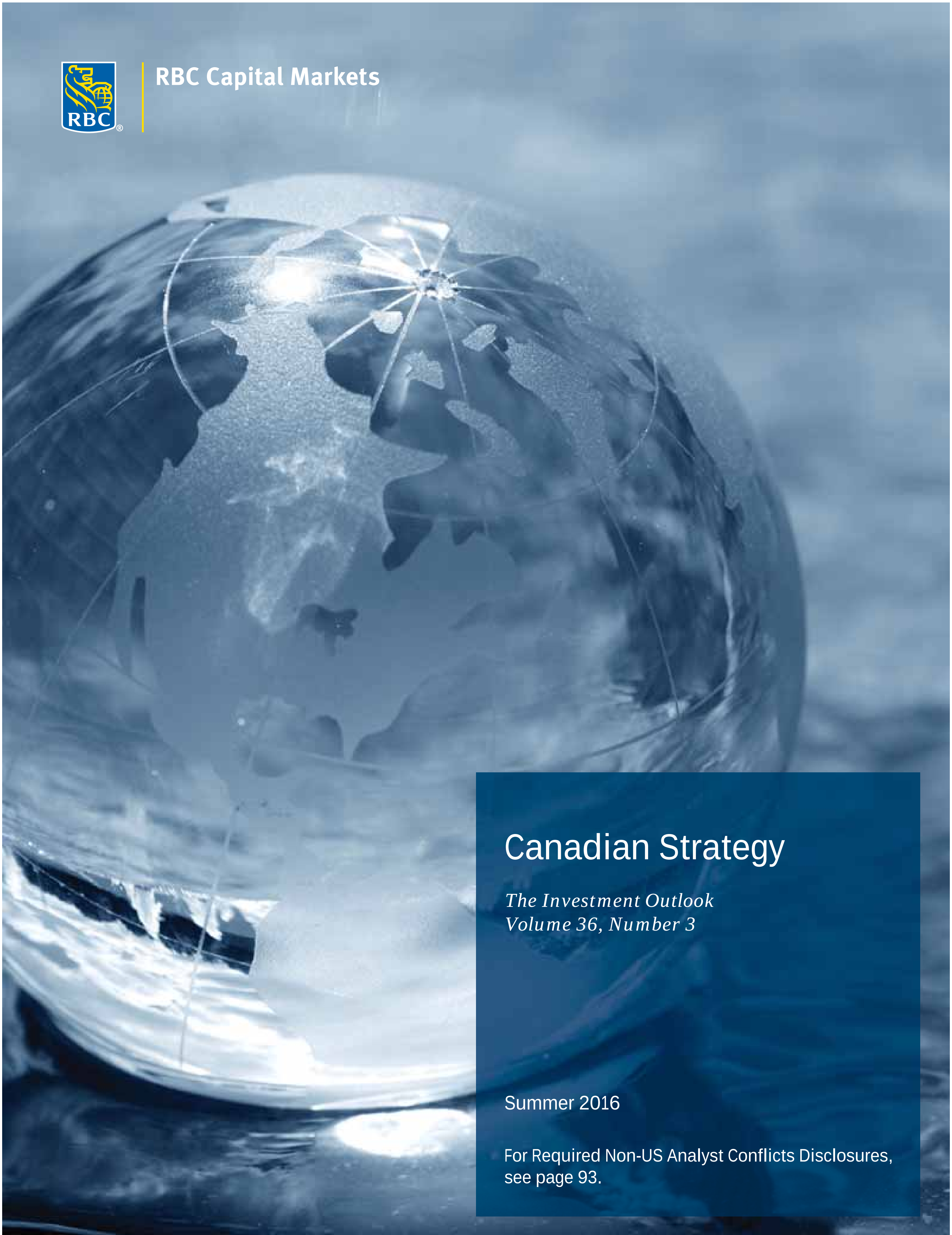
RBC Capital Markets



Canadian Strategy

The Investment Outlook
Volume 36, Number 3

Summer 2016

For Required Non-US Analyst Conflicts Disclosures, see page 93.

Disseminated: July 18, 2016 00:15ET; Produced: July 15, 2016 19:22ET

Introduction

Canadian Strategy: The Investment Outlook
Summer 2016
Volume 36, Number 3

RBC Capital Markets' (RBC CM) *Canadian Strategy* publication is the outcome of senior representatives of the firm regularly meeting to compare and contrast their views on the investment outlook. *Strategy* consists of three parts: first, the consensus *strategy* resulting from these discussions; second, a series of *tactics* designed to capitalize on this strategy; and third, some of the *working papers* that guided us to our conclusions.

At times, the views of individual analytic disciplines will differ from the group's consensus. These divergences will be apparent in the *working papers*. We believe readers will want to be aware of the full range of views shaping *Strategy* and have, therefore, included commentary that may appear to be at odds with the consensus view of the committee.

All prices are as of market close June 30, 2016 ET, unless otherwise noted.

All values are in Canadian dollars unless otherwise noted.

Investment Strategy Equity Selection Committee

Matt Barasch (Chair), J. Allworth, J-F Dion, N. Downey, B. Koziol, P. McAllister, J. Mirza, and W. Spracklin.

Table of Contents

Recommended Asset Mix

57.5% Equities, 37.5% Bonds, 5% Cash

By definition, most portfolios are constructed to achieve specific objectives. This definition implies that, in a general publication such as this, it is difficult to address the requirements of every type and class of investor.

One way of partially overcoming this difficulty is to recognize that many portfolios have limits placed on the proportion of assets that can be committed to the equity markets. This being the case, a recommended asset mix could be expressed in terms of the proportion of the minimum/maximum range allowed for equities. Investors with different constraints should be able to translate a certain recommended equity exposure to levels more appropriate for their own portfolios.

This approach is used to translate our general asset-mix recommendations into weightings appropriate for two hypothetical portfolios with differing equity constraints. For example, the weighting of equities in our hypothetically balanced portfolio can vary between 40% and 60%—a minimum/maximum range of 20 percentage points. If we were to recommend an equity exposure of 25%, then this would mean that only five percentage points of the possible 20 should be committed to equities (i.e., 25% of the account's individually defined minimum/maximum range, or a total equity weighting in the balanced portfolio of 45%). Similarly, a portfolio in which equity exposure could vary between 0% and 100% (such as the growth portfolio) should be no more than 25% equities.

Exhibit 1: Asset Class Ranges

High/Low Constraint	Present Position			
Balanced (%)	**Growth (%)**	**Asset Class**	**Balanced (%)**	**Growth (%)**
20/0	100/0	Cash	1.0	5.0
60/40	100/0	Bonds	47.5	37.5
60/40	100/0	Stocks	51.5	57.5

	Past Range: Growth Portfolio	
Asset Class	**Highest %: Date**	**Lowest %: Date**
Cash	40%: Q2-Q3/87	0%: Q3/91, Q1/92, Q3/92-Q1/93, Q1-Q2/95
Bonds	55%: Q1/92-Q3/92	10%: Q4/86-Q3/87
Stocks	70%: Q4/86-Q1/87	40%: Q2/92, Q1/94-Q4/94

Source: RBC Capital Markets

Fundamental Market Comment

RBC Dominion Securities Inc.
Matthew Barasch, CFA (Canadian Equity Strategist) (416) 842-7857; matt.barasch@rbccm.com

We continue to favour Canadian stocks

We initiated coverage of the Canadian market in early May with an overweight recommendation and a 12-month price objective of 15,200, which represented a total return at the time of about 15%. In our first quarterly update, we reiterate this overweight recommendation and introduce a 2017 year-end price objective of 15,800, representing a ~15% total return from current levels.

Key Calls

- We would overweight the S&P/TSX and believe it will reach 15,800 by year-end 2017.
- We would continue to overweight Real Estate Investment Trusts (REITs), Energy Producers (E&Ps and integrated producers) and Golds (both bullion and stocks).
- We would now market weight Telecommunication Services (we previously recommended underweight exposure).
- We would now overweight Railroads (we previously recommended market weight exposure).
- We would continue to underweight Utilities, Health Care and Fertilizers.
- We would market weight the remainder of the market sectors.
- The Canadian dollar is likely to trade broadly in a range from about $1.25 to about $1.40. For domestic Canadian investors, we would look to hedge US dollar exposure should CAD exceed $1.35; however, below this level, we would allow it to freely float. For foreign investors in the Canadian market, we would hedge CAD exposure at levels below $1.25.

Market Call

Since we initiated coverage of the S&P/TSX in early May, the world has thrown yet another curveball at investors. Our initial reaction to Britain's decision to leave the European Union was not unlike many others – this is bad for stocks. Unlike the various bouts with Greece's potential exit from the EU, this was an actual decision to leave and considering England's massive size relative to Greece's, our initial thought was – why would one want to "be brave" in the face of this? One lesson we have learned in our decade and a half covering the US and Canadian markets is that we (this is the royal "we") never properly learn lessons and instead of taking a deep breath and thinking through the ultimate impact of the British referendum, we instead declared "ready, fire, aim".

Britain's exit from the EU creates overhangs to be sure and some of these overhangs surely could become realities. In other words, if the Brits could do it, someone else in the EU probably could and while we have serious doubts that Donald Trump can overcome difficult electoral math, we would not put anything past "the world" at this point. Add to this the likelihood that Britain's economy, the fifth largest in the world, will suffer, as will the EU's and an already low-growth world could potentially see growth fall farther still.

But as you might have garnered from the opening paragraph, our view differs from our initial take. While we acknowledge the added overhangs, we also think that the British referendum touches off two things that will be far more important to stocks and particularly the S&P/TSX as we look out over the next 18 months. 1) Global monetary policy, which was already turned up to 10, got turned up to 11 (and no, one cannot simply "make 10 louder") in the wake of the referendum. 2) Fiscal stimulus, which has been notably absent from the equation over the past six years, may finally get "pushed into the pot". And while so far it has only been South Korea (US$20 billion announced in the wake of the referendum) and, of course, Canada, which have officially confirmed stimulus, there are lots of rumblings of stimulus plans from the likes of Japan, China, the U.K., et al for some of this not to come to fruition. (We would also note that regardless of who wins the US presidential election, new administrations historically have almost always cut taxes, increased spending, or both in the early years of their administrations.)

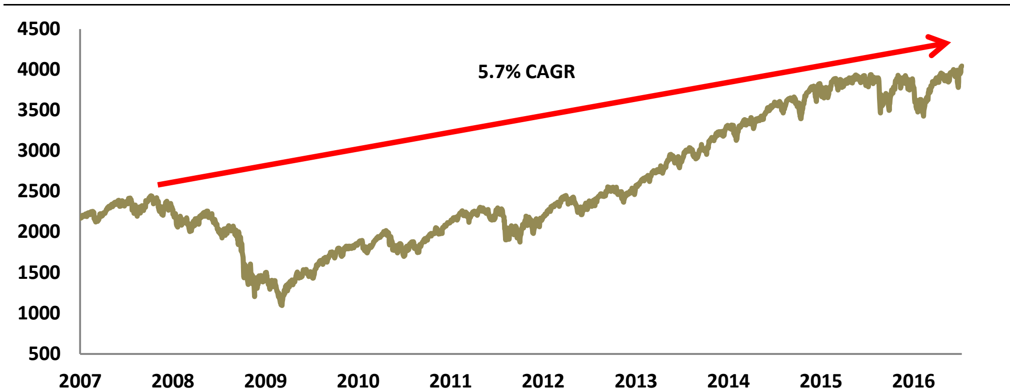
Will this be enough to finally get a moribund global growth picture heading in a better direction? We are not sure, but considering the alternative has not been working all that well, we would contend that it couldn't hurt. Further, from a stock market perspective, we are not sure it matters so much, as more stimulus, especially the non-monetary policy variety, will be a welcome addition, in our view.

Thus, while we expect moments in the coming months in which "gut checks" will be in order, we also would view these as opportunities to add exposure to good, quality businesses that sometimes come up for sale in periods of risk-off (see our piece on **Canada's Outsiders** for some examples). Further, we believe the overriding backdrop for stocks remains favourable, and if we are right about the "fiscal stimulus call", we think the backdrop could get even better for a time.

One thing we hear from time to time in our client meetings is the question of what comes after. That is, years of hyper-stimulative monetary policy, which has likely caused all kinds of wackiness in the investment landscape, and now fiscal stimulus? How do we unwind this? How do we pay for it? More debt – that's your answer? We get it, it doesn't feel great and there may indeed be a day of reckoning for all of this effort to try to kick-start a global economy that refuses to get out of first gear. But we do not think that "day of reckoning" is near and we think the risk of it occurring in the next 18 months is low.

The obvious next question may be – how do we know? We don't, but US recession risks remain low in the view of our US economists and strategists, US consumers are better positioned than they have been in a decade, the US job market is tight and continues to create jobs, most banks outside the EU are well-capitalized (although struggling to earn in a low-yield world), and policymakers worldwide have demonstrated time and again that they are prepared to act if needed. Can we guarantee that the "end of the world" is not nigh? No, we can't, but we would note that if one had bought the S&P 500 at the absolute peak of the market in October 2007 and held it to today, the compounded total return would be about 6% per annum and that was with the prior "end of the world" occurring in the intervening years. So, even "ends of the world" can be overcome given enough time.

Exhibit 1: S&P 500 total returns



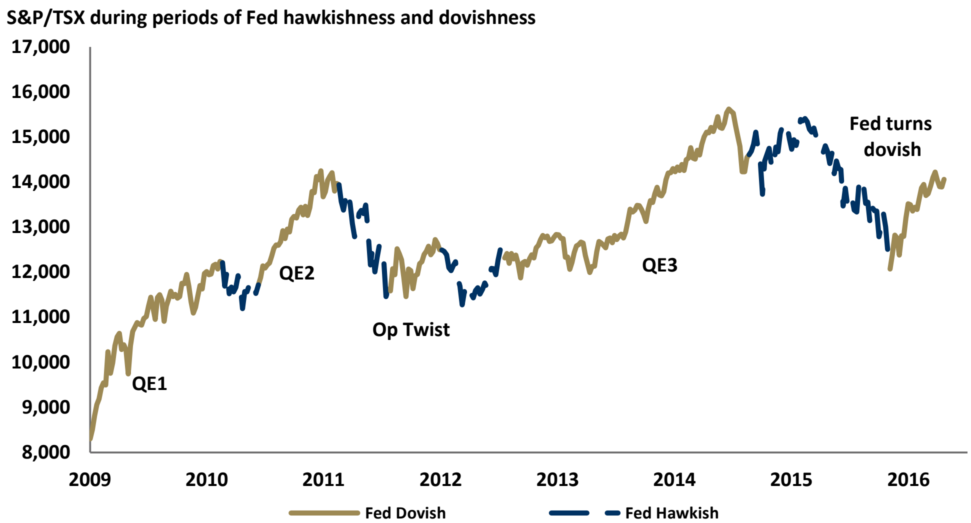
Source: Bloomberg

Anyway, to make a long story long, we reiterate our overweight recommendation on the S&P/TSX and introduce a year-end 2017 price target of 15,800, corresponding to 18x our year-end 2017 earnings forecast.

Our Overweight recommendation rests on five pillars

1) Favourable "macro" backdrop. The Canadian market benefits more than most from dovish global monetary policy and especially US and Chinese stimulus. While the former has been in place for most of the past seven years, there have been various bouts, notably 2015, when the US Federal Reserve attempted to step back from its dovish path and these periods proved especially troublesome for TSX performance.

Exhibit 2: More than most markets, the TSX has tended to react positively to a dovish Fed

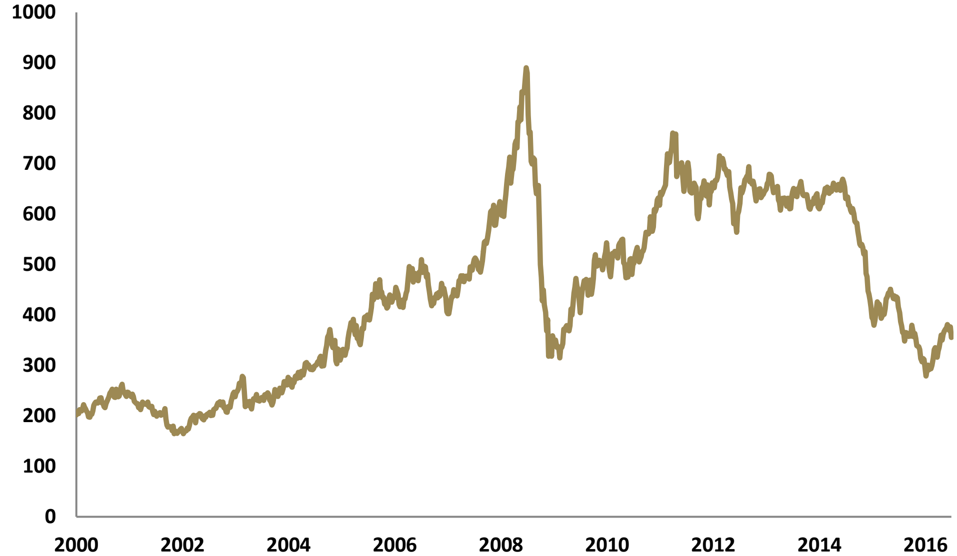


Source: Bloomberg, RBC Capital Markets Quantitative Research

In addition, China has made a concerted effort over the past several years to shift the dynamic of its economy from one less reliant on internal and external investment to one more reliant on internal consumption. This has been a predictable albeit troubling development for the commodity complex, which was muscled up for continued Chinese demand growth of a pace similar to the period of 2000 to 2010. With demand growth significantly lower than that period, the commodity complex was generally caught flat-footed with supply of most commodities running well ahead of demand. Add to this mix the seemingly inexorable growth in US unconventional oil production and the commodity complex suffered through one of its worst periods in decades over the 2011 through 2015 period.

Exhibit 3: Commodities recovering from dark four-year period

Goldman Sachs Commodity Index

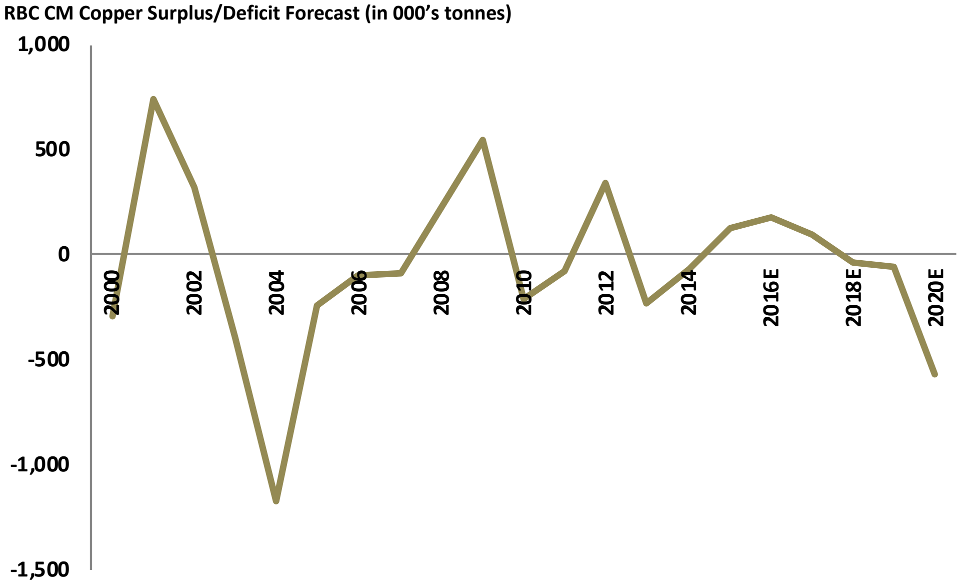


Source: Bloomberg, RBC Capital Markets Quantitative Research

However, while most commodities are not yet balanced, there are lights developing at the end of the proverbial tunnel.

Exhibit 4: RBC CM sees copper deficits beginning in 2018

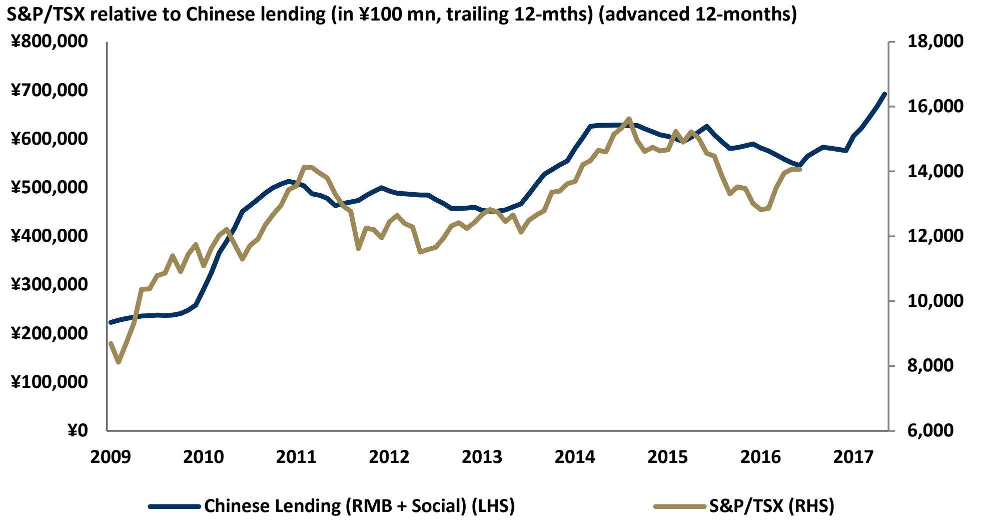
RBC CM Copper Surplus/Deficit Forecast (in 000's tonnes)



Source: RBC Capital Markets

And with China once again turning to stimulus early this year, a deeply oversold commodity complex was under-owned and a coiled spring set to release.

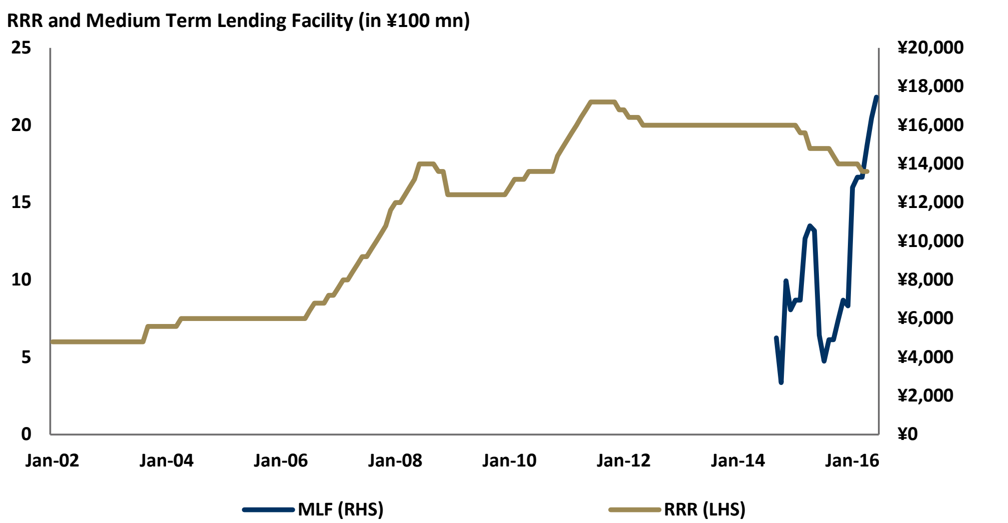
Exhibit 5: Increased Chinese lending has been correlated with strong TSX performance



Source: Haver Analytics, RBC Capital Markets Quantitative Research

China has been reluctant in recent years to aggressively lower its reserve requirements for banks; however, there has been some loosening recently. Add to this unconventional policy such as the MLF (introduced in 2014) and the backdrop remains fairly stimulative.

Exhibit 6: Chinese stimulus is coming in many forms

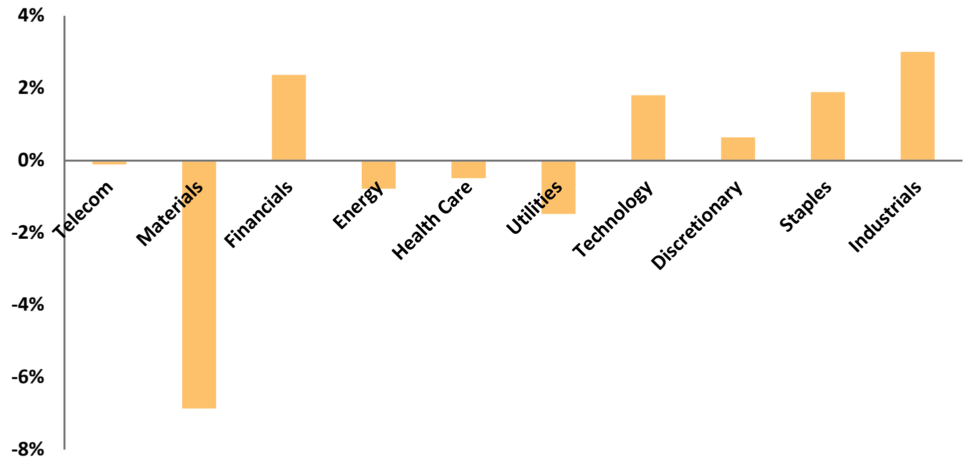


Source: Haver Analytics, RBC Capital Markets Quantitative Research

As mentioned, portfolio manager positioning entering 2016 was decidedly underweight the commodity complex. Considering TSX sector weightings were already well below the levels of a few years ago, managers were effectively underweight an underweight group.

Exhibit 7: Most funds were underweight Energy and Materials entering 2016

Average weighting of top 10 Canadian equity funds relative to S&P/TSX weightings



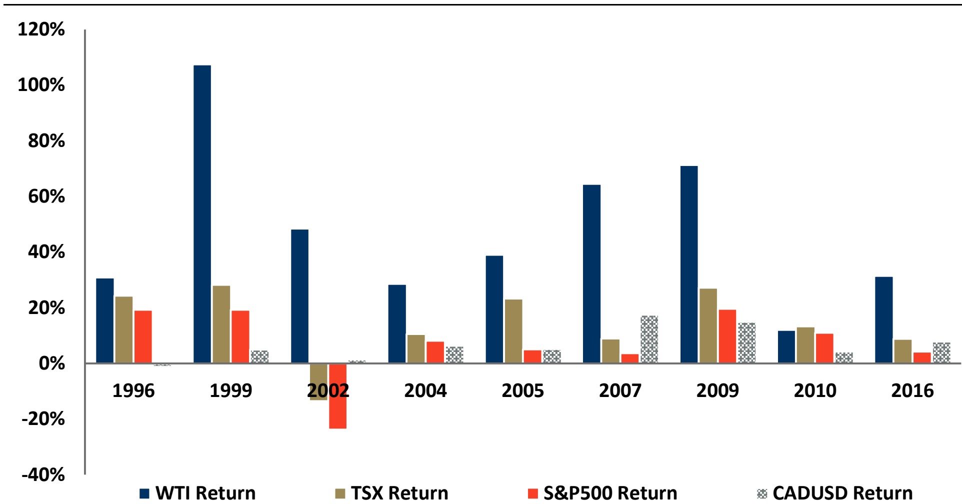
Source: Bloomberg, RBC Capital Markets Quantitative Research

And while we have our doubts that this is the start of a new prolonged bull market in commodities, we believe the window remains open and is likely to remain so into 2017 as all this global and Chinese stimulus continues to work through the system.

2) Positive view on oil. Our commodity strategy team continues to believe that oil prices are likely to rise into **year-end 2016 and then rise further in 2017**. Their current forecasts call for prices to average $55.50/boe (WTI) for the second half of 2016 and to rise to an average of $64/boe for 2017. Their thesis is predicated on firming global oil market fundamentals, marked by "unwavering demand" in the face of declining supplies. These supply declines have been both fundamental (declining US supply) and geopolitical in nature as several "hot spots" – Nigeria, Venezuela – have seen declines in supply caused by unrest. Our commodity team does not expect the path of oil to be a straight one and we would not be surprised to see some bumps along the way in the coming months and quarters.

If we look back over two decades, the S&P/TSX has tended to generate both its strongest absolute and relative performance during years in which oil prices have risen 10% or more.

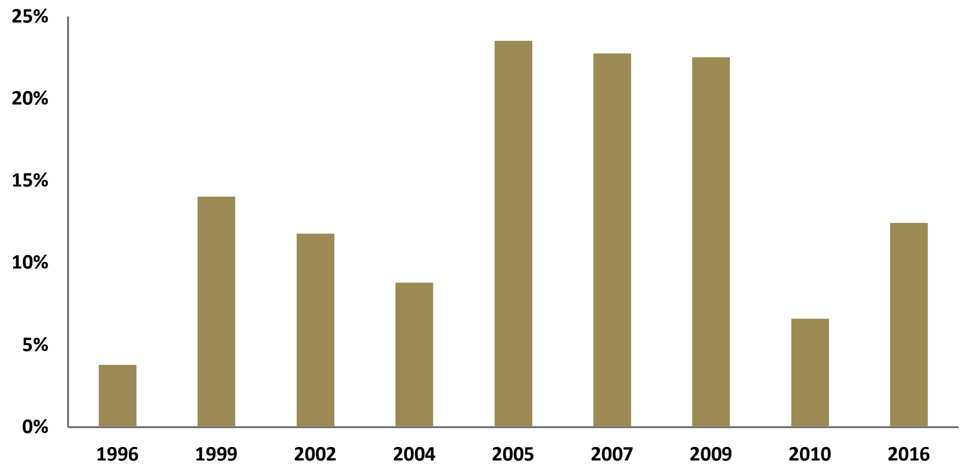
Exhibit 8: TSX performance has been strong during 10%+ oil years



Source: Bloomberg, RBC Capital Markets Quantitative Research

Exhibit 9: Adjusted for CAD, average outperformance has been ~14%

S&P/TSX relative to S&P 500 (in CAD) during 10%+ oil years

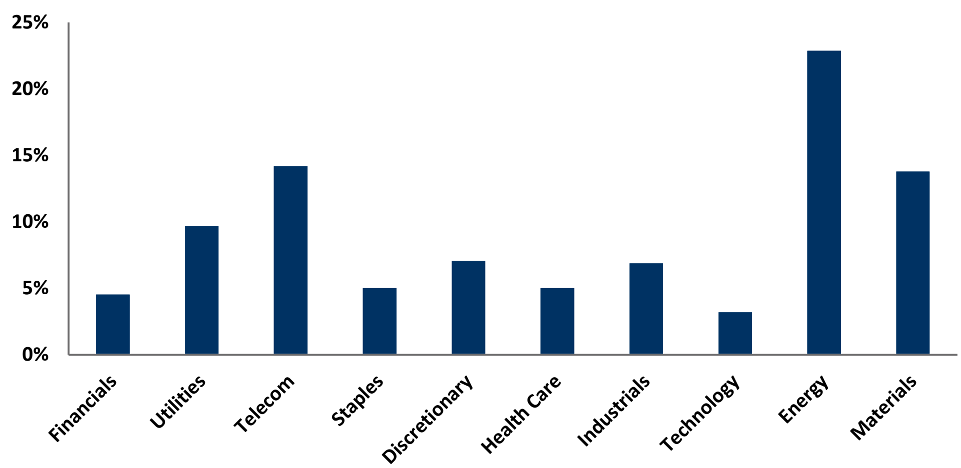


Source: Bloomberg, RBC Capital Markets Quantitative Research

We would note as well that while the performance of oil will obviously tend to impact the Oil & Gas sector, the rising tide of oil prices has tended historically to lift the TSX more broadly with all 10 sectors enjoying positive median returns during strong oil years.

Exhibit 10: All 10 sectors have generated a positive median return during 10%+ oil years

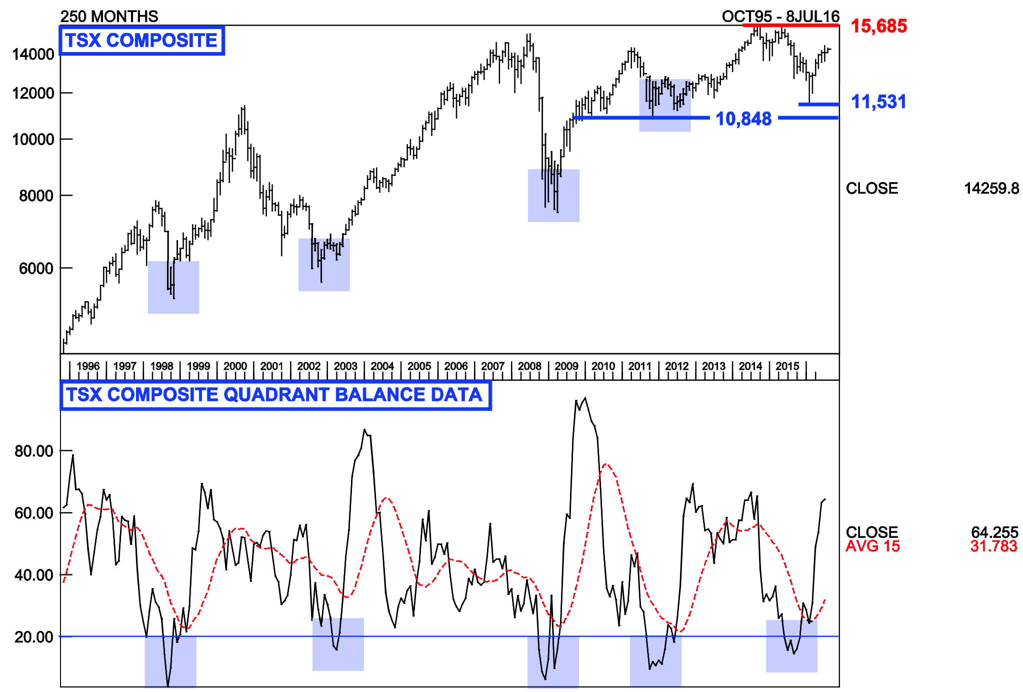
Median returns of the 10 sectors of the S&P/TSX during 10%+ oil years (price return only)



Source: Bloomberg, RBC Capital Markets Quantitative Research

3) Favourable Technical Set-Up. We will refer you to the Technical section of this piece (see page 48) for more detail on our technical views. During the past two decades, our proprietary quadrant balance data has signaled five long-term buy signals. The fifth such buy signal was registered in late 2015. The four prior long-term triggers saw sharp and sustained rallies in the S&P/TSX.

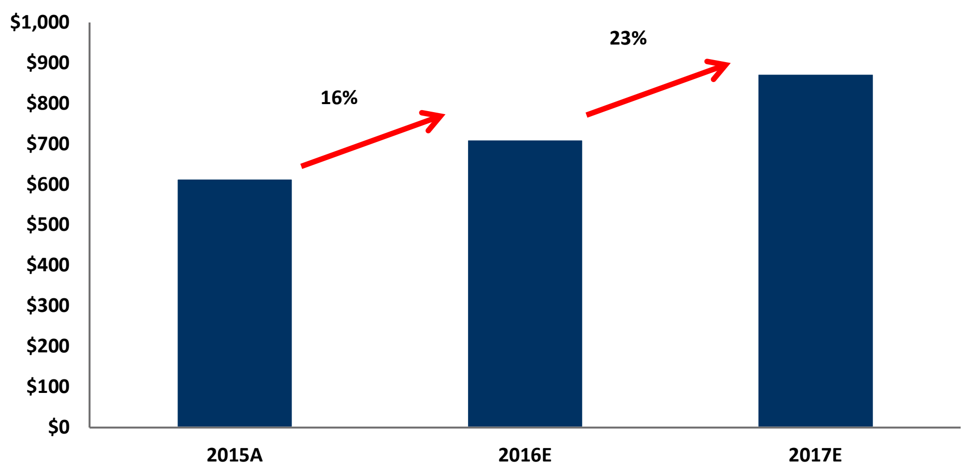
Exhibit 11: TSX Composite – Monthly Quadrant Balance Data



Source: RBC Capital Markets Trend & Cycle

4) Strong earnings growth into 2017 should be supportive of valuation. Both our top down and bottom up earnings work are suggestive of strong earnings growth for the S&P/TSX into year-end 2016 and for 2017 as well. Much of this recovery is predicated on our commodity team's oil call; although we would note that given the recovery year to date in oil prices, our comfort level with our 2016 forecasts has risen considerably.

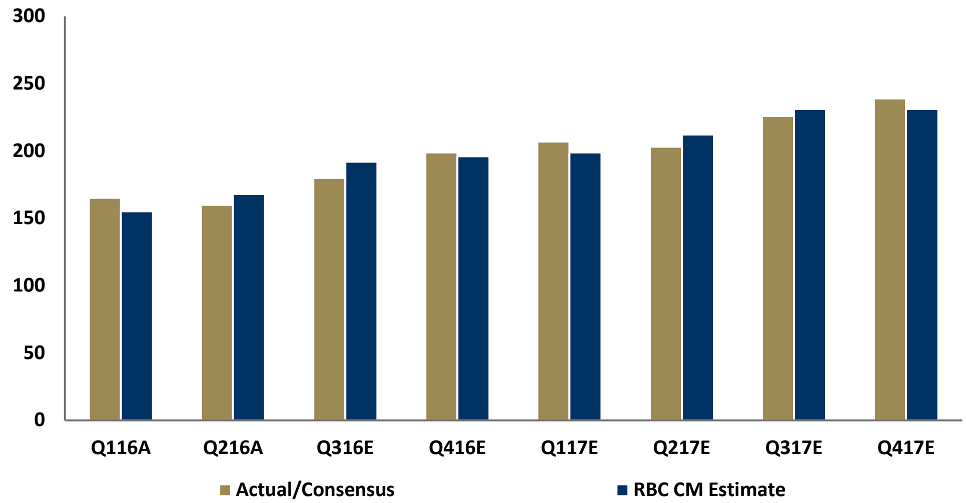
Exhibit 12: Our bottom up earnings estimates call for significant earnings growth into year-end 2016 and for 2017 as well



Source: Bloomberg, RBC Capital Markets Quantitative Research, RBC Capital Markets

If we break it down quarter by quarter over the next two years, RBC Capital Markets is a bit above consensus for 2016 and roughly in-line for 2017.

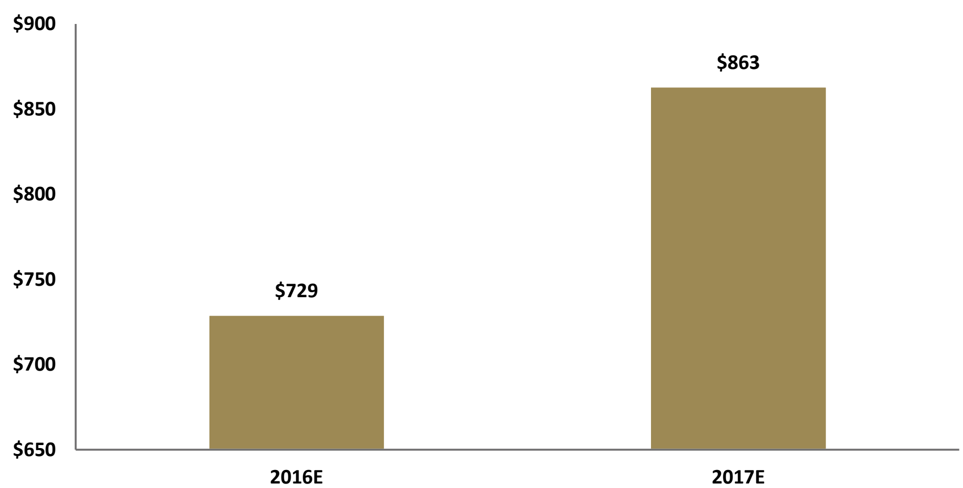
Exhibit 13: RBC Capital Markets is closely aligned with consensus for 2016 and 2017



Source: Bloomberg, RBC Capital Markets Quantitative Research, RBC Capital Markets

We take an average of consensus, RBC Capital Markets' bottom-up forecasts and our own top-down model to arrive at estimated earnings for 2016 and 2017.

