

August 23, 2010

Portfolio Strategy

Revisiting Our 2010 Themes

Eight months into the year, and as we head out on the road for our “back-to-school” client marketing tour, we are revisiting some of the themes that have been supporting our 2010 investment thesis. Last year’s cyclical equity recovery has been stomped by renewed recession fears and valuations continue to drift lower along with eroding sentiment.

The ongoing S&P 500 secular bear market (11 years and running) is not over and investors should continue to expect sporadic recoveries followed by weakness. We see the S&P 500 trading in the 950-1,200 range. Such volatility warrants a more proactive/tactical approach.

Following our high beta/cyclical bias adopted throughout 2009, our game plan this year has been to gradually add defense in our asset mix and equity sector strategy. Our recommended Cash and Bond exposures were increased in April and equities were reduced.

Globally, we have been carrying a U.S. equity preference over China since Q4/09, as we expected the latter to underperform in the wake of tightening measures. This U.S. over China stance has translated into the following global pair trades: S&P 500 over China, Mexico over Brazil, and Canada over Australia.

From a sector perspective, we have also been reducing early cyclicals (Financials, Discretionary Retail) and raising our exposure to Staples and Telecom.

Our equity strategy has paid off so far in 2010 with our three model portfolios (SEP, U.S. sector ETF, and Global ETF) outperforming. Our asset mix call has, however, been too cyclical with equities underperforming bonds since January.

BIG PICTURE OUTLOOK

The global economy entered 2010 with a bang and Q1 GDP growth was robust across all regions. Post-Q1 fatigue has been widespread, however, as the fallout from the European debt crisis hit market confidence in the spring and China’s deliberate slowdown is starting to take its toll. Outside the Mediterranean, European data have been surprisingly resilient of late (Germany especially), but austerity measures will crimp growth in coming months, as will the stronger yen in Japan. Finally, in the absence of more robust employment improvements in the United States (we would like to see 150k+ monthly private payrolls gains), the sustainability of the global recovery appears more perilous.

The Canadian economy rebounded quickly and vigorously in the latter half of 2009 and through Q1/10, but momentum has since faded. Recent Bank of Canada (BoC) rate increases and a cooling housing market should pave the way to more muted performance in coming quarters. Canadian assets have been outperforming since 2000 through different leadership cycles, more notably since 2008. We expect the S&P/TSX Index to outpace the MSCI World heading into 2011 as well (in US\$ terms).

Although we expected the global economy to lose momentum, we didn’t expect its foundation to be as shaky. Industrial production and manufacturing trends remain positive for now (inventory rebuild), but the outlook for consumer spending appears fragile in the absence of tangible employment/income growth. More than 15 months into the recovery, our main concern is that U.S. employment continues to lag the S&P 500 profit rebound.

Year-End North American Benchmark Information

	Recent	2010F	2011F
S&P/TSX Composite Index			
TSX Level/Target	11,722.07		12,300
TSX Earnings	\$645.29	\$750.00	\$825.00
TSX P/E	18.17	16.40	N/A
TSX Dividends	\$321.57	N/A	N/A
TSX Yield	2.74%	N/A	N/A
S&P 500			
S&P 500 Level/Target	1,071.69		1,225
S&P 500 Earnings	\$75.30	\$78.00	\$82.00
S&P 500 P/E	14.23	15.71	N/A
S&P 500 Dividends	\$22.23	N/A	N/A
S&P 500 Yield	2.07%	N/A	N/A
Fixed Income & Currency			
BoC Overnight Rate	0.75%	1.25%	2.75%
Canada 10-Year Bond	2.921%	3.85%	4.10%
Cdn/U.S. Dollar	\$1.0475	\$1.01	\$0.98
U.S. Fed Funds Rate	0.25%	0.25%	2.25%
U.S. 10-Year Treasury	2.6106	4.10%	4.40%
U.S. Dollar/Euro	\$1.2712	US\$1.23	US\$1.23
Commodities			
Gold	\$1,227.80	US\$1200.00	US\$1300.00
Oil (WTI)	\$73.46	US\$79.00	US\$80.00

Source: Scotia Capital, Bloomberg.



For the moment, macro data is pointing to sluggish growth, not recession. Moreover, corporate signals continue to be somewhat supportive for cyclical assets. Freight volume trends (rail

Weekly Market Strategy

carloads) remain strong and recent earnings and guidance from the likes of UPS and FedEx does not foreshadow an imminent slide in U.S. or global GDP.

Consumer confidence levels remain low, but the latest University of Michigan survey improved slightly in August, and July retail sales numbers were positive (June data was also revised higher). There is no denying that the current U.S. consumer outlook is murky and will remain so throughout what is expected to be a long deleveraging process. However, it is hard to reconcile Macy's outlook (raising 2010 revenue and EPS guidance, positive back-to-school spending so far), steep yield curves, 55 ISM levels, and rising corporate profits with a gloom and doom economic forecast. Even the sharp drop in long-term bond yields (U.S. 10-year yields are down 140 bp since April) is not a bulletproof recession indicator.

