

Month in Review: OCTOBER 2012



What moved the markets

The S&P/TSX Composite Index rose 0.9% in October to close at 12,423. Companies in Telecommunications, Consumer Staples and Industrials led the benchmark higher, while Energy underperformed. In the Telecom space, **Rogers Communications (RCL.B)** gained 10.2% on the back of a well-received earnings report, while **Telus (T.A)** was up 4.6%. In Industrials, **Transcontinental (TCL.A)** climbed 23.4% over the month, while **Canadian Pacific Railway (CP)** gained 12.6% after reporting strong third-quarter results. In the Energy space **Talisman (TLM)** declined 13.9%, and **Progress Energy (PRQ)** retreated 8.1% after the Canadian government blocked its takeover by PETRONAS. Meanwhile, **Celtic Exploration (CLT)** rallied 42.7% on the news of its proposed acquisition by **Exxon (XOM)**. **MacDonald Dettwiler (MDA)** surged 9.0% upon receiving anti-trust clearance for its Space Systems/Loral acquisition, while **Astral Media (ACM.A)** fell 15.1% after Canada's broadcast regulator blocked its merger with **BCE (BCE)**.

The S&P 500 and the Dow Jones Industrial Average finished in negative territory for the

month, declining 2.0% and 2.5%, respectively. The corporate earnings season kicked off with some major disappointments, especially in the Technology and Industrials sectors. **Google (GOOG)** fell 9.8% and **IBM (IBM)** declined 6.2% on weak third-quarter earnings, while **Apple (AAPL)** slid 10.8% as its quarterly results and its iPad Mini launch left investors unimpressed. Other names that reported weaker than expected earnings include **General Electric (GE)**, **DuPont (DD)** and **Chevron (CVX)**. On the bright side, **Citigroup (C)** and **Ford (F)** delivered notable earnings beats, rising 14.3% and 13.2%, respectively, on the news. In M&A deals, Japanese Softbank announced the acquisition of a 70% stake in **Sprint Nextel (S)**, **McKesson (MCK)** agreed to buy **PSS World Medical (PSS)**, and **Walt Disney (DIS)** is acquiring Lucasfilm and its "Star Wars" franchise.

WTI crude ended the month at \$86.24 per barrel, down 6.5%, while natural gas advanced 11.2% to \$3.69. Precious metal prices trended notably lower, reversing their prior month's gains: silver fell 6.6%, while gold was down 2.9%. The Canadian dollar weakened relative to the U.S. dollar, closing at 0.999 CAD/USD.

What moved the markets – continued

Canadian economic releases were mixed in October as global headwinds continue to restrain domestic activity. The economy unexpectedly contracted by 0.1% in August, representing the first decline in six months. Housing starts came in at an annualized rate of 220,000 in September, much stronger than the 205,000 that economists had expected. Toronto, however, saw a sharp decline in housing starts, down 38.2% from the prior month. In positive news, the Canadian economy added 52,100 jobs in September, beating the forecast of a 10,000 increase. The unemployment rate rose to 7.4% from 7.3%, however, due to the increase in the labour force size.

Recent U.S. economic releases suggested a continuing recovery. Third-quarter GDP growth outpaced expectations, expanding at a 2.0% rate. New home sales rose 5.7% in September to an annualized pace of 389K units, slightly stronger than the market expectations. Furthermore, new home construction surged 15% to the highest level in four years, and the median sales price for new homes increased 11.7% year-over-year, adding to the signs of revival. Meanwhile, September nonfarm payroll employment rose 114K, and the unemployment rate fell to 7.8% from 8.1% in August. The 4-week moving average of initial jobless claims stood at 368,000 in the last week of October, compared to 375,500 a month ago. Despite many positive developments, the looming fiscal cliff and the uncertainty of the policies that will follow the presidential election on November 6th are keeping investors nervous.

