

Market Watch

Big Picture

Greece passes austerity plan

Greek parliament passed a crucial austerity package on Thursday, clearing the final hurdle for international funding to avoid a default. With Europe's private sector – banks and insurance companies – being pressured to share the burden of a second rescue program for Greece, French banks have agreed to voluntarily renew some bonds on different terms when they become due, which would relieve pressure without triggering a default. French Finance Minister Christine Lagarde was chosen as the new managing director of the International Monetary Fund (IMF), which catapults her into the middle of the European debt crisis.

Canadian inflation reached 3.7% in May, driven by fuel prices, which were nearly 30% higher in May than a year earlier. U.S. consumer spending was flat in May as motor vehicle sales tumbled, but analysts expect a rebound in the third quarter as gas prices fall and the auto industry resumes full production. Household spending in the United Kingdom declined at its fastest pace since 2009, dropping 0.6% over the first quarter. With taxes and inflation, household disposable incomes were 2.7% lower than a year earlier. Moody's stepped closer to cutting Japan's credit rating, as the government has failed to announce a plan for dealing with the country's debt burden.

Markets

Global stocks breathe sigh of relief

Global stocks jumped Wednesday after the Greek vote passed, and rising U.S. home sales pushed the S&P 500 Index to its biggest three-day rally since March. Siemens, a barometer of global manufacturing, reported an outstanding current quarter thanks to a €3.7-billion order for high-speed trains, but predicted declining growth in the second half of 2011. Microsoft introduced a new version of Office – Office 365 – available via cloud computing, so businesses will be able to access software and company data from anywhere, on any device.

Google launched Google+, a new social media service to compete with Facebook. The global mobile advertising market is predicted to reach US\$28-billion in 2015, from US\$5-billion this year. General Mills announced quarterly earnings rose 51% year-on-year as higher costs were passed on to shoppers, and predicted ingredients, energy and other input costs would grow by between 10% and 11% in 2012. Online social game company Zynga, maker of FarmVille, plans to raise up to US\$2-billion in an IPO that could value the company as high as US\$20-billion.

Our Recommendation

Equity risk-reward outlook improving

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group, wrote “our conclusion remains that the current equity market correction, a symptom of a mid-cycle slowdown in the global economy, represents a buying opportunity.”
- **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 – overweight 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 - market weight high yield, marketweight Emerging Markets Debt, overweight inflation protected debt.”
- **Portfolio strategy.** Scotia Capital Portfolio Strategist Vincent Delisle says: “U.S. earnings growth should be sustained well into 2012, albeit at a slower pace.... earnings are growing, but we think the odds of a major positive surprise [for Q2] are low.”

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

Jolene Laing, CIM, FCSI

Associate Portfolio Manager

(604) 535-4733

jolene_laing@scotiamcleod.com

