



RBC Dominion Securities Month-In-Review: October 2009

Portfolio Advisory Group

What Moved the Markets

Equity markets climbed higher during the beginning of the month as strong corporate earnings, positive economic data and an improved outlook on the global economy boosted the risk appetite of investors. The S&P 500 Index and Nasdaq Composite reached highs last seen in the fall of 2008 while the Dow Jones Industrial Average closed above the 10,000 mark for the first time in a year. The Dollar Index, which measures the value of the USD against six major currencies, fell to the lowest in 14-months. The weak USD pushed spot gold to a record high of \$1,064/ounce and oil to over \$80/barrel, the highest since October 2008. Equity markets plunged towards the end of the month and the USD appreciated as investor sentiment reversed and sectors that initially led the rally pulled back.

The US recession is considered to be officially over as the US economy expanded 3.5% in the third quarter driven largely by government incentive induced consumer spending on homes and automobiles. The economy grew for the first time since the spring of 2008 and ended the streak of 4-straight quarters of contracting economic activity. Negative economic news during the month included a dip in the ISM Manufacturing Index in September, the unemployment rate rising to 9.8% and consumer confidence declining in October. **Alcoa (AA)** started the third quarter earnings season with financial results exceeding analyst expectations. Other companies that reported better than expected results include **Intel (INTC)**, **Goldman Sachs (GS)** and **Procter & Gamble (PG)**.

In Canada, the appreciation of the Canadian dollar was once again the major issue in the country with some analysts predicting parity with the greenback by the year end. The loonie finally lost some ground after Governor Mark Carney and his advisors cut their forecast for Canada's economic growth over the next 2 years. The Bank of Canada left unchanged both the current overnight rate at 0.25% and its conditional commitment to maintain it through the second quarter of 2010. Corporate earnings reported thus far have generally fallen in-line with expectations. Companies including **Rogers Communications (RCI.B)**, **CP Rail (CP)** and **Barrick Gold (ABX)** posted quarterly results that exceeded analyst expectations.

During the month, the MSCI All-Country World Index reached the highest level since late September 2008 and emerging market shares hit a new 14-month high. The Australian dollar hit a 14-month high after Australia's central bank became the first Group of 20 nation to raise its benchmark interest rate, citing strong economic growth in Asia. China's economy posted an 8.9% growth rate in the third quarter, the best quarterly performance this year, and trade data for September came in better than expected. On the flip side, Britain's economy unexpectedly contracted in the third quarter, making the current recession the longest on record for the country.

Number Crunching

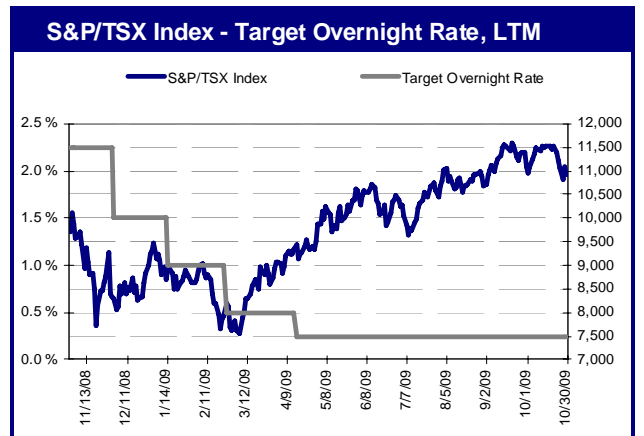
Equity Indices	Index Level	Month	YTD*
S&P/TSX Composite Index	10,910.75	-4.2%	21.4%
Dow Jones Industrial Average	9,712.73	0.0%	10.7%
S&P 500 Index	1,036.19	-2.0%	14.7%
NASDAQ Composite Index	2,045.11	-3.6%	29.7%
MSCI World	1,106.17	-1.8%	20.2%
MSCI EAFE	1,532.74	-1.3%	23.9%
MSCI World TR	3,601.32	-1.8%	23.3%

S&P/TSX Sector Performance	Index Level	Month	YTD*
S&P/TSX Financials	1,477.38	-7.5%	30.3%
S&P/TSX Energy	2,688.52	-1.5%	27.1%
S&P/TSX Materials	2,747.69	-3.6%	21.4%
S&P/TSX Industrials	1,006.06	-4.1%	9.7%
S&P/TSX Consumer Discretionary	829.44	-3.0%	2.5%
S&P/TSX Telecom Services	684.29	-0.1%	-5.1%
S&P/TSX Information Technology	235.03	-9.1%	30.2%
S&P/TSX Consumer Staples	1,409.00	-1.8%	-3.3%
S&P/TSX Utilities	1,503.36	-1.3%	-0.4%
S&P/TSX Healthcare	312.33	-6.7%	23.7%

Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.0848	1.4%	-11.0%
Euro	1.5967	2.0%	-6.3%
British Pound	1.7849	4.4%	0.2%
Japanese Yen (100)	1.2040	1.0%	-10.4%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$77.00	9.0%	72.6%
Natural Gas (per million btu)	\$5.05	4.2%	-10.3%
Gold (per ounce)	\$1,045.40	3.7%	18.5%
Silver (per ounce)	\$16.31	-2.0%	43.2%
Copper (per pound)	\$2.93	5.0%	112.2%
Nickel (per pound)	\$8.26	2.2%	56.8%
Aluminum (per pound)	\$0.85	1.0%	24.4%
Zinc (per pound)	\$0.98	9.7%	78.8%

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



* Source: Bloomberg



A Closer Look – Implications of a Weak USD

On October 21st, the Dollar Index fell to the lowest in 14 months as upbeat earnings reports and rising confidence in a global recovery increased the risk appetite of investors and led them to abandon the safety of the USD in favour of higher yielding currencies. Other reasons for the weak USD include central banks selling US treasuries to reduce their exposure, concerns about the increasing US budget deficit and massive stimulus spending, future inflation and interest rate expectations and questions about the US dollar's status as the world's reserve currency. The Dollar Index gained strength towards the end of the month as investor sentiment reversed and equity markets plunged. Below we will discuss the positive and negative implications of a weak USD.

Positive Implications

Global rebalancing refers to an economy that has shifted itself away from US-led consumption towards global demand growth. Before the crisis, countries grew overly reliant on US consumers. The reversal in the US current account deficit highlights that the US can no longer carry the burden of growth. A weak USD strengthens the purchasing power of the domestic market worldwide and makes it cheaper to import goods and services from the US. In order for rebalancing to occur, a weak USD is seen as a step in the right direction.

A weak USD helps the US manufacturing industry as it lowers the price of US exports relative to foreign goods thereby making its products more competitive. A cheapened USD also fosters an earnings rebound for US corporations as it boosts profits made in foreign currencies. Ultimately, a strong US economy creates jobs and increases consumer spending and confidence. A weaker dollar also tends to correlate with a stronger stock market.

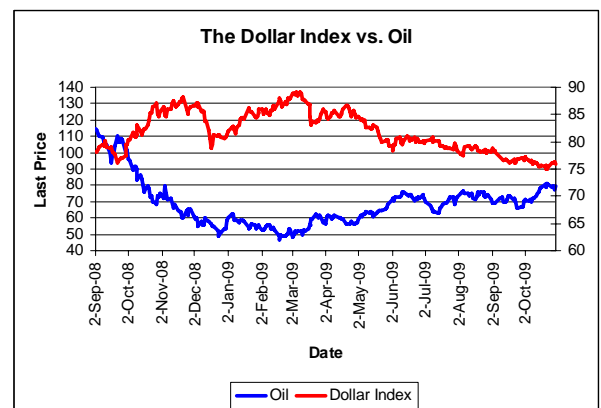
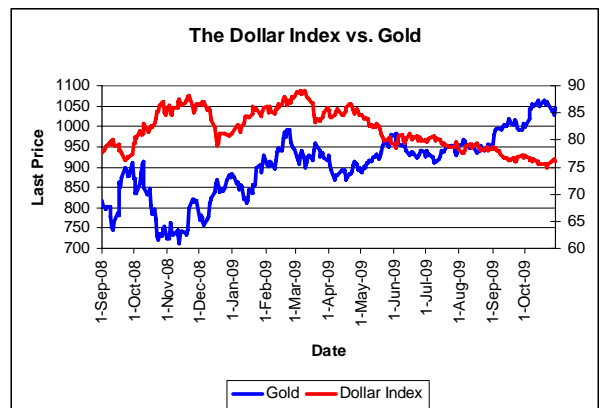
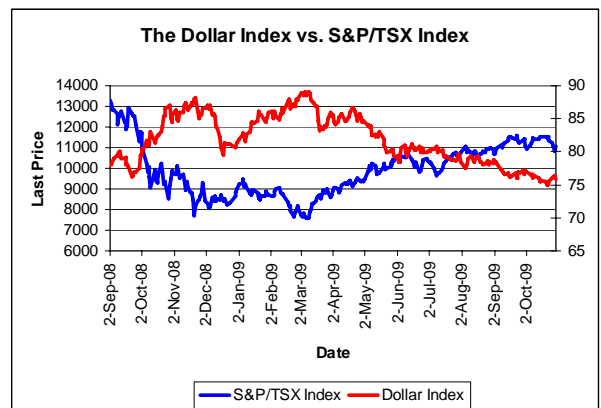
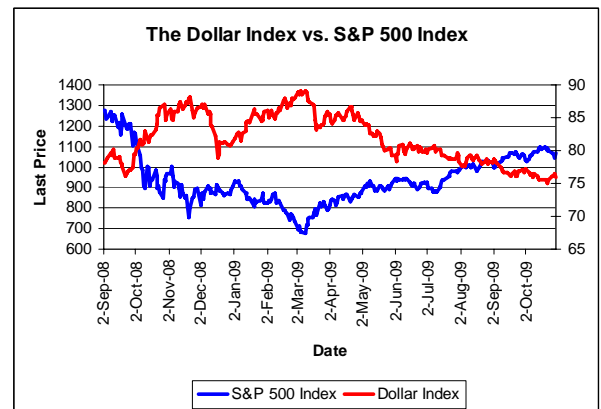
Commodities such as gold and oil, which are priced in USD, were also pushed higher this month due to the declining performance of the USD against the major global currencies. When the USD weakens, foreign investors have a purchasing power advantage since foreign currencies can now purchase more commodities than the comparable USD can buy. The rising oil and gold prices gave a lift to the resource-heavy Canadian stock market.

