



**STUART INVESTMENT**  
MANAGEMENT LIMITED

- **CANADIAN G20 AFTERGLOW**
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June 2010 continued to reverse the positive trends of the first quarter. The TSX closed down 3.99% while the Dow Jones Industrial Average, the S&P 500 and the NASDAQ lost 3.58%, 5.39% and 6.55% respectively over May, which was the Dow's worst month in 70 years! The Canadian dollar also weakened against the U.S. dollar, closing down 1.2% at \$0.93932.

The last week of June focused on the G8 and G20 Conferences in Huntsville and Toronto. The massive security effort caused the purported cost of the two Conferences to exceed \$1.2 billion. Police officers were imported from all over the country for almost 10 days with all the associated costs of travel, housing and food. Stuart Investment's offices were cordoned off behind an 8 foot fence with police officers on almost permanent patrol. We are pleased to report that our emergency planning worked as anticipated, and we were fully functional for all of our client needs throughout the disruption. There were some relatively good outcomes from the Conferences, in that most of the expenses were spent almost entirely within Canada. Also, it was easier to get around in the downtown traffic as most business district workers took the week off and retreated to their cottages! The excitement was heightened by a 5.5 magnitude earthquake felt downtown before the G20 Conference began.

Canada claimed to have scored a few significant points at the G20 by getting the universal Bank Tax rejected, but France and Britain have elected to proceed with them on their own. Another unrelated triumph for Canada was the news that Russia was about to add the Canadian dollar as an official component of its international reserves for the first time.

Early in the month, Canada became the first of the

G7 countries to raise its interest rates, by a minimal 0.25% as the country benefited from two quarters of relatively robust economic growth. Canada posted an unexpected gain of 24,700 jobs in May and the unemployment rate dropped slightly to 8.1%. As a result of the recent rise in the Canadian dollar, Canada's net foreign debt rose \$40.6 billion to \$193.8 billion, and foreigners invested a further \$51.8 billion in Canada during the first quarter.

**DEBT & DISASTER**

June ended with the death of U.S. Senator Robert Bird (92) who was the longest serving member in the history of the U.S. Congress and an ex-Senate Majority Leader. He also served on the powerful Senate Committee on Appropriations. The significance of his death is that the very slim Democratic Senate majority is now suspect as the Senate requires at least 60 votes to pass the new financial regulatory bill. The failure to meet this target could result in an impasse heading into the November midterm elections.

The U.S. needs to get a number of urgent financial bills through Congress and the Senate to forestall a return to recession. The total U.S. debt will top an incredible \$13.6 TRILLION by the end of this year and is forecasted to rise to \$19.6 trillion, or 102% of GDP by 2015. The current debt level is the equivalent of \$42,000 for every U.S. resident! At the same time, new home sales were down 32.7% to a record low after the expiration of a popular tax credit for home buyers, sending housing starts and new building permit applications tumbling in sympathy. This indicates that the construction industry will not fuel the economic recovery. Wholesale prices dropped for the second consecutive month reflecting declines in energy prices, so the fear of inflation has been averted

for a while, allowing for low interest rates to continue supporting the economic recovery.

hours worked in the private sector actually rose by 0.3% which is usually a precursor before businesses have to start hiring new workers. The U.S. trade deficit rose to \$40.3 billion, its highest level in 16 months, as Europe's debt troubles appear to be affecting orders from U.S. manufacturers. The falling value of the Euro versus the U.S. dollar has also had an influence on these numbers, while making European imports into the U.S. cheaper.

The Securities and Exchange Commission approved new 'circuit breaker' rules to try to avert a repeat of the "flash crash" we discussed last month in the **Market Commentary**. These rules were also complemented by a new NASDAQ single stock 'circuit breaker' rule, called a "Volatility Guard". Time will tell whether these new measures will work any better than the ones they replaced! The ignominy in the fallout in the housing market is the delisting of the two mortgage finance giants, **Fannie Mae** and **Freddie Mac**, from the NYSE reflecting their trading near the \$1.00 minimum for continued listing on this exchange. They are expected to eventually trade on the over-the-counter "Pink Sheets", the final humiliation!

The **BP** oil spill disaster in the Gulf of Mexico continues into its fourth month, and the shares of **BP Plc.**, **Transocean Ltd.**, **Halliburton**, **Anadarko Petroleum Corp.** and **Schlumberger Ltd.** have all dropped dramatically. BP dropped over \$67 billion in value and is now in fear of an opportunistic hostile takeover by another oil major or a sovereign wealth fund. The deep-water offshore drilling moratorium imposed by President Obama was overturned by a U.S. federal court judge in Louisiana. **General Motors Corp.** plans to file for a new Initial Public Offering in July. It hopes to raise up to \$20 billion in equity, after which the U.S. government will attempt to sell off part of its equity stake, to recover some of its remaining \$43 billion investment in the company.

### **KOREAN KATANA RATTLING**

The tension on the Korean Peninsula was raised to new highs with the sinking of a South Korean warship supposedly by a North Korean submarine. The U.S. responded by sending part of its fleet to conduct 'exercises' with the South Korean Navy, and the North Koreans responded by moving heavy weapons to their mutual border. This appears to be a

The U.S. nonfarm payrolls expanded very slowly in May with a rise of 431,000 jobs, but most of the new jobs were temporary jobs connected with the U.S. Census. A brighter spot in the report stated that total diversionary tactic to deflect North Korean attention from the rumours of another impending famine.

North of the Peninsula, China approved the IPO on the Shanghai and Hong Kong Stock Exchanges for the **Agricultural Bank of China** which could be the world's biggest IPO at \$23 to \$30 billion. The previous largest IPO was the \$21.9 billion issue for the **Industrial & Commercial Bank of China**. The Chinese government announced that they would allow 'greater currency flexibility' in their pegging of the Yuan to the U.S. dollar. This caused some rejoicing in world markets, but specific details remain undefined. At the same time, the Chinese governments' holdings of U.S. Treasury debt rose another \$5 billion to total approximately \$900.2 billion of their \$3.96 trillion in foreign currency holdings.

Workers in Spain, Greece and Portugal took to the streets in protest against the new austerity measures being introduced all across Europe. The Greek government announced a major sale of state-owned assets such as the railroads, ports, airports, utilities and casinos. The Greek and French governments have proposed raising the official retirement age to 60 for women and 65 for men in Greece, and to 62 in France, with some commentators saying a move to 70 years of age is needed to offset the actuarial problems arising from the longer life spans of most seniors today! Spanish workers went on strike to protest changes in its labour laws to allow employers to hire and fire workers more easily, which have taken away the 'right' to a 'job for life' once an employer hires a person, as well as cut the levels of severance pay. Spain currently has a 20% unemployment rate, the highest in the Eurozone.

The European Central Bank kept its interest rates at a record low of 1% for 10 consecutive months, while the Bank of England kept its interest rates at 0.5% for the 15<sup>th</sup> month. Inflation in the Eurozone is forecast to rise 0.7% to 1.3% this year while the UK inflation rate is already 3.7%, well above the official target of 2%. In Hungary, its government bonds and the Forint sunk to a 12 month low after a government official unwisely said that speculation of a default "isn't an exaggeration"! Hungary was the first EU nation to receive an international bailout and has \$26.9 billion in debt coming due this year.

Finally, the Statue of Liberty is celebrating its 125<sup>th</sup> year in the U.S.A. after being built in and donated by France, and the Chicago Blackhawks ended a 49 year Stanley Cup drought with a 4-3 overtime win over the Philadelphia Flyers.