



Market Bulletin

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Summary

Economic Analysis

- Canadian economy added 11,900 jobs in September; unemployment rate falls to near five-year low of 6.9%.

Equity Screens

- 33 stocks – 18 Canadian and 15 US – satisfied our growth and income criteria.

Chart of the Day

- Ratio of global market capitalization to GDP suggests more upside for equities.
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Commentary – IMF pares growth forecasts for 2013 and 2014

Next year's GDP growth estimate of 3.6% still the best in three years

Elvis Picardo, CFA

The International Monetary Fund trimmed its forecast for the global economy in its World Economic Outlook (WEO) released last week. The IMF pared its estimate for 2013 global GDP growth to 2.9% (from 3.2% in its April report), saying that global growth remains in low gear, averaging only 2.5% in the first half of this year, the same pace as in the second half of 2012. It also trimmed its 2014 forecast to 3.6% (from 3.8% in April). The IMF noted that in a departure from previous developments since the global recession, the advanced economies have recently picked up some speed while the emerging market economies have slowed down (although they continue to account for most of global growth). While the IMF left its forecasts for the advanced economies group unchanged at 1.2% for 2013 and 2.0% for 2014, it took down its estimates for the emerging markets by about 0.5 percentage point to 4.5% in 2013 and 5.1% in 2014. (See <http://www.imf.org/external/pubs/ft/weo/2013/02/pdf/text.pdf> for full WEO report).

The IMF notes that most of the impetus to global growth is expected to be driven by the U.S., where growth is estimated to accelerate from 1.6% in 2013 to 2.6% in 2014 as fiscal consolidation eases and monetary conditions stay supportive. Canada, meanwhile, is also forecast to grow at a faster rate of 2.2% in 2014, from an estimated 1.6% in 2013. Stronger North American growth should offset much of the drag created by a slowing China (7.6% growth in 2013, 7.3% in 2014). **We remain highly optimistic about the potential for the TSX to deliver double-digit total returns in this environment of faster growth – coupled with subdued inflation and accommodative monetary policy – in 2014. Buy the TSX.**

Economic Analysis

Canadian jobless rate falls to near five-year low of 6.9%

The Canadian economy added more jobs last month to the 59,200 positions that were created in August. The economy added net 11,900 jobs in August, modestly above the average expectation of 10,000 in an economists' survey. However, the jobless rate dropped to 6.9% - the lowest since December 2008 – as an exodus of young people from the workforce sent the labour participation rate to an 11½-year low of 66.4%. Key points of the September jobs report –

- Job gains were driven by full-time workers and the private sector (Table 1). Part-time positions declined by 11,500 last month as more people returned to school, while full-time jobs more than offset that decline with an increase of 23,400.
- Employee positions increased by 57,300, while the ranks of the self-employed fell by a substantial 45,400. An increase of 73,600 in private-sector positions was offset to some extent by a decline of 16,300 public-sector jobs.
- The services sector (+22,200) continued to drive job creation, offsetting a decline of 10,300 jobs in the goods-producing sector. In the former category, job creation was most robust in the “finance, insurance, real estate & leasing” group, which added 33,200 jobs. Construction (-14,100) and manufacturing (-26,000) both shed jobs last month.
- Of the four biggest provinces, only Quebec registered an increase in part-time positions. In Ontario and Alberta, modest increases in full-time jobs were offset by a drop in part-time positions. BC lost 5,400 jobs, as an increase of 2,900 full-time positions was overshadowed by a decline of 8,200 part-time jobs; the jobless rate inched up to 6.7%.

Table 1: Canadian employment metrics (Source: Statistics Canada)

	July '13	Aug. '13	Sept. '13
Unemployment Rate	7.2%	7.1%	6.9%
Employment (net change)*	-39,400	59,200	11,900
Full-time	-18,300	17,400	23,400
Part-time	-21,200	41,800	-11,500
Worker classificn. (net change)	-39,400	59,200	11,900
Employees	-42,500	39,900	57,300
Self-employed	3,200	19,200	-45,400
Public/private sector (net chg.)	-42,500	39,900	57,300
Public sector	-74,000	9,000	-16,300
Private sector	31,400	30,900	73,600
*totals may not add up due to rounding			

Equity Screens

Stocks with income and growth potential

This week's screen looks at North American stocks that offer some dividend income, but have registered steady revenue growth over the past five years. We also wanted to restrict our parameters to stocks that were trading at a reasonable valuation, and which had not yet made outside gains. Accordingly, our criteria were set as follows -

- Eligible indices: TSX Composite, S&P 500, S&P 400 Midcap
- 5-year geometric growth in net sales > 5% annually (over past five years)
- Current P/E < 15
- YTD Price Change < 15%
- Current Dividend Yield > 2%

(See Analysis on next page)

