

# 2008 Economic and Market Outlook

Presented by:

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 **Scotiabank Group**



## 2008 Economic Outlook

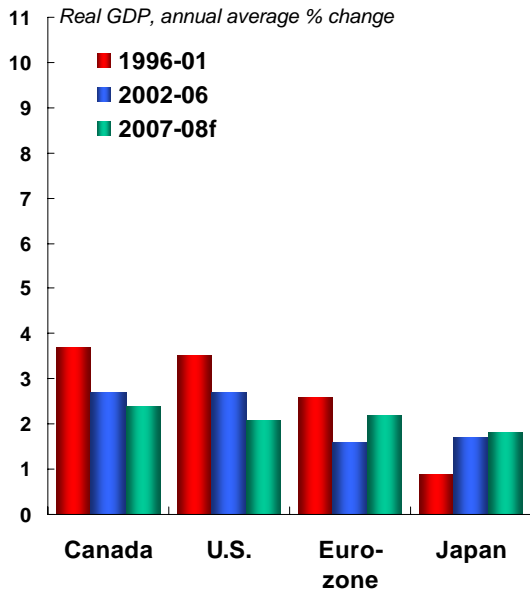
**Warren Jestin**

 **Scotiabank Group**

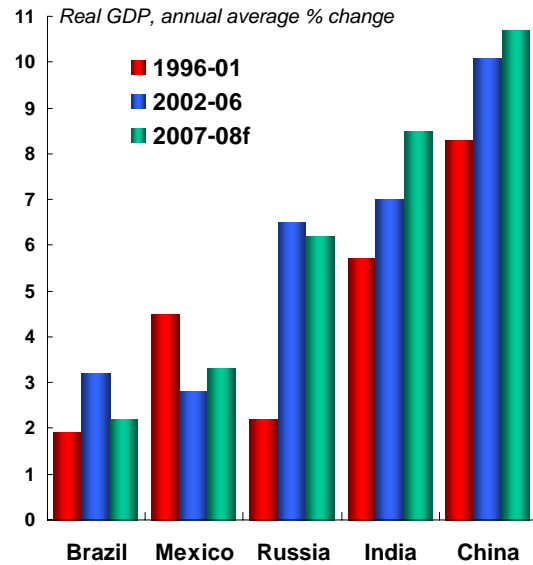


# The Global Economic Landscape is Changing Rapidly

## U.S. Gears Down

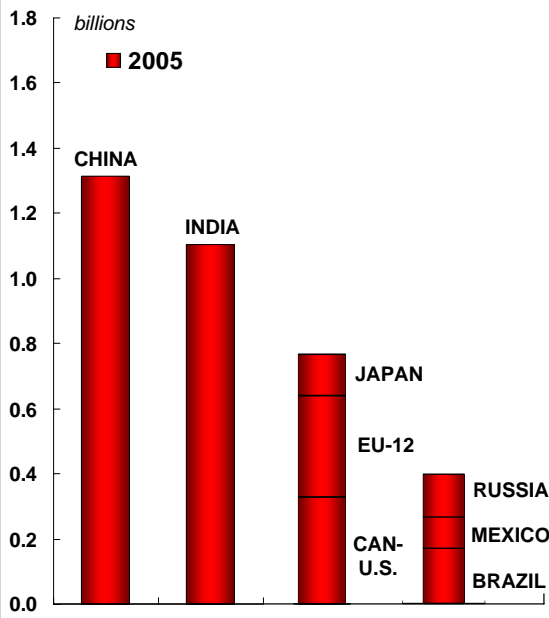


## Emerging Powerhouses In High Gear



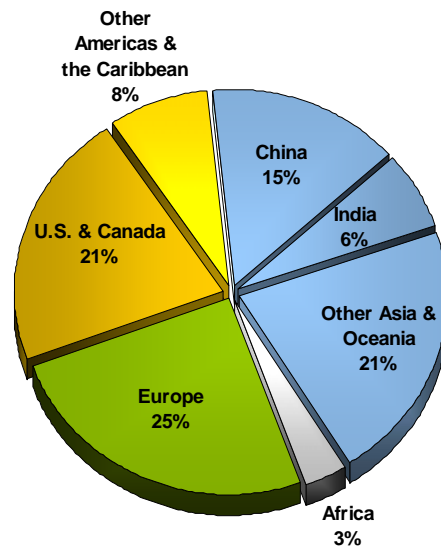
# Emerging Nations Are Shifting Global Demand...

