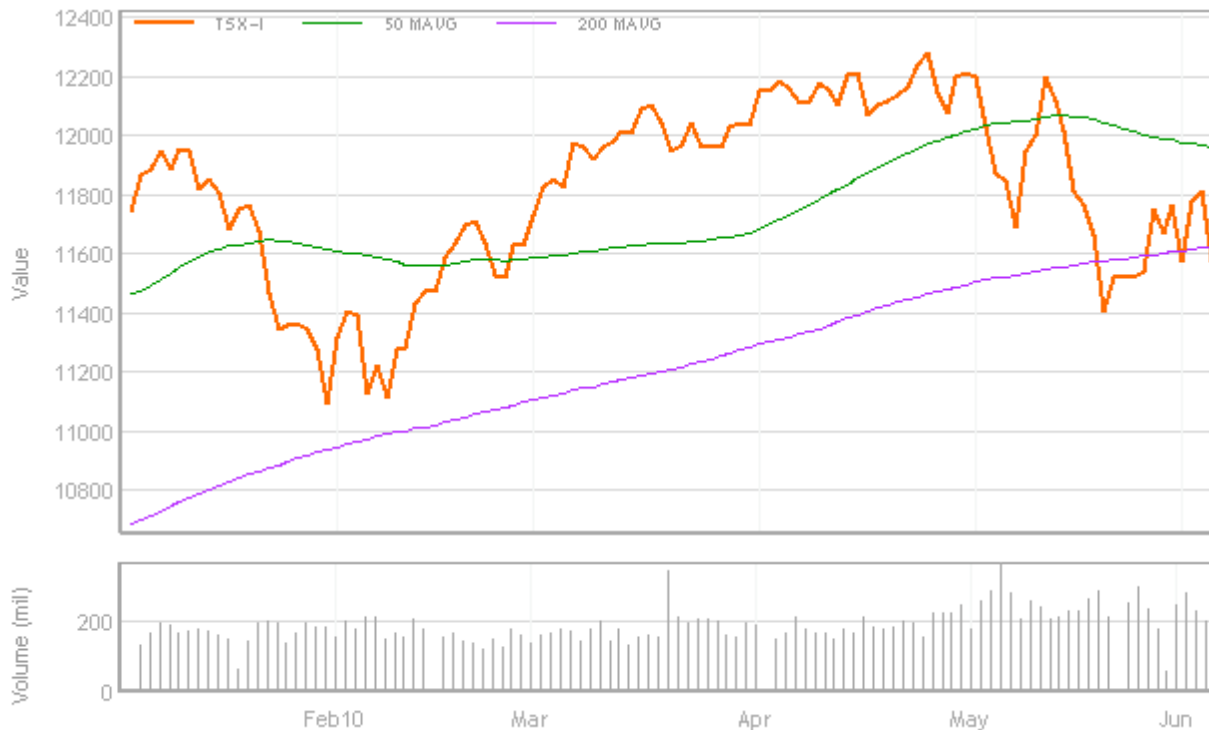


We said it a month ago: “this too shall pass”.

Market technicals: For now the TSX Composite is not straying too far off its 200-day moving average (purple line) though clearly investors have lost enthusiasm for stocks based on the 50-day moving average (green line). Corporate bonds and preferred shares are holding steady (unlike in 2008) indicating there isn't any concern with corporate credit. The Canadian bank index dividend is back to yielding nearly 4%.



Time Period: YTD 1 year

Today's news: (labour market reports both for **Canada** and the **U.S.**). **Canada's** results were impressive with 25,000 new jobs in May on the heels of 100,000 new jobs in April with labour input up 4.6% annualized and the wage bill for the economy up a significant 6.4%. A slowdown in **Canada** is not due any time soon. In the **U.S.** --- and this is why markets sagged today --- non-farm payroll employment rose 431,000 in May, but the bulk of this increase came from the addition of 411,000 temporary workers for Census 2010. Private sector payrolls were up a mere 41,000 in May, the weakest showing in four months. One month does not a year make! Over all full-time employment has been increasing at a 300,000 monthly pace since the start of the year (even after excluding Census employment, full time employment was still up by 214,000 in May). The private sector wage bill rose 0.7% in May, the third robust increase in a row and, despite slower job creation, the wage bill is growing at a 5% annual clip in Q2, the strongest showing since early 2007. This will continue to support consumption. The **U.S.** economic recovery has not been derailed although stock investors seemed to think so and sent the **TSX** down by 2% on Friday (though on Wednesday they thought the opposite and sent markets up 1.5%).

Global Trade: According to the **Dutch Bureau for Economic Policy Analysis** the volume of global trade grew 3.5% in March and this expansion was experienced by most regions of the world, including the **Euro-zone**. Trade flows are recovering at a 20% year/ year rate and while deteriorating credit markets in Europe may have an adverse impact, it won't be enough to derail the trend. Global industrial production in March was only 1.9% below its peak level in 2008.

The BIG picture (courtesy of the National Bank Financial – NBF): **Europe** has failed to harmonize it's social/ economic/ fiscal policies and various economies will continue to under-perform but this will not derail global growth pegged in 2010 at

4%. The real economies of **Europe** and the **U.S.** are not tightly linked (financial exposure is the risk, if there is any substantial risk) and the **U.S.** remains on track for 3.6% GDP growth. **U.S.** employment, consumer spending, manufacturing and productivity continues to expand, though unevenly at times. **NBF** characterizes the **U.S.** economic expansion as "resilient". **Canada** too is experiencing strong job and manufacturing growth (but no improvements in productivity), rising house prices and now, is entering a cycle of rising interest rates.

What about Asia? **Asia** was the first region to emerge from recession and probably will see its growth in industrial production peak in Q2 and will become the first region to enter into a post-fiscal stimulus period resulting in economic growth at a slower pace. Double-dippers and other bears see the withdrawal of massive monetary and fiscal stimulus while de-leveraging (process of trying to reduce debt) remains underway, as likely to trigger deflation and a second correction (if not the end of the world as we know it). This, to be sure, is an uneasy period for investors who'll be waiting (impatiently) for the next cycle to push global industrial production and commodity prices higher. Normally, this pattern is not alarming, but in 2010 it will be given the long shadow of 2008. Given the tightness of supply of certain commodities (including energy), a deceleration in global growth should not radically alter commodity prices.

Investment conclusion for the conservative large cap investor: shun Europe, and continue to primarily focus on North America. Both Canada and the U.S. still have strong forward earnings forecasts but expect disruptions: the road to recovery is full of potholes. At this time corporate dividends remain generous and may even grow while government bonds offer miserly returns.

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