

Connor, Clark & Lunn

INVESTMENT MANAGEMENT LTD.

## Perspectives on the Capital Markets

Client Conference Call

*November 7, 2008*

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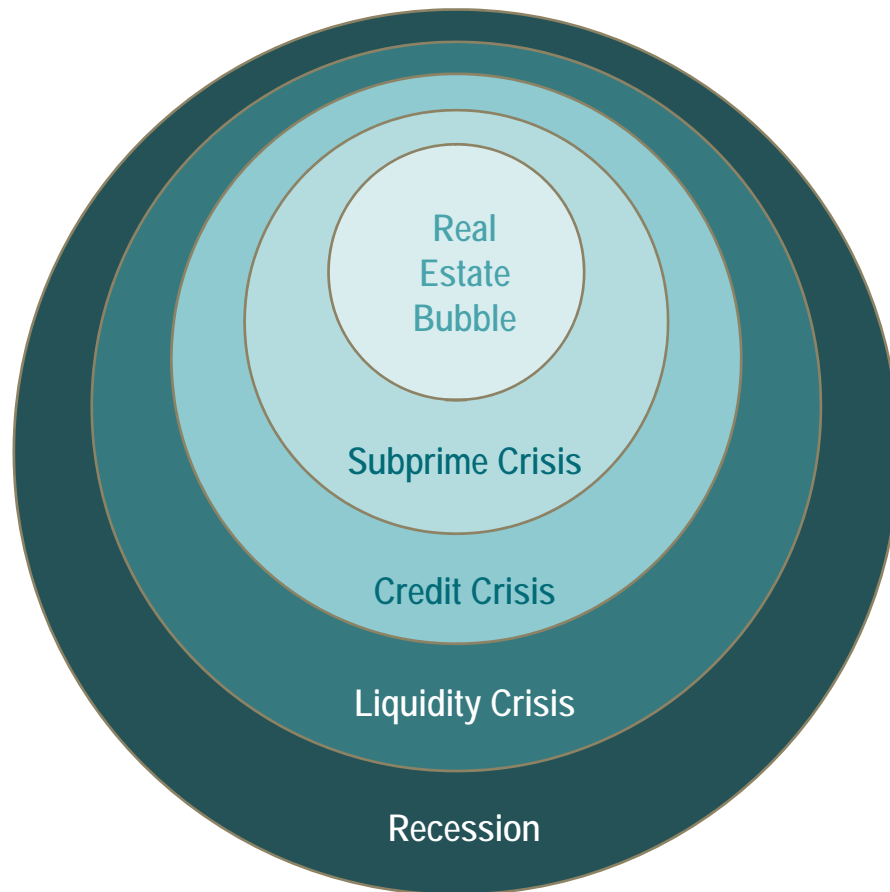
*"We are maybe days away from a complete meltdown of our financial system, with all the implications here at home and globally"* — Ben Bernanke

