Monthly Market Snapshot

March 2009

By Michael Zienchuk and Dan Solomon

February was a rough month for stock markets as deteriorating economic conditions across the globe continued to weigh on equities. In the US, the Obama administration, only in power for two weeks as the month began, faced the challenge of appeasing the public's growing desire for a quick fix to the nation's economic woes. Over the course of the month the newly formed government introduced a massive $787 billion stimulus plan, proposed a mortgage relief program to stem foreclosures, and was working on the details of a bank rescue plan. Yet investors responded negatively to these initiatives, calling into question the Obama administration's credibility very early on in its tenure. Adding fuel to the fire was the government's introduction of the US budget, which will look to raise taxes, increase regulation and cut vital corporate subsidies. The call for further government aid was not without cause as February saw the further deterioration of US housing prices, massive corporate layoffs, declining retail sales, falling international trade, and sagging company earnings with even drearier guidance.

There is some debate on the degree of how involved the US government should get in private enterprise with respect to its most recent stimulus efforts. It is widely felt that the principle of protectionism is economically dangerous and opposite of the capitalist foundations on which the US was built upon. It has also been suggested that nations taking a protectionist stance to trade actually worsened the effects of the great depression in the early 1930's. For the US to close its borders to international trade in an effort to rehabilitate domestic industry would have drastic ramifications for Canada, as we have historically been the US' largest trading partner. Thus, it is beneficial to Canada that the Obama administration has spoken out against trade protection. But difficult times call for difficult measures and there is no predicting what the US government might be influenced to do should the recession continue to deepen.

Furthermore, the financial sector in the US has wavered to the point that banks such as Citigroup and Bank of America would fail if they did not receive substantial injections of capital (in addition to the billions already received). The US government has acknowledged the greater need for capital in its financial system. It has stepped up to raise its ownership stake in these banks to the point where the line between a private banking industry and state run banking is starting to blur. Nationalization in most cases would call for the dilution or elimination of common shareholders and in some instances preferred shareholders. So it should come as no surprise that the trend towards the nationalization of parts of the US financial sector has put pressure on US financial stocks big and small as well as their Canadian and overseas counterparts, as investors fear for the fate of their equity.

The impact of this speculation was so great that the Dow fell to its lowest level since 1997 with the S&P 500 following close behind it, as both market indices fell below their November 2008 lows. The Obama administration has clearly stated that it understands a private financial sector is in the best interests of the country, but any further asset write-downs and calls for capital from the sector might force the governments hand to act swiftly against its wishes. Investors are anxiously awaiting more details of US Treasury Secretary Timothy Geithner's bank recover plan to help clear the air on the future of the global financial sector, which we can expect to emerge in the coming weeks.

While the US and other governments work to support equity markets and lift the globe out of recession, investors have been searching for a place to park their funds until the equity markets stabilize. The ability of the EUR to survive its first real recession is being called into question as the region wanes. For the moment investors are rushing away from the EUR and other currencies and into the US dollar and gold to shield their assets. As an example of this "flight to safety", in intra-day trading on February 20th, gold traded above US$1000/oz. for the first time since March, 2007 in response to speculation over the possible nationalization of some of the US' biggest banks.

Canada's banks reported better-than-expected earnings at the end of the month, which contributed to some investor optimism, but there is no telling what lies ahead for them in 2009. Overseas, financial institutions are seeking the aid of local governments to help bolster their balance sheet as they are also dealing with billions in write-downs. China's market has been the only place with substantial gains but has exhibited significant volatility with its Shanghai Composite Index dropping nearly 4% in one day as February came to a close.

Thankfully, there are some economic indicators signaling that the equity markets meltdown may end in the coming months. Credit spreads have begun to ease, the Baltic Dry Index looks to have bottomed, and the VIX is holding between the 40-50 level signifying that there might be light at the end of the tunnel. Value hunters might elect to use this time to attempt to pick off cheap stocks but should heed our continued recommendation to only seek companies with solid balance sheets, and proven management that are trading at conservative valuation levels. Finally, we are also of the opinion that investors will need to come to terms with the fact that there is no immediate solution to the current market troubles, and patience and flexibility will be required to survive the recession no matter who is leading the recovery.

Monthly Market Statistics: February 2009

Total Return Index Returns (Annualized After One Year)

	Local							C$						
	1M	3M	6M	YTD	1YR	3YR	5YR	1M	3M	6M	YTD	1YR	3YR	5YR
TSX Composite	-6.3%	-11.5%	-39.9%	-9.1%	-38.2%	-8.9%	0.8%	-6.3%	-11.5%	-39.9%	-9.1%	-38.2%	-8.9%	0.8%
S&P 500	-10.6%	-17.3%	-41.8%	-18.2%	-43.3%	-15.1%	-6.6%	-8.3%	-15.6%	-30.7%	-14.9%	-26.8%	-12.0%	-7.6%
MSCI EAFE	-7.6%	-12.3%	-37.9%	-13.4%	-41.2%	-15.4%	-2.3%	-7.9%	-12.3%	-33.9%	-15.7%	-35.3%	-11.8%	-3.9%
MSCI World	-8.9%	-14.4%	-39.9%	-15.3%	-42.0%	-14.9%	-4.3%	-7.8%	-13.6%	-32.6%	-14.7%	-31.2%	-11.6%	-5.6%
MSCI Pacific	-4.7%	-8.8%	-38.5%	-10.8%	-42.1%	-18.0%	-2.9%	-8.1%	-9.0%	-26.0%	-13.7%	-27.7%	-12.5%	-3.2%
MSCI Emerging	-2.8%	-1.3%	-35.5%	-5.7%	-45.0%	-6.6%	5.3%	-3.2%	-2.8%	-37.2%	-8.1%	-43.2%	-8.4%	2.6%
TSX Small Cap	-7.1%	-1.0%	-45.4%	-7.1%	-48.6%	-18.4%	-8.5%	-7.1%	-1.0%	-45.4%	-7.1%	-48.6%	-18.4%	-8.5%
Global Small Cap	-8.9%	-11.2%	-43.5%	-14.8%	-44.3%	-19.4%	-5.0%	-8.1%	-10.3%	-35.8%	-13.9%	-32.8%	-15.7%	-5.8%
Bonds - CDN	0.7%	5.1%	2.9%	-0.3%	4.1%	4.6%	4.9%	0.7%	5.1%	2.9%	-0.3%	4.1%	4.6%	4.9%
Bonds - 1- 5 yr	0.6%	2.3%	4.2%	0.5%	6.2%	5.6%	4.5%	0.6%	2.3%	4.2%	0.5%	6.2%	5.6%	4.5%

