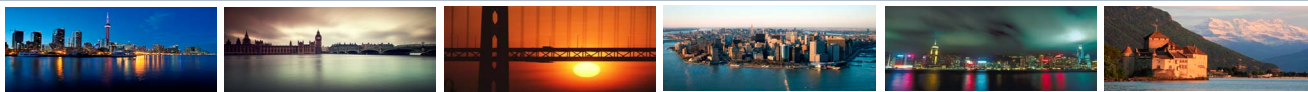


RBC Wealth Management | Global Insight Weekly



- » Safe-haven government bonds sold off, and yields jumped to the highest levels in two years on improved European and U.S. economic reports.
- » New data show foreigners sold U.S. assets at nearly a record pace as markets reacted to the Fed's tapering strategy. (page 3)
- » Global Roundup: Developments in Canada's preferred share market; analysis of eurozone and U.K. economic surprises; earnings highlights in Asia. (pages 3-4)

Equity Scorecard – August 16, 2013

Index (local currency)	Level	1 week	MTD	YTD
S&P 500	1,655.83	-2.1%	-1.8%	16.1%
S&P/TSX Comp	12,736.92	1.6%	2.0%	2.4%
FTSE All Share	3,456.02	-1.3%	-1.5%	11.7%
Hang Seng	22,517.81	3.3%	2.9%	-0.6%
Dow (DJIA)	15,081.47	-2.2%	-2.7%	15.1%
NASDAQ	3,602.78	-1.6%	-0.7%	19.3%
Russell 2000	1,024.30	-2.3%	-2.0%	20.6%
STOXX Europe 600	306.36	0.1%	2.3%	9.5%
German DAX	8,391.94	0.6%	1.4%	10.2%
Nikkei 225	13,650.11	0.3%	-0.1%	31.3%
Straits Times	3,197.53	-1.0%	-0.8%	1.0%
Shanghai Comp	2,068.45	0.8%	3.7%	-8.8%
Brazil Bovespa	51,538.78	3.3%	6.9%	-15.4%

Note: Equity returns do not include dividends.

Author

Kelly Bogdanov – San Francisco, United States
kelly.bogdanov@rbc.com; RBC Capital Markets, LLC

Contributors

Lucy So & Mikhial Pasic – Toronto, Canada
lucy.so@rbc.com & mikhial.pasic@rbc.com; RBC Dominion Securities Inc.

Frédérique Carrier – London, UK
frederique.carrier@rbc.com; Royal Bank of Canada Investment Management (UK) Ltd.

Jay Roberts – Hong Kong, China
jay.roberts@rbc.com; RBC Dominion Securities Inc.



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All values in U.S. dollars unless otherwise noted.
 Priced as of August 16, 2013, market close
 (unless otherwise stated).
 For Important Disclosures, see pages 5-6.

Markets & the Economy

Market Scorecard – August 16, 2013

Govt Bonds (bps chg)	Yield	1 week	MTD	YTD
US 2-Yr Tsy	0.339%	3.7	3.0	9.2
US 10-Yr Tsy	2.828%	25.0	25.2	107.1
Canada 2-Yr	1.214%	7.8	5.8	7.3
Canada 10-Yr	2.710%	22.9	25.8	91.2
UK 2-Yr	0.423%	7.6	10.5	10.0
UK 10-Yr	2.704%	24.4	34.6	87.6
Germany 2-Yr	0.219%	5.7	6.7	23.4
Germany 10-Yr	1.881%	20.1	21.1	56.5
Commodities (USD)	Price	1 week	MTD	YTD
Gold (spot \$/oz)	1,374.52	4.6%	3.7%	-18.0%
Silver (spot \$/oz)	23.20	12.8%	16.8%	-23.6%
Copper (\$/ton)	7,282.25	0.4%	6.0%	-7.9%
Oil (WTI spot/bbl)	107.46	1.4%	2.3%	17.0%
Oil (Brent spot/bbl)	110.57	2.2%	2.7%	-0.5%
Natural Gas (\$/mBtu)	3.37	4.4%	-2.1%	0.7%
Agriculture Index	373.95	2.9%	0.0%	-17.1%
Currencies	Rate	1 week	MTD	YTD
US Dollar Index	81.27	0.2%	-0.2%	1.9%
CAD/USD	0.97	-0.4%	-0.5%	-4.0%
USD/CAD	1.03	0.4%	0.5%	4.1%
EUR/USD	1.33	-0.1%	0.2%	1.1%
GBP/USD	1.56	0.8%	2.7%	-3.9%
AUD/USD	0.92	-0.2%	2.3%	-11.6%
USD/CHF	0.93	0.4%	0.0%	1.2%
USD/JPY	97.58	1.4%	-0.3%	12.5%
EUR/JPY	130.12	1.3%	-0.1%	13.7%
EUR/GBP	0.85	-0.8%	-2.4%	5.1%
EUR/CHF	1.24	0.4%	0.3%	2.3%
USD/SGD	1.27	1.0%	-0.1%	3.9%
USD/CNY	6.11	-0.1%	-0.2%	-1.9%
USD/BRL	2.39	5.0%	4.8%	16.3%

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 8:31 pm GMT 8/16/13.

