



Quarterly Strategy Report

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For Important Disclosures, see pages 11-12.

Navigating a Turbulent Landscape

A rapid-fire succession of extreme, unpredictable events collided with well-known risk factors to raise uncertainties about global economic momentum and equity prices for the first time since last summer.

It's no wonder volatility struck financial markets in March. Investors have been confronted with the horrific devastation in Japan, a civil war in Libya, protests and violence in Persian Gulf nations, and a surge in oil prices—not to mention the risks that had already existed, such as the European sovereign debt crisis, uncertainties about China's economy, and rising inflation.

In the following pages we address these issues and examine their potential impact on the economy and equity markets.

Key Takeaways:

- **Impact of Japan's Disaster – Page 2**
The loss of Japan's output should have only a modestly negative effect on global GDP. The rebuilding effort could actually boost activity in 2012.
- **Oil, Gasoline, & Inflation – Pages 3-4**
\$100 oil seems manageable; \$150-\$160 oil does not.
- **U.S. Equities – Page 5**
There are a number of reasons for U.S. stocks to climb in 2011, but it could continue to be a bumpy ride.
- **International Equities – Page 7**
The “close your eyes and buy” phase of the market is drawing to an end. Investors should be rewarded by being much more selective towards international stocks, whether in developed or emerging markets.
- **Equity Investment Ideas – Page 9**
We recommend the Energy sector and dividend-paying stocks as current opportunities for individual investors.

Domestic and International Equity Index Performance Data

Index	Price 3/31/11	One Month	Three Months	One Year	Two Years
S&P 500	1325.83	-0.1%	5.4%	13.4%	67.9%
Dow Jones Industrial Average	12319.70	0.8%	6.4%	13.5%	61.9%
NASDAQ Composite	2781.07	0.0%	4.8%	4.8%	81.9%
Russell 2000	843.55	2.4%	7.6%	24.3%	99.5%
S&P/TSX	14116.10	-0.1%	5.0%	17.3%	61.9%
Euro Stoxx 50	2910.91	-3.4%	4.2%	-0.7%	40.5%
FTSE 100	5908.76	-1.4%	0.1%	4.0%	50.5%
German DAX	7041.31	-3.2%	1.8%	14.4%	72.4%
Nikkei 225	9755.10	-8.2%	-4.6%	-12.0%	20.3%
Hang Seng	23527.50	0.8%	2.1%	10.8%	73.3%
Shanghai Comp	2928.11	0.8%	4.3%	-5.8%	23.4%
Bov espa	68586.70	1.8%	-1.0%	-2.5%	67.6%

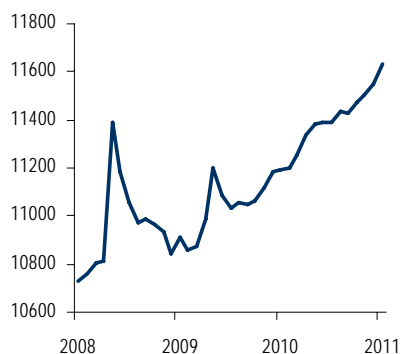
Source: RBC Wealth Management, Bloomberg; all index levels and performance data quoted in local currency terms

U.S. ISM Manufacturing Index
Highest level since May 2004



Source: Institute for Supply Chain Management, Bloomberg; data through 2/28/11

U.S. Disposable Personal Income Index
Has recovered since the 2008 low



Source: Bureau of Economic Analysis, Bloomberg; data is nominal and seasonally adjusted; data through 1/31/11

Economic Conditions

Normally the U.S. economy is one of the most important swing factors for financial market sentiment. It has the potential to make or break global economic momentum.

But events in Japan and the oil-rich regions of the Middle East and North Africa, combined with previously known risk factors such as the European debt crisis, food inflation, and China's economic uncertainties, have taken center stage and have dwarfed U.S. economic progress.

The U.S. economy has performed quite well during the past few months compared to the Great Recession period.

- Manufacturing activity has risen to its highest level since May 2004.
- Exports have surged. One measure reached its best level since 1980.
- Household balance sheets have strengthened.
- The labor market has begun to heal—albeit slowly.

But that was then, and this is now. Those economic developments and many others are already factored into financial asset prices.

The stock market often *anticipates* improved economic conditions and trades higher *ahead* of when the improvements actually transpire. That's precisely what it's done this cycle. It's one of the key reasons equity markets rebounded so forcefully in 2009 and 2010.

