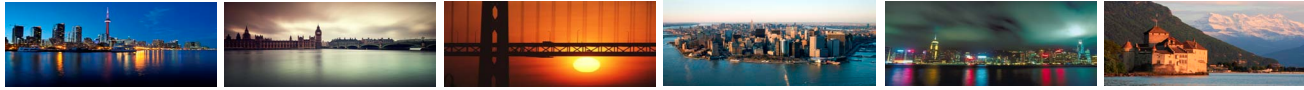


RBC Wealth Management | Global Insight Weekly



- » Equities rose and safe-haven bonds fell following solid economic data across regions—U.S. employment report aside.
- » Weak job gains are unlikely to derail the Fed’s tapering plans.
- » For 10-year Treasuries, 3% is set to become the new 2%. That has far reaching implications across regions. Investors should position portfolios accordingly. (page 3)
- » Global Roundup: Overview of Canada’s strong employment report. Is the market ahead of itself regarding the BOE’s easing bias? Interesting comments by Chinese officials about local government debt. (pages 3-4)

GLOBAL INSIGHT MONTHLY NOW AVAILABLE

The September edition discusses RBC’s latest thoughts about the economy, equities, fixed income, currencies, and asset allocation.

Specifically, it discusses events that could jostle markets, the historic bond market transition, and factors that could potentially derail our positive equity forecast. It also includes an article about the uranium market.

Equity Scorecard – September 6, 2013

Index (local currency)	Level	1 week	MTD	YTD
S&P 500	1,655.17	1.4%	1.4%	16.1%
S&P/TSX Comp	12,820.92	1.3%	1.3%	3.1%
FTSE All Share	3,484.84	2.2%	2.2%	12.7%
Hang Seng	22,621.22	4.1%	4.1%	-0.2%
Dow (DJIA)	14,922.50	0.8%	0.8%	13.9%
NASDAQ	3,660.01	2.0%	2.0%	21.2%
Russell 2000	1,029.55	1.8%	1.8%	21.2%
STOXX Europe 600	306.10	3.0%	3.0%	9.4%
German DAX	8,275.67	2.1%	2.1%	8.7%
Nikkei 225	13,860.81	3.5%	3.5%	33.3%
Straits Times	3,048.35	0.6%	0.6%	-3.7%
Shanghai Comp	2,139.99	2.0%	2.0%	-5.7%
Brazil Bovespa	53,749.42	7.5%	7.5%	-11.8%

Note: Equity returns do not include dividends.

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Markets & the Economy

Market Scorecard – September 6, 2013

Govt Bonds (bps chg)	Yield	1 week	MTD	YTD
US 2-Yr Tsy	0.459%	6.0	6.0	21.2
US 10-Yr Tsy	2.938%	15.4	15.4	118.1
Canada 2-Yr	1.291%	10.0	10.0	15.0
Canada 10-Yr	2.769%	15.3	15.3	97.1
UK 2-Yr	0.499%	8.5	8.5	17.6
UK 10-Yr	2.937%	16.5	16.5	110.9
Germany 2-Yr	0.268%	3.0	3.0	28.3
Germany 10-Yr	1.950%	9.4	9.4	63.4
Commodities (USD)	Price	1 week	MTD	YTD
Gold (spot \$/oz)	1,389.61	-0.4%	-0.4%	-17.1%
Silver (spot \$/oz)	23.86	1.4%	1.4%	-21.4%
Copper (\$/ton)	7,079.25	0.0%	0.0%	-10.5%
Oil (WTI spot/bbl)	110.53	2.7%	2.7%	20.4%
Oil (Brent spot/bbl)	115.87	1.6%	1.6%	4.3%
Natural Gas (\$/mInBtu)	3.53	-1.5%	-1.5%	5.2%
Agriculture Index	369.86	-1.5%	-1.5%	-18.1%
Currencies	Rate	1 week	MTD	YTD
US Dollar Index	82.16	0.1%	0.1%	3.0%
CAD/USD	0.96	1.2%	1.2%	-4.7%
USD/CAD	1.04	-1.2%	-1.2%	4.9%
EUR/USD	1.32	-0.3%	-0.3%	-0.1%
GBP/USD	1.56	0.8%	0.8%	-3.8%
AUD/USD	0.92	3.3%	3.3%	-11.6%
USD/CHF	0.94	0.8%	0.8%	2.4%
USD/JPY	99.11	1.0%	1.0%	14.2%
EUR/JPY	130.59	0.6%	0.6%	14.1%
EUR/GBP	0.84	-1.2%	-1.2%	3.8%
EUR/CHF	1.24	0.5%	0.5%	2.3%
USD/SGD	1.27	-0.1%	-0.1%	4.3%
USD/CNY	6.12	0.0%	0.0%	-1.8%
USD/BRL	2.31	-3.3%	-3.3%	12.4%

Source: Bloomberg. Note: Bond yields in local currencies. Copper and Agriculture Index data as of Thursday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing. Data as of 8:30 pm GMT 9/6/13.

