

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

Portfolio Advisory Group

## What Moved the Markets

Ironically, the start of summer brought cooler weather to global stock markets, as major indices around the world experienced a slowdown in their respective market rallies that have taken place since the March lows. Commodities also encountered headwinds on their road to recovery, losing traction in June from their rapid ascent. On the political front, protests in Iran surrounding the questionable election results which saw Mahmoud Ahmadinejad defeat Mir Hossein Mousavi by a wide margin were prominent in the headlines.

The U.S. received positive economic data early in the month: the May ISM, which measures the economic health of the manufacturing sector, came in at 42.8, ahead of the 42.3 expected and up from April's 40.1 reading. RBC CM found that, following a bottoming in the low 30's, a subsequent rise above 41.0 in the ISM during a recession has led to positive GDP growth within one quarter 89% of the time, and within two quarters 100% of the time. Results of the analysis are attached in the chart on the bottom right. The positive results for May will hopefully lead to positive GDP growth before the end of 2009.

Other U.S economic data that supported the 'less bad' theory were witnessed in light vehicle sales for May (9.9mm units vs. 9.4mm), May employment growth (-345k ahead of -520k expectation) and May housing starts (535k ahead of 485k expectation). On June 24<sup>th</sup>, the FOMC maintained the Fed fund rate at 0 to ¼ percent and expects this to be the case for the foreseeable future. In Canada, positive data points included housing starts for the month of May (128.4K ahead of 126k expected) and new Motor Vehicle Sales (increased 6.3% MoM vs. 6.0% expected).

Fixed income markets continued to see credit spreads tightening in June, however the yield on Treasuries continued to climb higher, with the 10 year flirting with 4.00% (they were yielding close to 2.0% at the start of the year) in mid June. This increase brought into question the effectiveness of the Fed's Quantitative Easing program, but yields did track lower with the 10 year ending June at 3.535%. Globally, Ireland saw its credit rating downgraded to AA from AA+ by S&P and it maintained a negative outlook for the country.

Equity markets lost some steam through June, with most global indices ending the month either in negative territory or slightly positive. In North America, both the S&P 500 and TSX were flat in June, as strength in the Financials sector was offset by weakness in the Materials sector. Markets in Europe ended the month slightly higher, with the FTSE 100 up 3.8% and the DAX Index up 2.7%. Emerging markets saw China continue its robust rally, adding another 12.4% while India saw its market correct 22.0% for June.

Commodities were mixed, with Crude Oil, Nickel and Aluminum posting gains, while Gold and Silver fell 5.4% and 13.6% respectively. Despite the 5.4% move in Crude Oil, the Canadian dollar lost traction against the U.S. dollar, falling close to 5%.

### Number Crunching

Equity Indices	Index Level	Month	YTD*
S&P/TSX Composite Index	10,374.91	0.0%	15.4%
Dow Jones Industrial Average	8,447.00	-0.6%	-3.8%
S&P 500 Index	919.32	0.0%	1.8%
NASDAQ Composite Index	1,835.04	3.4%	16.4%
MSCI World	964.05	-0.6%	4.8%
MSCI EAFE	1,307.16	-0.8%	5.6%
MSCI World TR	3,117.98	-0.4%	6.8%

S&P/TSX Sector Performance	Index Level	Month	YTD*
S&P/TSX Financials	1,389.94	5.5%	22.5%
S&P/TSX Energy	2,522.28	-2.6%	19.3%
S&P/TSX Materials	2,536.95	-6.6%	12.1%
S&P/TSX Industrials	950.49	4.3%	3.6%
S&P/TSX Consumer Discretionary	811.99	5.4%	0.3%
S&P/TSX Telecom Services	641.55	-4.5%	-11.0%
S&P/TSX Information Technology	281.50	-2.1%	55.9%
S&P/TSX Consumer Staples	1,482.81	4.8%	1.8%
S&P/TSX Utilities	1,488.99	8.6%	-1.4%
S&P/TSX Healthcare	275.79	6.4%	9.2%

Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.1623	6.5%	-4.6%
Euro	1.6310	5.7%	-4.3%
British Pound	1.9128	8.4%	7.3%
Japanese Yen (100)	1.2062	5.4%	-10.2%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$69.89	5.4%	56.7%
Natural Gas (per million btu)	\$3.84	0.0%	-31.8%
Gold (per ounce)	\$926.60	-5.4%	5.1%
Silver (per ounce)	\$13.61	-13.6%	19.4%
Copper (per pound)	\$2.24	2.8%	62.7%
Nickel (per pound)	\$6.94	10.3%	31.7%
Aluminum (per pound)	\$0.72	13.5%	5.9%
Zinc (per pound)	\$0.70	-1.1%	28.2%

