

## Economic Review and Outlook January 2012

Financial markets exhibited increased volatility in 2011. Two and three hundred point swings in the Canadian and U.S. stock markets were not only day to day but often hour to hour. There were significant issues that affected the financial markets. The most significant were:

- Earthquake/tsunami in Japan
- Downgrading of U.S. government bond rating
- European debt crisis

In 2011, the Canadian and International equity markets demonstrated significant one year losses (8.7% Canada, 9.8% International). The U.S. equity market rose 4.2% expressed in Canadian funds.

The Canadian stock market was challenged by losses in the gold sector, oil and gas sector, insurance companies and Research in Motion.

As we enter 2012, the most pressing issue remains the debt crisis in Europe. Until it is resolved, stock markets will continue to be volatile.

On a positive note, a lower jobless rate, increased housing activity in the U.S. and strong corporate profits are hoped to encourage stock market growth for the first half of 2012.

The Bond market is of concern as we go forward. Current yields range from 2.0% (government) to 3.2% (corporate). If long term bond rates increase, the Bond market will generate a rate of return lower than these yields. Should long term bond rates remain unchanged, the yield will result in a rate of return basically equal to the yields. In general, the expectation is that Bond funds will not achieve a rate of return exceeding the rate of inflation.

While the above factors may cause frustration over the short-term for both bond and equity owners, we encourage investors to continue to invest according to their risk profile and stay the course in order to reach their long-term objectives.