

# RBC Dominion Securities Month-In-Review: August 2009

Portfolio Advisory Group

## What Moved the Markets

A stronger than expected earnings season and a slew of positive economic data in August propelled equity markets higher as investors became more optimistic that the recession is easing and that a global economic recovery is underway. The S&P/TSX index rose above 11,000 points for the first time in 10 months to reach a new high for the year. Markets in the US also posted new annual highs as the S&P500 index closed above 1,000 and the NASDAQ closed above 2,000 for the first time since the fall of 2008. Given the market's impressive performance over the past two months, concerns exist as to whether this rally is in fact sustainable.

Positive economic data in the US including a drop in the unemployment rate, a strong rise in both new and existing home sales, and an uptick in consumer confidence provided a backdrop for the FOMC's moderately upbeat assessment of the economy's performance. The Fed Funds rate was maintained in the 0-0.25% range and Ben Bernanke was renominated as Chairman of the US Federal Reserve for a second term. On August 24<sup>th</sup>, the Obama administration ended the popular \$3B Cash-for-Clunkers program which accounted for ~700,000 vehicles sold with **Toyota (TM)**, **Honda (HMC)**, and **Nissan (NSANY)** representing 19%, 13%, and 8.7% of the sales respectively.

Canada received mixed economic news as weaker than expected employment figures and housing starts were offset by stronger retail sales and manufacturing data. The Bank of Canada hinted that it could possibly join other central banks in using non-traditional quantitative easing measures in an effort to control the appreciation of the Canadian dollar which it views as a threat to the country's economic recovery. **Bank of Montreal (BMO)**, **Royal Bank of Canada (RY)**, **Toronto-Dominion (TD)**, **National Bank (NA)**, and **Bank of Nova Scotia (BNS)** reported Q3 results that exceeded analyst expectations driven primarily by capital markets activities, loan losses which are rising but at a rate at or below expectations, and higher than expected capital ratios. However, earnings from **Canadian Imperial Bank of Commerce (CM)** were weaker than expected as a result of poor results in its retail banking divisions.

In Europe, Germany and France emerged from recession as the GDPs of both countries grew during the second quarter while other euro zone economies continued to contract. Japan's economy also grew in the second quarter but still fell below analyst expectations. In China, the Shanghai Index continued to decline from its annual high reached earlier in the month because of concerns about the country's recovery and tightening of bank lending policies which would negatively impact liquidity.

## Number Crunching

Equity Indices	Index Level	Month	YTD*
S&P/TSX Composite Index	10,868.21	0.8%	20.9%
Dow Jones Industrial Average	9,496.28	3.5%	8.2%
S&P 500 Index	1,020.62	3.4%	13.0%
NASDAQ Composite Index	2,009.06	1.5%	27.4%
MSCI World	1,085.60	3.9%	18.0%
MSCI EAFE	1,498.97	5.2%	21.1%
MSCI World TR	3,524.08	4.2%	20.7%

S&P/TSX Sector Performance	Index Level	Month	YTD*
S&P/TSX Financials	1,551.91	0.8%	36.8%
S&P/TSX Energy	2,501.98	-0.4%	18.3%
S&P/TSX Materials	2,615.47	-0.1%	15.5%
S&P/TSX Industrials	1,029.01	4.2%	12.2%
S&P/TSX Consumer Discretionary	847.22	2.4%	4.7%
S&P/TSX Telecom Services	684.51	5.2%	-5.0%
S&P/TSX Information Technology	277.77	-1.3%	53.8%
S&P/TSX Consumer Staples	1,445.45	2.1%	-0.8%
S&P/TSX Utilities	1,502.04	1.1%	-0.5%
S&P/TSX Healthcare	291.13	5.4%	15.3%

