

## Green Shoots

It was a harsh economic winter. We can't say for sure that we are out of the snowy woods yet as there are noxious weeds still thriving in housing, trade and employment statistics as well

as continuing issues in some credit markets. Investors remain wary. But spring has sprung and along with the welcome signs in nature has sprouted many refreshing economic and financial

green shoots. Stock markets have reacted with a rally and we thought our readers might appreciate the glimmers of optimism that are behind it.

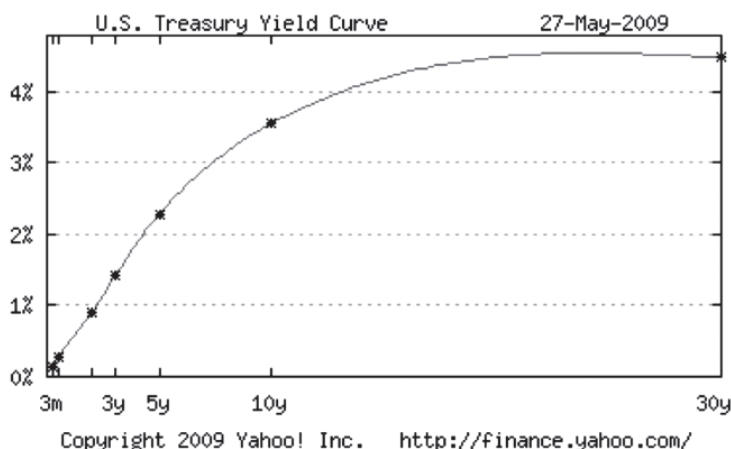
Index	Series Index April	Series Index March	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI	40.1	36.3	+3.8	Contracting	Slower	15
New Orders	47.2	41.2	+6.0	Contracting	Slower	17
Production	40.4	36.4	+4.0	Contracting	Slower	8
Employment	34.4	28.1	+6.3	Contracting	Slower	9

This is a 'getting worse slower' table, showing that the widely followed Purchasing Managers Indices are still contracting (reading below 50) but at least are currently moving towards the positive side.

### China's PMI for April signals further upswing underway (*Bamboo shoots!*)

**HONG KONG (MarketWatch) -- China's Purchasing Managers Index rose further above the expansionary threshold of 50 in April, adding to growing evidence that the worst of the output slump that shuttered factories and led to millions of layoffs may be over.**

**bloomberg news Conference Board: U.S. leading economic indicators up, largest gain since Nov. 2005 Thursday, May 21st 2009**



The yield curve is widely regarded as an economic harbinger. When it is upward sloping like today's, with shorter maturities at lower interest rates, it is considered supportive of economic growth and normal financing activities.

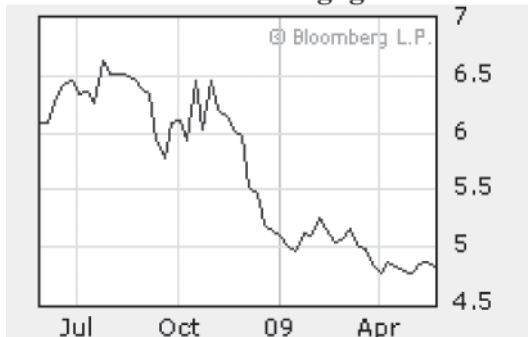
## U.S. Pending Home Sales Rise, Housing Affordability Near Record

Washington, May 04, 2009

Thanks to record low mortgage rates and declining home prices, 55 million families – or half of all U.S. households - can afford today's \$200,000 median-priced new home,

according to figures released by the National Association of Home Builders (NAHB).

### U.S. 30-Year Mortgage Rates



The U.S. housing market is still in decline, but the 30-Year mortgage rate (the U.S. standard) at record lows is one reason (along with low prices and adequate incomes) that housing has never been as affordable as now, providing a promising base for recovery.

## Rise in consumer confidence good news for the U.S. economy

The rise in the Conference Board's consumer confidence index in May to 54.9 following the April's 40.8 reading (revised from 39.2) marked the largest monthly rise in the index since April 2003. Expectations within financial markets were for a

more muted increase to 42.6. The index is now at its highest level since before the intensification of the credit crisis in September of last year.

This chart shows the S&P 500 index (upper line) in relation to the Baltic Dry Index, a measure of international ocean-shipping rates for 'dry' cargoes such as iron ore, coal, metals and grains. Because many such commodities are economically sensitive and this index is believed to reflect changes in their demand growth, it is considered an economic predictor. Up is good.



