



Weekly Market Insight

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NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

RRSP—After The Storm

By Benjamin Tal

Early indications suggest that the 2009 RRSP season will be relatively strong—not only in terms of the total dollar value invested, but also due to a much more productive distribution of investment. Passive cash positions are being redeployed more actively into long-term high-paying dividend sectors. And beyond that short-term improvement, it appears that the recent financial crisis has, in fact, cemented the foundation of a stronger RRSP market in the years to come.

2009 RRSP Season—Out of The Cocoon

The number of Canadians who contributed to their RRSPs in 2008 fell by 1.8%, and even those who managed to use this investment vehicle to save for their retirement reduced their average contribution by 0.4%. The resulting 2.2% decline in total RRSP contributions in the year was the largest drop in six years. In this context, the impressive improvement in the stock market since March 2009 almost guarantees that the current RRSP season will fare better this time around, with more money likely to find its way into income and equity mutual funds. After all, if history is any guide—RRSP contributions usually dance to the tune of the stock market. And despite the repeated advice of financial planners that RRSP contributions should be distributed evenly throughout the year, most investors still wait until the last minute to make their annual contribution. During the past four years more than 40% of the cumulated inflows into mutual funds occurred in January and February.

In fact, investors are already testing the waters, with total net purchases of mutual funds rising for three consecutive months. While the recent softening in the equity market will keep investors cautious, the dramatic decline in the overall volatility in the market has helped raise Canadians' risk tolerance in recent months. And the lack of good investment alternatives in a world of low interest rates makes the decision to dive back into the stock market that much easier.

Rising Income and Savings

The desire to contribute to RRSPs is one thing, but the ability to do so is another. Do Canadians have enough extra cash to increase their RRSP contributions? The short answer is yes. Helped by the recent improvement in the labour market, and a boost to income from tax policies introduced in the 2009 budget, overall disposable income in Canada has risen by almost 3.5% (at an annual rate) in the six months ending September 2009—miles above the performance seen in the previous six month period.

And for the first time in many years, this extra cash is being saved not spent. The savings rate in Canada has risen notably during the recession, and at just under 5% it is currently at a nine-year high. This means that Canadian households now sit on over \$17 billion more in savings compared to the same period last year. That trend is most visible in the growth of chequing account balances, which rose by almost 50% since the start of

the recession (October 2007), but have since eased up as investors have become confident enough to start redeploying this cash—just in time for the current RRSP season.

That redeployment trend is even more visible in the mutual fund space where money market balances have been falling over the past six months. By far, the most popular destinations for this cash are bond and income funds, which have seen a cumulative increase of more than \$12 billion since mid-2009. Dividend-based funds appear to be of particular interest, given their relative attractiveness in today's low interest rate environment. In fact, although investors typically don't realize it, reinvested dividends play a more important role than capital gains in long-term portfolio growth. Since the mid-1950s, dividends have accounted for more than 60% of total returns generated in the Canadian equity market. And this trend is likely to continue. Note that despite the recent decline in their cash positions, Canadians are still sitting on no less than \$90 billion of excess cash, and this money will continue to be redeployed.

Who Will Contribute?

In 2008, approximately 24% of taxpayers aged 25-64 made a contribution to their RRSPs, with the distribution clearly skewed towards wealthier and older people. In terms of the mix between men and women, the share of female RRSP contributors surged in 2008, as women generally fared better economically during the past recession.

Despite this improvement, the RRSP participation rate among men is still higher than women (53% vs. 47%), but that does not mean that women are less inclined to contribute to RRSPs. In fact, a closer look at the data suggests that the opposite is true. The reason why men contribute to their RRSPs more than women is that, on average, women still earn 20% less than men. So the higher participation rate among men is not a gender issue, but an income issue. If we compare the RRSP participation rate among men and women in the same income group, we find that the propensity of women to contribute is actually higher.

Another misconception regarding RRSP contributions is that older people have a higher tendency to contribute to RRSPs as they get closer to retirement. In absolute terms, it is true that the RRSP participation rate among Canadians aged 45-54 is much higher than among the 25-34 age group. But older people, on average, also earn much more than younger people, and thus have more capacity to contribute. So what is the reason for a higher contribution rate among older Canadians: is it the race against time or higher incomes?

The surprising answer is that when comparing contribution rates among different age groups with the same income level we found that, in most cases, Canadians aged 25-34 have a higher propensity to contribute to their RRSPs than Canadians aged 45-64. In other words, if they have the means to do so, younger Canadians are more inclined to contribute to RRSPs than their older counterparts.

