

Market Watch

Big Picture

Canada, U.S. labour markets gain traction

The U.S. unemployment rate unexpectedly fell to 9% in January, the lowest level in 21 months. The drop from November's 9.8% marked the biggest two-month decline since 1958, prompting Deutsche Bank to raise its U.S. growth forecast a full percentage point, to 4.3%, in 2011. New U.S. claims for unemployment benefits dropped last week to their lowest point in 2-1/2 years. Canada added 69,000 jobs in January, far surpassing expectations, but a brightening jobs picture encouraged more people to enter the workforce, so the unemployment rate climbed to 7.8% from 7.6%.

Alberta may face a labour shortage in 2012, according to a business confidence index report by PricewaterhouseCoopers, which cites strong oil prices, higher drilling activity and growing oilsands projects. Canadian building permits rose 2.4% in December, marking the first increase in three months, following a 10.5% drop in November. China raised interest rates on Tuesday, its second increase in just over six weeks, as it battles inflation, which is running near its fastest pace in two years. Britain slapped an extra US\$1.3-billion tax on its banks this year, as it takes a hard line to ensure banks contribute to the economic recovery as well as agree to limit bonuses and increase the amount they lend to businesses.

Markets

Egypt and China keep investors on edge

International markets pulled back, as Egyptian unrest was compounded by China's announcement of another interest rate hike. But in the U.S., strong quarterly earnings and forecasts drove the Dow to extend an eight-day rally. The TMX Group announced a merger between the Toronto Stock Exchange and the London Stock Exchange, which would create the world's biggest stock exchange if approved by the Canadian government and provincial regulators. OPEC raised output in a bid to prevent oil prices from rising too much and slowing the global economic recovery. Coca-Cola reported higher-than-expected quarterly sales with growth in all major markets while PepsiCo cut its forecast for 2011 after a 5% fall in quarterly profit.

Shares of technology bellwether Cisco tumbled 15% after quarterly profit fell to US\$1.5-billion from \$1.9-billion a year earlier. AOL will pay US\$315-million for *The Huffington Post*, a popular news, opinion and gossip website. Google and Facebook have reportedly engaged in "low-level talks" with Twitter, regarding a takeover that would value the company at up to US\$10-billion. Bombardier hopes to profit from President Barack Obama's announcement of a \$53-billion, six-year commitment to a national network of fast trains. Corn prices surged to their highest since July 2008 after the U.S. Department of Agriculture slashed its domestic and international forecast. Agrium quarterly profit rose as high grain prices fueled demand for its fertilizer.

Our Recommendation

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."

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

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