

Global Market Outlook

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Professional Wealth Management Since 1901



Current Market Backdrop

- Recovery started in the spring / summer of 2009 marking end of longest and deepest recession since Great Depression
- Unprecedented Central Bank actions (rate to 0%) is supportive of future growth / albeit somewhat slower (1/2 speed) in 2011 as global deficit reduction plans become the focus
- Fed Reserve will likely hold rates until early 2011 / Canada already raising rates
- Housing and employment in the US still struggling
- Despite recent recovery, stock valuations indicate mid to long term opportunity still lies ahead – short term pause is normal
- Urbanization of developing world still driving demand for commodities / BRIC Economies remain strong led by China – good for Canada
- Still lots of noise: Volcanic Ash / Oil spills / Electronic Trading Error / Terrorism / North Korea / Double Dip / Unknown next event



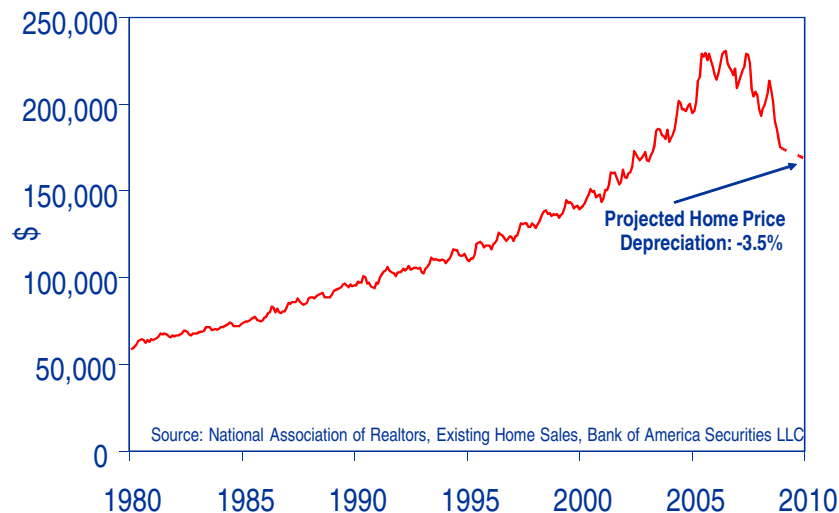
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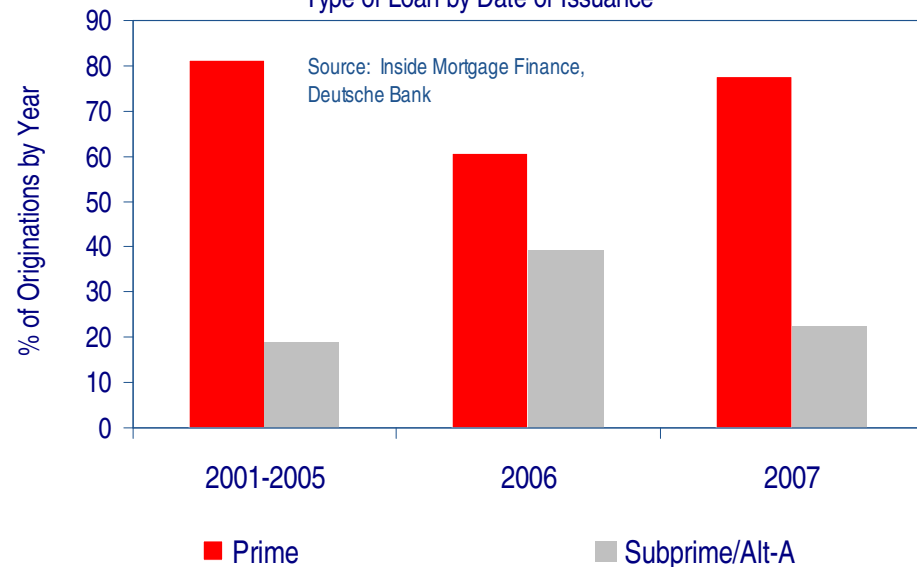
The Crisis: How it all got started

U.S. Housing - Median Sales Price
Existing Single Family Home



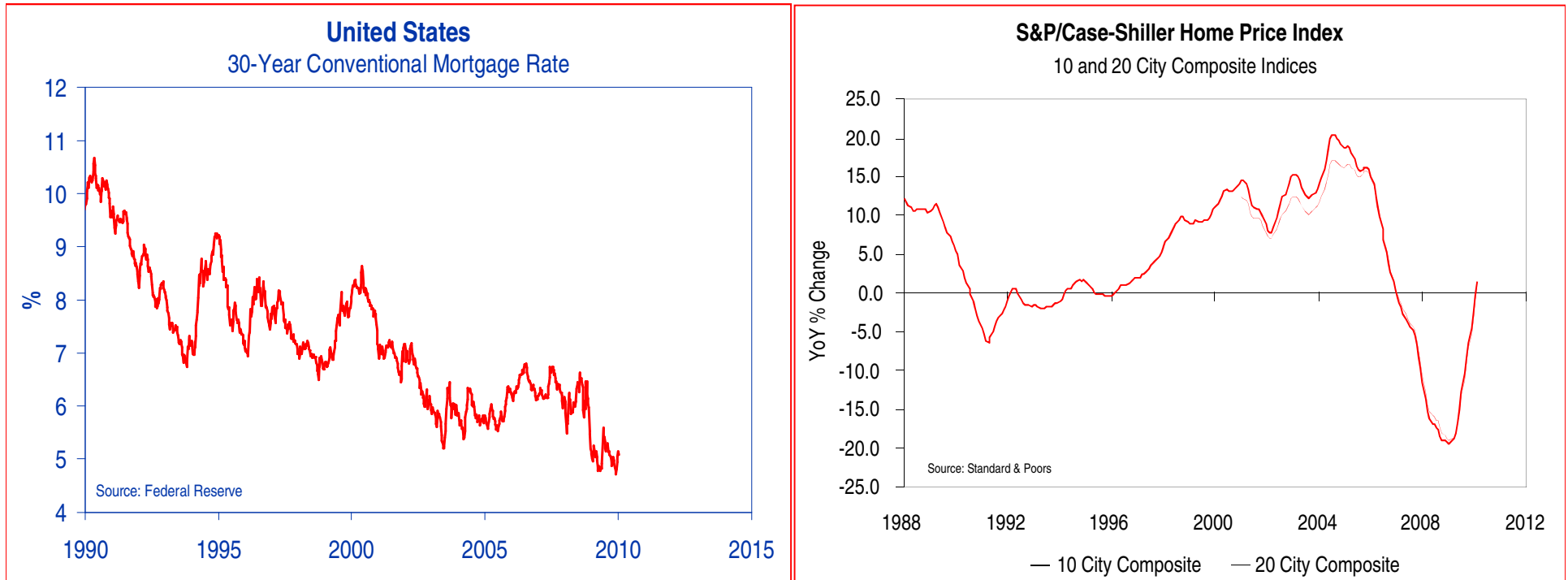
After two decades of steady gains averaging 4.7% annually, U.S. housing prices soared in 2004-2006...

U.S. Mortgage Originations
Type of Loan by Date of Issuance



...fueled by the surge in subprime and other non-conventional lending...

The Crisis: Housing, at the epicentre of the bust



Case-Shiller Index fell 33.6% from peak,
now up 5% in four months

The “Players” Have Changed

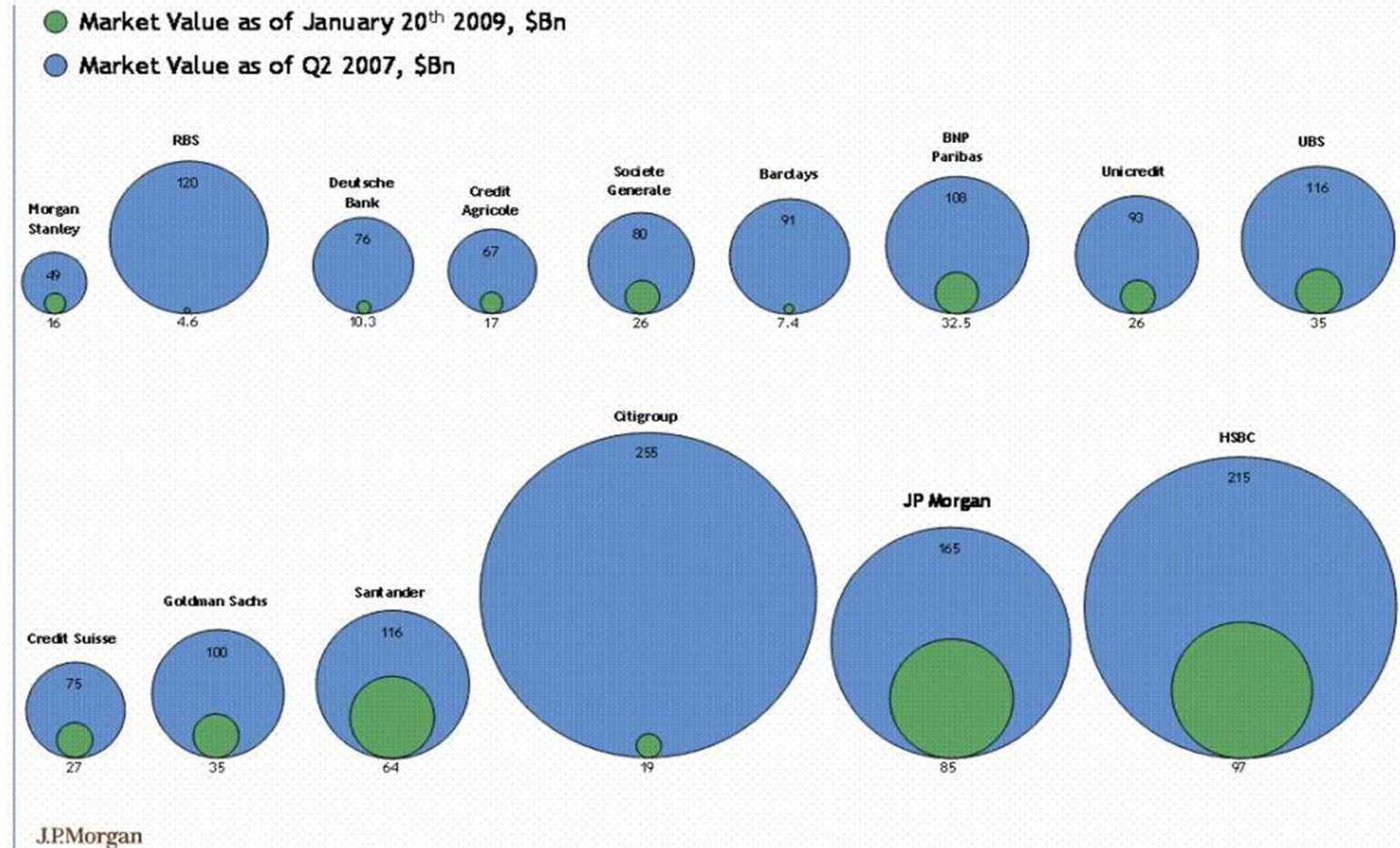
➤ **U.S. financial landscape significantly altered**

- Bear Stearns bought by JP Morgan
- Lehman Brothers bankrupt
- AIG effectively nationalized
- Merrill Lynch sold to Bank of America, Wachovia gone
- Goldman Sachs and Morgan Stanley converted to deposit-taking institutions
- Washington Mutual - largest bank failure in U.S. history

➤ **Greatest government intervention since the 1930s**

The Credit Squeeze: Significant destruction of capital

Banks: Market Cap



While JPMorgan considers this information to be reliable, we cannot guarantee its accuracy or completeness

Source: Bloomberg, Jan 20th 2009

A Sign of the Times...



