

# Canadian Market Outlook

The Canadian equity market struggled in the fourth quarter of 2008, with the S&P/TSX Composite Index declining a total of 22.7% over this period. The index posted a loss of 33.0% over the 12-month period ending December 31, 2008.

The fourth-quarter losses were broadly distributed across the Canadian equity market, as nine of the index's 10 sectors lost ground over this period. The only sector to advance was consumer staples, which gained 3.3% as investors sought safety in a very defensive sector. Financial services, energy, and information technology were the worst performing sectors, falling 29.9%, 27.2%, and 27.2%, respectively, over the fourth quarter.

There was no major sector that rewarded investors in absolute terms over the full year, although the gold sub-sector gained 4.3% in the 12-month period ending December 31, 2008. Relatively speaking, consumer staples, utilities, and telecommunication services were the best performing sectors, declining 6.1%, 20.5%, and 24.8%, respectively, over the year. Information technology, financial services, and consumer discretionary fared the worst in 2008, declining 54.2%, 36.4%, and 35.4%, respectively.

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Overall, there was little place to find shelter in the Canadian equity market in 2008.

As we begin 2009, consensus opinion is that we are experiencing a global recession, and the only debate now is the magnitude and duration of this downturn. It is our view the markets have already discounted the negative economic news and that Canadian equity market lows were set in November of 2008. We believe investors should now focus on the value being offered and the solid fundamentals supporting the Canadian economy.

Consensus estimates for 2009 call for an 11% decrease in earnings, although we strongly believe this estimate will be revised downward as we enter the 2009 earnings season. We believe that putting forth a projected return for the Canadian equity market, when we expect to see weaker consensus estimates, would be folly. Nonetheless, the market is attractively valued on both a price to book and a price to earnings basis. In addition, the S&P/TSX Composite Index has historically rewarded patient investors with exceptional performance after reaching bear market lows. We are confident this cycle will be no different.