



MONTH IN REVIEW

Portfolio Advisory Group

May 2016



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WHAT MOVED THE MARKETS

The potential for higher interest rates in the U.S. was back in focus throughout the month of May. More specifically, recent strong economic data and hawkish comments from Federal Reserve (Fed) Chair Janet Yellen suggest that a U.S. rate hike could come as early as this summer. This marked shift drove U.S. government bond yields back near their April highs. In Canada, the devastating wildfires in Alberta, that halted some oil sands operations, were in focus and are expected to have negatively impacted Q2 GDP growth. The fire, along with a major disruption in oil production in Nigeria and a larger-than-expected decline in U.S. crude oil inventories led to a rally in crude oil prices. Brent prices rose above the \$50 per barrel mark for the first time this year.

North American equity indices were generally positive this month. The S&P/TSX posted a 1.0% gain. A rally in the Information Technology and Consumer Staples sectors of 8.4% and 4.7%, respectively, was offset by weakness in the Healthcare and Materials sectors, which fell 6.7% and 6.6%, respectively. Overall, 8 of 10 sectors finished the month in positive territory.

In the U.S., the S&P 500 posted a 1.8% gain over the month of May, with 7 of 10 sectors ending the month in positive territory. The Information Technology and Healthcare sectors gained 5.6% and 2.2%, respectively, while the Energy and Industrials sectors fell by 0.6% and 0.5%, respectively.



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FIXED INCOME-SPECIFIC DEVELOPMENTS

Canadian growth is expected to slow in the second quarter of 2016 due to the fires in Fort McMurray, Alberta. The major disruption in the oil field region forced some Canadian oil sands producers to halt production. As noted by the Bank of Canada (BoC) when it released its rate decision this month, this disruption is expected to reduce GDP growth by a meaningful 1.25% in Q2. The BoC expects Q3 GDP to rebound as oil production resumes. The BoC left the overnight rate unchanged at 0.5% this month, in line with the market's expectations. The press release accompanying the BoC's rate decision highlighted that the Canadian economy's "structural adjustment to the oil price shock continues, but is proving to be uneven". Furthermore, it stated that while Q1 GDP seems to be in line with its April projections, "business investment and intentions remain disappointing". Disappointing recent data includes a 1% decline in retail sales in March, a loss of 2,100 jobs in April and the March trade deficit, which surged to a record level of C\$3.4 billion, driven by weakness in both energy and non-energy exports.

Strength in recent U.S. economic data and a more hawkish tone from several FOMC participants raised the probability of a U.S. rate hike as early as June. Federal Reserve Chair Janet Yellen noted this month that "It's appropriate for the Fed to gradually and cautiously increase our overnight interest rate over time. Probably in the coming months such a move would be appropriate." The FOMC next meets one week prior to the UK referendum on June 23rd, and most believe it is unlikely to raise rates in the face of such uncertainty. This could make a July rate hike more likely. Recent positive data highlighted a strengthening labour market, with average hourly wages rising 2.5% year over year (YoY) in April while average weekly hours worked increased slightly to 34.5. Inflation firmed as well, with the Consumer Price Index rising the most in three years last month at 0.4% MoM. Meanwhile, monthly retail sales surprisingly increased 1.3% in April. Finally, a 16.6% month over month increase in new single-family home sales in April was another notable release as it marks the largest monthly gain in 24 years.