The issue currently facing equity investors is whether the U.S. and global economies can maintain enough momentum to navigate the multiple, unique headwinds.

Impact of Japan's Disasters

Even though Japan is the world's third-largest economy, it's a smaller contributor to global growth than it was years ago.

Before Japan's horrific earthquake and tsunami, its role had dwindled as it struggled to fight deflation and spark growth. China now contributes roughly the same output.

In addition, Japan's economy is more insular than other large economies. For example, the United States and Canada ship only 5% and 3%, respectively, of their exports to Japan.

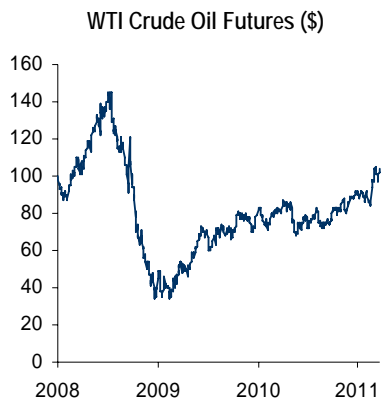
Most economists expected Japan to contribute very little to overall global economic growth in 2011. Only two days prior to the earthquake and tsunami, its fourth-quarter GDP growth rate was revised down to -1.3% from -1.1%.

The short-term lack of output from Japan does not in and of itself automatically doom the global economy into recession, in our assessment.

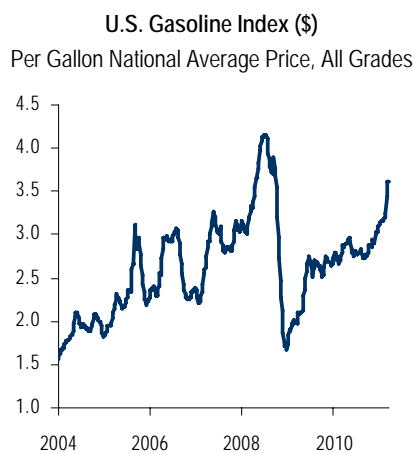
RBC Global Asset Management's economists foresee the events in Japan negatively impacting global GDP slightly in 2011, barring a nuclear catastrophe.

Ultimately, Japan's rebuilding effort could actually boost global GDP modestly in 2012, in their assessment.

For the United States, RBC Capital Markets' economists have not changed their forecasts based on the events in Japan. They're still anticipating roughly 3.0% GDP growth in 2011. This estimate assumes nuclear risks don't worsen and oil prices stabilize.



Source: NYMEX, Bloomberg; data through 3/22/11



Source: U.S. Department of Energy, Bloomberg; data through 3/21/11

Crude Oil: How high is too high?

At this stage, RBC Capital Markets believes the greater risk for the U.S. recovery is the continued upward pressure of energy prices.

In late February, oil market volatility began bubbling to the surface as protests and violence spread beyond Egypt to Libya and Bahrain, threatening global crude oil supplies for the first time in eight years.

We view the events in Bahrain as troubling. Essentially, there is a proxy battle occurring there between the region's two biggest powers, Iran and Saudi Arabia. Bahrain's Shiite population (Iran-backed) is protesting against the Sunni monarchy (Saudi Arabia-backed) that rules the country. Also, at times Shiite protests have flared up in Saudi Arabia's nearby eastern province.

If violence escalates or spreads to other Gulf nations, crude oil could rise meaningfully.

The civil war in Libya also has the potential to disrupt oil markets. Libya produces 1.84% of the world's oil supplies. That's not much, but it produces high-quality, light-sweet crude—the grade of oil that can more easily be refined into low-sulphur diesel fuel. Southern Europe relies on Libya's high-grade crude.

Implicit in RBC Capital Markets' 2011 U.S. GDP forecast of 3.0% is for WTI crude oil to average \$95 for the year, which is roughly the current average price.

At present, the drag from higher crude oil is modest. However, it remains a key risk because of the recent instability and violence in the Middle East and North Africa.

Economic and financial market risks would heighten if:

- Violence spreads to major oil-producing nations such as Saudi Arabia (18% of global oil reserves, 11% of daily production), and/or
- Crude oil surges to a level that would cause a recession.

