

Weekly Commentary – April 19, 2010

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
Apr 19	Leading Indicators	Mar 10	+1.0%	+0.1%
Apr 22	Producer Price Index	Mar 10	+0.5%	-0.6%
Apr 22	PPI ex. food & energy	Mar 10	+0.1%	+0.1%
Apr 22	Initial Jobless Claims	Week ending Apr 17	450K	484K
Apr 22	Home Price Index	Feb 10	-0.1%	-0.6%
Apr 22	Existing Home Sales	Mar 10	+5.6%	-0.6%
Apr 23	Durable Orders	Mar 10	0.0%	+0.9%
Apr 23	Durable Orders ex. autos	Mar 10	+0.8%	+1.4%
Apr 23	New Home Sales	Mar 10	320K	308K
Canada				
Apr 19	Int'l Securities Transactions	Feb 10	\$10.0B	\$11.8B
Apr 20	Bank of Canada Rate Decision	Apr 20	0.25%	0.25%
Apr 21	Wholesale Sales	Feb 10	+1.2%	+3.0%
Apr 22	Leading Indicators	Mar 10	+0.7%	+0.8%

Key Earnings:

Apr 19 – Bank Atlantic, Citigroup, Halliburton, Hasbro, Metro, Raymond James
 Apr 20 – Apple, Bank of New York Mellon, Coach, Delta, Eaton, Harley-Davidson, Illinois Tool Works, Johnson & Johnson, Nabors, Novartis, Snap-on, State Street, TD Ameritrade, Teck Resources, Tesco, Coca-Cola, U.S. Bancorp, Yahoo
 Apr 21 – Altria, Amgen, AT&T, Covidien, Etrade, eBay, Freeport-McMoran, Leggett & Platt, Lockheed Martin, McDonald's, Moody's, Morgan Stanley, Qualcomm, SanDisk, Starbucks, Boeing, United Technologies, Wells Fargo
 Apr 22 – ABB, American Express, AmerisourceBergen, BB&T, Capital One, Celestica, Credit Suisse, Kimberley-Clark, Kia, Marriott, Microsoft, Nokia, Nucor, Precision Drilling, Hershey, Cheesecake Factory, Verizon
 Apr 23 – China Motor, Honeywell, Merck, Schlumberger, Xerox

Source: CIBC World Markets, Bloomberg

Market Focus

Canadian manufacturing continues its rebound

Statistics Canada reported another advance in manufacturing sales during February, the eighth monthly advance in the last nine months. Importantly, the inventory-to-sales ratio held steady at 1.35 in February, near the 1.25 to 1.35 range seen prior to the economic downturn. Interestingly, these improvements in manufacturing have come against the backdrop of a much stronger Canadian dollar. Over the same nine-month period, the loonie soared 9% from an average of US\$0.87 in May 2009 to US\$0.95 in February 2010. While concerns over Canada's manufacturing capabilities remain as the currency hovers near par, it appears that industries have done their best to remain competitive on the way up.

Greek deficit issues continue to roil bond market

Fixed-income investors remained wary of Greek bond issues, even in the wake of news that the European Union would supply liquidity to the troubled nation. The EU announced that it will provide Greece with three-year loans at the below-market rate of about 5% should the government be unable to raise money in the markets. Still, worries over a possible backlash, from the residents of those countries (primarily Germany and France) that are expected to put up the capital for the loan, dampened market interest. Word that Portugal may also need additional budget measures this year in order to meet its deficit target reinforced the negative tone.

U.S. inflation remains tame

Despite an annual growth rate of 7.6% in retail sales, U.S. inflationary pressures remain subdued. Since March 2009, the overall consumer price index has risen 2.3%. However, the less volatile core rate (excludes food and energy components) is up a far more modest 1.1% over the same period. This is the smallest gain since early 2004. The last time the year-over-year core increase was smaller was in January 1966. The absence of any real momentum in inflation should leave plenty of room for the Federal Reserve to hold steady on interest rates. Traders will have to wait until the conclusion of the next FOMC meeting on April 28 for any new insights.