One silver lining is the fact that U.S. banks are easing lending standards. In its most recent senior loan officer survey on bank lending practices, the Federal Reserve pointed out that banks have continued to ease credit conditions for commercial and industrial loans in the last three months. Moreover, standards for small businesses eased for the first time since 2006. Since small businesses provide employment for over half of American workers, this is somewhat supportive for the job market and the U.S. economy. The correlation between credit conditions for small businesses and GDP growth year over year (YOY) since the early 1990s has been high, at +78%.

In our opinion, investors are currently too eager to go from pricing recession scenarios to V-shaped recoveries. Both are extreme outcomes and are contributing to this noisy period we are in. When all said and done, we may simply be locked in a sub-par/boring recovery until employment improvements kick in. Earnings growth does not appear in jeopardy in the near term, but subdued investor sentiment should limit multiple expansion potential.

Based on Scotia Economics' most recent forecast update (August 3), World, U.S., and China GDPs are expected to advance 3.8%, 2.5%, and 9.0%, respectively, next year (2011). We are in the slower growth in 2011 camp, not double-dippers. As we expect the recovery's momentum to fade heading into 2011, earnings growth should moderate. We recently (in June) reduced our 2011 earnings estimates for the S&P 500 and S&P/TSX to US\$82 and \$825, respectively.

At this stage, earnings are not our main worry. The price investors are willing to pay for earnings (P/E) is a bigger concern, as more contraction is possible until the secular bear market ends.

Vincent Delisle, CFA – *Portfolio Strategist, Scotia Capital*

Canadian Equity Strategy

ONEX CORPORATION – INVESTING ALONGSIDE A WINNING TEAM

On Monday August 23, Scotia Capital analyst Phil Hardie launched coverage on Onex Corporation with a 2-Sector Perform rating, \$33.50 one year target and a Medium risk ranking. We provide some highlights from his initiation of coverage report below.

Strong long-term investment track record, solid management team, and a significant alignment of interests between stakeholders: Onex has an enviable investment track record and has posted top decile performance over the past 26 years with an annual rate of return of 29% and 3.4x return on capital invested. In our view, the company also has a solid management team and well-aligned interests between stakeholders, two factors that we believe are likely to continue to support industry-leading investment performance.

Shares of Onex provide public equity investors with exposure to private equity type returns without the liquidity constraints: Over the past 20 years, private equity returns have exceeded those of the S&P 500 by an estimated 900 basis points. In our view, the relative outperformance is largely attributable to the liquidity premium attributed to publicly traded securities. We also believe that the relative outperformance is attributable to the private equity acquisition process that can include a price negotiation process with an extended period of due diligence. Onex tends to be very well positioned from this perspective, given its appetite for carve-out strategies in which it has worked with the seller leading up to the sale. Further, Onex's current portfolio of holdings provides a high degree of operational diversification to that of the S&P/TSX.

Increased deal velocity over the next 12 to 24 months expected to serve as a positive catalyst for Onex stock: We expect increased deal velocity related to the monetization of successful investments and deployment of capital into new investment opportunities to serve as a positive catalyst for Onex shares as investor expectations for Net Asset Value (NAV) growth increase. Onex management sees continued acquisition opportunities on the horizon that include the recent joint bid with Canada Pension Plan Investment Board to acquire Tomkins PLC in a transaction valued at roughly US\$5 billion. The combined equity capital invested by Onex and Onex Partners III is expected to be US\$1.1 billion, making the potential acquisition of the biggest to date. Onex also has recently made a bid to acquire all the remaining outstanding shares of Res-care Inc. not owned by its Onex affiliates, in a deal valued at roughly US\$263 million.

Well positioned to seed attractive investments coming out of recessionary environment: Onex currently has \$935 million in cash and cash equivalents (as at July 31, 2010), and an additional US\$3.6 billion in committed undrawn third-party capital to invest in attractive opportunities as they arise. Over the past 25 years, some of the strongest private equity returns have been generated by funds launched during economic downturns. Further, the company has no debt on its balance sheet and utilizes relatively conservative leverage in its operating companies. While the company is likely well positioned for an eventual recovery, the current pace of recovery has tempered our near-term outlook as capital market conditions remain challenging.

Leveraged to a recovery in U.S. industrial markets and improved capital market conditions: We believe that Onex has been very successful in executing cost reduction strategies across a number of its companies during the recent economic downturn, and that a recovery across U.S. industrial markets will significantly boost operating results of its privately held investments.

