

Rays of Light

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Looking Back

Amidst the dark economic clouds looming over the global economy, investors saw several rays of light last week in the form of improving manufacturing, housing, and employment data for August. The positive economic data emboldened the bulls to take charge of a rising equity market and forced bond investors to scramble for cover as bond prices fell and yields moved higher. At least for now, recent economic data has put investor fears of a double-dip recession to rest.

Looking back at the week, the S&P/TSX index rose 2.2% led by Financials (+2.3%) and Consumer Discretionary (1.7%). In Financials, the last of Canada's big banks (TD Bank) to report its third quarter earnings showed a 29% jump in profit versus the previous year. In total, the quarterly results from the banks were somewhat mixed this quarter, although they were generally viewed as sufficient to support the overall rally in equities market last week. In addition, investor sentiment generally favoured equities helping to bolster the sagging shares of Canada's large life insurance companies. Sun Life shares jumped 11% and Manulife rose 9.7% for the week. The big story in Consumer Discretionary last week was Magna International. Magna officially did away with its controversial dual class shares structure and the new, single-class Magna shares rose 12% for the week.

In U.S. markets, the S&P500 rose 2.6% (CAD\$ terms), with all 10 sectors in positive territory. Financials (+4.5%) Consumer Discretionary (+3.8%) and Industrials (3.5%) led the surge.

The positive news began last Tuesday when Chinese manufacturing data (Purchasing Managers Index) jumped up from 51.2 to 51.7 in August. The data suggests China's economy is beginning to stabilize and is not continuing to weaken as had been feared by investors and economists. Chinese policy makers have induced a slower rate of domestic growth this year by tightening monetary conditions in an attempt to thwart inflation. The August manufacturing data helps to suggest they have not become too restrictive in policy, especially with slowing momentum elsewhere in the world, specifically the United States.

Surprisingly enough, it was U.S. manufacturing data that also showed signs of life last week. U.S. PMI in August expanded to 56.3 versus a consensus expectation of only 52.8. A reading over 50 signals growth and expansion. Factories added workers and cranked up production allowing stocks to rally and bonds to slide as US and Chinese manufacturing data tempered concerns the global economy will falter without additional government stimulus.

By far the big news item of the past week was the always eagerly anticipated August non-farm payroll data. Investors were braced for the worst following an earlier ADP report showing a surprising loss of 10,000 positions where economists had expected 15,000 to be gained. Economists have not been having a good week! It turned out the U.S. non-farm payrolls fell 54,000 in August but it was feared over 100,000 positions may have disappeared. Unless you were one of those that lost their job, the news was actually better than expected. Also of importance were the revisions made to the July data as fewer jobs disappeared in the prior month than first thought. The unemployment rate ticked up from 9.5% to 9.6% as discouraged workers actually resumed the elusive search for employment in August.

The U.S. housing market has also continued to weigh on both investor and consumer confidence and remains one of the missing pieces of the recovery to date. Recent Case-Shiller housing data may now be pointing to signs the housing market is far from recovered but may be finally beginning to stabilize. The latest data from June shows home prices rising on average 0.3% in 20 American cities. The index showed year over year price changes up 4.2% versus last year. Economists were only predicting a 3.5% increase.

Looking Forward



Compared to last week, the economic calendar is rather quiet in the holiday shortened trading week. The Bank of Canada is expected to increase overnight interest rate by another 25 basis points following recent quarter point hikes in June and July. On Friday, Canada's August employment report should show 30,000 positions added in the month. This follows the dismal performance in July where 9,000 positions were lost.

In the U.S., the July trade balance should show some moderation following a run up in June. Economists are expecting a trade deficit of \$US47 Billion. Trade data will be released on Wednesday this week.



Market Performance

Index	Last Week	Year to Date	Close (09/03/2010)
S&P/TSX Composite	2.2%	3.4%	12,145
Dow Jones Ind Avg	2.9%	0.2%	10,448
NASDAQ Composite	3.7%	-1.6%	2,234
S&P 500	3.7%	-0.9%	1,105
Canadian Dollar (US\$/CAD\$)	2.9%	1.6%	\$0.97
S&P 500 (C\$)	0.8%	-2.6%	NA
Dow Jones Ind Avg (C\$)	0.0%	-1.5%	NA

Weekly Economic Data

Day	 Canada	Est.	Prior	 U.S.	Est.	Prior
Monday						
Tuesday				ABC Consumer Confidence	-44	-45
Wednesday	Building Permits (m/m)	-4.90%	6.50%	Fed's Beige Book		
	Bank of Canada Rate	1.00%	0.75%	Consumer Credit	-\$4.3B	-\$1.3B
	Ivey Purchasing Managers	55.5	54			
Thursday	Housing Starts	185.0K	189.2K	Trade Balance	-\$47.0B	-\$49.9B
	New Housing Price (m/m)	0.10%	0.10%	Initial Jobless Claims	470K	472K
	Int'l Merchandise Trade	-0.8B	-1.1B	Continuing Claims	4445K	4456K
Friday	Net Change in Employment	30.0K	-9.3K	Wholesale Inventories	0.40%	0.10%
	Unemployment Rate	8.00%	8.00%			
	Participation Rate	67.3	67.3			

Company Earnings Reports

	 Canada Companies	Qtr	Est.	 U.S. Companies	Qtr	Est.
Monday						
Tuesday	Forzani Group	Q2	-\$0.03			
Wednesday	Transcontinental Inc-CI A	Q3	\$0.37			
	Viterra Inc	Q3	\$0.26			
Thursday	Major Drilling Group Intl	Q1	\$0.20			
	North West Company Fund	Q2	\$0.45			
	Transat A.T. Inc-B	Q3	\$0.24			
Friday	EMPIRE CO LTD 'A'	Q1	\$1.18			

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