

## 2016 Market & Economic Update

### *Transcript of a round-table discussion in January 2016*

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**Mark Neill:** Hello. My name is Mark Neill, and I'm the president of PH&N Investment Services. Thank you for joining us today. Today I'm pleased to be here with two portfolio managers and the chief economist of RBC Global Asset Management for a discussion on how markets fared in 2015, the state of the global economy and our thoughts for 2016. We hope this discussion will help address some of the questions on your mind and provide you with some guidance in managing your portfolio.

With that, let's get started by meeting our panellists. First, we have Eric Lascelles, Chief Economist for RBC Global Asset Management. He is responsible for developing and maintaining the firm's global economic forecasts and generating macroeconomic research. He will help us interpret how issues relating to the global economy might affect investment returns.

Karen Kerr is a portfolio manager responsible for fixed income mandates. Karen joined the firm in 2005. She's here to speak to us about what's going on in the world of fixed income.

And last but not least, Andrew Sweeney. Andrew has been in the investment industry for over 20 years, and is one of our portfolio managers who specializes in equities. He will cover the Canadian, U.S. and global equity markets for us today.

Thank you all for being here.

We have a lot to cover today, so why don't we start with the big picture? Eric, so much has happened in the global economy over the last year. Perhaps you can give us a little bit of a year-in-review in terms of what's happened to the global economy to set us up for discussion about how the markets did.

**Eric Lascelles:** Absolutely. I must confess that it's been a challenging year. 2015 was not a banner year by any means from an economic standpoint. When you look at some of the key themes and developments over the span of the year, they were quite relevant, but in many ways, a challenge.

For instance, Chinese concerns came to the forefront and particularly going through the late summer and into the fall many questions were raised about the Chinese stock market and the Chinese exchange rate and Chinese debt, and for that matter, Chinese economic growth. Indeed, the Chinese economy is slowing.

We can say that the Fed has made a momentous decision in the U.S. and so has begun a tightening cycle and that is the first new tightening cycle in 11 years, and that attracted attention and a bit of concern – I'd say a bit of overblown concern – but nevertheless, quite relevant, I think, as well.

The resource shock that began in 2014 certainly continued through 2015, and that was very much to the benefit of some countries, but to the detriment of others, such as Canada.

When we step back and talk about global economic growth in general, it was I would say at best, mediocre. Beneath the surface emerging market economies were very clearly slowing, developed economies generally managed, in fact, a little bit more growth, but they didn't manage overly impressive growth; and we found ourselves still in a very low inflation environment, in large part because of that commodity shock, to a lesser degree though, just because there is some lingering economic slack. And so it really wasn't a particularly wonderful year.

**Mark Neill:** Mm-hm. And Karen, with reference to that backdrop, how did fixed income markets fare over the last year?

**Karen Kerr:** Well, Mark, if you look at conservative Canadian fixed income portfolios, not bad. If you look at the broad Canadian index, that returned about 3.5% over the last year. Let's remind ourselves of the context. This is a year where bonds were yielding less than 2% to start the year, so to get about a 3.5% return is not that bad.

Now, as you would guess, a fair part of that is capital gains, so that would be as interest rates continued to decline, bond prices rose, and that decline in interest rates really continues to be a challenge for a lot of investors because

a lot of investors each year are expecting interest rates to rise – and every year that hasn't been happening. It certainly hasn't happened in Canada. It did happen to some extent in the U.S. this year, as bond prices reacted and yields reacted to that increase in the Federal Reserve rate. But overall for Canadian markets, we did not see that rise in rates that everyone was expecting.

**Mark Neill:** So, another good year for bonds in Canada, anyway, in 2015.

**Karen Kerr:** Exactly. Now, some of the riskier areas of fixed income, for example, high yield bonds, they had negative returns on the year. Emerging markets bonds – bonds issued by governments and corporations in developing countries – they had negative returns on the year, but for Canadian conservative fixed income, not a bad year.

**Mark Neill:** Great. We'll talk a little bit more about the bond market going forward in a minute. Andrew, turning to you, how did equity markets fare over the last year?

