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# Weekly Market Insight

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*January 8, 2010*

## **NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS**

### **Defensive Investment**

By Benjamin Tal

The news of late has been undeniably positive. But the road ahead still has a few more bumps than currently anticipated by the market. Governments all over the world will stop spending and some, in fact, will start tightening their fiscal policies. Central banks will start removing liquidity from the system and interest rates will start rising in the second half of the year. Deleveraging by consumers will continue to limit the ability of households to shoulder a strong recovery, and American banks will still have to deal with massive losses due to their existing exposure to Alt.A and Option Arms mortgages as well as the fragile commercial real estate market. Add to it the real risk that Dubai and Greece's current troubles represent a potential wave of sovereign debt problems and you have a good reason to believe that the easy money in the stock market has been already made.

Making money in 2010 will be much more difficult. And the theme will be conservative investment. In fact, in many respects, the nature of demand will determine the relative valuation of the stock market. The vast majority of the cash sitting on the sideline in both Canada and the US is concentrated among people age 55 plus. These are also the people that now return to the labour market in order to compensate for the significant loss of wealth they have encountered in the past two years. Given the experience of the recent past and their age profile—these investors' style will be defensive in nature.

In practical term this means that new money will flow into two main destinations. The most attractive target will be solid and established companies that pay relatively high dividends. This is a typical play for conservative investors that are unsatisfied with a GIC type investment. In Canada, dividend seekers have always looked to telecoms and utilities for healthy dividend yields, and those two sectors indeed top the pack in terms of TSX payout ratios. But there are other groups where dividends now pay out 4% or more of the share price, including real estate, media, banks, and healthcare. The second group of interest might be fixed income investment in general, and corporate bonds in particular, due to the pervasive focus on capital preservation and the realization that any near-term inflation risk is minimal.

## Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	20	20	21	21	97
10Y / 2Y SPREAD (bps)	285	282	283	264	204
2Y SWAP SPREAD (bps)	27	28	37	38	69
3M T-Bill (%)	0.05	0.05	0.04	0.05	0.30
LIBOR 1 MONTH (%)	0.23	0.23	0.23	0.23	0.50
LIBOR 3 MONTH (%)	0.25	0.25	0.25	0.26	1.26
2-YR BOND (%)	0.98	1.01	0.94	0.83	0.97
5-YR BOND (%)	2.58	2.59	2.52	2.25	1.99
10-YR BOND (%)	3.83	3.82	3.77	3.47	3.02
A Rated / 10Y TREASURY (bps)	157	159	164	174	365
B Rated / 10Y TREASURY (bps)	496	506	535	575	1234
BB Rated / 10Y TREASURY (bps)	396	402	428	468	917
<b>CANADA</b>					
PRIME / BA SPREAD (bps)	185	185	185	185	215
CDOR 3 MONTH (%)	0.46	0.47	0.47	0.47	1.35
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	28	28	28	26	74
10Y / 2Y SPREAD (bps)	229	225	221	204	198
2-YR BOND (%)	1.33	1.40	1.39	1.27	1.15
5-YR BOND (%)	2.72	2.77	2.74	2.51	2.05
10-YR BOND (%)	3.62	3.65	3.60	3.31	3.13
A Rated / 10Y TREASURY (bps)	104	103	107	115	335
BBB Rated / 10Y TREASURY (bps)	175	174	182	186	422
CAN Sovereign Agency / 10Y TREASURY (bps)	39	35	35	30	55
Provincial / 10Y TREASURY (bps)					
ALTA	59	55	59	57	135
BC	79	73	81	78	151
MAN	80	75	80	75	162
NB	76	72	78	74	160
PEI	106	101	107	102	169
NFLD	109	105	117	114	189
ONT	93	89	94	91	176
QUE	99	95	100	101	178
SASK	96	89	102	95	163
NS	87	83	87	87	162
<b>COMMODITIES</b>					
WTI CRUDE FUTURE (US\$ / bbl.)	82.3	82.9	77.2	77.6	44.8
NATURAL GAS (US\$ / MMBtu)	5.7	5.9	5.9	4.6	4.2
SILVER (US\$ / t oz.)	18.4	18.1	17.3	18.8	13.1
GOLD (US\$ / t oz.)	1130.2	1134.2	1101.8	1195.6	942.5
WHEAT (US¢ / bu.)	556.3	562.0	524.3	554.3	510.5
SOYBEANS (US¢ / bu.)	1009.0	1032.0	1001.0	1049.5	874.5
SUGAR (US¢ / lb.)	28.0	28.7	27.0	22.4	13.5
CORN (US¢ / bu.)	419.3	417.8	405.5	385.8	350.8
<b>FX</b>					
C\$ / US\$	1.035	1.033	1.048	1.046	1.267
US\$ / EURO	1.432	1.434	1.437	1.495	1.267
C\$ / EURO	1.482	1.482	1.506	1.564	1.616
YEN / US\$	92.960	93.156	91.713	89.621	97.570
US\$ / BRITISH POUND	1.596	1.593	1.595	1.660	1.432
SWISS FRANCS / US\$	1.032	1.033	1.037	1.008	1.169

\* As of 11:00 a.m.

