

Month in Review: FEBRUARY 2014



WHAT MOVED THE MARKETS

Emerging market concerns from January extended into February; however, this faded quickly as a spate of economic data took center stage. On balance, these releases were better than expected and pushed Government of Canada yields higher during the month, reversing most of January's downward move. In the U.S., economic data was generally less constructive; however, the weaker data was blamed largely on poor weather conditions that blanketed much of the U.S. As a result, expectations for the pace of Fed tapering were largely unchanged. The 10-year government bond yield was essentially unchanged at 2.66%.

Credit spreads tightened to levels not seen since pre-2008, reversing January's sell-off as the search for yield continued. A number of large corporations took advantage of strong demand for corporate bonds driving up issuance during February. Elevated issuance was used at least in part to fund share buybacks, which likely has helped to contribute to the rally in equities. The fact that we are now seeing shorter maturity

issues as vehicles for share buybacks may indicate that corporations are becoming less concerned with refinancing risk.

In February, the S&P/TSX and the S&P 500 generated total returns of 3.9% and 4.6%, respectively. All S&P/TSX sectors generated positive returns for the month. The Materials sector surged ahead 6.4%, while the Financials (4.3%) and Energy (4.2%) sectors also performed well. The Telecom Services sector saw the smallest increase of just 0.1%. In the US, all S&P 500 sectors generated positive returns except for the Telecom Services sector, which decreased 1%. The Materials sector jumped 6.9%, while the Consumer Discretionary and Health Care sectors each rose 6.2%.

Overseas, indices were mostly positive in February. The FTSE, DAX and Hang Seng increased 5.1%, 4.1% and 3.7%, respectively. Meanwhile the Nikkei saw a negative return of 0.4%.

All indices and figures priced in local currency as at February 28, 2014 (unless otherwise stated).
For Important Disclosures, see page 10.



RBC Wealth Management

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WHAT MOVED THE MARKETS

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Gold stocks have been the primary driver of TSX performance, climbing 26% since the start of the year. Most other sub-groups are up less than 5% for the year, while banks, which are by far the largest weighting in the index, are virtually unchanged year to date.

FIXED INCOME-SPECIFIC DEVELOPMENTS

February was busy for economic developments in the U.S. In her first public address, Federal Reserve Chair Janet Yellen reiterated that the FOMC intends to continue to pare back its stimulus by \$10 billion per month. Notably, it was indicated that despite the unemployment rate sitting only marginally above the target level of 6.5%, the labour market has not fully recovered. In addition to the unemployment rate, Yellen signalled that the FOMC will consider a range of data in future policy decisions. The U.S. Senate also passed a bill allowing the debt ceiling to be raised into March of 2015, alleviating concerns of another prolonged debt ceiling debate.

Stronger than expected economic data in February was encouraging for the Canadian economy pushing Government of Canada bond yields higher after yields fell in January. Inflation data increased at the fastest rate in almost two years and was complimented by an employment report that revealed job growth that exceeded expectations. These developments were reflected in futures markets, which had initially priced in the possibility of a rate cut, but later trended towards a neutral stance. The Federal budget was tabled and contained no major surprises. It outlined the expectation of a Federal surplus in 2015-2016. It is also highlighted that the Government will take advantage of low rates by continuing to issue longer dated bonds, which may include a 50-year maturity deal at some point.

NUMBER CRUNCHING

Equity Indices*	Month	YTD*
S&P/TSX Composite Index TR	3.9%	4.8%
Dow Jones Industrial Average TR	4.3%	-1.1%
S&P 500 Index TR	4.6%	1.0%
NASDAQ Composite Index TR	5.1%	3.4%
MSCI EAFE TR (USD)	5.6%	1.3%
MSCI World TR (USD)	5.1%	1.2%

S&P/TSX Sector Performance*	Month	YTD*
S&P/TSX Financials TR	4.3%	1.1%
S&P/TSX Energy TR	4.2%	4.2%
S&P/TSX Materials TR	6.4%	16.3%
S&P/TSX Industrials TR	3.4%	2.4%
S&P/TSX Consumer Discretionary TR	1.6%	1.3%
S&P/TSX Telecom Services TR	0.1%	1.9%
S&P/TSX Information Technology TR	3.7%	10.5%
S&P/TSX Consumer Staples TR	3.3%	5.1%
S&P/TSX Utilities TR	0.5%	4.3%
S&P/TSX Healthcare TR	2.1%	20.7%

