

RBC Dominion Securities Month-In-Review: April 2009

Portfolio Advisory Group

What Moved the Markets

Equity markets climbed higher in April, extending a Financials-led rally that began on March 10th. In Canada, the TSX extended its winning streak by closing higher for seven consecutive weeks, pulling the index into positive territory year-to-date. The S&P 500 also posted a very strong monthly performance, climbing almost 10%.

“Less bad” economic news began rolling in on the first day of the month when ISM Manufacturing data came in better than expected. On April 2nd, shares of **Research In Motion (RIM)** energized the TSX after the company released earnings that handily beat expectations.

Market-bears looking for disastrous earnings were disappointed. **Alcoa (AA)** unofficially kicked off U.S. earnings season on April 7th with a loss, but investors looked past the quarter's results and focused instead on the positive impact of cost cutting measures. Focusing on the positive, it turned out, was a theme that would be repeated throughout the month. Overall, earnings were in-line with or ahead of admittedly-low expectations, and provided no notable catalyst for a market pull-back.

Time and time again the market was resilient in the face of negative headlines. On April 14th, data showed that U.S. retail spending had fallen 1.1% in March (versus an expected 0.3% gain). Equity markets sold off on the news, but rebounded on the following day. On April 20th, **Bank of America (BAC)** announced that it had set aside US\$13.4 billion to cover lending losses. Once again, markets bounced back the next day.

In Canada, the Bank of Canada reduced the key lending rate to a record low of 0.25% and predicted that the recession would be deeper than expected, but stopped short of committing to quantitative easing policies. Equity markets closed higher on the day.

The much anticipated U.S. bank ‘Stress Test’ methodology announcement turned out to be a non-event, as it did not provide many of the specifics that investors had been seeking.

At month's end, equity markets successfully shrugged off news of spreading swine flu from Mexico, automaker bankruptcy fears, and a U.S. first quarter GDP figure (-6.1%) that was well below expectations. The market resiliency combined with rising Consumer Confidence (the metric jumped from 26.9 in March to 39.2 in April) has led some, including the U.S. Federal Reserve, to believe that the worst of the economic downturn is now behind us.

Number Crunching

Equity Indices	Index Level	Month	YTD*
S&P/TSX Composite Index	9,324.83	6.9%	3.8%
Dow Jones Industrial Average	8,168.12	7.3%	-6.9%
S&P 500 Index	872.81	9.4%	-3.4%
NASDAQ Composite Index	1,717.30	12.3%	8.9%
MSCI World	893.02	10.9%	-3.0%
MSCI EAFE	1,185.84	12.3%	-4.2%
MSCI World TR	2,867.37	11.3%	-1.8%

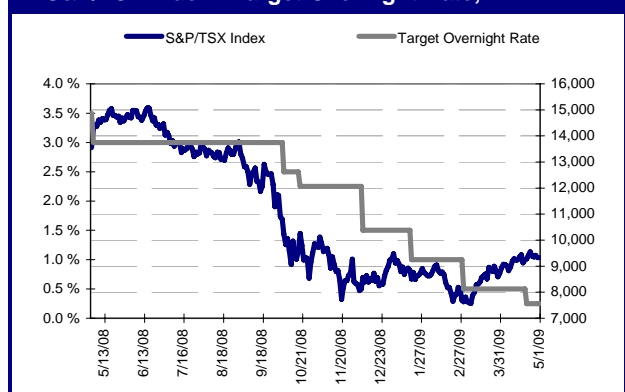
S&P/TSX Sector Performance	Index Level	Month	YTD*
S&P/TSX Financials	1,204.76	15.0%	6.2%
S&P/TSX Energy	2,255.46	7.9%	6.6%
S&P/TSX Materials	2,230.57	-8.5%	-1.5%
S&P/TSX Industrials	901.03	10.4%	-1.7%
S&P/TSX Consumer Discretionary	771.35	4.2%	-4.7%
S&P/TSX Telecom Services	641.50	-2.4%	-11.0%
S&P/TSX Information Technology	280.44	42.8%	55.3%
S&P/TSX Consumer Staples	1,370.79	0.8%	-5.9%
S&P/TSX Utilities	1,346.91	2.7%	-10.8%
S&P/TSX Healthcare	256.50	-0.4%	1.6%

Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.1925	-5.4%	-2.2%
Euro	1.5778	-5.5%	-7.4%
British Pound	1.7640	-2.3%	-1.0%
Japanese Yen (100)	1.2091	-5.0%	-10.0%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$51.12	2.9%	14.6%
Natural Gas (per million btu)	\$3.37	-10.7%	-40.0%
Gold (per ounce)	\$888.20	-3.4%	0.7%
Silver (per ounce)	\$12.37	-4.6%	8.6%
Copper (per pound)	\$2.01	10.7%	45.7%
Nickel (per pound)	\$5.27	19.2%	0.1%
Aluminum (per pound)	\$0.66	7.7%	-3.2%
Zinc (per pound)	\$0.65	8.0%	18.0%

