

Market Watch

Big Picture

Summit deal splits EU; S&P announces credit review

Following all-night talks, leaders of 23 of the 27 European Union nations agreed to a new treaty with strict oversight over national budgets, seen as crucial to solving the debt crisis. Britain, Sweden, Hungary and the Czech Republic will not join the treaty. Ratings agency Standard & Poor's put 15 eurozone countries on credit review on Monday, and warned that the AAA credit ratings of France and Germany were at risk. The European Central Bank cut its benchmark interest rate to a record low of 1%, the second rate cut in five weeks, in an effort to boost the economy. Falling output and rising job losses heightened fears that Britain is facing another recession. The U.K.'s industrial output fell 0.7% in October, its fastest decline in six months.

Brazil's economy ground to a halt in the third quarter, as domestic consumption, as well as China's demand for Brazilian exports like iron ore and soybeans, slowed. Economists expect Latin America's largest economy to grow 3% this year versus 7.5% in 2010. Australia's economy grew by 1% in the third quarter, spurred on by a boom in mining investment and strong household consumption, which was partly offset by falling government spending as stimulus programs unwind. Natural resource-rich provinces will lead Canada's economic growth next year, with Saskatchewan and Alberta projected to expand 2.9% and 2.8%, respectively.

Markets

Rally pauses as investors weigh summit outcome

U.S. and European stocks had rallied for more than a week leading up to the European summit. The S&P 500 index, up 8.8% since November 25, fell on Thursday after news that Germany rejected some draft proposals. The blue-chip Euro STOXX 50 index had surged 13% before Standard & Poor's announced its credit review. Discount retailer Dollarama's profit rose 33% by raising prices and improving efficiency, but customer traffic fell for the fourth consecutive quarter. Google's Android hit a milestone with over 10 billion applications downloaded since its launch in October 2008.

Apple will lose the "iPad" trademark in China despite having paid US\$54,000 to buy the name from a Hong Kong-based company in 2006. A Chinese court sided with the company, which claims that the "global rights" did not include China. Billionaire investor Warren Buffett bought a US\$2-billion solar energy development in California in a move that could spur investment in a cash-strapped industry. Spending on Christmas trees is up for a third straight year in the U.S. after plunging almost 11% in 2008, signaling consumers aren't cutting back on holiday purchases. U.S. jobs in the shale gas industry are predicted to rise to 870,000 by 2015, from 600,000 in 2010.

Our Recommendation

Macro overhang remains but outlook improving

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG), wrote: "fundamentals will matter again at some point, and with a slowly improving outlook for the U.S. economy, prospects for more economically sensitive sectors, particularly for copper and energy, are brighter and not fully reflected in current valuations."
- **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: "based on our forecasts, equity total returns (8%) are expected to exceed bonds and cash in 2012. However, the high level of Euro uncertainty and weaker Chinese data expected through Q1/12 warrants a cautious cyclical stance to kick off 2012."

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

Jolene Laing, CIM, FCSI
Associate Portfolio Manager
(604) 535-4733 | jolene_laing@scotiamcleod.com

