

By John Bai and Dan Solomon

- It seemed fitting that the first quarter came to a close with the World Bank warning that “what began six months ago as a massive deleveraging in financial markets has turned into one of the sharpest global economic downturns in recent history” and a pledge by the G20 leaders to “continue our vigorous efforts and take whatever further actions are necessary to stabilize the financial system and ... stimulate domestic demand”.
- Concerns over the stability of the global banking system caused markets to fall to fresh cycle lows in early March, but government intervention efforts along with better-than-expected earnings and economic figures sparked a rally to end the quarter. Overall, Canadian, U.S. and World equity benchmarks fell 2%, 11% and 10% on the quarter.
- A key shift in investor sentiment occurred when the US Federal Reserve announced that it would employ a non-conventional policy tool called “quantitative easing”. By purchasing up to \$300 billion in US Treasuries, the Fed would further stimulate the economy by injecting liquidity into the system and lowering interest rates on longer-dated bonds.
- This stimulus sent economically sensitive assets such as commodity and equity markets as well as currencies of resource producing nations higher. Gold, which rallied close to \$1,000/ounce earlier in the quarter, sold off as investors took profits in the safe haven asset switching to more cyclical assets and sectors. For the quarter gold, oil, and copper closed 4%, 11% and 32% higher.
- Canadian T-Bills and 10-year government bond yields closed the quarter at 0.37% and 2.78% respectively. Thus prices of “safe assets” such as cash and government bonds remain near cyclical and/or record highs and valuations on riskier assets such as equity markets and corporate bonds remain near record lows. With US\$3.8 trillion dollars in money market mutual funds, U.S. investors still held more cash than equity mutual funds at quarter end. This leaves plenty of “dry power” to be deployed into the equity markets, when investors deem it “safe” to do so.
- Most economists are expecting the Canadian and U.S. economies to shrink by 5% in the first quarter, the worst contraction of the year. From there, most expect the economy to strengthen as the year progresses, including DundeeWealth’s Chief Economist Dr. Martin Murenbeeld. One reason for the improvement is that the massive stimulus actions taken by world governments are expected to take an increasing affect as the year progresses. U.S. pledges exceed \$12 trillion and the first paycheques in Barack Obama’s \$787 billion fiscal stimulus are scheduled for early April delivery.
- Investors will be watching economic data closely for improvement. Improvement doesn’t mean positive growth, only that the data is getting less negative. As sentiment improves, we believe investors will start deploying some of the sidelined cash into the equity markets. A sustained rally, however, would likely require a robust economic recovery, which is not expected for some time.
- We expect equity markets to continue to “bump along the bottom”, so to speak. But with investor sentiment improving we expect market pullbacks to be higher than previous lows, which would be a welcome development for the markets.

The first quarter of 2009 was a volatile time for the world’s equity markets. After tumbling below their November lows in early March due to concerns over the health of the global financial system, equities rallied toward the end of the quarter on optimism over further government intervention efforts, and better-than-expected economics and earnings reports. However, profit taking as well as the impending bankruptcies of GM and Chrysler sparked a sell-off in the final days of the quarter. The

S&P/TSX ended down 2% for the quarter, while the S&P 500 fell 11%. In March the S&P/TSX gained 7.8%, and the S&P 500 rallied 8.8%. Most overseas equity markets fell for the quarter as well, with the main exception being China’s Shanghai Composite Index, which advanced over 30%. The Chinese government’s moves to cut bank reserve requirements, cut rates, and commit billions to infrastructure spending as a response to the credit crisis certainly appears to have boosted investor confidence.

The Obama administration continues to work at stabilizing the US banking system and reviving the nation's economy through stimulus spending. The outrage over the AIG bonuses awarded to its Financial Products division is an example of the delicate balancing act the administration faces in appeasing both Main Street and Wall Street, while it attempts to repair the damage. The global financial sector has been under significant pressure as the need to raise capital continues to increase as a result of continued deleveraging and devaluation of real-estate related toxic assets. This has put considerable pressure on equity prices of the world's banks, and was a major catalyst for the sell-off that took place late-February to early-March. As a response, the US government has set out a plan to work with private investors at relieving the banking sector of its troubled real-estate-asset problems.

The US Fed's decision to undertake "quantitative easing" by purchasing up to \$300 billion of treasuries has caused investors to speculate over the possibility for rampant inflation. This has boosted commodities and currencies of countries that produce and provide them (Canada, Australia, New Zealand). Although, there is still uncertainty over the demand outlook for resources as they met resistance after the fate of the US auto industry was again called into question. Gold enjoyed a spike to nearly US\$1000/oz. but failed to hold its ground as a safe-haven as surging equities prices offset concerns over the global outlook for inflation and economic growth.

