Creative Global Investments

Morning Market Commentary

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Objectivity

Integrity

Creativity

"Spring in the Air"?

With February's higher volatility swings almost behind us, will the month of March bring some Spring Air to the global equity markets?

We do think so. We were not in the camp of those market forecasters for the past 4 weeks who predicted a -7% to -10% correction to materialize in the past 4 weeks to presently, and we continue to see more and more institutional investors switch allocations from fixed income into equities. Since September of 2012, we have been making the case for a major global risk shift to occur, out of bonds, into equities, and European Equities, particularly German Equities, despite the +29% run they had in 2012, are still our favorite equities in developed markets for 2013.

Historically, the month of March has appositive seasonal bias for US and global equities' indices. March has had the fourth best seasonal impact for US equities and particularly on the S&P 500, when looking back 50 years. The Dow's and the fifth best performing month for the Dow Jones Industrial Average and the eighth best performing month for the NASDAQ Composite. Average gains per period were 1.1% for the S&P 500 Index and Dow Jones Industrial Average and 0.6% for the NASDAQ Composite. Most of the gains were recorded in the second half of the month.

March has been even more favorable for Canadian equities, as the TSX Composite Index has been outperforming US equity indices going back for at least for the past 25 years. Since 1985, average gain per period was 1.3%. March was the third best performing month for the TSX.

Data for the past 10 years paints a slightly different picture with US equity indices outperforming the TSX Composite. Average gain per period for the Dow Jones Industrial Average was 1.41%, average gain for the S&P 500 Index was 1.62%, average gain for the NASDAQ Composite Index was 2.13%, average gain for the Russell 2000 Index was 2.63% and average gain for the TSX Composite Index was 0.54%.

Best performing sectors in March during the past 21 years were

- **Energy**
- **Industrials**
- **Consumer Discretionary**

Best performing subsectors in March were

- **Retail**
- **Steel**
- **Transportation**
- **Railroads.**

Worst performing sectors and sub-sectors were Health Care, Consumer Staples and Technology, Biotech, Gold and Agriculture.

We think that for 2013, March will be another strong month, ahead of the seasonal "Sell in May & Go Away" phenomenon.

Global Macro Events

India's Economy

New stimulus plans

India's finance minister has unveiled the annual budget amid slowing economic growth and increasing pressure to reduce the fiscal deficit. India faced a number of challenges to return to its potential growth rate of 8%. The high fiscal and current account deficits and inflation were areas of concern. India had to embrace growth unhesitatingly.

India has suffered a sharp slowdown in its manufacturing and services sectors. India's finance minister announced a 16% rise in public spending, saying he had "retrieved some economic space" thanks to recent austerity measures, including slashing subsidies. He pledged to cut India's public deficit to 4.6% of the GDP in the next financial year beginning in April, from 5.2% in the current financial year.

Restoring India's potential growth will remain a challenge. India's high current account deficit fuelled by high oil, coal and gold imports are still a major worry. India will need to find additional US$ 75bn to finance the deficit and it could be done through foreign investment and external commercial borrowings.

India's budget concern comes at a time when the economy is projected to grow by 5% this fiscal year, far below the 7.6% growth projected in last year's budget.

Some of the data shows that there is possibility for India's growth rate to rise in 2013-14 would be between 6.1% to 6.7%. India has navigated such times before and with good policies, it will come through stronger.

European Economy

Forecasters were expecting to hear that the Eurozone economy shrank in the last three months of 2012 - but the size of the decline did come as a surprise. The estimated 0.6% fall in output across the region is the worst since the start of 2009 and, for once, Germany took its share of the bad news. Its national output also shrank for the first time in 2012 - also by 0.6%.

Today's data means that the 17 countries of the single currency area have not expanded as a group since the autumn of 2011. They are also a vivid reminder that the more optimistic mood in European financial markets - and recent meetings of European governments - has yet to leave much of a mark on the real economy. Italy and Spain's fourth-quarter figures are the culmination of a dismal year, which has seen their economies shrink by upwards of 2%. Portuguese national output shrank by nearly that much in the fourth quarter alone, ending 2012 nearly 4% smaller than at the end of 2011.

