



September 2, 2015

## Investment Strategy Playbook – Sept. 2015

### Secular Outlook: Reiterating Our Slower-for-Longer Thesis

In the past, we've highlighted our belief that a slower recovery should lead to an elongated business cycle and that global growth expectations were too optimistic. Accordingly, companies are likely to remain focused on margins and the return of capital, and central bank policy accommodative. This scenario should be supportive for U.S. stocks.

### Cyclical Outlook: Data Indicates Near-Term Weakness

As a result of a global growth scare, the S&P 500 fell 6.3% in August. We expect stocks to recoup their losses; however, recent data has caused us to become incrementally more cautious.

- **China:** Imbalances have come into greater focus, accompanied by weaker commodity prices, global PMIs, and trade data.
- **Liquidity:** While HY spreads have widened, funding markets remain open and Bank CDS shows few signs of stress.
- **U.S.:** While recent data has been soft, 72 of the last 73 Manufacturing PMIs have been above 50 and payrolls have been trending 200,000+ since 2010.
- **Global Markets:** Commodity exporters and those specifically dependent on Chinese demand have shown greater signs of weakness. This is likely to persist.

**We continue to favor secular growth themes and have become more cautious on highly cyclical groups such as Industrials and Materials.**

### VIX



Source: CBOE, Haver, and RBC Capital Markets

Note: Since 6/30/03

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All values in USD unless otherwise noted.

Priced as of market close on August 31, 2015 (unless otherwise stated).

**For Required Conflicts Disclosures, please see page 81.**



**RBC Capital Markets**

# RBC Capital Markets Calendar of Upcoming Conferences

Please mark your calendar for RBC Capital Markets' marquee events. Please note that these conferences are by invitation only. For more information about a particular event, contact your RBC Capital Markets representative.

## [Global Industrials Conference](#)

September 9 – 10, 2015 | Las Vegas

## [Maple Bond Conference](#)

September 15, 2015 | Toronto

## [Small Cap Conference](#)

September 21, 2015 | Toronto

## [Airline & Aerospace Investor Day](#)

September 29, 2015 | Toronto

## [Aircraft Leasing Investor Day](#)

September 30, 2015 | Los Angeles

## [International Oil and Gas Conference](#)

October 6, 2015 | London

## [Global Towers Investor Day](#)

October 8, 2015 | Chicago

## [UK Challenger Banks & Specialty Lending Seminar](#)

November 6, 2015 | London

## [Technology, Internet, Media and Telecommunications Conference](#)

November 10 – 11, 2015 | New York

## [Gold Conference](#)

November 17, 2015 | London

## [MLP Conference](#)

November 18 – 19, 2015 | Dallas



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Equity Valuations: pp. 46–49

Sector Insights: pp. 50–66

- **Consumer**
- **Technology**
- **Health Care**
- **Industrials**
- **Energy**
- **Financials**

Performance: pp. 67–69

Market Leadership, Factors, and Dividend Investing: pp. 70–73

Small Cap Performance, Valuation, and Analysis: pp. 74–78

Technical Outlook and Opportunities: pp. 79–80

### Sector Recommendations

Overweight	Market Weight	Underweight
Financials	Discretionary	Telecom
Health Care	Energy	Utilities
Technology	Industrials	
	Materials	
	Staples	

Source: RBC Capital Markets

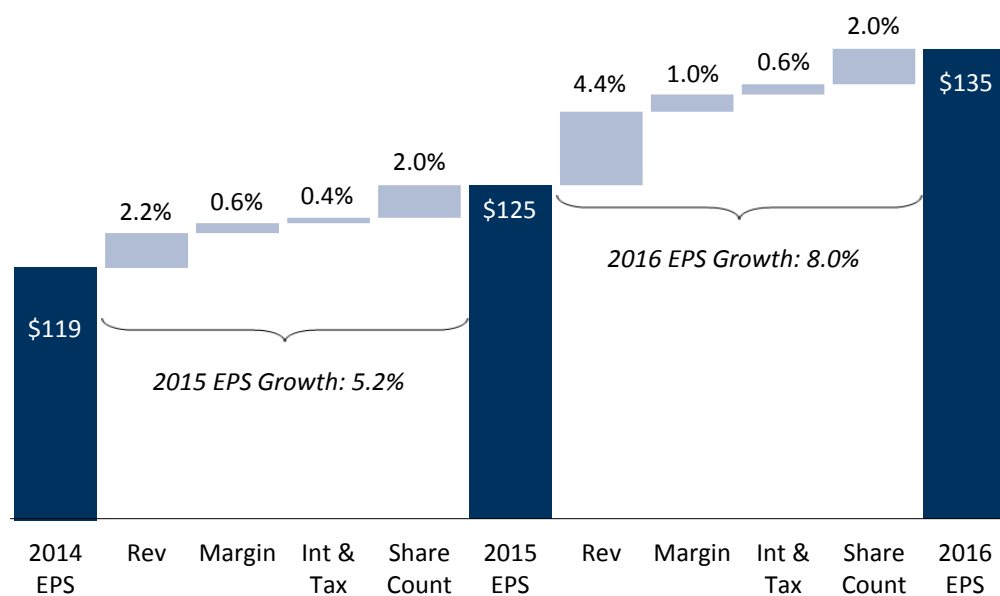
## S&P 500 Price and Earnings Targets

### S&P 500 Price and Earnings Targets

S&P 500 Price Level	Price	% Change
Current (as of 08/31/2015)	1,972	
2015 Year-End Target Price	2,325	17.9%
Operating Earnings	EPS	YoY Growth
2013 Actual	110.39	
2014 Actual	118.83	7.6%
2015 Estimate	125.00	5.2%
2016 Estimate	135.00	8.0%
P/E Multiple	Current	Change
Current on NTM RBC EPS Estimates	15.0x	
Year-end 2015 on RBC 2016 EPS	17.2x	2.2x

Source: S&P, Thomson Financial, FactSet, and RBC Capital Markets estimates

### 2015 Projected S&P 500 EPS Breakdown



Source: S&P and RBC Capital Markets estimates



## S&P 500 Price and Earnings Targets

### EPS Estimates Detail

	2013	2014	2015E	2016E
<b>Dollars (\$bn)</b>				
Sales	9,949	10,336	10,568	11,032
EBIT	1,502	1,609	1,659	1,749
Interest Expense	166	168	167	166
EBT	1,335	1,441	1,492	1,583
Taxes	353	385	398	423
Net Income	983	1,056	1,094	1,160
<b>Per Share (\$)</b>				
Sales/Share	1116.81	1163.32	1209.00	1290.00
EPS/Share	110.39	118.83	125.00	135.00
<b>Contribution to Growth (%)</b>				
Sales	1.4	3.9	2.2	4.4
Margins	2.0	3.1	0.6	1.0
Int & Tax	2.1	0.2	0.4	0.6
Interest	1.0	0.8	0.4	0.6
Taxes	1.1	-0.5	0.0	0.0
Share Count	0.9	0.3	2.0	2.0
Buybacks	2.1	2.5	2.5	2.5
Issuance	-1.2	-2.2	-0.5	-0.5
<b>Chg in EPS</b>	<b>6.4</b>	<b>7.6</b>	<b>5.2</b>	<b>8.0</b>

Source: S&P, Compustat, FactSet, Haver, and RBC Capital Markets estimates

### RBC S&P 500 Quarterly EPS and Revenue Estimates (\$)

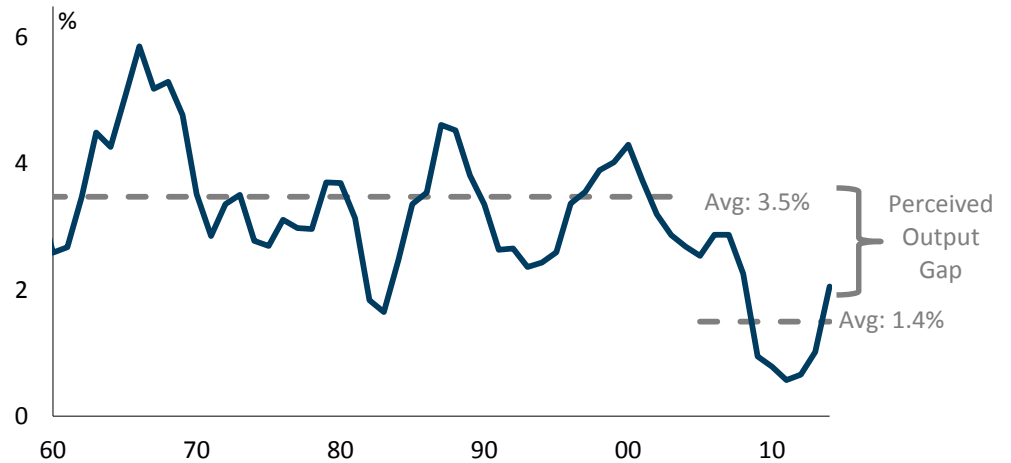
	Operating EPS	Sales/Share
<b>2012</b>	<b>103.78</b>	<b>1092.38</b>
<b>2013</b>	<b>110.39</b>	<b>1116.81</b>
<b>2014</b>	<b>118.83</b>	<b>1163.32</b>
1Q	28.18	279.96
2Q	30.07	292.36
3Q	30.04	293.09
4Q	30.54	297.91
<b>2015E</b>	<b>125.00</b>	<b>1209.00</b>
1Q	28.60	275.00
2QE	30.75	296.00
3QE	32.20	312.00
4QE	33.45	326.00
<b>2016E</b>	<b>135.00</b>	<b>1,290.00</b>

Source: S&P, Thomson Financial, FactSet, and RBC Capital Markets estimates

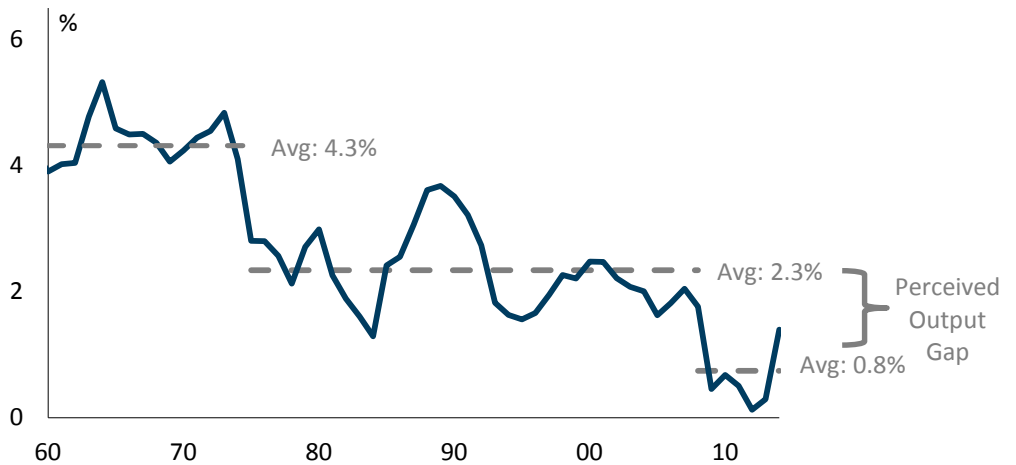
## Slower for Longer

### GDP Growth – Historical

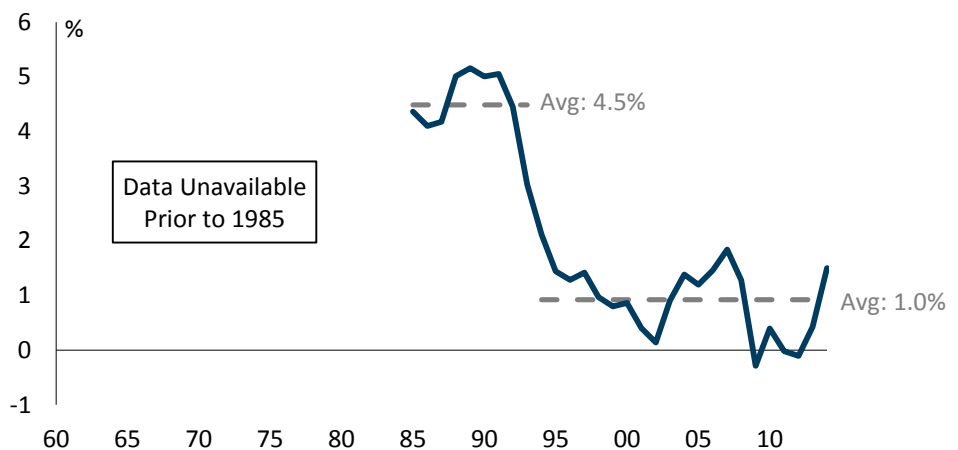
#### United States



#### G7 ex-U.S.



#### Japan



Note: 5-Year MA

Source: BEA, Statistics Canada, Institut National de la Statistique, Deutsche Bundesbank, Istituto Nazionale di Statistica, Cabinet Office of Japan, Office for National Statistics (U.K.), Haver, and RBC Capital Markets

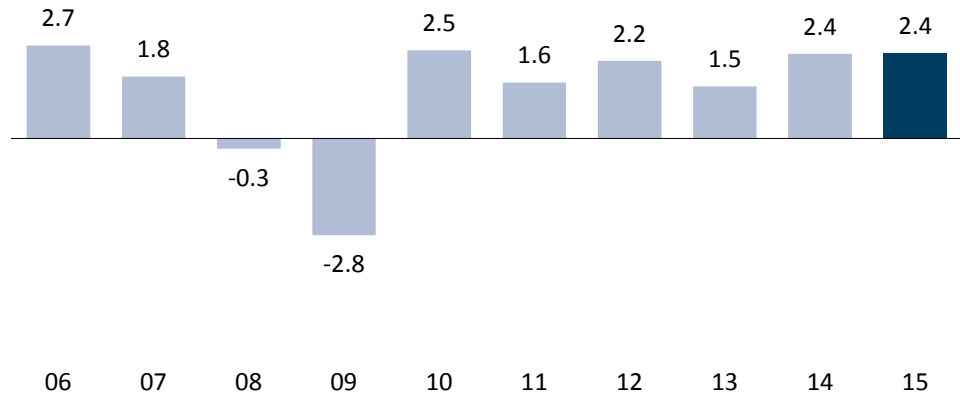
## Slower for Longer

### Calendar-Year GDP

#### United States

5-Year Avg: 2.0%

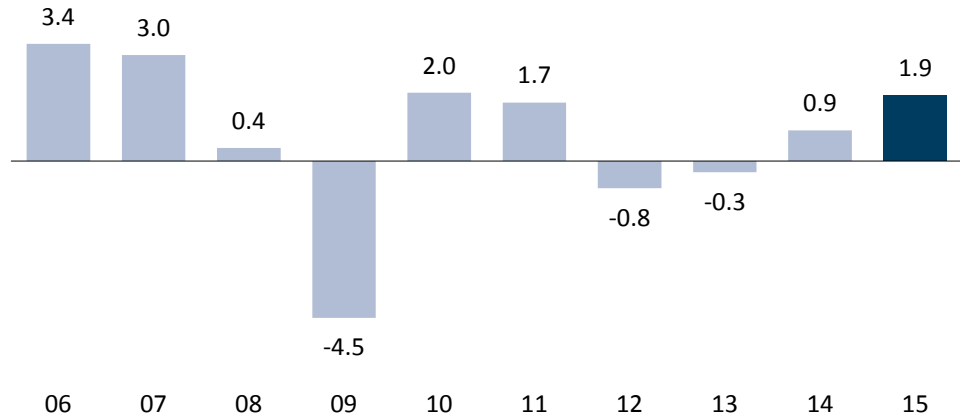
10-Year Avg: 1.4%



#### European Union

5-Year Avg: 0.7%

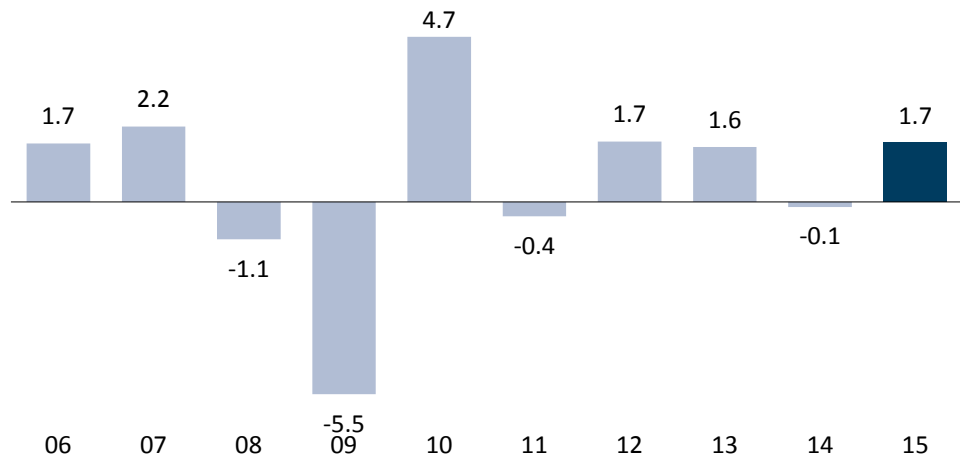
10-Year Avg: 0.8%



#### Japan

5-Year Avg: 0.9%

10-Year Avg: 0.6%



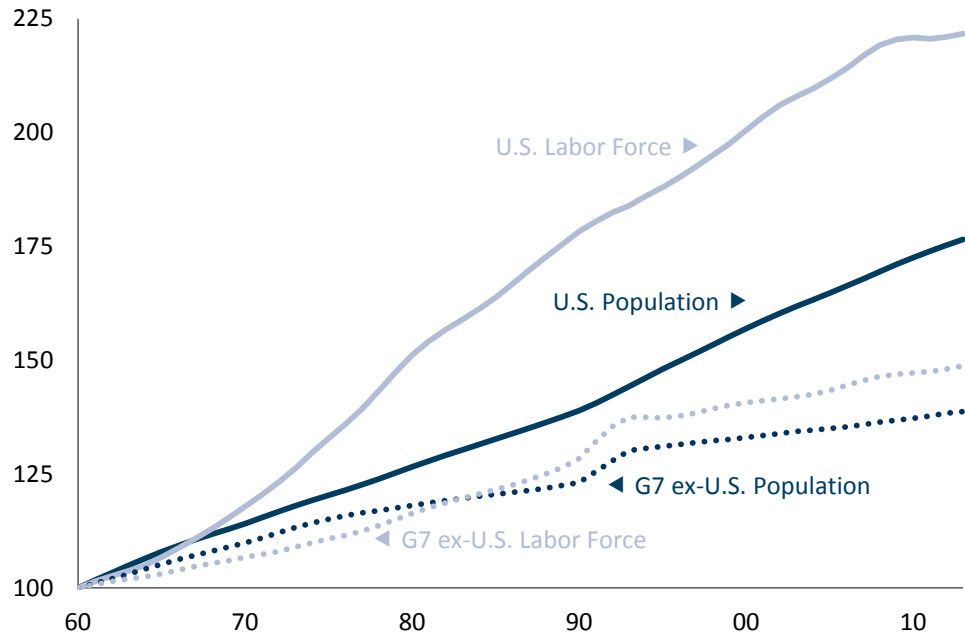
Note: Blend of actuals where available and Bloomberg Consensus for estimates

Source: BEA, Statistical Office of the European Communities, Cabinet Office of Japan, Bloomberg, Haver, and RBC Capital Markets

## Slower for Longer

*U.S. demographics have been the driving force behind superior U.S. GDP growth*

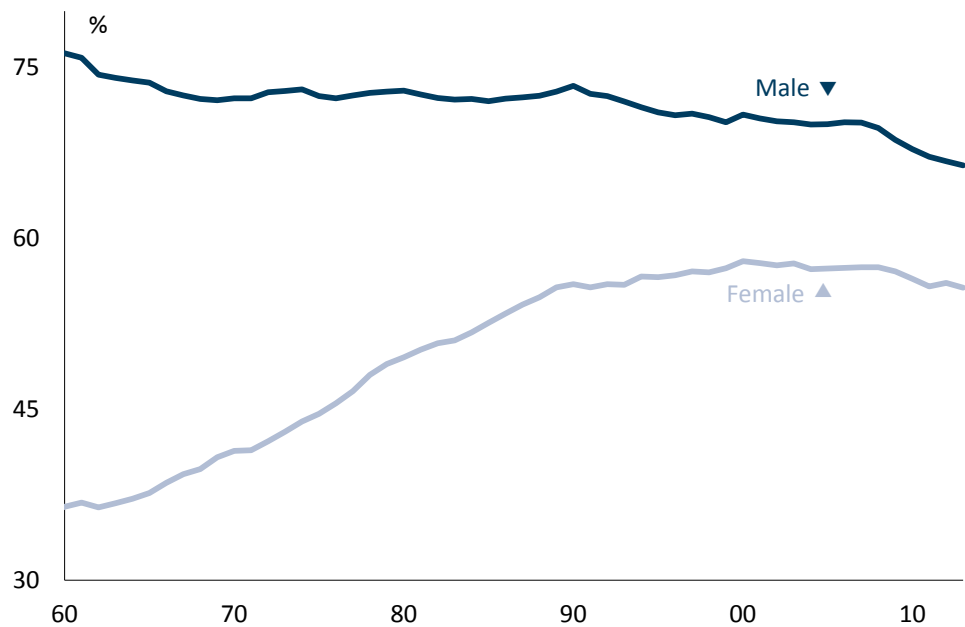
Population vs. Labor Force Growth – U.S. vs. G7 ex-U.S.



Source: UN, Haver, and RBC Capital Markets

U.S. Labor Force Participation – Male vs. Female

*In the US, labor force growth has been slowing due to declining participation rates*



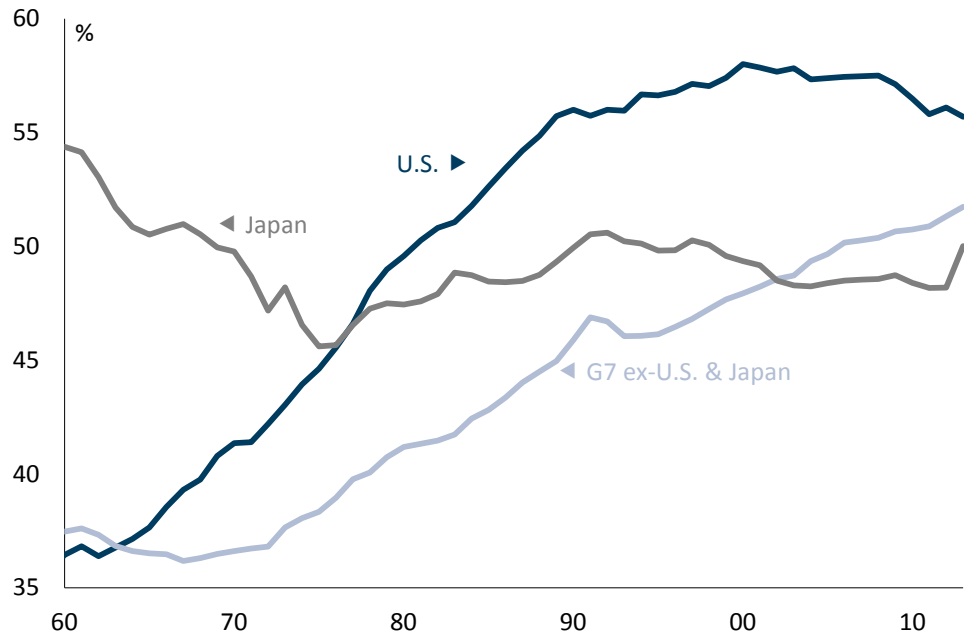
Source: BLS, Haver, and RBC Capital Markets



## Slower for Longer

*Female participation in the U.S. began increasing earlier than elsewhere but has tailed off*

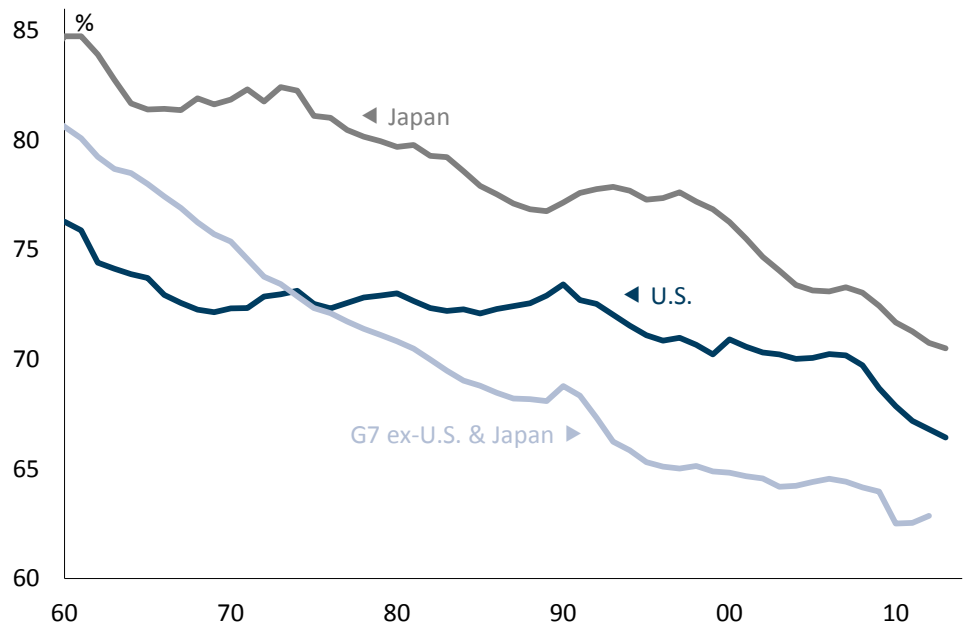
Female Labor Force Participation Rate – U.S. vs. G7 ex-U.S. and Japan



Source: OECD, Haver, and RBC Capital Markets

*Male participation has been declining steadily*

Male Labor Force Participation Rate – U.S. vs. G7 ex-U.S. and Japan

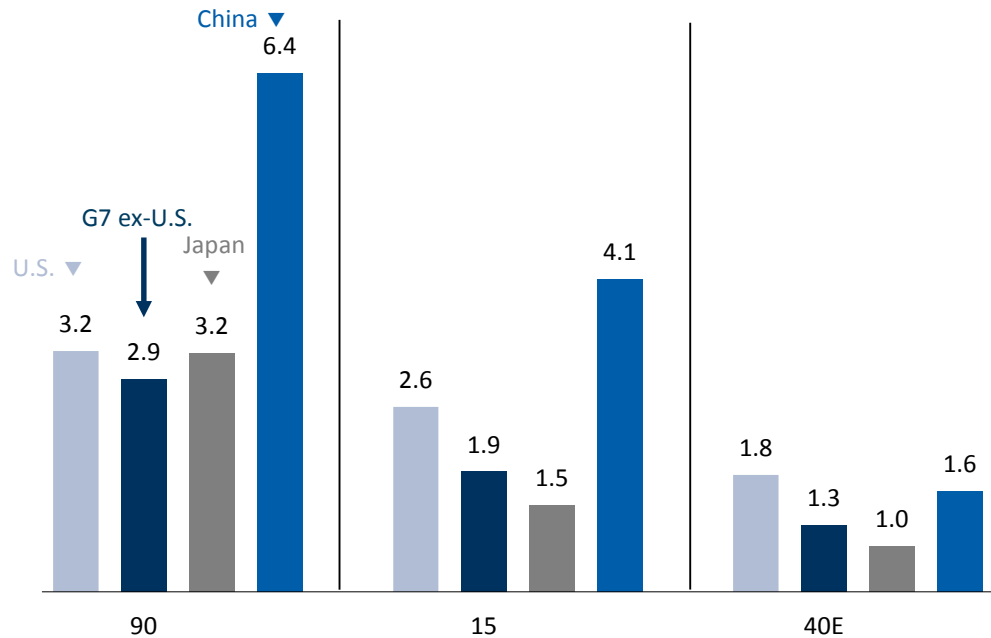


Source: OECD, Haver, and RBC Capital Markets

## Slower for Longer

*China has by far the greatest degradation in working-age population*

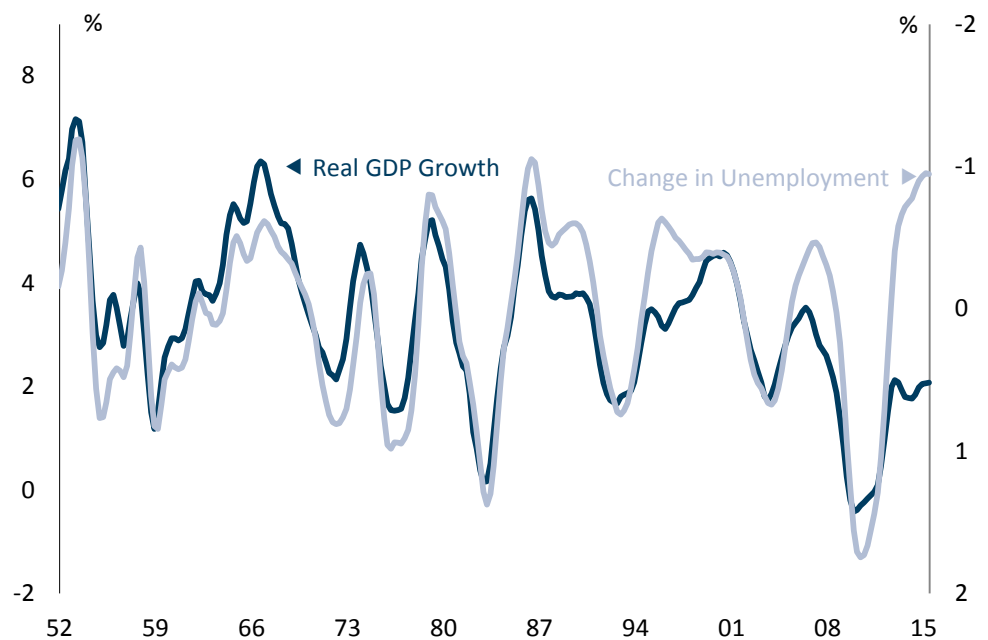
Working Age Population per Retiree



Note: Ratio of population aged 20–60 vs. population aged 60+  
Source: UN, Haver, and RBC Capital Markets

*Throughout the current cycle, there has been a disconnect between employment and growth*

GDP Growth vs. Change in Unemployment (Inverted)

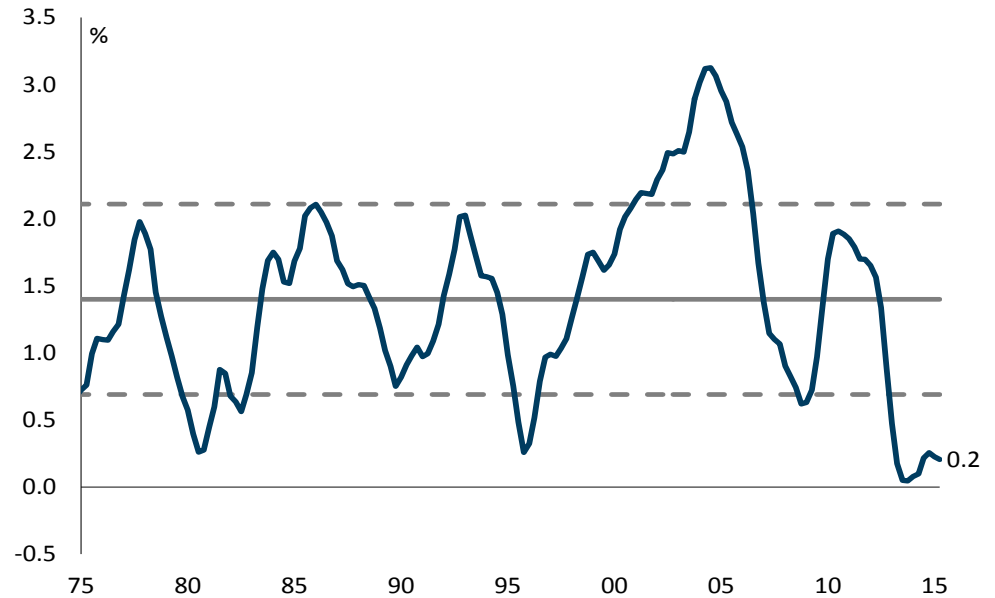


Source: BLS, BEA, Haver, and RBC Capital Markets

## Slower for Longer

*Has the U.S. seen a permanent slowdown in productivity or is it poised to mean-revert?*

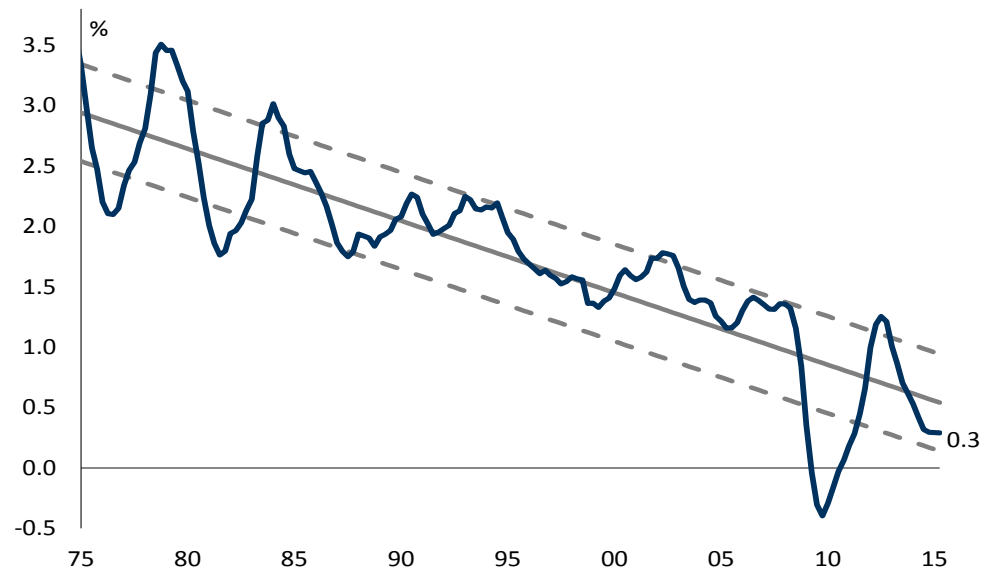
### Productivity – United States



Note: 3y moving average of YoY change in GDP divided by Aggregate Hours  
Source: BEA, BLS, Haver, and RBC Capital Markets

*Other developed economies are showing a more pronounced productivity slowdown*

### Productivity – G7 ex-U.S.



Note: 3y moving average of YoY Change in GDP divided by Aggregate Hours  
Source: Statistics Canada, Institut National de la Statistique, Deutsche Bundesbank, Statistisches Bundesamt, Istituto Nazionale di Statistica, Cabinet Office of Japan, Ministry of Internal Affairs (Japan), Office for National Statistics (U.K.), Haver, and RBC Capital Markets

## Slower for Longer

*Demographics in the U.S. and the rest of the English-speaking world are quite favorable relative to Japan and Germany*