Note: Data is for reference only.

## International Stock Indexes

Thursday, January 07, 2010

Index (Regiona/Country)	DAILY					% Chg -   +	YTD % chg	52 WEEK			3-yr % chg
	High	Low	Close	Chg	% Chg			High	Low	% Chg	
<b>Global</b>											
The Global Dow (World)	2031.38	2011.72	2024.01	-2.56	-0.13		2	2026.57	1139.9	29.7	-1.5
The Global Dow (Euro) (World)	1331.01	1322.98	1330.27	3.97		0.3	2.1	1330.27	849.42	24.2	-4.6
DJ Global Index (World)	232.93	230.78	232.09	-0.26	-0.11		2.3	232.35	130.29	32.3	-5.5
DJ Global ex U.S. (World)	207.17	204.71	205.35	-0.94	-0.46		2.1	206.29	111.8	36.1	-5
MSCI EAFE* (World)	n.a.	n.a.	1608.36	-6.9	-0.43		1.7	1617.99	911.39	26.5	-7.8
<b>Asia Pacific</b>											
DJ Asia-Pacific (Asia-Pacific)	127.61	125.98	126.1	-0.71	-0.56		2.5	126.81	73.76	34.6	-4.6
All Ordinaries (Australia)	4963.6	4929.7	4930.5	-16.27	-0.33		1	4946.8	3111.7	35.3	-3.9
S & P/ASX 200 (Australia)	4938.1	4898.9	4899.4	-22	-0.45		0.6	4924.3	3145.5	32.6	-4.2
DJ CBN China 600 (China)	28998.68	28165.81	28318.63	-568.28	-1.97		-2.5	29890.92	15356.94	83.9	21.4
Dow Jones China 88 (China)	298.55	289.67	291.31	-5.85	-1.97		-3.4	327.69	167.58	72.2	15.2
Shanghai Composite (China)	3268.82	3176.71	3192.78	-61.44	-1.89		-2.6	3471.44	1863.37	70	6.5
Hang Seng (Hong Kong)	22548.03	22169.61	22269.45	-147.22	-0.66		1.8	22943.98	11344.58	54.5	3.3
Bombay Sensex (India)	17733.34	17566.54	17615.72	-85.41	-0.48		0.9	17701.13	8160.4	83.7	8.3
Jakarta Composite (Indonesia)	2611.6	2570.27	2586.9	-16.4	-0.63		2.1	2605.28	1256.11	84.4	12.2
Nikkei 300 (Japan)	191.26	189.64	190.06	...	unch.		2.7	196.39	140.76	8.2	-17.3
Nikkei Stock Avg (Japan)	10774	10636.67	10681.66	-49.79	-0.46		1.3	10731.45	7054.98	20.3	-14.5
Topix Index (Japan)	937.02	929.77	931.85	0.72		0.08	2.7	975.59	700.93	8.2	-17.8
Kuala Lumpur Composite (Malaysia)	1299.7	1290.36	1291.42	-1.75	-0.14		1.5	1293.17	838.39	41.8	4.9
NZSX-50 (New Zealand)	3286.61	3270.81	3284.81	13.24		0.4	1.7	3284.81	2417.95	19.2	-6.6
KSE 100 (Pakistan)	9813.13	9712.24	9737.47	10.11		0.1	3.7	9845.73	4815.34	60.3	-1.4
Manila Composite (Philippines)	3077.78	3041.86	3077.78	37.85		1.25	0.8	3119.96	1759.33	56.2	0.9
Straits Times (Singapore)	2945.06	2901.24	2913.25	-17.24	-0.59		0.5	2930.49	1456.95	59.4	-0.6
Kospi (South Korea)	1707.9	1683.45	1683.45	-21.87	-1.28		...	1718.88	1018.81	39.6	6.7
Colombo Stock Exchange (Sri Lanka)	3512.58	3451.38	3478.56	-30.8	-0.88		2.7	3519.94	1532.25	125.5	8.3
Weighted (Taiwan)	8369.55	8233.59	8237.42	-90.2	-1.08		0.6	8327.62	4242.61	81.6	1.7
SET (Thailand)	740.91	733.75	734.63	-1.1	-0.15		...	751.86	411.27	58	5.4
<b>Europe</b>											
DJ Stoxx 600 (Europe)	258.79	255.86	258.04	0.08		0.03	1.9	258.04	157.97	23.6	-11
DJ Stoxx 50 (Europe)	2626.55	2595.96	2617.88	0.53		0.02	1.5	2622.54	1614.75	20.6	-11.1
DJ Euro Stoxx 50 (Euro zone)	3013.9	2979.8	3007.34	-2.32	-0.08		1.4	3017.8	1809.98	19.5	-10
DJ Euro Stoxx (Euro zone)	281	277.97	280.41	-0.06	-0.02		2	280.47	169.38	21.7	-10.9