* YTD return data is simple price return. All indices are in local currency unless otherwise noted.
Source: Bloomberg

S&P/TSX Index - Target Overnight Rate, LTM



* Source: Bloomberg

A Closer Look – Seven Solid Weeks

By month's end, the TSX had rallied for seven consecutive weeks, more than erasing prior losses for the year. In the early stages of the rally, which began on March 10th, there appeared to be little of substance underpinning the gains; several U.S. banks had announced profits and lending was beginning to flow, but the economic picture was bleak. Now, almost eight weeks later, there is more to feel good about, not least of which is having survived earnings-season without a meltdown. With some investors suggesting that this rally is getting a little "long-in-the-tooth", it is a good time to take a look at how it has played out so far.

How unusual is a seven week rally?

Since 1919, the TSX has ended the week higher 1,324 times, or 56% of the time. There have been many multi-week rallies within that period (Figure 1) – but ending higher for seven consecutive weeks is quite exceptional. Excluding the current rally, the TSX has gained for seven weeks in a row only seven times. Rallies that delivered more than seven consecutive weeks of gains have occurred only 10 times. In this respect, the current rally is notable.

How have the different sectors performed?

The leading sector by percentage gain is the Information Technology sector (Figure 2), which has been driven higher by soaring shares of **Research In Motion (RIM)**. This sector represents less than 5% of the TSX. The Financial sector has posted a sharp gain since March 9th, climbing over 45%. However, because this sector was hardest hit before the rally, it was starting from a lower point. Still, the Financial and Energy sectors are ahead of the pack in terms of year-to-date performance; both are higher by about 6%. The Telecommunications and Utilities sectors have not participated in the rally; telecos are lower on lacklustre earnings and guidance while utilities have drifted lower on low energy prices.

How has the TSX performed relative to global indices?

The TSX has climbed about 24%, which is in line with most global indices over the same period (Figure 3). The Hang Seng was far ahead of the pack earlier in the month but has given back gains in recent weeks. Shanghai has lagged the rally, but the index was already 20% in the black for the year when the rally began. The FTSE 100, on the other hand, was hard hit on the way down, and has lagged on the way up.

Does this rally have legs?

The rally has added 24% to the TSX thus far. The weekly gains, however, have been weakening gradually (Figure 4) which suggests that the rally could be losing steam. Also, rallies that extend unabated for more than seven weeks have historically been an infrequent occurrence, so at seven weeks and counting the bounds of probability are stretched. It is likely that the rally may take a pause or retrace some ground in the coming weeks (as the S&P 500 and other indices have done). However, 'less bad' leading indicators like rising Consumer Confidence and improved ISM Manufacturing data could point to better times ahead.

