

Weekly Commentary – January 9, 2012

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Economic Calendar

| Date | Release | Period | Consensus | Previous |
|---------------|------------------------|--------------------|-----------|----------|
| U.S. | | | | |
| January 9 | Consumer Credit | November 11 | +\$7.0B | +\$7.6B |
| January 10 | Wholesale Inventories | November 11 | +0.4% | +1.6% |
| January 10 | Wholesale Sales | November 11 | +0.8% | +0.9% |
| January 12 | Retail Sales | December 11 | +0.4% | +0.2% |
| January 12 | Initial Jobless Claims | Week ending Jan. 7 | 370 k | 372 k |
| January 13 | International Trade | November 11 | -\$45.0B | -\$43.5B |
| Canada | | | | |
| January 9 | Building Permits | November 11 | +1.0% | +11.9% |
| January 10 | Housing Starts | December 11 | 185 k | 181 k |
| January 12 | New Home Price Index | November 11 | +0.1% | +0.2% |
| January 13 | International Trade | November 11 | -\$1.0B | -\$0.9B |

Key Earnings

January 9 – Alcoa

January 13 – JPMorgan Chase & Co

Source: Action Economics, Bloomberg

Market Focus

Canadian employment advantage over U.S. narrows

Since the end of the recession, Canada has shown stronger labour force statistics than have been seen stateside. However, the gap has narrowed of late and improvements in the U.S. economy have been reflected in gains in jobs. As of December 2011, Canadian job growth stood at an annual 1.2% pace while the U.S. had edged higher to 1.3%. At the same time, at the end of 2011, the Canadian unemployment rate stood at 7.5%, a full percentage point better than the U.S. at 8.5%. Nevertheless the gap was almost twice as large at the end of 2010 when Canadian unemployment was 7.6% and the U.S. rate was 9.4%. However, Canada still retains an advantage. Canada's labour force grew 1.0% over 2011, to mark a new all-time high, while the U.S. revealed a much more modest 0.2% increase.

Lower Eurozone inflation may provide room to manoeuvre

The European Union's statistics office announced that inflation in the 17-nation Eurozone eased to 2.8% in December from 3.0% in November, the first decline in five months. Despite the move down, consumer price pressures remain well above the 2.0% European Central Bank target. Under its new president, Mario Draghi, the ECB has lowered the benchmark interest rate by a quarter percentage point on two occasions over the past couple of months, taking it to an all-time low of 1%. Expectations for further economic weakness coincide with forecasts of lower inflation for the region. This may allow interest rates to fall again this month.

U.S. manufacturing accelerates

The most recent figures from the U.S. Institute for Supply Management show that its key manufacturing index rose 1.2 points to 53.9 in December, a new six-month high. The overall gain was led by identical 3.3-point advances in both the production and employment sub-indexes. As well, the U.S. Census Bureau reported that new factory orders jumped US\$8.2 billion or 1.8% to \$459.2 billion in November. This is the highest level since August of 2008. This report also revealed a growing backlog in the manufacturing sector as unfilled orders climbed 1.3% in November, the nineteenth gain in the last 20 months.

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. Uncertainty about the pace of global growth, together with government debt levels in Europe, added to market volatility in 2011, and it will likely take longer than many people expect for these issues to be resolved. However, it is also important to keep a sense of perspective. The challenges have also created opportunities. Market weakness has caused stock valuations to fall to levels that are substantially below their long-term average – and this has created an environment in which quality stocks can be purchased at attractive prices. 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

January 3

The U.S. Institute for Supply Management reported that its Purchasing Managers Index rose to 53.9 in December. This is a 1.2 point gain from November's 52.7 reading and remains above the key 50.0 (generally expanding) level for a 29th consecutive month. The reading is above expectations and indicates an acceleration in manufacturing activity.

The U.S. Census Bureau announced that construction spending during November 2011 totalled US\$807.1 billion (seasonally adjusted annual rate). This is 1.2% above the revised October figure of US\$797.4 billion. The November 2011 level is 0.5% above the November 2010 total of US\$803.0 billion. The monthly growth figure is above consensus estimates. This result indicates continued growth in the construction sector.

January 4

The U.S. Census Bureau reported that factory orders increased US\$8.2 billion or 1.8% to \$459.2 billion in November. This followed a 0.2% decrease in October. Excluding transportation, new orders increased 0.3%. These results are broadly in line with expectations. The orders data indicate how busy factories will be in coming months as manufacturers work to fill those orders.

January 5

The U.S. Department of Labor announced that initial jobless claims totalled 372,000 (seasonally adjusted) in the week ending December 31, a decrease of 15,000 from the previous week's revised figure of 387,000 (originally 381,000). The four-week moving average was 373,250, a decrease of 3,250 from the previous week's revised average of 376,500 (originally 375,000). These results are in line with expectations. The market has been looking for sustained results below the 400,000 level as a sign of an improving employment situation, and the current four-week moving average results are the lowest seen thus far in the recovery.

Statistics Canada reported that between October and November, the Industrial Product Price Index increased slightly, by 0.2%, and the Raw Materials Price Index rose 3.8%, both led by higher petroleum prices. These figures are both above expectations. Both indexes are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

The U.S. Institute for Supply Management announced that its Non-manufacturing Index recorded a 52.6 reading in December, up 0.6 from 52.0 registered in November. This figure is below consensus expectations. This result indicates continued growth, at a slightly faster pace in the non-manufacturing sector.

January 6

Statistics Canada reported that following two months of declines, employment rose slightly in December, climbing 17,500. The unemployment rate edged up to 7.5%, however, as more people entered the labour market, which now stands at 18.75 million, an all-time high. These results are stronger than expected. The employment data reflects the strength of the broader economy and individual sectors. As well, it is indicative of consumer spending trends.

The U.S. Bureau of Labor Statistics announced that non-farm payroll employment rose by 200,000 while the unemployment rate fell by 0.1 percentage points to 8.5% in November. Revisions to previous estimates of the unemployment rate pushed this figure higher while estimates of payroll employment were largely unchanged. The trend to increasing private employment accompanied by a decrease in the public sector continued. The employment figures are stronger than consensus estimates. This is the most closely followed set of U.S. statistics. The employment data reflects the strength of the broader economy and individual sectors. As well, it is indicative of consumer spending trends.

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