



## **Global Securities Market Bulletin**

July 24, 2009

No.12 / 2009

**Courtesy: Global Securities Research**

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### **COMMENTARY: Weighing the risks of a double-dip recession**

**Elvis Picardo, CFA**

Nouriel Roubini, the New York University economist who shot into prominence after predicting the credit crisis, yesterday said that the global economy may fall back into a recession by late 2010 or 2011. According to him, the factors that may propel the world into a double-dip recession are a “perfect storm” of fiscal deficits, rising bond yields, soaring oil prices, weak profits and a stagnant labor market. Roubini said that the weak US job market will contribute to another 13% to 18% drop in house prices. He also noted that while the worst-case assumption in the US stress tests (results of which were released in May) was for unemployment to average 10.3% next year, the reality is likely to be worse as the jobless rate is likely to peak around 11%.

Roubini’s call seems contrarian, given that recent data point to a global economy that is emerging from recession. Earlier this month, the IMF forecast in its World Economic Outlook Update that the global economy will rebound to a growth rate of 2.5% next year, after contracting 1.4% this year. The Bank of Canada yesterday said in its quarterly Monetary Policy Report that it expects Canadian economic growth to turn positive in the current quarter. It projects real GDP to decline 2.3% this year, and to grow 3.0% in 2010 and 3.5% in 2011. The US index of leading economic indicators released earlier this week also shows that the recession there may already be over. The index rose 0.7% in June, the third consecutive monthly gain.

If the robust growth projections that equity markets currently seem to be factoring in are met, it would represent a stunning turnaround from the worst global recession in decades. But the broad swathe of financial destruction wrought by the global recession makes us a little reluctant to believe that this will be a classic “V” shaped recovery.

Our view is that while the risks of a double-dip recession may appear remote at this point, there is a distinct possibility that global growth may be more muted than current official forecasts over the next couple of years. We recommend that investment portfolios be positioned to account for this possibility.

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### **TSX groups performance YTD shows increased appetite for risk**

The Table below, which ranks TSX groups by their year-to-date performance, demonstrates investors’ increased appetite for risk in recent months, in our opinion. The upper half of the Table is made up almost wholly of the higher-beta groups (except for HealthCare) such as IT, Financials, Energy and Materials, while the defensive groups such as Telecom Services, Utilities and Consumer Staples languish at the bottom. Since their recent under-performance has resulted in attractive valuations and above-average dividend yields, we continue to be positive on the Utilities and Telecom sectors (as previously noted in our Quarterly Update of July 10), while remaining neutral on the IT and Financial sectors.

<b>TSX Group</b>	<b>YTD Performance</b>
Information Tech.	58.0%
Financials	31.6%
Energy	20.3%
Materials	16.1%
Health Care	10.4%
Industrials	4.4%
Consumer Discretionary	0.9%
Consumer Staples	-2.0%
Utilities	-2.1%
Telecom Services	-8.5%
<b>TSX</b>	<b>19.2%</b>

Source: Bloomberg

#### Market Snapshot at 12:15 am

<b>S&amp;P TSX</b>	10694.05	+18.37	<b>Commodities</b>			<b>Yields (%)</b>	<b>Can.</b>	<b>US</b>
<b>TSX Venture</b>	1140.37	+2.58	Canadian \$	92.27	+0.47	90 Day T-Bill	0.15	0.18
<b>DJIA</b>	9064.68	-4.61	Gold (Spot)	951.60	+2.45	2-Year Bond	1.32	1.01
<b>S&amp;P 500</b>	976.12	-0.17	Oil (WTI-Aug.)	67.86	+0.70	10-Yr. Bond	3.55	3.67
<b>NASDAQ</b>	1959.38	-14.22	CRB Index	251.91	+0.64	30-Yr. Bond	4.06	4.56

#### Thought for the Day

“Happiness is nothing more than good health and a bad memory.” – Albert Schweitzer

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