**'We're richer than Greece
but poorer than Spain'**

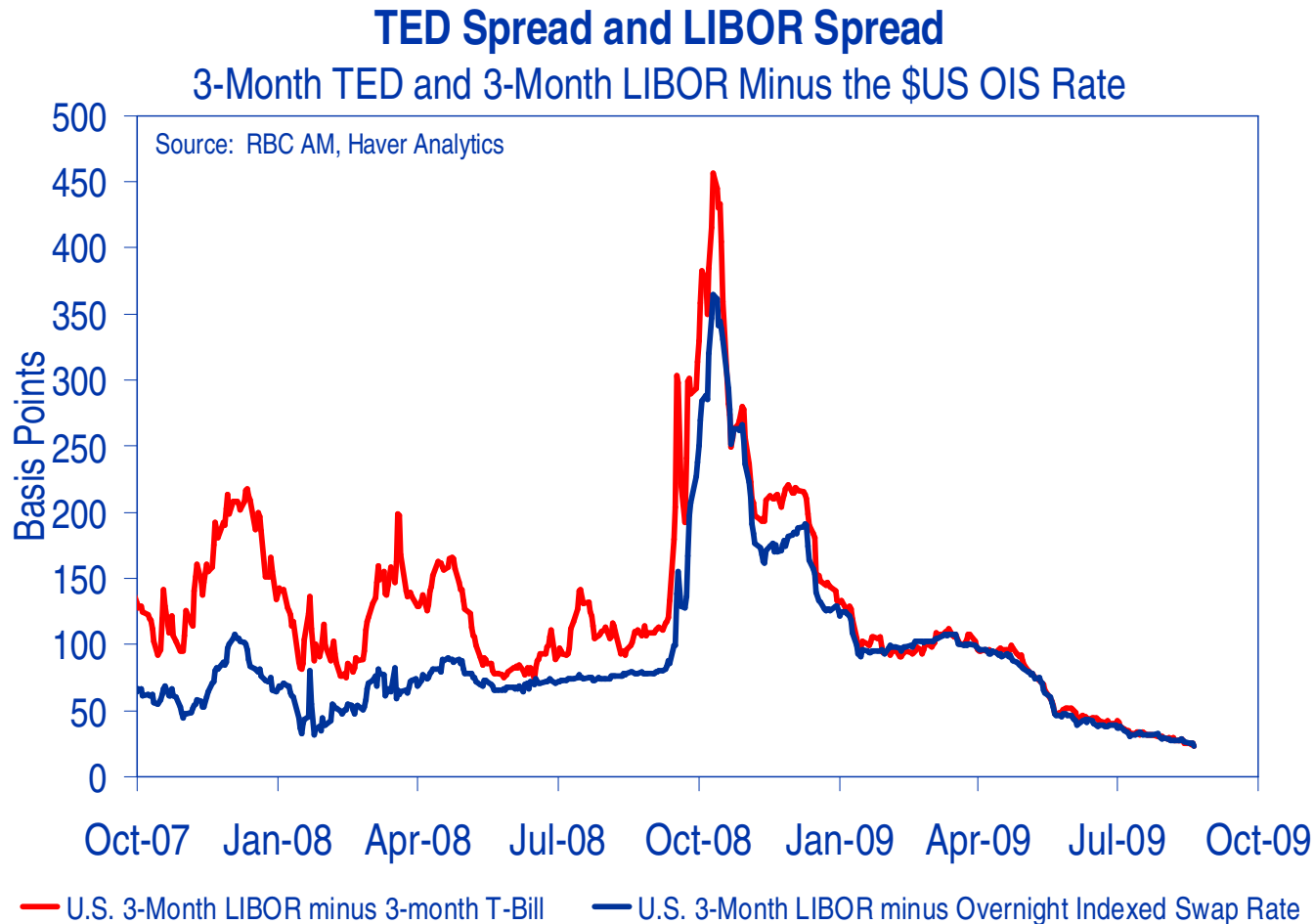




*“At the next bailout, let's also
ask for a pony.”*

New Yorker Magazine

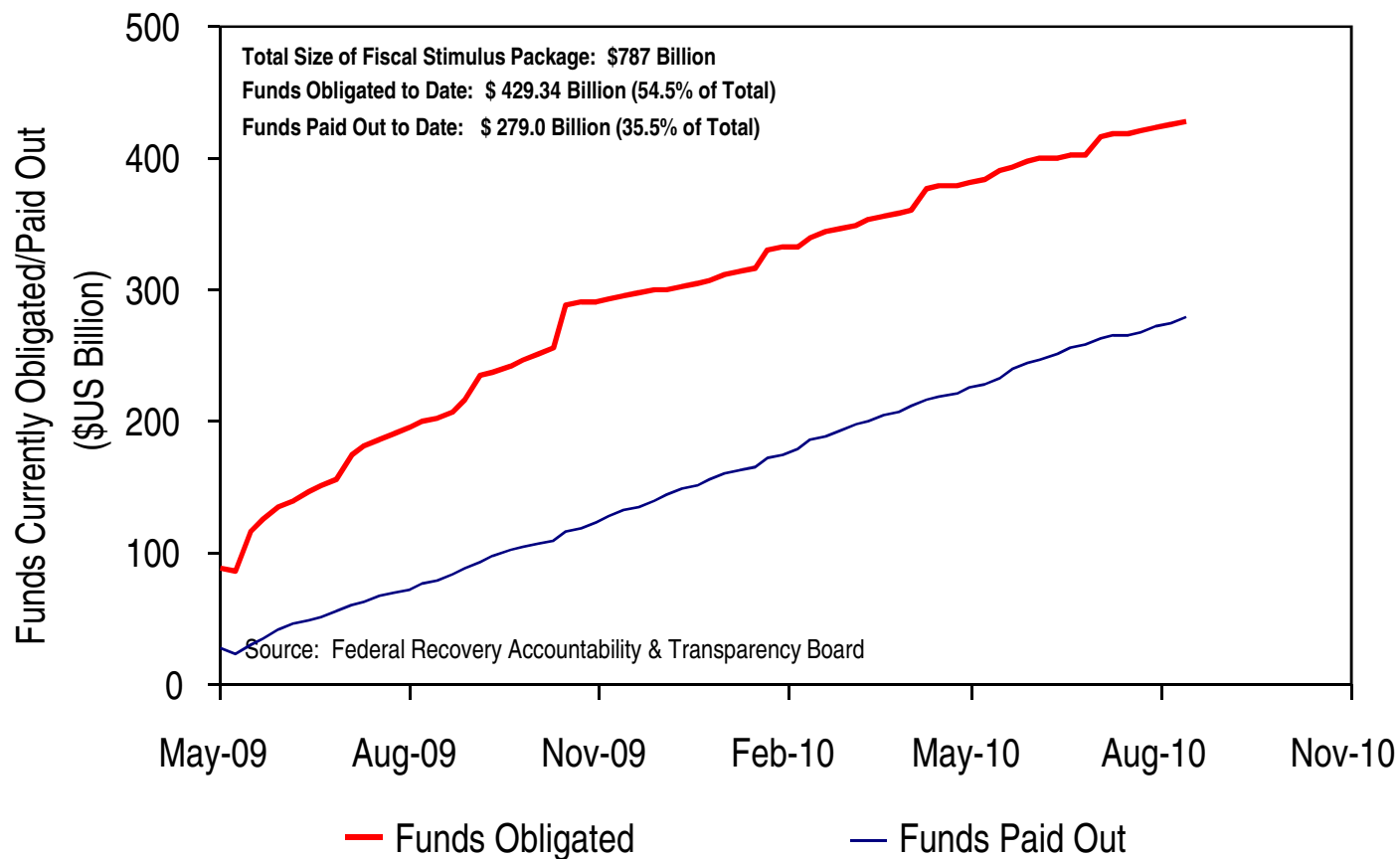
The Economy: Lending standards beginning to loosen



Stimulus Package NOT Fully Paid Out

American Recovery & Reinvestment Act 2009

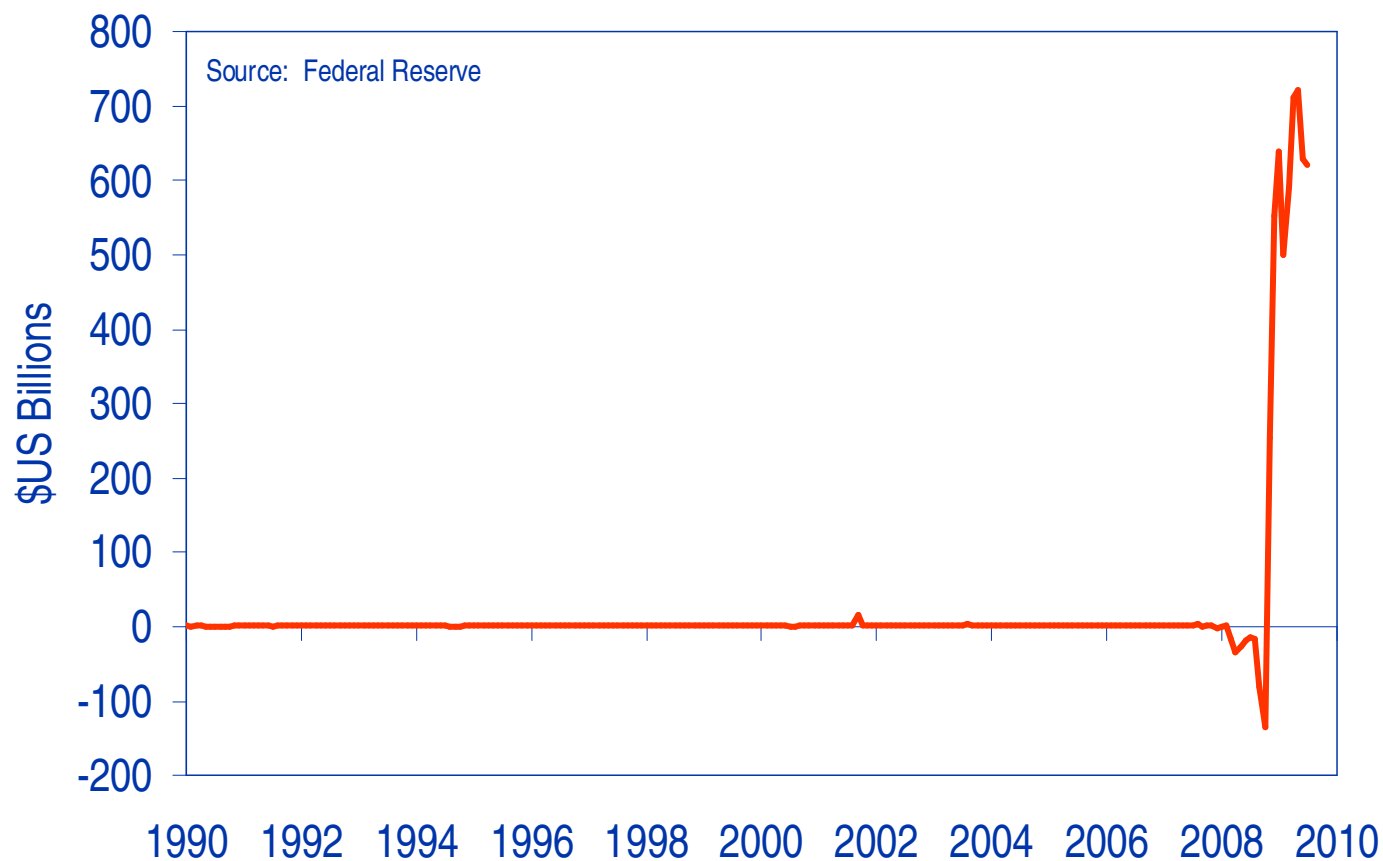
U.S. Fiscal Stimulus



Bank Free Reserve Balances:

