

Monthly investment commentary

APRIL 2007

MARCH HIGHLIGHTS

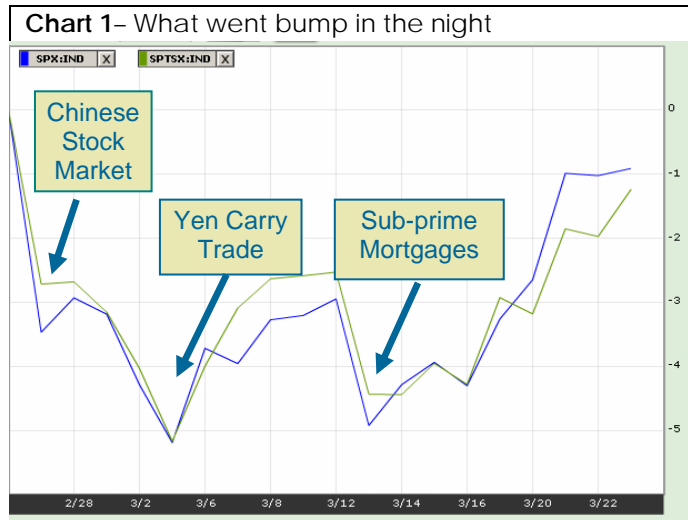
- Despite significant volatility, S&P/TSX recovered to end March in positive territory
- U.S. sub-prime mortgage market faltered and increased investor worries about the health of the U.S. economy
- Crude oil rose to a seven-month high near \$66 amid geopolitical tensions between Iran and Britain
- North American central banks on hold, but U.S. Federal Reserve chairman Bernanke acknowledges “the level of core inflation remains uncomfortably high”
- Continued strong merger and acquisition activity improved the outlook for stock markets, while low unemployment helped support consumer strength

Market-watchers and devoted Leaf fans shared more than a few nervous moments in March. Where every play counts, the stock markets seemed to react to just about anything that went bump in the night.

WHAT WENT ‘BUMP IN THE NIGHT’

In **chart 1**, you see that already in 2007 we have had three significant bumps in the North American markets:

- The sharp nine per cent drop in the Shanghai stock market at the end of February
- Worries of capital flow imbalances as investors begin to unwind Yen Carry Trades.
- Signs of trouble from the U.S. sub-prime mortgage sector.



Source: Bloomberg

Fears of economic slowdown and creeping inflation continue to contribute to stock market jitters. Yet looking at **table 1**, you can see that major world markets managed to regain their footing and end the quarter in positive territory.

Table 1– Summary of major market developments

Market returns	March	YTD
S&P/TSX	0.9%	2.0%
S&P500 (US\$)	1.0%	0.2%
S&P500 (C\$)	-0.5%	-0.9%
NASDAQ	0.2%	0.3%
Russell 2000	0.9%	1.7%
FTSE 100 (U.K.)	2.2%	1.4%
NIKKEI 225 (Japan)	-1.8%	0.4%
EAFE (C\$)	0.8%	2.5%
EAFE (local currency)	1.6%	2.8%
Canadian Bond Market	-0.2%	0.9%
World Bond Market (US\$)	-0.3%	0.5%

*local currency (unless specified); price only

For North American market-watchers who are trying to make sense of these swings, they've found little that is extreme. Despite the sharp one-day sell-off in the Shanghai stock market in February, the Chinese stock market went on to post new all-time highs by the time March was over! Investors have already forgotten that they ever cared about something called a Yen Carry Trade. And while the U.S. sub-prime mortgage industry still faces challenges, investors ended March finding more reasons to be in the markets than out.

True, worries over U.S. economic growth continue to mount as tightening credit and declining home prices create concerns that American consumers will begin to curb their spending habits. However, and fortunately, there is a flip side to this negative sentiment.

THANK GOODNESS FOR THE FLIP SIDE

Continued low unemployment numbers, both in the U.S. and in Canada, have been a pillar upholding consumer spending. Likewise, the continuation of strong merger and acquisition activity has supported economic growth and stock market gains. Both these factors strongly contribute to the notion that we are headed for a soft landing for the U.S. economy.

The strongest returns in the world stock markets came from Europe, with Germany and the Nordic countries posting particularly robust returns. Outside of North America, global markets have responded positively to labour markets and industrial activity that has exceeded expectations.

Looking at **table 2**, the Canadian TSX/S&P index returned 0.9 per cent in March. Helping out the Canadian stock market has been a strong Canadian consumer who isn't weighed down by housing market concerns. The recent rise in oil prices due to heightened geopolitical concerns between Iran and Britain, also helped. Oil prices rose to a seven-month high and boosted returns in the Energy sector in March. The Telecom sector, boosted by merger and acquisition rumours, also performed strongly.

S&P/TSX sector returns	March	YTD
S&P/TSX	0.9%	2.0%
Energy	3.1%	-0.1%
Materials	-1.2%	3.0%
Industrials	0.6%	6.4%
Consumer discretionary	1.5%	4.3%
Consumer staples	-1.2%	-0.7%
Health care	-0.6%	-3.1%
Financials	1.0%	2.5%
Information technology	-7.7%	-0.4%
Telecom services	3.2%	7.0%
Utilities	1.8%	-6.9%

*price only

For fixed-income investors, the bond markets moved more or less in contrast to the equity markets, and finished the month slightly negative. In March, both North American central banks maintained their holding position and kept rates where they were. However, inflation worries do seem to be heightened. As Ben Bernanke, Chairman of the U.S. Federal Reserve, said "the level of core inflation remains uncomfortably high."

GET COMFORTABLE, IT MIGHT BE A BUMPY RIDE

As March's volatility highlights, it isn't taking much to shake up the stock markets these days. The current investment markets seem easily swayed one way or another as they balance good and bad economic and market data. When markets hold a neutral position (just as likely to shift into drive as they are into reverse) investors are well advised to shift their long-term investment portfolios into cruise-control: focus on the long-term destination; ensure your portfolios are well diversified and designed for your personal risk tolerance; and then sit back and enjoy the ride as best you can.