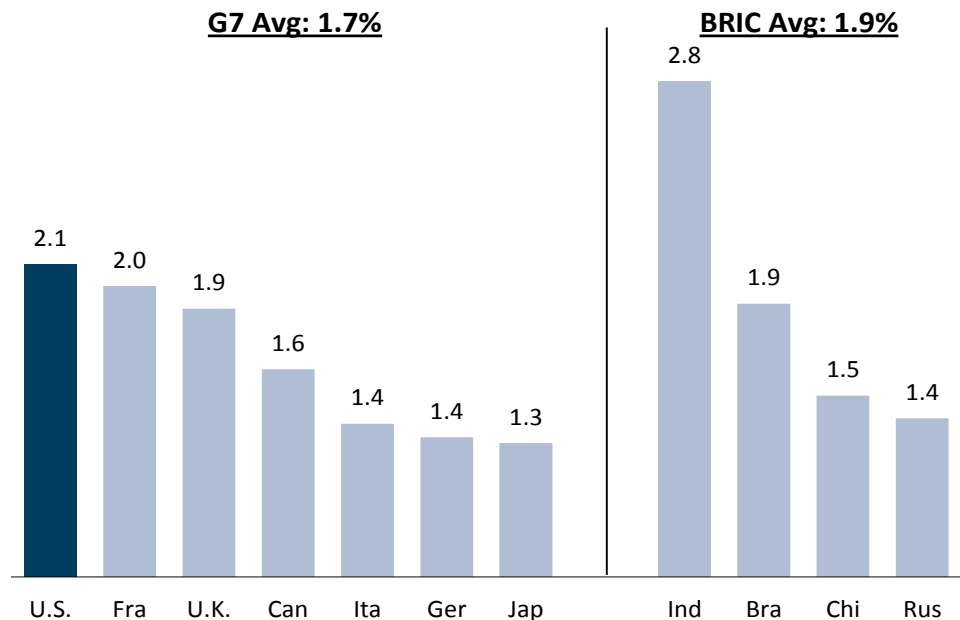
### Global Population Growth

	Births per 1,000	Deaths per 1,000	Difference	Migration per 1,000	Total	Median Age
<b>U.S.</b>	<b>12.8</b>	<b>8.2</b>	<b>4.6</b>	<b>0.3</b>	<b>5.0</b>	<b>37.2</b>
<b>G7 ex-U.S.</b>	<b>10.2</b>	<b>9.3</b>	<b>1.0</b>	<b>0.3</b>	<b>1.3</b>	<b>42.0</b>
Canada	11.0	7.3	3.7	0.7	4.4	39.7
France	12.4	8.9	3.6	0.2	3.7	40.1
Germany	8.3	10.7	-2.4	0.0	-2.4	44.3
Italy	8.8	9.7	-0.9	0.3	-0.6	43.8
Japan	8.4	9.8	-1.4	0.1	-1.3	44.9
U.K.	12.6	9.2	3.4	0.5	3.9	39.4
<b>BRIC</b>	<b>15.3</b>	<b>8.6</b>	<b>6.6</b>	<b>0.1</b>	<b>6.7</b>	<b>31.8</b>
Brazil	15.4	6.0	9.3	0.0	9.3	29.1
China	12.4	6.9	5.5	0.0	5.5	35.2
India	20.9	7.5	13.4	0.0	13.4	25.1
Russia	12.4	14.1	-1.7	0.3	-1.4	38.0
<b>Anglo Five</b>	<b>12.8</b>	<b>7.6</b>	<b>5.1</b>	<b>0.6</b>	<b>5.7</b>	<b>38.0</b>
Australia	13.5	6.7	6.9	1.0	7.9	37.0
New Zealand	13.9	6.8	7.1	0.3	7.4	36.5

Source: UN, Haver, and RBC Capital Markets

### Fertility Rate

*The vast majority of the world has fertility rates below replacement levels*

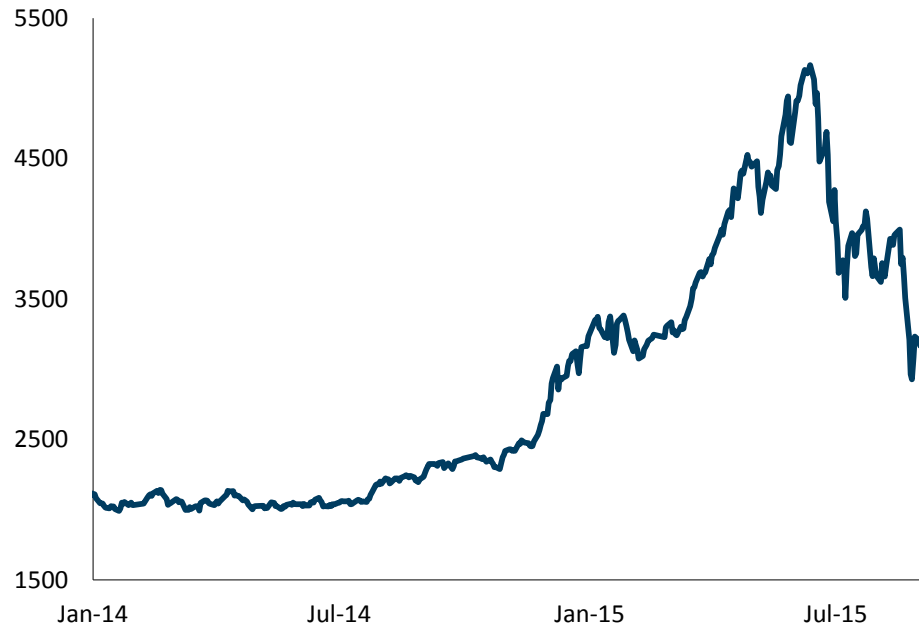


Source: UN, Haver, and RBC Capital Markets

## Slower for Longer

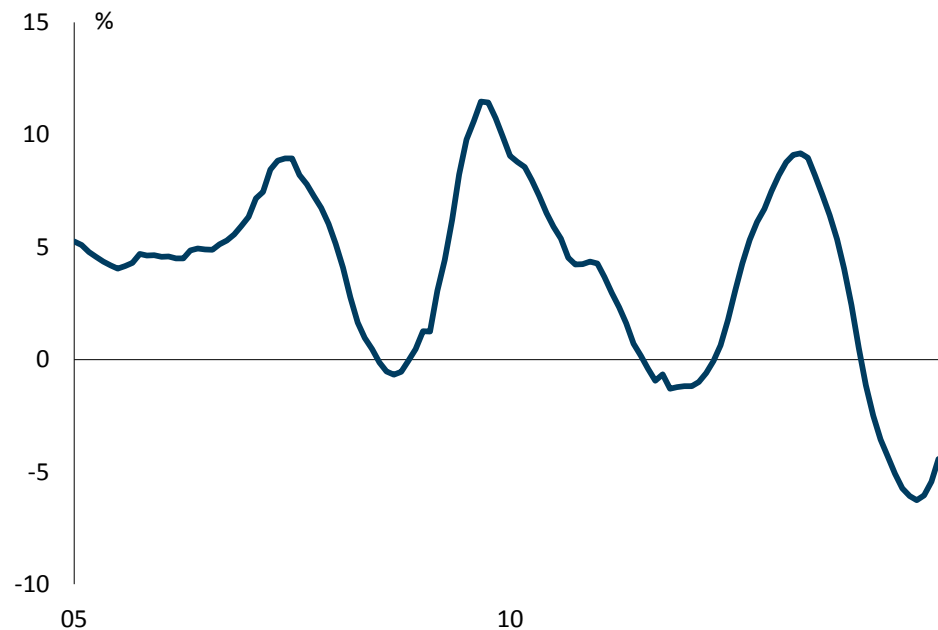
*Chinese real estate and equity values have come under significant pressure*

### Shanghai Composite



Source: Bloomberg and RBC Capital Markets

### China Newly Built Home Prices YoY – 70 City Average

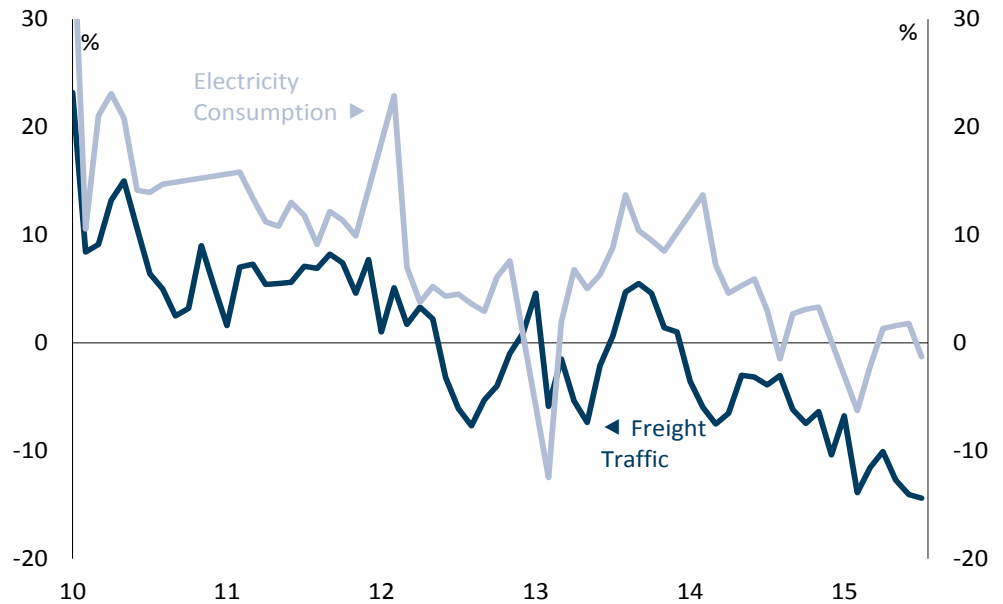


Source: Bloomberg and RBC Capital Markets

## Slower for Longer

*Business indicators point to weaker Chinese growth than official GDP numbers*

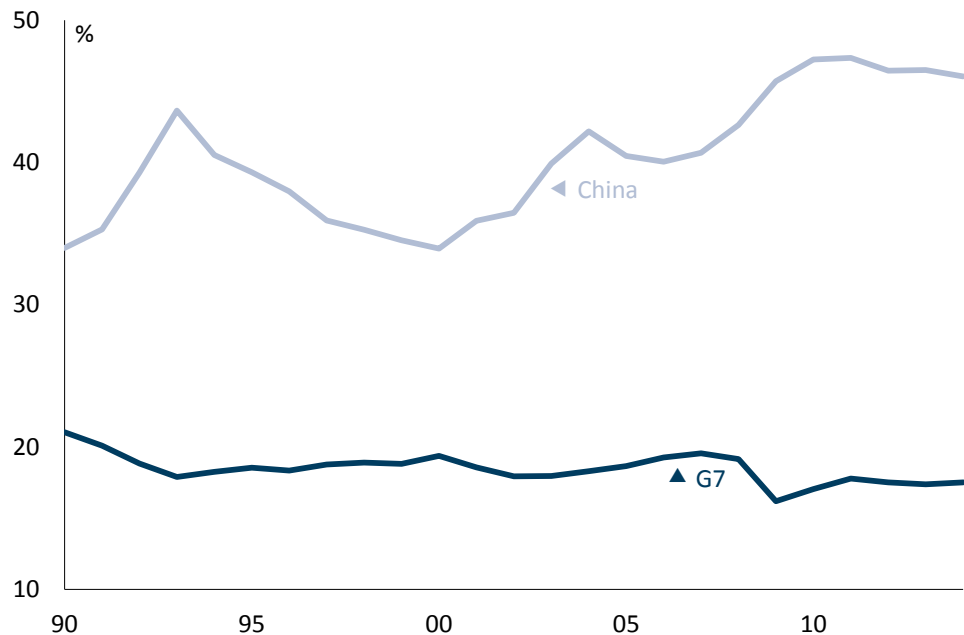
China Freight Traffic and Electricity Consumption (YoY)



Source: National Bureau of Statistics China, China National Energy Admin., Bloomberg, and RBC Capital Markets

*Chinese GDP is quite skewed to investment*

Investment as a Percentage of GDP – China vs. G7



Source: BEA, Statistics Canada, Institut National de la Statistique, Deutsche Bundesbank, Istituto Nazionale di Statistica, Cabinet Office of Japan, Office for National Statistics (U.K.), China National Bureau of Statistics, Haver, and RBC Capital Markets  
Note: Average of G7

## Long-Term Market Trends

*Most bull markets end with recessions*

### Bull Markets and Recessions

Bull Markets				Recession	
Trough	Peak	Return	# Mo.	Peak	Trough
Oct-66	Nov-68	48%	26	Dec-69	Dec-70
May-70	Jan-73	74%	32	Nov-73	Apr-75
Oct-74	Feb-80	90%	65	Jan-80	Aug-80
Mar-80	Nov-80	43%	8	Jul-81	Dec-82
Aug-82	Aug-87	229%	61	n/a	n/a
Dec-87	Jul-90	65%	32	Jul-90	Apr-91
Oct-90	Mar-00	417%	115	Mar-01	Dec-01
Oct-02	Oct-07	101%	61	Dec-07	Jul-09
Mar-09	Ongoing	192%	79		
Average		140%	53		

Source: S&P, NBER, Haver, and RBC Capital Markets

*Bear markets tend to be shorter and more severe*

### Bear Markets and Recessions

Recession		Bear Markets*			
Peak	Trough	Peak	Trough	Return	# Mo.
Dec-69	Dec-70	Nov-68	May-70	-36%	18
Nov-73	Apr-75	Jan-73	Oct-74	-48%	21
Jan-80	Aug-80	Feb-80	Mar-80	-17%	1
Jul-81	Dec-82	Nov-80	Aug-82	-27%	21
n/a	n/a	Aug-87	Dec-87	-34%	3
Jul-90	Apr-91	Jul-90	Oct-90	-20%	3
Mar-01	Dec-01	Mar-00	Oct-02	-49%	31
Dec-07	Jul-09	Oct-07	Mar-09	-57%	17
		Average		-36%	14

Note: The 17% loss in 1980 technically is not a bear market but is included due to the recession and ~20% decline. The 1987 market decline was not the result of a recession but rather due to a market crash.

Source: S&P, NBER, Haver, and RBC Capital Markets

## Long-Term Market Trends

### Recessionary Indicator Scorecard

*The current environment bears little resemblance to past recessions*

Start of Recession	Yield Curve	ISM Mfg.	Inf. Trends	Capacity Utilization	Housing Starts	Avg. Wkly Hours
Dec-69	×	×	×	×	×	×
Nov-73	×	×	×	×	×	×
Jan-80	×	×	×	×	×	×
Jul-81	×	×	✓	✓	×	✓
Jul-90	×	×	×	×	×	×
Mar-01	×	×	×	×	--	×
Dec-07	×	×	×	×	×	--
Present	✓	✓	✓	--	✓	--

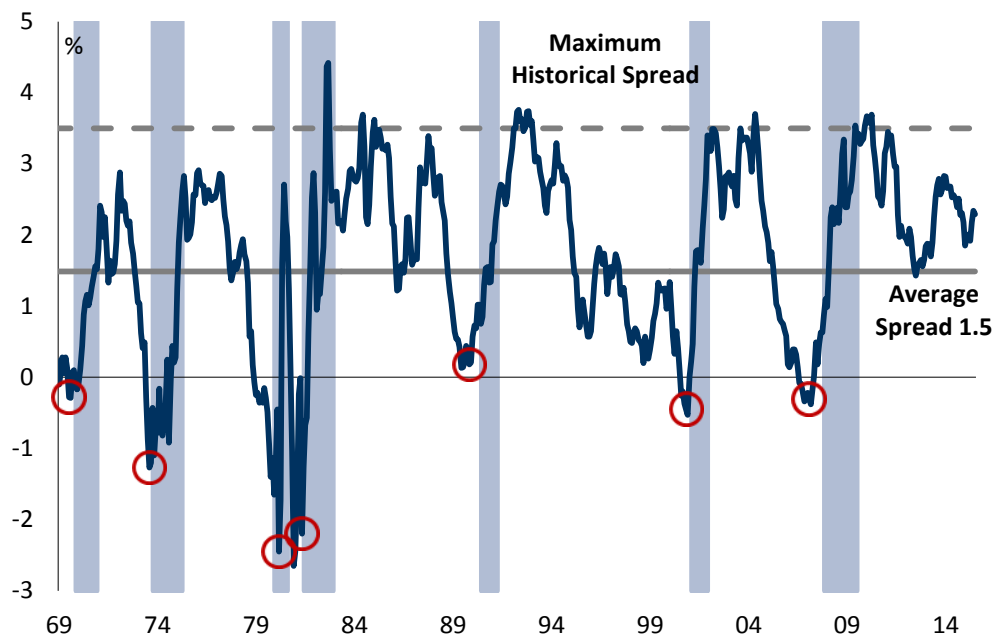
**Key:** × Recessionary Territory  
 ✓ Expansionary Territory  
 -- Neutral

Source: S&P, NBER, Federal Reserve, BLS, ISM, Census Bureau, Haver, and RBC Capital Markets

### Yield Curve

*There has never been a recession without the yield curve first inverting*

*The yield curve is steeper than normal*



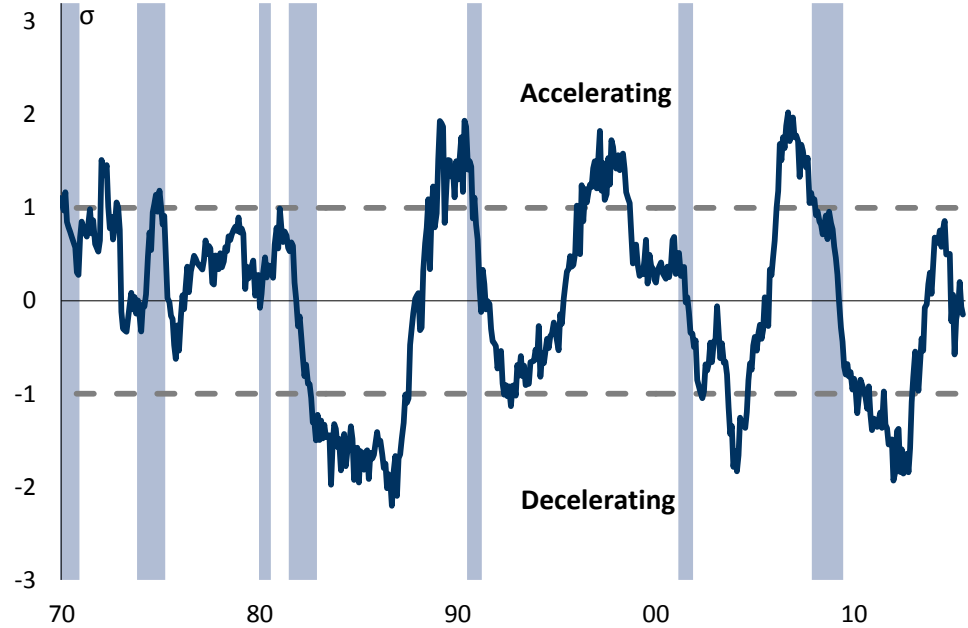
Source: Federal Reserve, Haver, and RBC Capital Markets



## Long-Term Market Trends

### Wage Inflation Acceleration

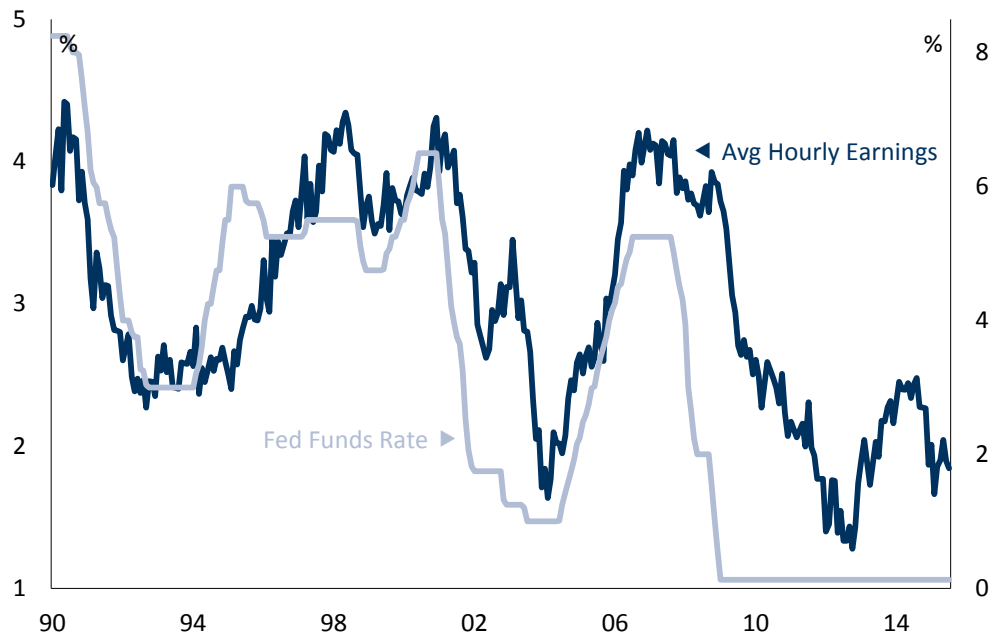
*Wage inflation appears contained*



Note: Measured as the Z-score of YoY change in Average Hourly Earnings relative to five-year moving average  
Source: BLS, NBER, Haver, and RBC Capital Markets

### Average Hourly Earnings vs. Fed Funds Rate

*Historically, Fed funds and wage inflation have moved together*

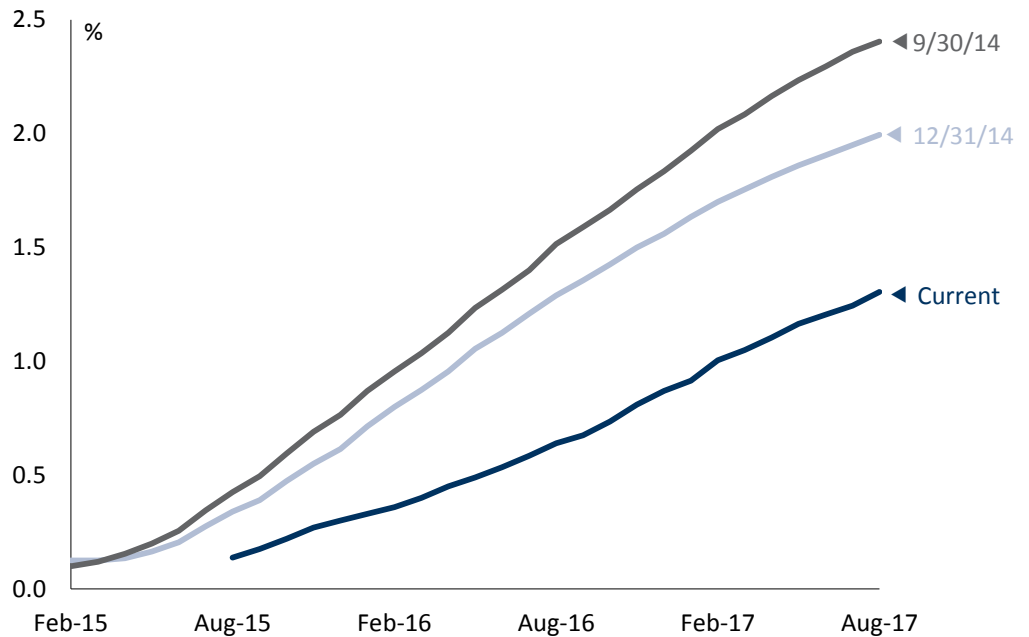


Source: Federal Reserve, BLS, Haver, and RBC Capital Markets

## Interest Rate Policy

### Fed Funds Futures

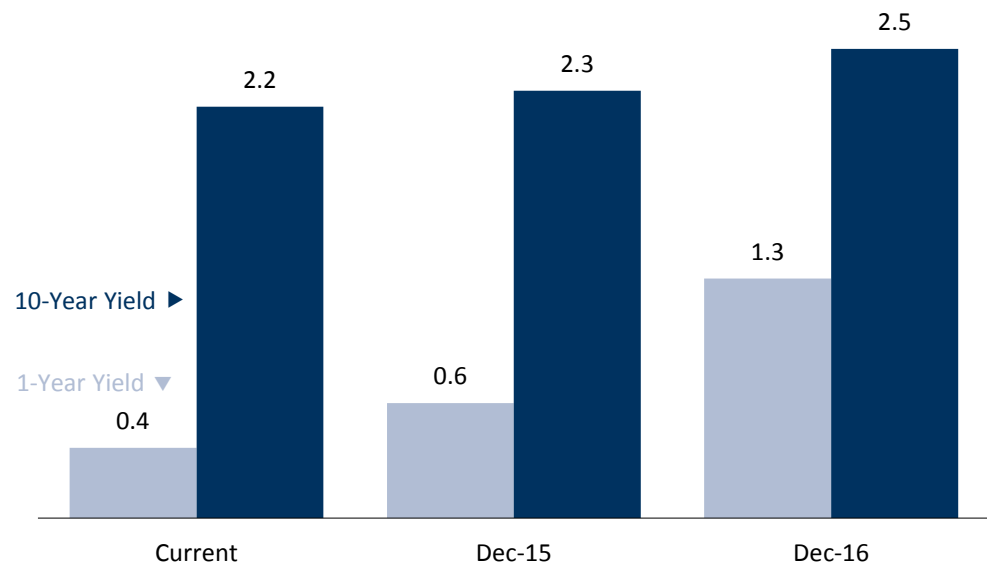
*The futures market is implying 1.7% Fed Funds at the end of 2017*



Source: Federal Reserve, Bloomberg, and RBC Capital Markets

### Forward Expectations for Treasury Yields (%)

*Expectations are for 10-Year yields to rise modestly along with the short end of the curve*

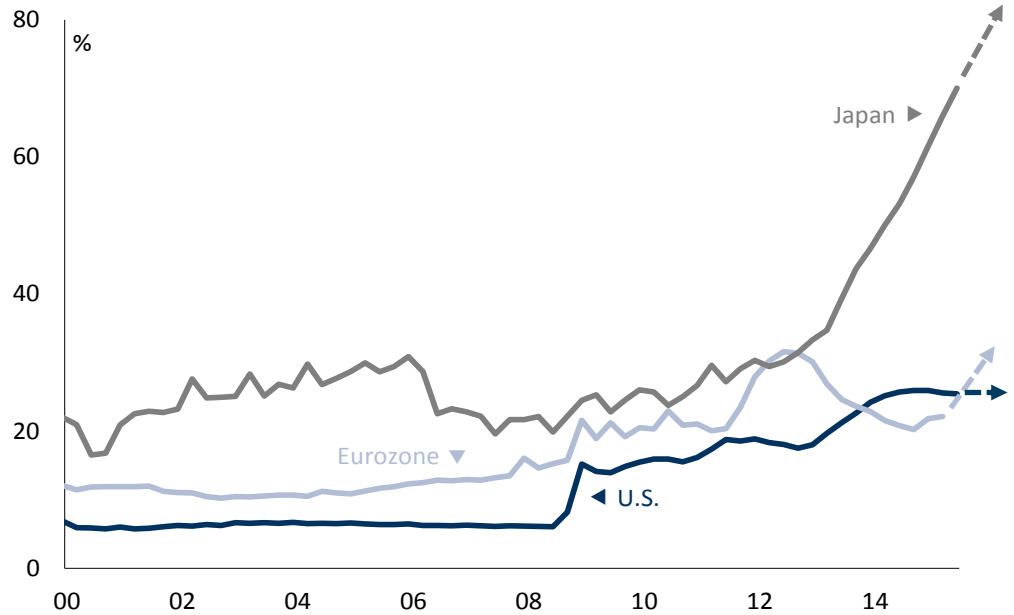


Source: Bloomberg and RBC Capital Markets

## Interest Rate Policy

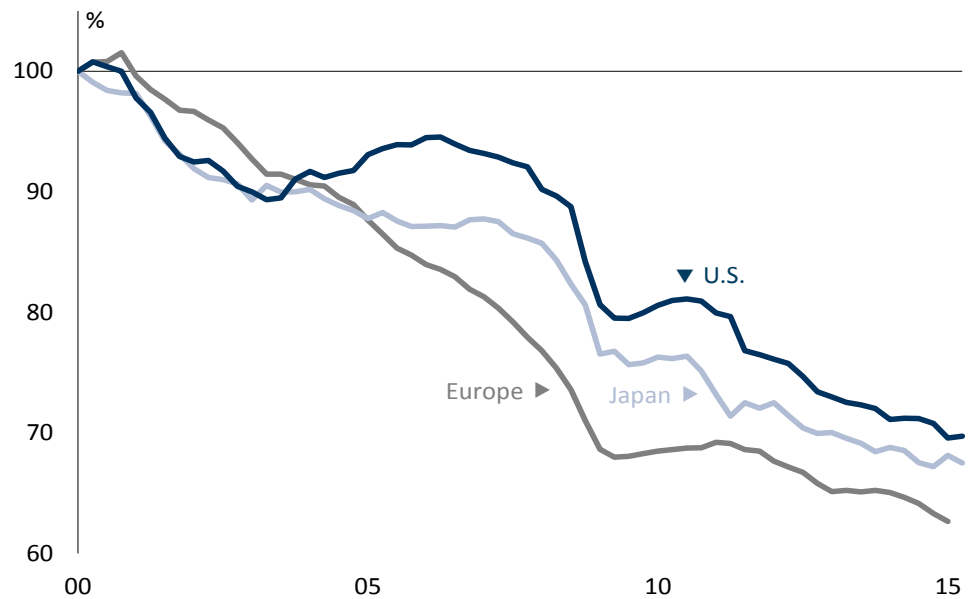
*Global money printing is being offset by declining velocity*

Central Bank Balance Sheet Assets as Percentage of GDP



Source: Federal Reserve, BEA, ECB, Statistical Office of the European Communities, BoJ, Cabinet Office of Japan, Haver, and RBC Capital Markets

Money Velocity



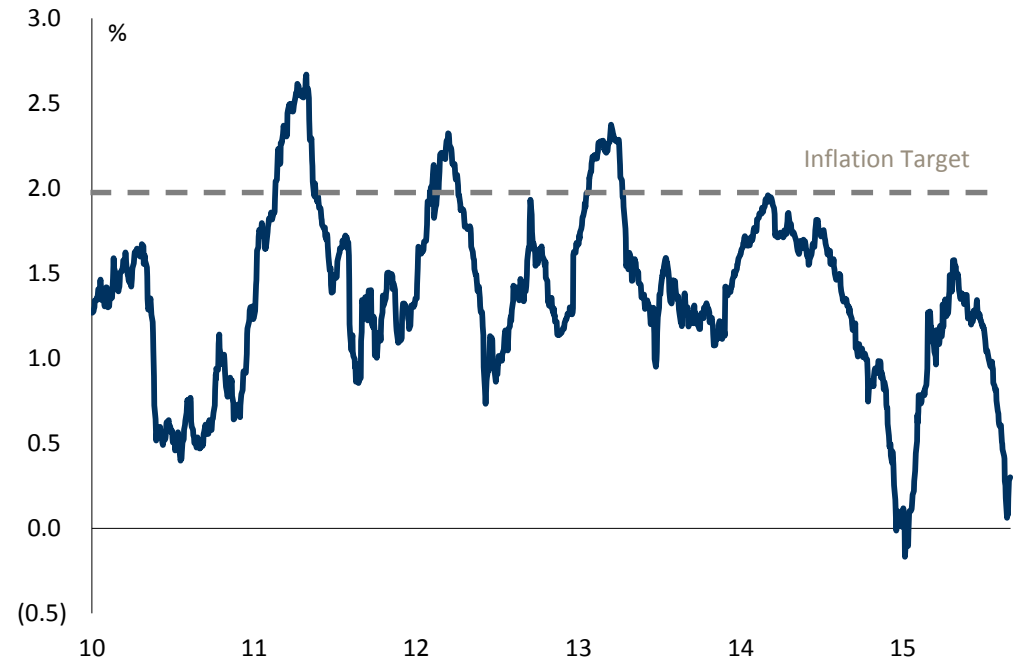
Note: GDP divided by M2 Money Supply, Indexed to 100 in 2000

Source: BEA, Federal Reserve, Cabinet Office of Japan, Statistical Office of the European Communities, ECB, Haver, and RBC Capital Markets

## Interest Rate Policy

*Inflation expectations continue to drift lower*

2-Year Breakevens

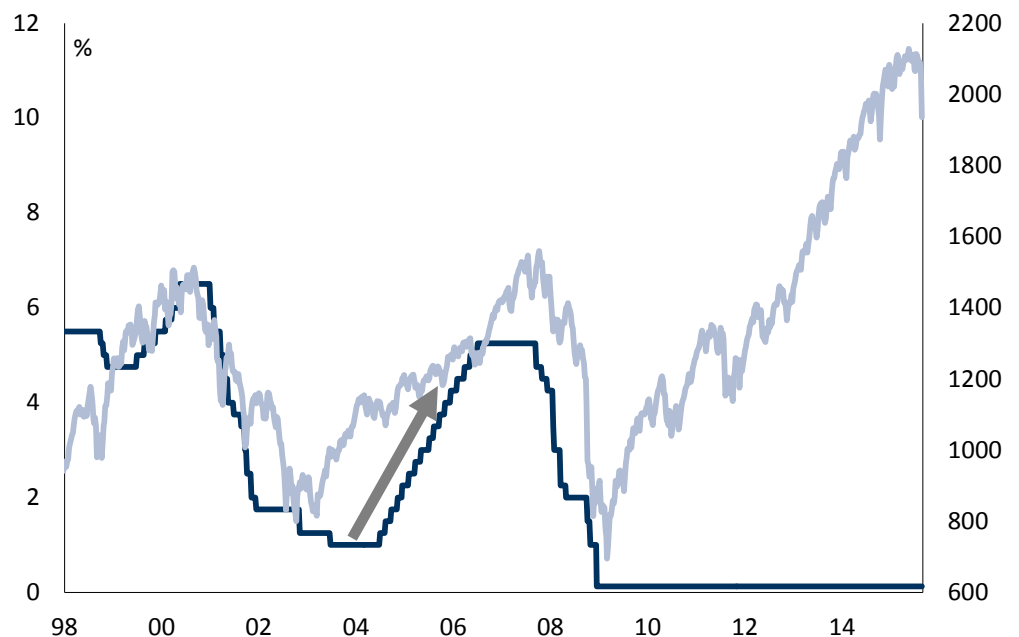


Source: Federal Reserve, CBOE, Haver, and RBC Capital Markets

Note: 30-Day Moving Average VIX

*Initial Fed rate hikes don't spell the end for bull markets*

S&P 500 vs. Fed Funds Rate

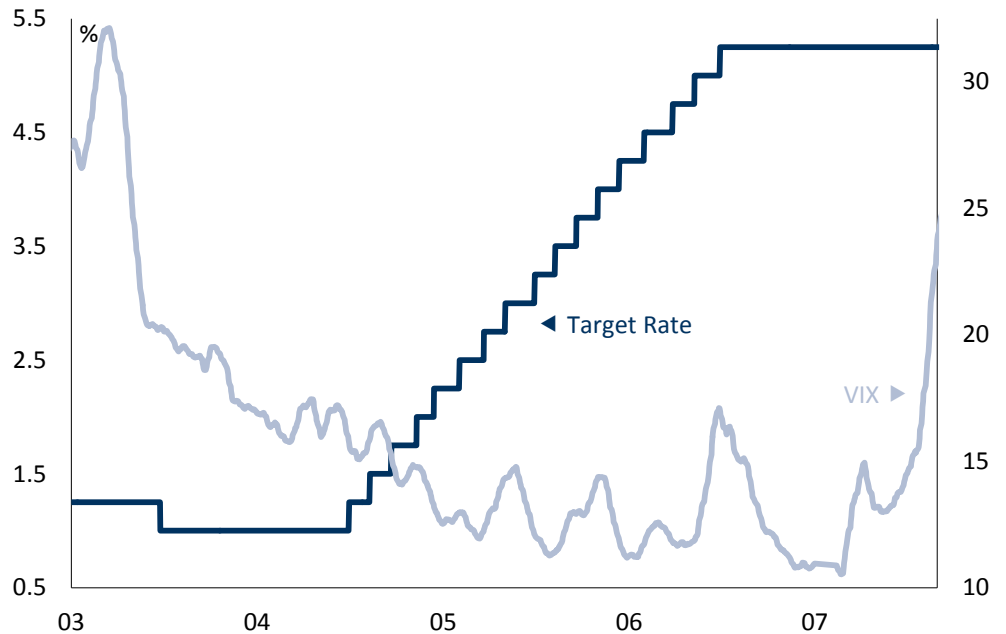


Source: S&P, Federal Reserve, Haver, and RBC Capital Markets

## Volatility

*Historically, rate hikes do not result in higher volatility*

Federal Funds Target Rate vs. VIX

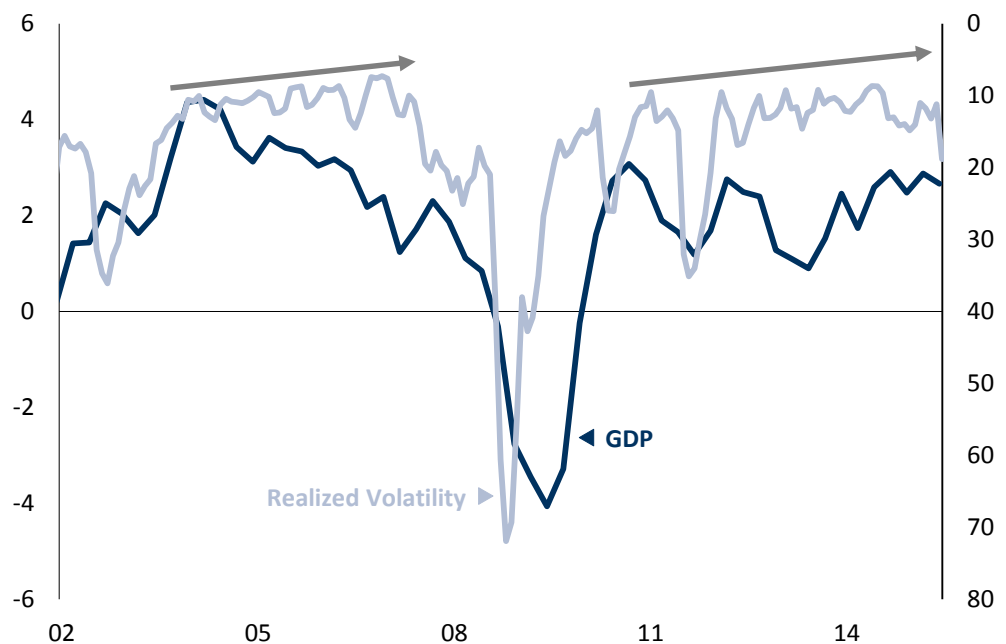


Source: Federal Reserve, CBOE, Haver, and RBC Capital Markets

Note: 30-Day Moving Average VIX

*Volatility tends to drift lower during the middle innings of expansionary periods*

GDP vs. Realized Volatility (Inverted)



Source: S&P, BEA, Bloomberg, Haver, and RBC Capital Markets

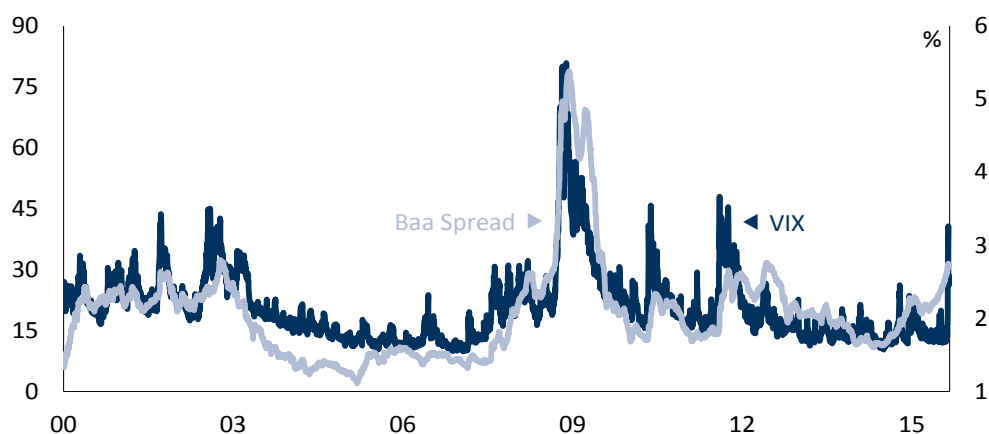
Note: 60-day rolling realized volatility



## Volatility

*Volatility and spreads tend to move together*

### Volatility and Spreads



Source: Federal Reserve, CBOE, Haver, and RBC Capital Markets

*Stocks tend to outperform from heightened levels of volatility*

### Stock Performance at VIX Levels (%)

	S&P 500		Russell 2000	
	Return	Annualized	Return	Annualized
<b>When VIX &gt; 20</b>				
Subsequent 2 months	4.2	27.9	5.1	34.9
Subsequent 3 months	6.3	27.7	8.1	36.3
<b>When VIX &gt; 15</b>				
Subsequent 2 months	2.3	14.8	2.8	18.3
Subsequent 3 months	3.4	14.1	4.2	17.8

Source: CBOE, S&P, Russell, Haver, and RBC Capital Markets

Note: Since 1/1/10

### Market Rallies Between 10% Corrections

S&P 500 Rally			
Beginning	End	# of Days	Return
Oct-90	Oct-97	2,553	233%
Oct-97	Jul-98	263	35
Oct-98	Jul-99	281	48
Oct-99	Mar-00	161	22
Apr-00	Sep-00	140	12
Sep-01	Jan-02	105	21
Mar-03	Oct-07	1,673	95
Mar-08	May-08	63	12
Mar-09	Apr-10	410	80
Jul-10	Apr-11	301	33
Oct-11	Aug-15	1,421	72

S&P 500 Avg	
VIX Level	Daily Move
< 15	0.4%
15 - 20	0.6
20 - 25	0.8
25 - 30	1.1
> 30	1.8

Note: Rallies shorter than two months (60 days) have been combined.

