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For Important Disclosures, see pages 3-4.

Weekly Market Monitor

Instead of focusing on a solid corporate earnings season, modestly improved employment conditions, and economic data that confirms the recovery is ongoing, the U.S. stock market continues to tussle with events in Europe and concerns about China's economic recovery.

Positive domestic events were overshadowed:

- U.S. manufacturing grew much stronger than expected in January.
- The unemployment rate fell to 9.7% from 10.0% in January.
- Technology companies indicated strength in orders.

Europe's Mediterranean region has given the U.S. stock market fits for weeks.

Global investors remain skeptical that Greece will be able to get its fiscal house in order. Greece's 10-year government bond has surged 199 basis points since November 2009 to a yield of 6.625%. While that yield may not seem very high, it is relative to Germany, France, the United States, and other developed nations.

This week the fiscal angst spread to Portugal and Spain. The premium on Portugal's two-year bonds rose to its widest margin against German two-year bonds since 1997. The cost to insure government bonds of Portugal and Spain also rose.

Events in the Mediterranean caused risk aversion among investors of many stripes. As a result, the **U.S. dollar** traded higher against the euro and British pound, global equities slid, and commodities traded lower.

After mounting late-session recoveries on Friday, the **S&P 500 Index** and **Dow Jones Industrial Average** fell 0.7% and 0.5%, respectively, for the week. The **Utilities** (-2.1%), **Financials** (-1.7%), and **Health Care** (-1.7%) sectors led to the downside. **Materials** (+0.8%) and **Technology** (+0.7%) led to the upside.

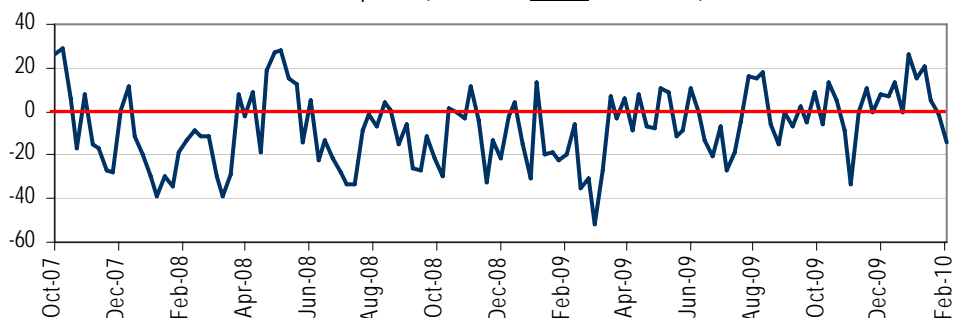
After spectacular gains in 2009, the U.S. stock market is now in correction mode. The S&P 500 and Dow Industrials are at their lowest levels since early November. The S&P 500 has fallen 7.3% from its peak on January 19.

Investor sentiment has become more bearish, as indicated in the graph below.

The Bull-Bear Spread fell into negative territory recently and slid to -13.9% this week. That means there are 13.9% more investors who have bearish attitudes about the stock market than bullish attitudes, according to an industry group's survey. That's not an extremely bearish reading compared to previous periods. We wouldn't be surprised to see this spread trend lower before the correction is completed.

Investor Sentiment about the U.S. Stock Market

Bull-Bear Spread (% of bulls minus % of bears)



Source: RBC Wealth Management, Bloomberg, American Association of Individual Investors; data is through 2/4/10.

Greece, Portugal, and Spain are thousands of miles away and represent barely a sliver of global economic growth. They don't even contribute much to European growth. Nevertheless, their fiscal health matters because of the grand experiment Europe chose to undertake decades ago—the European Union. The European Union now exists as a monetary union. Member nations have a common currency, the euro, and cooperative economic arrangements. But they do not have a political union. National governments in Europe don't bow down to European Union rules.

The European Union experiment is now facing its first major challenge. How can stronger European countries like Germany and France avoid the negative consequences that Greece, Portugal, and Spain could have on Europe's currency and economy? Could Europe's banking system be harmed by conditions in these countries? Do stronger European nations have the ability to force weaker European nations to make changes to their harmful fiscal policies even though there is no political union? If necessary, will Europe bail out these countries? Would a bail out create a moral hazard? Is the European Union a viable long-term entity? These are among the questions investors and policy makers around the world are currently asking.

Conditions in Europe are relevant to U.S. investors because of the even grander experiment policy makers forged decades ago—globalization. The stakes for regional challenges such as these are heightened due to economic linkages and dependencies created by globalization. As global investors found out fairly quickly amidst the U.S. subprime lending crisis, when one region becomes weak, it can impact other regions quite negatively.

Thus far, one of the biggest consequences of the Mediterranean turbulence has been the strength of the U.S. dollar and the weakness of just about everything else. Risky assets, such as equities and commodities, have performed quite poorly at the same time the dollar has risen.

As the Dollar has Risen, Risky Assets have Fallen

Index	Year-to-Date % Change	Index	Year-to-Date % Change
US Dollar Index	2.64%	CRB Commodity Index	-6.96%
Dow Jones Industrial Avg	-4.08%	Gold	-3.03%
S&P 500 Index	-5.08%	Silver	-9.60%
Nasdaq Composite	-6.33%	Copper	-13.27%
MSCI EAFE (Developed)*	-5.83%	Aluminum	-8.41%
MSCI EM (Emerging)*	-3.76%	Nickel	-4.34%
Shanghai Index (China)	-8.60%	Zinc	-20.54%
Ibovespa Index (Brazil)	-6.79%	Crude Oil	-10.67%

Source: RBC Wealth Management, Bloomberg; data is from 12/31/09 through 2/4/10. All commodities, except crude oil, are measured in spot prices. * MSCI EAFE tracks stocks in developed nations in Europe, Australia, and Asia. MSCI EM tracks stocks in 26 emerging market nations

This is exactly opposite from the pattern that occurred throughout much of 2009. Back then, the dollar was weak and risky assets were strong because of a phenomenon known as the “carry trade.”

On the face of it, a higher dollar might seem positive, especially since the dollar took quite a pounding throughout much of 2009. However, the world of investing is rarely that straightforward. When the carry trade shows signs of reversing (as it has recently)—even if it's just for a short period—it can have negative consequences for the prices of risky assets such as equities and commodities.

We don't believe this stock market correction marks the end of the cyclical (short-term) bull market. In other words, we believe the major stock indexes will be higher at some point this year as the cyclical recovery in the economy and corporate earnings unfold. However, these events are certainly a reminder that the secular (longer-term) bear market may be alive and well. There are a number of economic imbalances that key regions of the world and the United States need to work through before we will feel comfortable moving away from our secular bear market thesis.

Note: The *Weekly Market Monitor* will not be published on Friday, February 12, due to business travel commitments. It will return on February 19.

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			Count	%
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