NUMBER CRUNCHING

Equity Indices*	Month	YTD*
S&P/TSX Composite Index TR	1.0%	9.5%
Dow Jones Industrial Average TR	0.5%	3.3%
S&P 500 Index TR	1.8%	3.6%
NASDAQ Composite Index TR	3.8%	-0.6%
MSCI EAFE TR (USD)	-0.8%	-0.7%
MSCI World TR (USD)	0.7%	2.1%

S&P/TSX Sector Performance*	Month	YTD*
S&P/TSX Financials TR	1.5%	7.8%
S&P/TSX Energy TR	1.5%	17.1%
S&P/TSX Materials TR	-6.6%	34.7%
S&P/TSX Industrials TR	1.4%	6.3%
S&P/TSX Consumer Discretionary TR	3.6%	4.9%
S&P/TSX Telecom Services TR	3.5%	11.9%
S&P/TSX Information Technology TR	8.4%	1.4%
S&P/TSX Consumer Staples TR	4.7%	5.9%
S&P/TSX Utilities TR	3.6%	12.6%
S&P/TSX Healthcare TR	-6.7%	-64.9%

* All returns are on a Total Return basis. All indices are in local currency unless otherwise noted.
Source: Bloomberg

GLOBAL DEVELOPMENTS

Earlier this month, Eurozone finance ministers agreed on a €10.3 billion package to ease the Greek debt situation, recognizing the challenging fiscal reforms pushed through by Prime Minister Alexis Tsipras's coalition. This agreement will help to keep the International Monetary Fund (IMF) on board for future funding, a prerequisite for Germany to participate in this deal. Eurozone GDP grew by 0.5% in the first quarter compared to the previous quarter. Although the headline figure missed the 0.6% economists had forecast, it did beat the 0.3% growth rate recorded in the previous quarter. In the U.K., the Bank of England's Monetary Policy Committee voted to hold the key interest rate at 0.5%, while lowering growth expectations to 2.0% from 2.2% for 2016. Inflation surprisingly fell in April, to 0.3%, lower than the 0.5% recorded in March. Some economists believe the inflation shortfall may be caused by reduced spending due to the uncertainty surrounding the U.K.'s June referendum.

In Asia, Japan's GDP expanded at an annualized rate of 1.7% in the first quarter, beating forecasts for a 0.3% increase and assuaging fears that the world's third largest economy had slipped into another technical recession. Despite the encouraging headline growth, both manufacturing activity and inflation fell last month. Most economists expect the Bank of Japan to ease further in July and that the government will roll out additional fiscal stimulus in the coming months. In China, April's economic data releases have revived concerns about the nation's near-term growth outlook, as industrial production, fixed investment and retail sales all expanded at a slower pace than expected.

In terms of commodities, oil was up again this month and breached the \$50 per barrel level for the first time in six months. Several reports showing larger-than-expected declines in U.S. oil inventories helped boost sentiment. The return to \$50 oil, after prices had plummeted below \$30 a barrel earlier in the year, has been driven in part by unexpected supply disruptions, particularly in Nigeria and Canada, and stable demand growth. In a recent report, the International Energy Agency suggested that global demand grew strongly in the first quarter despite a milder than usual winter in the northern hemisphere. It also reported that it expects there will be a reduction in global oil inventories in the second half of the year.

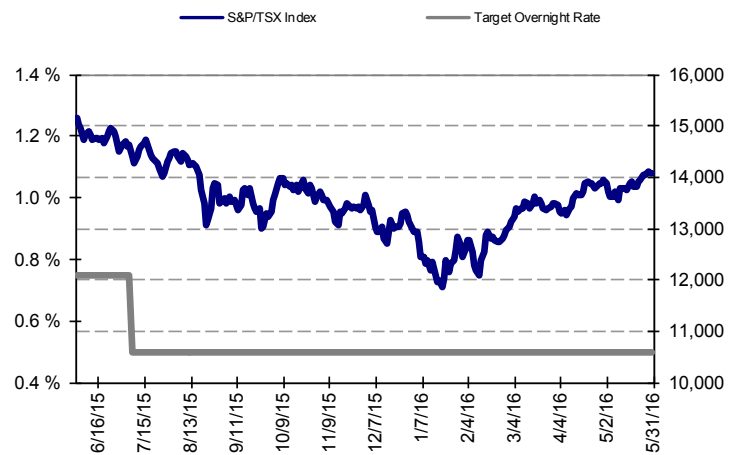
Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.3093	4.3%	-5.4%
Euro	1.4575	1.4%	-3.1%
British Pound	1.8962	3.4%	-7.0%
Japanese Yen	0.0118	0.3%	2.7%

