

# Market Watch

## Big Picture

### OECD cuts outlook; Obama unveils American Jobs Act

On Thursday night, President Obama unveiled a US\$447-billion proposal to spur jobs and the U.S. economy, which the OECD predicts will grow just 1.4% in 2011, down sharply from a forecast of 2.6% only three months ago. Europe's three largest economies will grow by under 1%, less than half the previous forecast. On a positive note, German industrial production jumped 4.0% in July after contracting in June, and U.S. exports hit record levels in July. Growth in the service sector slowed sharply, falling to or below 2009 levels according to surveys across Asia and Europe.

The Australian economy bounced back, gaining 1.2% in the second quarter, after natural disasters at the turn of the year damaged the country's mining and agricultural sectors. Canada fell to 12th place, from 10th, in global competitiveness according to the World Economic Forum's survey of 139 countries, which noted the need for "greater R&D spending, and producing goods and services higher on the value chain." The Bank of Canada left interest rates unchanged Wednesday, and said Canadian exports will remain a major source of weakness amid lackluster U.S. demand and a strong currency.

## Markets

### Jobs optimism halts slide

On Wednesday, the S&P 500 snapped a three-day losing streak in anticipation of President Obama's speech addressing the jobs crisis. Global markets surged in relief as a German court rejected challenges to the country's participation in eurozone bailouts. The Swiss National Bank stunned traders by capping the franc's exchange rate at 1.20 to the euro, ending its allure as a safe haven currency, to protect the Swiss economy. Japan assuaged fears of a currency war, saying it would not follow suit. Facebook's revenue doubled to US\$1.6-billion in the first half of the year, as advertisers flocked to the social network.

Starbucks plans to triple its coffee shops in China to 1,500 by 2015. McDonald's will spend US\$1-billion renovating Canadian outlets, replacing plastic interiors with leather furniture, fireplaces and flat-screen televisions along with providing free wireless Internet. Eastman Kodak will auction more than 1,000 digital patents – about 10% of its portfolio – which could be worth as much as US\$3-billion. A China-based company will buy Canadian auto parts maker Wescast Industries for \$180-million. Shares of Bank of America, which spiked as much as 26% after billionaire Warren Buffett agreed to invest US\$5-billion, are now back where they started before the rally.

## Our Recommendation

### Short-term cautious but investment bias still favours equities

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG) wrote: "Notwithstanding all the negativity in the market, current weakness offers investors a chance to buy shares of quality companies at a significant discount. Our investment bias still favours equities over other asset classes."
- **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 – market weight high yield, market weight Emerging Markets Debt, underweight inflation protected debt."
- **Portfolio strategy.** Scotia Capital Portfolio Strategist Vincent Delisle says: "in light of a weaker U.S. employment outlook and a longer-than-expected risk-averse market, we are scaling back our cyclical bias."

**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](mailto:jolene_laing@scotiamcleod.com)