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

Recession Periods (t = ISM back above 41)	Quarters before and after ISM back above 41: Real GDP qoq% chg, annualized				
	t-2qtr	t-1qtr	t	t+1qtr	t+2qtr
1) 1948 Q4 - 1949 Q4 (Aug 1949)	-5.9	-1.2	4.6	-4.0	17.5
2) 1953 Q3 - 1954 Q2 (Mar 1954)	-2.4	-6.2	-2.0	0.4	4.5
3) 1957 Q3 - 1958 Q2 (May 1958)	-4.2	-10.4	2.4	9.6	9.5
4) 1969 Q4 - 1970 Q4 (Dec 1970)	0.8	3.6	-4.2	11.6	2.3
5) 1973 Q4 - 1975 Q1 (May 1975)	-1.6	-4.7	3.0	6.9	5.3
6) 1980 Q1 - 1980 Q3 (Aug 1980)	1.3	-7.8	-0.7	7.6	8.4
7) 1981 Q3 - 1982 Q4 (Dec 1982)	2.2	-1.5	0.4	5.0	9.3
8) 1990 Q3 - 1991 Q1 (Apr 1991)	-3.0	-2.0	2.6	1.9	1.9
9) 2001 Q1 - 2001 Q4 (Nov 2001)	1.2	-1.4	1.6	2.7	2.2
Average	-1.3	-3.5	0.8	4.6	6.8

Source: RBC Capital Markets, ISM, BEA

## A Closer Look – The Golden Cross as a Technical Indicator

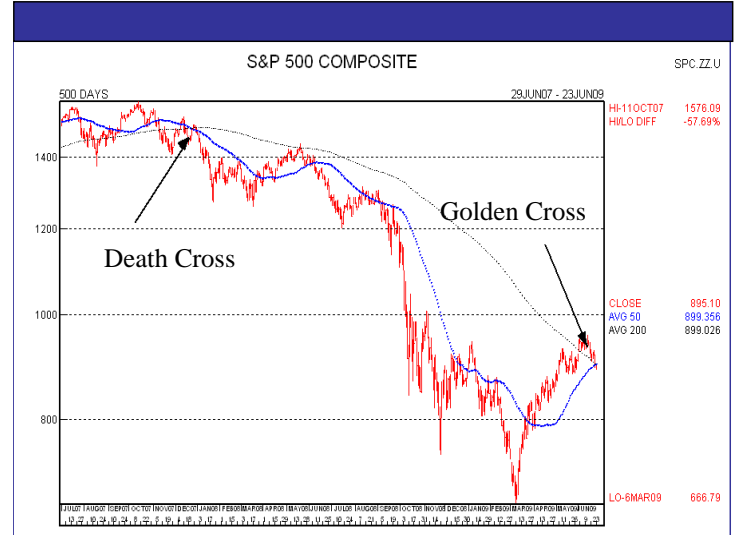
Investors have witnessed some of the most volatile markets in history over the past 18 months, bringing into question the merits of ‘buy and hold’ investing. During a bull market, this strategy has proven to be profitable, but has often lagged other more active strategies in range bound investment environments. Many investors are now looking for additional tools to help with the investment decision making process and are paying a little more attention to technical analysis to help guide them in determining ‘buy’ and ‘sell’ points. One technical indicator, the ‘Golden Cross’, is reviewed below.

### What exactly is a Golden Cross?

A Golden Cross occurs when a security’s (or index’s) short-term moving average (typically the 50-day moving average) crosses over and above its longer-term moving average (typically the 200-day moving average). This has historically been viewed as a bullish signal to investors. The opposite, known as the Death Cross, occurs when the longer-term moving average breaks above its shorter-term moving average and has been viewed as a bearish indicator. This is depicted in the first chart shown on the right, and as you can see, it has been a fairly accurate indicator for the S&P500 over the past market cycle. The Death Cross for the S&P500 occurred on December 21<sup>st</sup>, 2007, when the S&P500 was at 1484.50. The index then proceeded to fall to the recent 666.8 low (total loss of -55.1%) that occurred in March and in hindsight, was a fairly strong indicator that the S&P was about to enter a downward cycle. Interestingly, the S&P500 on June 23<sup>rd</sup> experienced a Golden Cross as the 50-day moving average edged above its 200-day moving average.