Examples of how to interpret currency data: CAD/USD 0.96 means 1 Canadian dollar will buy 0.96 U.S. dollar. CAD/USD -4.7% return means the Canadian dollar fell 4.7% vs. the U.S. dollar year to date. USD/JPY 99.11 means 1 U.S. dollar will buy 99.11 yen. USD/JPY 14.2% return means the U.S. dollar rose 14.2% vs. the yen year to date.

Economic data—much of it better than expected—lifted stock markets and pushed safe-haven government bonds lower and yields up for the week.

Reports showed manufacturing activity rose across regions in August. The U.S. index jumped to its best level since June 2011 and recorded its second-straight reading above 55.0, which is solidly in expansion territory. In Europe, Spain's manufacturing sector moved from contraction to expansion, and Italy's activity improved. New orders—an important gauge of future manufacturing activity—were strong in the U.S. and Europe. In China, the HSBC manufacturing index climbed into expansion territory for the first time since April, further evidence the economy is stabilizing, if not improving.

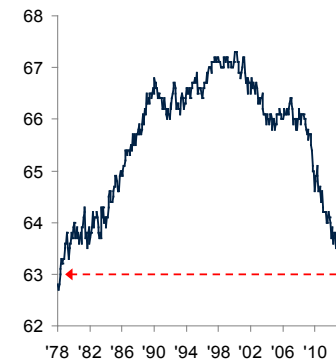
Other U.S. data were also strong. In August, service sector activity surged to its highest level since late 2005; subcomponents were robust. Vehicle sales surprised, posting the strongest monthly unit sales since late 2007 on the back of lower incentives and improved pricing power.

As market participants digested these and other positive economic reports, the 10-year Treasury yield climbed higher, closing in on 3%—that is, until Friday's disappointing employment report hit.

Not only were U.S. non-farm payrolls lighter than expected in August at 169,000 versus the 180,000 consensus forecast, July employment growth was revised lower to 104,000 from 162,000. In August, the sector composition was lacking with big losses in business and professional services.

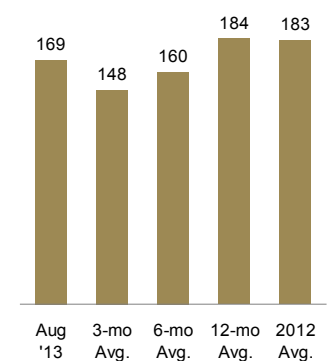
The decline in the U.S. unemployment rate to 7.3% from 7.4% was mainly due to more Americans leaving the work force. The labor force participation rate fell to its lowest level in 35 years (see left chart).

The % of People in the Work Force Has Fallen to a 35-Year Low
U.S. Labor Force Participation Rate (%)



Source - RBC Wealth Management, Bloomberg, Bureau of Labor Statistics

August Job Growth Exceeded the 3- and 6-month Averages
U.S. Non-Farm Payrolls (in thousands)



Average job growth during the past three months was slower than during the past 12 months. But at least the sub-par August gains were above the three- and six-month averages (see right chart).

Even though U.S. Treasuries initially rallied and yields dropped following the employment report (10-year fell to 2.86% shortly after the announcement), the moves lost momentum into the close and the 10-year rose back above 2.90%.

Within equities, emerging markets outperformed for the week as currencies in India and Brazil finally bounced following steep declines since early May. India's new central bank governor announced measures to increase the supply of U.S. dollars. Authorities in India, Brazil, and other emerging markets likely have much more heavy lifting ahead.

The Syria deliberations impacted trading at times, although this is just one of many issues confronting markets in September (see the new *Global Insight* monthly report for details).



Markets & the Economy

3.0% SET TO BECOME THE NEW 2.0% DESPITE LATEST JOBS REPORT

Investors hoping for fresh signs of a robust U.S. employment recovery were left disappointed with the release of the latest non-farm payroll report. But, as the Federal Reserve is likely to be undeterred in its plans to scale back asset purchases, investors continue preparing for a move higher in long-term interest rates. As rates continue on a path to normalization, a difficult digestion process could be on the horizon for investors around the globe, given the interconnected nature of fixed income, equity, currency, and commodity markets.