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

Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.1064	-0.6%	4.2%
Euro	1.5271	1.7%	4.6%
British Pound	1.8527	1.3%	5.3%
Japanese Yen (100)	0.0109	-0.4%	7.7%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$102.59	5.2%	4.2%
Natural Gas (per million btu)	\$4.61	-6.8%	9.0%
Gold (per ounce)	\$1,326.44	6.6%	10.0%
Silver (per ounce)	\$21.23	10.7%	9.0%
Copper (per pound)	\$3.21	-0.2%	-4.0%
Nickel (per pound)	\$6.66	5.5%	6.2%
Aluminum (per pound)	\$0.78	2.9%	-2.5%
Zinc (per pound)	\$0.94	5.1%	0.9%

WHAT MOVED THE MARKETS

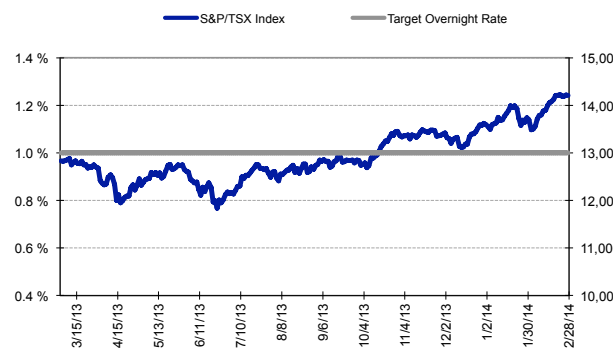
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GLOBAL DEVELOPMENTS

Escalating violence and unrest in Ukraine and Turkey captured investor attention in February. Deepening unrest and risk aversion seemed to move in tandem as emerging market currencies sold off and bond spreads widened early in the month. Despite the unrest, markets were able to retrace most of their losses as spreads grinded tighter from their widest levels. At the G20 summit, world leaders announced they are shifting their focus from austerity to growth, but comments were lacking any indication that unrest in emerging markets would have an effect on future policy decisions.

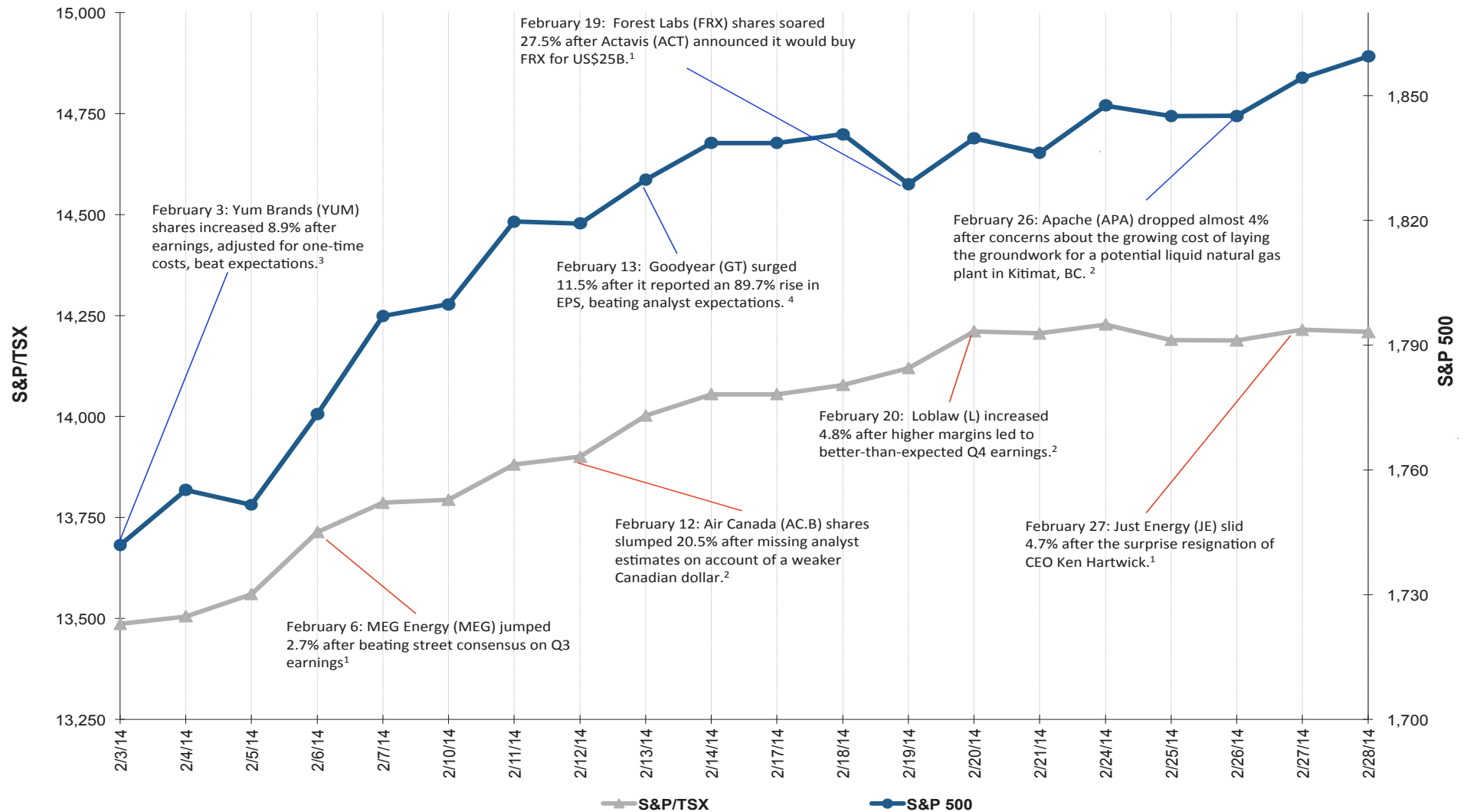
Outside of emerging markets, global economies continued to improve in February on balance. Fourth quarter Eurozone growth exceeded expectations and manufacturing data printed comfortably in expansion territory. Generally positive data pulled 10-year yields on bonds in Portugal, Italy and Spain in tighter relative to German bunds. The Bank of England raised its growth and employment expectations despite benign inflation data and an uptick in unemployment which currently sits at 7.2%. However, Governor Mark Carney struck a similar tone to the FOMC indicating that measures other than the unemployment rate will be considered in future policy decisions.

