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# The Bigger Picture

## A weekly snapshot of the markets

Issue No. 255

June 9, 2014

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### Summary

**Economic Analysis:** Significant divergence in Canadian and U.S. jobs data for second successive month may lead loonie to retrace recent gains and weaken past 1.10 USD.

**ETF Watch:** Consider SPDR Euro Stoxx 50 ETF (FEZ, \$45.05) for Eurozone exposure.

**Short Takes:** Deadly hurricanes with female names; trading during World Cup; diaper bank seeks deposits.

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### Commentary – Bullish developments favour continuation of global rally

*But with volatility at lowest since early 2007, buying opportunity may come in late summer*

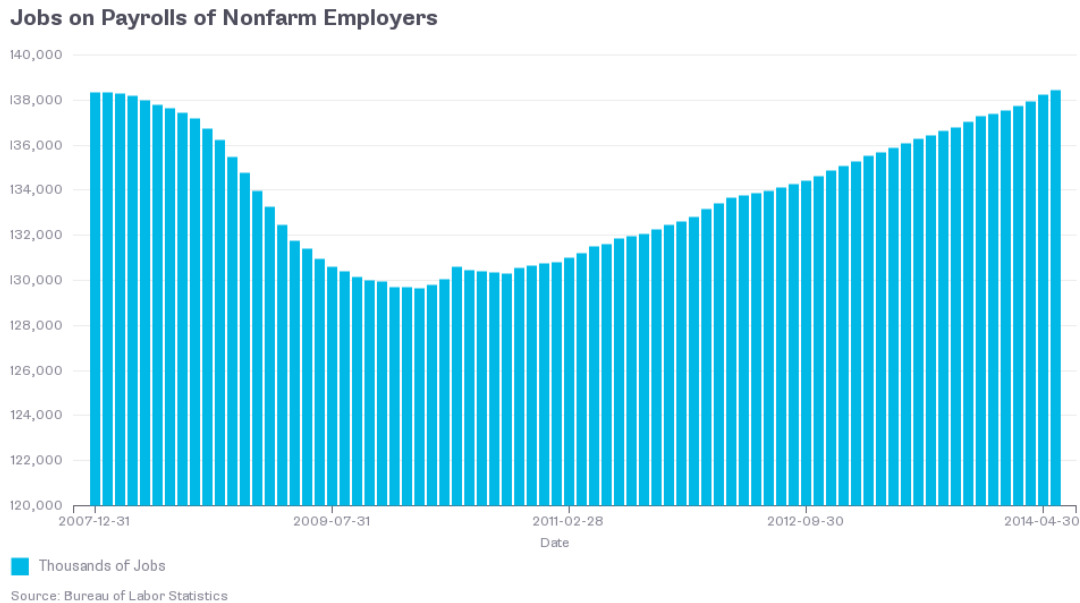
Elvis Picardo, CFA

A couple of bullish developments this week support a continuation of the global equity rally, in our opinion. However, with the VIX trading below 11 on Friday – its lowest levels since early 2007 – volatility may be poised to rise over the summer if skittish investors take some of their sizeable equity gains off the table. Hence, our advice is to wait for such a buying opportunity to appear, rather than chasing this relentless advance. Here's our bullish case –

- **ECB's historic measures should propel European equities:** ECB President Draghi on Thursday unveiled sweeping measures to stave off the deflation dragon, such as cutting the ECB's deposit rate to minus 0.1%, introducing a 400-billion euro liquidity program to encourage bank lending, and commencing work to buy asset-backed securities (ABS). Draghi also signalled his willingness to take additional steps if required, leading a few economists to speculate that some form of quantitative easing may be on the agenda by next year (notwithstanding the fact that the euro region does not have a unified government debt market). Our view is that these moves should help European equities, enabling them to make up for their underperformance relative to U.S. stocks.
- **US jobs numbers confirm robust economy:** With the U.S. economy adding 217,000 jobs in May, total nonfarm payrolls exceeded the previous peak of 138.4 million reached in January 2008 (Figure 1), a month after the start of the deepest U.S. recession since World War II. Other incoming data confirm the robustness of the U.S. economy, which may enable indices to add to their YTD gains in the second half of 2014.

Overall, in addition to the major markets (which together make up close to 50% of global market capitalization) that are trading at all-time highs, we now have the TSX within striking distance of its previous record and Europe firmly in rally mode. China remains a notable laggard but it only accounts for 5% of global market value, and in any case, this worldwide equity rally has occurred despite prolonged concern about a slowdown in the world's second-largest economy. For now, the bullish thesis on the global economy / equities remains intact.