### What does History tell us?

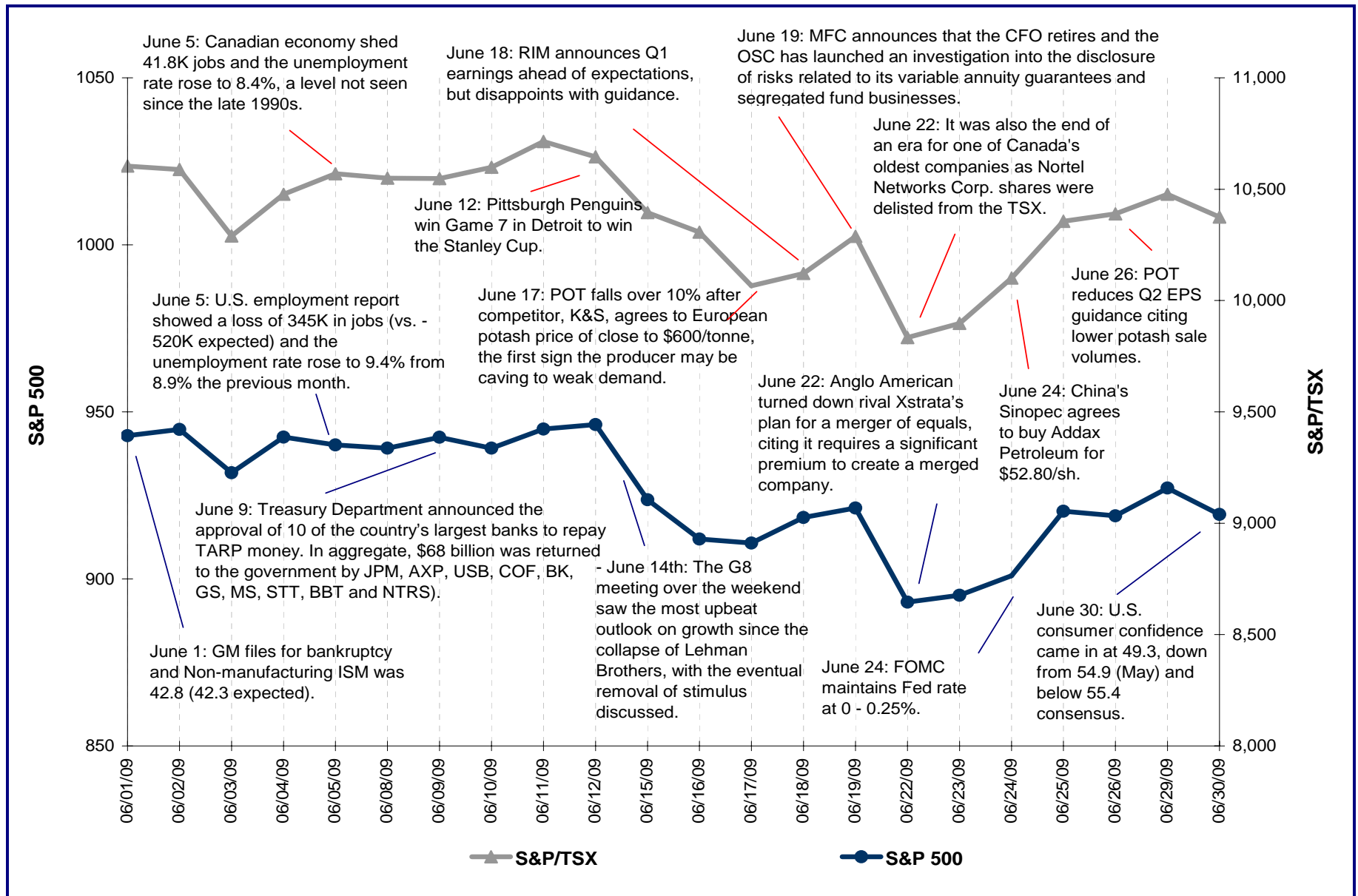
The second chart on the right takes a look at S&P 500 bear markets since 1929 and when their corresponding ‘Golden Cross’ occurred after the market had bottomed. The historical average of the 17 bear markets since 1929 tell us that the Golden Cross typically occurs 3.71 months after the market bottoms, and returns 25.4% in the following 12 months from the Golden Cross. Assuming the current market cycle bottomed in March and given the ‘Golden Cross’ for the S&P500 occurred on June 23<sup>rd</sup>, one might predict that the bullish indicator is signalling that the market rally witnessed since March has the potential to continue for another twelve months. While past performance is not indicative of future returns, the relationship is interesting to note at the very least. Of the 17 golden crosses analyzed, only 1 (March ’37 – March ’38) saw a negative return of -0.57% over the following 12 months, with the second lowest return of 1.43% occurring following the September 1976 to March 1978 bear market.



