## June Market Update

As we pass the mid-point of 2010, the global economy continues to recover. Developing markets – notably China and Brazil – lead the recovery with the strongest growth. Here in North America, growth dwindled in the second quarter, but remains positive. Happily, Canadian economic output is now approaching the level it was at before the recession, with job creation continuing to grow. In the U.S., the private sector continues to hire, though their overall turnaround in employment has been relatively more modest. Inflation remains benign, which allows interest rates to stay at historical lows.

Corporate earnings have been a bright spot this year, and many firms have been buying back shares, increasing dividends and strengthening their overall finances. The U.S. Federal Reserve reported that American (non-financial) companies have accumulated a record cash hoard of $1.84 trillion.

The economic news remains mixed, however. The U.S. housing sector is weak, and consumers are wary. In Europe, and particularly Greece, concerns about high government debt have agitated the bond and stock markets. The European Community calmed the waters with a massive rescue package, though there are worries about "contagion" – where other indebted nations find they are no longer able to borrow. Amidst these large deficits, many developed countries are cutting spending and removing stimulus programs that were put in place during the credit crisis, and this could hinder economic recovery.

During the second quarter, stock markets were focused on these negatives, instead of the positives, so that the gains recorded in the first four months of the year were undone in May and June. Most global equity indexes posted double-digit drops in the second quarter, resulting in a decline for the year-to-date. On the bright side, Canada's stock market performed better than most, with a six-month decline for the S&P/TSX Composite Index of only 2.6%.

The recent moves on the U.S. and international stock markets constitute their first correction – that is, a decline of over 10% - since they reached a bottom in March of 2009. Equity markets typically experience such periods of consolidation before resuming their recovery, particularly after a strong advance such as the one we have seen over the past 15 months.

As usual, forecasts for the economy and financial markets diverge. The best way to deal with the uncertainty continues to be what I have always advocated – focus on the long-term and stay true to a sound, diversified investment plan tailored to your individual objectives. Equity mutual funds and balanced funds that invest in a mix of stocks and bonds continue to be an important part of most long-term investment portfolios.

Should you have any questions about your investments, my team and I are here to help. Please feel free to contact me at any time at (xxx-xxxx)