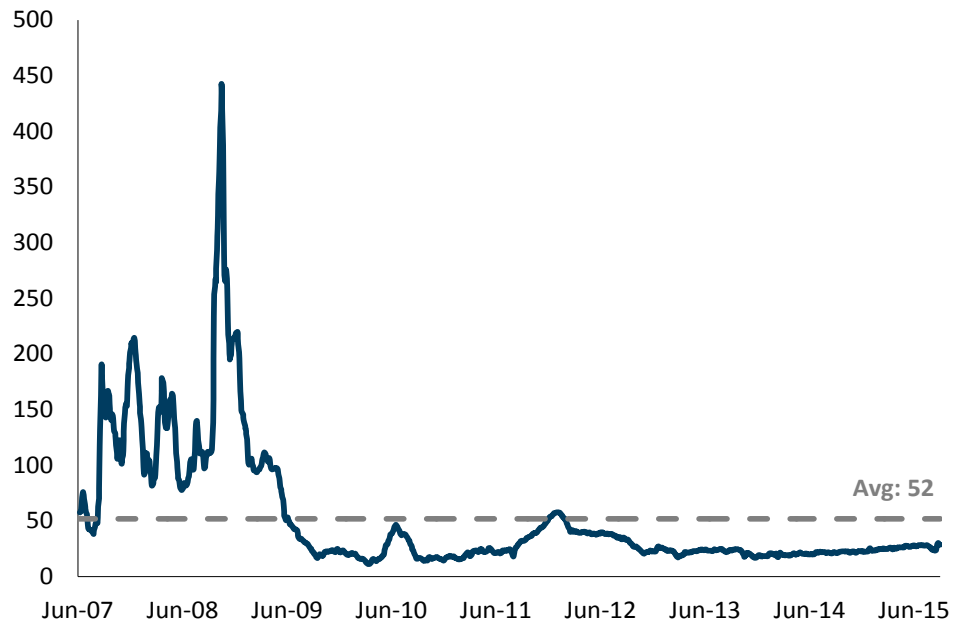
Source: S&P, CBOE, Haver, and RBC Capital Markets



## Liquidity / Credit

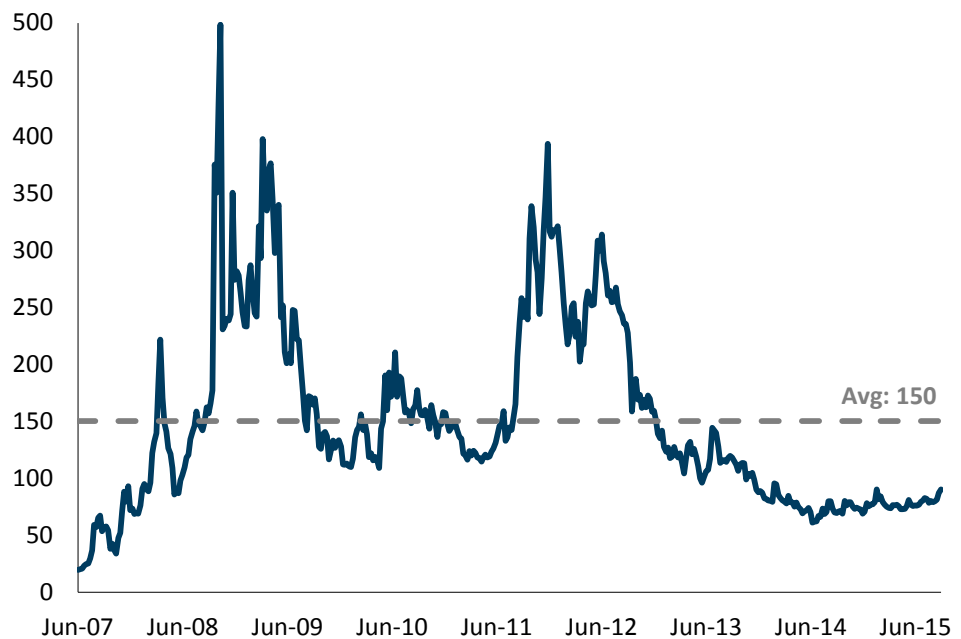
*Liquidity does not appear stressed despite recent market turmoil*

### TED Spread



Source: Federal Reserve, Bloomberg, and RBC Capital Markets

### Big 5 Bank CDS



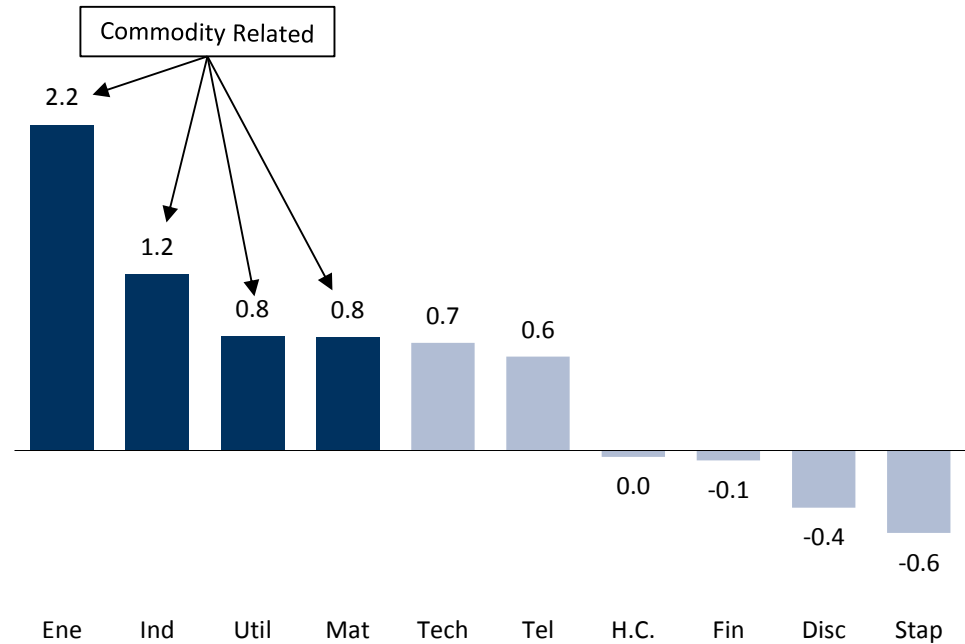
Source: Bloomberg and RBC Capital Markets

Note: BAC, C, JPM, GS, MS

## Liquidity/Credit

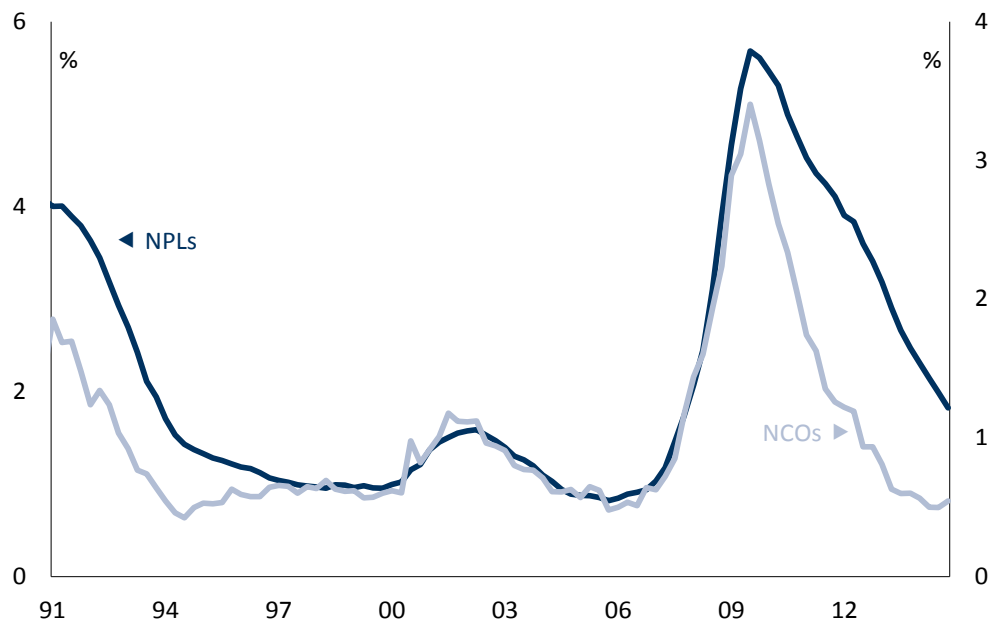
*Outside of commodity related sectors, credit spreads and performance remain in check*

### High Yield Sector Change in Spread – YTD



Note: Change in Spread over 10Y Treasury  
Source: Federal Reserve, Bloomberg, Haver, and RBC Capital Markets

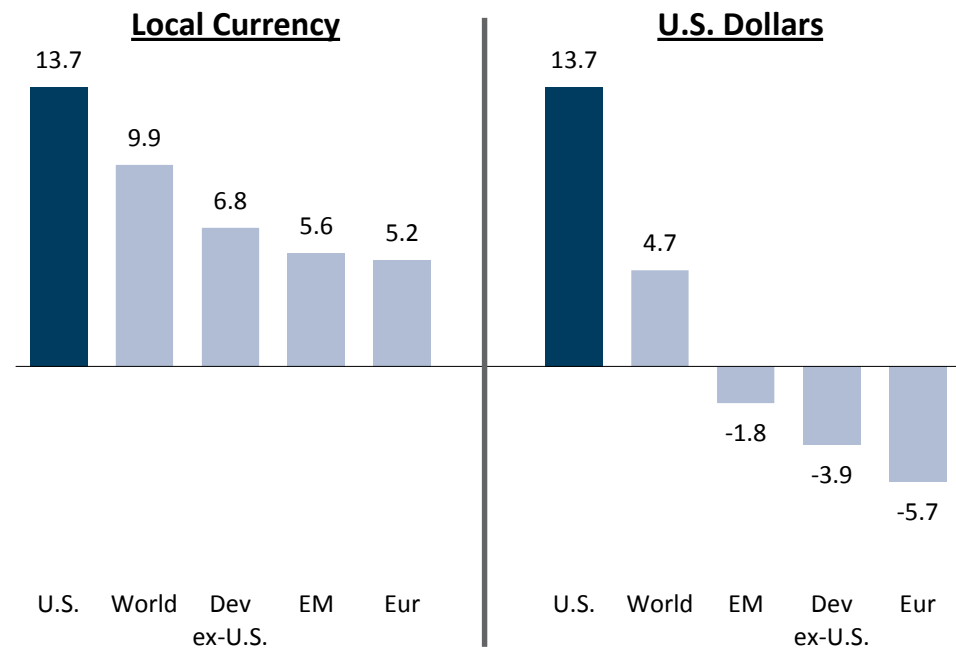
### Non-Performing Loans and Net Charge-Offs



Source: Federal Reserve, Haver, and RBC Capital Markets



## U.S. vs. Global Equities

**YTD Returns (%)**


Source: S&P, MSCI, FactSet, and RBC Capital Markets  
Note: U.S. is S&P 500, all others are MSCI; returns include dividends

**Equity Sensitivity to Rates (Last 12 Months – %)**

*The market prefers higher rates*

*Europe appears more interest rate sensitive*

Equity Return on Days When					
	All Days	Change in U.S. 1-Year		Change in U.S. 10-Year	
		Higher	Lower	Higher	Lower
Non-Eurozone					
U.S.	-1.6	20.5	-18.3	45.6	-32.4
Canada	-11.3	12.2	-20.9	31.8	-32.7
Switzerland	1.2	20.6	-16.1	45.0	-30.2
U.K.	-9.3	16.0	-21.8	28.3	-29.3
Japan	19.6	15.9	3.2	19.7	-0.1
Eurozone					
Italy	6.2	41.8	-25.1	92.2	-44.8
Germany	6.9	38.3	-22.7	69.1	-36.8
France	6.9	36.4	-21.6	67.8	-36.3
Netherlands	16.8	43.6	-18.7	66.5	-29.8
Belgium	15.0	39.0	-17.3	66.7	-31.0
% of Days	100	52	48	47	53

Note: U.S. is S&P 500; all others are MSCI  
Source: S&P, MSCI, Federal Reserve, FactSet, Haver, and RBC Capital Markets

## U.S. vs. Global Equities

Expanding P/Es in Europe have been offset by currency losses

### Return Decomposition (2014 to Present – %)

	United States		Europe	
	Total	Ex-Energy	Total	Ex-Energy
Revenue	0.4	5.6	-2.5	2.0
Margin	2.2	4.8	1.4	2.0
Net Income	2.6	10.4	-1.1	4.0
Buybacks	2.8	3.1	-1.3	-1.6
EPS	5.4	13.5	-2.4	2.4
P/E	1.3	-5.0	6.0	4.9
Price Return	6.7	8.5	3.6	7.3
Dividends	3.7	3.8	6.2	6.3
Return (Local)	10.4	12.3	9.8	13.6
Currency	0.0	0.0	-15.5	-13.7
Return (USD)	10.4	12.3	-5.8	-0.2

Note: United States is S&P 500, Europe MSCI; based on changes in forward expectations  
Source: S&P, MSCI, Thomson Financial, FactSet, and RBC Capital Markets

### G7 Characteristics

	World	P/E	Next 12 Months Growth		Dividend
	Weight (%)	NTM (x)	Revenues (%)	Earnings (%)	Yield (%)
G7 + Switzerland	100.0	15.3	2.7	7.8	2.4
United States	64.4	16.0	3.0	7.6	2.2
Japan	9.9	14.0	2.6	10.8	1.9
Canada	3.8	15.0	4.1	8.2	3.0
United Kingdom	8.6	14.2	-0.3	2.0	4.1
Switzerland	4.1	16.5	1.6	5.5	3.0
Germany	4.3	14.3	3.1	11.0	3.3
France	3.8	12.4	4.6	11.4	2.8
Italy	1.1	14.4	1.9	22.7	2.9

Source: MSCI, FactSet, and RBC Capital Markets

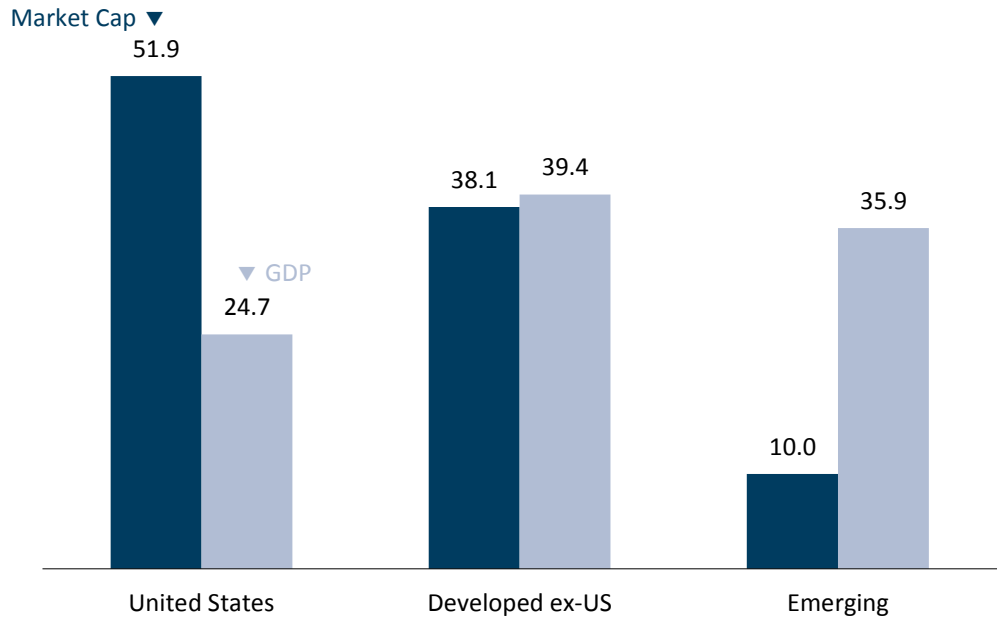
Note: United States is MSCI

## U.S. vs. Global Equities

Global Equity Market Cap vs. GDP – Weight (%) – mention frozen data

*The U.S. represents more than 50% of the world's market cap*

*It is less than one-quarter of world GDP*



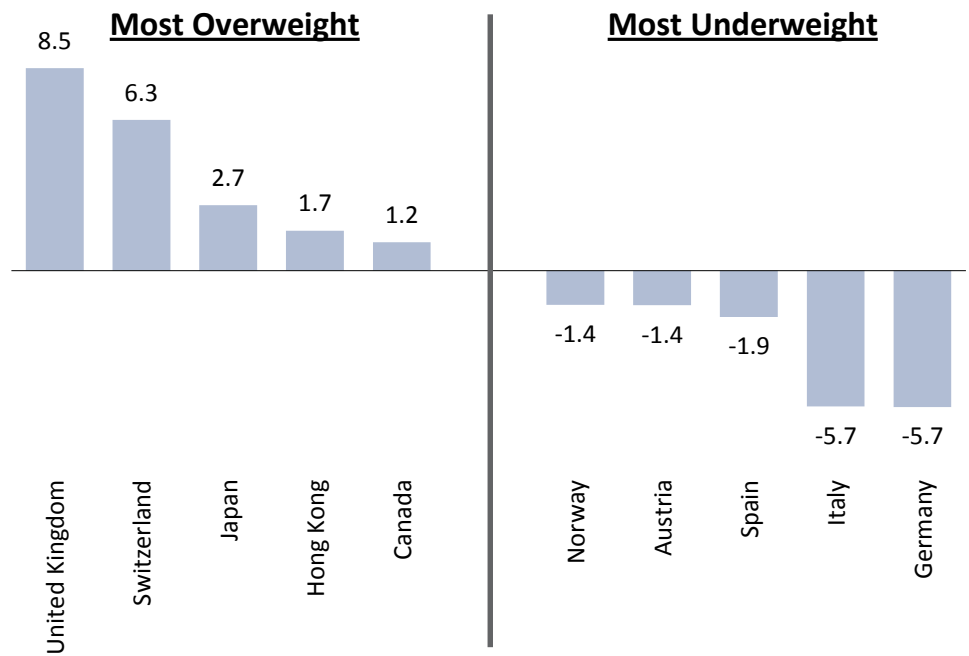
Source: World Bank, MSCI, Haver, FactSet, and RBC Capital Markets

Note: As of 7/24

Market Less GDP Weight within Developed ex-U.S. (%)

*UK and Switzerland have a larger weight in global equity indices than their GDPs would indicate*

*Germany is underrepresented*

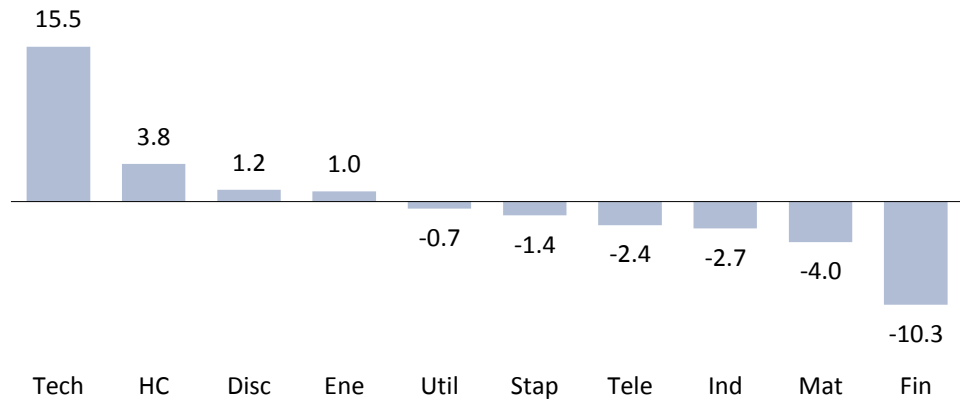


Source: MSCI, FactSet, and RBC Capital Markets

## U.S. vs. Global Equities

*The U.S. has a much higher Tech weight than other developed countries*

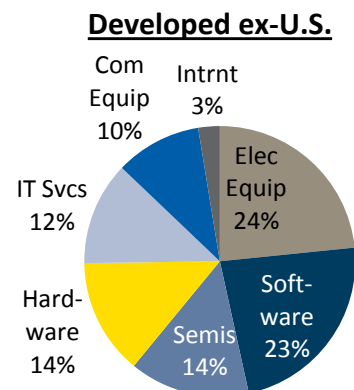
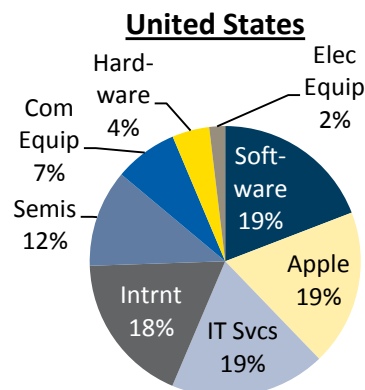
Sector Weight Differences – U.S. Less Developed ex-U.S. (%)



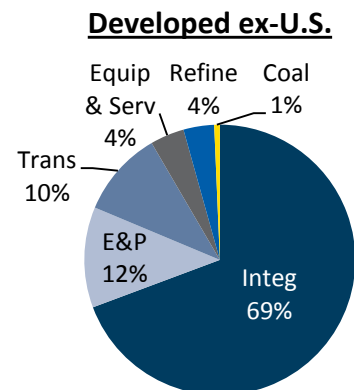
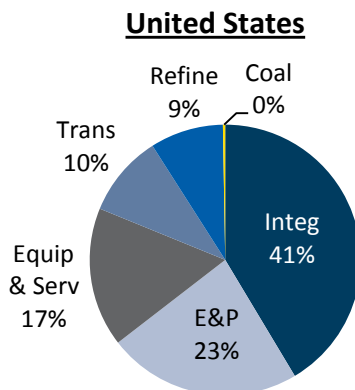
Source: MSCI, FactSet, and RBC Capital Markets

Sector Weights (%)

### Technology



### Energy



Source: S&P, MSCI, FactSet, and RBC Capital Markets

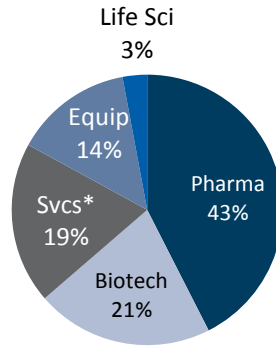
Note: Services include HC Technology

## U.S. vs. Global Equities

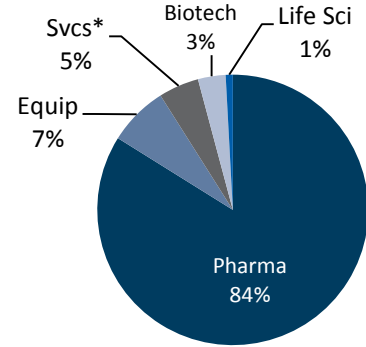
### Sector Weights (%)

#### Health Care

##### United States

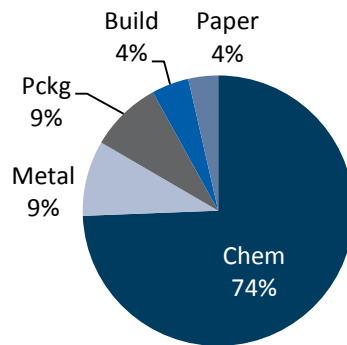


##### Developed ex-U.S.

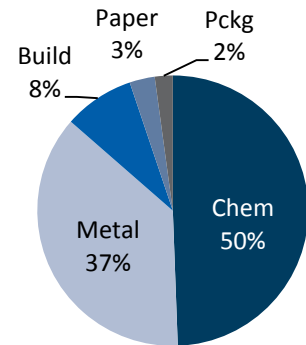


#### Materials

##### United States

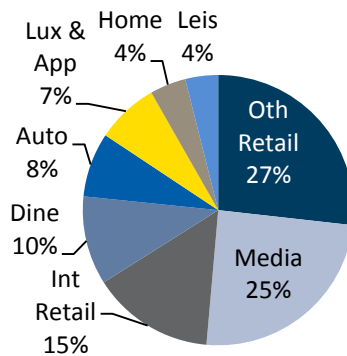


##### Developed ex-U.S.

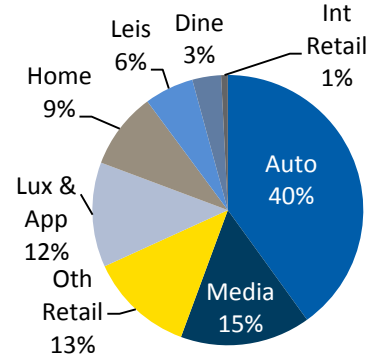


#### Discretionary

##### United States



##### Developed ex-U.S.

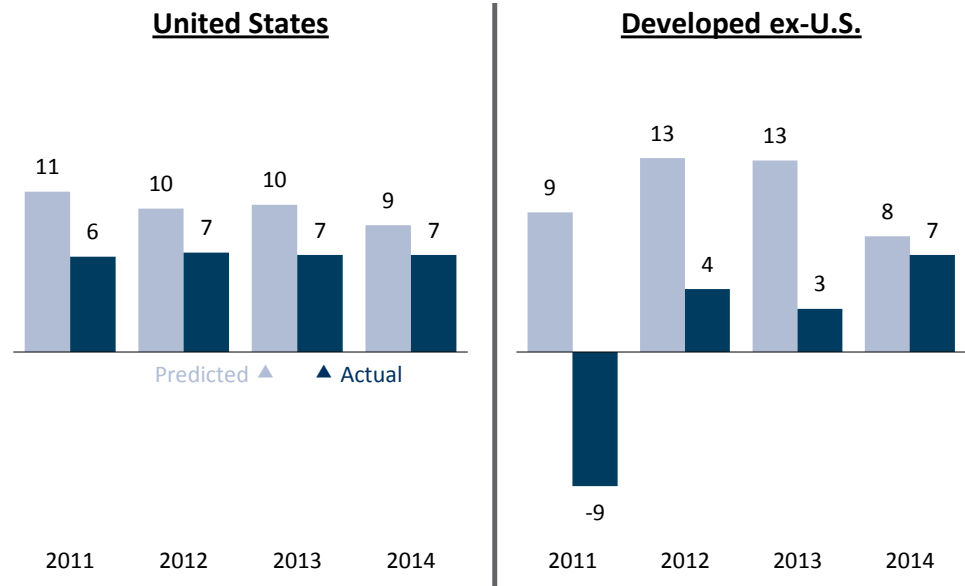


Source: S&P, MSCI, FactSet, and RBC Capital Markets

## U.S. vs. Global Equities

*Non-U.S. companies have largely disappointed over the last four years*

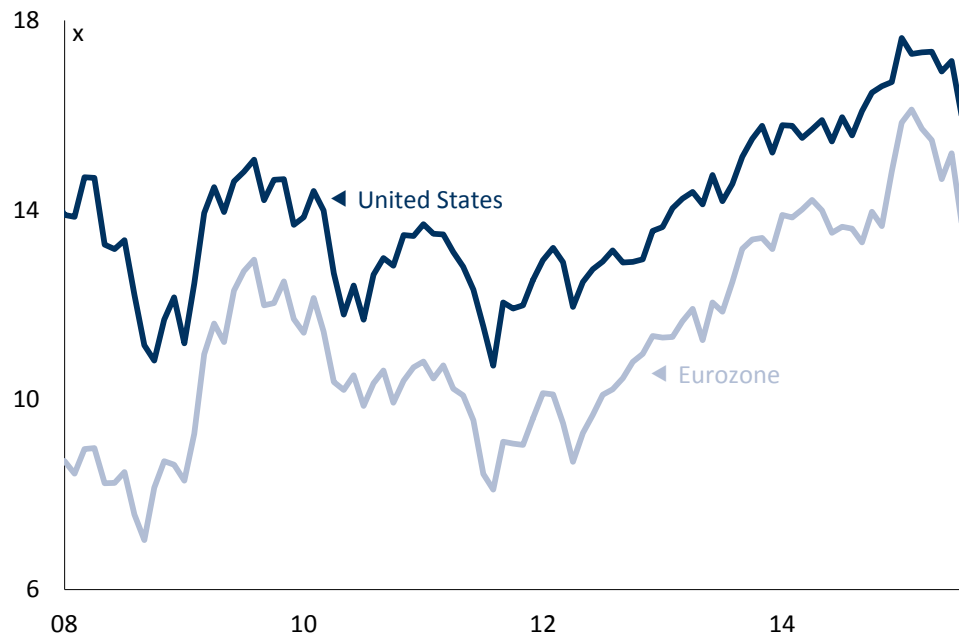
Predicted vs. Actual Earnings Growth (%)



Source: MSCI, FactSet, and RBC Capital Markets

*U.S. stocks have consistently traded at a premium to Europe*

NTM P/E

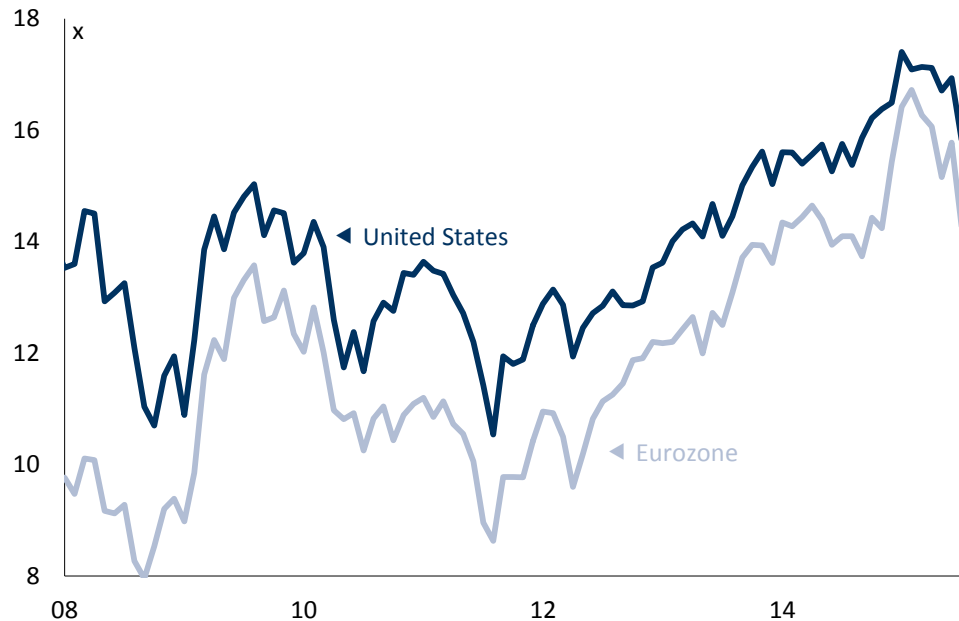


Source: MSCI, FactSet, and RBC Capital Markets

Note: Developed Eurozone

## U.S. vs. Global Equities

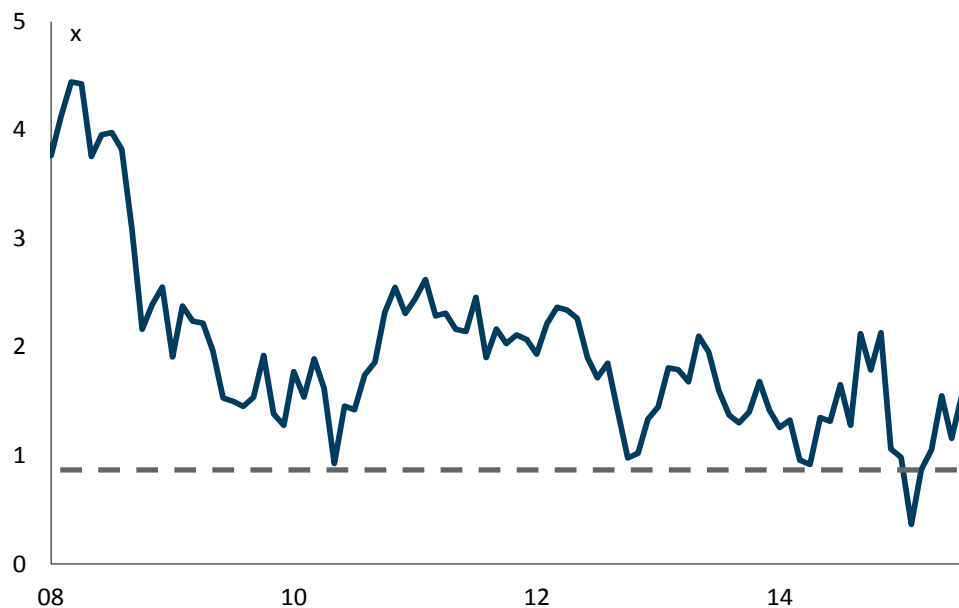
### P/E – Sector Neutral



Note: Developed Eurozone; NTM P/E; Neutralized on Developed weights  
Source: MSCI, FactSet, and RBC Capital Markets

*Valuations for U.S. stocks look attractive when taking into account sector differences*

### Valuation Spread – Sector Neutral



Note: Developed Eurozone; NTM P/E; Neutralized on Developed weights  
Source: MSCI, FactSet, and RBC Capital Markets