Total Return Index Returns by Calendar Year

	Local					C$						Recent Data		
	YTD	2008	2007	2006	2005	YTD	2008	2007	2006	2005	2004	Current	High*	Low*
TSX Composite	-9.1%	-33.0%	9.8%	17.3%	24.1%	-9.1%	-33.0%	9.8%	17.3%	24.1%	14.5%	20881.3	37791.0	19629.1
S&P 500	-18.2%	-37.0%	5.5%	15.8%	4.9%	-14.9%	-22.6%	-10.3%	16.1%	1.5%	2.8%	1188.8	2258.7	1188.8
MSCI EAFE	-13.4%	-39.9%	4.0%	16.9%	29.5%	-15.7%	-30.1%	-5.1%	27.2%	10.3%	11.9%	1658.7	3041.3	1638.8
MSCI World	-15.3%	-38.3%	5.2%	16.1%	16.3%	-14.7%	-26.7%	-6.8%	21.0%	6.4%	6.8%	1821.6	3396.4	1821.6
MSCI Pacific	-10.8%	-42.2%	-1.4%	11.6%	38.1%	-13.7%	-21.6%	-10.2%	12.8%	19.0%	10.6%	991.8	1833.0	963.4
MSCI Emerging	-5.7%	-45.7%	33.5%	28.9%	35.8%	-8.1%	-42.5%	18.9%	32.9%	30.1%	16.7%	43896.6	86444.1	38425.4
TSX Small Cap	-7.1%	-45.5%	0.9%	11.6%	10.6%	-7.1%	-45.5%	0.9%	11.6%	10.6%	6.5%	414.2	838.0	367.4
Global Small Cap	-14.8%	-40.4%	-3.8%	13.6%	23.3%	-13.9%	-28.3%	-14.0%	17.9%	12.3%	15.6%	102.0	196.8	99.6
Bonds - CDN	-0.3%	3.7%	4.1%	6.5%	7.1%	-0.3%	3.7%	4.1%	6.5%	7.1%	6.7%	697.4	708.0	663.5
Bonds - 1- 5 yr	0.5%	4.1%	4.0%	2.4%	5.1%	0.5%	4.1%	4.0%	2.4%	5.1%	5.1%	557.5	560.2	522.5

* "High" and "Low" values based on prior 52 weeks of historical data

Canadian Average Cash Yields

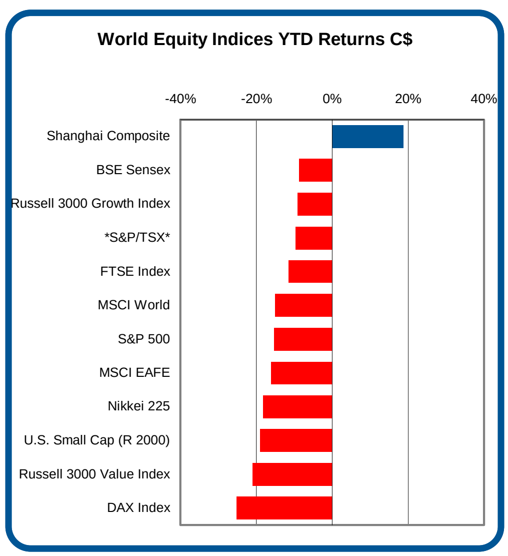
	Actual	1M	3M	6M	1YR	3YR	5YR
1M T-Bill	0.50%	0.59%	0.63%	1.16%	1.75%	3.24%	2.93%
3M T-Bill	0.59%	0.73%	0.76%	1.28%	1.85%	3.32%	3.03%
1YR T-Bill	0.76%	0.90%	0.88%	1.46%	2.12%	3.49%	3.27%

Currencies

	Actual	1M	3M	6M	1YR	3YR	5YR
C$/US$	$0.78	-3.69%	-2.79%	-16.60%	-22.55%	-10.86%	4.62%
US$ Trade wt.	$88.01	2.34%	1.72%	13.73%	19.39%	-2.33%	0.80%
Euro/C$	$1.62	2.58%	2.75%	3.50%	7.78%	19.22%	-3.05%
Yen/C$	$1.31	-4.30%	0.77%	33.77%	37.35%	33.16%	6.96%

Commodities

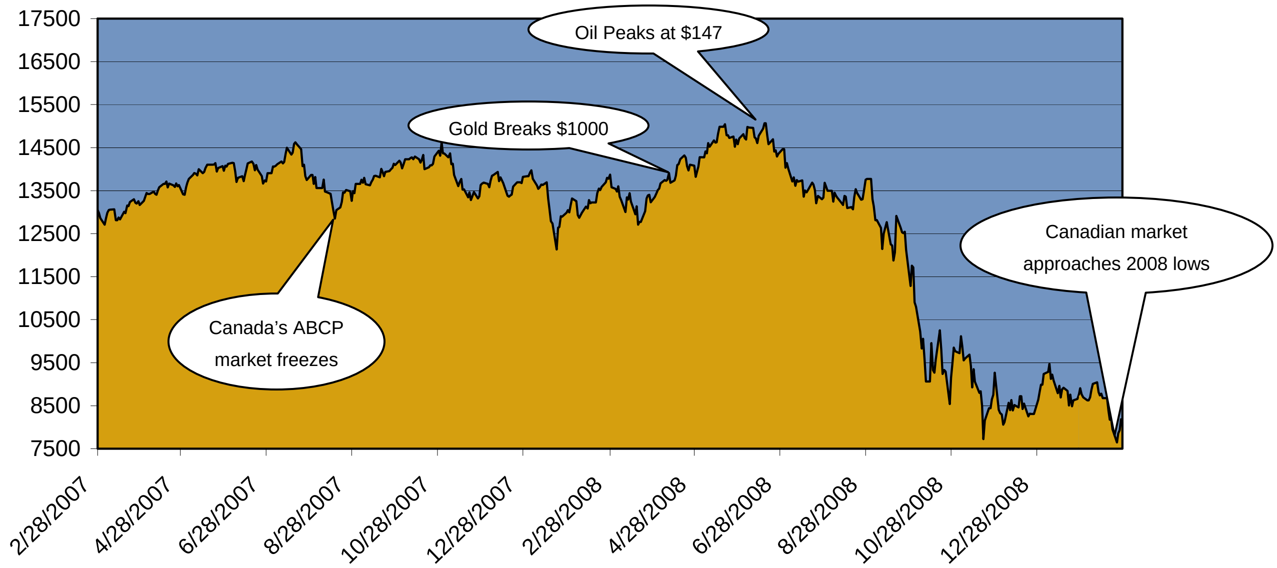
	Actual	1M	3M	6M	1YR	3YR	5YR
Oil	$44.76	7.4%	-17.8%	-61.2%	-56.0%	-27.1%	23.8%
Nat Gas	$4.20	-5.0%	-35.5%	-47.1%	-55.2%	-37.5%	-22.5%
Gold	$941.5	1.6%	15.5%	13.3%	-3.1%	67.6%	137.5%
Copper	$152.6	4.4%	-6.0%	-55.5%	-60.4%	-30.2%	13.6%