**Andrew Sweeney:** Well, equity markets had quite a rocky ride through 2015. The Canadian equity market was down about 8% for the year, and so that was a fairly significant decline for Canadian investors. However, if you look outside of Canada, markets generally did better. So if you look at either the U.S. or overall global markets for developed countries, those markets were around flat in local currency, but when you convert them back to Canadian dollars, because of the weakness in the loonie, those markets actually returned numbers that were in the high teens and were as high as 20%. So, there were benefits to the declining currency for Canadian dollar investors.

The one area of global markets that did the worst – and both Eric and Karen have alluded to was emerging markets, and they were down about 15% in U.S. dollars. But that still translated into a very modest gain in terms of Canadian dollars.

So, it's been a fairly bumpy ride for equity investors over the last 12 months.

**Mark Neill:** Mm-hm. Turning our attention to where we are today, Eric, and moving on over the course of 2016. What are our thoughts on the state of the global economy and our thoughts for the coming year?

**Eric Lascelles:** Right. I would start, maybe, by referencing some of those key themes that dominated 2015 because

many of them do now linger into 2016 and are likely to be relevant considerations for this year, as well. China certainly is still struggling on a number of fronts, but I would make the argument that perhaps some of the fears expressed about China are a little bit overblown. We're not seeing an aggressive swing likely in the currency. We don't think Chinese stock market challenges are really all that relevant to the rest of the world. So there's a bit of a drag still coming from China, but there's no particular evidence of a collapse, for instance.

When we talk about the Fed, well, we'll see whether the Fed continues its tightening process. I'd like to think that it will, but the important point is that it will be quite sensitive to the plight of the U.S. economy and to markets, and so if we were to find ourselves in a more challenging environment, the Fed likely would hold off – which might help. If the economy proceeds in a reasonable way, as we expect, the Fed probably can keep tightening, but that should also be a reasonable, absorbable outcome. When we look at the resource prices, as well, they are awfully low right now. Far be it from me to claim I can see a particular bottom, but in general it does seem to us that, at least for several relevant commodities, we've seen something of an overshoot, and so we may see those commodity prices trudging a little bit higher over the span of this year.

What that means from a number of perspectives is inflation should be a little bit less low. I won't say high because I don't expect high inflation. But with economies proceeding and with commodity prices perhaps bottoming, we might see a little bit more inflation. Food prices in particular are already going up. From a growth perspective, I don't think we expect fireworks. In particular, emerging market growth likely continues to underwhelm. But neither are we really getting any signs of a collapse. We're not getting a clear recession signal or anything quite as problematic as that right now.

So I think the best assumption is we do continue to get growth: developed countries perhaps even manage to grow a little bit more quickly, and emerging market economies underwhelm, but probably don't decelerate quite as much as they did over the last few years.

**Mark Neill:** Sticking with you, Eric, talking about interest rates. Karen mentioned about how in Canada the last couple of rate changes have been cuts. We just recently have seen an increase in U.S. rates. What are our thoughts about

specifically Canada and also the U.S., the forecasts for interest rates over the coming year?

**Eric Lascelles:** It really is a remarkably divergent environment in the sense that you have the U.S. doing one thing, tightening rates, raising rates, and really, almost everyone else considering the opposite if not actually delivering outright rate cuts or more stimulus. Canada, by virtue of this commodity shock, which is quite a challenge for the Canadian economy, Canada is very much in that rate cut camp. We've seen several in 2015. It seems to me that we're still in that easing mode, and so I suspect that will remain the dominant approach here in Canada, which certainly helps to keep yields low.

I think, if you broaden that out more globally, many other countries of the world are still very much in their own stimulus delivery modes with the European Central Bank delivering stimulus recently, the Bank of Japan still actively delivering stimulus. And so this era of monetary stimulus, of really, extreme monetary stimulus since the financial crisis, it is persisting and it likely does persist for a fair chunk of 2016.

The one exception, the clear exception, would be the Fed, and I mentioned that a moment ago. But the Fed did raise rates at the end of 2015. It certainly aspires to continue doing that across the span of 2016. I think it will. Perhaps not quite as much as it plans, but I think there will still be some rate increases there. When we think hard about that, one question that comes up is how problematic is that for the U.S. economy? The answer is: actually not that problematic. It snips a little bit off growth. It doesn't take a lot off. Historically, it's a similar sort of assessment when you frame it from a market perspective. Certainly, we think these rate hikes are ultimately appropriate. The U.S. economy with a 5% unemployment rate does deserve a policy rate that's something other than zero.