Number Crunching

Equity Indices*	Month	YTD*
S&P/TSX Composite Index TR	1.1%	6.5%
Dow Jones Industrial Average TR	-2.4%	9.5%
S&P 500 Index TR	-1.8%	14.3%
NASDAQ Composite Index TR	-4.1%	15.8%
MSCI EAFE TR (USD)	0.8%	11.5%
MSCI World TR (USD)	-0.6%	12.8%

S&P/TSX Sector Performance*	Month	YTD*
S&P/TSX Financials TR	1.3%	12.1%
S&P/TSX Energy TR	0.2%	0.4%
S&P/TSX Materials TR	0.6%	1.6%
S&P/TSX Industrials TR	2.1%	9.9%
S&P/TSX Consumer Discretionary TR	1.4%	17.2%
S&P/TSX Telecom Services TR	3.6%	10.8%
S&P/TSX Information Technology TR	1.8%	-7.8%
S&P/TSX Consumer Staples TR	2.4%	14.9%
S&P/TSX Utilities TR	0.6%	3.3%
S&P/TSX Healthcare TR	0.6%	21.2%

In Europe, October brought a notable improvement in risk sentiment. The framework for unlimited bond purchases, outlined by the European Central Bank in September, appears to have temporarily calmed the markets, giving the region's leaders some breathing room to consider their next steps towards integration. Furthermore,

Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	0.9994	1.6%	-2.1%
Euro	1.2953	2.4%	-2.1%
British Pound	1.6121	1.4%	1.6%
Japanese Yen (100)	0.0125	-0.6%	-5.6%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$86.24	-6.5%	-12.7%
Natural Gas (per million btu)	\$3.69	11.2%	23.5%
Gold (per ounce)	\$1,720.65	-2.9%	10.0%
Silver (per ounce)	\$32.25	-6.6%	15.8%
Copper (per pound)	\$3.52	-5.5%	2.2%
Nickel (per pound)	\$7.32	-12.4%	-13.8%
Aluminum (per pound)	\$0.85	-9.9%	-5.9%
Zinc (per pound)	\$0.85	-10.8%	1.4%

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

Source: Bloomberg

third-quarter earnings reports turned out to be reasonably robust despite the weak economic backdrop, helping to push the region's bourses higher for the month.

China's benchmark index ended the month in negative territory, as the global economic

What moved the markets – continued

slowdown has manifested itself in disappointing corporate profits for the quarter. On the bright side, evidence is mounting that the nation's economy may have bottomed out and is stabilizing. China's official Purchasing Managers' Index (PMI), a leading economic indicator, rose to 50.2 from 49.8 in September, while exports, retail sales and industrial production data also came in relatively healthy. Moreover, there is a chance that policy reforms will gain fresh momentum when the country's once-in-a-decade leadership transition takes place in November.

Fixed Income Month in Review

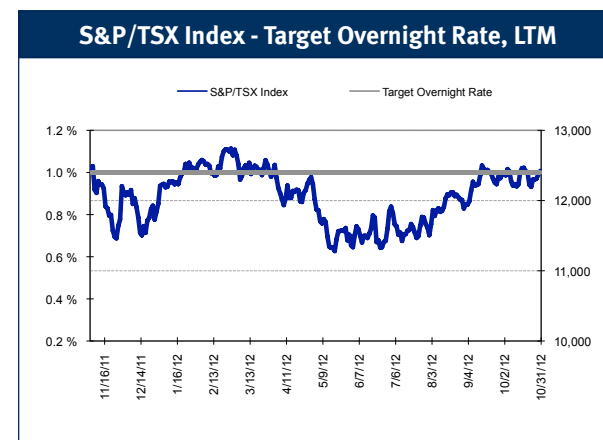
Despite the move lower in equity markets throughout the month, global fixed income markets reflected investor optimism that the worst of the European debt crisis may have been averted. Safe-haven Canadian, U.S., and German government bond yields closed the month higher as investors shifted funds into riskier fixed income assets, indicating confidence in the progression of global growth. One of the beneficiaries of this shift was the debt of struggling euro-zone nations. The borrowing costs for Spain and Italy declined, indicating that the European Central Bank's (ECB) proposed bond buying program has somewhat quelled investor fears.

