The Canadian Press

Business News

TSX in for uphill slog in '12 amid European debt crisis, recession fears

12/16/2011 11:25:00 AM | Canadian Press (English)

TORONTO - Canadian investors will need to be very nimble in 2012 as they contend with the worst investing environment since early 2009, when markets bottomed out in the midst of a global recession sparked by the Wall Street financial crisis.

As 2011 comes to a close, the Toronto Stock Exchange is trading more than 1,800 points or 13.7 per cent below where it sat at the start of the year and down about 2,700 points or 19 per cent from the highs of early March.

And none of the problems that have spooked investors for months are going away any time soon — a worsening European debt crisis that threatens to drag the continent into recession with spillover effects affecting everyone from China to Canada and the United States.

How much worse could it get?

Markets could fall a lot, says portfolio manager Danielle Park. In fact, she wouldn't be surprised to see them retest their lows of March 2009, when the TSX hit the 7,567 level.

That would be a whopping 4,000-point drop from the where the main Toronto index stood in the last weeks of 2011.

"The main theme is the slowing global economy," says Park, who works at Venable Park Investments in Barrie, a central Ontario city north of Toronto.

"We haven't had a recession confirmed yet, so you don't get a bottom in the market until you have had confirmation of a recession. And from that point, you tend to lose about 75 per cent of what the overall losses end up being."

Most economists predict the Canadian economy will grow by less than two per cent in 2012 as it deals with weakness in Europe, slow growth in the United States and slumping commodity prices.

That sluggish economic performance won't help create many new jobs for the country's 1.4 million unemployed or lower the 7.4 per cent national jobless rate.

If the global economy actually contracts, another recession would produce millions more jobless workers around the world and weaken or wipe out corporate profits — a main driver of rising stock prices.

Park's firm has been out of the stock markets and "right now, we're in the U.S. dollar and bonds, all of which have made money year to date, and we're looking for another important buying opportunity, probably in 2012."

She says it's a good time to keep money liquid to take advantage of the next buying opportunity after the market finds a new bottom.

"Half of your money should be in high quality Canadian deposits like GICs or short Canadian bonds," she says.

"You can have up to 30 per cent of that in U.S. Treasury bills because the Canadian dollar is weakening as we head into this next downturn and I think you're likely to see that continuing for the next few months, which means you can make some great gains just holding US T-bills with no market risk at all."

Park also emphasizes that there is nothing wrong with exiting the market now and waiting until the worst is over.

"Absolutely, we have been out of the market all year," she said.

"It's not too late. We haven't had confirmation of a recession yet. Until we do, you won't see how far this market is going to go down."

Park is not alone in fearing that recessionary conditions will make it tough for markets in 2012

The TSX did much worse than U.S. markets in 2011, reflecting steep losses in the mining, energy and financial sectors, whereas the S&P 500 finished the year down 2.9 per cent and the Dow industrials actually gained about 2.5 per cent.

Since the TSX passed the 14,000-point level almost 10 months ago, the market has faltered steadily. The problem in Europe came more and more to dominate market sentiment as the crisis steadily worsened and governments adopted increasingly tough austerity measures in order to deal with massive debt levels.

Investors also grew increasingly frustrated at the apparent unwillingness on the part of politicians to come up with a convincing plan to deal with it quickly.

Most EU countries agreed in December to frame a new treaty that would see a central authority overseeing their budgets and impose tighter controls on spending.