Even after March's market rally, "safe" assets such as cash and government bonds are still at cyclical highs, meaning that a substantial amount of money is still sitting on the sidelines. Investors are perhaps waiting for more signs of economic stability before they begin to funnel cash back into the capital markets. There have been some positive economic signs, but overall most economic indicators have yet to turn to the upside. GDP forecasts have been

revised downward, while retail spending, unemployment, the housing market, and the leading indicators are still trending lower. The situation is certainly severe, but thankfully the OECD has stated that while OECD countries will contract 4.3% this year, government policies will likely keep them from plunging into depression. DundeeWealth's Chief Economist, Dr. Martin Murenbeeld, has provided four main reasons as to why this recession might end in late 2009. First, there is over \$12 trillion in government programs and guarantees already announced, which might begin to have a significant impact as the year progresses. Second, home prices could stop falling by the third quarter of 2009. Third, a minimum of \$825 billion to \$1 trillion in fiscal spending is due to commence before mid-year. And finally, the "bad bank" proposal that was recently announced could be up and running in two to four months time.

Equity markets have historically bottomed 5-6 months prior to the end of a recession, but the question that many investors are now asking is will history repeat itself this time around? So considering Dr. Murenbeeld's timeline, it is possible that the March's market rally could be the beginning of the recovery for global equity markets. But on the contrary, it is also possible that given the uncertainty surrounding the global economic outlook, investors might remain sceptical until they are absolutely certain that the economic environment has turned for the better. Although the economic climate might not be crystal clear for the moment, we are recommending that investors take this time to evaluate possible strategies to position their portfolios for a market recovery. This includes investing in fundamentally sound companies that exhibit strong balance sheets, high profitability, low valuations, and attractive dividend yields. We understand that investors might still be unsettled, but at the same time we must caution them that if they remain on the sidelines they might miss the upside when the market begins to turn.

Monthly Market Statistics: March 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	7.8%	-2.0%	-24.3%	-2.0%	-32.4%	-7.8%	2.8%	7.8%	-2.0%	-24.3%	-2.0%	-32.4%	-7.8%	2.8%
S&P 500	8.8%	-11.0%	-30.5%	-11.0%	-38.1%	-13.1%	-4.8%	8.4%	-7.7%	-17.3%	-7.7%	-23.9%	-10.8%	-5.5%
MSCI EAFE	3.9%	-10.0%	-26.6%	-10.0%	-36.5%	-15.3%	-1.6%	6.0%	-10.7%	-17.8%	-10.7%	-33.9%	-11.8%	-2.5%
MSCI World	6.4%	-9.9%	-28.4%	-9.9%	-37.0%	-13.8%	-3.0%	7.2%	-8.5%	-17.7%	-8.5%	-29.0%	-11.0%	-3.7%
MSCI Pacific	4.2%	-7.1%	-26.6%	-7.1%	-35.3%	-18.0%	-3.2%	4.9%	-9.5%	-10.4%	-9.5%	-24.4%	-12.5%	-3.7%
MSCI Emerging	10.5%	4.2%	-18.7%	4.2%	-36.5%	-3.9%	7.4%	14.0%	4.7%	-12.8%	4.7%	-34.8%	-5.4%	5.5%
TSX Small Cap	3.6%	-3.7%	-29.5%	-3.7%	-45.3%	-18.3%	-7.8%	3.6%	-3.7%	-29.5%	-3.7%	-45.3%	-18.3%	-7.8%
Global Small Cap	7.4%	-8.5%	-30.8%	-8.5%	-38.9%	-18.8%	-4.1%	7.9%	-7.1%	-19.8%	-7.1%	-30.1%	-15.5%	-4.5%
Bonds - CDN	1.8%	4.4%	4.0%	1.5%	4.9%	5.4%	5.2%	1.8%	4.4%	4.0%	1.5%	4.9%	5.4%	5.2%
Bonds - 1-5 yr	1.1%	1.7%	6.1%	1.7%	6.9%	5.9%	4.6%	1.1%	1.7%	6.1%	1.7%	6.9%	5.9%	4.6%