However, lets remember that investors are supposed to look forward, not back.

German Economy

Unemployment better than expected

German unemployment unexpectedly fell in February amid signs that Europe's biggest economy is returning to growth after a contraction at the end of last year. The number of people out of work fell a seasonally adjusted 3,000 to 2.92 million. Economist's consensus had predicted unemployment to be unchanged. The adjusted jobless rate held at 6.9 percent this month after the January rate was revised up from an initially reported 6.8 percent.

The German economy may grow 0.3 percent this quarter after shrinking in the final three months of last year, the Berlin- based DIW economic institute said yesterday, predicting growth would be led by exports and domestic demand.

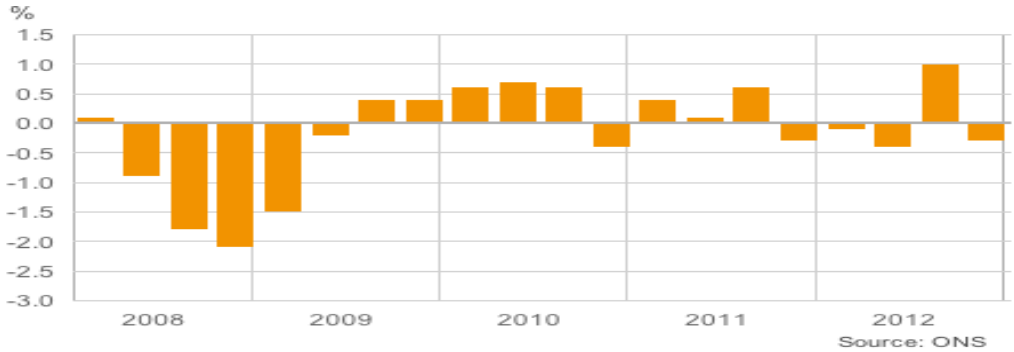
German consumer confidence would rise for a second month in March as an improving economic outlook and stable labor market encourage household spending, GFK) said yesterday. The "turning point in economic prospects" for consumers has been reached, the market research company said.

The Ifo institute in Munich said its business climate index climbed to 107.4 from 104.3 in January. That's the biggest increase since July 2010 and the fourth straight monthly gain. Earlier, the ZEW gauge of investor sentiment rose to the highest in almost three years.

UK Economy

A bit better than expected too

The Office for National Statistics (ONS) revised its growth estimate for the year up from no growth to 0.2%. The figure for Q4 2012 was left unchanged at a quarterly contraction of 0.3%. Growth in the fourth quarter of 2012 compared with the fourth quarter of 2011 was revised up from zero to 0.3%.



The revisions earlier in the year came in the first quarter, which was lifted from a 0.2% contraction to a 0.1% contraction while growth in the third quarter was upgraded from 0.9% growth to 1.0%. The Olympic Games boosted Q3; with all ticket sales being assumed to have taken place in that three-month period.

European Bankers bonus discussions

European Union officials have struck a provisional deal on new financial rules, including capping bank bonuses. Under the agreement, bonuses will be capped at a year's salary, but can rise to two year's pay if there is explicit approval from shareholders.

The deal was reached late on Wednesday. EU ministers must approve it, although this is considered a formality. The UK, which hosts Europe's biggest financial services center, was opposed to any of caps on bank bonuses. London argues the rules would drive away talent and restrict growth in the financial sector. The UK had been trying to rally other governments in the 27 countries in the EU behind its position.

Top bankers and financial traders can earn bonuses multiple times their base salaries. But there has been public outrage over bonuses following the huge bailouts of banks. The agreement was reached during eight hours of intense talks in Brussels between members of the European parliament, the European Commission and representatives of the bloc's 27 governments. For the first time in the history of EU financial market regulation, bankers' bonuses will be capped.