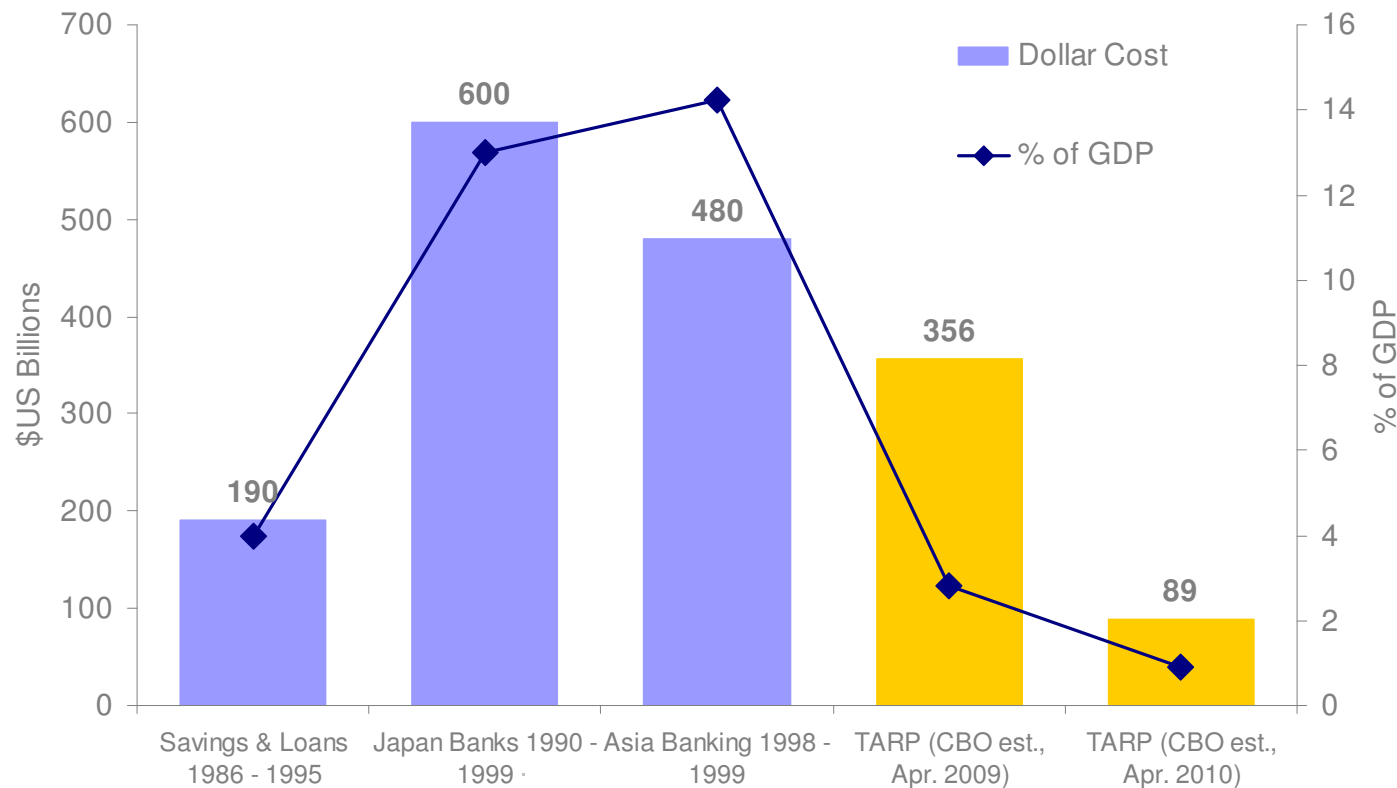
Funds available for lending or investments at all time highs

U.S. Commercial Banks Free Reserve Balances



Credit Crisis in Perspective

U.S. Credit Crisis in Perspective

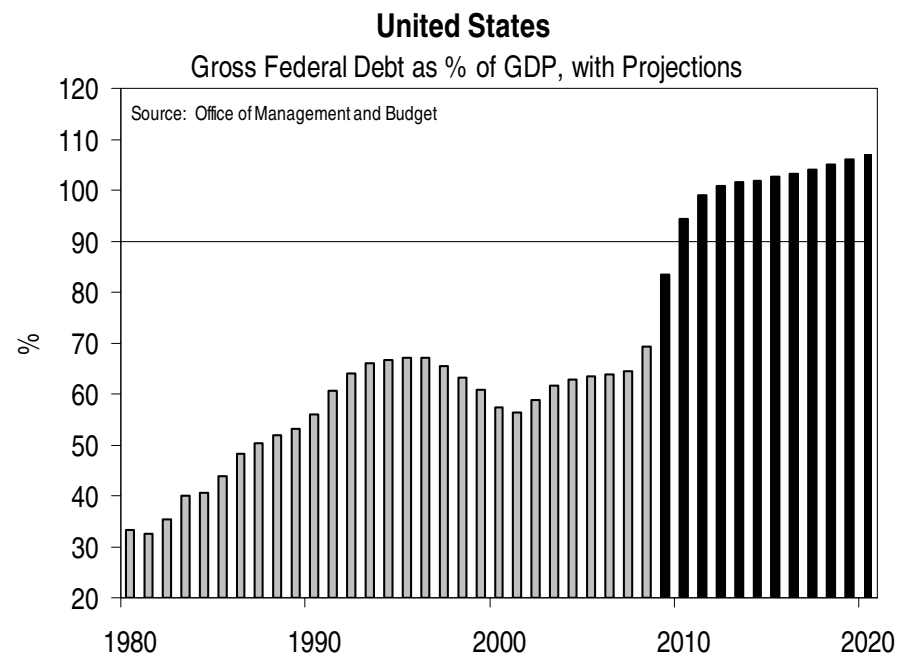
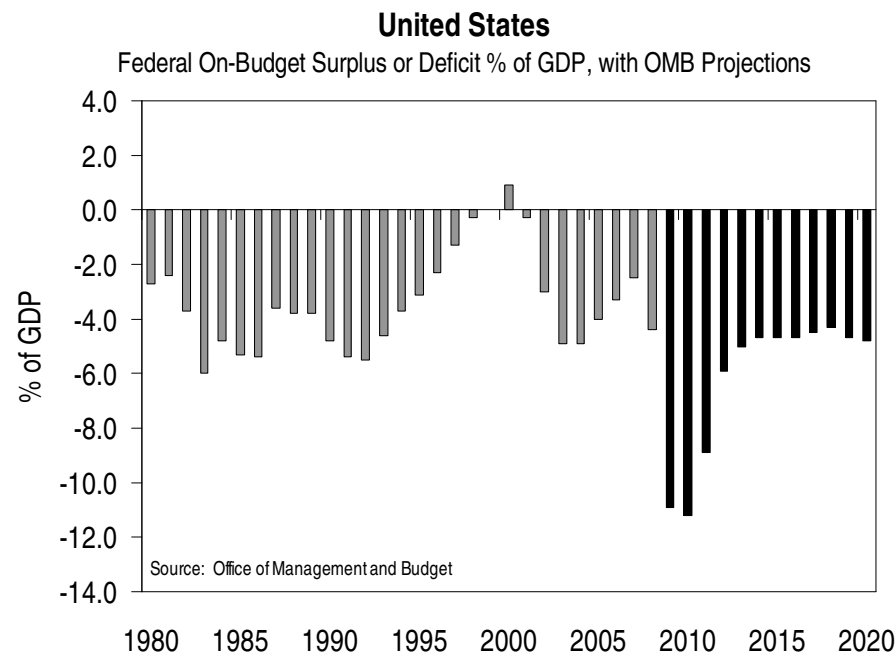


Source: IMF, UBS Investment Research, RBC GAM

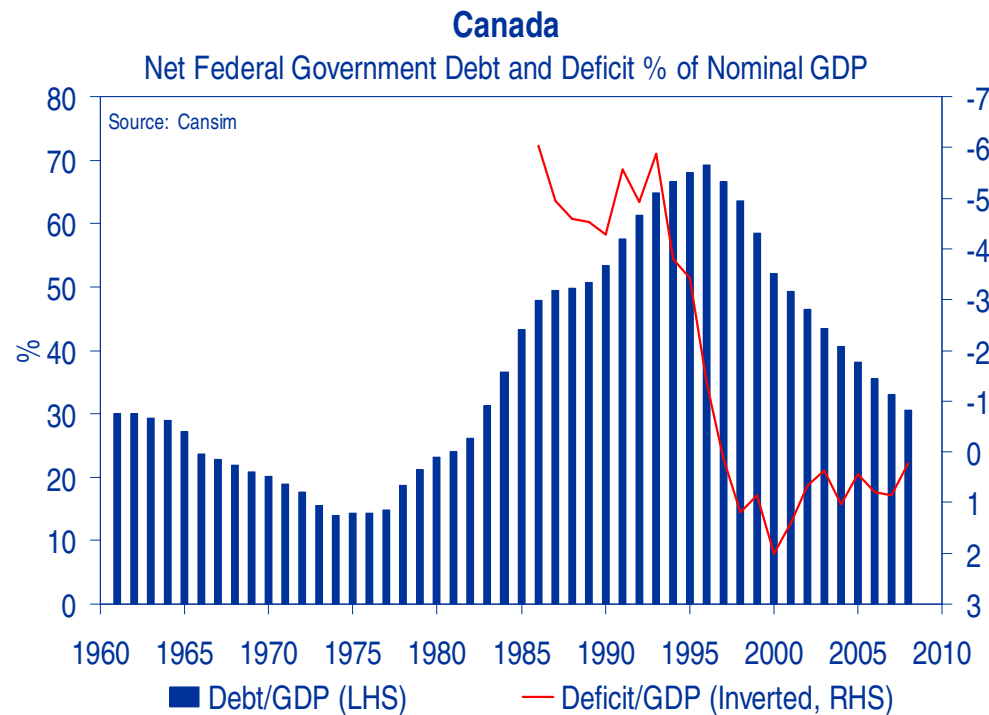


THE CRISIS: In the Developed World

The crisis of 2008/2009 will dominate fiscal policy/handcuff governments for many years to come...



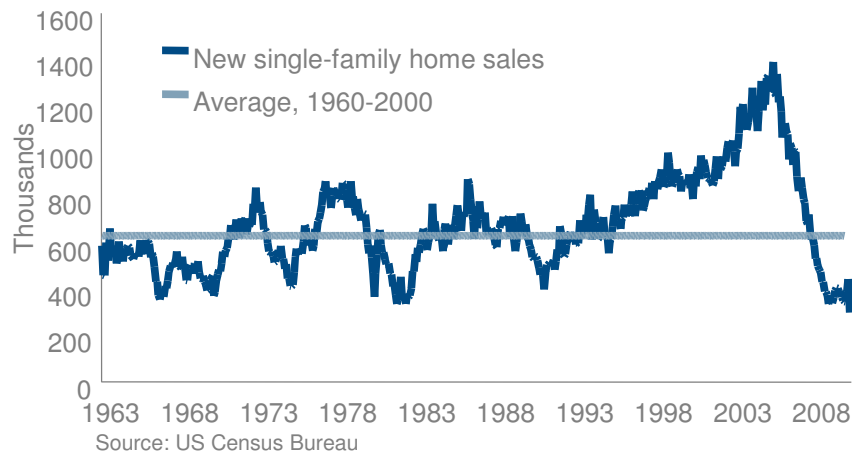
Canadian Deficits of the 90's



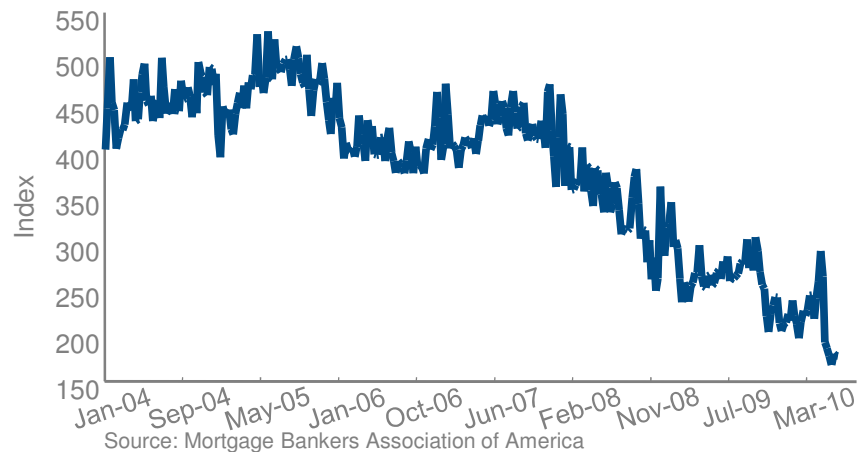
Canada's relatively strong fiscal position should remain intact despite recent appearance of large deficits.