## Earnings Outlook – Revenues

S&P 500 Revenues vs. Nominal GDP

*A 1% change in nominal GDP equates to a 2½% change in revenues*



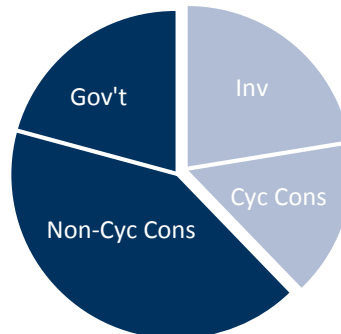
Source: S&P, BEA, Haver, and RBC Capital Markets

GDP Breakdown into Cyclical and Non-Cyclical Components

*S&P 500 revenues look similar to the cyclical portion of GDP*

### Non-Cyclical part of GDP

Non-Cyc Consumption	43%
Government	19%
Total	62%



### Cyclical part of GDP

Cyclical Consumption	22%
Investment	16%
Total	38%

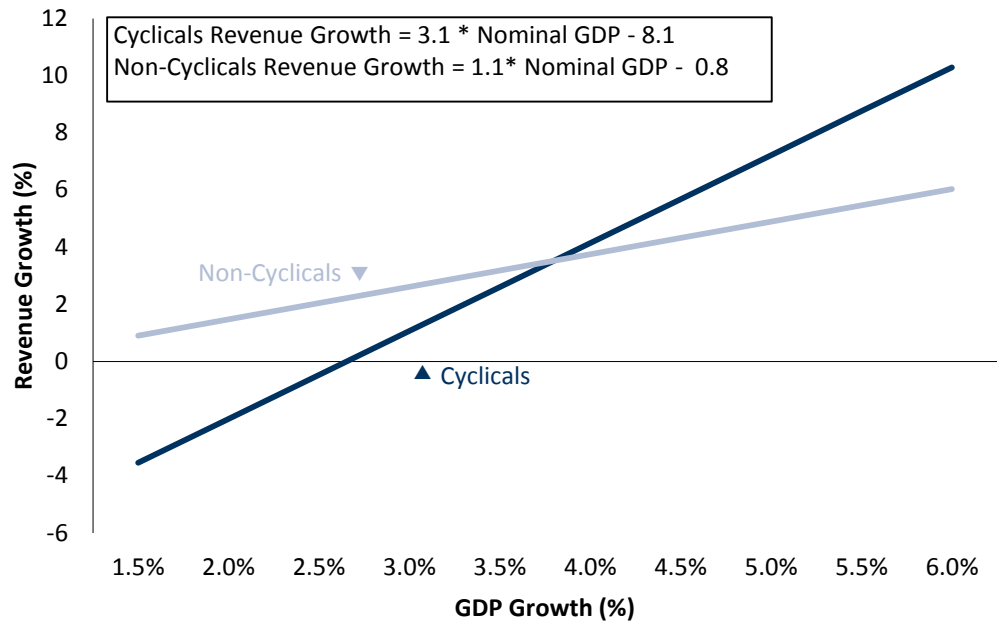
Notes: We define cyclical and non-cyclical consumption based on their volatility.  
The standard deviation of government spending and non-cyclical consumption is <1%  
The standard deviation of investment and cyclical consumption is >4%  
Source: BEA, Haver, and RBC Capital Markets



## Earnings Outlook – Revenues

### Implied Revenue Growth

*Revenues for cyclical stocks are ~3x levered to changes in GDP*

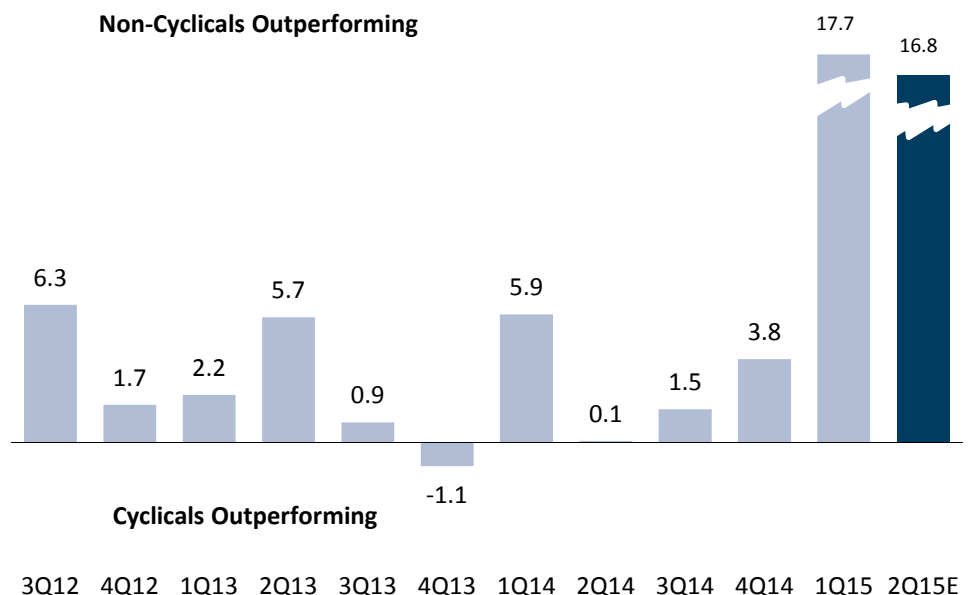


Source: BEA, S&P, Compustat, FactSet, and RBC Capital Markets

### Earnings Growth – Non-Cyclicals Less Cyclicals

*In 11 of the last 12 quarters, Non-Cyclicals have outpaced Cyclicals*

*Energy has impacted more recent results*

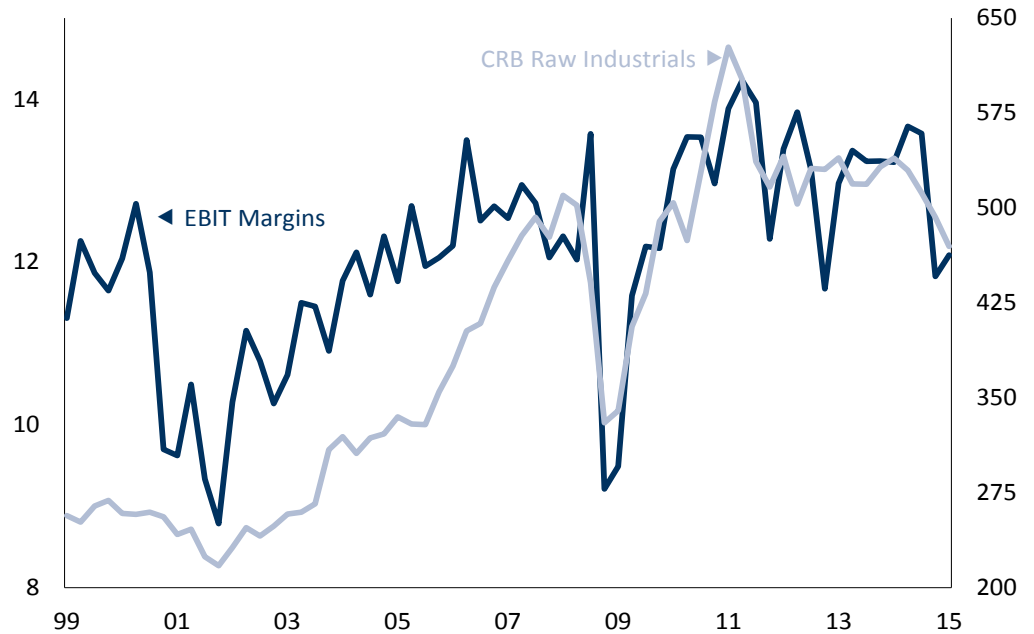


Note: ex-Financials; YoY growth of quarter-end constituents  
Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

## Earnings Outlook – Margins

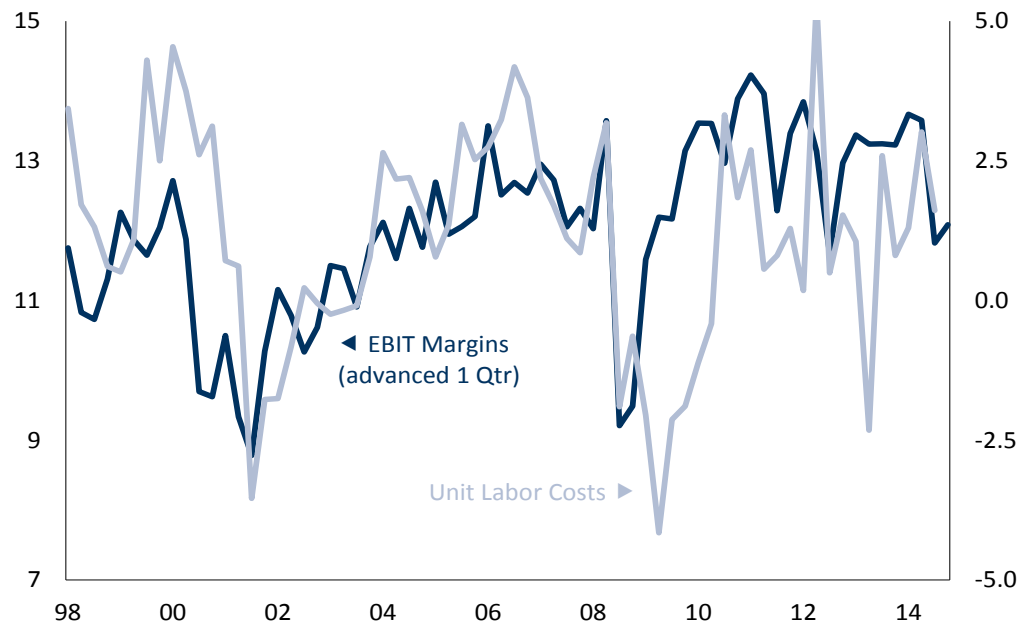
EBIT Margins vs. CRB Raw Industrials

*Rising input costs are positively correlated with margins*



Note: S&P 500 ex-Financials  
Source: S&P, CRB, Compustat, FactSet, Haver, and RBC Capital Markets

EBIT Margins vs. Unit Labor Costs



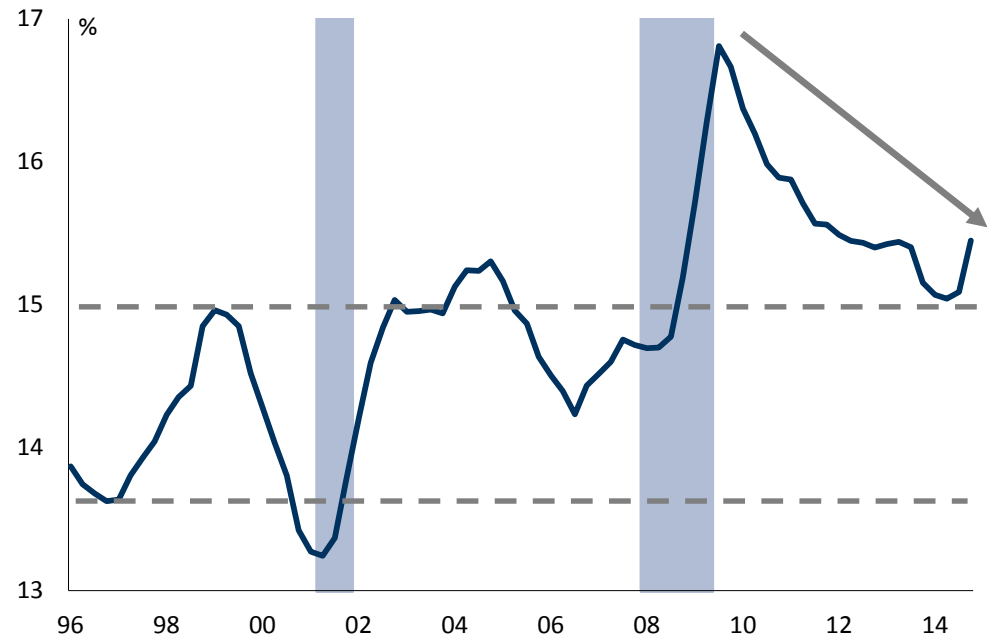
Note: S&P 500 ex-Financials EBIT Margin advanced one quarter; Non-Farm Unit Labor Costs  
Source: S&P, BLS, Compustat, FactSet, Haver, and RBC Capital Markets

## Earnings Outlook – Margins

*Lower SG&A-to-Sales has contributed to earnings growth*

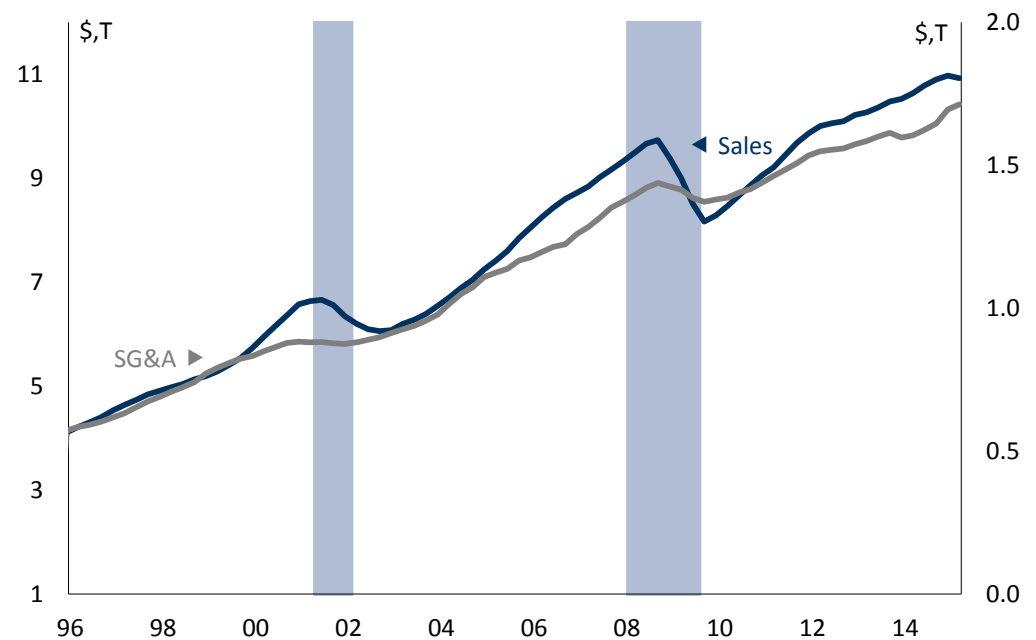
*This trend is typical during economic recoveries*

SG&A as Percentage of Sales



Source: S&P, NBER, Compustat, FactSet, and RBC Capital Markets

SG&A vs. Sales – Dollars



Source: S&P, NBER, Compustat, FactSet, and RBC Capital Markets

## Earnings Outlook – Margins

*Falling interest-to-sales has contributed to profit growth*

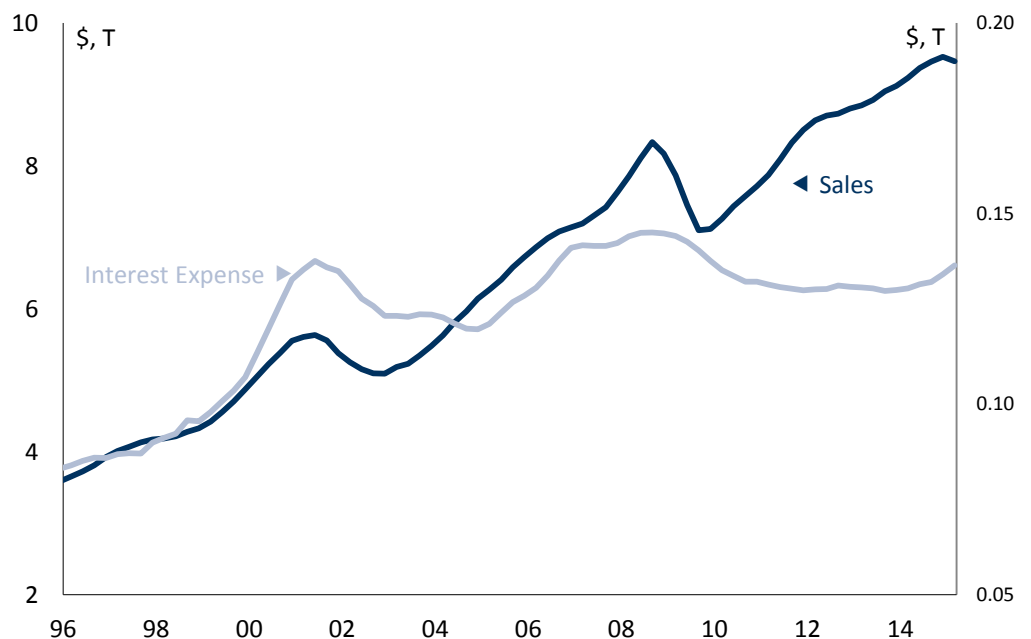
Interest as Percentage of Sales



Source: S&P, Compustat, FactSet, and RBC Capital Markets

Note: S&P 500 ex-Financials

Interest Expense vs. Sales – Dollars



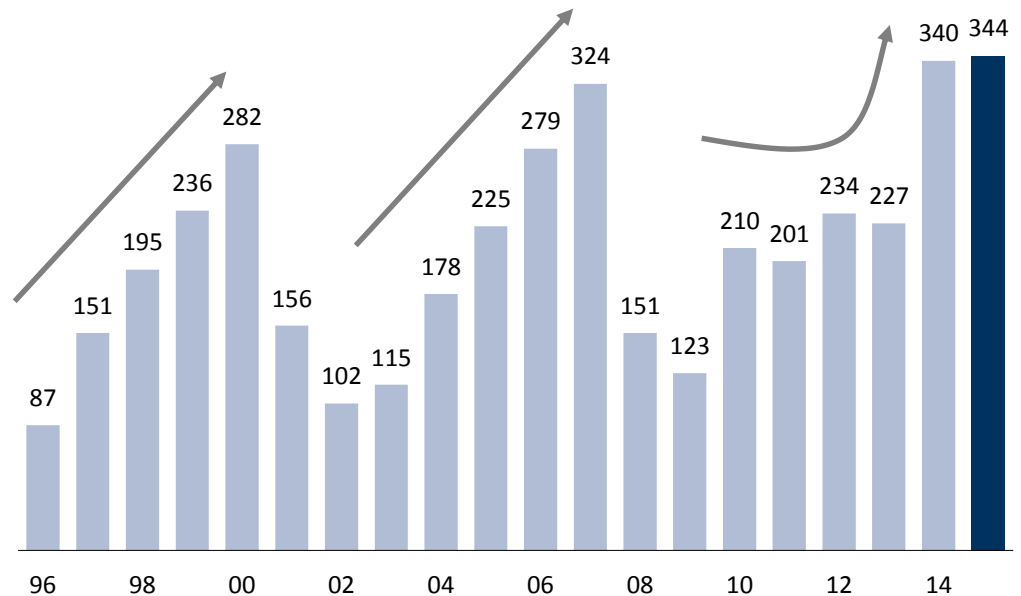
Source: S&P, Compustat, FactSet, and RBC Capital Markets

Note: S&P 500 ex-Financials

## Use of Corporate Cash

### M&A (Number of Deals > \$1Bn)

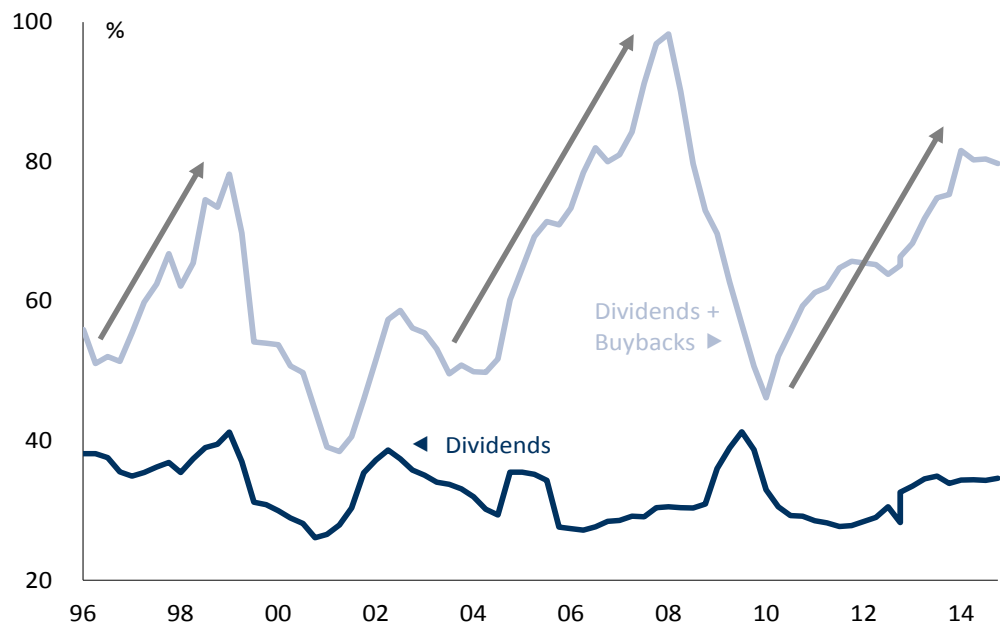
*2015 dealflow is healthy and in line with 2014*



Note: 2015 based on an annualized rate of 229 deals over the eight months  
Source: MergerStat, FactSet, and RBC Capital Markets

### Total Payout Ratio

*Buybacks remain the preferred use of cash*



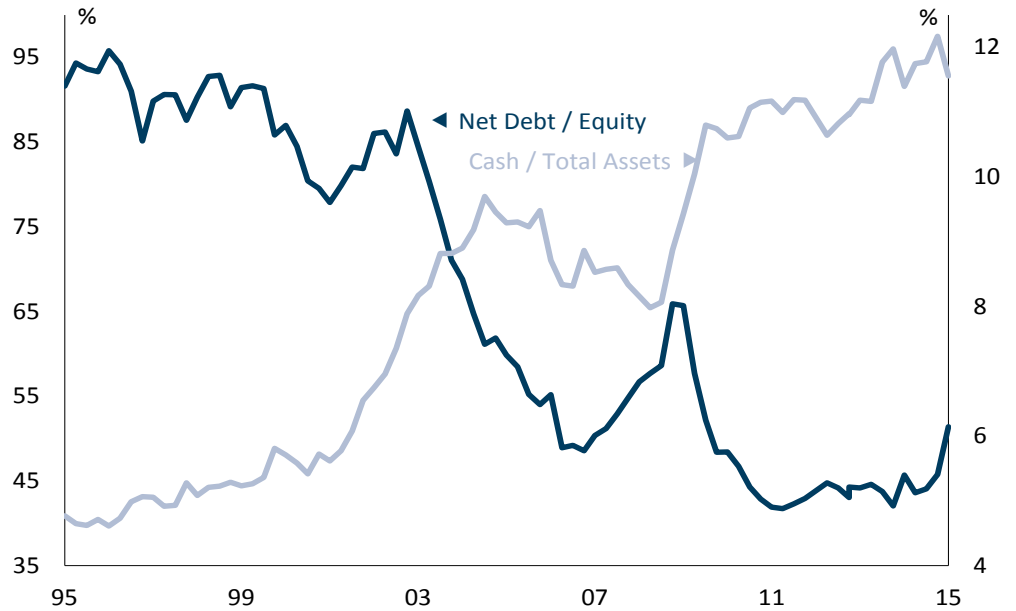
Source: S&P, Compustat, FactSet, and RBC Capital Markets

Note: S&P 500 ex-Financials

## Use of Corporate Cash

### Corporate Leverage and Cash Levels

*Cash remains elevated while leverage is near trough levels*

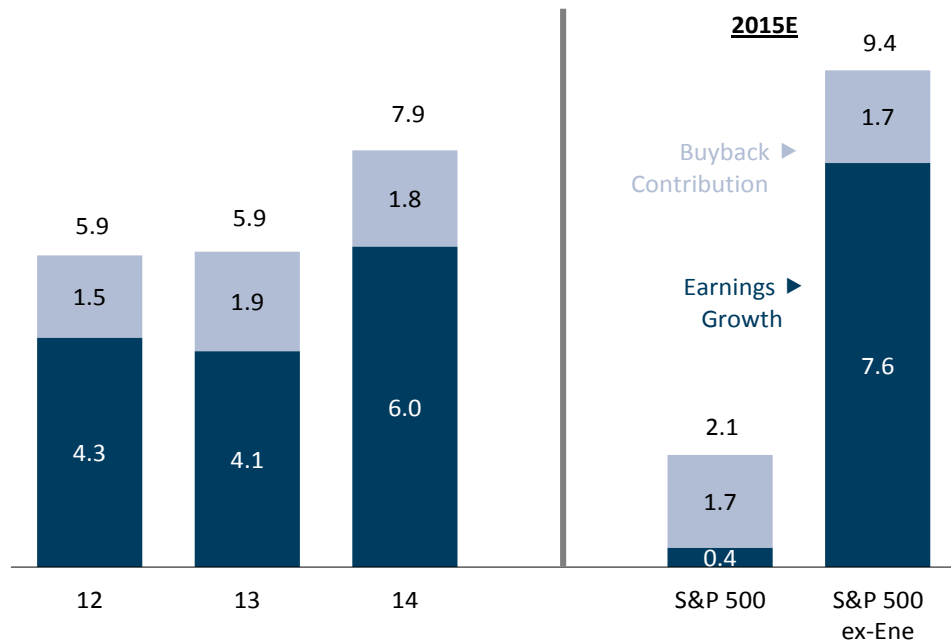


Source: S&P, Compustat, FactSet, and RBC Capital Markets

Note: S&P 500 ex-Financials

### EPS Growth (%)

*EPS growth is driven by more than just buybacks*

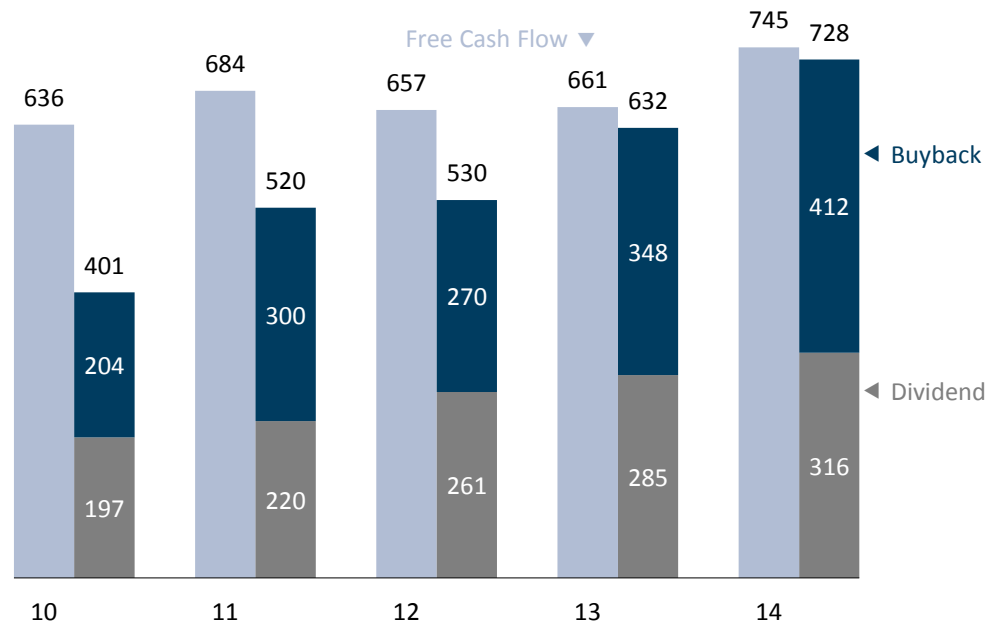


Note: Bottom-up YoY growth of year-end constituents; 2015 buyback contribution assumes prior 3Y avg contribution  
Source: S&P, Thomson Financial, Compustat, FactSet, and RBC Capital Markets

## Use of Corporate Cash

Free Cash Flow vs. Return of Capital (\$, Billions)

*Dividends and buybacks are fully funded by free cash flow*

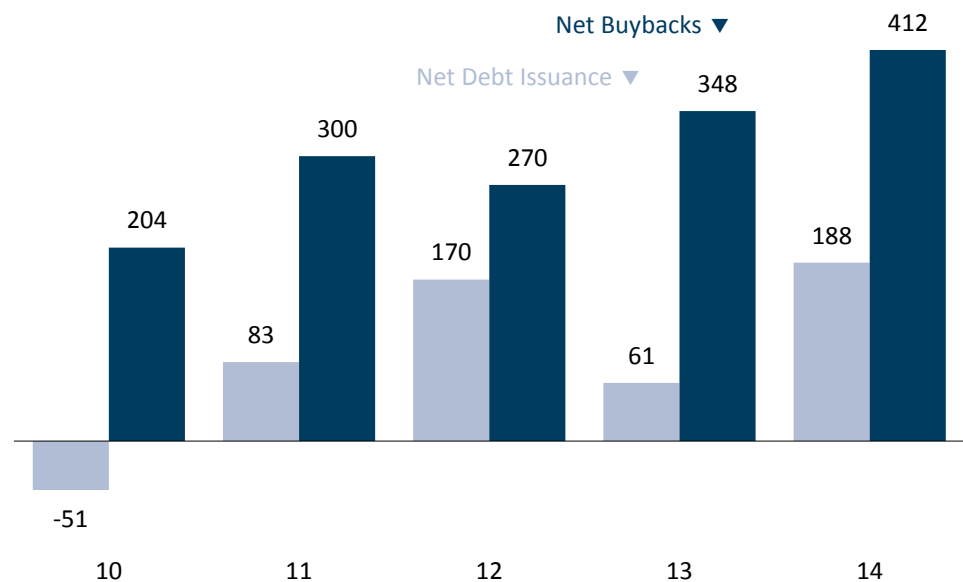


Source: S&P, Compustat, FactSet, and RBC Capital Markets

Note: S&P 500 ex-Financials

Net Buybacks vs. Net Debt Issuance (\$, Billions)

*Debt is clearly not the driver of buyback activity*



Source: S&P, Compustat, FactSet, and RBC Capital Markets

Note: S&P 500 ex-Financials

## Earnings Analysis

*Top-down expectations are above bottom-up consensus*

### Top-Down and Bottom-Up Consensus EPS (\$)

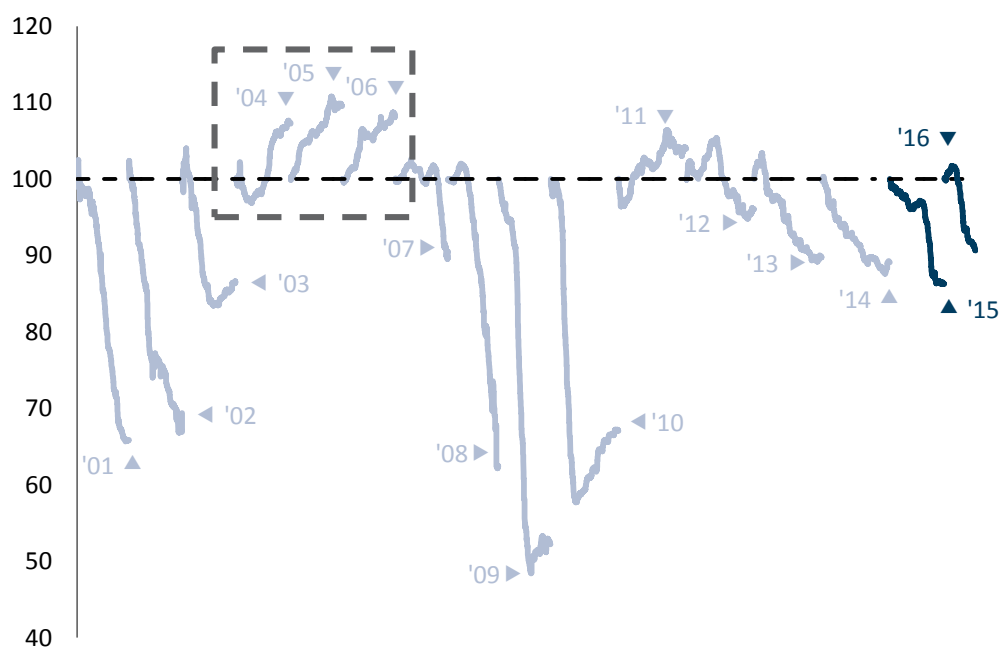
Date of Estimate:	2015		2016	
	Dec-14	Current	Dec-14	Current
<b>Consensus</b>				
Top Down	126.00	121.50	-	-
Bottom-Up	126.49	118.79	141.50	132.13

Source: Bloomberg, Thomson Financial, FactSet, and RBC Capital Markets

*Estimates fall dramatically during recessions*

*There are numerous examples of rising revisions*

### Consensus Bottom-Up S&P 500 EPS Forecasts (Indexed to 100)



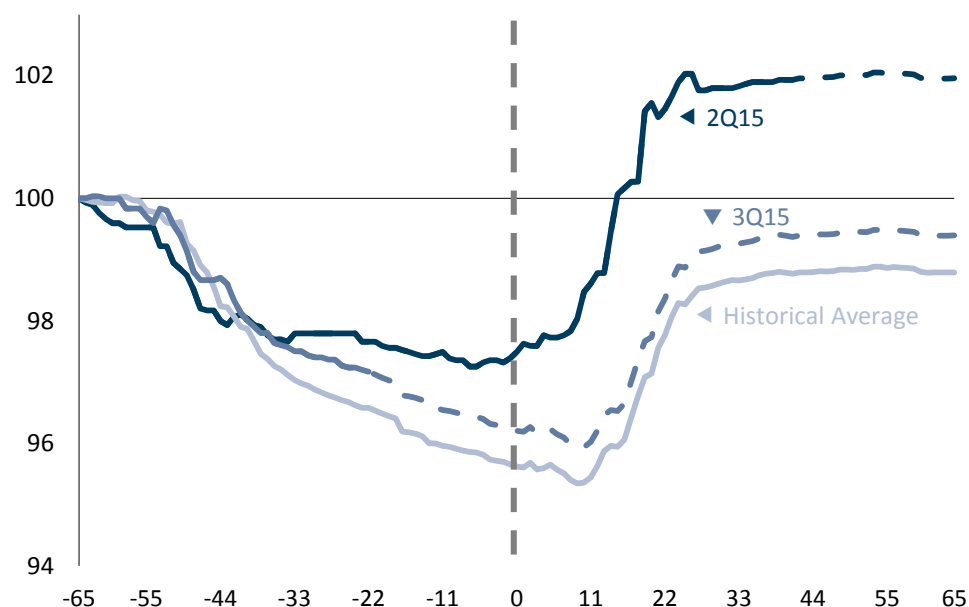
Note: Estimates are bottom-up and indexed to 100; shown from initial release through final/most recent results.  
Source: S&P, Thomson Financial, Compustat, FactSet and RBC Capital Markets



## Earnings Analysis

*The pace of revisions has been more favorable than normal*

### Earnings Estimate Revisions



Note: Indexed to 100 65 business days prior to quarter-end; historical average is average of prior 12 quarters; dotted lines represent projections based on historical average

Source: S&P, Thomson Financial, FactSet, and RBC Capital Markets

*Core EPS trends appear stronger than headline*

### EPS Growth of S&P 500 Companies (%)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15E	3Q15E
<b>Consensus EPS</b>						<b>1.5</b>	<b>-4.5</b>
<b>Headline EPS</b>	<b>5.3</b>	<b>8.1</b>	<b>11.0</b>	<b>6.5</b>	<b>3.6</b>	<b>1.5</b>	<b>-0.3</b>
Energy	0.7	13.6	10.0	-20.2	-53.9	-56.0	-59.0
S&P ex-Energy	6.0	7.5	11.1	9.7	11.1	8.9	4.9
Big 5 Banks	-19.5	-32.3	58.5	-19.8	56.5	65.9	45.0
S&P ex-Big 5 Banks	6.8	10.8	9.7	7.9	1.2	-1.0	-2.2
<b>Trend EPS</b>	<b>7.7</b>	<b>10.5</b>	<b>9.7</b>	<b>11.3</b>	<b>8.8</b>	<b>6.3</b>	<b>4.7</b>

Note: 2Q and 3Q assume average degradation and beat rate from 7/31/15; 3Q15 assumes 1.7% contribution from buybacks; Big 5 Banks: BAC, C, JPM, GS, MS