An ironic twist has developed in the European debt crisis. For months the discussion in Europe had been whether the ECB and the stronger euro-zone nations would agree to terms of a bailout

package for the struggling euro-zone members. Now the question has turned to whether Spain, the euro-zone's fourth largest economy, will formally request aid. Spain's President Mariano Rajoy has insisted that the country has no immediate need to ask for outside aid in order to meet its near-term obligations. Despite this, Spanish government bond yields ended the month lower as market participants expect political brinkmanship to give way to practicality with a formal request for aid in the coming weeks. Paradoxically, the drop in borrowing rates has taken some of the pressure off the Spanish government to request aid. As a result, the precise timing of a formal aid request remains uncertain.

Canadian government bond yields moved higher across all maturities versus the previous month. The Bank of Canada (BoC) left its overnight interest rate unchanged at 1.00% and strengthened its tightening bias saying "over time, some modest withdrawal of monetary policy stimulus will likely be required." The BoC also maintained its growth outlook at 2.3% for 2013. This was somewhat of a surprise because many market participants had anticipated the removal of the tightening bias and a downward revision of 2013 growth expectations.

U.S. Treasury yields closed the month higher versus the prior month, with the largest move taking place in the 5 - 7 year portion of the yield curve. The Federal Open Market Committee (FOMC) left policy unchanged at its October meeting, with the target range for the federal funds rate kept at 0.00% to 0.25%. The FOMC reiterated its commitment to open-ended