ATX (Austria)	2619.6	2584.69	2590.62	-3.03	-0.12		3.8	2752.39	1411.95	38.6	-16.3
Bel-20 (Belgium)	2600.42	2579.63	2590.68	-5.75	-0.22		3.1	2606.93	1527.27	31.1	-16.1
PX 50 (Czech Republic)	1156.7	1149.7	1152.7	-4	-0.35		3.2	1195.7	628.5	31.8	-10.4
OMX Copenhagen (Denmark)	329.46	323.53	329.12	4.57		1.41	4.3	329.12	193.26	32	-8.2
OMX Helsinki (Finland)	6676.02	6579.44	6669.09	35.55		0.54	3.3	6669.09	4110.31	19	-10.8
CAC 40 (France)	4032.24	3983.9	4024.8	7.13		0.18	2.2	4024.8	2519.29	21.1	-10
DAX (Germany)	6037.57	5961.25	6019.36	-14.97	-0.25		1	6048.3	3666.41	23.3	-3
BUX (Hungary)	22173.15	21903.42	21961.18	-203.54	-0.92		3.5	22164.72	9461.29	68.9	-3.1
FTSE MIB (Italy)	23756.44	23467.26	23709.01	86.72		0.37	2	24425.98	12621	14.9	-17.1
AEX (Netherlands)	340.96	337.94	340.55	-0.93	-0.27		1.6	343.03	199.25	28.7	-11.7
All-Shares (Norway)	432.03	428.74	429.9	1.16		0.27	2.3	430.22	239.48	49.8	-4.2
WIG (Poland)	40951.74	40743.57	40817.54	-424.43	-1.03		2.1	41241.97	21274.28	44.7	-6.3
PSI 20 (Portugal)	8763.93	8642.41	8763.93	83.63		0.96	3.5	8882.69	5743.09	32.6	-8
DJ Russia Titans 10 (Russia)	5791.97	5732.5	5790.75	6.53		0.11	3.9	5807.15	2351.18	114.5	-4.7
RTS Index (Russia)	1448.86	1433.29	1444.61	...		Closed	...	1486.62	0	128.6	-9.1
IBEX 35 (Spain)	12199.7	12079.1	12166.3	-56.2	-0.46		1.9	12222.5	6817.4	28.5	-5.3
SX All Share (Sweden)	307.2	304.71	306.15	0.49		0.16	2.2	306.15	186.4	42.6	-6.4
Swiss Market (Switzerland)	6574.16	6494.9	6555.36	-4.05	-0.06		0.1	6631.44	4307.67	14	-9.7
Istanbul National 100 (Turkey)	54972.94	54019.63	54972.94	425.58		0.78	4.1	54972.94	23035.95	109.7	12.7
FTSE 100 (U.K.)	5551.7	5499.8	5526.72	-3.32	-0.06		2.1	5530	3512.1	22.7	-3.9
FTSE 250 (U.K.)	9638.55	9544.33	9630.38	40.85		0.43	3.5	9630.38	5769.79	43.9	-4.9
<b>Americas</b>											
DJ Americas (Americas)	304.27	301.4	304.17	0.85		0.28	2.6	304.17	172.41	32.2	-4.4
Merval (Argentina)	2392.81	2331.92	2389.45	26.99		1.14	3	2401.75	930.12	100.4	5
Sao Paulo Bovespa (Brazil)	70722.91	70045.05	70451.12	-278.22	-0.39		2.7	70729.34	36234.69	67.8	18.6
S & P/TSX Comp (Canada)	11944.54	11819.5	11887.51	-57.03	-0.48		1.2	11944.54	7566.94	28.9	-1.6
Santiago IPSA (Chile)	3684.55	3623.32	3681.06	41.1		1.13	2.8	3681.06	2360	48.1	10.6
IPC All-Share (Mexico)	33069.78	32670.98	33064.57	234.41		0.71	2.9	33064.57	16929.8	50.6	8.2
Caracas General (Venezuela)	54952.78	54341.96	54368.95	-309	-0.57		-1.3	55124.22	34900.62	55.6	-2.9
<b>Other Countries</b>											
CASE 30 (Egypt)	6451.92	6407.23	6436.87	...		Closed	3.7	7249.55	3389.31	38.9	n.a.
Tel Aviv (Israel)	1168.02	1161.92	1166.23	-3.52	-0.3		1.8	1169.75	637.23	72.2	7.7
Johannesburg All Share (South Africa)	28080.77	27860.59	28017.81	-62.55	-0.22		1.3	28080.36	18120.69	26	4.9

\*Europe, Australia, Far East: U.S.-dollar terms.

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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