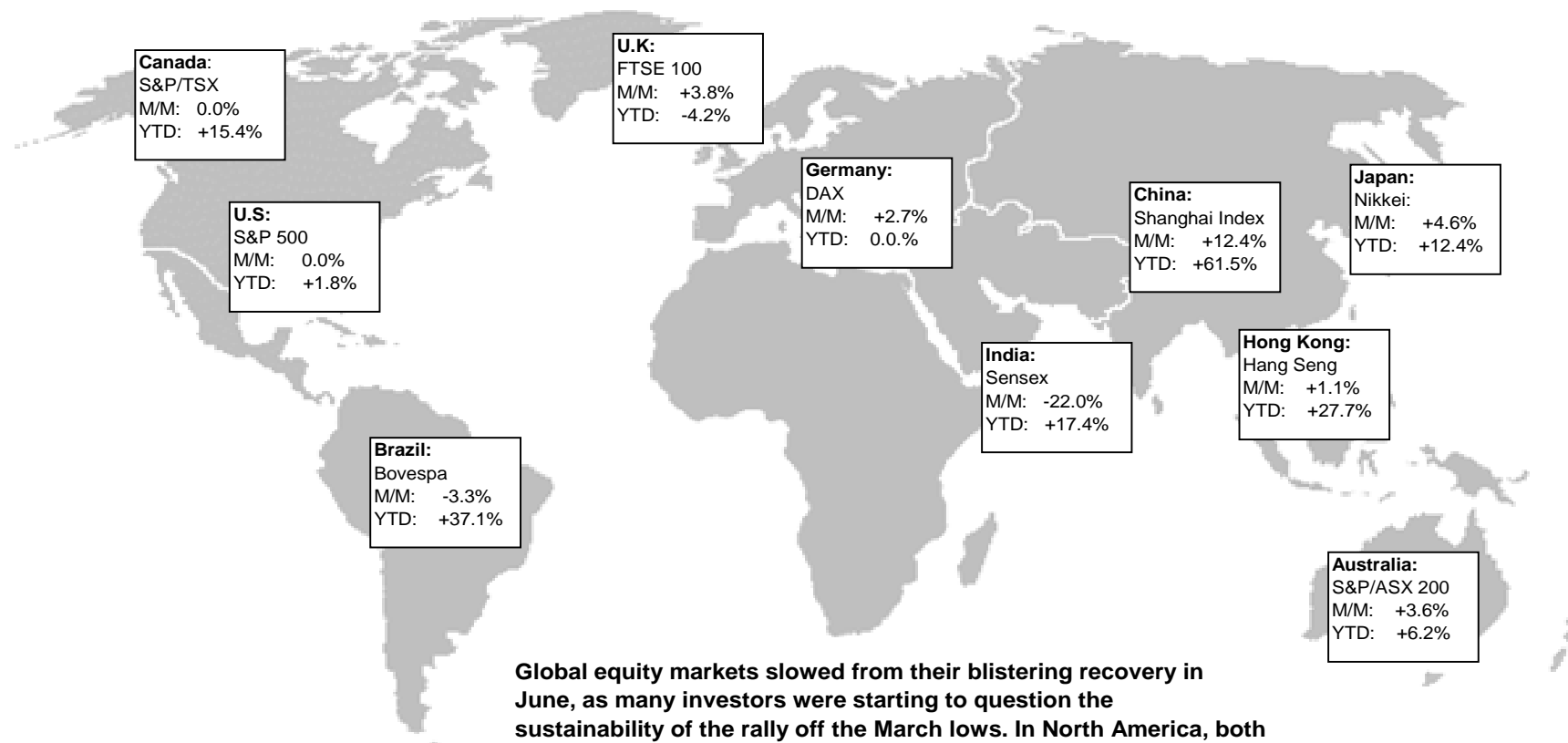
Mkt Top	Mkt Bottom	Peak to Trough Decline	Golden Cross Following Bear Mkt	12 Month Return From Golden Cross	# of Months Golden Cross Trailed Bottom
Mar-00	Oct-02	-49.1%	5/14/2003	16.73%	7
Jul-98	Oct-98	-19.2%	12/8/1998	18.83%	2
Jul-90	Oct-90	-19.9%	2/15/1991	11.77%	4
Aug-87	Dec-87	-33.5%	6/28/1988	19.65%	6
Nov-80	Aug-82	-27.1%	9/28/1982	36.33%	1
Sep-76	Mar-78	-19.4%	5/22/1978	1.43%	2
Jan-73	Oct-74	-48.2%	3/7/1975	17.57%	5
Nov-68	May-70	-36.1%	10/21/1970	14.27%	5
Feb-66	Oct-66	-22.2%	2/3/1967	5.62%	4
Dec-61	Jun-62	-28.0%	1/3/1963	18.49%	6
Aug-56	Oct-57	-21.6%	5/8/1958	30.30%	7
May-46	Jun-49	-29.6%	8/30/1949	21.17%	2
Nov-38	Apr-42	-45.8%	8/14/1942	38.00%	4
Mar-37	Mar-38	-54.5%	7/27/1938	-0.57%	4
Jul-33	Mar-35	-33.9%	5/23/1935	39.92%	2
Sep-32	Feb-33	-40.6%	2/28/1933	95.05%	0
29-Sep	Jul-32	-86.2%	9/19/1932	46.59%	2
<b>Average</b>		<b>-36.2%</b>		<b>25.4%</b>	<b>3.71</b>

