

Month in Review: JANUARY 2014



WHAT MOVED THE MARKETS

Emerging markets leapt to the forefront in January with evidence of inflationary pressures and political upheaval in some jurisdictions leading to gyrations in currency and fixed income markets. A strong-bid for safe-haven assets resulted in U.S. government bonds rallying, contrary to the continued back-up in yields that conventional wisdom had been calling for in light of a further reduction in asset purchases by the Federal Reserve. Poor employment growth in the US and Canada surprised investors and set the tone for trading early in January, with uneven economic data from around the globe through the course of the month weighing on sentiment.

Currency devaluation in Argentina, steep declines against the dollar in Turkey and South Africa, and political unrest in Thailand and Ukraine eroded investor confidence in emerging markets (EM) and raised contagion-risk fears. Economic data out of China showed a slight contraction in the manufacturing sector, while GDP growth fell below the 8.0% level (7.7%), which further added

to negative EM sentiment. While bond yields in emerging market countries initially spiked in the spring of 2013 in reaction to the Federal Reserve's plan to reduce asset purchases, which was seen as US dollar bullish, current worries are based on a confluence of factors that include slowing EM growth, widening current account deficits, and in some cases political uncertainty.

The S&P/TSX and the S&P 500 generated total returns of 0.8% and -3.5% respectively for January. The Canadian healthcare sector surged 18.2% in January, while Materials (9.3%) and Technology (6.6%) also performed well. The S&P/TSX Financials sector experienced the steepest decline in January, falling 3.0%. In the US, the largest sector increase was the Utilities sector (3.0%) while the largest decrease occurred with the Energy sector (-6.3%).

Overseas, indices were also down in January. The Hang Seng and Nikkei decreased 5.5% and 8.4%, respectively. Meanwhile, the FTSE dropped 3.5% while the DAX decreased by 2.6%.

All indices and figures priced in local currency as at January 31, 2014
(unless otherwise stated).
For Important Disclosures, see page 10.



RBC Wealth Management
Dominion Securities

WHAT MOVED THE MARKETS

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EQUITY-SPECIFIC DEVELOPMENTS

Dollarama (TSX: DOL; \$84.00) guided down Q4 sales due to extreme weather; however, DOL remained RBC CM's favourite Canadian retailer based on industry-leading performance metrics and above average earnings growth. RBC CM maintained its Outperform rating and \$99 price target on DOL.

Bombardier (TSX: BBD.B; \$4.02) announced in January that it was set to lay off 1,700 employees from its Aerospace division in an effort to preserve cash. The layoffs came amid longer than anticipated delays in the development of the C Series as well as tough market conditions. RBC CM believes these events could have a negative impact on BBD.B and maintained its Sector Perform rating with a price target of \$4.

Bank of Montreal (TSX: BMO; \$68.06) announced it would acquire UK asset manager, F&C. RBC CM had a mixed reaction to the deal as F&C has a declining asset base. However, if BMO is able to achieve revenue synergies and if the recent fund flow momentum at F&C continues to improve, RBC CM believes the acquisition could provide additional earnings growth for BMO in 2015 and beyond. RBC CM maintained its Outperform rating and \$76 price target.

Goldcorp (NYSE: GG; US\$24.89) announced its bid for Osisko (TSX: OSK; \$6.68), a deal that RBC CM believes should be accretive on most financial metrics. RBC CM remained cautious on operating execution as GG is planning to bring three new mines on-line over the next two years while simultaneously trying to integrate OSK should the deal proceed. RBC maintained its Outperform rating and increased its price target to US\$31 from US\$30.

NUMBER CRUNCHING

Equity Indices*	Month	YTD*
S&P/TSX Composite Index TR	0.8%	0.8%
Dow Jones Industrial Average TR	-5.2%	-5.2%
S&P 500 Index TR	-3.5%	-3.5%
NASDAQ Composite Index TR	-1.7%	-1.7%
MSCI EAFE TR (USD)	-4.0%	-4.0%
MSCI World TR (USD)	-3.7%	-3.7%

S&P/TSX Sector Performance*	Month	YTD*
S&P/TSX Financials TR	-3.0%	-3.0%
S&P/TSX Energy TR	0.0%	0.0%
S&P/TSX Materials TR	9.3%	9.3%
S&P/TSX Industrials TR	-0.9%	-0.9%
S&P/TSX Consumer Discretionary TR	-0.3%	-0.3%
S&P/TSX Telecom Services TR	1.8%	1.8%
S&P/TSX Information Technology TR	6.6%	6.6%
S&P/TSX Consumer Staples TR	1.7%	1.7%
S&P/TSX Utilities TR	3.8%	3.8%
S&P/TSX Healthcare TR	18.2%	18.2%

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

Metro (TSX: MRU; \$64.01) shifted its competitive stance slightly and noted improvements to the top line. Management adopted a measured approach to optimizing its balance sheet with a commitment to regular share buybacks, dividend growth and potential M&A in both food and prescriptions. RBC CM maintained its Outperform rating and \$74 price target on MRU.

Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.1128	4.8%	4.8%
Euro	1.5009	2.8%	2.8%
British Pound	1.8295	4.0%	4.0%
Japanese Yen (100)	0.0109	8.1%	8.1%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$97.49	-0.9%	-0.9%
Natural Gas (per million btu)	\$4.94	16.9%	16.9%
Gold (per ounce)	\$1,244.55	3.2%	3.2%
Silver (per ounce)	\$19.18	-1.5%	-1.5%
Copper (per pound)	\$3.22	-3.8%	-3.8%
Nickel (per pound)	\$6.32	0.7%	0.7%
Aluminum (per pound)	\$0.75	-5.2%	-5.2%
Zinc (per pound)	\$0.89	-4.0%	-4.0%

Open Text (NYSE: OTEX; US\$98.90) went beyond most investors' expectations, delivering a healthy Q2 and calling for faster-than-expected synergies on the GXs acquisition. Investors appear to be growing more comfortable with management's ability to balance accretive acquisitions, margin expansion and organic growth. RBC CM reiterated its Outperform rating and increased its price target to US\$120 from US\$110

FIXED INCOME-SPECIFIC DEVELOPMENTS

Poor employment growth in the US surprised investors and set the tone for trading in January as yields fell. While nonfarm payroll growth was below the consensus estimate, a drop in the unemployment rate on the back of the lowest labour market participation rate in 25 years underlined the challenging nature of the job market. The Fed's long-anticipated 'tapering' of asset purchases commenced in January with the execution of a previously announced US\$10B reduction. At its January policy meeting, the Central Bank decided to reduce its monthly purchases to US\$65B with the announcement of an additional reduction of US\$10B in purchases. The Central Bank also reiterated its commitment to its current zero interest rate policy (ZIRP), which is expected to stay in place well past the time unemployment falls below 6.5%.

The Bank of Canada was the major story for domestic investors after Governor Stephen Poloz made comments that weighed on the Canadian dollar. The Bank of Canada kept its benchmark interest rate unchanged but said that the Canadian dollar "remains strong and will continue to pose competitiveness challenges for Canada's non-commodity exports". The loonie, which had already depreciated over 8% since October when Governor Poloz removed the Central Bank's tightening bias, fell below US\$0.90 as investors started positioning for a potential rate cut. The Central Bank is clearly focused on disinflationary risks, which could be

justified given core CPI fell 0.4% on a month-over-month basis and increased a paltry 1.3% on an annual basis according to the latest monthly data.

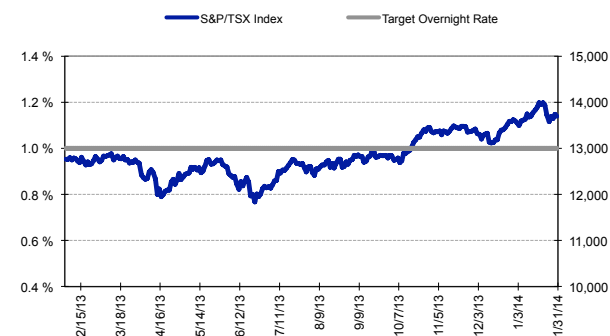
GLOBAL DEVELOPMENTS

Developments in emerging markets during January overshadowed a meaningful pick-up in activity in the UK and Europe.

European Central Bank (ECB) President Mario Draghi appeared to set the stage for a new round of accommodative monetary policy. Mr. Draghi was dovish when he said the ECB 'strongly emphasized that it will remain accommodative for as long as necessary' and that it will act 'if needed'. The Eurozone bond market started the year very well with 10 year German yields rallying 27 basis points as investors grew concerned about emerging market debt as well as Chinese growth prospects. It is worth noting the Eurozone rally was widespread, with Italian 10 year bond yields and Spanish 10 year yields rallying some 23 and 43 basis points, respectively. Portugal managed to issue a 10 year benchmark bond that was well received from both domestic as well as international investors.