Currencies (One Canadian Dollar)	Exchange	Month	YTD*
US Dollar	0.7638	-4.1%	5.7%
Euro	0.6861	-1.4%	3.1%
British Pound	0.5274	-3.2%	7.5%
Japanese Yen	84.5620	-0.3%	-2.7%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$49.10	6.9%	32.6%
Natural Gas (per million btu)	\$2.29	5.1%	-2.1%
Gold (per ounce)	\$1,215.33	-6.0%	14.5%
Silver (per ounce)	\$15.99	-10.4%	15.4%
Copper (per pound)	\$2.13	-7.3%	-0.2%
Nickel (per pound)	\$3.80	-10.8%	-4.5%
Aluminum (per pound)	\$0.70	-7.5%	2.9%
Zinc (per pound)	\$0.87	-0.8%	19.5%

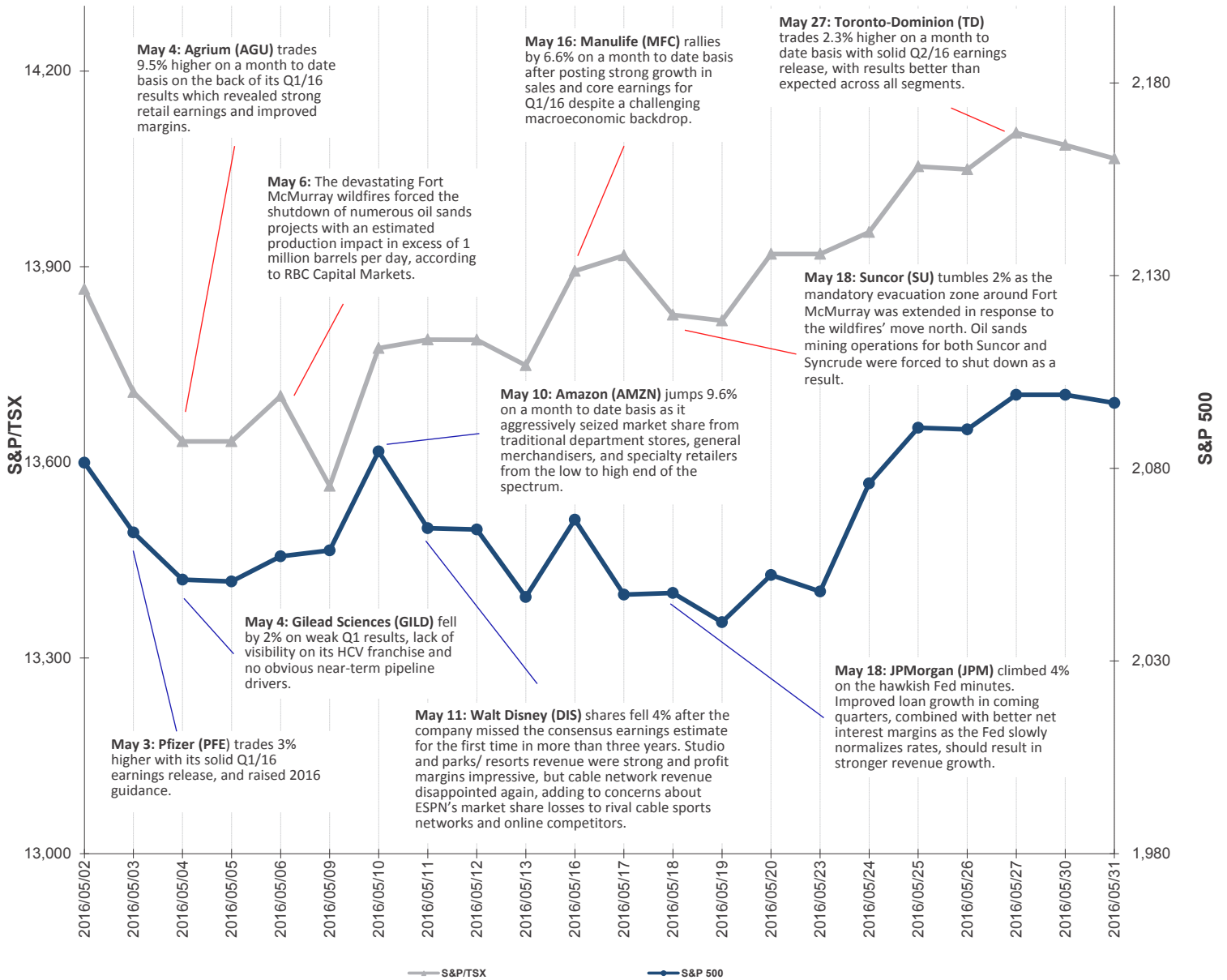
*All returns are on a Total Return basis All indices are in local currency unless otherwise noted.