Exhibit 14: Our 2016 and 2017 forecasts for TSX EPS

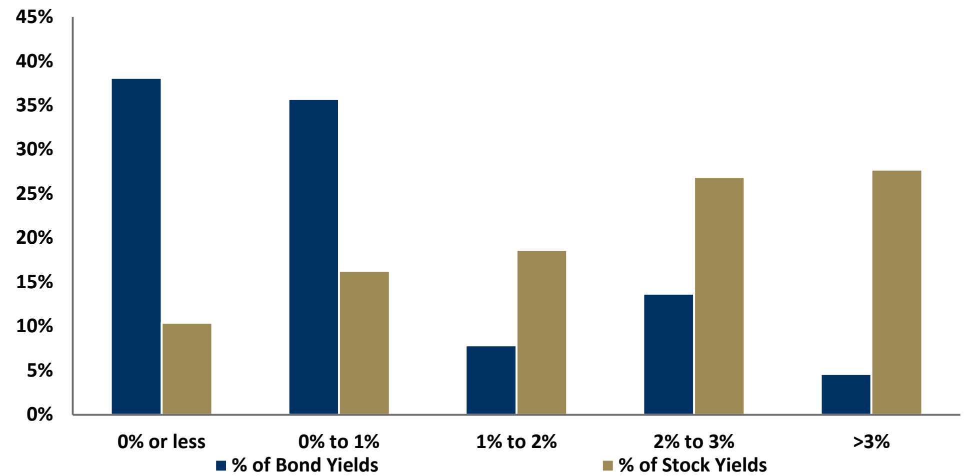


Source: Bloomberg, RBC Capital Markets Quantitative Research, RBC Capital Markets

We would note that our 2016 estimate is down about 3% since we initiated coverage in May, while our 2017 estimate is up by roughly the same percentage.

5) Favourable absolute and relative valuation. While our targeted price-to-earnings multiples for the S&P/TSX are above historic norms, in a world in which ~75% of global developed market bonds yield less than 1%, we believe an above average target multiple for stocks is not unreasonable.

Exhibit 15: Roughly 3/4ths of developed market bonds now yield less than 1%

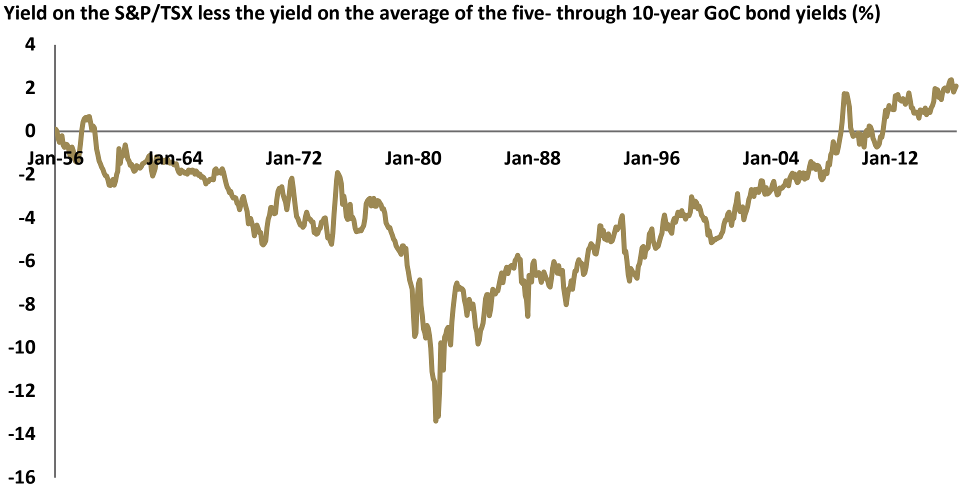


Source: Bloomberg, RBC Capital Markets Quantitative Research

Viewed purely from an income lens, which we believe will continue to be a driving theme for stocks worldwide as investors grapple with the issues of TINA (There Is No Alternative) and TRINA (There Really Is No Alternative), the S&P/TSX fares especially well.

Exhibit 16: The yield on the S&P/TSX is now at an all-time high relative to bonds

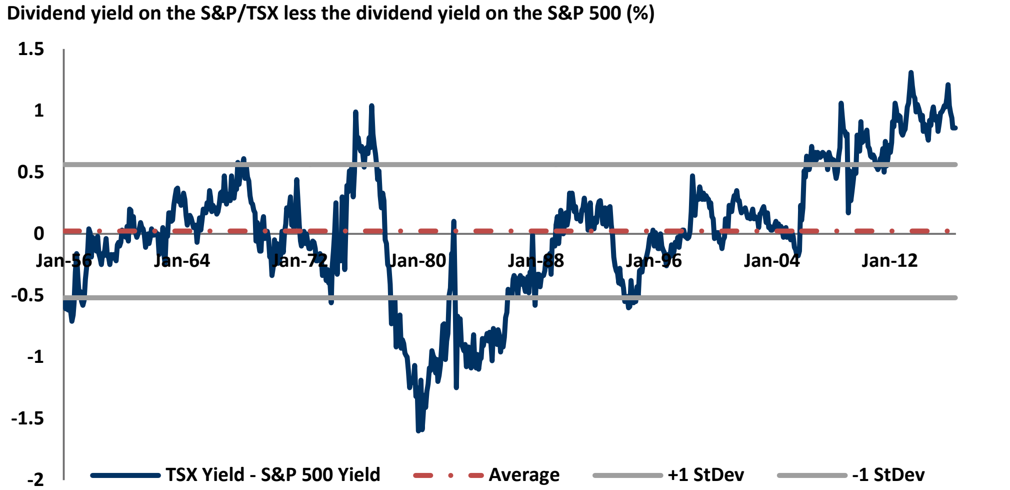
Yield on the S&P/TSX less the yield on the average of the five- through 10-year GoC bond yields (%)



Source: Haver Analytics, RBC Capital Markets Quantitative Research

The S&P/TSX also provides significantly more dividend yield than does the S&P 500; although it has backed off a bit from recent all-time highs.

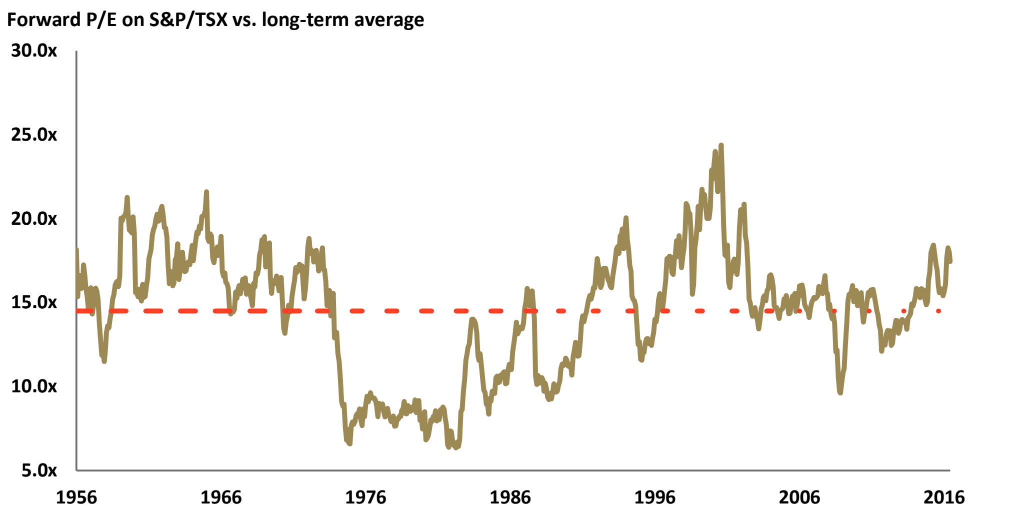
Exhibit 17: The yield on Canadian stocks is also significantly above US levels



Source: Haver Analytics, RBC Capital Markets Quantitative Research

If we focus just on forward price-to-earnings multiples for the S&P/TSX, we are about three multiple points above the 60-year average.

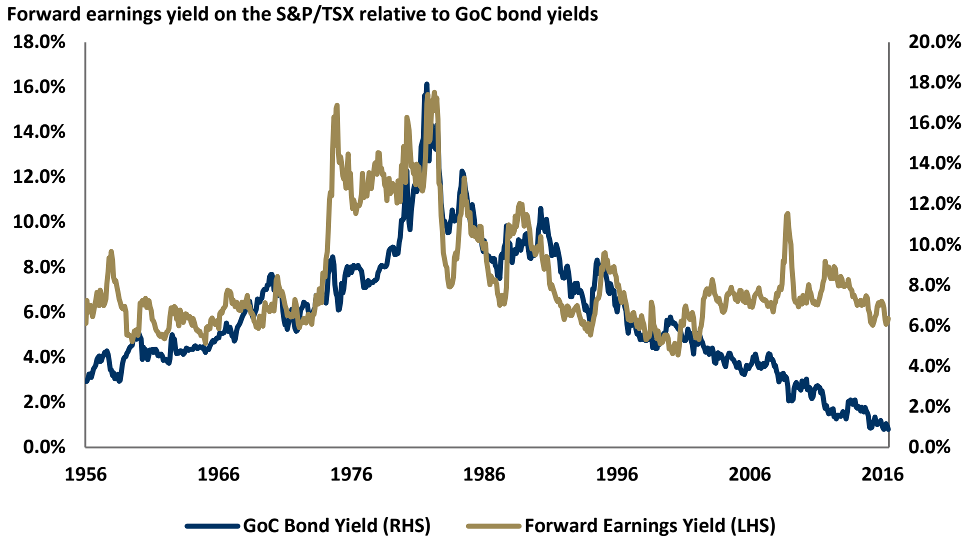
Exhibit 18: The forward P/E on the S&P/TSX is about three turns above long-term average



Source: Haver Analytics, RBC Capital Markets Quantitative Research

Of course, looking at P/Es in isolation in a world in which yields are so low ignores an important justification for higher multiples, in our view. When we compare the earnings yield on the S&P/TSX to the yield on government bonds, we get a different picture. In fact, at a 4.8% “gap”, the difference is at one of its highest non-recessionary levels in our 60-year data set.

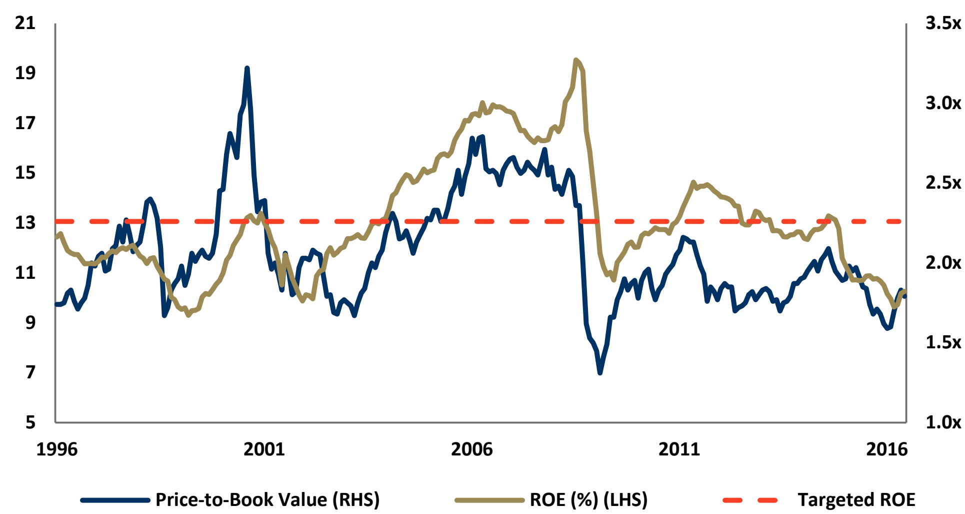
Exhibit 19: The earnings yield on the S&P/TSX is near all-time highs relative to bonds



Source: Haver Analytics, RBC Capital Markets Quantitative Research

Putting it all together, we believe the S&P/TSX is likely to trade at 18x our 2017 earnings estimate by year-end 2017. This corresponds to a targeted return on equity (ROE) of 13%, which is in-line with the 20-year average. A 13% ROE would correspond with a targeted price-to-book multiple of about 2x, which is slightly below the 20-year average of 2.1x. Our year-end 2017 target price is 15,800, representing an 18-month total return of ~15%.

Exhibit 20: Our YE2017 target corresponds to a targeted ROE of 13%



Source: RBC Capital Markets Quantitative Research

What would cause us to change our view?

We believe the backdrop for the S&P/TSX and stocks in general remains favourable. However, several factors, including US recession risks, global monetary policy, Chinese stimulus and growth, and our commodity team's view of oil and commodities in general play important roles in this call. If we look back over the past two decades, 10%+ years for the S&P/TSX have generally aligned with the mentioned factors aligning.

Exhibit 21: A combination of macro and commodity factors impact our call

Year	TSX Return > 10%	TSX vs. S&P 500	Oil Return > 10%	Gold Return > 10%	Copper Return > 10%	U.S. Monetary Policy	Chinese Policy	US Recession
1996				X	X			
1997		X	X	X	X			
1998	X	X	X	X	X			
1999				X				
2000			X	X	X	X		X
2001	X	X	X	X	X	X		
2002	X				X			
2003		X	X					
2004				X				
2005								
2006			X					
2007					X	X		
2008	X		X	X	X	X		X
2009								
2010								
2011	X	X	X		X			
2012		X	X	X	X			
2013		X	X	X	X		X	X
2014		X	X	X	X		X	X
2015	X	X	X	X	X	X	X	X
2016YTD					X			
2017F					X			

Source: RBC Capital Markets Quantitative Research, RBC Capital Markets

Sector recommendations

Exhibit 22: Portfolio Positioning Recommendations

Portfolio Positioning Recommendations

Overweight

	TSX Weight
REITs	3%
Energy (E&Ps & Integrated)	11%
Gold	8%
Railroads	5%

Underweight

	TSX Weight
Utilities	3%
Health Care	1%
Fertilizers	2%

Market Weight

	TSX Weight
Banks	22%
Lifecos	5%
Telecom Services	5%
Grocers	3%
Auto Parts	1%
Technology	3%
Mid-Streams	7%
Diversified Metals & Mining	1%

Source: RBC Capital Markets

To drive our sector views, we utilize a combination of Bottom-Up, Technical, and Valuation analysis.

Bottom-Up analysis: We utilize RBC Capital Markets' in-house views as well as incorporate relationships to various inputs including but not limited to: our economic outlook, the outlook for oil and commodities, the outlook for the dollar, the outlook for interest rates and other factors such as changing industry dynamics (both positive and negative).

Technical analysis: We utilize relative strength versus the benchmark index (in this case the TSX Composite) as a primary input in order to derive long- and intermediate-term relative performance profiles from both a bottom-up (stock specific) and top-down (sub-sector specific) approach. Both of these inputs are then used to derive an overall view on each sector and sub-sector and for the index as a whole. In addition, we also use our proprietary Trend Phase Longevity calculation in order to determine whether the stock or sector is turning up, reaccelerating, turning down, or deteriorating, in order to complement our relative strength approach by identifying potential inflection points and ongoing trends.

Valuation: For valuation, we use an average of trailing (recurring) and forward (consensus) earnings estimates to drive a valuation band centred around the post-2000 average for most sectors. Because EPS is not always the best valuation gauge, we will vary this approach for some sectors and will indicate if this is the case.

Recommendation: We consider the above in driving our sector and sub-sector recommendations.

Sector Matrix: Below, we provide our recommendations for each sector. On a sector basis, we define our weightings in the following manner:

- **Overweight:** A minimum of 115% of the index weight
- **Market Weight:** Between 85% and 115% of the index weight
- **Underweight:** A maximum of 85% of the index weight

Overweight Recommendations:

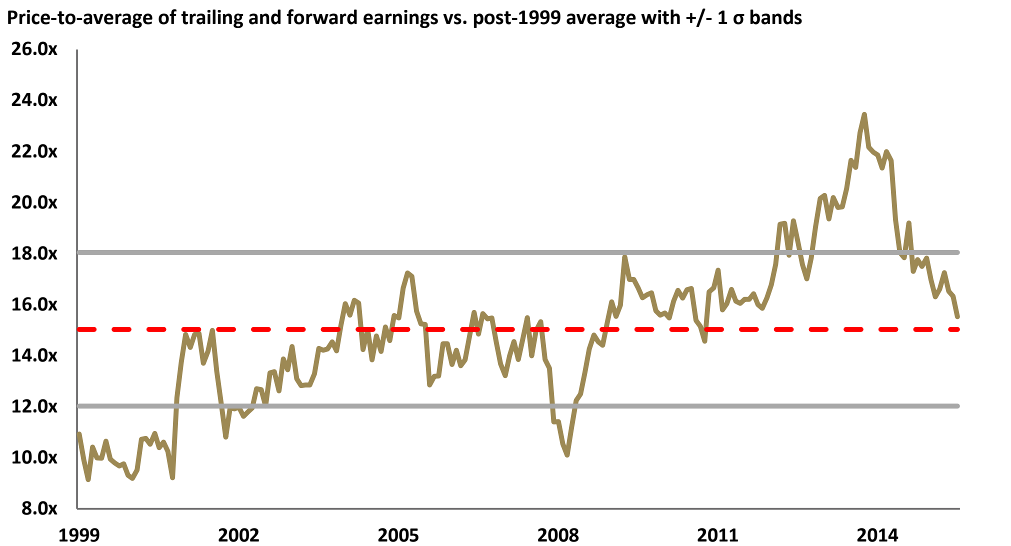
Railroads (increased from Market Weight)

We would now overweight the Railroads vs. market weight previously. This upgrade is based on a few factors:

- **Valuation:** As we laid out in our piece entitled Canada's Outsiders, we expect valuations for rails to continue to rise over time. This thesis is driven by strong barriers to entry, consistent revenue and earnings growth, continued operating leverage driven by technology advancements and the market's continued search for reliable, safe, high-quality businesses. With rail valuations now near the mid-point of the post-1999 band (a mid-point we expect to drift higher over time), we believe investors should now overweight the group.

Rail valuations are near the mid-point of the historic band. We think that mid-point moves higher over time.

Exhibit 23: Rail valuations are back in the buy zone



Source: RBC Capital Markets, RBC Capital Markets Quantitative Research

- **Favourable technical set-up:** We will refer you to the work of Javed Mirza, our Canadian technical strategist, for more on the emerging technical buying opportunity in the rails.

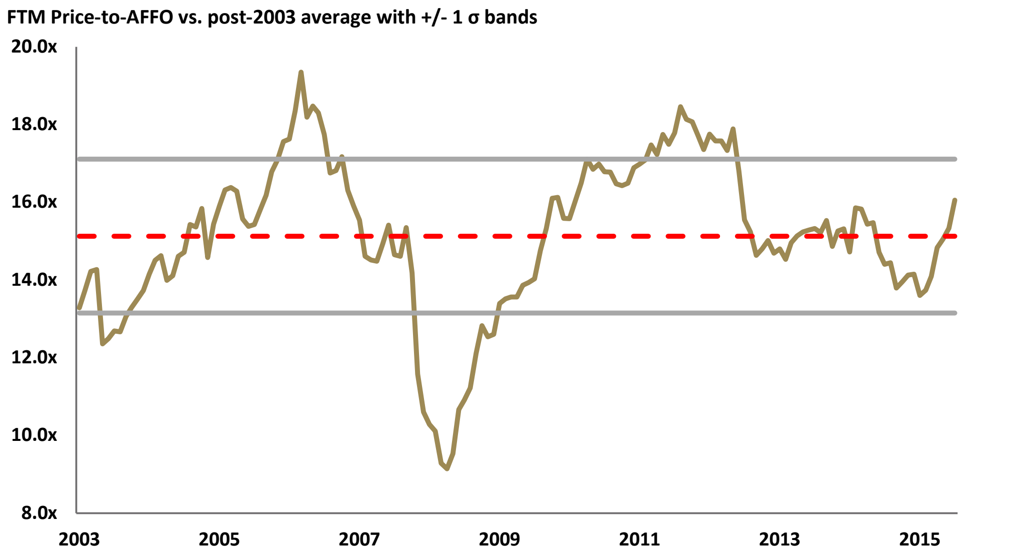
Real Estate Investment Trusts (REITs)

We would continue to overweight the REITs for three reasons:

- **Valuation relative to historic norms remains well within the band; although, it is trending toward the upper end.** This lies in stark contrast to other "yield plays" – Utes and Telcos – where valuations have moved well above the upper end of historic norms. Thus, while REITs are far from "cheap", we continue to view them as better relative value than the alternatives.

Exhibit 24: Of all the pure-play dividend groups, REITs look the most compelling

While above the mid-point of the band, REITs look like better value to us than other dividend plays.

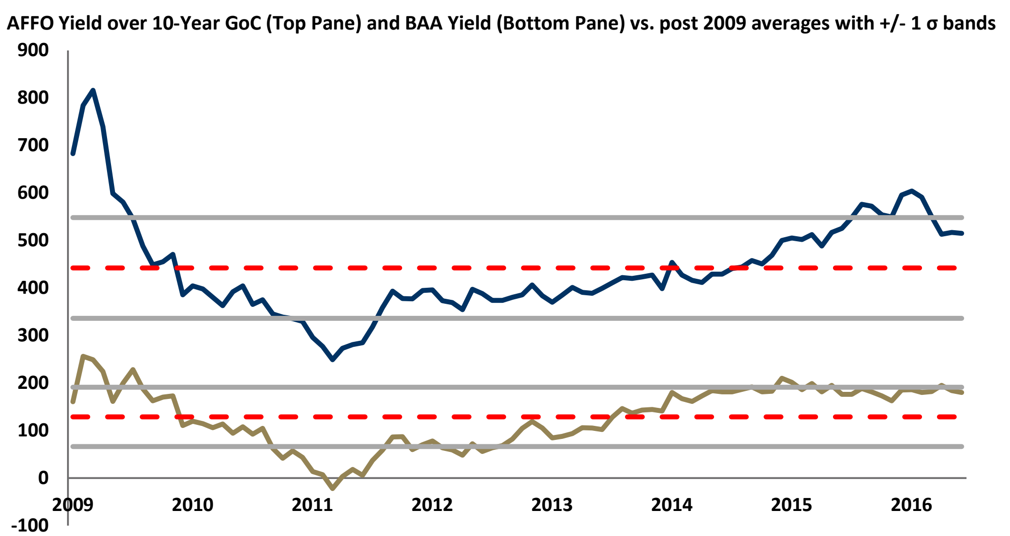


Source: RBC Capital Markets, RBC Capital Markets Quantitative Research

- **The push lower in global bond yields continues to drive the relative attractiveness of businesses that can provide consistent and growing income streams over time.** Relative to both government and corporate bonds, REITs continue to trade well above historic norms. A back up in yields would likely lead to some weakness in REITs (at least in the short run); however, considering REITs have not "priced in" the last 100 basis points or so of the move lower in yields, we would view any weakness as an opportunity to add exposure.

Exhibit 25: Spreads remain well above post 2008 financial crisis averages

REITs continue to price-in much higher rates.



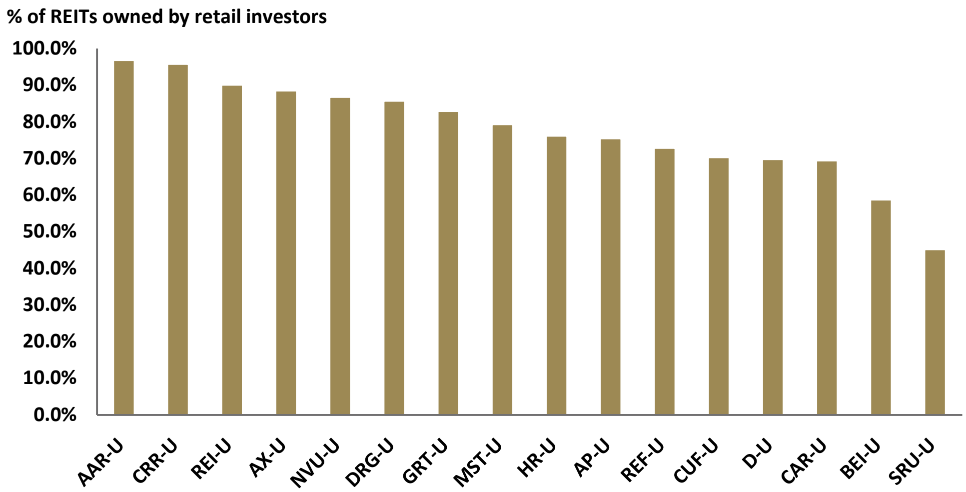
Source: RBC Capital Markets Quantitative Research, Bloomberg

- **At the end of August, REITs will be removed from the Financials sector and will be reclassified as their own standalone sector.** While we might normally discount these sorts of things as irrelevant to the fundamental story, we think this move has the potential to drive further upside in REIT shares. REIT ownership is dominated by retail investors, which could make it challenging for institutional investors to add exposure. Buried within Financials, the need to own REITs for institutional investors is less obvious;

however, as REITs will now be broken out as their own sector, we think there could potentially be increased demand in the coming months against a headwind of limited available stock.

REIT ownership is dominated by retail investors.

Exhibit 26: Retail investors dominate ownership of the REITs



Source: Bloomberg

For more on the REIT story, please click [here] for RBC CM's latest quarterly update on the sector.

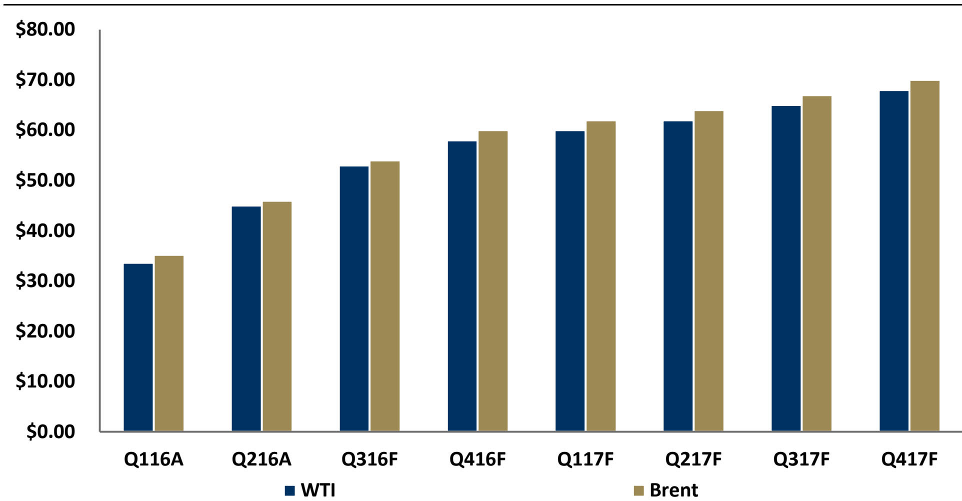
Energy Producers (E&Ps and Integrateds)

We continue to recommend overweight exposure to Energy Producers. This call is based on two key drivers:

- **Favourable view on oil:** As we laid out in the opening, our commodity strategy team has a [favourable view] toward oil prices as we head into the back half of 2016 and into 2017. We have already begun to see our estimate revision index for the E&Ps turn positive for the first time in about a year and we expect more of the same should our commodity team's forecast play out.

Our commodity team sees oil prices moving higher into 2017.

Exhibit 27: RBC CM's commodity team sees oil prices rising into 2017

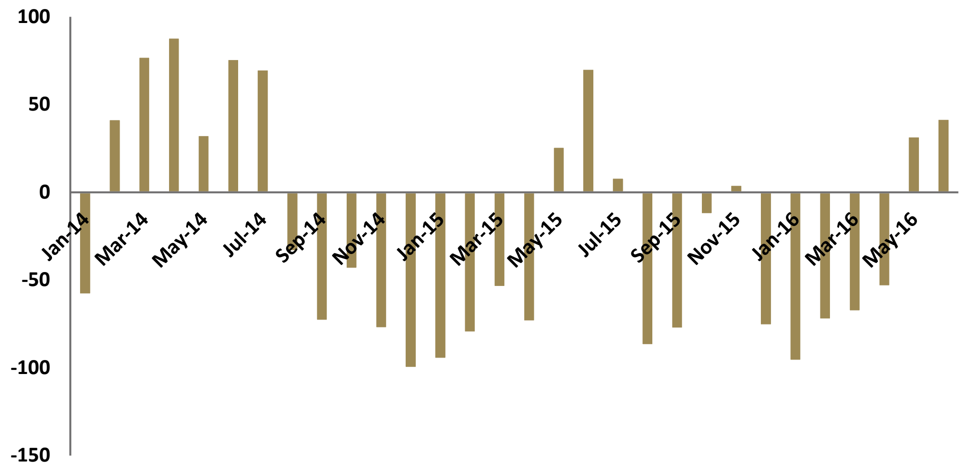


Source: RBC Capital Markets

Historically speaking, the time to overweight oil producers has been when prices are rising from depressed levels, as costs tend to lag price for a time.

Estimate revisions have turned positive. We expect this to continue as prices rise and costs lag prices.

Exhibit 28: Our estimate revision index for E&Ps recently turned positive



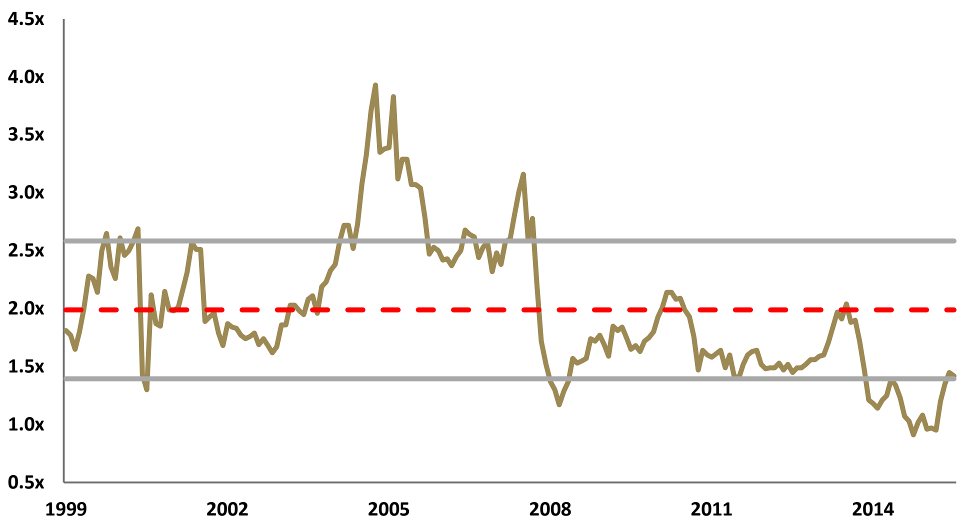
Source: RBC CM Quantitative Research

- **Valuation remains at the low end of the range:** On a price-to-book value basis, the E&Ps continue to trade near the low end of the historic band. We believe as oil prices rise, not only will stocks potentially get a lift from valuation mean reversion, but book values should rise as well.

Valuations are still at the very low end of the historic band, despite recent strength.

Exhibit 29: E&Ps remain at the low end of the historic band on a P/BV basis

Price-to-book multiples vs. post-1980 average with +/- 1 σ bands



Source: RBC CM Quantitative Research

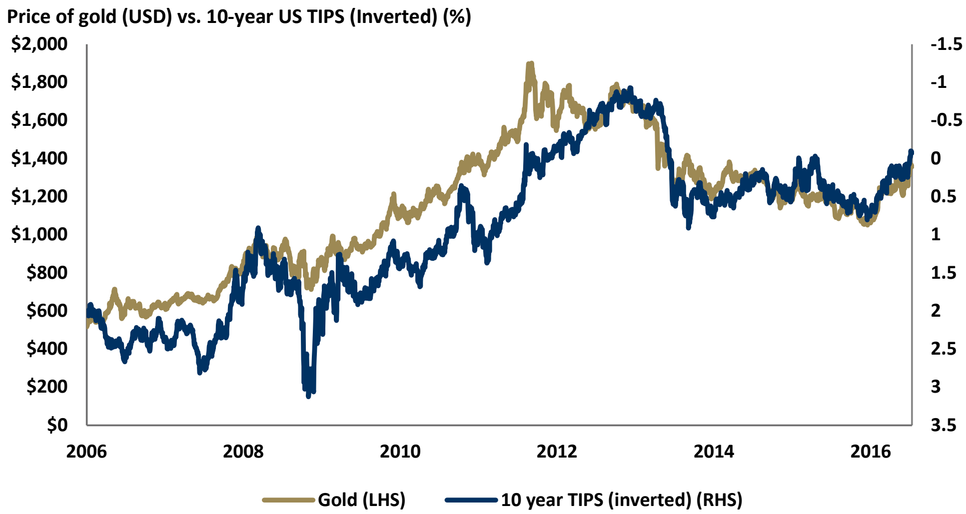
Gold (Commodity and Miners)

Despite strong performance from both the commodity and the stocks since we initiated coverage, we continue to believe that investors should overweight gold. We base this call on a few drivers:

- **Outlook for real rates:** Our rates team believes that in the wake of the British referendum, US rate hikes have likely been put on hold until the middle of 2017. As a result, real rates, which are already negative, are likely to push further into negative territory in our view. Over the past decade, there has been a very strong negative correlation between the direction of real rates and the price of gold.

Real rates and gold have a strong negative correlation.

Exhibit 30: Gold and real interest rates have almost a perfect negative correlation (-0.9)



Source: RBC Capital Markets

- **Lack of institutional ownership:** Institutional investors have been generally underweight gold relative to the benchmark. As we wrote in our launch piece, this underweight probably did not have a huge impact on Q116 performance as it was at least partially offset by the underweight in the Health Care sector, which was a poor performer in Q1. However, with the gold subsector now about 8% of the index (closer to 10% if we add silver stocks), we believe that if gold continues to perform (as we expect it to), there will be an increasing push to add exposure to the group.

Exhibit 31: Funds were well underweight gold producers

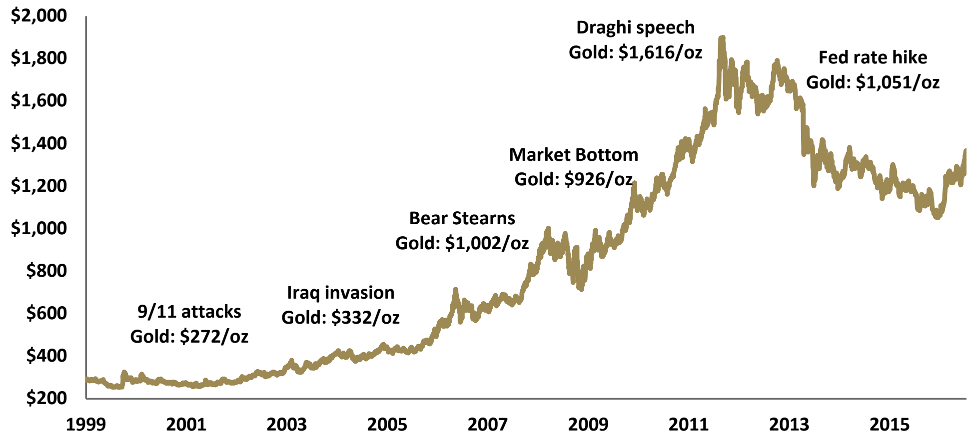
Average holdings of Top 10 Canadian equity and Canadian equity income funds

Name	TSX Index Weight	Equity Fund Weight (03/31/2016)	Equity Income Fund Weight (03/31/2016)
Barrick Gold Corp	1.8%	0.1%	0.1%
Goldcorp Inc	1.2%	0.2%	0.5%
Franco-Nevada Corp	1.0%	0.3%	0.1%
Agnico Eagle Mines Ltd	0.9%	0.1%	0.2%
Kinross Gold Corp	0.5%	0.0%	0.0%
Yamana Gold Inc	0.4%	0.0%	0.0%
Detour Gold Corp	0.3%	0.0%	0.0%
New Gold Inc	0.2%	0.0%	0.0%
Tahoe Resources Inc	0.4%	0.3%	0.0%
OceanaGold Corp	0.2%	0.0%	0.0%
B2Gold Corp	0.2%	0.0%	0.0%
Alamos Gold Inc	0.2%	0.0%	0.0%
Novagold Resources Inc	0.1%	0.0%	0.0%
Eldorado Gold Corp	0.3%	0.2%	0.0%
IAMGOLD Corp	0.1%	0.0%	0.0%
Torex Gold Resources Inc	0.1%	0.0%	0.0%
Osisko Gold Royalties Ltd	0.1%	0.0%	0.0%
SEMAFO Inc	0.1%	0.0%	0.0%
Pretium Resources Inc	0.1%	0.0%	0.0%
Centerra Gold Inc	0.1%	0.0%	0.0%
Alacer Gold Corp	0.1%	0.0%	0.0%
Total	8.2%	1.4%	0.9%

Source: Bloomberg, Morningstar

- **The fear factor:** Over the past two-decades, gold has benefitted from a powerful tailwind of global unrest. Beginning with the 9/11 attacks and followed by the Iraq invasion and eventually the 2008 financial crisis and its aftermath, gold has proven to be a proxy for the level of fear amongst investors. This arguably culminated in 2012 with the potential for the collapse of the Eurozone. Mario Draghi's speech in late July of 2012 appeared to act as an important inflection point for the gold trade, as fears over Eurozone collapse were put to rest on the back of his comments that the ECB "would do whatever it takes to preserve the euro." Whether or not we believe current fears are overdone (we do), the fear level amongst investors in the wake of the first Fed rate hike in a decade, the subsequent concerted effort to weaken the dollar, the British referendum, the November US election, et al, we believe this "fear tailwind" has returned.

Exhibit 32: Gold has been very event driven over past 20-years



Source: RBC Capital Markets

In all, our overweight recommendations amount to roughly 30% of the S&P/TSX.

Market Weight Recommendations:

When we initiated coverage on the S&P/TSX in early May we recommended market weight exposure to Banks, Lifecos, Food Retail (Grocers), Automobiles and Components, Railroads, Information Technology, Oil Storage & Transportation and Diversified Metals and Mining.

With the exception of Railroads, which we now recommend overweight exposure, and the addition of Telecom Services (previously recommended underweight exposure), we maintain our market weight recommendations on the above. For a deeper dive into our views on some of the sectors not discussed below, we would refer you to our initiation piece. Rather than reinvent the wheel on all of the above, we will instead focus on a few sectors that we believe deserve more attention.

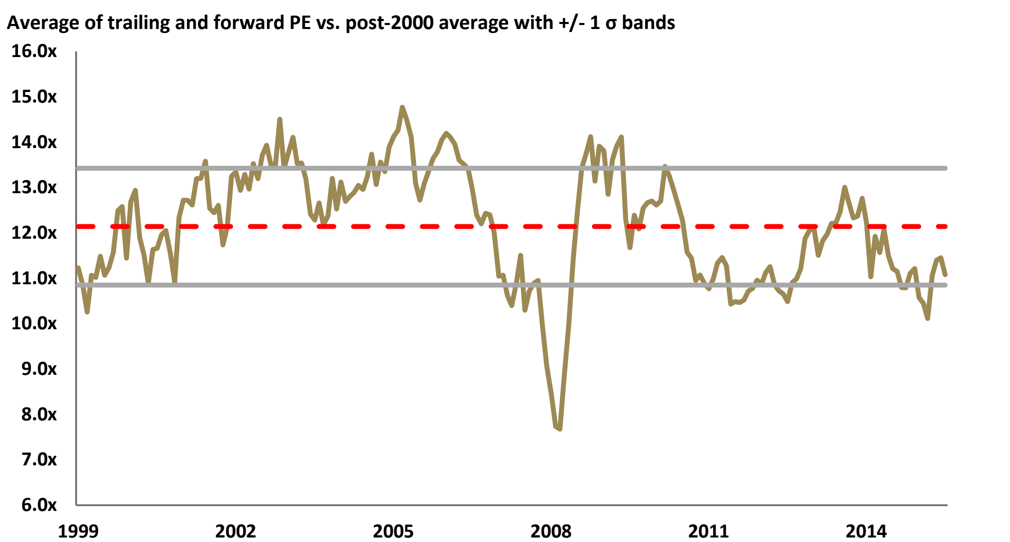
Banks

We continue to recommend market weight exposure to the Canadian banks. We acknowledge that there are concerns over Canadian housing (see **our initiation report** for a more fulsome discussion) and the indebtedness of Canadian consumers, but we believe this overlooks how well run these businesses have been over time and their proven ability to manage through crises. Our market weight recommendation is driven by:

- **Valuation:** We use a 50/50 split of trailing and forward earnings when looking at valuations on the Canadian banks. Currently, the group is trading toward the low end of the historic band. However, this is offset to some degree by RBC CM's forecasts, which call for lower earnings growth into 2017, which we believe could be a hindrance to higher multiples.

Using a blend of trailing and forward EPS, CAD bank stocks are near the low end of the band.

