

# Market Watch

## Big Picture

### Canada exports on the rise

Canadian exports are predicted to grow 12% this year and reach pre-recession levels next year as U.S. growth picks up, according to Export Development Canada. The gains are expected to be fueled by higher commodity prices and a U.S. housing recovery that will boost Canada's long-struggling lumber business. Canada's trade surplus rose sharply in March, as exports surged 3.5%, outstripping a 2.8% rise in imports. U.S. retail sales rose for the 10th straight month in April, but gains slowed to 0.5% from 0.9% in March year-over-year. Sales rose more than wholesaler inventories, a sign that companies will continue to add to stockpiles to meet demand.

China's inflation eased slightly in April, to 5.3%, from March's 32-month high of 5.4% year-over-year. After Beijing's warning to companies last week to hold down prices, Unilever was fined 2-million yuan (US\$308,000) for talking to Chinese media about planned price hikes for soap. Japan says it will scrap plans to increase nuclear power capabilities to 50% from 30% by 2030 and instead focus on renewable energy and conservation. Standard & Poor's cut Greece's debt rating to single-B, putting pressure on the EU and IMF to revamp the country's bailout. Canadians pay less tax than the OECD average, according to an OECD report, with taxes of 30.3% for a single person compared to 49% for France and Germany.

## Market

### Commodities tumble as China imports cool

Canadian equity markets took a hit on Wednesday, with the TSX falling to its lowest close in 3-1/2 months, as data that the Chinese economy might be cooling sent commodity prices tumbling. China reported a striking decline in commodity imports in April, particularly copper. Microsoft purchased Skype for US\$8.5-billion cash, the largest deal in Microsoft's history, beating out other suitors believed to include Google and Facebook. Google will sell laptops with its Chrome operating system to compete with Microsoft Windows. "Chromebooks" will go on sale in several countries including the U.S. in June.

The first U.S. social-networking firm to go public, LinkedIn announced an IPO that would value the company at more than US\$3-billion. Cisco beat earnings estimates, but shares sank after the company downgraded its forecast and unveiled plans to cut US\$1-billion in annual costs and reduce its workforce. Intel raised its quarterly dividend 16% – the second boost in six months. Visa will launch a "digital wallet" this fall that will allow users to make online purchases directly from their bank accounts. Bombardier is partnering with Siemens to develop and supply components for up to 300 high-speed trains in Germany in a deal that could be worth up to US\$3-billion.

## Our Recommendation

### Equities not overvalued but due for a pause

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group, says: "there are increasing warning signs that markets may temporarily pause their upward course over the coming months until greater clarity is evident surrounding many geopolitical and economic questions."
- **Fixed income.** Anthony Mentor, Associate, Portfolio Advisory Group, 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 – 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.** Scotia Capital Portfolio Strategist Vincent Delisle says "strategically (next 12 months), we prefer equities to bonds, but our near-term tactical view remains more cautious."

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

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