S&P/TSX Index - Target Overnight Rate, LTM



Source - RBC Wealth Management, Bloomberg

NORTH AMERICAN EQUITY HIGHLIGHTS – MAY 2016

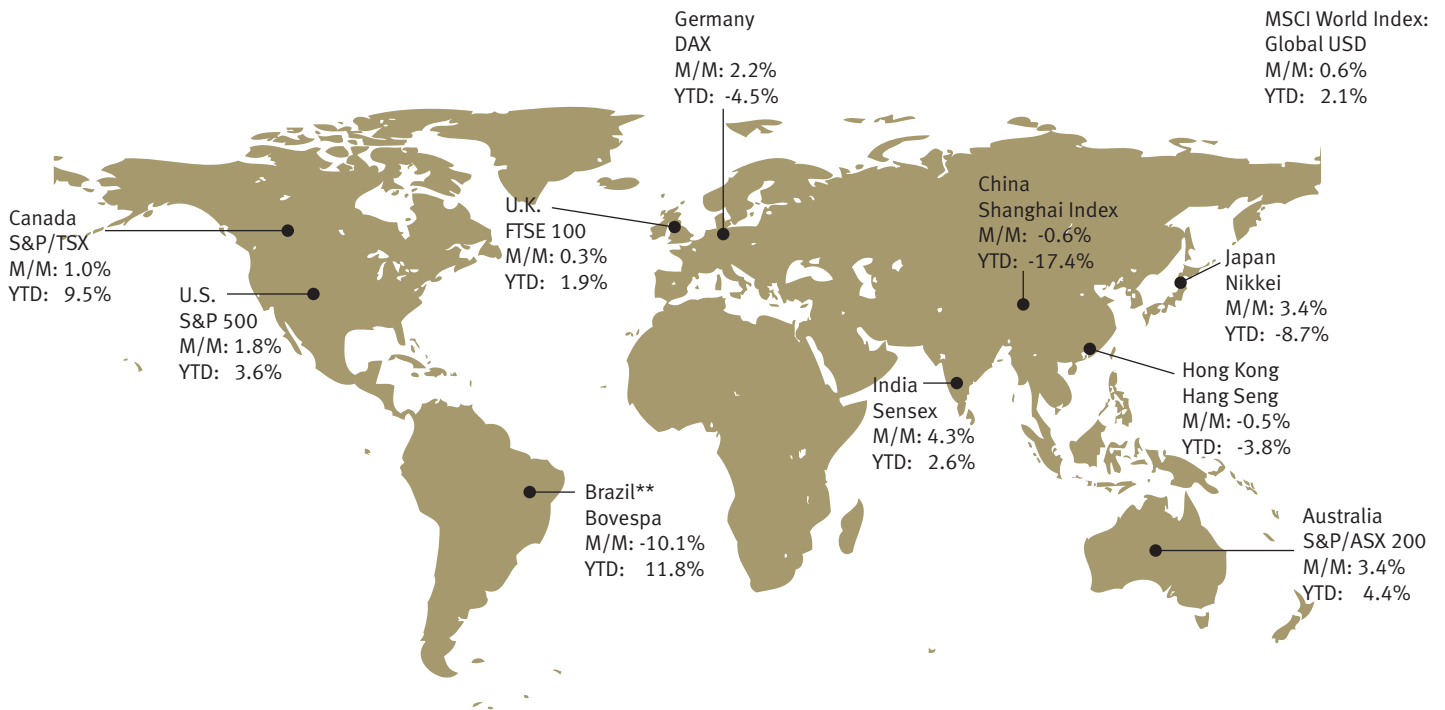


¹Bloomberg ²RBC Capital Markets Pricing Data
Source: Bloomberg

WORLD MARKETS

May Month-over-Month and Year-to-Date Performance

For the month of May, global markets were fairly mixed. Across North and South America, S&P 500 and S&P/TSX were up 1.8% and 1.0%, respectively while Brazil's Bovespa fell by 10.1%. In Europe, Germany's DAX rallied 2.2% and U.K.'s FTSE increased by 0.3%. In Asia, India's Sensex was the clear winner closing the month up 4.3% while