The focus in the UK centered around the Bank of England's use of a 7% unemployment rate threshold as it applied to 'forward guidance'. Bank of England Governor Carney clarified his position at a speech in Davos when he highlighted the threshold was a necessary but not sufficient condition to reverse the current policy of low short-term interest rates and quantitative easing. A rate hike in the UK is still not penciled in within the foreseeable future according

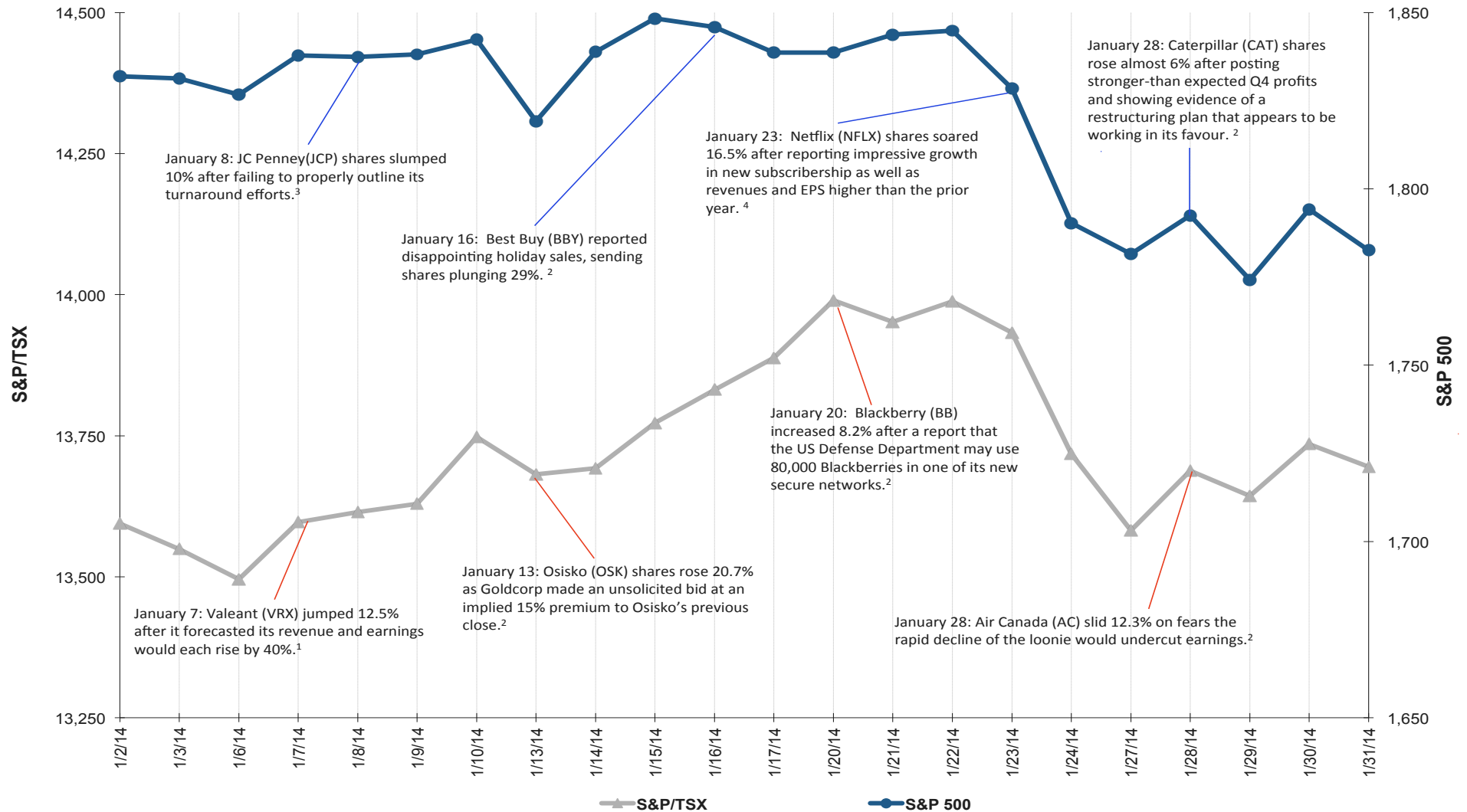
S&P/TSX Index - Target Overnight Rate, LTM



Source: Bloomberg

to various Central Bank officials with growth on fragile ground and inflation having fallen back to 2% for the first time in 5 years.

