

# Market Watch

## Big Picture

### Europe tackles debt crisis

U.S. Treasury Secretary Timothy Geithner heads to Europe today for a meeting with eurozone finance ministers to discuss measures to tackle the widening debt crisis. Yesterday, the European Central Bank announced a coordinated plan with other major central banks to ensure liquidity for Europe's largest banks, after Moody's downgraded two major French banks based on their exposure to Greek debt. Leaders in France and Germany vowed to save Greece, but the spectre of a default still looms. Italy's finance minister met with a Chinese delegation last week in hopes of reducing borrowing costs ahead of Tuesday's bond auction where it was forced to pay record-high yields. On Wednesday, Italy approved a €4-billion (US\$73-billion) austerity package. Spain raised nearly €4-billion (US\$5.5-billion) in a successful bond auction on Thursday.

In the U.S., economic data was dim, as the cost of living climbed in August and new jobless claims rose last week to the highest level in more than two months. Data released Tuesday by the U.S. Census Bureau showed one in six Americans, or a record 46.2 million people, living below the poverty line. Economists chopped their forecasts for the Canadian economy as a result of a weaker outlook for its largest trading partner, along with an unexpected contraction in second-quarter GDP, although manufacturing sales rose 2.7% in July after three straight declines. In the U.K., the public sector shrank by 100,000 jobs in the second quarter and 240,000 jobs in the past year, as spending cuts increased the jobless total to 2.5 million.

## Markets

### Markets rally on EU plan; gold slips

Stocks rose for a fourth day on Thursday and gold fell on news of a plan to ensure liquidity of Europe's largest banks amid the region's sovereign debt crisis. As global demand for oil continues to slow, OPEC cut the growth forecast for 2011 by another 200,000 barrels per day. Meanwhile, deepwater drilling in the Gulf of Mexico has staged a comeback, with 23 rigs in operation. A 500-page report released on Wednesday by federal investigators suggests that BP and its chief contractors, Transocean and Halliburton, will face criminal charges for causing the gulf oil spill.

Sharp announced it will axe two of its three models of the Galapagos tablet, less than a year after its launch. Apple commands 68.3% of the tablet market, which rose 300% in the second quarter to 13.6 million, from a year ago. Best Buy cut its full-year earnings forecast and reported a 30% decline in second-quarter profit as consumers bought fewer TVs. Despite competition from copycats, yoga wear retailer Lululemon reported profit up 77% in the second quarter. The majority of nearly 40,000 prairie farmers voted to keep the Canadian Wheat Board's monopoly over the sale of the region's wheat and barley, setting up a battle with Ottawa, which has announced plans to remove the board next August.

## 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 – marketweight high yield, marketweight Emerging Markets Debt, underweight inflation protected debt."
- **Portfolio strategy.** Scotia Capital Portfolio Strategist Vincent Delisle says: "We have recently tempered our pro-cyclical bias, but we still favour equities over bonds."

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

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