We estimate the private stub trades at a 37% discount to our one-year forecast Net Asset Value Per Share (NAVPS) and a 27% discount to its current NAVPS. We have subdivided our NAV estimate into a public stub and a private stub and applied a different valuation approach and NAV discount to each. Based on the current share price, and assuming a 10% discount to the publicly traded stub, we estimate that the private stub is trading at a 27% discount to its current NAV and 37% discount to our one-year forecast NAV. Over the past five years, we estimate that the private stub has traded at roughly a 26% discount to its forward NAV.

We view Onex Corporation's three key risk factors as: (1) general economic conditions, (2) the competitive environment for operating companies, and (3) the health of North American capital markets. Related to the overall health of capital markets is the cost and availability of debt financing. Other risks are the retention of key professionals, the subordinate voting share structure, and illiquidity of the shares.

Weekly Market Strategy

We have a positive outlook, but are waiting for more a compelling entry point – 2-Sector Perform rating and one-year target of \$33.50. We have a positive view on the growth outlook for Onex and the longer-term upside of its share price performance. With that said, our one-year expected rate of return is in the mid-range of our universe. Signs of a stronger-than-expected recovery of the U.S. industrial sector and North American capital markets would improve our near-term outlook. Onex trades at a relatively attractive 30% discount to our one-year forecast NAV and 20% discount to its current est. NAV.

For more information on Onex Corporation (OCX) or for a copy of the initiation of coverage report, please contact your ScotiaMcLeod advisor.

Gareth Watson, CFA – *Director, Portfolio Advisory Group*

U.S. Equity Strategy

IN SEARCH OF YIELD

Doug Cliggott, Credit Suisse's U.S. equity strategist believes the decline in 10-year U.S. Treasury yields below 3% is an important event and has meaningful implications for investment portfolios. Investors' affinity for higher-yielding financial assets with relatively low volatility could prove an enduring theme, at least for the next several years. With the risk/reward profile on government bonds unappealing, he offers up a list of 24 stocks that may prove attractive in this environment.

Government bond yields peaked in the first quarter of the year and have been in a steady downtrend since then (see chart). The yield on 10-year government bonds is quickly approaching the lows seen during the height of the financial crisis in December 2008. On the shorter end of the curve, the yield on 2-year bonds hit a record low of 0.46% on August 20th and in between, 5-year yield a paltry 1.41%.

What is Driving Lower Yields?

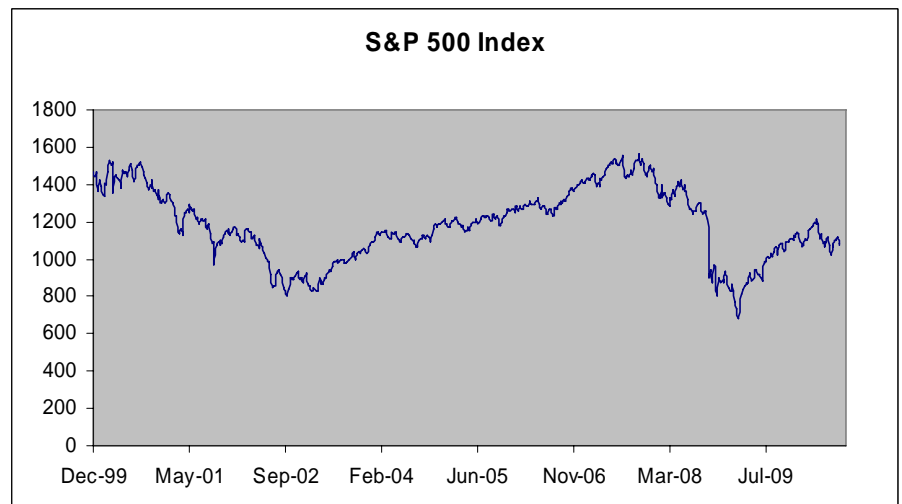
Cliggott identifies three primary forces that are driving the decline in yields: 1) investors lowering their growth expectations; 2) investors chasing the strong relative performance of U.S. Treasuries; and 3) investors losing their appetite for risk.

The conventional wisdom amongst a growing number of investors is U.S. economic growth is slowing down. However, there is an acute degree of uncertainty as to what extent. Nevertheless, with stubbornly high unemployment and a weakening housing market, U.S. consumer confidence is waning. Cliggott thinks we make be stuck in a negative feedback loop where the reluctance of corporate America to hire full-time workers reinforces the decline in consumer confidence, which in turn affects business decisions.

American's insatiable appetite for bonds also reflects the near-zero rate of return on demand deposits and money market funds. It is also a reflection of the poor relative performance of equities over the past 10 years (see chart). Since the turn of the decade, the S&P 500 has fallen nearly 27%.



Source: Bloomberg, ScotiaMcLeod Inc.



Source: Bloomberg, ScotiaMcLeod Inc.