NORTH AMERICAN EQUITY HIGHLIGHTS – JANUARY 2014

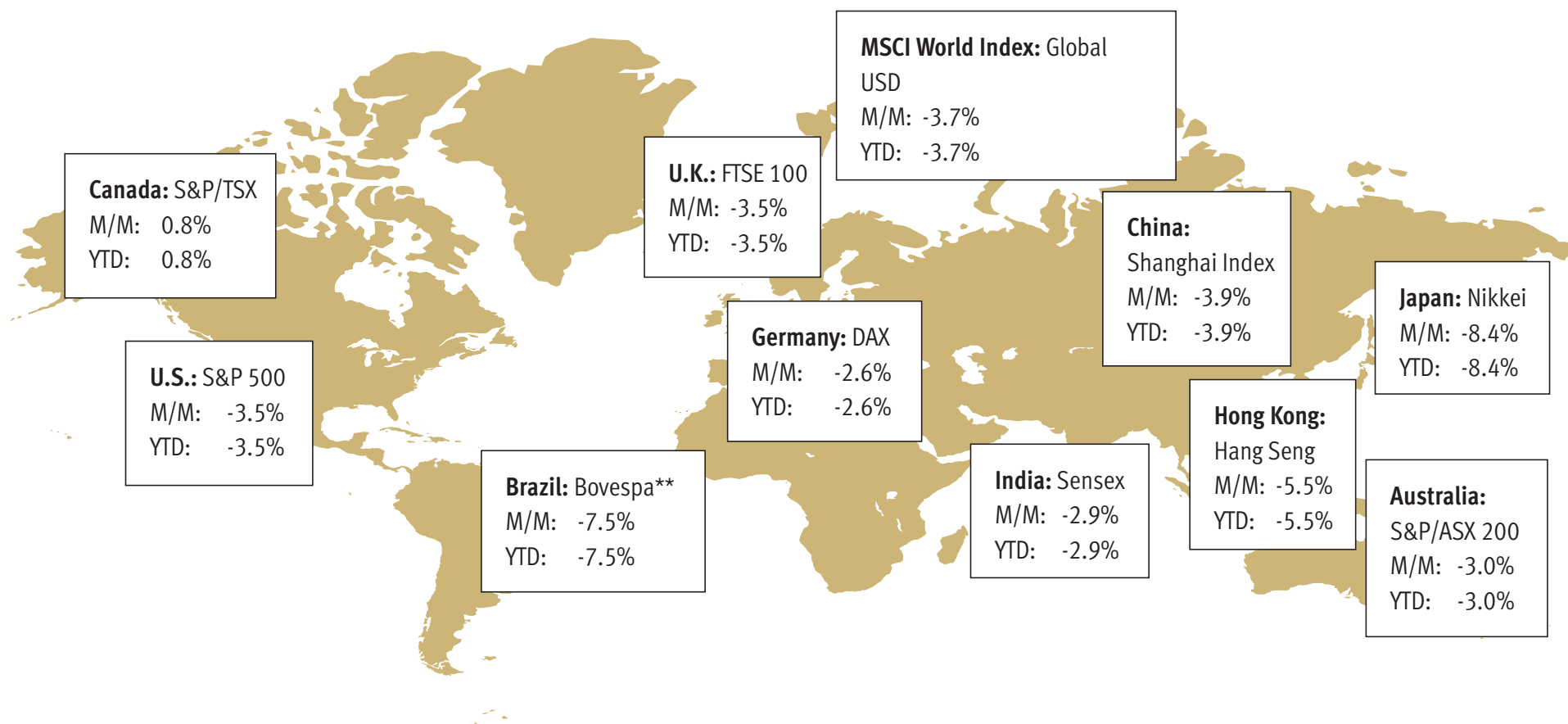


¹ Wall Street Journal ²Globe and Mail ³Reuters ⁴Financial Post

Source: Bloomberg

WORLD MARKETS – JANUARY 2014

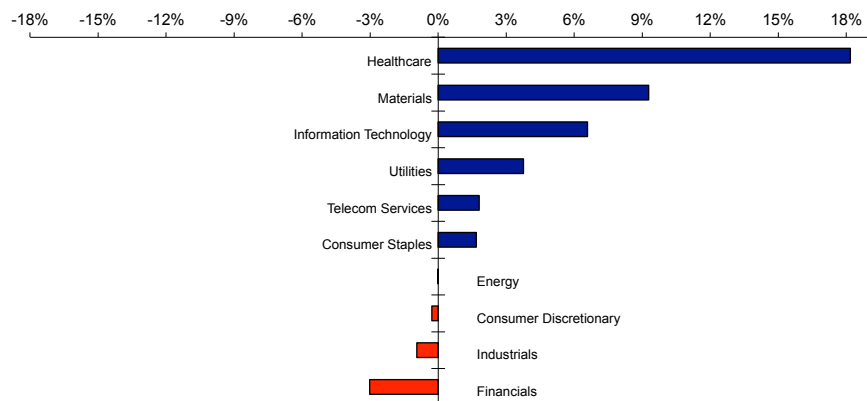
Global Indices were decidedly lower in January, with the exception of Canada's S&P/TSX, which