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



Source: Bloomberg

NORTH AMERICAN EQUITY HIGHLIGHTS – FEBRUARY 2014

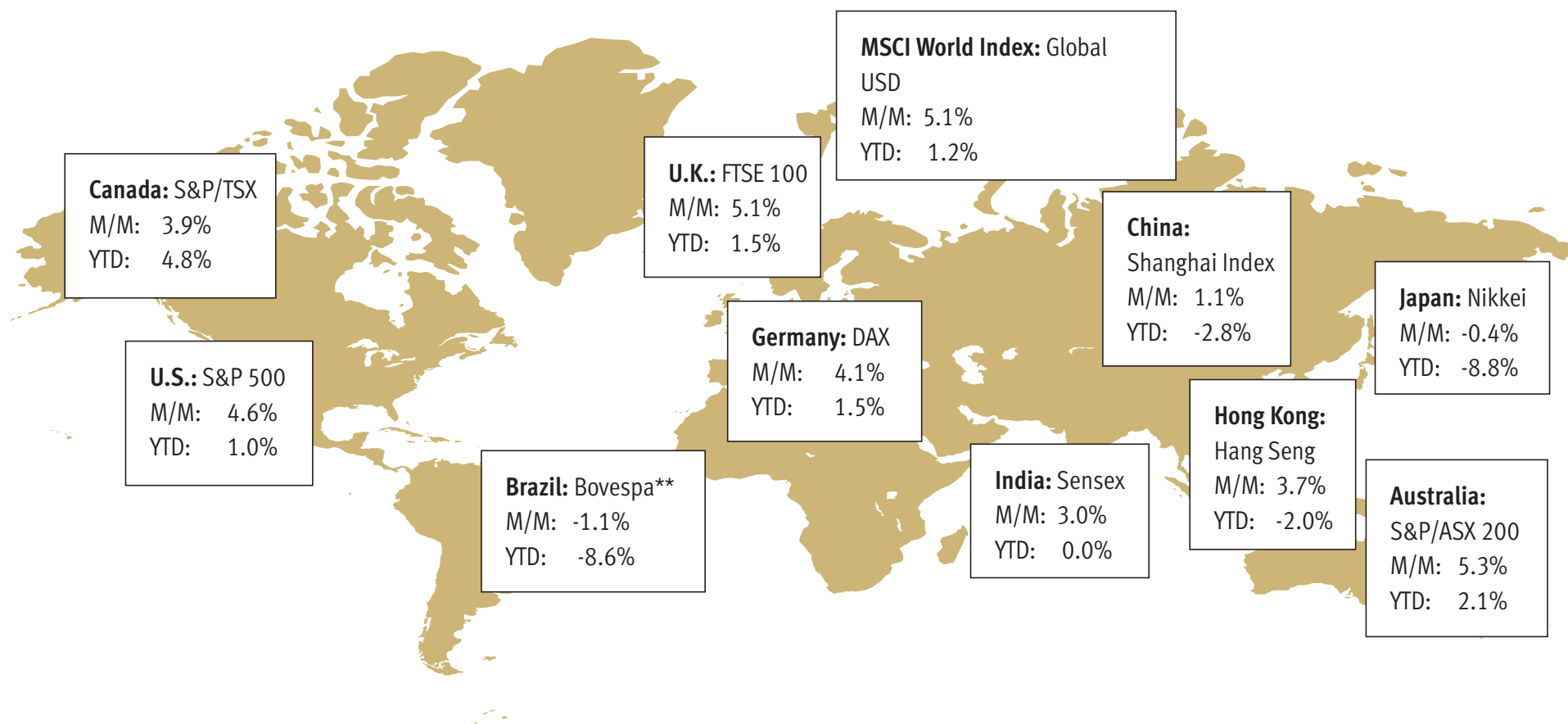


¹ Wall Street Journal ² Globe and Mail ³ New York Times ⁴ NASDAQ

Source: Bloomberg

WORLD MARKETS – FEBRUARY 2014

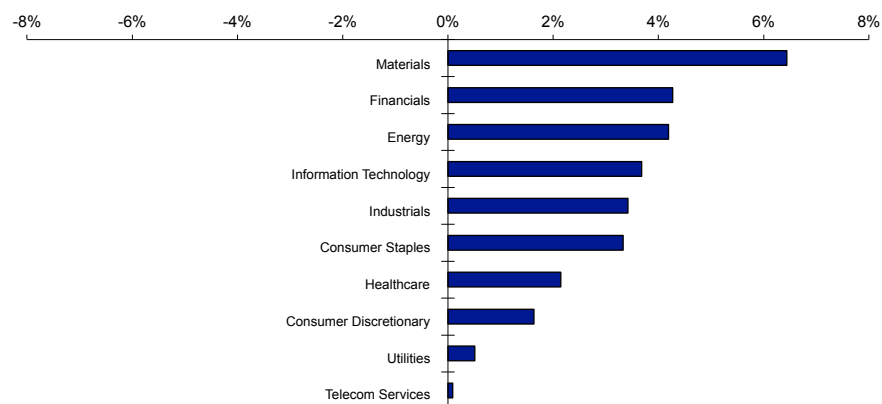
The majority of global indices had positive returns in February, with