

Weekly Commentary – May 3, 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.				
May 3	Personal Income	Mar 10	+0.3%	0.0%
May 3	Personal Spending	Mar 10	+0.7%	+0.3%
May 3	ISM Manufacturing	Apr 10	59.9	59.6
May 4	Factory Orders	Mar 10	0.0%	+0.6%
May 4	Pending Home Sales (m/m)	Mar 10	+3.1%	+8.2%
May 4	ADP Employment Change	Apr 10	+30K	-23K
May 5	ISM Services	Apr 10	56.0	55.4
May 6	Unit Labour Costs	Q1 10	-0.5%	-5.9%
May 6	Initial Jobless Claims	Week ending May 1	443K	448K
May 7	Non-farm Payrolls	Apr 10	+175K	+162K
May 7	Unemployment Rate	Apr 10	9.7%	9.7%
Canada				
May 6	Building Permits (m/m)	Mar 10	+0.5%	-0.5%
May 6	Ivey Purchasing Manager Index	Apr 10	55.0	57.8
May 7	Employment	Apr 10	+20K	+17K
May 7	Unemployment Rate	Apr 10	8.1%	8.2%

Key Earnings:

May 3 – Anadarko Petroleum, Avis, BPO Properties, Canadian REIT, Clorox, Electronic Arts, Fortress Investment Group, Loews, Magna International, Nutrisystem, Pitney Bowes, Sirius, Six Flags, Sotheby's, Sysco, Telus, WestJet
 May 4 – Archer Daniel Midland, Baker Hughes, Cameco, Domino's Pizza, Duke Energy, Emerson, Emera, First Energy, Hudbay Minerals, Kenneth Cole, Kinross Gold, Loblaw, Mastercard, Merck, News Corp, Pfizer, Ritchie Bros., Suncor Energy, Tenet
 May 5 – Anheuser-Busch, CBS, Cott, Devon Energy, Enbridge, Garmin, Onex, Pengrowth Energy, Penn West Energy, Progress Energy, Sun Life Financial, Talisman Energy, Time Warner, Wynn Resorts
 May 6 – Alcatel-Lucent, BCE, Bebe, Biovail, BNP Paribas, California Pizza Kitchen, Canadian Natural Resources, El Paso, Elizabeth Arden, Gerdaul Ameristeel, Great-West Lifeco, Hyatt, Kraft, Manitoba Telecom, Manulife Financial, MGM Mirage, Public Storage, SNC-Lavalin, Telecom Italia
 May 7 – CF Industries, Enerplus Resource Fund, IGM Financial, Iam Gold, Panasonic

Source: CIBC World Markets, Bloomberg

Market Focus

Fed stays the course

At the end of its latest two-day meeting, the U.S. Federal Reserve Board's Open Market Committee left the federal funds rate unchanged in its target range of 0% to 0.25%. Nevertheless, the press release that accompanied the announcement stated that "economic activity has continued to strengthen and that the labor market is beginning to improve" and "the committee anticipates a gradual return to higher levels of resource utilization." Market players remain uncertain as to when an actual change in policy may appear. However, it remains clear that inflationary pressures are not yet a material threat.

North American economies show further gains

While positive GDP results were expected for both Canada and the U.S. in the latest data releases, the composition of that economic growth appears to be shifting towards a stronger fundamental underpinning. Statistics Canada reported a sixth consecutive monthly gain in GDP for February as both the beleaguered manufacturing sector and the key retail sales sector gained

ground. Stateside, inventory rebuilding continued. However, consumers and business investment came back online as real final sales to domestic purchasers rose by 2.2%. While taking away from GDP growth, declines in federal and state government spending should be viewed positively, as the need for stimulus shifts to the need for deficit reduction.

European optimism rises despite Greek crisis

The European Commission's index of executive and consumer sentiment for the 16 euro zone nations rose to 100.6 in April from a revised 97.9 in March. The announcement came on the heels of a report from Germany showing that unemployment in the region's largest economy fell by 68,000 to 3.29 million in April. Not surprisingly, this good news went largely unnoticed as the euro remained under pressure. Investor worries over the Greek fiscal crisis have pushed the euro down 11% against the U.S. dollar in the past six months, making it the worst performer of the major currencies over the period. While it appears likely a resolution to the crisis will eventually be found, the process will be lengthy and remain fraught with uncertainty.

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

April 27:

The U.S. Conference Board's Consumer Confidence Index showed increased strength in April. The index now stands at 57.9, up from 52.3 in March and its highest reading since September 2008 when it was 61.4. The present situation sub-index increased to 28.6 from 25.2. The expectations sub-index advanced to 77.4 from 70.4. These results are considerably better than market consensus.

April 28:

At the conclusion of its latest monetary policy meeting, the U.S. Federal Reserve announced that it sees further signs of improvement in the U.S. economy, but not enough to start raising its key interest rate from its historic lows. The press release contained the now-familiar quote, "economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period." This result is in line with expectations.

April 29:

Statistics Canada reported that average weekly earnings rose 1.0% in February to \$843.91. The monthly advance was sufficient to push the annual gain to 2.8%. In recent months, the pace of growth in average weekly earnings has accelerated. These results were better than expected.

The U.S. Department of Labor announced that initial jobless claims totaled 448,000 (seasonally adjusted) during the week ending April 24. This is a decrease of 11,000 from the previous week's revised figure of 459,000. The four-week moving average was 462,500, an increase of 1,500 from the previous week's revised average of 461,000. The market was anticipating a larger drop in the most recent figures.

April 30:

Statistics Canada reported that real gross domestic product (GDP) increased 0.3% in February, mainly on the strength of a 1.2% surge in manufacturing during the month. The monthly advance was sufficient to push the annual growth rate of the Canadian economy to 1.8%. These results are in line with expectations.

Statscan also announced that its Industrial Product Price Index declined 0.4% in March, mainly as a result of the appreciation of the Canadian dollar against its American counterpart. At the same time, the Raw Materials Price Index rose 0.8%, led primarily by higher prices for energy products. These results were at odds with forecasts for a smaller decline in industry prices and a smaller gain in raw material prices.

According to the "advance" estimate released by the U.S. Bureau of Economic Analysis, real GDP in the U.S. increased at an annualized rate of 3.2% in the first quarter of 2010. In the fourth quarter of 2009, real GDP increased 5.6%. The headline figure is modestly lower than consensus expectations.

The Chicago Institute for Supply Management announced that its Purchasing Managers Index jumped five full points to 63.8 in April – its strongest reading since April 2005 and the seventh consecutive month of growth. These results are much stronger than market consensus.

The Reuters/University of Michigan's Consumer Sentiment Index soared to 72.2 for the full-month April reading compared to the mid-month reading of 69.5. The improvement is centred in the expectations sub-index, which rose more than four points from mid-month to 66.5. Meanwhile, current conditions, the second sub-index, moved to 81.0. These results are considerably stronger than expectations.

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.