

December 20th - December 24th, 2010

**Happy Holidays * Last Beat of The Pulse until January*



Santa Rally Levels Off

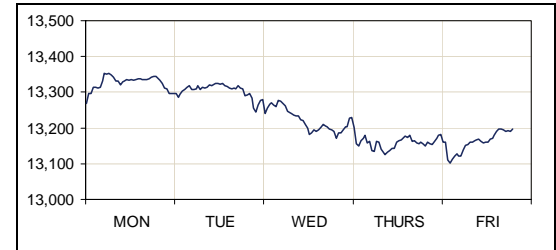
David Andrews CFA, Private Client Strategist

While politicians continue to argue over the need for and effectiveness of the second round of Quantitative Easing (QE), equity and credit markets have not shared the same worry. The S&P500 has climbed 17 percent and high yield bond spreads have narrowed 136 basis points since Fed Chairman Bernanke indicated a second round of QE was in the cards. Like it or loathe it, QE has contributed to the year-end rally in stock markets and reduced the downside risk of deflation. Business optimism continues to grow and is supported by the recent tax cut compromise and extended low interest rates due to the QE2 program.

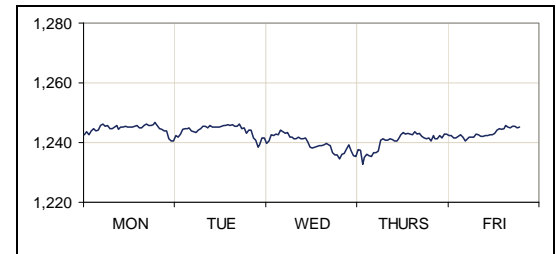
At the same time, economic reports on the U.S. economy signal the recovery is gaining strength as we head into 2011. The U.S. leading indicators rose in November, the highest in eight months, suggesting the recovery will continue. Retail sales indicate a recovery in consumer spending is also underway. Industrial production in November exceeded expectations and a gauge of consumer confidence rose to a six month high in December. In Canada, factories have been increasing output for five consecutive quarters, utilizing more of their productive capacity to meet increasing demand. Canadian factory sales have increased 20 percent since the lows of the 2009 recession. The domestic economic data keeps the Canadian dollar strong and somewhat ties the Bank of Canada's hands. Governor Carney said this week he would like to increase interest rates in an effort to slow alarming household debt levels. Canadians, on average, now have a higher debt to disposable income ratio than American households. Any rate hike from here would cause the C\$ to appreciate making our exports less competitive.

Corporate earnings and 2011 guidance continues to surprise to the upside. Exceptionally upbeat results from both Oracle and Research in Motion helped push the S&P500 to two year highs last week. The VIX or 'Fear Index', as it is known, sank to 15.58, its lowest level since April, although Europe remains a concern as Moody's cut Ireland's credit rating a whopping 5 levels. Moody's cited its declining financial strength and the cost of bailing out lenders as its concern. Separately, the IMF cut its 2011 Irish economic outlook from 2.3% to just 0.9%

