



Weekly Market Insight

January 9, 2009

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

The bad news is that we are in a midst of a severe global recession. The good news is that the market is already discounting an even more severe recession and perhaps even a depression. And that is the main reason why the barrage of bad economic news since early October did little to impact the stock market. Despite a worsening labour market, a notable softening in the housing market and a manufacturing sector that is getting weaker by the day, the Canadian stock market has been trading sideways since mid-October.

From history we know that the kind of market sell-off we have seen since mid-2008 cannot be reversed over night. On average it takes three full years to go back to previous valuations, and the current case might take longer. But even small steps towards that goal can bring reasonable returns.

With the market immune to bad economic news, and the expectation bar set so low, even a hint of a second half economic recovery can lead to a positive market response. The likelihood is that we will not get such indication in the coming few months as the full severity of the recession will be reflected in economic data on a daily basis. But the hope is that the ongoing quantities easing by the US Fed and further cuts in interest rates elsewhere, along with the largest global fiscal stimulus in modern history will lead to a modest economic recovery in the second half of the year. And given that with almost no exception stock markets typically seen the early stages of recovery a couple of quarters before the economic upturn, we might see once again the stock market rebounding ahead of the economy.

What specific signs can investors look for the timing of upturn in equities? Some of the more important ones include changes in market risk aversion (the TED spread); the value of the Canadian dollar (that provides early indications regarding sentiment towards commodity prices); earning expectations; and the Market Vane indicator of investors' sentiment (excessive pessimistic in this measure usually leading to a market rebound). Current readings of these variables and others point to about 60% chance that the recent trend in share prices represents a bottoming process.

TSX Gains Before US Recession End

US recession dates (coinciding with TSX bear markets)	TSX return over recession	TSX return from its low to end of US recession
1929-33	-75%	13%
1937-38	-27%	21%
1957-58	-21%	5%
1970	-11%	14%
1973-75	-26%	17%
1981-82	-22%	34%
1990-91	-1%	13%
2001*	-8%	-17%
Median	-22%	14%

