

Market Watch

Big Picture

Global growth forecasts cut

Economists at Morgan Stanley lowered the outlook for global growth in 2011 to 3.9%, from 4.2%, and warned that the United States and the eurozone are “dangerously close to recession.” This week saw a slew of disappointing U.S. data, including jobless claims, inflation, home sales and business conditions. The Philadelphia Fed Business conditions index, a key indicator of manufacturing health, plummeted to its lowest level since March 2009. Fitch Ratings said it affirmed the United States’ credit rating at AAA, despite last week’s downgrade by Standard & Poor’s. Italy passed an austerity budget with tax hikes and spending cuts worth 20-billion euros in 2012 and 25.5-billion euros in 2013.

Europe’s economic engine, Germany, stalled in the second quarter, expanding 0.1% following 1.3% in the first quarter. Canadian manufacturing sales plunged 1.5% in June, versus May, falling for a third consecutive month. Canadian venture capital firms committed just \$132-million in new money between April and June of 2011, down 57% from a year ago. Japan posted a trade surplus in July for a second straight month, which bodes well for the recovery of the export-led economy. Venezuelan President Hugo Chavez said the government will repatriate almost all of its \$11-billion in gold reserves held abroad, and nationalize the gold industry, controlling all exploration and extraction of gold as it seeks to halt illegal mining.

Markets

More volatility; markets tumble

New worries over Europe’s banks and a dismal report of U.S. manufacturing fueled a sell-off on Thursday in which the S&P 500 lost 4.5% and the Stoxx Europe 600 Index fell 4.8% in its worst plunge since March 2009. It was the sixth time this month the S&P 500 has moved 4% in a day. Google purchased Motorola Mobility Holdings Inc. for US\$12.5-billion, acquiring a smartphone manufacturing division for its Android software platform. IBM announced a breakthrough in cognitive computing, and released prototypes of a new computer chip designed to mimic the way the human brain works.

Dell slashed its 2012 revenue forecast on fears that corporate and government spending are waning. Walmart sales slid for the ninth straight quarter, losing 0.9%. Target posted a 3.9% increase in second-quarter revenues, up from 2% in the first quarter, as the firm benefited from its push into groceries and 5% discount offer to Target cardholders. Deere & Co.’s quarterly revenue grew 22%, on strong equipment sales both inside and outside of the U.S. and Canada. Coca-Cola plans to invest US\$4-billion in China over three years, raising its total investment there between 2009 and 2014 to US\$7-billion.

Our Recommendation

Decline in stock prices represents a buying opportunity

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG), wrote: “We expect volatility to continue in the near-term but investors should be adding to positions on weakness, particularly in higher quality, dividend-paying, defensive stocks as our intermediate and longer term bias still favours equities over all 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 Hugo Ste-Marie says: “In the near term (3-6 months), negative consensus earnings revisions are likely to weigh on sentiment and indices could retest recent bottoms before attempting a sustained rally.”

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

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