



## STUART INVESTMENT MANAGEMENT LIMITED

- **ALAS...**
- **THE MARKETS**
- **POLITICAL STABILITY IN CANADA(??)...**

### VOLUME 21, NUMBER 6

#### **JAMES EDWARD DOUGLAS STUART** **June 20, 1920 to May 16, 2011**

As most of our clients and friends have already heard, Jim Stuart passed away peacefully on the evening of May 16<sup>th</sup>, 2011 surrounded by his family, after a very brief stay in Toronto General Hospital. He was one month short of reaching his 91<sup>st</sup> birthday and had been in the office as a full and valued member of the Stuart Investment Management team up until four days before his passing. He had a distinguished service record with the Canadian Navy in WWII returning to the investment business after the war and was a source of inspiration to all who met him.

We will truly miss him and our condolences go out once again to his widow Lynn, and to his extended family of children, grandchildren and great grandchildren! We will continue the tradition of excellence that he established at Stuart Investment Management Limited.

#### **THE MARKETS**

May was the turnaround month, with all markets declining across the board, as we move into the normal summer doldrums. The Dow Jones Industrial Index, the S&P 500 and the NASDAQ all lost ground, down 1.88%, 1.35% and 1.33% respectively. The Toronto Stock Exchange declined slightly less at 1.02%. The Canadian Dollar also reversed its previous strong trend and backed off to US\$1.0324 from US\$1.0566 at April 30<sup>th</sup>, 2011.

#### **POLITICAL STABILITY IN CANADA(??)**

The Canadian election early in May returned a Conservative majority government for the first time since the Mulroney years, and effectively wiped out the Bloc Québécois. It was also the worst defeat in the history of the Liberal Party.

Mr. Harper rapidly consolidated his position with a cabinet shuffle and reintroduced essentially the same Budget that led to the election which was passed into law this time round.

The new Canadian Government inherits a strengthening economy with Canada's First Quarter GDP growing at an annualized 3.9%, the fastest pace in a year, even though government and consumer spending stalled. This growth rate compares with only 1.8% for the USA, Canada's largest trading partner! The Canadian trade surplus bounced higher in March in spite of the stronger Canadian Dollar, with a surplus of \$627 million, up from \$356 million in February, as Canadian exports grew 14.2% annualized over the past two quarters. The Business Confidence Index fell slightly, but over two thirds of companies reported plans to increase capital spending over the next six months, which falls in line with Bank of Canada Governor Carney's calling for more investment spending to boost Canadian productivity.

The **Canada Pension Plan Investment Board** is making a couple of major investments in shopping malls in New England and Germany, investing \$350 million for 36.9% of 13 regional malls in New England and €270 million for 50% of a super-regional shopping and leisure centre in Oberhausen, Germany. The **Maple Group Acquisition Corp.**, a consortium of banks, investment dealers and pension funds, made a \$3.6 billion counter bid for control of the Toronto and Montreal Stock Exchanges, **TMX Group**, temporarily thwarting a \$3 billion friendly bid from the **London Stock Exchange**. The TMX Group rejected the bid and the Maple Group took its offer directly to the shareholders of TMX Group. The outcome is still undecided at the time of writing. Another SIML favourite, **Suncor Energy Inc.** reported a 32% increase in Q1 earnings and hiked its dividend 11.1% to \$0.10 per quarter or \$0.40 per annum.

In late May and early June, we at SIML are very wary of the market over the summer months with the increasing danger of a sovereign default by Greece and/or Portugal, or Ireland. In response we have lowered equity exposure Britain's Prince William and his new wife, Kate Middleton, Duchess of Cambridge, will have their first official tour together when they visit Canada on July 30<sup>th</sup> for 9 days.

### AMERICAN EXCITEMENT

The major excitement for the month was the purported killing of Osama Bin Laden in an attack by a US Navy SEAL team in Abbottabad, Pakistan. The facts surrounding this event raise more questions than answers, as his body was mysteriously spirited almost 1,350 km to a US warship in the Arabian Sea and immediately buried at sea, so no evidence as to the identity of the body could be independently verified.