## Population



## Global GDP (PPP)

% of global GDP, 2006



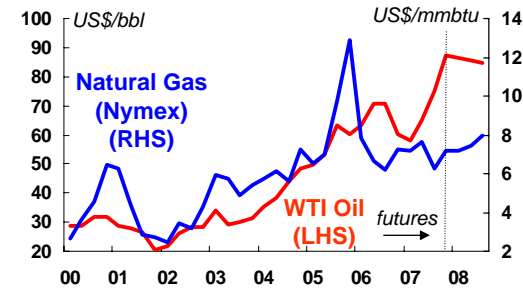
Source: IMF



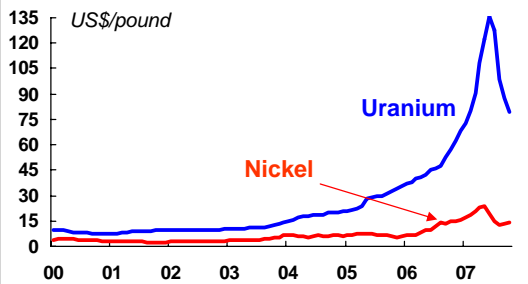


## ... Underpinning Commodities...

### Oil and Natural Gas

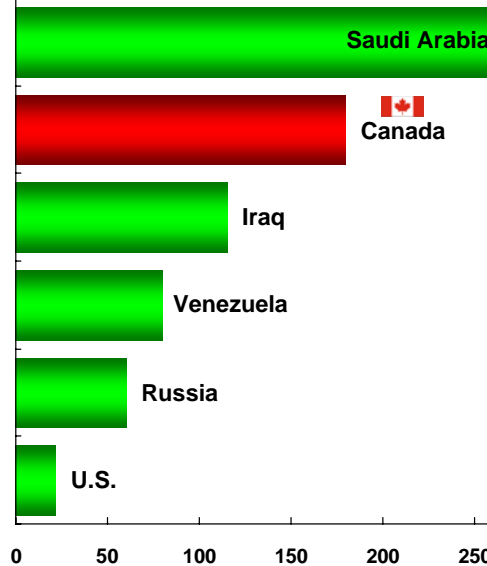


### Nickel & Uranium



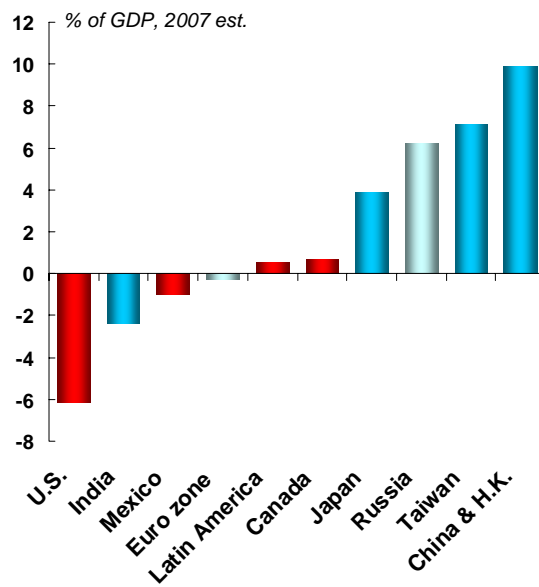
### World Oil Reserves

estimated recoverable reserves, 2006  
billions of barrels



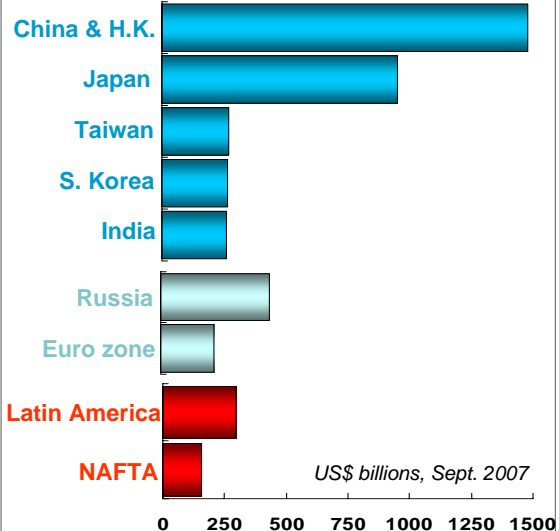
## ... & Reshaping Financial Markets

### Current Account Balances



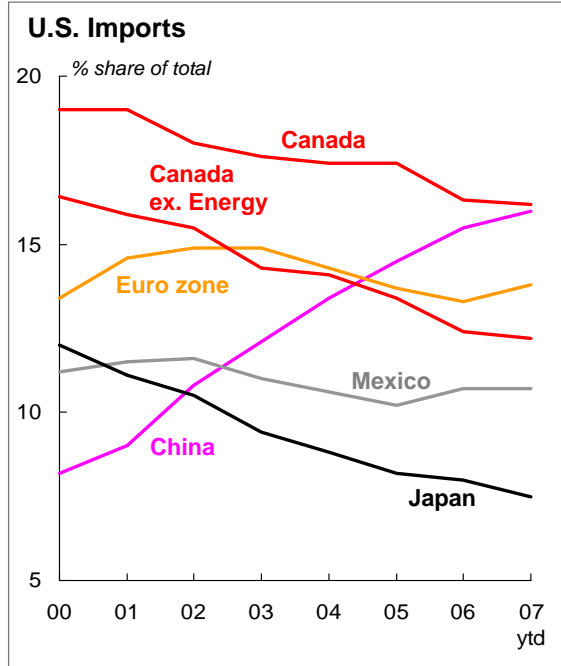
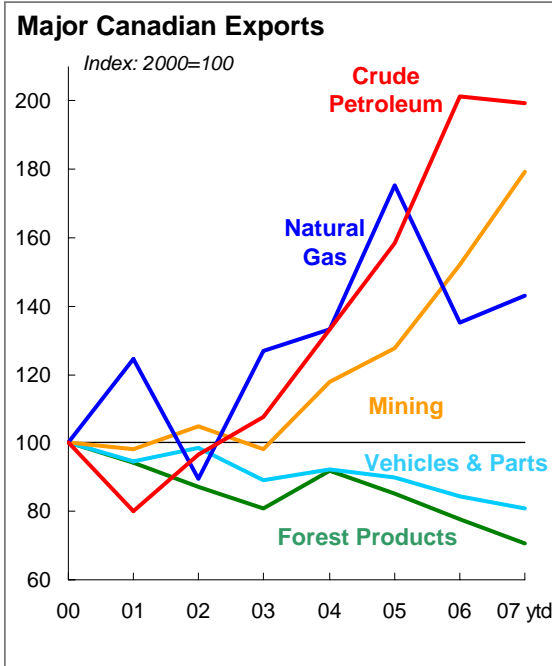
Source: IMF 2007 estimates

### Foreign Exchange Reserves

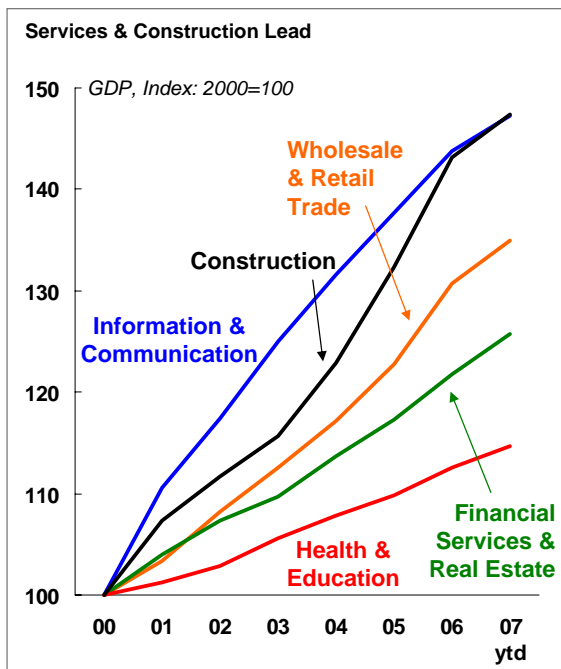
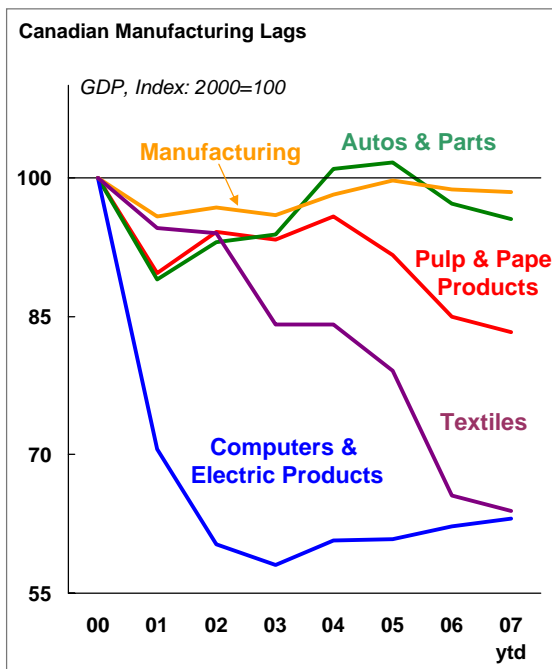




