

Market Watch

Big Picture

Harper government falls; federal election underway

Canadians will have a May election after Prime Minister Stephen Harper lost a confidence vote in the House of Commons. The government was alleged to be in contempt of Parliament after two rulings by the Speaker that Tory MPs had breached privileges. The Canadian economy started the year on a strong note, with factories expanding production at the fastest rate since 2003 in January, boosting the overall economy by 0.5%. Gross domestic product grew at an estimated 4% annualized pace in the first quarter, following 3.3% and 1.8% in the previous quarters. Unrest in the Middle East and North Africa as well as supply disruptions from the devastation in Japan could slow momentum in the coming months. Consumer confidence in Canada dropped sharply in March amid record-high oil prices.

President Obama announced plans to reduce America's dependence on foreign oil, cutting U.S. oil imports by 30% over the next decade through increased domestic production, biofuels and energy-efficient vehicles, but assured Canada that it would remain a key supplier. Standard & Poor's downgraded Portugal's credit rating again, saying a financial rescue package is likely, given the country's high debt load and poor growth prospects. Portugal reported its national budget deficit last year was 8.6%, versus the government's target of 7.3%. The agency also downgraded Greece's credit rating further, predicting it will need more than the €110-billion (US\$155-billion) it is receiving from the IMF and fellow eurozone countries.

Markets

U.S. stocks end stellar quarter

On Thursday, U.S. stocks turned in their best first-quarter performance in 13 years, with the Dow up 6.4%, and the S&P 500 gaining 5.4%. Toronto's main stock index rose 5% for the quarter, buoyed by commodity prices, which rose for a third straight quarter. Siemens said it will add a new division to target city infrastructure such as urban trains, building technologies and water treatment. Global investment in clean energy jumped 30%, reaching a record US\$243-billion in 2010, with China and Germany leading the way. A Chinese group will spend \$1-billion developing three coal mines in British Columbia as it seeks to secure a long-term supply of metallurgical coal, a key commodity for making steel.

Bombardier quarterly profit nearly doubled to \$325-million, from \$179-million a year earlier, as orders for business jets revived. Amazon launched Cloud Drive, an online "storage locker" for consumers' photos, music and videos – an alternative to storing content on a device that can become lost or broken. Canada's Radian6, which builds social media monitoring tools that are used by more than half of the Fortune 100 companies, was bought by Salesforce for US\$326-million. Microsoft filed a formal complaint against Google, alleging to the European Commission that Google practices unfairly impede competition. Google controls more than 90% of the Internet search advertising market in Europe.

Our Recommendation

U.S. employment data is supportive for equities

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group, says: "we are still constructive on the market and would maintain a 'buy the dip' bias".
- **Fixed income.** Anthony Mentor, Associate, Portfolio Advisory Group, highlights the following recommendations: "Term Call – Scotia Economics is forecasting a flatter yield curve over the next 12-15 months. With current 10 and 30 year yields trading well below Scotia Capital's current rate forecast, we do not expect the rally in bonds to continue; therefore we 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 – overweight high yield, marketweight Emerging Markets Debt, underweight inflation protected debt."
- **Portfolio strategy.** Vincent Delisle, Scotia Capital's Portfolio Strategist, writes: "Strong U.S. jobs data is positive for the S&P500 and cyclical."



The Month in Review

March: Earthquake rocks Japan; investors confident in recovery

On March 11, a devastating earthquake and tsunami hit Japan, causing an estimated US\$300-billion of damage. With the loss of two nuclear power plants, factories face rolling power blackouts, which will result in global shortages of Japanese parts – from computer chips to car parts. Stock markets rebounded from a dramatic three-day plunge, as investors believe in Japan's ability to recover. Economists anticipate a contraction in Japan's second-quarter GDP, and then a sharp rebound in the latter half of 2011 due to reconstruction investment.

North American stocks post stellar first quarter

U.S. stocks turned in their best first-quarter performance since 1998, with the Dow up 6.4%, and the S&P 500 gaining 5.4%. Toronto's main stock index rose 5% for the quarter, buoyed by commodity prices, which rose for a third straight quarter. Gold hit a record \$1,447.82 an ounce on March 24 and silver surged to a 31-year high.

U.S. trade activity strengthens

In the U.S., a record rise in exports was overshadowed by strong import growth, a sign of improved domestic demand. Canada's trade surplus fell to \$116-million in January as export growth slowed and imports reached three-year highs.

Canada factories in high gear

Wholesale sales rose 1.5% in January over December, gaining for a sixth month. Manufacturing sales jumped 4.5% to their highest level since October 2008, driven by autos and airplanes. Labour productivity rose last year at the fastest pace since 2005, but still lagged the U.S. as a strong loonie pushed up costs.

Europe faces debt and inflation

Growing concern of sovereign default caused borrowing costs to rise in Portugal and Ireland. Spain was downgraded as Moody's suggested the cost of rescuing the country's banks could rise fivefold to €100-billion (US\$111-billion). With eurozone consumer prices up 2.4% in January, the European Central Bank is considering raising its benchmark interest rate, which could slow growth for 17 nations that are recovering at vastly different paces.

Emerging markets home to billionaires

The number of billionaires in BRIC nations – Brazil, Russia, India and China – rose to 301, up from 193 a year ago, surpassing Europe but not the U.S., where 413 individuals are worth a total of US\$1.5-trillion.

Commodity rally to continue; rare earth metals skyrocket

U.S. and Australian officials predict Chinese and Indian demand will fuel a global commodities price rally for another two years before supply catches up. Iron ore is expected to hit record prices next quarter. Japan's reconstruction will drive demand for copper, aluminum and nickel, used widely in construction. With China curtailing its exports of rare earth metals, prices burst through the US\$100,000-per-tonne mark in February, up dramatically from US\$14,405 in July.

Developing countries eat more meat

Export demand for U.S. beef climbed 24% in 2010 as the U.S. dollar weakened and rising standards of living in developing countries enabled more consumers to afford meat in their diet. PepsiCo is raising prices for its Tropicana juice by up to 8% after cold weather reduced orange crops.

Tablet wars heat up

Research In Motion's tablet computer – the BlackBerry PlayBook – will hit store shelves at 20,000 locations in Canada and the U.S. on April 19, priced to compete directly with the iPad 2. Apple launched the iPad 2 in March and has sold 15 million iPads since last April.

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

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