U.S. Housing Falters as Stimulus Pulled

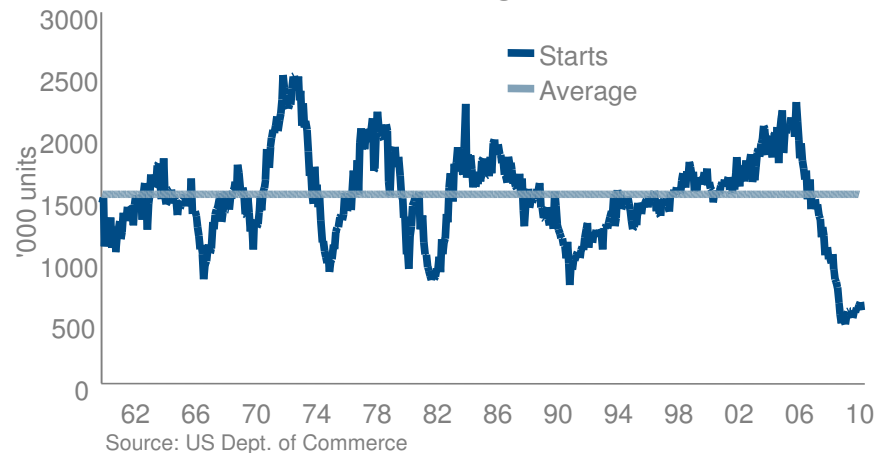
US New Home Sales



U.S. Mortgage Applications: Home Purchase



U.S. Housing Starts

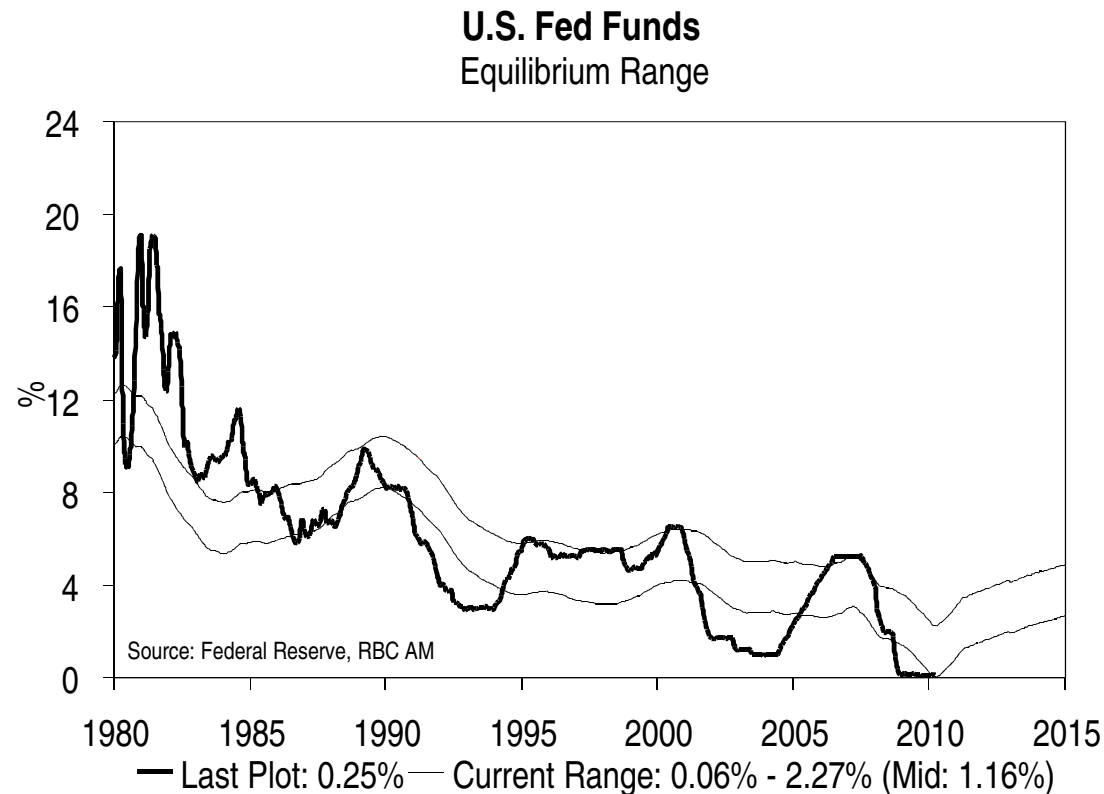


U.S. Unsold New Housing Inventory
(Months' supply at current selling rates)



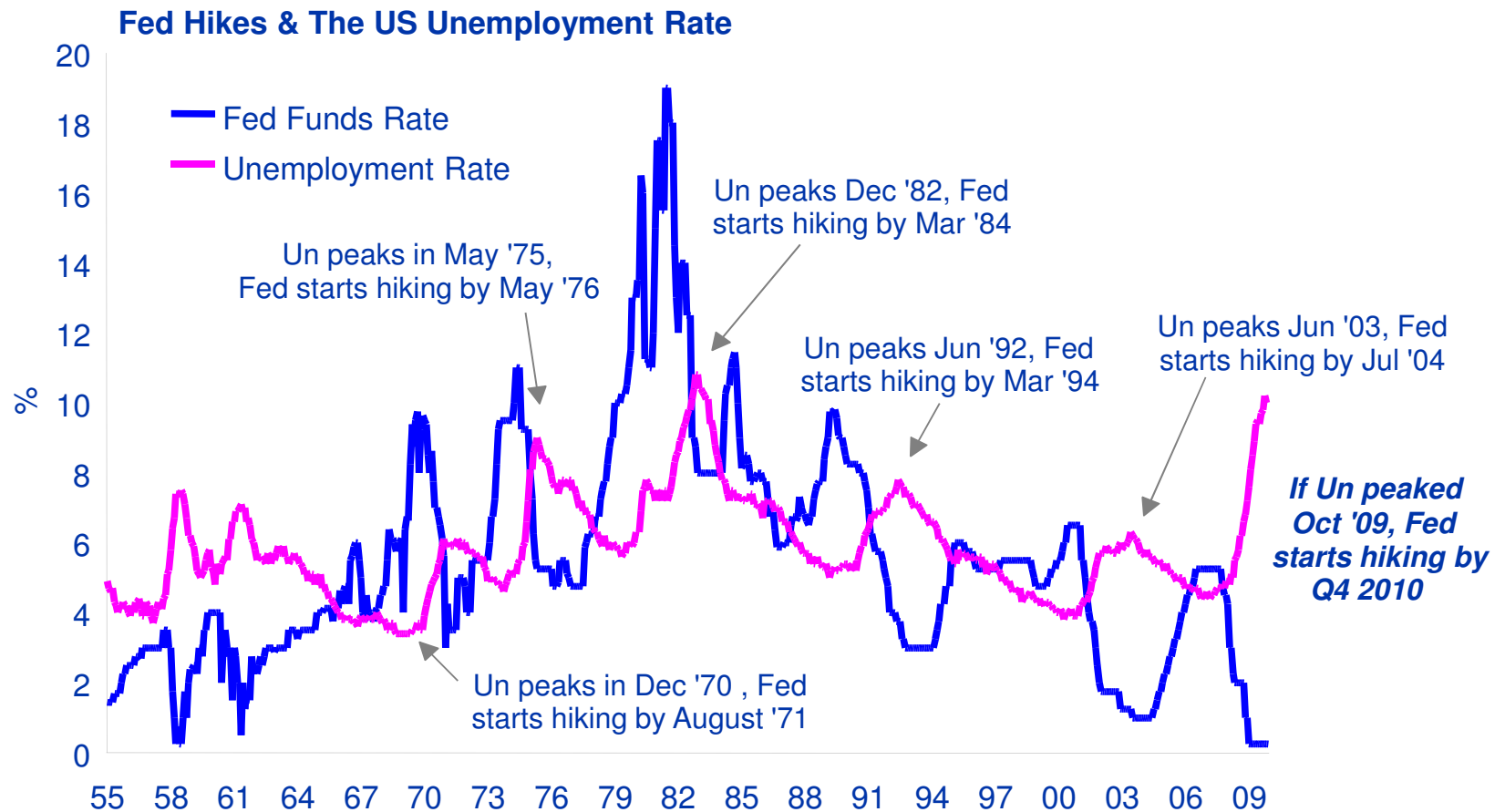
Fixed Income Markets:

Short-term interest rates at highly stimulative levels



U.S. fed funds rate likely to stay low with modest hikes in early 2011. Central Banks remain focused on threats to the self-sustained recovery.

Fed Waits Until Unemployment Rate Peaks ...before Raising Rates



Source: Federal Reserve, BLS, PH&N

Key Indicators Surpass Pre-Crisis Peaks

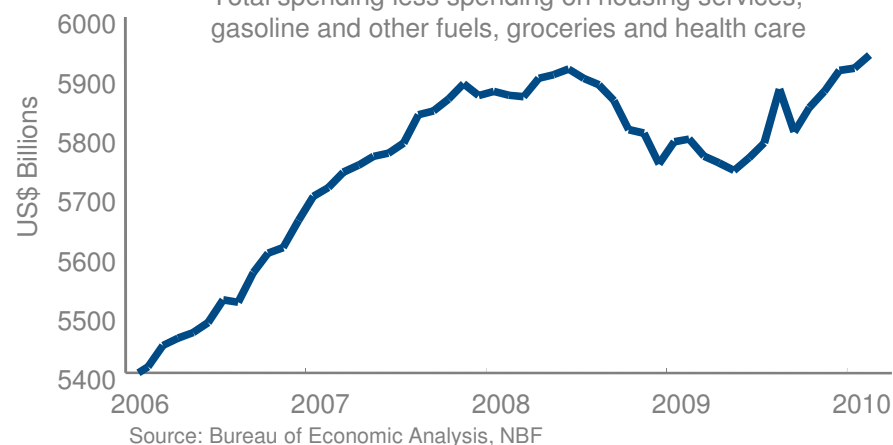
BRIC Industrial Production



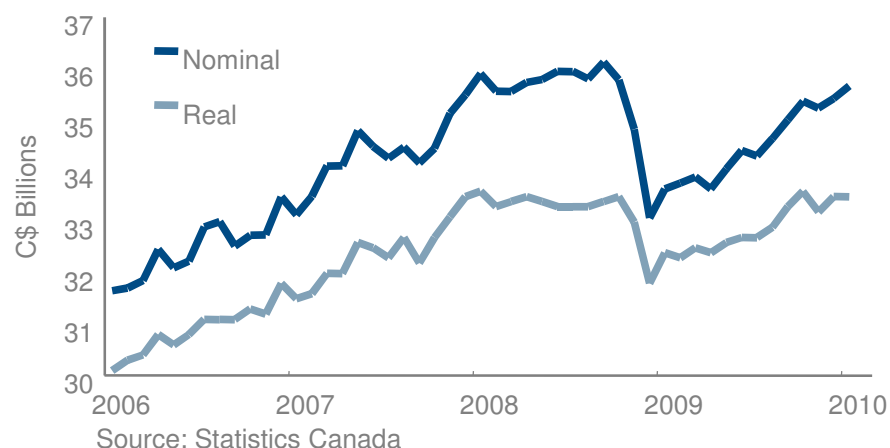
Chinese Exports



U.S. Consumer Discretionary Spending
Total spending less spending on housing services, gasoline and other fuels, groceries and health care