Weekly Market Strategy

His analysis suggests the current attraction of bonds and aversion to stocks goes beyond relative returns and uncertainty; there may be demographic forces at work here as well. The percentage of Americans that have historically been ready, willing and able to buy risky assets, namely those between the ages of 35 and 54 is shrinking. Cliggott writes “We don’t think it is a coincidence that the great bull market...occurred as baby boomers were moving into their peak asset accumulation years and the percentage of the U.S. population between the ages of 35 and 54 was climbing.” Over the last decade the percentage of Americans in this age bracket has fallen from nearly 30% to about 25%, and can be expected to decline further through the next decade.

Stock Ideas in a Low Rate Environment

In a recent report Cliggott writes, “it is hard to get excited about putting new money to work in the U.S. Treasury market at current yields...the risk/return profile is poor.” In turn, he offers up 24 stocks with yields in excess of the current yield on 10-year government bonds, which have low volatility as measured by the stock’s beta, and have market capitalizations in excess of US\$15 billion.

Company	Ticker	Price	Dividend	Yield
Verizon	VZ	\$29.63	\$1.90	6.4%
Reynolds America	RAI	\$56.56	\$3.60	6.4%
Altria Group	MO	\$22.78	\$1.40	6.1%
Duke Energy	DUK	\$17.28	\$0.98	5.7%
Dominion Resources	D	\$44.63	\$1.83	4.1%
Eli Lilly	LLY	\$34.07	\$1.96	5.8%
Southern Co.	SO	\$36.55	\$1.82	5.0%
Bristol-Myers Squibb	BMJ	\$26.07	\$1.28	4.9%
American Electric Power	AEP	\$35.61	\$1.68	4.7%
Kimberly Clark	KMB	\$64.92	\$2.64	4.1%
Kraft Foods	KFT	\$29.40	\$1.16	3.9%
PG&E Corp.	PCG	\$46.86	\$1.82	3.9%
NextEra Energy	NEE	\$54.72	\$2.00	3.7%
Johnson & Johnson	JNJ	\$58.13	\$2.16	3.7%
Abott Labs	ABT	\$49.64	\$1.76	3.5%
Sysco Corp.	SYJ	\$28.13	\$1.00	3.6%
Lockheed Martin	LMT	\$71.49	\$2.52	3.5%
Kellogg	K	\$49.82	\$1.62	3.3%
Proctor & Gamble	PG	\$59.84	\$1.93	3.2%
Coca-Cola	KO	\$55.74	\$1.76	3.2%
General Mills	GIS	\$35.57	\$1.12	3.1%
McDonald's	MCD	\$72.95	\$2.20	3.0%
PepsiCo	PEP	\$65.09	\$1.92	2.9%
Colgate-Palmolive	CL	\$75.79	\$2.12	2.8%

Source: Credit Suisse, Bloomberg

Paul Danesi – Director, Portfolio Advisory Group

Economic Outlook

Industrial production in the U.S. posted strong gains last week, with manufacturing output climbing 1.1% month-over-month, utilities up 0.1%, and mining also up 0.9%. Scotia Economics notes that the gains were similarly widespread across consumer goods, business equipment, defense, construction, business supplies and materials. In addition, capacity utilization climbed back up to 74.8%, and has therefore re-utilized half of the capacity created during the recession of the past two years. However, the Philadelphia Fed. Business Outlook Survey, a key sentiment indicator for the manufacturing sector, was released last Thursday, and came in well below expectations at -7.7. In addition, housing starts were lower than expected at 546,000, up just 1.7% month over month, as new home construction rebounded only slightly in July, following two consecutive months of decline. Scotia Economics believes the oversupply in the housing market is likely to keep permits and starts low until a balance is regained between supply and demand conditions.

The Canadian economic recovery continues to shift pace, as confidence peaked in March, and has been steadily edging down since then. One of the greatest shifts has been seen in the cautious attitudes among households. Scotia Economics notes that many indicators are contributing to this shift in confidence, such as, signs of moderating global growth, volatile financial markets, softening home prices, sales tax increases, and lower wage gains. Naturally, households are cutting back on discretionary spending, and greater efforts will need to be made to lure in consumers. Home sales have also slowed compared to the surge in demand last fall and winter, as we begin to see tightening in lending criteria, tax hikes as well as higher interest rates. In addition, consumer prices rose 0.6% from June to July, which is the largest monthly gain since June 2008. However, much of this gain can be attributed to the July 1st implementation of the HST in Ontario and British Columbia. Furthermore, the annual rate of inflation is at just 1.9%, while the Bank of Canada's core inflation number came in at just 1.8%. This is still below the mid point of the Bank of Canada's target band of 1-3%, suggesting there is less incentive for the central bank to continue to raise rates steadily over the coming months, although Scotia Economics continues to forecast a 0.25% hike to 1.0% on September 8.