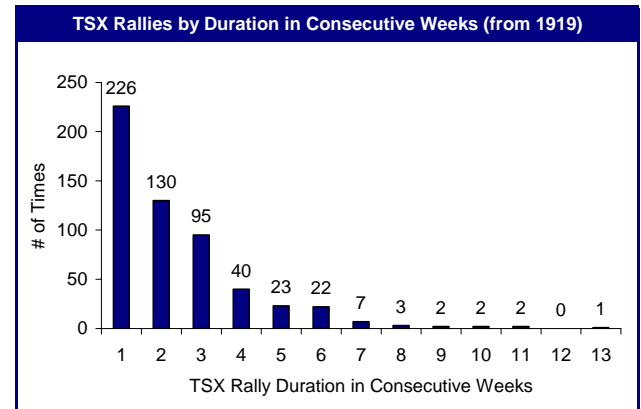


Figure 1, Source: Bloomberg

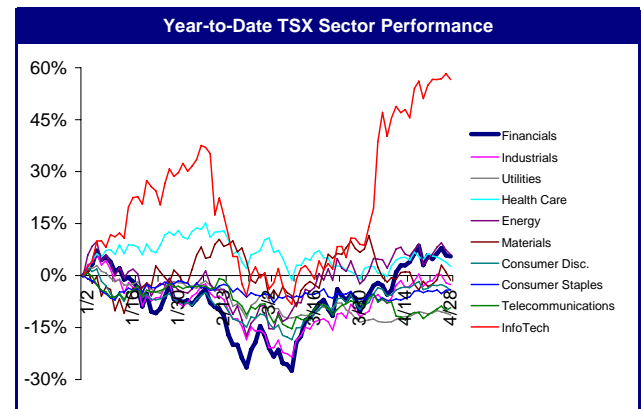


Figure 2, Source: Bloomberg

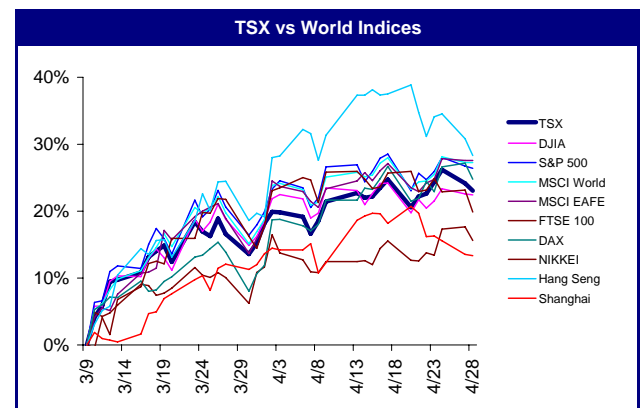


