

Market Watch

Big Picture

U.S. manufacturing and fiscal picture brightens

Orders for U.S. durable goods jumped 4.0% in July, driven by the transportation sector, which spiked 14.6% on higher demand for autos and aircraft. America's fiscal picture has improved since the budget deal earlier this month, according to the Congressional Budget Office, which released its 10-year outlook on the U.S. economy. Although hinged on numerous assumptions, the report suggests that budget deficits could be slashed nearly in half over the next 10 years, with public debt shrinking from 67% to 61% of the economy – the level economists consider sustainable. France cut its economic growth outlook and announced extra budget savings of 12-billion euros this year and next, including a temporary tax on the wealthy until the country hits its deficit target of 3% of GDP in 2013, down from 7.1% in 2010.

Canadian consumer confidence hit a two-year low in August, with Quebec showing the largest decrease and only British Columbia avoiding a decline. Wages in Canada are forecast to rise 2.6% in 2011 and 2.8% in 2012. Commodity-rich provinces will lead the way, with wages in Newfoundland and Labrador up 3.5% this year and 3.4% in 2012, while Alberta wages gain 2.9% and 3.4%. Canadian wages will rise faster than other G8 countries, including Germany at 2.5% and the U.K. at 2.1%, but lag emerging economies such as India, Russia and China, at 11.7%, 9.8% and 8.4%, respectively.

Markets

Stocks edge higher; eyes on Bernanke

World stocks edged higher, with U.S. stocks gaining about 5% mid-week, in anticipation of Friday's meeting of central bankers where investors hope Fed chief Ben Bernanke will announce more monetary easing. Bank of America shares closed 9.4% higher Thursday after Warren Buffett pledged a US\$5-billion cash injection in the U.S.'s largest bank, which has lost more than a quarter of its share value this month. Gold prices matched investors' roller-coaster emotions, touching an all-time high of \$1,911.46 an ounce on Tuesday, and then plunging \$200 before rebounding.

Record metal prices and demand from China and India led mining giant BHP to report the largest ever annual profit for an Australian-based company, up 60% over the previous year. Apple's Steve Jobs stepped aside as CEO after years of health problems. Shares fell 7% initially, but recouped nearly all of the losses, closing down 1%. Ford and Toyota will collaborate on hybrid pickup trucks and SUVs, in order to meet tough, new U.S. fuel-economy rules coming into effect in 2025.

Our Recommendation

Equity risk-reward outlook is increasingly compelling

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG) wrote: "Notwithstanding all the negativity in the market, current weakness offers investors a chance to buy shares of quality companies at a significant discount. There are several blue chip stocks that can now be bought with a dividend yield well in excess of that offered by government bonds."
- **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 – underweight 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, underweight inflation protected debt."
- **Portfolio strategy.** Scotia Capital Portfolio Strategist Hugo Ste-Marie says: "with bond yields hitting multi-decade lows and bond-to-equity outperformance the most extended since Q4/08, the equity risk-reward outlook is increasingly compelling."

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