the exception of Brazil's Bovespa and Japan's Nikkei, which decreased by 1.1% and 0.4%, respectively. The MSCI World Index increased 5.1% in February.



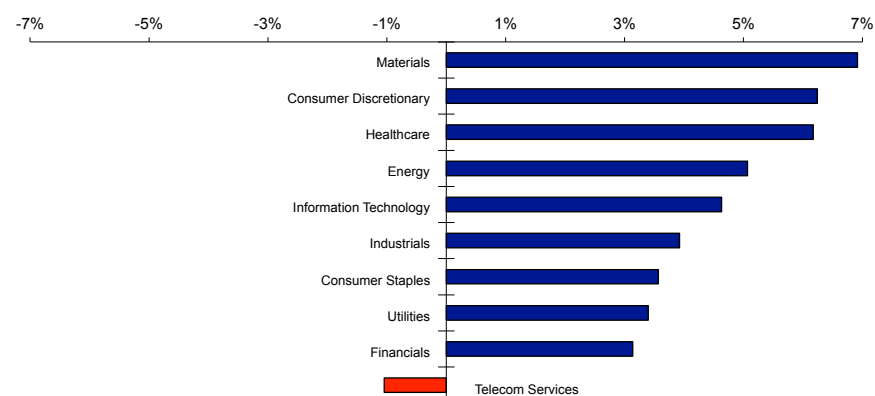
All returns are on a total return basis unless otherwise noted
All returns calculated in local currency except for MSCI World
** These indices are calculated on a price return basis
Source: Bloomberg