**Mark Neill:** Karen, with those thoughts in mind, how are we positioning our fixed income portfolios for the coming year?

**Karen Kerr:** Sure. Well, first, it's worth stepping back for a moment to talk about what Central Bank rates are and what they influence. There's often confusion to the average Canadian investor what they read about in the paper, what they hear about in the news, is changes in the Central Bank rate. It's worth noting that the Bank of Canada controls something called the "overnight rate", and that's simply the rate at which banks or a country's Central Bank lends money to its domestic banks, whereas if you own something like

the PH&N Bond Fund, for example, you own many bonds with many different maturities, and that Central Bank rate is not the same as the interest rate that's on a 10-year bond, for example. The interest rate that's on a 10-year bond is determined by changes in the amount of buyers and sellers in the market.

Now, the Central Bank rate matters from the point of view of stimulating the economy. Many business loans are floating rate, for example, so business loans get cheaper as that Central Bank rate comes down. Mortgages are another good example. Mortgage credit gets cheaper as that Central Bank rate comes down. So it's very important in terms of stimulating the economy but not necessarily the direct driver of that rate of interest that you're going to get on a fixed income portfolio.

Now, to actually answer your question on how we're positioning our portfolios in this environment. One of the things that we do is we look at the attractiveness of opportunities within the fixed income market when we're building a portfolio. One of the areas that we don't see a high degree of attractiveness is on interest rate anticipation strategies at this point.

When you think about it, there are a lot of different influences on the level of interest rates today. You have the U.S. Federal Reserve finally raising rates, you have the Bank of Canada keeping rates very low and potentially even dropping rates again this year, you have money flowing into the bond market every time the stock market decides to sell off. There are a lot of different factors that are pushing bond prices around and therefore interest rates around. It's very unpredictable, so at this point in time in the cycle we're not choosing to dedicate a lot of risk in the portfolios, if you will, to our interest rate anticipation strategies.

Instead, where that focus is on building yield: it's on owning securities that pay a higher yield than Government of Canada bonds. A great example would be investment grade corporate bonds – bonds issued by large well-known Canadian corporations. In early 2015, we had sold down our weights in corporate bonds in our portfolios, such that we got to the lowest weight that we had been in corporate bonds since the credit crisis, so the lowest weight in about seven years. That set the portfolios up very well for September where you may have read this in the paper, but September was the biggest month in the history of the Canadian corporate bond market for new issuance of corporate bonds.

You can envision what happens when a lot of new corporate bonds come onto the market: those issuers have to discount the prices. We really came into the market in a good position to add very high quality corporate bonds to the portfolios at very good prices.

Provincial bonds, they're another very good example of a higher-yielding strategy that we like right now. To lend money to the Province of Ontario for 10 years, for example, you get paid over a full percentage point more than a Government of Canada bond. All the provinces are like that, really, so very attractive in our view.

In funds like PH&N Short Term Bond & Mortgage Fund, we own commercial mortgages. Here you get paid an extra two percentage points more than Government of Canada bonds, so again very attractive. In funds that allow emerging market debt or high yield debt, we have been adding to these areas, as well – modestly, but we certainly have been adding.

It's really been a strategy around building yield.

**Mark Neill:** Turning back to you, when you gave us that perspective on the global economy and our thoughts for the coming year, can we dive a little deeper and talk about our thoughts on the Canadian economy over the coming year?

**Eric Lascelles:** Sure. Now, Canada has struggled. It clearly has struggled in the context of the oil shock, in the context of the resource correction, as well, and so the Canadian economy did very poorly in 2015. I'm not sure it does a whole lot better, to be perfectly frank, in 2016. When we look at the various forces that conspire against and for this economy, the reality is that commodity shock is still the dominant entity. Yes, it is helpful and nice that the Bank of Canada is cutting rates. Yes, it is helpful and nice that the U.S. economy, the big trading partner, is doing okay. Certainly also very welcome that the Canadian dollar has come down significantly with potentially further left in the process to run. But this is still a weak economy.