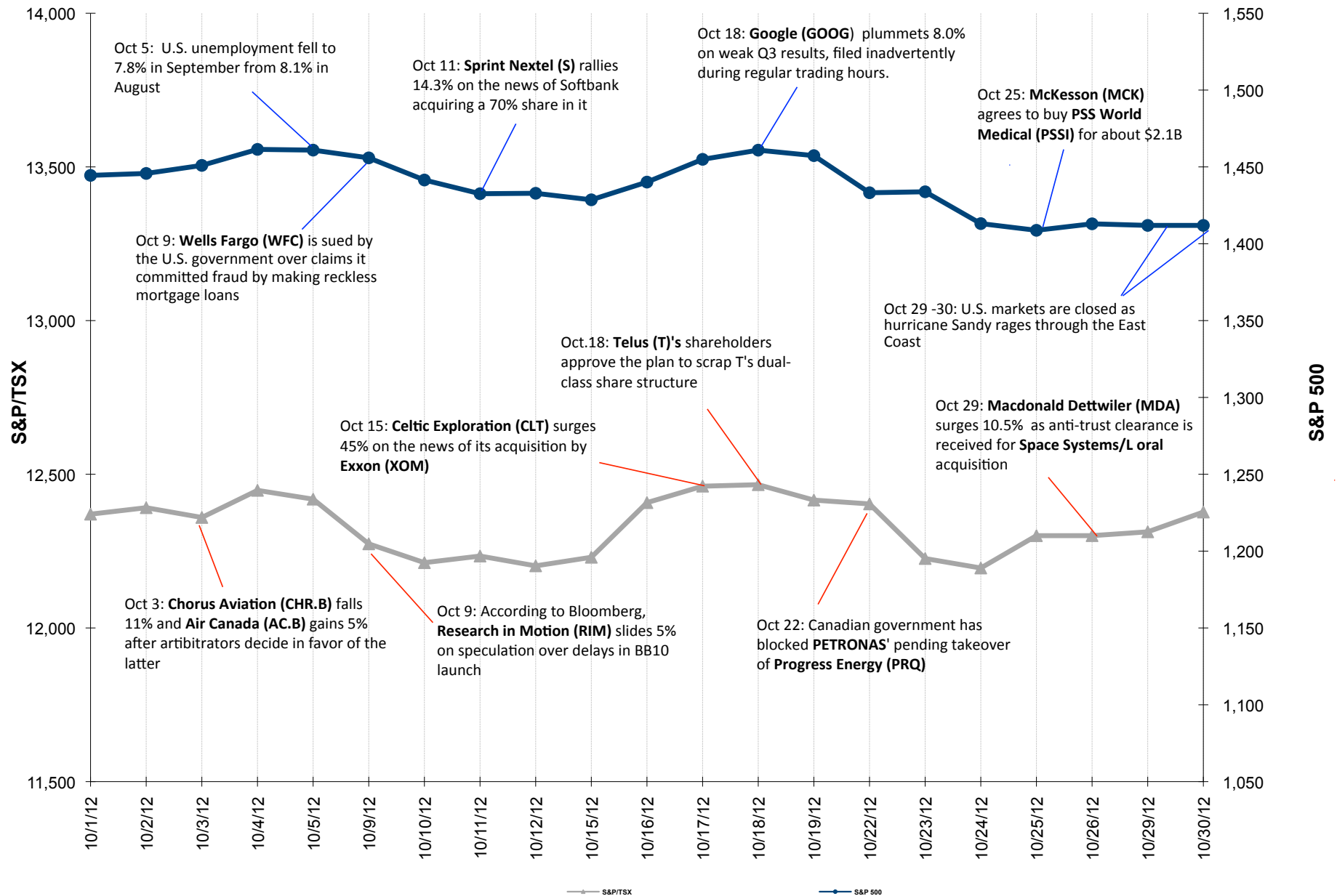


Source: Bloomberg

purchases of agency Mortgage Backed Securities (MBS) as announced in September, while also continuing Operation Twist and maintaining its forward guidance that "exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015."

Corporate bonds were the star performer in a month that saw the investment grade and high yield segments of the market post some of the