The essence is that from 2014, European banks will have to set aside more money to be more stable and concentrate on their core business, namely financing the real economy, that of small and medium-sized enterprises and jobs.

It will drive up fixed salaries to compensate. Businesses that do not need to be inside the European Union will leave. And when banks invest in future divisions, it will be outside the EU.

The deal paves the way for Basel III, an overhaul of banking rules. The G20 group of rich nations had originally planned to bring in Basel III last month, but that has been delayed to January 2014. Once the proposals are formally agreed it will start the biggest shake-up of the banking system since the global financial crisis.

The lack of solid financial cushions meant that many banks were vulnerable, and eventually required taxpayer-funded bailouts to avoid bankruptcy.

US Equity Markets

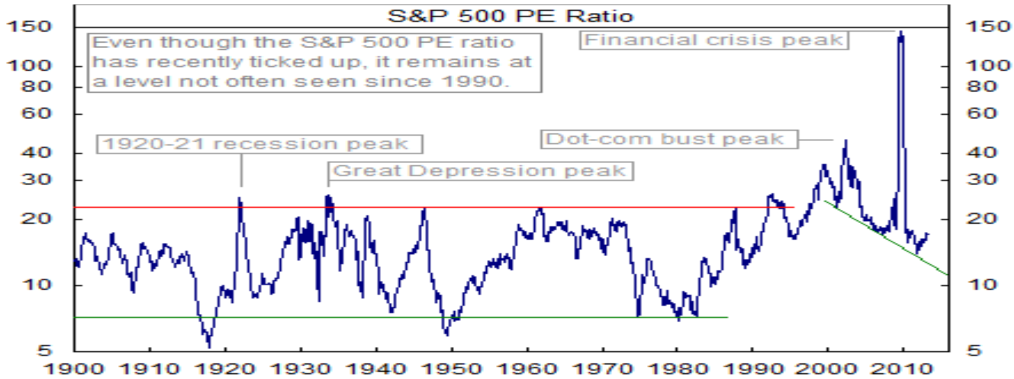
Food for thought on P/E trends

Since the early 2000s, the S&P 500 PE ratio has been trending lower with the very significant but relatively brief exception that was the financial crisis.

The S&P 500 PE ratio has moved slightly higher. Even with this recent uptick, the PE ratio still remains at a level not often seen since 1990

From 1900 into the mid-1990s, the PE ratio tended to peak in the low to mid-20s (red line) and trough somewhere around seven (green line).

The price investors were willing to pay for a dollar of earnings increased during the dot-com boom (late 1990s), surged even higher during the dot-com bust (early 2000s), and spiked to extraordinary levels during the financial crisis (late 2000s).



The Commerce Department's durable goods orders report showed that total orders fell by more than anticipated, orders actually rose by much more than expected when excluding orders for transportation equipment. Excluding a 19.8 percent drop in orders for transportation equipment, durable goods orders rose by 1.9 percent in January compared to economist estimates for a 0.2 percent increase. The report also showed a 6.3 percent jump in orders for non-defense capital goods excluding aircraft, which is seen as an indicator of business spending.

The National Association of Realtors showed a much bigger than expected increase by its pending home sales index, which reached its highest level since April of 2010 in January. NAR said its pending home sales index rose by 4.5 percent to 105.9 in January after falling by 1.9 percent to 101.3 in December. Economists had expected the index to increase by 3.0 percent.

