

Market Watch

Big Picture

China cools; debt woes spread

The Chinese economy expanded 9.5% in the second quarter, down from 9.7% in the first quarter, marking its weakest growth in two years. But inflation continued to soar, hitting a three-year high of 6.4% in June. Ireland became the third eurozone nation to have its credit rating reduced to junk status, as Moody's said more financing would be needed on top of the €85-billion rescue last November. Italy was forced to pay record interest rates on Thursday as it raised €3-billion from bond sales amid concerns about its high levels of debt. On Wednesday, Moody's placed the United States' credit limit on review for a downgrade as President Obama and congress remain deadlocked in crisis talks over the U.S. debt limit.

The UN raised its growth estimate for Latin America and the Caribbean to 4.7% for 2011 as more jobs and credit drive up private consumption. Companies in India saw sales rise 27% annually over the past five years, compared to 5% for firms in developed countries, according to an Ernst & Young survey. The cost of natural disasters will reach a record high this year, with losses of US\$265-billion in the first half, including US\$210-billion for the earthquake in Japan. The rich are getting richer, according to the Conference Board of Canada, which reported the gap between the average income of the poorest and the richest Canadians grew by nearly one-third, to \$117,500 in 2009, from \$92,300 in 1976.

Markets

Debt dampens markets; gold soars

Global markets stumbled mid-week as the eurozone debt crisis deepened. Gold prices hit a record US\$1,578.50 an ounce as investors sought a safe haven, with gold holdings seeing the largest daily inflows since early April. In the second quarter, personal computer shipments climbed 2.6% from a year earlier, less than the 2.9% forecast, amid a sluggish global economy and growing popularity for smartphones and the iPad. PC sales in the U.S. slipped 4.2%, compared to 12% growth a year earlier, amid falling laptop prices and weak demand from corporations and budget-strapped government agencies. Apple saw shipments grow 15% in the U.S.

Shares jumped 12% as Google quarterly results smashed analysts' expectations with a 36% surge in net revenue. The search engine giant's forays into display and mobile advertising, its Android operating system and its social networking site Google+ all paid off. European online music service Spotify is now available in the U.S., giving listeners access to a catalogue of 15 million songs from all major U.S. labels. The number of paying subscribers to Internet audio providers is expected to grow to 161 million by 2016, according to ABI Research.

Our Recommendation

Equity risk-reward outlook improving

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG), wrote: "current equity market instability, a symptom of a mid-cycle slowdown in the global economy combined with increased nervousness surrounding European debt, represents a buying opportunity.."
- **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 – overweight 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, overweight inflation protected debt."
- **Portfolio strategy.** Scotia Capital Portfolio Strategist Vincent Delisle says: "2011 is year three of the global economic/earnings recovery and current conditions (steep yield curve) continue to point towards growth in profitability."

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

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