# For Canada, These Trends Point to Ongoing Competitive Challenges...

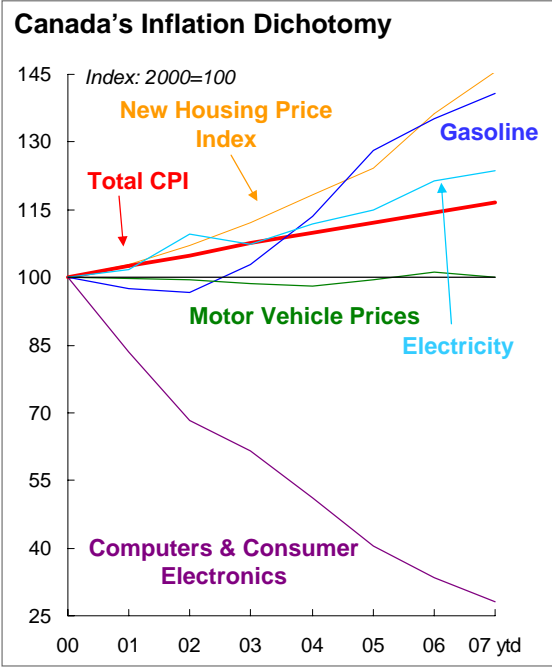
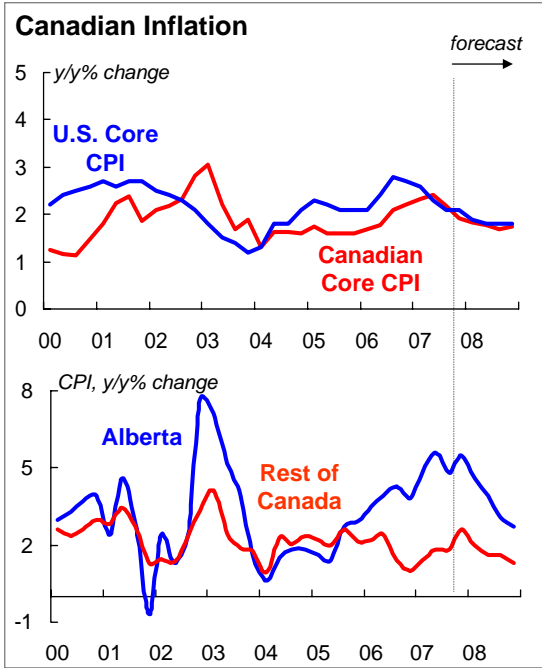


# ... and Economic Restructuring

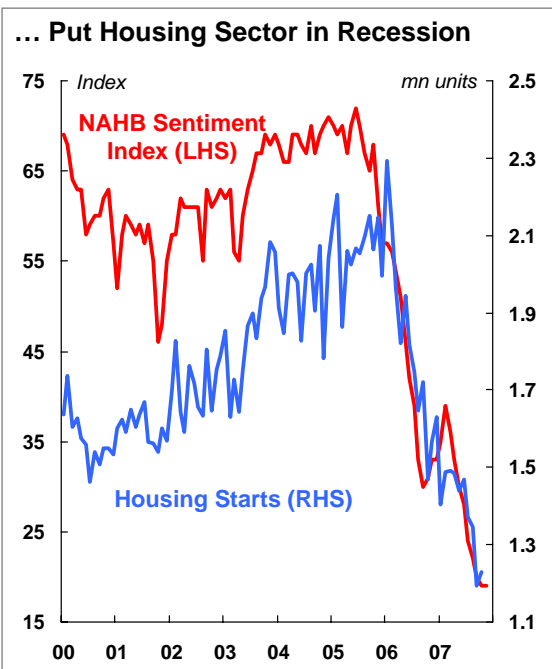
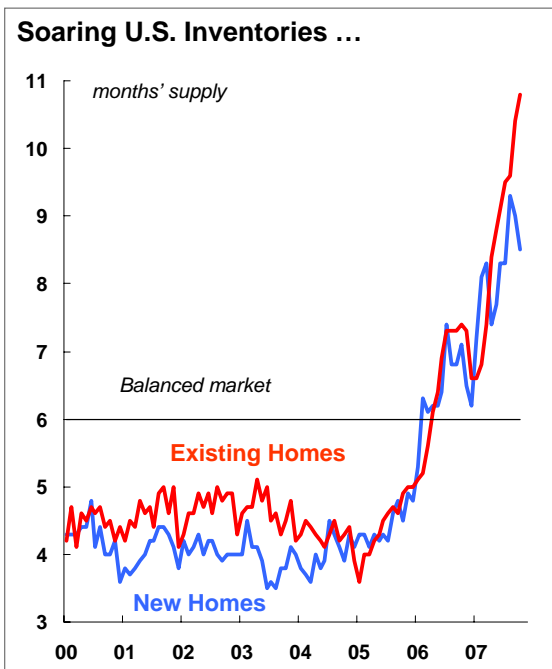




# With Inflation Poised to Move Lower ...

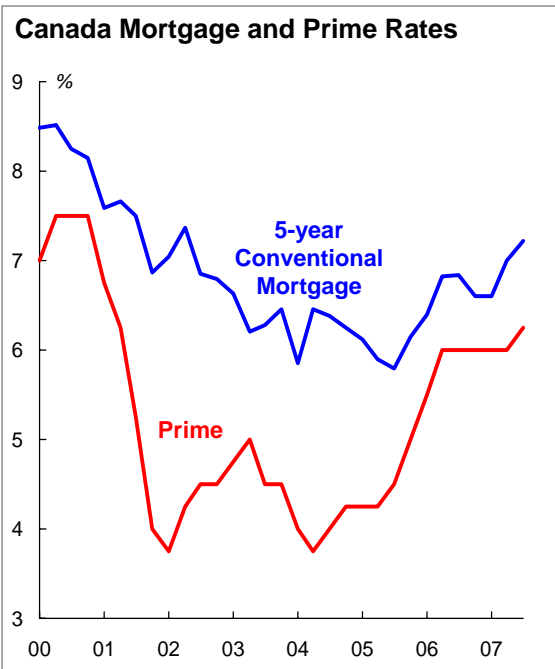
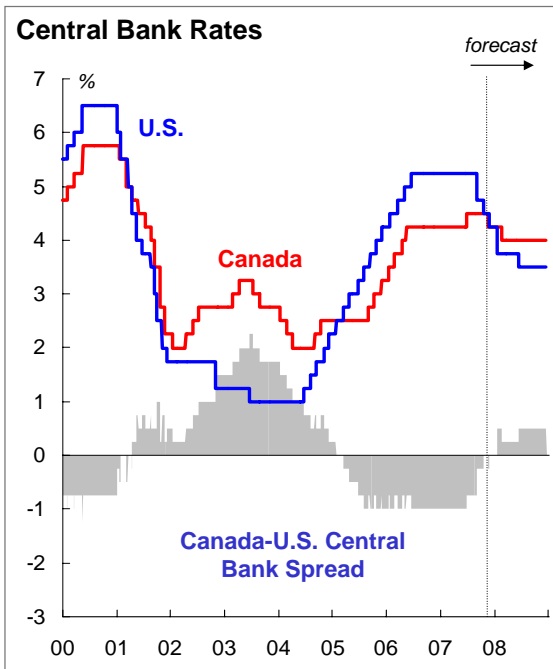