Canadian Retail Sales

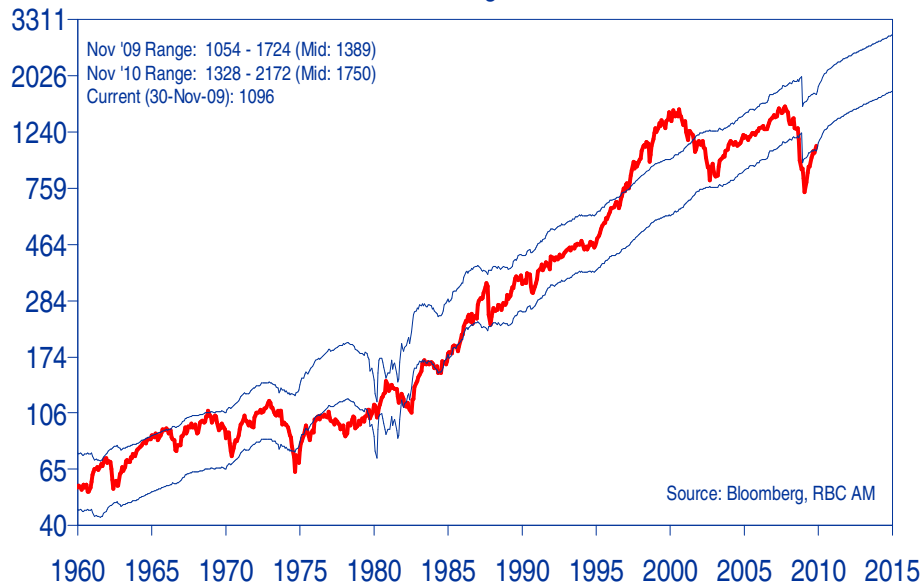


Equity Market Models

Major equity markets still show good total return prospects / S&P as cheap as '82 low

S&P 500 Equilibrium

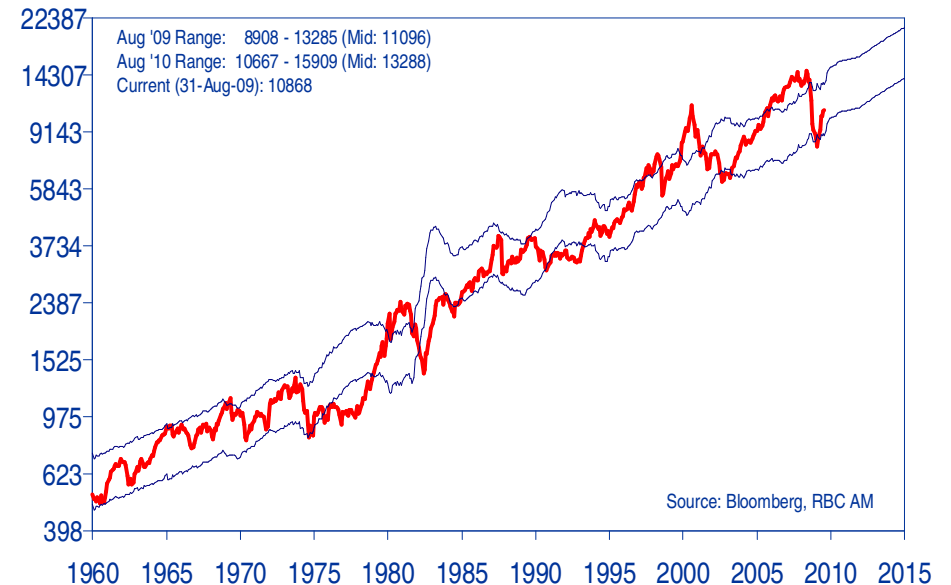
Normalized Earnings & Valuations



S&P 500 now 32% below 1-year forward fair value and also beneath lower limit of fair value channel.

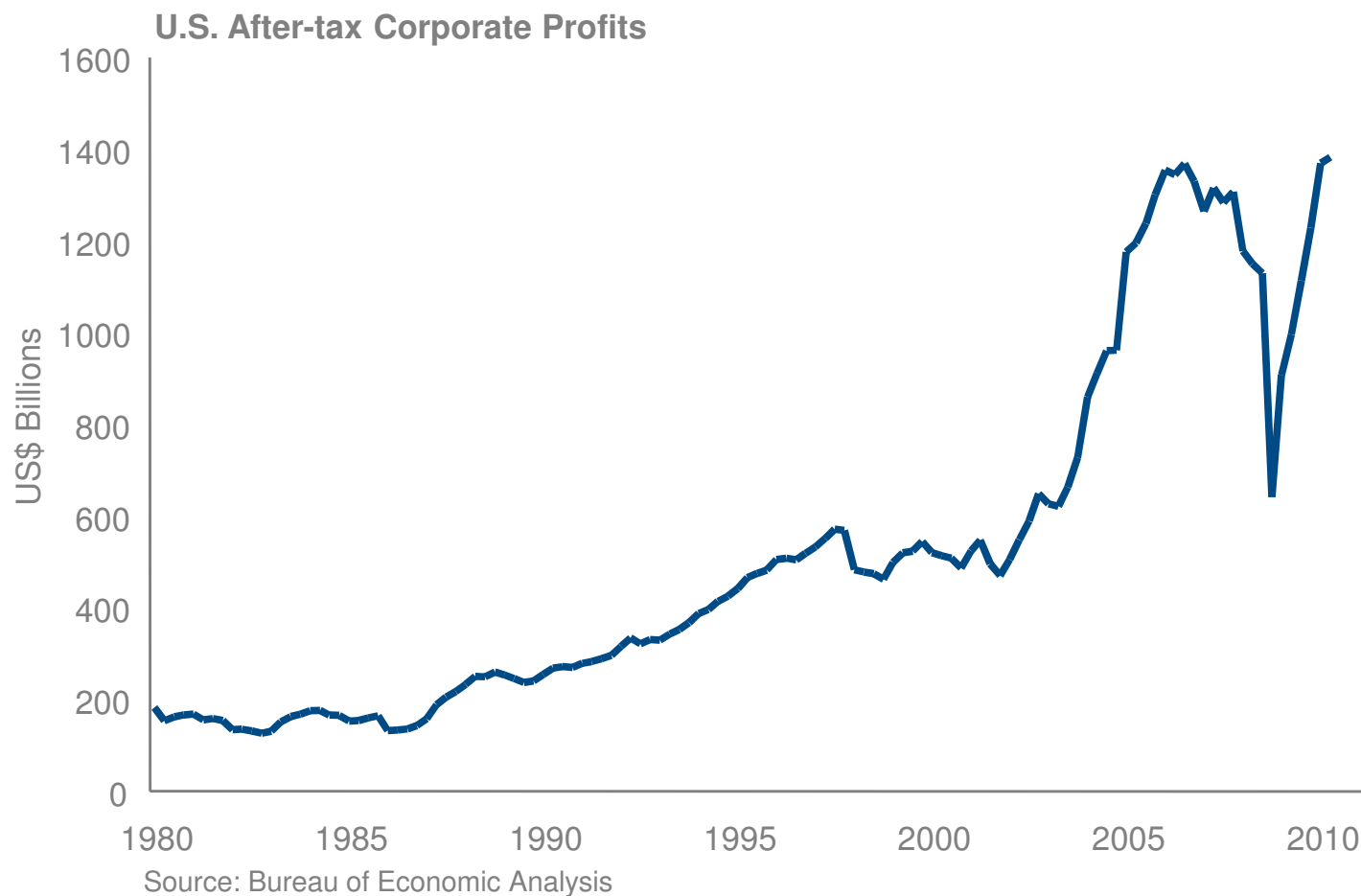
S&P/TSX Composite Equilibrium

Normalized Earnings & Valuations



TSX remains developed world's most expensive market, but is still attractively valued relative to its own history.

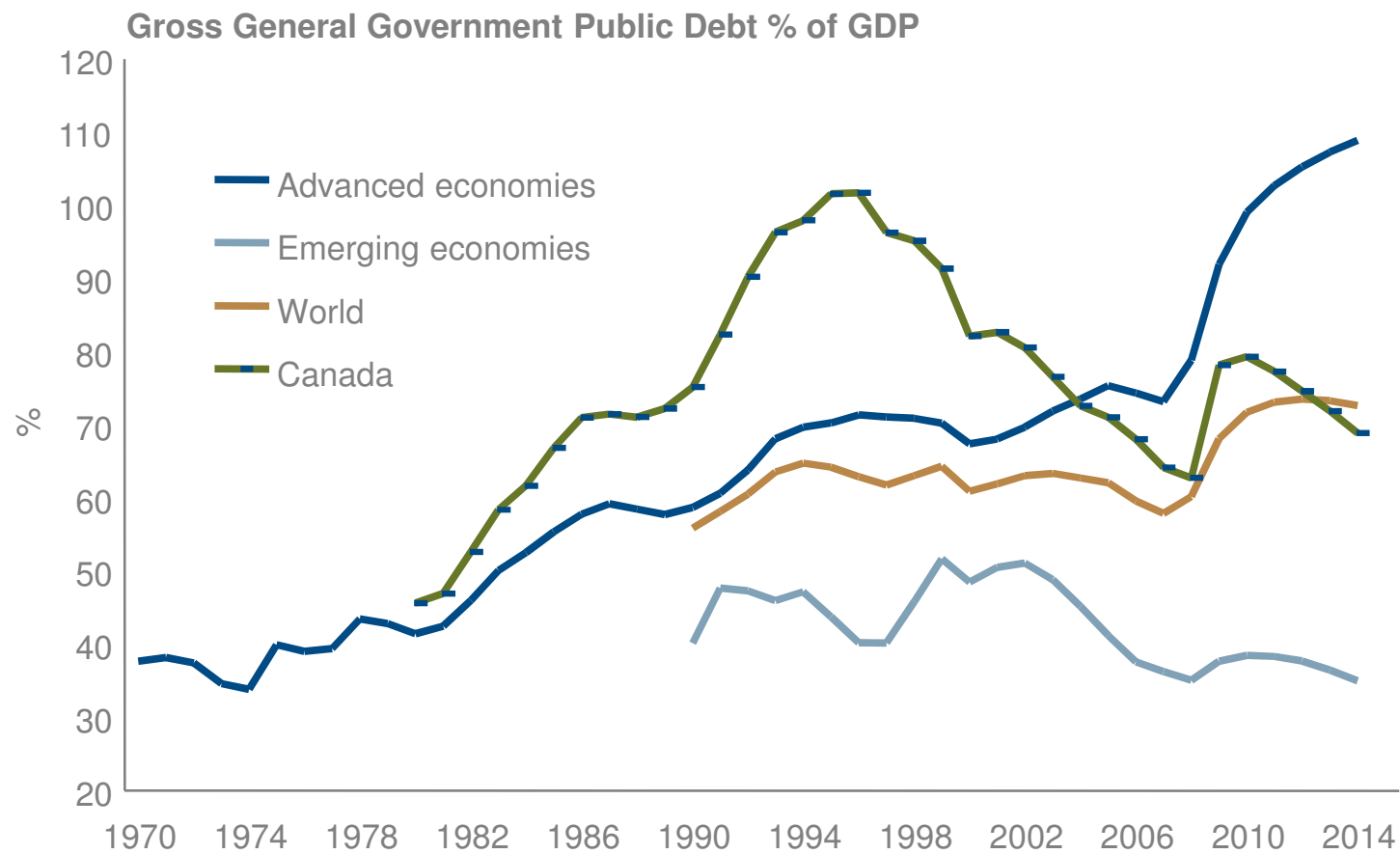
Corporate Earnings Have More Than Fully Recovered



