

# Market Watch

## Big Picture

### Debt crisis brings down Italian, Greek prime ministers

After dominating Italy for 17 years, Prime Minister Silvio Berlusconi agreed to resign after losing his parliamentary majority in a budget vote on Tuesday. Italian bond yields shot above 7% Wednesday as investors lost faith in the country's ability to cut its massive public debt. Embattled Greek Prime Minister George Papandreou also stepped down this week to make way for a new coalition government. Chinese industrial output grew at its weakest pace in a year and inflation fell sharply, raising expectations Beijing may take steps to stimulate economic growth. China's annual inflation rate fell to 5.5% in October from September's 6.1% – the biggest drop since February 2009.

Canada pushed back its promised date for a balanced budget by one year, to fiscal 2015-16, as a result of the global economic slowdown. Bank of Canada Governor Mark Carney was named head of the Financial Stability Board, winning the key job to oversee the reform of global financial institutions. Fueled by low interest rates, the construction industry is booming across Canada, providing jobs for a record number of Canadians. In a bid to force innovation in renewable energy, Australia passed a Clean Energy Act that will tax carbon emissions for the country's 500 worst-polluting companies.

## Markets

### Stocks tumble as investors lose confidence in Italy

Markets tumbled Wednesday over fears that Italy will be forced to seek a bailout that could overwhelm the eurozone's finances. Canada's TSX index lost 2.7%, while the S&P 500 dropped 3.7%, with financials the hardest hit, down 5.4%. Oil prices fell below US\$96 a barrel on concerns over prospects for economic growth. Canada's oilsands are key to global energy growth, according to an IEA report that noted it was one of the few growth areas outside of the volatile Middle East/Africa, but warned environmental concerns could hinder its expansion, projected to triple by 2035.

Groupon shares closed up 31% last Friday on the first day of trading. The daily deals site founded in 2008 is now valued at almost US\$13-billion despite never having shown a profit. McDonald's October sales topped expectations with revenues up 5.2% in the U.S., 4.8% in Europe and 6.1% in Asia/Pacific, the Middle East and Africa. The U.S. cut its corn output forecast again, by 1%, but also reduced the outlook for corn demand, noting chicken farmers are buying less feed as they reduce their flocks in the face of an oversupply. Africa is the fastest growing mobile phone market in the world with the number of subscribers growing 20% per year, and projected to reach 735 million by the end of 2012.

## Our Recommendation

### Fundamentals taking a back seat to macro concerns

- **Equities.** Paul Danesi Director, Portfolio Advisory Group (PAG), wrote: "With Italy now taking center stage in the European debt crisis, and the November 23<sup>rd</sup> deadline for targeted spending cuts from the U.S. Super Committee fast approaching, November will likely prove to be another volatile month for stocks."
- **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: "EU uncertainties still cloud the macro outlook, but further U.S. job/ISM improvements should push yields higher and support the equity rally."

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

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