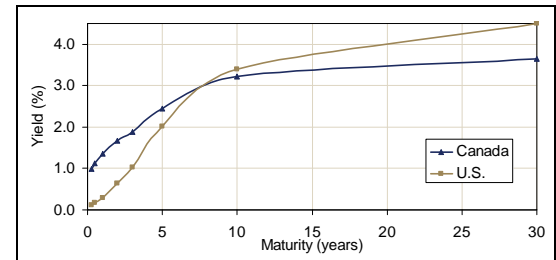
S&P/TSX COMPOSITE



S&P 500

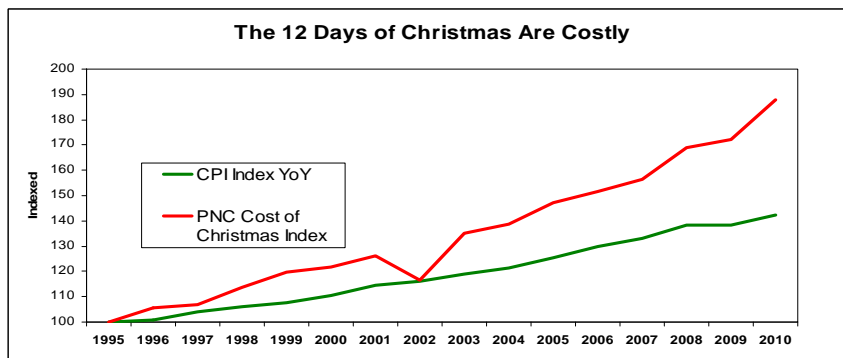


YIELD CURVE



Source: Bloomberg, Richardson GMP Limited

CHART OF THE WEEK



Source: PNC Wealth Management, Bloomberg, Richardson GMP Limited

Rising Gold Price Mostly to Blame


Anyone shopping the 12 days of Christmas will be laying out more cash for everything from the leaping lords to the partridge and the requisite pear tree. The cost of a dozen days of merry spending has jumped 9.2% this year according to PNC Wealth. Since the mid 90s, the cost of Christmas has doubled versus the rate of inflation in the broader economy. If Santa were a Fed Governor, he might disagree with Bernanke's assessment that inflation is a tad too low. Clearly, it is becoming pricier to demonstrate your true love, although they say true love is priceless.

Looking Forward

A quiet week is on tap as many institutional desks will be lightly staffed ahead of the holiday season. Bond markets will close early at 1 pm on Friday and volumes are expected to taper by mid-week. Canadian inflation data for November is on tap next week and should indicate prices eased slightly from October. Energy prices accounted for the biggest jump in October inflation but have remained steady in November. GDP data should show that the economy has rebounded in October following the surprising shrinkage in September.

Key data for the U.S. will be the November housing data. Investors continue to look for signs of stabilization in housing which is correlated to the employment situation. No surprises are anticipated in the weekly employment data which has been trending favorably in recent weeks.

ECONOMICS CALENDAR

Event	Estimate	Prior
Mon Dec 20		
 Wholesale Sales MoM(Oct)	0.7%	0.4%
Tues Dec 21		
 CPI MoM (Nov)	0.3%	0.4%
 CPI Core MoM	0.2%	0.4%
 CPI YoY (Nov)	2.3%	2.4%
 CPI Core YoY	1.6%	1.8%
 Retail Sales	0.5%	0.6%
 GDP MoM (Oct)	0.3%	-0.1%
Wed Dec 22		
 GDP QoQ (Q3 Annualized)	2.8%	2.5%
 Personal Consumption	2.8%	2.8%
 GDP Price Index	2.3%	2.3%
 Existing Home Sales	4.75M	4.43M
 Existing Home Sales MoM	7.2%	-2.2%
Thurs Dec 23		
 GDP MoM (Oct)	0.3%	-0.1%
 Durable Goods	-0.6%	-3.3%
 Housing Starts MoM	6.0%	-11.7%
 Initial Jobless Claims	420K	420K
 Continuing Claims	4106K	4135K
 U of Michigan Confidence	74.6	74.2
Fri Dec 24		

EARNINGS CALENDAR

Company	Date	Estimate
 Nike Inc.	Dec 21	\$0.88
 Walgreen.	Dec 22	\$0.54
 Bed Bath & Beyond	Dec 22	\$0.66

Source: Bloomberg

QUESTION OF THE WEEK

Will there be more stock market gains in 2011?

Thirteen Wall Street major firms have provided their 2011 S&P 500 price target outlook. So far, every single strategist expects the S&P500 to be higher than it is today. The consensus year-end estimate currently stands at 1,369.55, which represents a gain of just over 10% from where the S&P is currently trading. Deutsche Bank has the highest 2011 year-end price target at 1,550. Goldman Sachs has the second highest price target at 1,450; a gain of 17.39% from current levels. JP Morgan, Barclays, and Bank of America all see the S&P rising to 1,400 or higher next year. Credit Suisse currently has the lowest 2011 year-end price target at 1,250, which is just 1.20% higher than where the index is trading now. Citigroup and the Bank of Montreal are both at 1,300. At the start of 2010, the consensus year-end price target was 1,224.62 for the S&P 500, which is just 10 points below where the index is currently trading. Barring a big move higher or lower in the last two weeks of the year, the strategists collectively will have been pretty good prognosticators in 2010.

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