

# Month in Review: FEBRUARY 2013



## WHAT MOVED THE MARKETS

Economic data released during the month suggested that a U.S. recovery continues to gain traction, while growth in Canada appears to be headed in the opposite direction. In Asia, developments in Japan have garnered the attention of investors as the yen's decline against the dollar and the euro resulted in accusations of currency manipulation and speculation of a possible 'currency war'. Elsewhere, Italy's inconclusive election reignited concerns regarding the future of Europe's debt crisis in the face of prolonged political instability.

The S&P 500 continued to demonstrate strong positive momentum in 2013, returning 1.4% for the month. The index hit its highest level since October 2007 on February 19th and is now up 6.6% year-to-date. In Canada, the TSX returned 1.3% for the month and is now up 3.5% year-to-date. Industrials (6.4%), Healthcare (5.8%), Consumer Staples (5.1%) and Telecom (4.8%) all had strong showings, while Materials (-5.4%) continued to be a drag on the index. Asian indices (ex. Japan) experienced a slight pullback for the month, while Japanese and Australian indices continued to show strong returns.

## EQUITY-SPECIFIC DEVELOPMENTS

**Shares of Suncor (SU)** fell 5.4% following the release of the company's Q4 results earlier in the month. The sell-off was largely attributed to the company's announcement that it would be taking a \$1.5-billion write-down on its Voyageur oil sands upgrader; the

magnitude of which served as an indication that the project could be deferred for a substantial period of time, if not cancelled outright. Management told investors to expect a decision on whether or not the company will proceed with Voyageur, part of a joint-venture with French oil major **Total SA (TOT)**, by the end of March. SU finished the month down 8.8%.

On February 14th, a consortium of investors led by **Berkshire Hathaway (BRK.B)** teamed up to purchase ketchup maker **H.J. Heinz (HNZ)** for ~\$23 billion. The \$72.50/share all-cash deal represented a 19% premium to the stock's previous all-time high and was indicative of the recent pick-up in M&A activity.

## FIXED INCOME-SPECIFIC DEVELOPMENTS

Canadian government bond yields moved lower in February after weaker than expected economic data was reported. The most pronounced declines were experienced in short and intermediate-term maturities. Reported figures for retail sales, CPI, housing and employment all missed expectations and came in below prior month levels. Of note, employment declined by 21,900 versus a forecasted increase of 5,000. This marks the first decline in Canadian employment in the past six months.

In contrast to Canada's reported economic indicators, better than expected economic data out of the U.S. fueled optimism surrounding the pace of growth. Both existing and pending home sales recorded steady improvements from the prior month; a signal to investors that a housing market recovery

Priced as of February 28, 2013 (unless otherwise stated).



**RBC Wealth Management**  
Dominion Securities

## WHAT MOVED THE MARKETS

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continues to gain traction. Furthermore, the fastest rise in planned business spending in over a year suggested that businesses are becoming increasingly confident in the durability of the economic recovery.

In his testimony to the Senate Banking Committee, Federal Reserve Chairman Ben Bernanke signaled that the Fed is prepared to keep buying bonds at its present pace. This helped ease concerns stemming from the release of the FOMC minutes which suggested that a divide exists amongst FOMC members over the risks of quantitative easing and the timing of stimulus withdrawal.

U.S. treasury yields in the long end of the curve climbed higher over the course of February, while short end yields remained largely unchanged. Additionally, after ending January near their narrowest levels since the financial crisis, corporate credit spreads (the extra yield that investors demand to own corporate bonds rather than government debt) tightened even further as stronger-than-expected economic data from the U.S. added to investors' risk appetite.

### GLOBAL DEVELOPMENTS

The markets closely monitored developments out of Japan as Prime Minister Shinzo Abe, in an effort to revive the stagnant Japanese economy, continued to openly advocate for an inflation target of 2% through open-ended asset purchases. Furthermore, Prime Minister Abe's stance on weakening the Japanese yen drew criticism from neighbouring countries on the grounds that such a policy would reduce the competitiveness of their own export goods and serve as a catalyst for a possible 'currency war'. Nevertheless, the value of the yen is expected to face continued downward pressure resulting from Mr. Abe's recent nomination of Haruhiko Kuroda, a committed monetary dove, for the governorship of the Bank of Japan (BoJ).