As we look to the future with close examination of the various leading indicators and signals that we have, this still looks like an economy that will struggle to grow very much. I'm not predicting outright recession of any sort of significance, but I will say that this is an economy that probably disappoints expectations in general. That's our default assumption.

It's probably worth acknowledging from a regional

perspective that there's a huge variation across the country. For instance, the oil and commodity-oriented provinces are themselves quite clearly in recession. Those that are not, including big provinces like Ontario, Quebec and British Columbia, are actually growing at a pretty handsome rate. There's a big divergence there as it exists right now, and that's important, I think, to keep in mind, as well.

And then maybe lastly on the subject of Canada, I'd add the housing market in, which is always an exciting topic to contemplate and, of course, it has defied expectations for years of some sort of correction. I would say let's keep a very close eye on this market, partially because the U.S. Federal Reserve is raising rates, and so conceivably that could alter the affordability dynamic of Canadian housing – in part, though, because Canada's new government has changed some of the mortgage rules – and that could cool things down to some extent. But in the end, just because Canadian households have accumulated quite a lot of debt. Whether or not that challenge becomes relevant in 2016 – and I'm inclined to think it probably becomes relevant over a bit of a longer timeframe, to be perfectly frank, then just the next year, there is a headwind to the economy, and I think a headwind to the average Canadian, as well, that presents at some point over the next five years or so.

**Mark Neill:** Thank you. And Andrew, turning to the equity markets, in your comments earlier Canada equity markets disappointed in terms of returns in 2015. What are our thoughts for 2016?

**Andrew Sweeney:** Yes. We have mixed views on the Canadian stock market for this year. If you were to look at the overall Canadian market, I think you really have to break it into three pieces, because there are really three components that are quite different. The first and the largest piece would be the financial services area of the market. That's dominated by the banks, but it also includes life insurance companies, as well as real estate. There's the energy and resource sector, and that would be the second biggest component, and then the third sleeve, if you will, is really the rest of the market, and that includes consumer stocks and industrial stocks.

If you break it into those three, maybe let's take each one of those in turn. Energy, or resources, have been the poorest performer. I think everyone is aware of how poor the energy sector has been because of the oil price. But gas prices have

been weak, as well, and really, for the last three or four years now, we've seen weakness within the mining sector. When we look at energy, we think there's an emerging opportunity within the energy sector, so we think investors who've got a longer term time horizon that 2016 will represent a good entry point – though there could be a fair amount of volatility. It's very difficult to predict where these commodity prices are going to go over the short term, but our view is, over the long term, things like oil prices and gas prices need to be higher. We're really looking for companies that are going to survive and have good assets, good management teams and strong balance sheets and will be able to weather the storm. We're finding some opportunities in energy.

Materials we're not really finding very many opportunities. The challenge there is we're not finding the quality of companies that we'd like to own, necessarily. That's the resource sector.

In terms of the middle of the market, it's really a mixed bag. The more defensive areas of the market, like consumer staples – grocery stores and the like – those stocks are actually still quite expensive, and investors have really hidden in that part of the market as they've avoided some of the areas that have been more volatile. We like those companies, but we don't find them to be incredibly compelling at this point. We hold them across a number of our portfolios, but I'd say that we're there, but we're not incredibly excited about the opportunities.

Then the last component is the financial services, and we are finding opportunities broadly within the financial services sector. That is good news because that is the largest sector of the Canadian stock market.

**Mark Neill:** Let's talk a little more about financials because it's the largest part of the market in Canada, lots of talk about what kind of risks the financials have associated with, their exposures to the energy sector or to real estate and the housing market in Canada. Can you talk a little bit about our thoughts around those factors?

**Andrew Sweeney:** Sure. I think whenever people think about the stock market, most people think about the big Canadian banks because they tend to be in everyone's portfolios. We've done a lot of work. We've done a number of stress tests on the Canadian banks, and we're quite comfortable that notwithstanding some of the negative economic backdrop that Eric has talked about that the Canadian banks are going to weather the storm quite well. We've looked at their

exposure to Canadian housing, and what we've found is the banks are actually in quite good shape. A lot of the highest risk mortgages in Canada are insured by CMHC or others, and so there's not a lot of credit risk associated with the banks there. We think that some of the changes, the regulatory changes, we've now seen over the last three years to tighten mortgage standards are going to protect the banks, and so we're quite comfortable on that segment.

