INSIGHTS

RBC SELECT CHOICES PORTFOLIOS

WINTER 2017

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A time-tested approach to asset allocation

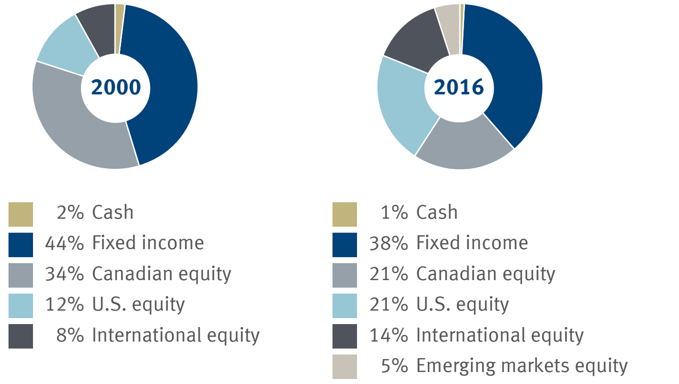
In December, we celebrated the 30-year anniversary of RBC Select Portfolios. Launched in 1986, these Portfolios provide investors with active asset allocation and effective diversification through an all-in-one solution.

RBC Select Choices Portfolios share the same asset mix approach and investment management team as RBC Select Portfolios. The only difference between the two programs is that RBC Select Choices Portfolios include funds from other leading mutual fund companies in addition to mutual funds from RBC Global Asset Management (RBC GAM), while RBC Select Portfolios is comprised entirely of RBC GAM mutual funds.

A little history

In 2000, 14 years after the launch of RBC Select Portfolios, RBC Select Choices Portfolios were introduced with a total of 17 underlying funds (12 of which were third-party funds). Over the subsequent 16 years, RBC Select Choices Portfolios have evolved to bring you greater access to a wider range of global investment opportunities through investments in 24 underlying funds (13 of which are third-party funds). RBC Select Choices Portfolios have grown considerably and now deliver access to markets and investment vehicles that were either inaccessible or non-existent at the Portfolios' inception. One example of this evolution is the composition of the equity portion of RBC Select Choices Balanced Portfolio. Once concentrated with a 34% allocation to Canadian equity, Canada now makes up only 21% of the portfolio, while exposure to U.S., international, and emerging market equities has increased.

The evolution of RBC Select Choices Balanced Portfolio



2016 data as of November 30.

Over the last 30 years, RBC GAM has not only grown organically, but has also added talented individuals and important investment capabilities through the key strategic acquisition of Phillips, Hager & North Investment Management (PH&N) in 2008. PH&N is now represented in RBC Select Choices Portfolios, and fixed-income exposure is better diversified as a result.

The evolution of RBC Select Portfolios and RBC Select Choices Portfolios has taken place amidst a continuously changing political and economic landscape, and today is no exception.

Just last year, events like Brexit and Donald Trump's presidential victory, which both point to a rising populist tide, raised questions about the way forward for global markets. Our time-tested investment management experience contributes to our point of view on contemporary market catalysts. For example, since 1986, there have been five U.S. presidents. Our experience managing through change south of the border can help inform our view when considering the implications of the recent U.S. presidential election.

The composition of RBC Select Choices Balanced Portfolio – increasing breadth and capability

Once containing 9 underlying funds, RBC Select Choices Balanced Portfolio now contains 17, each one specifically chosen for their contribution to the overall portfolio's objectives.

	Cash/Cash Equivilents	Fixed Income	Canadian Equity	U.S. Equity	International Equity
2000		▪ Fidelity Canadian Short Term Bond Fund ▪ CI Canadian Bond Fund ▪ Trimark Canadian Bond Fund ▪ Royal Global Bond Fund	▪ RBC Canadian Dividend Fund* ▪ RBC Canadian Equity Fund*	▪ AGF RSP American Growth Fund ▪ Fidelity Growth America Fund	▪ AGF International Stock Class
2016	▪ RBC Canadian Money Market Fund	▪ PH&N High Yield Bond Fund ▪ PH&N Short-Term Bond & Mortgage Fund ▪ PH&N Total Return Bond Fund ▪ RBC Bond Fund	▪ RBC Canadian Dividend Fund ▪ RBC Canadian Equity Fund ▪ Franklin Bissett Canadian Equity Fund ▪ IA Clarington Canadian Small Cap Fund	▪ RBC O'Shaughnessy U.S. Value Fund ▪ PH&N U.S. Multi-Style All-Cap Equity Fund ▪ CI American Value Fund ▪ TD U.S. Mid-Cap Growth Fund	▪ Invesco International Growth Class ▪ Invesco International Growth Fund ▪ Renaissance International Equity Fund ▪ RBC Emerging Markets Equity Fund

*Royal Dividend Fund became RBC Canadian Dividend Fund in 2004
*Royal Canadian Equity Fund became RBC Canadian Equity Fund in 2003

Considerations in the wake of the U.S. election

Similar to the response after Brexit, global equity markets initially greeted Trump's unexpected victory with a broad-based sell-off. Dow futures (a leading indicator for market sentiment) plunged by as much as 5%. Markets quickly recovered from these immediate losses as investors digested the new reality and began focusing on what the impending administration meant for the global economy.

