

Market Watch

Big Picture

U.S. to drive Canada exports; debt reaches cap

Canadian exports are expected to climb 5.8% in 2011, driven by auto exports to the United States. Export Development Canada forecasts auto exports will grow 10.9% this year after a 38.4% rebound in 2010. The U.S. consumer confidence index reached an eight-month high, climbing seven points in January to 60.6, but still far from the 90 level, which indicates a healthy consumer sector. The National Association for Business Economics reported Monday that the number of U.S. firms planning to hire was at its highest level in 12 years. In Canada, consumer confidence was up 7.1 points from December, to 88.1, with Canadians more optimistic about jobs, personal finances, and their ability to make a major purchase.

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. Standard & Poor's cut Japan's credit rating for the first time in almost nine years Thursday, citing the government's lack of a coherent plan to tackle its mounting debt, especially amid an aging population, which will put further pressure on the public purse. Worldwide, the average public debt in developed nations now equals 70% of GDP – 50% higher than three years ago. The global labour crisis continues into its third consecutive year with unemployment exceeding 200 million people worldwide.

Markets

Dow and S&P hit milestones on strong corporate earnings

The S&P hit a 29-month high on Thursday, breaking the 1,300 mark, and the Dow struggled to advance past 12,000 after the Federal Reserve held rates steady and reiterated its commitment to pump US\$600-billion into the economy amid strong corporate earnings reports. Commodities fell on Tuesday after India hiked interest rates for the seventh time in 10 months as food inflation tops 15%. Food inflation in Canada has been held in check by a strong loonie and competitive pressures as Wal-Mart plans to open 40 supercentres in Canada next year. McDonald's warned of price increases, as it scored its seventh month of global sales increases, driven by mochas and iced lattes.

CP fourth-quarter profit jumped 27% on strong Asian demand for shipments of Canadian commodities. Potash Corp. increased its dividend and announced a stock split as profit doubled versus a year ago, driven by global food demand. American Express revenue grew 13% versus the year-ago holiday quarter, as consumers spent more on credit. Apple's app store marked its 10-billionth download, and wave-and-pay technology on the iPhone5 could give Apple a piece of the lucrative transaction industry. GE profit soared 52% on strong equipment orders. Netflix profit sailed past estimates, adding 54% in one year as subscribers hit 20 million. GM unveiled its first "made-in-India" engine as it seeks to produce competitively priced cars in local markets.

Our Recommendation

Focus on dividend paying stocks, expect a modest pullback

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group, says: "From current levels we would expect modest capital appreciation over the coming year, which makes a focus on dividend paying stocks increasingly important."
- **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: "Equities have been overbought for weeks, and we expect a modest pullback in the near term. Why modest? Because we are looking for the U.S. macro economy to show sustained improvements in 1H/11, corporate earnings should continue to beat expectations, and equity flows should be supportive."

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

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