

## Market and Economic News

Despite the US unemployment rate breaking through 10% for the first time since 1983, North American equities posted sizable gains in the last week. The US markets advanced approximately 5%, while the S&P/TSX rose over 3%. Policy makers from the Group of 20 nations agreed during a meeting last weekend to maintain stimulus measures to revive the global economy, which caused equity markets to surge by about 2% on Monday. Meanwhile, the price of gold hit new record highs, with the price approaching US\$1,115 per troy ounce.

The US unemployment rate reached 10.2% in October, up from 9.8% in September. US payrolls fell by 190,000, more than the expected decline of 175,000. In Canada, the unemployment rate for October rose to 8.6% from 8.4% the previous month. The Canadian economy shed 43,000 jobs, compared to expected gains of 10,000 jobs. The decline in employment was largely made up of part-time jobs.

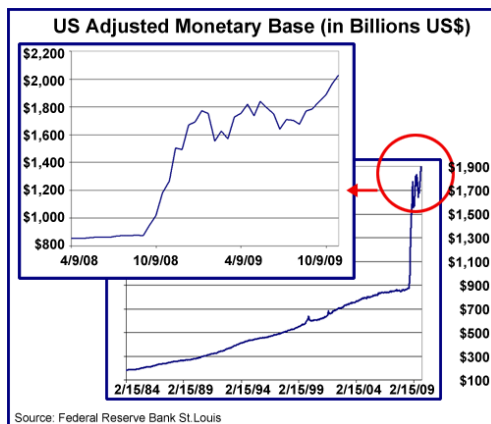


The equity markets were encouraged by signs that the global economic recovery is taking hold. Of 430 S&P 500 companies that have reported their quarterly earnings to date, 83% have exceeded estimates. China's industrial production for October surged by 16.1% from the same month the previous year. Orders for Japanese machinery increased 10.4% from the previous month.

The Canadian housing and construction sectors also provided positive news with building permits for September increasing by 1.6% and housing starts for the month of October up by 5.4% from the previous month.

## When to Shut Off the Monetary Stimulus Faucet?

The US Federal Reserve resuscitated the financial markets and prevented a severe recession from deteriorating further through its commitment of trillions of dollars in stimulus capital. This extraordinary effort has had its desired effect in allowing credit to flow and resume economic growth once more. Now comes the hard part. How and when will Fed officials transition from a massive easing policy to tightening in order to stave off inflation or future asset price bubbles?



The timing boils down to when the Fed thinks the recovery is sustainable. Despite last quarter's 3.5% GDP growth and early signs of improvement in the job market, a tightening policy is likely still a ways off. As seen in this week's chart, today's elevated monetary stimulus dwarves levels over the past 25 years and despite a leveling off in the early part of 2009, the US monetary base has continued to climb since August.

San Francisco Fed President Janet Yellen was recently quoted when asked about the timing of the Fed's tightening policy: "At some point, of course, we will have to tighten policy...until that time comes though, we need to provide the monetary accommodation necessary to spur job creation and prevent inflation from falling further below rates that are consistent with price stability." With US unemployment surpassing 10% last week and not expected to subside shortly, the Fed's tightening policy doesn't appear to be in jeopardy of changing any time soon.

# THIS WEEK IN NUMBERS (November 4<sup>th</sup> to November 11<sup>th</sup>)

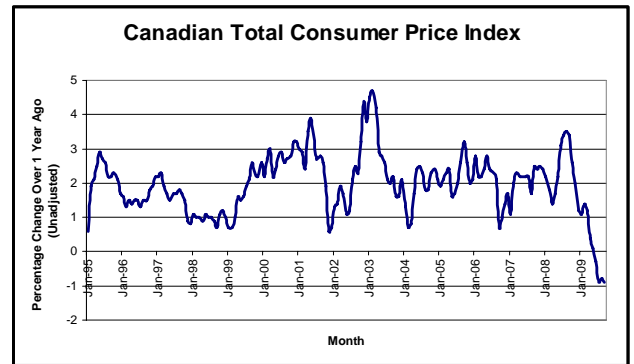
| Canadian Markets               | Latest Price | Week        | Month | YTD   | 1-Year |
|--------------------------------|--------------|-------------|-------|-------|--------|
| S&P/TSX Composite              | 11,439.75    | <b>3.3%</b> | 0.0%  | 27.3% | 21.4%  |
| S&P/TSX Capped Cons Discretion | 78.64        | <b>2.9%</b> | 0.6%  | 7.0%  | 8.3%   |
| S&P/TSX Capped Cons Staples    | 168.37       | <b>0.7%</b> | 0.6%  | 0.3%  | 6.6%   |
| S&P/TSX Capped Energy          | 290.30       | <b>2.5%</b> | -1.3% | 34.1% | 26.3%  |
| S&P/TSX Capped Financials      | 172.88       | <b>3.2%</b> | -1.5% | 36.0% | 13.3%  |
| S&P/TSX Capped Health Care     | 33.84        | <b>0.0%</b> | -6.0% | 21.6% | 16.7%  |
| S&P/TSX Capped Industrials     | 91.36        | <b>3.9%</b> | 0.8%  | 16.5% | 13.1%  |
| S&P/TSX Capped Materials       | 332.91       | <b>5.4%</b> | 3.9%  | 35.0% | 69.6%  |
| S&P/TSX Capped Info Tech       | 27.36        | <b>5.3%</b> | -1.3% | 43.2% | 39.3%  |
| S&P/TSX Capped Telecom Serv    | 76.84        | <b>2.1%</b> | 3.7%  | -2.8% | -12.5% |
| S&P/TSX Capped Utilities       | 180.41       | <b>3.1%</b> | 0.7%  | 3.1%  | 2.4%   |