Source: Bloomberg, Ishares.ca

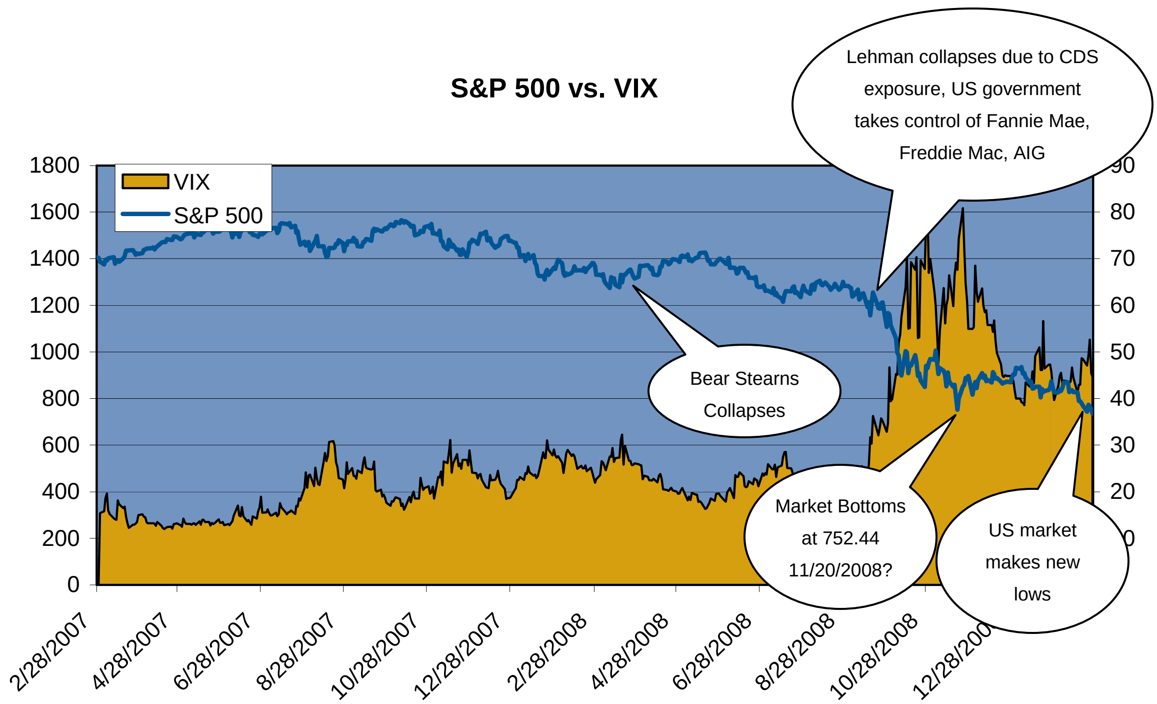
Equity Price Graphs

S&P TSX Composite



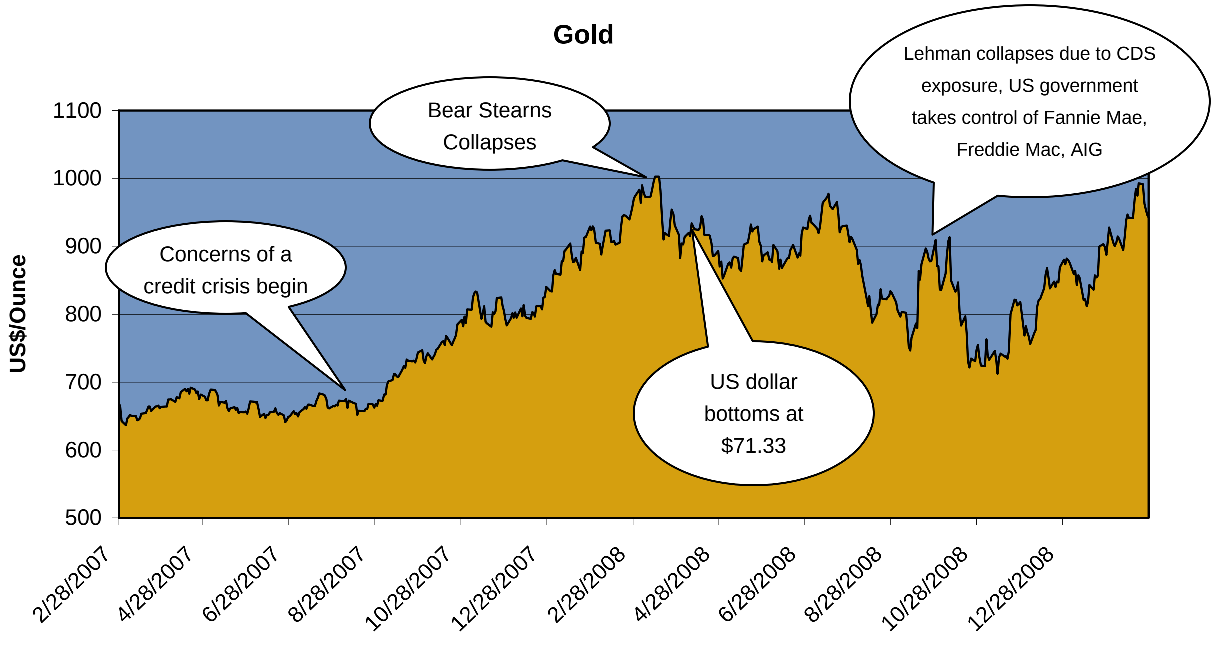
Source: Bloomberg

S&P 500 vs. VIX



