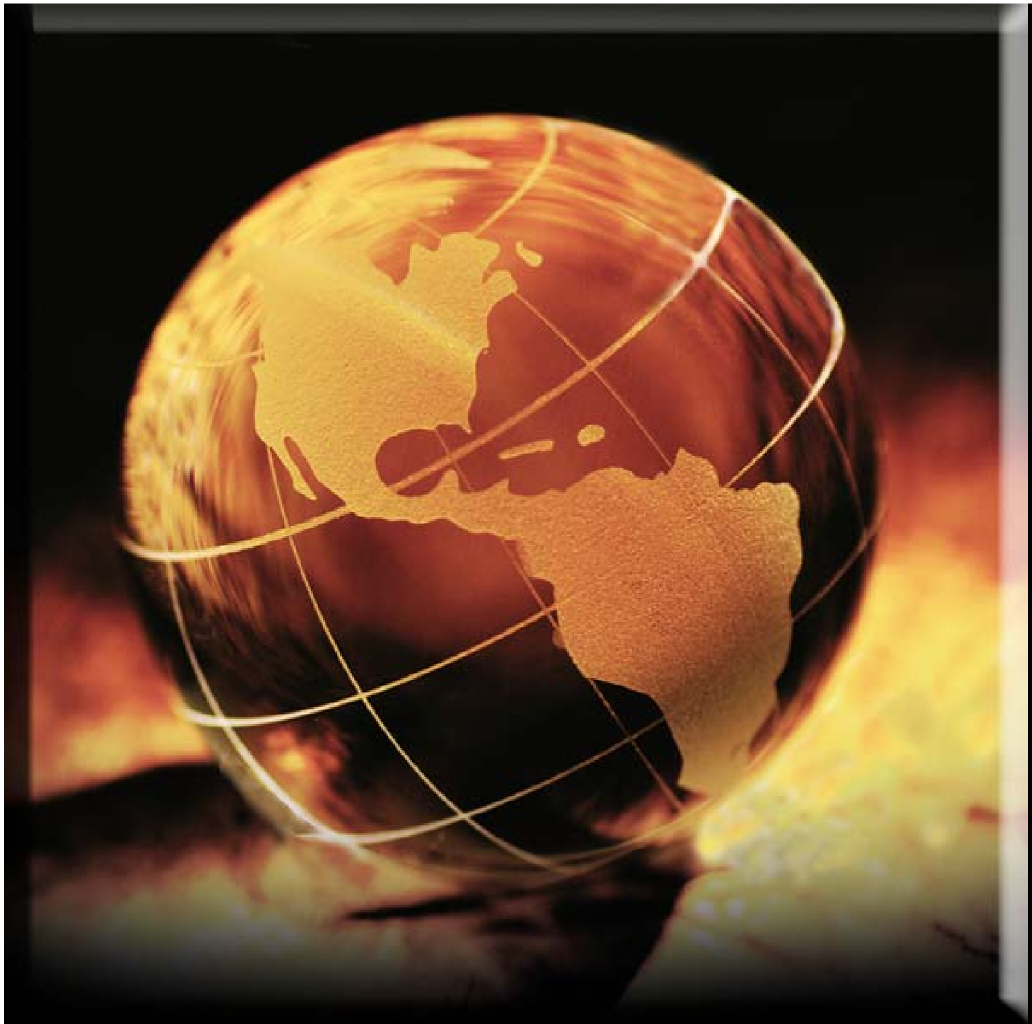


2010-11
Economic and Market Outlook

Presented by:

Fred Ketchen
Warren Jestin
Vincent Delisle
Camilla Sutton

December 1, 2009

Scotiabank Group

2010-11 Economic Outlook

From Recession to Recovery

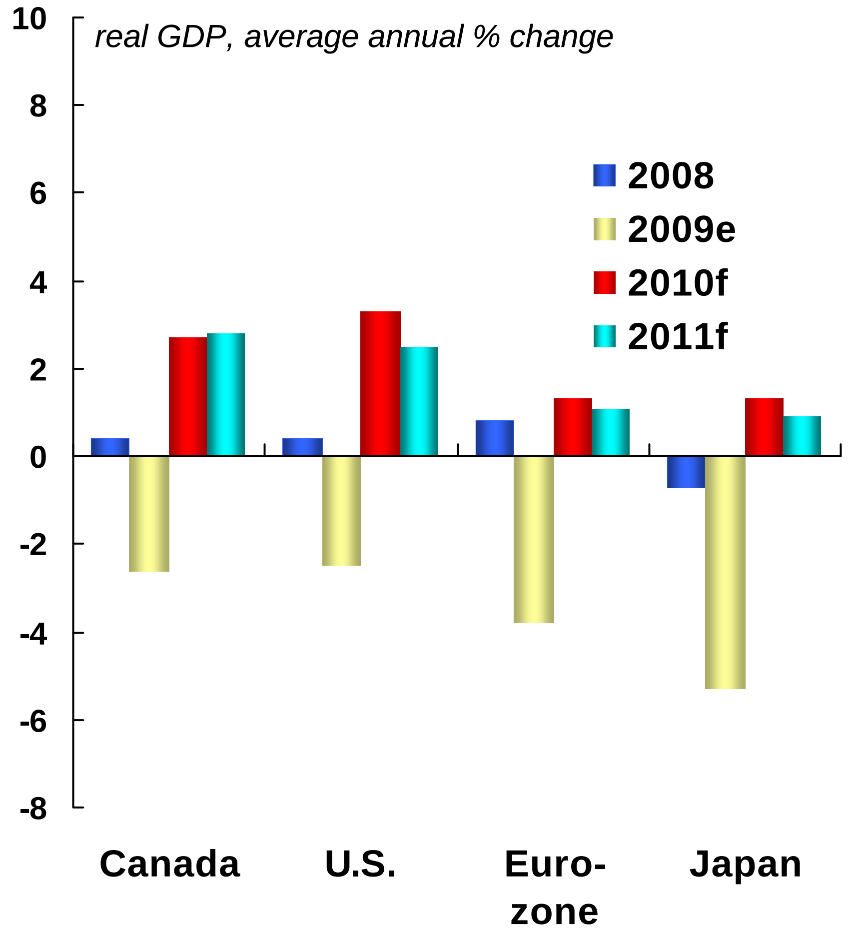
Warren Jestin
SVP & Chief Economist

December 1, 2009

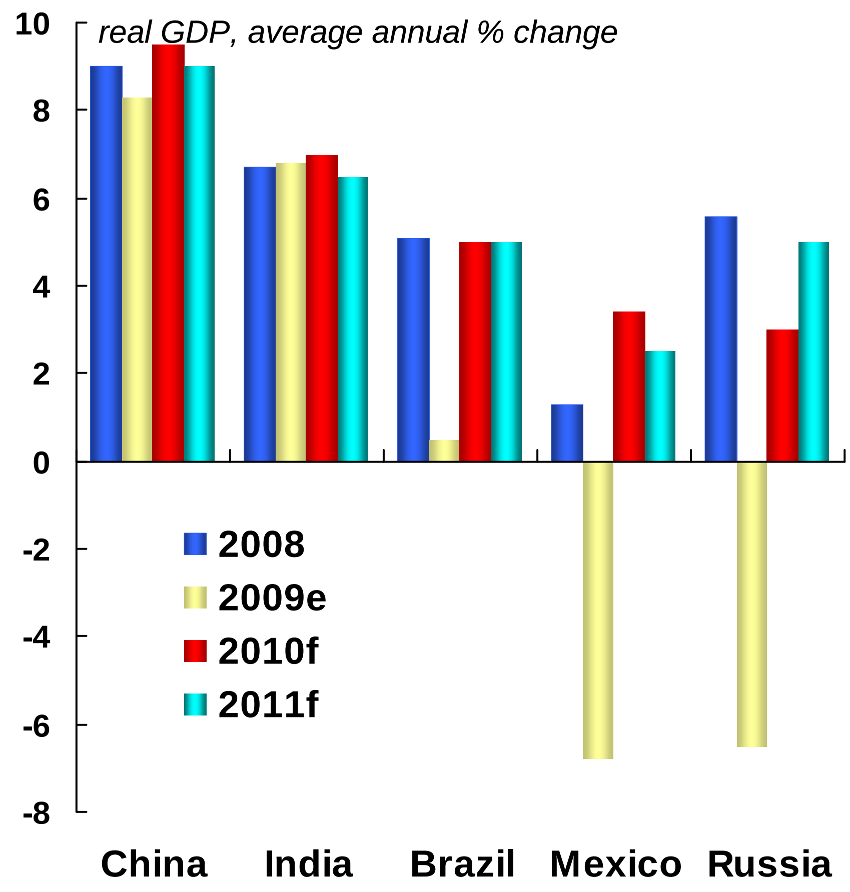
Scotiabank Group

The Global Economy Is Beginning to Revive

G7 Set for an Uneven Recovery



Emerging Nations Remain Growth Leaders



Source: Scotia Economics, Global Insight.