*"Shocked disbelief"* — Alan Greenspan

*"A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful"* — Warren Buffett



# What Happened to the Markets?



# TED Spread Signals the Severity of the Credit Crisis

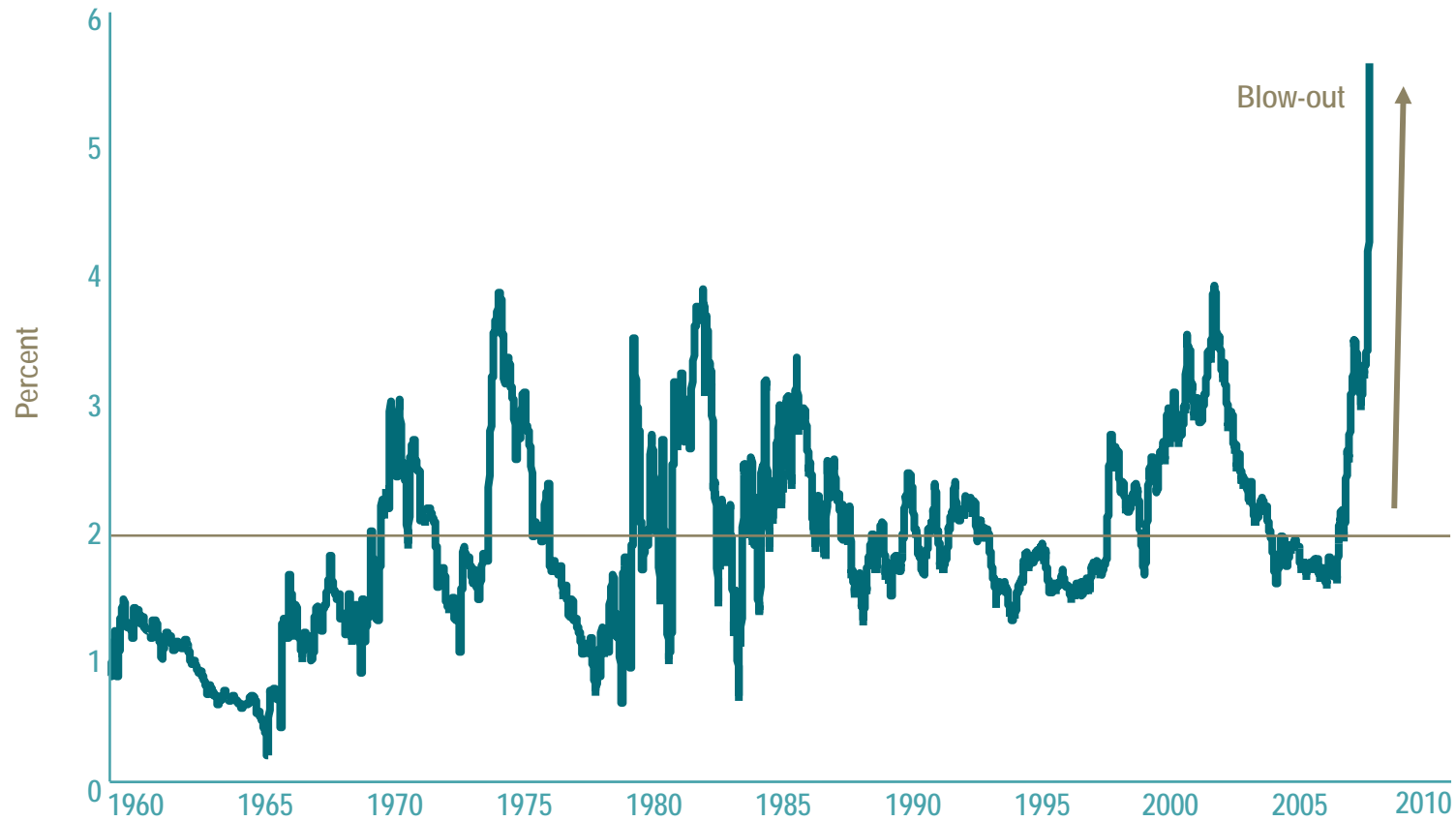


Source: Bloomberg



