



April 26, 2010

## **Topic: The Gathering Storm**

We have taken a page, actually the title, from Winston Churchill's first book chronicling World War II, as the name for this week's Topic.

It is now general consensus worldwide that the global economy will continue to recover over the next few months. In Canada, this view has been reinforced by record annualized growth of over 6% in the first quarter. However, Canada's main export market, the USA, remains mired in high government and consumer debt, high unemployment, and a seemingly inability to address its economic challenges. With an inordinate amount of time focused on health care and financial industry reform, the American administration has had little time to dedicate to measures that will increase economic growth and generate jobs. There are troubling indications that America's inability to tackle its fiscal issues may lead to another economic downturn.

Other countries have their own special set of problems. China's growth has been based on expanding its export markets rather than relying on internal consumption. Its main export market is also the USA, which has reduced its imports as the American dollar depreciates and its consumers rein in their spending patterns.

While attempting to cope with the Greek debt situation, Europe is witnessing a decline in its import purchasing power as the Euro depreciates. Other European countries that may demand similar fiscal bail-outs are lining up, ie., Spain, Portugal, and Ireland. Unemployment rates remain high as corporations, which laid off workers during the financial meltdown, wait to be reassured that a recovery is truly underway.

Within the context of a slowly recovering global economy, if interest rates are raised too early and/or occur too quickly, economic growth may be stifled. In turn, this could cause a downturn in equity markets, something we have been anticipating for some time. The bull market that initiated in March 2009 remains in tact, and has not paused for a breath since a brief and shallow January 2010 retraction.

Clearly, this cannot continue. We believe a 10%-15% pullback would be healthy, to let the global economies catch up to global stock markets.

### **Bob Weir**

Bob Weir, B.Sc., B.Comm., CFA  
Managing Director, Research Services