That interesting finding provides us with a useful window on the future. In many ways the increased propensity of young Canadians to contribute to their RRSPs reflects their cynical view of the sustainability, or relevance, of the Canada/Quebec Pension Plans, as well as the role employer-sponsored pension plans will play in their retirement. And here the trend is clear: while employer-sponsored plans are by far the largest component of the retirement pie, their relative importance is on the decline. Based on recent Statistics Canada data, the number of employer-sponsored registered pension plans fell from over 18,000 in 1991 to less than 10,000 in 2008. Furthermore, those pension funds cover fewer and fewer Canadians, with the coverage ratio (as a share of total employment) falling by almost 10 percentage points over the past two decades.

What's more, many corporations continue to face significant costs in meeting their pension obligations, with the Mercer Pension Health Index—a measure of the ratio of pension funds' assets to their liabilities—still down by close to 20% from its level in 2007. This reality will no doubt work to change the cost structure of many pension funds, and in fact is already happening given the notable decline in the share of defined benefit plans provided by corporate Canada. In that environment, RRSP investments will need to play an increasingly important role in the Canadian retirement landscape.

Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	17	17	17	21	114
10Y / 2Y SPREAD (bps)	286	284	284	279	190
2Y SWAP SPREAD (bps)	29	30	31	26	69
3M T-Bill (%)	0.08	0.08	0.08	0.04	0.17
LIBOR 1 MONTH (%)	0.23	0.23	0.23	0.23	0.56
LIBOR 3 MONTH (%)	0.25	0.25	0.25	0.25	1.32
2-YR BOND (%)	0.82	0.87	0.77	0.88	0.88
5-YR BOND (%)	2.32	2.37	2.27	2.42	1.87
10-YR BOND (%)	3.68	3.71	3.61	3.67	2.78
A Rated / 10Y TREASURY (bps)	162	160	156	161	364
B Rated / 10Y TREASURY (bps)	501	504	478	496	1221
BB Rated / 10Y TREASURY (bps)	399	401	389	400	945
CANADA					
PRIME / BA SPREAD (bps)	185	185	185	185	184
CDOR 3 MONTH (%)	0.41	0.42	0.43	0.45	1.05
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	24	25	27	28	62
10Y / 2Y SPREAD (bps)	213	208	210	220	193
2-YR BOND (%)	1.34	1.37	1.29	1.30	0.95
5-YR BOND (%)	2.53	2.53	2.45	2.64	1.87
10-YR BOND (%)	3.47	3.45	3.38	3.50	2.88
A Rated / 10Y TREASURY (bps)	103	99	98	109	324
BBB Rated / 10Y TREASURY (bps)	164	161	161	169	416
CAN Sovereign Agency / 10Y TREASURY (bps)	37	33	33	43	58
Provincial / 10Y TREASURY (bps)					
ALTA	62	58	57	62	141
BC	81	77	77	81	160
MAN	80	75	74	82	167
NB	76	72	70	77	161
PEI	108	105	104	107	173
NFLD	106	103	104	112	197
ONT	92	89	88	97	175
QUE	99	96	95	102	184
SASK	91	86	93	99	179
NS	88	84	84	90	165
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	73.4	74.6	73.0	78.9	46.3
NATURAL GAS (US\$ / MMBtu)	5.3	5.4	5.5	5.7	3.9
SILVER (US\$ / t oz.)	15.4	15.3	15.1	18.6	13.2
GOLD (US\$ / t oz.)	1085.6	1077.9	1057.3	1133.7	930.1
WHEAT (US¢ / bu.)	485.0	493.5	472.5	523.5	506.5
SOYBEANS (US¢ / bu.)	933.3	945.8	917.0	984.8	882.5
SUGAR (US¢ / lb.)	27.1	26.9	27.9	27.6	12.9
CORN (US¢ / bu.)	360.3	363.8	351.5	378.8	375.0
FX					
C\$ / US\$	1.053	1.059	1.069	1.028	1.272
US\$ / EURO	1.364	1.366	1.369	1.439	1.293
C\$ / EURO	1.435	1.447	1.463	1.479	1.644
YEN / US\$	89.980	89.730	89.520	90.920	97.950
US\$ / BRITISH POUND	1.565	1.560	1.564	1.630	1.400
SWISS FRANCS / US\$	1.074	1.074	1.073	1.025	1.185