As the USA hit its debt limit ceiling, Treasury Secretary, Tim Geithner told Congress he would start tapping into Federal pension funds to free up borrowing capacity. The Treasury has told Congress it needs a \$2 trillion increase in the US debt cap from its current \$14.3 trillion to avoid default after August 2<sup>nd</sup>, 2011. Republicans are refusing to increase the debt cap without significant decreases in Federal spending to reduce the deficit. It promises to be a tense summer with posturing on both sides before they settle on the best of a bad bunch of alternatives! In the interim, the US trade deficit hit a nine month high in March, with imports from Canada hitting their highest levels since September 2008! While commodity prices dropped since 2008 with oil falling below \$100 per barrel, the US inflation rate was also the highest since then at 3.2%.

The **U.S. Postal Service** reported a loss of \$2.2 billion for the First Quarter alone, and proposes cutting service to encourage people to use it more! **General Motors Co.** bounced back from its near-death experience with a 25% jump in US sales, (no doubt helped by the Japanese automakers' supply problems in the aftermath of the earthquake and the tsunami) which resulted in a tripling of net income for the First Quarter. The company, emboldened by its success has repaid a large part of the emergency bailout loans given to it by the US and Canadian Governments, and will invest a further \$2 billion in 17 US plants, securing 4,000 jobs. **Microsoft Corp.** announced it will buy **Skype Global** for \$8.5 billion to expand its portfolio of real-time communication products and services. The **NASDAQ** and the **IntercontinentalExchange's** \$11.3 billion hostile joint bid for the **New York Stock Exchange Euronext** was dropped on antitrust concerns, and **Cisco Systems Inc.** braced for a record layoff of up to 4,000 people in a cost cutting exercise.

and have put cash into 10-year Government of Canada bonds until the way ahead becomes much clearer.

### THE SCANDALOUS WORLD

An accusation of sexual assault on a New York hotel chambermaid by Dominique Strauss-Kahn resulted in a stay in New York's Rikers Island prison for him and his rapid ejection from his post as Managing Director of the International Monetary Fund, decisively removing him as a contender to replace France's President Sarkozy. It appears that his replacement at the IMF will be French Finance Minister, Christine Lagarde.

World food prices rose to near record highs as inflation rose globally, and cool and wet conditions in the North American grain basket areas and in Australia will result in further shortages of corn, soybeans and wheat. Several countries raised interest rates to attempt to contain inflation. Japan slumped back into recession as the earthquake and tsunami cut exports by 12.5% in April and domestic consumption was also cut, forcing the country to import large amounts of fuel to produce replacement power for its crippled nuclear plants.

China saw its April trade surplus widen sharply again to \$11.4 billion after recording its first quarterly trade deficit of \$7.24 billion in Q1. Consequently, the Yuan hit a record high of 6.4856 Yuan to the US dollar. German exports also surged to their highest levels on record as a growing world economy raised demand for BMW's, Mercedes and other German goods, supported by pricing in relatively low Euros. The Icelandic Government applied to join the Euro Zone, in spite of its massive debt default in 2009, causing the Danish Krone to collapse and generate a surprising trade surplus for the island. The Eurozone membership application process is anticipated to take 5 to 7 years.

In an effort to diversify away from reliance on the US Dollar, the Mexican Central Bank bought almost 100 tonnes of gold worth \$4.6 billion, following the example of China, India and Russia. Greece has been hit by further downgrades of its sovereign debt to 'junk' status, over concerns that a debt restructuring is increasingly likely. Its fellow sick man in Europe and Portugal, agreed to a \$116 billion international bailout involving more lenient terms than those imposed on Greece and Ireland. Meanwhile the Spanish town of Lorca was digging out from the worst earthquake in 50 years, which killed nine and damaged 20,000 buildings.

Finally two historic notes: Her Majesty Queen Elizabeth II celebrated her 85th birthday, and became the second longest serving monarch of England at almost 60 years,

beaten only by her ancestor, Queen Victoria, who reigned for 63 years and 216 days. The Space Shuttle Endeavour landed on June 1<sup>st</sup>, 2011 after its 25<sup>th</sup> and last mission to the International Space Station, leaving only the Shuttle Atlantis to fly its 33<sup>rd</sup> and last mission on July 11<sup>th</sup>.