CANADIAN & U.S. EQUITIES – FEBRUARY 2014

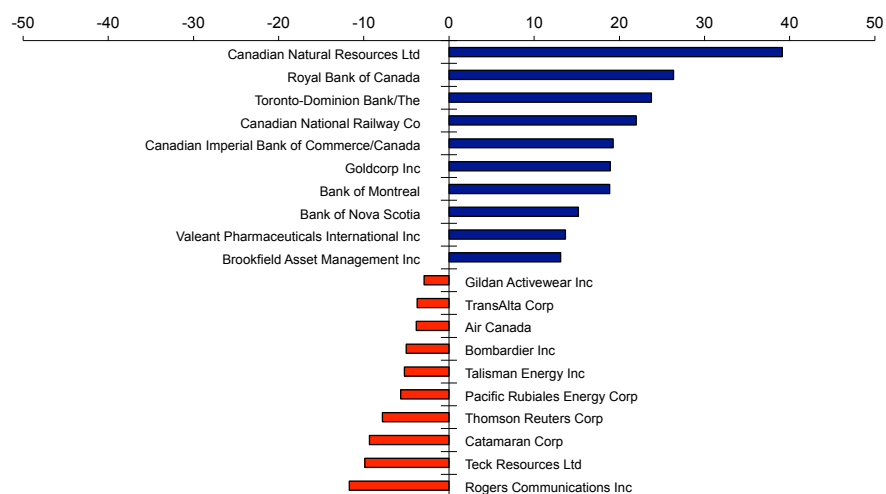
S&P/TSX Composite Sector Movement



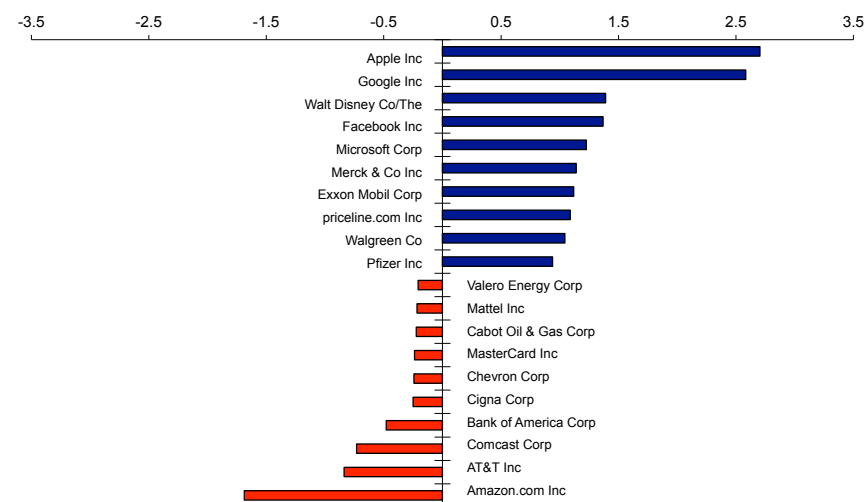
S&P 500 Sector Movement



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 – FEBRUARY 2014

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
02/28/2014	Gross Domestic Product (m-o-m, SA)	Dec	-0.30%	-0.50%	0.20%
02/28/2014	Gross Domestic Product (y-o-y, SA)	Dec	2.50%	2.30%	2.70%
	Labour market				
02/07/2014	Net Change in Employment (000, SA)	Jan	20.0	29.4	-44.0
02/07/2014	Participation Rate (SA)	Jan	66.40%	66.30%	66.40%
02/07/2014	Unemployment Rate (SA)	Jan	7.10%	7.00%	7.20%
	Housing market				
02/10/2014	Housing Starts (000, SAAR)	Jan	185.0	180.2	187.1
02/13/2014	New Housing Price Index (y-o-y)	Dec	1.30%	1.30%	1.40%
02/14/2014	Existing Home Sales (m-o-m)	Jan	--	-3.30%	-1.80%
02/12/2014	Teranet/National Bank HPI (m-o-m)	Jan	0.00%	0.40%	0.10%
	Consumer & Manufacturing				
02/21/2014	Retail Sales (m-o-m, SA)	Dec	-0.40%	-1.80%	0.50%
02/21/2014	Retail Sales Less Autos (m-o-m, SA)	Dec	-0.10%	-1.40%	0.30%
02/14/2014	Manufacturing Sales (m-o-m, SA)	Dec	0.00%	-0.90%	0.50%
	Trade				
02/06/2014	Merchandise Trade (billion, SA)	Dec	-0.65	-1.66	-1.53
	Prices				
02/21/2014	Consumer Price Index (m-o-m)	Jan	0.10%	0.30%	-0.20%
02/21/2014	Consumer Price Index (y-o-y)	Jan	1.30%	1.50%	1.20%
02/21/2014	Bank of Canada CPI Core (m-o-m)	Jan	0.10%	0.20%	-0.40%
02/21/2014	Bank of Canada CPI Core (y-o-y)	Jan	1.30%	1.40%	1.30%
02/03/2014	Industrial Product Price (m-o-m)	Dec	0.30%	0.70%	0.20%
02/03/2014	Raw Materials Price Index (m-o-m)	Dec	2.00%	1.90%	-4.20%