The broad consensus remains that the Federal Reserve is still on track to scale back its asset purchases at some point in 2013. Despite the initial rally in Treasuries (and decline in yields) on the heels of Friday's disappointing jobs report, expectations remain high that the yield on the U.S. 10-year is likely to push up against the psychologically important 3.0% level in short order. When the move above 3.0% occurs, what remains to be seen is if there will be a pause of some sort

or if rates will move unabated towards the 3.25% level. This likely will be entirely dependent on the nature of the economic data.

The beginning of the end of asset purchases in the U.S. has far reaching implications for investors sensitive to volatile interest rates and currencies. In the developed world, the Bank of England, European Central Bank, and Bank of Japan remain committed to unconventional monetary stimulus just as the U.S. is pulling back. While pundits continue to muse about lethargic growth in the U.S., the truth remains that the country appears to be on better economic footing than many of its developed market peers. This should prove to be U.S. dollar bullish, with unclear implications for other developed markets.

But it is the emerging markets that are likely to be the epicentre of any fallout from a continued rise in U.S. rates. The Indian rupee, which has depreciated nearly 20% since May when the Fed's tapering discussion began in earnest, could be at risk of further pain with the implications for economic growth expected to be dire. India remains a developing economy that is starved for

foreign capital. Indonesia's benchmark equity index has dropped more than 20% from its year-to-date high as a marked depreciation of its currency, the rupiah, stokes inflationary pressures at home and crimps the confidence of consumers that are largely dependent on imports. These types of aftershocks could transpire throughout the world with the implications for global markets difficult to forecast.

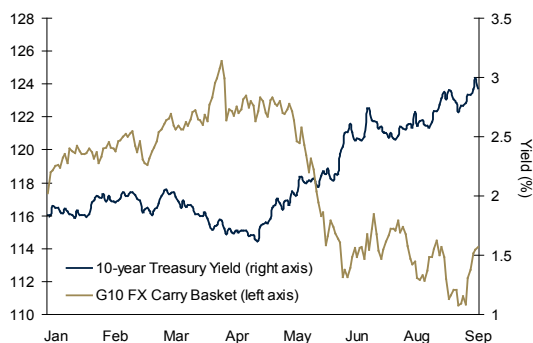
Market participants would likely prefer a brief respite from the rise in U.S. rates now, followed by a slow and steady normalization process. Such stability generally proves elusive, suggesting investors should take the respite they have now to position portfolios for a world where the 3.0% level on U.S. 10-year yields is the base of support for the next move higher.

Global Roundup

Canada

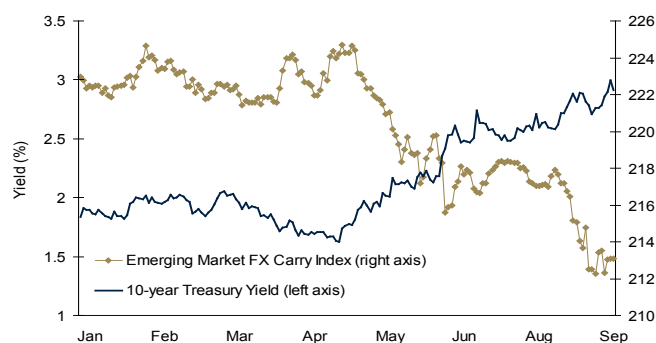
- The TSX ended the holiday-shortened week in positive territory as the **telecommunications sector rose more than 3%** following news **Verizon will not be coming to Canada** as it looks to pursue an acquisition of its outstanding stake in the wireless company owned by **Vodafone**. Canadian banks were also particularly strong following upbeat earnings reports released the prior week.
- Government of Canada bond yields in the 5- to 30-year component of the yield curve moved approximately 12-18 basis points higher week over week. **The direction of Government of Canada yields was dictated by U.S. Treasury yields**, which moved higher through much of the week as the broad consensus remains that the U.S. Federal Reserve will begin to scale back its asset purchases at some point in 2013.

**As Treasury Yields Have Risen,
the Highest-Yielding G10 Currencies Have Fallen**
U.S. 10-year Treasury Yield vs. G10 Foreign Exchange Carry Basket



Source - RBC Dominion Securities, Bloomberg, Deutsche Bank FX index; data through midday 9/6/13

**As Treasury Yields Have Risen,
Emerging Market Currencies Have Declined**
U.S. 10-year Treasury Yield vs. Emerging Market Foreign Exchange Carry Index



Source - RBC Dominion Securities, Bloomberg, CitiFX Beta Indices; data through midday 9/6/13