Canadian Economy Unique in Many Ways

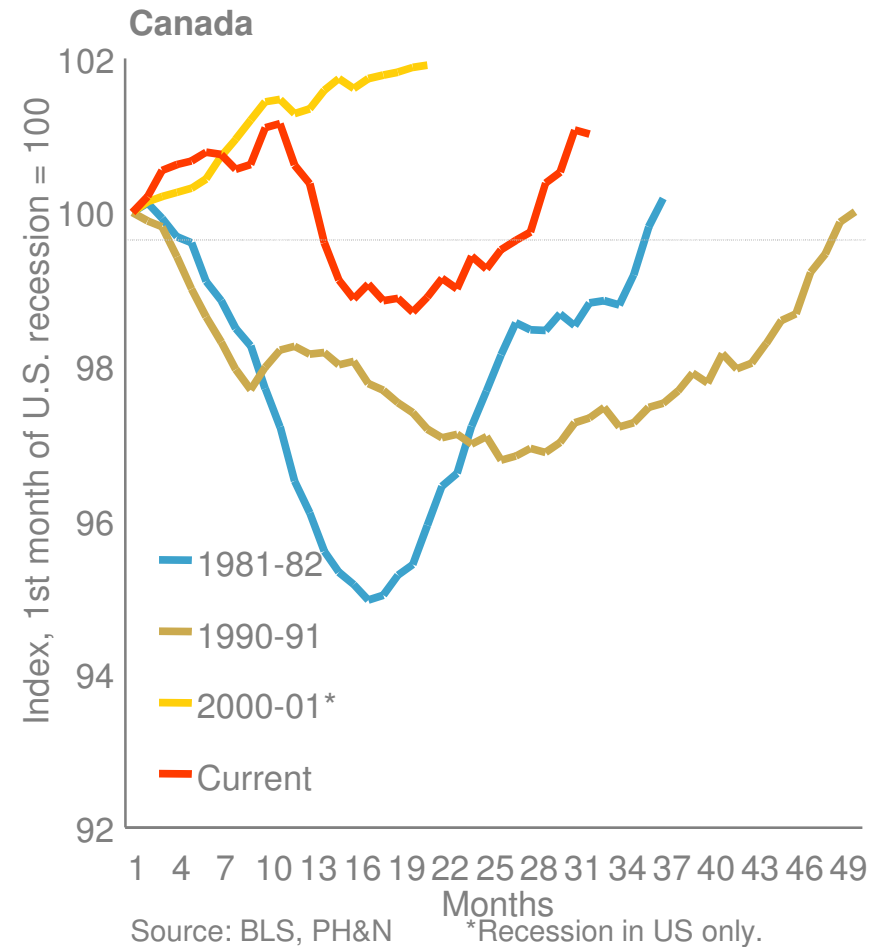
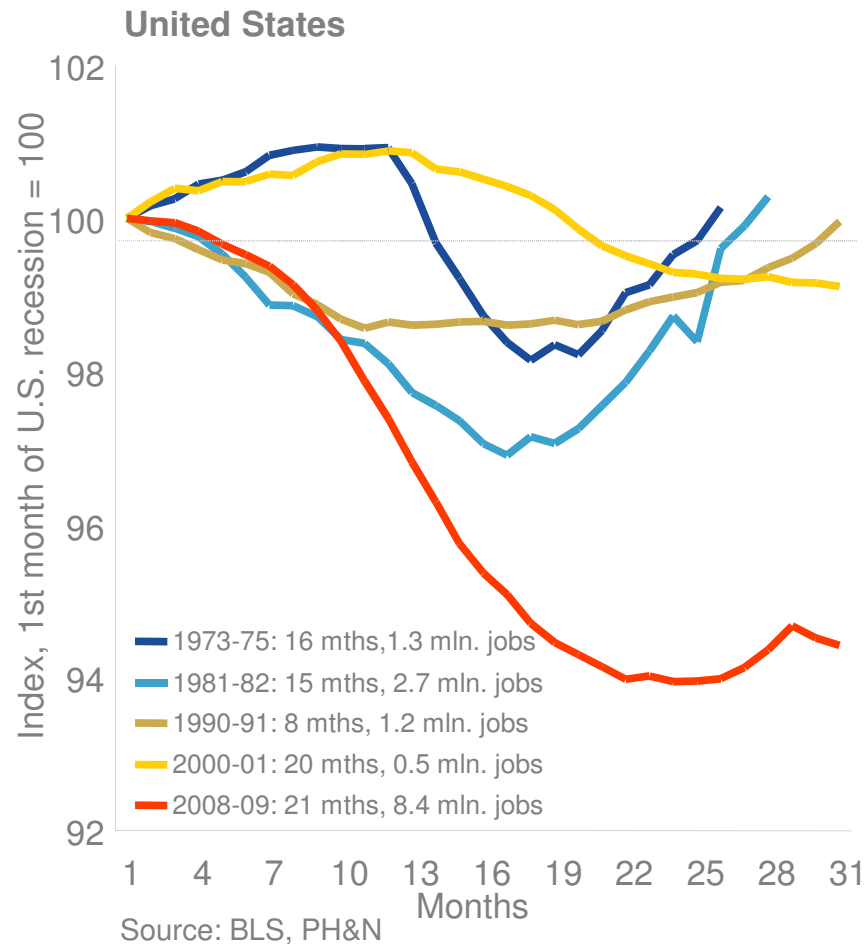
- Despite Canada's enduring linkages to the U.S. economy, Canada's job market has fully recovered
- Canada did not experience a mortgage crisis
 - Canada's housing market remains healthy
 - housing wealth has grown meaningfully since 2006
- **Canada experienced the financial crisis peripherally, and its financial sector has fully recovered**
- **As a commodity exporter, Canada is enjoying strong national income growth and improved terms of trade**