| International Markets     | Latest Price | Week        | Month | YTD   | 1-Year |
|---------------------------|--------------|-------------|-------|-------|--------|
| All Ordinaries, Australia | 4,766        | <b>4.8%</b> | 0.2%  | 30.2% | 21.5%  |
| CAC 40, France            | 3,814        | <b>3.9%</b> | 0.4%  | 18.5% | 14.3%  |
| DAX, Frankfurt            | 5,668        | <b>4.1%</b> | -2.0% | 17.8% | 19.0%  |
| Dow Jones Industrials     | 10,291       | <b>5.0%</b> | 4.3%  | 17.3% | 18.4%  |
| FTSE, London              | 5,267        | <b>3.1%</b> | 1.1%  | 18.8% | 24.0%  |
| Hang Seng, Hong Kong      | 22,627       | <b>4.7%</b> | 5.2%  | 57.3% | 61.2%  |
| Nikkei 225, Japan         | 9,872        | <b>0.3%</b> | -1.4% | 11.4% | 12.1%  |
| S&P 500                   | 1,099        | <b>5.0%</b> | 2.5%  | 21.6% | 22.2%  |

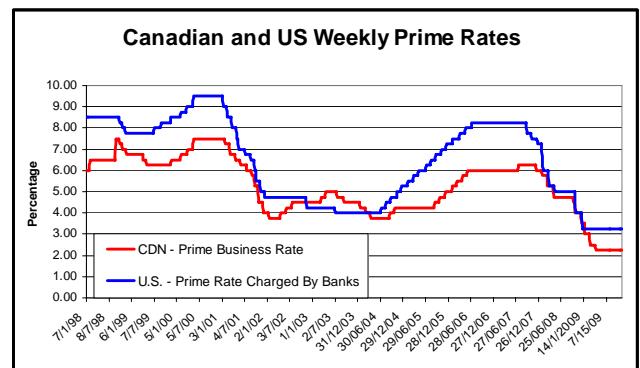
| Fixed Income                   | Latest Price | Week         | Month | YTD   | 1-Year |
|--------------------------------|--------------|--------------|-------|-------|--------|
| iShares Cdn Univrs Bond E.T.F. | \$29.58      | <b>0.0%</b>  | 0.5%  | 1.5%  | 4.9%   |
| iShares Cdn Long Bond E.T.F.   | \$19.55      | <b>0.3%</b>  | 0.2%  | 2.1%  | 8.5%   |
| iShares Cdn Shrt Trm Bd E.T.F. | \$29.36      | <b>0.3%</b>  | 0.9%  | 1.6%  | 2.7%   |
| CDN 30 yr yield                | 4.013%       | <b>0.5%</b>  | 1.1%  | 16.2% | -5.3%  |
| US 30 yr yield                 | 4.420%       | <b>-0.2%</b> | 4.6%  | 64.3% | 4.9%   |

| Exchange Rates         | Latest Price | Week        | Month | YTD   | 1-Year |
|------------------------|--------------|-------------|-------|-------|--------|
| Canadian Dollar (\$US) | \$0.956      | <b>1.7%</b> | -0.1% | 16.5% | 15.3%  |
| Canadian Dollar (Euro) | \$0.638      | <b>0.9%</b> | -2.0% | 8.4%  | -3.6%  |
| Canadian Dollar (Yen)  | \$85.870     | <b>0.8%</b> | -0.1% | 15.2% | 5.8%   |

| Commodities             | Latest Price | Week          | Month | YTD    | 1-Year |
|-------------------------|--------------|---------------|-------|--------|--------|
| RJ/CRB Index            | 273.44       | <b>-1.3%</b>  | 4.1%  | 19.1%  | 8.5%   |
| Dow Jones UBS Livestock | 33.83        | <b>-2.8%</b>  | 1.1%  | -16.6% | -21.1% |
| Gold                    | \$1,114.60   | <b>2.5%</b>   | 6.3%  | 26.0%  | 52.1%  |
| Natural Gas             | \$4.50       | <b>-4.8%</b>  | -5.7% | -20.0% | -32.9% |
| Light Sweet Crude Oil   | \$79.28      | <b>-1.4%</b>  | 10.5% | 77.8%  | 33.6%  |
| CBOE Volatility Index   | 23.04        | <b>-16.9%</b> | -0.3% | -42.4% | -62.5% |



Current CPI (Sept 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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