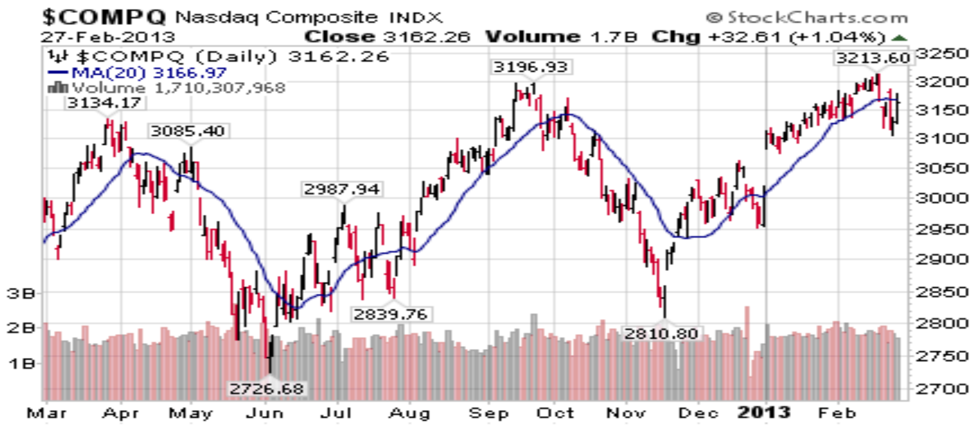
The VIX has reversed again abruptly, partly attributable to investor fears regarding Europe, and particularly Italy subsiding.

However, substantial strength was partly due to a positive reaction to a pair of reports on durable goods orders and pending home sales.

A strong short covering rally boosted major US equity indices to near their 20-day moving averages. The Dow Jones Industrial Average managed to close at a new recent high.

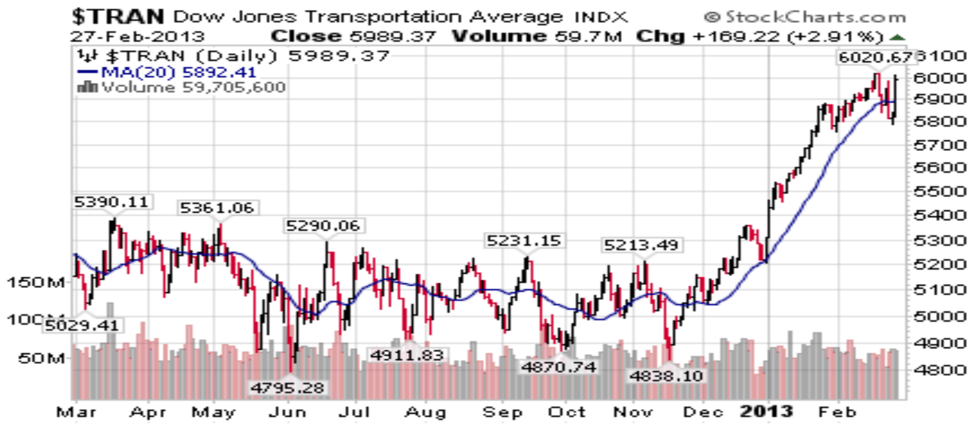
Same positive scenario for the S&P 500.

And for the NASDAQ.



Also for our favorite equities index in the US, the Russell 2000.

And for the Dow Jones Transportation Index.



Veolia (FR: VIE EUR 12.55 +0.11) "BUY"
Results & Commentary

Veolia beats analysts' consensus, and is raising guidance

Veolia today announced full yea 2012 results, and said it will speed up its debt-cutting plan this year after reporting a higher net profit than expected for 2012 and raising its target for asset sales. Veolia said it plans to cut its net financial debt to between EUR 8 BN (US$10.5 BN) and EUR 9 BN at the end of this year, down from EUR 11.3 BN at the end of 2012 and EUR 14.7 BN at the end of 2011.Last year Veolia had set a target for its debt of EUR12 BN. Although in 2012 VE reduced its debt faster than planned, its profitability was higher than expected. Veolia posted a net profit of EUR 394 MN for 2012, compared with a net loss of EUR 490 MN in the previous year. Analysts had consensus forecast of net profit of EUR 215 MN.

