

SOFT OR HARD LANDING? TWO EXPERTS WEIGH IN

› LLOYD ATKINSON

IN MY ESTIMATION, a hard landing is not in the cards—all the more so in light of the speed and steepness of the cuts in interest rates by the Fed earlier this year.

There are other reasons to expect the landing to be soft. First, the fiscal authorities are in a much better position today to respond to any slowdown than they were, say, in 1991-92. Renewed stimulus is already in place in Canada, and is clearly in the cards in the U.S.

Second, because of technology-driven improvements in inventory management, the magnitude of the inventory overhang is nowhere near as large as it would have been had prior standards prevailed; the additional damage to the economy caused by the required “inventory correction” will accordingly be smaller.

Third, although consumer confidence has plunged, it remains high. The inventory overhang is likely to be worked off in short order.

Fourth, because of the huge and ongoing structural shift of the workforce out of hard goods production to services, the layoffs attendant to the current slowdown will be sharply less than in the past.

Finally, strong spending is likely to return by the second half of this year; the productivity enhancement attributable to tech spending is so strong that much of that activity must be viewed as essential rather than discretionary.

A slowdown? Yes. Recession? No. Reinvigorated growth following a brief but sharp slowdown—that’s my bet!

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› BRIAN NEYSMITH

IN THE PAST, after a long period of expansion, we generally experienced a significant downturn. The extent

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What’s Up for 2001

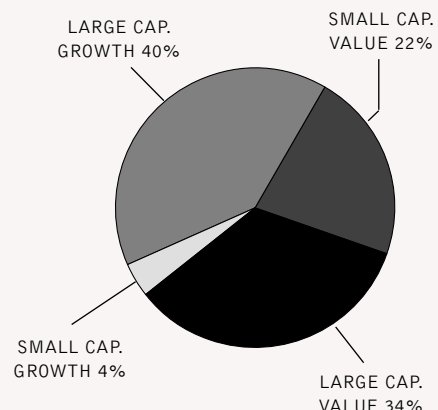
William M. Mercer’s 10th annual Fearless Forecast surveyed 61 international and domestic money managers about their ideas on investing and their expectations for 2001. Here’s what they think about currency management, the best investment style, and how to invest in global markets.

Currency

When asked if they hedge their currency exposure, 38% of managers responded yes. Of this 38%, 70% hedge for defensive reasons, 25% for opportunistic reasons, and 5% for both these reasons.

It’s the Style

Which Canadian equity investment style do managers believe will be best in 2001? The chart below shows that most believe a large cap, growth-investing style will produce the best results.



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of a recession this time, if one does occur, would probably be relatively mild.

I do not foresee any significant increase in the level of unemployment and by and large, corporate balance sheets are in good shape. Consumer debt, however, being at record levels, will make consumers much more wary of the possibility of a recession and its impact on their household balance sheets. Corporate earnings will no doubt be trending down, but other than those companies that never had earnings, the extent of the decline in overall corporate earnings should be modest.

Since it is always difficult for policymakers to fine-tune economic movements, the possibility of a mild recession should not be discounted.

Brian Neysmith is Standard & Poor's Managing Director, Canadian Ratings in Toronto.

CDNX BEST NORTH AMERICAN INDEX

The Canadian Venture Exchange (CDNX) outperformed every other index in North America in 2000, up 23.8% over 1999. During the year, the exchange helped companies raise \$2.37 billion in equity financing.

As well, 45 of its listed companies moved to the Toronto Stock Exchange (TSE); CDNX-listed companies represented 38% of the TSE's new listings. According to CDNX President & CEO Bill Hess, "For people who invested in these graduates, average share price increased 302% in the year prior to graduation (from \$2.39 to \$7.06)."

Sector vs. Country

On a global basis, whether country/region allocation or sector/industry allocation works best is subject to debate. 71% of managers surveyed think sector/industry allocation will produce the best results in 2001, while 29% are sticking to country/region allocation.

Which do the managers think will be the top five performing equity markets and the top five performing sectors for 2001?

EQUITY MARKETS	SECTORS
U.K. (19)	Financial Services (21)
Germany (16)	Technology (15)
Canada (15)	Telecommunications (13)
U.S. (15)	Oil and Gas (8)
Japan (13)	Consumer Products (6)
France (12)	Pharmaceuticals (5)
Hong Kong (11)	Utilities (5)
Spain (9)	Health Care (3)
Korea (6)	Real Estate (3)
Italy (5)	Basic Products (2)
Singapore (3)	

() = no. of times mentioned by managers