Negative Implications

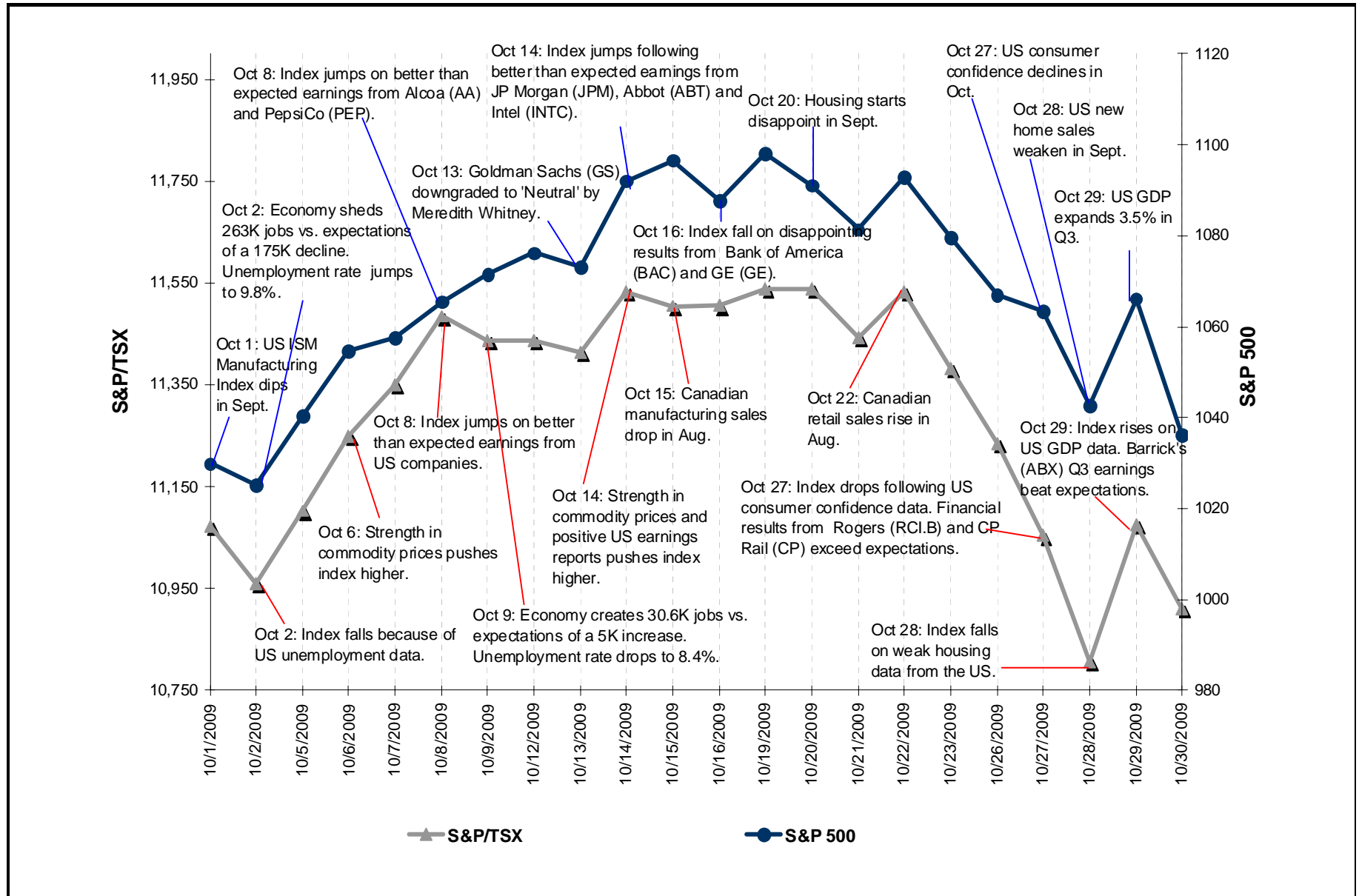
The acceleration of the USD's decline creates anxiety for exporters such as Canada, Europe and Japan. As the local currency appreciates relative to the USD, it creates a challenging environment for exporters whose goods become more expensive when sold in the US.

