

Market Watch

Big picture

Fundamentals, not speculation, driving Canadian housing revival

The Bank of Canada (BoC) dismissed talk of a housing bubble, even as home prices have climbed 21% and sales volume has surged 41% over the past year. The BoC predicts the housing market will cool down this year as mortgage rates begin to climb. Addressing concerns over high levels of household debt, a survey released Thursday showed the vast majority of Canadian mortgage borrowers are not taking undue risks and have factored rising interest rates into their mortgage decisions.

The European Central Bank voted to leave its official interest rates unchanged, forecasting a modest but bumpy recovery from the Eurozone, with subdued inflation. Germany's recovery stalled in the fourth quarter, and GDP contracted a record 5% in 2009 because of a slump in its export sector, but the government forecasts growth in 2010. German exports declined by 14.7% in 2009, versus 2008. Britain has emerged from recession, showing modest growth in the fourth quarter after 18 months of contraction, according to a respected economic think-tank. Greece unveiled a three-year plan to slash its budget deficit to 2.8% of GDP in 2012, from 12.7%, but financial markets remain sceptical it can tackle a fiscal crisis.

Markets

Tech stocks lift S&P; commodities dampen TSX

Canadian stocks fell this week, led by commodity producers, as worrying U.S. retail and unemployment data added to concerns that world demand for raw materials will falter. In the U.S., tech stocks spurred the market in advance of Intel's quarterly earnings report Thursday. The world's largest chipmaker beat estimates amid a recovering PC market. Research firm IDC reported worldwide PC shipments rose 15% in the October-December period, the strongest quarter in more than a year.

Google shocked investors by threatening to quit China over hackers and censorship. Although Google currently draws less than 5% of its revenue from China, future potential is enormous. The Associated Press and Yahoo are close to a deal that would put a price tag on AP news stories currently accessed free - publishers say Internet portals unfairly profit from their work. Apache will buy 51% of Kitimat's planned \$3-billion liquefied natural-gas export terminal in British Columbia. In the Canadian media industry, quarterly profits soared versus a year ago, with Corus up 82%; Astral Media, 42%; Cogeco, 21%; and CanWest, 29%. CanWest is under creditor protection as it seeks a buyer for the *National Post* and 10 major dailies.

Scotia Capital's View:

The Trend Remains Positive for 2010

- **Equities.** Stephen Uzielli, Portfolio Manager, Portfolio Advisory Group, says, "the trend for equities remains higher, but likely with limited upside potential until such time as investors are more willing to look beyond 2010 and start discounting further economic recovery and profit growth into 2011. As a result, not only will stock selection become increasingly important, but dividend income will also play a larger component of total shareholder returns."
- **Fixed income.** Anthony Mentor, Associate, Portfolio Advisory Group, highlights the following recommendations: "Term Call - below benchmark duration; overweight cash. Sector Call - underweight Canadas, overweight Municipals and Provincials, and Corporates. Currency Call - recent strength in the Canadian dollar means little upside to foreign currency trades. Alternative Strategies - overweight high yield, overweight Emerging Markets Debt, underweight inflation protected bonds."
- **Portfolio strategy.** Vincent Delisle, Scotia Capital's Portfolio Strategist, writes "Current valuations do not look stretched yet... as long as credit spreads continue to narrow and the U.S. employment outlook improves (declining jobless claims), equity markets should resume their upward trend and we will stick to our positive cyclical stance."

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