Table 1: Big-cap stocks with income and growth potential

Name	Ticker	GICS Sector	Last Price	YTD Chg. (%)	P/E	Net Sales-5 Yr Geo Gr.(%)	Dvd Yld(%)
IDACORP INC	IDA	Utilities	\$50.04	14.2	13.2	5.7	2.96
INTEL CORP	INTC	Information Technology	\$23.19	12.0	12.5	6.2	3.91
GREAT PLAINS ENERGY	GXP	Utilities	\$22.65	11.2	14.9	12.4	3.82
FIDELITY NATL-A	FNF	Financials	\$26.28	10.6	11.1	14.3	2.38
MANTECH INTL-A	MANT	Information Technology	\$28.80	10.3	12.3	5.4	2.94
PPL CORPORATION	PPL	Utilities	\$30.58	6.6	10.7	27.7	4.76
NORDSTROM INC	JWN	Consumer Discretionary	\$56.70	6.0	14.9	6.3	2.02
SHAWCOR LTD	SCL	Energy	\$42.94	5.9	11.3	9.2	3.29
CAN WESTERN BANK	CWB	Financials	\$31.17	5.6	13.9	7.2	2.17
OLIN CORP	OLN	Materials	\$22.64	4.4	11.9	8.8	3.55
HANCOCK HLDG CO	HBHC	Financials	\$31.86	-1.7	14.2	16.5	3.08
COACH INC	COH	Consumer Discretionary	\$54.29	-2.4	14.5	9.4	2.22
DEERE & CO	DE	Industrials	\$82.19	-4.0	9.3	5.5	2.36
ALLIED PROP REIT	AP-U	Financials	\$32.67	-5.1	5.8	19.4	4.10
INTACT FINANCIAL	IFC	Financials	\$62.78	-6.7	14.1	10.4	2.67
ENSCO PLC-CL A	ESV	Energy	\$54.80	-6.9	9.5	15.4	3.20
PARKLAND FUEL CO	PKI	Energy	\$18.35	-7.2	13.9	17.2	4.67
APPLE INC	AAPL	Information Technology	\$490.87	-8.0	12.2	36.1	2.26
ENBRIDGE INCOME	ENF	Energy	\$22.90	-8.5	12.5	7.6	5.62
HOLLYFRONTIER CO	HFC	Energy	\$43.19	-9.4	5.4	24.9	8.04
NORBORD INC	NBD	Materials	\$28.30	-9.6	7.3	6.9	2.20
FIRST CAP REALTY	FCR	Financials	\$16.96	-13.5	11.9	8.1	4.92
NORTHERN PROPERT	NPR-U	Financials	\$27.49	-13.6	3.7	5.8	7.50
ARTIS REAL ESTAT	AX-U	Financials	\$13.98	-14.4	5.1	26.4	7.71
RIOCAN REIT	REI-U	Financials	\$24.44	-15.2	8.1	9.4	5.71
H&R REAL-REIT UT	HR-U	Financials	\$21.04	-16.3	5.4	14.7	5.75
CALLOWAY REAL ES	CWT-U	Financials	\$24.25	-19.7	3.2	6.4	6.42
COMINAR REA-TR U	CUF-U	Financials	\$18.59	-20.6	6.2	23.3	7.76
CAN APARTMENT	CAR-U	Financials	\$20.59	-21.5	5.2	8.2	5.42
DUNDEE REAL ES-A	D-U	Financials	\$28.33	-27.4	6.4	30.4	7.82
NEWMONT MINING	NEM	Materials	\$25.77	-43.4	9.7	5.8	5.75
KINROSS GOLD	K	Materials	\$4.83	-51.5	3.4	26.5	3.49
IAMGOLD CORP	IMG	Materials	\$4.55	-60.9	8.7	6.0	5.66

Source: Global Securities Research, Bloomberg

18 Canadian stocks (shown in light blue) and 15 US stocks made the cut, as can be seen in Table 1; these stocks are ranked in order of declining YTD performance.

Half of the Canadian names on this list are REITs, with most them having suffered double-digit declines YTD. If one includes US utilities, more than a third of the 33 stocks on this screen are from the interest-sensitive groups, which have been under pressure in recent months due to rising bond yields.

Overall, this screen generated some interesting names – **Apple, Intel, Coach, Enbridge Income Fund**, and **Parkland Fuel**. **Newmont Mining, Kinross** and **Iamgold** also appear on this screen, although it should come as no surprise that they are languishing at the bottom of the list with an average YTD decline of almost 52%. Independent oil refiner **HollyFrontier Corp (HFC)** has piqued our interest since it trades at a forward P/E of 9.8x while its EPS growth rate over the past five years is 44.5% (revenues have grown at 25% annually over the same period). Analysts' average 12-month target price for the stock is at \$49.73, implying potential upside of 15%.

Please note that equity screens such as these are only a starting point for further analysis, and we strongly recommend that readers conduct their own due diligence.