Outlook

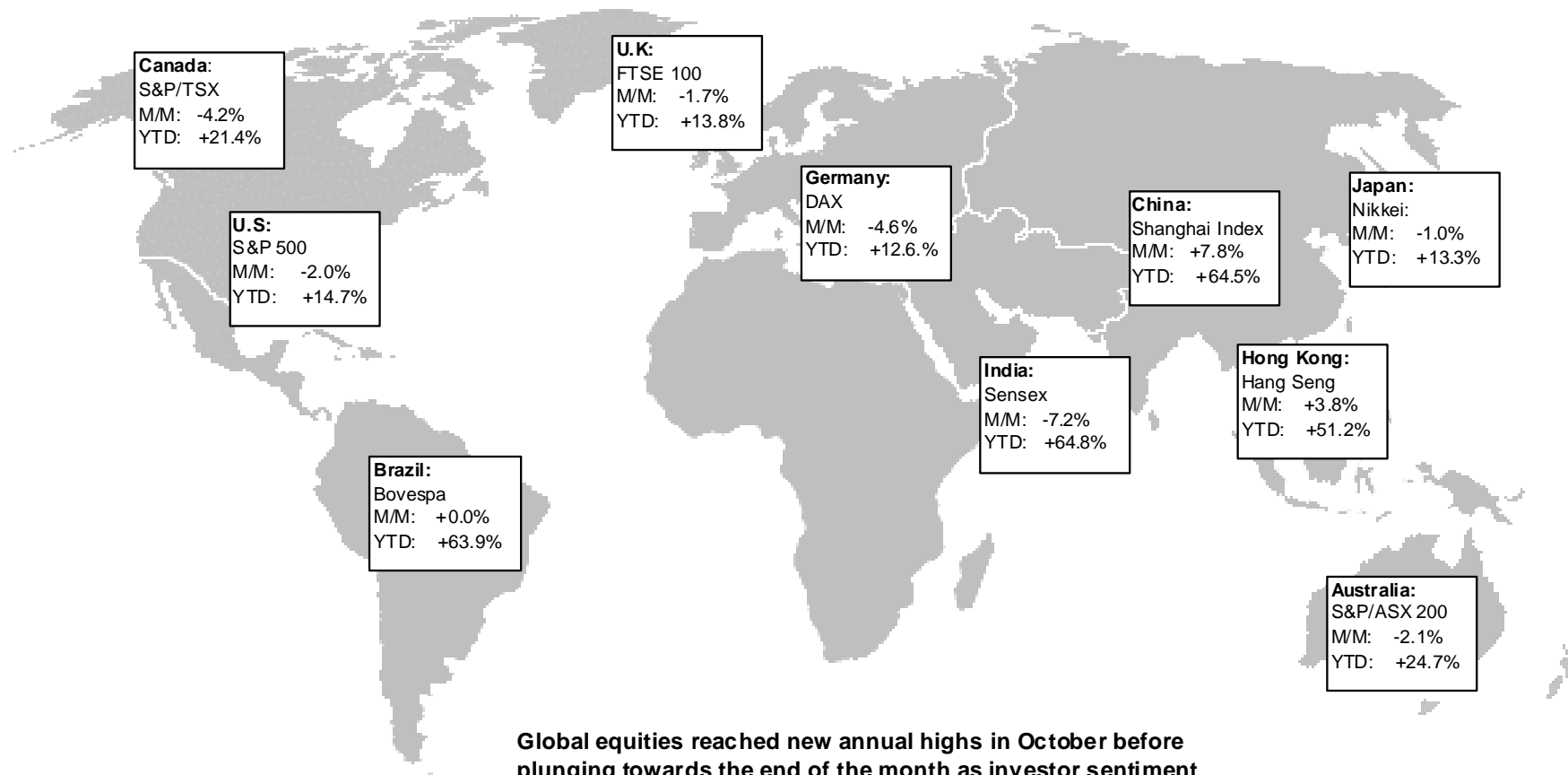
Since the USD has historically been negatively correlated with stock market performance, in the short-term, the length and breadth of the USD's appreciation will depend on investors' risk appetite and its impact on equity markets. In the long-term, RBC CM highlights four factors that will affect the USD's underlying tone: 1) The stance of US monetary policy 2) Global imbalances, and the health of the global recovery as stimulus fades, 3) The short and long-term US fiscal situation, and 4) The potential for a significant equity market correction and/or another bout of global financial stress.