# Credit Markets Pushed to Extremes

## Baa Corporate Yield minus US 10-Year Yield

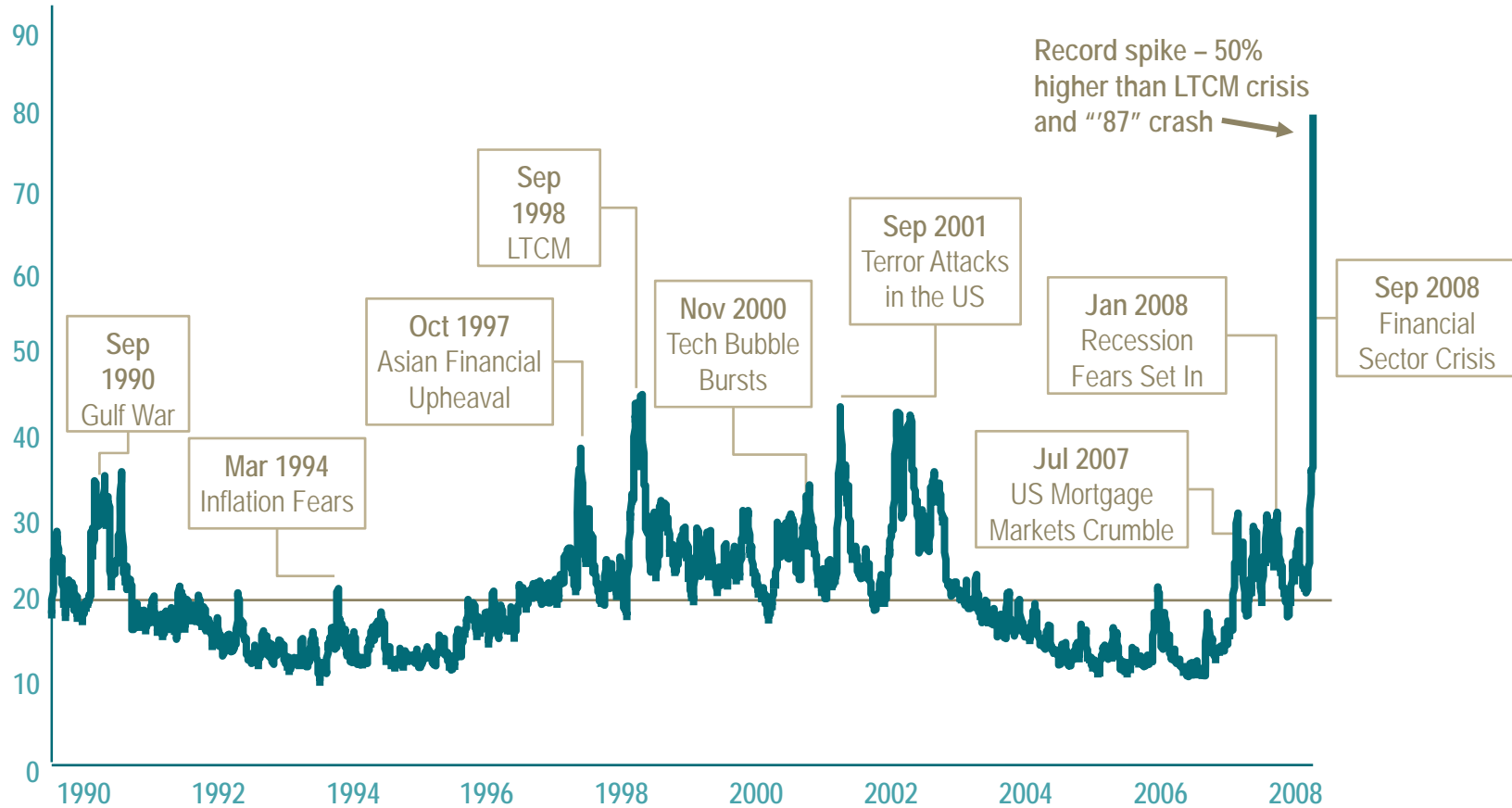


Source: Moody's, Scotia Capital



# Stock Market Volatility Spikes

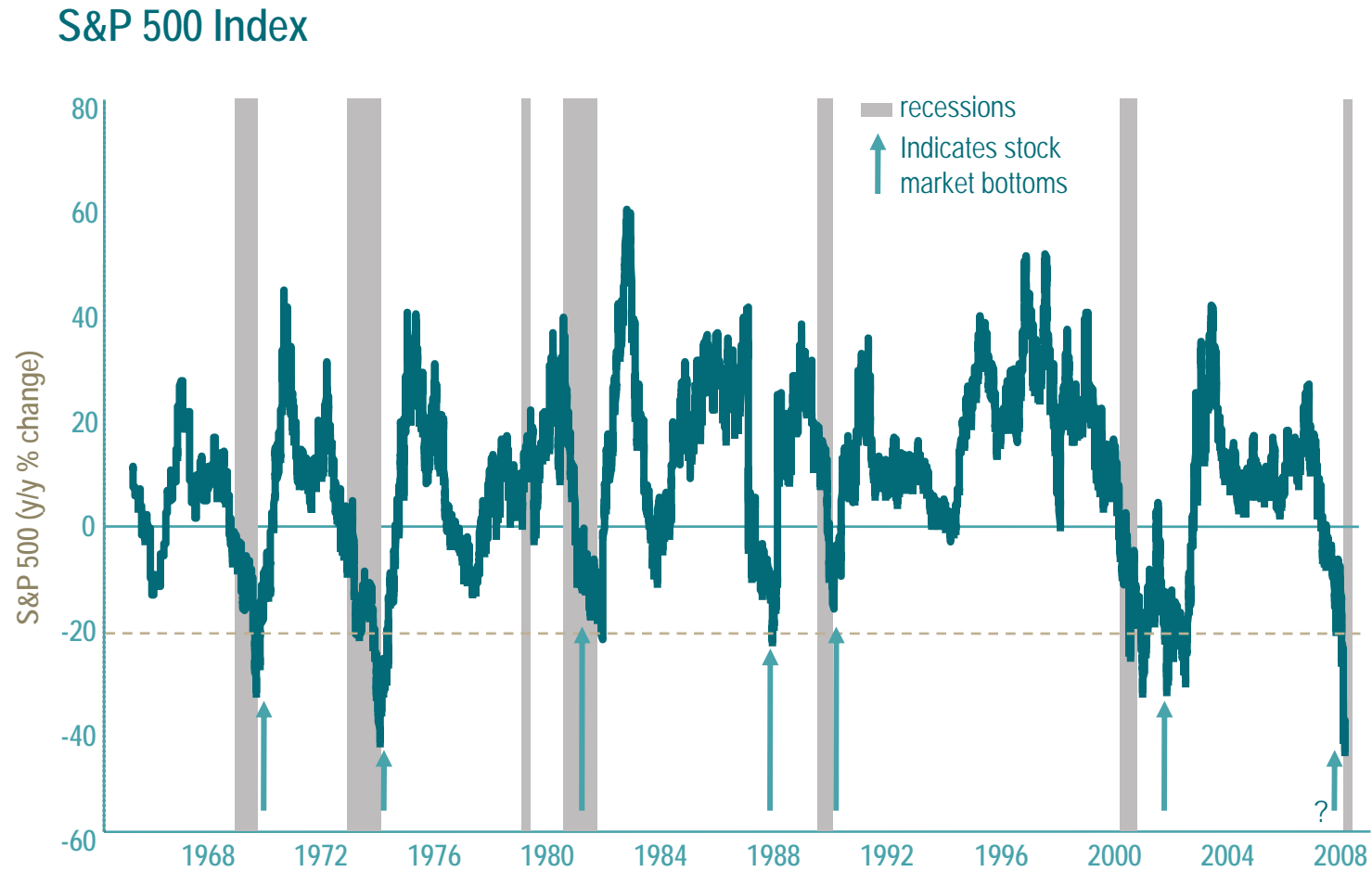
## VIX S&P 500 (Volatility Index)