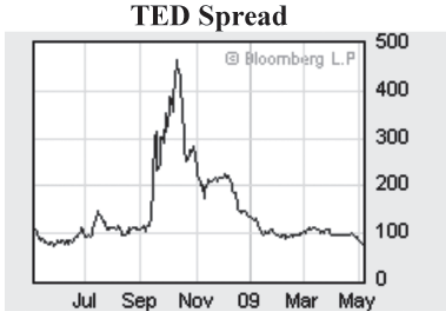
Copper is certainly one of the economically sensitive commodities noted above, so much so that it is often referred to as Dr. Copper because its predictive price moves would seem to imply a PhD in economics. The price has been strong lately, due in part to strong Chinese demand.

# Risk Abatement

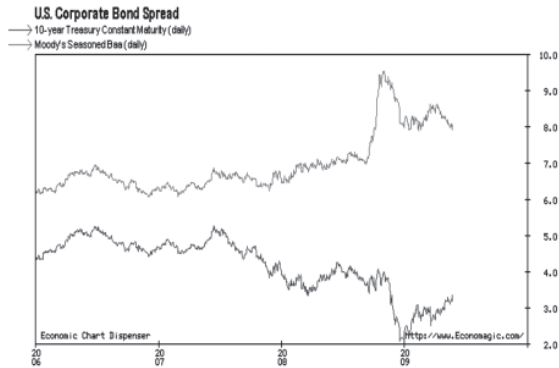


The London Interbank Offered Rate is the benchmark rate applied to interbank borrowing and a common base rate for variable-rate loans. Last fall's jump was a big factor in the credit crisis so its return to normalcy is a welcome green shoot.

The TED Spread is a risk measure which shows the gap between LIBOR, the 'risk' rate, and U.S. T-Bills, the risk-free rate. In credit scares, like last fall, lenders demand higher returns for risk loans and are willing to accept lower rates for risk-free investments, thus pushing the spread higher. Today's more typical spread suggests growing lender confidence.



Corporate borrowers bore the brunt of the credit crunch as cost (upper line) soared and availability disappeared compared to safe, secure governments (lower line). The spread remains historically wide but it is narrowing as investors regain the confidence to sell low-risk governments and buy new corporate issues, a good sign.



This chart measures the performance of the U.S. dollar against a basket of six currencies. In times of trouble, like last fall and again this spring, investors flock to the U.S. as a safe haven, pushing up the currency. Recently, though, the dollar has weakened, another indication that financial fears have moderated.



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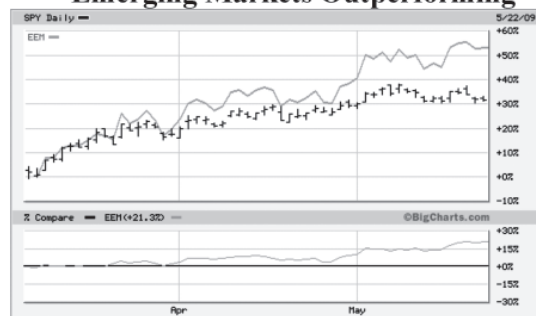
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### Financial Stocks Outperforming



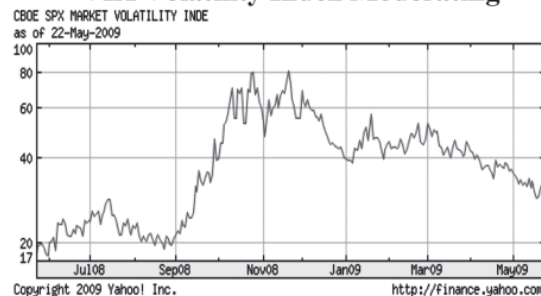
Historically, financial stocks have led market recoveries so it is encouraging to see that this is the case in Canada where the financial index (XFN) (upper line) has led the overall market (XIC) from the March bottom, similar to the rest of the world.

### Emerging Markets Outperforming



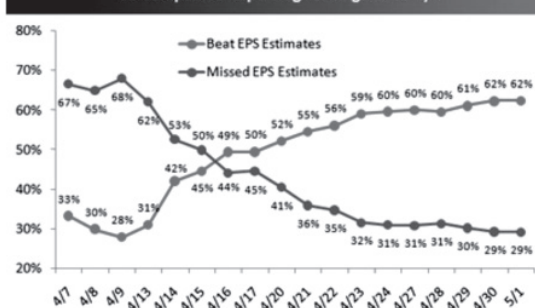
This chart shows that the emerging market index (EEM) has outperformed the S&P 500 (SPY) from the March bottom, a good sign given that economic leadership is expected from this sector too.

### VIX Volatility Index Moderating



The VIX index reflects the worrisome volatility stock investors have been subjected to, so the evident moderating trend in this chart brings hope for more normal markets ahead.

### US Companies Reporting Earnings Since 4/7



Corporate profits have been hit hard in the recession with reported earnings down sharply in recent quarters. This chart, though, shows the silver lining as companies reporting first-quarter earnings above expectations (top line) far outweigh those coming in below, providing the best such comparison in years. This is an important momentum indicator for investors.