

Market Watch

Big Picture

U.S. economy weak, but not stalled; Greece default risk remains

The United States is still clinging to recovery, with recent reports showing 91,000 new jobs created by the private sector in September, and the service sector index remaining above the 50 level that indicates expansion. The European Central Bank announced a new 40-billion-euro bond purchase programme to boost eurozone economies and provide extra financing for banks. Greece said it won't meet its deficit target this year and agreed to 6.6 billion euros of additional austerity measures demanded by international lenders, who delayed a decision on whether to give Athens the next £7 billion of bailout funds.

Moody's cut Italy's bond ratings by three notches, saying it sees a "material increase" in funding risks given the high level of debt. The Bank of England launched another monetary easing program, providing £75-billion cash boost to Britain's stalled economy. Canada ranked #1 for business, according to a Forbes' survey, which rated 134 countries on 11 different factors. Data shows that Canadian companies are 30% less dependent on exports to the U.S. than 10 years ago, with alternative export markets helping to decrease Canada's sensitivity to the U.S. economy. Nonetheless, the loonie touched the lowest level in more than a year against the greenback this week on concerns of slowing demand south of the border.

Markets

Stocks recoup losses on Eurozone hopes

Global stocks bounced back, recouping their losses after a rough start to the week, as euro zone plans to support European banks gave investors hope the threat of a financial crisis was waning. Shares of Apple dipped Tuesday on news that the company's visionary co-founder Steve Jobs passed away at age 56, but prices quickly recovered. India unveiled a \$35 tablet computer run by Android and equipped for WiFi, aimed at solving the country's education problems and increasing internet use, which stands at just 5% of the population, compared to 28% in China.

In a deal with Microsoft, Verizon and Comcast will make their cable content available to subscribers through Xbox Live. After several days of negative backlash, Mongolia backed away from its attempt to re-negotiate a US\$6-billion investment deal with Ivanhoe and Rio Tinto on the development of the Oyu Tolgoi copper-gold deposit. Monsanto was ordered to restate the last two years' earnings after an SEC investigation. Ruling on a complaint by two U.S. airlines, the EU's top court said that foreign airlines can be required to pay for their carbon pollution when flights take-off or land in the EU.

Our Recommendation

Equities: Focus on quality

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG) wrote: "Given our outlook for an extended period of slow economic growth, equities are expected to trade in a range for the next several years so focusing on quality dividend paying equities will reward investors over the long term."
- **Fixed income.** Anthony Mentor, Associate, PAG, highlights the following recommendations: "Term Call – given the recent decline in yields, we no longer see value in the mid-to-long end of the curve and recommend investors stay short at this time. Sector Call – underweight Canada, overweight Municipals, Provincials and Corporates. Currency Call – we recommend Canadian investors remain in Canadian dollars for their fixed income holdings. Alternative Strategies – new call – marketweight high yield, marketweight Emerging Markets Debt, underweight inflation protected debt."
- **Portfolio strategy.** Scotia Capital Portfolio Strategist Vincent Delisle says: "Although risks to the global economy remain and negative 2012 earnings revisions could prevail throughout Q4, contagion to the U.S. appears limited."

For more information or a copy of our in-depth ScotiaMcLeod Weekly Strategy report, please call:

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