Examples of how to interpret currency data: CAD/USD 0.97 means 1 Canadian dollar will buy 0.97 U.S. dollar. CAD/USD -4.0% return means the Canadian dollar fell 4.0% vs. the U.S. dollar year to date. USD/JPY 97.58 means 1 U.S. dollar will buy 97.58 yen. USD/JPY 12.5% return means the U.S. dollar rose 12.5% vs. the yen year to date.

It was another week that illustrated markets no longer trade in a vacuum. When big moves occur, they usually happen across regions.

Improved European economic data and a surprising drop in new claims for U.S. jobless benefits sparked a global bond market selloff and surge in yields. Safe-haven 10-year government bond yields climbed more than 20 basis points for the week, with Treasury, Canada, and Gilt yields reaching their highest levels in two years.

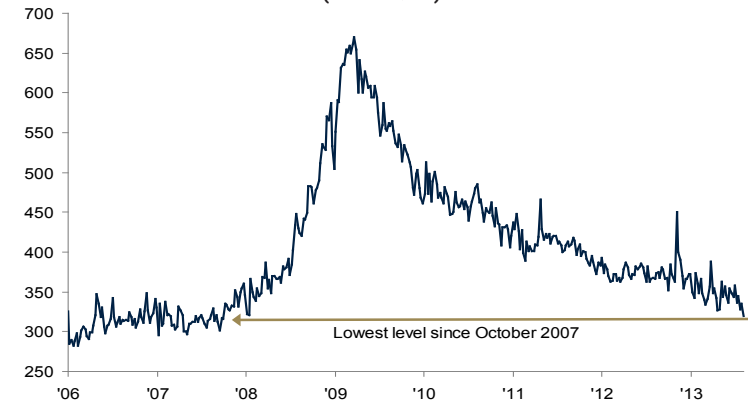
German business confidence, euro area GDP, and U.K. employment exceeded expectations and provided further evidence European economies are beginning to heal (details on page 4). In the U.S., employers terminated the lowest number of workers since before the Great Recession began (see chart). If this trend persists, it could prompt additional employment growth.

The plunge in jobless claims supports the notion bond yields are ripe for normalization, or higher levels, during the next six to 12 months. It also gives credence to the likelihood the Federal Reserve could outline its plan to decrease asset purchases in September. The 10-year Treasury yield rose to 2.828% late Friday.

In equities, the Canadian market was among the leaders as bullion and gold mining stocks rallied and telecommunications stocks traded higher. Hong Kong and China equities rose as more investors seemed to embrace the possibility the Chinese economy is stabilizing and on reports targeted government stimulus efforts could support GDP growth.

Continental European stocks continued to outpace U.S. shares. The MSCI index that tracks Continental

U.S. Weekly Jobless Claims at the Lowest Level in Years
(in thousands)



Source - RBC Wealth Management, Bloomberg; data through 8/15/13

Europe has risen 12.1% while the S&P 500 has gained 5.6% from late June through Thursday's close.

As the S&P 500 underperformed during the week and pulled back 3.2% from its all-time high, equity investors seemed to abruptly shift from a state of complacency to apprehension. Angst resurfaced about rising Treasury yields, the associated bond market volatility, and the Fed's forthcoming tapering of asset purchases. Concerns also began to emerge about swollen price-to-earnings ratios, elevated forward earnings estimates, the housing market's slowing momentum, and the fragile state of the consumer spending due to retail earnings misses (Macy's, Wal-Mart, and Nordstrom).

When U.S. equities were rising, these concerns were barely mentioned by most market participants, but when the market began to pull back, they bubbled up to the surface. In reality, many of these issues have been with us for weeks, and the rise in bond yields merely acted as the catalyst to focus attention on what could create additional volatility for the stock market.



Markets & the Economy

NEAR-RECORD FOREIGN SELLING OF U.S. BONDS AND STOCKS

New Treasury Department data show foreign selling of U.S. assets nearly reached a record pace in June when financial markets reacted to the Fed's tapering plans.

On a net basis, foreigners sold \$67 billion in U.S. securities, the most since the Lehman Brothers crisis in August 2007, and the second most since the Treasury Department began gathering the data in 1977. June outflows represented the fifth consecutive month of foreign selling, the longest streak on record.