Source: Bloomberg

## North American Equity Performance – June 2009



## World Markets – June 2009



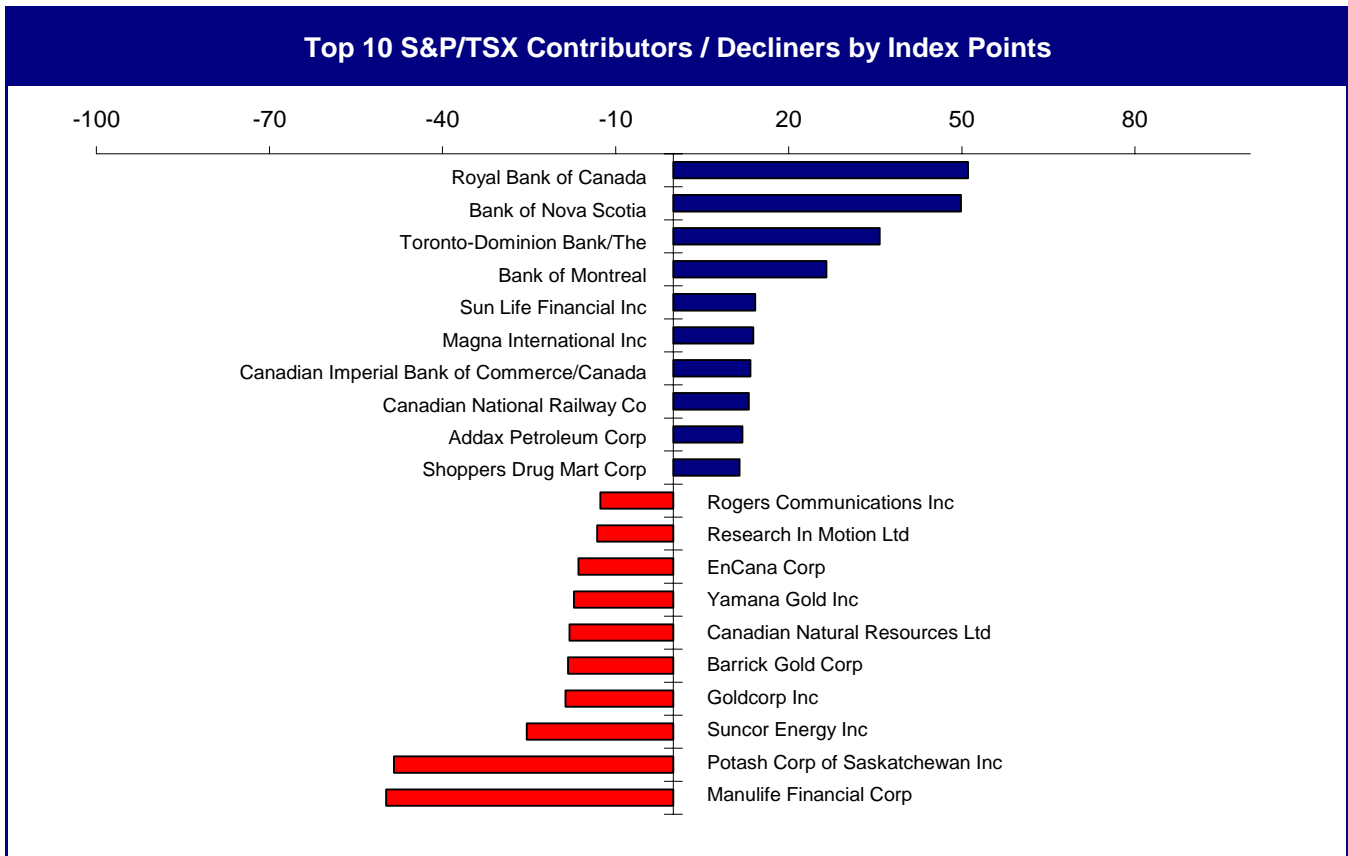
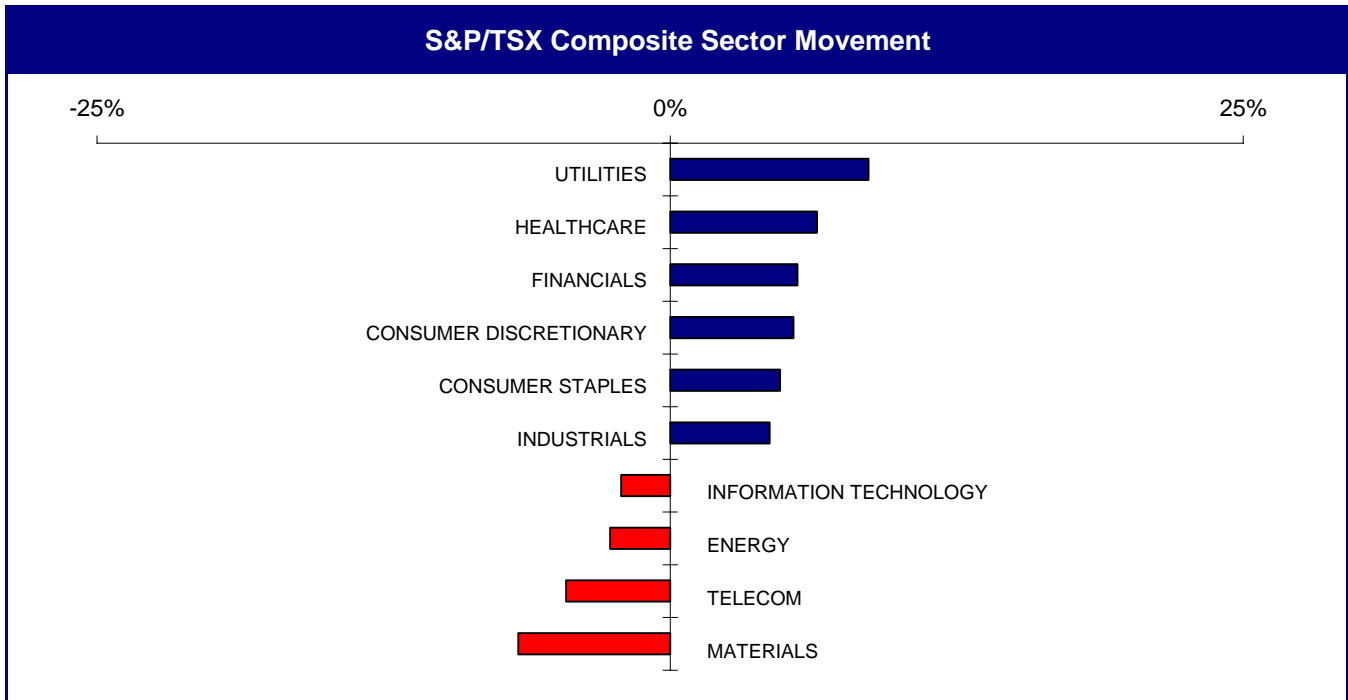
Global equity markets slowed from their blistering recovery in June, as many investors were starting to question the sustainability of the rally off the March lows. In North America, both the TSX and S&P 500 were flat, while markets in Europe fared a little better with low single digit returns.

