

# Monthly investment commentary

December 2010

## NOVEMBER HIGHLIGHTS

- Capital markets responded with volatility to renewed global concerns:
  - European debt problems emerged once again, this time with Ireland taking centre stage.
  - Worries that China's tightening monetary policy will go too far, too fast resurfaced.
  - Renewed hostility between North and South Korea created geopolitical concern and upset global markets.
- Gold prices rose to \$1385/oz (USD) at November 30<sup>th</sup> and the U.S. dollar gained strength (particularly versus the Euro) after finding favour with jittery investors.
- A more positive tone took hold for the U.S. economy as employment and consumer spending data improved, helping to maintain the healthy year-to-date gains of North American equity markets.
- General Motors returned to the stock market in the largest Initial Public Offering (IPO) in U.S. history.

## A GUST OF MARKET VOLATILITY

Another cold gust of market volatility hit the markets in November. Renewed anxiety around European sovereign debt problems (now with Ireland as the prime trouble-maker), Chinese economic policy directions and hostilities between North and South Korea caused investors to seek safe-havens one day (USD, gold, government bonds), only to turn around and seek riskier assets (equities, corporate bonds, cyclical commodities) the next day as focus turned to a spate of positive economic news out of the U.S.. The net result for the month of November: many major stock markets found themselves flat or slightly in the red (see Table 1).

The Canadian bond market had a modest give-back in returns in November, though year-to-date results remain strong. It would appear that economic factors (i.e. a slow, but positive outlook for economic growth in Canada and the U.S.) outweighed the global concerns that jostled stock markets this past month, causing a modest decline in demand for bonds.

**Table 1– Summary of major market developments**

Market returns*	November	YTD
S&P/TSX Composite	2.2%	10.3%
S&P500	-0.2%	5.9%
- in C\$	0.6%	2.9%
MSCI EAFE	-1.2%	-2.5%
- in C\$	-4.6%	-5.4%
MSCI Emerging Markets	-1.1%	7.0%
DEX Bond Universe**	-1.1%	6.6%
BBB Corporate Index**	-1.2%	9.1%

\*local currency (unless specified); price only  
 \*\*total return, Canadian bonds  
 Source: Bloomberg, MSCI Barra, NB Financial, PC Bond, RBC Capital Markets

## GETTING BACK ON THE NICE-LIST

In contrast to many global stock markets, the Canadian S&P/TSX was a positive outlier and managed a healthy 2.2% gain in November. At a sector level, results were mixed as many defensive sectors (e.g. Industrials, Consumer Staples, Telecommunications and Financial) ended the month flat or slightly negative, only to be offset by strong results in the resource sectors (see Table 2). The Energy sector was helped by strong oil prices (up to \$84.20/barrel (USD, WTI) at November 30, 2010), while the Materials sector got a boost from strong gold prices. Gold continues to make it on to investors' wish list for its safe-haven qualities – a distinct appeal in times when geopolitical and economic uncertainties are at the forefront.

**Table 2 - Sector level results for the Canadian market**

S&P/TSX sector returns*	November	YTD
S&P/TSX	2.2%	10.3%
Energy	3.5%	2.5%
Materials	4.9%	30.0%
Industrials	-1.1%	10.7%
Consumer discretionary	0.6%	18.6%
Consumer staples	-2.4%	5.6%
Health care	-4.6%	42.6%
Financials	0.3%	4.1%
Information technology	6.7%	-7.3%
Telecom services	0.4%	17.7%
Utilities	2.2%	10.0%

\*price only  
 Source: National Bank

The Information Technology sector (the top performing sector this past month) has a small weight (2.7%) on the Canadian S&P/TSX, but tends to have larger swings because it is driven by very few stocks, the largest and most significant being Canada's Information Technology darling, Research in Motion (RIM) of BlackBerry fame. RIM's stock made it on to the 'nice-list' in November as a result of a positive analyst upgrade, but overall it has been a difficult year for RIM shareholders, as the stock price has come under significant competitor pressure from the likes of Apple and Google. The Information Technology sector is the only Canadian sector in the red on a year-to-date basis.

Speaking of companies getting back on the 'nice-list', we would be remiss if we didn't note General Motors' (GM) spectacular return to the U.S. stock market. Emerging from 'bailout lemon' to 'hot-rod IPO', GM pulled off the biggest IPO in U.S. history in November, raising over \$20 billion and all but coming full circle from blue-chip stock, to bankruptcy and back again. The GM IPO is a vote of confidence for the auto industry's outlook, and a reversal from the negative 'government motors' label that plagued the company since being hit hard by the credit crisis of 2008.

### MOVING IN THE RIGHT DIRECTION

The Canadian economy is expected to experience slow but steady growth into 2011. November continued to give credence to an improving Canadian employment scene, strength in the Canadian housing market without the same excess inventory problems that the U.S. has, and accelerating consumer spending and business investment. While the pace of economic growth might not be as fast as initially hoped, it appears to be both stable and sustainable – two words that investors like to hear!

We are beginning to see signs of strength in the U.S. economy as well. The cause of the 2008-2009 recession (the financial disruption caused by too much American debt) is being addressed. Balance sheet repair is (and will continue to be) a priority at each of the corporate, consumer and government levels. Despite the fact that it will take time, the underlying story is that the U.S. economy is recovering and is gaining momentum...and that's a positive sign for forward-looking capital markets.

### HERE COMES THE NEXT OPPORTUNITY

As we close-out the first decade of the 2000s, investors can look back; shake their heads in amazement, and say, 'man-oh-man, we've been through a lot!' Economic recessions; stock market highs and lows; global credit crisis; real-estate bubbles;

commodity bubbles and more. At any given time, depending on whom you listen to, the next crisis is building right now. In fact, November served as a good example of how capital markets reflect rotating investor fears about market and economic events. Rather than simply wish these market events away ('cause there will always be something else popping up), recognize that with this volatility and market turmoil can come opportunity.

Diversify your portfolio, and participate in the up-side, while avoiding the brunt of the down-side when a given asset-type market bubble goes bust. Keep a long-term focus and give yourself time to make decisions that feel right for you and your goals, while avoiding having to make rash decisions when anxious times hit.

### INTRODUCING GLC ASSET MANAGEMENT GROUP LTD.

With the flip of the calendar into 2011, comes the dawn of a new era for London Capital and two other Great-West Life Canadian investment subsidiaries. Effective January 1, 2011, GWL Investment Management Ltd. (GWLIM), London Capital Management Ltd. and Laketon Investment Management Ltd., will be continued under the umbrella of a new Canadian investment management company called GLC Asset Management Group Ltd. (GLC). GWLIM, London Capital and Laketon will be separate investment management divisions of GLC Asset Management Group, retaining their distinct investment management teams, processes and styles of investment management.

As we embark on this exciting new stage in London Capital's history, we want to thank you for your readership and support over the years, and we look forward to providing you with a new monthly investment commentary provided by GLC Asset Management Group beginning in January 2011.

### A WEALTH OF GOOD CHEER!

From all of us at London Capital, we don't want to miss this opportunity to wish you and yours a wealth of good cheer in 2011, and a safe and happy holiday season!

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