Figure 3, Source: Bloomberg

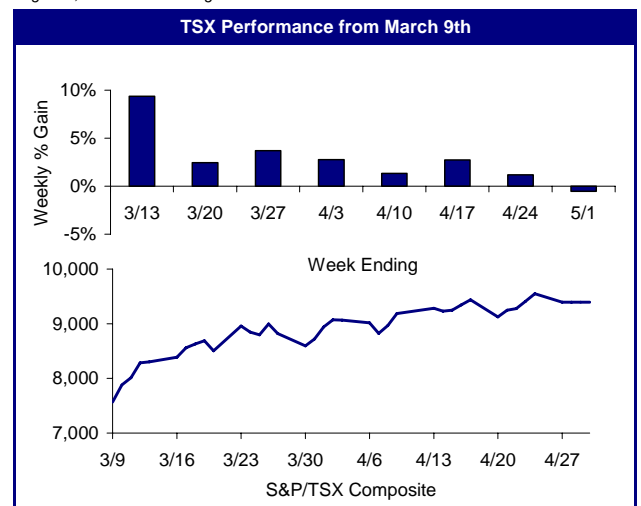
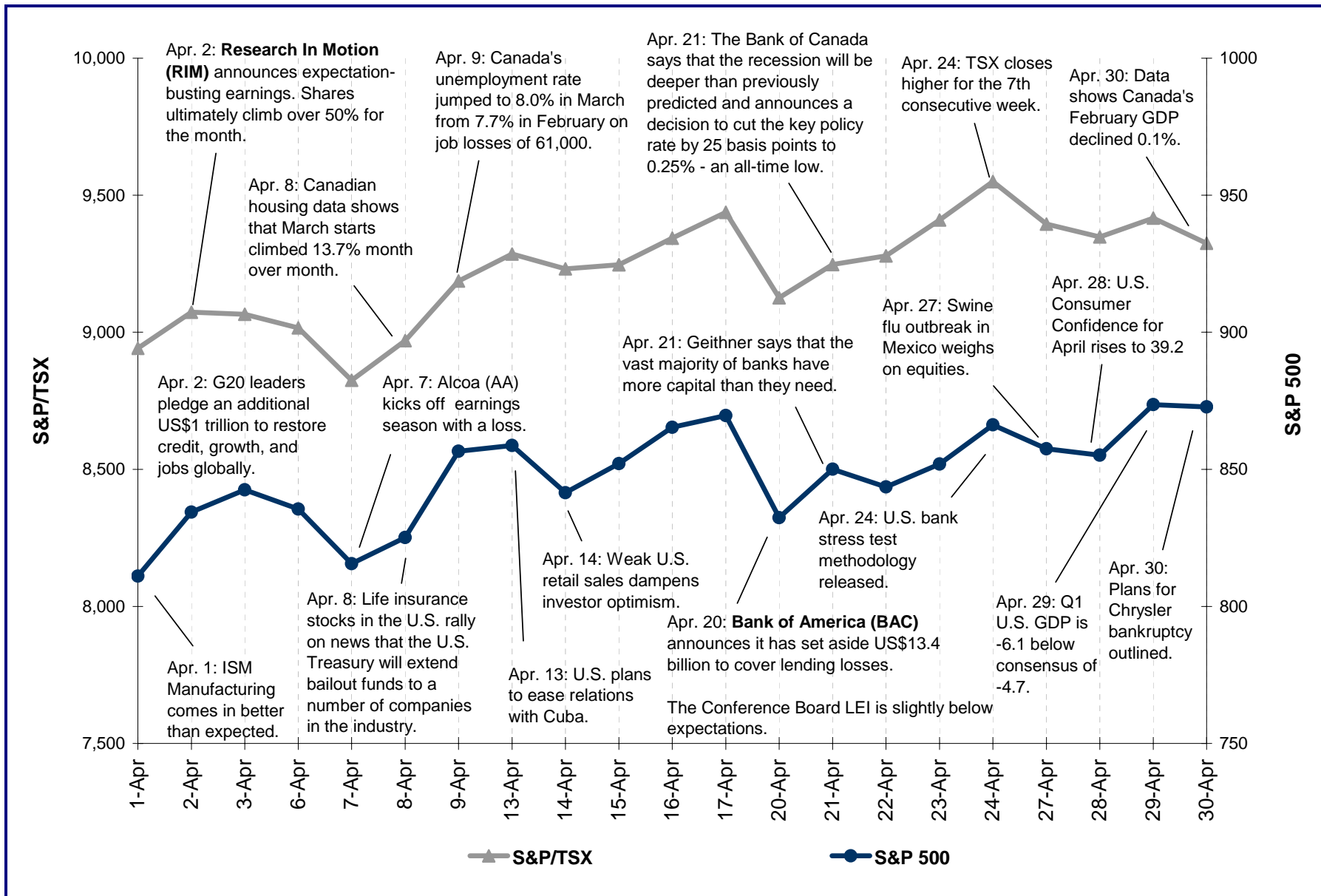
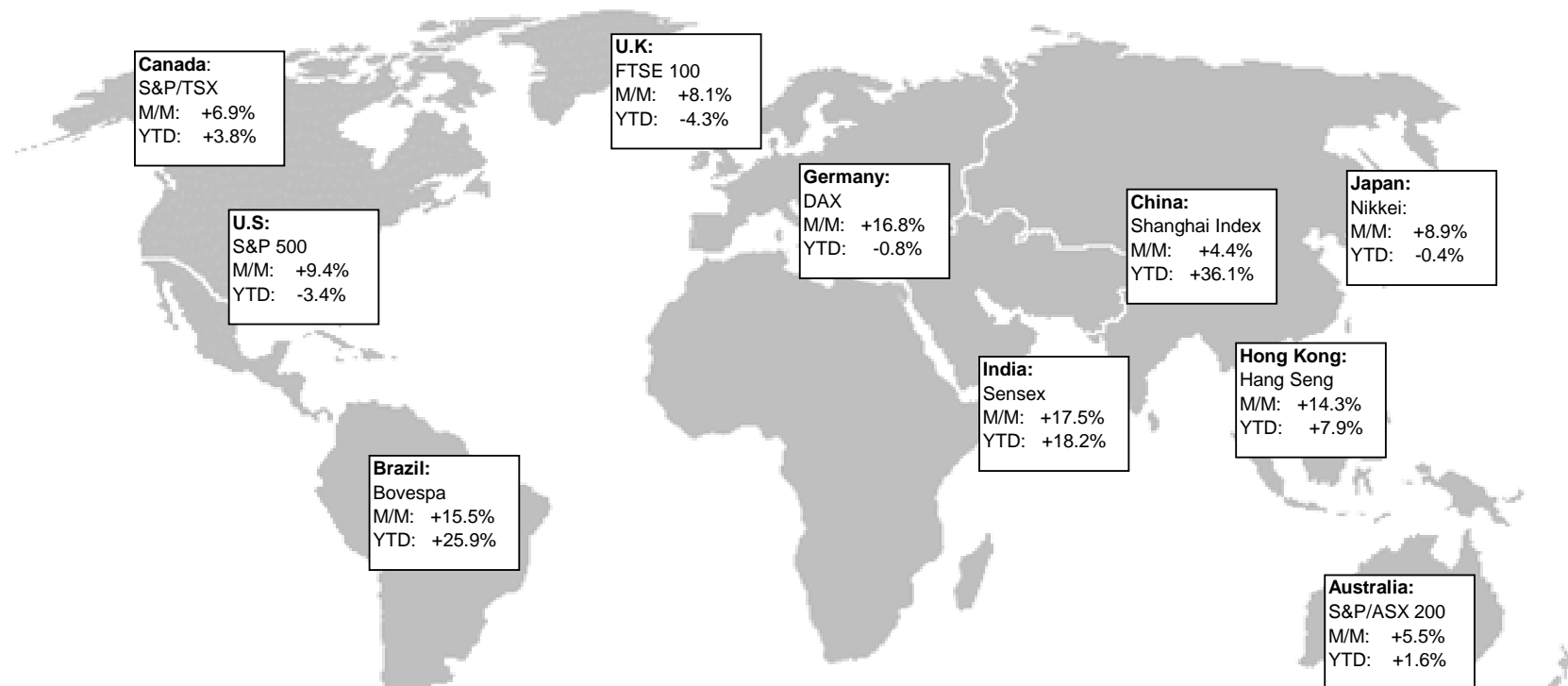