Japan's Nikkei rallied 3.4%, but these gains were dampened by poor showings in China's Shanghai Index and Hong Kong's Hang Seng, which fell 0.6% and 0.5%, respectively. Lastly, Australia's S&P/ASX 200 finished the month up 3.4%. Overall, the MSCI World Index increased by 0.6% for the month and is now up 2.1% for the year.



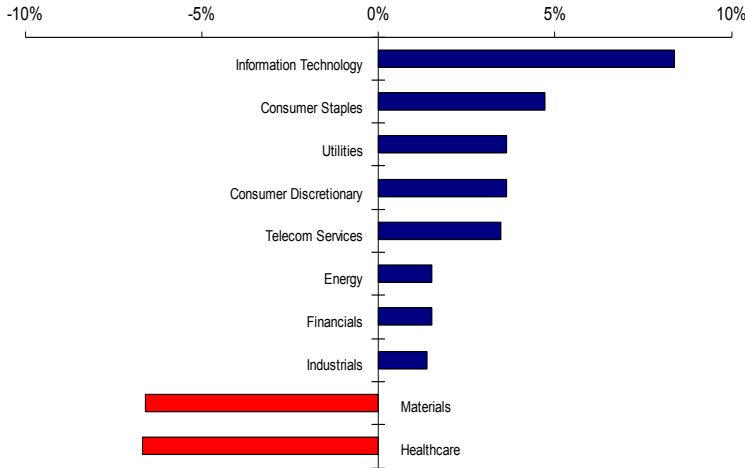
Source – Bloomberg, RBC Wealth Management, 05/31/16

All returns are on a total return basis unless otherwise noted. All returns calculated in local currency except for MSCI World

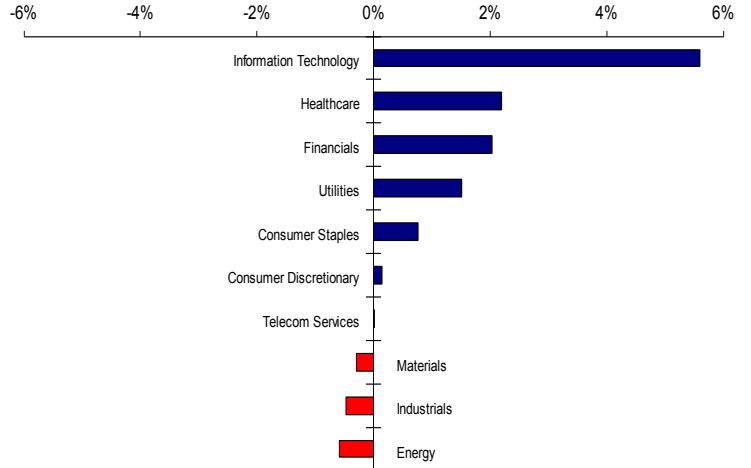
** These indices are calculated on a price return basis