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	-2.0%	-33.0%	9.8%	17.3%	24.1%	-2.0%	-33.0%	9.8%	17.3%	24.1%	14.5%	22507.7	37791.0	19470.0
S&P 500	-11.0%	-37.0%	5.5%	15.8%	4.9%	-7.7%	-22.6%	-10.3%	16.1%	1.5%	2.8%	1293.0	2258.7	1095.0
MSCI EAFE	-10.0%	-39.9%	4.0%	16.9%	29.5%	-10.7%	-30.1%	-5.1%	27.2%	10.3%	11.9%	1722.7	3041.3	1535.2
MSCI World	-9.9%	-38.3%	5.2%	16.1%	16.3%	-8.5%	-26.7%	-6.8%	21.0%	6.4%	6.8%	1938.5	3396.4	1683.1
MSCI Pacific	-7.1%	-42.2%	-1.4%	11.6%	38.1%	-9.5%	-21.6%	-10.2%	12.8%	19.0%	10.6%	1033.7	1833.0	922.2
MSCI Emerging	4.2%	-45.7%	33.5%	28.9%	35.8%	4.7%	-42.5%	18.9%	32.9%	30.1%	16.7%	48494.5	86444.1	38425.4
TSX Small Cap	-3.7%	-45.5%	0.9%	11.6%	10.6%	-3.7%	-45.5%	0.9%	11.6%	10.6%	6.5%	429.2	838.0	367.4
Global Small Cap	-8.5%	-40.4%	-3.8%	13.6%	23.3%	-7.1%	-28.3%	-14.0%	17.9%	12.3%	15.6%	109.6	196.8	93.2
Bonds - CDN	1.5%	3.7%	4.1%	6.5%	7.1%	1.5%	3.7%	4.1%	6.5%	7.1%	6.7%	710.0	710.0	663.5
Bonds - 1-5 yr	1.7%	4.1%	4.0%	2.4%	5.1%	1.7%	4.1%	4.0%	2.4%	5.1%	5.1%	563.9	563.9	522.5

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

Canadian Average Cash Yields

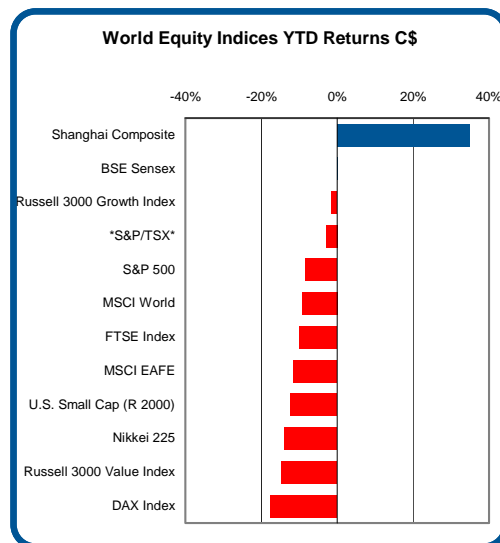
	Actual	1M	3M	6M	1YR	3YR	5YR
1M T-Bill	0.37%	0.44%	0.52%	0.89%	1.62%	3.15%	2.90%
3M T-Bill	0.39%	0.49%	0.61%	1.03%	1.72%	3.22%	3.00%
1YR T-Bill	0.59%	0.68%	0.79%	1.12%	1.96%	3.39%	3.25%

Currencies

	Actual	1M	3M	6M	1YR	3YR	5YR
C\$/US\$	\$0.79	1.21%	-3.26%	-15.54%	-18.64%	-7.27%	3.90%
US\$ Trade wt.	\$85.43	-2.93%	5.07%	7.53%	18.98%	-4.79%	-2.49%
Euro/C\$	\$1.67	3.34%	-2.00%	11.31%	3.15%	17.96%	3.56%
Yen/C\$	\$1.27	-2.65%	-5.24%	26.96%	23.81%	28.35%	1.42%

Commodities

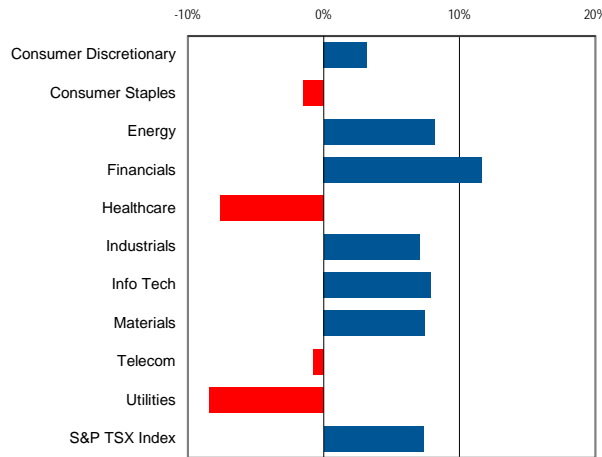
	Actual	1M	3M	6M	1YR	3YR	5YR
Oil	\$49.66	10.9%	11.3%	-50.7%	-51.1%	-25.5%	38.9%
Nat Gas	\$3.78	-10.1%	-32.8%	-49.2%	-62.6%	-47.6%	-36.4%
Gold	\$918.7	-2.4%	3.8%	5.0%	-3.2%	58.0%	115.0%
Copper	\$183.9	20.5%	31.8%	-36.3%	-52.4%	-26.1%	35.4%