highest returns while U.S. Treasuries suffered a modest decline. Many investors feel that corporate bonds, mostly investment grade corporate bonds, are the primary beneficiary of a reallocation of funds from mortgages, as the Federal Reserve continues the purchases of agency MBS and investors look to take profits in these securities.

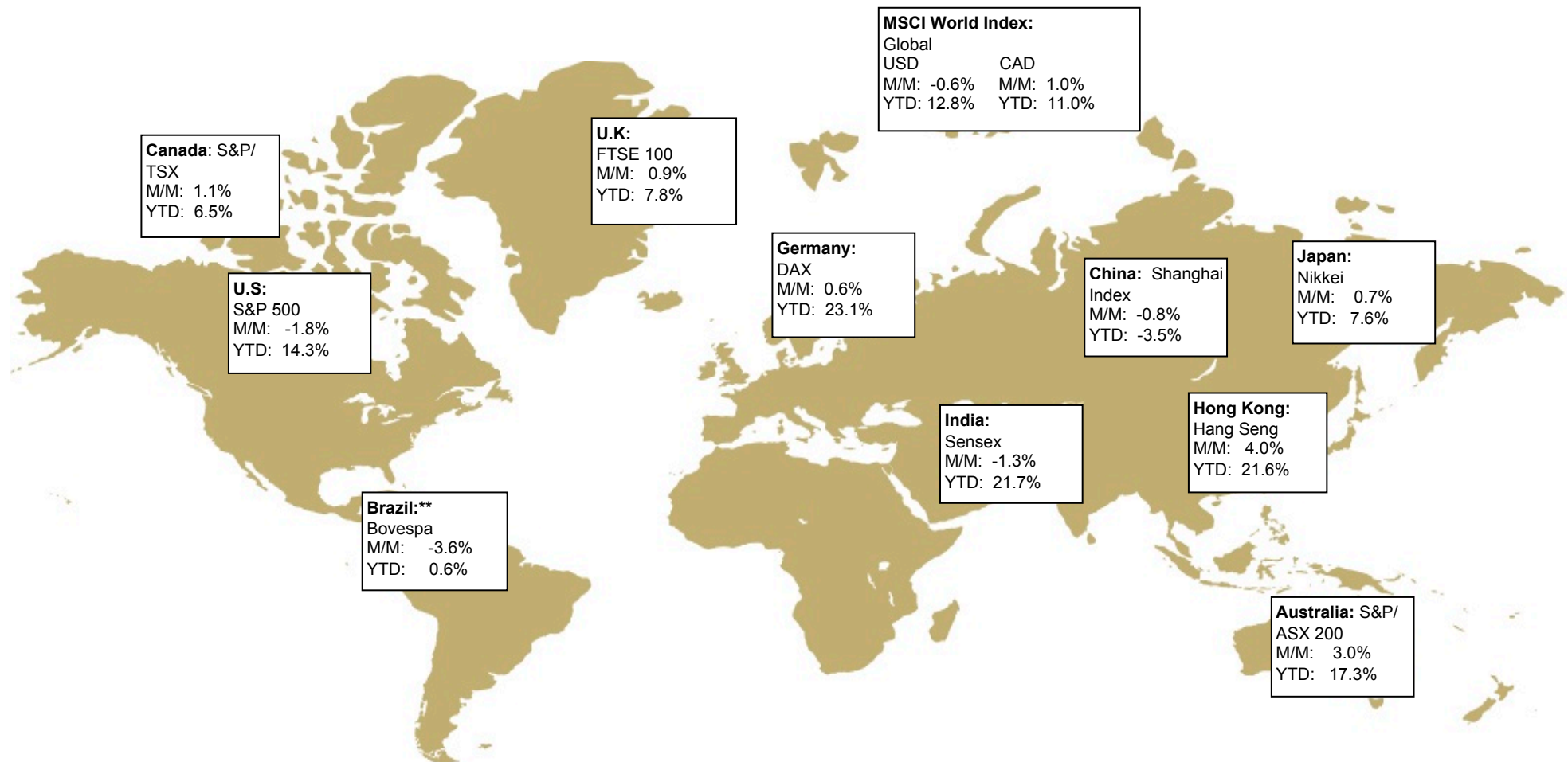
North American Equity Highlights – October 2012