Source: Bloomberg

Commodity Price Graphs



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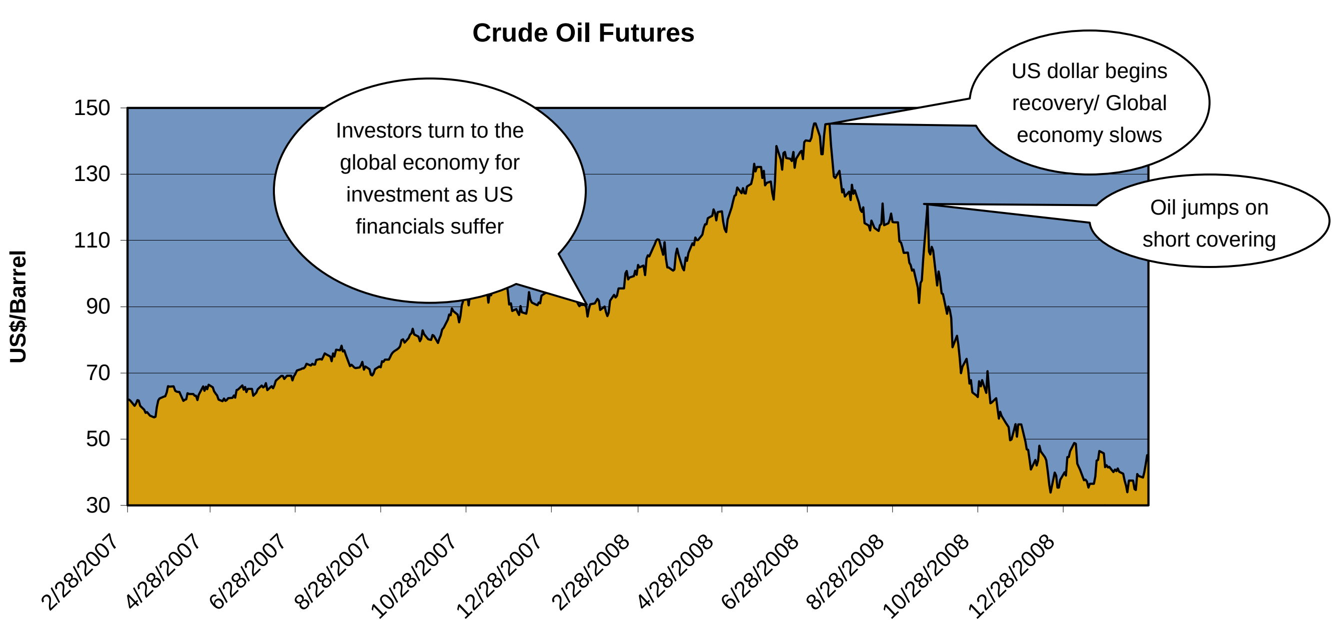
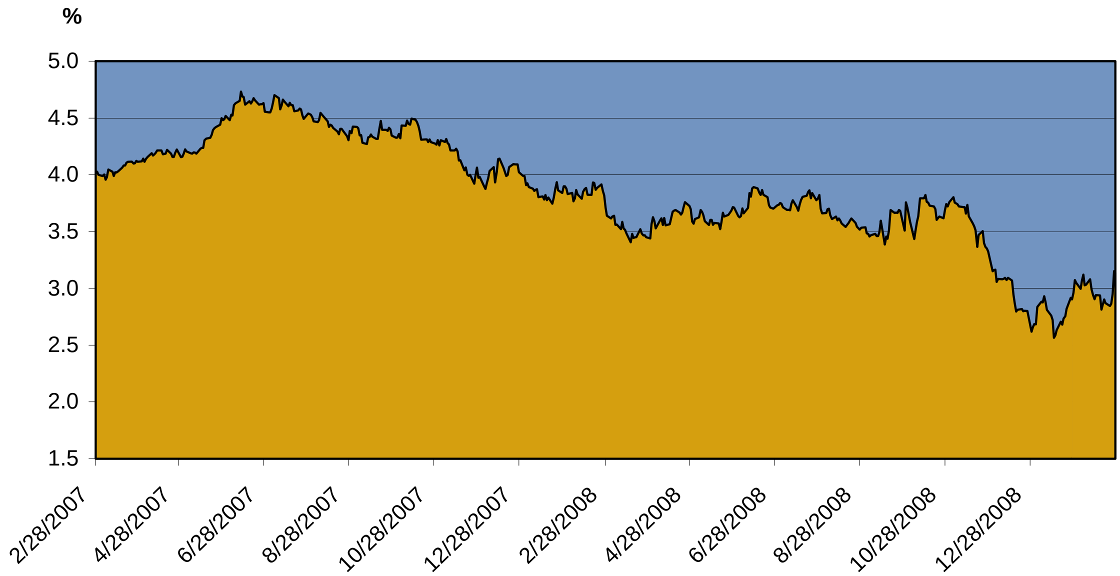


