



## In this issue

- 1 Keeping an eye on protectionism
- 2 What happened in world markets last quarter
- 3 Keeping it green at the RBC Canadian Open



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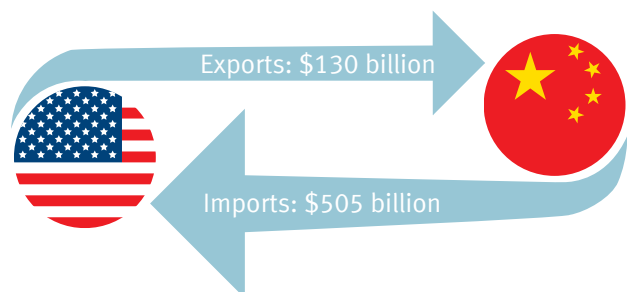
## Keeping an eye on protectionism

Globalization, the worldwide integration of markets for goods and services, has had a profound impact on the world. Recently, protectionism and trade disputes have been attracting a great deal of attention. For investors, whether your portfolio's target date is imminent or years away, implications of these events are always considered in our investment approach.

In general terms, the globalization of trade allows countries to export goods and services they are best positioned to deliver and import those that can be more efficiently produced elsewhere. This increased efficiency paves the way for greater consumption of goods and services, increasing overall global prosperity.

However, particularly in the developed world, many industries have been disrupted by the effects of globalization. For instance, it hasn't been uncommon over the past decade for North American manufacturing jobs to migrate to countries that offer cheaper labour. Domestic firms also face stiffer competition within the global marketplace, forcing them to become more efficient or lose out to their rivals. This lasting impact has sparked a global debate, taking centre stage during Donald Trump's presidential run, the Brexit vote, recent European election campaigns and NAFTA negotiations.

### World leaders have begun to focus more attention on their country's ledger with the rest of the world



### Exports – Imports = Net Exports

The United States runs a large trade deficit with China (importing \$375 billion more than it exported in 2017). The U.S. has been implementing trade restrictions in an attempt to protect American jobs. Source: United States Census Bureau

Cont. from page 1

## The rise of protectionism

Protectionism is the practice of shielding a country's domestic industries from foreign competition. Governments have a range of options when it comes to protectionist policies (Exhibit 1) which they believe will restrict imports and reduce trade deficits. This conflicts with the concept of globalization as it can limit countries' ability to trade freely with one another and ultimately disrupt natural market forces. While protectionist measures might help shield certain jobs and industries, they often result in higher prices to consumers, less variety and less competition.

### Exhibit 1

#### Common forms of trade restriction

	Tariffs	Import quotas	Export subsidy	Voluntary export restraints (VER)	Embargoes	Domestic content requirements
<b>Definition</b>	Taxes that a government levies on imported goods	Restrictions on the quantity of a good that can be imported into a country	Paid by the government to the firm when it exports a unit of a good that is being subsidized	VERs restrict the quantity of a good that can be exported out of a country	Government-ordered restriction of exchange with a specific country or good(s)	A requirement for a certain percentage of a good to be produced domestically
<b>Example</b>	The U.S. recently imposed tariffs of 25% on steel and 10% on aluminum	The EU has a quota for imports of sugar confectionery from Canada	The Pakistan government provides wheat export subsidies	South Korea is now limiting its steel exports to the U.S.	Iran has been subject to on-and-off embargoes from western nations in recent years	NAFTA requires that 62.5% of North American-bought motor vehicles be assembled within North America

## Current insights

On June 1, U.S. steel and aluminum tariff exemptions expired, exposing key allies and trading partners such as the EU, Canada and Mexico to a 25% tariff on steel exports and a 10% tariff on aluminum exports. Many of the affected countries responded proportionately, levying their own tariffs on the U.S. On the NAFTA front, the auto sector remains a key area of negotiations as the U.S. is threatening a blanket 25% tariff on auto imports. Regardless of the result of NAFTA negotiations, but absent a full trade war, we expect markets to be resilient. The positives from U.S. tax reform outweigh the negatives of protectionism, though the risk from the latter is clearly growing again.

### RBC GAM's current view on NAFTA negotiations\*



New deal is struck

50%



NAFTA is torn up

25%



NAFTA remains unchanged

25%

## Global presence, local expertise

Carefully monitoring and forecasting the effects of the latest protectionist policy statements and trade negotiations requires a global team effort, local expertise and the right tools and capabilities. Today, we have 21 investment teams in key markets across the globe, along with five research and development teams who monitor ongoing developments in trade relations and other important market catalysts. Their insights are an important part of the ongoing management of your investment in RBC Retirement Portfolios.

