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Market Update

How did we do second quarter of 2010?

As we pass the mid-point of 2010, the global economy continues on its road to recovery.

Developing markets, most notably China and Brazil, have led the rebound with strong growth. In North America, growth slowed in the second quarter but is still positive.

Canadian economic output is now close to the level it reached before the recession, and job creation has been robust. In the U.S., the private sector continues to hire, though the turnaround in employment has been relatively more modest. Inflation remains benign, allowing interest rates to stay at historically low levels.

Corporate earnings have been a bright spot this year, and firms have bought back shares, increased dividends and strengthened their finances. The U.S. Federal Reserve reported that American non-financial companies have accumulated a record cash hoard of \$1.84 trillion.

The economic news remains mixed, however. For example, the U.S. housing sector is weak and consumers are wary. Concern about high government debt levels in Europe, particularly Greece, roiled the bond and stock markets. The European Community calmed the waters with a massive rescue package, though there are worries about “contagion” – where other indebted nations find they are no longer able to borrow.

Large deficits are leading many developed countries to cut spending and remove the stimulus programs that were put in place during the credit crisis, raising concerns that this could hinder the recovery.

During the second quarter, stock markets chose to focus not on the positives, but on these negatives, so that gains recorded in the first four months of the year were erased in May and June.

Most global equity indexes posted double-digit drops in the second quarter, resulting in a decline year to date. However, Canada’s stock market was one of the world’s better performers, with a six-month decline for the S&P/TSX Composite Index of just 2.6%.

The recent moves on the U.S. and international stock markets constitute their first correction – that is, a decline of over 10% – since they reached a bottom in March 2009. Equity markets typically experience such periods of consolidation before resuming their recovery, particularly after a strong advance such as the one we have seen over the past 15 months.

As usual, forecasts for the economy and financial markets diverge. The best way to deal with uncertainty continues to be what I have always advocated – keeping an eye on the long-term and staying true to a sound, diversified investment plan tailored to your individual objectives.

Equity mutual funds, and balanced funds that invest in a mix of stocks and bonds, remain an important part of most longer-term investment portfolios.

* The information in this article is derived from various sources, including CI Investments, Epoch Investment Partners, The Globe and Mail, The National Post, Scotia Economics and Bank of Montreal Economics. The index information was supplied by TD Newcrest.

If you have any questions, please contact us.

Complimentary Advice ... Any Time

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