Source: Bloomberg

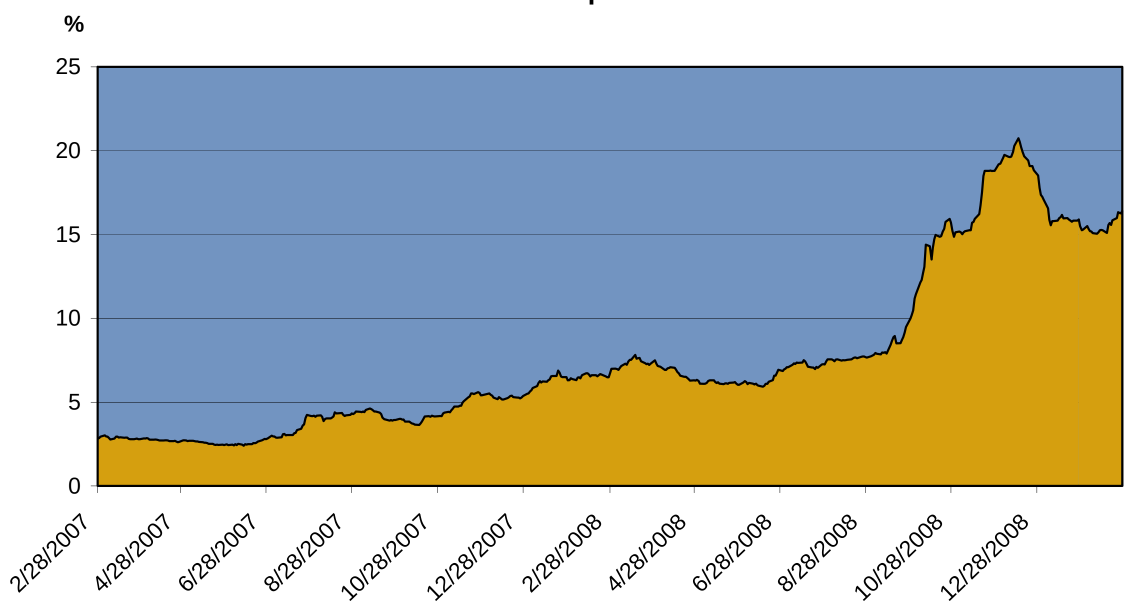
Interest Rates

10-Year Canadian Government Bond Yield



Source: Bloomberg

US Credit Spreads

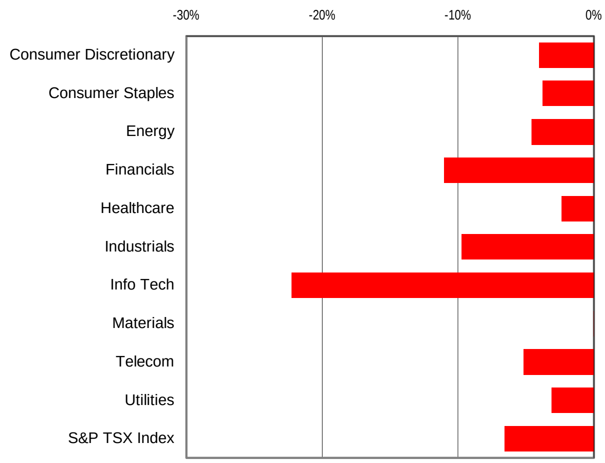


(Merill Lynch US High Yield Master II Index - Generic 10 Year US Government Bond)

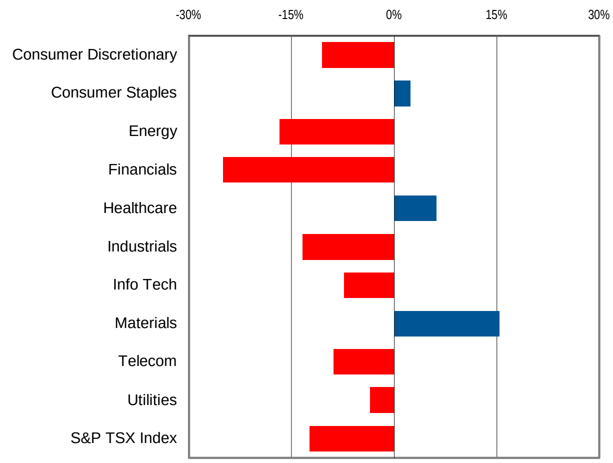
Source: Bloomberg

Canadian GIC Sector Performance (C$)

