

## Weekly Commentary – December 26, 2011

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**Best of the season and a happy new year to all of our readers. Our next edition will be dated January 9, 2012.**

### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
December 27	Case-Shiller Home Price Index	October 11	140.9	142.0
December 27	Consumer Confidence	December 11	53.0	56.0
December 29	Pending Home Sales Index	November 11	89.0	93.3
January 3	ISM Manufacturing Index	December 11	53.0	52.7
January 3	Construction Spending	November 11	+0.6%	+0.8%
January 3	Auto Sales	December 11	4.4M	4.6M
January 4	Factory Orders	November 11	+1.5%	-0.4%
January 5	ADP Employment	December 11	+155 k	+206 k
January 5	ISM Non-Manufacturing Index	December 11	53.0	52.0
January 6	Non-Farm Payrolls	December 11	+140 k	+120 k
January 6	Unemployment Rate	December 11	8.7%	8.6%
<b>Canada</b>				
January 6	Employment	December 11	+5.0 k	-18.6 k

### Key Earnings

No major earnings announcements until 2012.

Source: Action Economics, Bloomberg

### Market Focus

#### Incoming Spanish prime minister set to make cuts

Spain's new prime minister, Mariano Rajoy, pledged to shrink the nation's public sector and reduce government spending in order to slash the Eurozone's third-largest budget deficit. Rajoy stated that his first move would be to institute a constitutional amendment on budget discipline approved by both his party and the outgoing Socialists. The new law will call for the debt-to-GDP ratio to be cut to 60% by 2020 and for the deficit to be limited to 0.4% of GDP. Rajoy also announced that Spain's banking system needs to be repaired as it tightens credit standards amid €176 billion of troubled real estate assets.

#### U.S. housing picture brightens

The latest data from the U.S. Census Bureau revealed a 9.3% surge in housing starts during November. The annualized 685,000-unit pace is the highest since April of 2010 (687,000 units). At the same time, the figures showed that building permits had unexpectedly jumped 5.7% in November, suggesting that starts would continue their expansion. Despite these gains, more stringent lending practices and still-weakened housing prices leaves the housing market well below its 2006 peak. While housing starts stand with a 43.3% gain from their 2009 low, a further advance of 231.8% would be needed to take starts back to the 2.3 million-unit pace of January 2006.

#### Canadian consumer spending rises

Canadian retail sales began the final quarter of 2011 with significant momentum, climbing 1.0% in October. This was the second straight gain of 1.0% and took the three-month advance to 2.7%, the fastest pace since the first quarter of 2010. Monthly advances were widespread geographically as only Ontario had a decline. As well, Statistics Canada reported that gains were seen in seven of 11 sub-sectors, representing 76% of total retail sales. Motor vehicle and parts dealers saw a 2.0% increase to lead overall sales in October. At the same time, sales at furniture and home furnishings stores decreased 0.8% in October, the largest of the four monthly declines.

## Longer View

Investment returns from stocks are closely tied to corporate earnings growth and the price you pay for those earnings. Historically, over the long term, corporate earnings have been fairly stable and have grown along with productivity gains and inflation. Stock valuations, though, are more volatile than earnings, since they are influenced by investor sentiment, which swings between optimism and pessimism. Recent uncertainty about the pace of the global economic recovery, centred on government debt in parts of the developed world, has added to market volatility. It is important to keep a sense of perspective, to remember that recessions do occur from time to time, and that they are followed by recoveries. The summer market correction has caused stock valuations to fall to levels that are substantially below their long-term average – and this has provided investors with a rare investment opportunity. We believe investors are best served by staying invested through a diversified portfolio that matches their risk tolerance and is actively managed by investment professionals.

## Playbook - Market Alert! Weekly Summary

### December 19

Statistics Canada reported that wholesale sales increased for a sixth consecutive month in October, climbing 0.9% to \$49.2 billion. This advance was stronger than expected. Activity at the wholesale level can be an indicator of future consumer trends.

### December 20

Statistics Canada announced that consumer prices edged 0.1% higher (seasonally adjusted monthly basis) in November. On a year-over-year basis, the consumer price index was up 2.9%, led by higher prices for gasoline and food. These figures are slightly below expectations, but are consistent with the Bank of Canada's forecast for subdued inflation.

The U.S. Census Bureau reported that housing starts in November were at a seasonally adjusted annual rate of 685,000. This is 9.3% above the revised October estimate of 627,000 (originally 628,000), and is 24.3% above the November 2010 rate of 551,000. At the same time, building permits in November were at a seasonally adjusted annual rate of 681,000. This is 5.7% above the revised October rate of 644,000 (originally 653,000) and is 20.7% above the November 2010 figure of 564,000. These figures are considerably stronger than market expectations. Activity in the housing market has a significant effect on the broader economy and strength here suggests ancillary strength in other consumer spending.

### December 21

Statistics Canada reported that retail sales rose 1.0% in October, reflecting growth in most sub-sectors. This figure is above consensus estimates. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical for overall GDP results.

According to the U.S. National Association of Realtors, existing-home sales increased 4.0% to a seasonally adjusted annual rate of 4.42 million units in November from a 4.25 million-unit pace in October. Sales are now 12.2% above the 3.94 million-unit pace in November 2010. These results are considerably stronger than expected. Activity in the housing market has a significant “ripple” effect on the broader economy.

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