

Market Watch

Big Picture

Egyptians fight for democracy

Thursday marked the 10th day of demonstrations in Cairo's Tahrir Square, where clashes have turned increasingly violent between armed supporters of Egyptian President Mubarak and pro-democracy protesters demanding an end to his 30-year rule. U.S. President Obama called for President Mubarak to take concrete steps toward a democratic election immediately, but stopped short of calling for him to step down. In the U.S., President Obama proposed cutting oil and gas subsidies to make way for new "green energy" tax incentives to encourage U.S. businesses to make their buildings more efficient. High demand for temporary workers in the U.S. and Europe underscores employers' uncertainty of a global recovery, according to staffing agency Manpower, which forecast its first-quarter revenue to rise 41% in the Americas and 17% in Europe versus a year ago.

The Canadian economy expanded 0.4% in November, according to Statistics Canada, topping expectations and doubling the pace of the previous month. Growth was led by the financial, insurance and real estate industries, which account for 20% of GDP. The rate of Canadian business failures dropped 26% in the first 10 months of 2010, more evidence of recovery. Standard & Poor's cut Ireland's credit rating amid uncertainty over how much additional capital the country's banks will need. Spain's unemployment picture darkened as the number of jobless rose above 20% to 4.2 million in January. The government says a thriving black market – in which Spaniards work for cash and avoid taxes – is costing billions in lost tax revenues.

Markets

Stocks fall, crude surges on Egypt turmoil

World stocks fell and oil surged above US\$103 a barrel on Thursday as violence in Egypt escalated. While Egypt is not a large oil producer, investors fear disruptions in major oil supply routes – the Suez Canal and the SuMed pipeline – which run through Egypt. As well, inflationary pressures from rising oil prices could threaten the global economic recovery. The turmoil overshadowed positive U.S. economic news, including a drop in jobless claims and a rise in productivity. The TSX remained on a rising trend buoyed by climbing resource prices. Copper hit a record US\$10,000 a tonne as potential supply shortages loom and demand continues to climb. China consumes 40% of the world's copper, which is used extensively for construction.

Suncor Q4 profit nearly tripled in the fourth quarter, mainly because of lower prices on raw materials after Enbridge pipeline closures last year led to an oversupply. MasterCard profit soared 41% in the fourth quarter and Visa's fiscal first-quarter profit jumped 16% from a year ago as consumers spent more on credit. UPS reported better-than-expected quarterly profits and forecast record-high profits for 2011. An economic bellwether, UPS handles 6% of U.S. GDP and 2% of global GDP. Germany's BMW and France's Peugeot Citroen formed a joint venture to develop hybrid and electric cars.

Our Recommendation

Be prepared to buy on weakness; overweight cyclical sectors

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group, says: "the positive influence of strong corporate earnings, healthy balance sheets, and reasonable valuations continue to be supportive of equities for 2011; investors should be prepared to buy on market weakness".
- **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 – underweight 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: "We reiterate our cyclical over defensive preference and Energy over Materials bias. Energy, Industrials-Capital goods, Technology, Financials, and Media are rated overweight.



The Month in Review

January: U.S. on the mend but debt challenge looms

The new year began with fresh evidence that the U.S. economy is on the mend. U.S. private employers added 297,000 jobs in December, almost triple expectations. And, new jobless claims declined to the lowest monthly average since July 2008. Construction spending rose 0.4% in November, double economists' forecasts, and the Institute for Supply Management's gauge of U.S. manufacturing climbed to a seven-month high as factory output grew for a 17th straight month.

The latest figures show the U.S. deficit will hit \$1.5-trillion, a new record, which will fuel the raging debate over spending cuts as the national debt nears the \$14.3-trillion cap set by law. Worldwide, the average public debt in developed nations now equals 70% of GDP – 50% higher than three years ago.

Canadian economy shows strength

Canada's composite of leading economic indicators rose more than expected, to 0.5% in December, and gains in November and October were revised upward, as the overall economy continues to show strength. Canada's leading indicators have declined just once in the last 20 months. Canadian firms and individuals were awarded a record 5,223 patents in 2010, up 20% from 2009, despite sluggish research and development spending.

Global mergers and acquisitions top US\$2-trillion

The year 2010 was a blockbuster year for global mergers and acquisitions, with deals totalling more than US\$2-trillion, up 20% over the previous year. Emerging markets posted their most active year ever, accounting for over one-quarter of market share. In Canada, IPOs made a stunning comeback, with new stock issues worth \$5.5-billion last year, versus \$2-billion in 2009 and just \$0.7-billion in 2008.

Resources in high demand

China imported a record amount of copper in 2010 – 4.29 million tonnes, slightly more than in 2009, and up from just 2.64 million tonnes in 2008. Alcoa reported a fourth-quarter profit, after a year-ago loss, as aluminum prices rose 11% in 2010. Uranium prices surged amid concerns over a potential supply shortfall – 10 transactions involving more than two million pounds of uranium-oxide concentrate were conducted in one week alone. Commodity prices fell at the end of January after India hiked interest rates for the seventh time in 10 months.

CP back on track

Canadian Pacific Railway revealed plans for \$1-billion in capital spending in 2011, with the top priority being the renewal of track infrastructure. CP fourth-quarter profit jumped 27% on strong Asian demand for shipments of Canadian commodities.

Emerging markets drive auto sales

Record global auto sales are expected in 2011 with China, India and Russia leading the way and the U.S. poised for its second year of double-digit percentage growth. GM unveiled its first "made-in-India" engine as it seeks to produce competitively priced cars in local market.

Computer wars

In fourth-quarter earnings, Apple crushed estimates, with profit up 78% from a year ago as it shipped 16 million iPhones and seven million iPads. The company announced last month that Steve Jobs had taken medical leave but will remain as CEO. The iPad cut into PC sales in the fourth quarter, as worldwide shipments of personal computers increased a modest 2.7% from a year earlier, instead of the 5.5% gain predicted, and U.S. sales declined 6.6%.

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

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