North American Equity Performance – October 2009



World Markets – October 2009



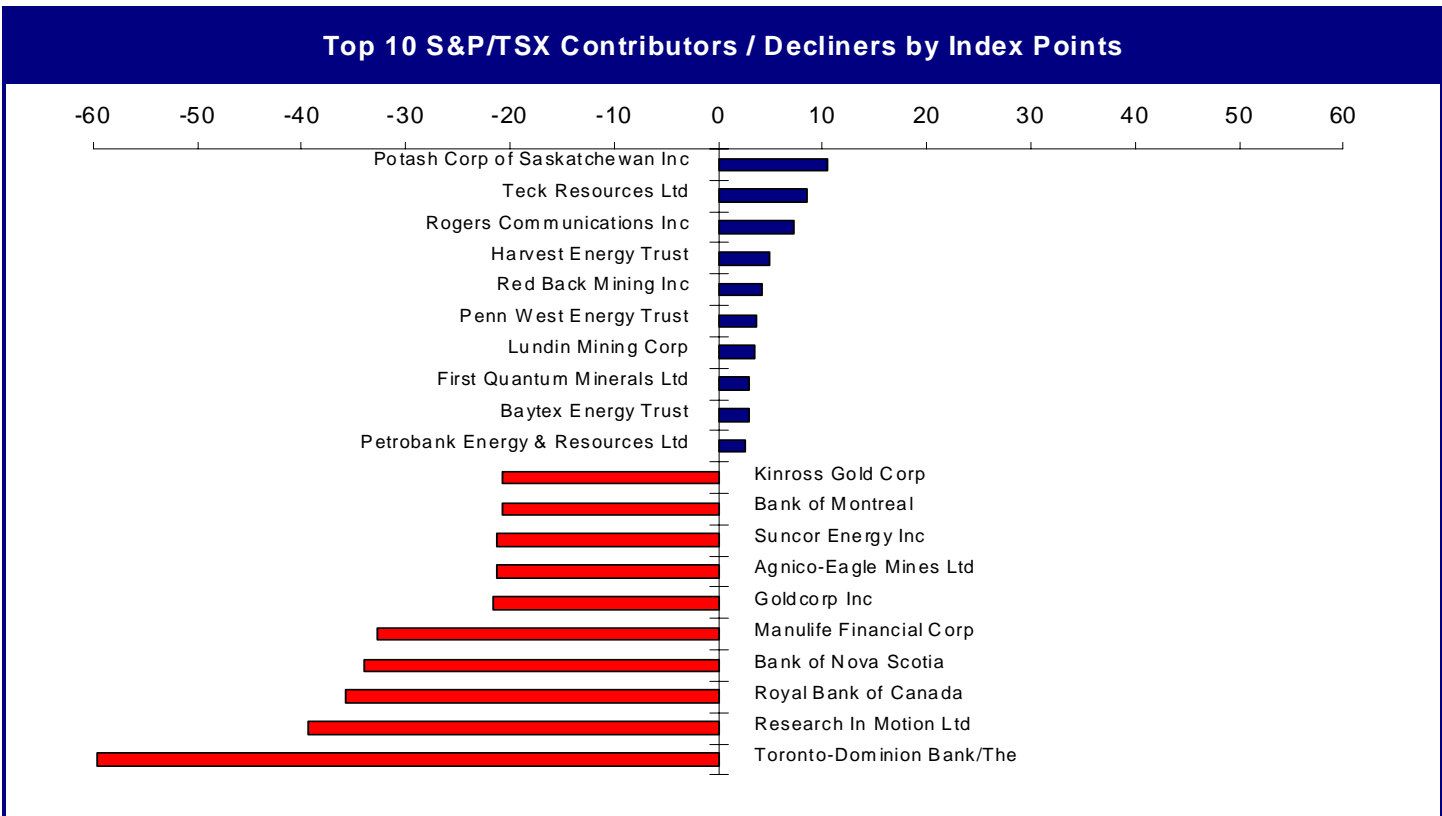
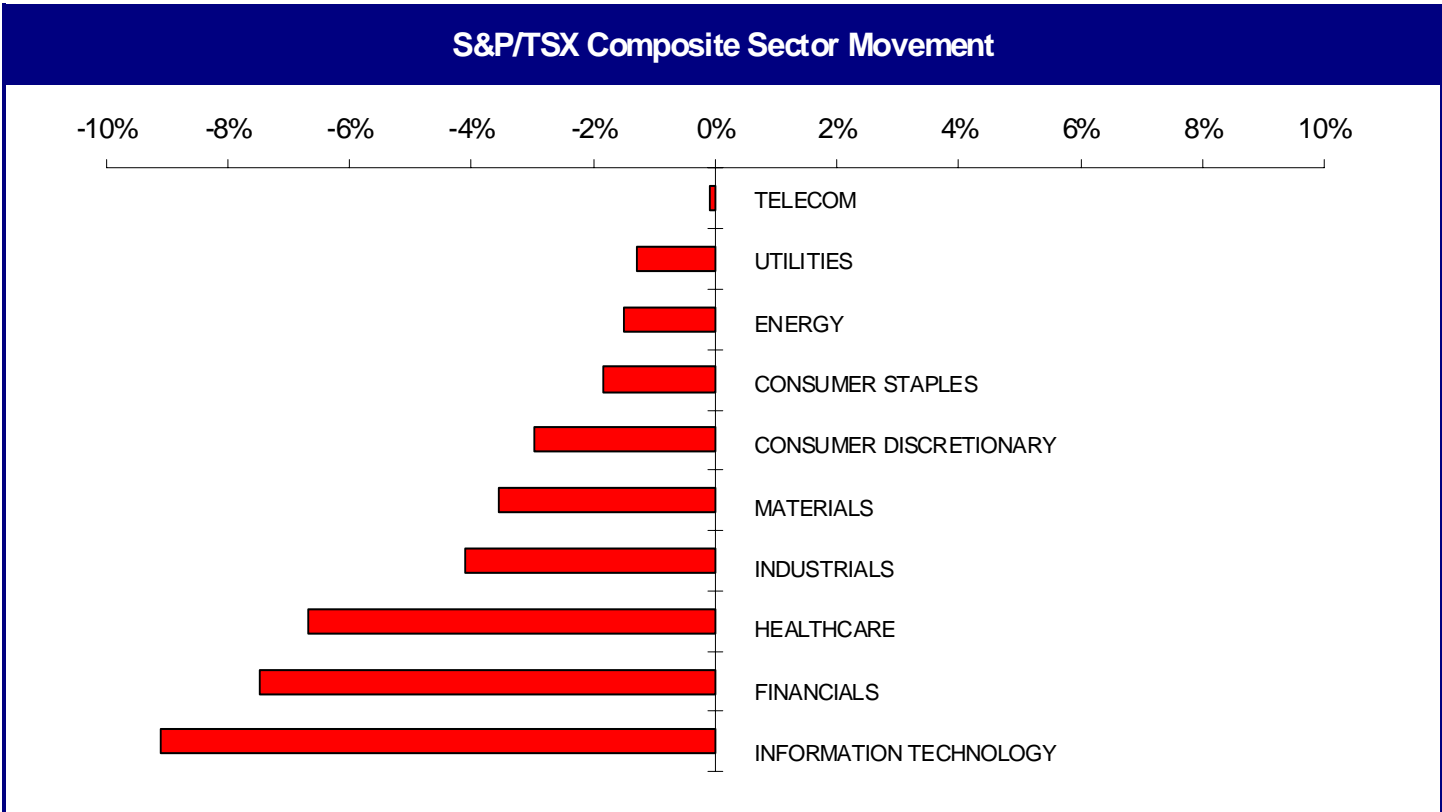
Global equities reached new annual highs in October before plunging towards the end of the month as investor sentiment reversed and sectors that initially led the rally pulled back.