There will be a lighter amount of economic releases this week in the U.S. The Richmond Fed Index and existing home sales are out on Tuesday, Durable goods orders, the FHFA house price index as well as new home sales on Wednesday, and GDP and consumer sentiment numbers will all be released on Friday. In Canada, focus will be on retail sales data on Tuesday.

Amy Billinghurst – Associate, Portfolio Advisory Group – Fixed Income

Equity Indices - Weekly Performance

Equity Index	Close	Weekly Change		YTD Return
	08/20/2010	Points	%	%
S&P/TSX Composite	11722.07	193.82	+1.7%	-0.20%
Dow Jones Ind. Avg.	10213.62	-89.53	-0.9%	-2.06%
S&P 500 Index	1071.69	-7.56	-0.7%	-3.89%
Nasdaq Composite	2179.76	6.28	+0.3%	-3.94%
FTSE-100 Index (London)	5195.28	-80.16	-1.5%	-4.02%
CAC-40 Index (Paris)	3526.12	-84.79	-2.3%	-
DAX Index (Frankfurt)	6005.16	-105.25	-1.7%	0.80%
Nikkei (Tokyo)	9179.38	-74.08	-0.8%	-
Hang Seng (Hong Kong)	20981.82	-89.75	-0.4%	-4.07%

Fixed Income Strategy

WEAKER ECONOMIC DATA FUELS DEMAND FOR SAFE ASSETS

Double-dip recession fears continue to build as weaker economic data points to stagnating growth. Heading into the latter part of last week, focus in the U.S. Treasury market was on the Philadelphia Fed Index (a regional index which measures changes in business growth) which was released much lower than expected at -7.7 versus consensus forecasts of +7.0. Rounding out the economic data was U.S. Housing Starts for July which came in slightly weaker than expected at 546,000 versus forecasts of 560,000. Given the already subdued outlook for the U.S. economy, the weaker data helped send Treasury yields lower by 0.04-0.19% with longer dated bond yields falling more relative to shorter maturities.

Government of Canada bond yields followed U.S. Treasuries lower. Yields trended lower in Canada following the weaker data out of the U.S., and this was compounded by a weaker than expected Consumer Price Report for July. Headline inflation is currently running at a yearly pace of 1.8% (0.1% lower than expected), while core inflation (as measured by the Bank of Canada) is currently running at 1.6%. We also had softer than expected data earlier in the week as the Leading Indicators printed at 0.4% versus forecasts of 0.7%, while Wholesale Sales in June dipped -0.3% versus forecast of a 0.4% gain. The net effect was yields moving lower by 0.07% on two-year and five-year notes, while ten-year rates moved lower by 0.06% and thirty-year bonds were lower by 0.08%.

Market participants are largely discounting the possibility of another Bank of Canada (BoC) rate hike. The recent move in Government yields to levels not seen since the beginning of the recession suggests the market is currently pricing in a falling probability of another 0.25% rate hike from the BoC. Whereas two weeks ago, participants were pricing in a 100% probability of a quarter point move, option and futures markets now price that probability at just 60%, and a quarter point hike is now not fully priced in until March of 2011. While economic fundamentals in the U.S., Europe and Asia have deteriorated since its last meeting, corporate profits remain robust and the Canadian economy continues to appear resilient. Hence, Scotia Economics continues to call for a hike at the September 8th meeting.

Companies continue to take advantage of lower all-in yields and continue to finance in the debt markets. The heavy issuance schedule seen in the month of August continued last week, with over \$11 billion priced in the U.S. corporate investment grade market. Deals are meeting with strong demand, as investors continue to put cash to work via the new issues. In Canada, corporate supply was also back last week with three new deals to highlight. Cards II trust (backed by CIBC credit card receivables) did a \$600 million five-year deal at a spread of 0.85% over five-year's for \$600 million, and First Capital Reality issued \$50 million of an 8-year deal to retail investors at a yield of 5.00%. Manulife Financial Corporation (Manulife) issued \$900 million of five-year notes at a yield pick-up of 1.85% over the benchmark five-year Canada bond. Secondary performance of these issues has been lackluster, which is contrary to the positive performance we have seen from most new issues this year – fears of more upcoming supply, and the believe these issues offered

Canadian Bond Yields - Weekly Change

	August 20	August 13	Change (bps)
Canada 2-Year Bond	1.31	1.38	-7
Canada 10-Year Bond	2.92	2.98	-6
Canada 30-Year Bond	3.53	3.60	-7
BoC Target Overnight	0.75	0.75	0
Prime	2.75	2.75	0
U.S. 2-Year Bond	0.50	0.54	-4
U.S. 10-Year Bond	2.61	2.68	-6
U.S. 30-Year Bond	3.66	3.86	-20
Federal Funds	0.25	0.25	0
Prime	3.25	3.25	0

Source: Bloomberg

Bond Index Performance (YTD)