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, February 11, 2010

Index (Region/Country)	DAILY					52 WEEK				3-yr % chg
	High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg	
Global										
The Global Dow (World)	1865.17	1837.57	1859.43	13.32	0.72	-6.3	2047.33	1139.9	33.9	-5.5
The Global Dow (Euro) (World)	1286.81	1268.49	1286.81	17.84	1.41	-1.2	1337.88	849.42	25.7	-6.9
DJ Global Index (World)	215.88	212.89	215.17	1.51	0.71	-5.2	234.99	130.29	36.8	-8.8
DJ Global ex U.S. (World)	189.15	186.77	187.83	0.83	0.44	-6.6	209.06	111.8	41.8	-9
MSCI EAFE* (World)	n.a.	n.a.	1465.46	0.58	0.04	-7.3	1642.2	911.39	33.8	-11.7
Asia Pacific										
DJ Asia-Pacific (Asia-Pacific)	118.77	117.44	118.54	1.09	0.93	-3.7	129.57	73.76	40.5	-7.4
All Ordinaries (Australia)	4584.5	4531	4575.8	42.87	0.95	-6.3	4981.2	3111.7	32.3	-8.1
S & P/ASX 200 (Australia)	4565.3	4510.9	4554.3	40.88	0.91	-6.5	4950.7	3145.5	29.6	-8.4
DJ CBN China 600 (China)	26720.02	26480.01	26572.39	36.32	0.14	-8.5	29890.92	17495.25	39.1	12.4
Dow Jones China 88 (China)	269.76	267.24	268.32	0.4	0.15	-11	327.69	187.07	31.7	7.8
Shanghai Composite (China)	3001.64	2976.08	2985.5	3	0.1	-8.9	3471.44	2071.43	32.8	3
Hang Seng (Hong Kong)	20310.79	20095.53	20290.69	368.47	1.85	-7.2	22943.98	11344.58	53.4	-0.6
Bombay Sensex (India)	16202.87	15928.28	16152.59	230.42	1.45	-7.5	17701.13	8160.4	70.6	3.6
Jakarta Composite (Indonesia)	2508.26	2468.85	2507.75	24.31	0.98	-1	2667.27	1256.11	89.2	13
Nikkei 300 (Japan)	181.42	180.05	180.05	...	Closed	-2.7	197.22	140.76	16.8	-19.8
Nikkei Stock Avg (Japan)	10049.87	9963.99	9963.99	...	Closed	-5.5	10982.1	7054.98	29.3	-17.1
Topix Index (Japan)	890.15	883.5	883.5	...	Closed	-2.7	975.59	700.93	16.2	-20.3
Kuala Lumpur Composite (Malaysia)	1249.42	1244.86	1249.42	3.25	0.26	-1.8	1308.36	838.39	39.7	0.2
NZSX-50 (New Zealand)	3093.02	3063.98	3065.28	-20.23	-0.66	-5.1	3310.23	2417.95	11.5	-9.9
KSE 100 (Pakistan)	9819.85	9754.48	9802.8	69.44	0.71	4.4	9954.41	5399.36	81.6	-6.1
Manila Composite (Philippines)	2908.88	2856.89	2908.88	51.64	1.81	-4.7	3121.91	1759.33	51.2	-3.6
Straits Times (Singapore)	2754.3	2736.27	2753.63	19.24	0.7	-5	2933.53	1456.95	63.4	-4.3
Kospi (South Korea)	1600.41	1574.77	1597.81	27.69	1.76	-5	1722.01	1018.81	35.4	3.8
Colombo Stock Exchange (Sri Lanka)	3784.35	3718.66	3724.84	-49.5	-1.31	10	3789.37	1612.33	112.9	7.8
Weighted (Taiwan)	7496.34	7404.97	7441.84	...	Closed	-9.1	8356.89	4425.83	66.6	-1.8
SET (Thailand)	696.09	689.63	695.41	7	1.02	-5.3	751.86	411.27	57.8	unch.
Europe										
DJ Stoxx 600 (Europe)	243.36	239.34	241.74	0.82	0.34	-4.5	260.26	157.97	26.8	-14
DJ Stoxx 50 (Europe)	2441.52	2398.46	2424.54	8.57	0.35	-6	2634.1	1614.75	23.6	-14.1
DJ Euro Stoxx 50 (Euro zone)	2727.69	2653.84	2680.25	-19.92	-0.74	-9.6	3017.85	1809.98	21	-14.2
DJ Euro Stoxx (Euro zone)	257.19	250.88	253.16	-1.51	-0.59	-7.9	281.41	169.38	22.9	-14.9
