Market Matters

APRIL 2013 HIGHLIGHTS

- A shifting tone from 'pro-austerity' to 'pro-growth' by Japanese and European policymakers provided a lift to both bond and equity market results.
- Capital market results highlight clear winners and losers in April, continuing the theme of diverging performance that is now several months in the making:
  - Developed markets (France, Germany, Japan, U.S.) outperformed emerging markets (China, Brazil);
  - The S&P 500 hit new highs, while the S&P/TSX composite lost ground, weighed down by weak commodity prices (see Tables 1 and 2);
  - Canadian resource sectors (particularly materials) suffered sharp declines in contrast with relative strength from the remaining Canadian marketplace (see Table 3);
  - Conservative investors found comfort in bonds, but not in traditional safe haven assets like gold bullion (see Tables 1 and 2).
- Canada's economy surprised to the upside with stronger than anticipated February GDP results (+1.7% year over year growth).
- No change in the Bank of Canada's target for the overnight rate is expected anytime soon, but there is a change at the helm. The new Governor of the Bank of Canada Stephen Poloz will take over the top seat from England-bound Mark Carney on June 3rd.
  - Mr. Poloz was head of Export Development Canada, which suggests that he is sensitive to the challenge that exporters face with the Canadian dollar still close to parity with the U.S. dollar.

DIVERGING PATHS

While most major stock markets experienced strong results as investors moved into equities with increasing confidence, resource-based markets (like Canada's S&P/TSX Composite and Brazil's Bovespa) and emerging markets (such as China's Shanghai composite) significantly lagged. These diverging paths

Table 1
Summary of major market developments

Market returns*	April	YTD
S&P/TSX Composite	-2.3%	0.2%
S&P 500	1.8%	12.0%
- in Canadian dollars	***0.9%***	***13.4%***
MSCI EAFE	4.0%	13.2%
- in Canadian dollars	***3.7%***	***10.7%***
MSCI Emerging Markets	-0.4%	-1.2%
DEX Universe Bond Index**	1.1%	1.8%
BBB Corporate Index**	1.3%	3.5%

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

Table 2
Other price levels/change

	Level	April	YTD
CAD per USD exchange rate	$0.993	1.0%	-1.3%
Oil (West Texas)*	$93.26	-4.0%	1.5%
Gold*	$1,468	-8.0%	-11.7%
Reuters/Jefferies CRB Index*	$288.13	-2.8%	-2.3%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	April	YTD
S&P/TSX Composite	-2.3%	0.2%
Energy	-1.4%	1.9%
Materials	-13.7%	-22.9%
Industrials	-2.9%	10.4%
Consumer discretionary	0.3%	12.2%
Consumer staples	4.8%	10.2%
Health care	2.3%	25.5%
Financials	0.2%	3.4%
Information technology	10.6%	29.6%
Telecommunication services	-0.3%	10.1%
Utilities	3.4%	2.6%

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

of performance firmly established themselves in 2012 and have been perpetuated in 2013 by sluggish global growth and weak commodity prices.

HOPING FOR 'MIRACLE GROW' RESULTS

For those of us taking to the yard this spring, we know there is a fine line between pruning to promote healthy growth, and cutting too deep. Global policy makers have faced a similar dilemma in recent years as harsh austerity measures cut spending, increased taxes and yielded few areas of new or renewed growth.

Recently, there has been a shift in thinking as soft global economic data, subdued inflation and frustrated citizens/voters encouraged global leaders and policy makers to re-think their fiscal restraint strategies in favour of more accommodative pro-growth policies. Quantitative easing measures (also known as governments printing money to inject into weak economies) are now being looked at as necessary and prudent measures to keep an economy from slipping backwards into a recession and to entice economic recovery. Think of it like a central banker's equivalent of plant food for an avid gardener – under ideal conditions we don't require it, but if we really need results, it's nice to have a supply on hand.

IMPROVING RISK TOLERANCE

The same conditions (slow growth, low inflation, political unease) that are encouraging the growing tide of global quantitative easing are contributing to low bond yields, which helped boost bond market results in April. An increasing comfort with riskier assets and the desire for the additional yield opportunity also helped drive the demand for corporate bonds – a sector that has outperformed its provincial and federal government peers on a year-to-date basis.

First quarter corporate earnings reported to date in both Canada and the U.S. have by and large come in better than expected, and it`s important to note that outside of Canada's resource-based sectors there was broad strength in equity results (see Table 3). In contrast, gold bullion prices have declined sharply and continue to weigh heavily on the results of Canada's gold companies within the materials sector. The price of gold can be highly sentiment-driven in part because of its traditional appeal as a 'store of value' asset. Investors' increased tolerance for riskier assets coupled with low inflation expectations has diminished that appeal. April's news that Cyprus and possibly other financially strapped nations may sell off their gold reserves only exacerbated the downward trend for gold prices.

CANADA'S GAME

Canada's economy surprised to the upside recently, with February's GDP results expanding 1.7% on a year over year basis. That moved us back on track for 2% annual GDP growth in 2013. Too busy watching NHL hockey to have noticed a stronger than expected economy? That's okay, because we noticed for you! The Canadian economy got a notable boost from the arts, entertainment and recreation sector in both January and February, specifically coinciding with the end of the NHL lockout. Perhaps it's just a coincidence, but here`s to having four Canadian teams make the playoffs this year and lending support to the local apparel and food and beverage establishments!

TIME TO THINK

It has been said that philosophy is the art of thinking in slow motion – a conscious approach to taking the time to separate the 'what' (our fast-paced, day-to-day decisions, responses and reactions to events) from the 'why' (our beliefs, rationale and goals). The idea is that knowing <u>why</u> we are doing something, which can take time to discern, makes knowing <u>what</u> to do much easier and faster.

Your investment philosophy can be broken down the same way. Knowing <u>what</u> to do the next time you review your long-term investment plan can be made easier once you`ve taken the time to discuss <u>why</u> you created a long-term investment plan, diversified your investment portfolio and remained within a risk tolerance that matches both your time horizon and personal tolerance level.