World Markets – October 2012

Markets performance was varied across the globe on a mixed bag of news. U.S. markets trended lower in response to third-quarter earnings misses and cautious forward guidance by many blue-chip names. In Europe, policy makers appear to have succeeded (for now) in calming investors' fears over the region's debt crisis, although the macroeconomic picture remains grim. Meanwhile, a notable slowdown in China's economy amid muted policy responses related to the leadership transition dragged down the Shanghai Composite. Notably, signs of stabilizing appeared closer to the month's end, lifting China's stocks from their lows.

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

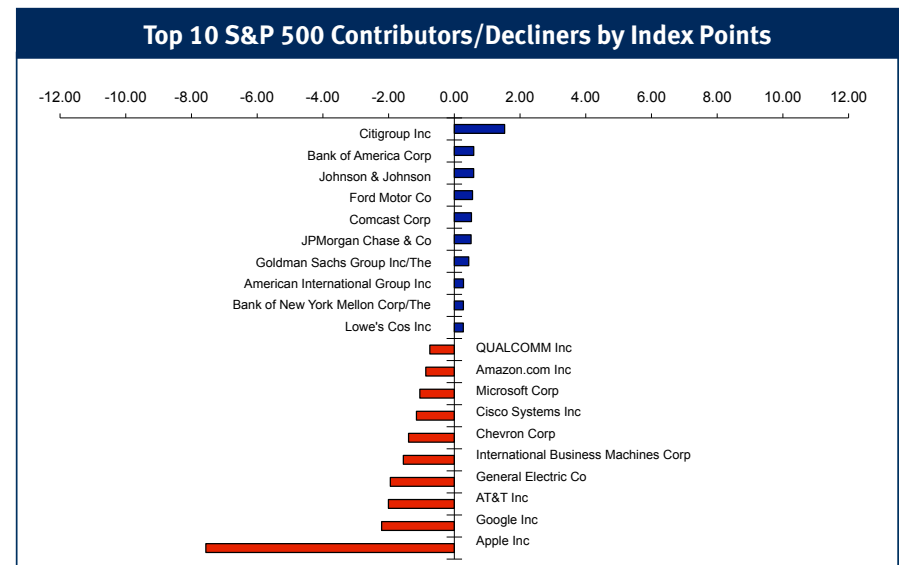
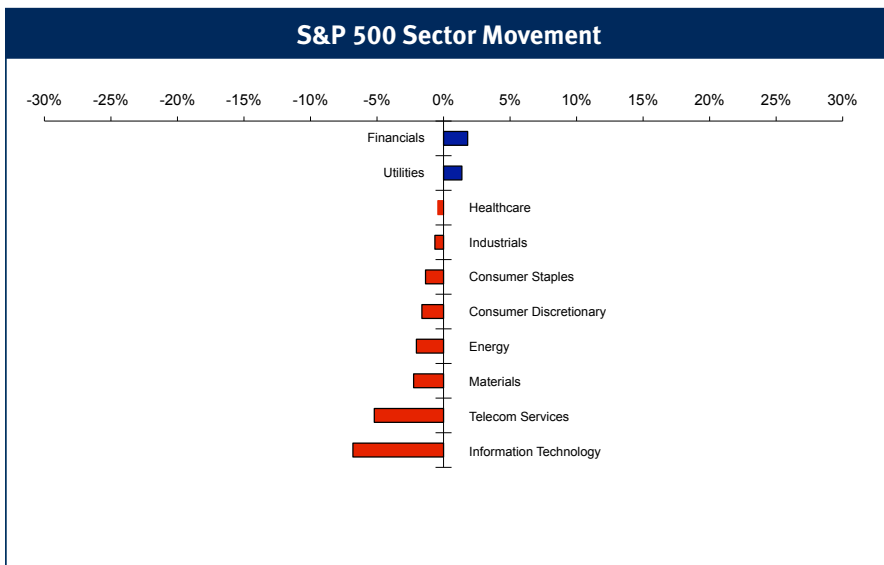
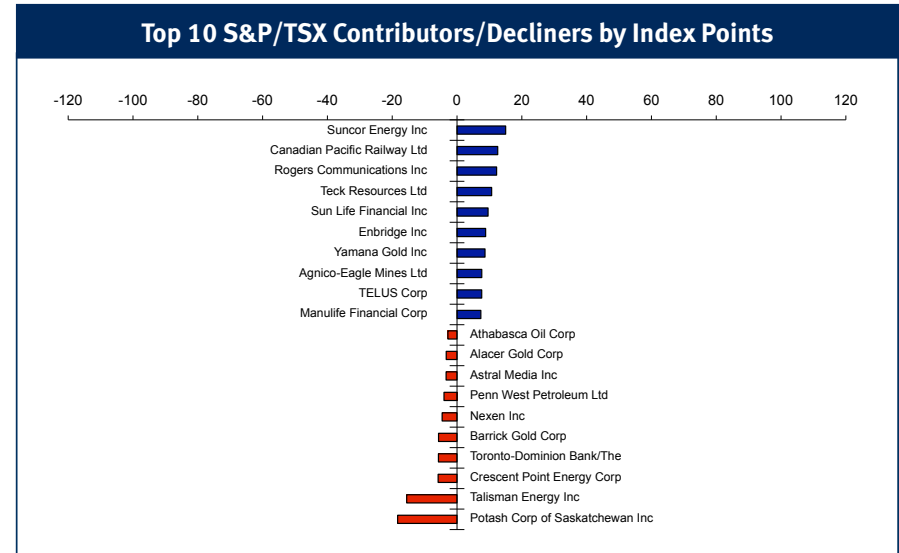
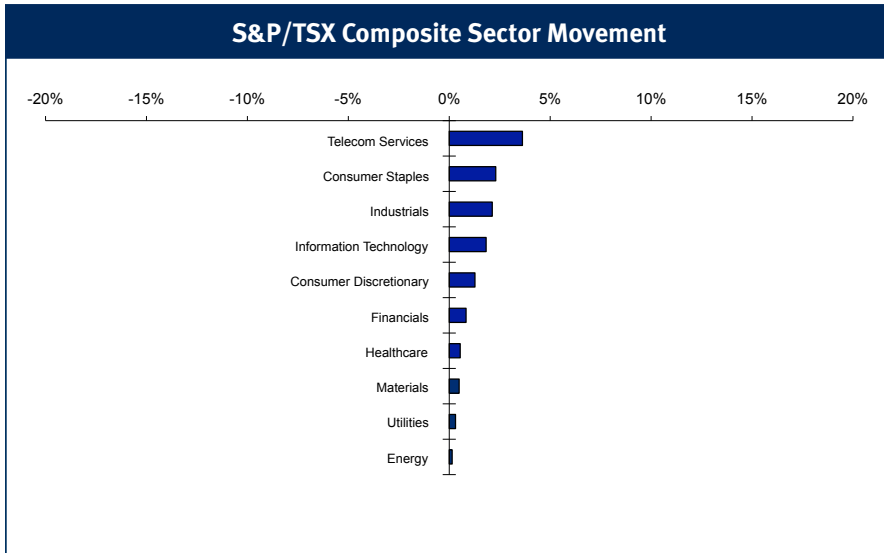