Source: S&P, Thomson Financial, FactSet, and RBC Capital Markets

## Earnings Analysis

### 2Q15 Growth Scorecard

Ex-Energy trends appear more robust

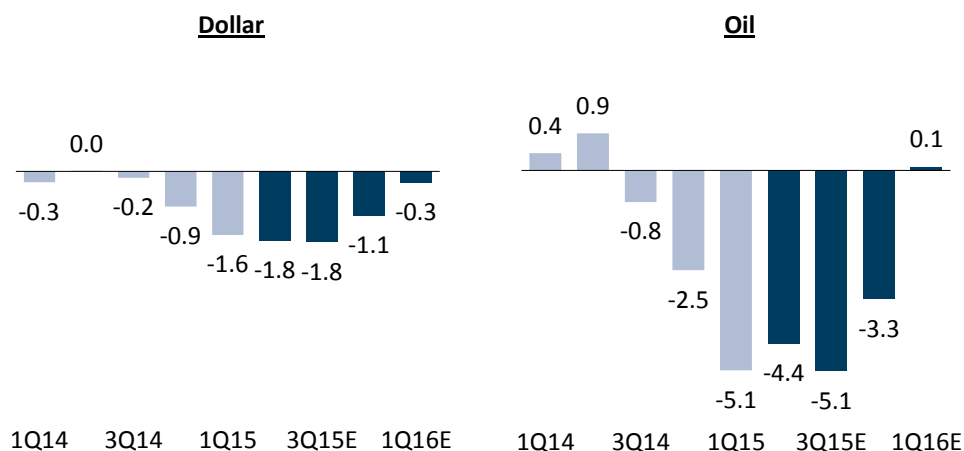
	Growth YoY (%)				
	Revenue	Margins	Earnings	Buybacks	EPS
<b>Cyclicals</b>	<b>-8.8</b>	<b>0.3</b>	<b>-8.5</b>	<b>2.2</b>	<b>-6.2</b>
Discretionary	2.0	5.8	7.8	3.7	11.5
Energy	-32.6	-23.8	-56.4	0.3	-56.0
Industrials	-1.6	1.7	0.1	3.3	3.4
Materials	-10.0	15.4	5.4	2.7	8.1
Technology	2.4	2.0	4.4	2.5	7.0
<b>Non-Cyclicals</b>	<b>2.5</b>	<b>5.8</b>	<b>8.4</b>	<b>-1.1</b>	<b>7.3</b>
Staples	-0.8	0.1	-0.7	0.4	-0.2
Health Care	7.9	7.2	15.1	-2.4	12.7
Telecom	2.4	6.2	8.6	0.6	9.2
Utilities	-5.5	10.3	4.9	-0.4	4.5
REITs	6.2	4.3	10.4	-3.3	7.2
<b>S&amp;P 500 ex-Finls</b>	<b>-4.5</b>	<b>1.7</b>	<b>-2.9</b>	<b>1.3</b>	<b>-1.6</b>
Financials	3.7	9.5	13.3	2.7	15.9
<b>Big-5 Banks Impact</b>	<b>-1.2</b>	<b>16.0</b>	<b>14.8</b>	<b>0.1</b>	<b>14.9</b>
<b>S&amp;P 500</b>	<b>-3.5</b>	<b>3.6</b>	<b>0.1</b>	<b>1.4</b>	<b>1.5</b>
<b>Energy Impact</b>	<b>-5.0</b>	<b>-2.2</b>	<b>-7.2</b>	<b>-0.2</b>	<b>-7.4</b>

Note: YoY growth of current constituents; Big 5 Banks include BAC, C, GS, JPM, and MS  
Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

### Approximate Impact on Earnings (%)

A 10% increase in the dollar results in a 1% drag on S&P 500 earnings

A 10% increase in oil results in a 1% benefit to S&P 500 earnings

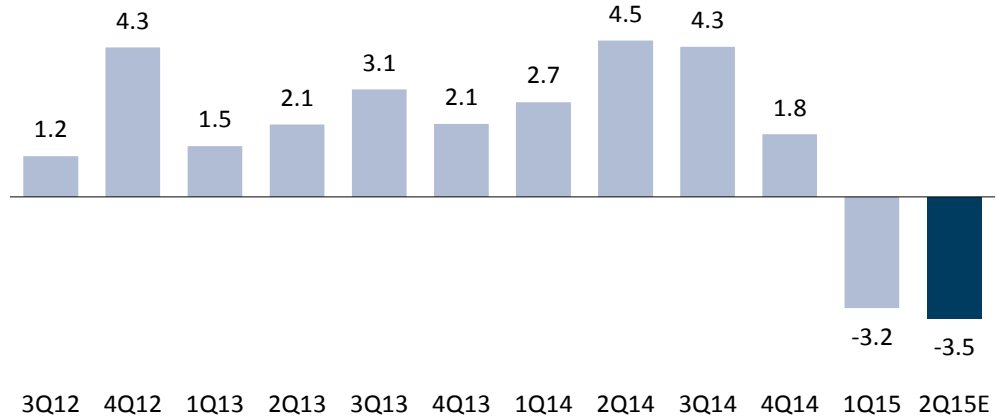


Note: Future price assumes no further move in Dollar/WTI  
Source: S&P, Compustat, Thomson Financial, FactSet, Bloomberg, and RBC Capital Markets

## Earnings Analysis

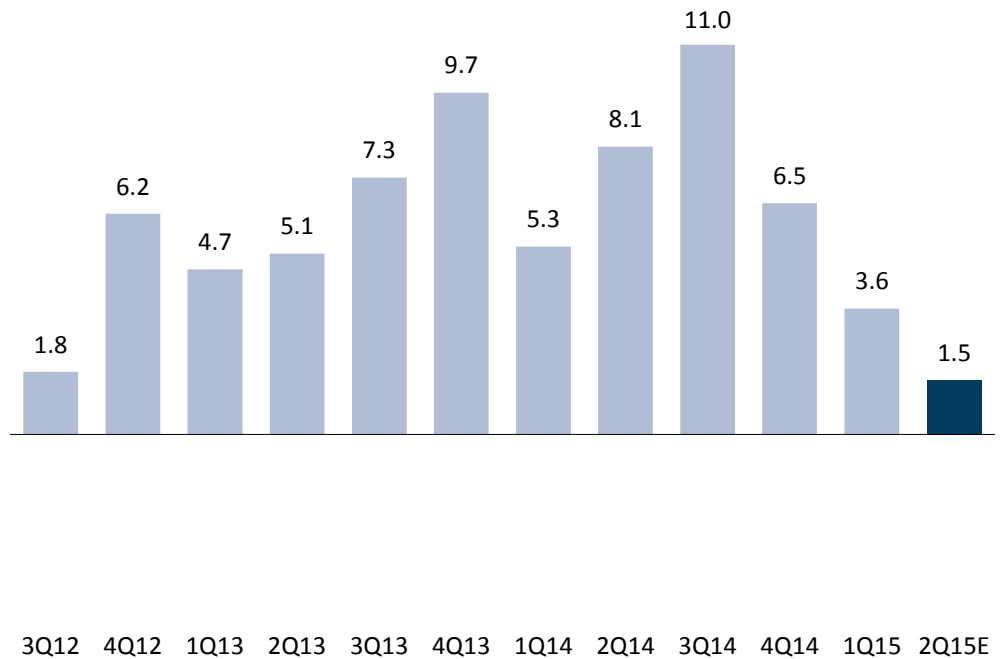
*Revenue and EPS are running well below recent trends due to Energy*

Revenue Growth of S&P 500 Companies (%)



Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

EPS Growth of S&P 500 Companies (%)

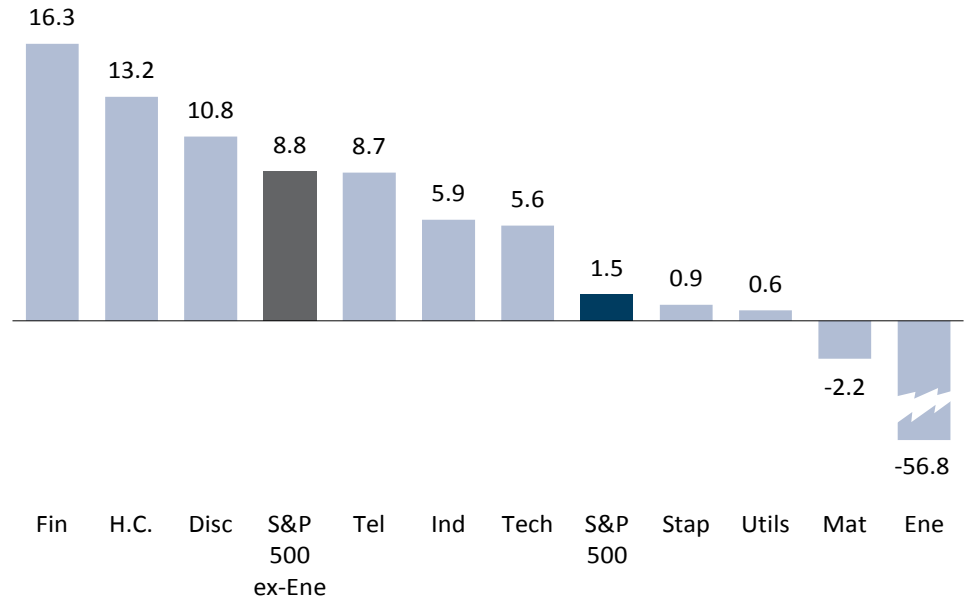


Note: 2Q actuals and assuming current beat rate for unreported companies  
Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

## Earnings Analysis

*Energy and the dollar are weighing on 2015 earnings expectations*

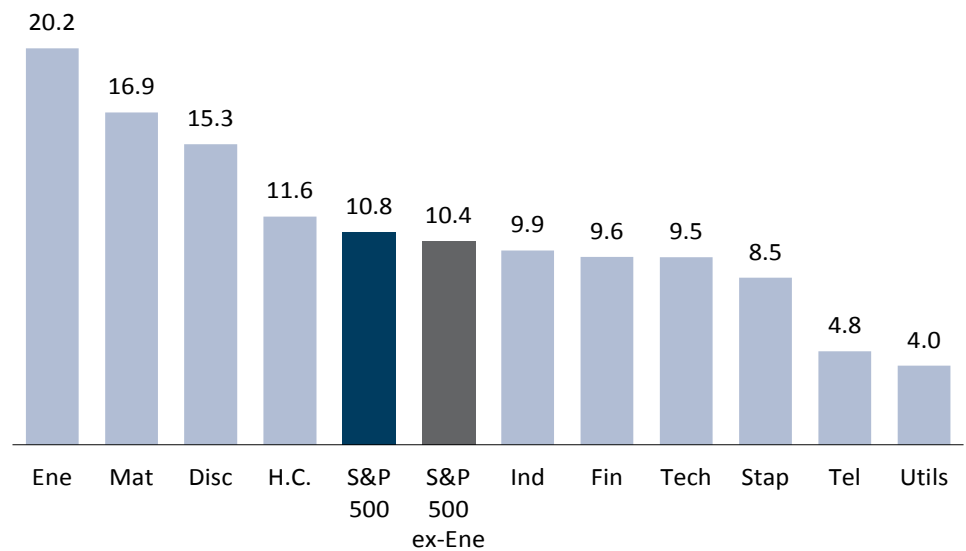
S&P 500 2015 Consensus Earnings Growth (%)



Note: Bottom-up consensus expectations; YoY growth of current constituents  
Source: S&P, Thomson Financial, Compustat, FactSet, and RBC Capital Markets

*These impacts are expected to reverse in 2016*

S&P 500 2016 Consensus Earnings Growth (%)



Note: Bottom-up consensus expectations; YoY growth of current constituents  
Source: S&P, Thomson Financial, Compustat, FactSet, and RBC Capital Markets



## Sector Characteristics

	S&P 500	P/E	Premium / Discount to	Next 12 Months Growth		Dividend	Foreign
	Weight (%)	NTM (x)	5 Yr Avg (%)	Sales (%)	Earnings (%)	Yield (%)	Sales (%)
<b>Cyclicals</b>							
<b>Energy</b>	<b>7.3</b>	<b>22.7</b>	<b>67.4</b>	<b>-8.7</b>	<b>-20.8</b>	<b>3.5</b>	<b>41.7</b>
<b>Materials</b>	<b>2.9</b>	<b>14.4</b>	<b>1.6</b>	<b>0.1</b>	<b>11.0</b>	<b>2.2</b>	<b>47.7</b>
<b>Industrials</b>	<b>9.9</b>	<b>14.8</b>	<b>4.0</b>	<b>0.8</b>	<b>6.6</b>	<b>2.5</b>	<b>38.6</b>
Capital Goods	7.2	15.6	11.3	-0.2	4.9	2.7	45.4
Services	0.7	17.8	7.1	3.4	8.3	2.1	20.4
Transportation	2.1	12.0	-18.4	3.5	11.2	2.1	22.2
<b>Consumer Discretionary</b>	<b>12.9</b>	<b>17.9</b>	<b>10.8</b>	<b>5.3</b>	<b>14.1</b>	<b>1.6</b>	<b>26.9</b>
Autos	1.0	8.3	-13.4	1.7	18.8	3.3	45.1
Durables & Apparel	1.5	18.5	11.9	7.2	11.0	1.5	38.7
Consumer Services	1.9	21.2	14.1	4.6	13.8	2.3	42.4
Media	3.2	15.7	3.7	4.3	11.2	1.7	21.7
Retailing	5.3	23.5	23.9	7.3	15.6	1.1	13.2
<b>Information Tech</b>	<b>20.0</b>	<b>15.0</b>	<b>9.1</b>	<b>4.3</b>	<b>7.8</b>	<b>1.7</b>	<b>59.0</b>
Software & Services	11.2	18.4	17.0	5.7	9.7	1.2	51.5
Hardware	6.5	11.6	-2.5	3.0	6.7	2.3	61.0
Semiconductors	2.3	14.0	5.6	4.2	4.3	2.4	82.1
<b>Non-Cyclicals</b>							
<b>Consumer Staples</b>	<b>9.7</b>	<b>18.6</b>	<b>14.7</b>	<b>4.1</b>	<b>5.5</b>	<b>2.9</b>	<b>27.6</b>
Food & Staples Retail	2.4	17.6	16.4	7.3	8.4	1.9	17.2
Food Bev. & Tobacco	5.4	19.0	16.6	0.5	5.5	3.2	42.7
Household Products	1.8	18.8	8.6	-4.1	1.2	3.3	57.2
<b>Health Care</b>	<b>15.2</b>	<b>16.0</b>	<b>13.5</b>	<b>7.4</b>	<b>10.6</b>	<b>1.7</b>	<b>21.7</b>
Equip. & Services	5.1	16.8	20.3	8.3	9.4	1.1	10.4
Pharma/Biotech	10.1	15.6	9.8	5.4	11.1	2.1	49.2
<b>Telecom</b>	<b>2.4</b>	<b>12.2</b>	<b>-21.4</b>	<b>7.5</b>	<b>6.2</b>	<b>5.3</b>	<b>0.7</b>
<b>Utilities</b>	<b>3.0</b>	<b>15.2</b>	<b>2.2</b>	<b>1.6</b>	<b>2.6</b>	<b>3.9</b>	<b>5.7</b>
<b>Financials</b>							
<b>Financials</b>	<b>16.6</b>	<b>12.3</b>	<b>6.2</b>	<b>3.9</b>	<b>11.7</b>	<b>2.1</b>	<b>22.7</b>
Banks	6.2	11.0	-0.1	3.6	16.5	2.1	19.0
Diversified Financials	5.1	13.8	19.0	4.1	11.2	1.4	27.2
Insurance	2.8	10.6	-1.0	3.6	5.5	2.3	25.1
Real Estate	2.6	16.8	-7.8	7.4	7.9	3.6	16.2
<b>S&amp;P 500 Index</b>	<b>100</b>	<b>15.4</b>	<b>11.1</b>	<b>2.9</b>	<b>7.3</b>	<b>2.3</b>	<b>31.6</b>

Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

## Valuation

*The market prefers higher rates*

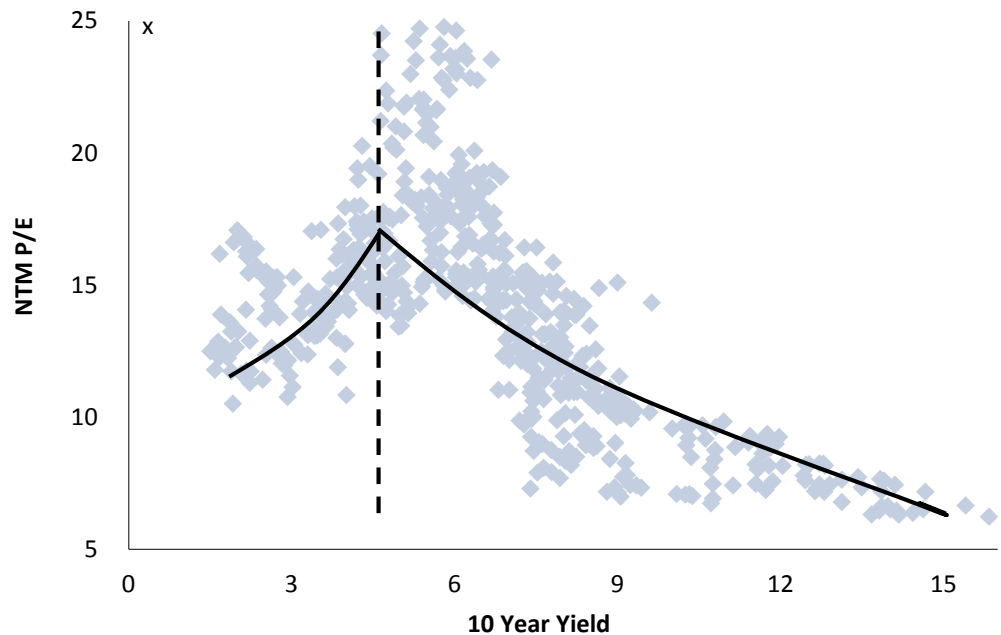
### Equity Sensitivity to Rates (Last 12 Months – %)

	All Days	Equity Return on Days When			
		Change in 1-Year Yield		Change in 10-Year Yield	
		Higher	Lower	Higher	Lower
<b>S&amp;P 500</b>	<b>-1.6</b>	<b>19.5</b>	<b>-17.6</b>	<b>45.6</b>	<b>-32.4</b>
Energy	-32.3	2.6	-34.1	43.9	-53.0
Materials	-14.6	9.8	-22.3	44.5	-40.9
Industrials	-5.0	18.2	-19.7	50.4	-36.8
Discretionary	9.0	23.8	-11.9	53.0	-28.7
Staples	4.4	7.0	-2.4	24.7	-16.3
Health Care	10.3	31.4	-16.1	46.0	-24.5
Technology	0.9	28.4	-21.5	53.5	-34.3
Telecom	-8.7	-5.3	-3.6	15.4	-20.9
Utilities	-2.0	-3.3	1.3	-7.7	6.2
Fin ex-REITS	-0.1	30.9	-23.7	75.9	-43.2
REITs	-1.4	-8.2	7.4	-7.9	7.1
<b>% of Days</b>	<b>100</b>	<b>52</b>	<b>48</b>	<b>47</b>	<b>53</b>

Source: S&P, Federal Reserve, FactSet, Haver, and RBC Capital Markets

### S&P 500 NTM P/E vs. 10-Year Yield

*Below ~4.5%, rising rates result in higher multiples*



Source: Federal Reserve, S&P, Haver, and RBC Capital Markets

Note: 1964–Present

## Valuation

*The market prefers higher oil*

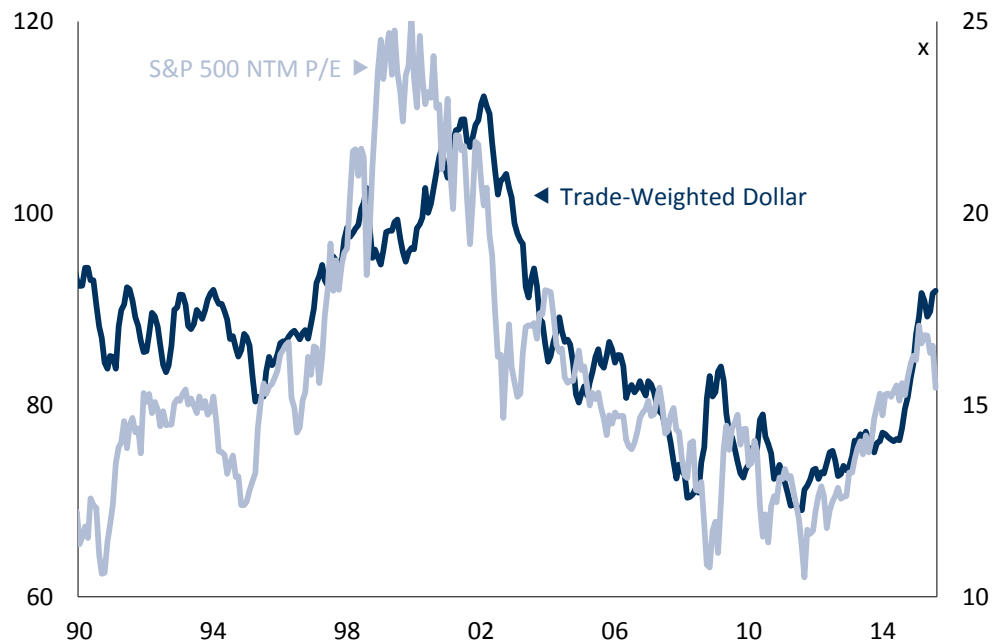
### U.S. Equity Returns on Up and Down Oil Days (Last 12 Months – %)

	All Days	Equity Return on Days When		
		Change in Oil		
		Higher	Lower	Spread
<b>S&amp;P 500</b>	<b>-1.6</b>	<b>21.5</b>	<b>-19.0</b>	<b>40.5</b>
Energy	-32.3	127.4	-70.2	197.6
Materials	-14.6	44.1	-40.8	84.9
Industrials	-5.0	22.2	-22.3	44.4
Discretionary	9.0	18.5	-7.9	26.4
Staples	4.4	7.5	-2.9	10.4
Health Care	10.3	12.9	-2.3	15.2
Technology	0.9	11.8	-9.7	21.5
Telecom	-8.7	8.7	-16.0	24.6
Utilities	-2.0	-6.2	4.5	-10.7
Financials	0.4	18.1	-15.0	33.1
<b>% of Days</b>	<b>100</b>	<b>42</b>	<b>58</b>	

Source: S&P, CME, FactSet, Haver, and RBC Capital Markets

*The dollar and multiples tend to move directionally together*

### Trade-Weighted Dollar vs. S&P 500 NTM P/E



Note: Trade-Weighted Dollar (Major Currencies Index)  
Source: S&P, Federal Reserve, Thomson Financial, FactSet, Haver, and RBC Capital Markets

## Valuation

*P/Es are not at extreme levels*

S&P 500 P/E



Source: S&P, Thomson Financial, FactSet, and RBC Capital Markets

*From 1981 to 1999, P/Es were tethered to Treasury yields*

S&P 500 E/P vs. 10-Year Treasury



Source: Federal Reserve, S&P, Thomson Financial, FactSet, Haver, and RBC Capital Markets

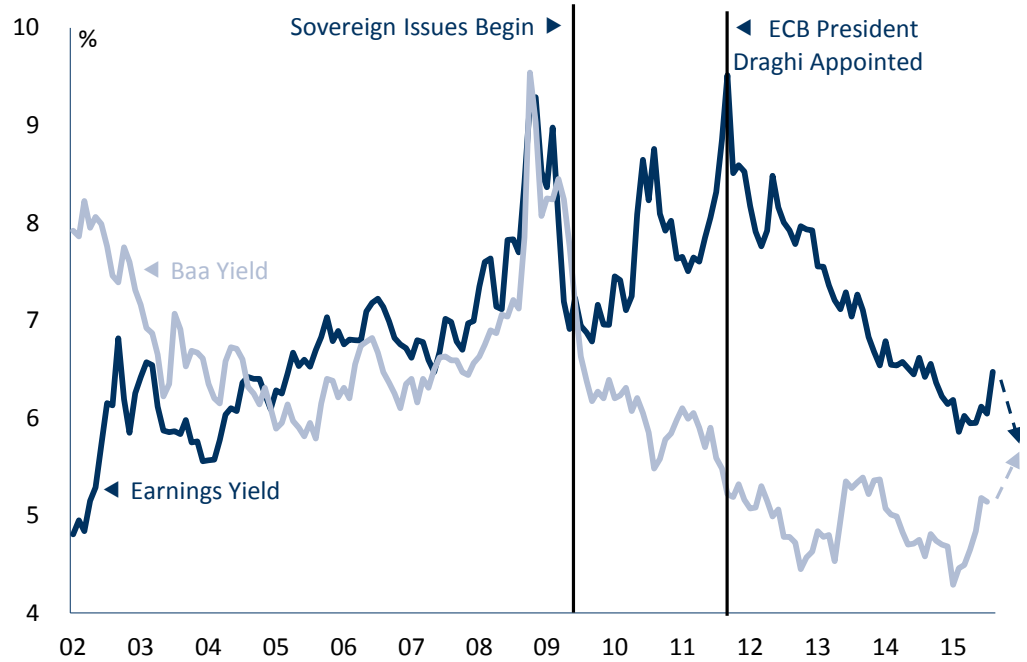


## Valuation

S&P 500 E/P vs. Baa Yields

*In 2003, P/Es began to move with corporate bond yields*

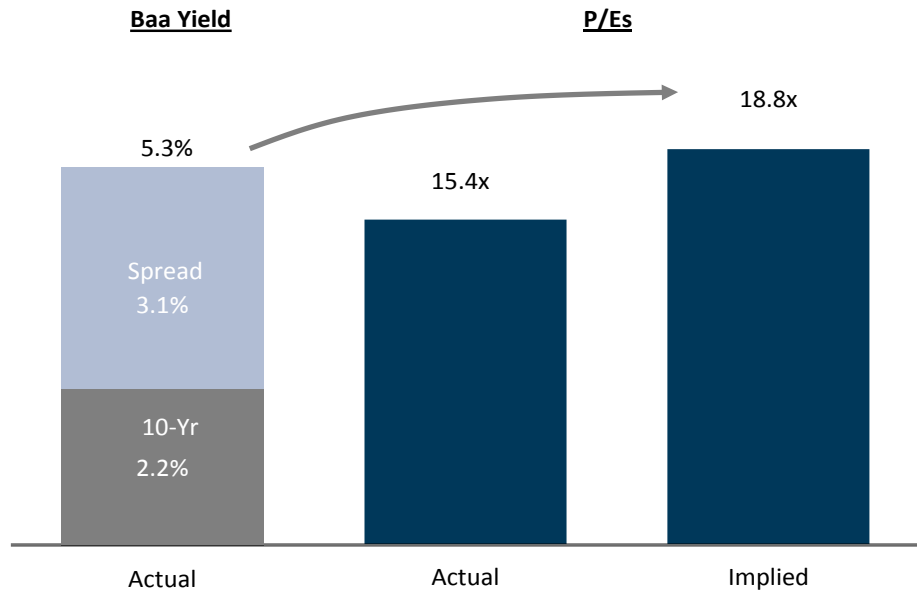
*This relationship broke down following the financial crisis and is re-normalizing*



Source: S&P, Federal Reserve, Thomson Financial, FactSet, Haver, and RBC Capital Markets

Bond Yields vs. S&P 500 Multiples

*Stocks appear cheaper relative to corporate bonds*



Source: S&P, Federal Reserve, Thomson Financial, FactSet, Haver, and RBC Capital Markets estimates

## Consumer

### Retail Same Store Sales (%)

*Same store sales show that retailers are facing a challenging environment*

*Home improvement and Food Retailing appear relatively stronger*

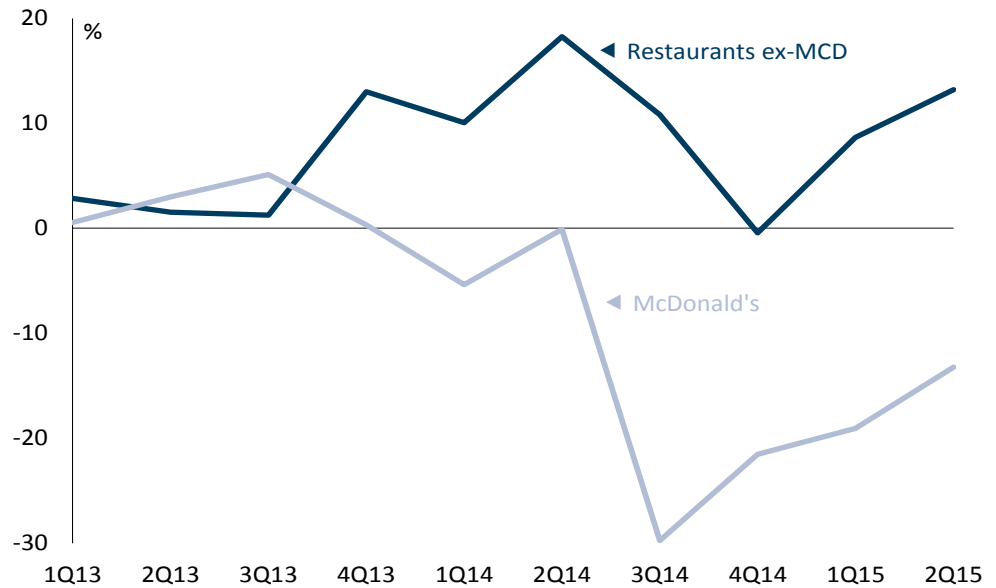
	2013	2014	2015			
			1Q	2QE	3QE	4QE
<b>Apparel</b>	<b>3.0</b>	<b>2.5</b>	<b>3.0</b>	<b>3.5</b>	<b>2.6</b>	<b>2.0</b>
Gap	2.2	1.5	-4.0	-2.0	0.2	0.4
L Brands	2.1	1.9	5.0	4.0	2.6	2.5
Ross Stores	2.7	2.3	5.0	4.0	2.2	1.3
TJX Companies	3.5	3.3	5.0	6.0	3.8	2.9
Urban Outfitters	6.0	4.1	4.0	4.0	3.6	3.0
<b>Department</b>	<b>1.4</b>	<b>0.7</b>	<b>1.1</b>	<b>0.4</b>	<b>1.4</b>	<b>1.7</b>
Kohl's	-0.9	-1.3	1.4	0.1	1.6	1.2
Macy's	1.9	0.7	-0.7	-2.1	-0.1	0.8
Nordstrom	2.5	2.8	4.4	4.9	3.9	4.2
<b>Drug Retail</b>	<b>1.9</b>	<b>2.6</b>	<b>1.7</b>	<b>3.0</b>	<b>3.5</b>	<b>2.9</b>
CVS Caremark	1.8	2.4	1.2	0.5	1.8	1.9
Walgreen	2.2	2.8	2.5	6.3	5.8	4.3
<b>Food Retail</b>	<b>3.6</b>	<b>3.8</b>	<b>2.7</b>	<b>0.7</b>	<b>3.4</b>	<b>3.2</b>
Kroger	3.3	3.5	2.5	0.6	3.8	3.5
Whole Foods	6.3	6.0	4.5	1.3	0.8	1.3
<b>General Merchandise</b>	<b>0.5</b>	<b>0.5</b>	<b>2.7</b>	<b>2.6</b>	<b>2.1</b>	<b>1.9</b>
Dollar General	3.3	3.1	3.7	2.8	3.0	2.8
Target	-0.4	-0.3	2.3	2.4	1.8	1.5
<b>Home Improvement</b>	<b>6.1</b>	<b>6.1</b>	<b>5.7</b>	<b>4.2</b>	<b>4.4</b>	<b>3.9</b>
Home Depot	6.9	6.5	6.1	4.2	4.6	4.1
Lowe's	5.0	5.4	5.2	4.3	4.2	3.6
<b>Hypermarkets</b>	<b>0.5</b>	<b>0.6</b>	<b>1.0</b>	<b>0.4</b>	<b>1.0</b>	<b>1.2</b>
Costco	4.5	4.1	2.0	-1.0	-0.1	1.9
Wal-Mart	-0.4	-0.2	0.7	0.7	1.4	1.1

Note: 2Q is actuals for reported companies and estimates for unreported  
Group SSS are revenue weighted; calendar-year figures are quarterly revenue weighted SSS  
Source: FactSet, Thomson Financial, Compustat, and RBC Capital Markets

## Consumer

*McDonald's is a drag on Restaurant earnings*

Restaurant Earnings Growth (%)



Note Actual reports and current consensus expectations for unreported companies; YoY growth of quarter-end constituents  
Source: S&P, Compustat, Thomson Financial, and RBC Capital Markets

*Luxury goods have outpaced the broader market*

S&P Global Luxury Index vs. S&P 500 Index



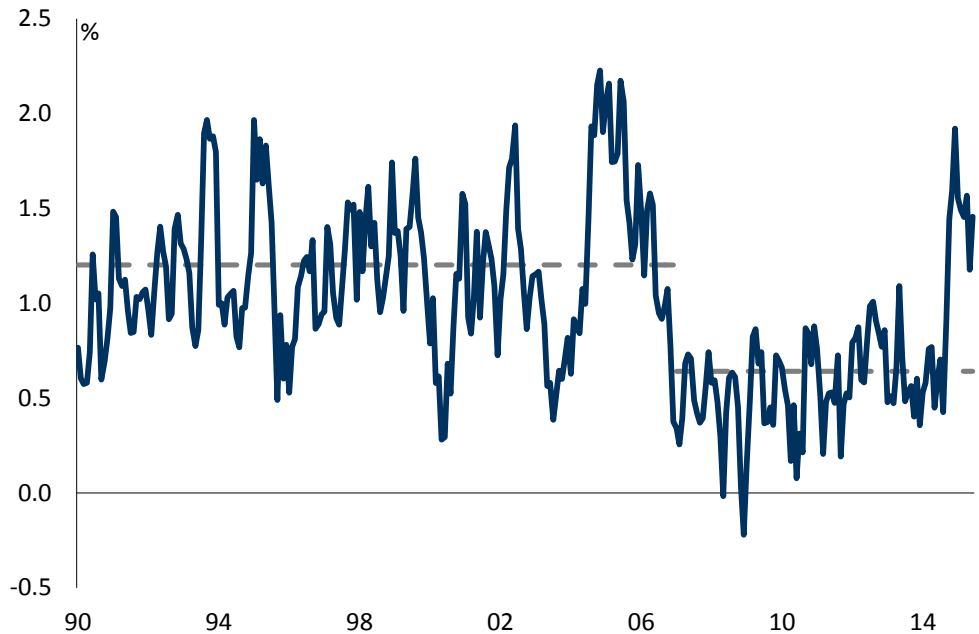
Source: S&P, Bloomberg, and RBC Capital Markets

Note: Indexed at 100 at March 2009 trough

## Consumer: Homebuilders

### Household Formation YoY

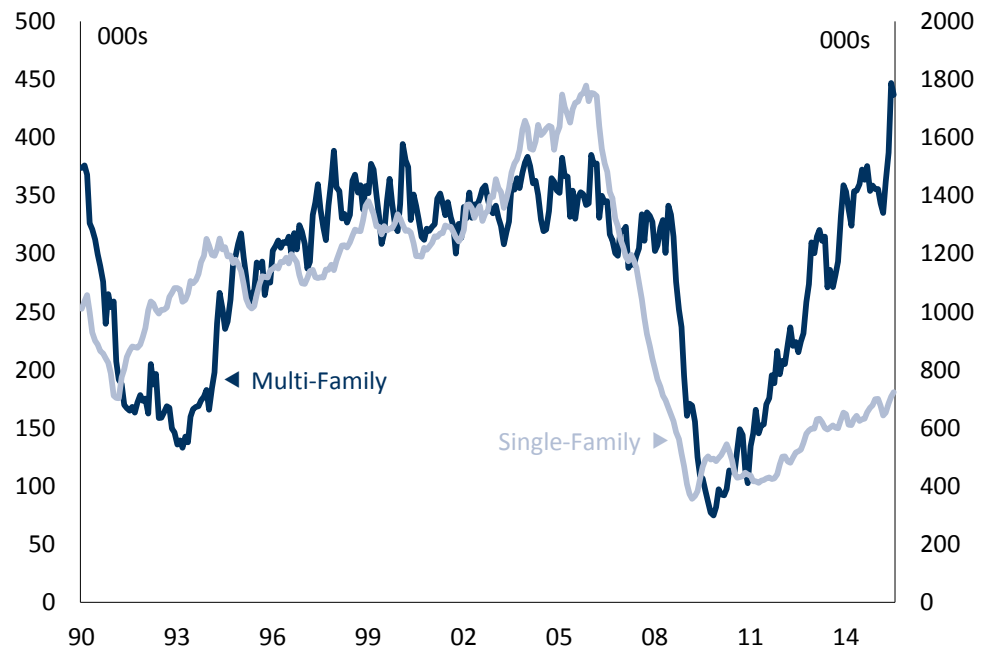
*Household formation has historically tracked labor force growth*