The European Central Bank (ECB) held its key interest rates steady at 0.75% as the Euro area continued to show

## NUMBER CRUNCHING

| Equity Indices*                 | Month | YTD* |
|---------------------------------|-------|------|
| S&P/TSX Composite Index TR      | 1.3%  | 3.5% |
| Dow Jones Industrial Average TR | 1.8%  | 7.8% |
| S&P 500 Index TR                | 1.4%  | 6.6% |
| NASDAQ Composite Index TR       | 0.8%  | 4.9% |
| MSCI EAFE TR (USD)              | -0.9% | 4.3% |
| MSCI World TR (USD)             | 0.2%  | 5.4% |

| S&P/TSX Sector Performance*       | Month | YTD*  |
|-----------------------------------|-------|-------|
| S&P/TSX Financials TR             | 2.9%  | 6.3%  |
| S&P/TSX Energy TR                 | 0.8%  | 3.3%  |
| S&P/TSX Materials TR              | -5.4% | -8.8% |
| S&P/TSX Industrials TR            | 6.4%  | 14.2% |
| S&P/TSX Consumer Discretionary TR | 2.5%  | 6.9%  |
| S&P/TSX Telecom Services TR       | 4.8%  | 8.3%  |
| S&P/TSX Information Technology TR | 3.8%  | 13.8% |
| S&P/TSX Consumer Staples TR       | 5.1%  | 4.1%  |
| S&P/TSX Utilities TR              | -1.5% | 2.6%  |
| S&P/TSX Healthcare TR             | 5.8%  | 17.3% |

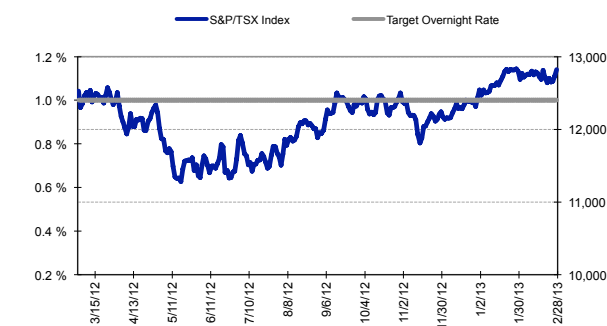
\* All returns are on a Total Return basis All indices are in local currency unless otherwise noted. Source: Bloomberg

signs of economic weakness. The region's three largest economies: Germany, France and Italy, all contracted in Q4/12, largely resulting from a lack of bank lending and record unemployment. Furthermore, the European Commission (EC) expressed concerns over the delayed economic recovery, and amended its economic forecast for the year. The EC now expects the euro-zone economy to shrink by 0.3% in 2013 before returning to growth of 1.4% in 2014.

| Currencies (in Canadian Dollars) | Exchange | Month | YTD*  |
|----------------------------------|----------|-------|-------|
| US Dollar                        | 1.0306   | 3.3%  | 3.9%  |
| Euro                             | 1.3457   | -0.6% | 2.8%  |
| British Pound                    | 1.5629   | -1.2% | -3.1% |
| Japanese Yen (100)               | 0.0111   | 2.5%  | -2.6% |