# ... & The U.S. Housing Recession Deepening ...

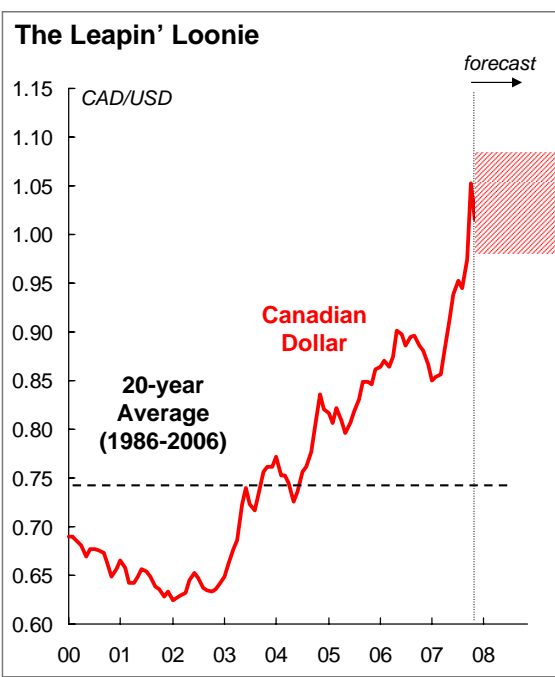
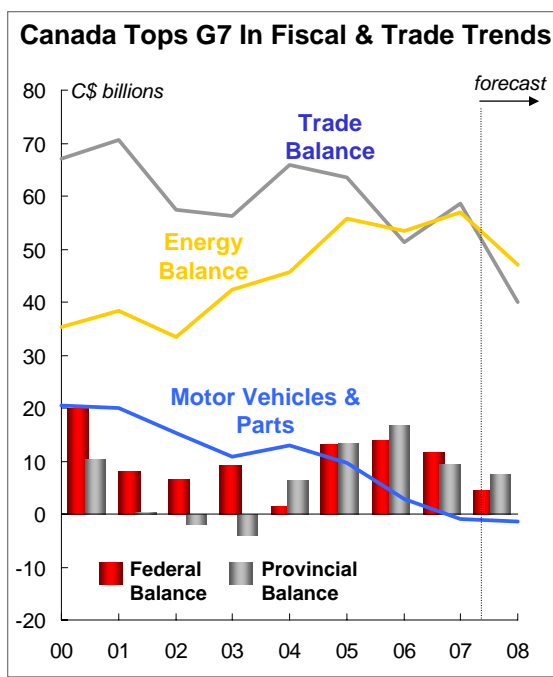




# ...The Fed Will Continue to Lead the Bank of Canada...

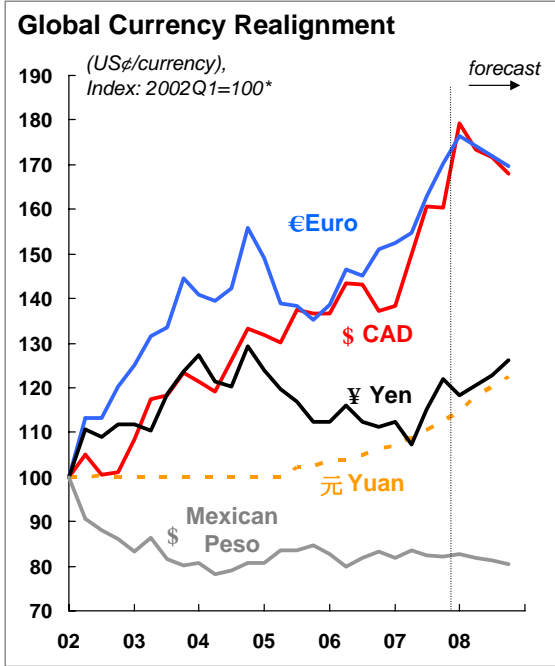
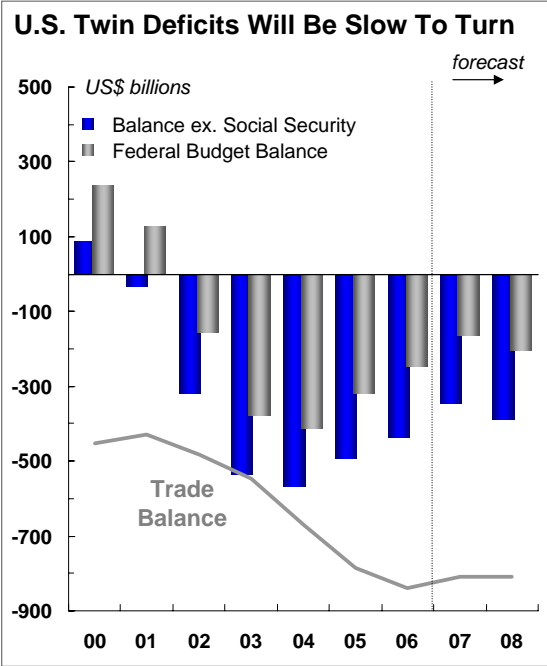