Figure 4, Source: Bloomberg

North American Equity Performance – April 2009



World Markets – April 2009



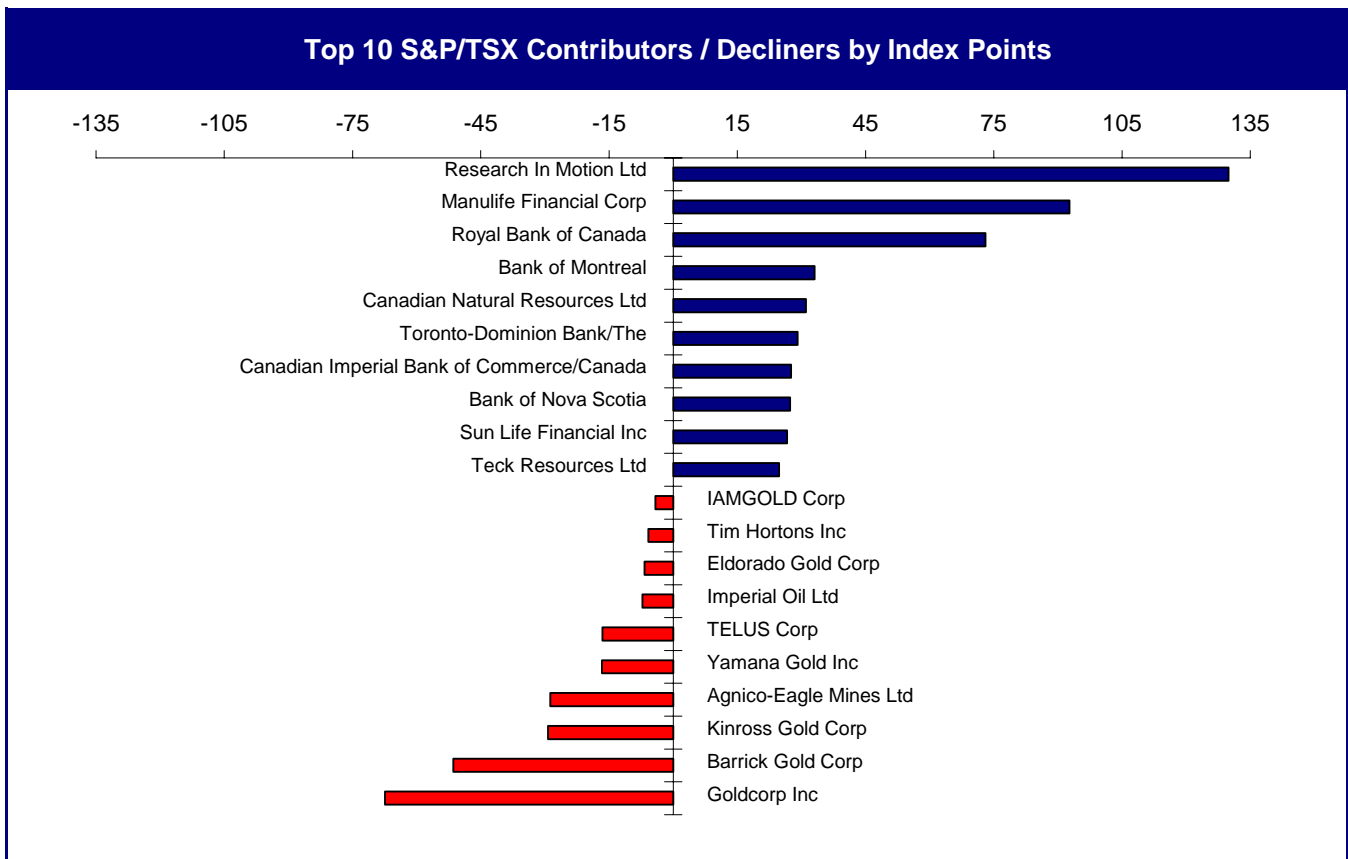
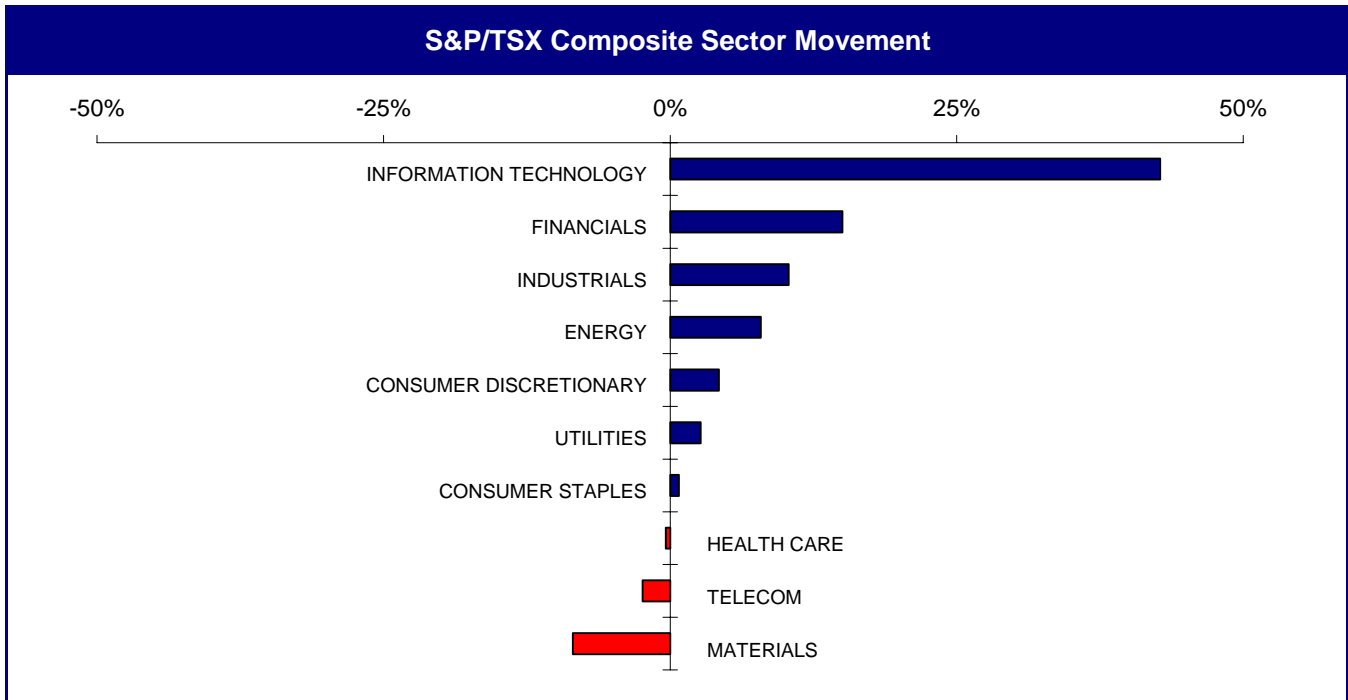
Global equity markets raced ahead in April, in many cases wiping out year-to-date losses. The Bovespa, DAX, Sensex, and Hang Seng all posted double digit gains.

