

# Market Watch

## Big Picture

### U.S. jobless claims at 3½-year low

New jobless claims in the U.S. dropped last week to the lowest level since May 2008, another sign that the U.S. labour market is healing. Job gains in November brought the unemployment rate to 8.6%, from 9%. The U.S. current account deficit narrowed to US\$110.3-billion in the third quarter, the smallest since the final three months of 2009, as exports picked up and imports slowed. Spain sold €6.03-billion (US\$7.8-billion) of debt, almost twice the target for Wednesday's auction, and Italy also reached its target but rates soared as investors remain unconvinced that Italy's new government can make the necessary reforms to cut the country's €1.9-trillion (US\$2.6-trillion) debt.

Unemployment in Britain reached a 17-year high – 2.64 million people are jobless with women and young people hardest hit. Canadian household debt hit a new high, at 153% of annual disposable income, surpassing both the U.S. and Britain. For one in 10 Canadians, the cost of servicing their debt consumes more than 40% of their income. Canadian industries were operating at 81.3% of capacity in the third quarter, up from 79.9% in the second quarter and a low of 69.4% in mid-2009; however, factory sales slumped in October, confirming suspicions of a year-end slowdown.

## Markets

### Europe optimism short-lived

Optimism was short-lived over last week's European summit agreement that would enforce caps on government borrowing and spending in 23 European Union (EU) countries. Investors lost faith in the plan within days and Wednesday saw global stocks and commodities tumble – gold slid 4%, crude oil and copper tumbled 5%, and the euro hit an 11-month low against the greenback. U.S. stocks halted their slide Thursday, benefiting from better-than-expected economic data on the jobs and regional manufacturing fronts.

Agrium quadrupled its annual dividend and announced it would expand its Vanscoy potash mine at a cost of \$1.5-billion. Canada's Suncor Energy announced it is pulling out of Syria as violence escalated in the country's nine-month-old civil war and economic sanctions were imposed by the EU. General Electric forecast double-digit profit growth in 2012 on a sales increase of about 5%. Coffee prices are expected to fall as record harvests in Vietnam and Brazil and a huge jump in Indonesian output will create more supply while demand is threatened by slowing global economies.

## Our Recommendation

### Macro overhang remains but outlook improving

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG), wrote: "As we are at somewhat of an inflection point in terms of the global economy and stock market sentiment, we expect volatility to continue, resulting in equities trading in a range for the foreseeable future."
- **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: "based on our forecasts, equity total returns are expected to exceed bonds and cash in 2012. However, the high level of euro uncertainty and weaker Chinese data expected through Q1/12 warrants a cautious cyclical stance to kick off 2012."

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

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