# ... Underpinning the Loonie ...





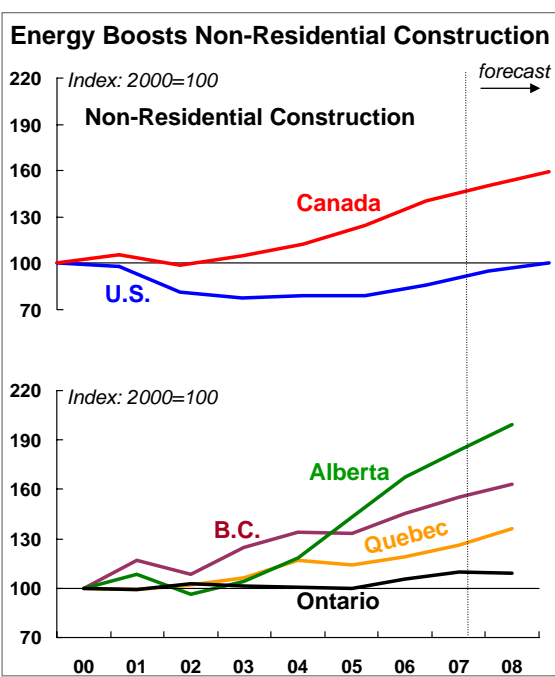
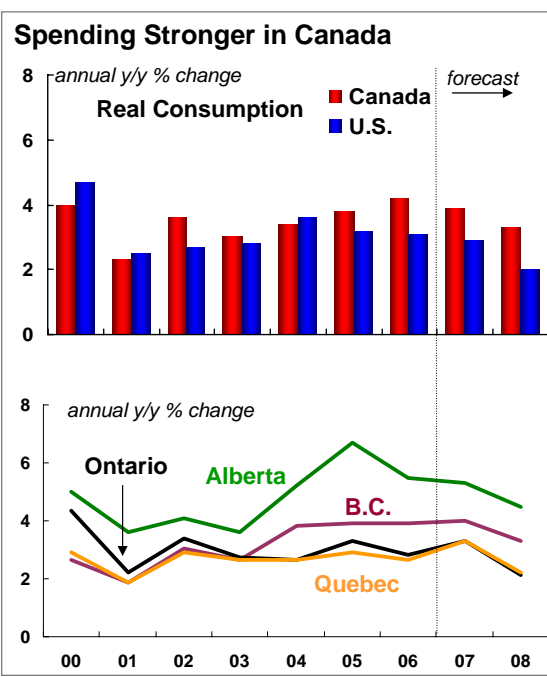
# ... At a Time of Heightened U.S. Dollar Vulnerability



\* Last data point: December 3, 2007

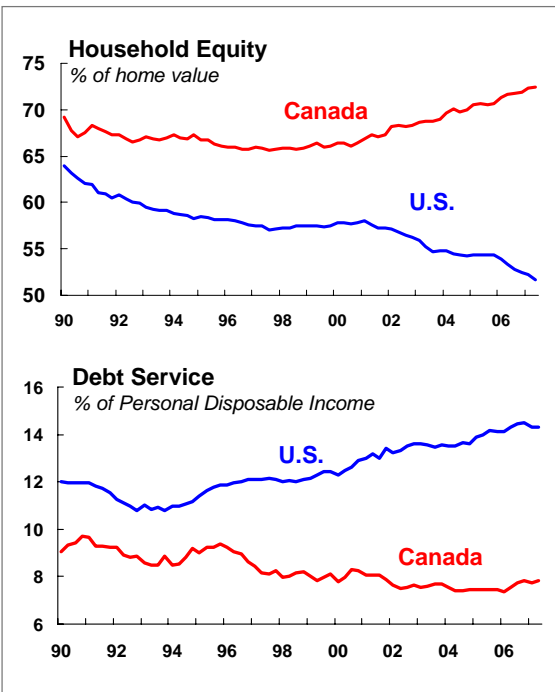
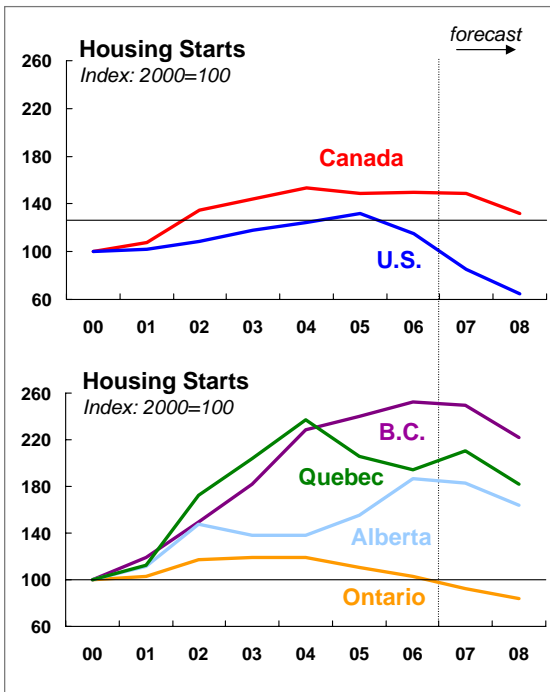


# Western Provinces Give Canada a Performance Edge

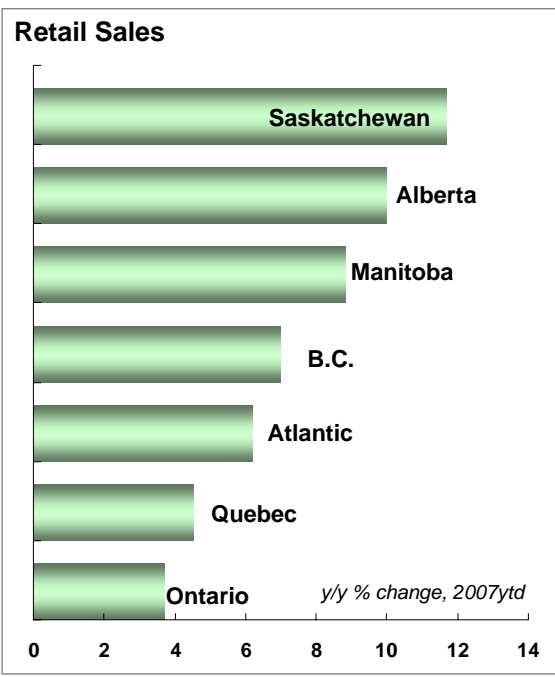
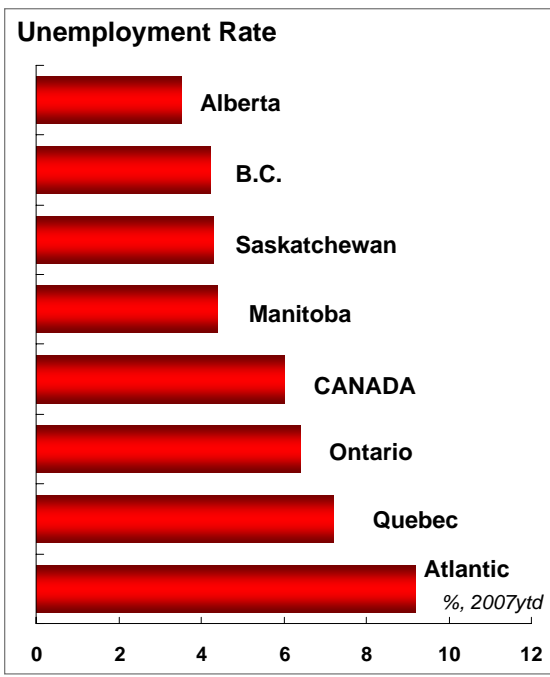