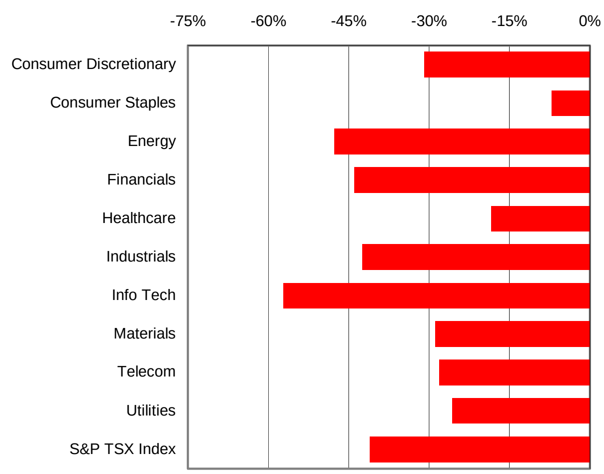
CAN 1-Month



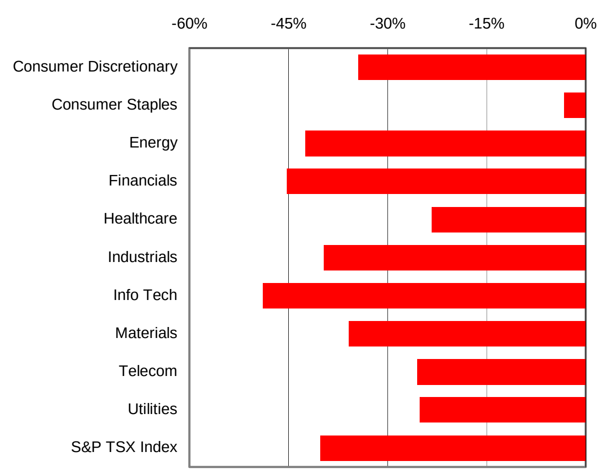
CAN 3-Month



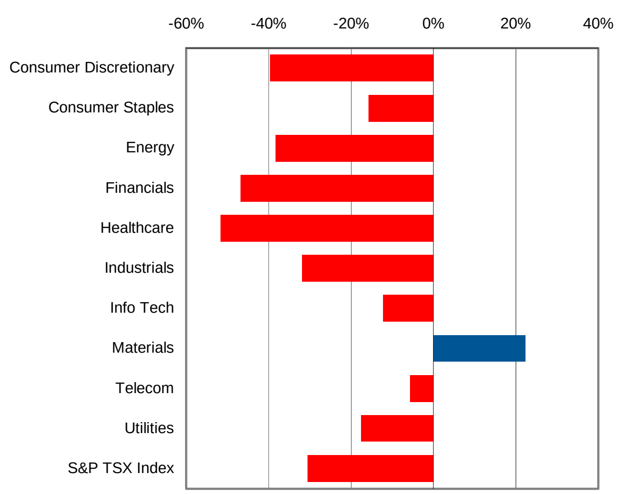
CAN 6-Month



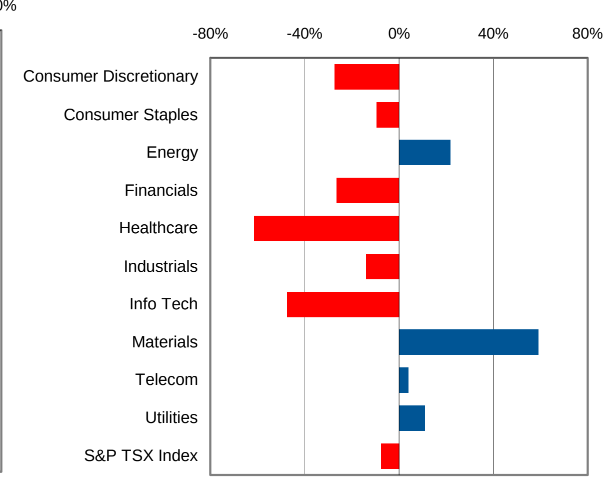
CAN 1-Year



CAN 3-Year



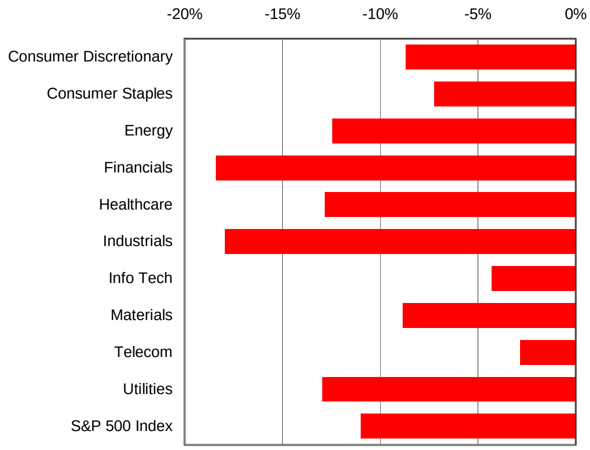
CAN 5-Year



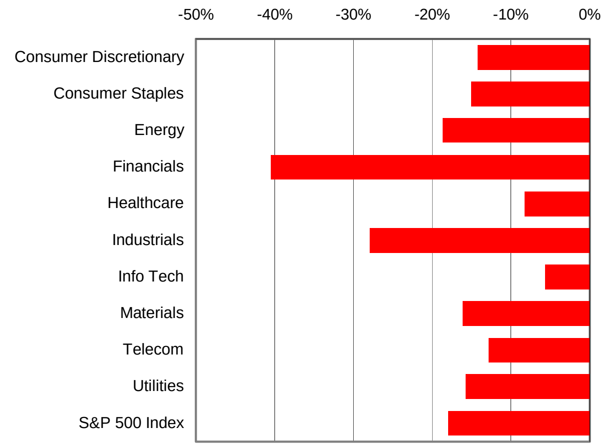
Source: Bloomberg

US GIC Sector Performance (US$)

