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InvestmentUPDATE

Spring 2018 Edition

In this issue

Time is on your side

Staying the course through turbulent markets can help you to reach your goals

After an extended period of low volatility in the global equity and bond markets, market fluctuations began to rise over the winter. Sporadic market volatility is a regular part of the investing experience, and knowing how to navigate it will make you a more confident investor.

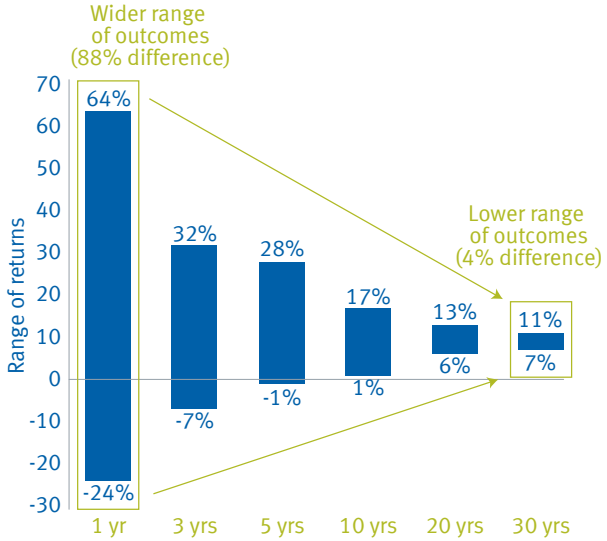
Let your plan steer your course...

A popular adage in the investment world is "time in the market is better than trying to time the market." This means that if you make a hasty decision to sell your investments during a market downturn or wait on the sidelines until volatility dies down before investing, it can actually result in missed opportunities that can reduce your long-term returns and negatively impact the growth of your portfolio.

...and your goals steer your plan

Investors who follow a well-established investment plan, maintain perspective and stay mindful of their investment time horizon have a better chance of reaching their investment goals than those who react to short-term market fluctuations. Why? Because history has shown that the volatility experienced by a well-diversified portfolio decreases over time. So patience and maintaining a long-term view are key to achieving your investment goals.

The volatility of a diversified portfolio decreases over time



Rolling 1-, 3-, 5-, 10-, 20- and 30-year average annual returns from January 1987 to December 2017. Source: Bloomberg, RBC Global Asset Management. For the definition of a diversified portfolio, see (*) on page 4.

Ensure your portfolio is well positioned to manage all market conditions

On a regular basis, whether markets are up or down, it is worthwhile to reflect on the reasons you invested in the first place and to see if anything in your financial plan warrants change.

This may require asking yourself some big-picture questions:

If you answer "yes" to these questions, then you likely don't need to make any major adjustments to your portfolio. But if your answer is "no" to any of these questions, then maybe it's time to take a closer look at your plan with your advisor.

Let's make your Someday happen: What are you investing for?

Determining what kind of an investor you are – often referred to as your investment profile – is a very important component of the investment advice experience. To help determine your investment profile, think about your investment goals as well as the time frame you need to achieve them.

So, what are you investing for? Here are some examples of common goals, their approximate time horizons and some suggested investments that may help you achieve them.

The down payment for your first home
Investment type: GIC, secure portfolio

A new car
Investment type: GIC, very conservative portfolio

A vacation home
Investment type: Conservative or balanced portfolio

Saving for retirement
Investment type: Balanced/growth/ aggressive growth portfolio

It's important to keep in mind that the appropriate investments to achieve your goals will differ based on a variety of factors, including your unique investment profile. Your RBC advisor can help you determine the right approach based on your own risk tolerance, personal goals and timelines.

Let's talk about your goals

Talk to an RBC advisor today to ensure your portfolio is right for you and properly aligns with your goals. With time and the right plan, staying the course through all market conditions will be that much easier.

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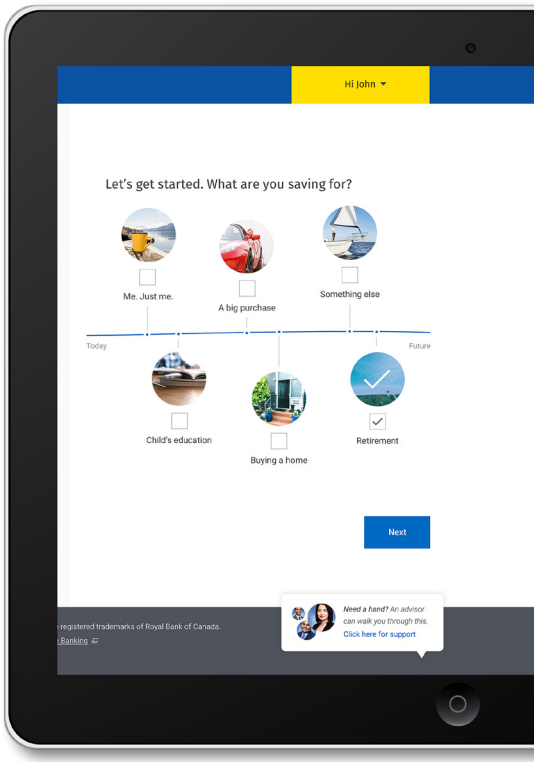

