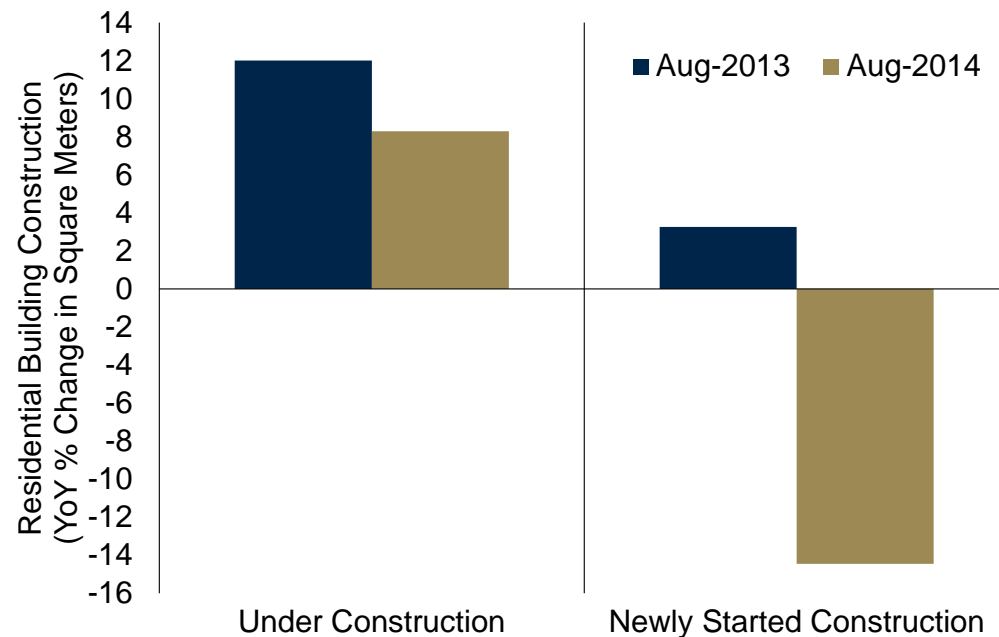
Chinese Housing Market Is Cooling

Chinese Home Prices Soften



Source: China Index Academy/Soufun, Haver Analytics, RBC GAM

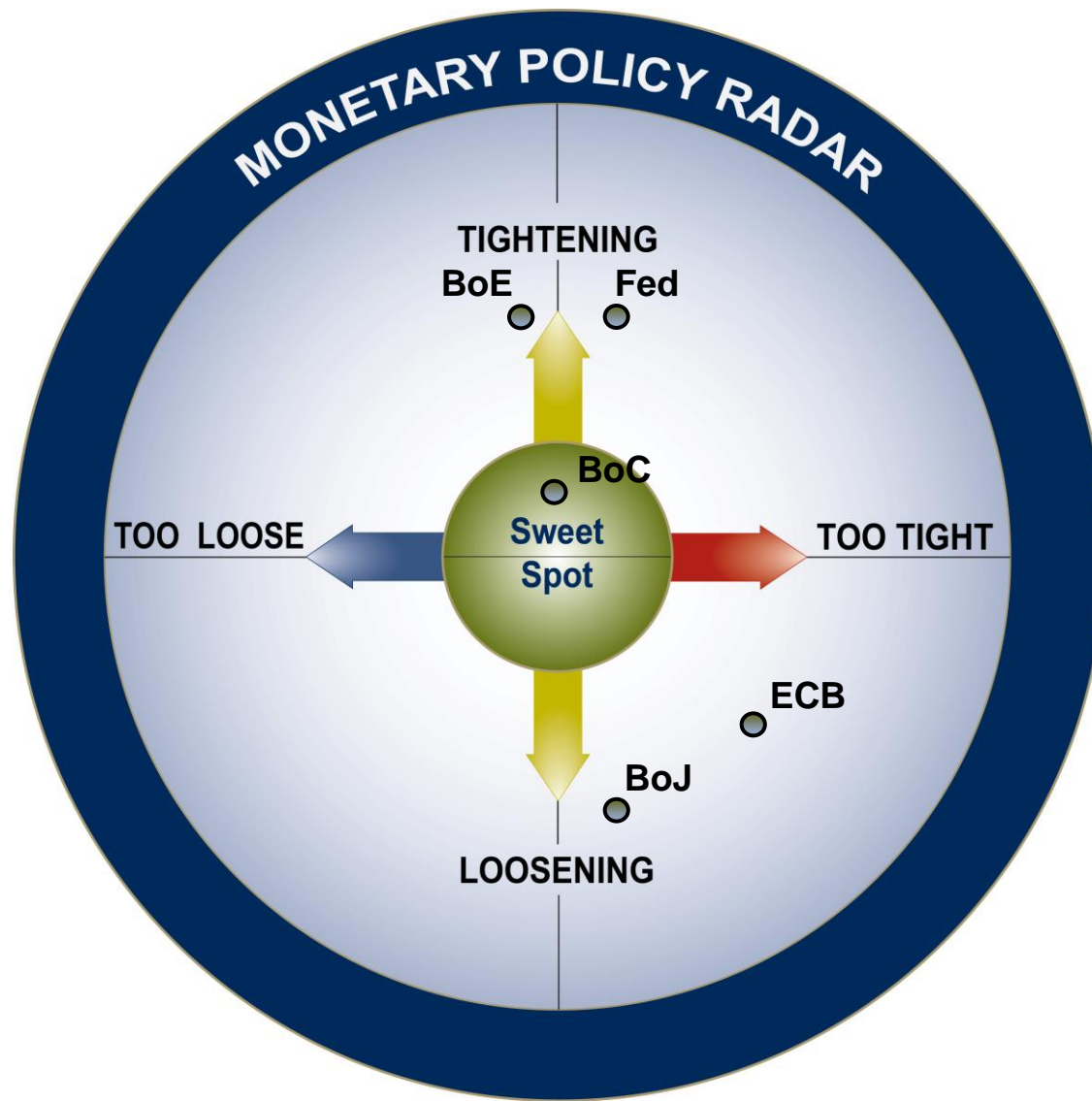
China Housing Activity Slowdown



Source: China National Bureau of Statistics, Haver Analytics, RBC GAM

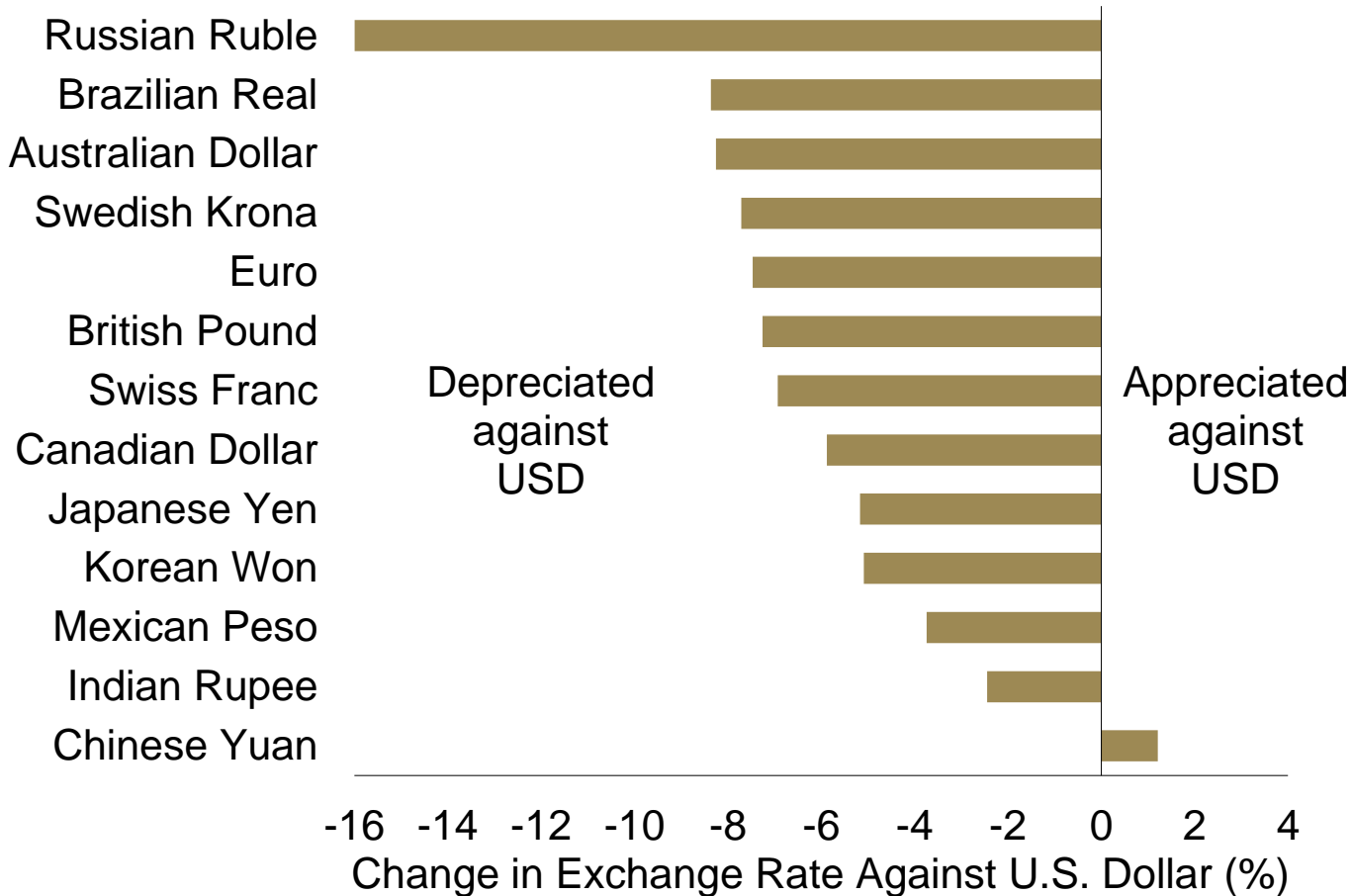


Decoupling Central Banks



Greenback Rises On Improving U.S. Economy

U.S. Dollar Strengthened Against Most Currencies



Note: As at 10/14/2014. % change since July 1, 2014. Source: WSJ, Haver Analytics, RBC GAM

Profit Margins Less Vulnerable Than They Look

Profit Margin Scorecard

	Outlook	Weight
Rates	Negative	15%
Wages	Negative	10%
Currency	Negative	5%
Mean reversion	Negative	10%
Leverage	Slight negative	5%
Capital investment	Slight negative	5%
Globalization	Neutral	5%
Tax rate	Neutral	10%
Unionization	Neutral	5%
Automation	Slight positive	10%
Demographics	Slight positive	5%
Sector composition	Positive	15%
Overall margin outlook	Very slight negative	

