

Market Watch

Big Picture

Europe clinches Greek deal; U.S. breakthrough elusive

After eight hours of talks in Brussels, European officials agreed to €109-billion (US\$157-billion) of additional aid for Greece and gave their €440-billion financial rescue fund sweeping new powers to stop the debt crisis from spreading. In the U.S., lawmakers continued struggling to reach agreement over raising the nation's debt ceiling. The White House denied a report by the *New York Times* Thursday that President Obama and House Speaker John Boehner were close to a "major budget deal." Amid uncertainties in the U.S. and EU, foreign investors turned to Canadian bonds as a safe haven, which drove up the Canadian dollar to US\$106.11, its highest level since November 2007.

HSBC's Purchasing Managers' Index of 450 Chinese manufacturers fell to a 28-month low, further evidence of a slowdown in the Chinese economy, which has become a barometer of global growth and a price-setter for many commodities. Wholesale trade in Canada surged in May driven by a 27.8% jump in demand for agricultural supplies following bad weather, which had hit sales in April. The food sector is now Canada's largest manufacturing industry, with sales topping \$80-billion, and the country's largest employer.

Markets

Earnings, debt hopes lift stocks

Global stocks rallied Thursday as Europe took action on the debt crisis and investors were optimistic about a U.S. deal. Gold retreated from an all-time high of \$1,609.51 on Tuesday. Quarterly earnings reports continued to come in, with 86% of S&P 500 companies exceeding analyst estimates. Apple delivered its best quarter ever, with revenue up 82% and profits up 125% year-over-year. IBM beat estimates and raised its full-year profit forecast. Intel trimmed its forecast for 2011 as mobile devices increasingly eat into the PC market. Tablet computers and smartphones are predicted to drive consumer electronics revenue to a record high of US\$190-billion in 2011. Web users in China rose by 15.5% in the past year to 485 million.

Cisco announced a massive restructuring, with plans to slash 11,500 jobs worldwide and sell a factory to cut US\$1-billion of annual expenses. Strong sales for Coca-Cola and PepsiCo in emerging markets overshadowed a slowdown in North America as both companies reported profit up 18% versus a year ago. China will buy another piece of the oil patch, paying US\$2.1-billion for OPTI Canada, a struggling oilsands firm. Apple's closest rival in the tablet wars, Samsung, launched a new 10" Galaxy Tab, which will hit Canada later this summer. Europe's Airbus broke U.S. rival Boeing's long-standing monopoly on key customer American Airlines by winning 200 out of an order for 460 planes – the biggest order in aviation history.

Our Recommendation

Opportunity for stocks once volatility subsides

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG) wrote: "Although we continue to favour equities over bonds, the current political debate in the U.S. with regard to raising the debt ceiling, and the ongoing euro debt crisis makes us cautious in the immediate short term".
- **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 – marketweight high yield, marketweight Emerging Markets Debt, overweight inflation protected debt."
- **Portfolio strategy.** Scotia Capital Portfolio Strategist Vincent Delisle says: "We expect more debt noise to challenge equity markets leading up to the August 2 deadline on lifting the U.S. debt ceiling, but would view this as an opportunity to rebalance portfolios towards equities and gradually raise cyclical exposure".

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

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