Source: Thomson Reuters Datastream



# Stock Market Collapses



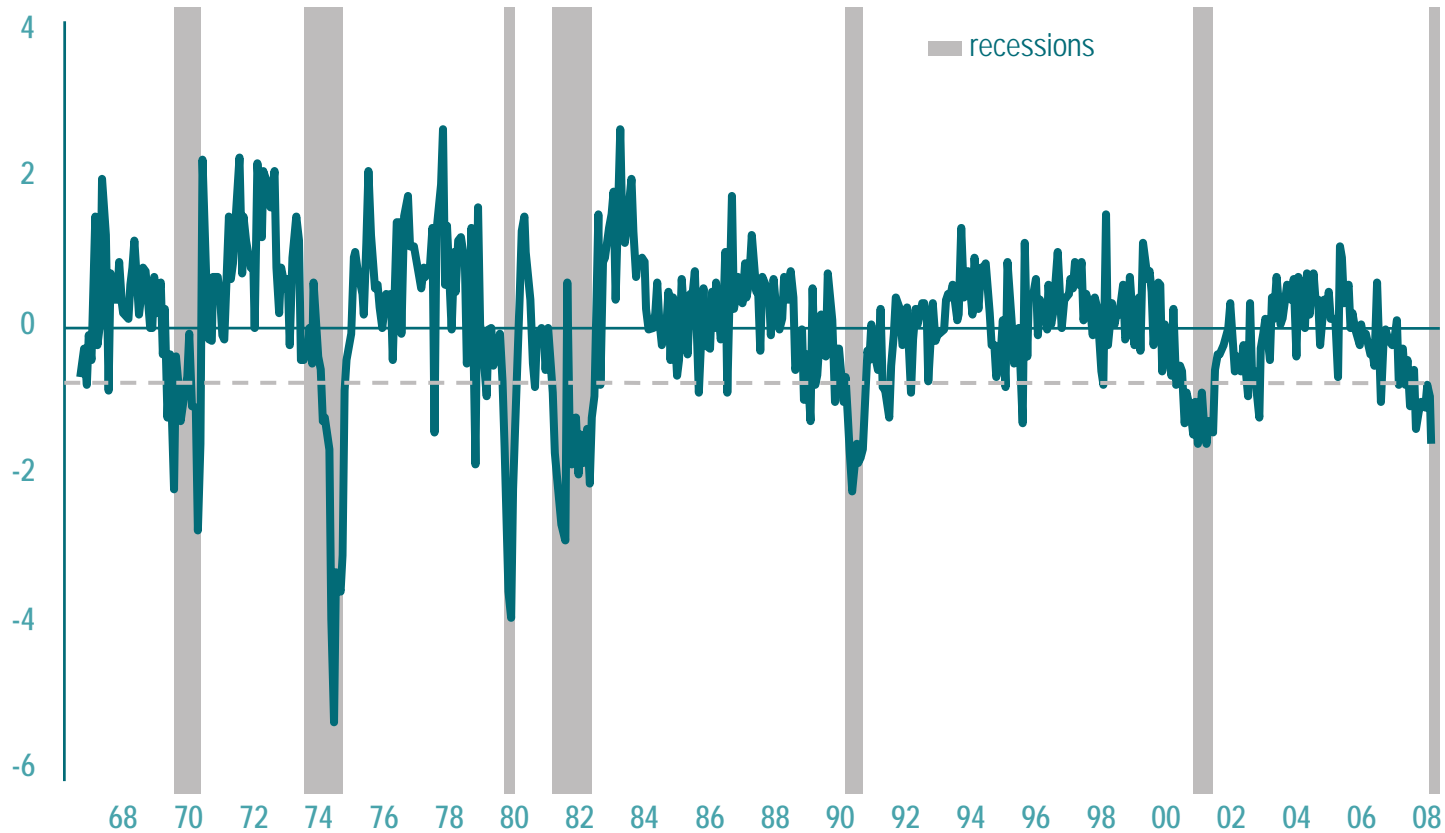
Source: Thomson Reuters Datastream



# US Economy is in Recession

## FRB Chicago National Activity Index (85 economic variables)

3-month moving average



Source: Chicago Fed, Merrill Lynch





# Unprecedented Intervention

Policy Responses Will Help to Stabilize Markets

- Commercial Paper Facility (CPFF)
- Coordinated Rate Cuts
- Fiscal Stimulus (TARP)
- Governments Purchase Assets
- Implicit Guarantee of Inter-bank Loans
- Insuring Deposits
- Massive Liquidity Injections (TAF & PDCF)
- Money Market Facility (MMIFF)
- Partial Nationalization of Financial Institutions
- Recapitalizing Banks
- USD Swap Lines to Emerging Markets



# Market Bottom?

Leading Indicators



- Short-term interest rates/yield curve
- Corporate bond spreads
- Investor sentiment
- Marking of official recession