\$100 Oil Seems Manageable; \$160 Oil Does Not

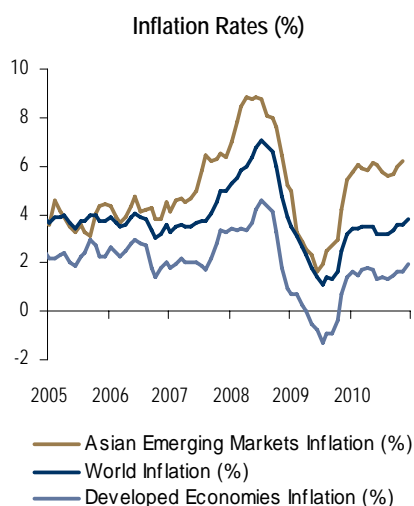
Oil shocks have historically materialized when the price of oil doubled during a short time period (this would equate to WTI oil rising to roughly \$150-\$160 per barrel or more in the current cycle).

At that point, the U.S. economy has typically fallen into recession, and the stock market has declined or entered a bear market. Such price shocks have transpired on six occasions since 1970, according to BCA Research, including most recently in 2008.

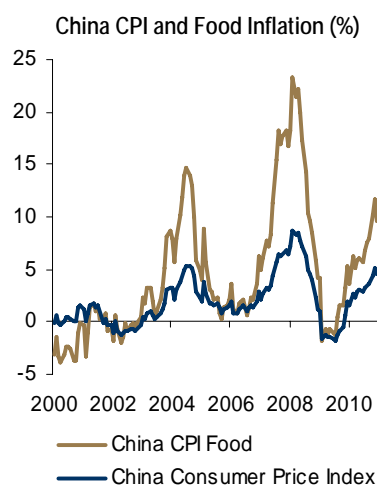
If Middle East risks diminish and crude oil stabilizes at elevated levels, we believe the global economy could absorb the hit. RBC Capital Markets' economists estimate if the price of WTI oil were to average \$92 in 2011 (\$8 higher than last year's average price), it would shave off 0.3% from U.S. economic growth. So, instead of GDP growing at 3.4% this year, for example, it would grow 3.1%.

If oil averages roughly \$110 per barrel in 2011 (\$5 above the current price and \$26 above last year's average price), the economic impact would be higher, at almost 0.5% of GDP. This level is still manageable, in our view.

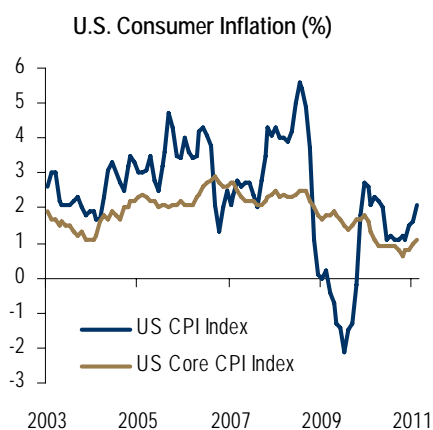
A fiscal buffer also exists. Our economists estimate U.S. gasoline prices would have to average \$3.75 per gallon on a nationwide basis in 2011 (compared to \$2.84 in 2010 and \$3.61 currently) to wipe out the positive impact of recent payroll tax cuts.



Source: International Monetary Fund,
Bloomberg; data through 12/31/10



Source: National Bureau of Statistics China,
Bloomberg; data through February 2011



Source: Bureau of Labor Statistics, Bloomberg;
data through 2/28/11

Inflation: It Should Rise, but Not Spike

Federal Reserve officials and other central bankers often turn a blind eye to the impact of rising energy and food prices and focus on so-called “core” inflation, which excludes these categories. Maybe they don’t shop for groceries or fill up their own gas tanks.

The current inflation risks are dominated by food and energy. When these prices jump, it can impact the global economy and household budgets.

Rising food prices have hit emerging markets more forcefully than developed nations thus far. Official statistics indicate China’s food prices rose 11.0% in February, year-over-year. Unofficial estimates are much higher.

Food prices have risen because extreme weather wreaked havoc on crops in Russia, China, and Australia, and due to increased commodity demand in emerging markets. Weather and crop yields should ultimately return to normal, but we doubt emerging markets’ insatiable demand for agriculture commodities will recede long term.

High food and energy prices seem poised to lift developed nations’ overall inflation rates, including in the United States, in our assessment. Additionally, our economists argue that even U.S. “core” inflation could double this year to 2% from 1%.

This would not automatically launch the developed world into a high-inflation spiral. Consider the U.S. consumer inflation rate is starting from a very low base (2.1% headline CPI and 1.1% core CPI in February).