Source: Census Bureau, Haver, and RBC Capital Markets

### Housing Starts

*This recent jump in formation is not yet reflected in single-family metrics*



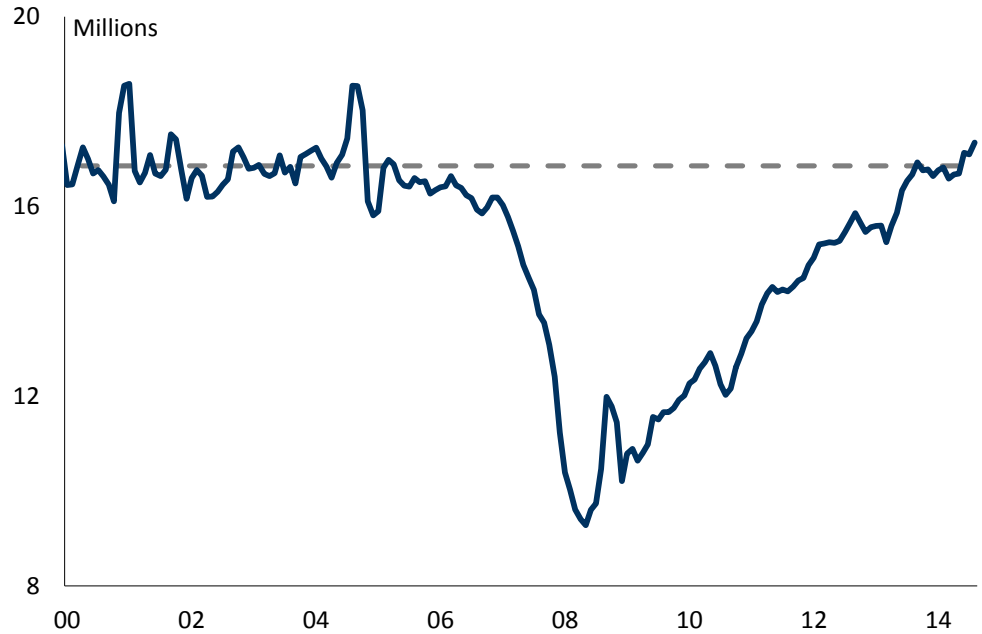
Source: Census Bureau, Haver, and RBC Capital Markets

Note: 3-month moving averages

## Consumer: Autos

*New vehicle sales have recovered to pre-crisis levels*

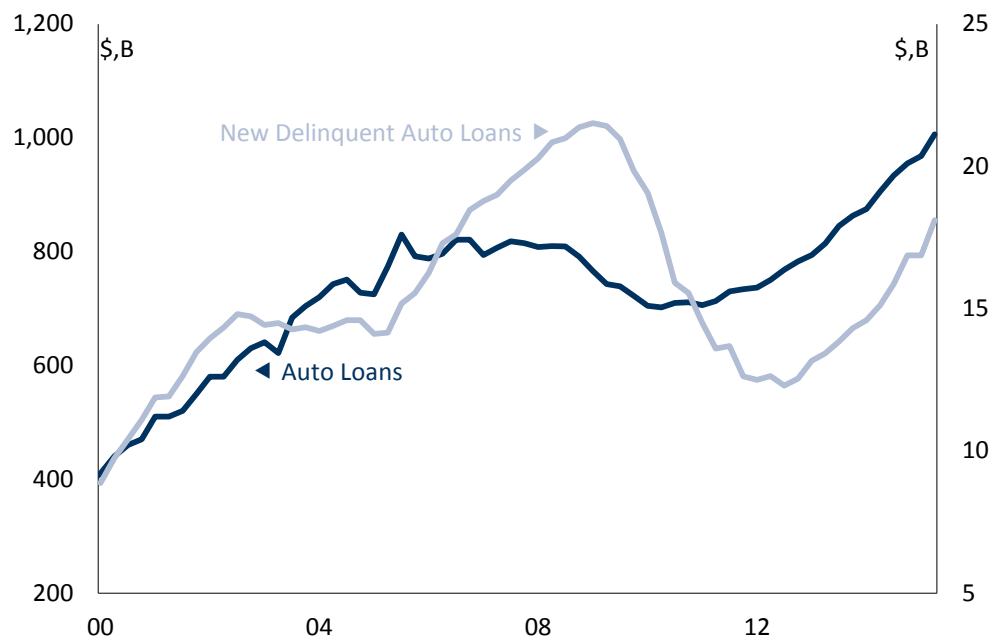
### New Vehicle Sales



Source: Bloomberg and RBC Capital Markets

Note: 3 Month MA; 2000-2007 Average

### Auto Loans Outstanding and New Delinquencies



Source: FRBNY, Equifax, Haver, and RBC Capital Markets

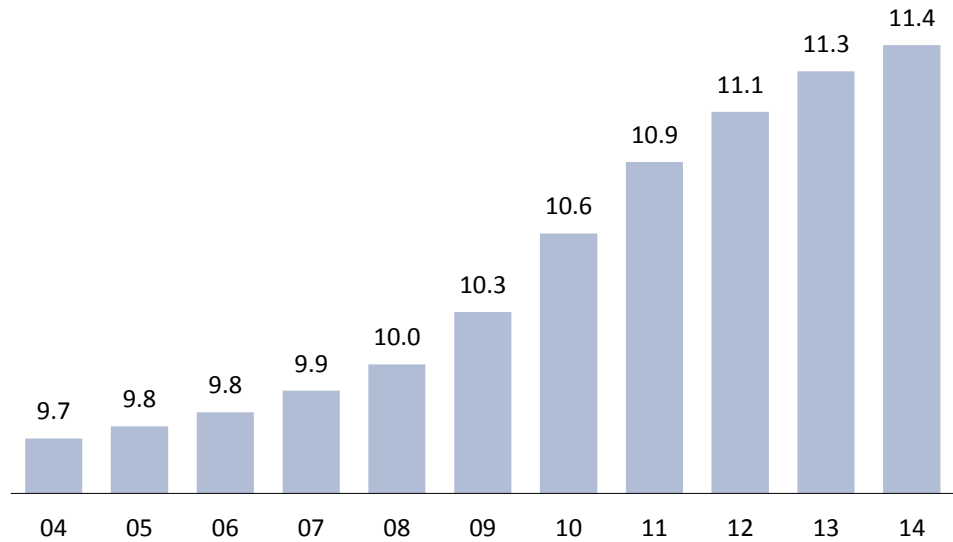
Note: Delinquent Loans are 4-Quarter Moving Average

## Consumer: Autos / Media

### Average Age of Passenger Vehicles

*The average age of autos has risen steadily over the last decade*

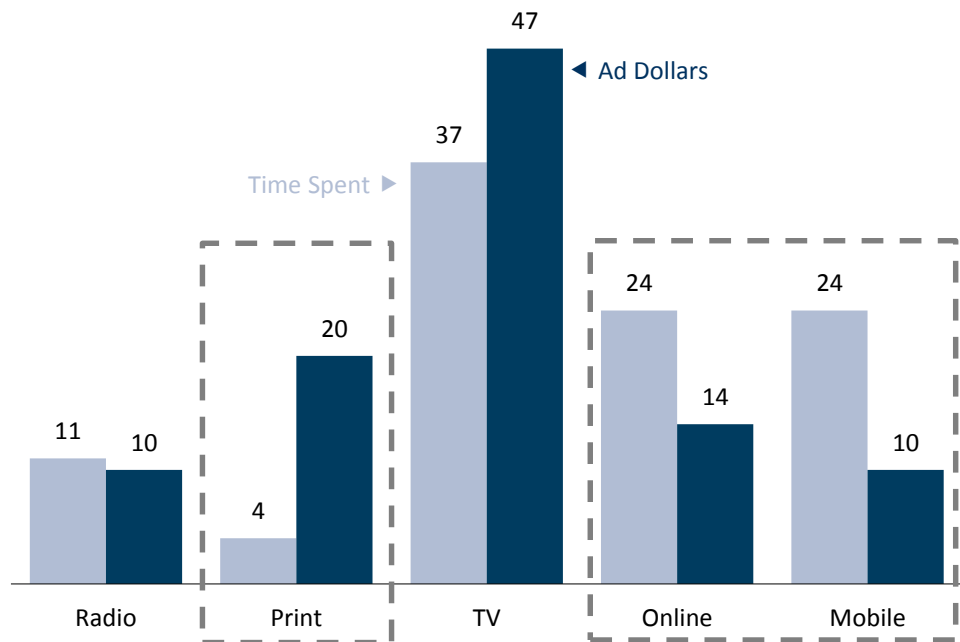
# Years



Source: ARIA and RBC Capital Markets

### Media Consumption vs. Advertising Spend

*Internet ad spending should grow in the coming years*

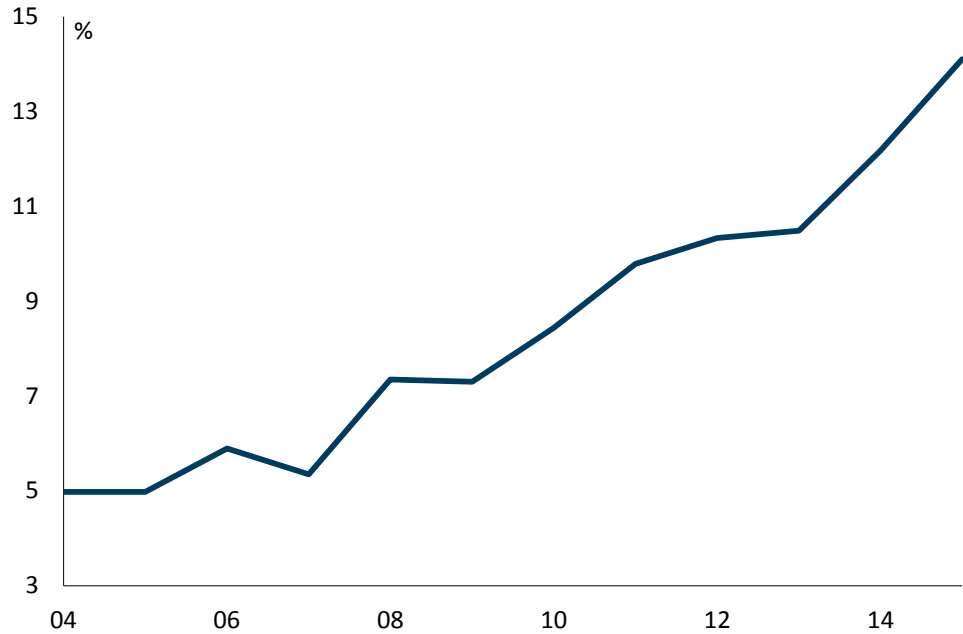


Source: emarketer and RBC Capital Markets estimates

## Consumer: Media

*Online retail continues to take share. Mobile access supports this trend*

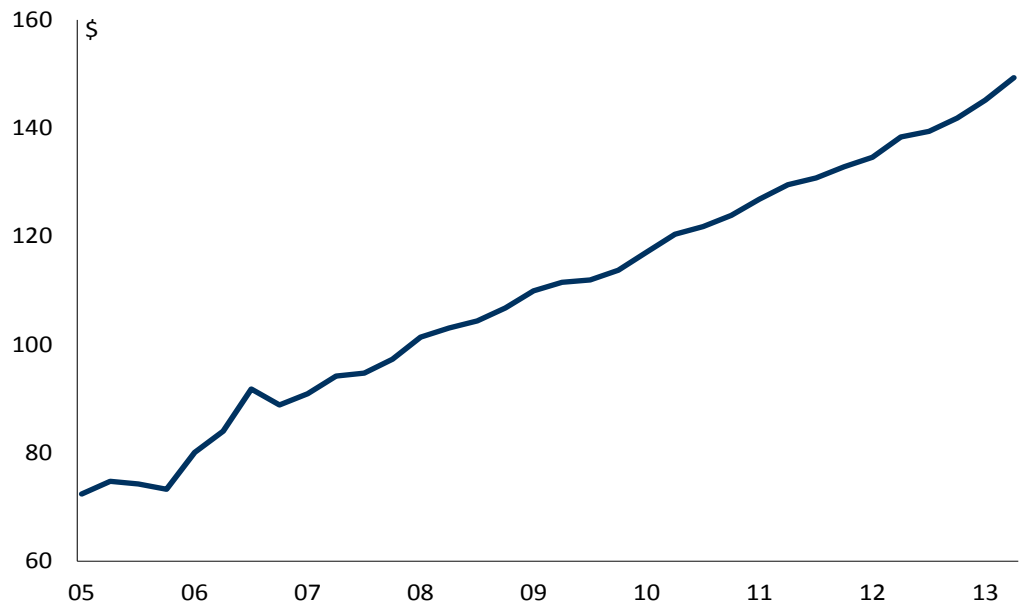
Online Retail Sales as Percentage of Total Sales



Source: Bloomberg and RBC Capital Markets

*The cost of cable subscriptions has doubled in the last eight years*

Average Cable Subscription Rate per User

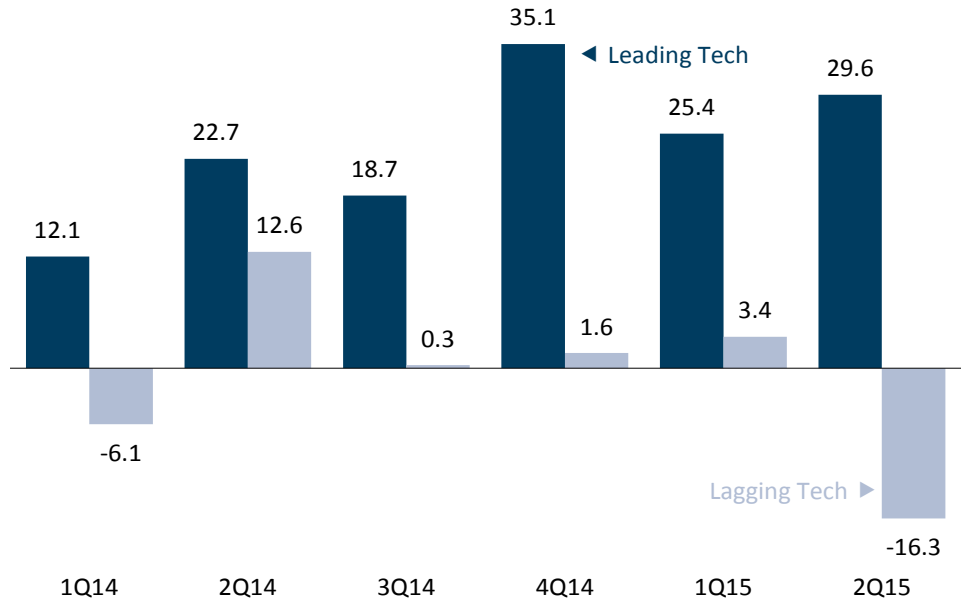


Source: RBC Capital Markets Media Team

## Media / Technology

### Earnings Growth – Leading vs. Lagging Technology (%)

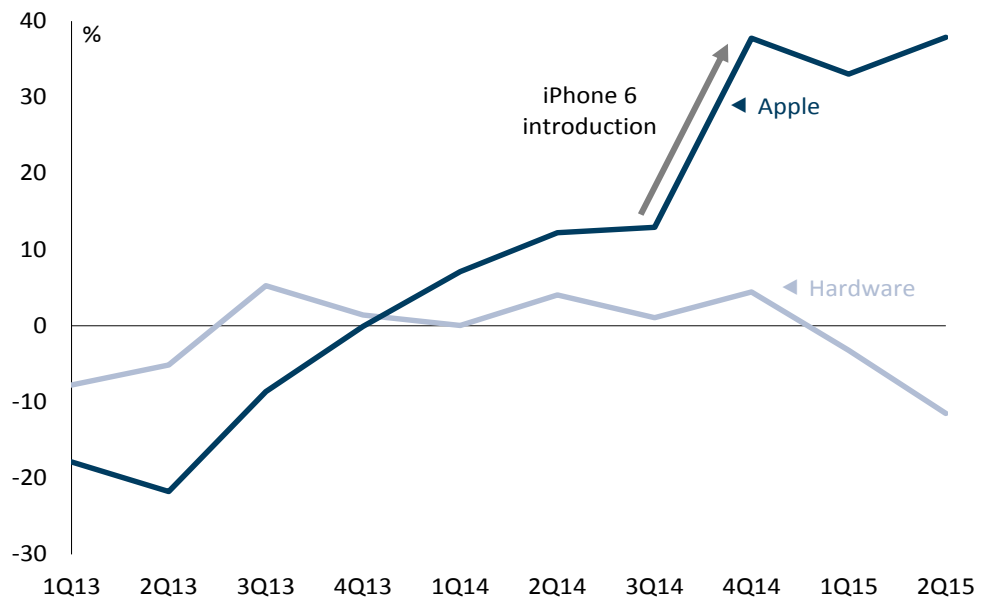
*There is a large divergence between leaders and laggards within Tech*



Note: Leading Technology: AAPL, GOOGL, FB; Lagging Technology: ORCL, IBM, INTC, QCOM; YoY growth of quarter-end constituents  
Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

### Hardware Earnings Growth (%)

*Hardware has been challenged outside of Apple*



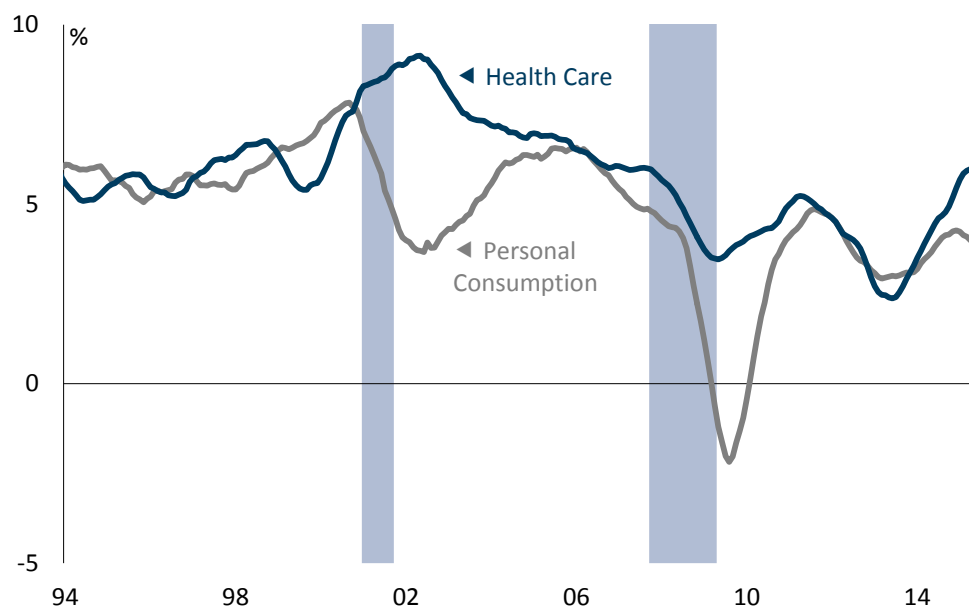
Note: Hardware is GICS 4520 Technology Hardware & Equipment ex-Apple;  
Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets



## Health Care

*Health Care spending holds up better than personal consumption in recessions*

### U.S. Health Care vs. Personal Consumption Expenditures



Source: BEA, Haver, and RBC Capital Markets

Note: 12-Month Moving Average

### 2Q Growth Scorecard – Health Care

*Earnings growth is strong across the board*

	Growth YoY (%)				
	Revenue	Margins	Earnings	Buybacks	EPS
<b>Health Care</b>	<b>7.9</b>	<b>7.2</b>	<b>15.1</b>	<b>-2.4</b>	<b>12.7</b>
Biotech	17.1	4.6	21.7	4.9	26.6
Providers & Services	9.8	3.2	13.0	3.5	16.5
Equipment*	3.0	12.2	15.2	-0.5	14.7
Pharma	2.6	11.5	14.1	-4.6	9.4
<b>S&amp;P 500</b>	<b>-3.5</b>	<b>3.6</b>	<b>0.1</b>	<b>1.4</b>	<b>1.5</b>

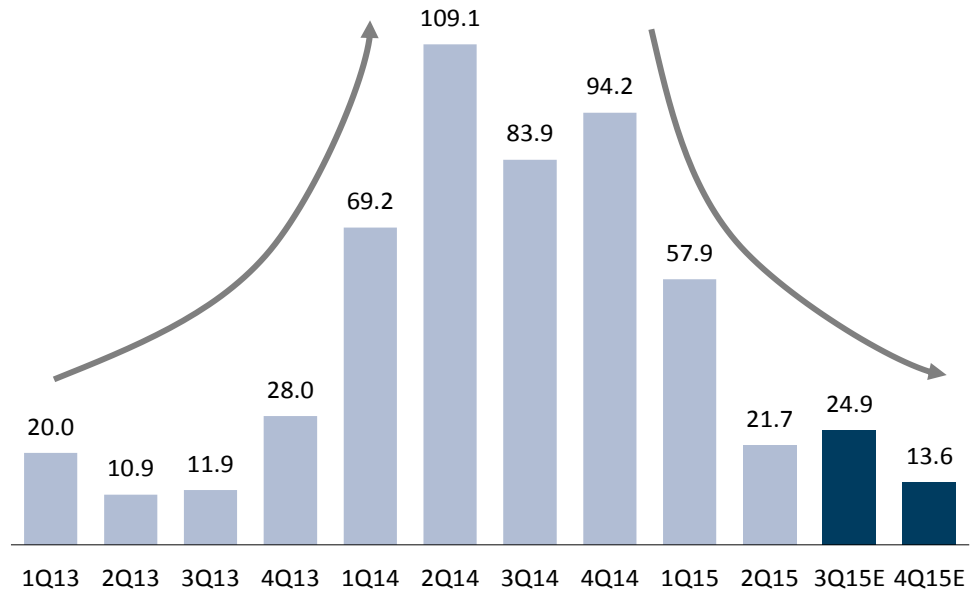
Note: Actual reports and current consensus expectations for unreported companies; YoY growth of quarter-end constituents; \*Equipment buybacks exclude MDT share issuance and EPS assumes earnings growth for MDT

Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

## Health Care

### Biotech Earnings Growth (%)

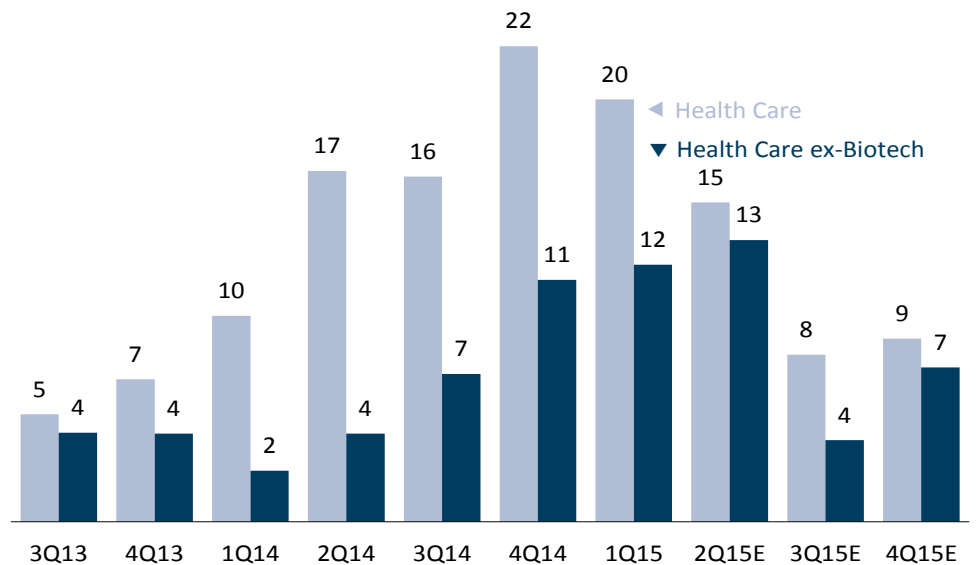
*Biotech growth appears to be re-normalizing following five quarters of particularly strong results*



Note: YoY growth of quarter-end constituents  
Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

### Health Care Earnings Growth (%)

*Excluding Biotech, underlying earnings within Health Care still appear healthy*

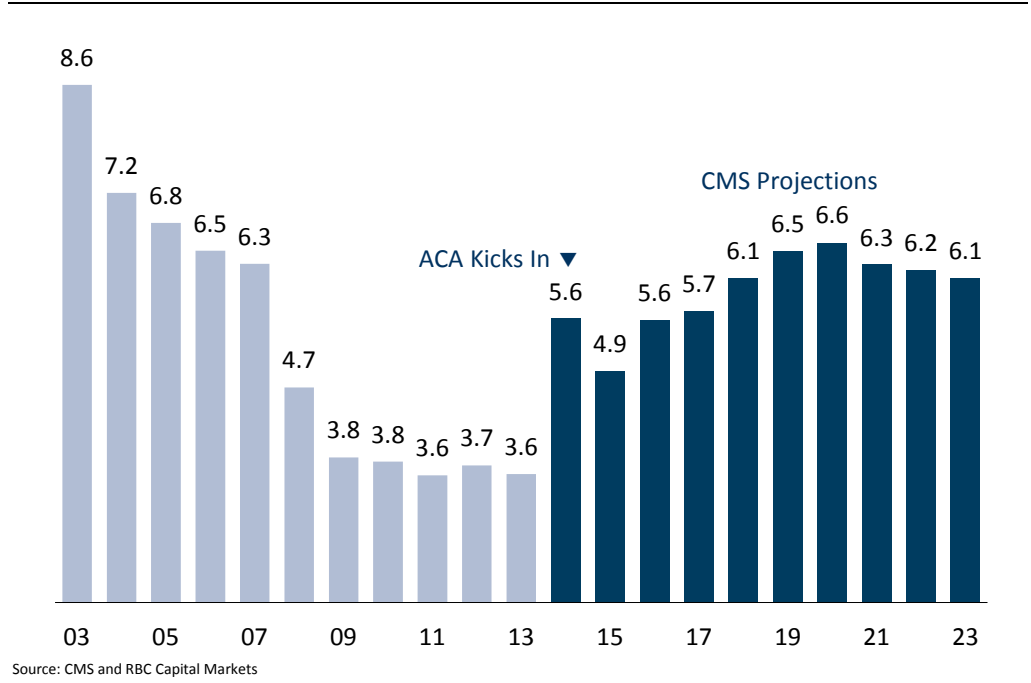


Note: Actual reports and current consensus expectations for unreported companies;  
YoY growth of quarter-end constituents  
Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

## Health Care

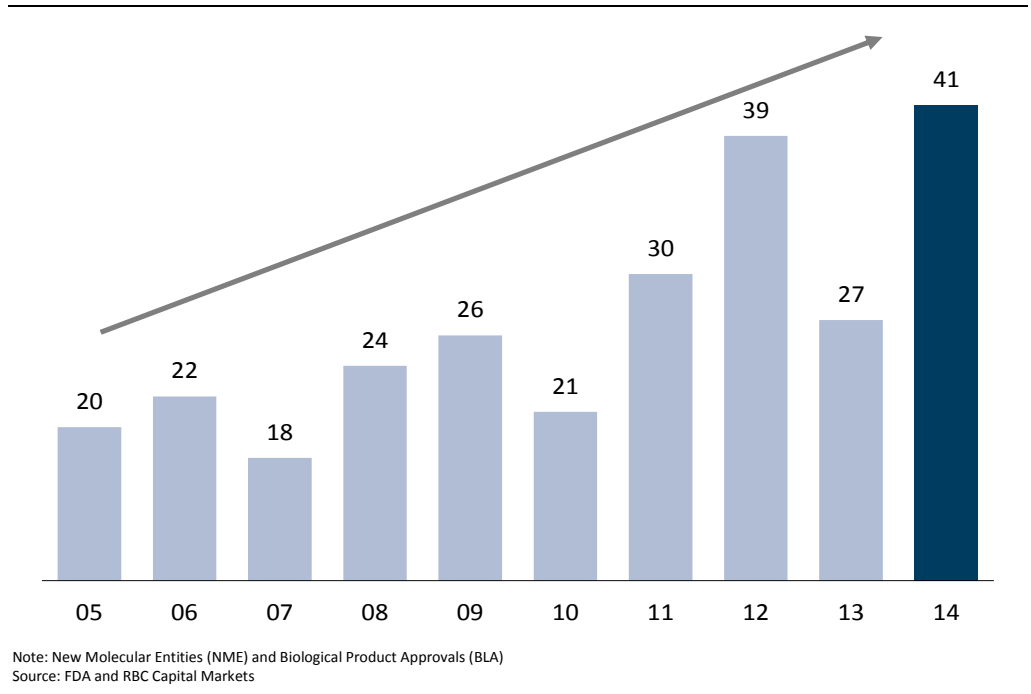
*Overall Health Care spending is projected to increase*

Health Care Spending Growth YoY (%)



*Novel new drug approvals have been increasing*

New Novel FDA Drug Approvals



## Industrials

*The balance of PMIs are neutral to weak*

Global PMIs Heatmap

	Aug-15	Jul-15	May-15	Feb-15	Aug-14
Global	50.7	51.0	51.3	51.9	52.5
U.S.	51.1	52.7	52.8	52.9	58.1
Canada	49.4	50.8	49.8	48.7	54.8
Japan	51.7	51.2	50.9	51.6	52.3
U.K.	51.5	51.9	51.9	53.9	53.0
Euro Area	52.3	52.4	52.3	51.1	50.7
France	48.3	49.6	49.4	47.6	46.9
Germany	53.3	51.8	51.1	51.1	51.4
Italy	53.8	55.3	54.8	51.9	49.8
Spain	53.3	53.6	55.8	54.2	52.8
EM	48.6	49.1	49.7	51.1	51.0
Brazil	45.8	47.2	46.0	49.6	50.2
Russia	47.9	48.3	47.6	49.7	51.0
India	52.4	52.7	52.6	51.2	52.4
China	47.3	47.8	49.2	50.7	50.2

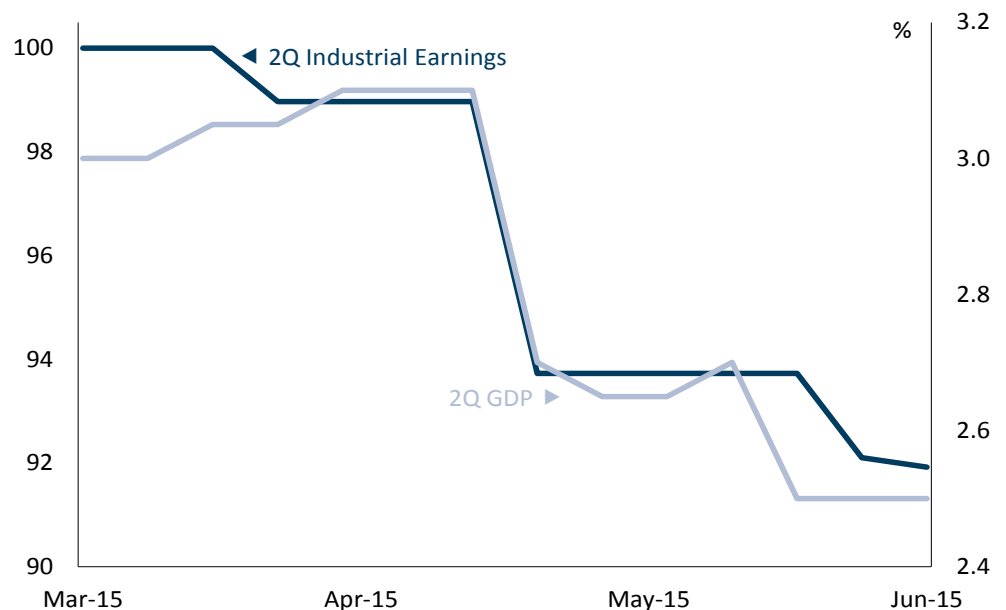
Expanding  $\geq 52$      $52 > \text{Neutral} \geq 50$     Contracting  $< 50$

Note: U.S. ISM PMI, Markit PMI for all others; as of July 1, 2015

Source: Markit, ISM, Haver, and RBC Capital Markets

*Industrial earnings expectations fell in tandem with slowing economic trends*

Change in EPS Expectations vs. GDP Forecasts – 2Q



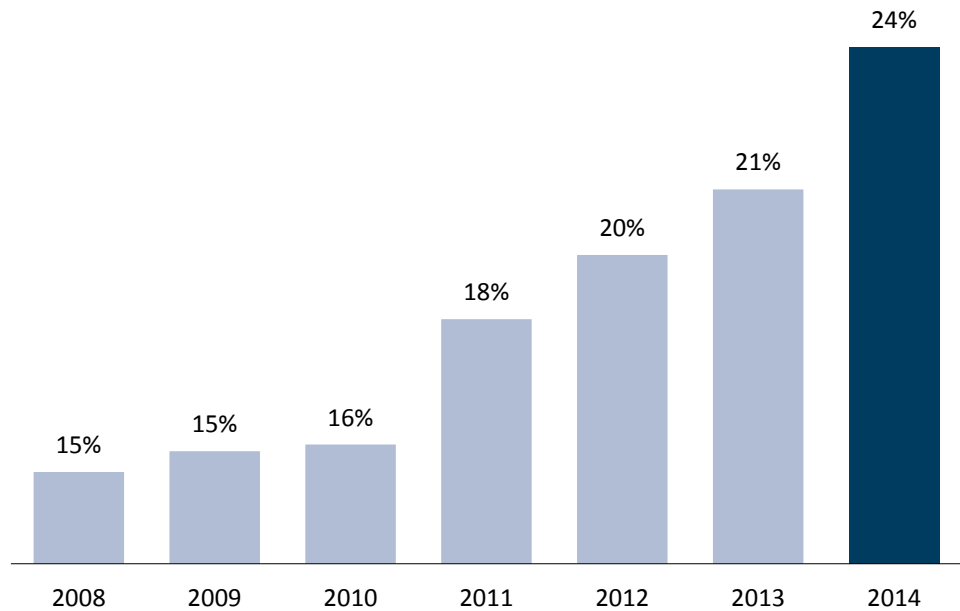
Note: Change in Industrial estimates and 2Q Bloomberg Consensus GDP from 3/31/15 to 6/30/15

Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

## Industrials

*Defense companies are increasingly turning abroad to offset U.S. declines*

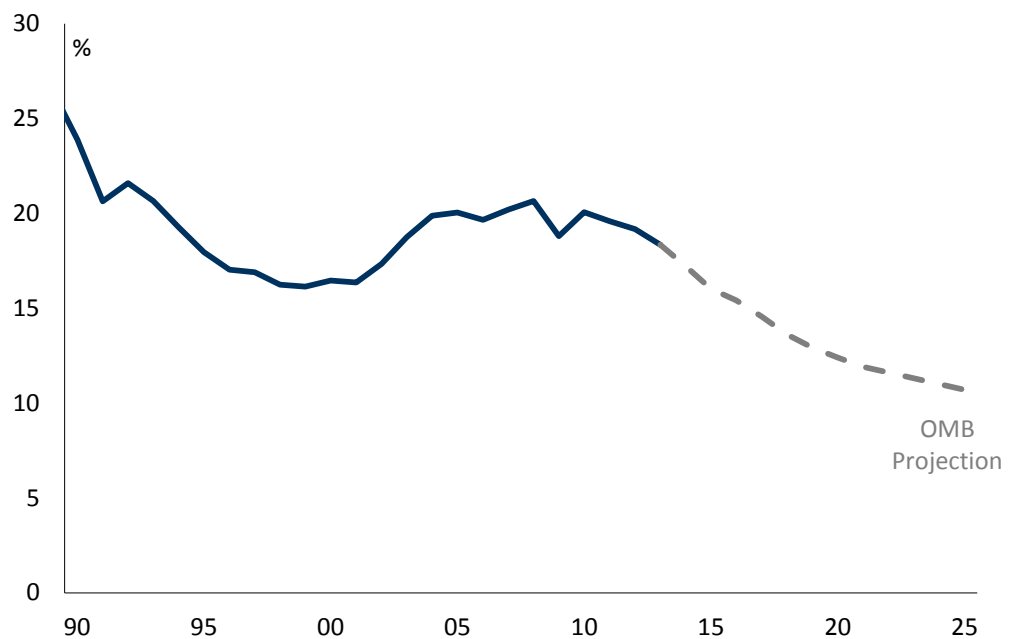
International Sales as Percentage of Total Defense Revenues



Source: BA, LMT, NOC, RTN, GD, Bloomberg, and RBC Capital Markets

*Defense spending is expected to shrink as a percentage of the U.S. Federal budget*