The Shanghai Index, which had out-paced markets in prior months, added a modest 4.4%.

*** All returns calculated in local currency.

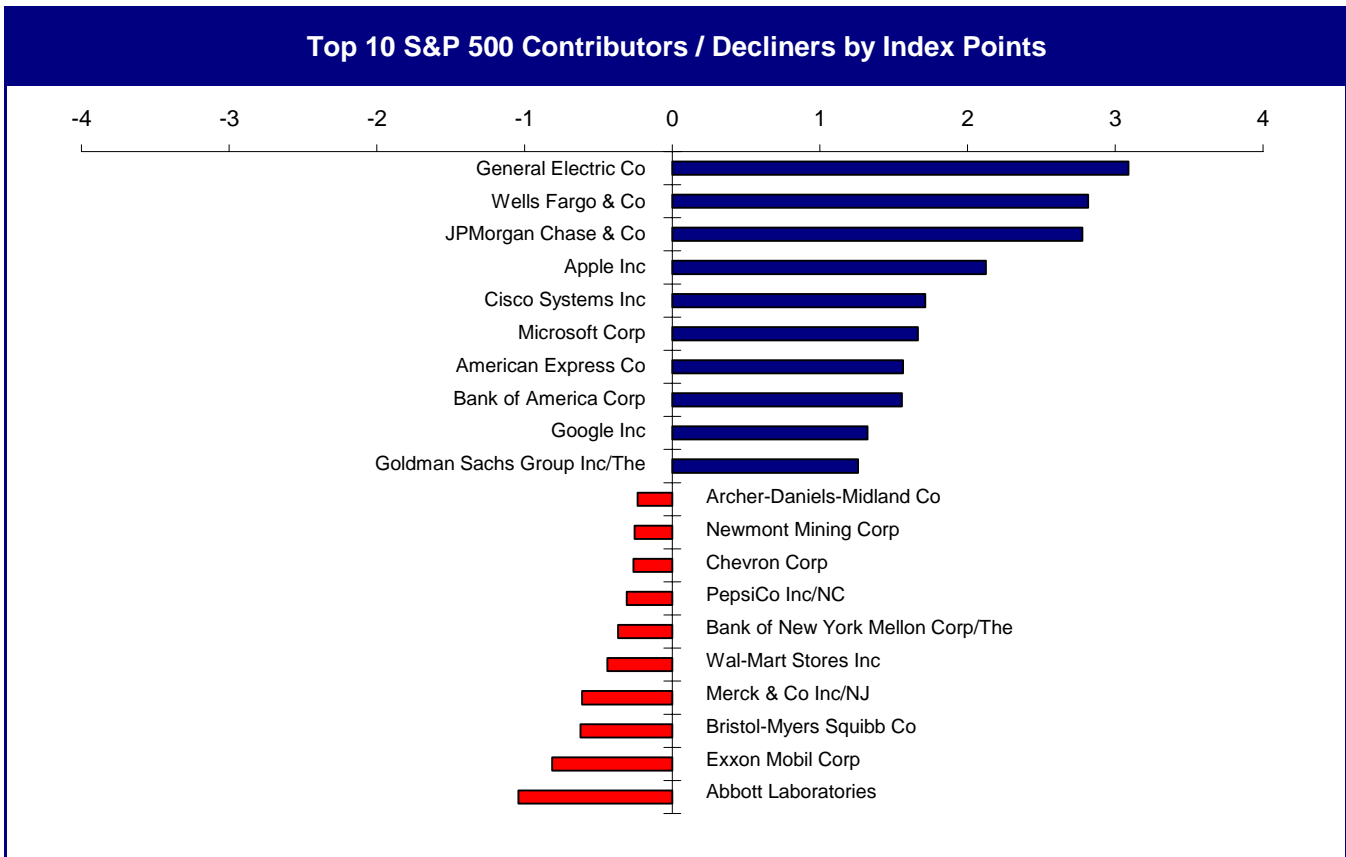
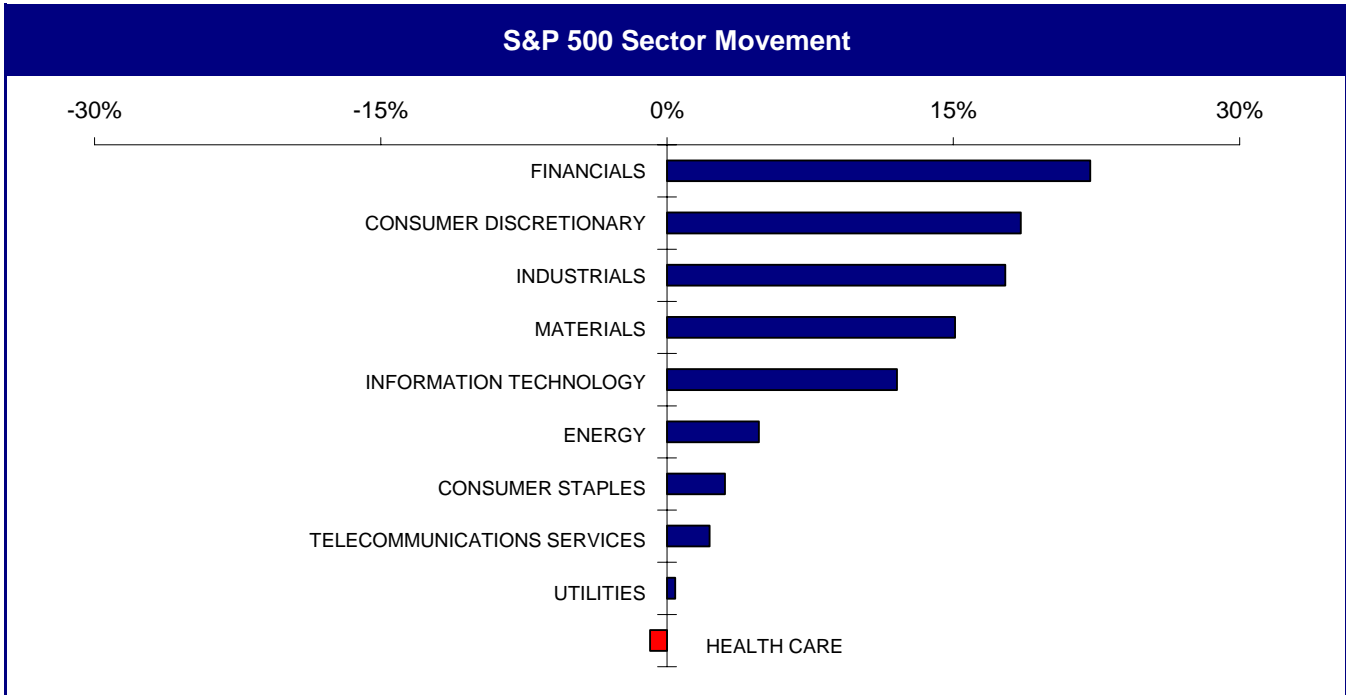
Source: Bloomberg