Lagging Indicators



- Employment
- Consumer spending
- House prices
- Inflation



# Financial Crises are Followed by Lower Government Bond Yields

## US 10-Year Treasury Yield



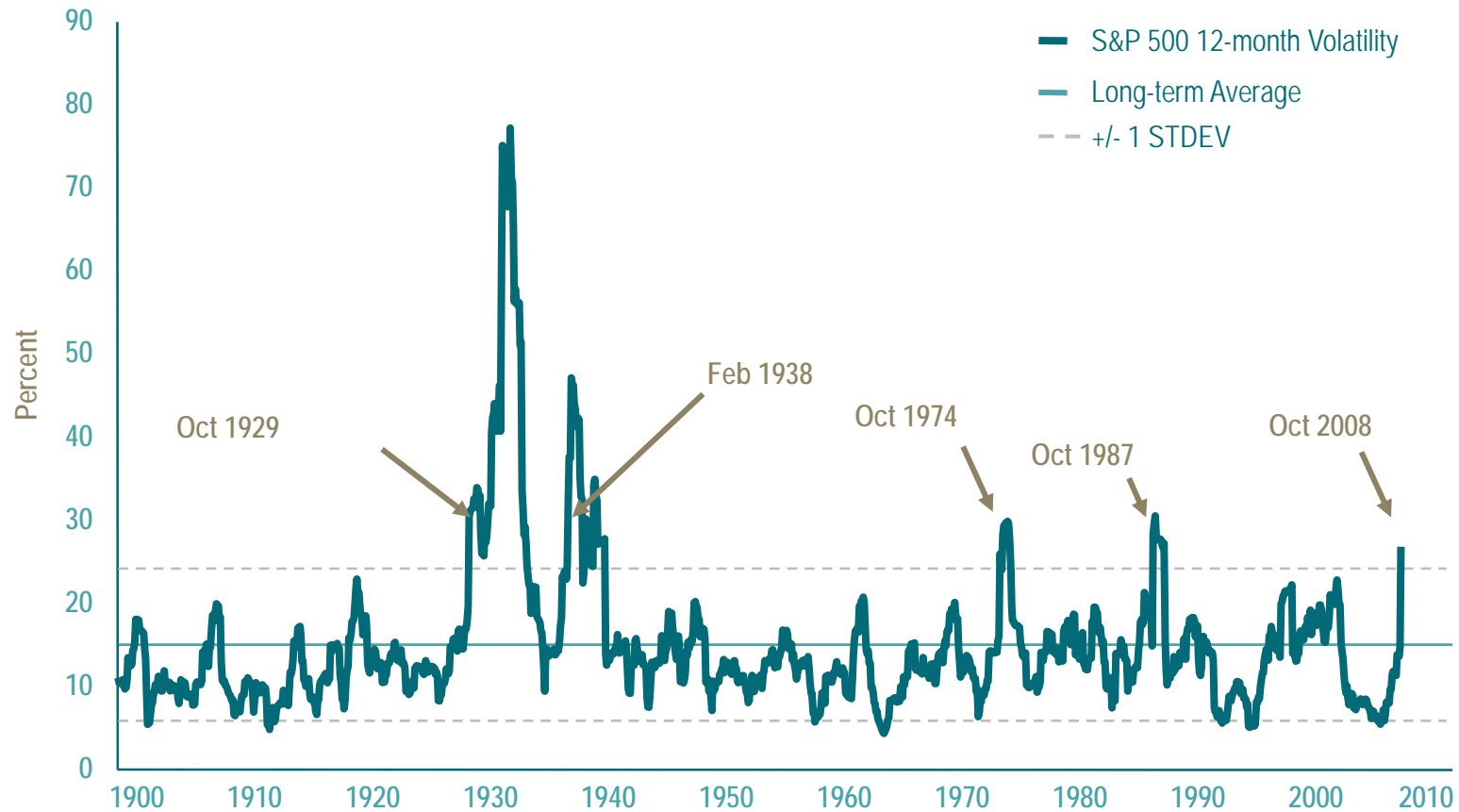
Source: ISI Group



# US and Canadian Corporate Bond Spreads



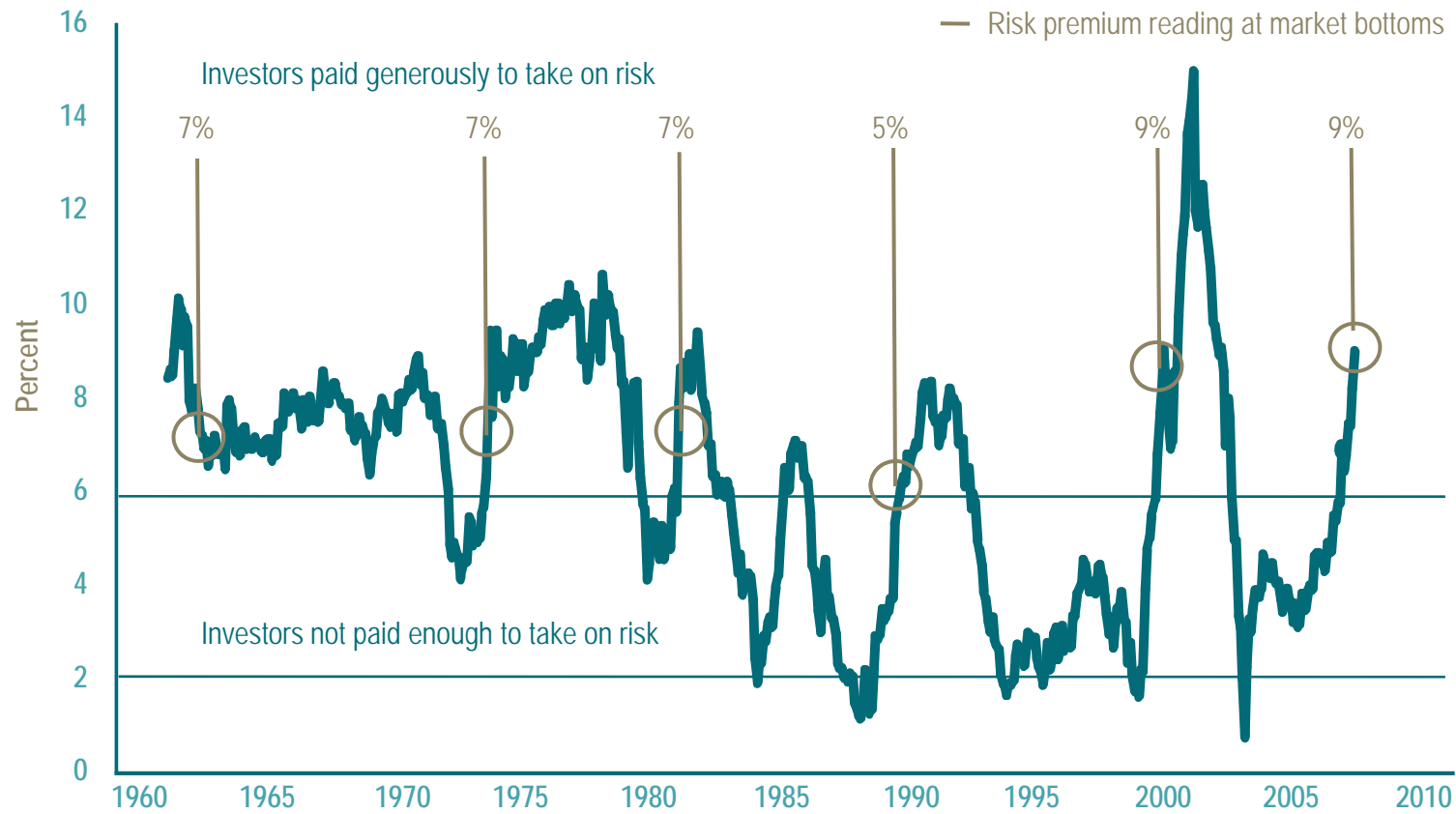
# Markets Find Bottom Following Surge in Volatility



Source: RBC Capital Markets, Global Financial Data Inc.