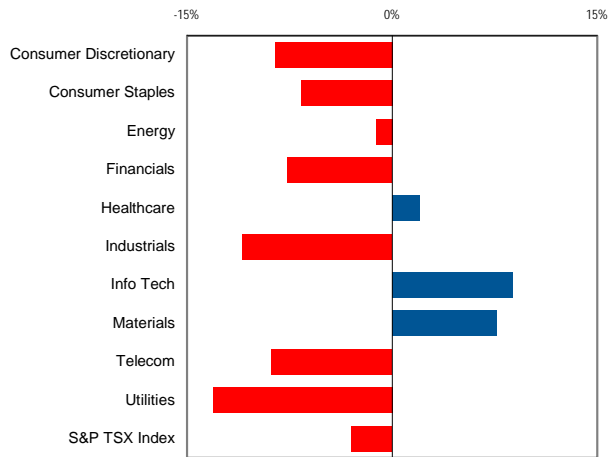
Source: Bloomberg, Ishares.ca

Canadian GIC Sector Performance (C\$)

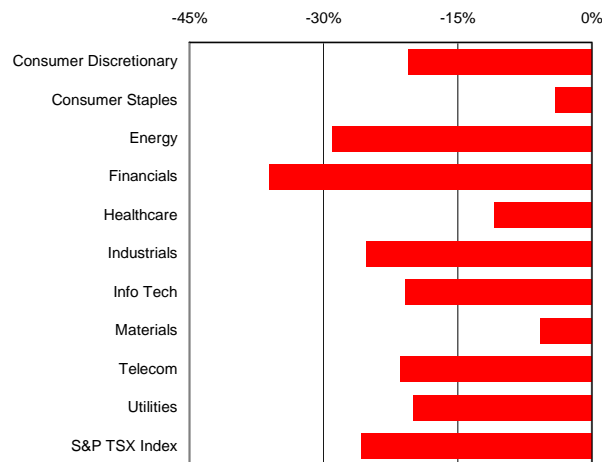
CAN 1-Month



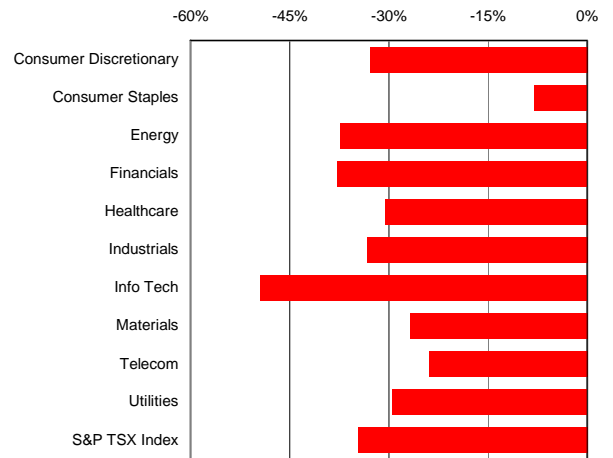
CAN 3-Month



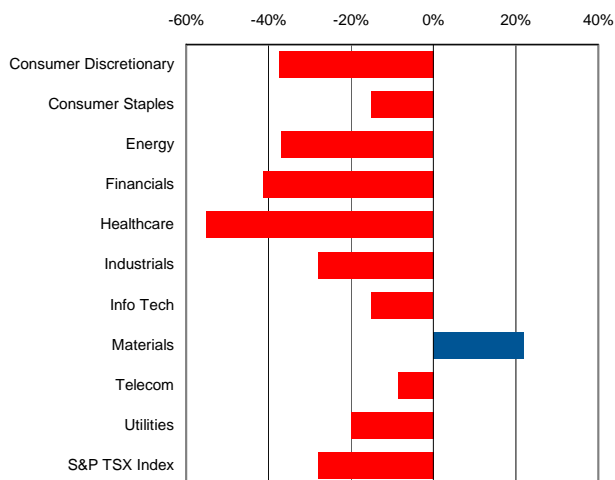