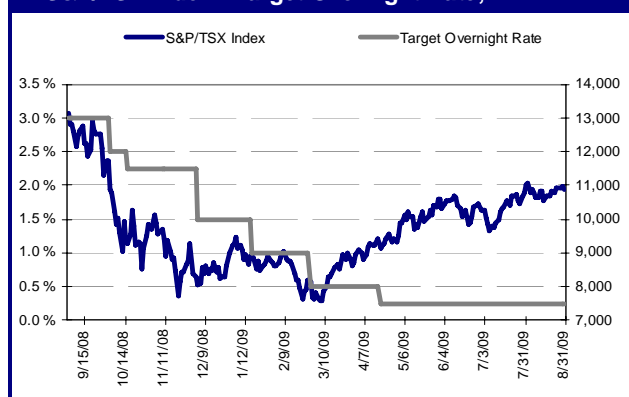
Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.0938	1.5%	-10.3%
Euro	1.5678	2.1%	-8.0%
British Pound	1.7818	-1.1%	0.0%
Japanese Yen (100)	1.1746	3.2%	-12.6%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$69.96	0.7%	56.9%
Natural Gas (per million btu)	\$2.98	-18.5%	-47.0%
Gold (per ounce)	\$951.25	-0.3%	7.8%
Silver (per ounce)	\$14.90	7.0%	30.8%
Copper (per pound)	\$2.93	13.0%	112.5%
Nickel (per pound)	\$8.65	6.6%	64.3%
Aluminum (per pound)	\$0.85	0.0%	23.8%
Zinc (per pound)	\$0.85	7.5%	55.7%

\* 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 – Global Rebalancing

While a global recovery from recession has begun, there are still concerns regarding its long-term sustainability. Below we will discuss the concept of global rebalancing and the challenges faced in its execution.

### Global Rebalancing

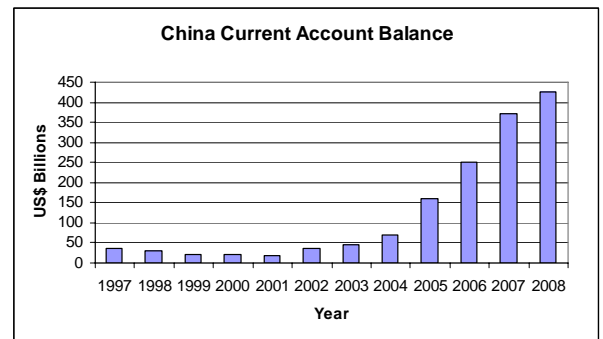
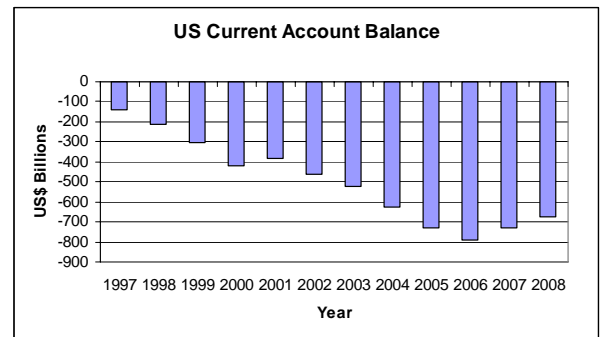
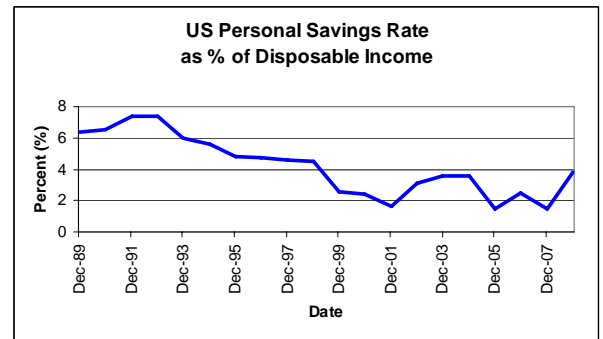
While governments have been able to temporarily boost their economies by passing multi-billion dollar stimulus packages, sustainable growth cannot be achieved through rising budget deficits. The foundation of a solid global recovery lies in the strength of the private sector and the consumer.

Global rebalancing refers to an economy that has shifted itself away from US-led consumption towards global demand growth. It essentially requires the US to become more export-oriented and less consumption oriented by spending less and saving more. Contrastingly, it requires the world's 3 largest surplus economies – China, Germany, and Japan – to build stronger domestic demand for imports by spending more and saving less.

Before the financial crisis, global demand was heavily dependent on the spending of increasingly indebted American consumers. US household consumption has since declined considerably in the after-math of the financial crisis because of the destruction of more than \$13 trillion of consumer wealth, rising unemployment, increasing foreclosures, and a substantial amount of consumer debt outstanding. The decline in US consumption has not only impacted the US economy, but has also been a drag on economic growth worldwide. The International Monetary Fund projects that the ratio of consumption to US gross GDP will drop by ~3%, as Americans spend and invest less. As a result, an increase in US net exports is seen as integral for a US recovery to occur. On the other hand, surplus countries must offset the decline in US consumption by fuelling economic growth through domestic demand.