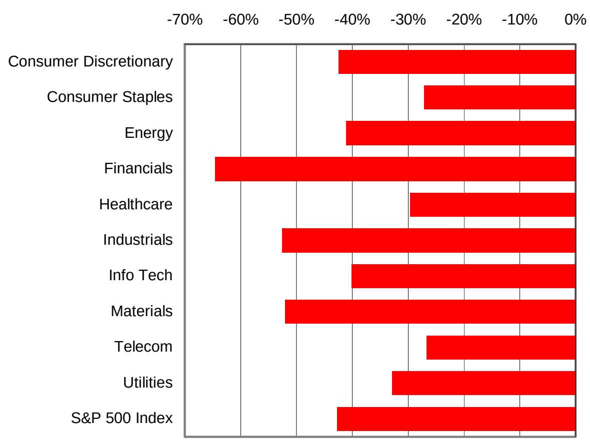
US 1-Month



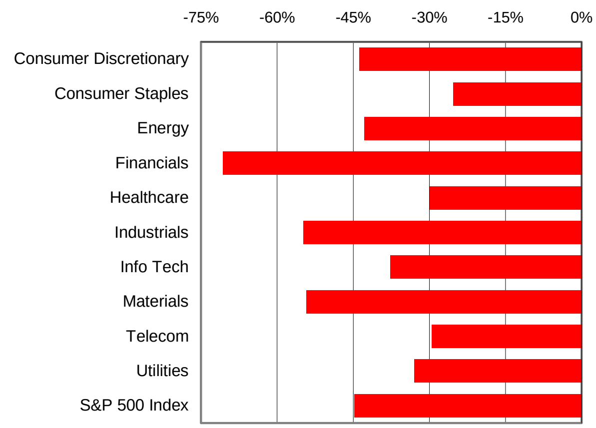
US 3-Month



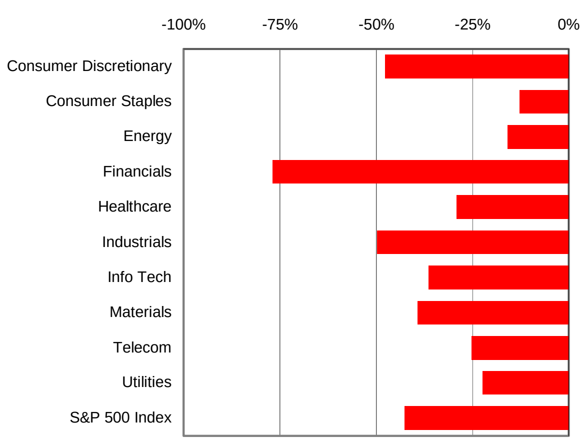
US 6-Month



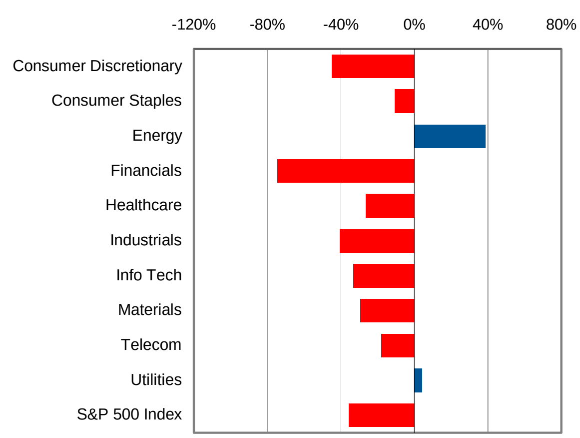
US 1-Year



US 3-Year



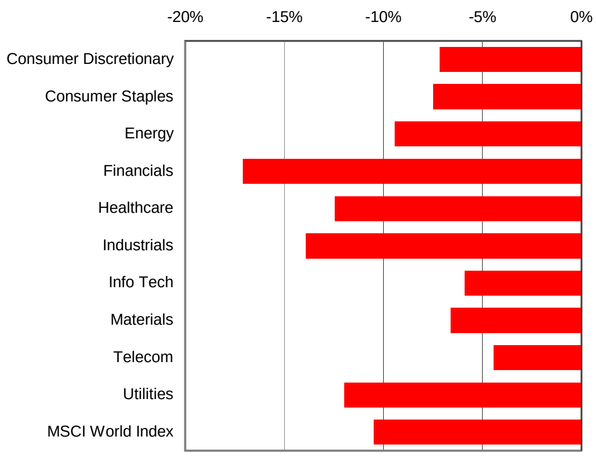
US 5-Year



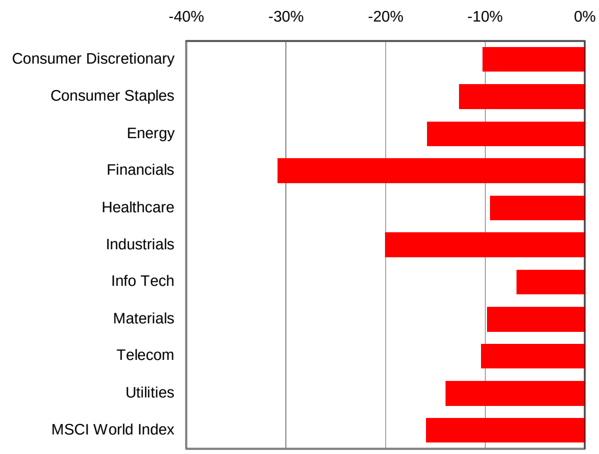
Source: Bloomberg

World GIC Sector Performance (US$)