CAN 6-Month



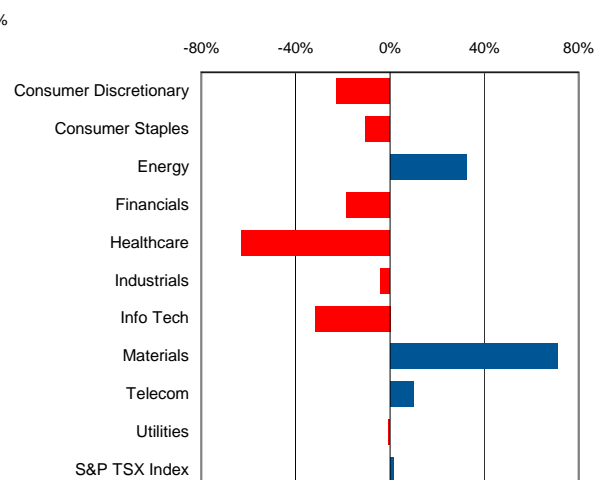
CAN 1-Year



CAN 3-Year



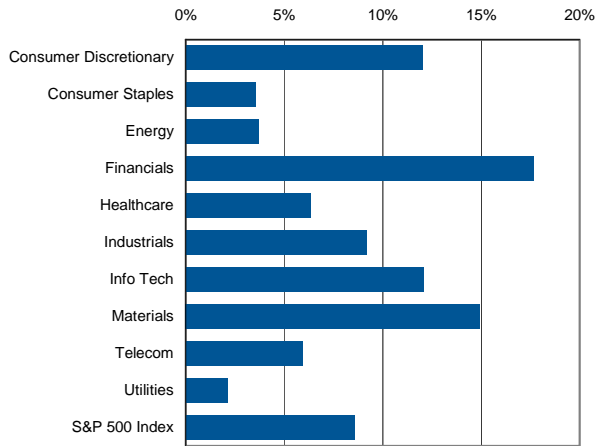
CAN 5-Year



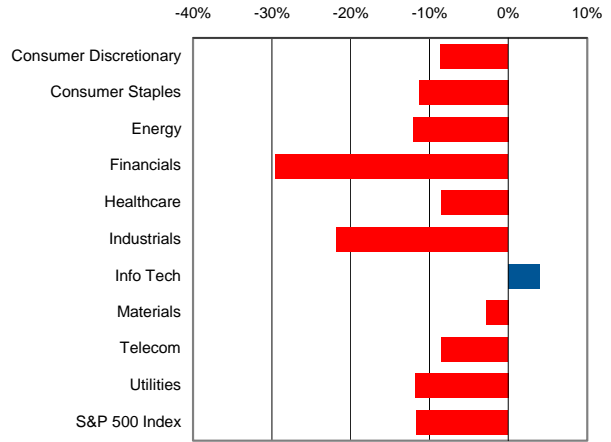
Source: Bloomberg

US GIC Sector Performance (US\$)