President-elect Trump pledged a great deal of fiscal stimulus in the form of various tax cuts and infrastructure spending during his campaign. Historically, campaign promises are very different than resulting policies. Compromises between the executive, legislative and judicial branches tend to soften or impede final legislation. In President-elect Trump's favour, the Republicans swept control of both Congress and the White House, which creates an easier path to enacting new policies. However, a sweep does not provide unlimited power. President Obama had larger majorities when he took office in 2009, along with a much larger electoral representation, and still faced many challenges.

Taking action

Immediately following the Trump victory, investors began to shift their equity exposure to sectors that could benefit from proposed campaign promises. In fixed-income markets, expectations for boosted spending and tax cuts quickly drove bond yields up, which presented an opportunity to reduce our underweight position in bonds at more attractive prices. We tactically shifted 1% from cash to fixed income as a result.

Looking forward, RBC Select Choices Portfolios will continue to shift allocations in accordance with our market outlook, and new investment strategies will be integrated where appropriate. What will remain constant is our commitment to leveraging our three decades of asset management expertise to deliver an investment experience that helps you achieve your long-term investment goals.

What happened in world markets last quarter

Fixed income

Bond yields rose meaningfully across the curve over the past several months. Since July, the U.S. 10-year Treasury yield has increased roughly 100 basis points from its record low, and yields in other developed markets have also risen, although not to the same extent. The prospect of higher inflation and economic growth, particularly following the U.S. election, drove the increase. In spite of expectations for the 0.25% increase in the benchmark rate announced on December 14, bond markets reacted negatively to the Fed signaling the possibility of three rate increases in 2017 rather than two. The U.S. is the outlier in developed markets, with the U.K., Europe and Canada maintaining low interest rates. The Bank of Canada maintained its target for the overnight rate, citing continuing economic slack and slow growth. The benchmark FTSE TMX Canada Universe Bond Index was down 3.4%, and the Citigroup World Government Bond Index US$ (US$ hedged) was down 2.8%.

Canadian equities

The Canadian stock market was volatile in the lead-up to the U.S. election but rallied in the weeks following. Protectionist plans from the President-elect, while still far from formalized, could harm the Canadian economy in the long term. In the short term, the higher U.S. dollar has increased the attractiveness of Canadian exports. Pro-pipeline talk from the President-elect and higher oil prices provided some relief to the Canadian energy sector. For the quarter, the S&P/TSX Composite Index was up 4.5%.

U.S. equities

The U.S. stock market dipped in advance of the election and then rallied strongly coming out of it, with three major indices hitting all-time highs in December (Dow 19,974.62, S&P 500 2,271.72 and NASDAQ 5,487.44). The widely expected announcement of a 0.25% interest rate increase by the Fed did little to dampen investor enthusiasm. The S&P 500 Index was up 6.3%.

International equities

The European economy has been unexpectedly resilient following the Brexit vote, with a significantly cheaper currency acting as a tailwind. On the other hand, political uncertainty and the increasing presence of anti-EU sentiment are clearly affecting equity market valuations. Emerging markets fell following the U.S. election on worries of a more restrictive trade environment and debt risks posed by a strengthening U.S. dollar. Japanese equities rallied as a high U.S. dollar helps that country's exports. The MSCI EAFE Index finished up 1.4%, while the MSCI Emerging Markets Index was down 2.1%.

All returns are in C$ except where indicated. Canadian, U.S., MSCI EAFE and MSCI Emerging Markets index returns are total returns.

Portfolio Manager Viewpoint

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Continuing the trend from last quarter, economic data has improved, market sentiment has firmed and prices of risk assets have been marching higher. Contrary to popular perception, this new market direction actually began before populist victories in the U.K. referendum and U.S. election. A number of trends that pre-date these events suggest that the outlook for the economy and markets has been improving since earlier this year. While valuation risk has moderated as a result of the rapid rise in yields, the intermediate-to-long-term outlook for fixed-income remains unimpressive. There has been much discussion about the potential impact of a Trump administration on corporate profits. If everything falls into place, the possibility for a significant increase in earnings, and therefore equity prices, shouldn't be ignored. In our view, the total return prospects for equities are much more compelling than for bonds, so we remain overweight stocks in our asset mix.

Final note

This is the final issue of *Insights*. RBC Global Asset Management remains committed to providing you with valuable research and insights online at rbcgam.com. Regular publications can be subscribed to at rbcgam.com/investment-insights and will continue to include the Global Investment Outlook, Economic Compass and other timely and relevant investment insights.

In partnership with leading fund managers

We thank you for your ongoing trust in continuing to hold **RBC Select Choices Portfolios** as part of your investment plan. If you have any questions or comments, **please contact your advisor** or **RBC** at:

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