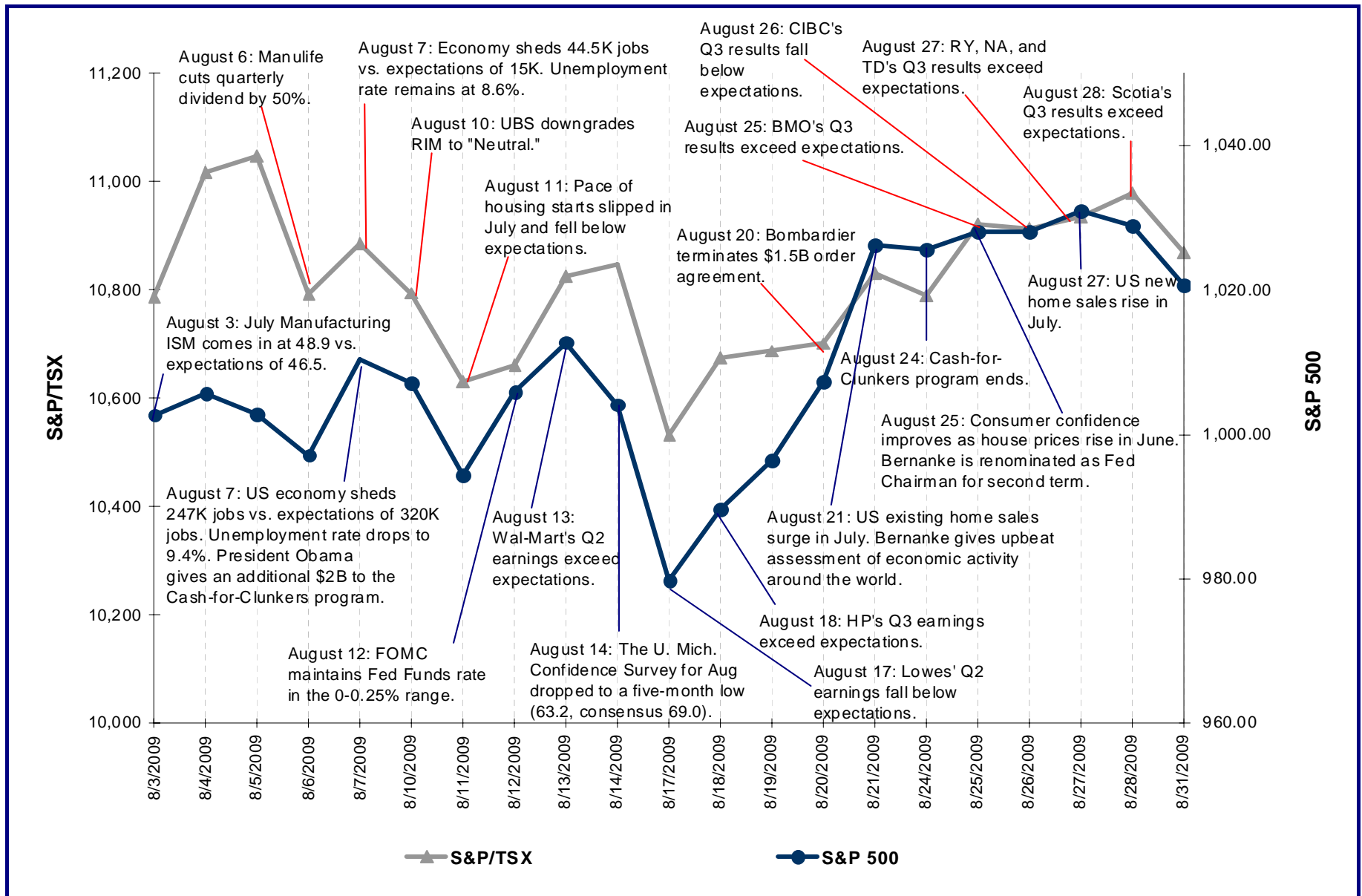
### Execution Challenges

Changing a country's mindset from a conservative saving culture to one that promotes US consumer spending habits can prove to be challenging. For example, while China has been successful in growing its GDP through increased lending and government stimulus spending, its initiatives have not been successful in creating jobs or increasing household income - two important factors that impact consumer spending. The Chinese are also more inclined to save because the country largely lacks a social safety net. China currently has no unemployment insurance, government funded healthcare, or education support. While allowing the Yuan to appreciate against the major currencies would increase the purchasing power of Chinese consumers, China continues to be reluctant to allow this to happen because of the negative impact it may have on demand for its exports. Given the scope and scale of changes that need to be made by the world's largest economies, the notion of a rebalanced global economy may still be far way.