Exhibit 33: Banks remain near low-end of 15-year valuation band



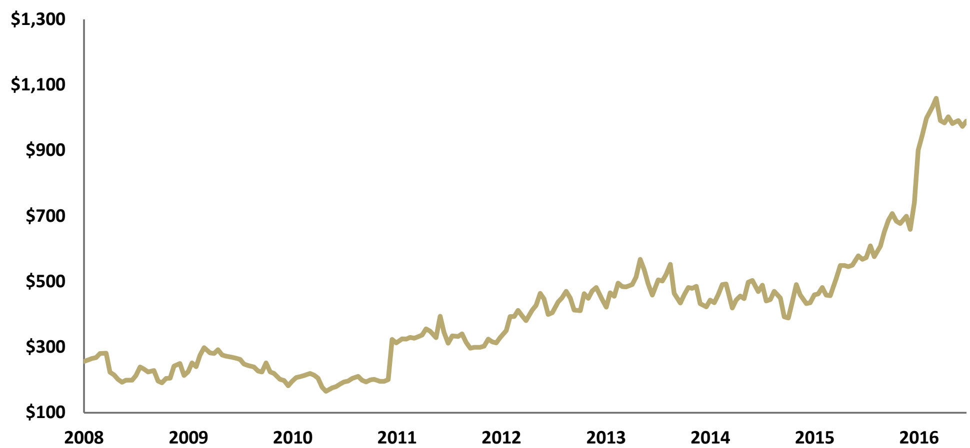
Source: RBC Capital Markets Quantitative Research

- **Large short positioning:** Despite strong absolute and relative performance, the short position in the Canadian banks remains large by historic standards. We continue to believe that as long as things are "less bad" than investors fear (as they were when the banks reported first quarter results), the conditions exist for a short squeeze, which could potentially drive valuations and share prices higher. We would also add that with the high dividends the Canadian banks pay, the cost of servicing the short is roughly $1 billion per annum.

It now costs roughly $1 billion annually to support short on Canadian banks.

Exhibit 34: The cost of paying bank dividends is high

Annual cost of paying dividends on bank short position (in millions of CAD$)



Source: Bloomberg, RBC Capital Markets Quantitative Research

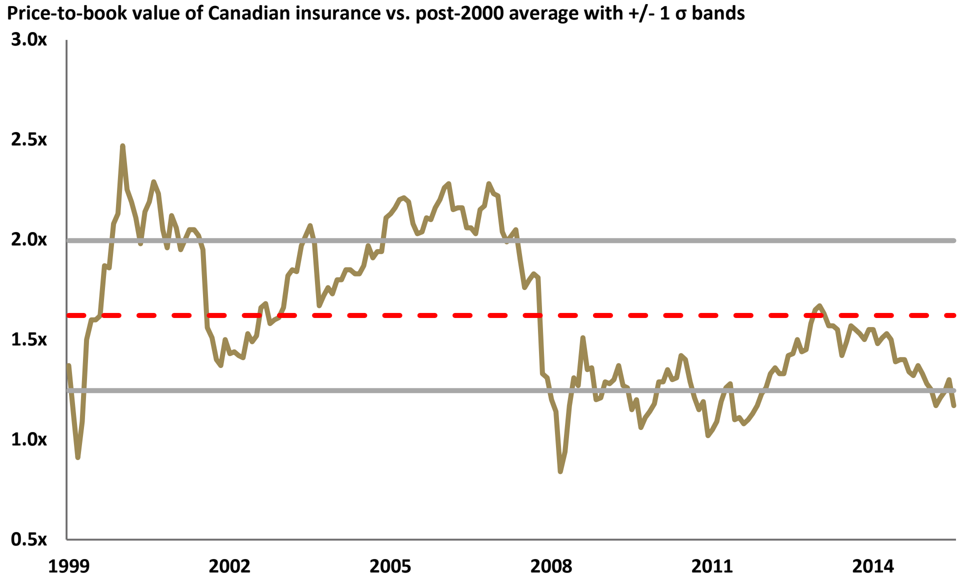
Lifecos

We admit to the temptation to raise the recommended weighting on Lifecos to Overweight, as valuation has pushed to below the low end of the historic band.

Since the 2008 financial crisis, the Lifecos have traded below the mid-point of the historic range.

Exhibit 35: Lifecos now trade outside of the historic band

Price-to-book value of Canadian insurance vs. post-2000 average with +/- 1 σ bands



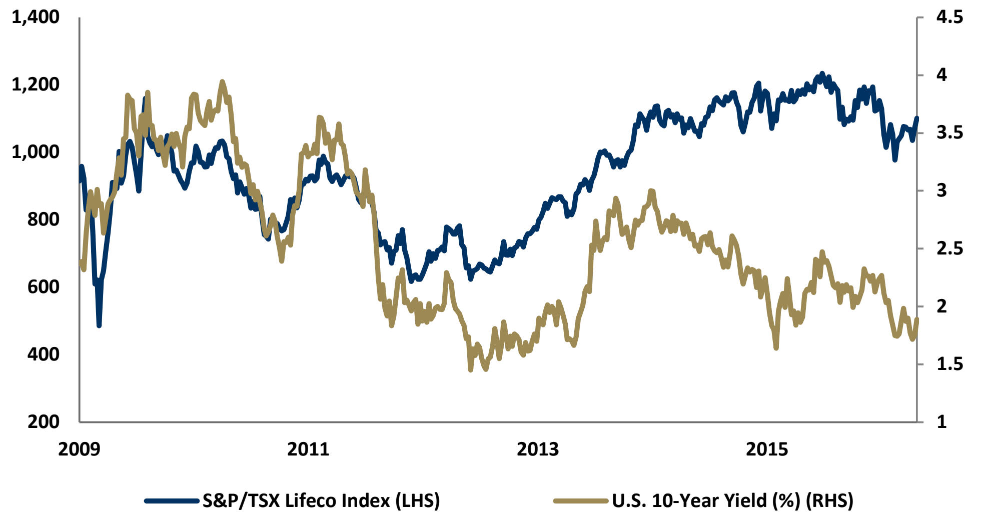
Source: RBC Capital Markets Quantitative Research

However, our concern lies in the risks to book value as the lifecos stress test their balance sheets and likely increase reserves in the coming quarters. In other words, they may not be as inexpensive as they appear. The market appears to have caught wind of this risk as the above relationship has drifted lower in the wake of the 2008 financial crisis and the "new world order" has been defined.

That said, considering the one-way positioning of investors in names and sectors that are positively correlated to bond price performance, the lifecos offer a compelling hedge, as they are one of the few investments that have the potential to benefit from higher rates (we would note that banks would as well). As such, despite some balance sheet headwinds, we would market weight the group.

Exhibit 36: The Lifecos continue to have a strong + correlation to interest rates

If rates ever rose, Lifecos (and Banks) would benefit.



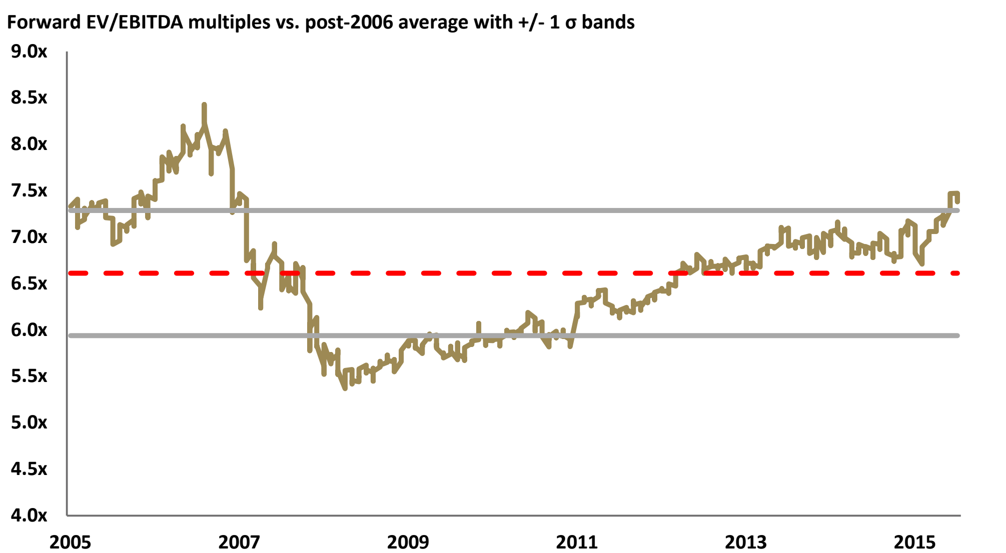
Source: Bloomberg, RBC Capital Markets Quantitative Research

Telecom Services (increased from underweight)

We are throwing in the proverbial towel and now recommend Market Weight exposure to Telecom Services (previously Underweight). While we still have concerns about valuation, we acknowledge that this call failed to anticipate the sharp decline in global interest rates and the relative attractiveness of Telco yields. We continue to prefer REITs as the more compelling yield story; however, we would no longer underweight the Telco space.

Exhibit 37: Telcos remain at the high end of the band

Telco valuations are chubby, but in a world in which 75% of developed market bonds yield <1%, we acknowledge a new normal.



Source: RBC Capital Markets Quantitative Research

Yield differential to bonds makes long-term math compelling: While dividend growth could be constrained in the years to come, we think the low yield environment makes the Telcos a compelling "equi-bond" alternative to traditional fixed income. If one were to take the three major Telcos in Canada – BCE Inc.* (BCE), Telus Corp. (T) and Rogers Communications (RCI.B) – and 'hold them to maturity' over the next decade, the percentage decline in the stocks that would have to occur for the stocks to underperform a 10-year GoC bond would be significant. This, of course, assumes no dividend cuts, which some may choose to quibble with; however, we believe the risks to a cut for the Telcos is low, whereas any growth at all in dividends would make the math even more compelling.

In the Exhibit below, we highlight the percentage decline in each of the three major Telcos that would have to occur over the next decade for them to underperform a 10-year GoC that were bought today and held to maturity (we assume three different dividend scenarios).

Exhibit 38: Telcos could decline 30-40% over next decade and still outperform government bonds

% downside decline in stock to underperform GoC 10-year bond

	Annual Dividend Growth				
Company	0%	1.5%	3%	Current Yield	Spread over 10-year GoC
BCE INC	33%	38%	43%	4.4%	3.3%
ROGERS COMMUNICATIONS INC	23%	27%	31%	3.6%	2.5%
TELUS CORPORATION	27%	32%	37%	4.2%	3.2%

Notes Assumes all dividends and bond coupons are reinvested at current stock/bond price over life of stock/bond.
Ignores all taxes and transaction costs.
Source: RBC CM Canadian Equity Strategy

Overall, our Market Weight recommendations amount to about 64% of the index.

* RBCCM acted as a financial advisor to BCE Inc. on a transaction that was announced on May 2, 2016. For more details, please refer to Required Conflicts Disclosures.

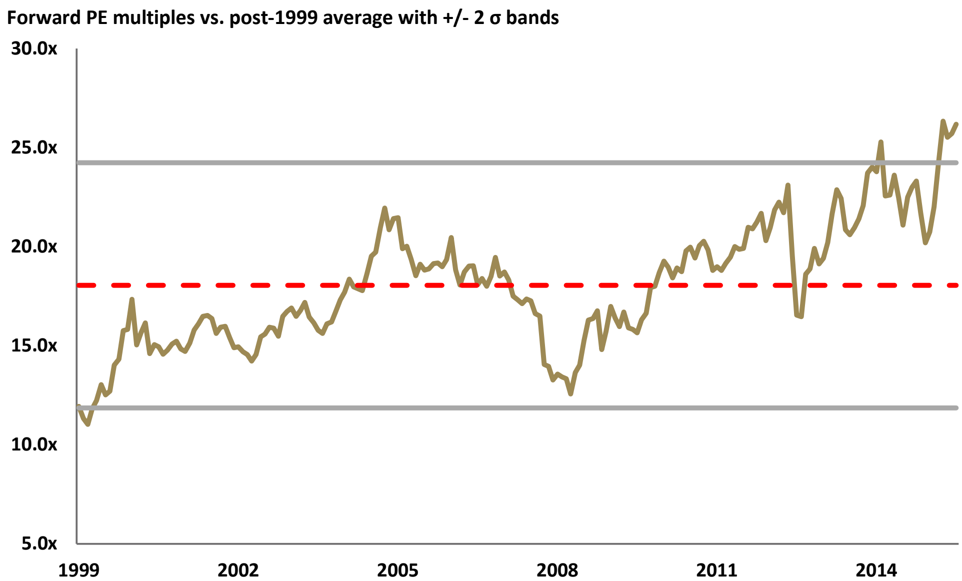
Underweight Recommendations:

Utilities

There is wrong and then there is our recommendation on Utilities over the past two+ months. Given that the overall weighting in the sector remains around 3% and because a large piece of that was exposed to Alberta power prices (making it a more challenging investment), we were of the view that valuations, which had pushed well above historic norms (and significantly higher than those of REITs or Telcos), were difficult to justify. That said, valuations have now gotten to the point where we are no longer able to use our standard "1 σ bands" and instead have "widened the range" to capture where valuations have settled.

We have had to move to 2 σ bands to capture move in Ute valuations.

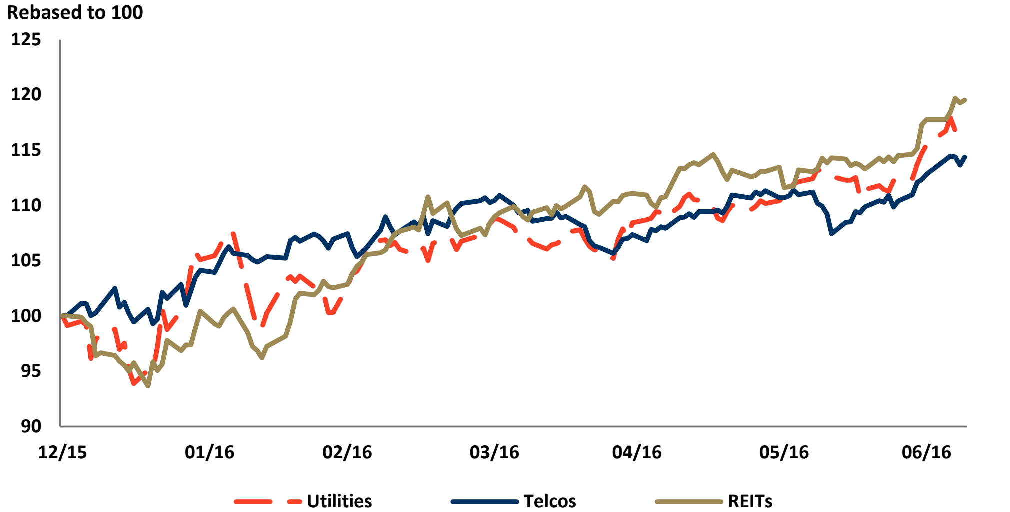
Exhibit 38: Utes now trade more than 2 σ above historic average



Source: RBC Capital Markets Quantitative Research

In a world in which ~75% of global bond yields are below 1%, it is entirely possible that the above will continue to push higher. However, we see better "value" in other yield stories and we would continue to recommend underweighting Utilities.

Exhibit 39: Utes, Telcos and REITs have marched in lockstep year-to-date

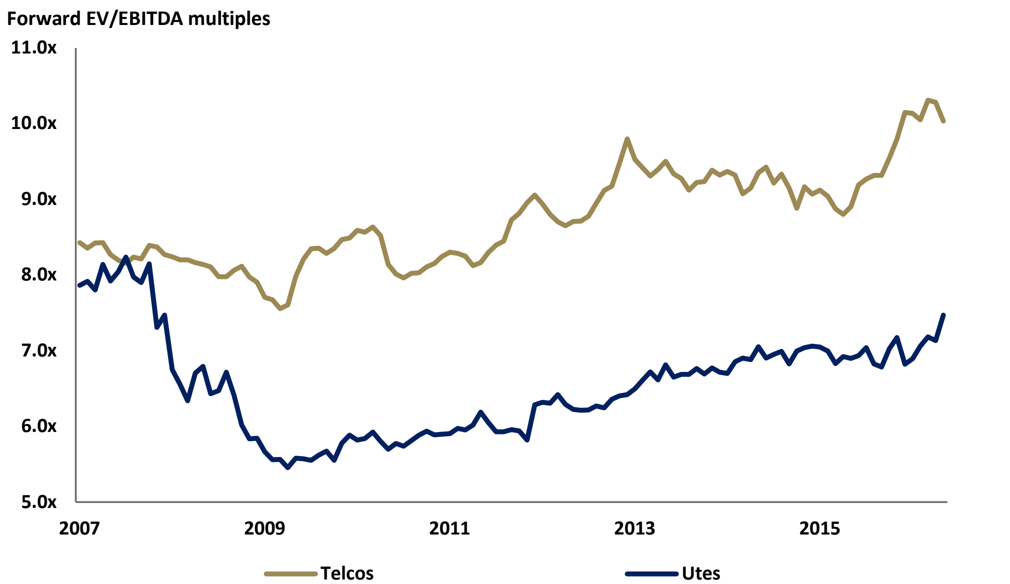


Source: Bloomberg

In final point, while we are not sure how much relative value matters across sectors, we would note that on an EV/EBITDA basis, Utes are trading at about a three multiple premium to Telcos, which is the very high end of the 10-year range.

Exhibit 40: While both groups are expensive, Utes look significantly more expensive than Telcos

Should Utes trade at a three multiple point premium to Telcos?



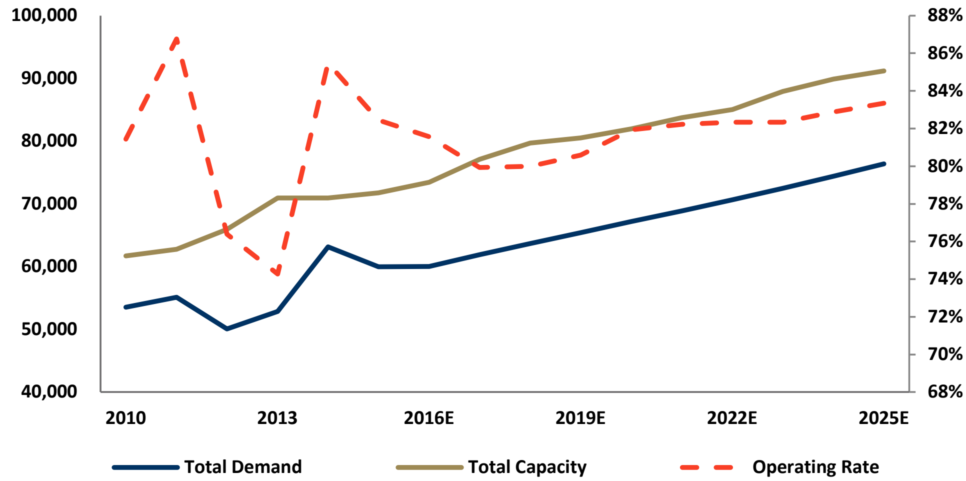
Source: RBC Capital Markets

Fertilizers (Ferts)

The ferts continue to face difficult math in terms of the supply/demand outlook for potash.

Will the supply overhang in potash ever go away?

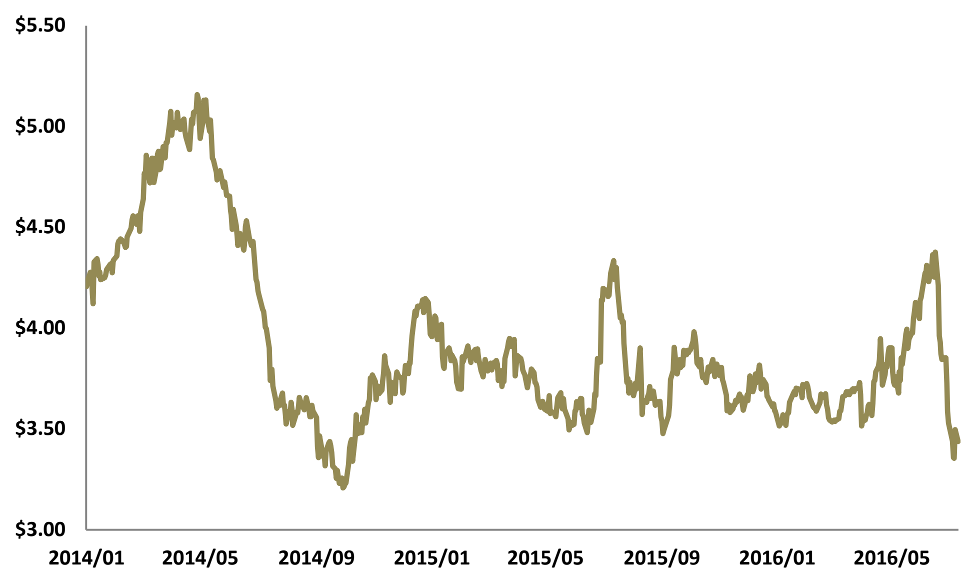
Exhibit 41: Potash looks to have a supply overhang out to 2025



Source: RBC Capital Markets, RBC Capital Markets Quantitative Research

Meanwhile, corn prices, which seemed to catch a powerful bid earlier in the spring, have sold off sharply in the past month or so.

Exhibit 42: Corn prices have sold off sharply in the past month



Source: Bloomberg

Thus, given the long-term supply overhang of a key nutrient and the lack of a near-term demand catalyst, we would continue to underweight the group.

Please note that we would also underweight Health Care and would continue to recommend that Canadian investors utilize the US market for Health Care exposure.

Overall, our Underweight recommendations amount to about 6% of the index.

Benchmark Returns

RBC Dominion Securities Inc.
Bish Koziol, CMT (Senior Quantitative Research Associate) (416) 842-7866; bish.koziol@rbccm.com

Equities in Canada and the US rose during the past three months. The S&P/TSX Composite climbed 5.1% while the S&P 500 gained 2.5%. The resource segment of the market led all groups with Materials gaining 26.9% and Energy up 9.5%. In the US, all groups gained except for Information Technology and Consumer Discretionary. Energy led all sectors by advancing 10.8%.

The 30-Year US Treasury Bond advanced 7.8% during the quarter and 17.6% year to date. In Canada, the Long Government of Canada Bond gained 6.6% over the past three months and 10.2% so far this year. The Canadian dollar is up 7.0% year to date.

Momentum was the top-performing style in Canada by gaining 5.1%, followed by Predictability at 1.5%. In the US, Predictability was the best-performing strategy with a 5.0% return. Growth was next – rising 2.3%.

Exhibit 1: Benchmark Returns (period from March 31, 2016 to June 30, 2016)

Canada (C$)	3-Month Trailing	YTD	12-Month Trailing	5-Year Cpd Ann
Asset Classes (Total Return)				
S&P/TSX Composite	5.1	9.8	-0.2	4.2
S&P/TSX 60	4.2	8.7	-0.4	4.5
S&P/TSX Completion	7.7	13.6	0.4	3.4
S&P/TSX Smallcap	17.9	28.0	9.8	-0.1
Long GOC Bond	6.6	10.2	14.9	10.2
10 Year GOC Bond	2.8	4.6	8.1	6.5
5 Year GOC Bond	0.6	1.7	3.2	3.7
3 Month Canada T-Bill	0.1	0.2	0.5	0.8
DEX Bond Universe	2.6	4.0	5.2	5.2
CDN$/US$ exchange	0.6	7.0	-3.4	-5.7
S&P/TSX Composite Group Indices (Total Return)				
Energy	9.50	19.3	-2.8	-2.2
Materials	26.9	52.3	19.3	-7.3
Industrials	1.2	5.3	1.9	11.2
Consumer Discretionary	-2.9	0.1	-8.6	13.7
Consumer Staples	-4.1	2.7	11.9	21.6
Health Care	-15.3	-72.3	-85.3	-8.9
Financials	1.3	5.1	3.6	9.4
Information Technology	-5.9	-5.7	7.1	6.2
Telecommunication Services	3.0	14.8	15.9	13.8
Utilities	7.0	17.3	18.6	6.5
Income Trust Index	0.6	1.2	2.3	7.6
High Dividend Index	1.8	3.6	7.4	10.1
REIT Index	0.8	1.6	3.2	6.9
RBC Canadian Style Total Return Indices				
RBC Canada Style Diversified Index	-2.0	2.3	-6.8	5.8
RBC Canada Value Index	-0.6	8.1	-4.2	4.7
RBC Canada Growth Index	-0.7	2.8	-2.8	5.9
RBC Canada Momentum Index	5.1	7.7	-0.6	3.3
RBC Canada Predictability Index	1.5	6.0	1.8	11.1

United States (US$)	3-Month Trailing	YTD	12-Month Trailing	5-Year Cpd Ann
Asset Classes (Total Return except where noted)				
S&P 500	2.5	3.8	4.0	12.1
S&P 400	4.0	7.9	1.3	10.5
S&P 600	3.5	6.2	0.0	11.2
Dow Jones Industrial Average	2.1	4.3	4.5	10.4
NASDAQ Composite Price Return	-0.6	-3.3	-2.9	11.8
NASDAQ 100 Price Return	-1.5	-3.8	0.5	13.7
Russell 1000	2.5	3.7	2.9	11.9
Russell 2000	3.8	2.2	-6.7	8.4
30 Year US Treasury Bond	7.8	17.6	21.9	11.2
10 Year US Treasury Bond	3.2	8.5	10.5	5.2
5 Year US Treasury Bond	1.3	4.4	4.7	2.0
3 Month US T-Bill	0.1	0.1	0.1	0.1
S&P 500 Group Indices (Price)				
Energy	10.8	14.3	-7.0	-1.7
Materials	3.1	6.2	-4.3	3.4
Industrials	0.8	5.2	4.5	8.7
Consumer Discretionary	-1.3	-0.1	2.2	14.3
Consumer Staples	3.9	9.0	15.5	11.9
Health Care	5.8	-0.5	-3.7	15.1
Financials	1.5	-4.1	-6.2	8.3
Information Technology	-3.3	-1.2	3.1	11.7
Telecommunication Services	5.8	21.8	19.0	6.3
Utilities	5.9	21.2	26.7	9.4
RBC US Style Total Return Indices				
RBC US Style Diversified Index	0.5	0.7	-2.7	12.8
RBC US Value Index	-0.9	0.8	-3.6	9.5
RBC US Growth Index	2.3	6.5	2.2	12.4
RBC US Momentum Index	-0.5	-0.7	-1.7	10.8
RBC US Predictability Index	5.0	9.7	11.3	14.6

Source: RBC Capital Markets Quantitative Research

The Economy

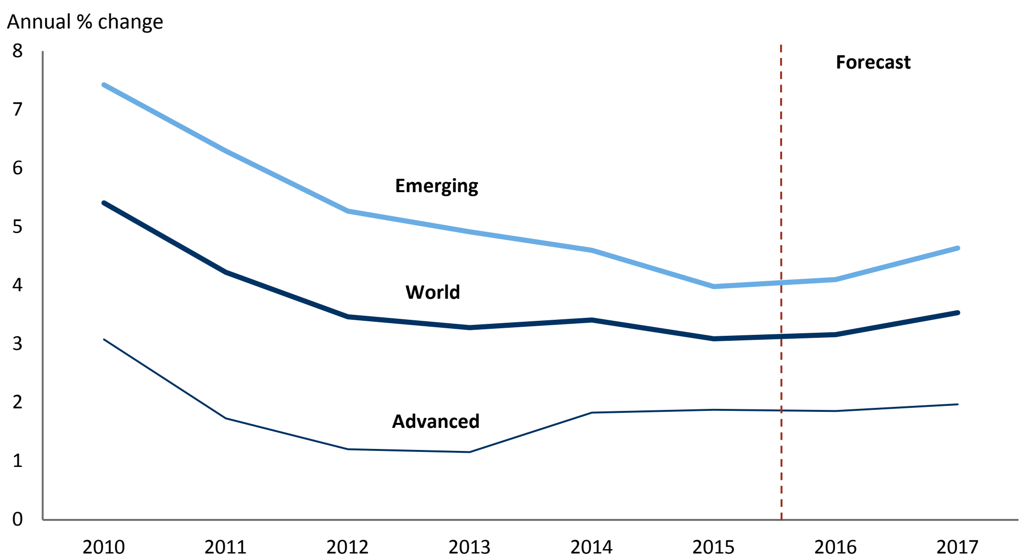
RBC Economics
Dawn Desjardins (Deputy Chief Economist) (416) 974-6919; dawn.desjardins@rbc.com

World economy shuffling along

The global economy has yet to emerge from 2015's moderate growth path with real GDP forecasted to rise by 3.1% this year. Low energy prices and interest rates created the conditions for most advanced economies to accelerate in 2016, and were it not for the wavering in confidence early in the year that dampened activity, growth forecasts would be higher. Confidence was knocked once again by the UK's decision to leave the European Union. To be sure, the referendum's result will have the biggest impact on the UK economy although we see scope for some pass-through to other advanced economies. Central banks' commitment to maintaining accommodative policy and the absence of government fiscal policy restraint will act to mitigate some of the headwinds generated by the Brexit uncertainty as the year progresses.

Emerging market economies are likely to remain on a slower growth trajectory in 2016. As the rebalancing in China's economy continues, the slowing in investment and industrial production will weigh against firmer consumption and service sector activity, in our opinion. Real GDP is forecasted to expand by 6.5% this year, which would be slower than 2015's 6.9% pace. The rebalancing saw Chinese import demand slump in 2015 and continue to fall at a double-digit clip in early 2016. This pullback in demand is acting as a headwind to other emerging economies that rely on China to purchase their exports. Combined with lower revenues earned by commodity exporters and rising financing costs, 2016 should mark a year of subdued economic activity in many emerging economies.

Exhibit 1: Global GDP growth

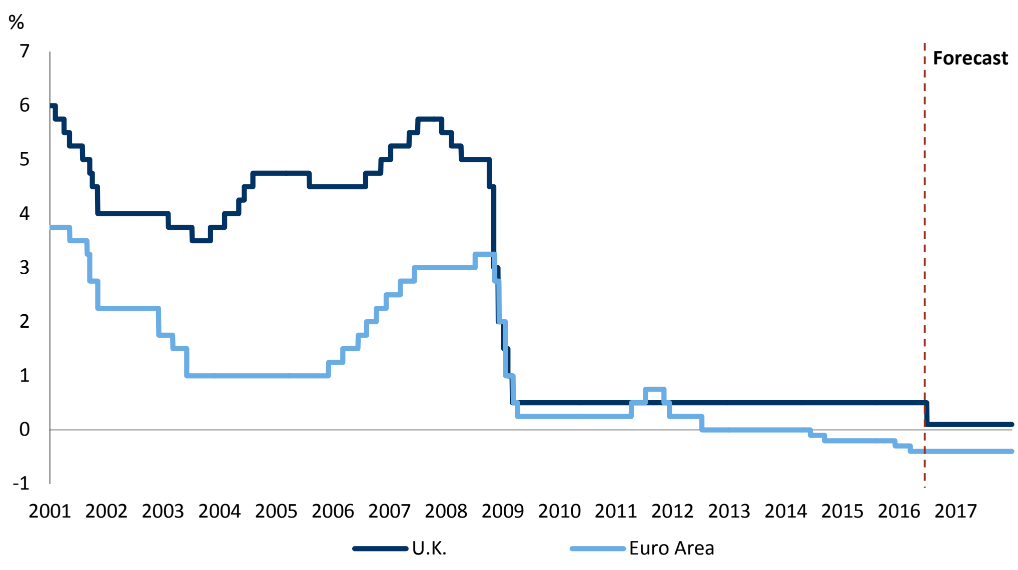


Source: International Monetary Fund, RBC Economics Research

Risks to growth outlook rise as UK votes to leave EU

Anxiety within financial markets rebounded sharply following the outcome of the June 23 referendum on UK membership in the European Union. Voters in the UK decided by a margin of 52% to 48% to leave the European Union creating significant downside risks to the economic outlook. Given the uncertainty about the process that will be followed for the UK to extricate itself from the EU, we expect to see the greatest impact on the economy via a hit to household and business confidence. We now expect business investment to decline in both 2016 and 2017 and consumption activity to slow in the near term and turn negative in 2017. The weaker pound will likely generate increased export demand and the auto-stabilisers in the government sector will kick in however these two supports will be insufficient to offset weak spending by households and businesses. Our updated U.K. forecasts assume growth of 1.4% in 2016 with real GDP recording no gain in 2017. Monetary policy in the UK is already very accommodative; however the Bank of England will likely reduce the policy rate further and boost the size of its quantitative easing program to provide incremental support. Further the Bank committed to providing liquidity in the foreign exchange market if needed and delayed the implementation of a capital buffer that will leave UK banks with a greater capacity to make loans to households and businesses. That said, until there is greater clarity on the new deal between the UK and EU, there is limited scope for a sharp acceleration. In Europe, the impact on the economy is expected to be muted in 2016 with our growth forecast trimmed by 0.2 ppts to 1.5%. In 2017 as negotiations get underway and the UK economy stalls, we anticipated growth in the Euro area economies will slow to 1.2%, half a percent slower than our pre-Brexit forecast. The ECB will implement its aggressive plan to add liquidity via purchases of a wide-range of fixed-income securities and maintain the key policy rate at -0.4% in order to stack the deck against any renewed bouts of disinflation That said, as long as downside risks to the outlook persist, we expect the ECB to remain committed to keeping a negative policy rate and stand ready to expand its purchase program if needed.

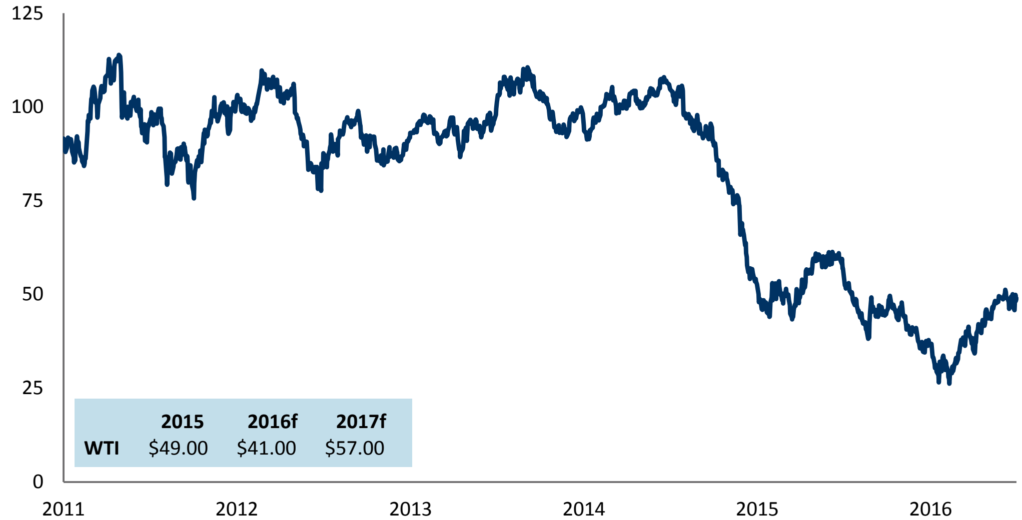
Exhibit 2: International policy rates



Source: ECB, BoE, RBC Economics Research

The turnaround in oil prices in the second quarter is a factor that will likely underpin a pickup in headline inflation rates in the advanced economies. To date, headline inflation rates are holding below central bank's targets that are largely centered on 2%. Oil prices started to recover in mid-February with the price of a barrel of WTI crude rising from a recent low of $26.20 to close to $50 by the end of May. Falling US production combined with temporary production outages in Canada and some of the emerging economies underpinned the sharp price movement. In Canada, the wildfires in Fort McMurray reduced output by over 1 million barrels per day for almost the entire month of May, although some of the facilities got back online in June.

Exhibit 3: Spot market price for WTI



	2015	2016f	2017f
WTI	$49.00	$41.00	$57.00

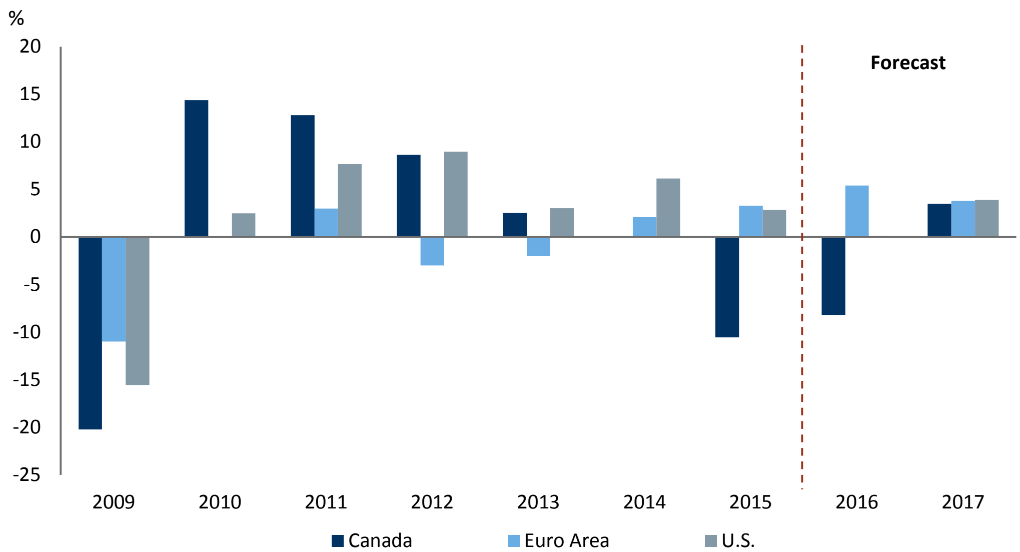
Source: EIA/CME, BoC/Haver, RBC Economics Research

The sharp pace of increase in prices during the past three months is unlikely to be sustained given that production continues to exceed demand. Our forecast assumes that the persistent decline in US production will eventually result in a narrowing in the demand/supply gap with the oil market likely to return to balance or a small deficit position late this year. Once excess oil production has been eliminated, we expect the upward climb in prices will resume and forecast a barrel of WTI will trade around $60 by the end of 2017.

Waiting for business investment to pickup

One of the key headwinds to growth in the advanced economies has been the slowing in business investment. The first-quarter US GDP report showed the second consecutive decline in investment that was only partially due to the retrenchment by oil and gas companies. In Canada, a survey of investment intentions showed another sharp drop in spending in the energy industry. More worrying in our view was that the report showed companies outside of energy also intend to spend less this year. In the euro area, investment remains about 10% below 2008 levels and even with increases in 2016 and 2017 would only approach the 2008 level. In part, the hesitancy to invest mirrored the decline in activity as indicated by the purchasing managers' indices that ticked lower in early 2016 and only started to recover in April. Further weighing on the near term outlook for investment is the uncertainty generated by the UK's vote to leave the European Union. As a clearer line of sight on the UK's relationship with the EU emerges, financial market volatility is likely to ease setting up for business confidence to recover and spending activity to pick up in 2017.

Exhibit 4: Non-residential business investment



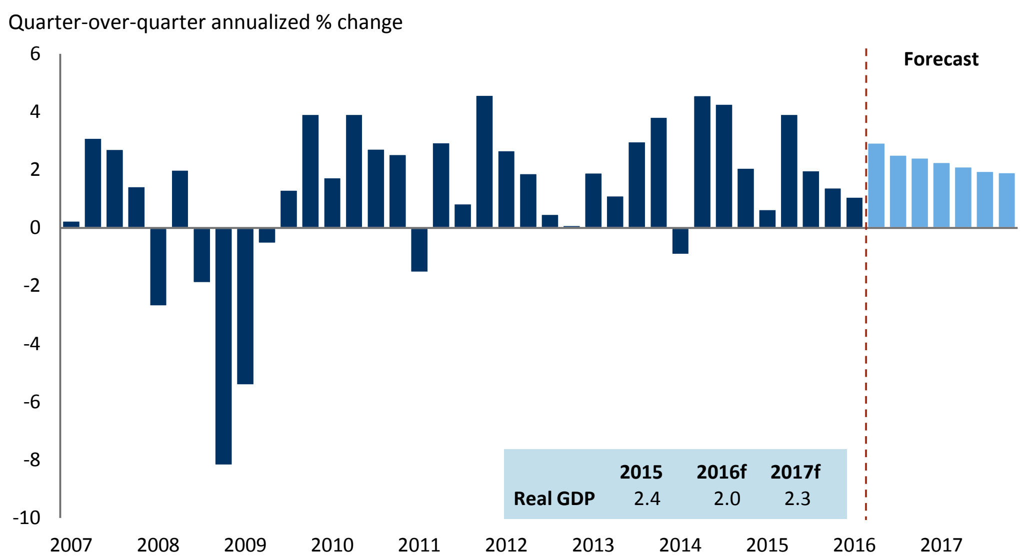
Source: Statistics Canada, Bureau of Economic Analysis, Eurostat, RBC Economics Research

US economy – a giant awakes!