CANADIAN & U.S. EQUITIES – MAY 2016

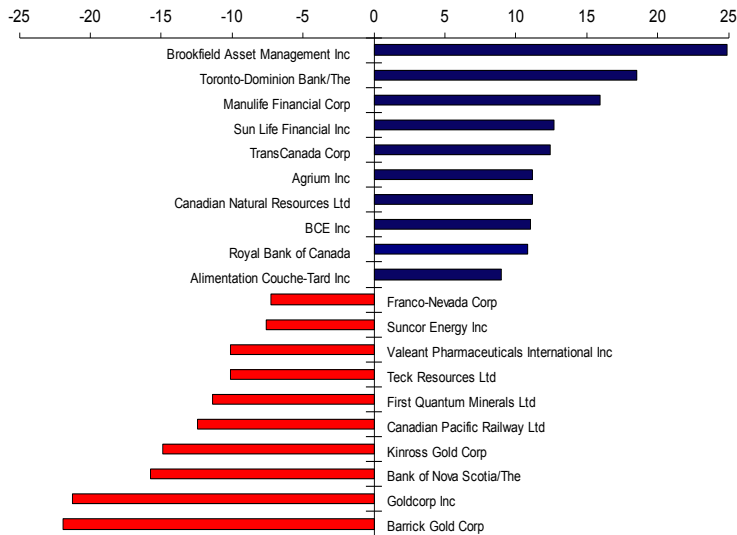
S&P/TSX Composite Sector Movement



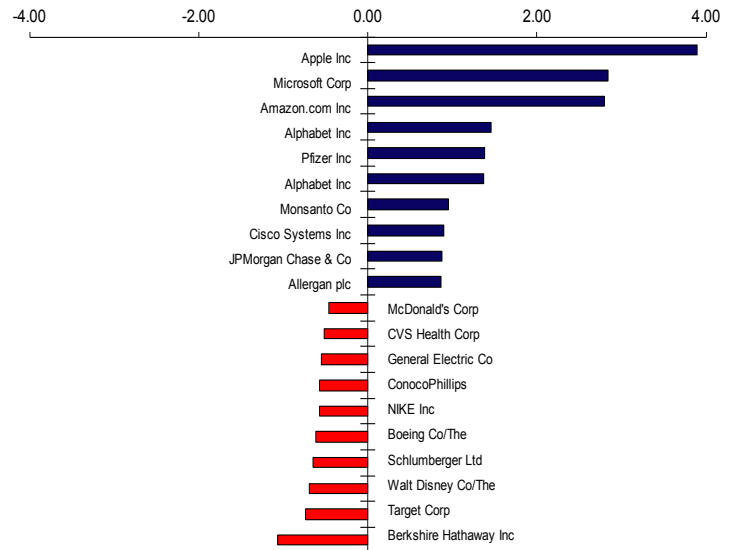
S&P 500 Sector Movement



Top 10 S&P/TSX Contributors/Decliners by Index Points



Top 10 S&P 500 Contributors/Decliners by Index Points



Source: Bloomberg

CANADIAN AND U.S. ECONOMIC DATA – MAY 2016

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
05/31/2016	Gross Domestic Product (m-o-m, SA)	Mar	-0.10%	-0.20%	-0.10%
05/31/2016	Gross Domestic Product (y-o-y, SA)	Mar	1.40%	1.10%	1.40%
	Labour market				
05/06/2016	Net Change in Employment (000, SA)	Apr	1.0	-2.1	40.6
05/06/2016	Participation Rate (SA)	Apr	--	65.80%	65.90%
05/06/2016	Unemployment Rate (SA)	Apr	7.20%	7.10%	7.10%
	Housing market				
05/09/2016	Housing Starts (000, SAAR)	Apr	193	191.5	202.4
05/12/2016	New Housing Price Index (y-o-y)	Mar	1.90%	2.00%	1.80%
05/16/2016	Existing Home Sales (m-o-m)	Apr	--	3.10%	1.50%
05/12/2016	Teranet/National Bank HPI (m-o-m)	Apr	--	1.20%	0.80%
	Consumer & Manufacturing				
05/20/2016	Retail Sales (m-o-m, SA)	Mar	-0.60%	-1.00%	0.60%
05/20/2016	Retail Sales Less Autos (m-o-m, SA)	Mar	-0.40%	-0.30%	0.30%
05/17/2016	Manufacturing Sales (m-o-m, SA)	Mar	-1.90%	-0.90%	-4.00%
	Trade				
05/04/2016	Merchandise Trade (billion, SA)	Mar	-1.40	-3.41	-2.47
	Prices				
05/20/2016	Consumer Price Index (m-o-m)	Apr	0.30%	0.30%	0.60%
05/20/2016	Consumer Price Index (y-o-y)	Apr	1.70%	1.70%	1.30%
05/20/2016	Bank of Canada CPI Core (m-o-m)	Apr	0.10%	0.20%	0.70%
05/20/2016	Bank of Canada CPI Core (y-o-y)	Apr	2.00%	2.20%	2.10%
05/30/2016	Industrial Product Price (m-o-m)	Apr	0.40%	-0.50%	-0.60%
05/30/2016	Raw Materials Price Index (m-o-m)	Apr	1.10%	0.70%	4.50%
	Other Indicators				
05/19/2016	Wholesale Sales (m-o-m, SA)	Mar	-0.50%	-1.00%	-2.30%
05/06/2016	Ivey Purchasing Managers Index (SA)	Apr	52.3	53.1	50.1
05/05/2016	Building Permits (m-o-m, SA)	Mar	-4.80%	-7.00%	15.30%

Release Date	Economic Indicators: U.S.	Period	Consensus	Actual	Prior