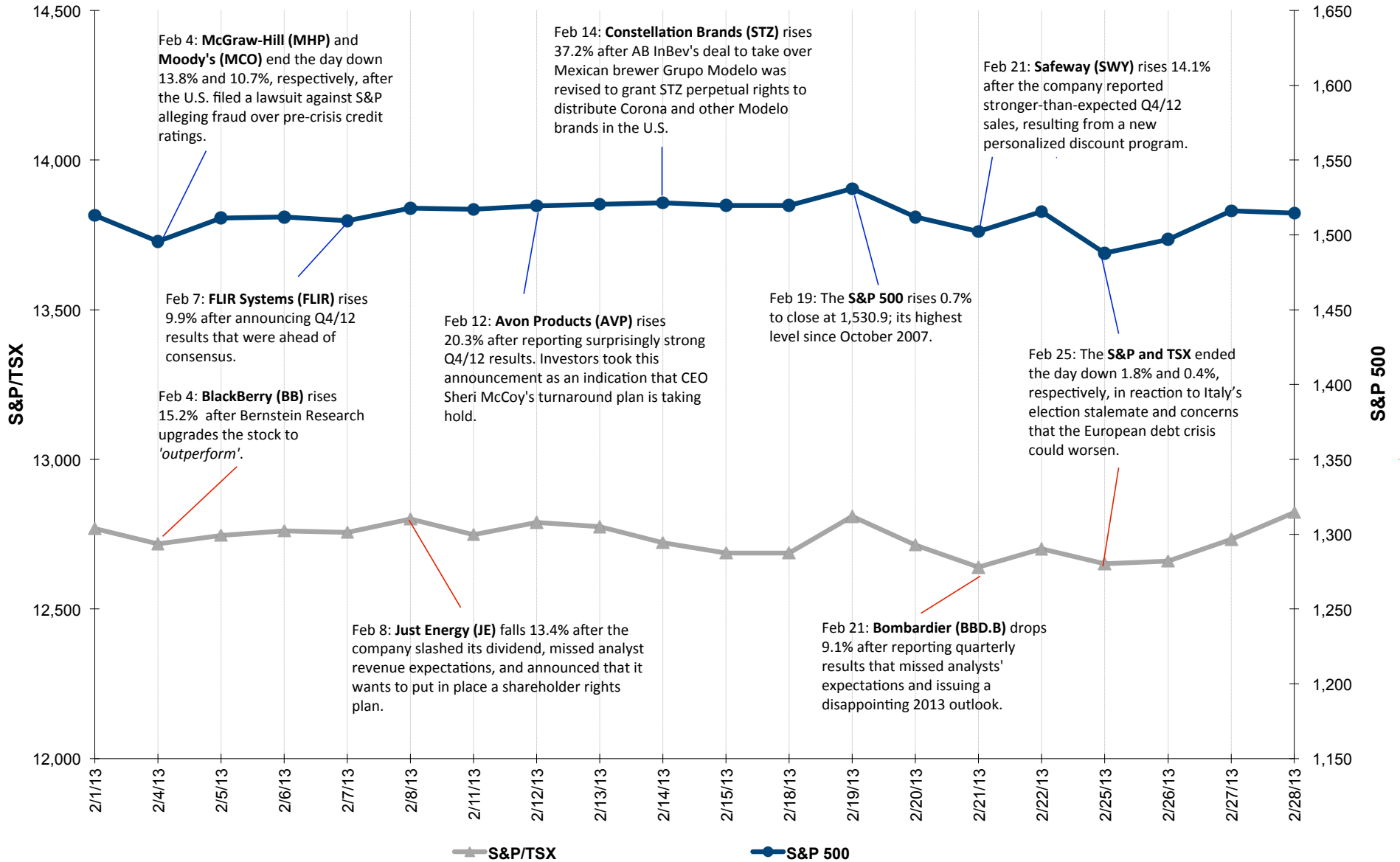
| Commodities (US\$)            | Spot Price | Month | YTD*  |
|-------------------------------|------------|-------|-------|
| Crude Oil (WTI per barrel)    | \$92.05    | -5.6% | 0.3%  |
| Natural Gas (per million btu) | \$3.49     | 4.4%  | 4.0%  |
| Gold (per ounce)              | \$1,579.58 | -5.1% | -5.7% |
| Silver (per ounce)            | \$28.54    | -9.3% | -6.0% |
| Copper (per pound)            | \$3.53     | -4.2% | -1.6% |
| Nickel (per pound)            | \$7.50     | -9.5% | -2.7% |
| Aluminum (per pound)          | \$0.89     | -4.5% | -3.9% |
| Zinc (per pound)              | \$0.94     | -3.7% | -0.7% |