### Each of our investment teams brings unique expertise that is integrated into our approach.

**300+**  
Investment professionals

**21**  
Investment teams

**5**  
Specialty research and development teams

To learn more about what's on our economic radar, please visit [rbcam.com/macromemo](http://rbcam.com/macromemo).

\*These views were formed as of June 2018

# What happened in world markets last quarter



## Fixed income

Major global fixed-income markets outside North America fell during the three-month period due mostly to the rise in the U.S. dollar. Bond yields – now close to fair value in most major markets – paused after rising steadily since mid-2016 on the back of an improving economy and firming inflation. We believe global bond yields may well rise over the next three to six months given global economic strength, concerns about inflation and tighter labour markets, but adjustments can be gradual and distributed over an extended period of time. This quarter, the FTSE TMX Canada Universe Bond Index rose 0.5%, and the FTSE World Government Bond Index increased by 0.2%.



## Canadian equities

Canadian equities gained over the quarter, underpinned by a solid global economy and higher oil prices, which drove performance in the Energy sector as well as earnings momentum in Financials. Interest-rate-sensitive sectors such as Telecommunication Services and Utilities have underperformed while Information Technology is benefitting from industry growth and a strong appetite for takeovers. The global economic backdrop supports continued momentum in commodity prices as the global economy appears to be entering the later part of the cycle. The S&P/TSX Composite Index rose 6.8% during the three-month period.



## U.S. equities

The past quarter saw concerns regarding trade, geopolitical turmoil and rising inflation and interest rates, which weighed on the positive impact of strong corporate earnings on the S&P 500 Index. Robust returns in Energy, Information Technology and Consumer Discretionary, as well as interest-rate-sensitive Utilities and Real Estate, were offset by negative performance in Financials and Consumer Staples. Economic growth in the U.S. is accelerating, causing interest rates and inflation to rise and the U.S. dollar to strengthen. Our models suggest U.S. stocks are now trading at a slight discount to fair value. The S&P 500 Index rose 5.5% this quarter.



## International equities

Global equities were mixed during the three-month period, rising in the U.K., while falling in Emerging Markets due to the strong U.S. dollar. Stocks reacted negatively to U.S. tariffs and the possibility of a trade war as well as the growing threat of populism in Europe. A positive macroeconomic backdrop and robust earnings growth helped offset many of these concerns. Asian equities excluding Japan sold off early in the quarter, but they had regained some of the losses by the end of June. The MSCI EAFE Index finished up 1.0% and the MSCI Emerging Markets Index subtracted 6.0% in the quarter.

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



## Portfolio Manager viewpoint

Sarah Riopelle, CFA, Vice President & Senior Portfolio Manager, Investment Solutions

Economic growth slowed in the first half of 2018, but remains solid by post-crisis standards, benefitting from U.S. fiscal stimulus and widespread optimism. Risks to our positive outlook include the threat of protectionism, the aging business cycle and tightening financial conditions. That said, we expect the economy to navigate these challenges and keep expanding, encouraging central banks to continue dialing back accommodative monetary policies. Rising yields will act as a headwind to bond returns. As a result, we remain underweight fixed income, but less so than at previous points in the cycle since bonds should serve as ballast in a balanced portfolio if the economy downshifts. Stocks offer more attractive return prospects, supported by rapid earnings growth. We have been moderating our risk-taking given the maturation of the cycle but, in our view, the potential upside in corporate profits justifies a mild overweight in stocks.

# Keeping it green at the RBC Canadian Open

The Canadian Open, organized by Golf Canada, was first held in 1904. Played annually since then, except during World Wars I and II, the Canadian Open is the third-oldest continuously running tournament on the PGA TOUR.

RBC is pleased to be the Official Banking and Financial Services partner of Team RBC – world-class golfers and emerging professionals who serve as ambassadors for the RBC brand. One of RBC’s top priorities is “Greening the Open.”

Here’s how we’re keeping it green:



## A carbon-neutral event

We are taking responsibility for greenhouse gas (GHG) emissions where possible through the following:



## Diverting waste from landfill

We are diverting waste from landfill through the following initiatives:



## Environmentally responsible golf course operations

Glen Abbey has been a certified Audubon Cooperative Sanctuary golf course since 2004.

**The program covers**

- Environmental planning
- Chemical use reduction and safety
- Water conservation
- Water quality management
- Wildlife & habitat management
- Outreach & education

## Low-emission transportation options

Alternative transportation options are available for ticket holders and tournament volunteers.



RBC proudly supports golf professionals, amateurs and events around the world. To find out more, please visit [rbc.com/golf](http://rbc.com/golf).

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

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