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Investment insights

To help you stay informed, RBC Global Asset Management regularly provides insights and forecasts on the global economy and capital markets, along with in-depth analysis of how certain investment trends may impact your portfolio.

To learn more, please visit rbcgam.com/investment-insights

The impact of the loonie's recent flight

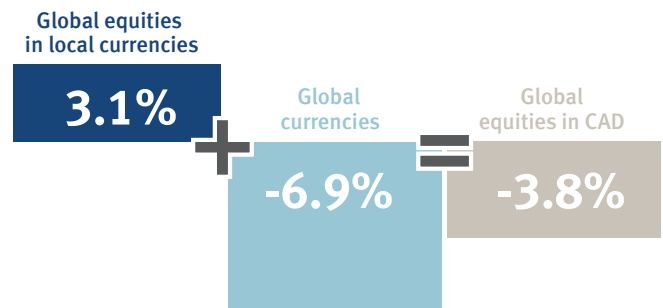
A strengthening loonie is great news for Canadian travellers and cross-border shoppers, but currency movements can present an element of uncertainty for Canadian investors holding foreign investments in their portfolios. While a declining Canadian dollar can contribute to the returns of investments in foreign markets, a soaring Canadian dollar can have the opposite effect.

Despite the impact currency movements may have on investment returns, the case for investing globally is compelling. By investing outside Canada, investors access some of the world's best companies in sectors not prevalent in Canada. Diversifying across geographical regions can ultimately help increase potential returns and reduce the overall volatility of the portfolio.

How exchange rates affect foreign investment returns

Returns for foreign securities held in Canada comprise two components – the return of the investment denominated in the local currency and the change in the value of the local currency relative to the Canadian dollar.

Over the last several months, global equities generated positive returns of 3.1%. When the decline in the value of the foreign currencies relative to the Canadian dollar is considered, the return drops to -3.8%.



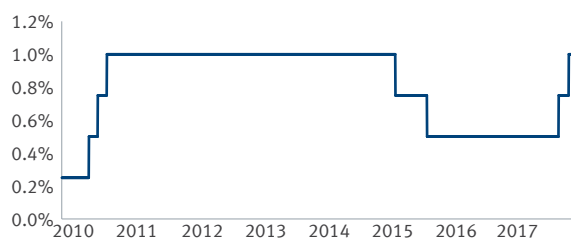
Source: Morningstar Direct. Based on difference between MSCI World Index return LCL and MSCI World Index return CAD. May 2017 to July 2017.

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Rising interest rates influence currency values

Changes in the level of interest rates are one factor that can contribute to fluctuations in the value of a country's currency. Over the course of the summer, the Bank of Canada raised its target overnight interest rate twice to 1.0%. This is notable as they mark the first rate hikes in roughly seven years. The effect is that higher interest rates generally attract foreign capital, which increases the global demand for the country's currency and pushes up its value relative to other currencies.

Bank of Canada Overnight Rate



Source: Bank of Canada. January 2010 to September 2017.

Our approach to currency management

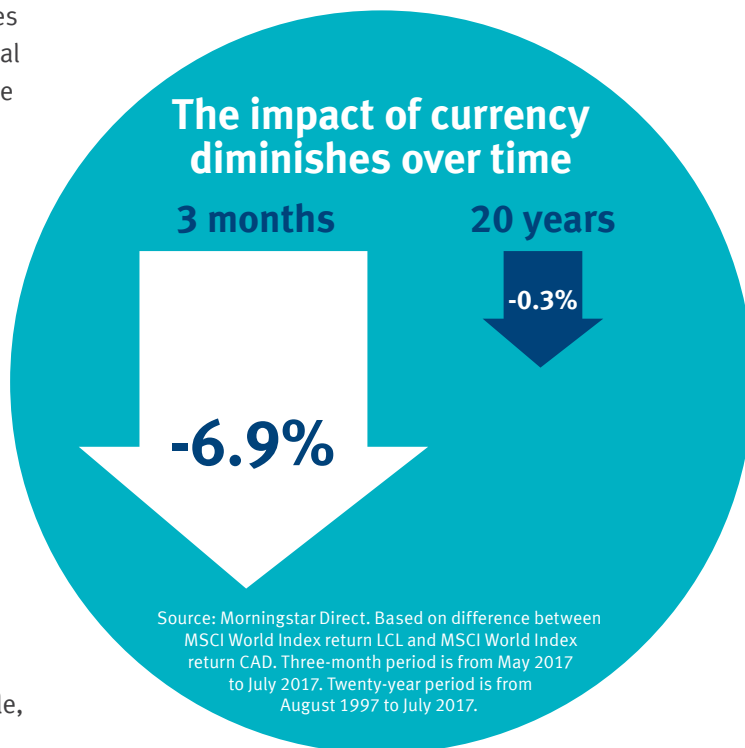
RBC Select Portfolios invest in funds whose investments are denominated in many different currencies. For example, the portfolios typically hold securities from the U.S., Europe and Asia denominated in the U.S. dollar, euro and yen, respectively. Often a rise in one currency is offset by a decline in another. The interplay between a basket of currencies is sometimes referred to as a natural hedge.

But there are also ways to mitigate the impact of exchange rates through a process known as currency hedging. This is done by making an offsetting investment that reduces the impact from foreign currency fluctuations. This ensures that movements of the Canadian dollar relative to foreign currencies will have a limited impact after hedging strategies are implemented.