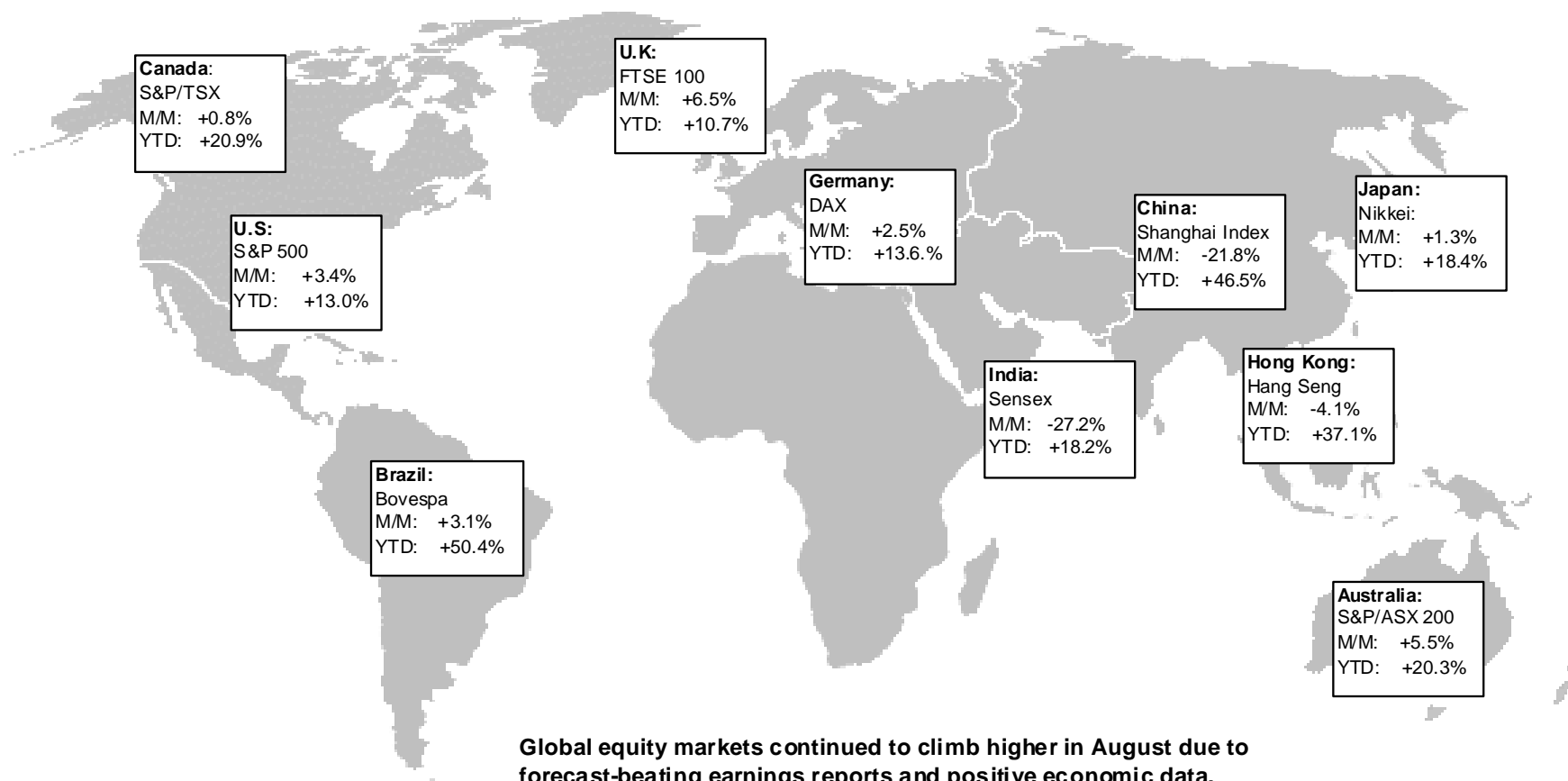


\* Source: Bloomberg

# North American Equity Performance – August 2009



## World Markets – August 2009



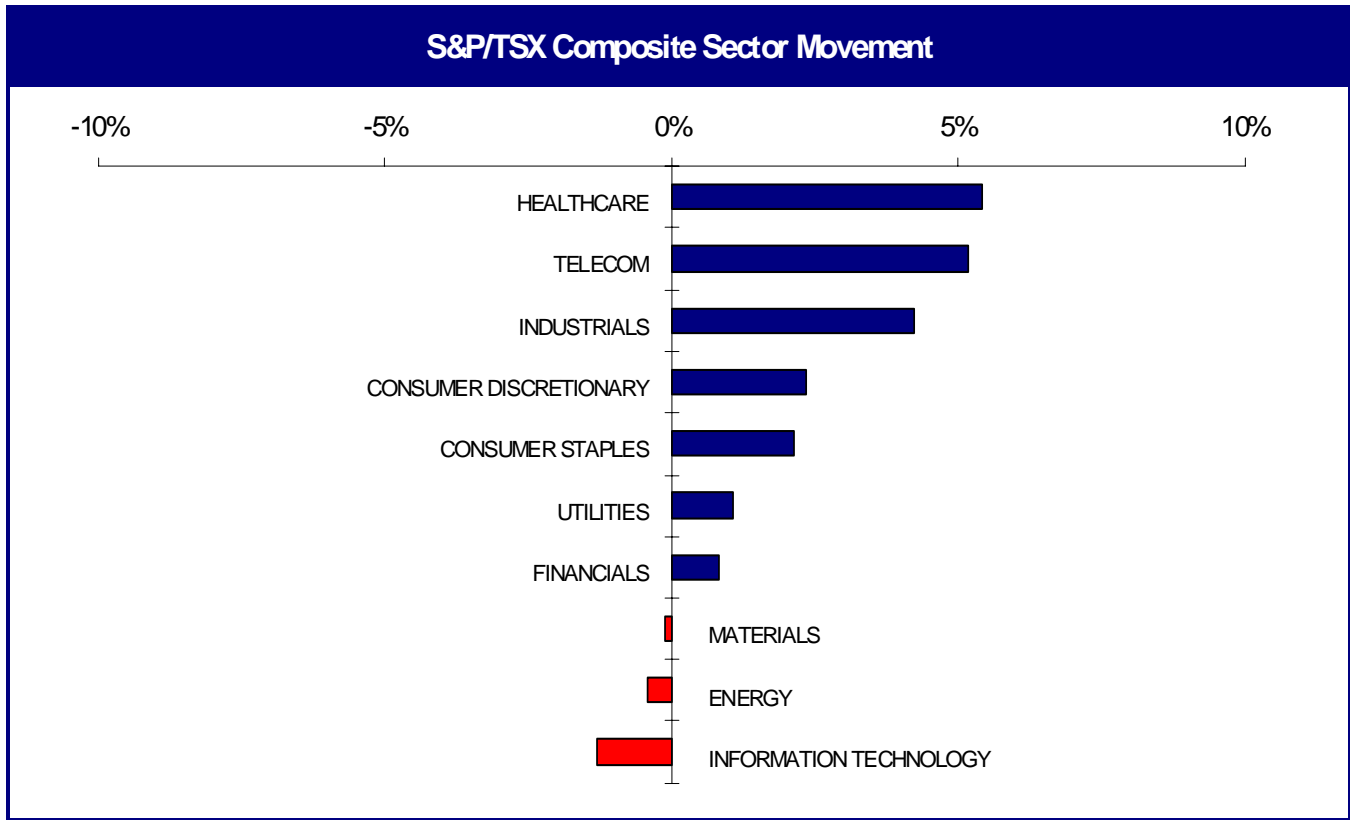
**The Shanghai Index lost 21.8% during the month as investors became concerned about the country's recovery and tightening bank lending policies.**

\*\*\* All returns calculated in local currency.