One exception was in China, where the Shanghai Index added another 12.4% in June, bringing the YTD return to 61.5% on continued belief a recovery in China is underway.

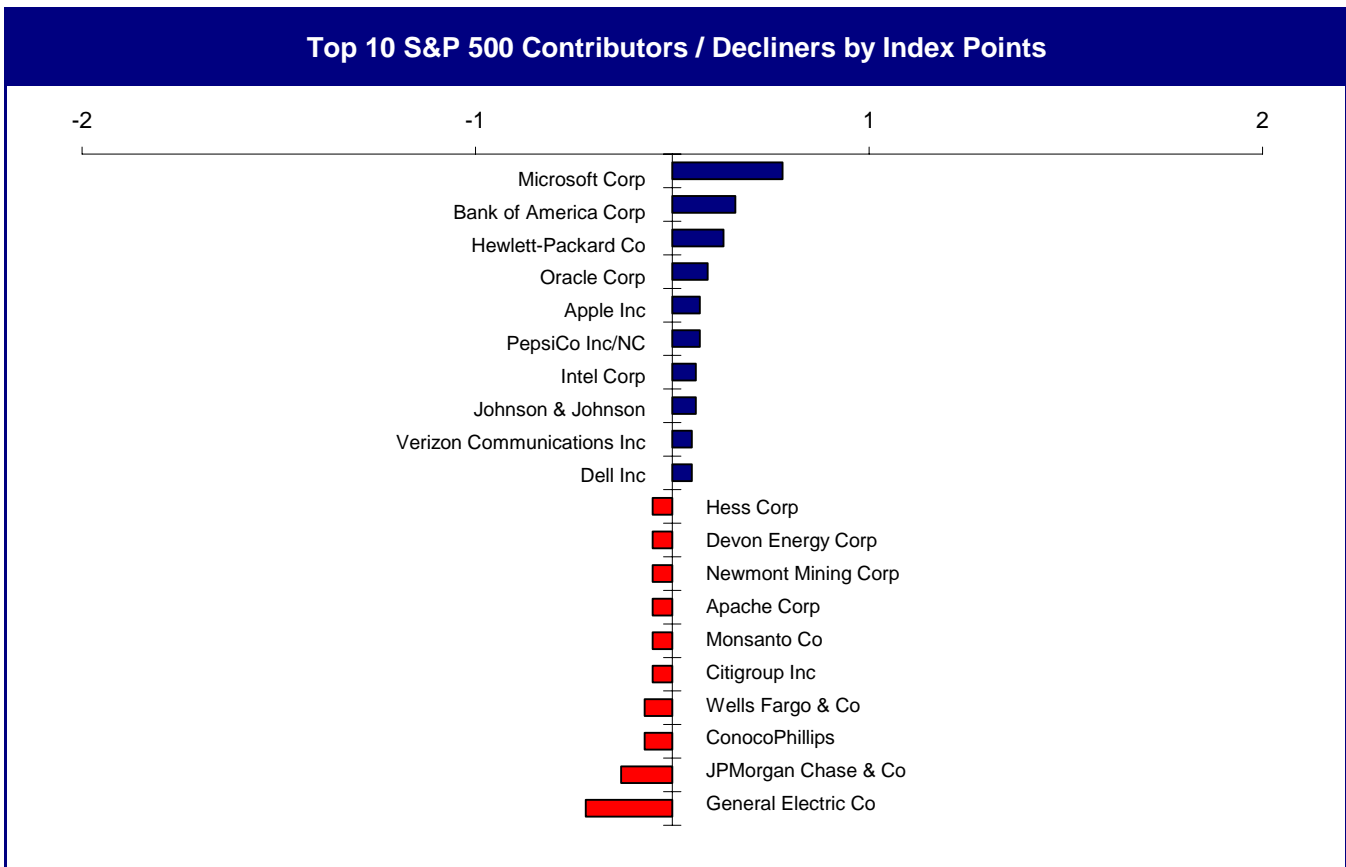
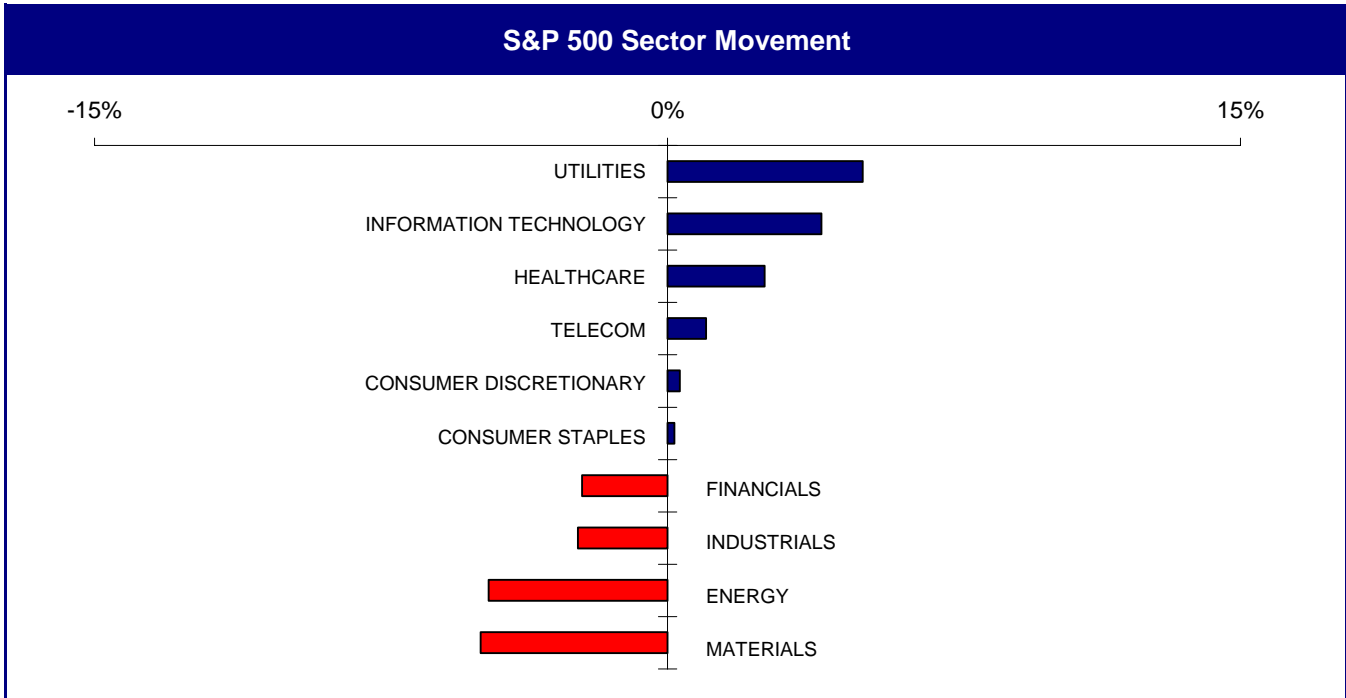
\*\*\* All returns calculated in local currency.