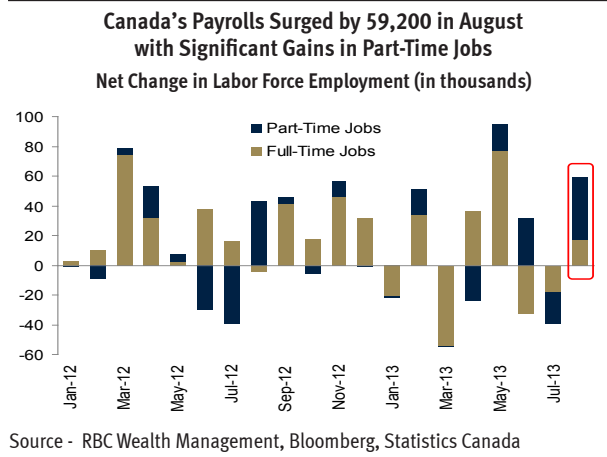


Global Roundup

- **The Canadian labour market was much stronger** on a sequential basis and versus expectations. In August, Canada added 59,200 jobs (versus -39,400 in July), and the release was almost **three times better than anticipated** (59,200 versus consensus of 20,000). There were **solid gains in full-time jobs and significant gains in part-time employment** (see chart). The unemployment rate fell to 7.1% from 7.2%. The health care sector reversed course by adding 59,500 jobs in August following a weak showing in July.
- The Bank of Canada's (BOC) overnight interest rate remained unchanged at 1.00%, the same rate since September 2010. **BoC Governor Stephen Poloz** upheld the "eventual" tightening bias in the Bank's statement and communicated that **market participants can expect a "gradual normalization of policy rates."**
- **Coming up:** Housing Starts (Sep 10).

Europe

- **August Spanish and Italian Manufacturing Purchasing Managers' Indices (PMIs)** surprised marginally on the upside, **rising to 51.1 and 51.3**, respectively, comfortably above the 50 level, which indicates expansion. **The recession in both countries seems to be bottoming out**, and a recovery seems underway for the second half of the year. The **European Central Bank (ECB)** refrained from being too optimistic, **opting to keep its interest rates and easing bias unchanged**. In ECB President Mario Draghi's view, risks remain on the downside, not only because of the lack structural reforms but also due to the added risk of higher oil prices associated with tensions in Syria.
- **Macroeconomic news was also encouraging in the U.K.**, where August PMIs rose. The forward-looking components, such as new



orders and business expectations, were stronger, suggesting growth momentum in the U.K. can be sustained for now. Markets reacted very strongly to the news. The yield on 10-year Gilts rose to a two-year high as **market participants read into the data that the U.K.'s loose monetary policy would end sooner than suggested** by the Bank of England's (BOE) new threshold policy. **This knee-jerk reaction may be premature.** RBC Capital Markets economists point out the **employment indices in the PMI report actually weakened during August**. This, in their view, suggests the easing bias will likely remain in place. Moreover, **BOE Governor Mark Carney** stressed that what is key for households and the corporate sector is not the long end of the yield curve, but rather the short end, and that is what he will focus on going forward.

- **Coming up:** Euro area Industrial Production (Sep 12); U.K. Construction Output (Sep 13).

Asia Pacific

- Asian equity markets were relatively stable during the week. However, the **Indonesian rupiah and Thai baht reached new lows for the**

year. The rupiah has declined 19.2% against the U.S. dollar since May 22.

- The **Indian rupee climbed** as the new governor of Reserve Bank of India, Mr. Raghuram Rajan, stated the central bank should be transparent and predictable. He added that reform was needed in the Indian banking system. **Bank stocks rallied sharply.**
- The **Bank of Japan** stated the economy is "recovering moderately." While hardly a ringing endorsement, it is the **best outlook formally provided since 2008.** Governor Haruhiko Kuroda encouraged the government to move ahead with an increase in the sales tax in April to avoid undermining confidence in fiscal management. **The Japanese government also upgraded its outlook for the economy.**
- Bank Negara, **Malaysia's central bank**, kept its policy rate at 3.0%, as expected. Inflation was low at just 1.7% in the first seven months of the year. The central bank expects inflation to rise for the rest of 2013 and into 2014, in part due to changes in fuel subsidies.
- **China's Finance Minister Lou Jiwei said local government debt levels were "controllable," the growth rate was "slowing," but that in some places the problem was "relatively big."** Separately, Zhu Guangyao, the vice finance minister, said local government debt levels may have only risen "a little bit" since they were last audited two years ago. Results of the current audit of local government debt will be released in October.
- **Sun Hung Kai (0016.HK)**, the largest property developer and investor in Hong Kong, successfully bid on a huge land site, over 500,000 square meters, in Shanghai for RMB 21.8 billion (US\$3.55 billion), or RMB 37,000 (US\$6,000) per square metre. The purchase is a strong indication of the **company's confidence in the long-term outlook for the Shanghai commercial property market.**

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			Count	Percent
Buy [Top Pick & Outperform]	763	51.04	276	36.17
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