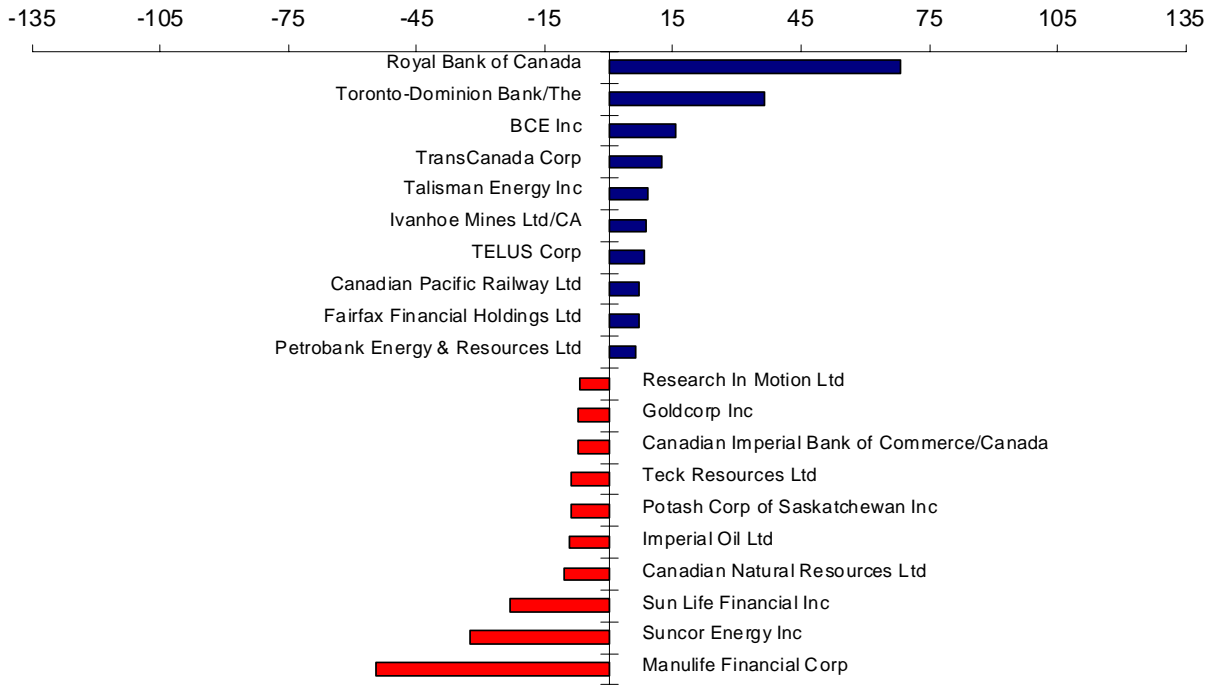
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## Canadian Equities – August 2009