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



Source: Bloomberg

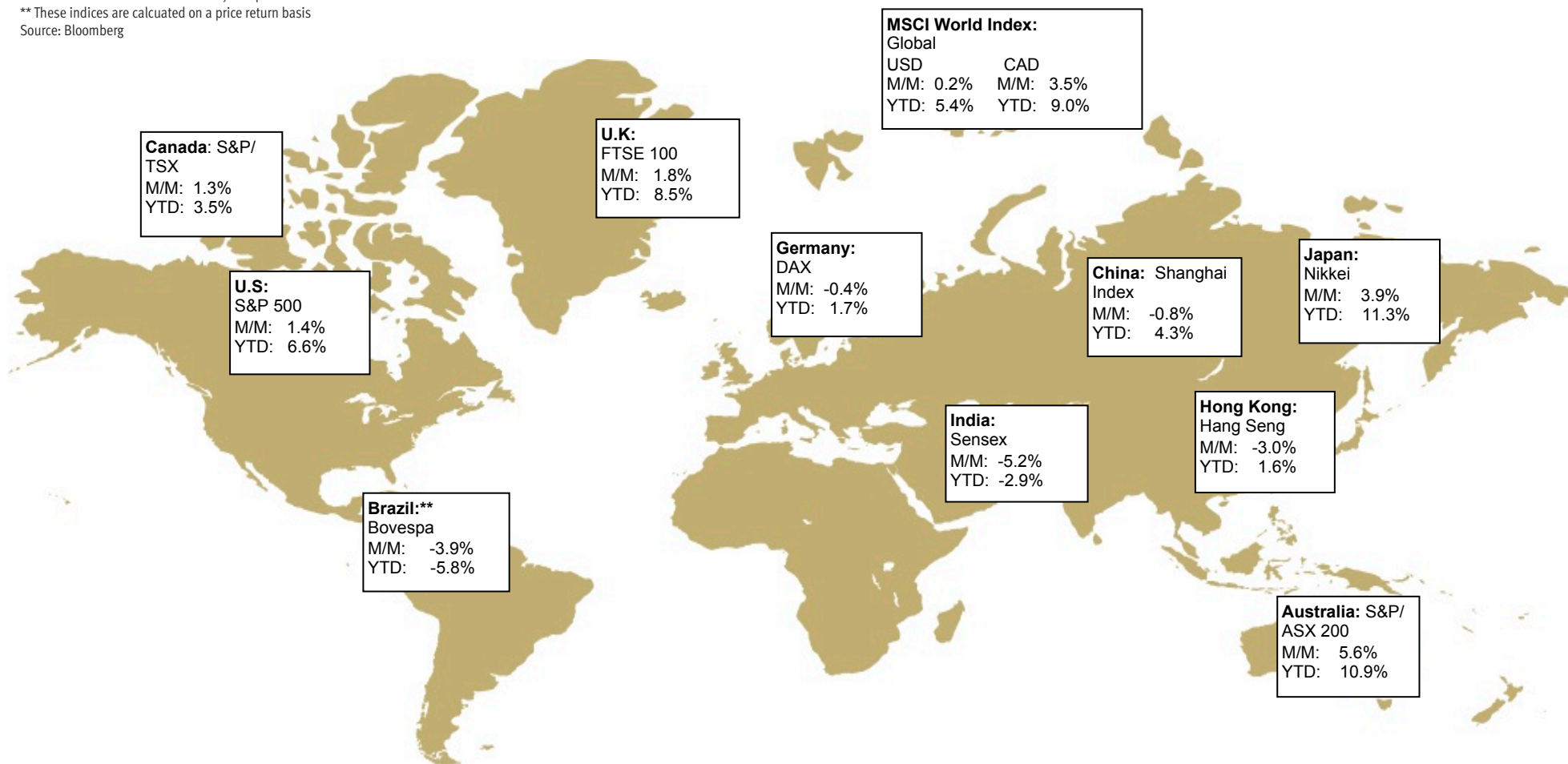
# NORTH AMERICAN EQUITY HIGHLIGHTS – FEBRUARY 2013