Divergent Status of Government Finances

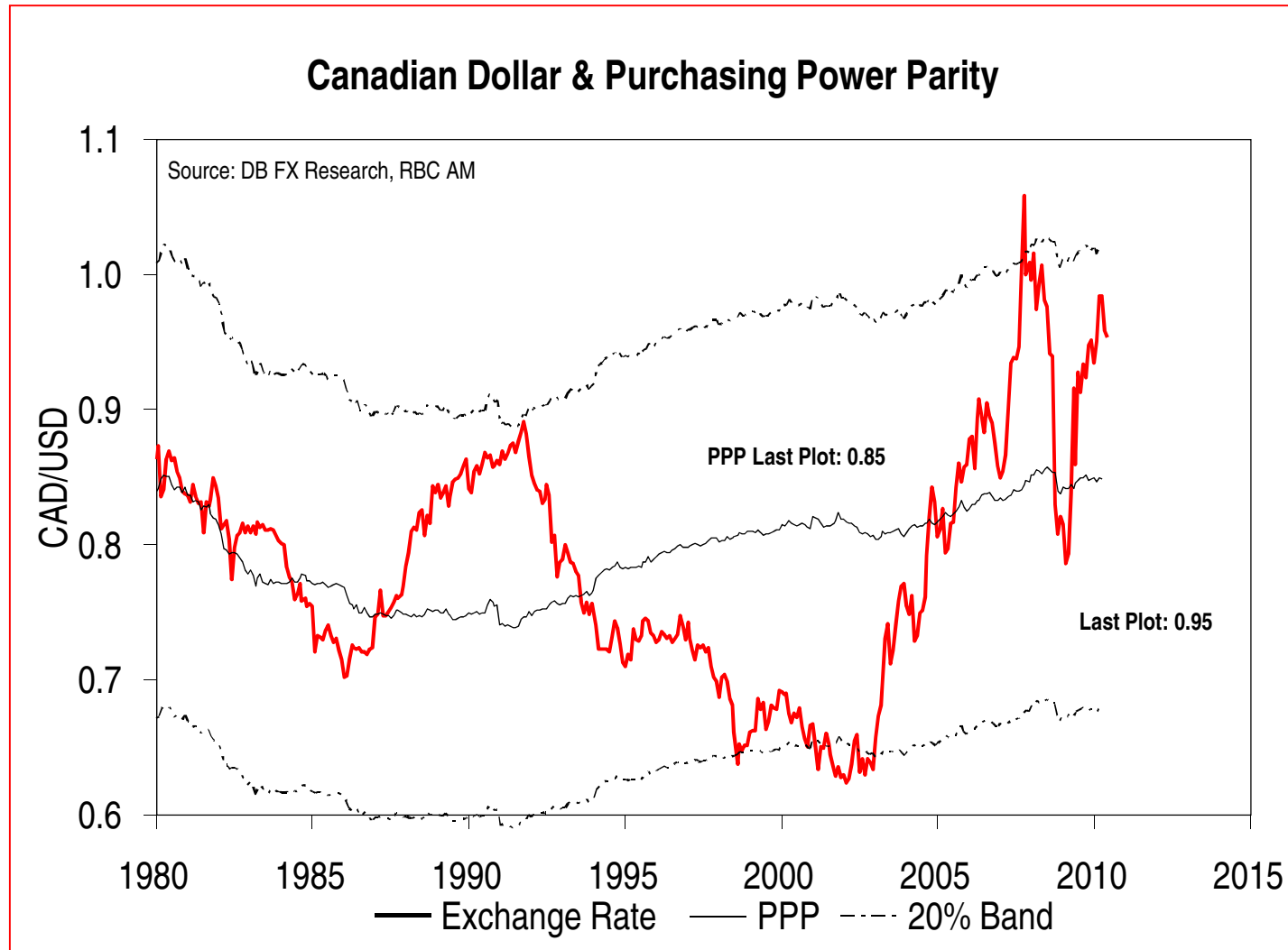


Source: IMF World Economic Outlook, October 2009

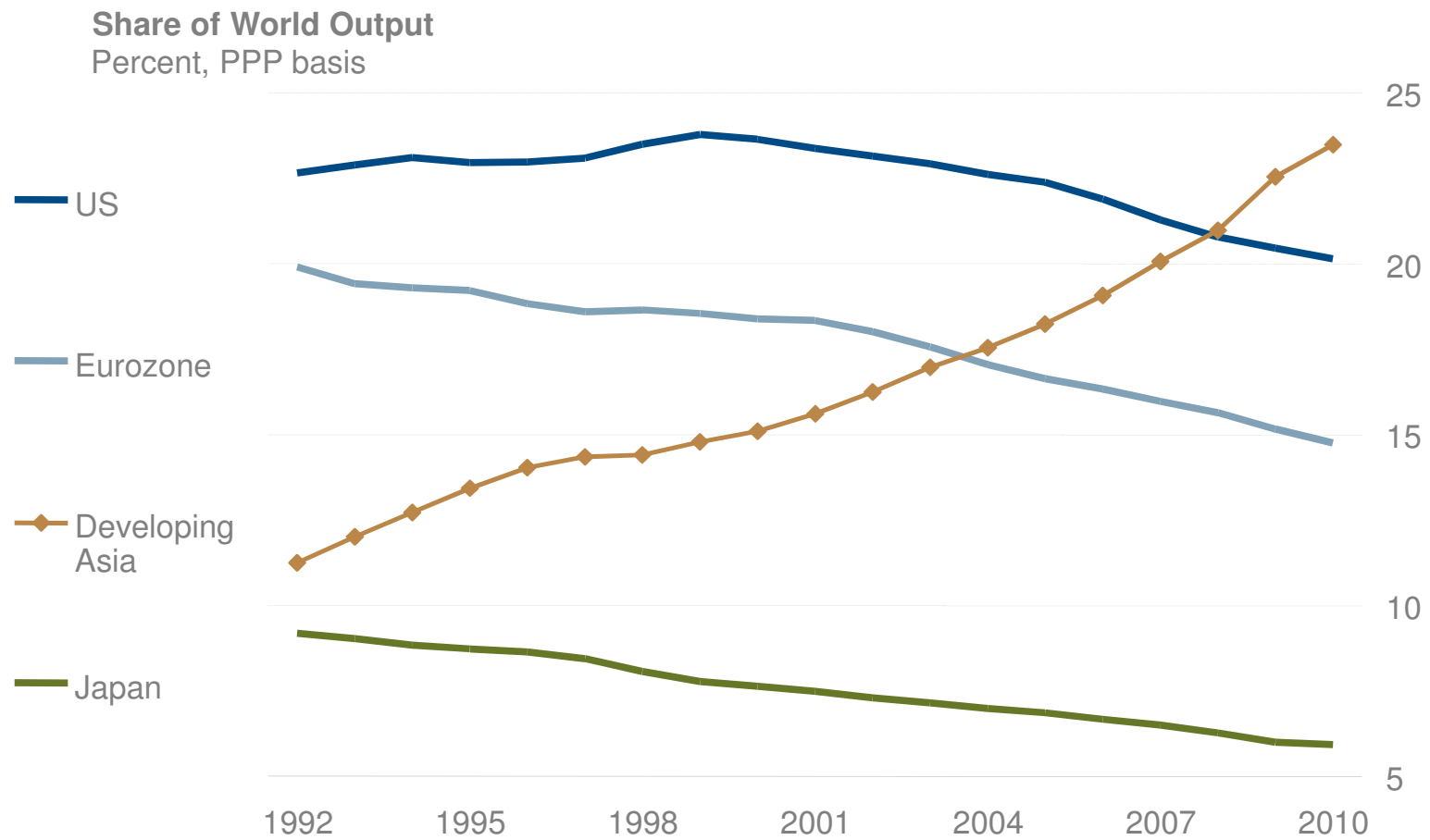
Canada's Job Market Has Recovered



Canadian Dollar vs US Dollar



Europe Now Less Important to Global GDP



Source: IMF World Economic Outlook Database

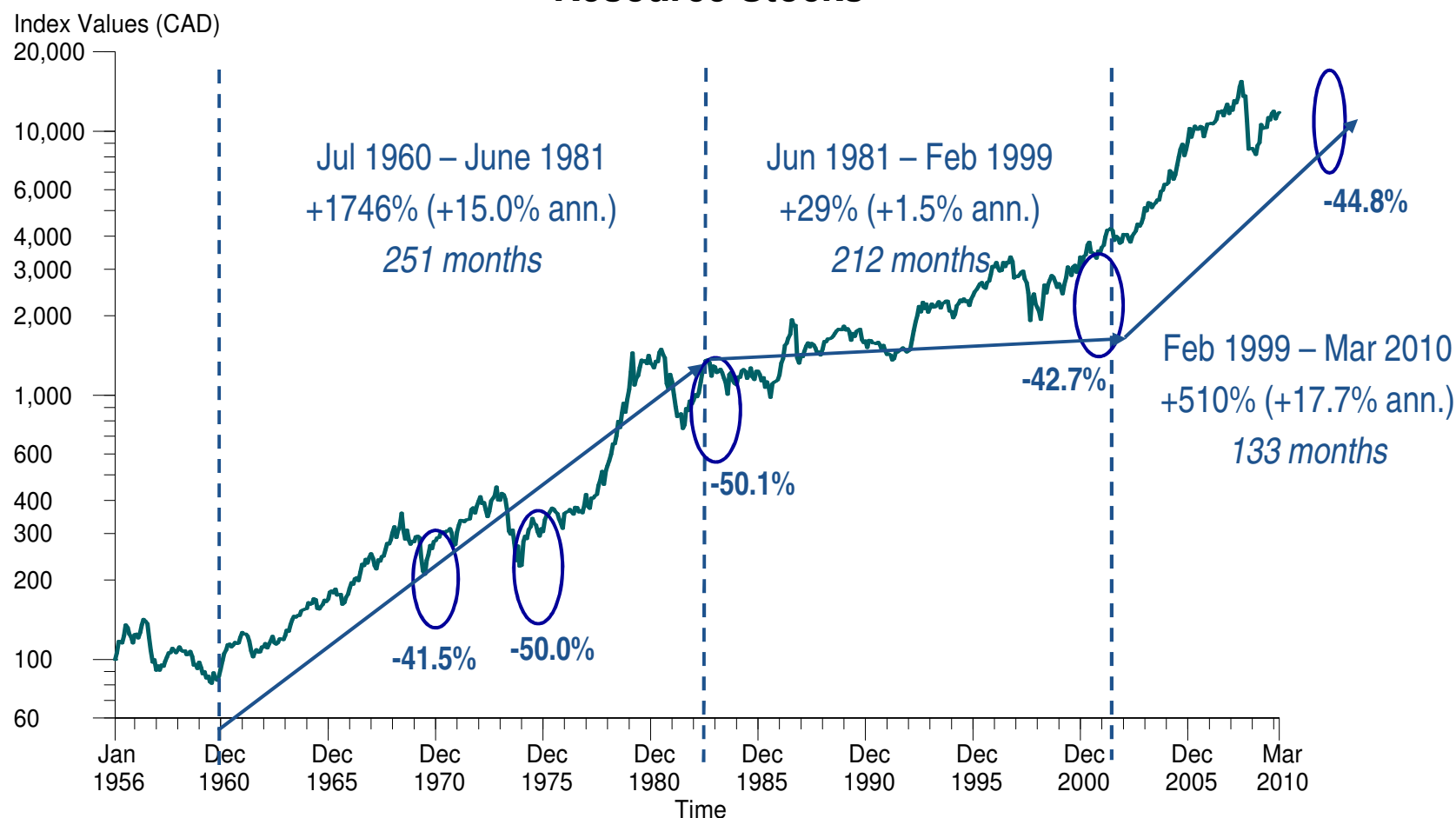
Theme for a Decade: The rise of the Asian consumer

	U.S.	China
Population (mm)	307	1,338
Life Expectancy (Yrs)	78	73
GDP per Capita	\$46,678	\$3,155
Savings Rate (%)	4.6%	49.9%
Internet Users (% of population)	73%	13%
Car ownership (% of households)	87%	6%

Source: CIA World Factbook, BEA, National Statistics Bureau of China, People's Bank of China, Euromonitor.

Resource Stocks and Previous Super-cycles

Resource Stocks



Source: RBC Asset Management, Morningstar EnCorr. Canadian Resource stock performance based on 65% S&P/TSX Energy & 35% S&P/TSX Materials. Prior to January 1988, performance was based on 65% TSX Oil & Gas Index & 35% TSX Metals & Minerals Index.

Including Non-Market Related Issues...

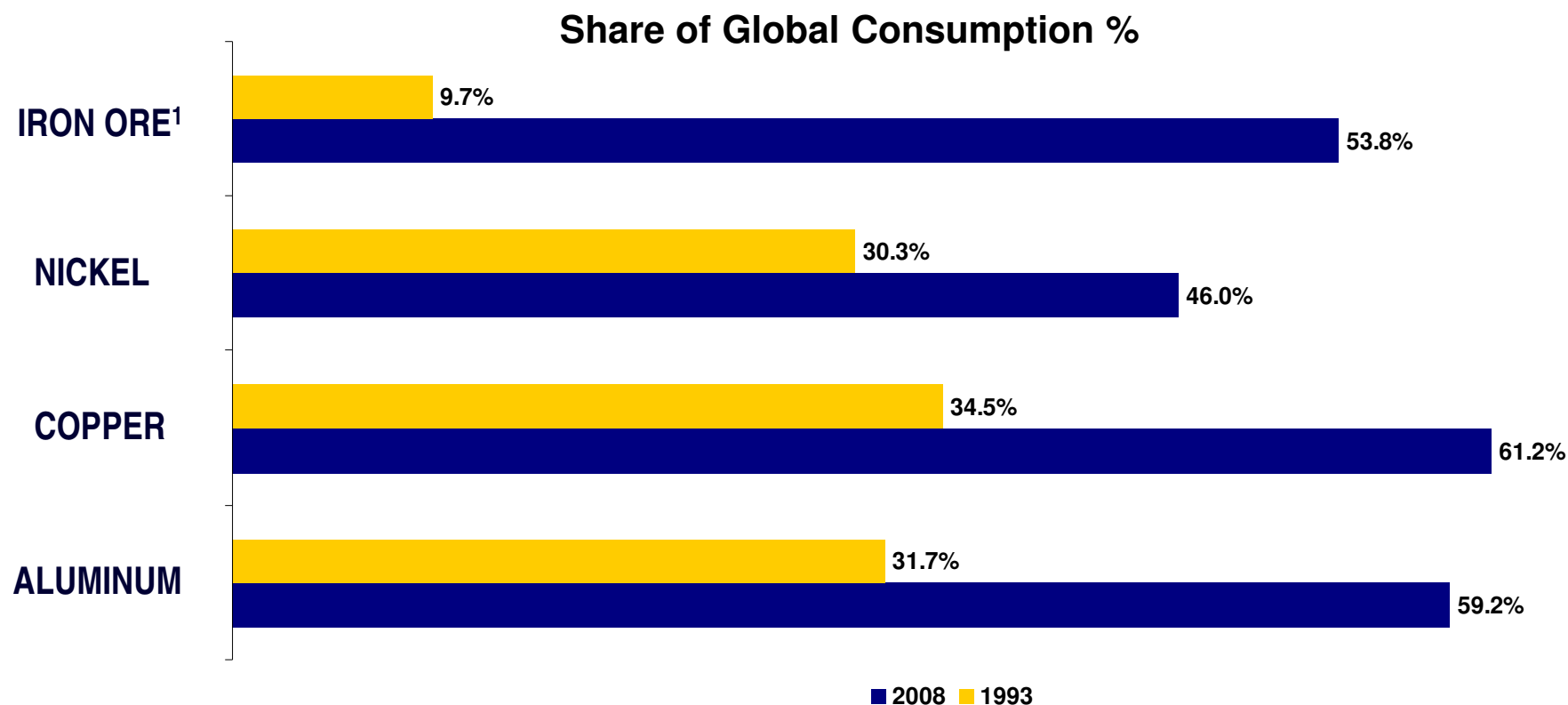
Difficult Geopolitical & Environmental Conditions Around the World



Raise costs, lengthen time to markets or discourage development of new projects

Last Year - a Snapshot of Longer Term Forces?