had a small increase of 0.8%. The MSCI World Index decreased by 3.7% in January.



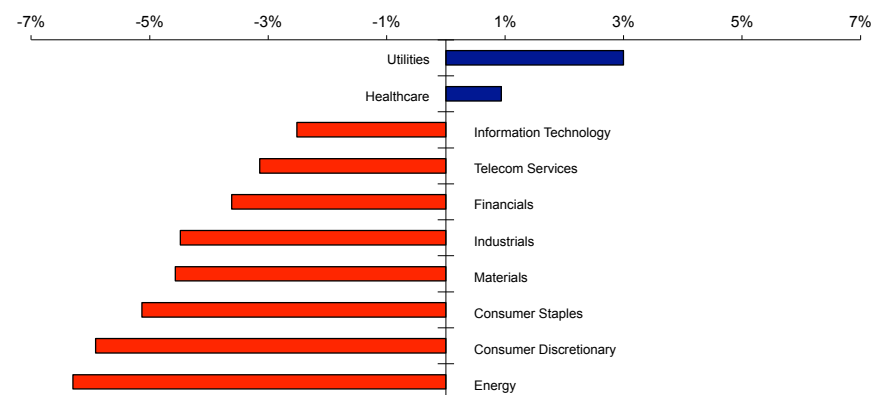
All returns are on a total return basis unless otherwise noted
All returns calculated in local currency except for MSCI World
** These indices are calculated on a price return basis
Source: Bloomberg