## WORLD MARKETS – FEBRUARY 2013

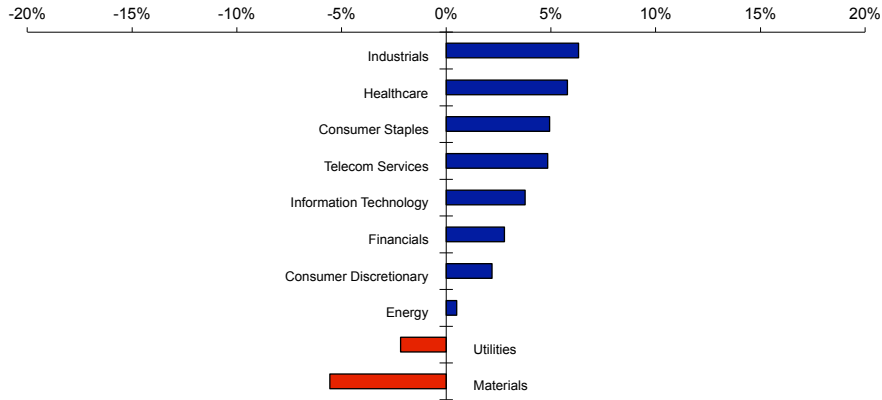
Global indices experienced a slight pullback this month relative to returns posted in January. This was most noticeable in Asia where the Sensex, Shanghai and Hang Seng posted negative returns for the month. Australia and Japan were the exceptions to this group, as the ASX and Nikkei continue to demonstrate strong positive momentum for 2013. On a year-to-date basis, the S&P and FTSE posted strong single digit returns; while the Brazilian Index continues to disappoint, posting negative returns for the second straight month.

All returns are on a total return basis unless otherwise noted  
 All returns calculated in local currency except for MSCI World  
 \*\* These indices are calculated on a price return basis  
 Source: Bloomberg