Emerging Economies Become Dominant Consumer of Commodities



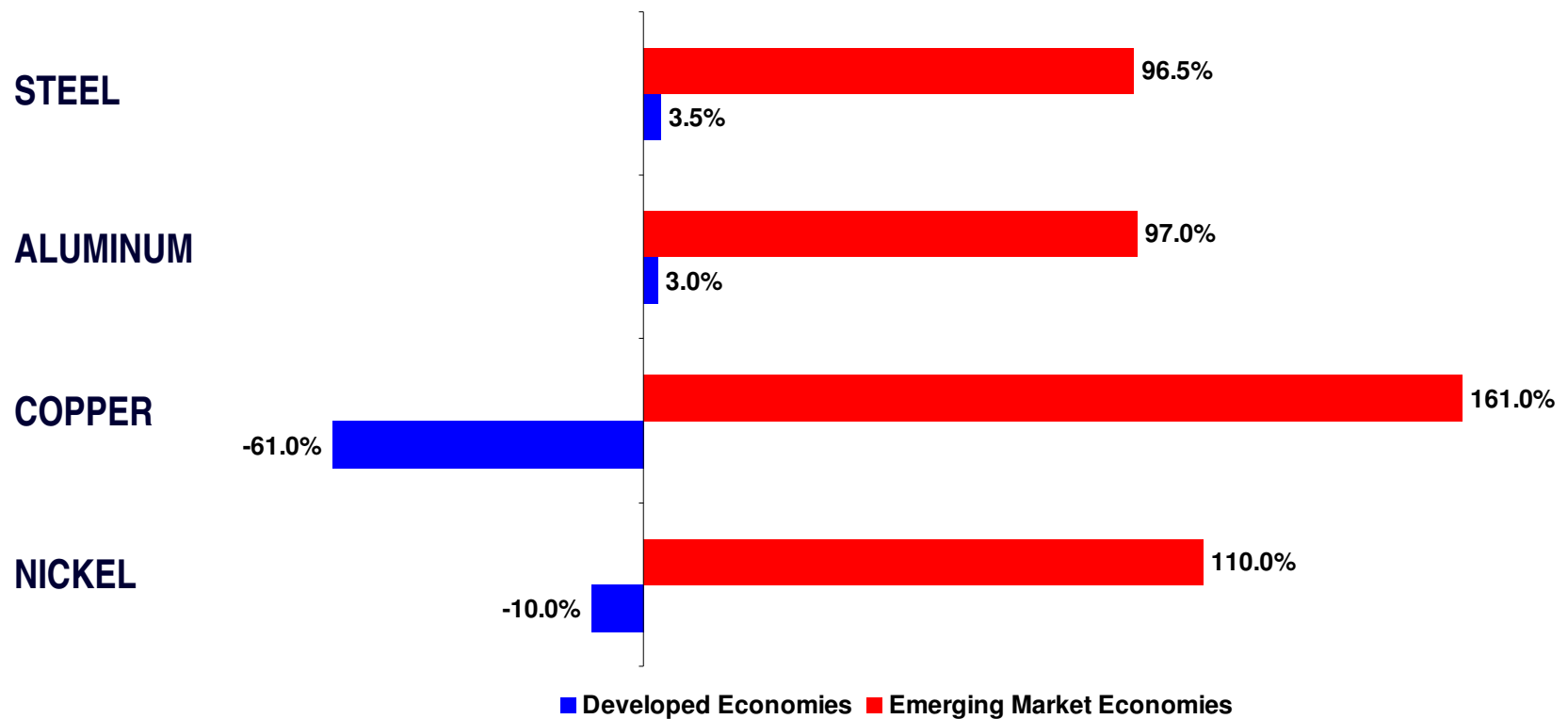
¹ Seaborne trade Chinese market share

Source: Vale & World Bureau of Metal Statistics

A Changing Face of Demand....

Growth of Global Commodity Consumption Driven by Emerging Economies

Global Consumption Growth Profile 2000 -2008

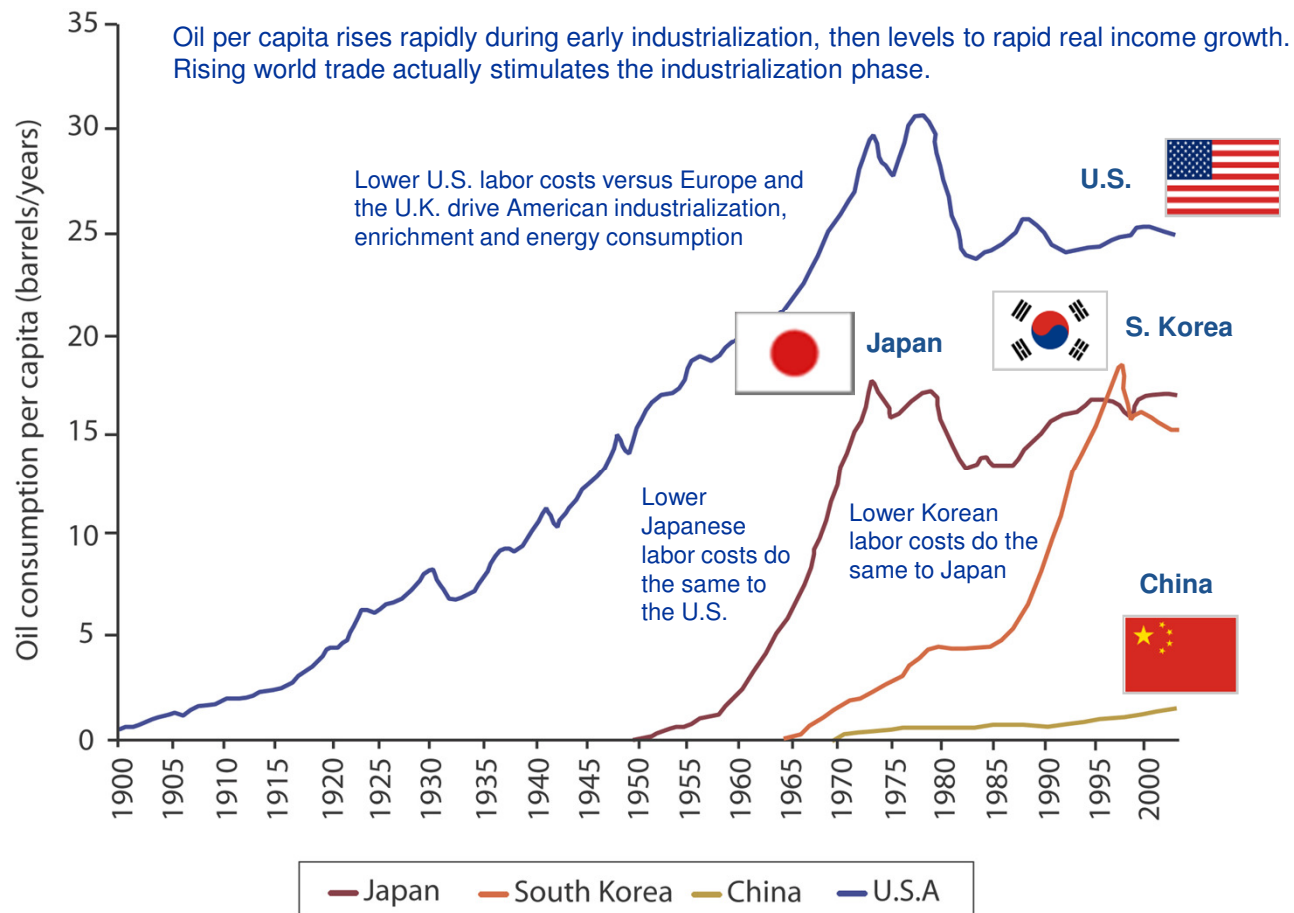


Sources: Vale, the TEX Report and World Bureau of Metal Statistics

Natural Resources Theme

Growth factors - demand

Oil Consumption and Industrialization, 1900 to present



Source: U.S. Global Investors, Dr. Marc Faber

Natural Resources Theme

Growth factors – demand

Oil Consumption Per Capita (Per Year)

	Current	Future?	Additional BOE/d
U.S.A	25.2		
Mexico	7.0	7.0	
China	2.0	7.0	17.9 million
India	0.8	7.0	18.8 million

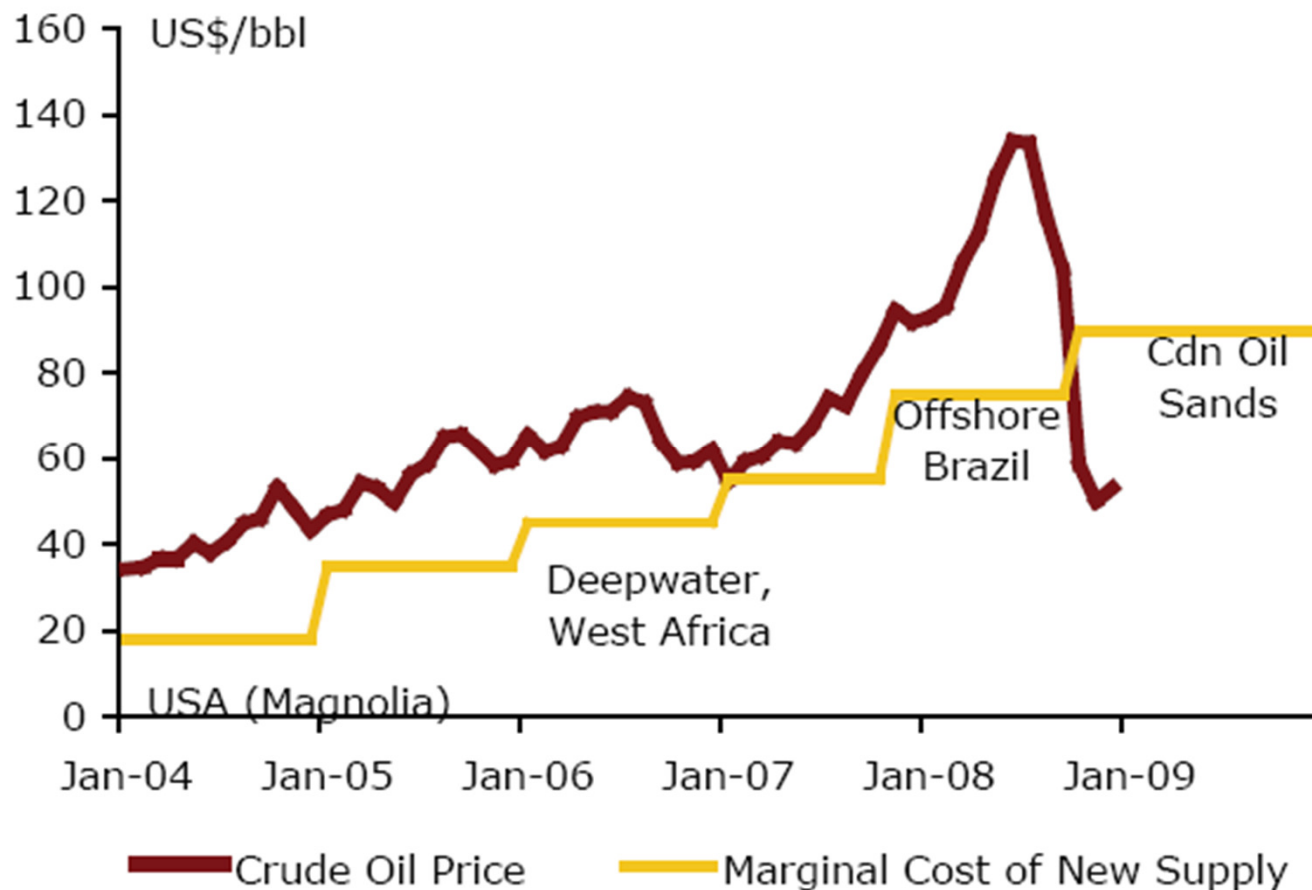
If China and India per capita consumption grows to levels similar to Mexico's current consumption, global demand would increase by over **36 million** barrels per day. You would need the equivalent of **3 more Saudi Arabia's** to meet this demand!!

Source: Sprott Asset Management

Natural Resources Theme

Supply constrained

Cost of New Supply Steadily Rising



Source: CIBC World Markets, Total SA

Summary

- Cyclical recovery is underway / expect some speed bumps
- Financial crisis has left legacies that will mute the expansion
- Sharp U.S. recovery to slow to “half-speed” by 2011
- Tighter monetary and fiscal policy will impact markets, but bonds more so than stocks and not until 2011
- Stocks continue to look attractive over the long term
- Fiscal crisis to be a key theme for next few years and lead to slower growth in the developed world
- Leverage to emerging economies will be important
- Long term implications of credit/economic crisis
 - > Deficit concerns
 - > Change in world economic order

STAR TRIBUNE
S&K



QUESTION: HAVE WE LEARNED NOTHING FROM ROAD RUNNER CARTOONS??

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