What’s Hindering the Canadian Market?

Description

The Dow Jones Industrial Average recently eclipsed its all-time high water mark and the S&P 500 is within spitting distance of the same achievement. Surely our Canadian market is in a similar position, right? Well, unfortunately, not quite.

To top the high achieved in May 2008 of 14,984.20 the S&P/TSX would have to appreciate by 16.8% from its current level. After outperforming the U.S. based indices for a decade, the Canadian market has lagged over the past two years, and thus far in 2013 as well.

A report released by RBC Capital Markets this week helped shed some light on the cause of this underperformance. One word can summarize RBC’s findings. Resources.

Provided below are some pertinent stats from the RBC report:

- The **Energy** (TSX:XEG) and **Materials** (TSX:XMA) sectors account for about 40% of the S&P/TSX Composite. These sectors have not been performing very well in recent times. RBC calculated the Index’s performance was reduced by 6-8% in each of the past two years and by 4% thus far in 2013 because of these sectors.
- At the end of February, ex-Resources, the TSX was up 7.2% for the year. In 2012, its performance would have been 12.4%. This compares to the S&P 500 and its end of February and 2012 performance of 6.2% and 13.4% respectively.
- Within the Resource space the group causing the biggest drag is **Gold** (TSX:XGD). The sector was down 15% in 2012 and 14.4% over the first two months of this year. **Base Metals** (TSX:XBM) have also had a rough start to 2012, checking in with a -10.5% return over the first two months.

RBC concludes the report by indicating that historically, when the ISM Manufacturing Index is in expansionary territory (above 50), which it is, commodity prices have produced excess returns in the subsequent 12 months. Translation – this period of underperformance for the Canadian market could be short-lived.

The Foolish Bottom Line

The Canadian market achieved its decade of outperformance over its U.S. peers primarily because of its exposure to these same Resource stocks. We live by the sword and die by the sword. As RBC mentions, if China is able to avoid a hard landing, and the doom and gloom in Europe blows over, the global economy could find itself in a pretty sweet spot. This should translate to solid demand for Canada's resources and good times for investors in the Canadian market.

*Because of our market's exposure to Resources, as well as Financials, Canadian index investors take on a lot more risk than they may think. We have created a special free report that details this risk and provides an easy to implement solution. Simply **click here** and we'll deliver this report to you, absolutely free!*

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

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1. Investing

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1. TSX:XBM (iShares S&P/TSX Global Base Metals Index ETF)
2. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)
3. TSX:XGD (iShares S&P/TSX Global Gold Index ETF)
4. TSX:XMA (iShares S&P/TSX Capped Materials Index ETF)

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