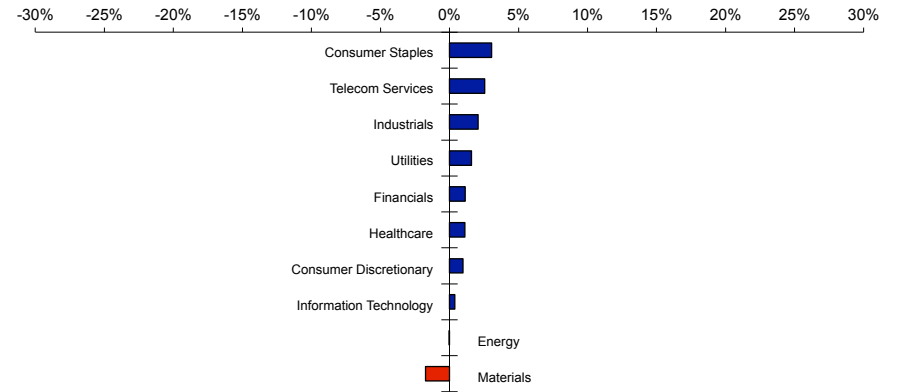


# CANADIAN & U.S. EQUITIES – FEBRUARY 2013

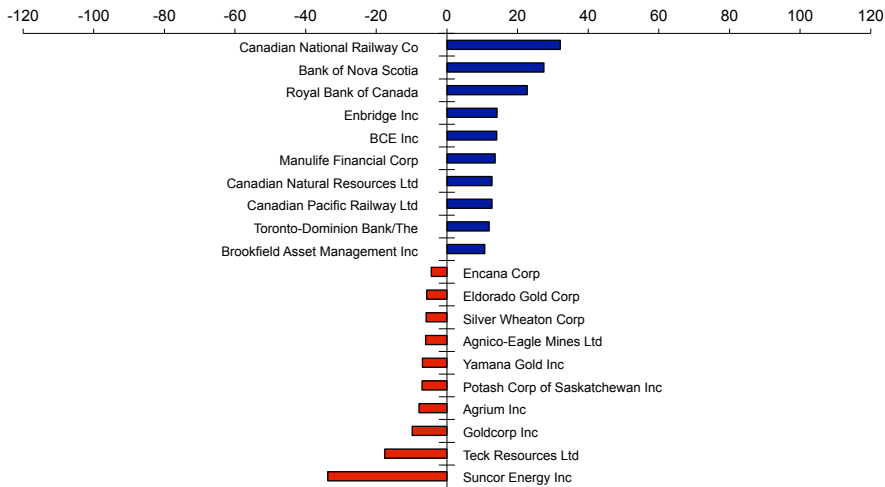
## S&P/TSX Composite Sector Movement



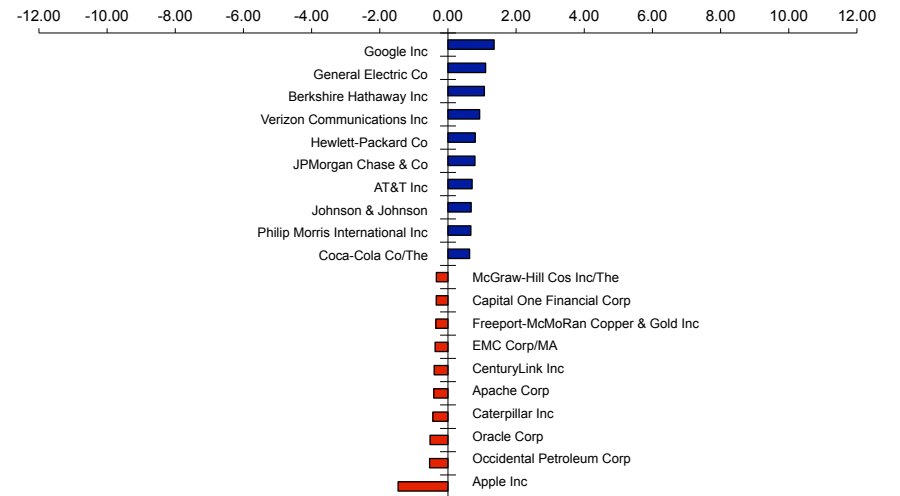
## S&P 500 Sector Movement



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



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



## CANADIAN AND U.S. ECONOMIC DATA – FEBRUARY 2013

| Release Date | Economic Indicators: Canada         | Period | Consensus | Actual | Prior  | Actual vs. Consensus | Actual vs. Prior |
|--------------|-------------------------------------|--------|-----------|--------|--------|----------------------|------------------|
| 03/01/2013   | Gross Domestic Product (m-o-m, SA)  | Dec    | -0.20%    | -0.20% | 0.30%  | -                    | ↓                |
| 03/01/2013   | Gross Domestic Product (y-o-y, SA)  | Dec    | 1.00%     | 0.80%  | 1.50%  | ↓                    | ↓                |
| 01/23/2013   | Bank of Canada Rate                 | 23-Jan | 1.00%     | 1.00%  | 1.00%  | -                    | -                |
|              | <b>Labour market</b>                |        |           |        |        |                      |                  |
| 02/08/2013   | Net Change in Employment (000, SA)  | Jan    | 5.0       | -21.9  | 31.2   | ↓                    | ↓                |
| 02/08/2013   | Participation Rate (SA)             | Jan    | --        | 66.60% | 66.80% | NA                   | ↓                |
| 02/08/2013   | Unemployment Rate (SA)              | Jan    | 7.20%     | 7.00%  | 7.10%  | ↓                    | ↓                |
|              | <b>Housing market</b>               |        |           |        |        |                      |                  |
| 02/08/2013   | Housing Starts (000, SAAR)          | Jan    | 195.0     | 160.6  | 197.1  | ↓                    | ↓                |
| 02/07/2013   | New Housing Price Index (y-o-y)     | Dec    | 2.20%     | 2.30%  | 2.20%  | ↑                    | ↑                |
| 02/15/2013   | Existing Home Sales (m-o-m)         | Jan    | --        | 1.30%  | -0.50% | NA                   | ↑                |
| 02/20/2013   | Teranet/National Bank HPI (m-o-m)   | Jan    | -0.20%    | -0.30% | -0.40% | ↓                    | ↑                |
|              | <b>Consumer &amp; Manufacturing</b> |        |           |        |        |                      |                  |
| 02/22/2013   | Retail Sales (m-o-m, SA)            | Dec    | -0.30%    | -2.10% | 0.30%  | ↓                    | ↓                |
| 02/22/2013   | Retail Sales Less Autos (m-o-m, SA) | Dec    | 0.20%     | -0.90% | -0.20% | ↓                    | ↓                |
| 02/15/2013   | Manufacturing Sales (m-o-m, SA)     | Dec    | -0.80%    | -3.10% | 1.90%  | ↓                    | ↓                |
|              | <b>Trade</b>                        |        |           |        |        |                      |                  |
| 02/08/2013   | Merchandise Trade (billion, SA)     | Dec    | -1.45     | -0.90  | -1.67  | ↑                    | ↑                |
|              | <b>Prices</b>                       |        |           |        |        |                      |                  |
| 02/22/2013   | Consumer Price Index (m-o-m)        | Jan    | 0.20%     | 0.10%  | -0.60% | ↓                    | ↑                |
| 02/22/2013   | Consumer Price Index (y-o-y)        | Jan    | 0.60%     | 0.50%  | 0.80%  | ↓                    | ↓                |
| 02/22/2013   | Bank of Canada CPI Core (m-o-m)     | Jan    | 0.20%     | 0.10%  | -0.60% | ↓                    | ↑                |
| 02/22/2013   | Bank of Canada CPI Core (y-o-y)     | Jan    | 1.00%     | 1.00%  | 1.10%  | -                    | ↓                |
| 02/28/2013   | Industrial Product Price (m-o-m)    | Jan    | 0.30%     | 0.00%  | 0.00%  | ↓                    | -                |
| 02/28/2013   | Raw Materials Price Index (m-o-m)   | Jan    | 1.30%     | 3.80%  | -2.00% | ↑                    | ↑                |

