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February Month-In-Review

WHAT MOVED THE MARKETS

Fears of U.S. bank nationalization and a slew of negative economic news from around the world defined the month of February and drove a steep market decline that broke through lows set on November 20th of last year. Some low-lights of the month: unemployment rates rose to 7.2% in Canada and 7.6% in the U.S., Canadian month-over-month retail sales declined 5.4%, consumer confidence in the U.S. plunged to its lowest level since the measure was taken in 1967, and U.S. GDP figures for the fourth-quarter of 2008 were revised down to -6.2% (annualized).

A primary catalyst for the market decline was provided by U.S. Treasury Secretary Timothy Geithner's bank-rescue plan. Critics argued that it did not provide enough specific details. The Dow Jones fell 4.8% on the day the plan was announced.

Investor fears of nationalization were fuelled by comments from former Federal Reserve Chairman, Alan Greenspan, who said that bank nationalization could be the least bad option.

The current Chairman, Ben Bernanke, said on February 25th that there was no plan to nationalize Citigroup (C), the U.S. bank considered to be most at risk. On the last trading day of the month a deal was announced that would give the U.S. government up to a 36% stake in the bank; shares closed down 77% year-to-date.

Number Crunching

Equity Indices	Index Level	Month	YTD*
S&P/TSX Composite Index	8,123.02	-6.6%	-9.6%
Dow Jones Industrial Average	7,062.93	-11.7%	-19.5%
S&P 500 Index	735.09	-11.0%	-18.6%
NASDAQ Composite Index	1,377.84	-6.7%	-12.6%
MSCI World	750.86	-10.5%	-18.4%
MSCI EAFE	997.65	-10.5%	-19.4%
MSCI World TR	2,393.87	-10.2%	-18.0%

S&P/TSX Sector Performance	Index Level	Month	YTD*
S&P/TSX Financials	938.12	-11.0%	-17.3%
S&P/TSX Energy	1,932.80	-4.6%	-8.6%
S&P/TSX Materials	2,268.04	-0.1%	0.2%
S&P/TSX Industrials	762.79	-9.7%	-16.8%
S&P/TSX Consumer Discretionary	717.03	-4.0%	-11.4%
S&P/TSX Telecom Services	662.27	-5.2%	-8.1%
S&P/TSX Information Technology	182.08	-22.2%	0.8%
S&P/TSX Consumer Staples	1,380.88	-3.8%	-5.2%
S&P/TSX Utilities	1,432.18	-3.1%	-5.1%
S&P/TSX Healthcare	278.64	-2.4%	10.4%

Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.2763	3.8%	4.7%
Euro	1.6159	2.6%	-5.2%
British Pound	1.8270	2.2%	2.5%
Japanese Yen (100)	1.3080	-4.3%	-2.7%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$44.76	7.4%	0.4%
Natural Gas (per million btu)	\$4.20	-5.0%	-25.3%
Gold (per ounce)	\$942.35	1.6%	6.8%
Silver (per ounce)	\$13.12	3.6%	15.2%
Copper (per pound)	\$1.55	9.7%	12.5%
Nickel (per pound)	\$4.50	-11.0%	-14.5%
Aluminum (per pound)	\$0.59	-0.6%	-13.2%
Zinc (per pound)	\$0.51	2.9%	-6.6%

*YTD return data is simple price return. All indices are in local currency unless otherwise noted.
Source: Bloomberg

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The effects of the financial crisis were felt in force in Europe. In Central and Eastern Europe banking systems are collapsing under the weight of foreign debt and depreciating currencies. According to the World Bank, the entire region may need US\$154 billion for bank recapitalization alone.

In the U.K., the Royal Bank of Scotland (RBS) reported the biggest loss in British history. The bank announced that it is placing £325 billion of its assets in the government's new Asset Protection Scheme and plans to cut £2.5 billion in costs.

Canadian financials were caught up in the economic turmoil. The Financial sector plunged 11% for the month and was down 26% year-to-date at its low point on February 23rd. Several Canadian banks reported expectation-beating first-quarter earnings near month-end and sparked a three-day rally that lifted the sector 16%.

the printing of money. In this regard, gold is viewed as an alternative currency with a relatively fixed supply.

Is this a gold bubble?

While gold prices have certainly seen a run-up, the price appreciation does not compare to the gold bubble of the late-70s and early 80s when adjusted for inflation (Figure 2). The average annual gold price in 1980 was US\$612/oz, which is US\$1,500/oz in today's dollars (adjusted using the Canadian CPI). At under US\$1,000/oz, gold prices are still well below those levels. Figure 3 illustrates the price of gold relative to the TSX for that same period.

