

Russell market commentary

Fourth quarter 2011

What's new

How's your financial health? Your financial advisor is there to help you answer your investment questions and keep your financial goals on track with proper planning and professional advice. The online Russell Financial Health Index calculator is a great way to quickly and easily assess your financial health against other Canadian investors. Visit www.myfinanciallyhealthyretirement.com for more information.

Equity markets post solid gains to close the year

The macroeconomic concerns that weighed on global equity markets through 2011 – namely, the ongoing European sovereign-debt crisis and the sluggish U.S. economy – continued over the fourth quarter although with a much different result than in previous periods, as equity markets around the globe generally posted positive returns.

Weakness in the Canadian information technology sector was not enough to hold back a positive return from the Canadian equity market, as many investors perceived the country a relative “safe haven” amid continued global macroeconomic uncertainty.

The price of gold fell approximately 10% late in the period, finishing the fourth quarter of 2011 at about US\$1,565 per ounce. Although gold ended the year down from its record high reached earlier in the year, the price of gold was still up from its 2011 starting price, making 2011 the 11th consecutive year of gains for the precious metal. The price of crude oil ended the period at approximately US\$98 per barrel, while natural gas settled at approximately US\$2.9890 after slipping more than 15% in December.*

European sovereign debt weighed on international markets

International equities – as measured by the Russell Developed ex-NA Large Cap Index (C\$) – returned 1.0% over the period.** Volatility in European equity markets continued over the fourth quarter, as new sovereign-debt issues emerged and government and banking officials struggled to find solutions. This resulted in significant market swings during the period. French President Nicolas Sarkozy and German Chancellor Angela Merkel took steps to limit – and potentially solve – the region's ongoing sovereign-debt crisis and appease the growing concerns of investors across the globe.

Emerging markets – as measured by the Russell Emerging Markets Index (C\$) – returned 0.9% over the period. Investors continued to worry about China's economic strength, as even a slowdown in the booming Chinese economy could have a dramatic impact on global trade.

Despite the sluggish U.S. economy, Treasury Bills sold well

The U.S. equity market – as measured by the Russell 3000® Index (C\$) – returned 9.6% over the period, vs. 12% in US\$. Although housing and employment data remained weak relative to their historic norms, the U.S. economic outlook relative to Europe was somewhat more attractive to risk-averse investors.

Despite Standard & Poor's downgrade of U.S. government debt from AAA to AA+ in August 2011, U.S. Treasury Bills were still viewed as secure in light of the events in other global markets. The U.S. Federal Reserve Board maintained its key lending rate in the 0% to 0.25% range, as it had stated earlier in the year that it would not increase rates from this historically low range until 2013 (at the earliest).

*Source: www.eia.gov; U.S. Energy Information Administration, January 12, 2012.

**All Russell index returns are from the Russell Sovereign Pools quarterly report.

INVESTED FOR

75
YEARS

Canadian equities bounce back over the fourth quarter

The Canadian equity market – as measured by the S&P/TSX Composite Index – returned 3.6% over the fourth quarter of 2011, overcoming headwinds from the underperforming information technology and materials sectors. A significant detractor from the performance of the Canadian information technology sector was the drop in the share price of Research In Motion Ltd., as the company continued to face production and other problems. The late-period slide in the price of gold had an impact on the materials sector's relative underperformance over the period.

Canadian bonds continued to appeal to investors

The Canadian bond market – as measured by the DEX Universe Bond Index – returned 2.1% over the fourth quarter of 2011, as investors continued to generally view fixed-income investments as a "safer" alternative to equities.

As the threat of a slowing global economy grew over the period, the Bank of Canada (the BoC) left its overnight lending rate at 1.00% and did not hint at any rate hikes in the near term. Inflation numbers released during the period showed headline inflation, which includes energy costs, was below 3% yet above the BoC's target of 2%.

How to stay focused during volatile times

The fourth quarter's positive returns highlight the importance of creating a robust financial plan and sticking to it through good times and bad. Investors who reacted to the equity market underperformance of previous periods by switching their investments to cash would have missed the opportunities presented during the most recent period.

By working with a trusted financial advisor, you can benefit from unbiased investment and financial-planning advice that can help you stay focused during times of heightened volatility. One way your financial advisor can help you is by ensuring you have an investment portfolio that is adequately diversified to meet your goals, with exposure to equities, fixed income and cash investments, as well as to regions around the world – while also helping to ensure that your portfolio reflects your tolerance for risk.

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