More importantly, broad-based, sustained inflation typically requires:

- an economy operating at full capacity,
- wage inflation,
- a combination of strong money supply *and* robust bank lending, and
- the population’s belief that inflation will rise meaningfully over time.

None of these conditions currently exist in the United States. In particular, wages were stagnant in March and grew only 1.7% year over year. And while inflation expectations have risen modestly, they are nowhere near the 1970s-era danger zone, in our view.

Furthermore, high food and energy prices may actually curb discretionary spending on other goods and services, which could ultimately constrain overall economic activity and keep a lid on inflation rates.

No Warning Signals Yet

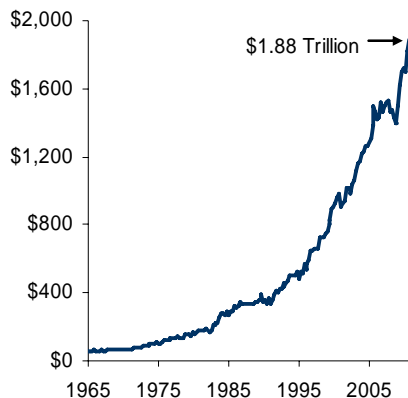
Thus far, leading economic indicators—which typically flash warning signs first—have been fairly firm even though food and gasoline prices have risen.

One of our favorite U.S. indicators published by the Economic Cycle Research Institute recently rose to its highest level in 10 months. To us, this signals U.S. economic momentum could continue during the next three to six months and that a double-dip recession is unlikely during this period.

A widely followed gauge of future economic activity, the Conference Board’s Index of Leading Economic Indicators, rose 0.8% in February. Eight of the ten categories measured in the report strengthened. Increased business investment and improved sentiment about the labor market and consumer spending helped boost the Index.

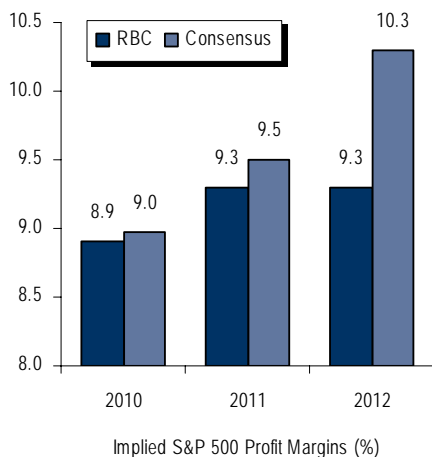
As long as leading indicators such as these remain relatively firm, we believe the U.S. and global economic expansions can persist.

Corporate Cash (non-financial firms)
Highest Level Since 1950s
(in U.S. \$ billions)



Source: RBC Wealth Management, Bloomberg; data through December 2010

Profit Margin Estimates (%)
RBC vs. the Consensus



Source: RBC Capital Markets, Thompson

U.S. Equities

Reasons for Optimism

The RBC Investment Strategy Committee maintains its positive view on U.S. equities, particularly for long-term holdings. Barring a spike in oil or a more severe nuclear accident in Japan, we believe the major indices can deliver modest gains this year for the following reasons:

- **Economic momentum:** We expect the U.S. economy to outperform many of its developed-market peers in 2011.
- **A friendly Fed:** We anticipate U.S. stocks will be underpinned by the Federal Reserve's desire to keep financial asset prices elevated in order to restore confidence and stimulate a self-sustaining economic rebound.

Among developed nations, the United States is the laggard in terms of raising interest rates, and the U.S. economy is the least vulnerable to a slowdown in China due to its lower proportion of exports to China.

- **Reasonable valuation:** Before Japan's tragedies struck, the market was not overly expensive based on most price-to-earnings metrics. The S&P 500 is trading at a price-to-earnings ratio of 13.6 (based on the March 21 closing price of 1,298 and Wall Street analysts' consensus 2011 earnings forecast of \$95.62).

Even if earnings estimates are trimmed in the near term or modest earnings misses occur when companies begin to report first-quarter results, the Index is unlikely to become expensive on a forward price-to-earnings basis, in our view.

- **Balance sheet strength:** Non-financial corporate balance sheets are quite strong. Many companies have accumulated a mountain of cash. We're also impressed by the degree to which multinational companies are capitalizing on productivity gains.
- **Earnings growth:** Corporate earnings and revenue growth seem poised to persist in 2011—albeit at a modest pace compared to the past two years.