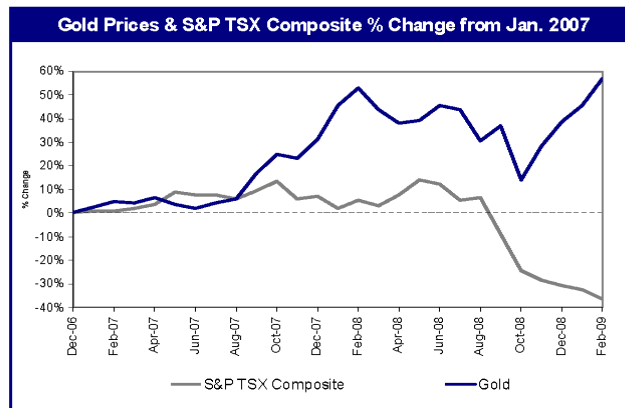
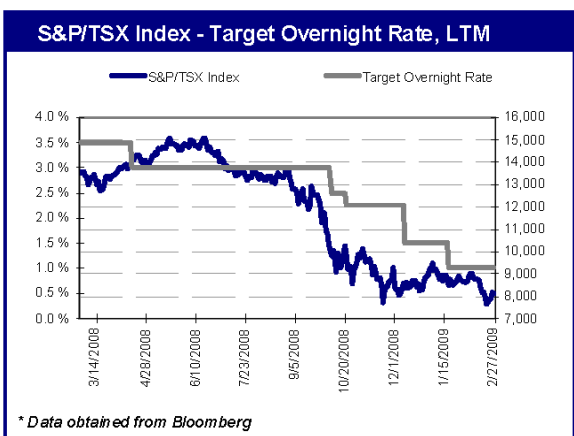


Figure 1, Source: Bloomberg

Shares of gold producers outperformed in February as investors sought the safety of the precious metal. Gold prices broke through the US\$1,000/oz mark on February 20th. Shares of gold producing companies included in the S&P/TSX Composite helped to keep the index from declining as steeply as the Dow Jones and S&P 500.

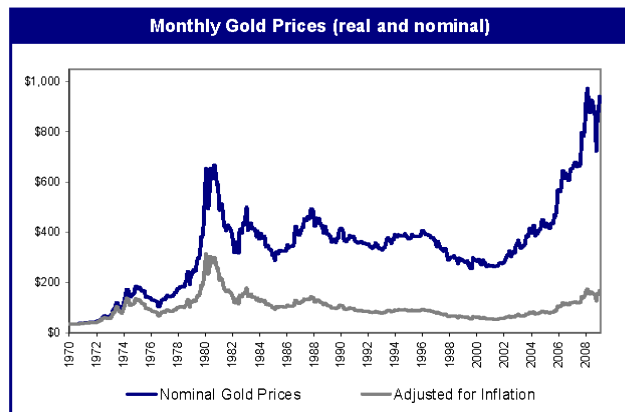


Figure 2, Source: Bloomberg

A CLOSER LOOK – GOLD SHINES IN FEBRUARY

Amidst the dismal economic data and battered equity markets, many investors sought the relative safety of gold. Prices gained 1.6% in February, 6.8% YTD, and have increased 23.1% since September 12, 2008; the Friday before Lehman Brothers was allowed to fail.

As a store of value, gold is viewed as a hedge against inflation. While the near-term risk is deflationary, the money supply has been increasing at an unprecedented rate. This could have potential inflationary effects, should the economy and the financial markets stabilize sooner than expected.

Gold has also developed an allure as a hedge against deflation, or more specifically, as a hedge against the devaluation of paper currencies through monetary policies that amount to