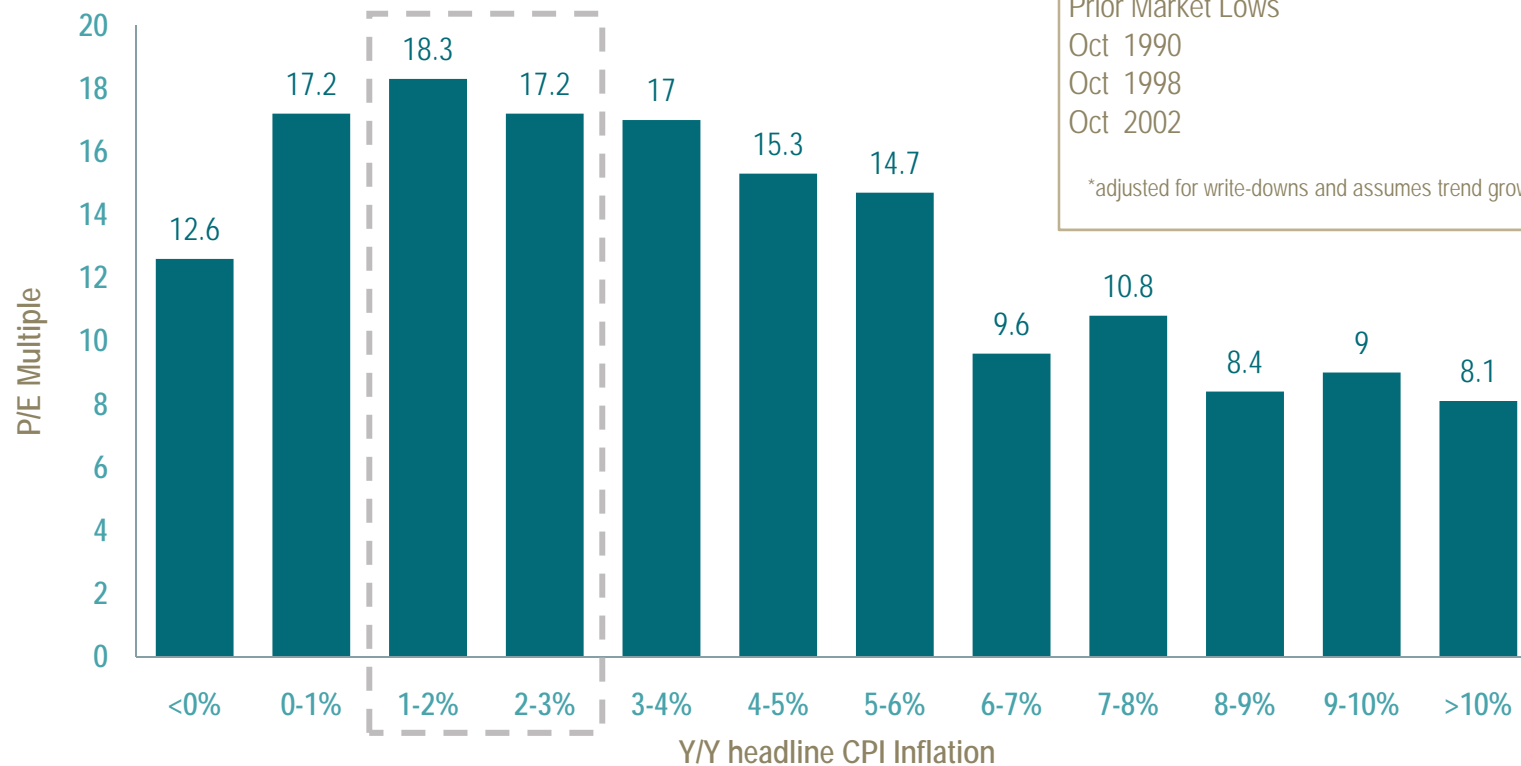
# US Equity Risk Premium



Source: Thomson Reuters Datastream



# Inflation Expectations Set P/Es

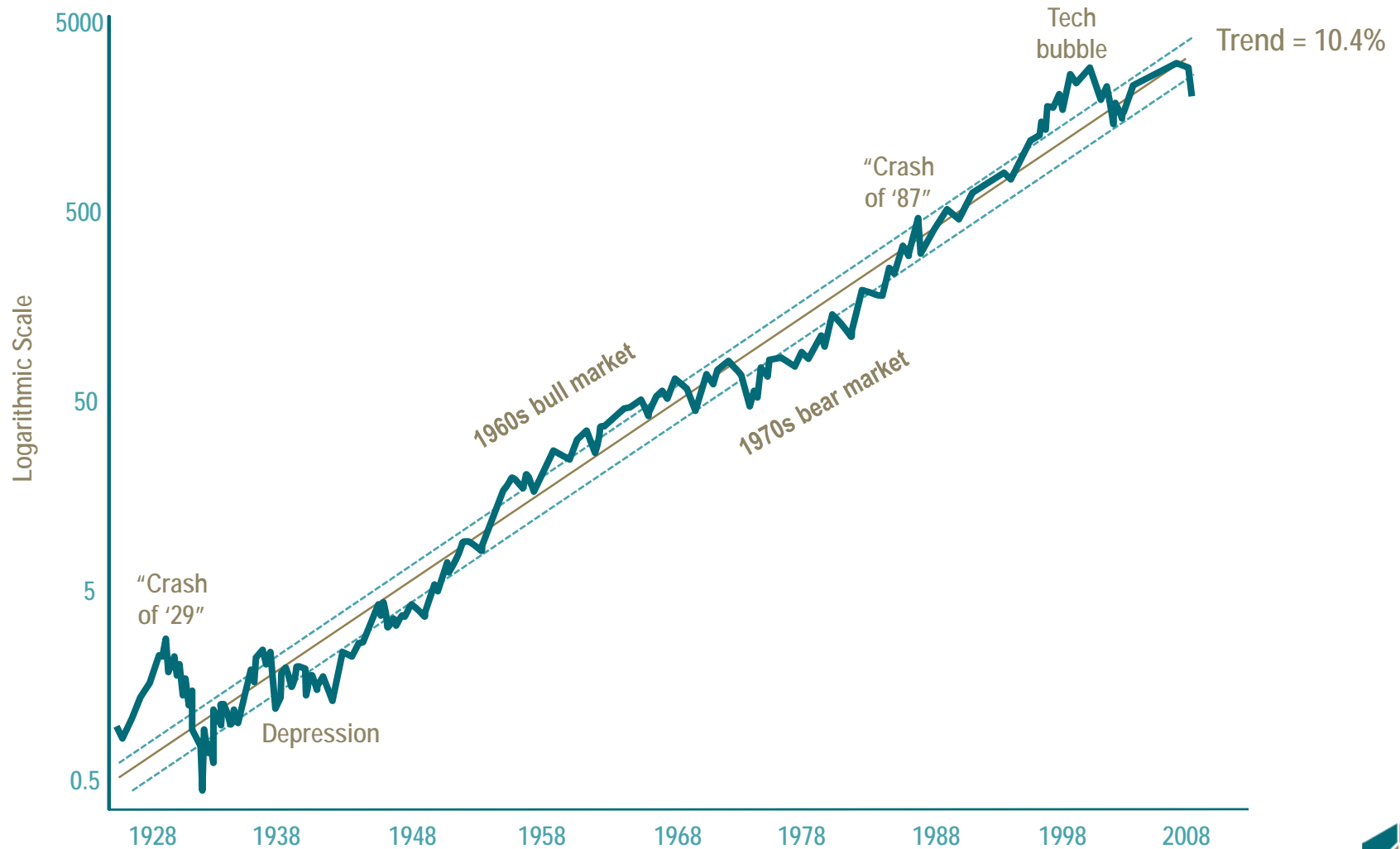


Current Trend Earnings* (S&P 500)	\$67.2
Oct 2008 Earnings Multiple	11.6x
Prior Market Lows	
Oct 1990	14.2x
Oct 1998	25.8x
Oct 2002	15.7x
*adjusted for write-downs and assumes trend growth of 4.2%	