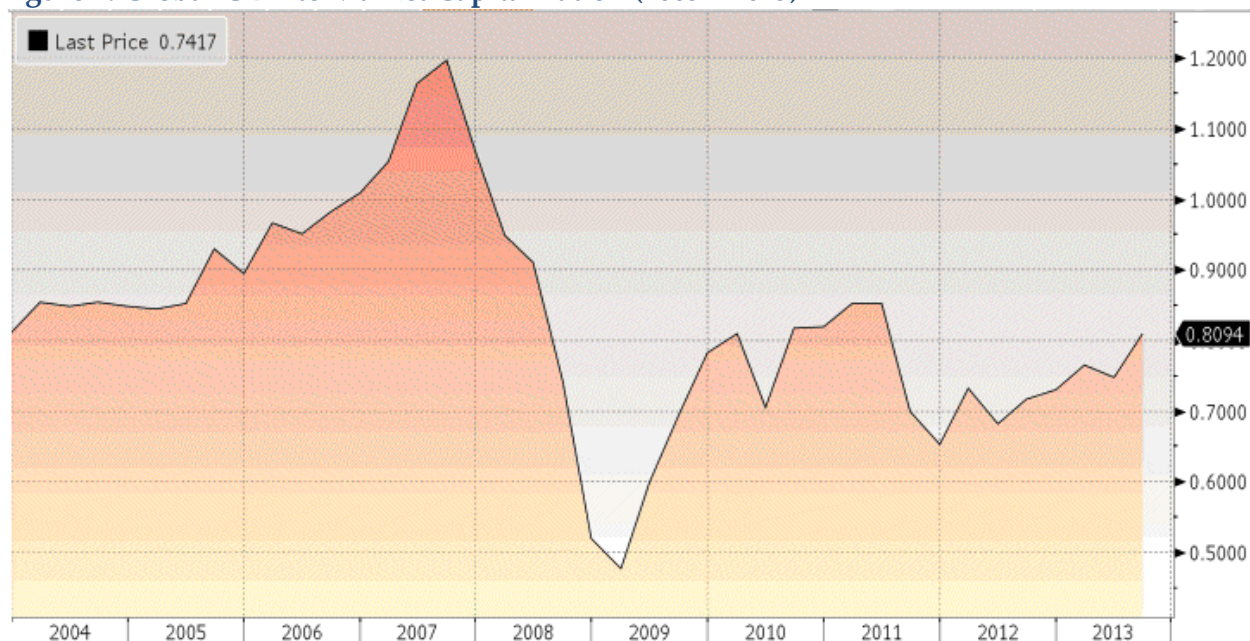
Chart of the Day

Ratio of Global Market Capitalization to GDP suggests rally may have more room to run

The ratio of global market capitalization to GDP provides some interesting insights into the state of the worldwide economy and global risk appetite. This ratio has a close correlation with the market cycle, trading at elevated levels during peaks and falling precipitously during severe market corrections.

Table 1 show that this ratio is presently close to 0.81. This figure is actually a little overstated since it is based on present global market cap of \$58.2 trillion, and end-2012 GDP (the last period for which this figure is available) of \$72 trillion. If one assumed global growth of a conservative 2% for this year, the actual ratio would be about 0.79. The point, however, is that despite the recent improvement in risk appetite, global equities may have more upside if the global economy continues to strengthen. As mentioned in the "Commentary" section of this Bulletin, the IMF expects the worldwide economy to grow at a 3.6% rate in 2014, up from an estimated 2.9% pace this year. That would place global GDP at about \$77 trillion by end-2014. If risk appetite continues to improve and the global market cap / GDP ratio rises to 0.85, global market cap could rise to a record \$65.5 trillion by end-2014 (the previous high of \$62.5 trillion was set in October 2007), which implies a gain of 12.5% for global equities.

Figure 1: Global GDP to Market Capitalization (2003 – 2013)



Source: Global Securities Research, Bloomberg

Market Snapshot

At close on Friday, October 11, 2013

S&P TSX	12892.11	-2.30	Commodities			Yields (%)		Can.	US
TSX Venture	929.37	-6.15	Canadian \$ (US cents)	96.55	+0.38	90 Day T-Bill	0.91	0.06	
DJIA	15237.11	+111.04	Gold (Spot)-US\$	1271.20	-16.40	2-Year Bond	1.20	0.35	
S&P 500	1703.20	+10.64	Oil (WTI-Nov.)	101.84	-1.17	10-Yr. Bond	2.59	2.69	
NASDAQ	3791.87	+31.13	CRB Index	286.61	-0.76	30-Yr. Bond	3.14	3.74	

Thought for the Day

“Any idiot can face a crisis – it’s day to day living that wears you out.” – Anton Chekhov

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Strong Buy: Expected total returns of 20% or more over the next 6 – 12 months.

Buy: Expected total returns of 10% to 20% over the next 6 – 12 months.

Speculative Buy: Significant gains expected over the next 6 – 12 months, but entire investment may be at risk.

Hold: Expected total returns of 0% to 10% over the next 6 – 12 months.

Reduce: Expected total returns of up to -10% over the next 6 – 12 months.

Sell: Expected total returns of over -10% over the next 6 – 12 months.

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