# Housing Conditions Much Stronger in Canada



# Canadian Job Gains & Spending Remain Tilted West



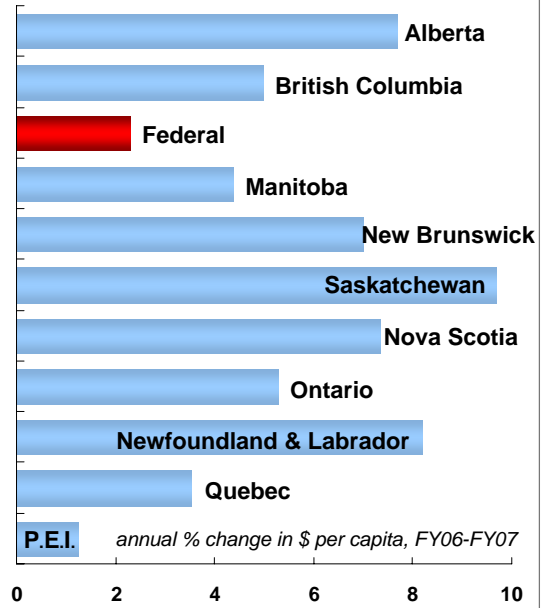


# Government Surpluses Provide Room for Fiscal Stimulus

Substantial Budget Surpluses...

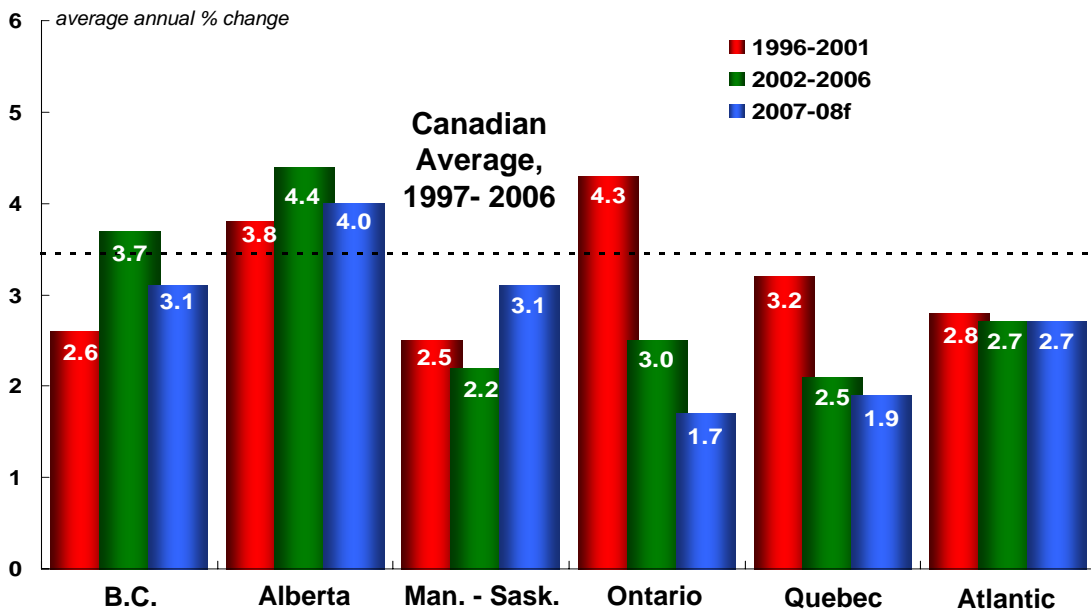


... Underpin Program Spending



# Canadian Growth Will Remain Best in the West

Real GDP





# 2008 Equity Market Outlook

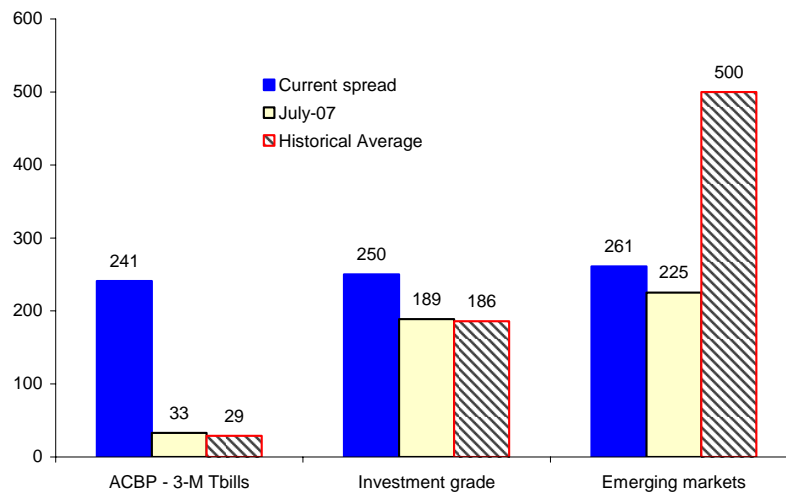
Vincent Delisle



## Repricing Risk

*Wake-Up Call: Premiums Are Back!*

Bond Market Spreads-Now versus Historical Levels



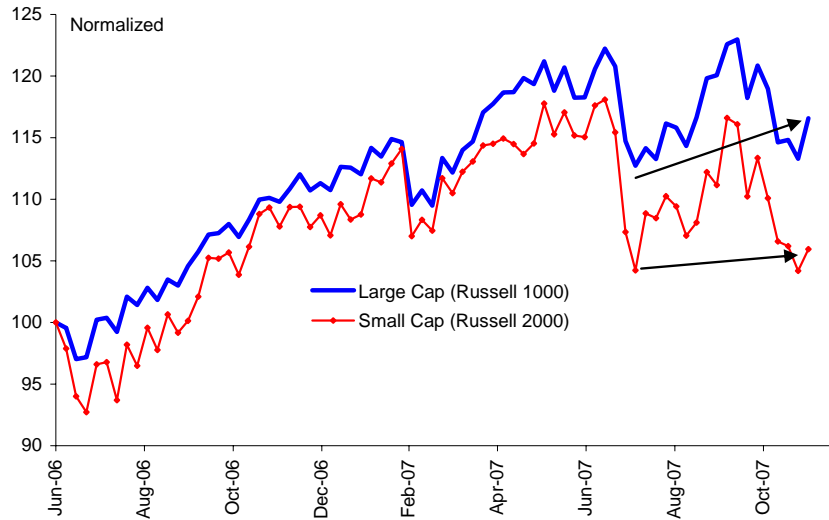
Source: Scotia Capital, Bloomberg, S&P, Moody's Economy.com





