

Market Watch

Big Picture

Portugal nears bailout; U.K. slows amid double threat

Portugal's prime minister resigned on Wednesday after parliament rejected a new austerity plan, bringing the country one step closer to a bailout. The U.K. cut its growth forecast to 1.7% in 2011, from 2.1%, after inflation hit a 28-month high and borrowing hit a monthly record despite new tax increases and spending cuts over the past 10 months. Some fear that more belt-tightening could tip the U.K. back into recession. Billionaire businessman Warren Buffett said the U.S. economy is "getting better month by month" and the quake "will not stop the growth in the world's economy." The Federal Reserve agreed that the recovery is gathering momentum, but still voted to forge ahead with its US\$600-billion stimulus program.

New U.S. home sales unexpectedly fell in February to record lows and prices were the lowest since December 2003 as foreclosures continue to flood the market. A Reuters survey found that three-quarters of Americans are shopping less due to rising gas prices – prices at the pump have risen 27% in one year. A large Hong Kong distributor warned that manufacturers will soon begin to pass on the rising costs of raw materials and Chinese labour to customers. A labour shortage has resulted in wage increases of 20% this year. Last Friday, the G7 sold an estimated 530 billion yen (US\$6.5-billion) in a coordinated effort that successfully weakened the rapidly rising currency, which threatened to harm the Japanese economy.

Markets

World markets recover last week's losses

Global stocks gained for a sixth day on Thursday, the longest rally for the MSCI World Index since September, propelling stocks beyond pre-earthquake levels as investors felt confident the world economic recovery remained on track. With the cost of Japan's reconstruction now estimated at ¥25-trillion (US\$303-billion), commodities climbed, driven by metals such as copper, aluminum and nickel, used widely in power and construction. Uncertainty over the longer-term impact of the Japanese disaster pushed the price of gold to a record US\$1,438. With China curtailing its exports of rare earth metals, prices burst through the US\$100,000-per-tonne mark in February, up dramatically from US\$14,405 in July.

Best Buy smartphone sales offset declining TV sales, as U.S. shoppers kept a tight rein on big-ticket spending in the fourth quarter. Research In Motion's tablet computer – the BlackBerry PlayBook – will hit store shelves at 20,000 locations in Canada and the U.S. on April 19, 2011, priced to compete directly with the iPad2. IMAX will open 75 more theatres in China in the next four years and expects to have 300 theatres by 2016. Since China only allows 20 foreign films per year, the company intends to convert Chinese films into IMAX format.

Our Recommendation

Trend remains positive, pullback less certain

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group, says: "the underlying trend remains positive, supported as it is by fund flows moving back toward equities, and cash on the sidelines just waiting for a market pullback."
- **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: "Since February 18 (last S&P 500 peak), we have been closely monitoring technicals in order to assess the extent of any potential correction. With yesterday's close above the 50-day MA, we now see much lower odds of getting that "healthy pullback" in the near term."

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

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