The US economy is poised to emerge from its recent weak patch. After averaging just 1.1% in the six months ended March 2016, more recent data point to a sharp acceleration in activity, with our forecast calling for a 2.9% annualized increase real GDP in the second quarter.

The soft start to the year, however, sets up for real GDP growth to average 2.0%, slower than 2015's 2.4% gain. On a Q4-over-Q4 basis, the economy's growth rate will accelerate slightly to 2.2% from 2.0% in 2015, according to our forecast. The economy's stronger momentum should continue in 2017 and our forecast is for real GDP to increase by 2.3%.

Exhibit 5: US Real GDP growth



Source: Bureau of Economics Analysis, RBC Economics Research

Weakness in Q1/16 real GDP overstated

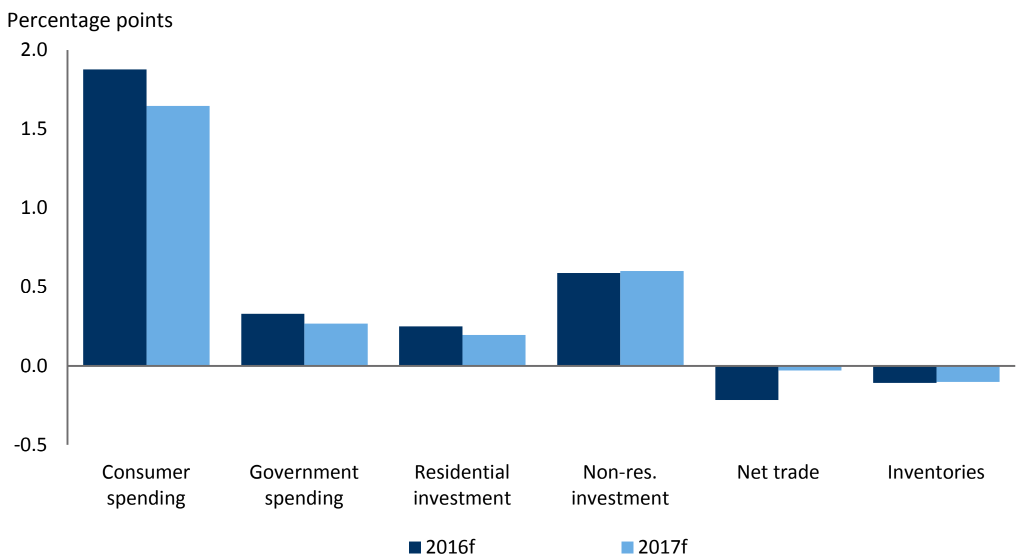
The paltry 1.1% annualized rise in US real GDP in the first quarter did not square with the underlying supports present early in the year suggesting that the anxiety in financial markets usurped these positive factors. Low gasoline prices, low interest rates, and solid employment growth were not enough to prevent a slowing in consumer spending to a 1.5% annualized rate in the first quarter, well below 2015's 3.1% pace. Weakness permeated most other areas of the economy, with only housing market activity and government spending accelerating relative to 2015's average annual growth rates.

Recent reports suggested that the economy is in for a stronger increase in the second quarter. Data available for the second quarter show home sales running at the fastest pace since late 2007, motor vehicle sales holding at an elevated level, and real consumer spending on track to post the quickest quarterly increase since late 2014. Exports rebounded sharply in April and even with a pullback in May are on track to post a solid gain in the second quarter, which would be a marked improvement following declines or slow growth in the previous three quarters. That said, the recovery in domestic demand is also fueling import growth meaning that net trade will likely act as a drag on real GDP for the remainder of this year.

Consumer is key

We project the US consumer will maintain the dominant role in driving real GDP growth this year. The persistent tightening in labour market conditions is finally filtering into a strengthening pace of wage increases. At the same time, household net worth at the end of the first quarter 2016 was $88.1 trillion, and homeowners' equity in real estate stood at a post-recession high of 57.8%. These firm underpinnings should provide consumers with the firepower to spend, with motor vehicle sales forecasted to rise again in 2016 and the upward trend in home sales to continue.

Exhibit 6: US Real GDP growth composition

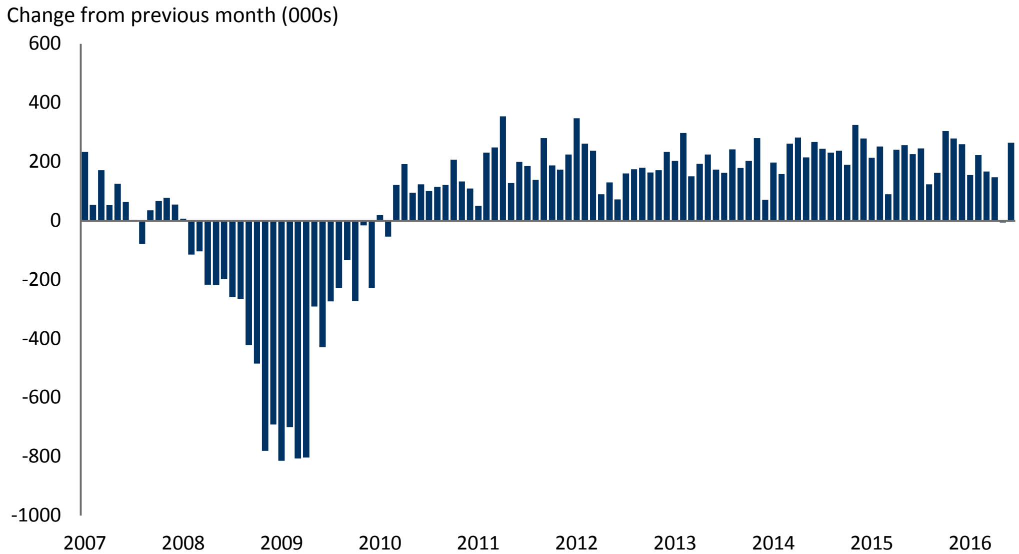


Source: Statistics Canada, RBC Economics Research

Slower monthly job gains are nothing to worry about

In the second quarter of 2016, gains in non-farm payroll employment averaged 147,300, which was the slowest pace of increase since Q2-2012. That said, the unemployment rate averaged 4.9% over the quarter, and broader measures of unemployment showed a further reduction in labour market slack. Looking forward, the pace of job creation is likely to run closer to 150,000 per month rather than the 223,000 average posted during the prior three year period, in our view. This reflects both the reduction in excess capacity in the labour market and the demographically driven weakening in growth in the working-age population. On balance, we believe that these conditions will support the unemployment rate holding around the Fed's assumed full-employment level of 4.8%.

Exhibit 7: US private sector employment growth



Source: Bureau of Labor Statistics, RBC Economics Research

Inflation watch

Headline inflation in the US continues to run well below the Fed's 2% target that has been weighed down by falling energy prices. Core measures, conversely, are running much closer to 2%. The anticipated recovery in oil prices sets up for these two measures of inflation to converge by the end of 2016, in our view. Recent energy price increases influenced inflation expectations, as implied in the Treasury Inflation Protected Securities (TIPS) market, which rebounded after hitting a recent low in February 2016. Gradual acceleration in wage growth as labour market slack shrinks would also exert upward pressure on prices in time.

As of May, the core CPI rate was at or above the Fed's 2% objective for seven months running, which has been the longest such streak since 2012. Based on the inflation and labour market readings, the Fed would have little hesitation following up the December 2015 rate hike with another 25 basis point increase; however, as the risks from global economic and financial developments increased early in the year, policymakers assumed a cautious stance about the pace of further tightening. Looking forward, the uncertainty about the effect of Brexit on the global economy argues against the Fed making any moves to tighten monetary policy this year. Thus, we have revised our forecast and now see the Fed implementing the next rate hike in the second quarter of 2017. We project the funds target will end 2017 at 1.0%, just 50 basis points higher than today. The post-referendum flight to safety pushed government bond yields down across the world and the yield on the 10-year US Treasury rate fell to all-time low below 1.4%. In the quarter ahead, we expect term yields will remain historically low as investors pile into safer assets, and pension funds and insurance companies increase their holdings. Subsequently, we expect a gradual rise in US rates as the economy continues to expand at an above-potential pace.

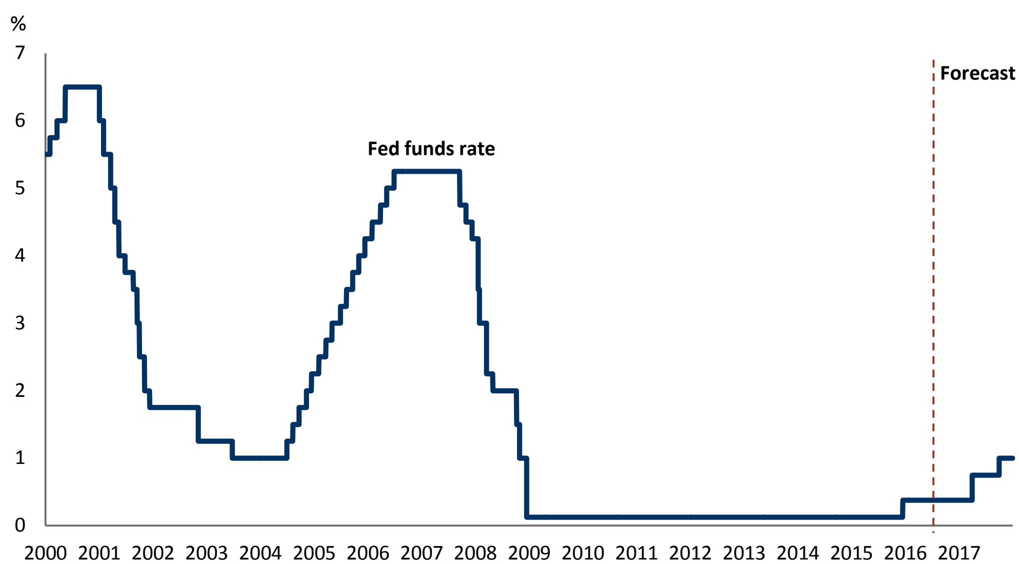
Exhibit 8: US inflation

Source: Bureau of Labor Statistics, RBC Economics Research

US dollar benefits from safe haven flows

The trade-weighted US dollar started 2016 under downward pressure as economic data sagged and markets factored in lower expectations of Fed rate hikes in 2016. Sentiment turned in early May as data reports soothed concerns that the economy would continue along the first quarter's modest growth path. More recently the US dollar got a lift from investors looking for a safe haven following the UK's decision to exit the European Union. We expect the US dollar will continue to benefit from investors shying away from riskier assets and look for the US currency to appreciate against the pound sterling, euro and Canadian dollar in the second half of 2016. As conditions stabilize, we expect these currencies to regain ground against the US dollar although sterling will remain significantly below its pre-referendum level.

Exhibit 9: US interest rates



Source: Federal Reserve Board, US Treasury, RBC Economics Research

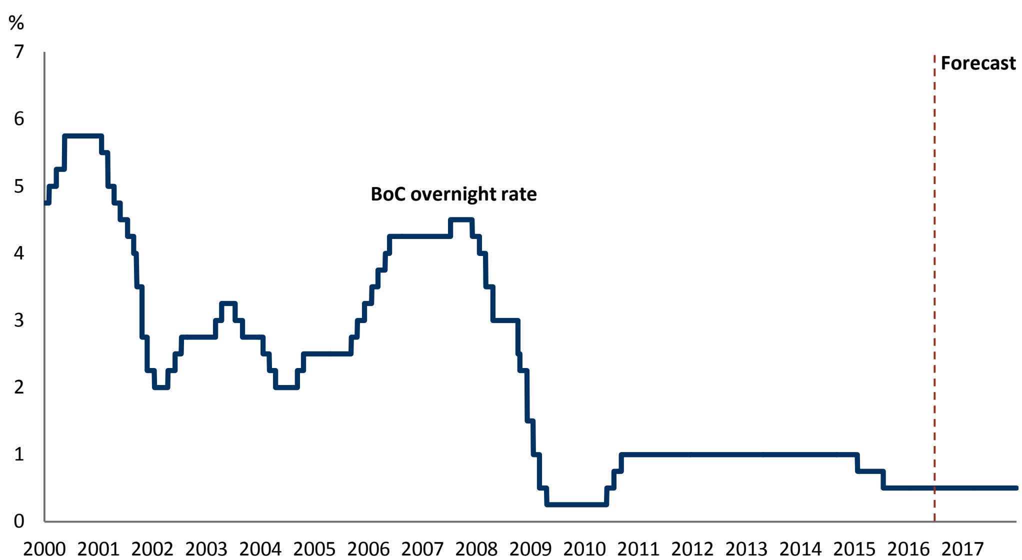
Bank of Canada keeps an even keel

The news on the Canadian economy has been mixed since the Bank of Canada's last forecast update in April. The economy posted a healthy 2.4% annualized gain in the first quarter; however, the trend in the monthly reports sets up for a weaker outcome in the second quarter. The weakening will be exacerbated by the wildfires in northern Alberta that took almost 50% of the production from the oil sands offline for a month.

The volatility in the economy's performance in the near term makes it unlikely that the Bank will make any adjustments to monetary policy even with the effect of the wildfires viewed as a temporary factor. Two factors that are more worrying for the outlook are that the pickup in export volumes proved short-lived while weak investment activity is lasting longer. In its May policy statement, the Bank appeared to look through the gyrations in export activity and asserted that the process of adjustment was continuing but was "proving to be uneven." Given the economy's weak performance in the second quarter and uncertainty plaguing the outlook for world growth we anticipate business investment will be weak again in 2016. Against this backdrop, we believe that the most likely course of action for the Bank will be to hold the overnight rate at 0.5% to ensure that the transition in the drivers of growth proceeds.

Incorporating the soft hand-off in exports and drop in oil production resulted in a substantial downgrade to our forecast for real GDP in the second quarter, which is now pegged to decline at a 1.0% annualized rate, rather than rise by a 2.1% as we expected in our March 2016 outlook. The subsequent recovery in oil production, rebuilding in the regions affected by the wildfires, and expected rebound in exports tee up for third-quarter growth of 3.6% with the fourth-quarter growth rate forecast at 1.9%.

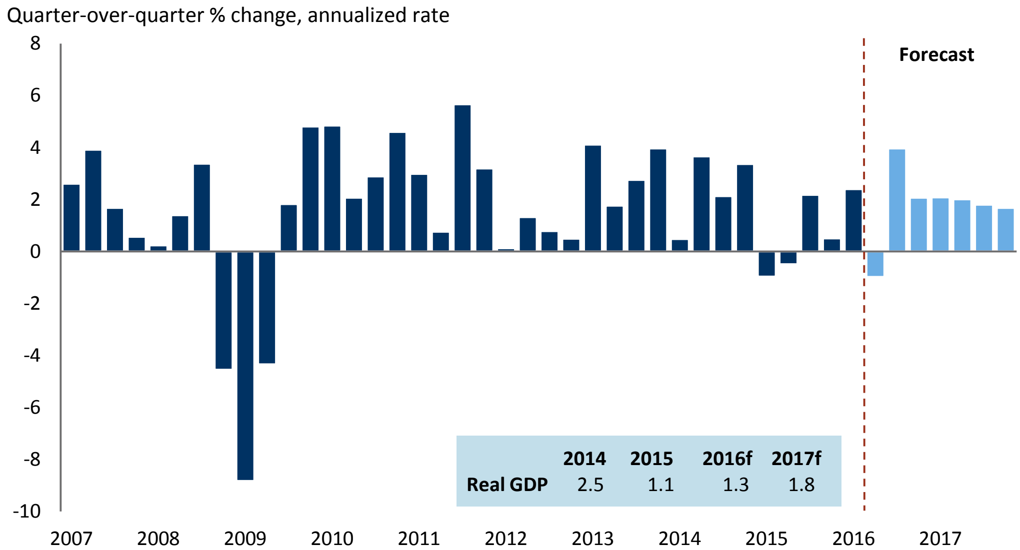
Exhibit 10: Canada interest rates



Source: Bank of Canada, RBC Economics Research Forecasts

This erratic pattern of economic activity means that Canada's economy is headed for another year of moderate growth, with our updated forecast showing a 1.3% increase in 2016, slightly faster than 2015's tepid 1.1% pace. 2017 is likely to be a firmer year for Canada, in our opinion, as higher oil prices prevent another retrenchment in investment, with the economy forecasted to expand at a 1.8% pace.

Exhibit 11: Canada Real GDP growth

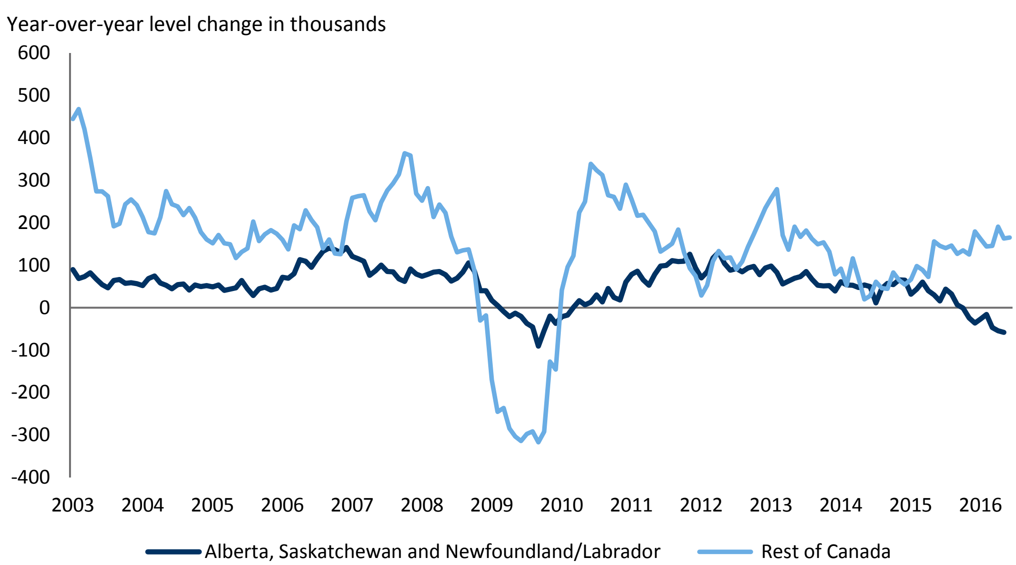


Source: Statistics Canada, RBC Economics Research

Canada's consumer stepping up again!

We believe that the consumer will be the lead support for the economy once again in 2016. Record auto and home sales were reported in the first five months of the year, with activity likely to remain at these lofty levels barring any interruption in the labour market. In the 12 months to June 2016, the economy saw 108,000 jobs created, and the average pace of wage gains accelerated to 2.8% from 2.7% in 2015. This rise in employment occurred despite 58,000 jobs cut in the three oil-producing provinces (Alberta, Saskatchewan, and Newfoundland & Labrador). Deterioration in labour markets conditions in the oil producers will likely keep downward pressure on their housing markets and retail activity, thereby leaving the remaining seven provinces to do the heavy lifting.

Exhibit 12: Employment by province



Source: Statistics Canada, RBC Economics Research

Building on the 8.9% drop in 2015, wages and salaries in the oil and gas industry continued to decline in the first quarter of 2016, albeit at a slightly slower 6.0% pace. Excluding oil and gas, wages and salaries posted an average gain of 3.0% last year and were up 2.0% at an annualized rate in the first quarter of 2016. We believe that the rise in employment and firming in wage gains will lift personal incomes again in 2016 despite another expected decline in the energy sector. Furthermore, the tax changes in the federal government's budget will provide a lift to disposable incomes this year. On balance, we forecast consumer spending to increase by 2.1% in 2016, with auto sales projected to hit a record sales pace for the fourth year running.

Even with auto sales running at an elevated pace, Canadian households pared back their accumulation of non-mortgage loans in the first quarter, with growth in this credit component sustaining a slowing trend. Conversely, households continued to take on residential mortgage debt at a robust rate. Rising home prices and low interest rates are underpinning demand for property loans with balances expanding by 6.3% in the first quarter, which were the quickest pace of accumulation since September 2012.

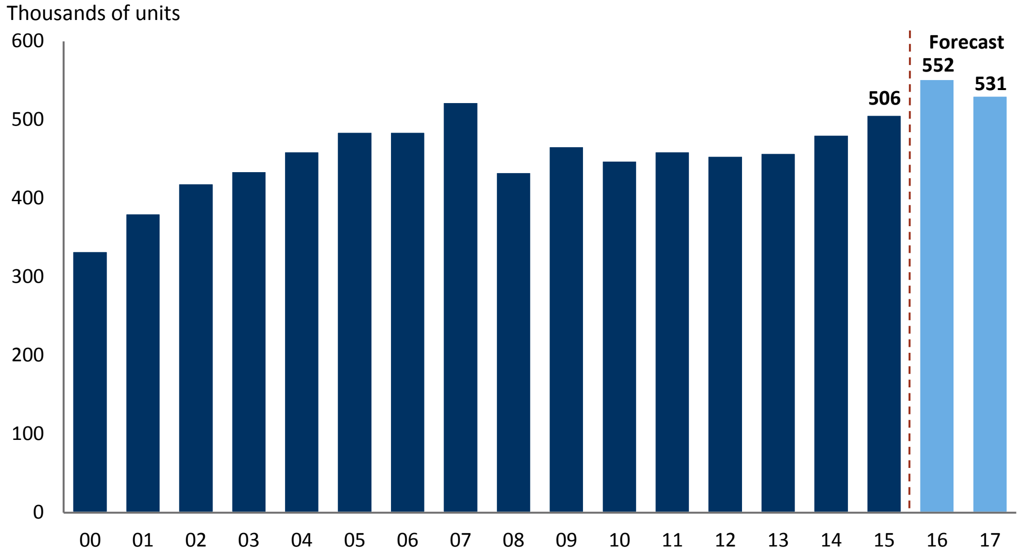
Despite the expansion in outstanding debt balances, service costs continue to run at 14% of disposable income, largely in line with the average during the past decade. Indicators of stress similarly do not show any deviation from recent trends, with the number of consumer bankruptcies falling in 2015 and early 2016 data showing the 12-month run rate stayed at the lower level. The percent of mortgages that are in arrears also remain historically low although inched upward slightly to start 2016. Thus, while balance sheets bear watching, recent indicators do not signal deterioration in the health of consumer balance sheets or flag imminent risk to the consumer outlook.

Canada's housing market – hot start to 2016

Canada's housing market posted a record number of sales in early 2016, and prices, on average, increased at a double-digit pace. These headlines masked significant deviations across regions. In Alberta and Saskatchewan, sales were below year-ago levels while Ontario and British Columbia's sales soared and posted the largest increases among provinces. This pattern was echoed in prices with Vancouver prices up 30% and Toronto prices running at a 15% clip compared to a year earlier. These strong price increases translated into sharp deterioration in affordability in these two cities while most other markets are running close or slightly below their historical averages. The strong liftoff to 2016 led us to revise our forecasts for Canadian housing sales and prices such that we project this year will mark the highest number of sales on record with prices rising 5.0% to match 2015's gain.

This elevated pace of sales activity combined with the rebuilding in the aftermath of the Fort McMurray fire will likely keep building activity running above the pace of household formation, with starts now expected to total 191,000, which is above our previous forecast of 186,000 units.

Exhibit 13: Canada home resales

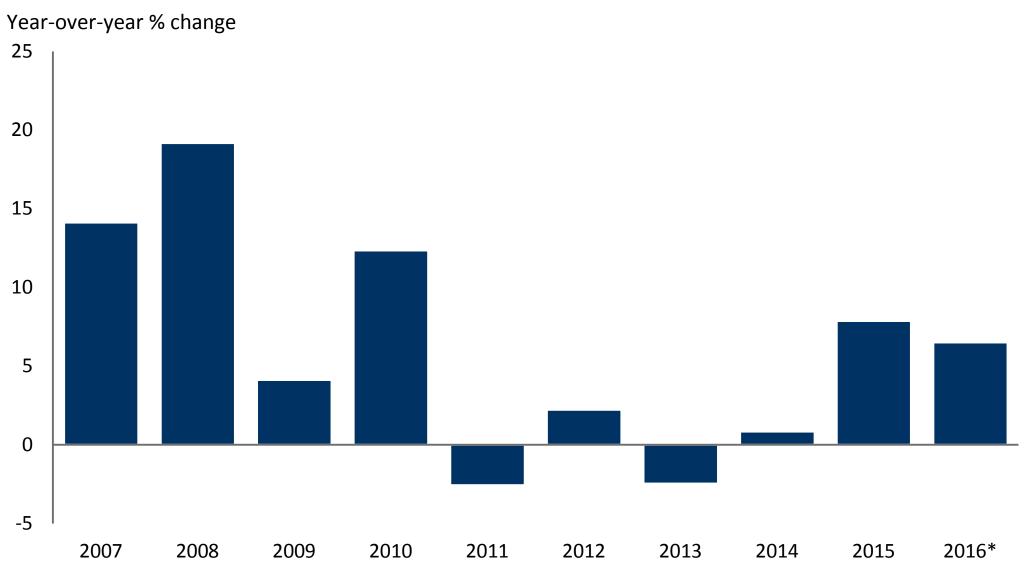


Source: Canadian Real Estate Association, RBC Economics Research

Business fixed investment – down again 2016

After pulling back investment significantly in 2015, natural resource and particularly oil and gas companies intend to reduce investment again in 2016, with our monitoring showing a 30% drop. Outside of oil and gas, intentions were also soft although to a far lesser extent with a recent survey showing a 1.7% decline this year. Industry-wide non-residential construction activity by private companies is forecasted to fall by 11.2%, with spending on machinery and equipment projected to decline by 6.7%. Partially moderating this blow, government investment spending on construction and machinery and equipment is expected to rise by 6.5% this year largely due to the federal government's stimulus plan announced in the March 2016 Budget. The government' spending initiatives and tax changes are projected to lift GDP growth this year by 0.2 percentage points and by 0.3 percentage points in 2017.

Exhibit 14: Canadian public sector organizations' capital expenditure



* Intentions. Source: Statistics Canada, RBC Economics Research

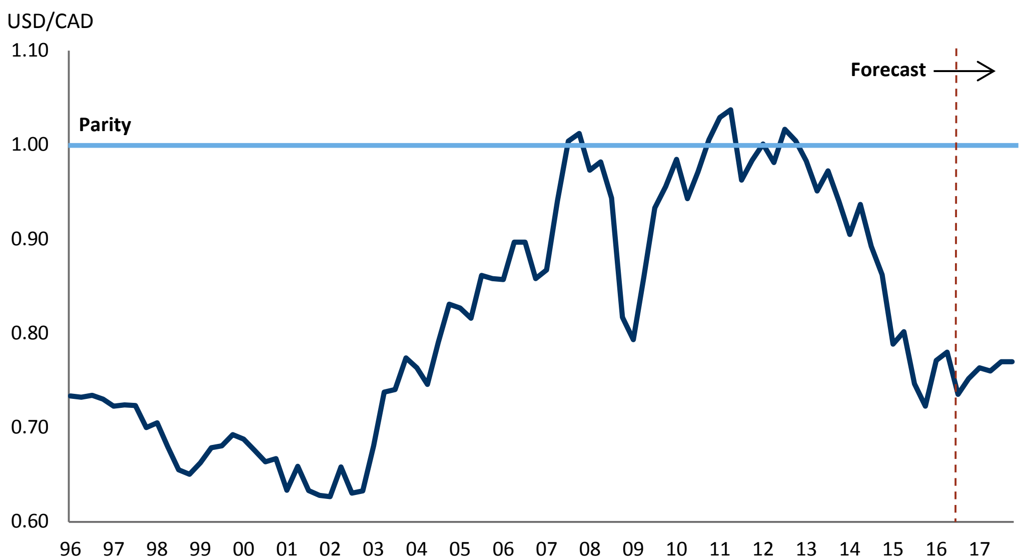
Export conundrum

Canadian exporters posted sharply higher sales abroad in late 2015 and early 2016, only to falter unexpectedly in subsequent months. The modest recovery in exports in April and weakness in May left sales of non-commodity products up very slightly compared to a year earlier. Exports that were more closely aligned to US consumer spending and industrial production showed solid gains, especially products that are sensitive to the exchange rate. That said, the combination of a weak handoff and lacklustre sales in May set up for a decline in exports in the second quarter in part due to the wildfires in May. With the effect of the fire likely to prove to be a temporary restraint on growth, our forecast assumes demand for exports will reaccelerate in the second half of the year.

Canadian dollar to weaken modestly

Canada's dollar mirrored the move upward in oil prices and rallied more than 8 cents against the US dollar from its January low of 68 US cents. The recovery stalled in May oil prices steadied and markets priced in increased expectations of a US Federal Reserve rate hike. The surge in anxiety following the UK vote to leave the EU provided another lift to the US dollar thwarting any further gains in Canada's dollar. Looking forward, the Canadian dollar will continue to follow the ebb and flow of oil prices, and we anticipate limited upside until later in the year when supply and demand should be more closely aligned. With safe-haven flows continuing to favour the larger, more liquid US dollar, Canada's currency is likely to weaken in the second half of 2016 with our quarter-end estimates at 73.5 and 75 US cents. In 2017, our forecast anticipates oil prices will rise and uncertainty will ease resulting in a modest rally in the Canadian dollar that we project will be 77 US cents by the end of 2017.

Exhibit 15: Canadian dollar forecast



Source: Bank of Canada, RBC Economics Research

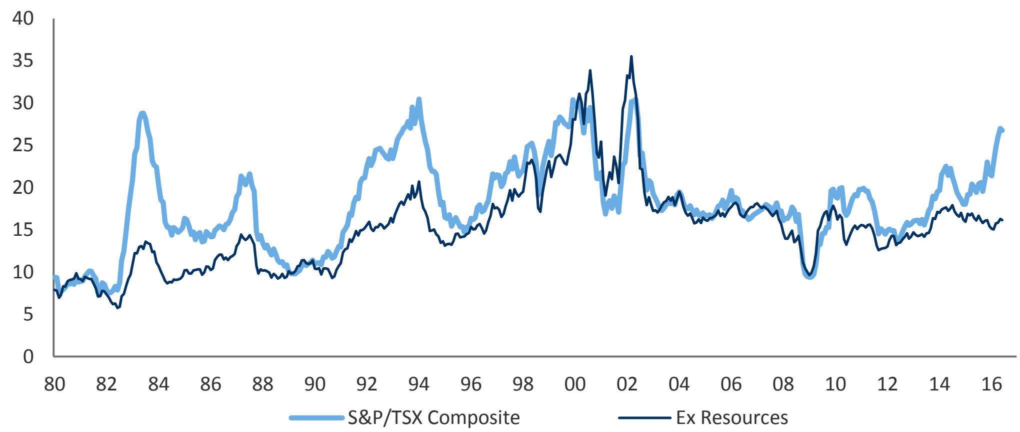
Quantitative Research

RBC Dominion Securities Inc.
Bish Koziol, CMT (Senior Quantitative Research Associate) (416) 842-7866; bish.koziol@rbccm.com

Valuations continue to rise in Canada

So far in 2016, the recurring P/E multiple of the S&P/TSX Composite has risen to 26.8x (Exhibit 1) – over five multiple points year to date – compared to its historic average of 18.1x. It also represents the highest level that the index multiple has reached since June 2002. By examining the three largest sectors in Canada (Financials, Energy, Materials), it's clear that the resource sectors were largely responsible. Aggregate earnings yields are either negative or barely positive for the Energy and Materials sectors over the past few months, and as such have caused the Composite multiple to rise. In fact, if we remove all resource stocks from the Composite, the resulting P/E for the remainder of the index is 16.1x.

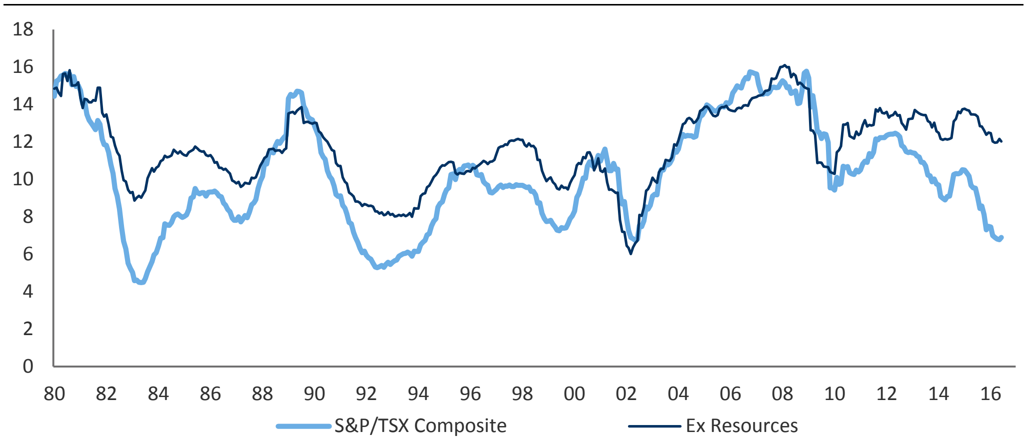
Exhibit 1: S&P/TSX Composite – Price to Recurring Earnings



Source: RBC Capital Markets Quantitative Research

From past cycles, we see that high historical valuations rarely persist for more than several quarters. Profitability for the S&P/TSX as a whole has been declining since early 2012 and the aggregate Return on Equity of 6.8% in May was at its lowest level in 14 years (Exhibit 2). However, a more positive outcome occurs when resources are excluded from the Composite – the resulting ROE of 12% is just above its historical average. In order to return to average valuation levels, either the price of the S&P/TSX Composite must fall, or earnings growth must exceed index price appreciation.

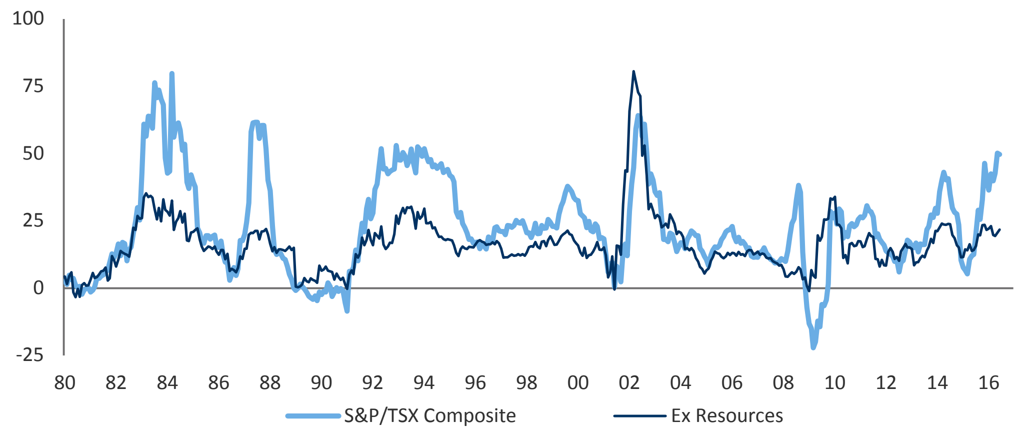
Exhibit 2: S&P/TSX Composite – Return on Equity (Recurring)



Source: RBC Capital Markets Quantitative Research, CPMS

As it stands, consensus estimates project index earnings to rise by 50% over the next 12 months (Exhibit 3). Resources are responsible for about half of this growth. Nonetheless, the S&P/TSX Composite – ex Resources still projects a healthy 22% growth in earnings.

Exhibit 3: S&P/TSX Forecast Earnings Growth

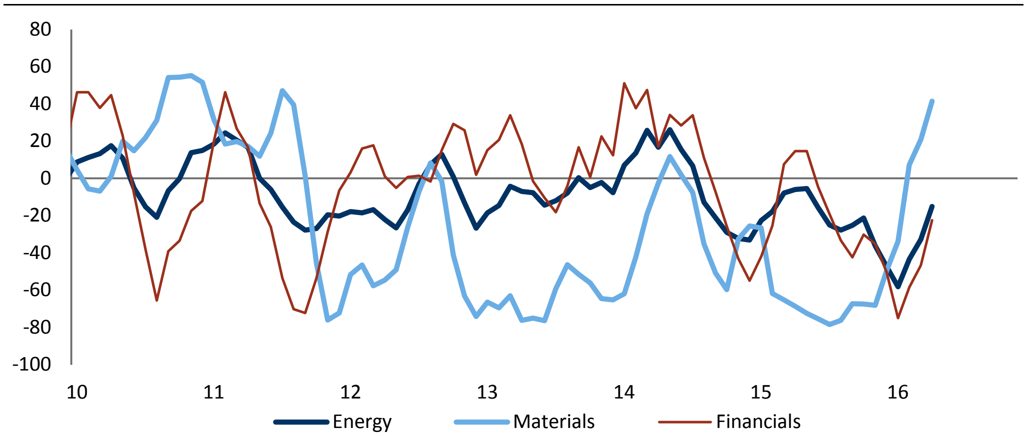


Source: RBC Capital Markets Quantitative Research

In order for projected earnings growth to materialize in the coming year for the S&P/TSX Composite, a leading indicator of this will be positive earnings estimate revisions, primarily in the three largest sectors. In the case of Financials, earnings growth expectations are now the lowest out of the three largest sectors and estimate revisions have been negative for the past year (Exhibit 4). Conversely, bottoming effects make earnings growth forecasts look impressive for the Materials group. The sector's Estimate Revisions index has also been positive for the past three months. The Energy sector is seeing an above-average level of Forecast Earnings Growth. However, its earnings estimates have the largest negative revisions out of the three groups.

Given that two of the three sectors have negative estimate revisions, and Financials have low earnings growth expectations, it would be difficult for earnings growth to materialize for the Composite. We would need to see a positive change in estimate revisions in the coming months.

Exhibit 4: S&P/TSX Composite – Estimate Revisions Index



Source: RBC Capital Markets Quantitative Research

Trend & Cycle

RBC Dominion Securities Inc.

Javed Mirza, CFA, CMT (Analyst, Technical Research – Trend & Cycle) (416) 842-8744; javed.mirza@rbccm.com

Brack Friday sale

The current volatility surrounding Brexit is an investment opportunity, in our view, as the next major upleg within the ongoing bull market in equities in place since 2009 develops. Our intermediate-term (weekly) quadrant balance data for both the TSX Composite and the S&P 500 are **near** and **at** levels, respectively, that have been historically coincident with prior intermediate-term lows (see pp. 50-53). In addition, our short-term (daily) quadrant balance data supports a short-term price low developing this week for both indices.

Over the past couple of weeks, we have highlighted that an intermediate-term low was near, and we believe the excitement surrounding Brexit confirms this low (see Staples peaking, intermediate-term equity market rally pending, June 13, 2016).

We examine five key relationships/events either developing or on the horizon for Canadian money managers:

1. **The long-term cycle data suggests that the next upleg in the secular bull market in equities is under way (see pp. 49).** This upleg should take us out into the next cycle peak on the TSX Composite in 2018–19.

   Our proprietary monthly quadrant balance data for the **TSX Composite** and **S&P 500** (not shown) have turned up from levels coincident with long-term investable lows, which suggest that intermediate-term pullbacks are buying opportunities (see Monthly quadrant balance data supports intermediate-term buying opportunity, January 18, 2016).