*** All returns calculated in local currency.

Source: Bloomberg

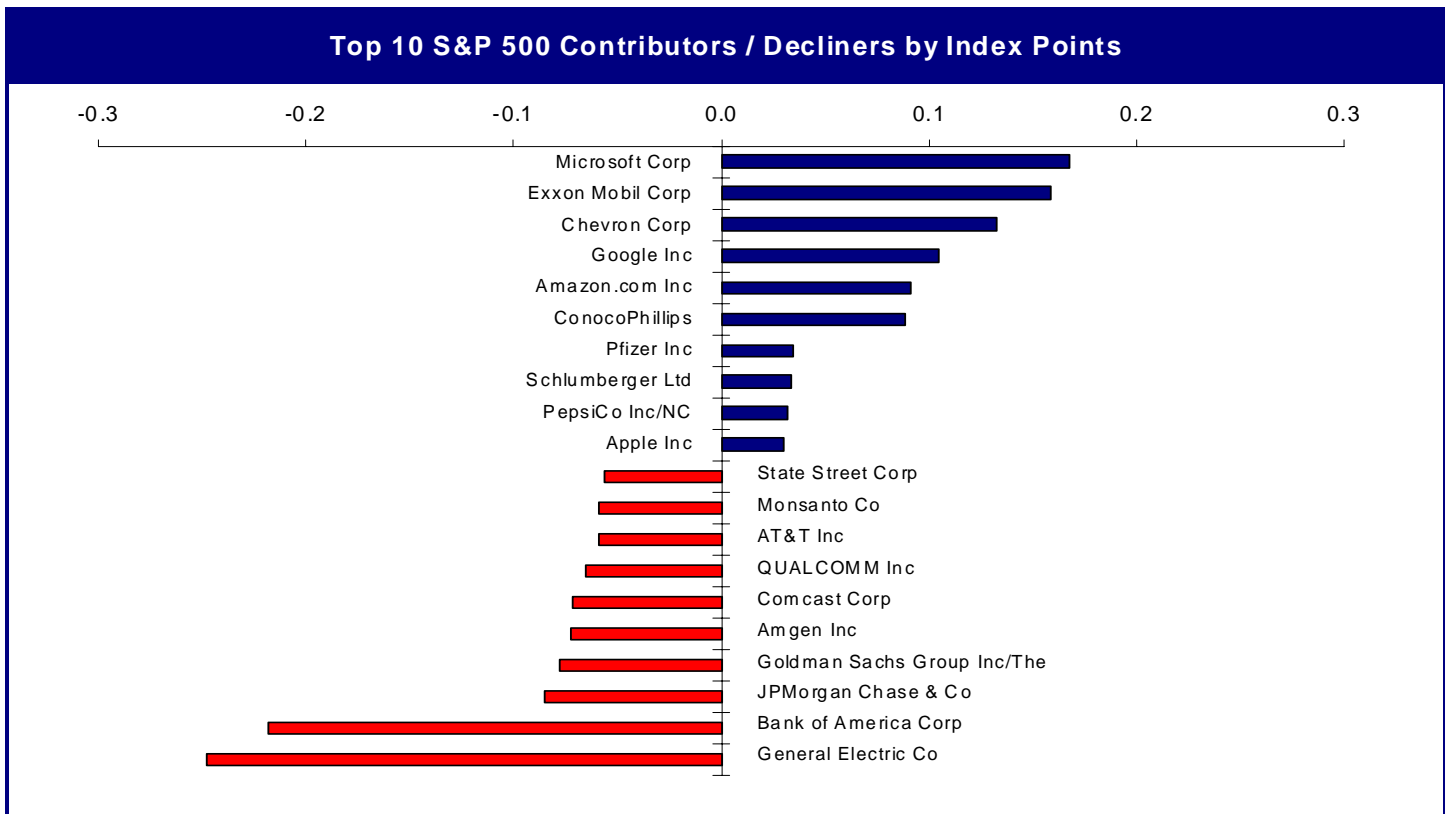
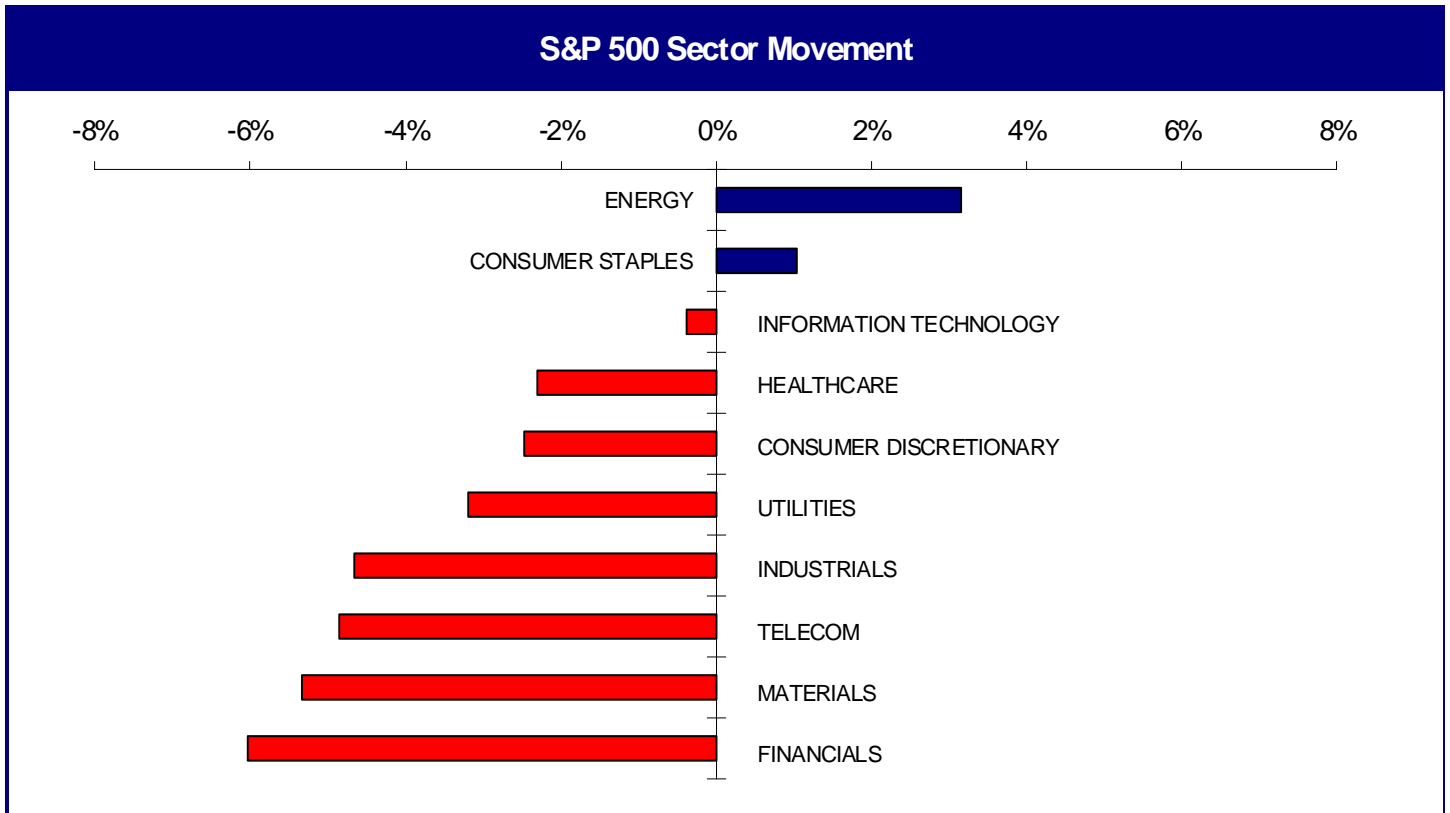