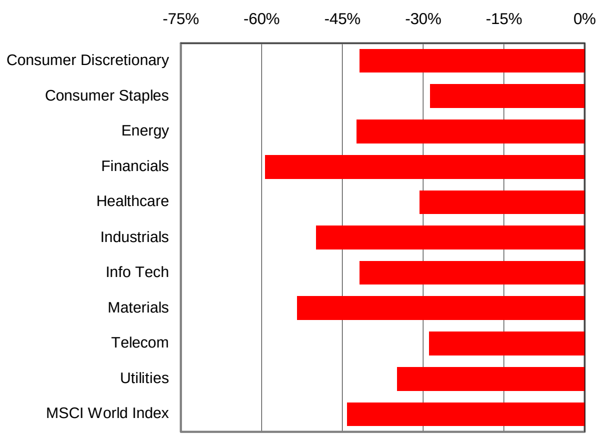
World 1-Month



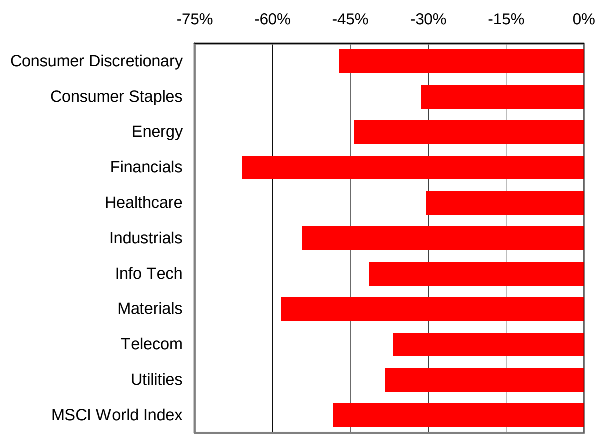
World 3-Month



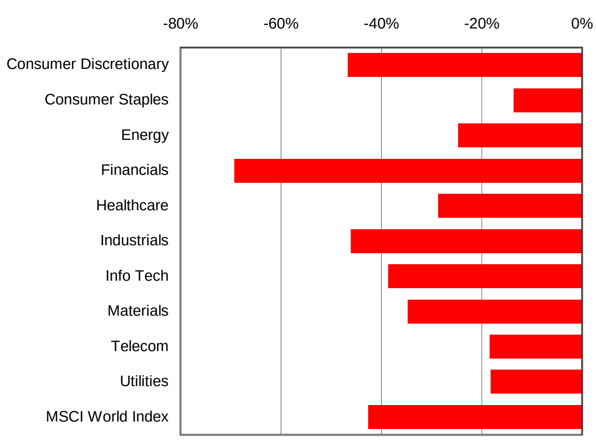
World 6-Month



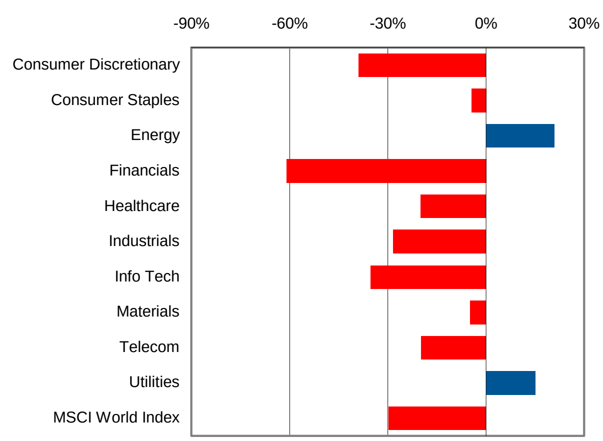
World 1-Year



World 3-Year

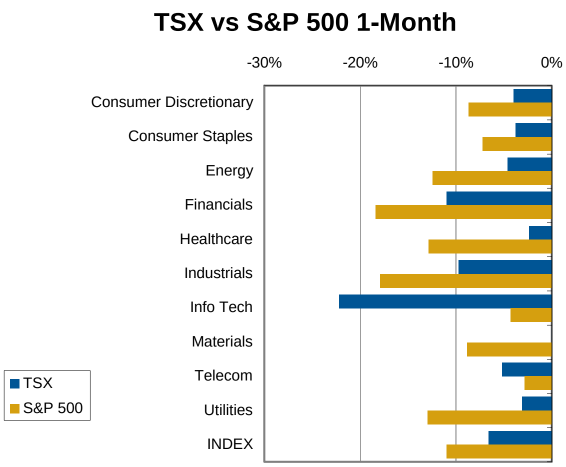


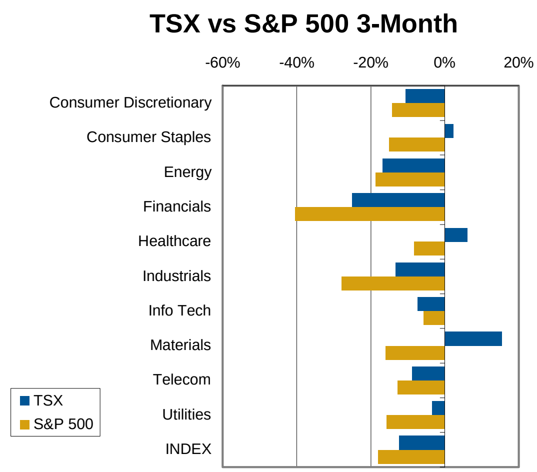
World 5-Year

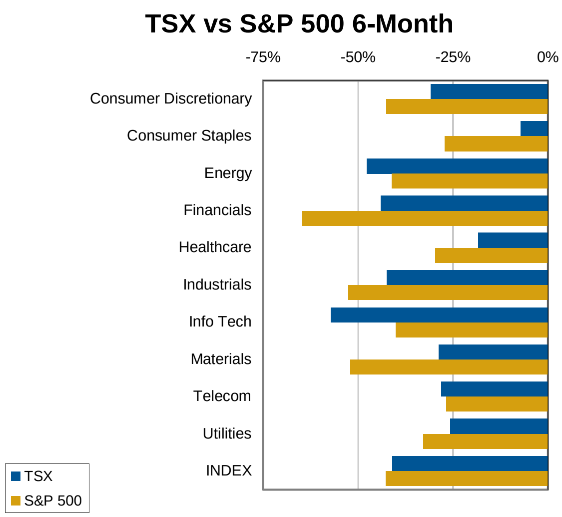


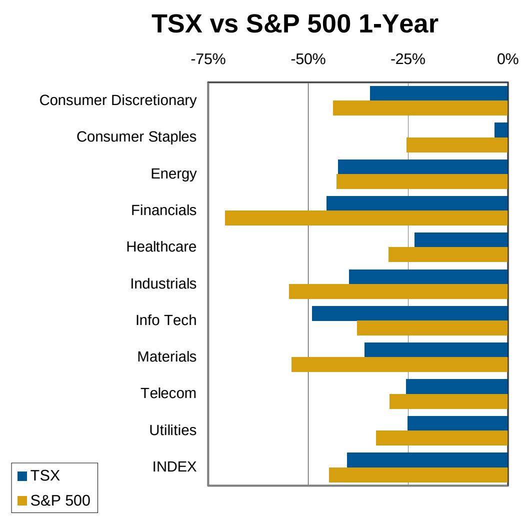
Source: Bloomberg

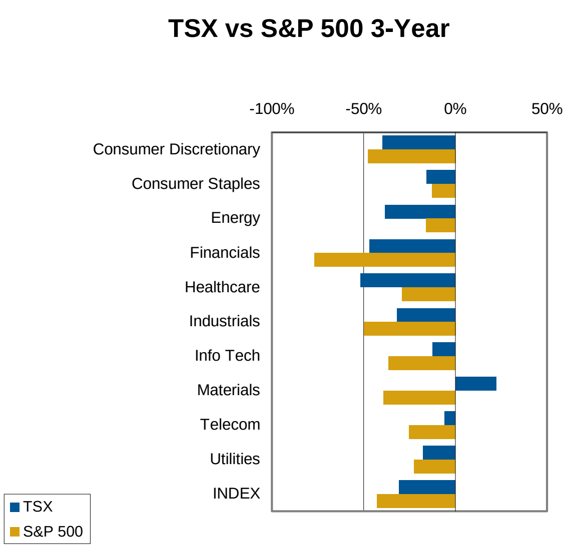
Sectoral Performance TSX vs S&P 500

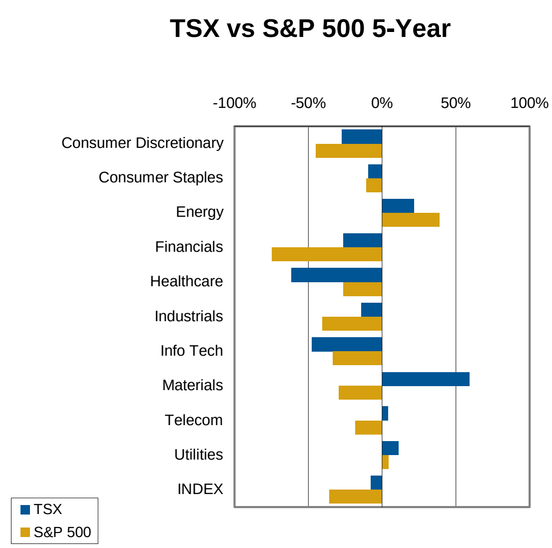












Source: Bloomberg

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