January 20, 2012

Market Watch

Big Picture

IMF seeks US$600-billion boost in funds

The IMF is seeking to more than double its lending resources by raising US$600-billion to help countries deal with the fallout of the eurozone debt crisis, but the plan faces some resistance. The U.S. and Canada said that Europe must put up more of its own money to resolve the situation. IMF officials hope the G20 talks in Mexico this week can lay the groundwork for a deal. The World Bank slashed its outlook for the global economy, citing "significant headwinds" from Europe. Global gross domestic product was cut to 2.5% in 2012, versus a previous estimate of 3.6%.

The Bank of Canada (BoC) predicts that a European recession in 2012 will cost Canada $10-billion in lost output, and result in $700-billion in lost global output. The BoC held its key rate at 1%, noting: "the pace of growth going forward is expected to be more modest than previously envisaged." The central bank estimates that Canada's economy will expand by 2% this year and 2.8% in 2013. Claims for U.S. jobless benefits last week dropped to the lowest level in almost four years, pointing to an improvement in the U.S. job market. In the U.K., the jobless rate hit a 17-year high of 8.4%.

Markets

U.S. stocks near six-month high

The S&P 500 reached nearly a six-month high yesterday, as the stock market was buoyed by U.S. economic news as well as strong demand at Spanish and French government bond auctions amid hopes that the IMF would raise money to help resolve Europe's debt crisis. Natural gas prices tumbled to near 10-year lows as mild temperatures dampened demand and supply surged as a result of advances in drilling technology. The International Energy Agency cut its oil-demand forecast and warned of the potential for zero oil growth in 2012 due to an economic slowdown.

The U.S. rejected a proposal for a $7-billion pipeline extending from the oilsands to Texas because there was not enough time to review an alternate route that would avoid Nebraska's Ogallala Aquifer, a major source of fresh water. Prime Minister Harper and other officials said they believe TransCanada Corp.'s Keystone pipeline will eventually proceed, but that the rejection underlines the need to diversify markets. Currently, 99% of Canada's oil exports go to the U.S. Canadian oil & gas producers will spend $67.3-billion in 2012 and $73.2-billion in 2013. Kodak filed for bankruptcy protection, as it pays the price for failing to embrace digital photography, a technology that it invented. EBay sales and profit topped analysts' estimates.

Our Recommendation

Outlook remains cautiously optimistic

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG), wrote: "the market's trading range is developing a more upward sloping trend, with higher lows and higher highs, so although there are opportunities to take profits, our emphasis is more on buying on pullbacks versus selling strength."
- **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: "With the U.S. economy showing better momentum relative to Europe/Asia, companies with a domestic focus offer less earnings risk, in our view."

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

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