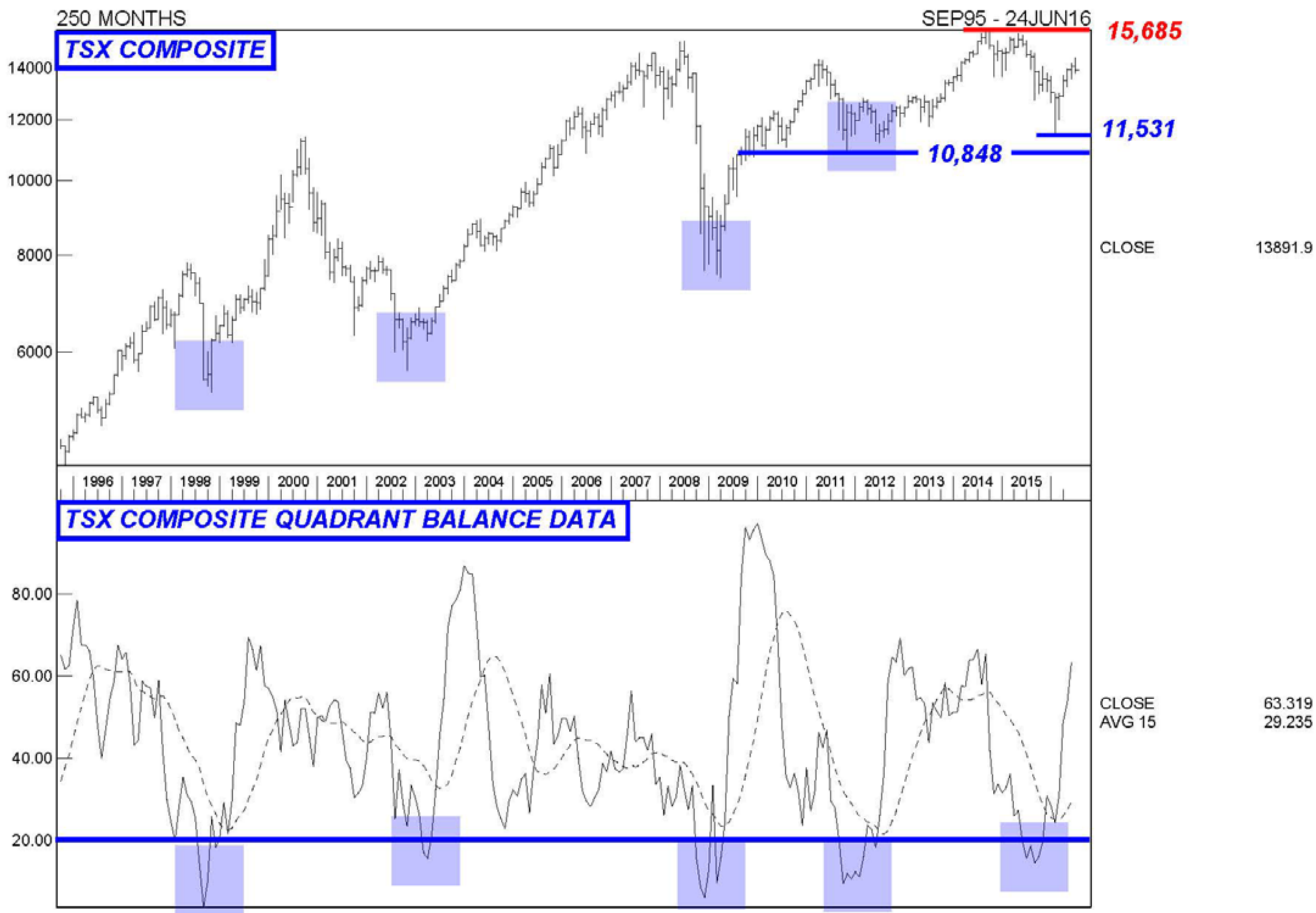
2. **The TSX Consumer Staples Index is showing signs of deteriorating monthly momentum and relative performance versus the TSX Composite, which suggests that an intermediate-term peak is forming, which could develop into a longer-term peak.** This is in line with our thesis that the market is favoring inflation beneficiaries, namely Rocks, Stocks, and Barrels, while deflation beneficiaries, namely Utilities, Telcos, and Staples, are at risk of deteriorating real and relative performance. We highlight the deteriorating relative performance of **ATD.B** and **SAP** (pp. 55-56).

3. **Gold Bullion and Gold equities are reaccelerating.** Commercial hedger positions on **Gold Bullion** are at relative extremes coincident with prior intermediate-term price peaks; however, Friday's breakout above 1,308 could cause a short covering that could rapidly fuel further upside. We feature the positive charts of **AEM** and **SLW** (pp. 57-58, 62).

4. **The TSX Energy Index continues to improve relative to the TSX Composite**. Although WTI Crude appears to be stalling near important resistance at 50.58, we view weakness as an opportunity to accumulate. Natural Gas continues to push higher, with next important resistance near 3.05–3.37. We highlight the positive charts of **PEY** and **AAV** (pp. 59-61).

5. **If an intermediate-term low is at hand for the S&P 500 and TSX Composite, then both the Industrials and Discretionary sectors are likely to benefit from a shift to "risk-on".** We highlight long-term (monthly) charts of both sectors and the parallels to previous important price lows in 1998, 2003, 2009, and 2011. We feature key support levels on **CNR** and **CP** on the Industrials side and **MG** and **LNR** on the Discretionary side (pp. 62-65).

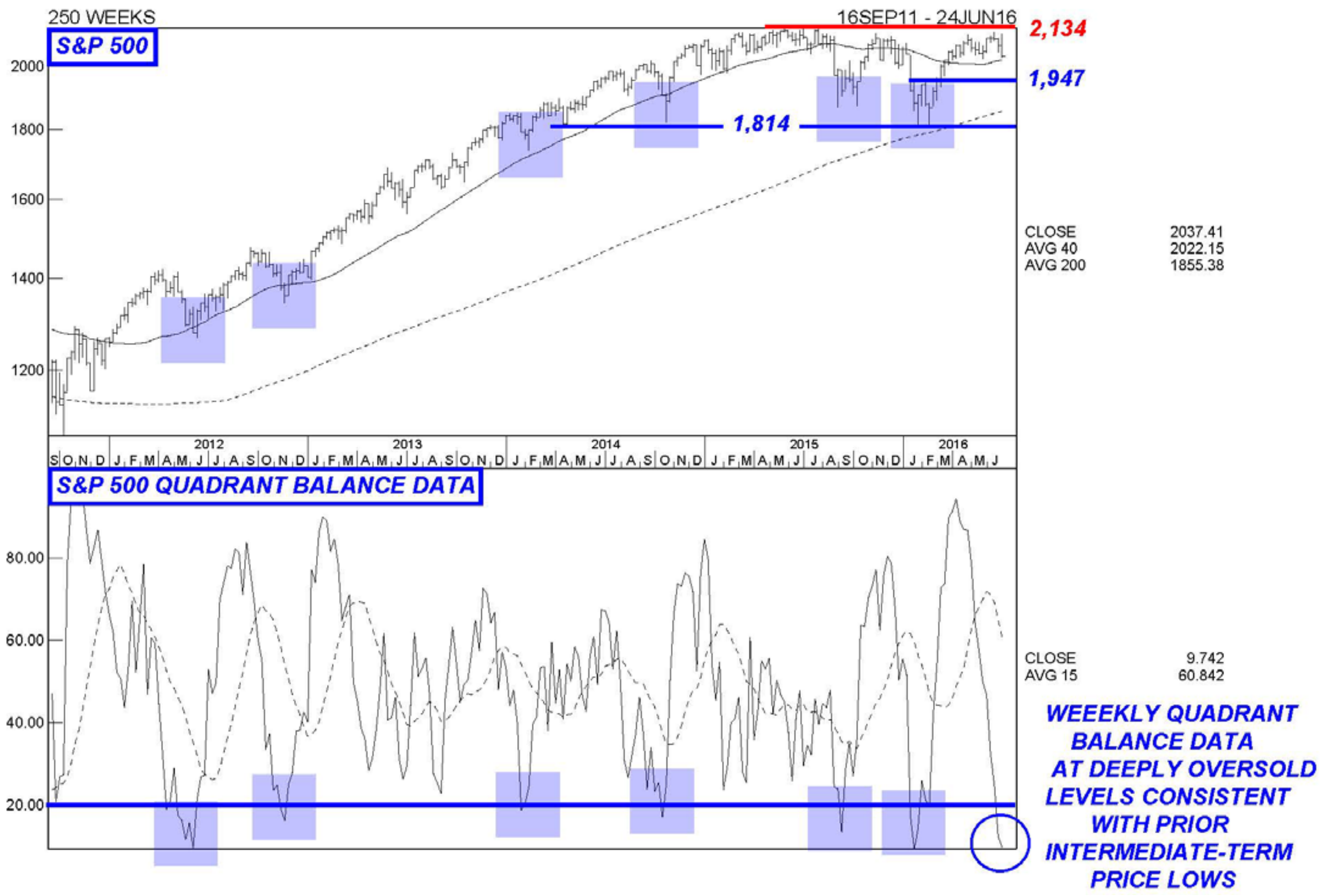
Exhibit 1: TSX COMPOSITE / TSX COMPOSITE QUADRANT BALANCE DATA (MONTHLY)



Source: RBC Capital Markets Trend & Cycle

- *This compelling chart shows that moves higher on our monthly quadrant balance data from deeply oversold levels have led to multi-year rallies in the TSX Composite.*
- *Monthly momentum on the **TSX Composite** has turned up from oversold levels, consistent with prior multi-year investable lows (see blue shaded boxes, top and bottom panel).* Since January, our view has remained that the recent corrective phase is a transitory crisis and presents an investment opportunity in a secular bull market, as opposed to a cycle peak. The transitory crises in 1998 and 2011 saw the S&P 500 correct roughly 22% and 21%, respectively, from the highs, while the recent correction saw a peak-to-trough decline of 15% from the all-time highs. We view intermediate-term pauses/corrections, such as the recent Brexit weakness, as buying opportunities.
- **The time frame for the developing upleg in the ongoing secular bull market in equities should see a cycle peak develop sometime in 2018–19.**

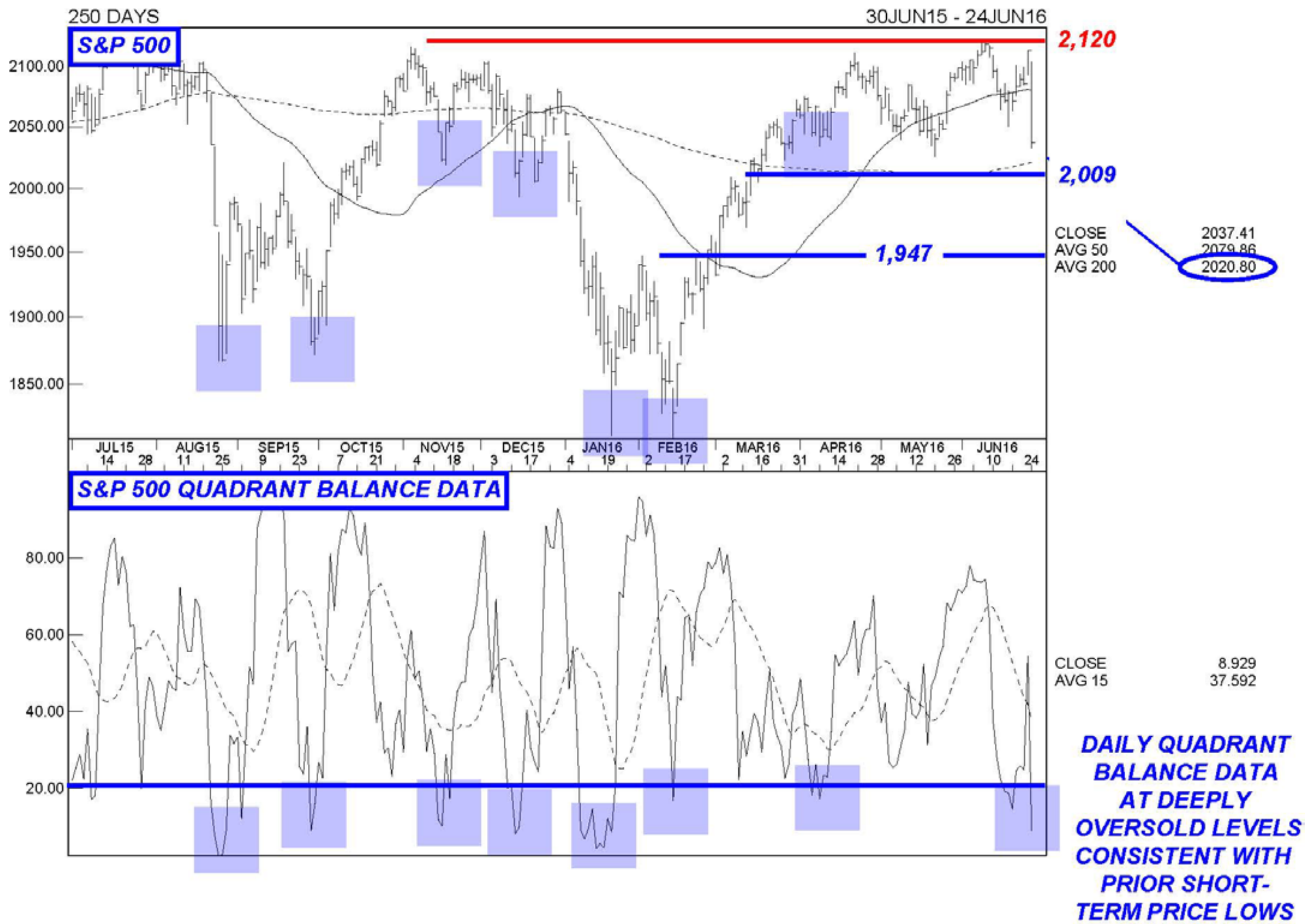
Exhibit 2: S&P 500 / S&P 500 QUADRANT BALANCE DATA (WEEKLY)



Source: RBC Capital Markets Trend & Cycle

- The **S&P 500** was weak on Friday in line with the "risk-off" that permeated global markets (see top panel).
- _Intermediate-term quadrant balance data is at deeply oversold levels (see blue circle, bottom panel) consistent with prior intermediate-term lows. The recent near-term weakness (see daily quadrant balance data, next page) has positioned both short- and intermediate-term quadrant balance data at deeply oversold levels below 20 (see blue line, bottom panel) and in our view offers a very attractive investment opportunity at current levels._
- This intermediate-term low should provide the springboard for a breakout to new all-time highs by the S&P 500.

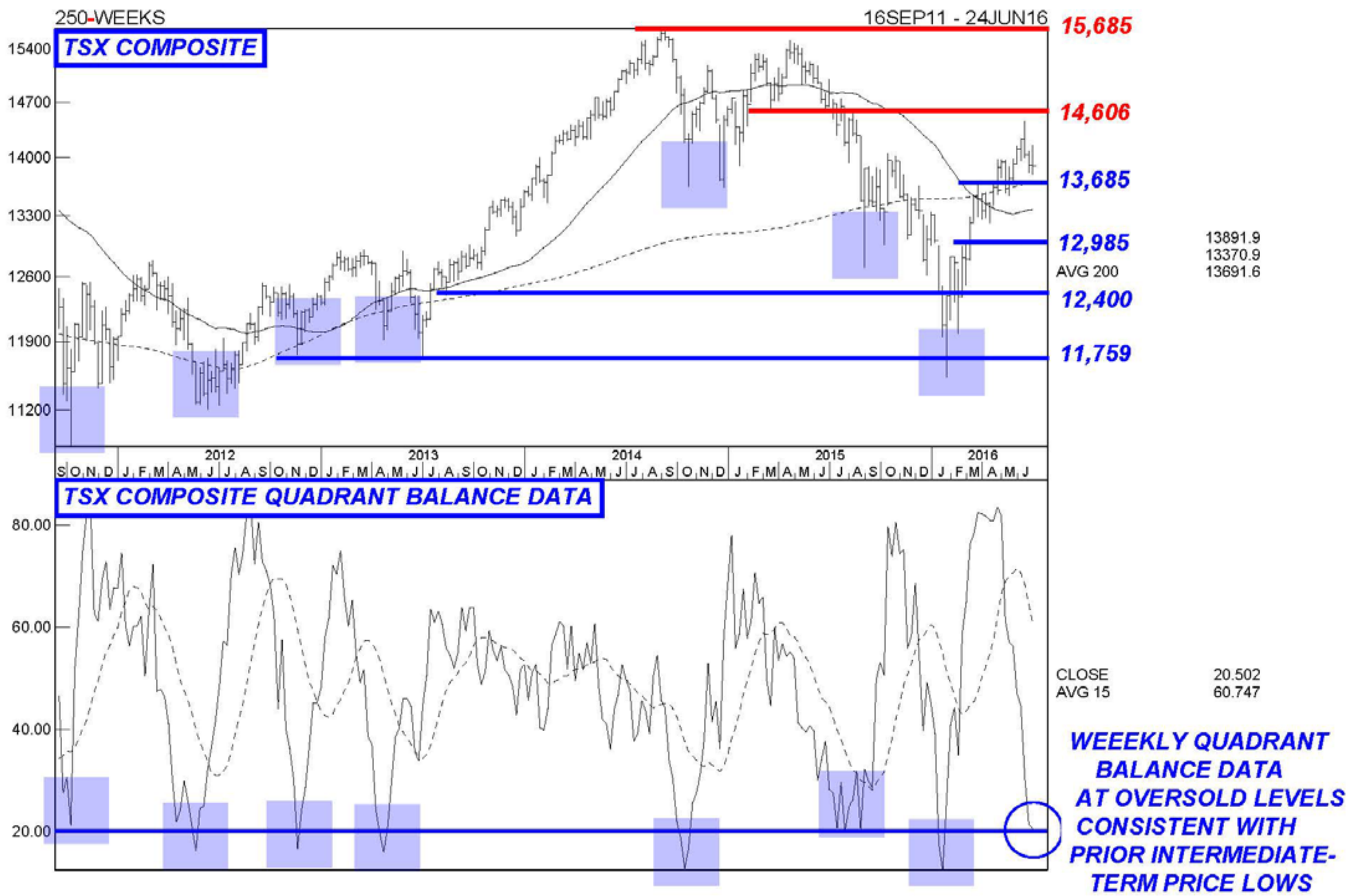
Exhibit 3: S&P 500 / S&P 500 QUADRANT BALANCE DATA (DAILY)



Source: RBC Capital Markets Trend & Cycle

- *Our proprietary short-term (daily) quadrant balance data for the **S&P 500** (see bottom panel) is at extreme oversold levels consistent with prior short-term price lows (see blue shaded boxes). Although we are likely to see near-term choppiness as the market digests the results of Brexit, short- and intermediate-term quadrant balance data are at levels that suggest weakness is an opportunity to add equity exposure.*
- Important support is near the 200-day, currently at 2,020, followed by the March 4 high at 2,009. Major support is near the February 1 high at 1,947.

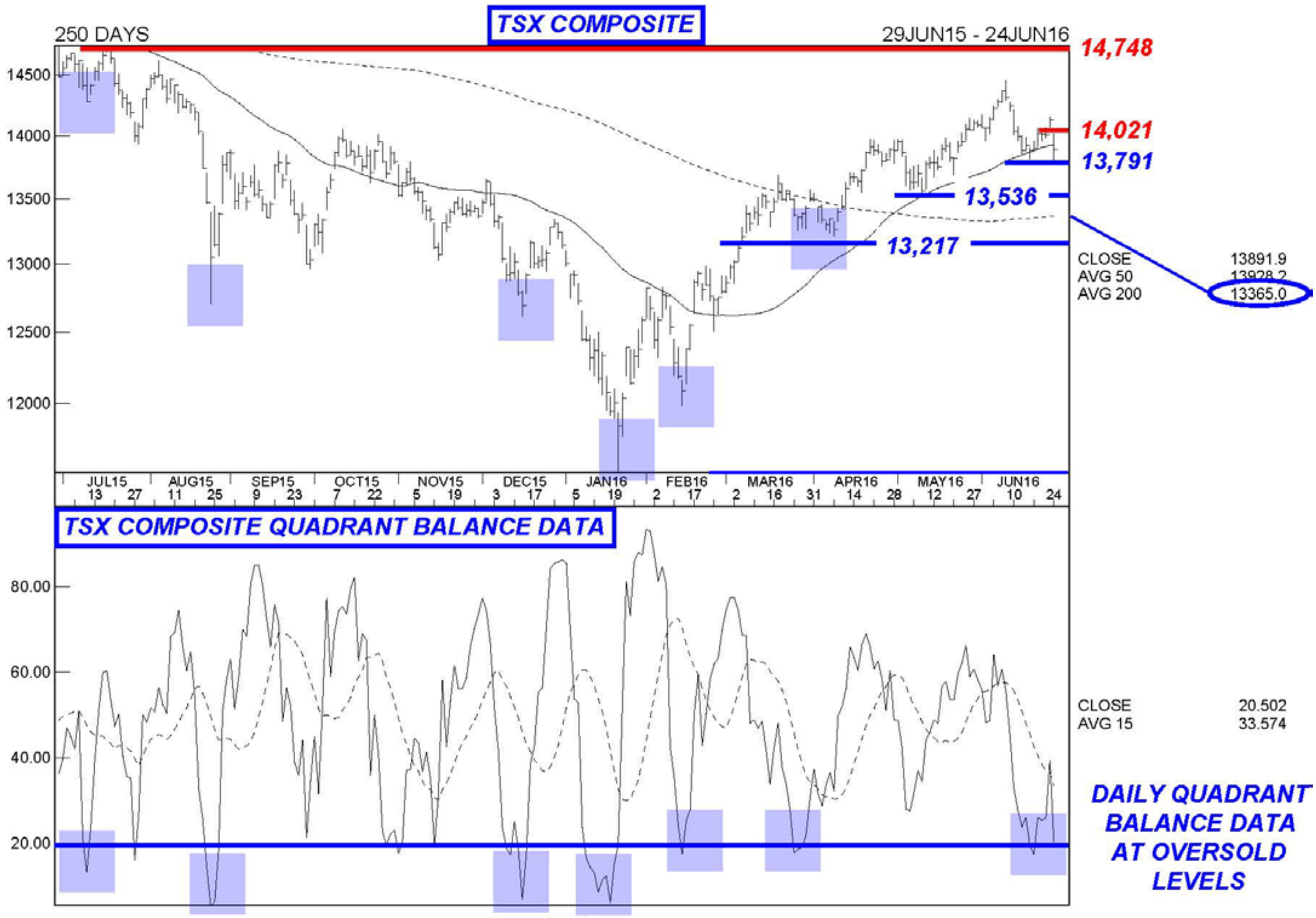
Exhibit 4: TSX COMPOSITE / TSX COMPOSITE QUADRANT BALANCE DATA (WEEKLY)



Source: RBC Capital Markets Trend & Cycle

- The **TSX Composite** appears poised to test important support near 13,685 (see top panel).
- *Intermediate-term quadrant balance data is at oversold levels (see blue circle, bottom panel) consistent with prior intermediate-term lows. Near-term weakness this week (see daily quadrant balance data, next page) should push the intermediate-term quadrant balance data into oversold levels below 20 (see blue line, bottom panel) and offers an opportunity to add equity exposure at levels historically consistent with intermediate-term price lows.*
- The pending intermediate-term low should provide the springboard for a test of major resistance near 14,606, followed by the all-time highs at 15,685.

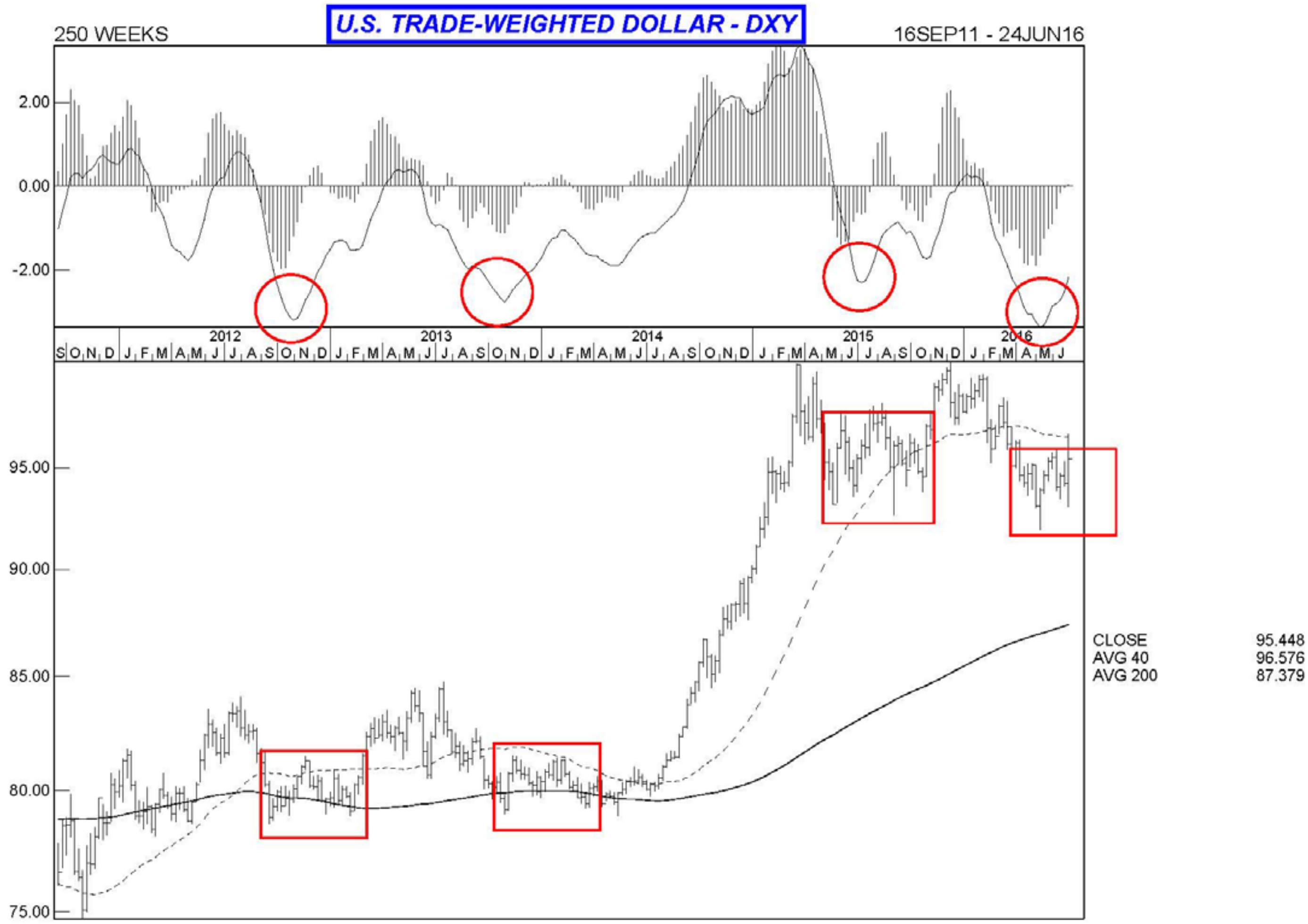
Exhibit 5: TSX COMPOSITE / TSX COMPOSITE QUADRANT BALANCE DATA (DAILY)



Source: RBC Capital Markets Trend & Cycle

- *<u>Our proprietary short-term (daily) quadrant balance data for the **TSX Composite** (see bottom panel) is at oversold levels (see blue shaded boxes) consistent with prior short-term price lows.</u>*
- Important support is near the recent lows at 13,791, followed by the May lows at 13,536. Major support is near the 200-day, currently at 13,365, followed by the April lows at 13,217.

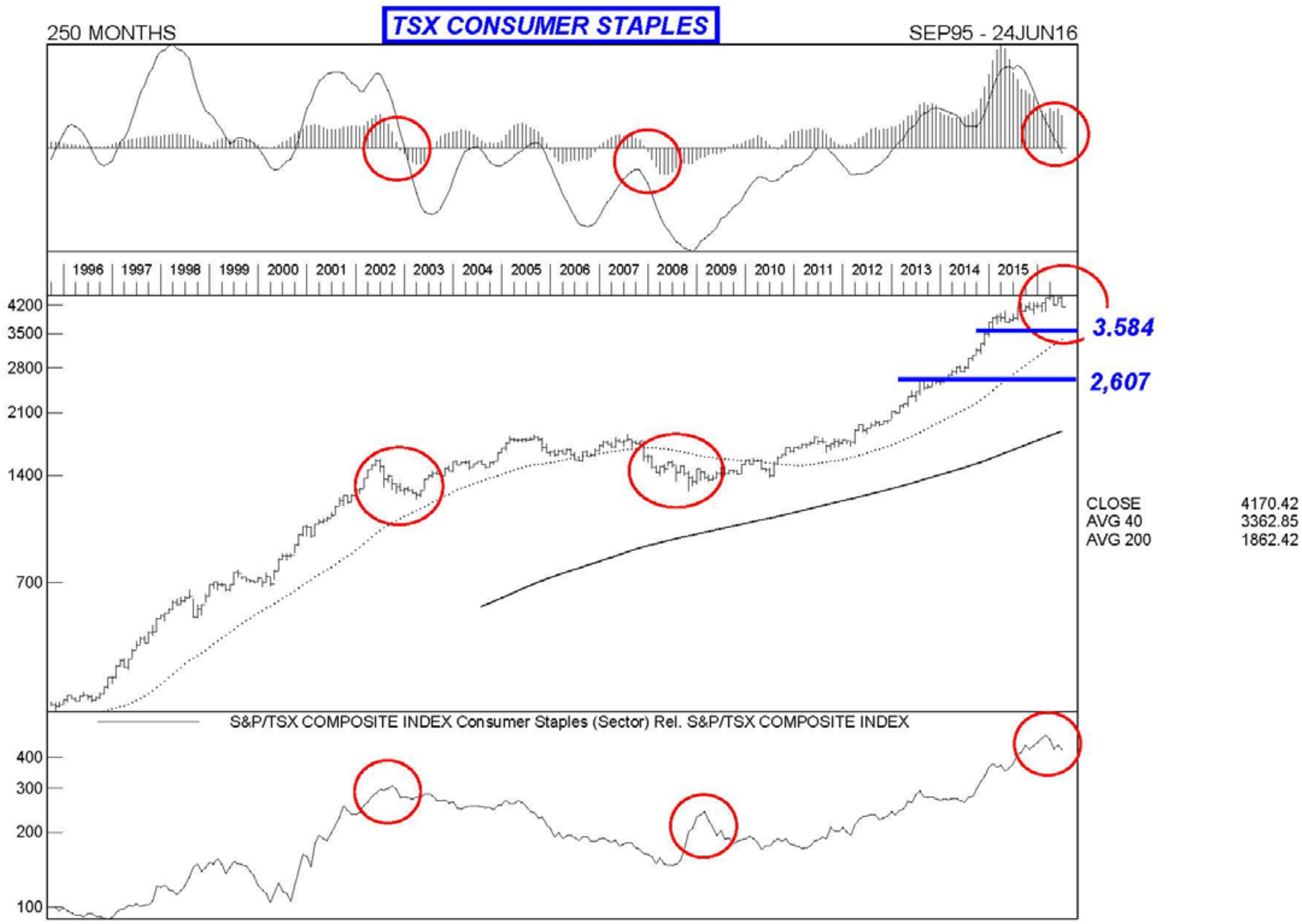
Exhibit 6: US TRADE WEIGHTED DOLLAR (NON-ROLL ADJUSTED) – DXY (WEEKLY)



Source: RBC Capital Markets Trend & Cycle

- *<u>A close above the 40-week average (roughly equivalent to the 200-day average), currently at 96.57, would be a strong technical positive and suggest that the fallout from Brexit has led to a reversal of the intermediate-term downtrend that is currently in place</u>.*
- This chart illustrates that each time when weekly momentum has reached oversold extremes (see red circles, top panel), a multi-month trading range has developed (see red boxes, bottom panel). Within this trading range, a retest of the original lows developed. It appears that this retest may be under way.
- The intermediate-term trend on the DXY is down, with further DXY weakness a positive tailwind for commodities. A 50% retracement of the move since mid-2014 would be standard and sees major support near 91.16–89.55.

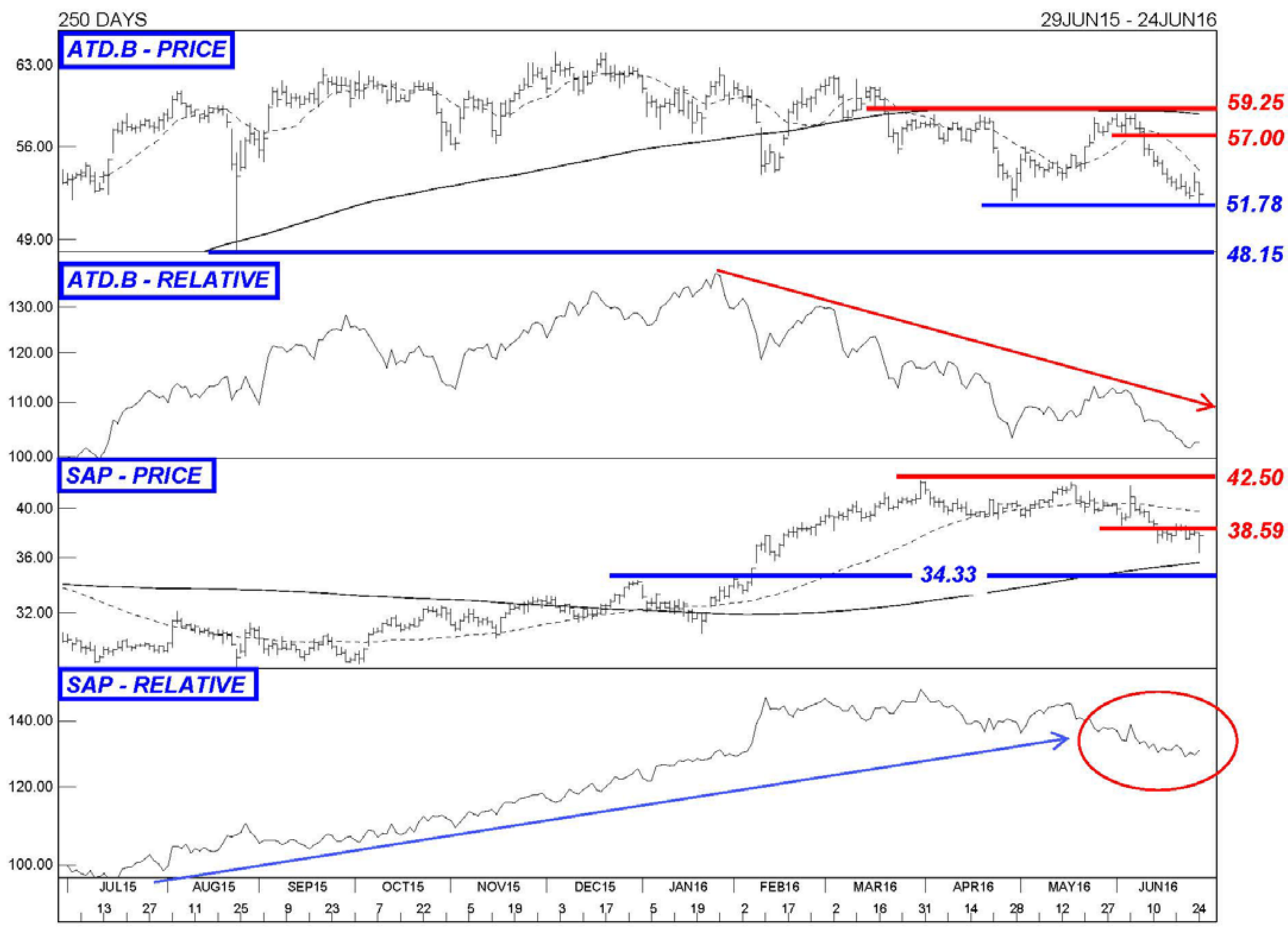
Exhibit 7: TSX CONSUMER STAPLES SECTOR (MONTHLY)



Source: RBC Capital Markets Trend & Cycle

- This long-term chart of the **TSX Consumer Staples** sector shows our proprietary momentum indicator in the top panel, price in the middle panel, and relative performance to the **TSX Composite** in the bottom panel.
- *This chart suggests further price and relative weakness are in store for the Consumer Staples sector. The red circles denote deteriorating momentum (top panel) and relative strength (bottom panel) that have occurred at major price lows, in line with a shift away from defense. We highlighted the important trend changes that have taken place since the start of the year, in particular the shift away from deflation beneficiaries and toward inflation beneficiaries, in our* ***2016 Technical Outlook Update****.*
- We feature two staples stocks with deteriorating technical profiles on the following page: **Alimentation Couche-Tard (ATD.B)** and **Saputo (SAP).**

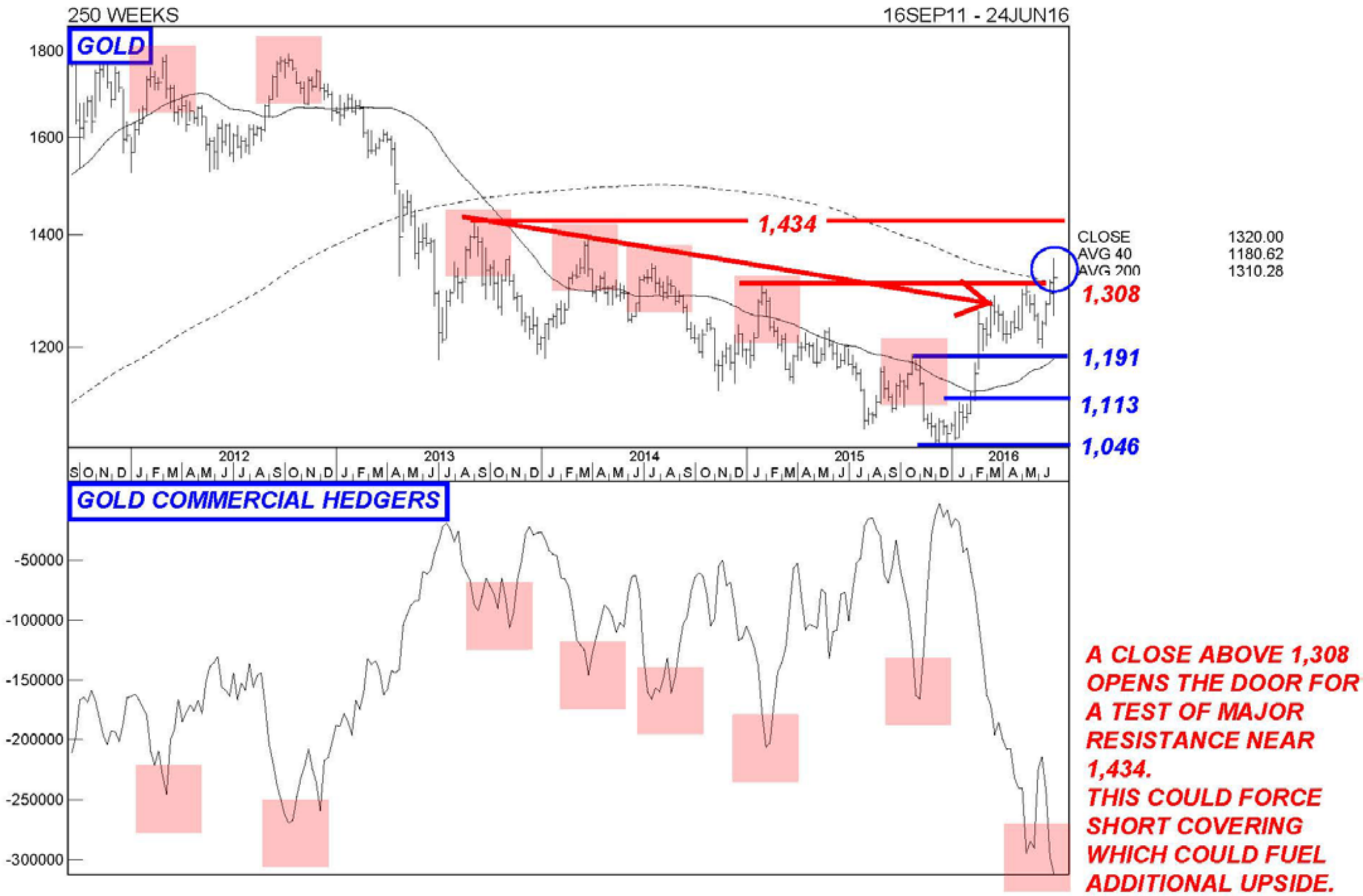
Exhibit 8: ALIMENTATION COUCHE-TARD / SAPUTO (DAILY – PRICE & RELATIVE STRENGTH VERSUS THE TSX)



Source: RBC Capital Markets Trend & Cycle

- *<u>Both Alimentation Couche-Tard (**ATD.B**) and Saputo (**SAP**) are showing signs of relative weakness relative to the TSX.</u>*
- Price and relative strength versus the TSX have been deteriorating for **ATD.B** since peaking in late January. Key risk control level is near 51.78. Important support is near 48.15.
- Price and relative strength versus the TSX are showing early signs of deteriorating for **SAP**, with relative strength recently breaking an uptrend in place since July 2015. The recent close below support at 37.82 opens the door for a test of important support near 34.33.

