

Market Watch

Big Picture

Greek deal nearly derailed; global manufacturing slows

Greece's prime minister sparked a global outcry on Monday when he announced he would put the country's new bailout deal to a popular vote. On Thursday, he scrapped the explosive plan after a rebellion within his own Socialist party. Today Papandreou faces a critical vote of confidence in his government, which has a 20% approval rating in public opinion polls. Meanwhile, the cost of borrowing has ballooned to 31% for Greek 10-year bonds. Peripheral countries such as Italy and France saw their bond yields versus Germany's rise to euro-era highs. On Thursday, the European Central Bank made a surprise decision to cut interest rates to 1.25% in light of the continent's fragile finances.

U.S. manufacturing slowed in October, and the U.S. Federal Reserve Board significantly reduced its forecast of economic growth to 2.5-2.9% in 2012, well below its June projection of 3.3-3.7%. Manufacturing in China slowed last month to its weakest pace in three years and activity in Britain contracted at its fastest rate in two years. In the eurozone, manufacturing contracted for a third month. Canada's third-quarter GDP is looking better than expected, thanks to strong oil prices; analysts predict a pace of 2.7-3.0% after an unexpected contraction in the second quarter. Canada's top 100 research-focused companies spent \$1-billion less in 2010 than the year before, representing the fifth year R&D spending has declined.

Markets

Stocks recover from plunge

Stocks and commodities rose Thursday as Greece moved closer to accepting a bailout and the European Central Bank cut interest rates to bolster economies affected by the debt crisis. Markets had seen a two-day plunge after Greece's Prime Minister called for a referendum on the bailout deal. Two of Japan's best-known television makers admitted defeat this week in their battle with Taiwanese and South Korean rivals in the flatscreen TV market. Amid fierce cost competition, oversupply, and pressure from the strong yen, Sony and Panasonic each announced they are shrinking their operations dramatically, and forecast losses of US\$1.2-billion and US\$5.5-billion, respectively, through March 2012.

AOL beat expectations as advertising revenue rose 8% on the strength of the company's advertising.com network. Agrium's quarterly profit was up five-fold, lifted by strong fertilizer prices. Kraft Foods' earnings rose 22% as the company passed through hefty price increases to offset a 14% increase in costs. Molson Coors' earnings were negatively impacted by high unemployment among core beer consumers and higher costs for fuel, packaging and ingredients. Google launched its Canadian e-book business Tuesday, taking on Amazon and Kobo. Russia cleared the final hurdle to join the World Trade Organization, after an agreement with Georgia, which had blocked the deal for 18 years.

Our Recommendation

Fundamentals still take back-seat to macro concerns

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG), wrote: "In the very short term, for more tactical trading-oriented investors, stocks are approaching the upper end of a narrow trading band established since the beginning of August and we are more inclined to be sellers into further strength."
- **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: "a recovery in risk-appetite could lift valuations as the U.S. economy averts recession and Europe adopts a credible debt relief plan."



The Month in Review

October: Rising optimism over U.S. growth and EU debt

In October, stock markets rose amid improving U.S. economic data and better-than-forecast corporate earnings as well as growing confidence over Europe's efforts to fight off its debt crisis. The S&P 500 Index rose 14% from October 3, when it was down almost 20% from its April peak.

China eases; forges ties with Europe

China's economic growth eased to 9.1% in the third quarter, down from 9.5% and 9.7% in previous quarters, marking the country's slowest pace in more than two years. Chinese investment in Europe is expected to double this year to US\$8-billion, and surge over the next decade. The EU and Beijing are considering opening negotiations on an investment treaty.

Canada best for business

Canada ranked No. 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, indicating Canada's decreasing sensitivity to the U.S. economy. Canada's wholesale trade advanced, but less than expected, up 0.2% in August after a 0.9% gain in July.

Canada ranks No. 8 for household wealth

Household wealth in Canada ranks eighth in the world, according to a Credit Suisse report. Canada's wealth per capita has risen 3% since 2007, while in the U.S. it remains 8% below 2007 levels. Canadian payrolls rose by 238,400, up 1.6% in August from a year earlier. Canadian workers can expect a 3.1% pay raise in 2012, following a 3% average increase in 2011. Retail sales rose 0.5% in August after declining in July.

Emerging markets slow; pass free-trade deals with U.S.

Emerging market growth fell to a two-year low, as factory output declined following nine consecutive quarters of growth, according to an index tracking 5,800 firms in 16 countries. Free-trade deals between the U.S. and Colombia, Panama and South Korea passed after almost five years of negotiations.

Intel and Microsoft weather the tech slowdown

Worldwide PC shipments grew slower than expected in the third quarter, hurt by tablet and smartphone sales. Quarterly earnings reports show a mixed picture of how the tech sector is weathering the slowdown. Intel revenues exceeded Wall Street's expectations, but IBM reported weaker-than-expected results. For Microsoft, weak consumer sales were offset by corporations upgrading their aging PC fleets.

Apple misses as customers await new iPhone

Shares of Apple dipped briefly on news that the company's visionary co-founder Steve Jobs passed away at age 56. Apple reported a rare miss after sales of the iPhone fell well short of forecasts; however, the new iPhone 4S began selling after the quarter-end.

Tablet wars: Kobo Vox vs. Amazon's Kindle Fire

Toronto-based Kobo launched the \$199 Vox, a new Android tablet designed to rival Amazon's Kindle Fire, announced last month. Amazon quarterly sales were up 44%, but profit plunged 73% from a year ago as the company invested heavily in the Kindle Fire tablet.

Majority of corporate earnings beat Wall Street expectations

Caterpillar reported a 44% jump in earnings year-over-year and forecast sales to increase between 10% and 20% in 2012. UPS posted a 5.1% increase in third-quarter earnings, although package volume was stagnant. 3M reported a 1% decline in earnings, falling well short of expectations, because of weakness in the electronics market.

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

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