	August 20	August 13	Change (bps)
DEX Universe Bond Index	6.04%	5.47%	0.56%
DEX All Government Bond Index	5.84%	5.22%	0.62%
DEX All Corporate Bond Index	6.53%	6.13%	0.40%

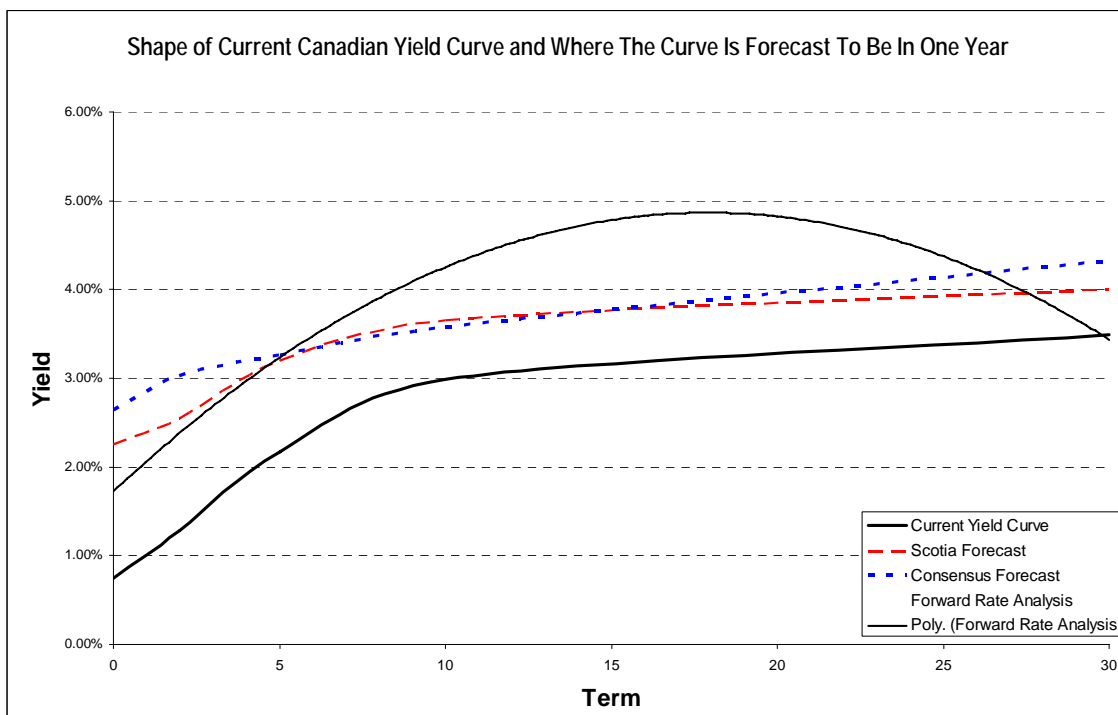
Source: PC-Bond

little incentive over secondary market levels have been cited as key factors, although all three new issues were oversubscribed.

Very heavy economic schedule south of the border and bank earnings in Canada will be the focus this week. The week ahead is full with economic data, with existing Home Sales, New Home Sales, Durable Goods Orders and Fed Manufacturing indices due to be released. With the growing fear the economic recovery in the U.S. is faltering, these releases will drive market direction. In Canada, focus will be on earnings from four of the largest banks, beginning with the Bank of Montreal on Tuesday. Supply will also be a focus, with the U.S. Treasury scheduled to auction \$102 billion of 2-year, 5-year, and 7-year notes, while the BoC will auction \$400 million of thirty-year real return bonds on Wednesday.