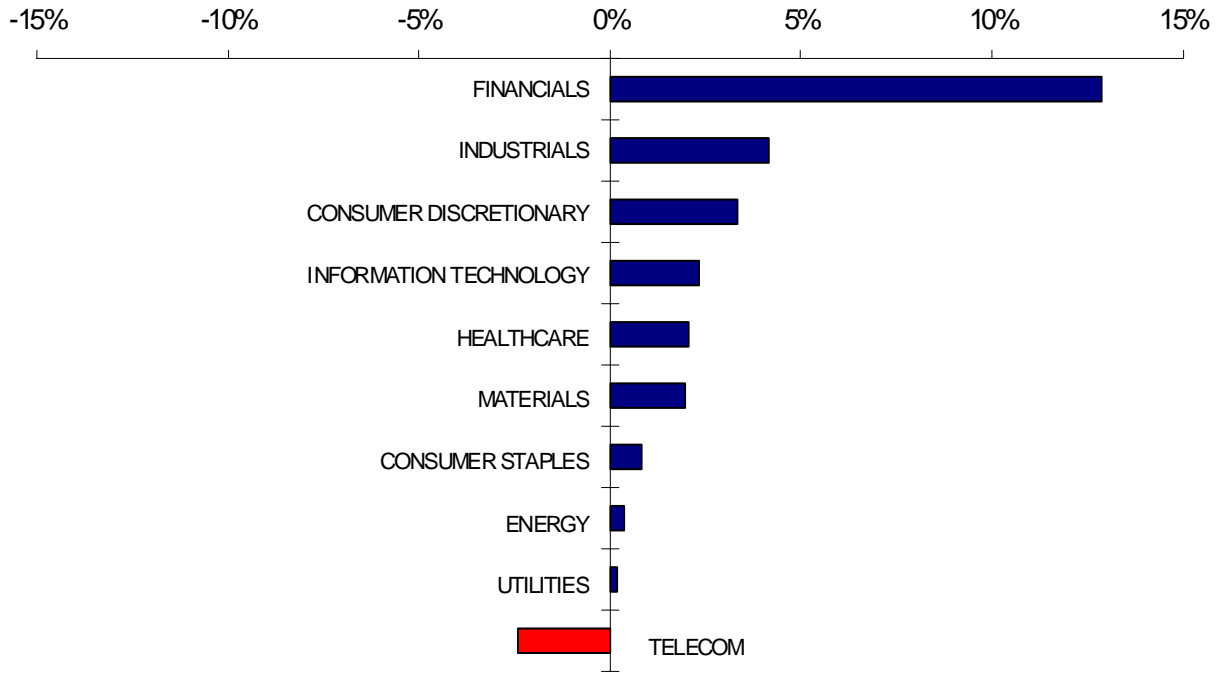


**Top 10 S&P/TSX Contributors / Decliners by Index Points**

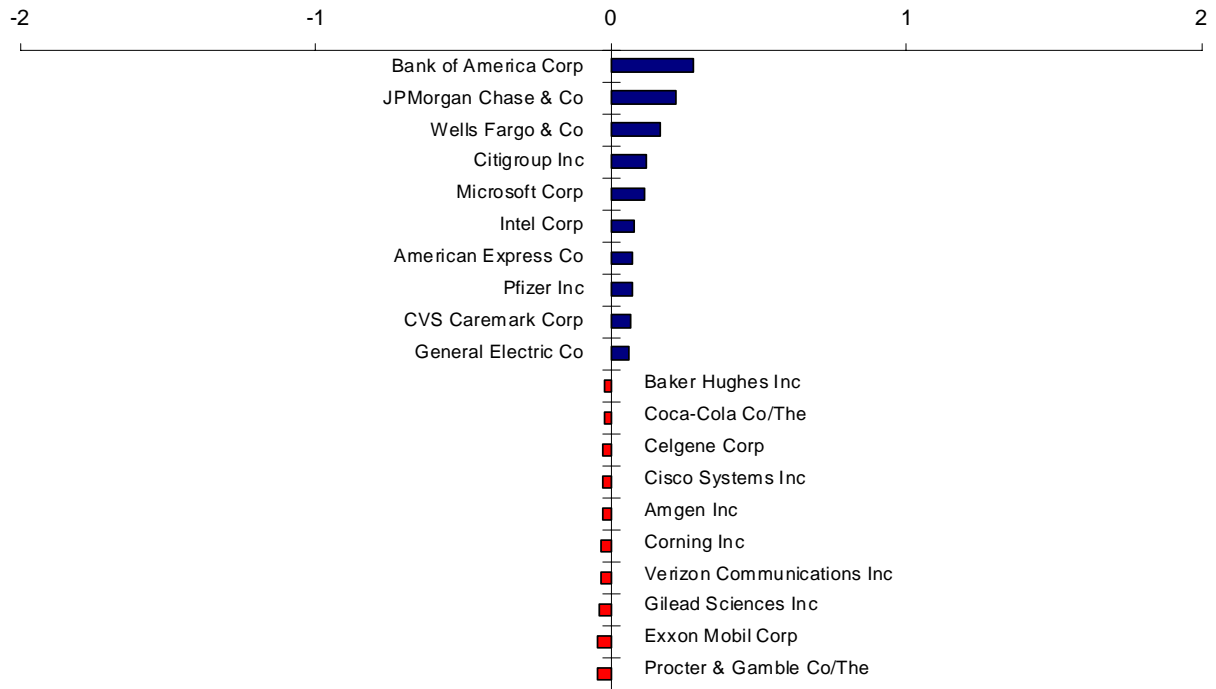


**U.S. Equities – August 2009**

**S&P 500 Sector Movement**



### Top 10 S&P 500 Contributors / Decliners by Index Points



### Canadian and U.S. Economic Data – August 2009

Better Than Expected	Event	Period	Consensus	Actual	Prior
3-Aug	US ISM Manufacturing	JUL	46.5	48.9	44.8
4-Aug	US Personal Spending	JUN	0.30%	0.40%	0.30%
6-Aug	CA Building Permits MoM	JUN	-3.00%	1.00%	14.80%
7-Aug	US Change in Manufact. Payrolls	JUL	-100K	-52K	-136K
7-Aug	CA Unemployment Rate	JUL	8.80%	8.60%	8.60%
7-Aug	US Change in Nonfarm Payrolls	JUL	-325K	-247K	-467K
7-Aug	US Unemployment Rate	JUL	9.60%	9.40%	9.50%
12-Aug	US Trade Balance	JUN	-\$28.7B	-\$27.0B	-\$26.0B
14-Aug	CA Manufacturing Sales MoM	JUN	-0.20%	1.90%	-6.00%
14-Aug	US Capacity Utilization	JUL	68.30%	68.50%	68.00%
21-Aug	US Existing Home Sales	JUL	5.00M	5.24M	4.89M
21-Aug	US Existing Home Sales MoM	JUL	2.10%	7.20%	3.60%
24-Aug	CA Retail Sales MoM	JUN	0.20%	1.00%	1.20%
24-Aug	CA Retail Sales Less Autos MoM	JUN	0.40%	1.00%	0.70%
25-Aug	US Consumer Confidence	AUG	47.9	54.1	46.6
26-Aug	US Durable Goods Orders	JUL	3.00%	4.90%	-2.50%
26-Aug	US New Home Sales	JUL	390K	433K	384K
26-Aug	US New Home Sales MoM	JUL	1.60%	9.60%	11.00%
27-Aug	US GDP QoQ (Annualized)	2Q S	-1.50%	-1.00%	-1.00%
27-Aug	US Personal Consumption	2Q	-1.30%	-1.00%	-1.20%
28-Aug	US U. of Michigan Confidence	AUG F	64.3	65.7	63.2
<b>As Expected</b>					
12-Aug	US FOMC Rate Decision	12-Aug	0.25%	0.25%	0.25%
14-Aug	US CPI Ex Food & Energy (MoM)	JUL	0.10%	0.10%	0.20%