05/27/2016	GDP (q-o-q, SAAR)	1Q S	0.90%	0.80%	0.50%
05/27/2016	GDP Price Index (q-o-q, SAAR)	1Q S	0.70%	0.60%	0.70%
05/27/2016	Core PCE (q-o-q, SAAR)	1Q S	2.10%	2.10%	2.10%
	Labour market				
05/06/2016	Change in Nonfarm Payrolls (000, SA)	Apr	200.0	160.0	208.0
05/06/2016	Unemployment Rate (SA)	Apr	4.90%	5.00%	5.00%
	Housing market				
05/17/2016	Building Permits (000, SAAR)	Apr	1,135.00	1,116.00	1,077.00
05/17/2016	Housing Starts (000, SAAR)	Apr	1,125.00	1,172.00	1,099.00
05/24/2016	New Home Sales (000, SAAR)	Apr	523.00	619.00	531.00
05/20/2016	Existing Home Sales (million, SAAR)	Apr	5.40	5.45	5.36
05/16/2016	NAHB Housing Market Index (SA)	May	59	58	58
05/02/2016	Construction Spending (m-o-m, SA)	Mar	0.50%	0.30%	1.40%
	Consumer & Manufacturing				
05/13/2016	Advance Retail Sales (m-o-m, SA)	Apr	0.80%	1.30%	-0.30%
05/13/2016	Retail Sales Less Autos (m-o-m, SA)	Apr	0.50%	0.80%	0.40%
05/31/2016	Consumer Confidence (SA)	May	96.1	92.6	94.7
05/27/2016	U. of Michigan Confidence	May F	95.4	94.7	95.8
05/27/2016	Personal Consumption (q-o-q, SAAR)	1Q S	2.10%	1.90%	1.90%
05/26/2016	Durable Goods Orders (m-o-m, SA)	Apr P	0.50%	3.40%	1.90%
05/04/2016	Factory Orders (m-o-m, SA)	Mar	0.60%	1.10%	-1.90%
	Trade				
05/12/2016	Import Price Index (m-o-m)	Apr	0.60%	0.30%	0.30%
05/12/2016	Import Price Index (y-o-y)	Apr	-5.40%	-5.70%	-6.10%
05/04/2016	Trade Balance (billion, SA)	Mar	-41.2	-40.4	-47.0
	Prices				
05/17/2016	Consumer Price Index (m-o-m, SA)	Apr	0.30%	0.40%	0.10%
05/17/2016	Consumer Price Index (y-o-y)	Apr	1.10%	1.10%	0.90%
05/17/2016	CPI Core Index (SA)	Apr	246.45	246.57	246.10
05/31/2016	PCE Deflator (y-o-y, SA)	Apr	1.10%	1.10%	0.80%
	Other Indicators				
05/02/2016	ISM Manufacturing Index (SA)	Apr	51.4	50.8	51.8
05/31/2016	Chicago Purchasing Manager Index	May	50.5	49.3	50.4
05/19/2016	Philadelphia Fed Index	May	3.0	-1.8	-1.6
05/19/2016	Leading Indicators (m-o-m)	Apr	0.40%	0.60%	0.00%
05/13/2016	Business Inventories (m-o-m, SA)	Mar	0.20%	0.40%	-0.10%

