

## Market and Economic News

North American stock markets retreated around 3% in the last week, as investors worried that China's growth may be stifled and the month of September has arrived (usually the worst performing month for equities). Canadian markets fared slightly better than their US counterparts as they were helped by better than expected quarterly bank earnings results.

Canada's big six banks earned around C\$4.7 billion in their third quarter, which was C\$500 million more than last year. Except for CIBC, all of the other banks beat analysts' earnings estimates. The banks also maintained their dividend payments. In contrast, the US banking system has had 81 bank failures in 2009, mostly involving small banks.

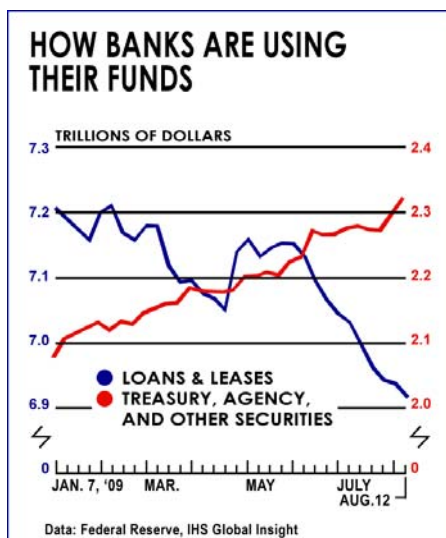
The bad news for the week was that the leading companies in China will potentially issue new shares and dilute the existing shareholders and bank lending may slow making it hard for their economy to grow. The Shanghai Composite is now 23% off its August highs. In other overseas news, last weekend saw the end of over 50 years of Japan being ruled by the Liberal Democrats. The Democratic Party of Japan won a majority, on the promise of stimulating the Japanese economy. This helped support further gains in the yen.

Other news moving the markets included US manufacturing which showed an expansion in August for the first time in 19 months. US pending home sales extended its consecutive monthly increase to six and consumer spending met expectations with the aid of the "cash for clunkers" program. Canada's economy also eked out a 0.1% gain in June, the first expansion in 11 months.



## Credit Lending Remains Anemic

Despite the best efforts of the US Federal Reserve to promote credit lending with a target interest rate near zero, the market is anemic compared to historical standards. Lenders and borrowers are in a virtual standstill. The M1 Money Multiplier recently dipped below 1.0 this year, after hovering between 1.75 and 3.00 for most of the past three decades.



For the past six months, bank holdings of safe securities have grown by \$200 billion, while loans and leases have shrunk by \$295 billion (see chart). On one side, banks are reluctant to lend in a risky economic climate amid record loan delinquencies and charge-offs to customers with dicey credit profiles. In addition, banks must increasingly hold on to the loans they make instead of packaging and selling them as asset-backed securities which raises lending costs due to greater risk. On the other hand, households who are saddled with enormous debt and companies who are feeling too skittish to invest in operations overseas in a global recession are nervous to take on any more debt. One exception is the recent upturn in corporate borrowing in the form of investment grade and high-yield bond issuance although at higher costs to companies and with proceeds to extend existing debt maturities not grow operations.

One benefit of reduced system-wide liquidity is its calming effect on inflation in the face of the government's massive amount of funds flowing into the banking system. The Fed's monetary fuel will remain inconsequential until banks are willing to lend again, and people want to borrow.

# THIS WEEK IN NUMBERS (August 26<sup>h</sup> to September 2<sup>nd</sup>)

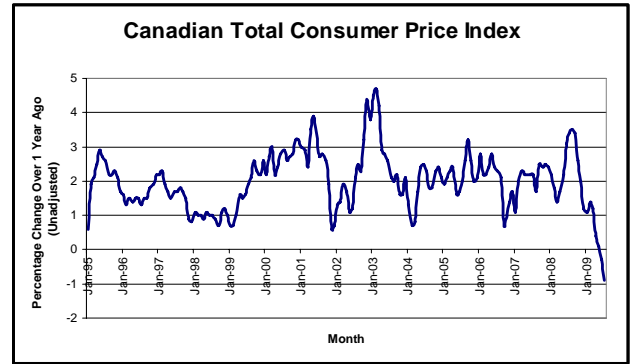
Canadian Markets	Latest Price	Week	Month	YTD	1-Year
S&P/TSX Composite	10,701.32	-2.1%	-0.9%	18.9%	-22.4%
S&P/TSX Capped Cons Discretion	74.85	-1.8%	0.8%	3.1%	-19.6%
S&P/TSX Capped Cons Staples	166.17	-0.5%	1.9%	-0.6%	-0.9%
S&P/TSX Capped Energy	254.48	-4.6%	-3.4%	17.4%	-32.2%
S&P/TSX Capped Financials	166.74	-3.5%	-4.3%	31.3%	-8.7%
S&P/TSX Capped Health Care	32.40	-2.6%	7.1%	10.7%	-18.9%
S&P/TSX Capped Industrials	85.35	-3.1%	2.9%	9.3%	-25.2%
S&P/TSX Capped Materials	300.63	-1.9%	-0.8%	14.7%	-18.5%
S&P/TSX Capped Info Tech	26.39	-0.9%	1.0%	38.3%	-18.7%
S&P/TSX Capped Telecom Serv	75.02	-0.6%	3.1%	-5.0%	-20.2%
S&P/TSX Capped Utilities	170.47	-2.4%	-1.2%	-2.6%	-21.9%