Fourth-quarter 2010 earnings and revenue metrics were quite healthy. We anticipate momentum could slow as first-quarter 2011 results are reported in April and May. Profit-margin growth seems bound to stall, and higher food and gasoline prices could pressure some firms. But it's normal for earnings growth to moderate at this stage of the economic cycle.

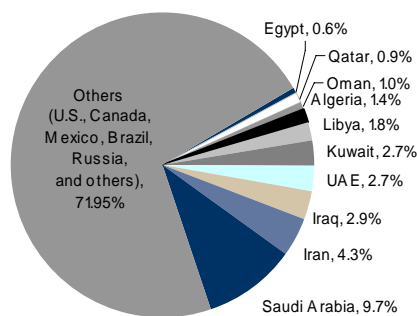
When valuations are reasonable, bear markets rarely begin while corporate earnings are still growing.

- **Japan's limited impact on earnings:** Supply-chain and earnings disruptions related to Japan's catastrophe could pose challenges for some industries, such as electronics, semiconductors, mobile devices, and automotive, among others.

But most S&P 500 companies may experience only marginal and temporary earnings and operational disruptions, and many others may be barely or not at all impacted, in our opinion.

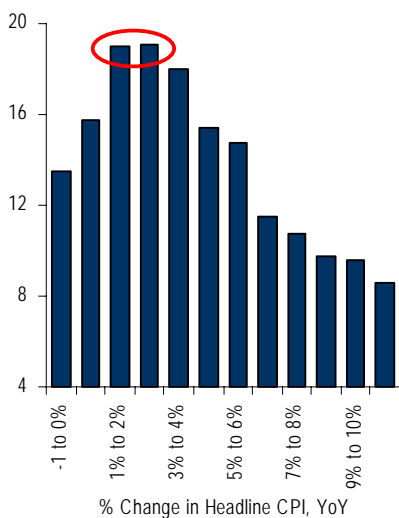
Ultimately, S&P 500 earnings could be more influenced by non-Japan factors.

Global Oil Production (%)



Source: National Research Correspondent, Bloomberg

Average P/E Ratio at Various Inflation Intervals



Source: RBC Wealth Management, Bloomberg; P/E ratios and CPI changes on a monthly basis from January 1954 through February 2011

Forces Challenging U.S. Equities

We recognize global financial markets still face many headwinds, which we have highlighted on previous pages. The U.S. equity market seems vulnerable to volatile, headline-driven trading and modest corrections.

Markets are highly volatile when uncertainty is so extreme, particularly because advances in technology and information systems have enabled fast-money hedge funds to move millions—or billions—of dollars in and out of multiple asset classes within a fraction of a second, often without ever touching a computer keyboard.

Because conditions in the Middle East and Libya have yet to stabilize and other headwinds linger (Europe's debt challenges, China's economic uncertainty, and inflation), we believe investors should prepare for a bumpy ride in 2011.

Crude Oil

A crude oil spike to \$150-\$160 would undoubtedly give the stock market fits, in our view, and could end this cyclical bull market run.

But it might not take a move to \$150 to create downward volatility in the stock market. If oil were to trade quickly up toward the \$120-\$130 range, it could heighten fears among short-term equity traders and meaningfully impact the spending plans of households and businesses. It could also constrain corporate earnings.

For many households, such a rise would negate the 2011 payroll tax cut and force them to allocate discretionary spending toward gasoline. Businesses dependent on oil as an operating input could experience a squeeze in profit margins.

The good news is the U.S. economy is much less dependent on oil compared to the 1970s. It requires half as much energy to produce a dollar of GDP today than it did back then.

Inflation

Risks of higher inflation could certainly bring about further equity market volatility. However, inflation's ultimate trajectory is not necessarily predictive of stock prices. S&P 500 returns have been fairly inconsistent during periods of rising inflation.

During the four periods of *modest* inflation increases since the 1980s, the S&P 500's performance showed no consistent pattern. On two occasions it rose; on two occasions it fell.

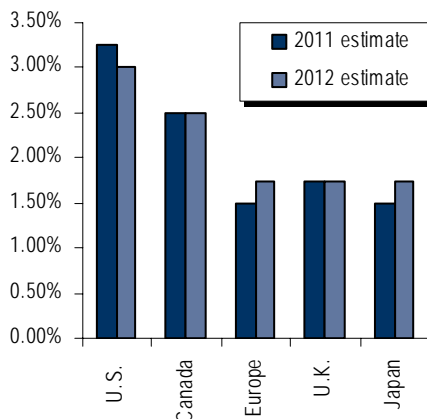
During the three instances when *sharp* jumps in inflation occurred in the 1960s and 1970s, S&P 500 performance again varied quite widely.