Source: Bloomberg

SA = Seasonally Adjusted; SAAR = Seasonally Adjusted Annual Rate; m-o-m = Month-over-month % change; q-o-q = Quarter-over-quarter % change; y-o-y = Year-over-year % change.

NOTABLE CANADIAN DIVIDEND ACTIVITY – MAY 2016

INCREASES				
Company	\$ Change		Ex-Date	% Change
Quebecor Inc. (QBR.B)	Prior: \$0.3500	New: \$0.4500	May 25, 2016	28.6%
CI Financial Corp (CIX)	Prior: \$0.1100	New: \$0.1150	May 27, 2016	4.5%
Exchange Income Corporation (EIF)	Prior: \$0.1600	New: \$0.1675	May 27, 2016	4.7%
Sun Life Financial Inc (SLF)	Prior: \$0.3900	New: \$0.4050	May 30, 2016	3.8%
Imperial Oil Ltd. (IMO)	Prior: \$0.1400	New: \$0.1500	June 1, 2016	7.1%
Power Corporation of Canada (POW)	Prior: \$0.3113	New: \$0.3350	June 7, 2016	7.6%
Telus Corporation (T)	Prior: \$0.4400	New: \$0.4600	June 8, 2016	4.5%
Loblaw Cos Ltd (L)	Prior: \$0.2500	New: \$0.2600	June 13, 2016	4.0%
George Weston Limited (WN)	Prior: \$0.4250	New: \$0.4400	June 13, 2016	3.5%
Equitable Group Inc. (EQB)	Prior: \$0.2000	New: \$0.2100	June 13, 2016	5.0%
Aimia Inc. (AIM)	Prior: \$0.1900	New: \$0.2000	June 14, 2016	5.3%
Canadian Imperial Bank of Commerce (CM)	Prior: \$1.1800	New: \$1.2100	June 24, 2016	2.5%
Algonquin Power Utilities Corp. (AQN)	Prior: \$0.0963	New: \$0.1059	June 28, 2016	10.0%
Bank of Montreal (BMO)	Prior: \$0.8400	New: \$0.8600	July 27, 2016	2.4%
DECREASES				
Company	\$ Change		Ex-Date	% Change
Autocanada Inc (ACQ)	Prior: \$0.2500	New: \$0.1000	May 27, 2016	-60.0%
Hydro One Ltd (H)	Prior: \$0.3400	New: \$0.2100	June 10, 2016	-38.2%

Source: Bloomberg

IMPORTANT DISCLOSURES

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