Foreigners unwound stock and bond positions, including in the three major fixed income subgroups of government, agency, and corporate bonds. It should come as no surprise bonds took the biggest hit while the market adjusted to shifts in Fed policy. Almost \$41 billion in Treasuries were sold by foreigners in June, the biggest purge ever in a single month.

America's two largest foreign creditors, China and Japan, reduced their holdings the most, by a total

of \$42 billion. This is equivalent to roughly one-half of the Fed's asset purchases that month. China and Japan focused their selling on short-term Treasury bills and were actually net buyers of U.S. coupon bonds.

When viewed against the substantial U.S. asset positions China and Japan have built up over the years, selling by these countries was minimal at 1.7% and 1.9% of total portfolio holdings, respectively. However, these are nonetheless meaningful one-month reductions that should not be overlooked, especially since the Fed—the largest holder of U.S. assets—has signaled it will likely no longer purchase Treasuries and mortgage-backed securities by mid 2014.

Equities were not spared. Foreigners shed \$26.8 billion in stocks in June, the most since the August 2007 Lehman crisis and the second most on record.

It is important to keep in mind the month-to-month swings in foreign purchases and sales of U.S. assets are volatile, as the chart illustrates. The same countries that were net sellers in June could end up being net buyers at some point in the future.

Even so, we doubt foreign holders of U.S. assets are completely finished trimming their positions since global financial markets still need to work through Fed tapering, the normalization of interest rates that is occurring worldwide, and the ultimate shift to a higher Fed Funds rate (even if it is far off).

This is another reason we believe U.S. bond yields and yields in peer safe-haven markets are likely to drift higher during the next six to 12 months. We would hold fixed income exposure at a below-benchmark level in portfolios, which corresponds to our Underweight rating. We continue to favor defensive positioning in shorter maturities, liquid issues, and selective credits in mispriced sectors.

We recommend holding global and U.S. equities at benchmark levels in portfolios, which reflect our Neutral ratings. Equity market volatility could persist as Fed tapering actually gets underway in coming months.

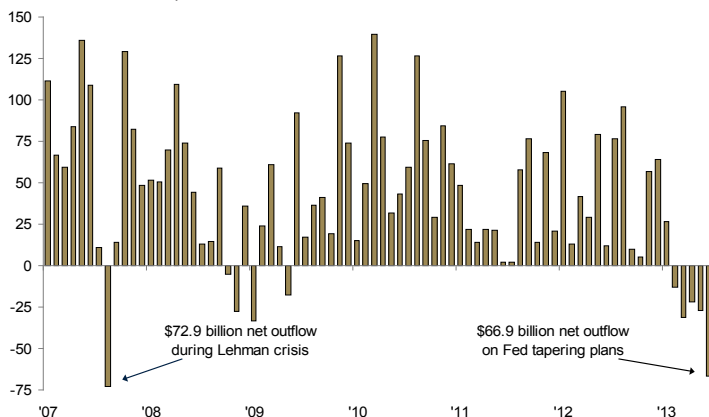
Global Roundup

Canada

- It was an upbeat week for Canadian equities as **seven out of 10 sectors ended in positive territory**. The Canadian **Materials sector was particularly strong** as the bullion price soared following the World Gold Council's second-quarter report, which found the **demand for gold bars and coins hit a record high**.
- Telecommunication stocks garnered some attention during the week as reports from *The Globe and Mail* indicated **Verizon is delaying its potential acquisition of Wind and Mobicity** until after the 700MHz spectrum auction next month. Canadian market entry is very much open to interpretation, but this news was **incrementally positive for incumbent telecom companies**.
- In M&A, **BlackBerry shares found some support** after the company announced plans to set up a special committee to explore strategic alternatives that could include joint ventures, partnerships, or a sale of the company.
- **Canadian government bond yields** ended the week substantially higher and sit at the **highest levels since mid-2011** across the yield curve. Better-than-expected U.S. economic data keyed the move higher in yields.
- International securities transactions data showed an **\$18.4 billion decline in Canadian dollar bonds held by foreigners** in June. This is only a small offset to the nearly \$250 billion

Foreign Selling of U.S. Assets in June Was the Most Since the Lehman Crisis

Monthly Foreign Net Transactions of U.S. Assets (in \$ billions)



Source - RBC Wealth Management, U.S. Treasury Department, Bloomberg; data through June 2013, the most recent report.