Even though rising inflation does not necessarily correlate with the market's performance, it does tend to impact price-to-earnings (P/E) ratios.

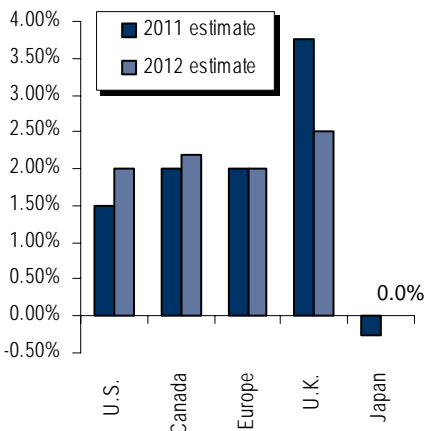
When headline CPI is low (between 1% and 3%), P/E ratios tend to be the highest. Corporate earnings and revenue growth tend to rise when companies can command modest price increases, and investors tend to be willing to pay up for earnings.

However, long-term data indicate the market has had a tougher time when headline CPI rose above 4% and remained elevated or trended higher. At that point the market typically performed poorly and P/E ratios were low or fell. Companies' pricing power broke down as their profit margins were squeezed due to high costs. That's a key reason the market delivered abysmal returns in the 1970s.

Considering these historical trends, the S&P 500's valuation of 13.6 seems low enough to withstand a modest, short-term rise in inflation, in our analysis.

RBC's Developed Markets
GDP Forecasts

Source: RBC Global Asset Management

RBC's Developed Markets
Inflation Forecasts

Source: RBC Global Asset Management

International Equities

We believe the “close your eyes and buy” phase of the market is drawing to an end. Investors should be rewarded by being much more selective towards international stocks, whether in developed or emerging markets.

Developed Markets

Europe

We are increasingly cautious about the prospects for European equities this year. The Eurozone economy appears to be in line for three separate body blows in 2011, two of which have only recently emerged.

- The first is the ongoing fiscal tightening, estimated to account for 1.2% of 2011 GDP by the International Monetary Fund. Peripheral nations will need to raise taxes and cut spending to address their debt loads, and core Europe will need to divert its own resources to backstop peripheral debt.
 - A second more recent threat to growth is posed by the ECB with its intention to raise interest rates for the first time since the global recession. This is ostensibly to combat commodity-driven inflation and prevent a cycle of inflation-driven wage increases.
- But this will be particularly punishing to the weaker Eurozone economies, and the rise in the value of the Euro since this change was signaled will make exports less competitive.
- Finally, the increase in global energy prices due to social unrest in the Arab world imposes an implicit tax on the energy-hungry (and net energy importing) Eurozone.

We note that European economic and earnings momentum continue to decline, according to our national research correspondent.

This is not the typical economic backdrop for a tighter monetary policy. Consequently, we would wait for signs of a pause in interest rate hikes or a drop in the value of the Euro before becoming more positive on European equities.

Japan

Prior to the devastating natural disasters that hit the country's East coast in March, we recommended Japanese stocks, which were relatively cheap before the tragedy and are arguably more so now.

Once the infrastructure damage assessments are clearer and the nuclear panic abates, the reflation of the Japanese economy should produce some decent returns for the overall equity market.

As time passes, we believe the Japanese citizens, multinational companies, and government will move as quickly as possible to rebuild and rebound. Select companies around the world—including in North America—will also likely participate.

Even though the country's debt-to-GDP ratio will likely soar beyond 200% with the rebuilding effort, the country's debt is largely funded by its citizens, not by foreigners, which adds a level of stability.

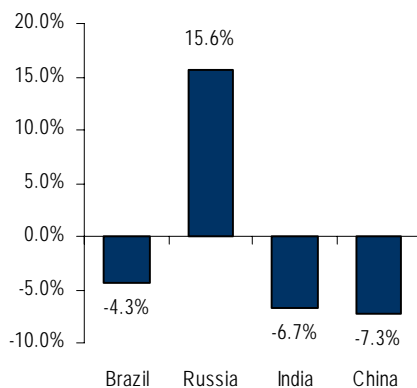
For U.S. investors, our preference is still to use exchange-traded funds for exposure to Japanese equities, with an eye on currency-hedged vehicles if the yen starts to weaken sustainably.