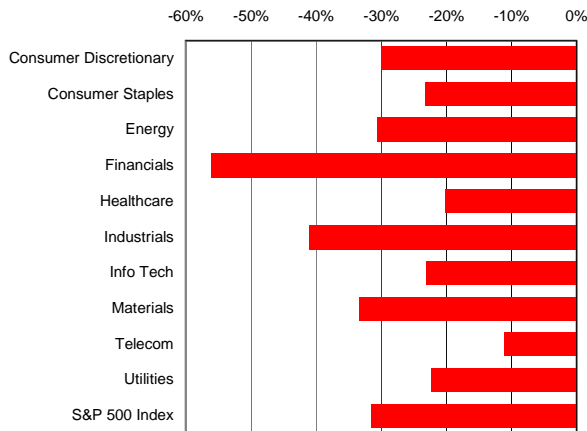
US 1-Month



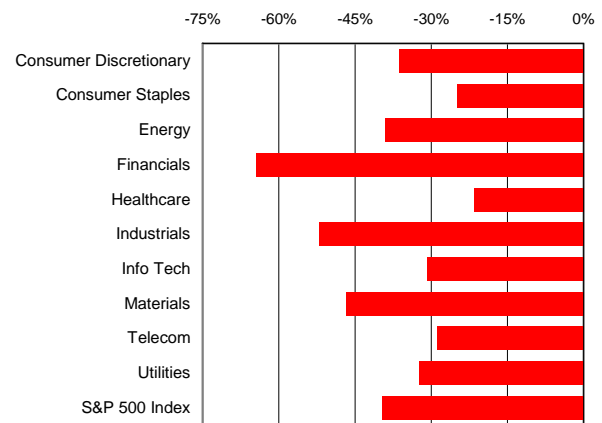
US 3-Month



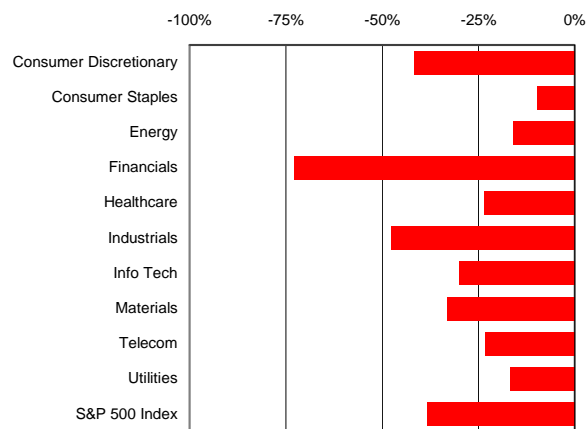
US 6-Month



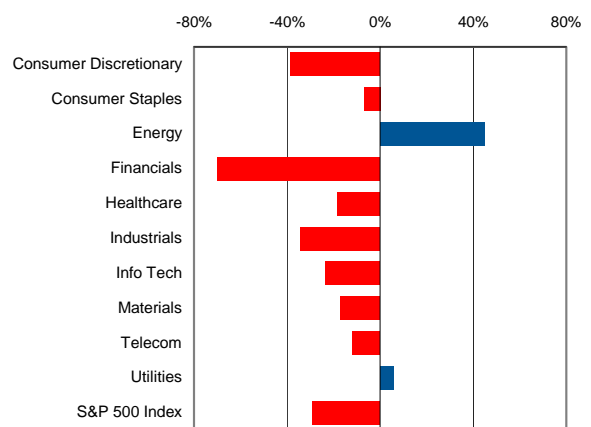
US 1-Year



US 3-Year



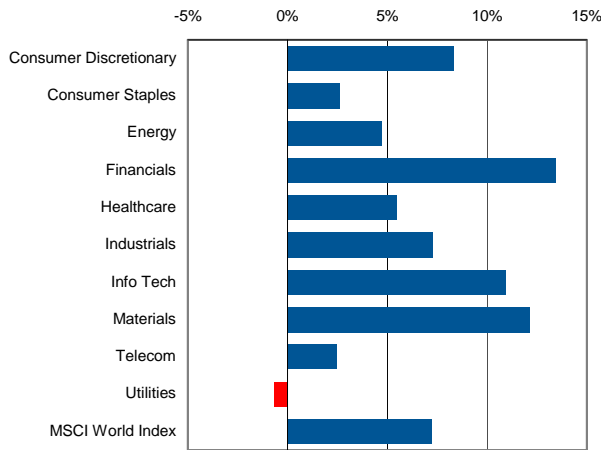
US 5-Year



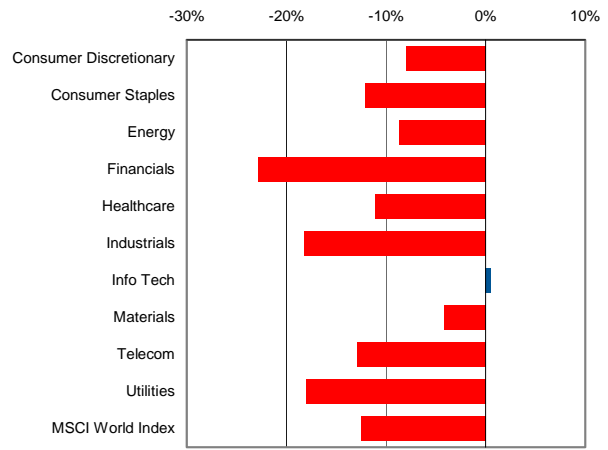
Source: Bloomberg

World GIC Sector Performance (US\$)