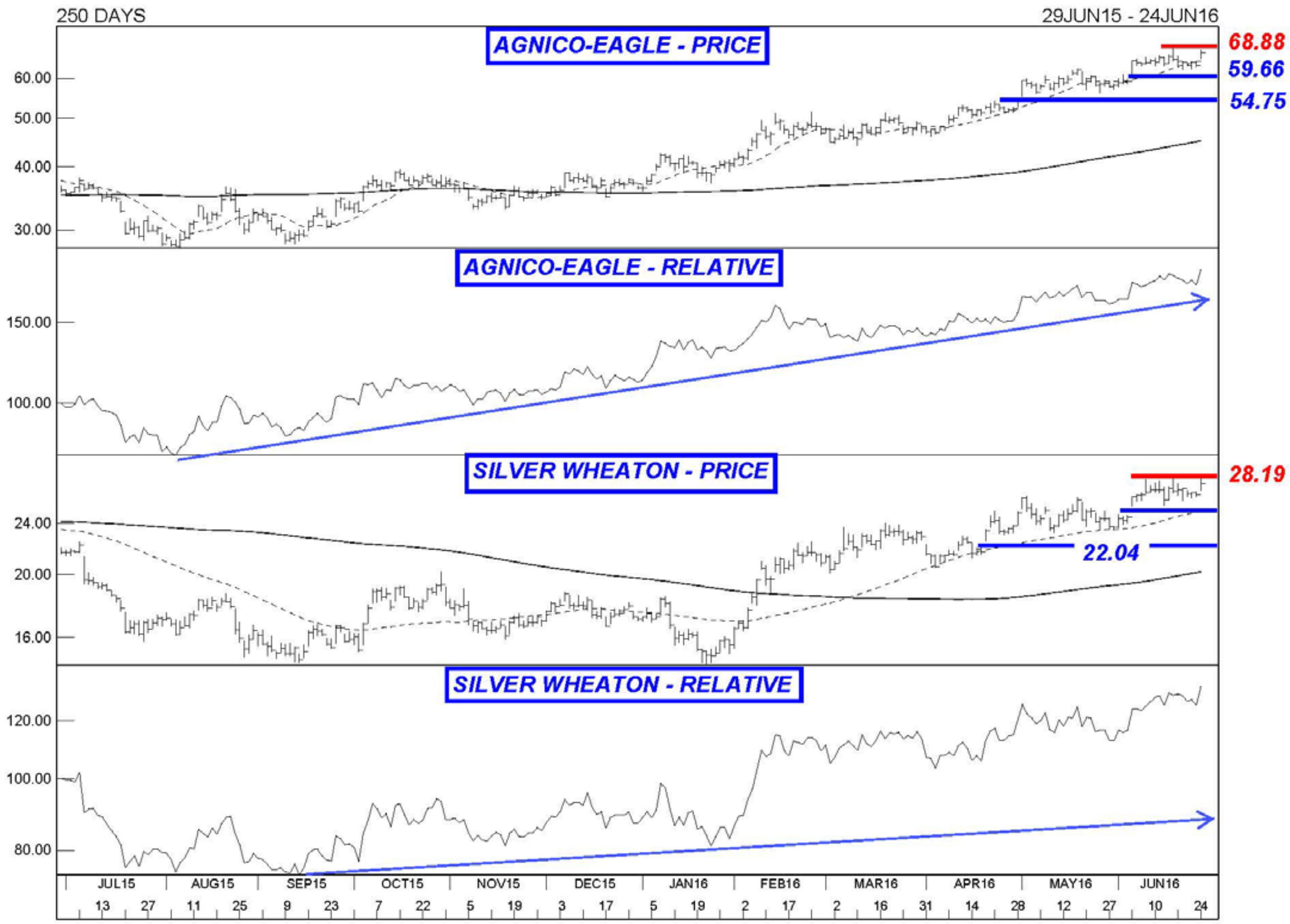
Exhibit 9: GOLD (NON-ROLL ADJUSTED) / GOLD COMMERCIALS HEDGERS (WEEKLY)



Source: RBC Capital Markets Trend & Cycle

- *Commercial Hedger positions are at relative extremes consistent with prior intermediate-term price peaks in the price of **Gold***. The red shaded boxes (top & bottom panels) highlight prior commercial hedger positions coincident with intermediate-term peaks in Gold. The data is currently **at** levels coincident with these multi-month peaks.
- **Friday's (June 24) breakout above 1,308 could cause short covering by Commercial Hedgers who are at extreme relative short positions.**
- Gold has broken an important downtrend in place since 2013 (see red arrow, top panel), a technical positive. From a technical perspective, Friday's close above 1,308 is a higher high, which is a strong technical positive and opens the door for a test of major resistance near 1,434.

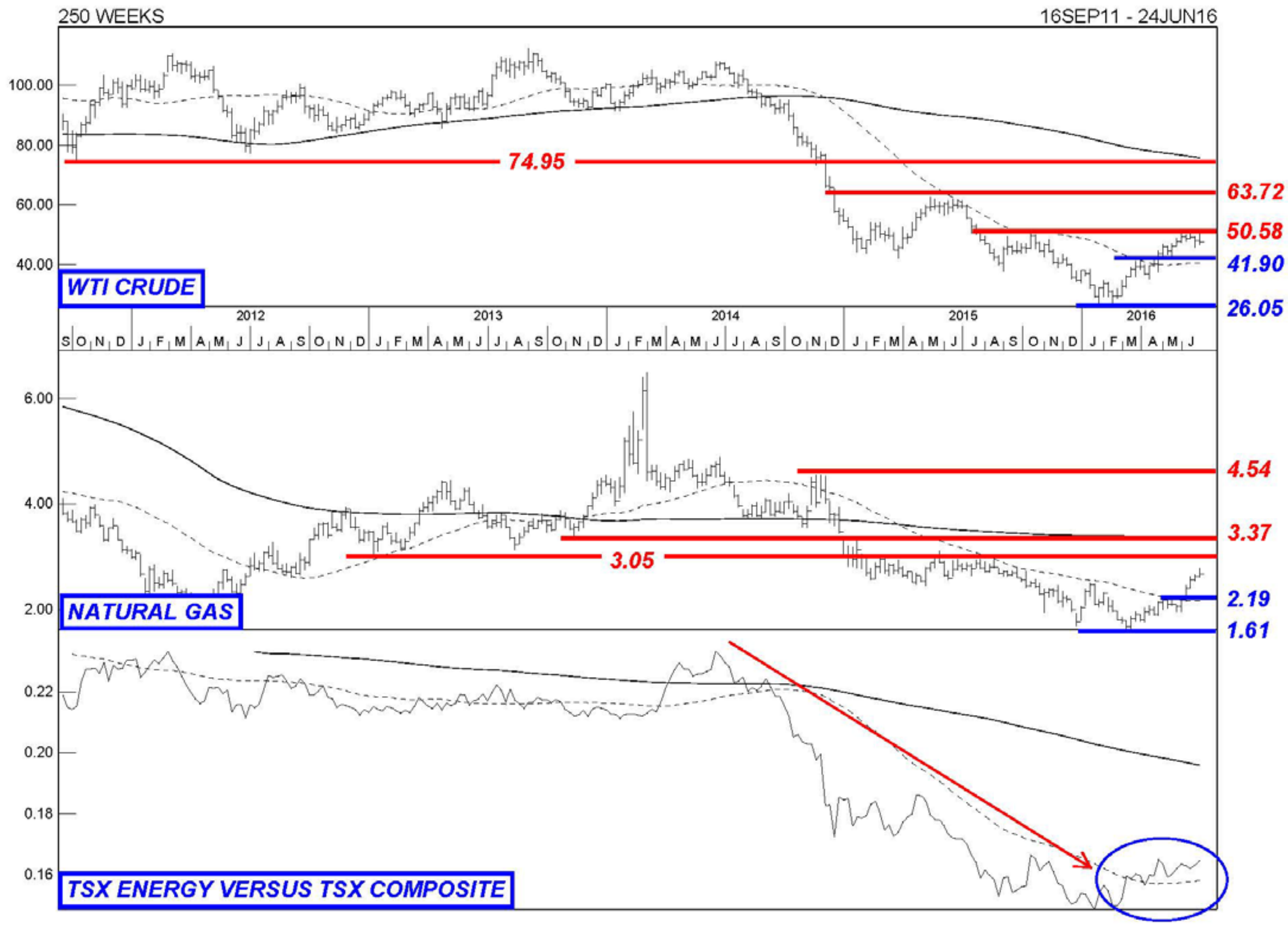
Exhibit 10: AGNICO-EAGLE/ SILVER WHEATON (DAILY – PRICE & RELATIVE STRENGTH VERSUS THE TSX)



Source: RBC Capital Markets Trend & Cycle

- *Agnico-Eagle (**AEM**) and Silver Wheaton (**SLW**) have strong price and relative strength profiles versus the TSX Composite (see 2nd and 4th panels).*
- Price and relative strength remain in intermediate-term uptrends for **AEM** and we recently added it to our **2016 Technical Best Idea Portfolio**. First support is near 59.66. Important support is near 54.75. First resistance is near 68.88. Major resistance is near the September 2011 high at 72.51.
- Price and relative strength remain in intermediate-term uptrends for **SLW**. First support is near 24.73. Important support is near 22.04. First resistance is near 28.19. Major resistance is near the August 2013 high at 30.65.

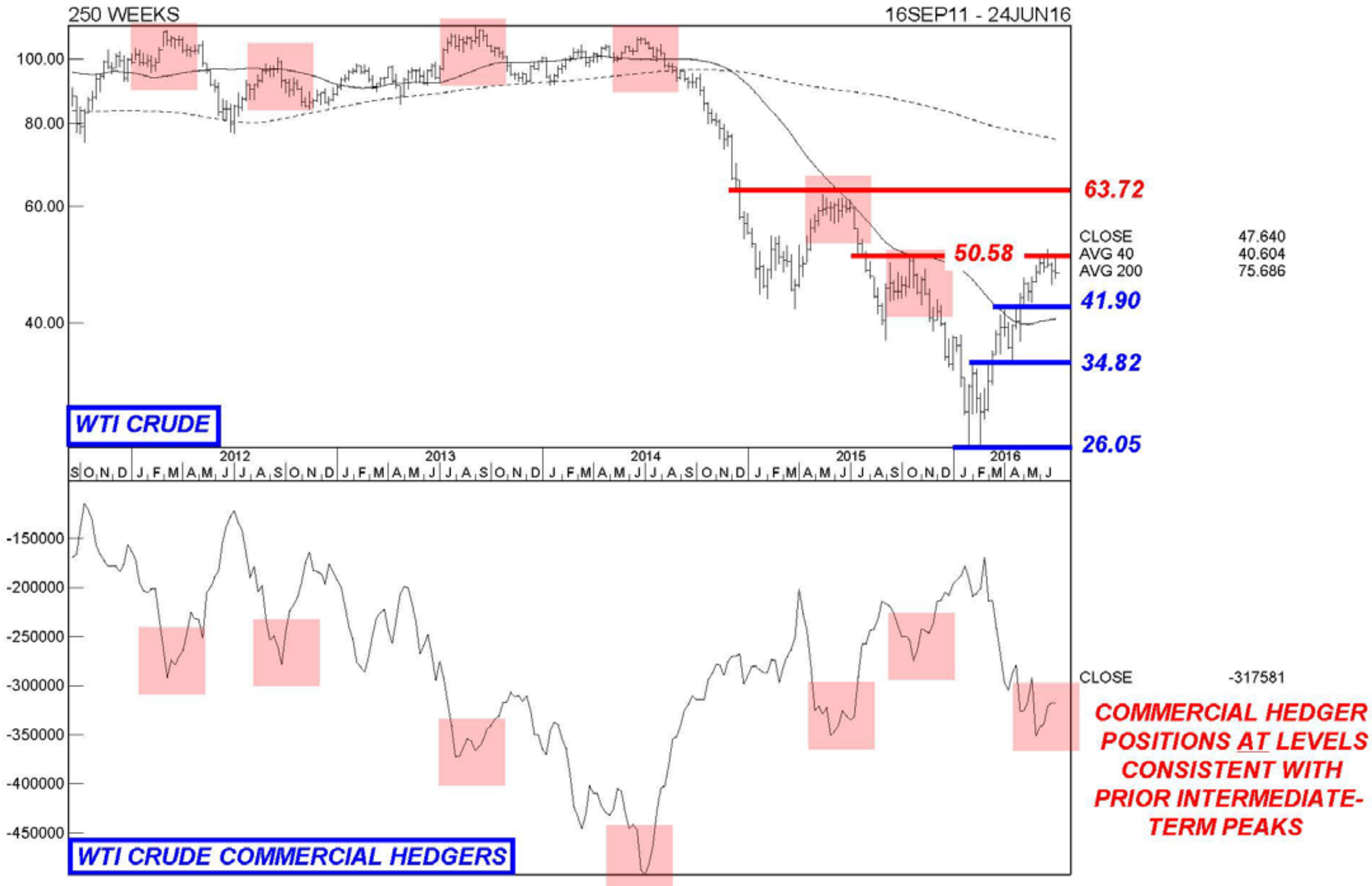
Exhibit 11: WTI CRUDE (NON-ROLL ADJUSTED) / NATURAL GAS (NON-ROLL ADJUSTED) / TSX ENERGY RELATIVE TO TSX COMPOSITE (WEEKLY)



Source: RBC Capital Markets Trend & Cycle

- **WTI Crude** (top panel) has forged a double bottom and is trending higher within an intermediate-term up trend. *This rally is stalling near major resistance at 50.58.*
- **Natural Gas** (middle panel) is in an intermediate-term counter-trend rally within a long-term downtrend. Natural Gas has pushed higher after testing major support near the February 1999 lows at 1.62. The recent close above important resistance near 2.44–2.55 opens the door for a test of major resistance near 3.05–3.37.
- *The **TSX Energy sector relative to the TSX Composite** (bottom panel) has recently broken above the 200-day (see dotted line, bottom panel) for the first time since Q3 2014 and is in the process of forging a major low versus the TSX (see **2016 Canadian Technical Outlook, History suggests TSX Energy low in 2016**, January 6, 2016)*.

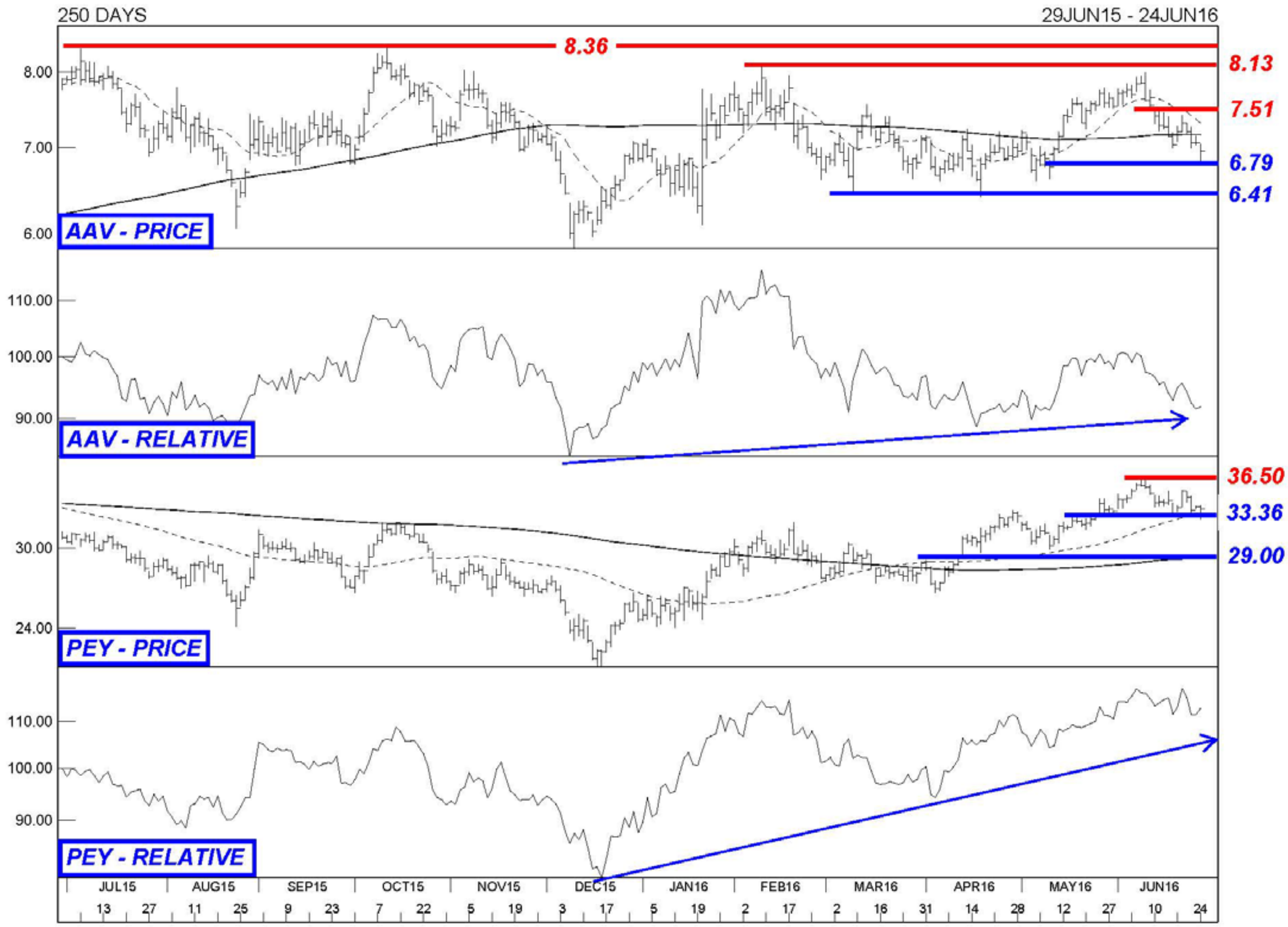
Exhibit 12: WTI CRUDE (NON-ROLL ADJUSTED) / WTI CRUDE COMMERCIALS HEDGERS (WEEKLY)



Source: RBC Capital Markets Trend & Cycle

- *The Commercial Hedger data is at relative extreme levels consistent with prior intermediate-term peaks.* The red shaded boxes (bottom panel) highlight where relative extremes have formed on commercial hedger long positions in WTI Crude.
- **This suggests raising risk control levels on WTI Crude and WTI Crude related equity positions as an intermediate-term corrective phase is pending. Given our longer-term view, we view this corrective phase as an opportunity to accumulate.**
- WTI Crude is stalling near major resistance near 50.58. Important support is near the March highs at 41.90, followed by the January highs at 34.82.

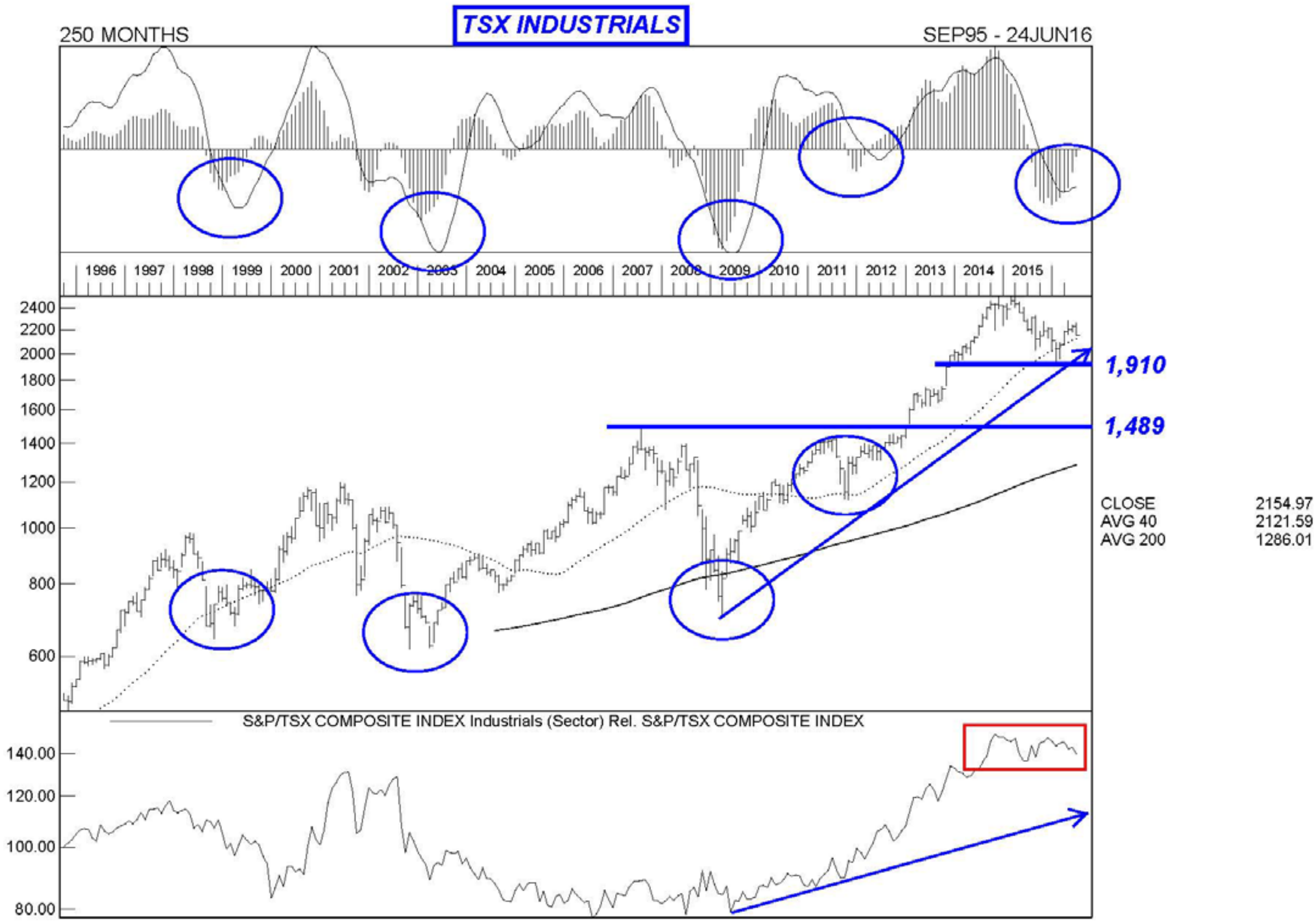
Exhibit 13: ADVANTAGE OIL & GAS / PEYTO EXPLORATION & DEVELOPMENT (DAILY – PRICE & RELATIVE STRENGTH VERSUS TSX)



Source: RBC Capital Markets Trend & Cycle

- *<u>We highlight the improving technical profiles of two Natural Gas plays: Advantage Oil & Gas (**AAV**) and Peyto Exploration & Development **(PEY).** Relative strength versus the TSX is trending higher for both stocks, in line with the improvement in the Energy sector (see pp. 59). We would look to add exposure on pending weakness</u>.*
- Relative strength and price are trending higher for **AAV** since bottoming in mid-December. First support is near 6.79. Important support is near the April lows at 6.41. First resistance is near 7.51, then 8.13. Important resistance is near the October 2015 highs at 8.36.
- Relative strength and price are trending higher for **PEY** since bottoming in mid-December. First support is near 33.36. Important support is near 29.00. First resistance is near 36.50. Major resistance is near 36.50, followed by the all-time highs set in June 2014 at 41.95.

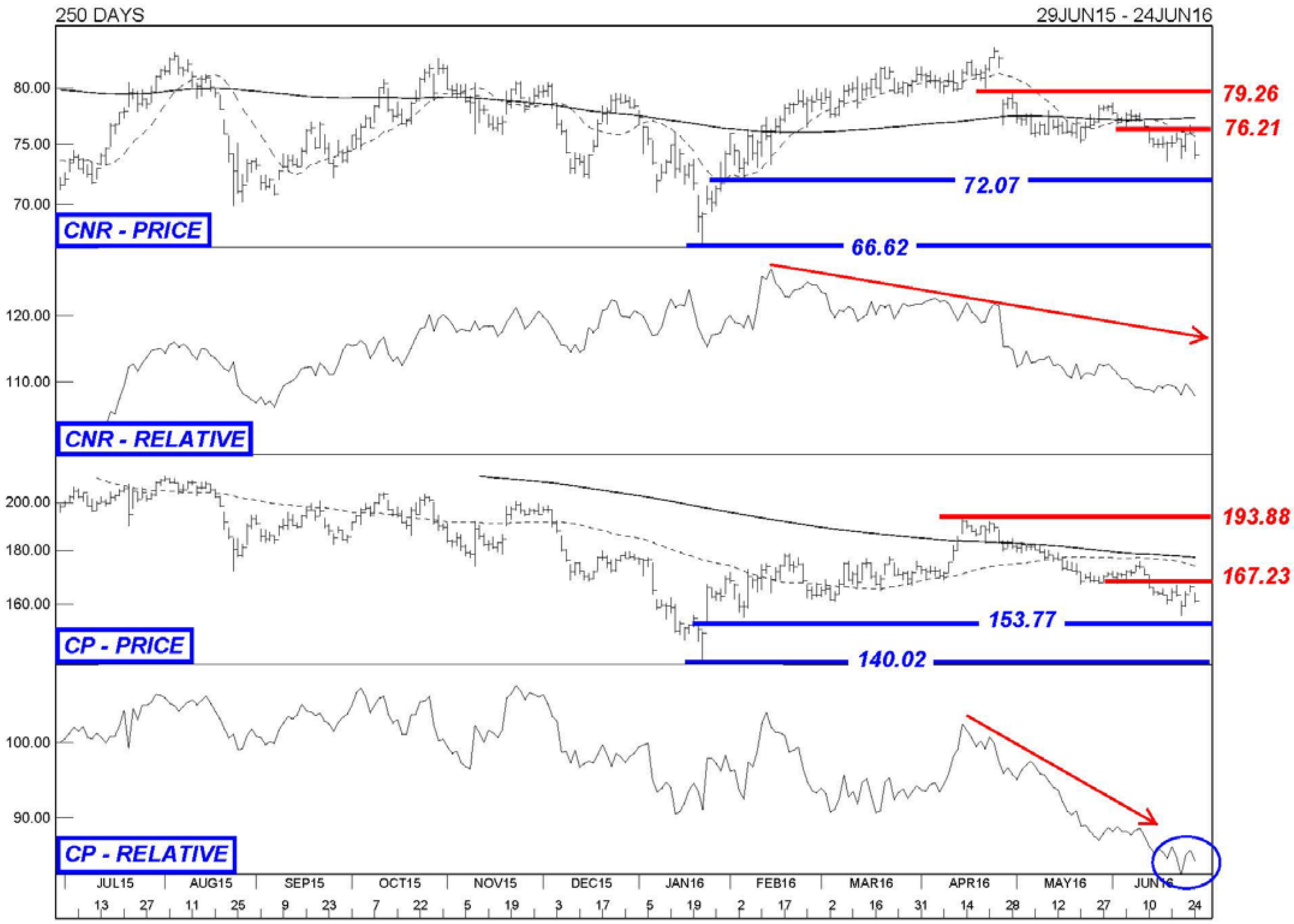
Exhibit 14: TSX INDUSTRIALS SECTOR (MONTHLY)



Source: RBC Capital Markets Trend & Cycle

- This long-term chart of the **TSX Industrials** sector shows our proprietary momentum indicator in the top panel, price in the middle panel, and relative performance to the **TSX Composite** in the bottom panel.
- *This chart suggests a major low is forming for the TSX Industrials sector, in line with the low on the TSX Composite (see pp. 49).The blue circles denote oversold momentum (top panel) turning up coincident with major price lows in 1998, 2003, 2009, and 2011. We highlighted the important trend changes that have taken place since the start of the year, in particular the shift away from deflation beneficiaries and toward inflation beneficiaries such as Industrials, in our* ***2016 Technical Outlook Update****.*
- We feature two industrials stocks that we believe are poised to benefit from an important low developing in the TSX Industrials sector on the following page: **Canadian National Railway (CNR)** and **Canadian Pacific Railway (CP).**

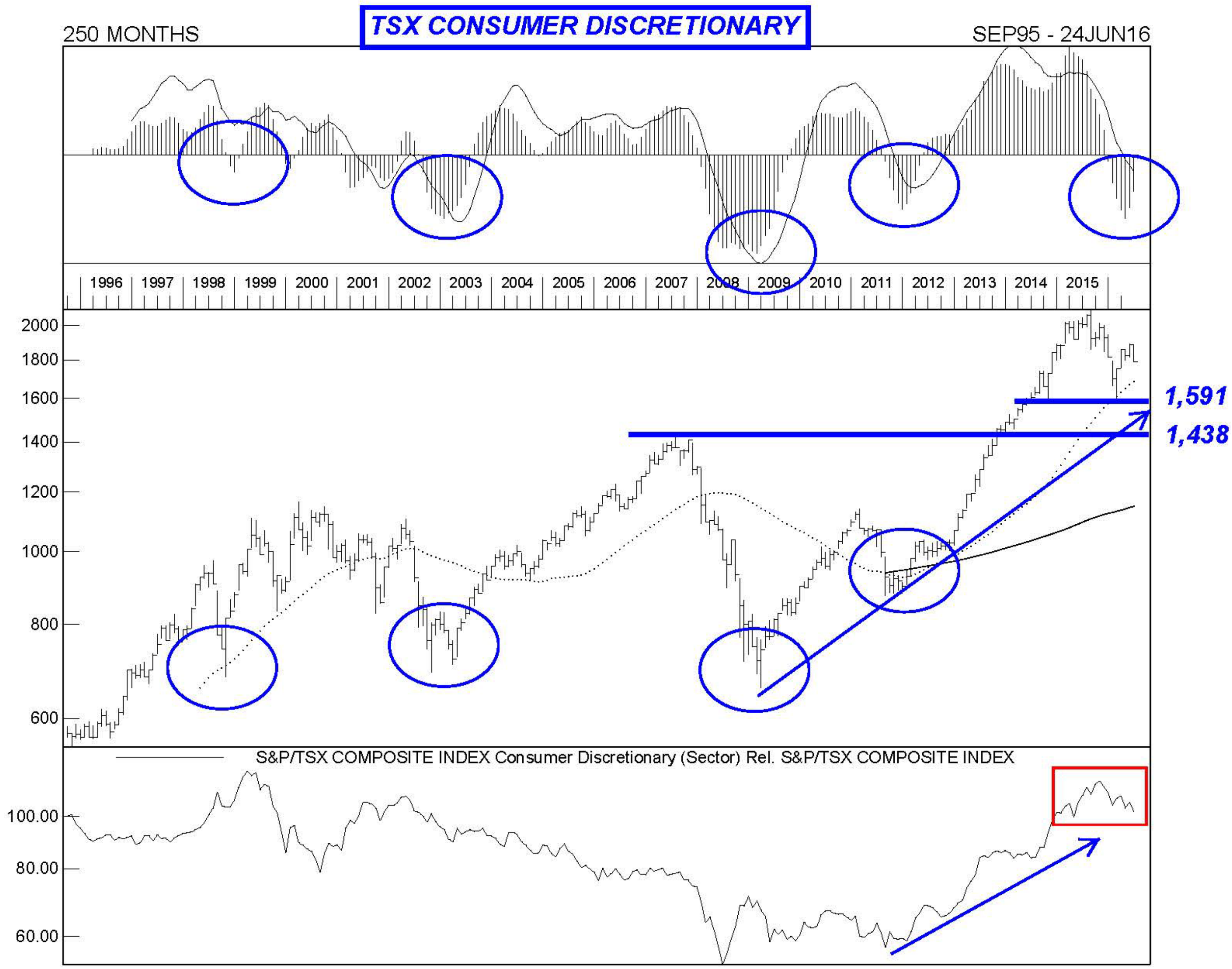
Exhibit 15: CANADIAN NATIONAL RAILWAY / CANADIAN PACIFIC RAILYWAY (DAILY – PRICE & RELATIVE STRENGTH VERSUS TSX)



Source: RBC Capital Markets Trend & Cycle

- *<u>We feature the charts of Canadian National Railway (**CNR**) and Canadian Pacific Railway **(CP).** Relative strength versus the TSX is trending lower for both stocks, in line with the recent shift to "risk-off". We would look to add exposure near the support levels highlighted below, on weakness.</u>*
- Relative strength and price are trending lower for **CNR** since peaking in April. First support is near 72.07. Important support is near the January lows at 66.62. First resistance is near 76.21. Important resistance is near the April gap-down at 79.26.
- Relative strength and price are trending lower for **CP** since peaking in April. First support is near 153.77. Important support is near the January lows at 140.02. First resistance is near 167.23. Major resistance is near the April highs at 193.88.

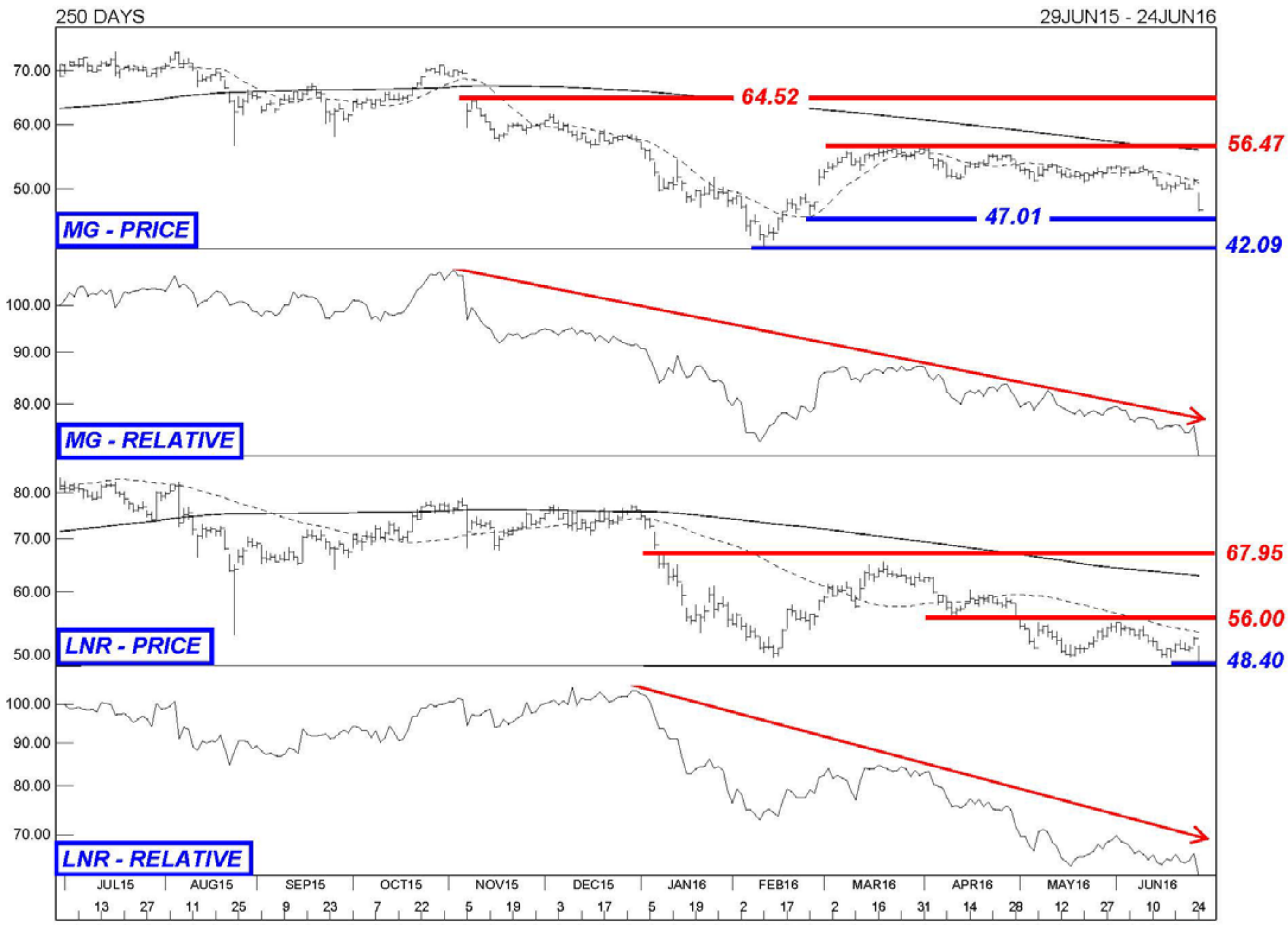
Exhibit 16: TSX CONSUMER DISCRETIONARY SECTOR (MONTHLY)



Source: RBC Capital Markets Trend & Cycle

- This long-term chart of the **TSX Consumer Discretionary** sector shows our proprietary momentum indicator in the top panel, price in the middle panel, and relative performance to the **TSX Composite** in the bottom panel.
- <u>*This chart suggests a major low is forming for the TSX Consumer Discretionary sector, in line with the low developing on the TSX Composite (see pp. 49).The blue circles denote oversold momentum (top panel) turning up coincident with major price lows in 1998, 2003, 2009, and 2011. If we are at an important intermediate-term price low, as we believe, then a shift toward "risk-on" should benefit the more cyclical Consumer Discretionary space*</u>.
- We feature two discretionary stocks that appear poised to participate in any rally in the TSX Consumer Discretionary sector on the following page: **Magna (MG)** and **Linamar (LNR).**

Exhibit 17: MAGNA / LINAMAR (DAILY – PRICE & RELATIVE STRENGTH VERSUS TSX)



Source: RBC Capital Markets Trend & Cycle

- *<u>We feature the charts of Magna (**MG**) and Linamar **(LNR).** Relative strength versus the TSX is trending lower for both stocks, in line with the recent weakness and similar to the shift away from "risk-on" that we saw back in January/February. We would look to add exposure near important support on weakness.</u>*
- Relative strength and price are trending lower for **MG** since peaking in November. First support is near 47.01. Important support is near the February lows at 42.09. First resistance is near the March highs at 56.47. Important resistance is near the November gap-down at 64.52.
- Relative strength and price are trending lower for **LNR** since peaking in December. First support is near 48.40. Important support is near the January 2014 highs at 46.43, followed by the November 2013 lows at 39.00 (not shown). First resistance is near 56.00. Major resistance is near the January gap-down at 67.95.

Canadian Focus List

Investment Strategy Equity Selection Committee

The Canadian Focus List continues to generate both strong absolute and relative performance. For the spring quarter, the Focus List was up 10.7%, which was 48 basis points better than the S&P/TSX. On a trailing five-year basis, the Focus List has compounded at 6.8% vs. 3.4% for the S&P/TSX over the same period (period ending May 31, 2016). We made three changes/additions to the Focus List for the current summer quarter and three removals:

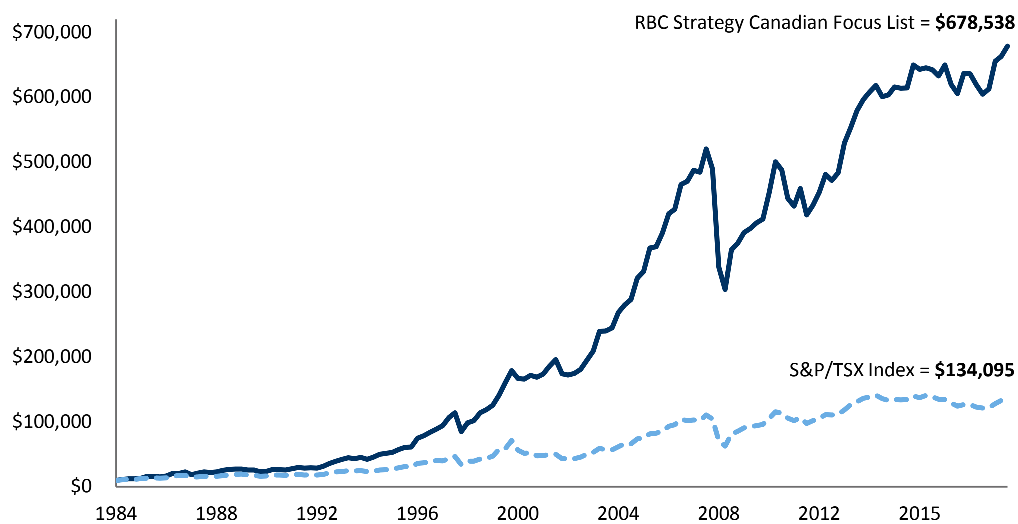
- **Increasing the weighting in TD Bank (TD) to 7.5% from 5%:** The Focus List has been underweight the Canadian banks for some time relative to the index (15% vs. ~23%). While the portfolio remains underweight, we are trimming this underweight by 2.5%. Concerns over credit have overhung the banks for some time, but with the recovery in oil prices and the still large short position in the Canadian banks, the Committee believes that risk/reward has become more compelling. The Committee continues to like the TD story, which scores well on our 3D model (combination of Technical, Quantitative and Fundamental analysis). Because of TD's large weighting in the S&P/TSX (~6%), the Focus List has actually been underweight the name for some time and the increase is designed to better reflect the Committee's positive view.
- **Adding a 2.5% position in TransCanada Corp. (TRP):** TRP recently announced a friendly deal to acquire Columbia Pipeline Group (CPGX), which RBC CM analyst Robert Kwan believes has the potential to be significantly accretive to the TRP story. However, Robert acknowledges the potential of a competitive bid for CPGX. As a result, the Committee opted for a smaller position with the idea that we could revisit the TRP position at a later time depending on how the CPGX transaction plays out.
- **Adding a 2.5% position in Franco Nevada (FNV):** It has been nearly three-years since the Focus List last had exposure to gold. The Committee believes that the recent consolidation in the gold price and pullback in gold shares has presented an opportunity to add some exposure to the group. While the threat of rising rates out of the US could pose a headwind to gold prices, this is offset by continued slow global growth and a favourable long-term technical profile. FNV is one of the few gold names that scores well in our 3D model and thus the Committee took the opportunity to begin adding back exposure to gold.
- **Lowering weighting in Consumer stocks:** The Focus List has been significantly overweight Consumer stocks for several years. While the Committee has maintained this overweight relative to the S&P/TSX, we have taken steps to mitigate the overweight in recent quarters as valuations push above historic norms.
    - **Removing the 2.5% position in Saputo (SAP):** RBC CM analyst Irene Nattel recently downgraded shares of Saputo to Sector Perform following a strong run in the stock. SAP has contributed positive performance to the Focus List, and with shares now trading in the low $40's and with the recent downgrade, the Committee felt that better opportunities existed elsewhere.
    - **Removing the 2.5% position in Canadian Tire (CTC.A):** While RBC CM analyst Irene Nattel continues to recommend overweight exposure to CTC.A., the aforementioned desire of the Committee to lower exposure to Consumer names prompted the removal of CTC.A from the Focus List.
    - **Removing the 2.5% position in Methanex (MX):** Shares of MX were originally added to the Focus List on the premise that MX not only provided exposure to oil (methanol prices tend to track crude prices), but also because MX has a strong track record of capital allocation. While the Committee continues to like the MX story, the 3D score has recently deteriorated to the point that removal was warranted.