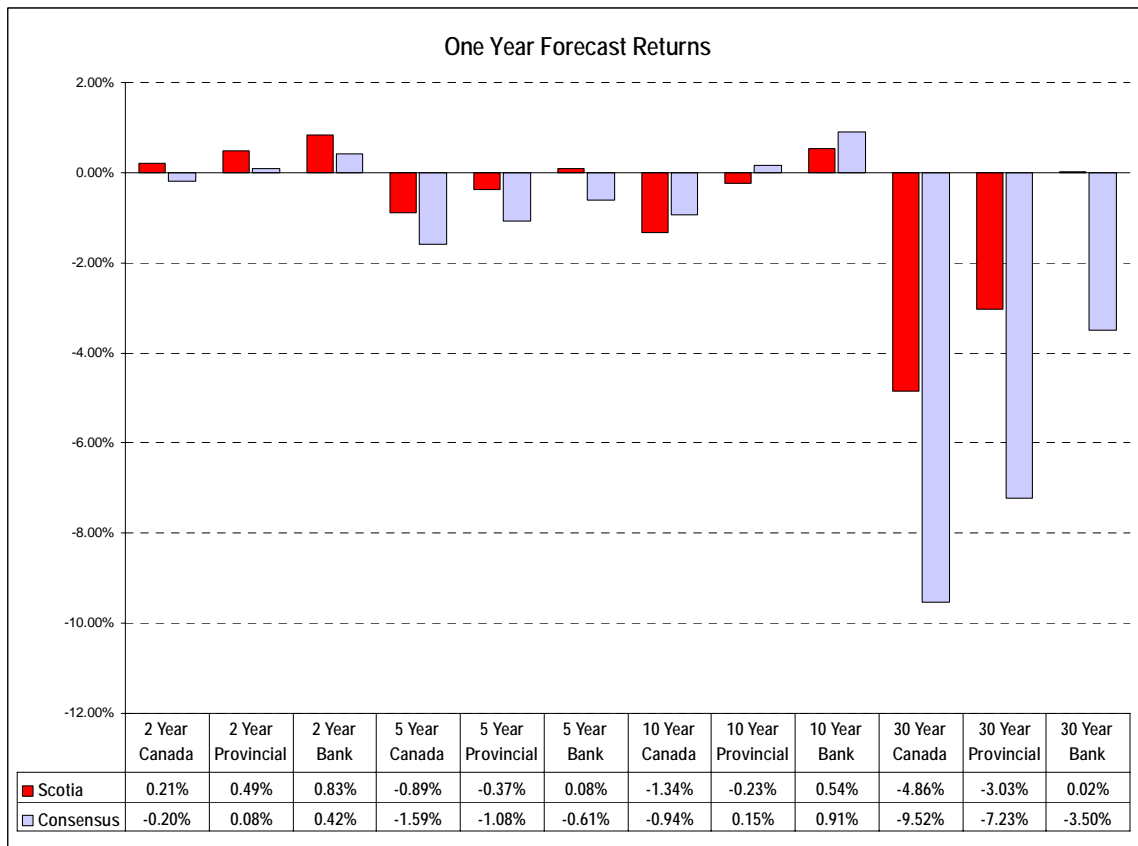
Portfolio Advisory Group Fixed Income – Current Recommendations

1. **Term Call** – Given the recent decline in yields, we no longer see value in the mid to long end of the curve and recommend investors stay short at this time.
 2. **Sector Call** – Underweight Canada's, overweight provincials, municipals and corporates
 3. **Currency Call** – We are no longer recommending adding AUD exposure at this time, and any further rally in the Australian dollar versus the Canadian dollar above AUD/CAD 0.95 will prompt us to recommend exiting current positions
 4. **Alternative Strategies** – Overweight high yield, overweight Emerging Markets Debt, underweight inflation protected.
-
1. **Term Call** – Longer term yields have fallen by 0.11-0.15% since Scotia Economics updated their forecast in July, and are now trading well below 1-year forecast levels. Therefore we recommend investors stay in shorter term maturities or cash at this time.