U.S. Defense Spending as Percentage of Federal Outlays



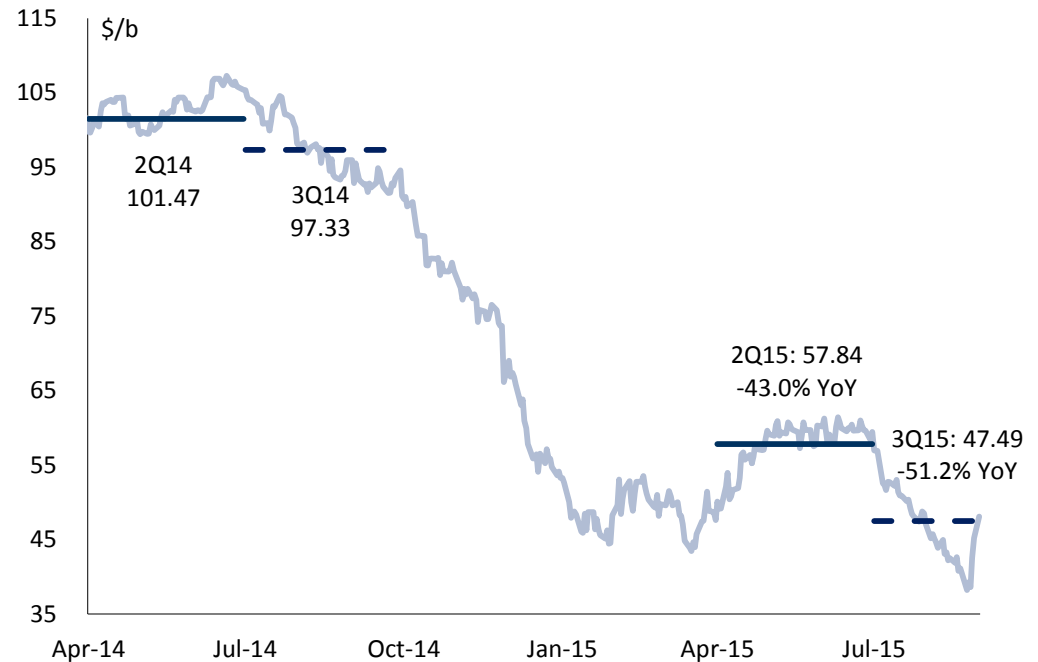
Source: OMB, Haver, and RBC Capital Markets



## Energy

*WTI has bounced off its recent lows*

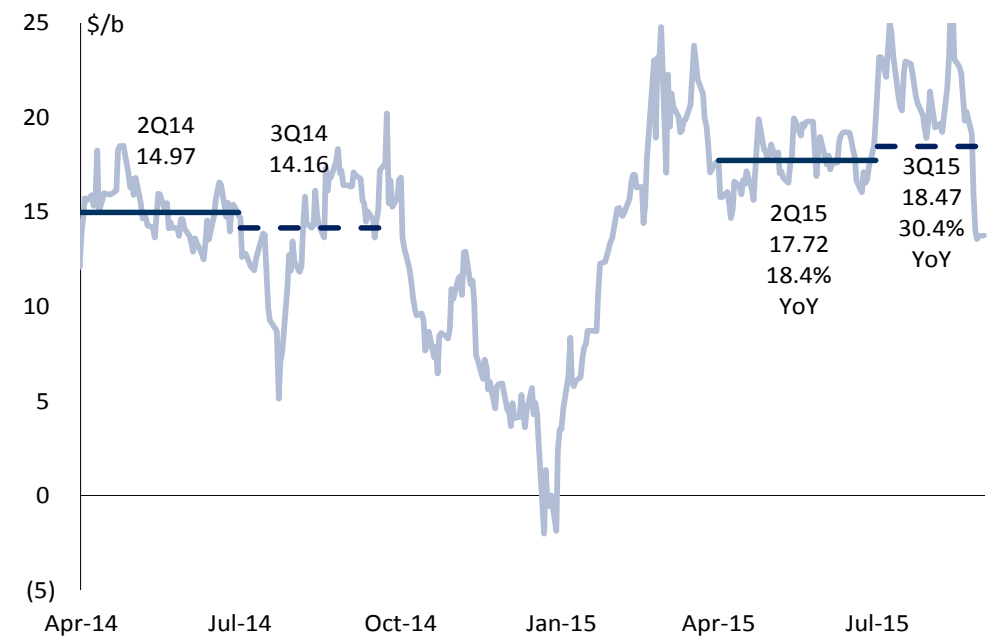
### WTI



Source: EIA, Bloomberg, and RBC Capital Markets

Note: Average over the quarter

### Crack Spreads



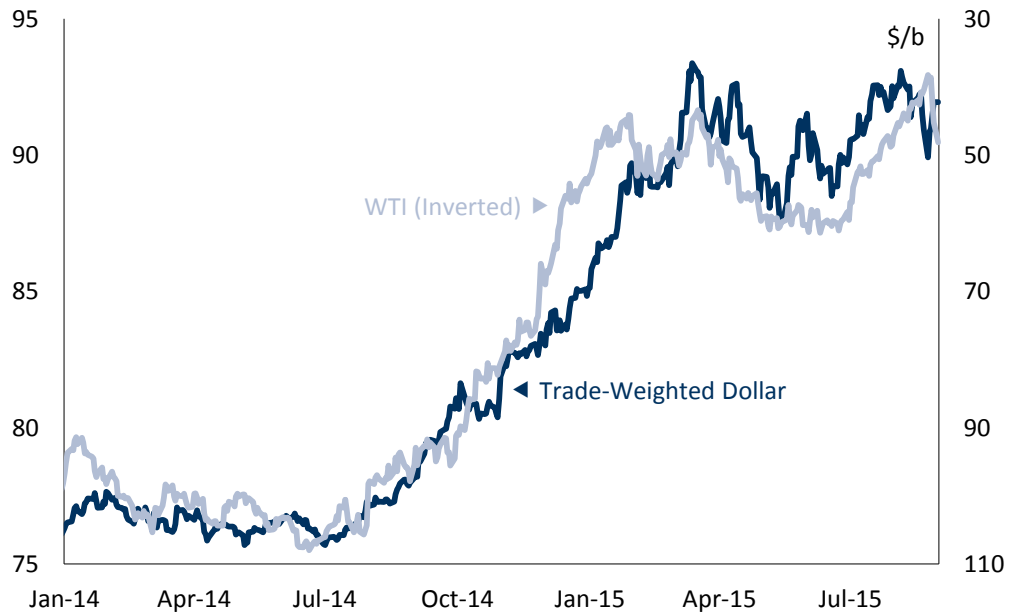
Source: Bloomberg and RBC Capital Markets

Note: Average over the quarter

## Energy

*The dollar's recent strength has weighed on commodities*

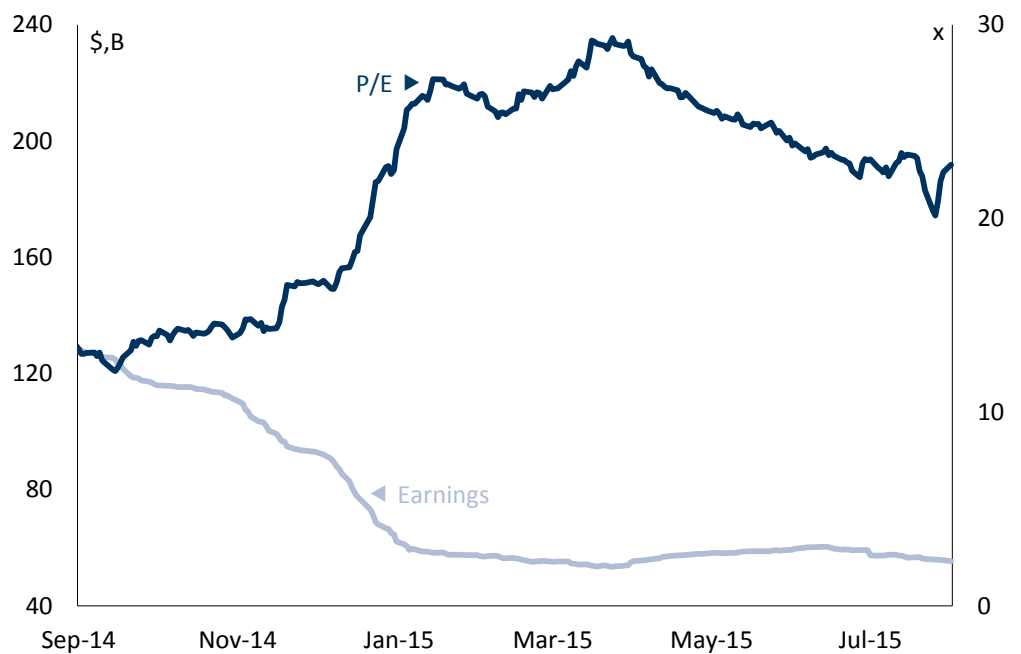
Trade-Weighted Dollar vs. Oil (Inverted)



Note: Trade-Weighted Dollar (Major Currencies Index)  
Source: Federal Reserve, CME, Haver, and RBC Capital Markets

*Rising multiples for Energy have offset the earnings decline*

Earnings vs. P/E – Energy Sector

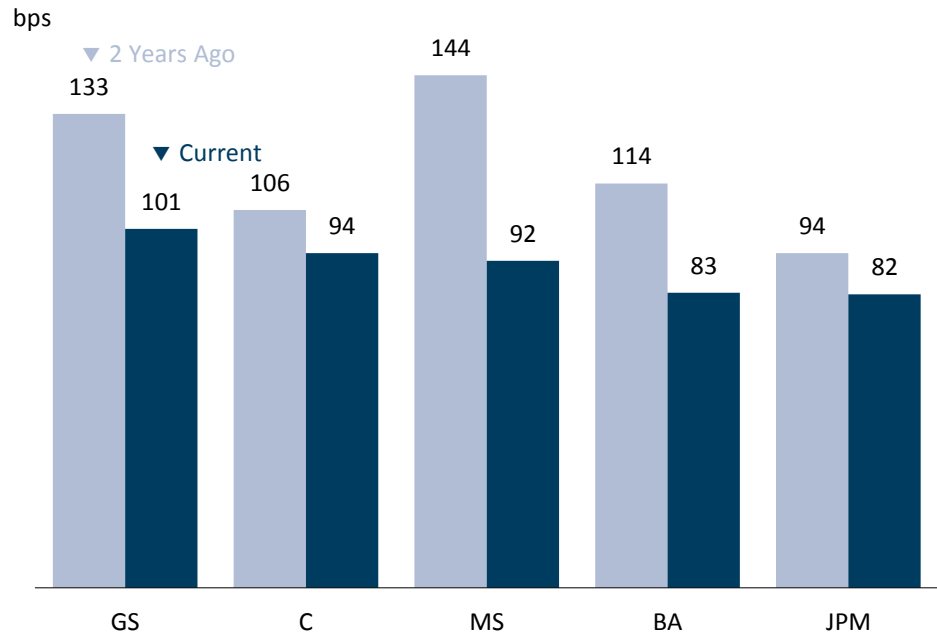


Source: S&P, FactSet, and RBC Capital Markets

## Financials

### CDS: Current vs. Two Years Ago

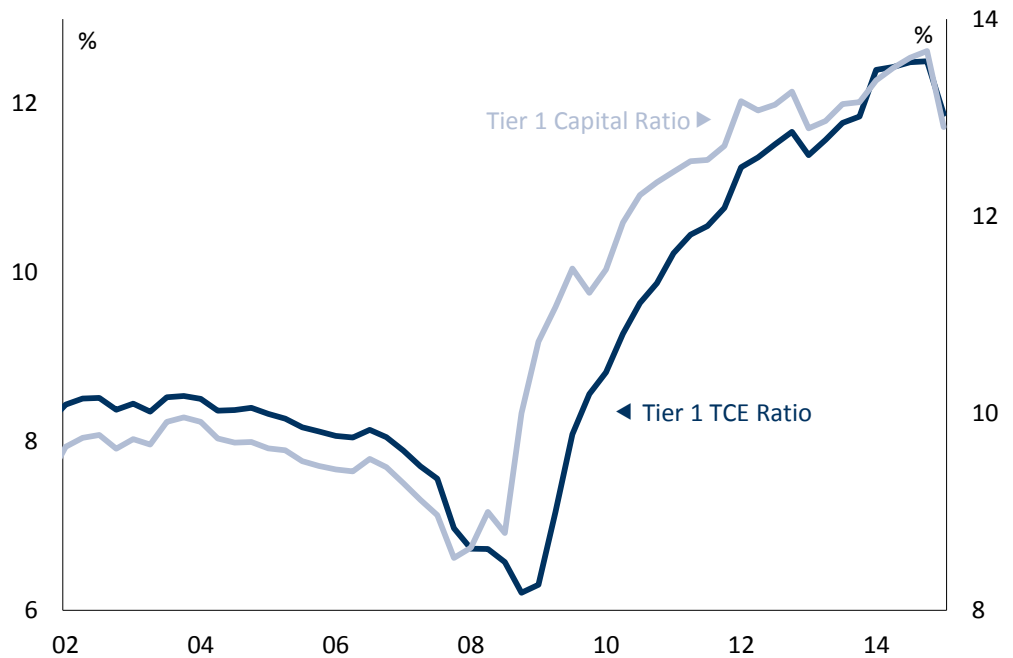
*Banks have de-risked over the last several years*



Source: Bloomberg and RBC Capital Markets

### Bank Tier 1 Ratios

*Tier 1 ratios have improved significantly, although they fell more recently*



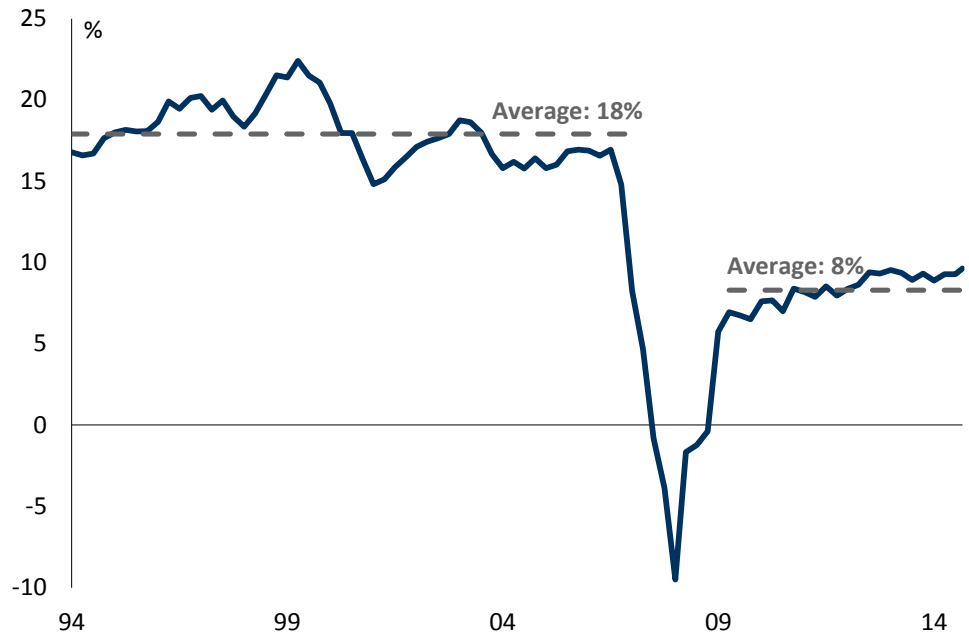
Source: FRBNY, Haver, and RBC Capital Markets



## Financials

### Banks and Diversified Financials – Return on Equity

*Bank profitability has been constrained by regulation*

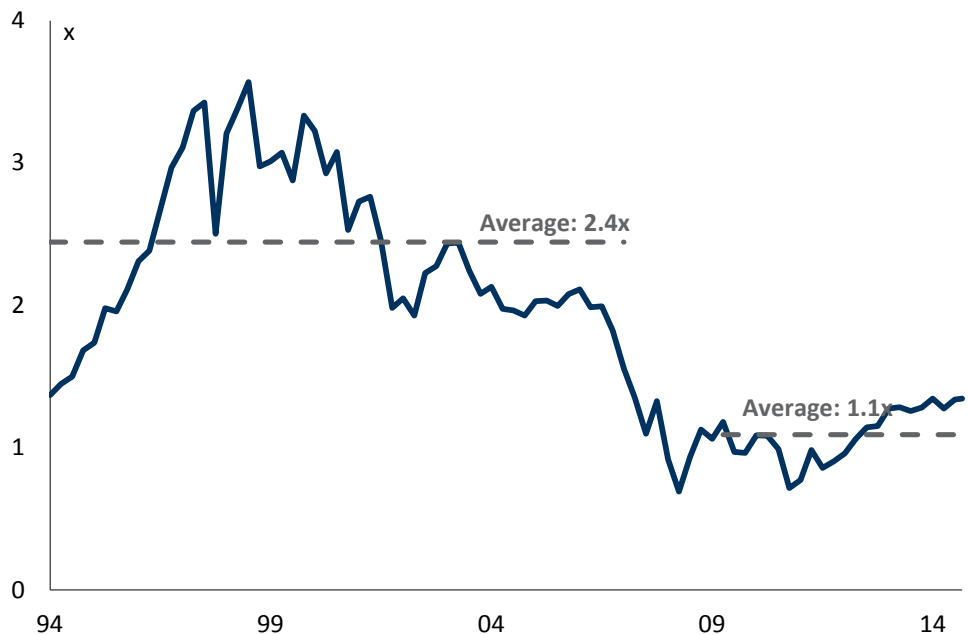


Source: S&P, Compustat, FactSet, and RBC Capital Markets

Note: GICS 4010 & 4020; Excludes BRK.B

### Banks and Diversified Financials – Price to Book

*Banks remain below historical valuation levels*



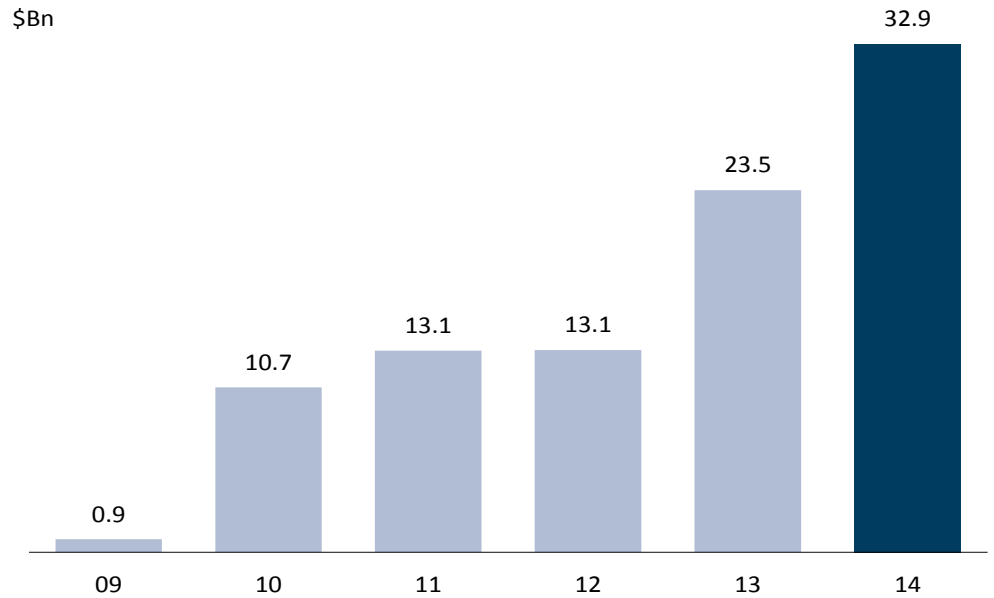
Source: S&P, Compustat, FactSet, and RBC Capital Markets

Note: GICS 4010 & 4020; Excludes BRK.B

## Financials

*Litigation expenses have been a significant drag on the Big-5 banks*

Litigation Expenses at Big-5 Banks

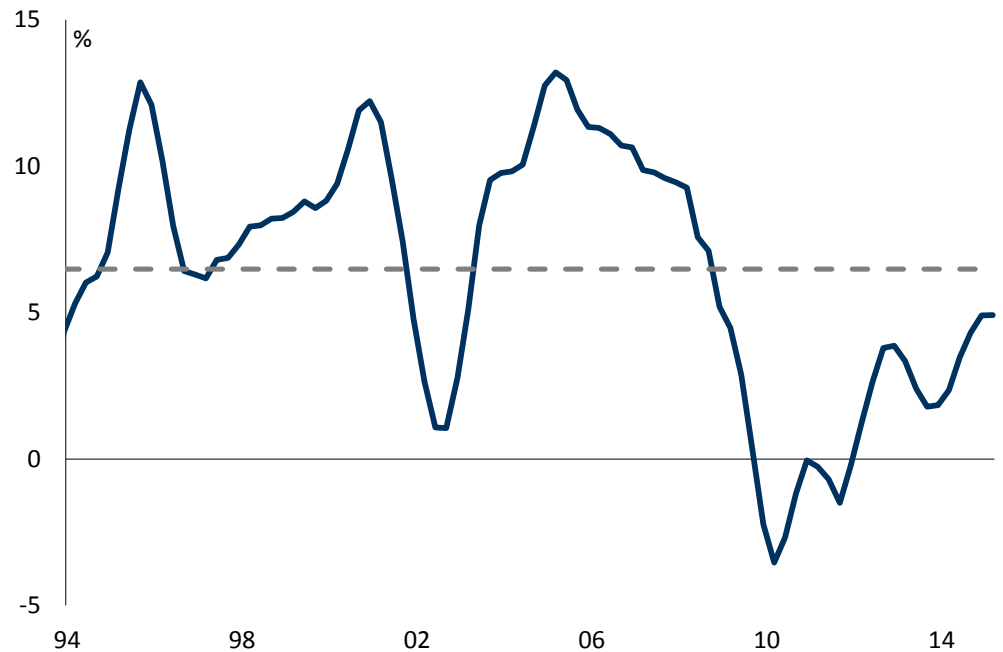


Source: Company filings, Bloomberg, and RBC Capital Markets

Note: BAC, C, JPM, GS, MS

*Lending has improved but remains at low levels*

Bank Loans – YoY Growth



Source: FRBNY, Haver, and RBC Capital Markets



## U.S. Equity Returns (%)

Index	Aug-15	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr
<b>Broad Indices</b>							
Dow	(6.6)	(6.2)	(7.3)	(3.3)	8.1	10.5	4.7
S&P 500	(6.0)	(4.1)	(2.9)	0.5	14.3	15.9	7.2
S&P 100 (OEX)	(6.5)	(4.0)	(2.9)	(0.1)	12.9	15.4	6.9
Nasdaq	(6.9)	(4.2)	0.9	4.3	15.9	17.7	8.3
<b>Russell 1000 Large Cap</b>							
Index	(6.0)	(4.2)	(2.6)	0.4	14.7	16.1	7.4
Value	(6.0)	(5.5)	(6.1)	(3.5)	13.9	14.7	6.2
Growth	(6.1)	(2.9)	1.0	4.3	15.3	17.4	8.4
<b>Russell Mid-Cap</b>							
Index	(5.3)	(4.6)	(2.3)	0.0	16.1	16.6	8.4
Value	(4.7)	(4.9)	(4.5)	(2.5)	15.8	16.0	7.9
Growth	(5.8)	(4.3)	(0.3)	2.5	16.2	17.1	8.7
<b>Russell 2000 Small-Cap</b>							
Index	(6.3)	(7.4)	(3.0)	0.0	14.1	15.5	7.1
Value	(4.9)	(7.5)	(6.8)	(5.0)	11.8	13.2	5.7
Growth	(7.6)	(7.2)	0.9	5.1	16.5	17.8	8.5
Index	Value	2014	2013	2012	2011	2010	2009
<b>Broad Indices</b>							
Dow	16,528	7.5	26.5	7.3	5.5	11.0	18.8
S&P 500	1,972	13.7	32.4	16.0	2.1	15.1	26.5
S&P 100 (OEX)		12.7	30.4	16.1	3.2	12.5	22.3
Nasdaq	4,777	13.4	38.3	15.9	(1.8)	16.9	43.9
<b>Russell 1000 Large Cap</b>							
Index		13.2	33.1	16.4	1.5	16.1	28.4
Value		13.5	32.5	17.5	0.4	15.5	19.7
Growth		13.0	33.5	15.3	2.6	16.7	37.2
<b>Russell Mid-Cap</b>							
Index		13.2	34.8	17.3	(1.5)	25.5	40.5
Value		14.7	33.5	18.5	(1.4)	24.8	34.2
Growth		11.9	35.7	15.8	(1.7)	26.4	46.3
<b>Russell 2000 Small-Cap</b>							
Index		4.9	38.8	16.3	(4.2)	26.9	27.2
Value		4.2	34.5	18.1	(5.5)	24.5	20.6
Growth		5.6	43.3	14.6	(2.9)	29.1	34.5

Source: Dow Jones, NASD, S&amp;P, Russell, FactSet, and RBC Capital Markets

Note: All returns include dividends except the DOW and NASDAQ. Three-, five-, and ten-year returns are annualized returns.



## Sector Equity Returns (%)

Index	Aug-15	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr
<b>Cyclicals</b>							
Energy	(4.2)	(11.5)	(15.6)	(30.3)	(0.7)	7.2	4.6
Materials	(5.5)	(10.3)	(9.8)	(12.8)	8.9	10.0	7.3
Industrials	(5.4)	(5.2)	(8.1)	(2.9)	14.4	15.2	7.3
Consumer Discret.	(6.4)	(1.9)	4.7	10.7	20.1	22.0	10.1
Technology	(5.5)	(2.7)	(2.0)	2.5	13.0	17.1	8.7
<b>Defensives</b>							
Consumer Staples	(5.9)	(0.7)	(1.5)	7.2	12.9	15.4	10.4
Health Care	(7.9)	(5.3)	3.8	12.0	24.2	22.5	10.4
Telecom	(3.4)	(3.4)	(0.3)	(4.1)	3.8	10.8	6.9
Utilities	(3.4)	2.4	(8.5)	1.6	9.5	11.0	6.8
<b>Financials</b>	(6.8)	(3.9)	(4.2)	2.3	17.9	13.6	(0.1)
REITs	(4.9)	0.4	(5.8)	1.9	8.2	13.4	6.7
<b>S&amp;P 500</b>	<b>(6.0)</b>	<b>(4.1)</b>	<b>(2.9)</b>	<b>0.5</b>	<b>14.3</b>	<b>15.9</b>	<b>7.2</b>
Index	Weight	2014	2013	2012	2011	2010	2009
<b>Cyclicals</b>							
Energy	7.3	(7.8)	25.1	4.6	4.7	20.5	13.8
Materials	2.9	6.9	25.6	15.0	(9.8)	22.2	48.6
Industrials	9.9	9.8	40.7	15.3	(0.6)	26.7	20.9
Consumer Discret.	12.9	9.7	43.1	23.9	6.1	27.7	41.3
Technology	20.0	20.1	28.4	14.8	2.4	10.2	61.7
<b>Defensives</b>							
Consumer Staples	9.7	16.0	26.1	10.8	14.0	14.1	14.9
Health Care	15.2	25.3	41.5	17.9	12.7	2.9	19.7
Telecom	2.4	3.0	11.5	18.3	6.3	19.0	8.9
Utilities	3.0	29.0	13.2	1.3	19.9	5.5	11.9
<b>Financials</b>	16.6	15.2	35.6	28.8	(17.1)	12.1	17.2
REITs	2.5	30.2	1.0	19.5	12.6	31.7	25.0
<b>S&amp;P 500</b>	<b>100.0</b>	<b>13.7</b>	<b>32.4</b>	<b>16.0</b>	<b>2.1</b>	<b>15.1</b>	<b>26.5</b>

Source: S&P, FactSet, and RBC Capital Markets

Note: All returns include dividends. Three-, five-, and ten-year returns are annualized returns.



## Global Equity Returns (%)

Country	Curr.	Aug-15	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr
TSX	US\$	(6.2)	(10.2)	(16.0)	(25.5)	(2.0)	1.5	4.4
	local	(4.0)	(4.3)	(3.5)	(8.7)	8.3	6.1	5.6
EAFE	US\$	(7.3)	(5.4)	0.1	(7.1)	9.0	7.5	4.4
	local	(7.6)	(4.4)	4.4	6.5	15.6	10.4	4.9
Euro x-UK	US\$	(7.0)	(3.5)	1.7	(5.7)	11.4	8.5	5.2
	local	(7.8)	(2.9)	7.6	9.0	15.6	10.6	5.4
UK	US\$	(7.4)	(5.8)	(3.9)	(12.8)	5.4	7.4	3.7
	local	(6.1)	(3.7)	(2.6)	(5.8)	6.5	7.3	5.3
Pac x-Japan	US\$	(11.7)	(12.8)	(12.2)	(21.7)	0.6	4.3	6.5
	local	(9.5)	(7.9)	(3.5)	(5.8)	9.2	7.1	6.5
Japan	US\$	(5.8)	(5.4)	7.7	4.5	12.7	7.6	3.0
	local	(7.9)	(6.3)	8.8	21.9	30.3	15.8	3.9
EME	US\$	(9.0)	(15.3)	(12.6)	(22.7)	(2.1)	(0.6)	5.9
	local	(6.5)	(10.5)	(5.3)	(9.2)	4.5	4.0	8.0
<b>S&amp;P 500</b>		<b>(6.0)</b>	<b>(4.1)</b>	<b>(2.9)</b>	<b>0.5</b>	<b>14.3</b>	<b>15.9</b>	<b>7.2</b>

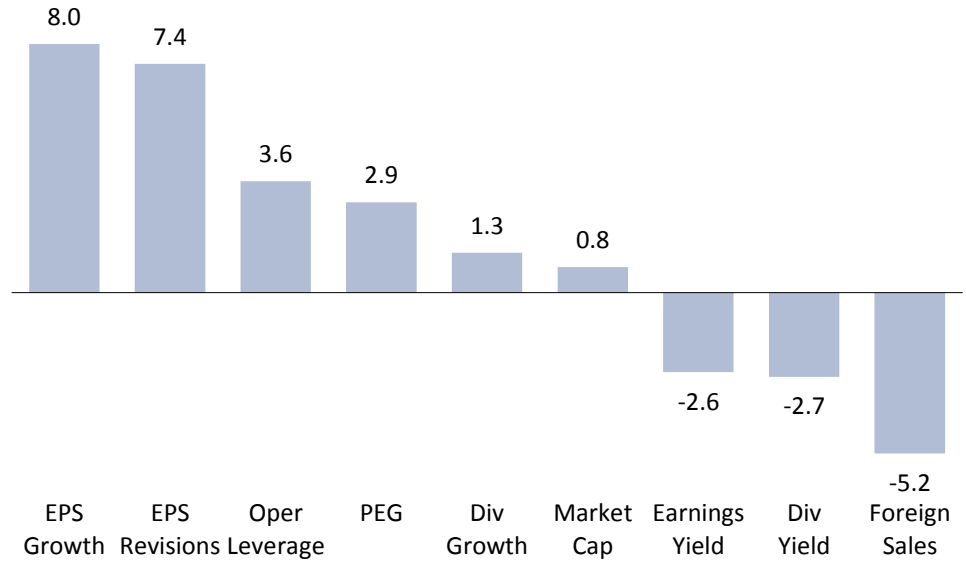
Country	Curr.	2014	2013	2012	2011	2010	2009	2008
TSX	US\$	1.4	5.9	9.6	(10.9)	24.1	59.0	(46.4)
	local	10.6	13.0	7.2	(8.7)	17.6	35.1	(33.0)
EAFE	US\$	(4.5)	23.3	17.9	(11.7)	8.2	32.5	(43.1)
	local	6.4	27.5	17.9	(11.7)	5.3	25.4	(39.9)
Euro x-UK	US\$	(5.8)	28.7	22.5	(14.5)	2.4	33.9	(45.0)
	local	7.4	24.2	20.0	(12.1)	5.1	29.0	(42.7)
UK	US\$	(5.4)	20.7	15.3	(2.5)	8.8	43.4	(48.3)
	local	0.5	18.5	10.2	(1.8)	12.2	27.7	(28.5)
Pac x-Japan	US\$	(0.3)	5.6	24.7	(12.7)	17.1	73.0	(50.0)
	local	5.8	16.5	22.6	(12.8)	6.1	45.8	(41.6)
Japan	US\$	(3.7)	27.3	8.4	(14.2)	15.6	6.4	(29.1)
	local	9.8	54.8	21.8	(18.6)	0.7	9.3	(42.5)
EME	US\$	(1.8)	(2.3)	18.6	(18.2)	19.2	79.0	(53.2)
	local	5.6	3.8	17.4	(12.5)	14.4	62.8	(45.7)
<b>S&amp;P 500</b>		<b>13.7</b>	<b>32.4</b>	<b>16.0</b>	<b>2.1</b>	<b>15.1</b>	<b>26.5</b>	<b>(37.0)</b>

Source: S&P, MSCI, FactSet, and RBC Capital Markets

Note: All returns include dividends. Three-, five-, and ten-year returns are annualized returns.