Exhibit 1: Sector Positioning

Sector	Current Focus List Weight	Prior Focus List Weight	Change	S&P/TSX Weight	Focus List weight relative to S&P/TSX
Financials	40.0%	37.5%	+2.5%	37.8%	Overweight
Utilities	0.0%	0.0%	0%	2.4%	Underweight
Telecom Services	2.5%	2.5%	0%	5.5%	Underweight
Consumer Discretionary	10.0%	12.5%	–2.5%	6.5%	Overweight
Consumer Staples	10.0%	12.5%	–2.5%	4.4%	Overweight
Health Care	0.0%	0.0%	0%	1.0%	Underweight
Industrials	7.5%	7.5%	0%	8.0%	Underweight
Technology	2.5%	2.5%	0%	3.0%	Underweight
Energy	22.5%	20.0%	+2.5%	19.7%	Overweight
Materials	5.0%	5.0%	0%	11.7%	Underweight

Source: RBC Capital Markets Equity Selection Sub-Committee

Exhibit 2: RBC Strategy Canadian Focus List versus S&P/TSX Composite



Note: Based on $10,000 invested in December 1984.
Source: RBC Capital Markets

Exhibit 3: RBC Strategy Canadian Focus List historical returns

	RBC CM Focus List	S&P/TSX Index
3 Months	10.7%	10.2%
6 Months	6.7%	6.1%
1 Year	5.6%	-3.3%
3 Years	12.9%	6.7%
5 Years	6.8%	3.4%
10 Years	6.3%	5.0%
15 Years	9.6%	6.5%
20 Years	12.9%	7.6%
Since Inception (Dec. 1984)	14.3%	8.6%

Notes: Compound Annual Growth Rate, 1984 to present. Past performance is not necessarily indicative of future performance. Performance returns do not take into consideration management fees or other account expenses. The actual performance returns of the Focus List portfolio is lower than that disclosed when adjusted to reflect management fees and other account expenses.
Returns based on S&P/TSX Equity Index prior to June 2008 and S&P/TSX Composite thereafter due to a change in mandate to allow trusts on the Focus List.

Source: Bloomberg, RBC Capital Markets

Exhibit 4: RBC Strategy Canadian Focus List: Summer 2016

	Symbol	Stock Price as of 05/31/2016		Weights (%)	Weighting (%) Change from Last Quarter
Agrium Inc.	AGU	USD	$90.20	2.5	
Alimentation Couche-Tard	ATD.B	CAD	$57.70	2.5	
The Bank of Nova Scotia	BNS	CAD	$64.14	5.0	
Brookfield Asset Management Inc.	BAM	USD	$35.10	5.0	
Canadian National Railway Company	CNR	CAD	$77.75	5.0	
Canadian Natural Resources Limited	CNQ	CAD	$38.97	5.0	
Canadian Real Estate Investment Trust	REF.UN	CAD	$45.68	2.5	
Cenovus Energy Inc.	CVE	CAD	$19.77	2.5	
Cott Corporation	COT	USD	$14.48	2.5	
Dollarama Inc.	DOL	CAD	$90.30	2.5	
Enbridge Inc.	ENB	CAD	$52.28	5.0	
Franco-Nevada Corporation	FNV	CAD	$82.94	2.5	**New this quarter**
Imperial Oil Limited	IMO	CAD	$41.79	2.5	
Intact Financial Corp.	IFC	CAD	$91.70	5.0	
MacDonald, Dettwiler and Associates Ltd.	MDA	CAD	$86.44	2.5	
Magna International Inc.	MGA	USD	$40.53	2.5	
Metro Inc.	MRU	CAD	$44.43	5.0	
Onex Corporation	OCX	CAD	$79.62	2.5	
Pembina Pipeline Corporation	PPL	CAD	$38.47	2.5	
Restaurant Brands International Inc.	QSR	USD	$41.76	5.0	
Rogers Communications Inc.	RCI.B	CAD	$50.00	2.5	
Sun Life Financial Inc.	SLF	CAD	$45.42	5.0	
Suncor Energy Inc.	SU	CAD	$36.22	2.5	
Toromont Industries Ltd.	TIH	CAD	$36.83	5.0	
Toronto-Dominion Bank	TD	CAD	$57.11	7.5	**Increased from 5.0**
TransCanada Corporation	TRP	CAD	$54.34	2.5	**New this quarter**
Total				**100.0**	

Stocks added to the Summer 2016 Canadian Focus List:	Stocks removed from the Summer 2016 Canadian Focus List:
Franco-Nevada Corporation (2.5%) TransCanada Corporation (2.5%)	Canadian Tire Corporation, Limited (2.5%) Methanex Corporation (2.5%) Saputo Inc. (2.5%)

Source: RBC Capital Markets Equity Selection Sub-Committee

Exhibit 5: RBC Strategy Canadian Focus List – Spring 2016 Performance Review

Symbol		Closing Price (CAD $) 29-Feb-16	31-May-16	Weights RBC CM (%)	Total Return* (%)	Weighted Total Return (%)
Agrium Inc.	AGU	116.51	118.35	2.5	2.6	0.08
Alimentation Couche-Tard Inc. Class B	ATD.B	61.22	57.70	2.5	(5.6)	(0.14)
Bank of Nova Scotia	BNS	54.76	64.14	5.0	18.5	0.95
Brookfield Asset Management Inc. Class A	BAM.A	41.53	46.02	5.0	11.2	0.58
Canadian National Railway Company	CNR	78.60	77.75	5.0	(0.6)	(0.03)
Canadian Natural Resources Limited	CNQ	28.28	38.97	5.0	38.7	1.90
Canadian Real Estate Investment Trust	REF	41.54	45.68	2.5	11.1	0.28
Canadian Tire Corporation, Limited Class A	CTC.A	131.54	143.20	2.5	9.3	0.23
Cenovus Energy Inc.	CVE	15.48	19.77	2.5	28.1	0.69
Cott Corporation	BCB	16.59	18.93	2.5	14.6	0.39
Dollarama Inc.	DOL	78.76	90.30	2.5	14.8	0.36
Enbridge Inc.	ENB	47.79	52.28	5.0	10.5	0.54
Imperial Oil Limited	IMO	43.19	41.79	2.5	(2.9)	(0.07)
Intact Financial Corporation	IFC	84.25	91.70	5.0	9.6	0.48
MacDonald, Dettwiler and Associates Ltd.	MDA	89.04	86.44	2.5	(2.5)	(0.05)
Magna International Inc.	MG	52.50	53.25	2.5	2.7	0.07
Methanex Corporation	MX	42.80	43.14	2.5	1.6	0.06
Metro Inc.	MRU	43.24	44.43	5.0	3.1	0.16
Onex Corporation	OCX	79.60	79.62	2.5	0.1	(0.01)
Pembina Pipeline Corporation	PPL	33.73	38.47	2.5	15.5	0.38
Restaurant Brands International Inc.	QSR	47.48	54.75	5.0	16.2	0.80
Rogers Communications Inc. Class B	RCI.B	50.08	50.00	2.5	0.8	0.02
Saputo Inc.	SAP	39.40	39.95	2.5	1.4	0.04
Sun Life Financial Inc.	SLF	40.34	45.42	5.0	13.6	0.67
Suncor Energy Inc.	SU	33.08	36.22	2.5	10.4	0.26
Toromont Industries Ltd.	TIH	31.79	36.83	5.0	16.5	0.79
Toronto-Dominion Bank	TD	52.43	57.11	5.0	10.0	0.50
FOCUS List Total Return				**100**		**10.72**
S&P/TSX Total Return		**12,860**	**14,066**			**10.24**

Notes:
* Total returns include dividends.
Past performance is not necessarily indicative of future performance. Performance returns do not take into consideration management fees or other account expenses. The actual performance returns of the Focus List portfolio is lower than that disclosed.

Source: RBC Capital Markets Equity Selection Sub-Committee

At the time of this publication, one or more analysts that were responsible for the preparation of this report, or their household members, held a long position in the common shares of Agrium Inc.; Brookfield Asset Management Inc.; Bank of Nova Scotia; Canadian National Railway Company; Canadian Tire Corporation, Limited; MacDonald, Dettwiler and Associates Ltd.; Magna International Inc.; Sun Life Financial Inc.; Suncor Energy Inc.; Toronto-Dominion Bank; TransCanada Corporation.

Investment Summaries:

Below, we provide an investment summary of each of our Canadian Focus List selections as well as a link to the latest company-specific research.

Agrium Inc. (NYSE: AGU)

RBC Dominion Securities Inc.
Andrew Wong (Analyst)
(416) 842-7830
andrew.d.wong@rbccm.com

Agrium has built the most diverse, vertically integrated agricultural input business. We believe the company has a clear path to earnings growth from both its Retail and Wholesale businesses that should translate to robust cash flows with lower volatility.

Potential catalysts

We forecast Agrium's FCF will improve significantly through 2017 and expect the company will subsequently return a significant amount of cash to shareholders through a combination of share repurchases and dividend increases.

The Vanscoy potash expansion project was completed in December 2014. We expect Potash segment sales volumes and costs will be significantly improved in 2016 as the base operations return to normal and the expansion ramps-up.

Agrium is working to upgrade its Borger, Texas nitrogen plant, which is expected to increase urea down-stream capacity by 600Kt, and significantly improve the plant's efficiency and reliability. The upgrade is scheduled to be completed by mid-2017.

Agrium continues to grow its Retail segment operations through small tuck-in and bolt-on acquisitions. We expect Agrium will gradually add to the Retail business as the company works through a heavy deal backlog. We currently forecast $30–50M EBITDA growth contribution annually from inorganic growth opportunities.

Potential risks

There is a risk that Agrium may not be able to realize its targeted synergies with respect to bolt-on and tuck-in acquisitions. This would result in lower margins than we have in our estimates.

Demand and prices for agricultural inputs can be volatile as the impacts of weather and global economic factors are hard to predict. These factors can result in lower than expected demand, resulting in a negative impact on earnings.

AGU note, 07-13-2016

Alimentation Couche-Tard (TSX: ATD.B)

RBC Dominion Securities Inc.
Irene Nattel (Analyst)
(514) 878-7262
irene.nattel@rbccm.com

ATD continues to deliver solid results from underlying operations, although a sharp acceleration in organic earnings growth likely requires a step up in unit growth, either organically or via acquisition.

ATD has been very active as an industry consolidator and has demonstrated an ability to significantly enhance the profitability of acquisitions post-transaction. We expect ATD to remain an active consolidator although potential acquisitions are not reflected in our forecasts or price target.

In our view, recent share price weakness presents a buying opportunity given: i) ATD's solid operating outlook; ii) strong return metrics, free cash flow generation, and balance sheet; and iii) a seasonal trade in the stock that favours the back half of the year. Otherwise, potential catalysts for share price appreciation from current levels will likely be: (i) potential accretive acquisitions; (ii) sustained strength in motor fuel margin performance; and (iii) actual consumer spending trends that prove more favourable than currently anticipated.

ATD.B note, 07-13-2016

Bank of Nova Scotia, The (TSX: BNS)

RBC Dominion Securities Inc.
Darko Mihelic (Analyst)
(416) 842-4128
darko.mihelic@rbccm.com

We have an Outperform rating and a $72 price target on the shares of BNS.

- **International Banking:** We continue to believe this business is capable of better earnings power once acquisitions are digested and the restructuring runs its course. We forecast average earnings growth for the segment of 8% in 2016/2017.
- **Valuation Attractive:** We continue to believe that BNS's valuation does not capture its international banking business growth prospects. We believe the bank's relative valuation will improve as the international bank improves its earnings power over time.

BNS note, 05-31-2016

Brookfield Asset Management Inc. (NYSE: BAM)

RBC Dominion Securities Inc.
Neil Downey (Analyst)
(416) 842-7835
neil.downey@rbccm.com

Investing in "real return" assets with the added benefit of leverage to an asset management fee model – Through its private and listed funds, BAM is a major owner of property, renewable power, infrastructure ("real return assets"), and private equity investments around the globe. As an investor in BAM shares, one gets to own a slice of each of these businesses. The business model is one via which BAM seeks to utilize its global reach to identify and acquire high quality "real" assets at favourable valuations and finance them on a long-term, low-risk basis. Operating expertise is applied to enhance the cash flows and values, such that BAM can earn reliable, attractive long-term total returns for the benefit of its capital partners and its own account. BAM has a range of public and private investment vehicles that provide competitive advantages in the markets where it operates. BAM's returns (and hence, its shareholders' returns) are supplemented by the fee income that it earns for managing capital on behalf of its clients.

Core large cap holding, in our view – We view BAM as a core holding for most Canadian equity portfolios.

BAM note, 05-15-2016

Canadian National Railway Company (TSX: CNR)

RBC Dominion Securities Inc.
Walter Spracklin (Analyst)
(416) 842-7877
walter.spracklin@rbccm.com

Favourable sector fundamentals to drive step-function increase in free cash flow (and shareholder returns). Our constructive outlook on the rail sector is based on the industry's unique characteristics: (1) limited and rational competition; (2) high barriers to entry; and (3) sustainable demand. We expect these attributes to drive real rate increases, volume growth, and margin expansion over the long term, supported by service improvements, efficiency initiatives, and the implementation of smart technology. With stable capital expenditure requirements and clean balance sheets, we believe that the industry is positioned to generate increasing free cash flow that will in turn drive up shareholder returns through sustained growth in dividends and share repurchases.

Commitment to execution and service excellence drives Outperform rating. We view CNR as a best-in-class railroad based on the company's industry-leading operating record and commitment to delivering superior service. In our view, CNR's pursuit of balancing service and operating excellence generates a more robust revenue stream, wider margins, and stronger earnings and free cash flow growth. We expect disciplined execution of this strategy going forward to sustain free cash flow growth leading to increasing shareholder returns in the form of dividends and share repurchases. Accordingly, we believe that CNR stock should benefit from a positive multiple re-rating, which drives our Outperform rating on the shares.

Key risks: (1) significant re-regulation resulting from the ongoing review of the Canada Transportation Act; (2) impairment of crude-by-rail economics due to persistent oil price weakness; (3) severe network disruption and lower crop yields as a result of weather events; (4) reduced cross-border freight activity due to unfavourable currency fluctuations; and (5) lower industrial production and consumer demand on account of economic volatility throughout North America.

CNR note, 04-26-2016

Canadian Natural Resources Limited (TSX: CNQ)

RBC Dominion Securities Inc.
Greg Pardy (Analyst)
(416) 842-7848
greg.pardy@rbccm.com

We rate the common shares of Canadian Natural Resources Top Pick for the following reasons:

- **Attractive Free Cash Flow Profile.** CNQ should undergo a substantial increase in its free cash flow (before dividends) that we peg at $3.8 billion in 2017 and $4.2 billion in 2018, amid capital spending programs of $4.0 billion in 2017 and a sizeable $4.7 billion in 2018. CNQ's free cash flow could rise to $5.2 billion in 2018 at US$70/bbl WTI. CNQ's free cash flow generation opens the door to balance sheet deleveraging, shareholder returns, organic resource development, and opportunistic acquisitions.
- **Superior execution wins the race.** CNQ has evolved into a super independent with an international scope because of its ability to successfully navigate through successive stages of growth under all kinds of conditions.

- **Dividend Growth.** CNQ has never cut its dividend, which should grow at a CAGR that we estimate at 3–6% from 2015–18 to $1.00–$1.10 per share in 2018.
- **Potential catalysts.** CNQ's most important potential catalyst revolve around operating performance at its Horizon Oil Sands project.

Risks to our thesis include:

- **Crude Oil Prices**. With an estimated crude oil production weighting of 65% in 2016, 67% in 2017, and 70% in 2018, CNQ's earnings and cash flows would be impacted by prolonged weakness in oil prices. A US$10/bbl change in WTI prices impacts our 2017 and 2018 CFPS outlook by 25% and 22%, respectively.
- **Heavy Oil Differentials**. As the largest heavy oil producer in Canada, CNQ is exposed to widening heavy oil differentials. Every $5/bbl change in heavy oil spreads (in isolation) would impact our 2017 and 2018 CFPS estimates by 6% and 5%, respectively.

CNQ note, 06-29-2016

Canadian Real Estate Investment Trust (TSX: REF.UN)

RBC Dominion Securities Inc.
Neil Downey (Analyst)
(416) 842-7835
neil.downey@rbccm.com

Our Outperform rating is a function of our risk-adjusted total return expectations from CREIT's units relative to the broad REIT/REOC sector. Key features of the CREIT story include the following:

Good quality, diversified portfolio – CREIT owns and manages a diversified (by both geography and property-type), good quality retail, office, and industrial portfolio. We believe this makes CREIT's units appealing for investors seeking both yield and capital gains. Notably, for individual investors seeking only one REIT in their portfolio over the long term, we often recommend CREIT.

Low leverage and payout – Based on market values, we see CREIT's LTV, now sub-40%, as conservative. CREIT's low leverage is coupled with an AFFO payout ratio which is industry-leading, within the low-70%'s.

Long-term track record of earnings and distribution per unit growth – The basic principles of diversification, low leverage, and a low payout have allowed CREIT to generate a long-term track record FFO/unit and AFFO/unit growth. From 2002 through 2015 (14 consecutive years), distributions per unit have been increased at least annually, albeit at a lower growth rate than AFFO/unit. This has allowed CREIT to reduce its payout ratio into the low- to mid-70%'s and benefit from annualized AFFO retention of ~$50 million. The low payout renders flexibility to increase the distribution, even through a period where AFFO/unit growth may be sub-par or elusive.

Value-add business model – CREIT's business model has evolved with the passage of time, to include more property development. A prudent amount of development is a means to create NAV and generate higher returns (versus acquisitions) and build portfolio quality over time. At its share, CREIT's active development pipeline has an estimated completed value $195MM with ~1.2MM sf under development. The entire pipeline (including future development) totals approximately $560MM sf and ~2.9MM sf of GLA.

REF.UN note, 05-06-2016

Cenovus Energy Inc. (TSX: CVE)

RBC Dominion Securities Inc.
Greg Pardy (Analyst)
(416) 842-7848
greg.pardy@rbccm.com

We rate the common shares of Cenovus Energy Outperform.

- **Integration.** In our view, Cenovus Energy is a unique integrated oil company that possesses a powerful combination of in-situ oil sands assets coupled with complex refining capacity in the United States.
- **Large resource.** In our view, Cenovus remains well endowed with a very large oil sands resource base and remains catalyst-rich, with an alphabet of in-situ oil sands expansions and projects in the years to come.
- **Strong Cash and Liquidity.** As of March 31, 2016, Cenovus possesses cash balances of $3.9 billion, with another $4.0 billion of undrawn capacity on its credit facilities.
- Cenovus Energy undertook concrete steps in 2015 to re-position itself for sustainable growth in shareholder value. Going forward, we believe the company is well positioned to re-establish growth in the oil sands via deferred phases at Foster Creek and Christina Lake.

CVE note, 06-20-2016

Cott Corporation (NYSE: COT)

RBC Capital Markets, LLC
Nik Modi (Analyst)
(212) 905-5993
nik.modi@rbccm.com

Following the company's acquisition of DS Services, we believe Cott is well positioned to deliver sustainable, positive FCF growth over the next decade. More specifically, we believe Cott will benefit from long-run mid-single-digit EBITDA growth at DS Services business, stable EBITDA growth at its traditional business, and ongoing benefits from de-leverage and cost savings. COT is also among the cheapest names in our coverage on an EV/EBITDA basis and offers a 7% FCF yield, which is nearly twice our coverage average of 4%. Interestingly, if COT traded at a FCF yield of 4%, in line with the sector average, we estimate that its shares could be worth as much as $28.

Risks: (1) mis-steps on DS Services, Aquaterra and Eden Springs integration; (2) inability to earn contract manufacturing wins; (3) higher levels of capex spend than currently modeled, which will limit FCF growth; (4) significant recession that would weigh on the DS Services business.

COT note, 06-08-2016

Dollarama Inc. (TSX: DOL)

RBC Dominion Securities Inc.
Irene Nattel (Analyst)
(514) 878-7262
irene.nattel@rbccm.com

We expect DOL to outperform its peers for four reasons

- DOL offers above-average growth potential, driven by its industry-leading position, profitability metrics, and square footage growth potential.
- DOL's superior merchandising skill should enable it to profitably grow its market share both geographically and on a category basis to drive strong, consistent growth.
- DOL's solid free cash flow generation should allow it to grow unit count at 7–8% while increasing both its dividends and its share repurchase activity.
- DOL offers a good mix of defensive and cyclical business that should deliver relatively consistent performance independent of broader consumer spending trends/economic cycle.

Risks to our investment thesis

- Investment in gross margin to drive sustained top-line growth could negatively impact earnings.
- Increase in square footage could result in cannibalization of existing stores beyond what is incorporated in our forecasts. In addition, costs associated with new store openings could have short-term negative impact on earnings.
- Competition in the dollar store segment and in retail segment more broadly defined could result in growth metrics that lag expectations.
- Sustained weakness in $C could negatively impact DOL purchasing power and, by extension, quality of in-store offering.

DOL note, 06-08-2016

Enbridge Inc. (TSX: ENB)

RBC Dominion Securities Inc.
Robert Kwan (Analyst)
(604) 257-7611
robert.kwan@rbccm.com

We expect Enbridge to outperform the Energy Infrastructure companies in our coverage universe for the following reasons:

- **Equity funding has put the stock on a solid footing.** We believe that the roughly $2 billion equity issue, which Enbridge sees as satisfying its "equity" needs through the end of 2017, and the approximately $575 million of common equity raised at ENF are amounts that should stop the question of the company's need, or ability, to fund the "equity" portion of the capital plan. With that, we think the overhang that we believe has weighed on the shares since at least December 2015 has been alleviated.
- **Superior EPS and cash flow growth.** Due to the portfolio of mostly liquids pipelines projects under construction, we expect that Enbridge will be able to grow ACFFO/share in at least the 12–14% range over the next five years, with some visibility into a similar growth rate in the post-2019 time frame.
- **Enhanced capital optimization.** We believe that the structural optimization provides the company with multiple avenues to fund its growth and we positively view the significant

increase in the dividend for 2015 coupled with higher targeted dividend growth going forward.

- **Potential catalysts:** the announcement of new secured projects with returns in the 12–14% range; additional steps on funding; the potential dropdown into EEP.
- **Key risks:** (1) ability to fund and construct projects that it is pursuing on attractive economic terms including securing funding; (2) the ability to announce new projects that would help drive future annual dividend growth in the range of 10% over the medium to longer-term; (3) pipeline cost increases, including integrity costs, remain manageable within the increase in tolls; (4) a material negative impact on volumes on the Mainline or other volume sensitive systems; (5) market reception of acquisitions; and (6) long-term interest rate environment.

ENB note, 06-27-2016

Franco-Nevada Corporation (TSX: FNV)

RBC Dominion Securities Inc.

Stephen D. Walker (Head of Global Mining Research)

(416) 842-4120

stephen.walker@rbccm.com

- Investors in FNV obtain leverage to precious metals commodity prices but are largely immune from operating risks, escalating operating and capital costs, and environmental liabilities.
- Although investors may be concerned by the cost structure at some of the underlying assets and $662M commitment on Cobre Panama, Franco's diversified portfolio reduces risk around any single asset and we estimate the company has sufficient funding capacity.
- Most of FNV's royalties are from long-life mines in low geopolitical risk regions and are undergoing active exploration programs, with upside resource potential. Without additional Oil & Gas acquisitions, the contribution of mining revenues is expected to remain in the 90% range, above historical levels of ~80%.
- Our premium valuation multiples for FNV are based on the low operating risk and Franco-Nevada's track record of creating shareholder value.
- Franco-Nevada has over 380 royalty/streaming assets, with 49 producing mineral royalties/streams and 137 active in oil & gas.

Near-term potential catalysts:

- **Development updates on Cobre Panama:** First Quantum has stated that this project remains on track for start-up in 2017. A Franco-Nevada payment of $338M toward project development was made in Q4/15, out of the total commitment of $1.0B, as negotiations between First Quantum and Franco-Nevada have been completed.
- **Production upside** from the ramp-up at Detour Lake, Goldstrike, Candelaria, the higher-grade West Branch zone of Tasiast, and the Subika expansion project. In addition, the recent Antamina and Antapaccay stream acquisitions are expected to add 100–120K GEOs annually over the next five years.

Risks to valuation

- The primary impediments to our price target include transaction risk, commodity price risk, and reinvestment risk. Franco's current and future revenue streams are linked to commodity prices, namely gold, platinum/palladium, and oil & gas. Underlying commodity prices affect FNV’s current ability to generate revenues and cash flow and also have a significant impact on the economics of FNV’s undeveloped royalty assets.

- FNV's revenue-producing royalty stream consists of several maturing assets, highlighting the importance of reinvesting cash flows into new royalties.

FNV note, 05-04-2016

Imperial Oil Limited (TSX: IMO)

RBC Dominion Securities Inc.
Greg Pardy (Analyst)
(416) 842-7848
greg.pardy@rbccm.com

We rate the common shares of Imperial Oil Sector Perform.

- **Potential catalysts.** Imperial's major catalysts revolve around refining margins given its extensive downstream presence in Canada, along with the operating performance at its Kearl oil sands and Cold Lake projects.
- **Leading the Pack.** Anchored by its Kearl and Nabiye oil sands developments, Imperial appears set to lead the Canadian integrated pack with upstream production growth of 16% in 2016.
- **Capital Spending Profile.** Imperial announced a 2016 capital spending program of $1.8 billion, inclusive of $1.2 billion of maintenance capital. Imperial is targeting annual average capital expenditures of $2.5 billion in the 2016-2020 timeframe.

IMO note, 05-05-2016

Intact Financial Corp. (TSX: IFC)

RBC Dominion Securities Inc.
Geoffrey Kwan (Analyst)
(604) 257-7195
geoffrey.kwan@rbccm.com

Our investment rating for Intact is Outperform. Our Outperform rating reflects an attractive risk-reward profile based on the following views: (1) ~20% implied total return driven by BVPS growth, P/BV multiple expansion [from ~2.2x today to 2.4x] and dividends; and (2) better downside risk protection if macro conditions worsen given IFC's defensive attributes operating in the P&C insurance industry, which has a lower correlation to economic activity. Furthermore, in this scenario, we think IFC would be viewed as a large cap, more liquid "safer haven", particularly vs. other Canadian Financials stocks.

IFC note, 05-09-2016

MacDonald, Dettwiler and Associates Ltd. (TSX: MDA)

RBC Dominion Securities Inc.
Steve Arthur (Analyst)
(416) 842-7844
steve.arthur@rbccm.com

MDA is a global leader in commercial communication satellites (~30% share), moving into this position with the acquisition of Space Systems Loral (SSL) in late 2012. In addition, MDA has a portfolio of leading and unique technologies and services in surveillance solutions, radar satellites, satellite components and space robotics. Looking ahead, we expect growth to be accelerated with further access into US business and an early leadership position in the development of a number of Low Earth Orbit (LEO) satellite constellation programs.

We see a number of earnings growth drivers, including:

A steady global market for commercial communications satellites: Expect 20–25 satellite orders per year on average from commercial satellite operators, of which we would expect SSL to maintain its share of ~ one third of these.

US government opportunities appear to be accelerating: MDA's business in the US has picked up materially since the SSL acquisition, and appears poised for the next leg of growth. Contracts are being signed with various US agencies, pipeline activity is reportedly very robust, security clearances are being put in place, and new CEO Howard Lance is joining the business to spearhead this growth.

A global leader in synthetic aperture radar satellites: The award of the $706MM Radarsat Constellation Mission to MDA widens the leadership gap in technological capabilities, in addition to setting the stage for additional follow-on support and services business.

Key considerations

We closely monitor a number of factors as potential drivers for MDA shares: (1) the order flow of commercial communications satellites; (2) replacement cycle of existing satellites in orbit; (3) demand growth for satellite broadband and broadcasting; (4) demand growth for hosted payloads (military/civil); (5) indications of increased penetration into US government markets; and (6) order flows from developing markets, where we have seen a surge in demand in recent years.

MDA note, 05-05-2016

Magna International Inc. (NYSE: MGA)

RBC Dominion Securities Inc.
Steve Arthur (Analyst)
(416) 842-7844
steve.arthur@rbccm.com

The North American auto sector has had a strong recovery from 2008-2009 lows, though we continue to see multiple drivers of earnings and share price growth, including:

- **Global auto industry growth:** Global production is projected to grow at a 2% CAGR through 2020E, which should continue to benefit MGA.
- **Earnings leverage in Europe:** Expect margin improvement from 3.0% in 2014 to 4.2% by 2017E. This is to be achieved through restructuring & streamlining efforts, and the exit from underperforming, non-core operations.
- **Emerging market growth:** MGA has historically been underinvested in these areas, but is now investing heavily (organic and targeted acquisitions) to build its International footprint.
- **Balance sheet to be deployed:** As MGA looks to reduce the excess cash held in the business, and move to a modest leverage position, we expect them to deploy capital on further dividend increases, share buybacks and potentially additional accretive acquisitions.

Attractive value for solid performance & growth outlook: MGA shares trade at an attractive 4.1x 2017E EBITDA, below the peer group average of 5.0x. With MGA's earnings growth outlook, diversification, global footprint, dividend and balance sheet, we believe that MGA should trade at least in-line, if not at a small premium, to this group.

Key catalysts

- Monthly data on global auto sales and production levels
- Demonstrated improvements in margins in Europe and Rest of World

Key risks

- A downturn in the macro environment in North America and Europe
- Operational issues surrounding restructuring of their European business

MGA note, 05-05-2016

Metro Inc. (TSX: MRU)

RBC Dominion Securities Inc.
Irene Nattel (Analyst)
(514) 878-7262
irene.nattel@rbccm.com

The market has been characterized by investor focus on stock-picking, higher quality names, and stronger performance of defensive situations. Metro fits very well into these broad themes. On a relative basis we expect MRU will continue to outperform the space.

While traditional food retailers are maintaining their revenue base, they are facing increased competition for share of consumer wallet. The Ontario and Quebec markets have become more competitive as Wal-Mart increases its square footage and Loblaw defends its market position. Nonetheless, MRU continues to enjoy above-average profitability driven by in-store execution and customer loyalty.

MRU continues to focus on enhanced fresh offering as a key differentiator. Once the produce roll-out is complete, MRU will be looking to extend the program to other fresh categories, including meat, dairy, and bakery.

Metro has a consistent track record of annual dividend increases and share buyback, both of which are typically associated with share price outperformance.

Relentless focus on cost containment should enable MRU to deliver stable earnings despite top line pressure, with EPS growth driven by consistent execution of its NCIB. While MRU has acknowledged its balance sheet is under-leveraged, management is favouring a gradual increase in debt levels as the company fully executes on the NCIB. MRU CEO Eric La Flèche also reiterated that MRU will continue to look for acquisitions in both Rx and food distribution.

MRU note, 04-20-2016

Onex Corporation (TSX: OCX)

RBC Dominion Securities Inc.
Geoffrey Kwan (Analyst)
(604) 257-7195
geoffrey.kwan@rbccm.com

Our investment rating for OCX is Outperform. We view Onex as a core holding in our coverage universe, reflecting our expectations of double-digit NAV growth over the long term supported by the company's strong investment track record. We think the shares are likely to benefit as: (1) a US/ global [i.e., largely non-Canadian] story, particularly relative to Canadian financial shares; (2) ~40% of the NAV in cash provides a double benefit of higher visibility around the NAV [particularly in the current global macro uncertainty] plus OCX could support the share price via share buybacks if there is material weakness in the share price. Furthermore, OCX has made several new investments in the past couple of quarters re-deploying high cash levels, which should help improve NAV growth going forward; and (3) the Company's strong investment track record and very experienced management team [e.g., potential investor focus on quality at an attractive price].

OCX note, 06-14-2016

Pembina Pipeline Corporation (TSX: PPL)

RBC Dominion Securities Inc.
Robert Kwan (Analyst)
(604) 257-7611
robert.kwan@rbccm.com

We expect Pembina's shares to outperform its peers for the following key reasons:

- **Premium valuation supported by premium assets.** We like Pembina's mostly fee-for-service/cost-of-service cash flows from primarily liquids infrastructure assets that deliver stable results, which we believe will support the premium valuation to some of its peers. The integrated nature of the assets from gas plants in the field connected to the crude and NGL pipeline system that feeds volumes into the Redwater terminal is an attractive footprint. We have already seen that integrated footprint drive significant capital investment opportunities, which we expect will continue.
- **Primed for future dividend growth.** Since closing the Provident acquisition in early 2012, the company had not raised the dividend until a 4% increase in August 2013, which was followed up by a 4% increase in May 2014 and a 5% increase in 2015. We expect future growth at a similar rate, with upside closer to 10% as the capital build-out nears completion.
- **Positive investment thesis intact.** We continue to like the compelling value from new projects coming to fruition with a good line of sight into the growth profile into 2017. Furthermore, we believe that Pembina has the best-positioned assets to take advantage of development in the Montney and the Duvernay (Kaybob, Edson, and Willesden Green).
- **Potential catalysts:** Additional project announcements (e.g., new gas plants to service the Duvernay, etc.); additional volumes for the Phase III pipeline expansion.
- **Key risks:** Lower-than-expected throughput on the Alberta Pipelines, regulatory intervention, the ability to complete new projects on time and on budget, operational issues, reduced margins in the midstream and marketing segment, concerns about future growth due to lower oil prices, and a material increase in long-term interest rates.

PPL note, 05-09-2016

Restaurant Brands International Inc. (NYSE: QSR)

RBC Capital Markets, LLC
David Palmer (Analyst)
(212) 905-5998
david.palmer@rbccm.com

Predictable cash flows with accelerating potential: RBI's 100%-franchised business model offers stability and predictability of earnings and cash flows with low capital requirements and insulation from input costs. In addition, international unit growth has been accelerating and the company's sales momentum seems to have improved in recent months. With Tim Hortons, we believe the new company can create additional value by employing cost discipline, returning capital to shareholders, and accelerating international unit growth.

RBI's cost structure is bullish for peers: RBI has driven tremendous cost synergies over time in both its BK and Tim Hortons brands. Its overhead efficiency makes it the gold standard for fast food, and this is ultimately bullish for its peers for two reasons: 1) other companies have a more compelling and high-profile benchmark; and 2) RBI's advantaged cost structure and ability to stimulate international growth make it an accretive acquirer.

Refinancing opportunity underappreciated by the Street: Our price target equates to 29.5x our new above-consensus 2017 EPS estimate of $1.66 (+16% YOY; 1.64 prior), but we base our price target on 24x the PV of our 2018 EPS estimate of $2.23 (+34% YOY). Assuming 5.5% senior unsecured borrowing rate, we estimate that refinancing the company's preferred equity could add ~$0.30–0.35 to 2018 EPS and is largely unaccounted for in consensus estimates. We believe our 2018 target multiple to be conservative given our outlook for 8%+ top-line growth leveraging into 15%+ EPS growth over the long term.

Risks to the investment thesis: A variety of potential risks includes but is not limited to: 1) slowing economic activity; 2) food safety and quality; 3) highly competitive hamburger segment; 4) food and labor inflation; 5) foreign currency risk; 6) obesity concerns and government regulation; and 7) execution risk.

QSR note, 04-29-2016

Rogers Communications Inc. (TSX: RCI.B)

RBC Dominion Securities Inc.
Drew McReynolds (Analyst)
(416) 842-3805
drew.mcreynolds@rbccm.com

Despite the pause in dividend growth, we continue to see an attractive set-up for the stock over the next 1-2 years reflecting: (i) industry trends (i.e., video-driven data growth, cord-cutting/shaving and television unbundling) that should favour the asset mix of Rogers (wireless exposure, cable/DOCSIS network, sports) relative to large-cap peers; (ii) steady improvement in the wireless subscriber-ARPU/ARPA balance; (iii) the potential for upside estimate revisions should customer service improvements, a revamped business market strategy and/or new cable offerings (including all-IP) gain traction; (iv) easing capex and cash taxes in 2016/2017; and (v) a valuation discount to large-cap peers (FTM EV/EBITDA of 7.2x versus 7.7x for TELUS).

Potential Catalysts for the Stock:

- An easing in the decline rates for key wireless metrics, particularly postpaid ARPU.
- An easing in the rate of IPTV expansion resulting in fewer basic cable subscriber losses.

- Improved sentiment driven by the NHL strategy and other initiatives
- The realization of greater than expected cost efficiencies in both wireless and cable.

Potential Risks for the Stock:

- The recapitalization and consolidation of the new wireless entrants, resulting in renewed and prolonged intense wireless competition.
- New wireless regulation that is detrimental to the incumbents.
- Greater than expected IPTV and FTTH competition resulting in subscriber losses
- The emergence of irrational pricing in the wireless, telephony, television, and/or Internet markets.

RCI.B note, 04-19-2016

Sun Life Financial Inc. (TSX: SLF)

RBC Dominion Securities Inc.
Darko Mihelic (Analyst)
(416) 842-4128
darko.mihelic@rbccm.com

We have an Outperform rating and a price target of $45 on the shares of SLF, as we believe SLF is well positioned to deliver on higher ROEs and higher earnings growth, driven by its Asian and wealth businesses.

- **MFS and SLF Asset Management:** We continue to believe MFS is supportive of SLF's broader push to grow its asset management business. While institutional net outflows at MFS have now persisted for several quarters, we believe net outflows have not been related to underlying performance. SLF has also made several wealth management acquisitions over the past year (namely, Ryan Labs, Bentall Kennedy, and Prime Advisors), which has significantly increased wealth assets under management as a result. Consequently, we expect that outflows at MFS eventually slow/stop while other initiatives support wealth earnings. We view SLF's wealth strategy as quite promising for both earnings and its valuation.
- **Asia:** Our estimate for SLF's Asia segment earnings growth is 11% on average in 2016/2017 and we remain positive on the outlook for this business.

SLF note, 05-11-2016

Suncor Energy Inc. (TSX: SU)

RBC Dominion Securities Inc.
Greg Pardy (Analyst)
(416) 842-7848
greg.pardy@rbccm.com

We rate the common shares of Suncor Energy Outperform.

Best in Breed. Suncor Energy has reengineered itself into a best-in-breed, global integrated adhering to capital discipline, cost improvement, and superior execution. Despite the current oil market, we believe that Suncor will emerge as a leaner producer on the other side of the valley with defined growth serving as a distinguishing feature.

