

Weekly Commentary – August 23, 2010

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
August 24	Existing Home Sales	July 10	4.67M	5.37M
August 25	Durable Goods	July 10	+2.8%	-1.0%
August 25	Durable Goods ex. transport	July 10	+0.5%	-0.6%
August 25	New Home Sales	July 10	340K	330K
August 25	House Price Index	June 10	0.0%	+0.5%
August 27	GDP – revised	Q2 10	+1.4%	+2.4%
August 27	Michigan Consumer Sentiment	August 10	70	69.6
Canada				
August 24	Retail Sales	June 10	+0.2%	-0.2%
August 24	Retail Sales ex. autos	June 10	+0.1%	-0.1%
August 25	Corporate Profits	Q2 10	+5.0%	+4.8%

Key Earnings:

August 23 – Aluminum Corp. of China, PetroChina, Yanzhou Coal Mining
 August 24 – Alimentation Couche-Tard, Bank of Montreal, Barnes & Noble, Burger King, Medtronic
 August 25 – American Eagle Outfitters, BHP Billiton, CIBC, China Telecom, Guess, Heineken, Toll Brothers
 August 26 – Bebe, Diageo, National Bank, Novell, Royal Bank
 August 27 – China Eastern Airlines, National Bank of Greece, Tiffany & Co.

Source: CIBC World Markets, Bloomberg

Market Focus

Japan to slip to number 3

The fragile nature of Japan's economic recovery came into focus with the release of second quarter GDP data. The official figures revealed a very modest 0.4% (annualized) gain for the three-month period, a sharp setback from the 4.4% pace reported in the first quarter. The soft results come just as China's economy appears ready to take over the number two spot from Japan. Analysts suggest that this is a likely outcome for 2010, as Japan struggles with a significant debt problem, limiting the likelihood of additional government stimulus. Weakness in Japan's key export markets is also expected to act as a drag on the economy over the near term.

U.S. manufacturing ramps up

The latest data from the U.S. Federal Reserve showed a 1.0% jump in industrial production in July. The move was led by a 1.1% advance in manufacturing. After dropping by 17.3% between January 2008 and June 2009, U.S. manufacturing output has now advanced by 9.6%. While it remains well below its pre-recession levels, output from the automotive sector, in particular, has shown renewed strength. However, with overall capacity utilization at a still-low 74.8%, little inflationary pressure is anticipated for the broader economy for the foreseeable future.

Canadian inflation remains at bay

Recent signs of moderating global economic growth have renewed questions regarding the direction of the Bank of Canada's next interest rate policy announcement. As well, on the domestic front, the most recent figures revealed that the bank's core inflation measure slipped lower in July to 1.6% (annual rate) from June's 1.7% figure. This is now the slowest pace of price expansion since December 2009. At this juncture, inflationary pressures do not appear to represent a material threat to the bank's chief

objective of price stability. Pundits will closely monitor statements from the bank for any clue as to its thinking, heading into the scheduled September 8 policy announcement.

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

August 17:

Statistics Canada reported that manufacturing sales edged up 0.1% to \$44.8 billion in June. Sales have advanced in 11 of the past 13 months since the low reached in May 2009. These results are below expectations.

Foreigners' purchases of Canadian securities slowed significantly to \$5.4 billion in June. Meanwhile, Canadian acquisitions of foreign securities rebounded in June, with investors adding \$4.0 billion to their portfolios. This result indicates less foreign buying of Canadian securities than expected.

The U.S. Bureau of Labor Statistics reported that its Producer Price Index rose 0.2% (seasonally adjusted) in July. This advance followed a 0.5% decline in June and a 0.3% decrease in May. On a 12-month basis, prices advanced 4.2% for the period ending July 2010. Excluding volatile food and energy components, prices were up 0.3% for the month and 1.5% year-over-year. These figures are in line with expectations.

The U.S. Census Bureau announced that housing starts in July were at a seasonally adjusted annual rate of 546,000. This is 1.7% above the downwardly revised June estimate of 537,000, but is 7.0% below the July 2009 rate of 587,000. At the same time, the number of building permits issued in July was at a seasonally adjusted annual rate of 565,000. This is 3.1% below the downwardly revised June rate of 583,000 and is 3.7% below the July 2009 estimate of 587,000. These results are mildly weaker than expected.

The U.S. Federal Reserve reported that industrial production rose 1.0% in July. Industrial production in July was 7.7% above its year-earlier level. The capacity utilization rate for total industry moved up to 74.8%, from 74.1% in June and 5.7 percentage points above the rate from a year earlier. These results are significantly stronger than expected.

August 19:

Statistics Canada reported that wholesale sales declined 0.3% to \$43.9 billion in June, with four of the seven wholesale subsectors posting declines. Despite the monthly drop, wholesale sales are up 7.7% from the same period in 2009. These results are weaker than expected.

The U.S. Labor Department announced that initial jobless claims rose to 500,000 last week, a 12,000 increase over a revised 488,000 figure for the previous week. These figures are weaker than expected.

The U.S. Federal Reserve Bank of Philadelphia reported that the district's manufacturing sector experienced moderate weakness in August. The bank's monthly survey showed that the general activity index decreased to -7.7 from a reading of 5.1 in July. This report is weaker than anticipated.

The U.S. Conference Board announced that its Leading Economic Index (LEI) increased 0.1% in July to 109.8, following a 0.3% decline in June, and a 0.5% increase in May. This result is in line with market expectations.

August 20:

Statistics Canada reported that its consumer price index (CPI) rose 0.6% (seasonally adjusted basis) in July, following a 0.2% decline in June. On a year-over-year basis, the CPI is up 1.8%. More importantly for market participants, the Bank of Canada's core consumer price measure actually declined by 0.1% during the month, allowing the year-over-year pace to slip to 1.6% from the 1.7% pace reported in June. These results are generally in line with expectations.

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