Source: Bloomberg

# Canadian Equities - June 2009



U.S. Equities – June 2009



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

Better Than Expected	Event	Period	Consensus	Actual	Prior
1-Jun US	ISM Manufacturing	MAY	42.3	42.8	40.1
1-Jun CA	Quarterly GDP Annualized	1Q	-6.60%	-5.40%	-3.70%
2-Jun US	Domestic Vehicle Sales	MAY	7.0M	7.4M	7.0M
2-Jun US	Pending Home Sales MoM	APR	0.50%	6.70%	3.20%
2-Jun US	Total Vehicle Sales	MAY	9.4M	9.9M	9.3M
4-Jun CA	Building Permits MoM	APR	-8.10%	-5.40%	24.40%
5-Jun US	Change in Nonfarm Payrolls	MAY	-520K	-345K	-504K
8-Jun CA	Housing Starts	MAY	126.0K	128.4K	117.6K
11-Jun US	Retail Sales Less Autos	MAY	0.20%	0.50%	-0.20%
15-Jun CA	Manufacturing Shipments MoM	APR	-1.70%	-0.10%	-3.10%
16-Jun US	Building Permits	MAY	508K	518K	498K
16-Jun US	Housing Starts	MAY	485K	532K	454K
17-Jun CA	Leading Indicators MoM	MAY	-0.60%	-0.10%	-0.90%
18-Jun CA	Bank Canada CPI Core MoM	MAY	0.10%	0.40%	0.10%
18-Jun CA	Consumer Price Index MoM	MAY	0.40%	0.70%	-0.10%
18-Jun US	Leading Indicators	MAY	1.00%	1.20%	1.10%
18-Jun US	Philadelphia Fed.	JUN	-17.00	-2.20	-22.60
18-Jun US	Continuing Claims	6-Jun	6840K	6687K	6835K
23-Jun US	House Price Index MoM	APR	-0.40%	-0.10%	-1.40%
24-Jun US	Durable Goods Orders	MAY	-0.90%	1.80%	1.80%
As Expected	Event	Period	Consensus	Actual	Prior
4-Jun CA	Bank of Canada Rate	4-Jun	0.25%	0.25%	0.25%
5-Jun US	Average Hourly Earnings MoM	MAY	0.10%	0.10%	0.10%
11-Jun US	Advance Retail Sales	MAY	0.50%	0.50%	-0.20%
15-Jun CA	New Motor Vehicle Sales MoM	APR	0.00%	0.00%	5.50%
17-Jun US	CPI Ex Food & Energy (MoM)	MAY	0.10%	0.10%	0.30%
24-Jun US	FOMC Rate Decision	24-Jun	0.25%	0.025	0.25%
24-Jun US	MBA Mortgage Applications	39983	--	6.60%	-15.80%
25-Jun US	GDP Price Index	1Q	2.80%	2.80%	2.80%
30-Jun CA	Gross Domestic Product MoM	APR	-0.10%	-0.10%	-0.30%
30-Jun US	S&P/CaseShiller Home Price Ind	APR	--	139.18	139.99
Waker Than Expected	Event	Period	Consensus	Actual	Prior
3-Jun US	Factory Orders	APR	0.90%	0.70%	-1.90%
3-Jun US	ADP Employment Change	MAY	-525K	-532K	-545K
5-Jun US	Average Weekly Hours	MAY	33.20	33.10	33.20
5-Jun CA	Net Change in Employment	MAY	-36.5K	-41.8K	35.9K
5-Jun US	Consumer Credit	APR	-\$6.0B	-\$15.7B	-\$16.6B
5-Jun CA	Unemployment Rate	MAY	8.20%	8.40%	8.00%
5-Jun US	Unemployment Rate	MAY	9.20%	9.40%	8.90%
9-Jun US	Wholesale Inventories	APR	-1.20%	-1.40%	-1.80%
10-Jun CA	New Housing Price Index MoM	APR	-0.30%	-0.60%	-0.50%
10-Jun US	Trade Balance	APR	-\$29.0B	-\$29.2B	-\$28.5B
11-Jun US	Business Inventories	APR	-1.00%	-1.10%	-1.30%
12-Jun US	U. of Michigan Confidence	JUN P	69.50	69.00	68.70
16-Jun US	Capacity Utilization	MAY	68.40%	68.30%	69.00%
16-Jun US	Industrial Production	MAY	-1.00%	-1.10%	-0.70%
16-Jun US	PPI Ex Food & Energy (MoM)	MAY	0.10%	-0.10%	0.10%
17-Jun US	Consumer Price Index (MoM)	MAY	0.30%	0.10%	0.00%
17-Jun US	Current Account Balance	1Q	-\$85.0B	-\$101.5B	-\$154.9B
17-Jun CA	Wholesale Sales MoM	APR	-0.50%	-0.60%	-0.40%
18-Jun US	Initial Jobless Claims	13-Jun	604K	608K	605K
19-Jun CA	Retail Sales MoM	APR	0.10%	-0.80%	0.30%
23-Jun US	Existing Home Sales	MAY	4.82M	4.77M	4.66M
23-Jun US	Existing Home Sales MoM	MAY	3.00%	2.40%	2.40%
30-Jun US	Consumer Confidence	JUN	55.4	49.3	54.9

**Key Takeaways:**

Economic data started the month out with a strong read from the ISM Manufacturing Index on June 1<sup>st</sup>, with the reported number of 42.8 coming in ahead of consensus at 42.3. Domestic Vehicle Sales, Building Permits and Housing Starts were other indicators that came in ahead of expectations and shed some positive light on the housing market. However, Consumer Confidence and Initial Jobless Claims were weaker than expected, serving as a reminder that the consumer has yet to show signs of recovering from this recession.

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