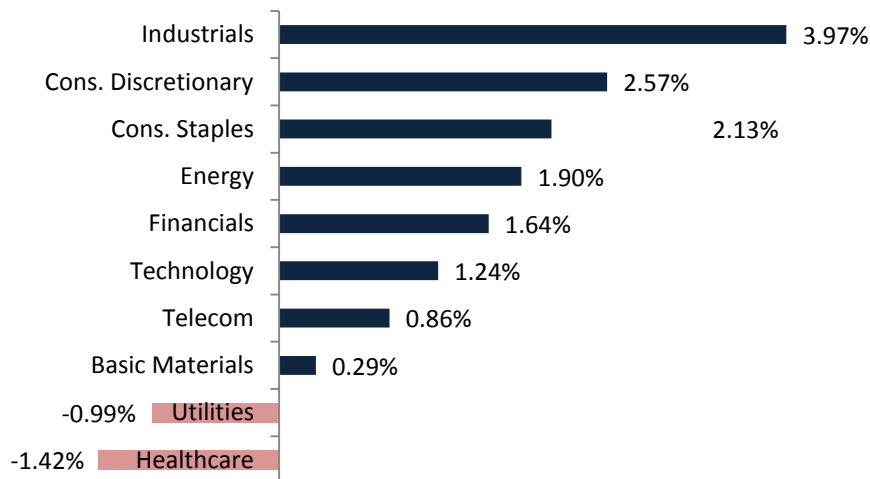
**Figure 1: Total U.S. nonfarm payrolls – December '07 to May '14**



Source: BloombergView

**TSX Sector Watch (Source: Bloomberg)**

Weekly change for TSX sectors (week ended June 6, 2014)



## Economic Analysis

### Significant divergence in Canadian and U.S. jobs data for second straight month

#### *Loonie may retrace recent gains to trade below 91 U.S. cents*

For the second straight month, jobs reports in Canada and the U.S. showed marked divergence. Although the Canadian economy rebounded in May to generate jobs almost equal to those lost in April, the quality of job creation was not encouraging. Meanwhile, job creation in the U.S. was marginally higher than estimates, with significant improvement in a number of labour-market metrics. This divergence may lead to some downward pressure on the loonie versus the greenback, especially coming on the heels of the dovish Bank of Canada interest-rate announcement earlier in the week.

In Canada, the economy added 25,800 jobs last month (Table 1), a little above economists' 25,000 forecast and compared with a loss of 28,900 jobs in April. The unemployment rate ticked higher for the first time this year to 7.0% (from 6.9%) as 40,900 rejoined the work force, leaving the participation rate at 66.1%, the lowest since November 2001. The jobs decline was wholly on account of a loss in full-time positions (-29,100), partly offsetting an increase of 54,900 part-time jobs. Over the past 12 months, the Canadian economy has lost 26,700 full-time jobs and created 112,200 part-time positions, for net job creation of 85,500. While the increase in public-sector employee positions (+41,500) was well above those in the private sector (+24,700), the number of self-employed fell by as much as 40,400 in May.

Job losses in the goods-producing sector (-9,500) that were led by declines in areas such as natural resources and manufacturing, were offset by gains in the service sector (+35,100), driven by job creation in educational services, accommodation & food services and trade. Provincially, Quebec and Ontario reported a significant decline in full-time positions, while BC and Alberta added full-time jobs in May. British Columbia lost 1,900 jobs (+9,200 full-time, -11,100 part-time), and an increase of almost 6,000 in the labour force resulted in the jobless rate spiking up to 6.1%, from 5.8% in April.

The U.S. economy added 217,000 jobs in May, after a revised 282,000 gain in April, and slightly above the 215,000 forecast. The unemployment rate held at a near six-year low of 6.3% as 192,000 people rejoined the work force, which had contracted by 806,000 in April. Other metrics also showed improvement – the number of long-term unemployed (jobless for at least 27 weeks) fell to 34.6% (from 35.3% in April) of the total work force, the lowest since August 2008; the U-6 underemployment rate fell to 12.2%, the lowest since October 2008; and average hourly earnings rose 2.05% over the past year to \$24.38.

U.S. job growth was driven almost wholly by the private sector, specifically in service industries such as education & health services, and professional & business services. Good producers added only 18,000 jobs, led by manufacturing (+10,000) and construction (+6,000).

**Bottom-Line:** Friday's jobs data supports the view that the Canadian dollar may continue to retrace its recent gains and weaken past 1.10 USD. Earlier in the week, the Bank of Canada left its benchmark rate unchanged with a neutral bias and said that the risks posed by low inflation remain. Contrast that dovish outlook with the situation in the U.S., where data last week showed the ISM non-manufacturing index at a nine-month high and the strongest automobile sales since February 2007. The U.S. jobs numbers and other incoming data may reaffirm the Federal Reserve's intention to continue winding down its bond-buying program by \$10 billion at every FOMC meeting. Given this divergence in the monetary policy bias, the loonie may trend lower in the weeks ahead.