At RBC Global Asset Management, we take a two-pronged approach to currency exposure. For global fixed income funds, we hedge most of the foreign currency exposure to minimize volatility. However, for foreign equity funds, we tend not to hedge the currency exposure as over time currency fluctuations balance out and ultimately have little impact on returns.

Taking the long-term view

If we take the currency impact from our initial chart on the first page and look at it alongside currency impact over the last 20 years, there has been minimal impact on performance.



Our positioning

Looking ahead, we do not expect the recent strength of the Canadian dollar to continue. Factors such as a persistent Canadian current account deficit and growth risks related to relatively low oil prices and overheated housing markets in Toronto and Vancouver still point to a weaker Canadian dollar over the coming year.

RBC Select Portfolios contain a globally diversified set of securities that aim to reduce risk while maximizing return. While we have experienced higher volatility in currency markets of late, we continue to believe that the diversification benefits of exposure to international markets outweigh the short-term volatility of currency movements.

What happened in world markets last quarter



Fixed income

Government-bond yields moved higher between late June and early July. The move was triggered by key central banks' statements that communicated their intentions to reduce monetary stimulus as the global economy continued to demonstrate clear signs of strengthening. However, with little follow-through since then and softer inflation readings, most regions' bond prices rallied for the remainder of the quarter. In a clear sign of their determination to normalize monetary policy, the exception was the Bank of Canada, which raised its benchmark interest rate twice over the quarter, each time by a quarter-percent. This quarter, the FTSE TMX Canada Universe Bond Index fell 1.8%, while the Citigroup World Government Bond Index (CAD\$ hedged) was up 0.5%.



Canadian equities

The Canadian market underperformed this quarter relative to most of its global peers, driven by continued weakness in the Energy sector, concerns about the composition of Canadian economic growth and rising interest rates. Financial stocks have contributed to the S&P/TSX's performance so far this year, with the most recent move propelled by insurance companies amid higher domestic bond yields. The performance of bank stocks moderated after a solid start to the year given housing-market concerns and regulatory uncertainty. The S&P/TSX Composite Index gained 3.7% this quarter.



U.S. equities

The U.S. stock market made modest progress over the three-month period amid solid returns from the Health Care, Financials and Information Technology sectors, while returns were held back by the Energy, Consumer Discretionary and Consumer Staples sectors. In the Financials sector, the outperformance was broad-based and led by the country's large banks. Capital-markets businesses, asset managers and financial-exchange operators also did well during the period. The S&P 500 rose 0.5% this quarter.



International equities

Global equity markets recorded a second straight quarter of modest gains, as strengthening global growth was offset somewhat by geopolitical tensions and expectations that central banks would tighten monetary policy. Emerging-market equities extended their gains and outperformed their developed markets peers, supported by a recovery in global trade, ample liquidity from central banks, a relatively weak U.S. dollar and a large economic stimulus package in China. This quarter, the MSCI EAFE Index finished up 1.5% and the MSCI Emerging Markets Index added 3.9%.

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

The global acceleration in economic growth that began in the middle of 2016 has largely been sustained. The need for extreme monetary stimulus is fading and several central banks are gradually shifting toward tighter policy, with the U.S. Federal Reserve leading the global charge and the Bank of Canada following along more recently. Our models continue to suggest the long-term direction for bond yields is higher, which would weigh on total returns for bond holders. Prospective returns for equities are much better than for fixed income, but the valuation tailwind from falling interest rates may be exhausted, so earnings growth is now critical for the continuity of the bull market. We continue to dial back the risk exposure in our recommended asset mix for balanced, global investors as the business cycle matures, trimming our equity overweight allocation again this quarter by one percentage point and moving the proceeds to fixed income.

The RBC Canadian Women Entrepreneur Awards: 2017 finalists announced

Presented by Women of Influence, the RBC Canadian Women Entrepreneur Awards recognize the country's leading female entrepreneurs who have made impressive and substantial contributions to the local, Canadian or global economy. Through their passion and dedication, these dynamic women are leaving their mark on the marketplace and their communities.

RBC is proud to announce the 2017 RBC Canadian Women Entrepreneur Award finalists:

Micro Business Award

West: Angel Guerra and Angela Dione, Market Collective
Central: Kalpana Kundra, Unstick by Daughkun
East: Geneviève Lévesque, Arteria Gallery

Staples Start-Up Award

West: Marlo Brausse, Barre Body Studio
Central: Rula Sharkawi, My Little Chickpea
East: Trina Bailey, Bailey Veterinary Surgical Specialty Ltd.

RBC Momentum Award

West: Rachel Mielke, Hillberg & Berk
Central: Mandy Rennehan, Freshco
East: Kara Angus, Go Go Group Inc.

Social Change Award

West: Glori Meldrum, Little Warriors
Central: Melissa Sariffodeen, Ladies Learning Code
East: Cathy Deagle-Gammon, Dartmouth Adult Services Centre DASC

TELUS Trailblazer Award

West: Claudia Sjoberg, The Pedalheads Group
Central: Sharifa Khan, Balmoral Marketing Inc.
East: Natalie Volland, Gestion Immobilière Quo Vadis/Complexe Dompark

TEC Award for Excellence in Entrepreneurship

West: Allison Grafton, Rockwood Custom Homes
Central: Janet Zuccarini, Gusto 54 Restaurant Group
East: Christiane Germain, Groupe Germain Hôtels



The winners will be announced at a gala dinner on November 22, 2017, at the Fairmont Royal York in Toronto.

For more information on the awards and how you can nominate remarkable female entrepreneurs, please visit womenofinfluence.ca/rbc-cwea.

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

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