ATX (Austria)	2485.83	2440.59	2469.41	17.7	0.72	-1	2752.39	1411.95	48.2	-18.5
Bel-20 (Belgium)	2474.61	2430.06	2453.79	13	0.53	-2.3	2606.93	1527.27	33.1	-18.4
PX 50 (Czech Republic)	1144.4	1122	1122	-10.4	-0.92	0.4	1220.3	628.5	54.5	-12.7
OMX Copenhagen (Denmark)	329.69	325.64	326.98	1.96	0.6	3.6	338.47	193.26	36.6	-10.9
OMX Helsinki (Finland)	6559.69	6443.3	6488.07	23.34	0.36	0.5	6801.35	4110.31	26.6	-14
CAC 40 (France)	3675.64	3581.86	3616.75	-18.86	-0.52	-8.1	4045.14	2519.29	22	-14
DAX (Germany)	5580.77	5454.07	5503.93	-32.44	-0.59	-7.6	6048.3	3666.41	24.9	-7.3
BUX (Hungary)	20968.6	20524.13	20670.46	10.34	0.05	-2.6	22981.48	9461.29	75.8	-4.7
FTSE MIB (Italy)	21477.2	20888.17	21076.45	-165.18	-0.78	-9.3	24425.98	12621	19.3	-21
AEX (Netherlands)	319.33	314.03	316.8	0.7	0.22	-5.5	343.03	199.25	27.6	-14.5
All-Shares (Norway)	396.55	388.5	392.31	3.36	0.86	-6.6	434.23	239.48	41.5	-9.6
WIG (Poland)	38057.84	37296.36	37322.52	-464.09	-1.23	-6.7	41617.21	21274.28	58.4	-11.5
PSI 20 (Portugal)	7753.44	7546.67	7583.27	-48.67	-0.64	-10.4	8882.69	5743.09	18.4	-13.9
DJ Russia Titans 10 (Russia)	5235.46	5185.71	5234.71	48.31	0.93	-6.1	5929.42	2704.28	71.3	-7.5
RTS Index (Russia)	1410.71	1384.38	1391.94	4.83	0.35	-2.5	1581.09	517.22	127.6	-9.6
IBEX 35 (Spain)	10557.4	10162.7	10281.7	-173.3	-1.66	-13.9	12222.5	6817.4	25.4	-11.6
SX All Share (Sweden)	300.46	296.41	298.7	2.23	0.75	-0.3	309.79	186.58	43.8	-8.6
Swiss Market (Switzerland)	6426.16	6353.22	6403.42	69.43	1.1	-2.2	6633.86	4307.67	25.4	-11.7
Istanbul National 100 (Turkey)	51577.26	50628.27	51381.04	813.54	1.61	-2.7	55526.01	23035.95	105.3	6.8
FTSE 100 (U.K.)	5201.8	5114.5	5161.48	29.49	0.57	-4.6	5538.1	3512.1	22.8	-6.8
FTSE 250 (U.K.)	9164.86	9064.36	9127.85	63.53	0.7	-1.9	9726.44	5769.79	40.4	-7.5
Americas										
DJ Americas (Americas)	286.76	281.02	286.15	3.29	1.16	-3.5	305.67	172.41	35	-7.2
Merval (Argentina)	2283.76	2240.76	2280.96	41.59	1.86	-1.7	2401.75	930.12	110.3	2.8
Sao Paulo Bovespa (Brazil)	66145.27	64344.48	66128.94	1077.52	1.66	-3.6	70729.34	36234.69	63.3	14.3
S & P/TSX Comp (Canada)	11437.97	11232.92	11435.49	149.16	1.32	-2.6	11953.83	7566.94	30.3	-4.4
Santiago IPSA (Chile)	3786.72	3747.63	3780.52	28.32	0.75	5.6	3853.58	2360	45	7.8
IPC All-Share (Mexico)	30994.34	30686.83	30845.63	99.58	0.32	-4	33064.57	16929.8	59.3	3.4
Caracas General (Venezuela)	58744.58	57821.61	58348.14	-261.82	-0.45	5.9	60299.4	35276.07	65.4	8.1
Other Countries										
CASE 30 (Egypt)	6946.57	6904.32	6933.04	-0.87	-0.01	11.7	7249.55	3473.53	92.5	-0.2
Tel Aviv (Israel)	1139.88	1133.77	1136.46	1.3	0.11	-0.8	1179.12	637.5	65.3	5.3
Johannesburg All Share (South Africa)	26611.49	26277.7	26350.6	-8.57	-0.03	-4.8	28346.78	18120.69	27.5	0.9

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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