

Market Watch

Big Picture

U.S. recovery strengthens; Canada exporters benefit

The U.S. economy is poised to expand this year at its fastest pace since 2003, according to a new Wall Street Journal survey. Economists lifted their forecasts to 3.5%, from 3.3% a month ago, citing rising consumer and business spending. Federal Reserve policymakers said Wednesday that the U.S. recovery was on a “firmer footing.” Canada’s trade surplus surpassed \$3-billion in December after nine consecutive months of deficits. Exports rose 9.7%, representing the biggest gain in 30 years, with exports to the U.S. up 10.8%. In China, inflation accelerated to 4.9% in January, with food costs jumping 10.3%. The World Bank reported Tuesday that higher food prices have pushed 44 million more people into extreme poverty since June 2010.

China’s trade surplus in January fell to its lowest level in nine months, shrinking to US\$6.5-billion from US\$13.1-billion in December. Imports rose 51% versus a year earlier, due to China’s massive appetite for raw materials, which outweighed a 37.7% rise in exports. Eurozone growth continued to stall in the final quarter of 2010, rising just 0.3% as heavy snow in some countries and new spending cuts and tax increases took a toll. Greece’s economy will shrink 3% this year, remaining in recession for a third year after contracting more than 4% last year and 2.3% in 2009. Global deal-making is at a four-year high, with M&A volume up 62%, to US\$377-billion, so far this year.

Markets

TSX breaks 14,000; stock exchanges plan to merge

On Wednesday, the TSX climbed past 14,000 for the first time since July 2008 and U.S. stocks rallied to a 32-month high amid strong corporate earnings and a more optimistic outlook from the Federal Reserve. The New York and German stock exchanges announced plans to merge, which would create an exchange powerhouse trading US\$20-trillion annually with operations in the U.S. and throughout Europe. A \$7-billion proposed merger between Canada’s premier stock exchange and the London Stock Exchange is generating controversy as it undergoes scrutiny by Ottawa as well as Ontario and Quebec regulators.

John Deere quarterly profit doubled as robust sales of farm and construction machinery helped offset rising material costs. Dell quarterly profits tripled to US\$927-million on strong corporate sales. Commercial real estate sales in Canada rebounded to nearly pre-recession levels, with transactions totalling \$18.9-billion in 2010, up 48% from 2009. Clothing prices will rise 10% in the coming months as cotton prices continue to soar. Apple will sell subscriptions to magazines, newspapers, videos and music in its App Store, taking a 30% cut from participating publishers. Copper prices will continue to rise according to Rio Tinto CEO Tom Albanese, who forecast demand for iron ore, copper and aluminum to double over the next 15 to 20 years.

Our Recommendation

Buy on weakness; overweight cyclical sectors

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group, says: “We believe a modest pullback is likely and would ultimately be healthy for the longer term sustainability of positively trending equity markets.”
- **Fixed income.** Anthony Mentor, Associate, Portfolio Advisory Group, highlights the following recommendations: “Term Call – we recommend investors move further out the yield curve to a market neutral duration position. 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, overweight inflation protected debt.”
- **Portfolio strategy.** Vincent Delisle, Scotia Capital’s Portfolio Strategist, writes: “We are moderately optimistic for 2011. Signs to turn more cautious would include a negative reversal in jobless claims, flatter yield curves, Fed rate hikes, broad equity overvaluation, and peaking profit margins. In our opinion, none of these bearish signals are currently present and investors should pay attention to shifting sentiment and flows.”

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

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