

Canada's Commodity Connection Diminishing

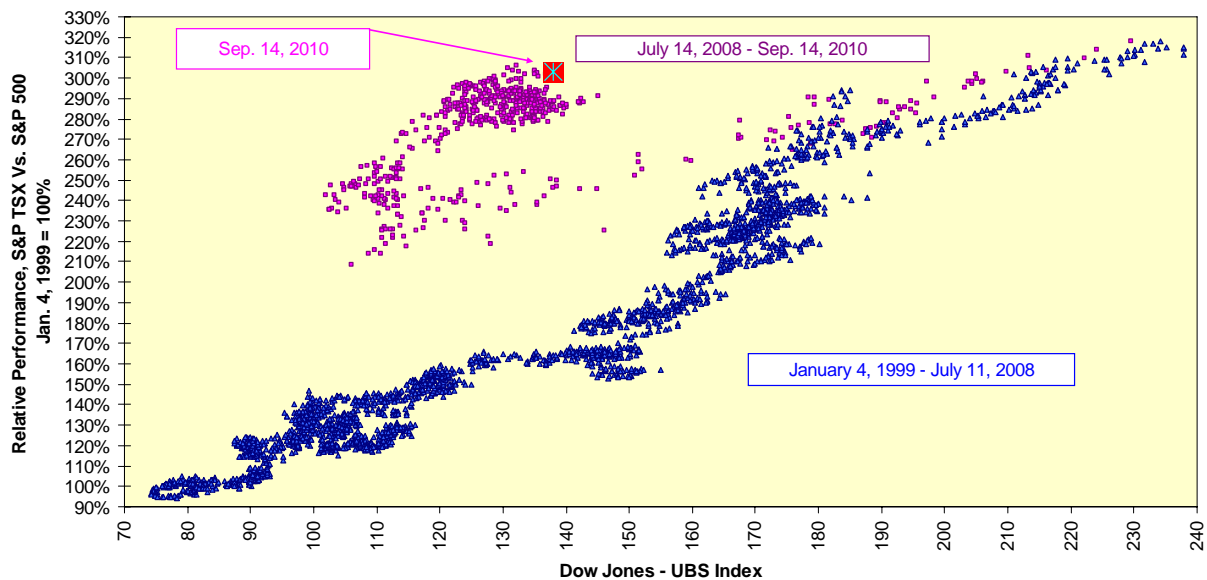
The world changed in many ways, not all of them desirable, during 2008. Prior to the global commodity index peak of July 2008 – and who does not remember that \$4 per gallon gasoline fondly? – it was quite possible and indeed somewhat correct to call the Canadian dollar a “commodity currency.” In reality, the CAD always was driven more by the expected interest rate differential between the U.S. and Canada than by resource prices, but why spoil a good story?

In the same vein, many viewed Canadian equities as being driven by the country's large resource sector. That was always an on-again / off-again tale as stocks such as Nortel Networks and JDSU dominated the Canadian market during the 1990s, and Research In Motion has been seen rattling a few cages in recent years. The Financial sector is the Toronto Stock Exchange's largest, at more than 30%; Energy and Basic Materials follow at 25.5% and 22%, respectively.

Breaking The Link

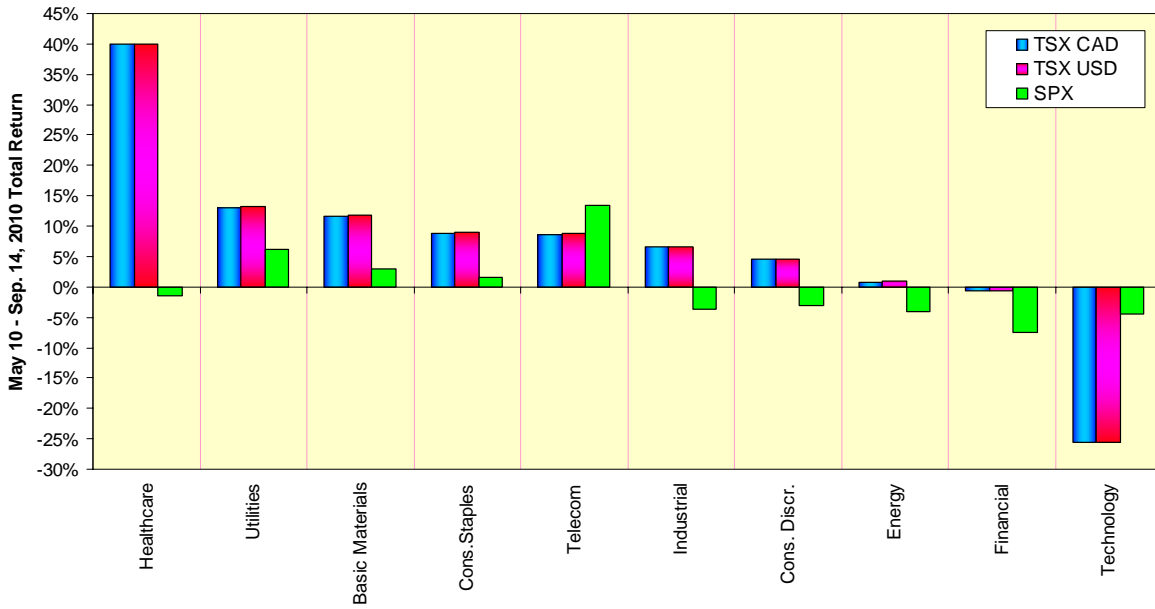
If we map the relative performance of the Toronto market to the S&P 500 in USD terms as a function of the Dow Jones-UBS commodity index and separate the periods into pre- and post-July 2008, the diminished commodity dependence becomes obvious. Prior to 2008, a decline in the broad commodity indices of the like seen over the past two years would have led to substantially lower relative performance on Canada's part. The current readings, highlighted in the violet markers, are almost twice as high as the old relationship would have had them.

Commodity Link For U.S. Investors Diminished After July 2008
U.S. Dollar Terms



If we divide the two markets into the ten economic sectors defined by Standard & Poor's (Motto: Yeah, that looks AAA to me), we see Canada has outperformed the U.S. in eight of the ten sectors since the Eurozone's sovereign credit crisis was defused for the time being in May 2010. Telecommunications (Manitoba Telecom has been taking it on the chin; call your friends in Winnipeg) and Information Technology are the two areas where the U.S. market has outperformed, outperformance being a relative term in the recently bedraggled technology sector.

Comparative Economic Sector Performance



If you look at the Basic Materials and Energy sectors, you would not know the prices of both primary and precious metals have been moving higher or that we have not arrived at some sort of Green Nirvana yet in energy usage. The big gains in Canada have been in the Healthcare sector, with firms such as Biovail, SXC Health Solutions and MDS racking up big gains over the past six months.

Perhaps our friends in the Monty Python troupe will have to reconvene and add another verse to the Lumberjack Song to celebrate the axe-man's prowess in providing healthcare solutions to all. As we noted above, the world changes in many ways, not all of them welcome.