* Market fell for 10 months after official end of recession

Benjamin Tal
Senior Economist

International Stock Indexes

Thursday, January 08, 2009

Region/Country	Index	DAILY					52 WEEK				3-yr % chg	
		High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg		
World												
World	Global Dow	1571.63	1544.06	1560.93	-11.28	-0.72	2.3	2774.34	1264.68	-41.7	-3.6	
World	Global Dow Euro	1084.41	1057.99	1071.42	-13.32	-1.23	3.6	1711.91	950.87	-37.4	-7.4	
World	DJ World Index	175.97	173.42	175.39	-0.58	-0.33	2	297.12	143.63	-39.4	-10.4	
World	DJ World ex U.S.	152.32	148.66	150.89	-1.43	-0.94	2.8	270.51	123.87	-42.2	-10.1	
World	MSCI EAFE*	n.a.	n.a.	1270.93	-10.09	-0.79	2.7	2206.72	1044.24	-41.3	-10.4	
Asia Pacific												
Asia-Pacific	DJ Asia-Pacific	96.07	92.75	93.68	-2.39	-2.49	0.1	157.77	79.11	-38.8	-12.2	
Australia	All Ordinaries	3699.8	3614.8	3643.6	-84.6	-2.27	-0.4	6147.3	3332.6	-40.7	-8.4	
Australia	S & P/ASX 200	3746.7	3662.6	3694.3	-85.4	-2.26	-0.8	6078.7	3352.9	-39.2	-8.3	
China	DJ CBN China 600	15739.33	15281.18	15398.12	-349.04	-2.22	4.3	44607.91	12886.57	-65.1	20.4	
China	Dow Jones China 88	173.34	167.86	169.18	-4.31	-2.48	3.4	504.37	149.53	-66	19	
China	Shanghai Composite	1894.17	1862.26	1878.18	-45.83	-2.38	3.2	5497.9	1706.7	-65.6	15.8	
Hong Kong	Hang Seng	14755.81	14334.15	14415.91	-571.55	-3.81	0.2	27230.86	11015.84	-47.1	-2.1	
India	Bombay Sensex	10469.72	9510.15	9586.88	Closed	-0.6	20827.45	8451.01	-53.4	-0.2
Indonesia	Jakarta Composite	1410.93	1388.1	1402.66	-18.81	-1.32	3.5	2830.26	1111.39	-50.4	4.7	
Malaysia	Kuala Lumpur Composite	919.16	907.04	910.52	-17.1	-1.84	3.9	1516.22	829.41	-39	unch.	
New Zealand	NZSX-50	2764.24	2734.47	2756.65	-7.59	-0.27	1.5	3899.88	2575.48	-29.3	-6.4	
Pakistan	KSE 100	6093.14	5914.63	6074.87	Closed	3.6	15676.34	5753.18	-56.9	-15
Philippines	Manila Composite	1976.22	1958.82	1970.72	-33.17	-1.66	5.2	3503.7	1704.41	-43	-2.6	
Singapore	Straits Times	1860.58	1820.59	1827.61	-52.97	-2.82	3.7	3311.07	1600.28	-44.8	-8	
South Korea	Kospi	1218.43	1195.15	1205.7	-22.47	-1.83	7.2	1888.88	938.75	-33.9	-5.2	
Sri Lanka	Colombo Stock Exchange	1559.52	1536.5	1542.4	-7.67	-0.49	2.6	2681.27	1484.53	-36.7	-7.5	
Taiwan	Weighted	4687.4	4532.74	4535.79	-254.05	-5.3	-1.2	9295.2	4089.93	-43.7	-12.2	
Thailand	SET	465.49	455.44	465.03	2.07	0.45	3.3	884.19	384.15	-41.9	-14.6	
Japan	Nikkei Stock Avg	9148.83	8876.42	8876.42	-362.82	-3.93	0.2	14489.44	7162.9	-38.3	-18.6	
Japan	Nikkei 300	179.59	175.52	175.65	-5.67	-3.13	0.4	290.48	152.8	-38.6	-18.3	
Europe												
Europe	DJ Stoxx 600	209.48	206.01	208.77	-1.54	-0.73	6	345.38	182.13	-39.6	-13	
Europe	DJ Stoxx 50	2177.64	2139.62	2171.53	-12.6	-0.58	5.1	3554.23	1894.31	-38.9	-14.2	
Euro zone	DJ Euro Stoxx 50	2532.05	2481.67	2516.56	-22	-0.87	2.7	4237.62	2165.91	-40.6	-11.8	
Euro zone	DJ Euro Stoxx	231.52	227.47	230.46	-2.14	-0.92	3.4	395.38	198.93	-41.6	-11.9	
Austria	ATX	1899.33	1831.52	1869.52	-29.9	-1.57	6.8	4532.1	1516.09	-55.1	-20.9	
Belgium	Bel-20	1982.79	1950.39	1976.57	-21.34	-1.07	3.6	4051.53	1783.7	-51.2	-18.4	
Czech Republic	PX 50	880.7	867.2	874.5	-5.1	-0.58	1.9	1710.8	699.8	-46.9	-16.6	
Denmark	OMX Copenhagen	251.06	243.35	249.27	1.76	0.71	10.2	439.09	215.4	-39.8	-12.2	
Finland	OMX Helsinki	5781.48	5502.21	5603.36	-178.12	-3.08	3.7	11055.19	5047.69	-47.1	-12.7	
France	CAC 40	3346.28	3269.8	3324.33	-21.76	-0.65	3.3	5403.51	2881.26	-38.4	-11.9	
Germany	DAX	4917.62	4820.08	4879.91	-57.56	-1.17	1.4	7732.02	4127.41	-36.7	-4.1	
Hungary	BUX	13067.64	12694.9	13004.96	28.17	0.22	6.2	25386.31	10751.23	-48.8	-15.9	
Italy	S & P/MIB	20671	20282	20630	24	0.12	6	37547	17968	-44.7	-17.2	
Netherlands	AEX	266.1	260.26	264.59	-0.45	-0.17	7.6	496.12	222.93	-45.3	-16	
Norway	All-Shares	287.04	279.75	286.99	1.71	0.6	6.2	603.98	232.29	-45.2	-9.4	
Poland	WIG	28463.11	28129.08	28200.15	-316.8	-1.11	3.6	51123.31	24852.95	-44.8	-9.4	
Portugal	PSI 20	6652.88	6585.13	6607.36	-86.11	-1.29	4.2	12327.73	5801.76	-46.4	-9	
Russia	DJ Russia Titans 10	2705.03	2661.51	2699.96	Closed	...	7900.67	2216.22	-64.8	-12.1
Russia	RTS Index	631.89	620.83	631.89	Closed	...	2487.92	549.43	-72.6	n.a.
Spain	IBEX 35	9576.1	9357.7	9469.5	-100.5	-1.05	3	14524	7905.4	-34.8	-4.6	
Sweden	SX All Share	216.56	211.68	214.69	-1.87	-0.86	5.1	334.77	176.54	-33.2	-11.2	
Switzerland	Swiss Market	5764.42	5679.12	5751.07	-10.62	-0.18	3.9	8290.78	5144.02	-30.6	-9.3	
Turkey	Istanbul National 100	27360.08	26120.63	26210.37	-1682.28	-6.03	-2.4	52351.01	21228.27	-49.9	-14.5	
U.K.	FTSE 100	4514.7	4410.5	4505.37	-2.14	-0.05	1.6	6376.5	3781	-27.6	-7.7	
U.K.	FTSE 250	6762.68	6599.25	6692.25	-70.05	-1.04	5.2	10557.3	5491.46	-31.7	-9.1	
Americas												
Americas	DJ Americas	230.16	226.37	230.14	1.24	0.54	1.8	375.06	186.51	-36.7	-10.2	
Argentina	Merval	1192.44	1165.38	1192.44	25.38	2.17	10.4	2248.63	828.99	-42.8	-9.6	
Brazil	Sao Paulo Bovespa	41990.55	40250.57	41990.55	1170.3	2.87	11.8	73516.8	29435.11	-33.9	5.8	
Canada	S & P/TSX Comp	9224.07	9016.69	9221.58	100.26	1.1	2.6	15073.13	7724.76	-32.4	-7.4	
Chile	Santiago IPSA	2488.09	2460.46	2485.67	6.77	0.27	4.6	3096.11	2101.1	-11.9	6.3	
Mexico	IPC All-Share	22116.8	21660.11	21955.4	-162.11	-0.73	-1.9	32095.04	16868.66	-24.5	5.4	
Venezuela	Caracas General	35422.16	34935.25	34935.25	-271.14	-0.77	0.02	41450.77	33894.41	-9.9	19	
Other Countries												
Egypt	CASE 30	4711.85	4623.64	4634.36	-77.49	-1.64	0.8	11935.67	3686.35	-57.7	n.a.	
Israel	Tel Aviv	684.13	674.19	677.14	-17.44	-2.51	3.4	1170.54	592.07	-41.7	-6.7	
South Africa	Johannesburg All Share	22718.97	21965.04	22241.44	-477.53	-2.1	3.4	33232.89	17814.42	-20.3	6.5	