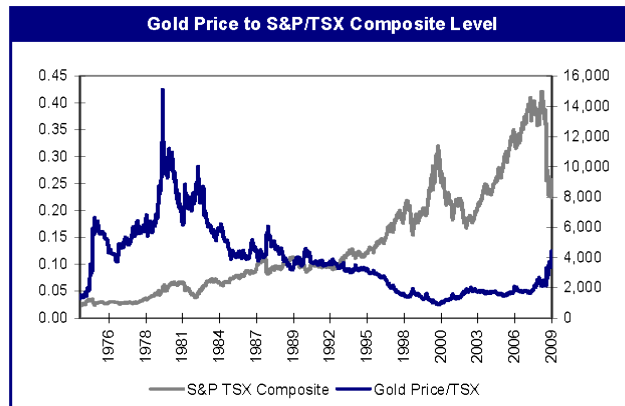
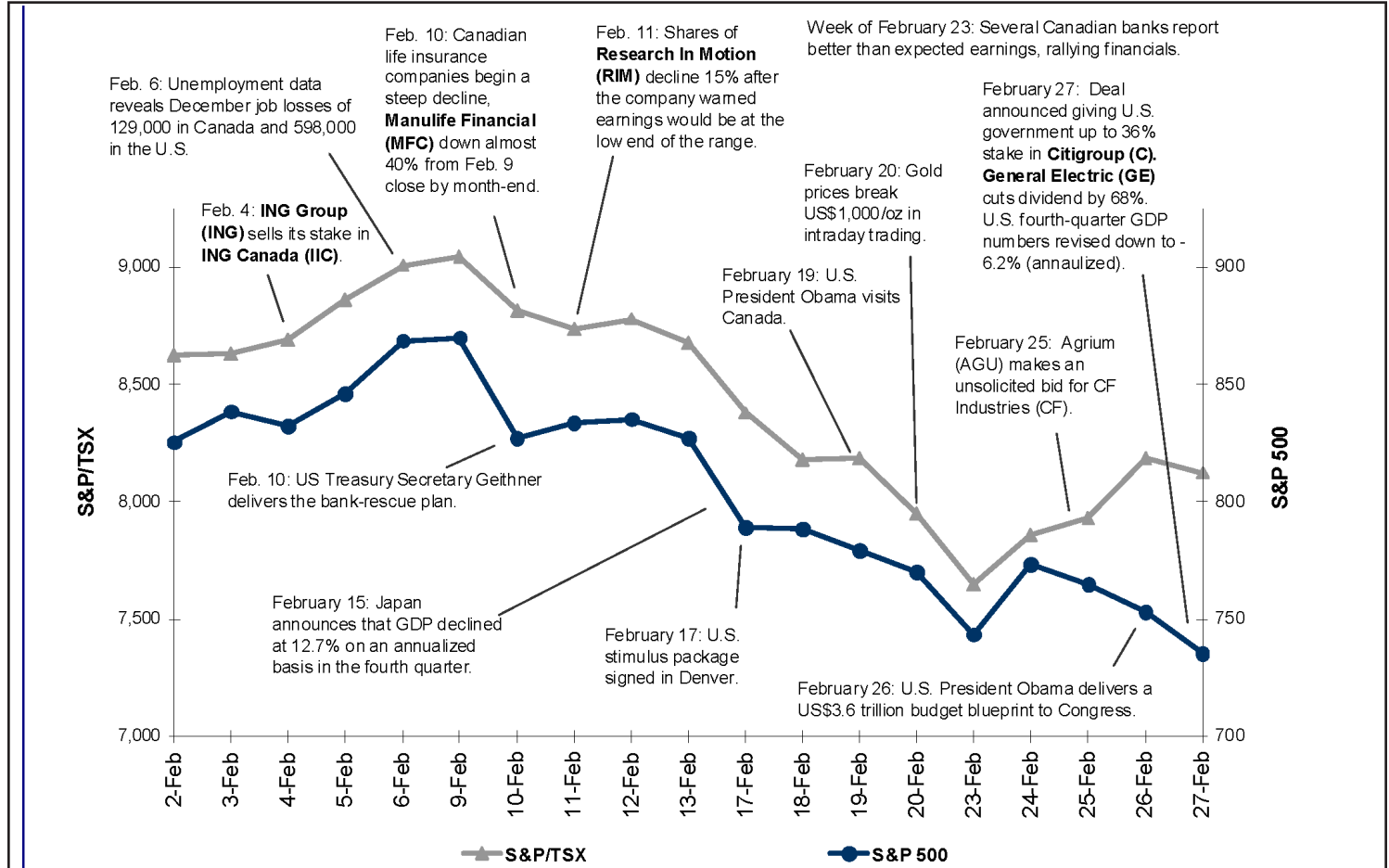


Figure 3, Source: Bloomberg

In the near-term, RBC CM expects that gold prices will retreat and may retest US\$800/oz as economic pressures cause destocking and selling of scrap gold, and forecast an average price/oz of US\$875 for 2010. Jewelry-related demand for gold will be under pressure as prices in local currency terms hit an all-time high in South and Southeast Asia, where demand is traditionally strong.

NORTH AMERICAN EQUITY PERFORMANCE - FEBRUARY 2009



KEY TAKEAWAYS:

While some economic data was better than expected, overall it painted a negative picture of the ongoing economic downturn.

- In the U.S. economic activity in the fourth quarter slumped more than expected with the revised GDP growth rate now showing an annualized decline of 6.2%.
- The housing market in the U.S. continues to deteriorate as new home sales fell 10.2% month-over-month in January.
- U.S. consumers indicated their level of confidence is now the lowest it has been since the survey began in 1967.
- In Canada, Retail sales in December plummeted 5.4% in the month reflecting broad-based weakness though led by the auto component.
- The unemployment rate climbed to 7.2% in Canada and 7.6% in the U.S.

For information on issues discussed in this article, please call us at 416-956-8888.

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