Market Matters

NOVEMBER HIGHLIGHTS

- After a generally weak market through most of the month, a surprise move on November 30, 2011 by major central banks around the world sparked a sharp rally in equity markets.
- Bond yields decreased in Canada as the macro concerns over U.S. and European debt contributed to investor uncertainty.
- U.S economic activity data showed encouraging improvement, including positive results for employment, corporate earnings and consumer activity.
- The U.S. policy-makers charged with crafting a deficit cutting plan failed to meet their deadline, forcing a default option of $1.2 trillion in cuts over the next decade to begin in 2013.
- Italy became the latest delinquent in the ongoing sovereign debt crisis in Europe – forcing a change in the country's leadership in hopes of new stewardship to guide the country out of their financial 'troubled waters'.
- China announced it would reduce its banks' reserve requirements. The move was well received by capital markets as this should benefit global growth.

Table 1
Summary of major market developments

Market returns*	November	YTD
S&P/TSX Composite	-0.4%	-9.2%
S&P500	-0.5%	-0.9%
- in Canadian dollars	*1.9%*	*1.6%*
MSCI EAFE	-2.8%	-15.2%
- in Canadian dollars	*-2.9%*	*-11.8%*
MSCI Emerging Markets	-3.9%	-14.8%
DEX Bond Universe**	0.8%	7.9%
BBB Corporate Index**	1.1%	7.0%

*local currency (unless specified); price only
**total return, Canadian bonds

Table 2
Other price levels/change

	Level	November	YTD
U.S. dollar per Canadian dollar	$0.9817	-0.8%	-2.4%
Oil (West Texas)*	$100.42	8.4%	10.0%
Gold*	$1,746	1.2%	23.2%
Reuters/Jefferies CRB Index*	$313.82	-1.9%	-5.7%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	November	YTD
S&P/TSX Composite	-0.4%	-9.2%
Energy	0.4%	-11.7%
Materials	2.0%	-11.5%
Industrials	-0.8%	-1.0%
Consumer discretionary	-0.6%	-16.4%
Consumer staples	-0.6%	3.2%
Health care	20.6%	50.8%
Financials	-3.7%	-8.7%
Information technology	-6.5%	-47.2%
Telecom services	1.9%	13.5%
Utilities	-0.3%	1.3%

*price only
Source: Bloomberg, MSCI Barra, NB Financial, PC Bond, RBC Capital Markets

LAST MINUTE RUN

After a strong stock market rebound in October, November proved to be more challenging. But like any good sports commentator will tell you, never call the game when there is still time left on the clock.

For most of the month, stock markets were under pressure and volatility was significant, reflecting the high level of uncertainty vis-à-vis the U.S. and Europe's debt crisis and the outlook for global economic growth. On the last day of November, central banks in the United States, European Union, Britain, Canada, Japan and Switzerland announced their agreement to add liquidity to the world's financial system. The agreement will make it cheaper for banks to access U.S. dollars, thereby boosting liquidity and loan activity. While this is not a silver bullet solution to global financial concerns, it did signal to financial markets that policymakers are prepared to intervene aggressively if needed. For the short-term, investors felt the move was good enough. Unrestrained enthusiasm for global stock markets and commodity prices took effect almost immediately. On November 30, the S&P/TSX Composite soared 472 points. This is the largest daily gain in 2 years. Canada's S&P/TSX, the U.S. S&P500, Germany's DAX 30, and France's CAC 40, were all up over 4% for the day. The last day of the month rally brought markets to within fractions of positive territory (see Table 1).

The Canadian bond market saw yields decrease overall in the month of November as debt and policy issues in the U.S and Europe played the central role.

SLICK OIL AND SHINY GOLD

At the sector level in Canada the biggest leader and laggard on an absolute level were driven primarily by single-stock stories (see Table 3). Health Care giant, Valeant, reported better than expected earnings causing a jump in the stock price in November. Whereas Research in Motion continues to weigh down the Information Technology sector as investors anticipate further competitive headwinds for the company.

A lift in oil prices and gold bullion prices also helped companies levered to those commodities in the Energy and Materials sector. Having said that, many of the base metals prices depreciated in the month, so the gains in those sectors were not uniform (see Table 2).

U.S. STOCKS REGAIN FAVOUR

U.S. stocks have remained in favour this year relative to many other global equity options. The relative stability of U.S. equities has its merits considering that U.S. economic activity over the past few months has been encouraging on several fronts, including employment, corporate earnings and most leading economic indicators. Combine that with what most foreign investors would currently consider 'political stability', and investors' support for U.S. stocks in troubled times becomes clear.

Canadian stocks have fared less well this year. Much of this result is due to our commodity link as prices for a number of base metals have fallen on concerns over slowing global growth. But keep in mind that Canada had held up better overall since 2008, and perhaps was due for a bit of relative underperformance as investors consider options to diversify their portfolios outside of Canada.

TOUGH MONIKER

Political events in Washington continue to compete with European developments to frustrate investors' ability to gain some clarity. Back in August, select U.S. policymakers, dubbed the 'supercommittee', were charged with crafting a plan for deficit cuts by a November 23, 2011 deadline. As it turns out, they failed to live up to their moniker and no deal was reached.

While initially this was disappointing and stock markets responded negatively, their failure has some benefits. It will result in the original $1.2 trillion in cuts over the next decade scheduled to begin in 2013. From the perspective of the debt rating agencies, this fiscal restraint is seen as necessary and positive.

While a slowdown in economic growth in Europe is expected, there is now a growing concern that it could turn into a European recession, which would have a negative impact on the overall global economic backdrop. It hasn't helped that sovereign debt issues in Spain and Italy are now making headlines as well. However, as the crisis has intensified we've seen increased action, including the coordinated intervention by global central banks and even the loosening of monetary policy in China, where they lowered the reserve requirement ratio for their banks. Like those mentioned above, it is unlikely that any one solution will be perfect - but they don't have to be. They simply have to keep the patient alive until healing can begin, much like the programs put in place in the U.S. did for the U.S. economy.

At this point, our base case remains that an improving economic backdrop in the U.S. and economic activity in China as well as other emerging markets will be enough to keep global growth going as Europe works its way through their financial troubles.

NO MATTER HOW YOU SLICE IT

On every valuation metric, stocks look cheap and we continue to believe that stocks offer inflation protection far superior to government bonds and are under-owned by investors in general. However, until investors regain confidence on the longer term outlook for global growth, stock markets are going to continue to be volatile and will face their share of headwinds.

We caution investors about the risks of making big bets in this type of environment. No matter how you slice it, it's a hard day-to-day market in which short-term traders and do-it-yourself investors are likely to struggle and be caught off-side. Rather, take advantage of elevated market volatility over the long-term through diversification and dollar-cost-averaging, which puts both time and risk management strategies on your side.

THANK YOU

This completes the 12th edition of GLC's monthly Market Matters and will soon mark a year since we introduced you to GLC Asset Management Group Ltd. With our first year as GLC almost behind us, we can't help but reminisce about a year of many changes, many challenges, and yes, much success and progress too. But what we are most humbled and grateful for this year are the relationships we've built, fostered and renewed with so many of you - our investors, our business partners, our friends. Thank you for your support. Thank you for your loyalty.

We wish you days filled with meaning, and holiday memories filled with those who mean the most to you. From all of us at GLC, happy holidays and all the best in 2012!