28-Aug	CA Current Account (BOP)	2Q	-\$11.2B	-\$11.2B	-\$9.1B
28-Aug	US Personal Spending	JUL	0.20%	0.20%	0.40%
<b>Weaker Than Expected</b>					
5-Aug	US ADP Employment Change	JUL	-350K	-371K	-473K
5-Aug	US ISM Non-Manf. Composite	JUL	48	46.4	47
7-Aug	CA Net Change in Employment	JUL	-15.0K	-44.5K	-7.4K
7-Aug	US Consumer Credit	JUN	-\$5.0B	-\$10.3B	-\$3.2B
11-Aug	CA Housing Starts	JUL	145.0K	132.1K	140.7K
13-Aug	US Retail Sales Less Autos	JUL	0.10%	-0.60%	0.30%
14-Aug	US Consumer Price Index (YoY)	JUL	-1.90%	-2.10%	-1.40%
14-Aug	US CPI Ex Food & Energy (YoY)	JUL	1.60%	1.50%	1.70%
14-Aug	US U. of Michigan Confidence	AUG P	69	63.2	66
18-Aug	US Housing Starts	JUL	599K	581K	582K
18-Aug	US Building Permits	JUL	577K	560K	563K
19-Aug	CA Consumer Price Index MoM	JUL	-0.20%	-0.30%	0.30%
19-Aug	CA Consumer Price Index YoY	JUL	-0.80%	-0.90%	-0.30%
20-Aug	US Leading Indicators	JUL	0.70%	0.60%	0.70%
25-Aug	US House Price Purchase Index QoQ	2Q	-0.40%	-0.70%	-0.60%
27-Aug	US Initial Jobless Claims	22-Aug	565K	570K	576K
28-Aug	US Personal Income	JUL	0.10%	0.00%	-1.30%
31-Aug	CA Gross Domestic Product MoM	JUN	0.20%	0.10%	-0.50%
31-Aug	CA Quarterly GDP Annualized	2Q	-3.00%	-3.40%	-5.40%

**Key Takeaways:**

For the month of August, economic data was more favorable for the US than it was for Canada. Positive economic data from the US included a drop in the unemployment rate, strong increase in new and existing home sales, and an increase in consumer confidence. Economic data was mixed for Canada as weaker than expected employment figures and housing starts were offset by stronger retail sales and manufacturing data.

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