Source: Scotia Economics and Bloomberg

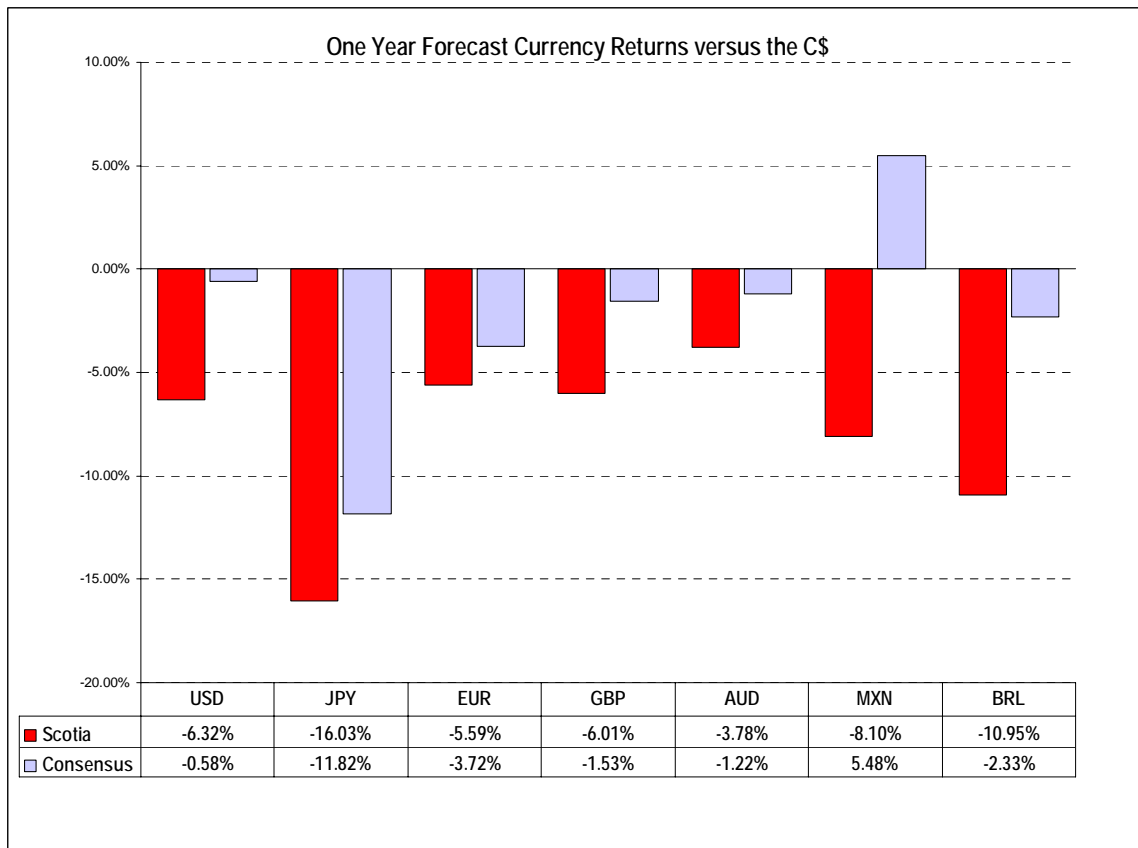
Weekly Market Strategy



Source: Scotia Economics and Bloomberg

2. **Sector Call** – We recommend investors look to the provincial, municipal, and corporate sectors for yield enhancement. Credit spreads (the yield pick up over Canada bonds) still remain attractive.
3. **Currency Call** – We are no longer recommending adding AUD exposure at this time, and any further rally in the Australian dollar versus the Canadian dollar above AUD/CAD 0.95 will prompt us to recommend exiting current positions

Weekly Market Strategy



Source: Scotia Economics and Bloomberg

4. Alternative Strategies: Within a broadly diversified portfolio our recommendations are as follows:

a) High Yield – In conjunction with our continued positive equity market outlook for the next 12 months, we continue to recommend investors maintain an overweight position in high yield debt. Although the yield pick up on this asset class has narrowed, we still see some room for further narrowing, and absolute yields of over 8.5% remain attractive.

b) Emerging Markets – **Similar to our outlook for high yield and equities**, we continue to see value in this sector versus both investment grade and high yield, based both on absolute yields in excess of 5.5%, and based on positive underlying fundamentals. Hence, we continue to recommend maintaining an overweight exposure.

c) Inflation Protected Bonds – with current real yields in the area of 1.4%, and the market pricing in an effective long term inflation rate of 2.2%, we see limited value in Canadian Real Return Bonds, and hence recommend an underweight exposure to the sector.

Sean Casey – Associate, Portfolio Advisory Group – Fixed Income

Weekly Market Strategy

-S&P/TSX Composite Index



-Dow Jones Industrial Average



Weekly Market Strategy

-NASDAQ



- S&P 500 Index





Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform

The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform

The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform

The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings

Tender - Investors are guided to tender to the terms of the takeover offer.

Under Review - The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted

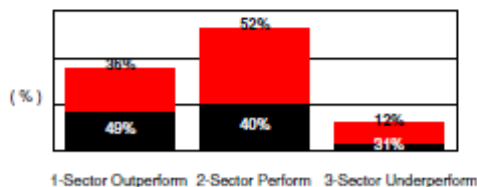
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk tolerant investors only.

Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



* As of June 30, 2010.
Source: Scotia Capital.

- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than buy, hold/neutral and sell, to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Weekly Market Strategy

*The author(s) of the report own(s) securities of the following companies.
None.*

*The supervisors of the Portfolio Advisory Group own securities of the following companies.
Colgate-Palmolive Co.*

This report has been prepared by Scotia Capital Inc. as a resource for its clients and may not be redistributed. While the information provided is believed to be accurate and reliable, neither Scotia Capital Inc. nor any of its affiliates makes any representations or warranties, express or implied, as to the accuracy or completeness of such information. Nothing contained in this report is or should be relied upon as a promise or representation as to the future. This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation or particular needs of any specific person. Investors should seek advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. The pro forma and estimated financial information contained in this report, if any, is based on certain assumptions and management's analysis of information available at the time that this information was prepared, which assumptions and analysis may or may not be correct. There is no representation, warranty or other assurance that any projections contained in this report will be realized. Opinions, estimates and projections contained in this report are our own as of the date hereof and are subject to change without notice. The information and opinions contained in this report have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotia Capital Inc. nor its affiliates accepts any liability whatsoever for any loss arising from any use of this report or its contents.

® Registered trademark of The Bank of Nova Scotia, used by ScotiaMcLeod under license. ScotiaMcLeod is a division of Scotia Capital Inc. Scotia Capital Inc. is a member of Canadian Investor Protection Fund.