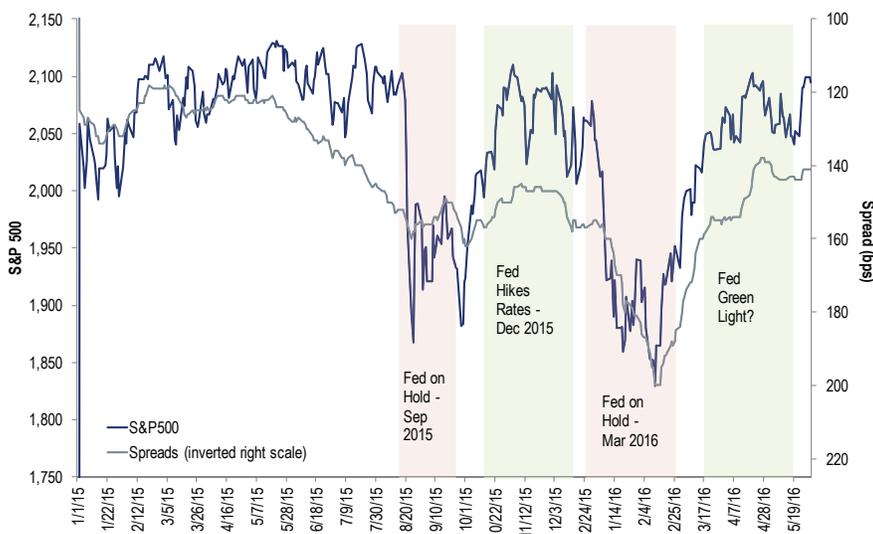


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Exhibit 1
Market Conditions



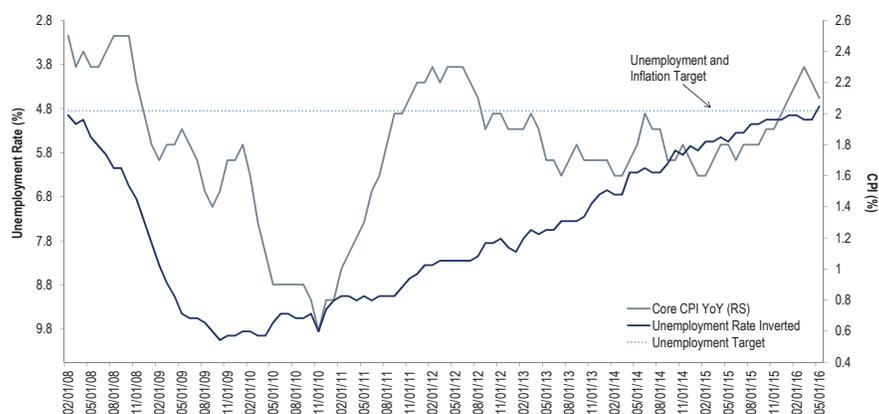
Source: Bloomberg, as of May 31, 2016

Red Light! Green Light!

At the September 2015 Federal Open Market Committee (FOMC) press conference, Chair Janet Yellen cited the strength of the U.S. dollar and weakness in equity and credit markets as reasoning for the Federal Reserve's (the Fed) decision to hold off on raising rates. Ever since that meeting the Fed has been engaged with the market in a version of the children's game "Red Light, Green Light."

After the Fed's decision to pass on a rate increase in September, market conditions improved in October and November, giving the FOMC a "green light" to proceed with a December rate hike. In 2016, the game continues to play out. February 2016 brought a market sell-off worse than August 2015, which led to a "red light" and as fully anticipated, the Fed passed on raising rates at their March meeting. Current markets have strengthened and have given a "green light" to the Fed (Exhibit 1).

Exhibit 2 Dual Mandate



Source: Bloomberg, as of June 6, 2016

Market conditions are not the only consideration when addressing monetary policy. Historically, the Fed’s dual mandates of full employment and price stability have been their primary considerations. Additionally, “data dependency” supports their forward expectation of job market and inflation conditions. The steady improvement in employment and firming of inflation are nearing long-term target levels and are justifying an increase in overnight rates (Exhibit 2).

Exhibit 3 Market Indicators and Fed Considerations

Meeting	Market Conditions	Dual Mandate	Data Dependency	Outcome
September 2015	Red	Yellow	Green	Unchanged
December 2015	Green	Green	Green	Rates Raised
March 2016	Red	Green	Yellow	Unchanged
June 2016	Green	Yellow	Yellow	Unchanged

Source: RBC GAM-US

While market conditions, headline inflation and the unemployment rate are once again telling the FOMC they have a “green light” to raise rates, the underlying economic trends are flashing yellow. The weak May employment report, softening in forward looking inflation measures and outside risk from Brexit kept the Fed on hold. Focusing on these three variables (Exhibit 3) allows the Fed to proceed at a gradual and cautious pace in raising overnight interest rates, as Chair Yellen alluded to during her May 27 speech. As expected, rates were not increased and probably will not be until all variables are flashing green.

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