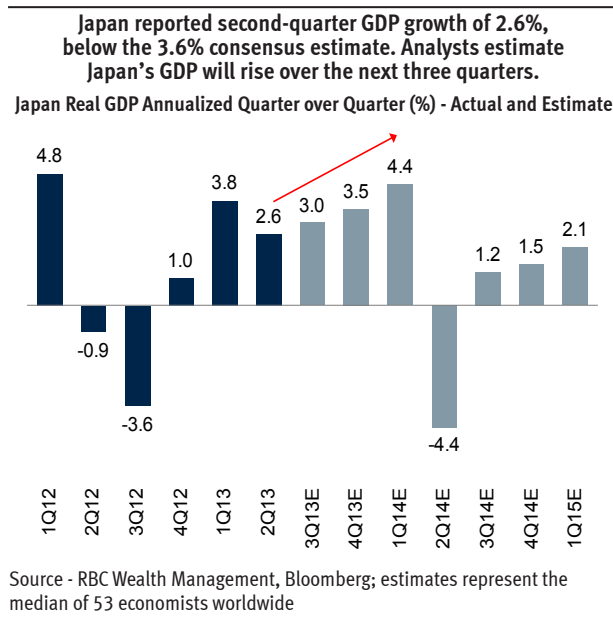
Global Roundup

of foreign investment in Canadian bonds since January 2009; however, it **partly explains some of the recent Canadian dollar weakness**.

- The S&P TSX Preferred Total Return Index closed the week at the lowest level since early 2012. Despite the continued losses in the broader preferred share market, there were **signs of stabilization in select segments of the preferred share market**. For example, **rate reset preferred shares that carry large reset spreads** and come due in one year or less were offering yields to call in the 4% area early in the week and **garnered considerable buying interest**. We believe there is a high likelihood these issues will be redeemed in a year due to the large reset spreads they carry.
- **Coming up:** Retail Sales (Aug 22); Consumer Price Index (Aug 23).

Europe

- **Second-quarter GDP growth in the eurozone was 0.3%** quarter over quarter, better than expectations. After six consecutive quarters of contraction, **this brings the region out of technical recession**. Year over year, the economy contracted by 0.7%, and remains 3% below its level at the start of the financial crisis. **Northern countries benefited from a catch-up effect in the construction sector** after harsh winter weather in the first quarter. Germany in particular grew 0.7%, as did Finland. France eked out 0.5% growth, while the Spanish and Italian economies still contracted, though at a slower pace (-0.1% and -0.2%, respectively). The recovery may well persist, as confidence indicators have continued to improve in the third quarter. **We still expect a recovery to be muted due to the ongoing fiscal drag**. Moreover, some of the issues which are currently dormant, such as Greek instability, a



second Portuguese bailout, or the asset quality review of the European banking sector, may well come back to the fore and knock fragile confidence.

- **Economic news was also positive in the United Kingdom.** The headline Labour Force Survey unemployment rate was unchanged at 7.8% in the three months ending June 31. However, details revealed underlying employment growth reached 69,000 over the period. This suggests the Monetary Policy Committee's **expectation that the 7% unemployment rate level will be reached by Q3 2016 might have to be brought forward, potentially bringing forward an interest rate increase**, if the trend continues.
- **Coming up:** U.K. Public Finances (Aug 21); Euro Area Purchasing Managers' Indexes (Aug 22); U.K. Q2 GDP (Aug 23).

Asia Pacific

- **Bank Indonesia kept its benchmark rate unchanged at 6.5%** following two consecutive increases in the world's fourth most populous country. The decision was in line with consensus forecasts, although there were some forecasts for further rate increases. With no rate hike to support the currency, **the rupiah weakened to a new low against the U.S. dollar** of USDIDR 10,440. The currency has weakened by 6.6% in 2013 and by approximately 23% since peaking against the dollar in 2011.
- **The Chinese financial system continues to deleverage.** Total social financing, a term for the broadest measure of credit in the Chinese economy, was RMB 808 billion in July, approximately RMB 120 billion lower than forecast and the lowest number in nearly two years. **Despite slower credit growth, July's economic data for China was generally better than expected.** Industrial power usage, for example, was the highest level in a year. Total power usage rose by 8.8% in July according to the National Energy Administration.
- **China Mobile (0941.HK)**, the largest mobile carrier in China, with 740 million subscribers, announced first-half earnings growth of 1.5% year over year, while revenues grew 10%. **Competition from new, third-party mobile chat services** is impacting revenue from text messages and voice calls.
- **Tencent (0700.HK)**, the largest Chinese Internet company by market value, announced second-quarter **earnings growth of 19% year over year**, lower than forecast, as the company invested in growth initiatives. Revenues rose by 37%. Tencent's popular **WeChat** instant messaging service **saw user numbers surge** to 235 million people from 83 million a year ago. Tencent is the best-performing stock on the Hang Seng Index so far in 2013.

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			Count	Percent
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