Growth Preservation. Suncor is preserving its longer-term upstream growth profile through the advancement of its Hebron (21% wi) development off-shore Newfoundland, and Fort Hills (50.8% wi) oil sands mining project.

COS Acquisition Provides Torque. We believe Suncor's counter-cyclical $6.9 billion take-over of Canadian Oil Sands affords it with upside potential down the road predicated upon improving oil prices – and lower operating costs at Syncrude.

SU note, 06-22-2016

Toromont Industries Ltd. (TSX: TIH)

RBC Dominion Securities Inc.
Sara O'Brien (Analyst)
(514) 878-7256
sara.obrien@rbccm.com

We believe TIH is "best in class" re dealership space and the company will continue to deliver earnings growth over the next years, from a focus on efficiency. We believe TIH's valuation premium to peers is warranted given its consistent return on equity in 20% range, earnings growth outlook in tough dealership backdrop, and potential for acquisition growth. Given the all-in implied return to our price target we rate TIH Outperform.

Potential catalysts: TIH has a very clean balance sheet with low debt level. We believe TIH could make acquisitions to complement its organic growth and such an announcement could drive significant stock upside.

Risks: TIH equipment market is highly competitive in mining and construction and with soft backdrop this could result in further gross margin pressure. We expect TIH is focused on cost efficiency and will adjust cost to protect its high EBIT margin, however.

TIH note, 07-11-2016

Toronto-Dominion Bank (TSX: TD)

RBC Dominion Securities Inc.
Darko Mihelic (Analyst)
(416) 842-4128
darko.mihelic@rbccm.com

We value TD at a premium to peers given a better business mix and a more favorable growth outlook in its North American retail businesses. TD is rated Outperform.

- **US P&C:** We continue to view growth trends positively in the US business as TD is building assets at a double-digit growth rate. We are forecasting strong 10% YoY average earnings growth for the US retail segment in 2016/2017.
- **Canada P&C:** TD's Canadian business continues to generate consistent growth and earnings growth of 6% YoY in 2015 was above the peer group average. We forecast that TD's Canadian retail business can generate good average earnings growth of 4% in 2016/2017.

TD note, 05-27-2016

TransCanada Corporation (TSX: TRP)

RBC Dominion Securities Inc.
Robert Kwan (Analyst)
(604) 257-7611
robert.kwan@rbccm.com

We expect TransCanada to outperform other energy infrastructure companies in our coverage universe for the following reasons:

- **We positively view the proposed CPGX acquisition.** We positively view the transformational acquisition that: (1) adds a strategic footprint in the Marcellus and Utica gas plays; (2) is accretive to TransCanada's growth rate and should provide meaningful EPS and DCF accretion through the end of the decade; and (3) we feel should be materially accretive to the valuation multiple, particularly following the sale of the US merchant power business.
- **There are a number of positive developments in the business.** We highlight improved cash earnings and higher contracting for the Mainline, new long-term contracts for ANR and growth at NGTL.
- **Strategic footprint provides opportunities to deploy capital into new projects at attractive returns.** The company's assets provide a competitive advantage in winning new projects to lever off the existing "steel in the ground" at attractive returns. A key example of this is the Energy East project.
- **Potential catalysts:** asset sales to fund CPGX in line with the roughly US$7 billion target; material revenue synergies and/or new projects arising from the Columbia acquisition; stakeholder agreements (particularly Quebec) for the Energy East pipeline; increase in dividend growth to 10–12%; FERC approval of the ANR rate application as filed.
- **Key risks:** reduced gas flows on the Canadian Mainline; the company investing in new projects that fail to gain the support and confidence of its shareholders; and a denial of key pipeline project approvals.

TRP note, 06-10-2016

Canadian Fundamental Equity Weightings Portfolio

Investment Strategy Equity Selection Committee

Introduction:

Following the determination of a recommended asset mix, the strategy process at RBC Capital Markets addresses sector weightings within the equity component of the portfolio, followed by specific stock selections within each sector. Sector weightings reflect the combined views of our fundamental, technical, and quantitative analysts. The specific stocks comprising our Canadian Fundamental Equity Weightings (FEW) portfolio are selected solely by our fundamental analysts. These selections are detailed on the following pages. Our *Strategy* Canadian Focus List, described earlier, is drawn from the broader FEW portfolio and reflects the best aggregate rankings of our three investment disciplines: fundamental, technical, and quantitative.

Summer 2016 Canadian Fundamental Equity Weighting Portfolio (FEW)

We are pleased to present our Summer 2016 Canadian FEW portfolio and a review of the performance of the Spring 2016 Canadian FEW portfolio.

Changes to the Summer 2016 FEW:

- **Stocks added to the Summer 2016 FEW:** Canadian Pacific Railway Limited, Kinross Gold Corporation, Klondex Mines Ltd., SNC-Lavalin Group Inc.
- **Stocks deleted from the Summer 2016 FEW:** CAE Inc., CI Financial Corp., Gluskin Sheff + Associates Inc., Saputo Inc., Valeant Pharmaceuticals International, Inc.

The Summer 2016 Canadian FEW portfolio contains 59 stocks, with four additions and five deletions from the Spring 2016 portfolio.

1) We have increased our allocation to **Energy** by 1%, to 20%. Relative to the benchmark at 19.8%, this keeps our positioning at **Market Weight**. The only change to the FEW this quarter is within **Oil & Gas**, where we have increased our **TransCanada Corporation** weighting by 1%. We note that **TransCanada Corporation** has also been added to the Focus List (+2.5%).
2) Our weighting in **Materials** increases by 2%, to 13%. Relative to the Index at 11.9%, this shifts our allocation to **Overweight** from **Market Weight**, formerly. Within **Materials,** we are **Market Weight Chemicals** and **Overweight** the smaller **Steel** and **Paper & Forest Products** sectors. We have maintained the FEW's **Market Weight** in **Gold** via the addition of 1% weights in **Kinross Gold Corporation** and **Klondex Mines Ltd.** Of note, **Franco-Nevada Corporation** (an existing FEW constituent) has been added to the Focus List (+2.5%).
3) We remain **Overweight Industrials** this quarter at 12%, up 1% from the Spring 2016 FEW portfolio, and well above the benchmark's 8.0%. Our weighting increase is achieved through the addition of **Canadian Pacific Railway Limited** and **SNC-Lavalin Group Inc.** and the removal of **CAE Inc.**
4) We remain **Overweight Consumer Discretionary.** Our 8% allocation (the benchmark is 6.4%) is unchanged, as are our FEW portfolio stock selections. We note that **Canadian Tire Corporation, Limited** was removed from the Focus List (-2.5%) this quarter.
5) Our weighting in **Consumer Staples** has been reduced by 1%, to 3%, and we remain **Underweight** versus the 4.4% benchmark. **Saputo Inc.** has been removed from both the FEW and Focus List this quarter.
6) We have shifted to **Market Weight** (1%) in **Health Care,** from **Overweight** formerly. We have removed **Valeant Pharmaceuticals International, Inc.** from the FEW.
7) Our **Financials** allocation of 35% is unchanged and we remain **Underweight** relative to the Index at 37.5%. Across the sub-sectors, we have shifted to **Market Weight Banks** (23%) from **Underweight** formerly, and **Market Weight Insurance** (7%), from **Overweight** formerly. The removal of **CI Financial Corp.** and **Gluskin Sheff + Associates Inc.** from the FEW has reduced the **Diversified Financials** allocation (1%) to **Market Weight** from **Overweight** formerly. Holding our **Real Estate** allocation unchanged at 4% (relative to the Index at 5.5%) keeps us at **Underweight** the sub-sector.
8) We remain **Market Weight** in **Information Technology** with our 3% sector exposure (the Index weight is 3.0%). There are no changes to our stock selections this quarter.
9) We remain **Underweight** in **Telecommunication Services,** with a 3% sector exposure relative to the Index weight at 5.5%. The FEW's stock selections are unchanged by we have trimmed 1% from our allocation to **Rogers Communications Class "B" NV**.
10) We remain **Market Weight** in **Utilities** this quarter with our 2.0% weight (the Index weight is 2.4%) There are no changes to our stock selections this quarter.

Exhibit 1: RBC CM Summer 2016 Canadian Fundamental Equity Weighting (FEW) Portfolio

		Weights (%)			
		RBC CM		S&P/TSX	Closing Price
	Symbol	31-May-16	29-Feb-16	31-May-16	31-May-16
ENERGY	**ENC**	**20.0**	**19.0**	**19.8**	**2,308.98**
Energy Equipment & Services	**ENEQP**	**1.0**	**1.0**	**0.6**	**788.58**
Precision Drilling Corporation	PD	1.0	1.0	0.1	6.17
Oil, Gas & Consumable Fuels	**OIL**	**19.0**	**18.0**	**19.3**	**2,453.35**
Cameco Corporation	CCO	1.0	1.0	0.3	15.28
Canadian Natural Resources Limited	CNQ	2.0	2.0	2.4	38.97
Cenovus Energy Inc.	CVE	2.0	2.0	0.9	19.77
Enbridge Inc.	ENB	3.0	3.0	2.7	52.28
Husky Energy Inc.	HSE	1.0	1.0	0.3	15.14
Keyera Corp.	KEY	1.0	1.0	0.4	39.12
Pembina Pipeline Corporation	PPL	2.0	2.0	0.8	38.47
Seven Generations Energy Ltd Cl "A"**	VII	1.0	1.0	0.3	26.40
Suncor Energy Inc.	SU	2.0	2.0	3.2	36.22
Tourmaline Oil Corp.	TOU	1.0	1.0	0.3	31.38
TransCanada Corporation	TRP	3.0	2.0	2.2	54.34
MATERIALS	**BMS**	**13.0**	**11.0**	**11.9**	**2,041.09**
Chemicals	**CHM**	**2.0**	**2.0**	**2.2**	**3,568.19**
Agrium Inc.	AGU	2.0	2.0	0.9	118.35
Other* (Const. Materials, Containers & Packaging)		**0.0**	**0.0**	**0.4**	**9,395.74**
Metals & Mining ex Gold and Steel*		**3.0**	**3.0**	**2.1**	**3,365.67**
Lundin Mining Corporation	LUN	2.0	2.0	0.2	4.35
Silver Wheaton Corp.	SLW	1.0	1.0	0.6	24.45
Gold	**GLD**	**6.0**	**4.0**	**6.6**	**1,698.23**
Agnico Eagle Mines Limited	AEM	1.0	1.0	0.7	58.86
Detour Gold Corporation	DGC	1.0	1.0	0.3	25.91
Franco-Nevada Corporation	FNV	1.0	1.0	0.8	82.94
Kinross Gold Corporation	K	1.0	0.0	0.4	5.62
Klondex Mines Ltd.	KDX	1.0	0.0	n.m.	4.48
Osisko Gold Royalties Ltd.	OR	1.0	1.0	0.1	15.40
Steel	**STL**	**1.0**	**1.0**	**0.0**	**3,801.92**
Labrador Iron Ore Royalty Corporation	LIF	1.0	1.0	0.0	11.80
Paper & Forest Products	**PPRFP**	**1.0**	**1.0**	**0.5**	**373.23**
Norbord Inc.	OSB	1.0	1.0	0.1	28.25
INDUSTRIALS	**CAP**	**12.0**	**11.0**	**8.0**	**2,230.56**
Capital Goods	**CG**	**3.0**	**3.0**	**1.9**	**557.60**
MacDonald, Dettwiler and Associates Ltd.	MDA	1.0	1.0	0.2	86.44
SNC-Lavalin Group Inc.	SNC	1.0	0.0	0.4	52.81
Toromont Industries Ltd.	TIH	1.0	1.0	0.2	36.83
Commercial & Prof. Services	**DUR**	**0.0**	**0.0**	**0.8**	**1,063.25**
Transportation	**TRNS**	**9.0**	**8.0**	**5.3**	**7,444.15**
Air Canada	AC	2.0	2.0	0.2	9.63
Canadian National Railway Company	CNR	4.0	4.0	3.4	77.75
Canadian Pacific Railway Limited	CP	1.0	0.0	1.3	169.72
Cargojet Inc.	CJT	1.0	1.0	n.m.	31.36
Westshore Terminals Investment Corporation	WTE	1.0	1.0	0.1	18.25
CONSUMER DISCRETIONARY	**CONC**	**8.0**	**8.0**	**6.4**	**1,883.97**
Automobiles & Components	**AUTO**	**2.0**	**2.0**	**1.3**	**2,921.21**
Magna International Inc.	MG	2.0	2.0	1.1	53.25
Consumer Durables & Apparel	**DUR**	**2.0**	**2.0**	**0.6**	**4,114.92**
Gildan Activewear Inc.	GIL	1.0	1.0	0.5	39.07
BRP Inc.	DOO	1.0	1.0	0.0	20.15
Consumer Services	**HOTEL**	**0.0**	**0.0**	**1.0**	**2,915.97**
Hotels Restaurants & Leisure		**0.0**	**0.0**	**0.9**	**2,992.35**
Media	**MEDIA**	**1.0**	**1.0**	**2.2**	**976.82**

Continued on next page.

Exhibit 1: RBC CM Summer 2016 Canadian Fundamental Equity Weighting (FEW) Portfolio (continued)

		Weights (%)			
		RBC CM		S&P/TSX	Closing Price
	Symbol	31-May-16	29-Feb-16	31-May-16	31-May-16
Broadcasting	**TV**	**0.0**	**0.0**	**0.1**	**1,076.16**
Other* (Advertising, Cable & Satellite, Movies & Entertainment, Publishing)		**1.0**	**1.0**	**2.1**	**8,900.13**
Quebecor Inc. Cl 'B' SV	QBR.B	1.0	1.0	0.2	37.40
Retailing	**RETL**	**3.0**	**3.0**	**1.3**	**5,071.02**
Canadian Tire Corporation, Limited	CTC.A	2.0	2.0	0.6	143.20
Dollarama Inc.	DOL	1.0	1.0	0.6	90.30
CONSUMER STAPLES	**CONS**	**3.0**	**4.0**	**4.4**	**4,411.59**
Alimentation Couche-Tard Inc. Cl 'B" SV	ATD.B	1.0	1.0	1.4	57.70
Cott Corporation	BCB	1.0	1.0	0.1	18.93
Metro Inc.	MRU	1.0	1.0	0.6	44.43
HEALTH CARE	**HC**	**1.0**	**3.0**	**1.0**	**597.88**
Concordia Healthcare Corp.	CXR	1.0	1.0	0.1	40.34
FINANCIALS	**TSF**	**35.0**	**35.0**	**37.5**	**2,296.06**
Banks	**BKS**	**23.0**	**20.0**	**23.4**	**2,721.70**
Bank of Montreal	BMO	3.0	3.0	3.0	82.30
The Bank of Nova Scotia	BNS	6.0	5.0	4.3	64.14
Toronto-Dominion Bank	TD	7.0	6.0	6.0	57.11
Diversified Financials	**DIVFIN**	**1.0**	**3.0**	**1.4**	**2,348.90**
Onex Corporation SV	OCX	1.0	1.0	0.4	79.62
Insurance	**ISR**	**7.0**	**8.0**	**7.2**	**1,269.52**
Intact Financial Corp.	IFC	1.0	2.0	0.7	91.70
Manulife Financial Corporation	MFC	3.0	3.0	2.2	19.52
Sun Life Financial Inc.	SLF	3.0	3.0	1.6	45.42
Real Estate	**RES**	**4.0**	**4.0**	**5.5**	**3,100.56**
Boardwalk Real Estate Investment Trust	BEI.UN	1.0	1.0	0.1	53.11
Brookfield Asset Management Inc.	BAM.A	2.0	2.0	2.3	46.02
Canadian Real Estate Investment Trust	REF.UN	1.0	1.0	0.2	45.68
INFORMATION TECHNOLOGY	**HTC**	**3.0**	**3.0**	**3.0**	**223.97**
Software & Services	**SFTWR**	**3.0**	**3.0**	**2.5**	**4,128.03**
CGI Group Inc.	GIB.A	1.0	1.0	1.0	61.33
DH Corporation	DH	1.0	1.0	0.2	34.23
Open Text Corporation	OTC	1.0	1.0	0.5	76.82
Technology Hardware & Semiconductors*		**0.0**	**0.0**	**0.5**	**803.80**
TELECOMMUNICATION SERVICES	**CS**	**3.0**	**4.0**	**5.5**	**1,397.84**
BCE Inc.	BCE	2.0	2.0	3.0	60.45
Rogers Communications Inc. Cl 'B' NV	RCI.B	1.0	2.0	1.0	50.00
UTILITIES	**UTIL**	**2.0**	**2.0**	**2.4**	**1,998.46**
Brookfield Infrastructure Partners L.P.	BIP.UN	1.0	1.0	n.m.	56.10
Emera Inc.	EMA	1.0	1.0	0.4	46.21
TOTAL PORTFOLIO	**TSX**	**100**	**100**		**14,065.78**

New to the FEW portfolio this quarter.

* RBC Capital Markets estimates; n.m. = Not a member of TSX Composite. Source: RBC Capital Markets

Note: At the time of this publication, one or more analysts that were responsible for the preparation of this report, or their household members, held a long position in the common shares of Agrium Inc.; Brookfield Asset Management Inc.; BCE Inc.; Bank of Nova Scotia; Canadian National Railway Company; Canadian Natural Resources Limited; Canadian Pacific Railway Limited; Canadian Tire Corporation, Limited; Emera Inc.; Enbridge Inc.; Gluskin Sheff + Associates Inc.; Husky Energy Inc.; Klondex Mines Ltd.; Labrador Iron Ore Royalty Corporation; MacDonald, Dettwiler and Associates Ltd.; Magna International Inc.; Sun Life Financial Inc.; SNC-Lavalin Group Inc; Suncor Energy Inc.; Toronto-Dominion Bank; TransCanada Corporation; Westshore Terminals Investment Corporation.

** This security is restricted pursuant to RBC Capital Markets policy and, as a result, its continued inclusion in the RBC CM Canadian FEW Portfolio has not been reviewed or confirmed as of the date hereof.

Spring 2016 Canadian FEW Performance Review

As summarized in the table in Exhibit 2, the Spring 2016 FEW portfolio delivered a total return of 10.8% which was 91 basis points higher than the 9.9% total return from the S&P/TSX Composite Index for the three-month period ending May 31, 2016.[1]

Exhibit 3 graphically depicts the total returns from the FEW relative to the TSX Index since inception.

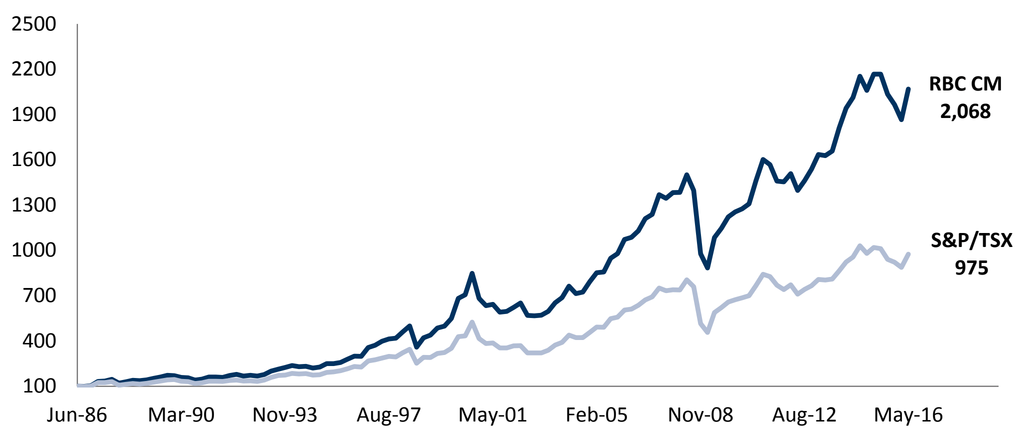
A detailed re-cap of the stock selections and performance of the Spring 2016 FEW is included in Exhibit 4 on pages 90-91.

Exhibit 2: RBC CM Canadian FEW historical total return performance over the short and long term (all periods ended February 29, 2016)

	RBC CM FEW	S&P/TSX
3 months	10.8%	9.9%
6 months	5.2%	5.8%
1 Year	–4.8%	–3.6%
3 Years	8.3%	6.7%
5 Years	5.7%	3.4%
10 Years	6.7%	4.8%
15 Years	8.1%	6.3%
20 Years	10.2%	7.5%
Since Inception (June 30, 1986)	10.7%	7.9%

Note: 3- and 6-month and 1-year returns are all simple returns. All other time periods (3 years to Since Inception) are compound returns.
Source: RBC Capital Markets

Exhibit 3: RBC CM Canadian FEW Performance (Dividends plus Appreciation) vs. S&P/TSX Composite Index (June 1986 = 100)



Source: RBC Capital Markets

[1] Note: Past performance is not necessarily indicative of future performance. Performance returns do not take into consideration management fees or other account expenses. The actual investment return of the Fundamental Equity Weighting portfolio is lower than that disclosed when adjusted to reflect management fees and other account expenses.

Market internals included outperformance by **Energy, Materials**, **Financials** and **Utilities**. The **Healthcare, Consumer Staples, Information Technology, Telecommunications Services, Industrials** and **Consumer Discretionary** sectors underperformed.

The Spring 2016 FEW portfolio's performance exceeded the total return from the broader market by 91 basis points. Within the FEW, six of ten sectors (**Energy**, **Industrials**, **Consumer Discretionary**, **Consumer Staples**, **Healthcare** and **InfoTech**) outperformed their respective market benchmarks. Performance from the other four (of ten) sectors fell short of their respective industry groups.

The best-performing stock selections within the Spring 2016 FEW were: **Seven Generations Energy Ltd Cl "A"** (+70.0%), **Precision Drilling Corporation** (+42.2%) and **Canadian Natural Resources Limited** (+38.6%). The weakest performers were **Valeant Pharmaceuticals International, Inc.** (-60.4%), **Gluskin Sheff + Associates Inc.** (-9.0%) and **DH Corporation** (-7.5%).

Exhibit 4: RBC CM Canadian Fundamental Equity Weighting (FEW) Spring 2016 Portfolio Performance – Last Quarter

		Weights (%)			Closing Price		Performance (%)			
		RBC CM	S&P/TSX				RBC CM		S&P/TSX	
	Symbol	29-Feb-16	29-Feb-16	31-May-16	29-Feb-16	31-May-16	Price Return	Total Return	Price Return	Total Return
ENERGY	**ENC**	**19.0**	**18.5**	**19.8**	**1,976.45**	**2,308.98**	**19.1**	**19.6**	**16.8**	**17.8**
Energy Equipment & Services	**ENEQP**	**1.0**	**0.5**	**0.6**	**665.55**	**788.58**	**42.2**	**42.2**	**18.5**	**19.5**
Precision Drilling Corporation	PD	1.0	0.1	0.1	4.34	6.17	42.2	42.2		
Oil, Gas & Consumable Fuels	**OIL**	**18.0**	**17.9**	**19.3**	**2,100.99**	**2,453.35**	**17.8**	**18.4**	**16.8**	**17.8**
Cameco Corporation	CCO	1.0	0.4	0.3	16.38	15.28	-6.7	-6.1		
Canadian Natural Resources Limited	CNQ	2.0	1.9	2.4	28.28	38.97	37.8	38.6		
Cenovus Energy Inc.	CVE	2.0	0.8	0.9	15.48	19.77	27.7	28.0		
Enbridge Inc.	ENB	3.0	2.5	2.7	47.79	52.28	9.4	9.4		
Husky Energy Inc.	HSE	1.0	0.3	0.3	14.75	15.14	2.6	2.6		
Keyera Corp.	KEY	1.0	0.4	0.4	37.51	39.12	4.3	5.0		
Pembina Pipeline Corporation	PPL	2.0	0.8	0.8	33.73	38.47	14.1	15.0		
Seven Generations Energy Ltd Cl "A"**	VII	1.0	0.2	0.3	15.53	26.40	70.0	70.0		
Suncor Energy Inc.	SU	2.0	3.2	3.2	33.08	36.22	9.5	10.4		
Tourmaline Oil Corp.	TOU	1.0	0.3	0.3	24.95	31.38	25.8	25.8		
TransCanada Corporation	TRP	2.0	2.2	2.2	49.65	54.34	9.4	10.6		
MATERIALS	**BMS**	**11.0**	**11.2**	**11.9**	**1,763.51**	**2,041.09**	**13.8**	**14.3**	**15.7**	**16.2**
Chemicals	**CHM**	**2.0**	**2.5**	**2.2**	**3,647.68**	**3,568.19**	**1.6**	**2.5**	**-2.2**	**-1.0**
Agrium Inc.	AGU	2.0	1.0	0.9	116.51	118.35	1.6	2.5		
Other* (Const. Materials, Containers & Packaging)		**0.0**	**0.4**	**0.4**	**8,254.56**	**9,395.74**	**0.0**	**0.0**	**13.8**	**14.2**
Metals & Mining ex Gold and Steel*		**3.0**	**1.6**	**2.1**	**2,469.61**	**3,365.67**	**15.3**	**15.4**	**36.3**	**36.6**
Lundin Mining Corporation	LUN	2.0	0.1	0.2	3.76	4.35	15.7	15.7		
Silver Wheaton Corp.	SLW	1.0	0.5	0.6	21.34	24.45	14.6	14.9		
Gold	**GLD**	**4.0**	**5.9**	**6.6**	**1,440.53**	**1,698.23**	**14.5**	**14.7**	**17.9**	**18.1**
Agnico Eagle Mines Limited	AEM	1.0	0.6	0.7	47.61	58.86	23.6	23.6		
Detour Gold Corporation^	DGC	1.0	0.2	0.3	21.31	25.91	21.6	21.6		
Franco-Nevada Corporation	FNV	1.0	0.9	0.8	80.75	82.94	2.7	3.0		
Osisko Gold Royalties Ltd.	OR	1.0	0.1	0.1	13.97	15.40	10.2	10.5		
Steel	**STL**	**1.0**	**0.0**	**0.0**	**3,241.30**	**3,801.92**	**17.3**	**19.8**	**17.3**	**19.8**
Labrador Iron Ore Royalty Corporation	LIF	1.0	0.0	0.0	10.06	11.80	17.3	19.8		
Paper & Forest Products	**PPRFP**	**1.0**	**0.5**	**0.5**	**338.36**	**373.23**	**27.0**	**27.0**	**10.3**	**10.6**
Norbord Inc.	OSB	1.0	0.1	0.1	22.24	28.25	27.0	27.0		
INDUSTRIALS	**CAP**	**11.0**	**8.2**	**8.0**	**2,073.60**	**2,230.56**	**13.1**	**13.6**	**7.6**	**8.1**
Capital Goods	**CG**	**3.0**	**1.7**	**1.9**	**456.95**	**557.60**	**7.6**	**8.1**	**22.0**	**23.0**
CAE Inc.	CAE	1.0	0.2	0.2	14.92	16.39	9.9	10.4		
MacDonald, Dettwiler and Associates Ltd.	MDA	1.0	0.2	0.2	89.04	86.44	-2.9	-2.5		
Toromont Industries Ltd.^	TIH	1.0	0.1	0.2	31.79	36.83	15.9	16.4		
Commercial & Prof. Services	**DUR**	**0.0**	**0.8**	**0.8**	**917.52**	**1,063.25**	**0.0**	**0.0**	**15.9**	**16.5**
Transportation	**TRNS**	**8.0**	**5.7**	**5.3**	**7,298.37**	**7,444.15**	**15.2**	**15.6**	**2.0**	**2.4**
Air Canada	AC	2.0	0.1	0.2	7.22	9.63	33.4	33.4		
Canadian National Railway Company	CNR	4.0	3.8	3.4	78.60	77.75	-1.1	-0.6		
Cargojet Inc.	CJT	1.0	n.m.	n.m.	23.50	31.36	33.4	34.1		
Westshore Terminals Investment Corp.	WTE	1.0	0.1	0.1	14.56	18.25	25.3	26.4		
CONSUMER DISCRETIONARY	**CONC**	**8.0**	**6.7**	**6.4**	**1,752.14**	**1,883.97**	**9.7**	**10.0**	**7.5**	**8.3**
Automobiles & Components	**AUTO**	**2.0**	**1.5**	**1.3**	**2,904.14**	**2,921.21**	**1.4**	**2.0**	**0.6**	**1.7**
Magna International Inc.	MG	2.0	1.2	1.1	52.50	53.25	1.4	2.0		
Consumer Durables & Apparel	**DUR**	**2.0**	**0.6**	**0.6**	**3,793.21**	**4,114.92**	**17.0**	**17.1**	**8.5**	**9.2**
Gildan Activewear Inc.	GIL	1.0	0.5	0.5	34.98	39.07	11.7	12.0		
BRP Inc.	DOO	1.0	0.0	0.0	16.48	20.15	22.3	22.3		
Consumer Services	**HOTEL**	**0.0**	**1.0**	**1.0**	**2,602.92**	**2,915.97**	**0.0**	**0.0**	**12.0**	**12.7**
Hotels Restaurants & Leisure		**0.0**	**0.9**	**0.9**	**2,651.47**	**2,992.35**	**0.0**	**0.0**	**12.9**	**13.5**
Media	**MEDIA**	**1.0**	**2.2**	**2.2**	**899.73**	**976.82**	**8.6**	**8.7**	**8.6**	**9.6**
Broadcasting	**TV**	**0.0**	**0.1**	**0.1**	**920.47**	**1,076.16**	**0.0**	**0.0**	**16.9**	**19.8**
Other * (Advertising, Cable & Satellite, Movies & Entertainment, Publishing)		**1.0**	**2.1**	**2.1**	**8,187.52**	**8,900.13**	**8.6**	**8.7**	**8.7**	**9.7**
Quebecor Inc. Cl 'B' SV	QBR.B	1.0	0.2	0.2	34.45	37.40	8.6	8.7		

Continued on next page.

Exhibit 4: RBC CM Fundamental Equity Weighting (FEW) Spring 2016 Portfolio Performance – Last Quarter (continued)

		Weights (%)			Closing Price		Performance (%) RBC CM		Performance (%) S&P/TSX	
		RBC CM	S&P/TSX				Price	Total	Price	Total
	Symbol	29-Feb-16	29-Feb-16	31-May-16	29-Feb-16	31-May-16	Return	Return	Return	Return
Retailing	**RETL**	**3.0**	**1.5**	**1.3**	**4,635.03**	**5,071.02**	**10.8**	**11.1**	**9.4**	**9.7**
Canadian Tire Corporation, Limited	CTC.A	2.0	0.6	0.6	131.54	143.20	8.9	9.3		
Dollarama Inc.	DOL	1.0	0.6	0.6	78.76	90.30	14.7	14.8		
CONSUMER STAPLES	**CONS**	**4.0**	**4.8**	**4.4**	**4,420.20**	**4,411.59**	**3.1**	**3.3**	**-0.2**	**0.1**
Alimentation Couche-Tard Inc. Cl 'B" SV	ATD.B	1.0	1.6	1.4	61.22	57.70	-5.7	-5.6		
Cott Corporation^	BCB	1.0	0.1	0.1	16.59	18.93	14.1	14.6		
Metro Inc.	MRU	1.0	0.6	0.6	43.24	44.43	2.8	2.8		
Saputo Inc.	SAP	1.0	0.6	0.6	39.40	39.95	1.4	1.4		
HEALTH CARE	**HC**	**3.0**	**2.2**	**1.0**	**1,187.55**	**597.88**	**-39.5**	**-39.4**	**-49.7**	**-49.5**
Concordia Healthcare Corp.	CXR	1.0	0.1	0.1	39.41	40.34	2.4	2.6		
Valeant Pharmaceuticals Int'l, Inc.	VRX	2.0	1.9	0.6	94.49	37.42	-60.4	-60.4		
FINANCIALS	**TSF**	**35.0**	**37.0**	**37.5**	**2,076.00**	**2,296.06**	**10.3**	**11.0**	**10.6**	**11.7**
Banks	**BKS**	**20.0**	**22.7**	**23.4**	**2,412.15**	**2,721.70**	**12.7**	**13.9**	**12.8**	**14.1**
Bank of Montreal	BMO	3.0	3.0	3.0	74.65	82.30	10.2	11.4		
The Bank of Nova Scotia	BNS	5.0	4.1	4.3	54.76	64.14	17.1	18.4		
Toronto-Dominion Bank	TD	6.0	6.0	6.0	52.43	57.11	8.9	10.0		
Diversified Financials	**DIVFIN**	**3.0**	**1.6**	**1.4**	**2,265.82**	**2,348.90**	**-4.4**	**-4.1**	**3.7**	**4.4**
CI Financial Corp.	CIX	1.0	0.4	0.4	29.97	28.70	-4.2	-3.5		
Gluskin Sheff + Associates Inc.	GS	1.0	n.m.	n.m.	18.29	16.64	-9.0	-9.0		
Onex Corporation SV	OCX	1.0	0.4	0.4	79.60	79.62	0.0	0.1		
Insurance	**ISR**	**8.0**	**7.4**	**7.2**	**1,201.55**	**1,269.52**	**9.9**	**10.0**	**5.7**	**6.6**
Intact Financial Corp.	IFC	2.0	0.7	0.7	84.25	91.70	8.8	9.5		
Manulife Financial Corporation	MFC	3.0	2.2	2.2	18.11	19.52	7.8	7.8		
Sun Life Financial Inc.	SLF	3.0	1.5	1.6	40.34	45.42	12.6	12.6		
Real Estate	**RES**	**4.0**	**5.4**	**5.5**	**2,820.06**	**3,100.56**	**9.7**	**10.1**	**9.9**	**11.0**
Boardwalk Real Estate Investment Trust	BEI.UN	1.0	0.1	0.1	49.50	53.11	7.3	8.1		
Brookfield Asset Management Inc.	BAM.A	2.0	2.2	2.3	41.53	46.02	10.8	10.8		
Canadian Real Estate Investment Trust	REF.UN	1.0	0.2	0.2	41.54	45.68	10.0	10.7		
INFORMATION TECHNOLOGY	**HTC**	**3.0**	**3.2**	**3.0**	**215.47**	**223.97**	**4.7**	**5.1**	**3.9**	**4.2**
Software & Services	**SFTWR**	**3.0**	**2.6**	**2.5**	**3,921.36**	**4,128.03**	**4.7**	**5.1**	**5.3**	**5.6**
CGI Group Inc.	GIB.A	1.0	1.0	1.0	56.61	61.33	8.3	8.3		
DH Corporation	DH	1.0	0.2	0.2	37.34	34.23	-8.3	-7.5		
Open Text Corporation	OTC	1.0	0.5	0.5	67.27	76.82	14.2	14.6		
Technology Hardware & Semiconductors*		**0.0**	**0.5**	**0.5**	**826.16**	**803.80**	**0.0**	**0.0**	**-2.7**	**-2.7**
TELECOMMUNICATION SERVICES	**CS**	**4.0**	**5.9**	**5.5**	**1,350.39**	**1,397.84**	**1.6**	**2.7**	**3.5**	**4.7**
BCE Inc.	BCE	2.0	3.1	3.0	58.44	60.45	3.4	4.6		
Rogers Communications Inc. Cl 'B' NV^	RCI.B	2.0	1.1	1.0	50.08	50.00	-0.2	0.8		
UTILITIES	**UTIL**	**2.0**	**2.3**	**2.4**	**1,815.82**	**1,998.46**	**6.3**	**6.9**	**10.1**	**11.3**
Brookfield Infrastructure Partners L.P.	BIP.UN	1.0	n.m.	n.m.	50.97	56.10	10.1	10.1		
Emera Inc.	EMA	1.0	0.4	0.4	45.04	46.21	2.6	3.7		
TOTAL PORTFOLIO	**TSX**	**100**	**100**		**12,860**	**14,066**	**10.2**	**10.8**	**9.4**	**9.9**

* RBC Capital Markets estimates. n.m. = Not a member of TSX Composite. All values in Canadian dollars, unless otherwise noted. ^ Addition to the FEW made on February 29, 2016. Source: RBC Capital Markets

Note: At the time of this publication, one or more analysts that were responsible for the preparation of this report, or their household members, held a long position in the common shares of Agrium Inc.; Brookfield Asset Management Inc.; BCE Inc.; Bank of Nova Scotia; Canadian National Railway Company; Canadian Natural Resources Limited; Canadian Pacific Railway Limited; Canadian Tire Corporation, Limited; Emera Inc.; Enbridge Inc.; Gluskin Sheff + Associates Inc.; Husky Energy Inc.; Klondex Mines Ltd.; Labrador Iron Ore Royalty Corporation; MacDonald, Dettwiler and Associates Ltd.; Magna International Inc.; Sun Life Financial Inc.; SNC-Lavalin Group Inc; Suncor Energy Inc.; Toronto-Dominion Bank; TransCanada Corporation; Westshore Terminals Investment Corporation.

** This security is restricted pursuant to RBC Capital Markets policy and, as a result, its continued inclusion in the RBC CM Canadian FEW Portfolio has not been reviewed or confirmed as of the date hereof.

Global Equity Coverage Universe

Click **here** for Company Coverage and Rating Summary as of July 15, 2016.

Required Disclosures

Non-U.S. analyst disclosure

Steve Arthur, Matthew Barasch, Neil Downey, Bish Koziol, Geoffrey Kwan, Robert Kwan, Drew McReynolds, Darko Mihelic, Javed Mirza, Irene Nattel, Sara O'Brien, Greg Pardy, Walter Spracklin, Stephen D. Walker, and Andrew Wong (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Conflicts disclosures

This product constitutes a compendium report (covers six or more subject companies). As such, RBC Capital markets chooses to provide specific disclosures for the subject companies by reference. To access conflict of interest and other disclosures for the subject companies, clients should refer to **https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1**. These disclosures are also available by sending a written request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7 or an email to **rbcinsight@rbccm.com**.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of ratings
RBC Capital Markets, Equity Research
As of 30-Jun-2016

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	878	50.51	246	28.02
HOLD [Sector Perform]	741	42.64	129	17.41
SELL [Underperform]	119	6.85	10	8.40

Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to **https://www.rbccm.com/global/file-414164.pdf** or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm's proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available.

A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

For a list of all recommendations on the company that were disseminated during the prior 12-month period, please click on the following link: **https://rbcnew.bluematrix.com/sellside/MAR.action**

The 12 month history of SPARCs can be viewed at **RBC Insight.**

Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Limitations on recommendations under securities legislation

The securities legislation in certain jurisdictions states that no investment dealer shall in any medium of communication recommend that securities of any issuer 'related' or 'connected' to the investment dealer be purchased, sold or held. The legislation then provides that this limitation does not apply to a recommendation made in a circular, pamphlet or similar publication of a type issued and distributed by the investment dealer with reasonable regularity in the ordinary course of its business.

Among other requirements, the publication must include a full and complete statement of the relationship between the investment dealer and the issuer, and must include information on a substantial number of others in the industry or business of the issuer comparable to that given for the issuer and must not give materially greater space or prominence to the information on the issuer than is given to the information on any of the others.

RBC Dominion Securities Inc. is a direct wholly owned subsidiary of Royal Bank of Canada and, as such, is a 'related issuer' of Royal Bank.

Disclaimer

This comment is prepared by the Quantitative Research team in RBC Capital Markets' Research Department. All views expressed are the opinions of the Quantitative Research team and are based solely on historical fundamental and technical statistics. Quantitative Research opinions and recommendations may differ from the opinions, recommendations and / or ratings of RBC Capital Markets' fundamental equity and other research products. Fundamental equity research is available from your RBC Capital Markets salesperson. Opinions and recommendations in Quantitative Research could result in short-term price movements that are contrary to the recommendations and/or ratings in fundamental equity research.

This comment is prepared by the Technical Research group of RBC Capital Markets (Trend & Cycle). All views expressed are the opinions of Trend & Cycle based solely on the historical technical behavior (price and volume) and their expectations of the most likely direction of a market or security. No guarantee of that outcome is ever implied. Trend & Cycle opinions may differ from the fundamental research view of RBCCM. This fundamental research view is available in written research that is available from your RBC CM Salesperson. The technical research opinions contained in this report are subject to change without notice and RBC CM has no obligation to inform you of such a change.

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/ or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents: This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia: This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

To Hong Kong Residents: This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities which are regulated by the Hong Kong Monetary Authority (‘HKMA’) and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the HKMA and the SFC under the laws of Hong Kong, which differ from Australian laws.

To Japanese Residents: Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd. which is a Financial Instruments Firm registered with the Kanto Local Financial Bureau (Registered number 203) and a member of the Japan Securities Dealers Association (“JSDA”)