RBC's Emerging Markets GDP & Inflation Forecasts

	Real GDP		CPI	
	2011E	2012E	2011E	2012E
Brazil	4.5%	5.0%	6.0%	5.3%
Russia	4.5%	4.5%	9.0%	7.0%
India	8.0%	9.0%	5.0%	6.0%
China	9.5%	9.5%	3.0%	3.5%

Source: RBC Capital Markets' Emerging Markets Team

Emerging Market Equity Returns Performance Since November 2010 Top in China's Shanghai Composite Index



Source: RBC Wealth Management, Bloomberg

Emerging Markets

As a broad asset class, emerging market equities peaked in November 2010 and have slowly declined since.

In the post-recession period, emerging markets have led developed markets, so we're closely watching trends in the former as a clue to what the market has in store for the latter.

The key headwind for emerging markets is a rising interest rate environment as central banks attempt to combat rising inflation.

Emerging nations have far less slack in their economies than developed countries. This leads to a higher marginal cost to produce goods and higher wage pressures in countries where unemployment is low, resulting in higher inflationary pressures.

In addition, emerging market inflation is more susceptible to food costs. This is because the proportion of disposable income citizens spend on food is higher in emerging countries, so recent food price increases caused by bad weather have had an outsized impact on inflation.

But increasing interest rates create a dilemma for finance ministers in these countries.

As these ministers hike rates to combat inflation, they also attract foreign investors looking for a higher return on bank deposits. This in turn causes the countries' exchange rates to move higher, which is bad for export competitiveness. This may cause central banks to be behind the curve in raising rates, thereby stoking fears of excessive inflation and an eventual hard landing.

In addition to these concerns, other near-term factors argue for caution:

- Valuations of emerging markets remain stretched, and this sector remains a crowded trade.
- Many economic indicators are flashing amber. For example, the pace of M1 money growth in China—historically a good indicator for stock returns—is declining.

However longer-term factors remain positive:

- Due to the higher relative growth rates in emerging markets, overweight equity positions quickly become market weight for global investors without active accumulation, and emerging currencies are likely to continue their firming trend as interest rates are increased.

In conclusion, we are cautious in the short term and positive in the long term for emerging market equities, as long as the current concerns about high inflation are not overtaken by concerns about declining growth.

A useful indicator in this regard is the Australian Dollar vs. the Canadian Dollar cross rate. The former signals changes in emerging market demand (principally due to commodity trade flows with China), while the latter is tied more closely to developed nation demand. We believe a rebound in this exchange rate would signal a soft landing for emerging markets.

In the meantime, we would selectively focus on quality emerging names with good valuations and long-term visibility.

Global, growth-oriented multinational companies provide a good alternative to the emerging markets theme.

S&P 500 Industry Correlations with
Crude Oil Spot Prices

Industry	Correlation
Energy	0.46
Capital Goods	0.31
Tech Hardware & Equip	0.29
Semis	0.20
Materials	0.11
Containers & Packaging	-0.32
Hotels, Restaurants, Leisure	-0.33
Pharma & Biotech	-0.35
Retailing	-0.36
Food & Staples Retailing	-0.41

Source: RBC Capital Markets; data based on year-over-year % change

Equity Investment Ideas

Considering the headwinds that linger, we recommend investors contact their RBC Wealth Management Financial Advisor for specific investment ideas in the following categories:

- **Energy Stocks**
- **Dividends, Dividends, Dividends**
- **U.S. Sectors: Upgraded Industrials, Downgraded Health Care**

Energy Stocks

Our energy recommendation is three-pronged.

- First, while global demand for crude oil will ebb and flow with economic activity, we believe the long-term trajectory is for higher demand from emerging markets.

Japan will certainly demand less oil near-term. However, the oil market is still in a longer-term supply/demand imbalance.

- Second, the nuclear accident in Japan has already prompted developed nations (and may prompt a few emerging market nations) to reassess their energy policies due to safety concerns.

Other energy sources, such as natural gas and liquefied natural gas, may ultimately play a greater role in solving developed nations' energy needs.

The shift toward these sources may occur at an evolutionary rather than revolutionary pace—meaning it may occur slowly over time. Regardless, we believe that conversation has begun anew.