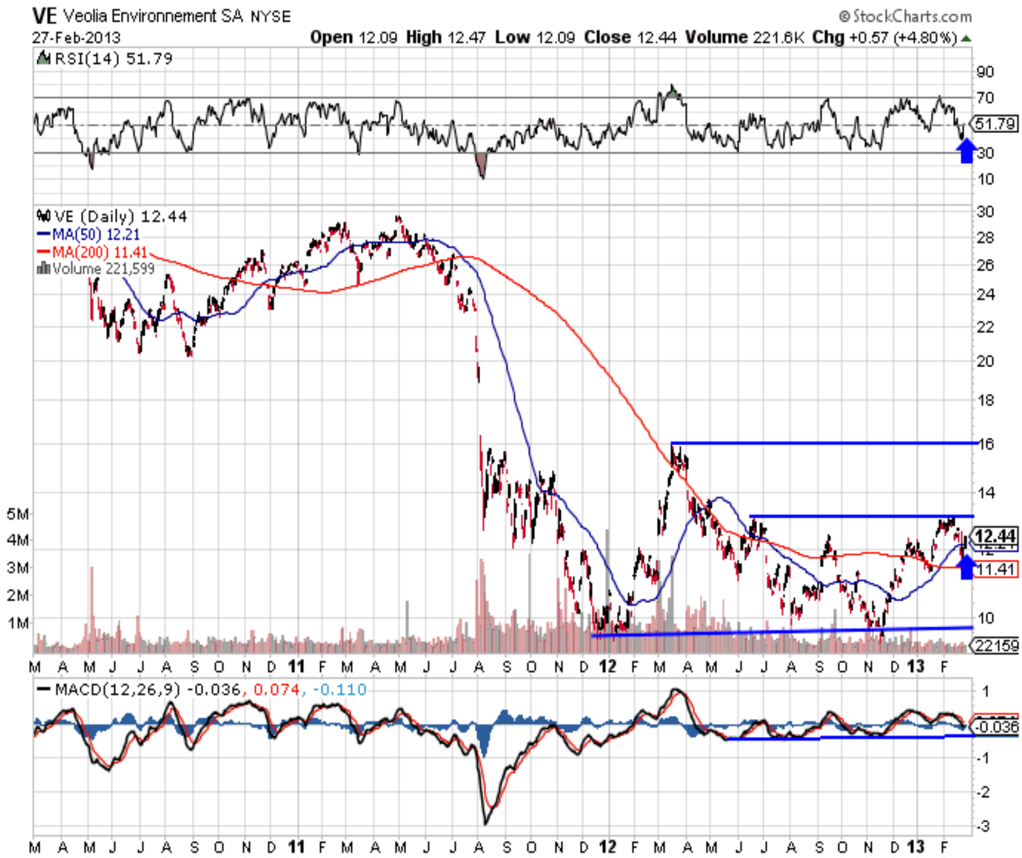
VE overall revenue in 2012 was EUR 29.44 BN, up from EUR 28.58 BN and higher than the consensus of EUR 29.10 BN. Veolia also said today that it would achieve the debt reduction thanks to an acceleration of its asset disposal program. Veolia now expects to raise EUR 6 BN during 2013, up from a previous target of EUR 5 BN for the year. VE expects organic revenue growth, excluding the effect of currency swings and asset disposals, of +3% after 2013. Veolia's board will propose a dividend of EUR0.70 this year and plans to keep it at the same level in 2014.

VE stock is a member of our 2013 CGI Global 50 Recommended Portfolio, and we continue to advise our clients to "buy" Veolia stock at current levels of EUR 9.58 (+ 0.67%) or for the ADR VE (NYSE: VE US$12.44 +/0).

VE stock short-term chart technical outlook is starting to show improvements. RSI and MACD are improving, and the 5-dmva is sloping upwards, which are positives. VE trades above both 50-and 200-dmva, which is a positive.

We think VE will carry enough momentum to break above the next resistance trend line of US$ 13.25 in the short term.

Our long tem (12 months) price target for VE is US$ 16.



Commodities

We are advising for investors to increase their weightings into base metals in the current period of weakness.

Base metal prices continue to weaken reflecting concerns about a possible slowdown in growth by the Chinese economy.

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