## ECONOMIC DATA

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| <b>Other Indicators</b>             |                                      |        |           |         |         |                      |                  |
|-------------------------------------|--------------------------------------|--------|-----------|---------|---------|----------------------|------------------|
| Release Date                        | Economic Indicators: U.S.            | Period | Consensus | Actual  | Prior   | Actual vs. Consensus | Actual vs. Prior |
| 02/19/2013                          | Wholesale Sales (m-o-m, SA)          | Dec    | -0.40%    | -0.90%  | 0.70%   | ↓                    | ↓                |
| 02/06/2013                          | Ivey Purchasing Managers Index (SA)  | Jan    | 53.9      | 58.9    | 52.8    | ↑                    | ↑                |
| 02/07/2013                          | Building Permits (m-o-m, SA)         | Dec    | 5.00%     | -11.20% | -14.50% | ↓                    | ↑                |
| 02/28/2013                          | GDP (q-o-q, SAAR)                    | 4Q S   | 0.50%     | 0.10%   | 0.10%   | ↓                    | -                |
| 02/28/2013                          | GDP Price Index (q-o-q, SAAR)        | 4Q S   | 0.60%     | 0.90%   | 0.90%   | ↑                    | -                |
| 02/28/2013                          | Core PCE (q-o-q, SAAR)               | 4Q S   | 0.90%     | 0.90%   | 0.90%   | -                    | -                |
| 01/30/2013                          | Federal Funds Target Rate            | 30-Jan | 0.25%     | 0.25%   | 0.25%   | -                    | -                |
| <b>Labour market</b>                |                                      |        |           |         |         |                      |                  |
| 02/01/2013                          | Change in Nonfarm Payrolls (000, SA) | Jan    | 165.0     | 157.0   | 196.0   | ↓                    | ↓                |
| 02/01/2013                          | Unemployment Rate (SA)               | Jan    | 7.80%     | 7.90%   | 7.80%   | ↑                    | ↑                |
| <b>Housing market</b>               |                                      |        |           |         |         |                      |                  |
| 02/20/2013                          | Building Permits (000, SAAR)         | Jan    | 920.0     | 925.0   | 909.0   | ↑                    | ↑                |
| 02/20/2013                          | Housing Starts (000, SAAR)           | Jan    | 920.0     | 890.0   | 973.0   | ↓                    | ↓                |
| 02/26/2013                          | New Home Sales (000, SAAR)           | Jan    | 380.0     | 437.0   | 378.0   | ↑                    | ↑                |
| 02/21/2013                          | Existing Home Sales (million, SAAR)  | Jan    | 4.90      | 4.92    | 4.90    | ↑                    | ↑                |
| 02/19/2013                          | NAHB Housing Market Index (SA)       | Feb    | 48.0      | 46.0    | 47.0    | ↓                    | ↓                |
| 03/01/2013                          | Construction Spending (m-o-m, SA)    | Jan    | 0.40%     | -2.10%  | 1.10%   | ↓                    | ↓                |
| <b>Consumer &amp; Manufacturing</b> |                                      |        |           |         |         |                      |                  |
| 02/13/2013                          | Advance Retail Sales (m-o-m, SA)     | Jan    | 0.10%     | 0.10%   | 0.50%   | -                    | ↓                |
| 02/13/2013                          | Retail Sales Less Autos (m-o-m, SA)  | Jan    | 0.10%     | 0.20%   | 0.30%   | ↑                    | ↓                |
| 02/26/2013                          | Consumer Confidence (SA)             | Feb    | 62.0      | 69.6    | 58.4    | ↑                    | ↑                |
| 03/01/2013                          | U. of Michigan Confidence            | Feb F  | 76.3      | 77.6    | 76.3    | ↑                    | ↑                |
| 02/28/2013                          | Personal Consumption (q-o-q, SAAR)   | 4Q S   | 2.30%     | 2.10%   | 2.10%   | ↓                    | -                |
| 02/27/2013                          | Durable Goods Orders (m-o-m, SA)     | Jan    | -4.80%    | -5.20%  | 3.70%   | ↓                    | ↓                |
| 02/04/2013                          | Factory Orders (m-o-m, SA)           | Dec    | 2.30%     | 1.80%   | -0.30%  | ↓                    | ↑                |