- Third, instability in the Persian Gulf and Libya is supportive of oil prices. Even if the Libyan conflict is resolved quickly, protests and violence could bubble to the surface in other nations. This can potentially provide a risk premium for crude oil.

We view the large, integrated oil companies—otherwise known as “big oil”—as particularly attractive. Their financial performance seems poised to strengthen even if oil prices stabilize.

This industry is on the cusp of significant free cash generation, according to our national research correspondent. Cash flow on new upstream projects could be meaningfully higher than on existing production.

Dividend-Paying Stocks

We continue to recommend equity portfolios include a greater share of dividend-paying and dividend-growing stocks, particularly considering dividends have historically contributed roughly 70% of total equity returns and have outperformed in up and down markets.

During volatile periods, dividends offer a degree of safety and stability and can be supportive of their underlying stock prices. There is more than enough corporate cash on the sidelines for healthy dividend increases in 2011, in our opinion.

Dividend-paying stocks are attractive compared to Treasury bond yields. For example, a stock that rises 5% for the year and pays a 2.5% dividend has a total return of 7.5%. That's quite attractive compared to a 3.47% yield on the 10-year Treasury note.

RBC Capital Markets'
Sector Recommendations
Second-Quarter 2011

Sector	S&P 500 Weighting 4/1/11	Current Stance*	Previous Stance*
Energy	13.2%	OW	OW
Industrials	11.3%	OW	MW
Info. Technology	18.0%	OW	OW
Financials	15.8%	MW	MW
Health Care	11.1%	MW	OW
Materials	3.7%	MW	UW
Consumer Discret.	10.5%	UW	UW
Consumer Staples	10.2%	UW	MW
Telecom. Services	3.0%	UW	UW
Utilities	3.2%	UW	UW

OW = Overweight
MW = Marketweight
UW = Underweight
Bold type indicates a change since last quarter

Source: RBC Capital Markets
* Current stance as of 3/31/11;
Previous stance 12/31/10

Additionally, we believe demographic changes in the United States, including the retirement of the baby-boom generation, will increase the demand for dividend stocks for years to come.

We recommend investors analyze dividend-paying stocks on a company-by-company basis rather than solely on a sector basis.

For example, while we are not officially recommending the Financials, Consumer Staples, or Telecommunications sectors, there are stocks in these sectors that have the potential to deliver stable and attractive total returns. The Federal Reserve recently gave a green light to a number of banks to resume dividend payments for the first time since the financial crisis. There are also attractively valued consumer staples stocks that pay healthy dividends.

U.S. Sector Recommendations

RBC Capital Markets' institutional equity strategist Myles Zybblock adjusted our sector recommendations March 23. Because the economy is still improving and a double-dip recession seems unlikely, his recommendations continue to have a cyclical, rather than defensive, tilt.

- **He remains Overweight the Energy and Information Technology sectors.**
- **Zybblock upgraded the Industrials sector to Overweight.**

He wrote, "On a stock-by-stock basis, this has been one of the weakest performing areas of the market. Yet, corporate spending on machinery and equipment is strong and is likely to remain so given low capital costs, healthy corporate cash flows, help from the accelerated depreciation tax allowance and an investment cycle that is barely keeping up with the pace of depreciation. Robust readings from global leading data also paint a fairly attractive fundamental picture for a sector which derives about 40% of its revenue from abroad."

- **He's less enthusiastic about the Health Care sector—downgrading to Market Weight from Overweight.**

Even though the sector is inexpensive, he argues it could be held back by the potential underperformance of Pharmaceuticals stocks (roughly 60% of the sector's weight).

A complete list of sector recommendations is listed in the table to the left.

Zybblock also raised his overall equity recommendation to Overweight March 23. He wrote, "The ultimate low might not have been reached, but a bottoming process has probably started.

"Most of the technical indicators we track suggest that an intermediate-term low is near. Readings from sentiment, positioning and internal momentum indicators reveal much more damage under the hood than at the index level.

"Importantly, the recent and sharp skew to the short side of this market is not confirmed by the macro data. Leading domestic and global indicators remain significantly above their boom-bust levels. The Japanese disaster might create a worrying economic air-pocket, but this should prove transitory given the rebuilding phase likely to take place throughout this year and beyond."

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			Count	%
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Hold (SP)	596	43.90	134	22.48
Sell (U)	61	4.50	10	16.39

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An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector, but does not attempt to provide the analyst's view of how the stock will perform relative to: (i) all companies that may actually exist in the company's sector, or (ii) any broader market index.

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Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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