Canadian Equities – April 2009





U.S. Equities – April 2009



Canadian and U.S. Economic Data – April 2009

Better Than Expected	Event	Period	Consensus	Actual	Prior	
Apr 1	US	Total Vehicle Sales	MAR	9.2M	9.9M	9.1M
Apr 1	US	ISM Manufacturing	MAR	36	36.3	35.8
Apr 2	US	Factory Orders	FEB	1.5%	1.8%	-3.5%
Apr 7	US	IBD/TIPP Economic Optimism	APR	45.8	49.1	45.3
Apr 8	CA	Housing Starts	MAR	130.0K	154.7K	136.1K
Apr 21	CA	Bank of Canada Rate	21-Apr	0.50%	0.25%	0.50%
Apr 22	US	House Price Index MoM	FEB	-0.7%	0.7%	1.0%
Apr 23	CA	Retail Sales Less Autos MoM	FEB	0.2%	0.6%	1.4%
Apr 24	US	Durable Goods Orders	MAR	-1.5%	-0.8%	2.1%
Apr 28	US	S&P/CaseShiller Home Price Ind	FEB	142.8	143.17	146.35
Apr 28	US	Consumer Confidence	APR	29.7	39.2	26.9
Apr 29	US	Core PCE QoQ	1Q	1.0%	1.5%	0.9%
Apr 29	US	Personal Consumption	1Q	0.9%	2.2%	-4.3%
As Expected						
Apr 3	US	Unemployment Rate	MAR	8.5%	8.5%	8.1%
Apr 9	CA	Unemployment Rate	MAR	8.0%	8.0%	7.7%
Apr 15	US	Bloomberg Global Confidence	APR	-	21.2	5.95
Apr 15	US	Capacity Utilization	MAR	69.6%	69.3%	70.3%
Apr 29	US	FOMC Rate Decision	29-Apr	0.13%	0.25%	0.25%
Apr 30	CA	Gross Domestic Product MoM	FEB	-0.1%	-0.1%	-0.7%
Weaker Than Expected						
Apr 3	US	Change in Nonfarm Payrolls	MAR	-660K	-663K	-651K
Apr 6	CA	Building Permits MoM	FEB	-4.0%	-15.9%	-6.0%
Apr 9	CA	Net Change in Employment	MAR	-50.0K	-61.3K	-82.6K
Apr 9	CA	New Housing Price Index MoM	FEB	-0.5%	-0.7%	-0.6%
Apr 14	US	Retail Sales Less Autos	MAR	0.0%	-0.9%	1.0%
Apr 15	US	Consumer Price Index (MoM)	MAR	0.1%	-0.1%	0.4%
Apr 15	CA	New Motor Vehicle Sales MoM	FEB	-2.0%	-2.2%	4.3%
Apr 15	US	Industrial Production	MAR	-0.9%	-1.5%	-1.5%
Apr 16	US	Building Permits	MAR	549K	513K	564K
Apr 16	US	Housing Starts	MAR	540K	510K	572K
Apr 17	CA	Consumer Price Index MoM	MAR	0.3%	0.2%	0.7%
Apr 20	US	Leading Indicators	MAR	-0.2%	-0.3%	-0.2%
Apr 22	CA	Leading Indicators MoM	MAR	-0.8%	-1.3%	-1.4%
Apr 23	US	Existing Home Sales MoM	MAR	-1.5%	-3.0%	4.9%
Apr 24	US	New Home Sales MoM	MAR	0.0%	-0.6%	8.2%
Apr 29	US	GDP QoQ (Annualized)	1Q A	-4.7%	-6.1%	-6.3%
Apr 30	US	Continuing Claims	18-Apr	6200K	6271K	6138K

Key Takeaways:

Economic data provided investors with some signs that the worst of the downturn could be in the past. ISM Manufacturing, released April 1, was ahead of expectations at 36.3 (and jumped to 40.1 on May 1). Consumer Confidence released near month-end showed that optimism is climbing, coming in at 39.2 versus consensus of 29.7. The Conference Board Leading Economic Index came in modestly lower on a month over month basis.

There were, however, a number of economic measures that came in below expectations, signaling ongoing economic weakness. Equity markets showed resilience in the face of ongoing high unemployment, weak retail sales and a sharper than expected U.S. GDP quarterly decline (-6.1% versus -4.7%). Housing data, which was generally better than expected in March, showed some softness in April. Building permits in Canada and the U.S. were lower than expected, and housing starts in the U.S. fell to 510K.



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