ECONOMIC DATA

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Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
	Other Indicators				
02/19/2014	Wholesale Sales (m-o-m, SA)	Dec	-0.40%	-1.40%	-0.20%
02/06/2014	Ivey Purchasing Managers Index (SA)	Jan	51.0	56.8	46.3
02/05/2014	Building Permits (m-o-m, SA)	Dec	1.50%	-4.10%	-6.60%
Release Date	Economic Indicators: U.S.	Period	Consensus	Actual	Prior
02/28/2014	GDP (q-o-q, SAAR)	4Q S	2.50%	2.40%	3.20%
02/28/2014	GDP Price Index (q-o-q, SAAR)	4Q S	1.30%	1.60%	1.30%
02/28/2014	Core PCE (q-o-q, SAAR)	4Q S	1.10%	1.30%	1.10%
	Labour market				
02/07/2014	Change in Nonfarm Payrolls (000, SA)	Jan	180.0	113.0	75.0
02/07/2014	Unemployment Rate (SA)	Jan	6.70%	6.60%	6.70%
	Housing market				
02/19/2014	Building Permits (000, SAAR)	Jan	975.0	937.0	991.0
02/19/2014	Housing Starts (000, SAAR)	Jan	950.0	880.0	1048.0
02/26/2014	New Home Sales (000, SAAR)	Jan	400.0	468.0	427.0
02/21/2014	Existing Home Sales (million, SAAR)	Jan	4.67	4.62	4.87
02/18/2014	NAHB Housing Market Index (SA)	Feb	56.0	46.0	56.0
02/03/2014	Construction Spending (m-o-m, SA)	Dec	0.00%	0.10%	0.80%
	Consumer & Manufacturing				
02/13/2014	Advance Retail Sales (m-o-m, SA)	Jan	0.00%	-0.40%	-0.10%
02/13/2014	Retail Sales Less Autos (m-o-m, SA)	Jan	0.10%	0.00%	0.30%
02/25/2014	Consumer Confidence (SA)	Feb	80.0	78.1	79.4
02/28/2014	U. of Michigan Confidence	Feb F	81.2	81.6	81.2
02/28/2014	Personal Consumption (q-o-q, SAAR)	4Q S	2.90%	2.60%	3.30%
02/27/2014	Durable Goods Orders (m-o-m, SA)	Jan	-1.70%	-1.00%	-5.30%
02/04/2014	Factory Orders (m-o-m, SA)	Dec	-1.80%	-1.50%	1.50%

ECONOMIC DATA

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Release Date	Economic Indicators: U.S.	Period	Consensus	Actual	Prior
	Trade				
02/14/2014	Import Price Index (m-o-m)	Jan	-0.10%	0.10%	0.20%
02/14/2014	Import Price Index (y-o-y)	Jan	-1.80%	-1.50%	-1.10%
02/06/2014	Trade Balance (billion, SA)	Dec	-36.0	-38.7	-34.6
	Prices				
02/20/2014	Consumer Price Index (m-o-m, SA)	Jan	0.10%	0.10%	0.20%
02/20/2014	Consumer Price Index (y-o-y)	Jan	1.60%	1.60%	1.50%
02/20/2014	CPI Core Index (SA)	Jan	235.88	235.84	235.54
	Other Indicators				
02/03/2014	ISM Manufacturing Index (SA)	Jan	56.0	51.3	56.5
02/28/2014	Chicago Purchasing Manager Index	Feb	56.4	59.8	59.6
02/20/2014	Philadelphia Fed Index	Feb	8.0	-6.3	9.4
02/20/2014	Leading Indicators (m-o-m)	Jan	0.30%	0.30%	0.00%
02/13/2014	Business Inventories (m-o-m, SA)	Dec	0.40%	0.50%	0.40%

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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Sell (Underperform)	83	5.50	13	15.66

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