## ECONOMIC DATA

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| Trade            |                                  |     |        |        |        |   |   |
|------------------|----------------------------------|-----|--------|--------|--------|---|---|
| 02/13/2013       | Import Price Index (m-o-m)       | Jan | 0.80%  | 0.60%  | -0.50% | ↓ | ↑ |
| 02/13/2013       | Import Price Index (y-o-y)       | Jan | -1.00% | -1.30% | -1.90% | ↓ | ↑ |
| 02/08/2013       | Trade Balance (billion, SA)      | Dec | -46.0  | -38.5  | -48.6  | ↑ | ↑ |
| Prices           |                                  |     |        |        |        |   |   |
| 02/21/2013       | Consumer Price Index (m-o-m, SA) | Jan | 0.10%  | 0.00%  | 0.00%  | ↓ | - |
| 02/21/2013       | Consumer Price Index (y-o-y)     | Jan | 1.60%  | 1.60%  | 1.70%  | - | ↓ |
| 02/21/2013       | CPI Core Index (SA)              | Jan | 231.94 | 232.11 | 231.53 | ↑ | ↑ |
| 03/01/2013       | PCE Deflator (y-o-y, SA)         | Jan | 1.20%  | 1.20%  | 1.40%  | - | ↓ |
| 02/20/2013       | Producer Price Index (y-o-y)     | Jan | 1.50%  | 1.40%  | 1.30%  | ↓ | ↑ |
| 02/20/2013       | PPI Ex Food & Energy (y-o-y)     | Jan | 1.70%  | 1.80%  | 2.00%  | ↑ | ↓ |
| Other Indicators |                                  |     |        |        |        |   |   |
| 03/01/2013       | ISM Manufacturing Index (SA)     | Feb | 52.5   | 54.2   | 53.1   | ↑ | ↑ |
| 02/28/2013       | Chicago Purchasing Manager Index | Feb | 54.0   | 56.8   | 55.6   | ↑ | ↑ |
| 02/21/2013       | Philadelphia Fed Index           | Feb | 1.0    | -12.5  | -5.8   | ↓ | ↓ |
| 02/21/2013       | Leading Indicators (m-o-m)       | Jan | 0.20%  | 0.20%  | 0.50%  | - | ↓ |
| 02/13/2013       | Business Inventories (m-o-m, SA) | Dec | 0.20%  | 0.10%  | 0.20%  | ↓ | ↓ |

Source: Bloomberg

SA = Seasonally Adjusted; SAAR = Seasonally Adjusted Annual Rate; m-o-m = Month-over-month % change; q-o-q = Quarter-over-quarter % change; y-o-y = Year-over-year % change.

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