

Weekly Commentary – April 5, 2010

Daniel Conti, CFA, CFP
Investment Counsellor

Alfred Lam, MBA, CFA
Vice President, Investment Consulting

Richard J. Wylie, CFA
Vice President, Investment Strategy

Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
Apr 5	ISM Non-manufacturing Index	Mar 10	52.5	53.0
Apr 5	Pending Home Sales Index	Feb 10	91.0	90.4
Apr 6	FOMC Minutes	Mar 16 meeting		
Apr 8	Initial Jobless Claims	Week ending Apr 3	440K	439K
Apr 9	Wholesale Sales (m/m)	Feb 10	+1.0%	+1.3%
Canada				
Apr 7	Building Permits	Feb 10	+1.0%	-4.9%
Apr 9	Employment	Mar 10	+25.0K	+20.9K
Apr 9	Unemployment Rate	Mar 10	8.1%	8.2%

Key Earnings:

Apr 6 – Sandvine, Sinovac

Apr 7 – Bed Bath & Beyond

Apr 8 – Astral Media, Cogeco, Pier 1 Imports

Apr 9 – Constellation Brands, Shaw Communications

Source: CIBC World Markets, Bloomberg

Market Focus

Canadian economy scores additional gains

The latest report from Statistics Canada revealed a fifth consecutive monthly gain in overall gross domestic product (GDP) during January. The 0.6% increase continued the string of strong monthly results as the first quarter of 2010 opened. Manufacturing, which had suffered significantly during the economic downturn, led the overall advance in January as activity climbed 1.9% and 17 of the 21 major sub-groups reported improvements. Still, goods production remained 1.4% below the level recorded at the same time in 2009, while services were up 2.5%. Investors will continue to look for more balanced growth in the Canadian economy.

U.S. market rally extends to Q1

Despite lingering uncertainties over the strength of the housing market and the prospects for renewed consumer spending, U.S. equity markets continued to drive forward in the first quarter. In fact, the S&P 500 Index recorded an unusually strong first quarter gain. The 4.9% advance reported during the first three months of 2010 came on the back of the 64.8% improvement posted between the market bottom on March 9, 2009 and the end-of-year close of trading. This latest quarter was the best first-quarter performance since the 13.5% rise posted in 1998. Traders will continue to expect the markets to be ahead of the economy. However, additional signs of improving fundamentals will be needed to foster market gains over the next three months.

German growth forecast pared back

The International Monetary Fund cut its growth forecast for Germany as worries over the government deficit mount. The IMF reported that it expects Europe's largest economy to expand 1.2% in 2010 and 1.7% in 2011. In January, the growth forecasts stood at 1.5% and 1.9%, respectively. The IMF also stated that the German government needs a "credible" plan to reduce its deficit. "Over time, fiscal policy will have to transition from support to credible consolidation." While worries over the Greek debt situation continue to dominate the headlines, it is clear that it will take some time before the economic recovery is fully established in all regions of Europe.

Longer View

We expect 2010 will be a volatile year characterized by modest global economic growth and increasing interest rates. Some companies will no doubt fail in this less-than-robust environment while the stronger ones will grow at the expense of their competitors. Having the ability to selectively pick securities, as opposed to owning everything in the markets, will be the key to success, in our opinion. Our long-term view is constructive and optimistic. We believe emerging countries will continue to drive global growth. Rapid economic growth will eventually drive consumption. This will not only benefit businesses in regions throughout the world, we believe, but also the multinational companies that own the desirable brand names.

Playbook - Market Alert! Weekly Summary

March 29:

According to the U.S. Bureau of Economic Analysis, personal income was largely unchanged in February (increased by \$1.2 billion) while personal consumption expenditures increased by 0.3% (\$34.7 billion). At the same time, January income growth was revised from 0.1% to 0.3%, while consumption was revised down to 0.4% from 0.5%. As a result of revisions, the personal saving rate edged down to 3.1% in February from 3.4% in January. These results are largely in line with expectations.

March 30:

Statistics Canada reported that the Industrial Product Price Index was unchanged in February, while the Raw Materials Price Index rose 0.4% during the month. The move higher for the Raw Materials Price Index was led by a hike in prices for mineral fuels. On a year-over-year basis, industrial prices stand with a 0.6% decline while raw material prices are up 27.8%. Industrial prices are in line with expectations. Continued volatility in raw materials, however, has made forecasting raw material prices extremely difficult.

The U.S. Conference Board reported that its Consumer Confidence Index rebounded in March. The index now stands at 52.5, up from 46.4 in February. The Present Situation Index increased to 26.0 from 21.7. The Expectations Index improved to 70.2 from 62.9 last month. These figures are above expectations.

March 31:

Statistics Canada reported that Canada's GDP advanced 0.6% in January, a fifth consecutive monthly increase. The January gain pushed the year-over-year increase to 1.3%. These results are better than market consensus.

Statscan also reported that average weekly earnings were flat in January, leaving the annual growth rate at 2.1%. These results are in line with expectations.

The U.S. Census Bureau reported that new orders for manufactured goods increased by US\$2.1 billion or 0.6% to \$383.5 billion in February. This advance followed a 2.5% gain in January and is now the tenth increase in the past 11 months. On a year-over-year basis, factory orders are now up 10.2%. Excluding transportation, new orders increased 0.7% in February and are up 8.3% compared to the same period in 2009. These figures are better than expected.

The latest Chicago Purchasing Managers Index (PMI) report signalled continued growth in manufacturing for the region, but at a slower rate in March. The 58.8 index level was the sixth consecutive reading above the key 50.0 (generally expanding) level but was well below the 62.6 mark posted in February. These results are weaker than expected.

April 1:

The U.S. Department of Labor reported initial jobless claims of 439,000 in the week ending March 27, a decrease of 6,000 from the previous week's revised figure of 445,000 and the lowest level since August 2008. The less volatile four-week moving average was 447,250, a decrease of 6,750 from the previous week's revised average of 454,000. These results are better than market consensus.

The U.S. Institute for Supply Management (ISM) reported that the manufacturing sector grew for the eighth consecutive month during March. Its Purchasing Managers Index climbed to 59.6 in March from 56.5 in February. This is the eighth consecutive reading in the "generally expanding" range (above the key 50.0 level) and now shows the fastest pace of manufacturing growth since July 2004. These results are much better than market consensus.

The U.S. Census Bureau of the Department of Commerce announced that construction spending dropped 1.3% to US\$846.2 billion (seasonally adjusted annual rate) in February from January's revised \$857.8 billion. The February figure is 12.8% below the February 2009 figure of \$970.4 billion. These figures are in line with market expectations.

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