

Weekly Commentary – September 26, 2011

Damon Kachan, CFA, FCSI, 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.				
September 26	New Home Sales	August 11	+295K	+298K
September 27	Case-Shiller Home Price Index	July 11	+142.2	+141.3
September 27	Consumer Confidence	September 11	+48.0	+44.5
September 28	Durable Orders	August 11	-0.5%	+4.1%
September 29	GDP Third Report	Q2 11	+1.5%	+1.0%
September 29	After-Tax Corporate Profit	Q2 11	+4.1%	+4.1%
September 29	Initial Jobless Claims	September 11	415K	432K
September 29	Pending Home Sales Index	August 11	+86.1	+89.7
September 30	Personal Income	August 11	+0.2%	+0.3%
September 30	Personal Consumption Expenditures	August 11	+0.1%	+0.8%
Canada				
September 29	Industrial Product Price Index	August 11	-0.1%	-0.3%
September 29	Raw Materials Price Index	August 11	-0.5%	-1.2%
September 29	Average Weekly Earnings	July 11	+0.2%	+0.3%
September 30	GDP by Industry	July 11	+0.2%	+0.2%

Key Earnings

September 26 – MSCI Inc

September 27 – Accenture, Paychex, Walgreen

Source: Action Economics, Bloomberg

Market Focus

Canadian retailers lose ground

Canada's consumers reversed course in July as retail sales dropped 0.6% during the month, after recording three consecutive monthly gains. A 3.5% drop in sales at new car dealers led the move lower, but even without this decline, Statistics Canada reported that broader sales were flat for the month. In fact, seven of the eleven major sub-groups reported declines with only the catch-all Miscellaneous Store sub-group (+1.5%) reporting a material gain. Given that consumer spending was one of the few bright spots in the second quarter GDP report, the reversal seen here in the first month of the third quarter will leave investors watching for evidence of any further deterioration.

U.S. Fed aims to "twist" the yield curve

At the conclusion of its latest policy deliberations, the U.S. Federal Reserve announced that it would buy US\$400 billion of bonds with maturities of six to 30 years through June while selling an equal amount of debt maturing in three years or less. According to the press release that accompanied the statement, the purchases and sales would "put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative." However, the statement was also clear that "there are significant downside risks to the economic outlook, including strains in global financial markets." Market participants will continue to closely monitor U.S. economic data for any signs of changing growth.

Italy's credit rating cut

For the first time in five years, Italy saw its sovereign debt rating lowered from A+ to A, with a “negative outlook” by rating agency Standard & Poor’s. S&P indicated that the nation’s weak economic growth, uncertain government stability and rising borrowing costs would make it difficult to lower Europe’s second-largest debt load. Italy’s debt represents 120% of GDP and at €1.9 trillion, is greater than the debt of Spain, Greece, Ireland and Portugal combined. While the government has now passed a €54 billion austerity package, the IMF recently lowered its economic growth forecast for the country to 0.3% for 2012, well below the government’s 1.3% figure used to value the package.

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

September 21

Statistics Canada announced that its Consumer Price Index rose 3.1% in the 12 months to August, mainly as a result of higher prices for gasoline and food. This follows increases of 2.7% in July and 3.1% in June. On a seasonally adjusted monthly basis, consumer prices rose 0.3% in August. The monthly increase was above market consensus.

The U.S. National Association of Realtors reported that existing home sales rose 7.7% to a seasonally adjusted annual rate of 5.03 million units in August from an upwardly revised 4.67 million units in July. The current level is 18.6% higher than the 4.24 million unit level recorded in August 2010. These results are well above market expectations.

The U.S. Federal Reserve announced that it would leave interest rates unchanged through mid-2013. In addition, it indicated that it would replace some shorter-term Treasury notes with those of longer maturities. This announcement is largely in line with expectations.

September 22

Statistics Canada announced that retail sales declined 0.6% in July. Lower sales at new car dealers accounted for most of the decrease. This result was weaker than expected.

The U.S. Department of Labor reported that initial jobless claims totalled 423,000 (seasonally adjusted) in the week ending September 17, a decrease of 9,000 from the previous week's revised figure of 432,000. The four-week moving average was 421,000, an increase of 500 from the previous week's revised average of 420,500. These figures are above market consensus.

The U.S. Conference Board announced that its index of leading economic indicators rose by 0.3% in August, following an upwardly revised 0.6% increase in July. This result is stronger than consensus 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. The authors of this publication are employed by CI Investments Inc. or its affiliates. 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. © 2011 CI Investments Inc.