## Market Leadership

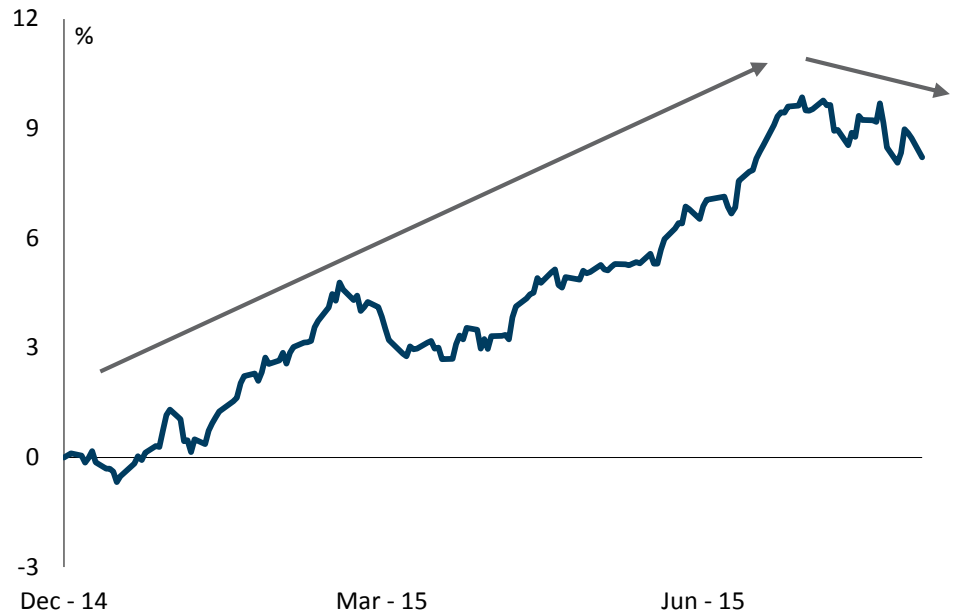
Return Driver Relative YTD Performance (%)



Note: For a detailed methodology employed by RBC's U.S. Equity Return Drivers, please see our note "Leadership Throughout the Recovery" (October 24, 2014); Oper Leverage and Foreign Sales ex-Financials; PEG is Low vs. High Basket, all others are High vs. Low Basket; return through 7/29  
Source: S&P, Compustat, Thomson Financial, FactSet, and RBC Capital Markets

EPS Growth Return Driver – YTD Performance (%)

*Growth leadership has reversed course with the market sell-off*

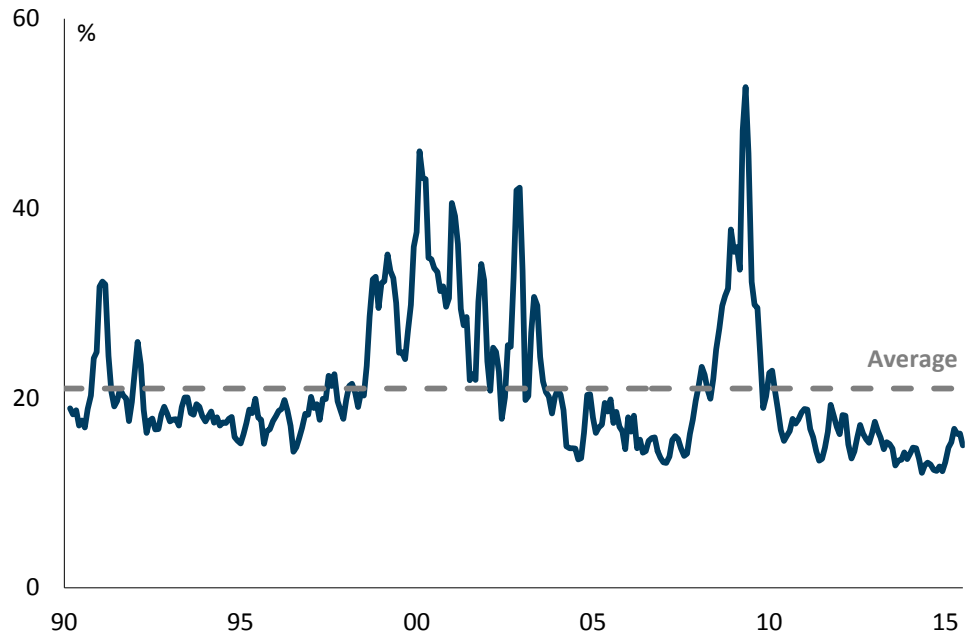


Source: S&P, Thomson Financial, FactSet, and RBC Capital Markets

## Market Breadth

*Market breadth, measured by performance and valuations, is well above historical trends*

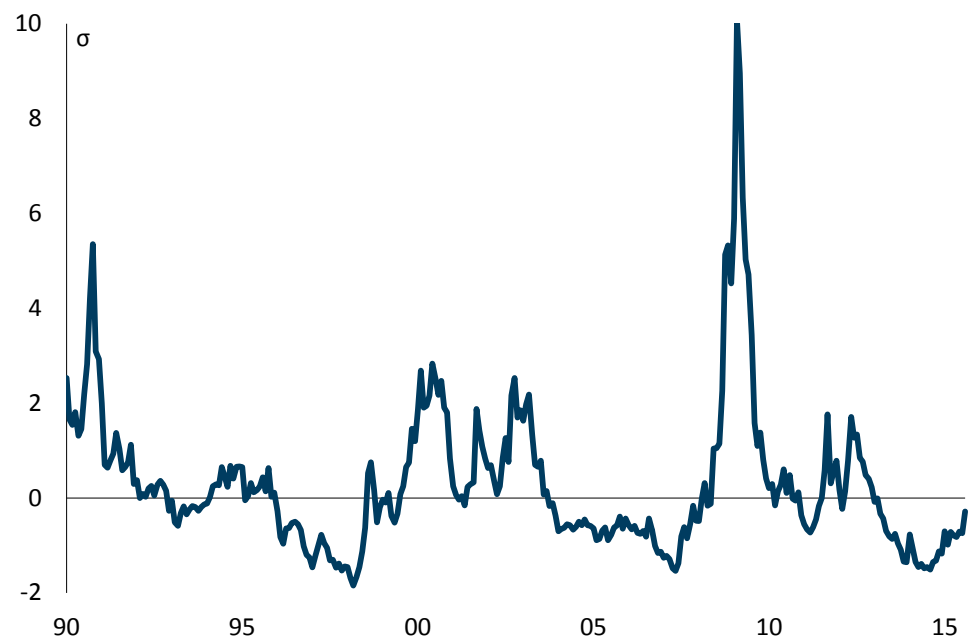
Performance – Top 25 Stocks Minus S&P 500 Average



Source: S&P, FactSet, and RBC Capital Markets

Note: 3 Month MA of monthly differential

P/E Spread Between Top and Bottom Quintiles (Z-Score)

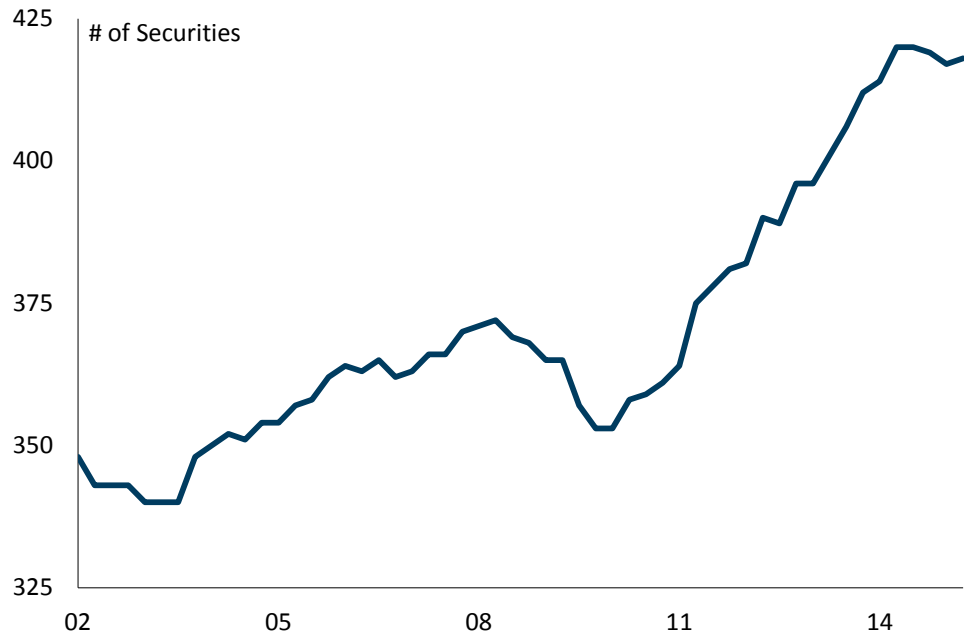


Source: S&P, Thomson Financial, FactSet, and RBC Capital Markets

## Dividend Investing

*The number of dividend payers has increased substantially throughout the recovery*

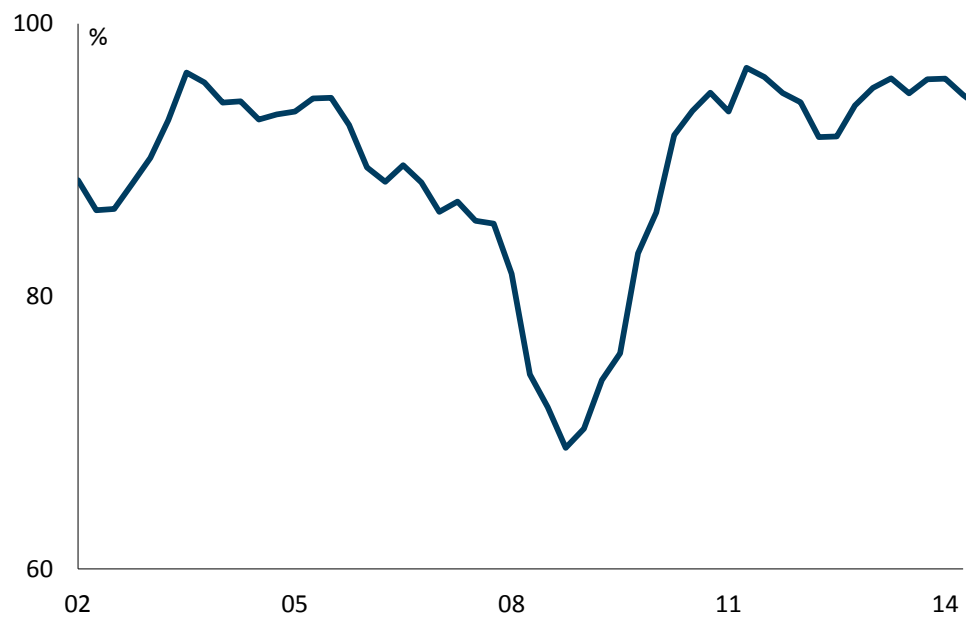
Number of Dividend Payers



Source: S&P, FactSet, and RBC Capital Markets

*Consistent growers have a strong track record of continuing to raise their dividend*

Percentage of Consistent Growers with Additional Increase



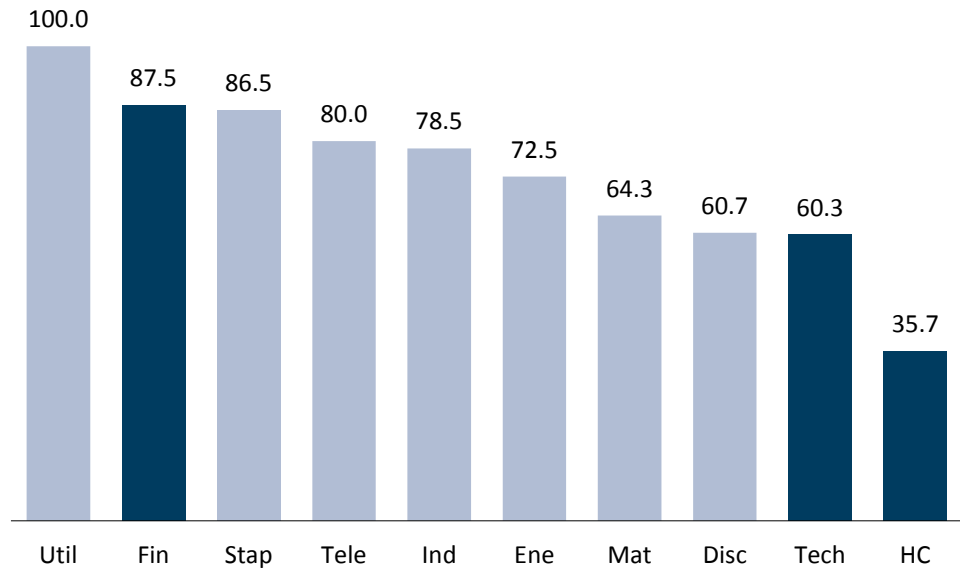
Note: Consistent growers are companies with dividend growth in each of the last three years  
Source: S&P, Thomson Financial, Compustat, FactSet, and RBC Capital Markets



## Dividend Investing

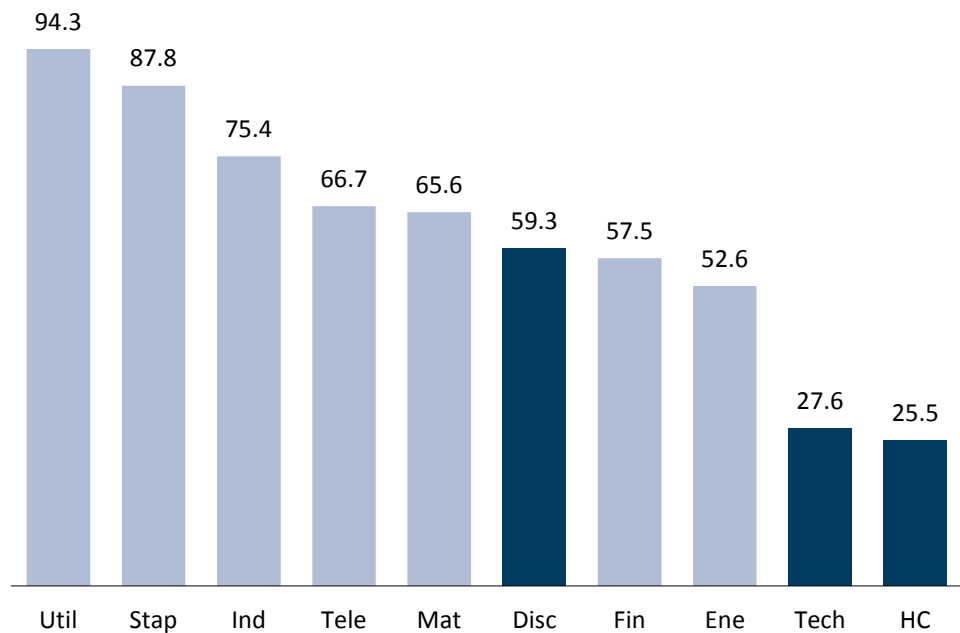
*Tech and Financials have seen significant increases in the number of companies paying dividends*

Percentage of Companies with Dividend Yield >1% – Current



Source: S&P, Compustat, FactSet, and RBC Capital Markets

Percentage of Companies with Dividend Yield >1% – 5 Years Ago



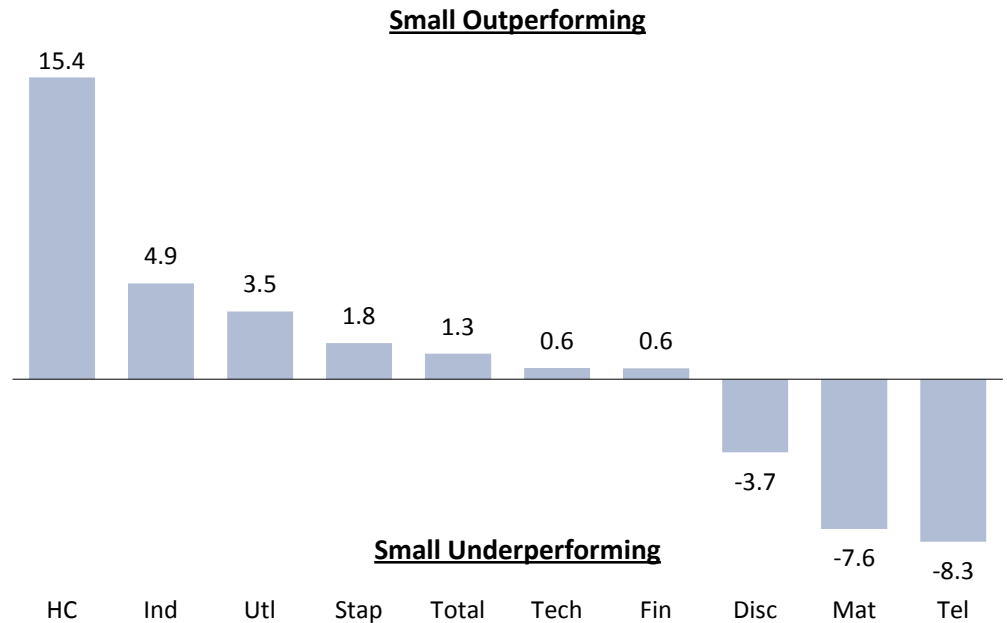
Source: S&P, Compustat, FactSet, and RBC Capital Markets



## Small Cap

*In 2015, the mix of sector performance has been more disparate than last year*

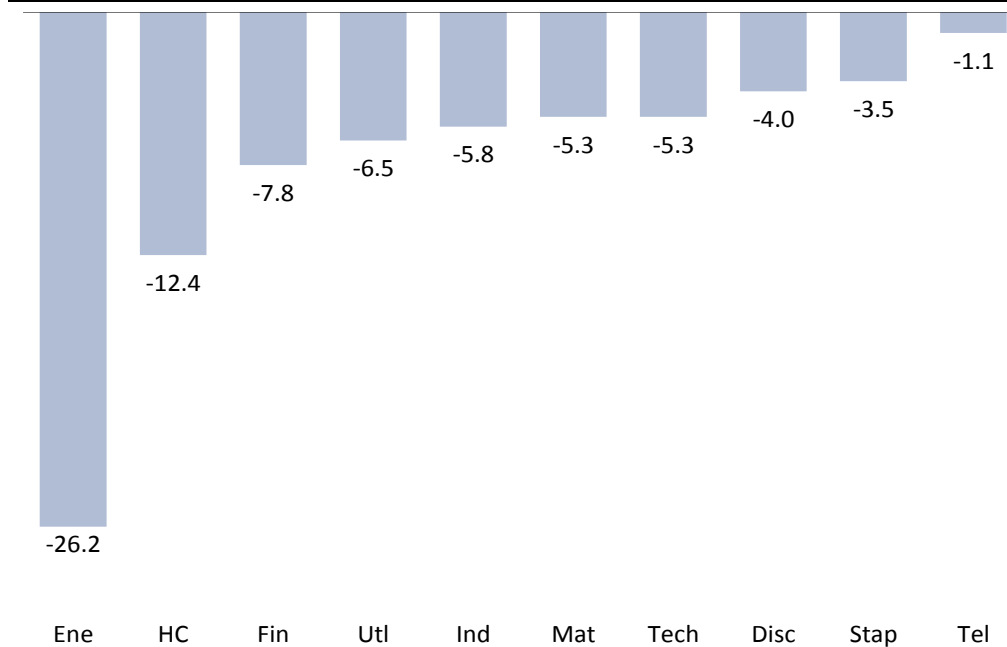
### YTD Small Cap Relative Performance (%)



Source: S&P, FactSet, and RBC Capital Markets

Note: Large is S&P 500 and Small is S&P 600

### 2014 Small Cap Relative Performance (%)



Source: S&P, FactSet, and RBC Capital Markets

Note: Large is S&P 500 and Small is S&P 600

## Small Cap

*Small caps tend to outperform as oil rises, despite their lower Energy weight*

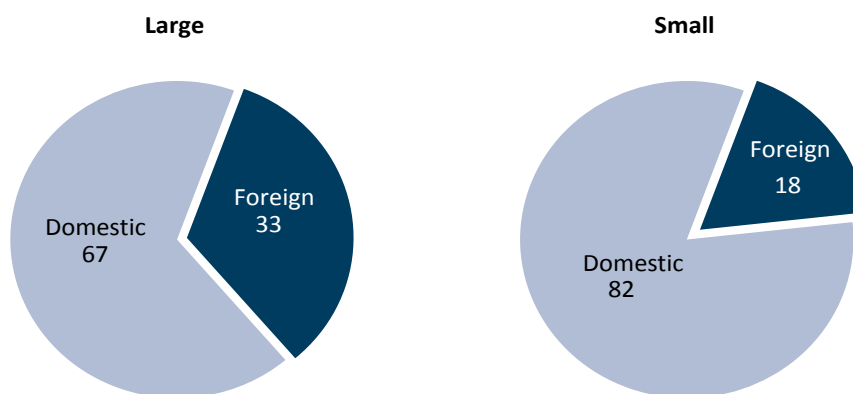
### Small Cap Relative Performance vs. Oil and Dollar (Last Five Years – %)

	All Days	Equity Return on Days When			
		Oil Price		U.S. Dollar	
		Higher	Lower	Higher	Lower
Small vs. Large Relative Performance	2.0	2.3	-0.3	-5.4	7.9
% of Days	100	42	58	58	42

Note: Large Cap is S&P 500, Small Cap is S&P 600, US\$ is Trade Weighted Dollar (Major Currencies Index)  
Source: S&P, Federal Reserve, CME, Haver, FactSet, and RBC Capital Markets

### Small vs. Large Cap Foreign Exposure

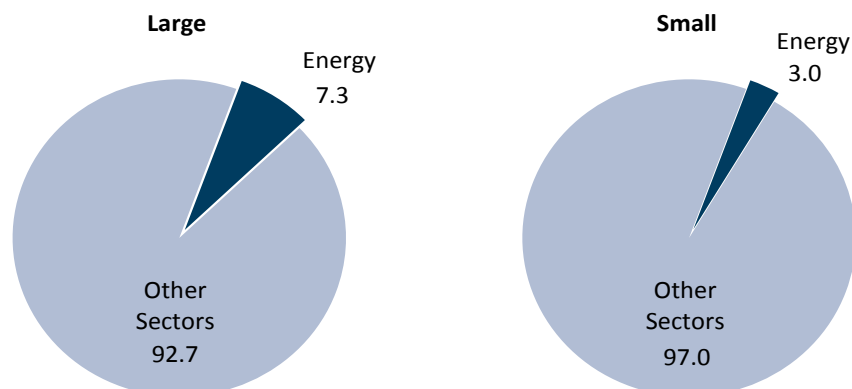
*Small caps tend to underperform as the dollar strengthens, despite their lower foreign exposure*



Source: S&P, FactSet, and RBC Capital Markets

Note: 2014 Annual Data

### Small vs. Large Cap Energy Exposure

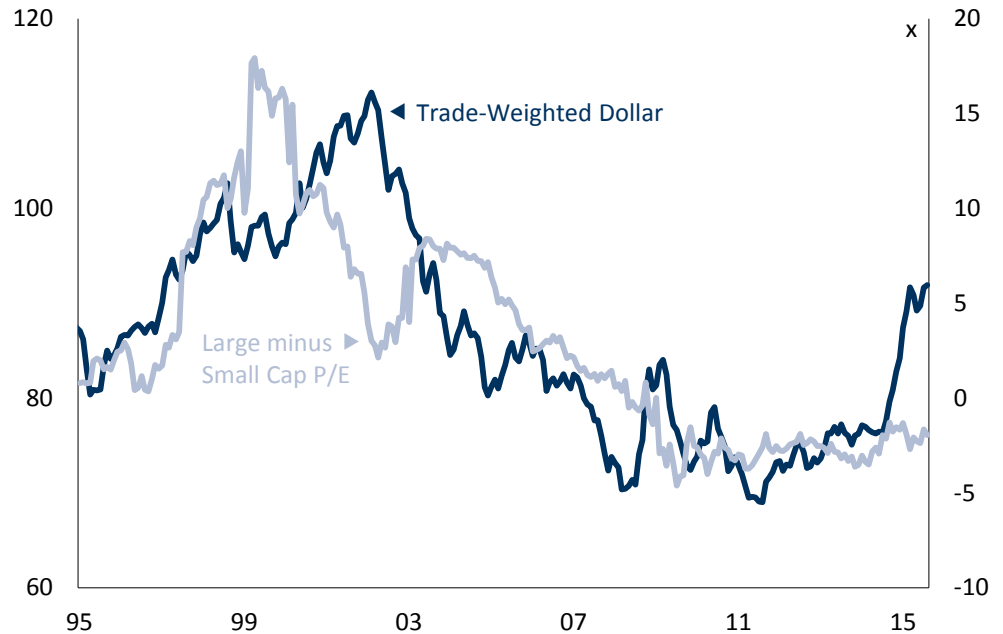


Source: S&P, FactSet, and RBC Capital Markets

## Small Cap

*As the dollar strengthens, large cap multiples expand relative to small cap*

Dollar vs. Small Cap Relative P/E

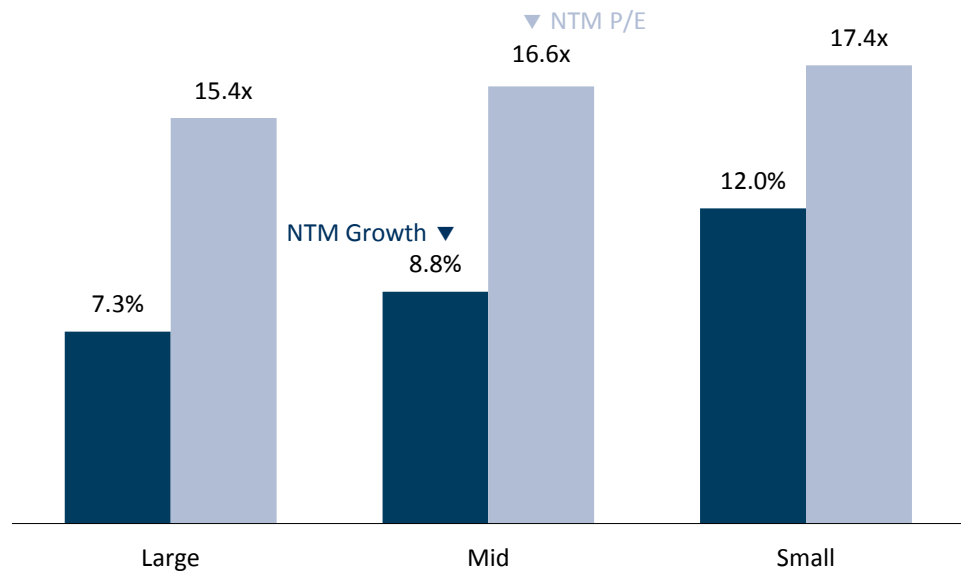


Note: Trade-Weighted Dollar (Major Currencies Index)

Source: S&P, Federal Reserve, Thomson Financial, FactSet, Haver, and RBC Capital Markets

NTM Valuation and Growth Rates

*Small caps are projected to see faster growth than large caps*

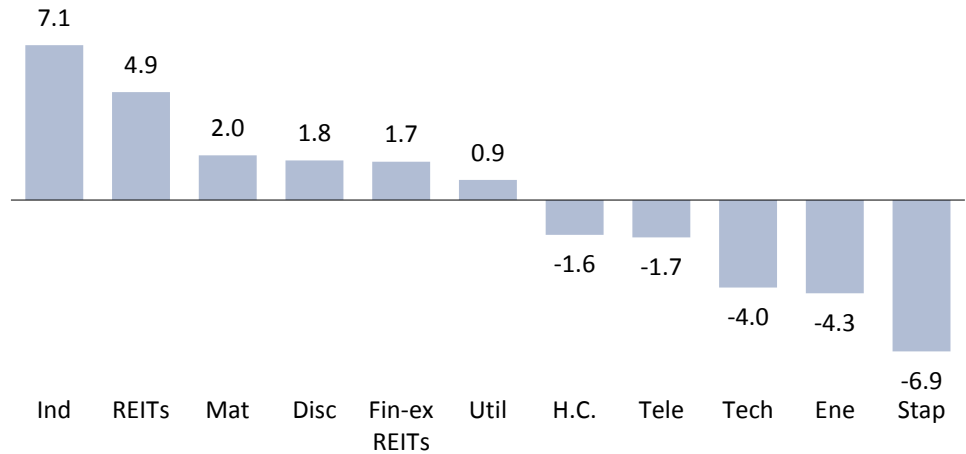


Note: Large S&P 500, Mid S&P 400, Small S&P 600

Source: S&P, Thomson Financial, FactSet, and RBC Capital Markets

## Small Cap

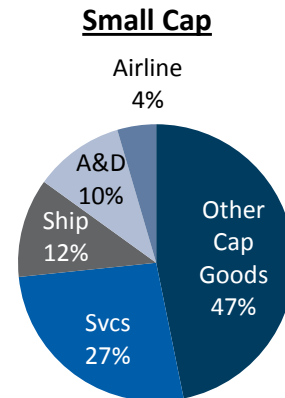
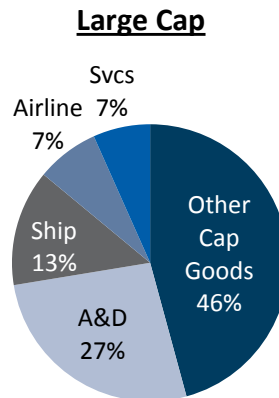
### Sector Weight Differences – Small Less Large Cap (%)



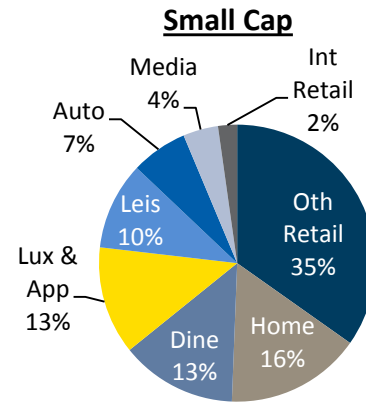
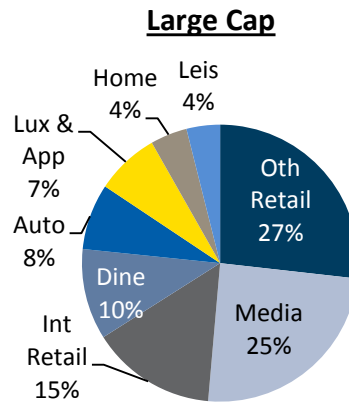
Source: S&P, FactSet, and RBC Capital Markets

### Sector Weights (%)

#### Industrials



#### Discretionary

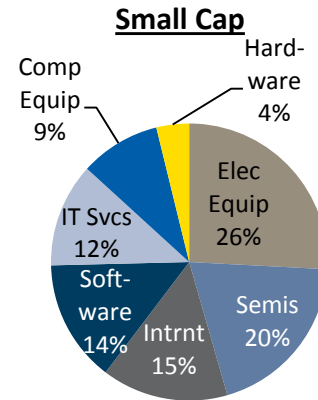
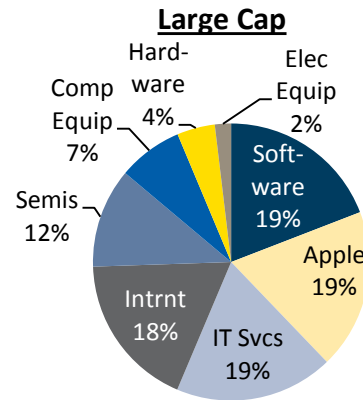


Source: S&P, FactSet, and RBC Capital Markets

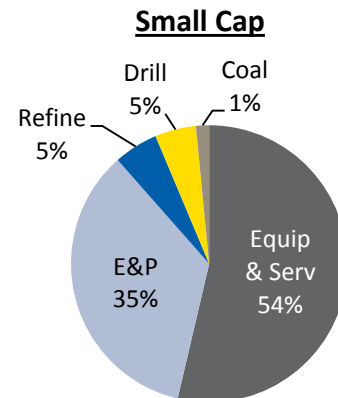
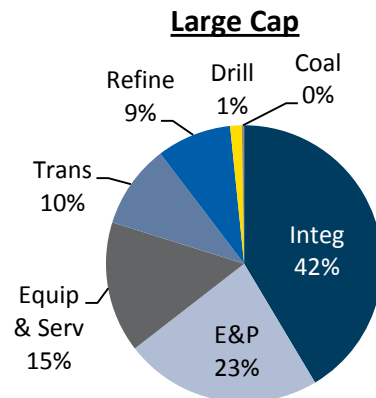
## Small Cap

### Sector Weights (%)

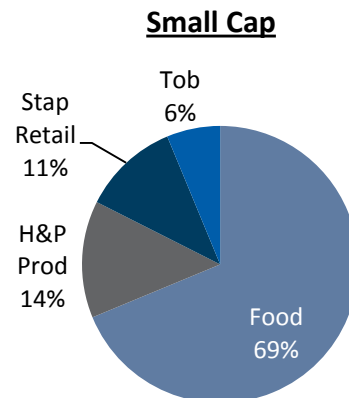
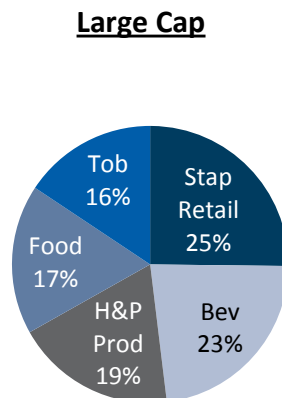
#### Technology



#### Energy



#### Staples

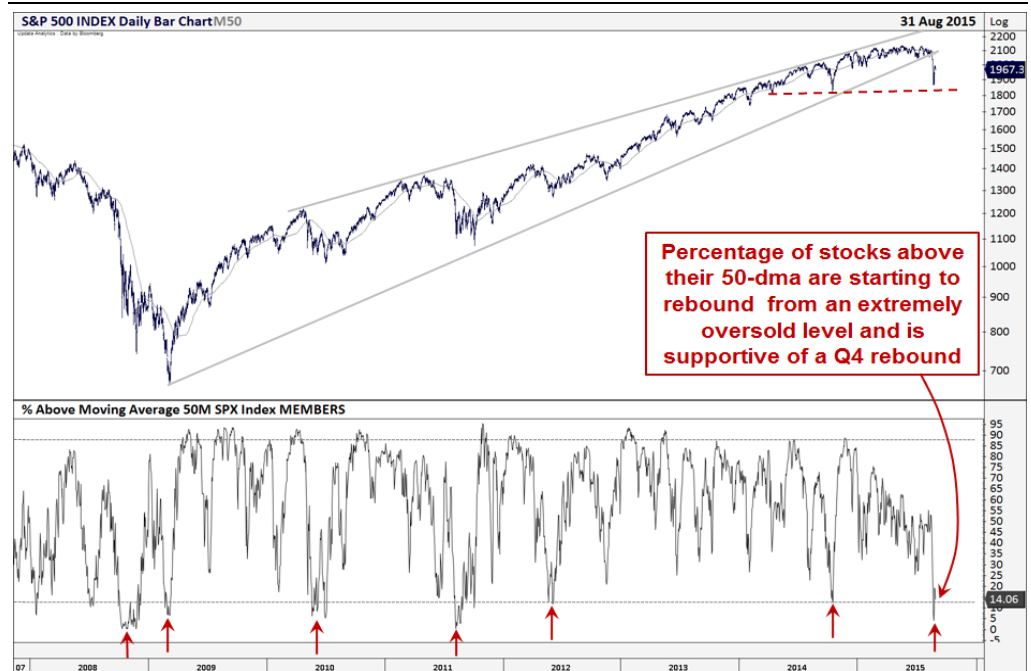


Source: S&P, FactSet, and RBC Capital Markets

## Technical – Outlook

### S&P 500

*Oversold – Backdrop in place for a Q4 rally?*



Source: RBC Trend & Cycle Technical Research, Bloomberg, Updata

### EQUITY MARKET VIEW

In our recent [technical note](#), we outlined why we expect it will take 4–6 volatile weeks before a more investable low develops, setting the stage for a seasonal Q4 rebound. Despite recent technical damage, we believe it is premature to conclude that the longer-term bull market is over.

### S&P SECTORS – Relative Performance Trends

- (+) Healthcare and Discretionary relative uptrends are intact
- (+/-) Technology: Pausing but not broken within a longer-term uptrend
- (+/-) Financials relative performance is challenging 2014–15 range highs
- (=/-) Staples & Utilities counter-trend rebounds are beginning to stall
- (-) Industrials, Materials, and Energy at multi-year relative lows, with early evidence of oversold counter-trend rebounds developing

### Intermediate-term relative performance trends vs. S&P 500

<u>Early Up</u>	<u>Established Up</u>	<u>Neutral</u>	<u>Early Down</u>	<u>Established Down</u>
- Financials	Healthcare Discretionary	+ Technology - Staples - Utilities		+ Industrials Energy Materials Telcos

+/- Near-term performance improvement/deterioration

## Technical – Sector Rotation

### Relative trends vs. S&P 500: Healthcare, Discretionary, and Technology

#### Healthcare

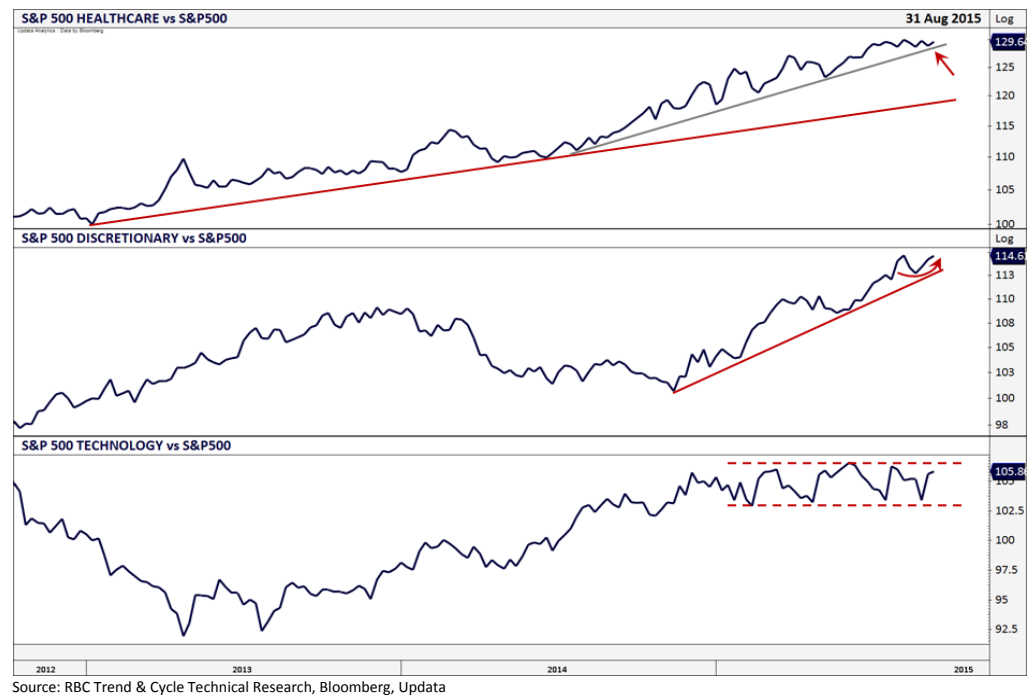
*Uptrend intact, with near-term pause under way*

#### Discretionary

*Reaccelerating after near-term pullback*

#### Technology

*Rangebound within longer-term uptrend*



### Relative trends vs. S&P 500: Financials, Staples, and Energy

#### Financials

*Challenging multi-year highs*

#### Staples

*Counter-trend rebounds beginning to pause/stall*

#### Energy

*Downtrend intact, with short-term oversold rebound under way*







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			Count	Percent
<b>BUY [Top Pick &amp; Outperform]</b>	<b>935</b>	<b>53.15</b>	<b>293</b>	<b>31.34</b>
<b>HOLD [Sector Perform]</b>	<b>707</b>	<b>40.19</b>	<b>124</b>	<b>17.54</b>
<b>SELL [Underperform]</b>	<b>117</b>	<b>6.65</b>	<b>6</b>	<b>5.13</b>

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