Market Matters

NOVEMBER HIGHLIGHTS

- On November 6th Americans re-elected their president, Barack Obama for a second four-year term. U.S. job growth, fiscal policy (e.g. taxes) and health care all played central roles during the election campaign.
- The U.S. housing market showed good positive momentum, but the negative economic effects of hurricane Sandy dampened expectations for other data, including employment results.
- The lack of resolution to the U.S. fiscal cliff caused uncertainty and volatility in equity markets. In spite of this, a number of major world markets have continued to show resilience, including the S&P500.
- The resource-heavy S&P/TSX Composite trailed many of its global counterparts. Gold-related companies in particular experienced a significant pull back in stock prices in November.

RESILIENCE

Investors were faced with a number of events to absorb in November, including effects of hurricane Sandy on U.S. economic data, the U.S. presidential election, Middle East tension, and intense media focus on the U.S. fiscal cliff negotiations. In spite of the lingering unease accompanying these issues, a number of major world markets have continued to show resilience. Companies are attracting investors back with healthy balance sheets, large cash holdings and strong earnings, all of which are available within relatively attractive price ranges. For example, the American S&P500, the German DAX and Japanese Nikkei indices all held up their double-digit year-to-date gains. Meanwhile, the resource heavy Canadian S&P/TSX Composite trailed many of its global counterparts. The macro economic issues have been weighing on the outlook for global growth and commodity demand, which in turn has dampened the stock prices for companies within the Energy and Materials sectors. Of particular note, Canada's gold-related companies, which make up more than 10% by weight of the S&P/TSX, experienced a significant pull back in November.

Within developing markets, we see China and Brazil as taking steps toward achieving more sustainable economic growth rates (not the blistering hot double-digit rates we've seen in the past from them, but still significantly stronger economic growth than we'd expect from developed countries). If successful, this should add support to Canada's Resource sectors.

Table 1
Summary of major market developments

Market returns*	November	YTD
S&P/TSX Composite	-1.5%	2.4%
S&P 500	0.3%	12.6%
- in Canadian dollars	*-0.4%*	*10.0%*
MSCI EAFE	2.7%	10.1%
- in Canadian dollars	*1.5%*	*7.6%*
MSCI Emerging Markets	1.5%	9.7%
DEX Universe Bond Index**	0.6%	3.7%
BBB Corporate Index**	0.9%	7.6%

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

Table 2
Other price levels/change

	Level	Nov.	YTD
U.S. dollar per Canadian dollar	$1.007	0.4%	2.3%
Oil (West Texas)*	$87.89	2.0%	-11.2%
Gold*	$1,718	-0.4%	9.1%
Reuters/Jefferies CRB Index*	$298.98	1.1%	-2.1%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	November	YTD
S&P/TSX Composite	-1.5%	2.4%
Energy	-2.6%	-4.5%
Materials	-7.3%	-6.7%
Industrials	0.9%	9.0%
Consumer discretionary	-0.3%	14.2%
Consumer staples	0.7%	14.0%
Health care	0.1%	20.8%
Financials	2.2%	10.5%
Information technology	4.1%	-4.3%
Telecommunication services	-1.6%	5.2%
Utilities	-3.3%	-3.8%

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

NARROW RANGE AND NARY A RETURN

Meanwhile the Canadian bond market continued to trade within a relatively narrow range, as it has for much of the year. Some gains were made in November, but year-to-date, while bond markets offered investors less volatility than equity markets, they are generating little return beyond their historically low yield.

CLIFF-HANGER

There was relative calm in capital markets leading into the November 6th U.S. presidential election, but within moments of the election results investors turned their attention back to the looming fiscal cliff* deadline of January 1, 2013.

Like a day-time TV drama, the political negotiations feature a regular rotation of characters and new story threads spinning off daily. All of which build anticipation for a year-end finale which may involve any number of partial resolutions, new cliff-hangers (pun intended), and the near promise of more drama from old and new characters.

It can be argued that over the past few years Europe has been facing similar fiscal deadlines that threatened to cut into economic growth; however the global reach of the U.S. consumer on imports would be more significant. In spite of the shown improvements to economic growth overall, the belaboured negotiations around the U.S. fiscal cliff threaten to dampen consumer confidence in the largest consumer-driven economy in the world. In fact, ongoing uncertainty has already begun to hold back business investment in the U.S.

**The fiscal cliff refers to a number of different policies that are set to change around the same time, most on January 1, 2013. They are a combination of expiring tax cuts, additional taxes, spending cuts, and lapsing extended unemployment benefit. The Congressional Budget Office expects a mild recession in 2013 if there is no deal reached and all of these policies come into effect.*

NOT WHAT, BUT HOW

While politicians negotiate the details ad nauseam, at a basic level the outcome for the U.S. is already known: some combination of less government spending and increased tax revenues to better control their debt. This is not in question, and by and large has already been digested and priced into capital markets. The remaining question (and what continues to cause uncertainty and market volatility) is 'how will they do it?'. Will they allow the fiscal stimulus policies to expire, akin to the swift removal of a band-aid, and acknowledge the possibility of additional short-term pain? Or, will they work out a compromise that slowly allows policy change over some period of time? We believe the most likely scenario is somewhere in between.

It is also important to note that the negative impact of the 'fiscal cliff events' would not all hit on one day, but rather felt over time – leaving opportunity for continued negotiations and compromise. As Warren Buffett said in his interview with CNN, "If we go past January 1st, I don't know if it will be January 10th or February 1st, but we're not going to permanently cripple ourselves because 535 people can't get along." We anticipate market volatility to take us through to the end of the year as the U.S. works through this difficult process.

What are we doing? At GLC Asset Management Group we believe that in every situation there is opportunity in the markets. There's no day-time drama here, just the usual everyday focus on finding the best investment opportunities. Situations that affect the market negatively provide opportunities for us to buy fundamentally solid companies at a discounted price.

HAPPY HOLIDAYS FROM GLC

From all of us at GLC, have a safe and happy holiday season, and thank you for your business, your trust and for friendships new and old.

SEASONAL TRADING TIPS

Inspired by a season of sharing, we thought we would share a few trading tips to take you into the new year.

- Trade feuds for friendships and always strike a fair deal.
- Just when you think you are 100% right, hedge your bet!
- Don't hesitate to help – it's the early investments that reward you with long-term dividends.
- Take stock in the kindness people show you. If you value it, it will grow.