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 12:

Canada Mortgage and Housing Corporation reports that housing starts fell to 197,300 units (seasonally adjusted annual rate) in March 2010, down 1.5% from the upwardly revised 200,400 units reported for February. The January figure was also revised higher. Taking in the upward revisions to prior data, the overall results are broadly in line with market expectations.

April 13:

Statistics Canada reported that merchandise exports grew 2.8% in February, on the strength of industrial goods and materials, outpacing a 0.9% increase in imports. As a result, Canada's trade surplus with the world widened to \$1.4 billion in February from \$754 million in January. These results are stronger than anticipated.

Statscan also announced that its New Housing Price Index rose 0.1% in February, following a 0.4% increase in January. Year over year, the index was up 0.9% in February following a 0.1% increase in January. The February price gains were below expectations.

The U.S. Commerce Department reported that America's trade deficit widened more than expected in February, as exports rose to the highest level in 16 months. However, this gain was offset by a bigger jump in imports, reflecting increased demand for consumer goods, from televisions to clothing. The deficit for February increased 7.4% to US\$39.7 billion. Exports edged up 0.2% while imports jumped 1.7%. The deficit was marginally higher than market consensus.

April 14:

The U.S. Commerce Department announced that retail sales jumped 1.6% to US\$363.2 billion in March following an upwardly revised 0.5% increase in February. Sales excluding autos and auto parts rose 0.6% in March and the annual growth of overall retail sales stood at 7.6%. These figures are considerably stronger than market consensus.

The U.S. Labor Department reported that consumer prices edged up 0.1% in March while core inflation, which excludes volatile food and energy components, was unchanged during the month. Over the past 12 months, overall CPI is up by 2.3% while core inflation is up by just 1.1%. These results are modestly better than expected.

April 15:

The U.S. Department of Labor announced there were 484,000 initial jobless claims in the week ending April 10. This is an increase of 24,000 from the previous week's unrevised figure of 460,000. The four-week moving average was 457,750, an increase of 7,500 from the previous week's unrevised average of 450,250. These results are considerably weaker than expected.

The U.S. Federal Reserve reported that industrial production edged up 0.1% in March and increased at an annual rate of 7.8% in the first quarter. Softness in utilities masked solid gains in manufacturing. Overall industrial output in March was 4.0% above its year-earlier level. Capacity utilization for total industry advanced 0.2% to 73.2%, 3.7% above the rate from a year earlier. These results are below expectations but the advance in manufacturing will temper market disappointment.

The Federal Reserve Bank of Philadelphia's latest survey of manufacturing conditions shows the diffusion index of current activity increased to 20.2 in April compared to 18.9 in March. The index has now remained in positive territory for eight consecutive months. Also, the future general activity index remained positive for the 16th consecutive month even though it fell from 52.0 in March to 44.2 in April. These figures are better than anticipated.

April 16:

Statistics Canada reported that manufacturing sales edged up 0.1% in February to \$44.1 billion. Sales have advanced in eight of the past nine months and now stand with a 6.4% gain compared to the same period in 2009. These results are below market expectations.

The U.S. Census Bureau announced that housing starts were up 1.6% to 626,000 (seasonally adjusted annual rate) in March and are 20.2% higher than the March 2009 rate of 521,000. February 2010 figures were revised upward to 616,000 (originally reported as 575,000). Also, the number of building permits issued rose 7.5% in March to 685,000. This is 34.1% above the March 2009 level of 511,000. February permits were also revised higher to 637,000. These figures are well ahead of expectations.

The University of Michigan/Reuters consumer sentiment survey dropped sharply lower in the preliminary April reading. The overall index fell to 69.5, the lowest in five months. This was well below the 73.6 reading seen at the end of March. The survey's gauge of current economic conditions slipped to 80.7, the lowest since December 2009. This was below the 82.4 level seen in late March. The survey's barometer of consumer expectations fell to 62.3, the lowest since March 2009. This was also below the 67.9 figure seen at the end of March. These results are considerably weaker than anticipated.

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