# Flight-To-Quality Helps Large Caps...

### U.S. Large Cap & Small Cap Performance

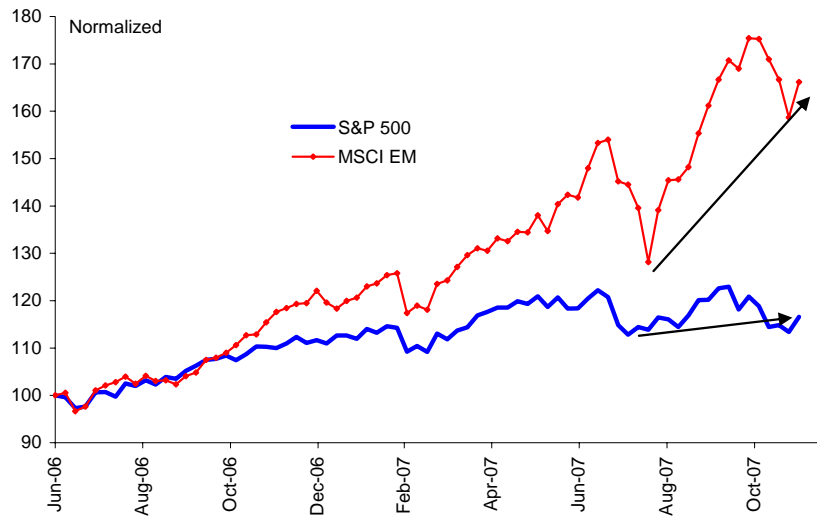


Source: Scotia Capital, Bloomberg



# ...& Emerging Markets???

### S&P 500 & Emerging Markets Performance



Source: Scotia Capital, Bloomberg

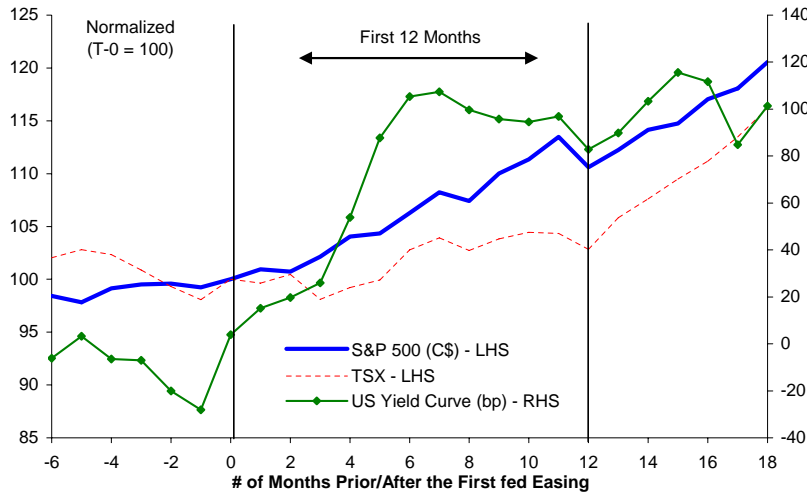




# Fed Easing & Equities

## Equity Gains Take Off 6 months After Start Of Fed Rate Cuts

S&P 500, TSX and US Yield Curve Performance Prior/After First Fed CUT



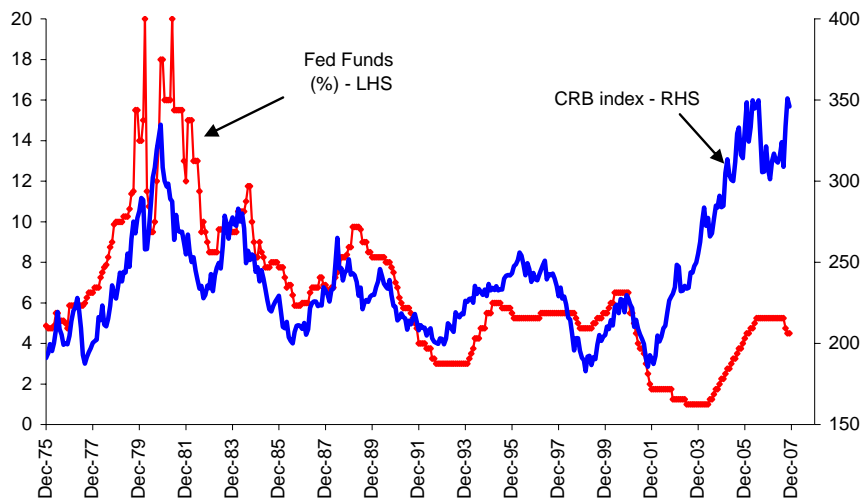
Source: Scotia Capital, Bloomberg



# Fed Easing & Resources

## Slower Growth & Rate Cuts = Weaker Spot Prices

CRB & Fed Funds Tend To Move Together



Source: Scotia Capital, Bloomberg

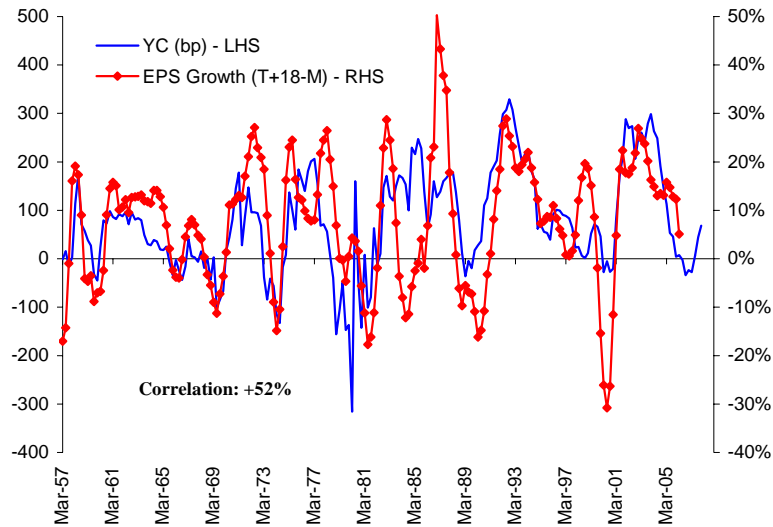




# Main Challenge Will Come From Earnings

YOY Profit Growth (red line) Will Dip Below 0% Through Q2/08

S&P 500 Earnings Growth & Yield Curve



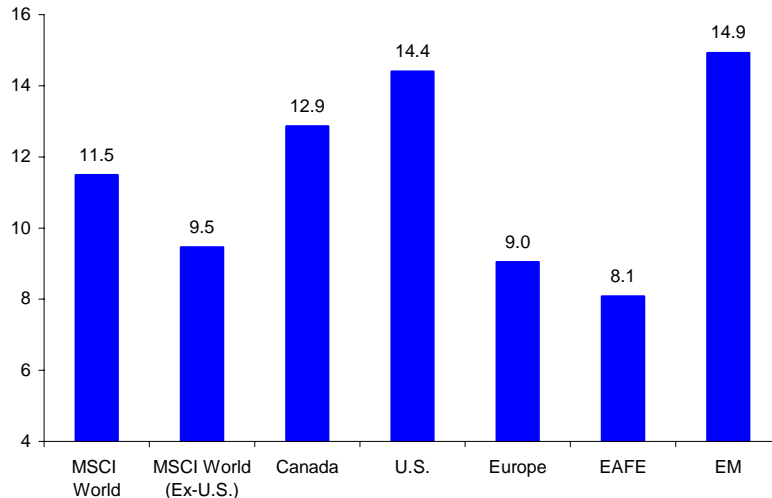
Source: Scotia Capital, Bloomberg



# ...and Negative Earnings Revisions

Revisions Will Challenge Equities In 1H08

2008 EPS Growth Forecasts: Bottom-Up in Double Digits!



Source: Scotia Capital, Thomson Financial

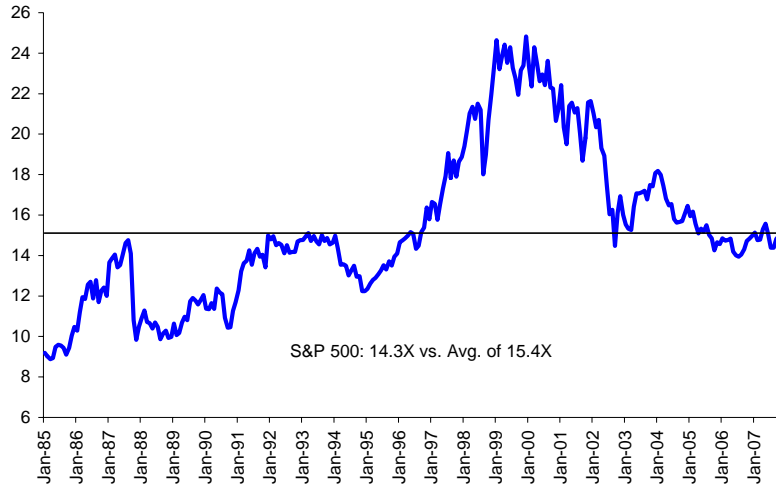




# Valuations Remain Supportive

*Below Average PE Multiples & Very Low Bond Yields*