Canadian and U.S. Economic Data – October 2012

Higher Than Expected		Event	Period	Consensus	Actual	Prior
5-Oct	CA	Unemployment Rate	Sep	7.30%	7.40%	7.30%
5-Oct	CA	Net Change in Employment	Sep	10.0K	52.1K	34.3K
9-Oct	CA	Housing Starts	Sep	205.0K	220.2K	229.8K
15-Oct	CA	Existing Home Sales MoM	Sep	-5.00%	2.50%	-5.80%
1-Oct	US	ISM Manufacturing	Sep	49.7	51.5	49.6
4-Oct	US	Continuing Claims	Sep	3275K	3281K	3281K
4-Oct	US	Factory Orders	Aug	-5.90%	-5.20%	2.60%
15-Oct	US	Business Inventories	Aug	0.50%	0.60%	0.80%
17-Oct	US	Housing Starts	Sep	770K	872K	758K
17-Oct	US	Housing Starts MOM%	Sep	2.70%	15.00%	4.10%
17-Oct	US	Building Permits	Sep	810K	894K	801K
17-Oct	US	Building Permits MOM%	Sep	1.10%	11.60%	-1.20%
18-Oct	US	Initial Jobless Claims	Oct	365K	388K	342K
18-Oct	US	Philadelphia Fed.	Oct	1	5.7	-1.9
23-Oct	US	House Price Index MoM	Aug	0.30%	0.70%	0.10%
As Expected						
23-Oct	CA	Bank of Canada Rate	Oct	1.00%	1.00%	1.00%
19-Oct	US	Existing Home Sales	Sep	4.75M	4.75M	4.83M
Lower Than Expected						
2-Oct	US	ISM New York	Sep	--	52.9	51.4
4-Oct	US	Initial Jobless Claims	Sep	370K	367K	363K
5-Oct	US	Unemployment Rate	Sep	8.20%	7.80%	8.10%
11-Oct	US	Initial Jobless Claims	Oct	370K	339K	369K
11-Oct	US	Continuing Claims	Oct	3275K	3273K	3288K
15-Oct	US	Empire Manufacturing	Oct	-4	-6.16	-10.41
18-Oct	US	Continuing Claims	Oct	3275K	3252K	3281K
19-Oct	US	Existing Home Sales MoM	Sep	-1.60%	-1.70%	8.10%
25-Oct	US	Initial Jobless Claims	Oct	370K	369K	392K
25-Oct	US	Continuing Claims	Oct	3260K	3254K	3256K
26-Oct	US	U. of Michigan Confidence	Oct	83	82.6	83.1

Source: Bloomberg

Canadian & U.S. Equities – October 2012



Source: Bloomberg



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