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Jan 8	a month ago	a year ago
S&P/TSX Composite	9221.58	8567.12	13541.75
S&P 500	909.73	909.70	1390.19
Dow Jones Industrial Average	8742.46	8934.18	12589.1

INTEREST / FX RATES	Jan 9	a month ago	a year ago
Prime Can (%)	3.50	4.00	6.00
Prime US (%)	3.25	4.00	7.25
30 Day BA Can (%)	1.42857	2.03714	4.31
3 month US T-Bill (%)	0.07	0.01	3.11
3 month Can T-Bill (%)	0.849	1.424	3.69
10yr US Bond (%)	2.425	2.554	3.829
10yr Can Bond (%)	2.85	3.04	3.82
10yr-2yr US Spread (bps)	165.4	172.7	121.3
10yr-2yr Spread Can (bps)	173.0	155.0	55.00
US\$/Cdn\$	0.8368	1.2892	0.9807
US\$/Euro	1.3525	1.2672	1.4792
Yen/US\$	90.765	92.285	108.87

INTERNATIONAL INTEREST RATES	Jan 9		
	3 mo LIBOR (%)	Spread vs US (bps)	3 wk ago (Spread—bps)
United States	1.26	NA	NA
Canada	1.80	54	31
Euro-zone	2.69	143	138
Switzerland	0.60	-66.2	-101.9
Japan	0.78	-48	-124
Australia	4.63	337	293
	10 Year Bond (%)	Spread vs US (bps)	3 wk ago (Spread—bps)
United States	2.43	NA	NA
Canada	2.85	42.5	48.6
Euro-zone	3.64	121.4	102.5
Switzerland	2.27	-15.4	-47.1
Japan	1.29	-113.9	-118.9
Australia	4.12	169.5	172.8

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