In terms of the energy sector, the banks have generally lent to that sector over the years, so they do have exposure, but they've tended to lend to the larger companies and the more conservative companies, and so they don't have the exposure to some of these smaller risky companies that we're reading about that are in some financial distress.

Overall, we think the risk to the banks is that a slower Canadian economy is going to slow earnings growth, but we still think that earnings are going to grow for the banks. When we look at valuations, valuations have become quite compelling and so we think the banks represent a very attractive opportunity and we're overweight banks across the vast majority of our Canadian equity portfolios.

**Mark Neill:** Great. Eric, coming back to you – I don't want to get into a discussion about politics – but it would be I think relevant to have a little bit of a discussion about the new majority Liberal federal government in power. What are our thoughts on that change and the implications for the economy?

**Eric Lascelles:** Sure. You're certainly acknowledging, as you suggest, that politics ultimately are a matter of personal preference on many fronts. Let me just focus very narrowly on some of the economic and maybe market-relevant actions that this new government is taking and proposing to take.

I would say, in general, it's probably fair to say that this transition to a new government is probably a slight negative for Canadian financial markets, just in the sense that it's a bit of a less friendly attitude towards the resource sector and so on. In the end, there's been a slight negative hit, but let's not confuse what is going on in markets today in Canada or the Canadian economy as being really a political or a policy issue. The forces that are hitting Canada right now are very much a function of global considerations and Chinese demand sending metal prices down and OPEC decisions sending oil prices down. Really, Canada is I think responding to these issues, but not so much creating them.

In terms of the economic implication, though, of this political change, I would say the infrastructure proposals this Liberal government has laid out are welcome and the timing is fairly good in the sense that here we have an economy with a hole in it that could use some fiscal stimulus. In general, there is a need for more infrastructure in Canada, and borrowing costs couldn't be better. Arguably, this is at least a slight positive for Canadian economic growth. But really, we walk away from this with the conclusion that Canada is not drastically altered in response to this, and as a result we don't think investing behaviour needs to be all that aggressively different, either.

**Mark Neill:** Good. Thank you. Let's turn our attention to our neighbours to the south. Let's talk about the U.S. What are your thoughts, Eric, on the U.S. economy over the coming year?

**Eric Lascelles:** The U.S. economy really has a split personality right now. When you look at foreign-facing segments of the U.S. economy, like exports, like manufacturing, they are very clearly struggling, and it's not a mystery why they're struggling. It's mainly because the dollar is very strong. It's maybe secondarily because global demand is somewhat anaemic. But the reality is one segment of this U.S. economy is quite weak. I think what needs to be acknowledged though is that it's a very different story in terms of the domestic U.S. economy. It's still holding together, broadly, fine. Service sector metrics still look reasonably good. Other metrics of activity, like motor vehicle sales, are still quite healthy.

We conclude that the U.S. economy outlook is fine. It's okay, really, just because the domestic is so good and the foreign is fairly bad. Again, we're not overly concerned about Fed tightening disrupting that outlook. We certainly see risks that are in the world, and they need to be acknowledged and respected, but in the end, this U.S. economic expansion seems fairly enduring. Really, the U.S. economy is one of the countries out there that can legitimately claim to have achieved escape velocity after the financial crisis. It's looking, I think, reasonably good.

**Mark Neill:** Right. And then turning to the equity markets, Andrew, what are our thoughts on outlook for 2016?

**Andrew Sweeney:** Yeah, we're quite constructive on the U.S. markets. The U.S. stock market is much less impacted by energy, so it's much less of a factor for that overall market. In fact, the U.S. companies, when you look at the U.S. market, the U.S. companies are predominantly global companies,

and so they're being impacted by the strong dollar. It's not so much that it's hurting their exports; it's that the translation of their foreign profits, because these companies generally are about half American and half of their sales and profits come from the rest of the world. When they translate those back to U.S. dollars, the strong U.S. dollar has hurt earnings growth. Earnings growth in the U.S. has basically stopped growing, mostly because of the strong dollar.