Note: Outlook reflects whether variable should drive margins higher, leave them unchanged at current levels or drive them lower. Source: RBC GAM



Economic Summary

Macro

- Market correction overblown
- Geopolitical risks prominent but not rising
- Uneven economic growth
 - Accelerating: U.S., U.K., India, Mexico, maybe Brazil
 - Slower: Eurozone, Japan, Russia, China



Themes

- Sour markets to sweeten growth
- Developed world: normalizing growth
 - Financial crisis effects fade
 - But progress varies by nation
- Emerging markets: slower growth
 - Ebbing credit and efficiency gains
 - But structural reforms hold promise



Markets

- Decoupled economies and central banks suggest varied market outcomes
- Tightening Fed signals higher yields
- Credit spreads can stay tight
- Stocks fairly valued, but still cheap versus bonds
- USD to continue rising
- Commodity price justified but done



Risks

- Geopolitics
- China housing weakness
- EM credit excesses
- Rising rates
- Eurozone vulnerabilities
- Japan theory vs. reality

Disclosure

This information has been provided by RBC Global Asset Management Inc. (RBC GAM) and is for informational purposes only. It is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when printed.

Due to the possibility of human and mechanical error as well as other factors, including but not limited to technical or other inaccuracies or typographical errors or omissions, RBC GAM is not responsible for any errors or omissions contained herein. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

Any investment and economic outlook information contained in this report has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions.

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” “forecast,” “objective” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events. The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors.

©/™ Trademark(s) of Royal Bank of Canada. Used under licence. © RBC Global Asset Management Inc. 2014.

