

Market Watch

Big Picture

Spain, Greece and Italy under pressure; Britain stalls

Spain was forced to pay the highest borrowing costs since 1997 at a sale of 10-year bonds, amid eurozone turmoil. A major protest rally in Greece tested the new national unity government that must impose painful austerity measures and Italy's new prime minister, Mario Monti, unveiled sweeping reforms while street clashes erupted in Rome and Milan. Fitch Ratings issued a warning about the impact of the eurozone crisis on the U.S. financial sector, saying it may reduce the "stable" outlook rating on U.S. banks with exposure to European debt.

Central banks made their largest purchases of gold in decades in the third quarter and European demand spiked amid concerns about the currency and eurozone debt. The Bank of England slashed the U.K. growth forecast for 2012 by half to 1%, warning of a looming recession. Consumer confidence fell to a record low last month as the number of jobless youths in the U.K. passed 1 million with overall unemployment at the highest level since 1994. Canadian manufacturing sales rose twice as fast as expected in September to the highest level since October 2008. Venture capital investments in Canadian start-ups jumped 51% in the third quarter, with \$365-million raised, more than seven times the year-earlier quarter.

Markets

Europe, U.S. debt deals another setback

U.S. stocks dropped for a second day on Thursday, hitting a one-month low, as concern grew over Europe's debt crisis and the ability of the U.S. deficit panel to reach a deal by next week's deadline. Dell quarterly revenue was flat and the world's No. 3 personal computer manufacturer warned that full-year revenue could be hurt by an industry-wide shortage of hard drives, a key component in computers, due to flooding in an industrial area of Thailand. Google Music was launched in the U.S., offering 13 million songs in a bid to grab a share of the online and mobile music market from Apple and Amazon.

General Electric announced it is investing US\$1-billion in a new software headquarters in Silicon Valley to create innovative software to run increasingly intelligent machines and equipment. Loblaw quarterly profits rose 20% versus a year earlier mainly because of higher food and gasoline prices, while Metro, Canada's No. 3 grocery chain, announced a reduced third-quarter profit as restructuring costs offset improved revenue. Sears third-quarter loss widened to US\$421-million, from US\$218-million a year earlier, dragged down by weakness in Canada, declining consumer electronics sales and softer clothing sales at its Kmart stores.

Our Recommendation

Fundamentals taking a back seat to macro concerns

- **Equities.** Steve Uzielli, Portfolio Manager, Portfolio Advisory Group (PAG), wrote: "Although we wake up to new headlines every day regarding the theatrics occurring in Europe, our cautious outlook remains the same and in the current environment, from a trading perspective, we are more inclined to be sellers than buyers."
- **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: "The U.S. economy should continue to expand over the coming quarters, but European macro data is clearly deteriorating...China is slowing, but recent data is pointing toward a soft landing."