

Market Watch

Big Picture

Gas prices stall U.S. growth

First-quarter GDP growth in the U.S. remained unchanged at 1.8% yesterday, while economists had expected a revision up to 2.2% from the Commerce Department. High gasoline and food prices were blamed for stalling consumer spending, which slowed to a pace of 2.2% annualized, compared to 4% in the previous quarter. At the same time, government spending fell at a 5.1% rate in the battle against budget deficits. U.S. durable orders sank 3.6% in April as orders for aircraft dropped and carmakers faced disruptions from the Japanese earthquake. Canada's jobless rate is predicted to remain above 7% for the next few years as economic growth moderates.

Sales at Canadian-affiliated companies abroad hit \$500-billion in 2010, surpassing Canadian exports of \$450-billion, as Canadian companies increasingly tap into foreign markets by producing goods and services abroad. The OECD lifted its 2011 outlook for the U.S. to 2.6% from 2.2% predicted in November, and the eurozone to 2.0% from 1.7%, while slashing Japan's outlook to 0.9% from 1.7%. Global growth is forecasted at 4.2% this year and 4.6% in 2012. Greece will start selling state assets such as telecoms, ports and a water utility, and slash an additional €6-billion (\$8.3-billion) this year, as borrowing costs surged, with record yields exceeding 17% for Greek 10-year bonds.

Markets

Earnings shine despite weak economic data

U.S. stocks fell Friday and Monday as new jobless claims unexpectedly rose. But yesterday's disappointing GDP news was outweighed by higher-than-expected corporate earnings from companies such as Tiffany and Co. Target announced 105 Zellers locations where it will open stores in Canada in early 2013. IBM surged past Microsoft in market value for the first time since 1996, worth US\$203.5-billion versus US\$201.1-billion. The IPO for Yandex, "the Google of Russia," saw shares skyrocket 40%. Twitter bought TweetDeck, an application that lets users organize the people and news feeds they follow.

Ukraine, one of the world's top grain exporters, removed its grain export quotas, easing concerns over a looming shortage as drought threatens crops in western Europe and the southern U.S. The cost of coffee beans doubled in the past year, as global coffee consumption rose 2.4% to record levels in 2010, driven by its growing popularity in Asia. Manitoba inked a 15-year deal worth US\$4-billion to build a new dam and send electricity to U.S. states. Chrysler is set to repay US\$7.5-billion in bailout loans to the Canadian, Ontario and U.S. governments.

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 – overweight 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, overweight inflation protected debt."
- **Portfolio strategy.** Scotia Capital Portfolio Strategist Vincent Delisle says: "The global economy is moving from recovery to expansion, with the latter pointing to more moderate growth, not disappearing growth. Hence, earnings growth looks poised to continue well into 2012".

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