CANADIAN & U.S. EQUITIES – JANUARY 2014

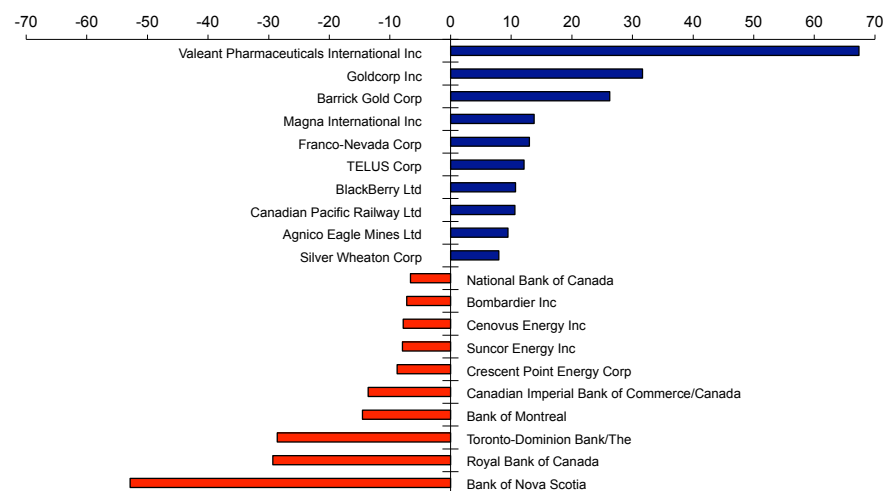
S&P/TSX Composite Sector Movement



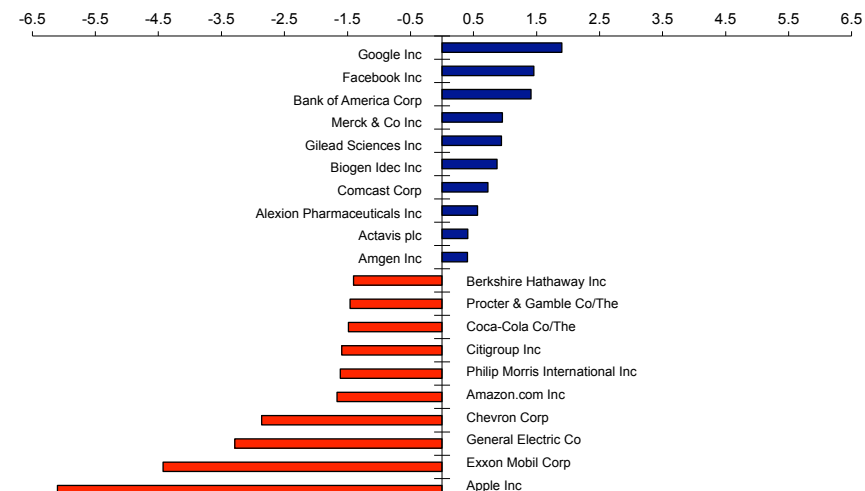
S&P 500 Sector Movement



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 – JANUARY 2014

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior	Actual vs. Consensus	Actual vs. Prior
01/31/2014	Gross Domestic Product (m-o-m, SA)	Nov	0.20%	0.20%	0.30%	-----	▼
01/31/2014	Gross Domestic Product (y-o-y, SA)	Nov	2.60%	2.60%	2.70%	-----	▼
01/22/2014	Bank of Canada Rate	22-Jan	1.00%	1.00%	1.00%	-----	-----
	Labour market						
01/10/2014	Net Change in Employment (000, SA)	Dec	14.1	-45.9	25.1	▼	▼
01/10/2014	Participation Rate (SA)	Dec	66.40%	66.40%	66.40%	-----	-----
01/10/2014	Unemployment Rate (SA)	Dec	6.90%	7.20%	6.90%	▲	▲
	Housing market						
01/09/2014	Housing Starts (000, SAAR)	Dec	190.0	189.7	195.6	▼	▼
01/09/2014	New Housing Price Index (y-o-y)	Nov	--	1.40%	1.50%	NA	▼
01/15/2014	Existing Home Sales (m-o-m)	Dec	--	-1.80%	-0.10%	NA	▼
01/14/2014	Teranet/National Bank HPI (m-o-m)	Dec	--	0.10%	-0.10%	NA	▲
	Consumer & Manufacturing						
01/23/2014	Retail Sales (m-o-m, SA)	Nov	0.20%	0.60%	-0.10%	▲	▲
01/23/2014	Retail Sales Less Autos (m-o-m, SA)	Nov	0.30%	0.40%	0.50%	▲	▼
01/21/2014	Manufacturing Sales (m-o-m, SA)	Nov	0.30%	1.00%	0.70%	▲	▲
	Trade						
01/07/2014	Merchandise Trade (billion, SA)	Nov	-0.10	-0.94	0.07	▼	▼
	Prices						
01/24/2014	Consumer Price Index (m-o-m)	Dec	-0.20%	-0.20%	0.00%	-----	▼
01/24/2014	Consumer Price Index (y-o-y)	Dec	1.30%	1.20%	0.90%	▼	▲
01/24/2014	Bank of Canada CPI Core (m-o-m)	Dec	-0.40%	-0.40%	-0.10%	-----	▼
01/24/2014	Bank of Canada CPI Core (y-o-y)	Dec	1.30%	1.30%	1.10%	-----	▲
01/06/2014	Industrial Product Price (m-o-m)	Nov	-0.20%	0.10%	-0.30%	▲	▲
01/06/2014	Raw Materials Price Index (m-o-m)	Nov	-1.80%	-4.10%	-2.30%	▼	▼