But when we look across all of these global companies in areas like the tech sector and the healthcare sector, we are finding opportunities where these companies are very well-positioned, they're very strong, they're returning money to shareholders, and valuations, although not incredibly compelling, are still quite attractive. So we do see opportunities within the U.S. market, and I'd say we're more bullish on the U.S. market than we would be on the Canadian market at this point.

**Mark Neill:** Mm-hm. Okay. And then turning our attention, of course, to the global economy, what are our thoughts on the state of the global economy?

**Eric Lascelles:** Right. From a developed world perspective, I would say actually we do see tentative evidence that many developed economies are following in the U.S.'s footsteps – with a lag. For instance, Europe, I think, is the best example here, which certainly has gone through a number of challenges in recent years: a double-dip recession, in fact, with their own sovereign debt crisis in 2011. What we're still seeing with Europe is that Europe is now growing. European leading indicators are broadly constructive and, in fact, getting a little bit better. Certainly there are some challenges and questions surrounding that, particularly with regard to terrorist threat and the migrant crisis and perhaps some Volkswagen issues for Europe, as well. But when we actually evaluate each of those challenges individually, we walk away with the sense that they're probably not enough to disrupt this expansion in Europe.

I would describe Europe as really delayed from the U.S. by a few years, but ultimately proceeding along a similar trajectory, and so probably capable of growing a bit faster over the next year. I personally think capable of maybe pleasantly surprising, as well.

Japan's a bit of a more complicated discussion, but it has a few favourable characteristics, as well, particularly relative to what are some pretty pessimistic assessments placed around it.

I would say the developed world in general, maybe excluding Canada and some other commodity exporters, is actually proceeding at a reasonable rate and really hasn't been caught up too much in a lot of the concern and problems that have engulfed the world over the last year.

**Mark Neill:** And then in terms of global equity opportunities, what are we liking these days?

**Andrew Sweeney:** Yeah. We are seeing opportunities in global equity markets. Remember, if you look at equity markets globally, the U.S. represents more than half of that. But if you look at the other half, we're seeing opportunities. Just referencing Europe that Eric mentioned, in Europe we're seeing the companies are actually well-positioned. They've benefitted from a weaker euro, as the U.S. dollar has been strong, every other currency has been weak. So European global companies have benefitted, and we're seeing opportunities there, particularly because valuations outside of the U.S. are generally lower than in the U.S., and we see the valuations being quite attractive.

We're seeing those opportunities within the developed world. But perhaps the other opportunity that's starting to look very interesting as we look through 2016 is emerging markets. As we mentioned earlier, emerging markets have been quite tough. They were among the worst-performing countries in the world in 2015. But what's happened is that valuations in emerging markets are very attractive. There are a number of challenges in those emerging markets, but we think many of those are reflected in share prices. We think that represents probably among the most interesting opportunities as we look forward.

Now, within emerging markets, I know there's a very broad range of countries, and some countries, like Brazil and Russia, are really struggling. But where we're finding a number of opportunities are in places like India, where there are very much a number of entrepreneurial companies and we're finding many, many opportunities for some of our emerging market equity portfolios.

**Mark Neill:** Eric, I think you're going to chime in on that.

**Eric Lascelles:** Yeah, I think that's precisely it. Emerging markets hardly have been a wondrous story recently, but economically, there is such a range of opportunities there, and as an economist, the way I tend to think about this opportunity you mention is countries that are delivering structural reforms are in fairly good shape. Countries that

like low commodity prices – many of them do – also stand to benefit. Those that avoided too many credit extensions in recent years are also in a much better position. For that matter, those that have sustained or even improved their competitiveness look fairly good. That doesn't describe all emerging markets by any stretch of the imagination, but there is a subset that fit that bill, and you've just mentioned a few of them.

**Mark Neill:** Karen, last point on global, we've been encouraging our investors to look at investing in global fixed income as a way to diversify their fixed income portfolio, perhaps in anticipation of a more difficult environment. In light of all the volatility that we've been seeing in global markets, is that still a relevant story, something investors should be looking at? Diversifying into global fixed income?