Canadian Equities – October 2009





U.S. Equities – October 2009



Canadian and U.S. Economic Data – October 2009

Better Than Expected		Event	Period	Consensus	Actual	Prior
1-Oct	US	Pending Home Sales MoM	AUG	1.00%	6.40%	3.20%
2-Oct	US	Change in Manufact. Payrolls	SEP	-52K	-51K	-63K
5-Oct	US	ISM Non-Manf. Composite	SEP	50	50.9	48.4
6-Oct	CA	Building Permits MoM	AUG	5.00%	7.20%	-11.40%
6-Oct	CA	Ivey Purchasing Managers Index	SEP	56.2	61.7	55.7
8-Oct	CA	Housing Starts	SEP	148.0K	150.1K	150.4K
9-Oct	CA	Unemployment Rate	SEP	8.80%	8.40%	8.70%
9-Oct	CA	Net Change in Employment	SEP	5.0K	30.6K	27.1K
14-Oct	US	Retail Sales Less Autos	SEP	0.20%	0.50%	1.10%
16-Oct	CA	Bank Canada CPI Core MoM	SEP	0.20%	0.30%	0.10%
16-Oct	US	Industrial Production	SEP	0.20%	0.70%	0.80%
16-Oct	US	Capacity Utilization	SEP	69.80%	70.50%	69.60%
20-Oct	CA	Leading Indicators MoM	SEP	0.80%	1.10%	1.10%
22-Oct	CA	Retail Sales MoM	AUG	0.40%	0.80%	-0.60%
22-Oct	US	Leading Indicators	SEP	0.80%	1.00%	0.60%
23-Oct	US	Existing Home Sales	SEP	5.35M	5.57M	5.10M
23-Oct	US	Existing Home Sales MoM	SEP	4.90%	9.40%	-2.70%
29-Oct	US	GDP QoQ (Annualized)	3Q A	3.20%	3.50%	-0.70%
29-Oct	US	Personal Consumption	3Q A	3.10%	3.40%	-0.90%
30-Oct	US	Chicago Purchasing Manager	OCT	49	54.2	46.1
30-Oct	US	U. of Michigan Confidence	OCT F	70	70.6	69.4
As Expected						
2-Oct	US	Unemployment Rate	SEP	9.80%	9.80%	9.70%
15-Oct	US	Consumer Price Index (MoM)	SEP	0.20%	0.20%	0.40%
20-Oct	CA	Bank of Canada Rate	20-Oct	0.25%	0.25%	0.25%
30-Oct	US	Personal Spending	SEP	-0.50%	-0.50%	1.30%
Weaker Than Expected						
1-Oct	US	ISM Manufacturing	SEP	54	52.6	52.9
2-Oct	US	Change in Nonfarm Payrolls	SEP	-175K	-263K	-216K
7-Oct	US	Consumer Credit	AUG	-\$10.0B	-\$12.0B	-\$21.6B
13-Oct	CA	New Housing Price Index MoM	AUG	0.20%	0.10%	0.30%
15-Oct	CA	Manufacturing Sales MoM	AUG	-1.60%	-2.10%	5.50%
16-Oct	CA	Consumer Price Index MoM	SEP	0.10%	0.00%	0.00%
16-Oct	US	U. of Michigan Confidence	OCT P	73.1	69.4	73.5
19-Oct	US	NAHB Housing Market Index	OCT	20	18	19
20-Oct	CA	Wholesale Sales MoM	AUG	-0.40%	-1.40%	2.80%
20-Oct	US	Producer Price Index (MoM)	SEP	0.00%	-0.60%	1.70%
20-Oct	US	PPI Ex Food & Energy (MoM)	SEP	0.10%	-0.10%	0.20%
20-Oct	US	Housing Starts	SEP	610K	590K	598K
20-Oct	US	Building Permits	SEP	595K	573K	579K
22-Oct	CA	Retail Sales Less Autos MoM	AUG	0.60%	0.50%	-0.80%
22-Oct	US	House Price Index MoM	AUG	0.30%	-0.30%	0.30%
27-Oct	US	Consumer Confidence	OCT	53.5	47.7	53.1
28-Oct	US	New Home Sales	SEP	440K	402K	429K
28-Oct	US	New Home Sales MoM	SEP	2.60%	-3.60%	0.70%
29-Oct	CA	Industrial Product Price MoM	SEP	-0.20%	-0.50%	0.50%
29-Oct	CA	Raw Materials Price Index MoM	SEP	-0.50%	-1.10%	3.70%
30-Oct	CA	Gross Domestic Product MoM	AUG	0.10%	-0.10%	0.00%

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