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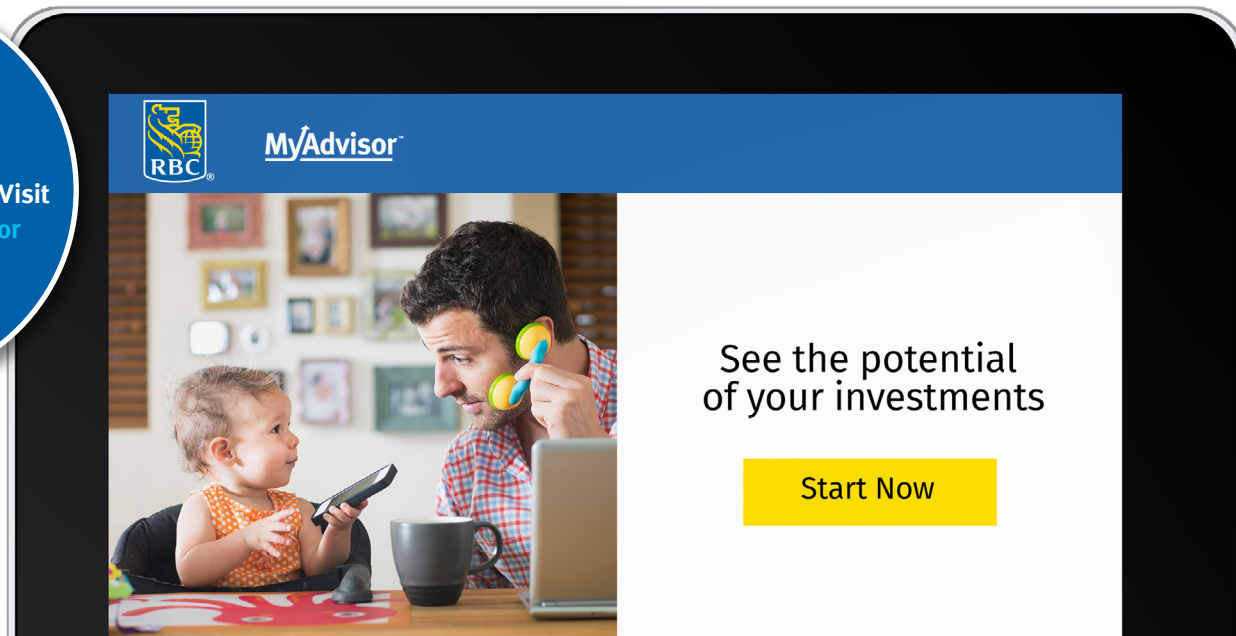

ONE-MINUTE MARKET UPDATE

For the full Spring 2018 Global Investment Outlook, please visit rbcgam.com/gio.

ECONOMY

- The economic backdrop is quite good by post-crisis standards, with many of the macroeconomic indicators we monitor at or near cycle highs.
- Inflation is firming, but our view is that inflation is simply transitioning to more normal levels after many years of being too low, rather than shifting higher to problematic levels.
- Key risks to our outlook are the aging business cycle, rising interest rates and protectionism, but we should not ignore the potential tailwinds from structural reforms in Japan and fiscal stimulus in the U.S.
- On balance, we expect the positives to outweigh the negatives, and for the global economy to grow at its fastest pace in eight years. Our forecasts for growth and inflation are slightly above consensus.

FIXED INCOME

- Central banks are likely to continue dialing back monetary accommodation in an environment of improving economic growth and rising inflation.
- Our models suggest the long-term direction for bond yields is higher, but that the meaningful increase in yields over the past quarter has alleviated valuation risk in the near term.
- Although rising yields could act as a drag on fixed-income returns for many years, bonds play a critical role in a balanced portfolio serving as ballast against market volatility. We took advantage of the recent increase in yields to reduce our underweight position in fixed income by one percentage point, sourced from cash.

EQUITY MARKETS

- Stocks corrected in February after a year of strong performance and unusually low volatility, as investors were unsettled by the prospect of higher inflation and interest rates.
- Our models suggest that rising interest rates and inflation are a mild drag on equity-market valuations. That said, price-to-earnings ratios may be even more susceptible to investor confidence, which is currently high and bolstered by the outlook for double-digit growth in corporate profits.
- We remain overweight stocks because we continue to expect them to outperform bonds, but our recommended asset mix for a global, balanced investor is closer to neutral than it has been in many years given the maturation of the business and market cycles as well as demanding valuations.

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*Diversified portfolio is represented by 2% Cash, 43% Fixed Income, 19% Canadian Equities, 20% U.S. Equities and 16% International Equities. Cash represented by FTSE TMX Canada 30-Day T-Bill Total Return Index; Fixed Income represented by FTSE TMX Canada Universe Bond Total Return Index; Canadian Equities represented by S&P/TSX Composite Total Return Index; U.S. Equities represented by S&P 500 Total Return Index; International Equities represented by MSCI EAFE Net of Taxes Total Return Index. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

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