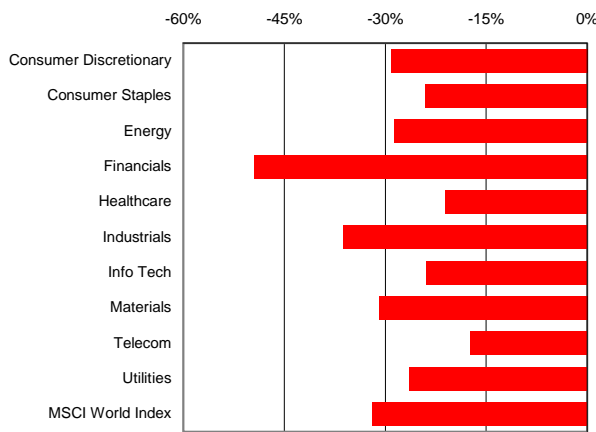
World 1-Month



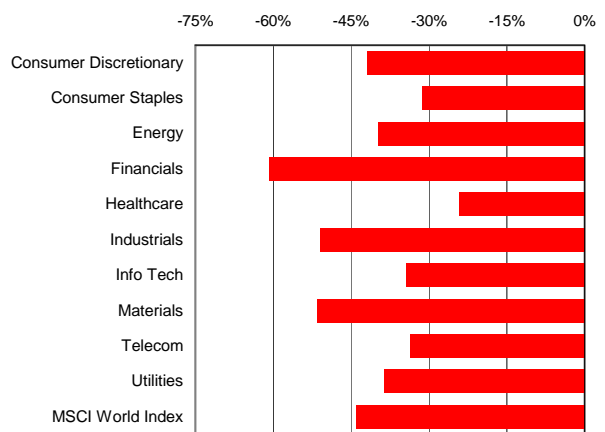
World 3-Month



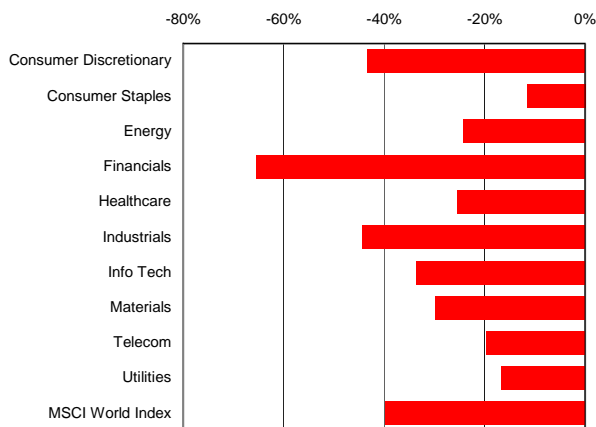
World 6-Month



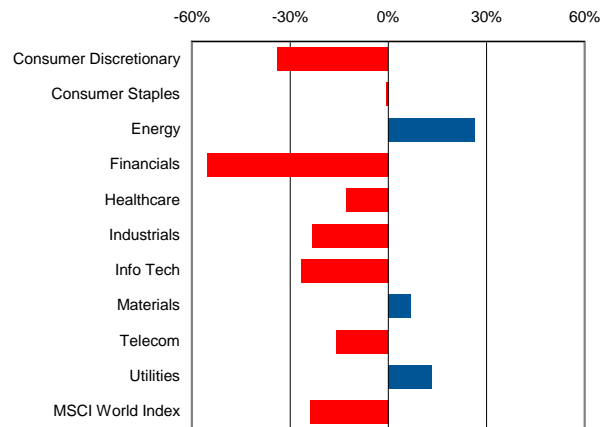
World 1-Year



World 3-Year



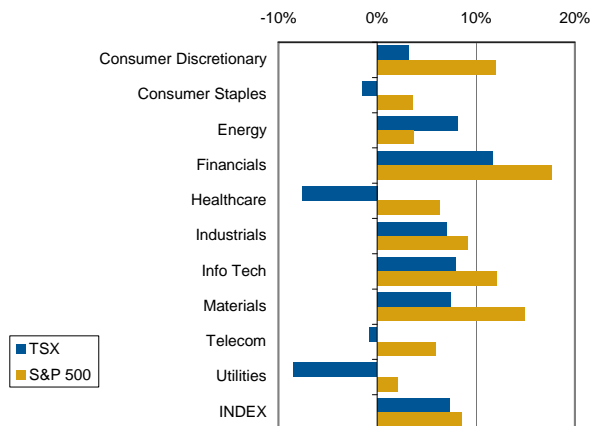
World 5-Year



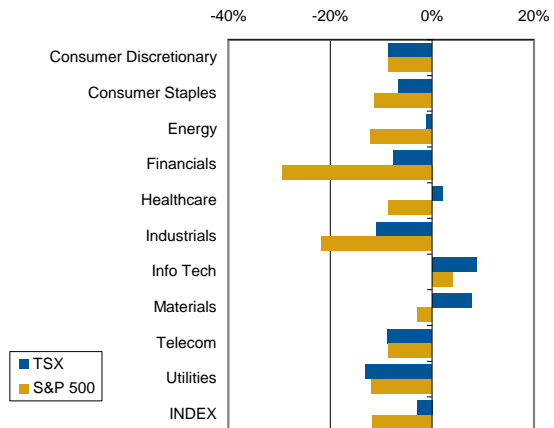
Source: Bloomberg

Sectoral Performance TSX vs S&P 500