**S&P 500 12-M Forward P/E**

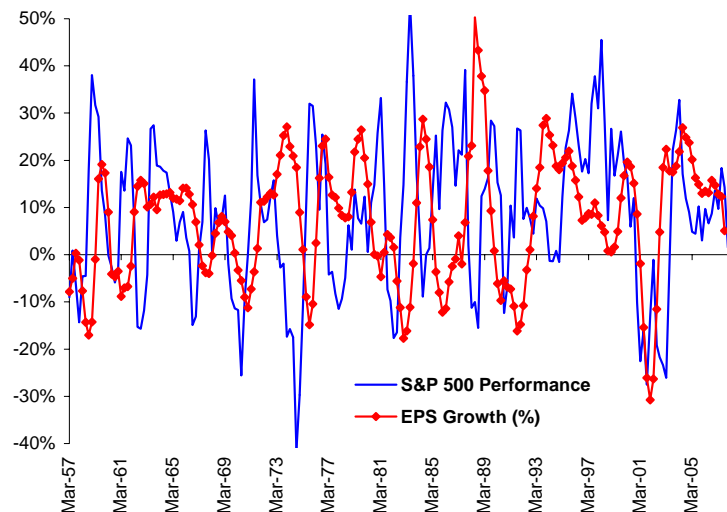


Source: Scotia Capital, Thomson Financial



# Market Will Lead EPS Rebound By 9 Months

**S&P 500 Performance & Earnings Growth**



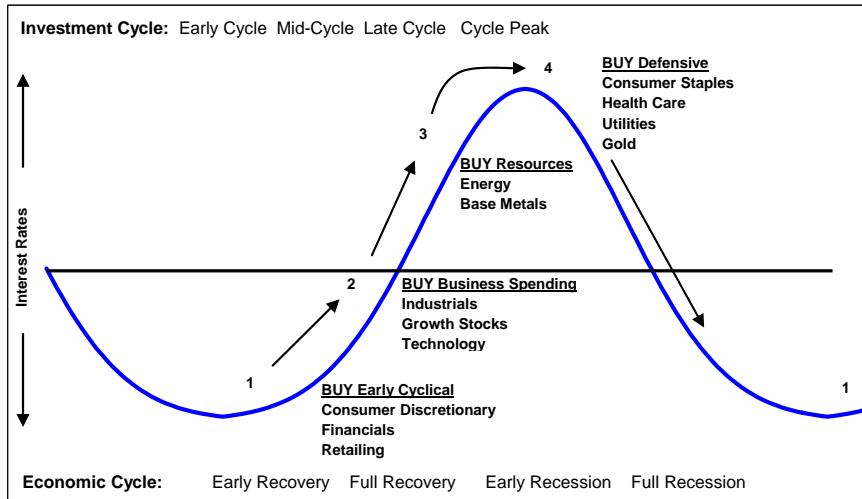
Source: Scotia Capital, Bloomberg





# How Long Does Phase 4 Last?

## Equity Market & Economic Cycle



Source: Scotia Capital



# Equities Over Bonds In '08

*Tougher 1H08 Expected For Equities*

	Weights			Recommended Weight	Expected total Return (%)
	Min		Max		
<b>Equities</b>		<b>60</b>		<b>65</b>	
TSX	10		30	20	8%
S&P 500	10		30	24	8%
MSCI EAFE	10		30	21	8%
<b>Bonds</b>	20	<b>38</b>	70	<b>28</b>	<b>0-2%</b>
<b>Cash</b>	0	<b>2</b>	20	<b>7</b>	<b>4%</b>

Source: Scotia Capital





## Sector Strategy - 2008

### *Defensive Failure Of TSX Index Is A Challenge*

#### Scotia Capital Sector Allocation

<b>Sector</b>	<b>Scotia Capital Recommendation</b>
<b><i>Defensive &amp; Interest Sensitive</i></b>	
Financials	Overweight
Telecommunication	Overweight
Utilities	Market Weight
Health Care	Underweight
<b><i>Resources</i></b>	
Energy	Underweight
Materials	Market Weight
<b><i>Economic Sensitive</i></b>	
Industrials	Overweight
Information technology	Overweight
<b><i>Consumer</i></b>	
Consumer Staples	Market Weight
Consumer Discretionary	Underweight

Source: Scotia Capital