**Karen Kerr:** Well, yeah, the short answer is yes. Similar to what Andrew was saying on emerging market equities, we've seen a sell-off of risk assets generally. This, of course, includes stocks and commodities, but it also includes the riskier areas of fixed income. High yield, for example, has underperformed the broader bond market to the point where high yield bonds are now yielding about 8% to 9%. Consider that high yield bond fund, our portfolio, is a very short term bond issues that we're quite confident that we're going to get paid back. At some point, this becomes very compelling.

Emerging market debt is another great example, so for emerging market bonds, there are a couple of different flavours, if you will. You can buy emerging market bonds that are issued in their domestic currency or you can buy emerging market bonds that are issued in U.S. dollars. While we own both, we have a bias towards those that are issued in U.S. dollars, as that takes away a lot of that volatility associated with the currency. This is another area that we've been adding, as well. Yields are very compelling at this point in time in the cycle.

Are we in with both feet at our maximum weight? No. But we are adding modestly.

**Mark Neill:** Great. In the interests of time, Eric, closing comments.

**Eric Lascelles:** Sure. Really, when I look at where we are in the world, let's acknowledge: sluggish economic growth, significant risks, some challenging markets. It's not the best place to be in the world, but, of course, it's where we find ourselves. When I think a little harder about that

environment, it does strike me that maybe a few constructive comments are appropriate.

One is, indeed sluggish growth, but still economic growth. We're not getting a recession signal for most of the world. Indeed sluggish growth, but that's where we've been for most of the past several years. It's not necessarily inconsistent with market gains. From a risk perspective, yeah, lots of risks out there, but that's really been quite a familiar environment since the crisis. Keep in mind, most risks don't actually hit. We certainly should be aware of the ones that do exist, but let's not pretend that risks equal reality. They don't.

I think that's a useful way of framing the world. I look to 2016, I still expect economic growth. I still think inflation will rise a little bit. I'm not expecting a horrible deviation from what we've seen in recent years.

**Mark Neill:** Great. Karen.

**Karen Kerr:** One final point that I'd like to get across to everyone is to keep in mind the fact that in investing in PH&N funds you're getting actively managed bond portfolios. If we are worried about interest rates rising or interest rates falling, we position the portfolio accordingly to do better in that environment. You, our clients, have basically delegated that to us, so let us worry about whether interest rates are rising or falling.

Now, the job of our clients is to really think about what is that right mix of funds for their portfolio. What's the right mix of having more conservative fixed income versus some of these higher yielding solutions? We have many advisors that do exactly that, so we encourage our clients to spend less time worrying about the future direction of interest rates and spend more time in conversations with their advisors in working on getting that right mix of funds in their portfolio.

**Mark Neill:** And lastly, Andrew.

**Andrew Sweeney:** The conversation we've had today, there've been all sorts of cross-currents, and we've talked about volatility in markets and what's happening in a number of economies. I think one of the things that investors really need to keep in mind is that if you build a balanced portfolio, where you have exposure to the kinds of fixed income that Karen's talked about and exposure to different equity markets, so some Canada and some outside of Canada, that if you have a diversified and balanced portfolio, that's the portfolio that's going to lead you to the best risk-adjusted returns. In fact, in spite of all the numbers that we've thrown out, I think if you look back in 2015, a typical balanced portfolio would've generated low single digit returns as high as 4% or 5%. Notwithstanding all of the headlines, if you build that type of portfolio, I think it's going to lead to success for our investors.

I think that's just something to keep in mind against this backdrop that we've talked about where there are a number of things going in a number of directions, and there are lots of headlines in the newspaper and on the TV news. But if you keep that in mind, I think that will lead investors to be able to meet their investment objectives that they're shooting for.

**Mark Neill:** Great discussion, everyone. Thank you for your thoughts and advice today. Just a reminder to our viewers: you're not alone in trying to figure out how to apply what was discussed today to your portfolio. We know that risk tolerance, investment objectives and personal circumstances are different for everyone. We're here to help. If you have any questions, our investment fund advisors are available to review your portfolio, give you advice or answer market-related questions at your convenience. Our toll free number is listed on our website at [phn.com](http://phn.com).

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