ECONOMIC DATA

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Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior	Actual vs. Consensus	Actual vs. Prior
	Other Indicators						
01/21/2014	Wholesale Sales (m-o-m, SA)	Nov	0.30%	0.00%	1.20%	▼	▼
01/07/2014	Ivey Purchasing Managers Index (SA)	Dec	54.5	46.3	53.7	▼	▼
01/09/2014	Building Permits (m-o-m, SA)	Nov	-2.70%	-6.70%	8.00%	▼	▼
Release Date	Economic Indicators: U.S.	Period	Consensus	Actual	Prior	Actual vs. Consensus	Actual vs. Prior
01/30/2014	GDP (q-o-q, SAAR)	4Q A	3.20%	3.20%	4.10%	-----	▼
01/30/2014	GDP Price Index (q-o-q, SAAR)	4Q A	1.20%	1.30%	2.00%	▲	▼
01/30/2014	Core PCE (q-o-q, SAAR)	4Q A	1.10%	1.10%	1.40%	-----	▼
01/29/2014	Federal Funds Target Rate	29-Jan	0.25%	0.25%	0.25%	-----	-----
	Labour market						
01/10/2014	Change in Nonfarm Payrolls (000, SA)	Dec	197.0	74.0	241.0	▼	▼
01/10/2014	Unemployment Rate (SA)	Dec	7.00%	6.70%	7.00%	▼	▼
	Housing market						
01/17/2014	Building Permits (000, SAAR)	Dec	1014.0	986.0	1017.0	▼	▼
01/17/2014	Housing Starts (000, SAAR)	Dec	985.0	999.0	1107.0	▲	▼
01/27/2014	New Home Sales (000, SAAR)	Dec	455.0	414.0	445.0	▼	▼
01/23/2014	Existing Home Sales (million, SAAR)	Dec	4.93	4.87	4.82	▼	▲
01/16/2014	NAHB Housing Market Index (SA)	Jan	58.0	56.0	57.0	▼	▼
01/02/2014	Construction Spending (m-o-m, SA)	Nov	0.60%	1.00%	0.90%	▲	▲
	Consumer & Manufacturing						
01/14/2014	Advance Retail Sales (m-o-m, SA)	Dec	0.10%	0.20%	0.40%	▲	▼
01/14/2014	Retail Sales Less Autos (m-o-m, SA)	Dec	0.40%	0.70%	0.10%	▲	▲
01/28/2014	Consumer Confidence (SA)	Jan	78.0	80.7	77.5	▲	▲
01/31/2014	U. of Michigan Confidence	Jan F	81.0	81.2	80.4	▲	▲
01/30/2014	Personal Consumption (q-o-q, SAAR)	4Q A	3.70%	3.30%	2.00%	▼	▲
01/28/2014	Durable Goods Orders (m-o-m, SA)	Dec	1.80%	-4.30%	2.60%	▼	▼
01/06/2014	Factory Orders (m-o-m, SA)	Nov	1.70%	1.80%	-0.50%	▲	▲

ECONOMIC DATA

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Release Date	Economic Indicators: U.S.	Period	Consensus	Actual	Prior	Actual vs. Consensus	Actual vs. Prior
	Trade						
01/14/2014	Import Price Index (m-o-m)	Dec	0.40%	0.00%	-0.90%	▼	▲
01/14/2014	Import Price Index (y-o-y)	Dec	-0.60%	-1.30%	-1.90%	▼	▲
01/07/2014	Trade Balance (billion, SA)	Nov	-40.0	-34.3	-39.3	▲	▲
	Prices						
01/16/2014	Consumer Price Index (m-o-m, SA)	Dec	0.30%	0.30%	0.00%	-----	▲
01/16/2014	Consumer Price Index (y-o-y)	Dec	1.50%	1.50%	1.20%	-----	▲
01/16/2014	CPI Core Index (SA)	Dec	235.59	235.50	235.24	▼	▲
01/31/2014	PCE Deflator (y-o-y, SA)	Dec	1.10%	1.10%	0.90%	-----	▲
01/15/2014	Producer Price Index (y-o-y)	Dec	1.10%	1.20%	0.70%	▲	▲
01/15/2014	PPI Ex Food & Energy (y-o-y)	Dec	1.30%	1.40%	1.30%	▲	▲
	Other Indicators						
01/02/2014	ISM Manufacturing Index (SA)	Dec	56.8	57.0	57.0	▲	-----
01/31/2014	Chicago Purchasing Manager Index	Jan	59.0	59.6	60.8	▲	▼
01/16/2014	Philadelphia Fed Index	Jan	8.7	9.4	6.4	▲	▲
01/23/2014	Leading Indicators (m-o-m)	Dec	0.20%	0.10%	1.00%	▼	▼
01/14/2014	Business Inventories (m-o-m, SA)	Nov	0.30%	0.40%	0.80%	▲	▼

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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			Count	Percent
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Hold (Sector Perform)	656	43.50	179	27.29
Sell (Underperform)	83	5.50	13	15.66

As of September 30, 2013