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

	Feb. '14	Mar. '14	Apr. '14	May '14
<b>Unemployment Rate</b>	7.0%	6.9%	6.9%	7.0%
<b>Employment (net change)*</b>	-7,000	42,900	-28,900	25,800
Full-time	18,900	12,800	-30,900	-29,100
Part-time	-25,900	30,100	2,000	54,900
<b>Worker classificn. (net change)</b>	-7,000	42,900	-28,900	25,800
Employees	-15,500	43,200	-46,000	66,200
Self-employed	8,600	-500	17,200	-40,400
<b>Public/private sector (net chg.)</b>	-15,500	43,200	-46,000	66,200
Public sector	-50,700	39,300	-17,400	41,500
Private sector	35,200	3,900	-28,600	24,700
*totals may not add up due to rounding				

## ETF Watch

### Looking to add Eurozone exposure – consider the SPDR Euro Stoxx 50 ETF (FEZ)

Investors looking to add Eurozone exposure to their portfolios could consider accumulating units of the SPDR Euro Stoxx 50 ETF (FEZ, \$45.05), which closed above the \$45 level on Friday for the first time since September 2008. The ETF tracks the performance of the Euro Stoxx 50 index, the leading blue-chip index for the Eurozone; the index includes many of its corporate giants such as Total, Sanofi, Bayer, Siemens, Daimler, Eni, SAP, and Unilever. The ETF is up 30.6% over the past year, compared with a gain of 29.0% for the underlying index. The geographic allocation of this ETF presently is – France 36.1%, Germany 31.8%, Spain 12.9%, Italy 8.4%, Netherlands 6.8%, Belgium 3.0%, and Ireland < 1%. It is well diversified across industrial sectors, with the biggest weights in banks & insurers, oil & gas, pharmaceuticals, and telecoms. The ETF has a one-year yield of 2.6%, and an expense ratio of 0.29%.

## Short Takes

- Hurricanes with female names are deadlier:** Researchers at the University of Illinois Urbana-Champaign last week published a study that determined hurricanes with female names are deadlier than those with male monikers. The study was based on data from 94 Atlantic hurricanes that hit the United States between 1950 and 2012 (excluding killer storms and “outliers” Katrina of 2005 and Audrey of 1957). The researchers found that for severe storms, those with feminine names were on average about three times as deadly as those with masculine names. They said that the practice of naming storms was introduced to enhance the clarity and recall of storm information, but it taps into gender stereotypes with potentially lethal consequences. In related experiments, people thought storms with male names (Arthur, Marco) would be more intense than those with names like Bertha and Dolly; other experiments found that people were more likely to evacuate an area in the path of a dangerous storm that had a male name. As a result, people in the path of severe storms with feminine names may take fewer protective measures or evasive action, leaving them more vulnerable to damage and destruction.
- Surprise! Trading plummets during World Cup:** A 2012 study by the European Central Bank found that stock trading volumes had a median decline of 55% when the national team was playing in the 2010 World Cup. The ECB study of 15 countries found that the biggest drops in trading occurred in South American nations when their national teams were playing, led by Chile with a 99% plunge in volume, Argentina (80%) and Brazil (75%). U.S. games reduced trading on American exchanges by 43%. Games involving European nations reduced volume by an average 38% in Europe. Trading volumes are already significantly lower in Brazil, where the 2014 World Cup commences on June 12.
- Diaper bank seeks deposits after unauthorized withdrawal:** A diaper bank in North Carolina is looking to replenish its stock after thieves made off with 13,000 diapers valued at \$5,000 last week. The non-profit organization supplies about 12,000 diapers monthly to families in need. Although diapers for a baby can cost as much as \$100 per month, they cannot be purchased with federal welfare funds, resulting in the emergence of diaper banks across the U.S., according to the National Diaper Bank Network.

## Market Snapshot

At close on Friday, June 6, 2014

S&P TSX	14838.90	+38.72	Commodities			Yields (%)		Can.	US
TSX Venture	987.45	+1.53	Canadian \$ (US cents)	91.48	-0.05	90 Day T-Bill	0.91	0.03	
DJIA	16924.28	+88.17	Gold (Spot)-US\$	1253.25	-0.44	2-Year Bond	1.06	0.40	
S&P 500	1949.44	+8.98	Oil (WTI-July)	102.74	+0.26	10-Yr. Bond	2.31	2.59	
NASDAQ	4321.40	+25.17	CRB Index	305.25	+0.99	30-Yr. Bond	2.84	3.43	

## Thought for the Day

“We know that progress is not inevitable. But neither was victory upon these beaches. Now, as then, the inner voice tells us to stand up and move forward. Now, as then free people most choose.” – Bill Clinton in Normandy on June 6, 1994 (50<sup>th</sup> anniversary of D-Day)

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

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

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