

## Weekly Commentary – May 24, 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
<b>U.S.</b>				
May 24	Existing Home Sales	Apr 10	+4.7%	+6.8%
May 25	Case-Shiller Home Price Index	Mar 10	+2.4%	+0.6%
May 25	Consumer Confidence	May 10	59.0	57.9
May 26	Durable Goods Orders	Apr 10	+1.3%	-1.3%
May 26	Durables ex. transport	Apr 10	+0.3%	+2.8%
May 26	New Home Sales	Apr 10	+2.2%	+26.9%
May 27	GDP – Revised	Q1 10	+3.5%	+3.2%
May 27	Initial Jobless Claims	Week ending May 22	435K	471K
May 28	Personal Income	Apr 10	+0.5%	+0.3%
May 28	Personal Spending	Apr 10	+0.3%	+0.6%
May 28	Chicago PMI	May 10	62.1	63.8
May 28	U. of Michigan Sentiment	May 10	73.3	73.3
<b>Canada</b>				
May 26	House Price Index	Apr 10	n/a	+9.9%

### Key Earnings:

May 24 – Campbell Soup, Garda World, Guess

May 25 – Autozone, Medtronic

May 26 – American Eagle Outfitters, Bank of Montreal, Laurentian Bank, National Bank of Greece, Toll Brothers

May 27 – CIBC, Costco, Heinz, National Bank of Canada, Royal Bank of Canada, Tiffany's

May 28 – Atari

Source: CIBC World Markets, Bloomberg

### Market Focus

#### Inflation or deflation?

The cost of living in the U.S. unexpectedly dropped in April for the first time in more than a year, reinforcing the need for the Federal Reserve to keep interest rates near zero for an extended period. The 0.1% fall in the consumer price index was the first decrease since March 2009. The core rate, which excludes food and fuel, rose 0.9% compared to April 2009 – the smallest 12-month gain since January 1966. Retailers such as Wal-Mart are cutting prices to bolster sales. Furthermore, the European debt crisis has pushed up the value of the U.S. dollar, which will probably further depress import prices at a time when inflation is already running below the Fed's projections.

#### Canadian banks set to report earnings

With the Big Six set to begin reporting second-quarter earnings on May 26, Canadian bank stocks still look attractive compared to other global banks, despite being near all-time highs and trading at almost 3.5 times their book values. Notwithstanding the risks posed by the Eurozone crisis and a potential global economic slowdown, Canadian banks should provide some downside protection given their strong balance sheets and "Corporate Darwinist" status among global financials.

#### U.S. financial reform

The U.S. Senate passed landmark legislation on May 20 to further regulate banks on Wall Street in what is considered the largest attempt to overhaul the U.S. financial system since the Great Depression. The goal of the new financial reform bill is to prevent any

repeat of the financial crisis and to block any bank bailout from happening again. The bill includes a new Consumer Protection Agency to protect consumers and to ensure that it will be much harder to apply for a mortgage or a loan. Also, because of their complex nature, banks may be required to spin off their derivatives business and proprietary trading desks. Who escaped any type of reform in this bill? The list includes the Federal Reserve, Fannie Mae, Freddie Mac, hedge funds, private equity firms and car dealer financing units.

### 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

#### May 17:

The Empire Manufacturing Index, a survey of New York City manufacturing companies which is used to gauge manufacturing activity, fell 13 points in May compared to April, with a reading of 19.1. The level of optimism was lower in May than in recent months as the higher U.S. dollar has begun to weigh on domestic manufacturers. This result was significantly lower than expected.

#### May 18:

Canadian investment in foreign securities further strengthened in March to \$6.3 billion, amounting to the largest outflow of funds on this account in nearly two years. In contrast, non-residents reduced their holdings of Canadian securities by \$616 million, marking the first divestment since December 2008. Not surprisingly, the outflow contributed to a weakening in the Canadian dollar. These results are above consensus expectations.

The U.S. Census Bureau and Department of Housing and Urban Development jointly announced that housing starts were up 5.8% to 672,000 (seasonally adjusted annual rate) in April and are 40.9% higher than the April 2009 rate of 477,000. Also, the number of building permits issued declined 11.5% in April to 606,000 versus the March number which was revised higher to 685,000. This is still 15.9% above the April 2009 level of 523,000. Housing starts were ahead of expectations while building permits fell significantly below.

The U.S. Labor Department announced that the Producer Price Index for finished goods declined 0.1% in April. This decrease followed a 0.7% advance in March and a 0.6% decrease in February. The index, not counting food and energy, advanced 0.2% in April, its sixth consecutive monthly increase. These results were below market expectations and suggest that at the wholesale level, inflation is under control.

Although the above information has been compiled from sources believed to be reliable, as at the date indicated, we cannot guarantee its accuracy or completeness. The information is provided solely for informational and educational purposes and is not to be construed as advice in respect of securities or as to the investing in or buying or selling of securities, whether express or implied. All data provided is subject to change without notice. United Financial and/or United Financial and design are trademarks of CI Investments Inc. Neither CI Investments Inc. nor any of its affiliates or their respective officers, directors, employees or advisors is responsible in any way for damages or losses of any kind whatsoever in respect of the use of this information. © 2010 CI Investments Inc.