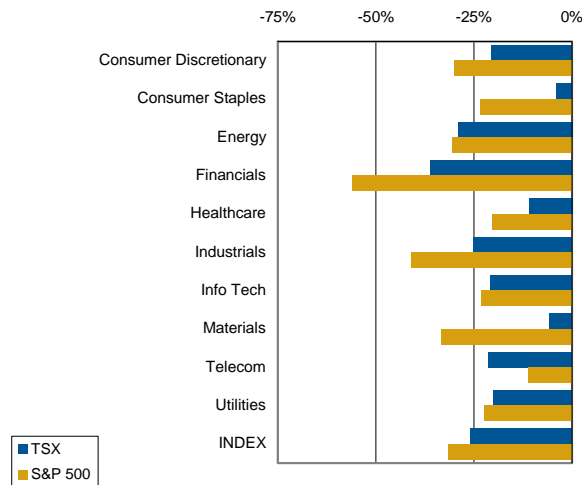
TSX vs S&P 500 1-Month



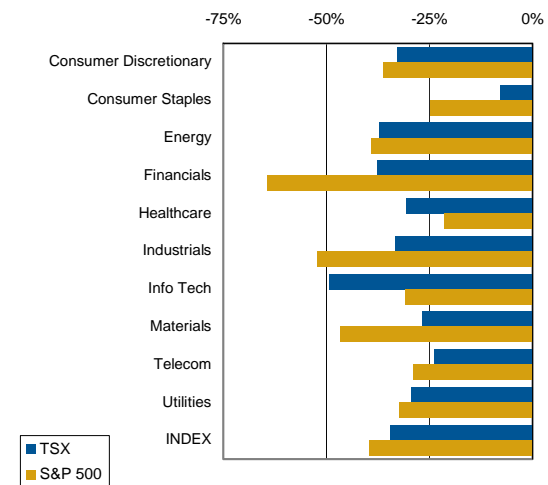
TSX vs S&P 500 3-Month



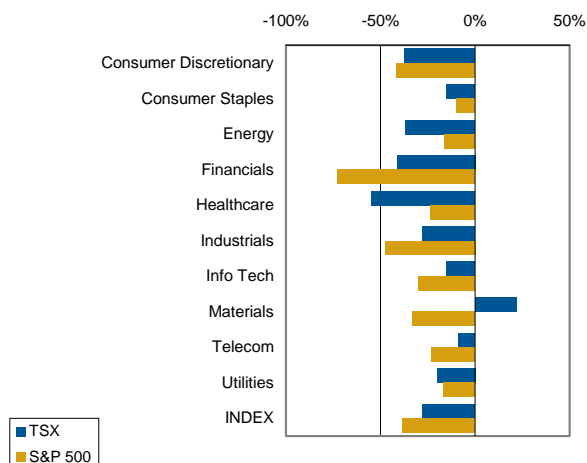
TSX vs S&P 500 6-Month



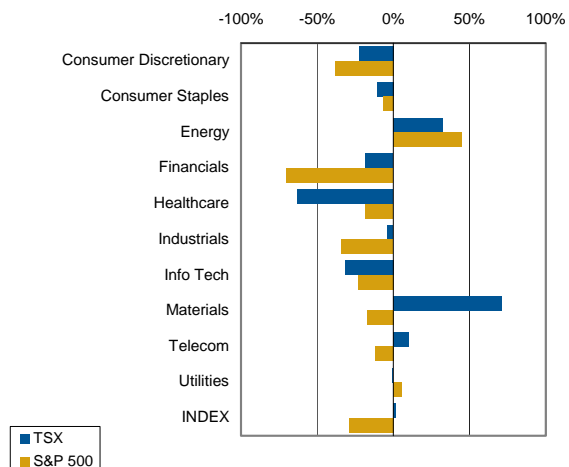
TSX vs S&P 500 1-Year



TSX vs S&P 500 3-Year



TSX vs S&P 500 5-Year



Source: Bloomberg

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