SEC says *up-tick rule may return*. *In unrelated news, stock markets have biggest rally since November.*

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- Re the "**up-tick rule**" discussed last week: the SEC today stated they may propose that the up-tick rule, which bars investors from betting against a stock until it sells at a higher price than the preceding trade, be reinstated within a month. House Financial Services Committee Chairman Barney Frank and Senate Banking Committee Chairman Christopher Dodd today said they support reinstatement. And so do we.

- **Corporate mergers or acquisitions** are usually considered to signal the end of a market cycle or sometimes the beginning of a new one: either way, M&A activities can pave the way for a renewed interest in stocks. Right now a wave of consolidations is underway in global pharmaceuticals: Merck has proposed a US$ 32.6 billion acquisition of Schering-Plough Corp.; in January Pfizer announced a US$68 billion take-over of Wyeth; and Roche is rumoured to be ready to bid as much as US$46 billion for Genentech Inc. Still to find dance partners are: Bristol Myers Squibb, AstraZeneca, Eli Lilly, Sanofi Aventis and Johnson & Johnson. In Canada, expect energy companies and senior gold mining players to lead the way and take an interest in each other and possibly spark a rally.

- **Trade and decoupling**: back in January 2008 (note: *2008*) the **National Bank** (NBF) in one of its weekly economic newsletters debunked the decoupling myth. NBF pointed out that China and India's combined GDP was significantly overstated (by 6.5%) while the US GDP was understated (by 2.3%). On a revised basis, the 2007 US contribution to global GDP was reported as 21.4% versus 15.5% for Chindia underlining the singular importance of the US to overall global economic health. It follows that in a US led global recession, trade between all trading partners will decline and that countries highly dependent on exports for GDP growth --- Canada amongst others --- will experience a downturn. The headlines in March 2009 announcing record changes in trade volumes should not be surprising and serve to confirm the degree to which Canada (and the rest of the global economy) has not changed. Economic recovery in Canada --- as the government well knows --- will be the by-product of an economic turn-around in the US.

- **The recession in China** is on an entirely different scale. The Chinese Premier, Wen Jiabao warned the Chinese parliament recently that China is facing a year of "unprecedented difficulties and challenges" and may experience social unrest. China is in the midst of a severe **unemployment crisis** that has seen more than **20 million people** lose their jobs so far. Mr. Wen did not announce any new spending beyond the US$585 billion economic stimulus package unveiled last fall perhaps choosing to reserve additional funding announcements for later in 2009, if necessary.

- **Total profits of $3.05 billion were reported by Canada's six banks** from November to January, their first fiscal quarter of 2009. By contrast, US banks managed a cumulative loss of US$26 billion. The Royal Bank, which made a big splash by being the first to report an annual profit of over $1 billion in 1994, managed to eke out $1 billion in quarterly profits in the depth of the current recession. Meanwhile a debate rages over whether Canadian banks should, and could, cut their dividends now that yields are absurdly high in comparison with government bonds. On Monday, an analyst at Royal Bank of Canada argued that the banks should consider making the cuts because it would reduce the need to raise capital. Others have argued that the high yields are mostly the result of concerns in other markets and that the banks' solid first-quarter results alleviate capital concerns thanks to strong operating earnings and good Tier 1 capital ratios. Additionally, if Canadian investors refuse to recognize the value in their own financial firms, international investors may be tempted as **Canadian banks have increased their weighting in the FTSE Global Bank Index to 10.8%**, up from a mere 1.9% in 2000.

-**Tuesday's rally**: how big was it and will it last? Yes, the rally could last because stocks are very cheap based on historical comparisons. Then again, equity markets have set new lows because of ongoing concern about the economy and the financial system. These technical concerns significantly reduce the investors' willingness to be forward looking or to tolerate risk, and on that score, it's hard to tell if we are out of the woods. Today's rally barely registers as an up-tick only putting the S&P 500 back to where it was at the end of February (seven whole trading days), and down over 20% for the year. Still, it was the biggest rally since Nov. 24. The Dow Jones industrial average closed at 6,926.49, up 379.44 points or 5.8%. The broader S&P 500 closed at 719.60, up 43.07 points or 6.4%. The other notable point about this rally is that there was no dip toward the end of the day. Financials led all the way, after Citigroup Inc.'s chief executive said in a memo to employees that the bank was profitable in the first two months of the year. The bank's shares surged 38.1% and pulled others with it. Preferred shares showed gains of similar magnitude. In Canada, the S&P/TSX composite index closed at 7,880.41, up 313.47 points or 4.1% – its biggest rally since Nov. 28 with the Big Banks leading the way. The Royal Bank rose 14.4% and Toronto-Dominion Bank rose 11.1% and Manulife Financial Corp. – which tends to exaggerate moves in the broader market – surged 18.3%. Perhaps bond holders will find their positions a little more uncomfortable after today.

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