International Markets	Latest Price	Week	Month	YTD	1-Year
All Ordinaries, Australia	4,437	-0.4%	4.4%	21.2%	-14.6%
CAC 40, France	3,573	-2.6%	4.3%	11.0%	-21.3%
DAX, Frankfurt	5,320	-3.7%	-2.0%	10.6%	-18.4%
Dow Jones Industrials	9,281	-2.8%	1.2%	5.7%	-19.4%
FTSE, London	4,818	-1.5%	2.9%	8.6%	-14.3%
Hang Seng, Hong Kong	19,522	-4.6%	-5.1%	35.7%	-7.2%
Nikkei 225, Japan	10,280	-3.4%	-0.7%	16.0%	-18.5%
S&P 500 Index	995	-3.3%	0.7%	10.1%	-22.1%

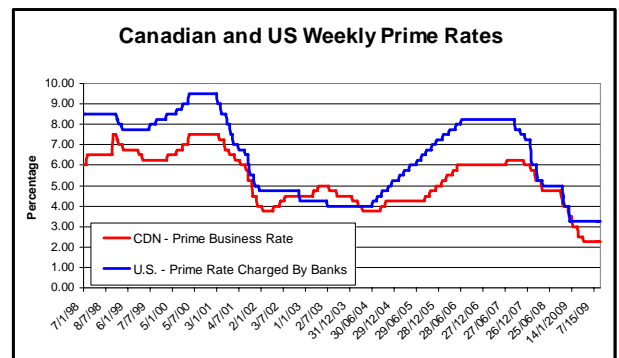
Fixed Income	Latest Price	Week	Month	YTD	1-Year
iShares Cdn Univrs Bond E.T.F.	\$29.76	0.5%	1.3%	2.2%	2.0%
iShares Cdn Long Bond E.T.F.	\$19.75	1.0%	1.9%	3.2%	1.1%
iShares Cdn Shrt Trm Bd E.T.F.	\$29.45	0.3%	0.7%	1.9%	3.0%
CDN 30 yr yield	3.862%	-1.1%	-2.4%	11.8%	-3.4%
US 30 yr yield	4.104%	-2.3%	-4.8%	52.5%	-5.9%

Exchange Rates	Latest Price	Week	Month	YTD	1-Year
Canadian Dollar (\$US)	\$0.905	-0.6%	-2.5%	10.2%	-3.3%
Canadian Dollar (Euro)	\$0.634	-0.8%	-2.6%	7.8%	-1.7%
Canadian Dollar (Yen)	\$83.400	-2.8%	-5.0%	11.9%	-18.0%

Commodities	Latest Price	Week	Month	YTD	1-Year
RJ/CRB Index	249.63	-2.6%	-3.0%	8.8%	-34.1%
Dow Jones UBS Livestock	32.68	-1.4%	-5.7%	-19.5%	-35.3%
Gold	\$978.50	3.5%	2.6%	10.7%	20.7%
Natural Gas	\$2.72	-6.7%	-25.7%	-51.7%	-62.6%
Light Sweet Crude Oil	\$68.05	-4.7%	-2.0%	52.6%	-38.0%
CBOE Volatility Index	28.97	15.8%	11.5%	-27.8%	31.4%



Current CPI (July 2009) → -0.9



Current CDN Prime Business Rate → 2.25%  
Current US Prime Rate Charged by Banks → 3.25%

(Sources: The Globe & Mail, Yahoo Finance and Bank of Canada)



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