Source: Thomson Reuters Datastream, FactSet, Morgan Stanley Research



# S&P 500 – Total Return Index

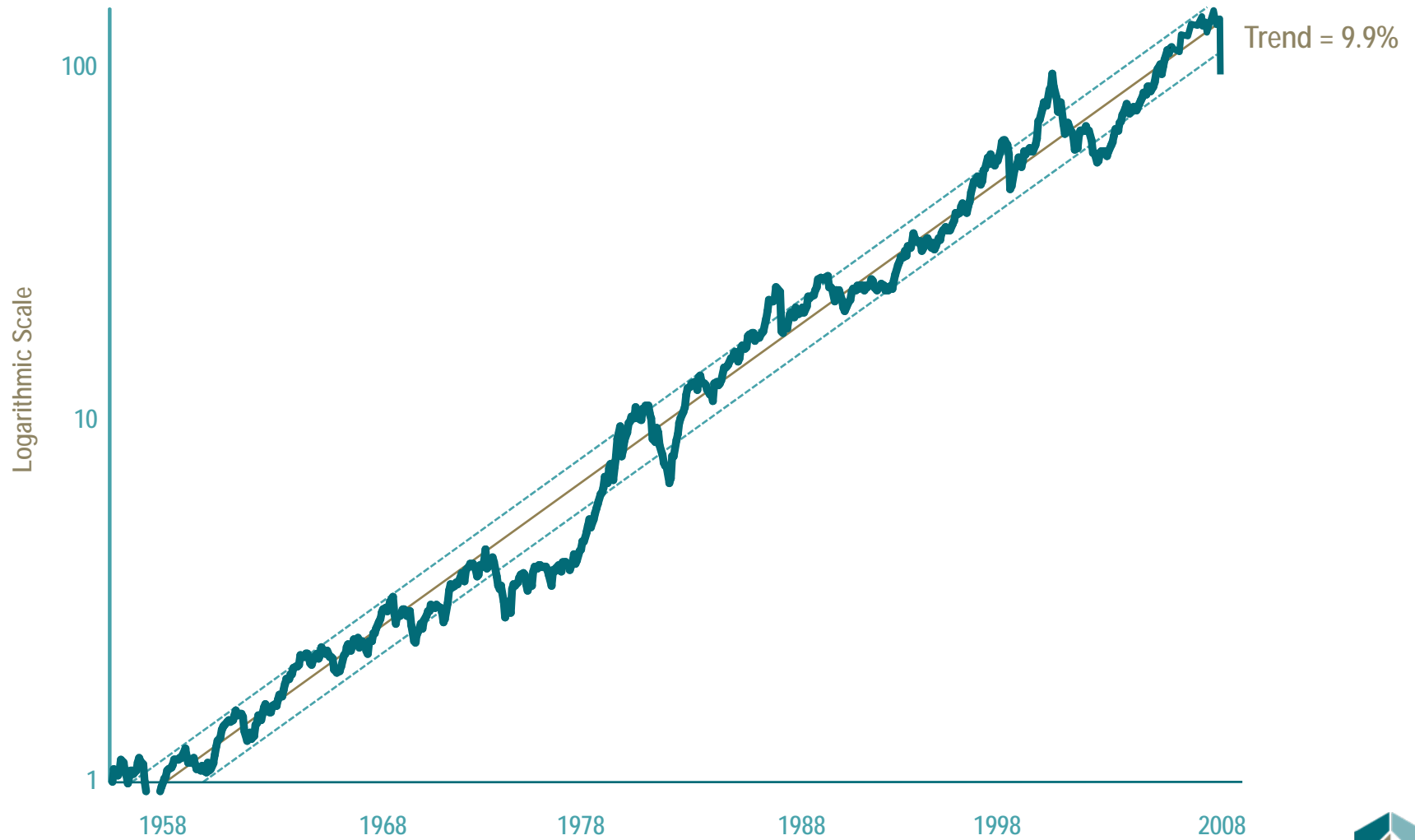


Source: Ibbotson; Thomson Reuters Datastream





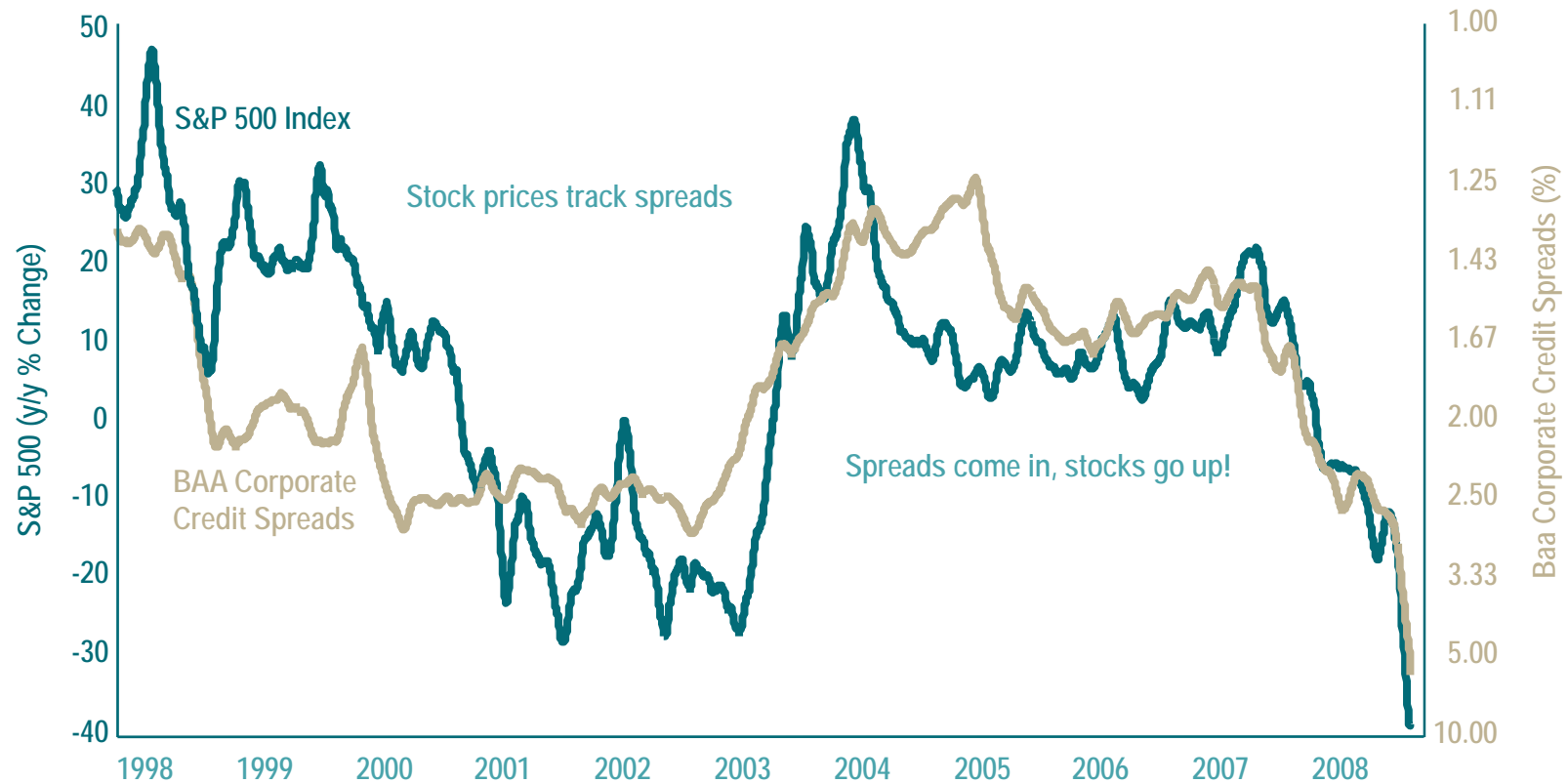
# S&P/TSX Composite – Total Return Index



Source: Ibbotson; Thomson Reuters Datastream



# S&P 500 Index vs. Baa Corporate Credit Spreads



Source: Thomson Reuters Datastream, Moody's



# Outlook — What Needs to Happen?

## Monetary

- Aggressive central bank easing
- Recapitalization of banks
- Liquidity returns to commercial paper market
- Lower consumer/corporate loan rates

## Economic

- Fiscal stimulus
- Lower inflation
- Stabilization of house prices

## Market

- Investor sentiment
- Compelling valuations
- Volatility (VIX) declines
- Credit spreads narrow



# Outlook — Will Stock Prices Rebound?

## S&P 500 returns in bear markets

September 1929 – June 1932	
Depression	-86%
1933	+54%

January 1973 – October 1974	
Oil Crisis	-48%
1975	+37%

March 2000 – October 2002	
Dotcom/Recession/911	-49%
2003	+29%

October 2007 – October 2008	
Subprime housing/ investment bank	-46%
2009	?