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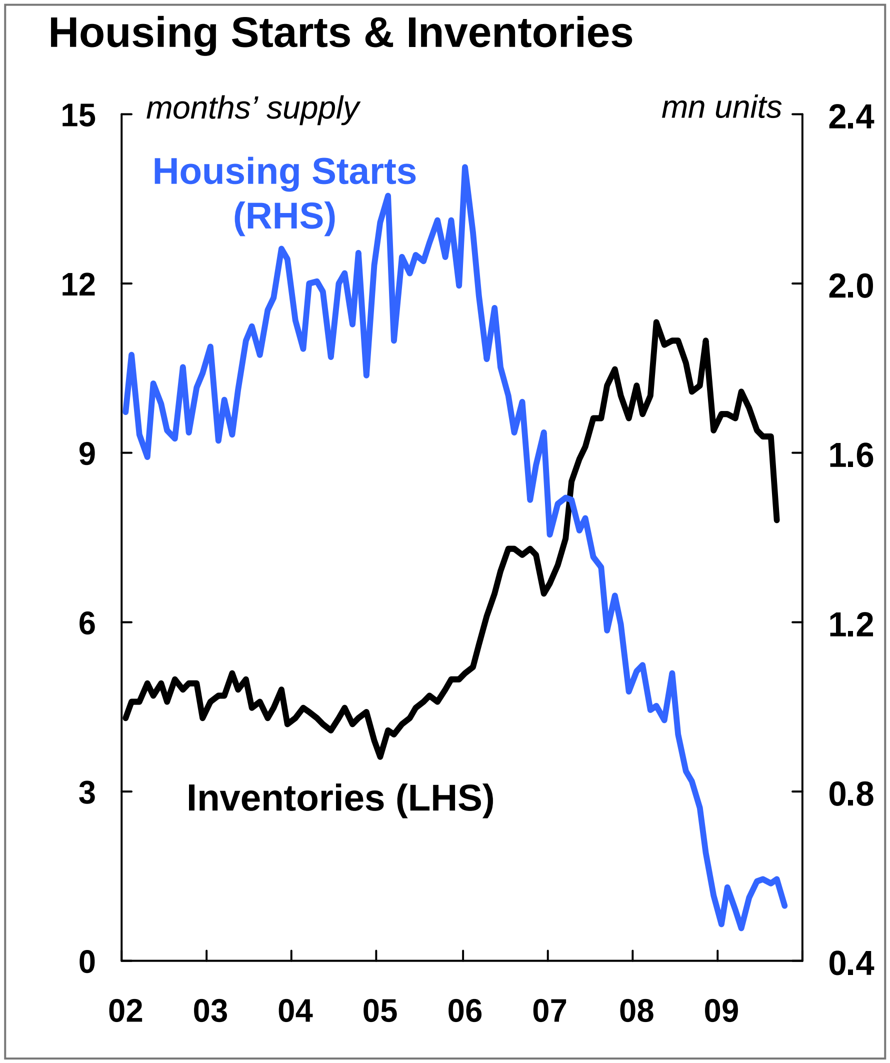
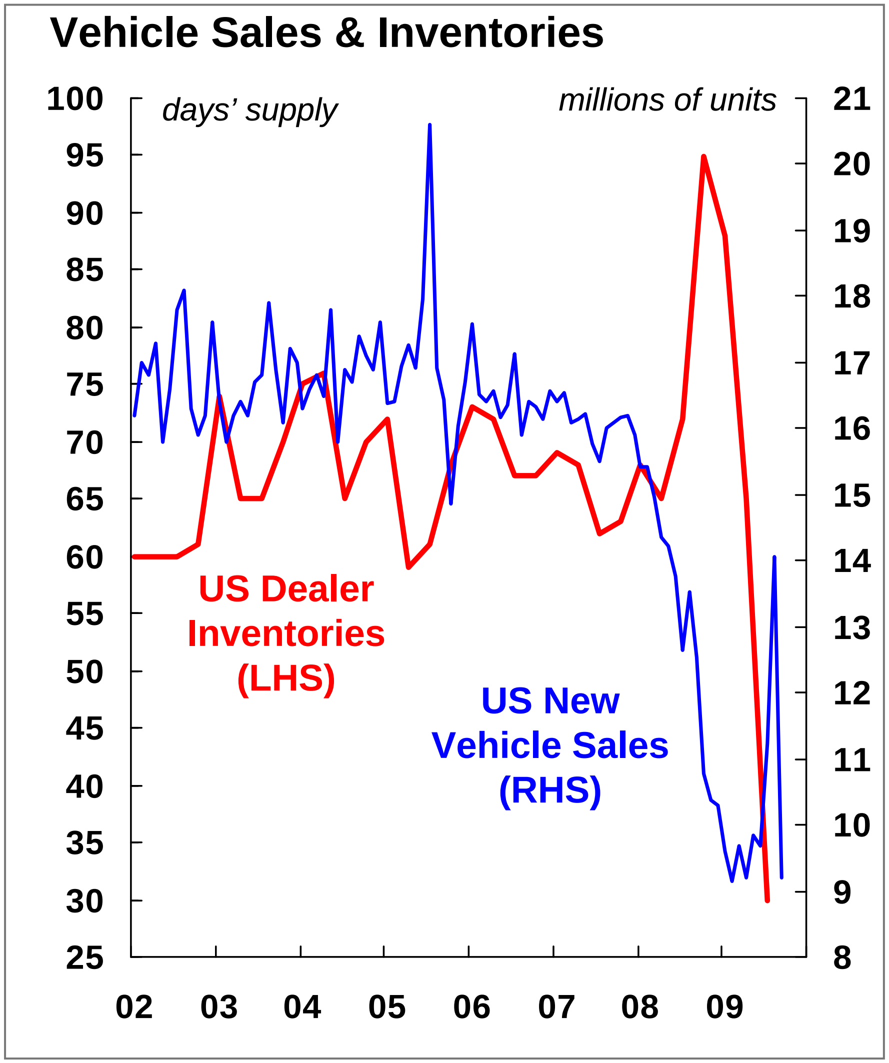
The Freefall in U.S. Housing and Autos is Over . . .





Source: Scotia Economics, Global Insight.

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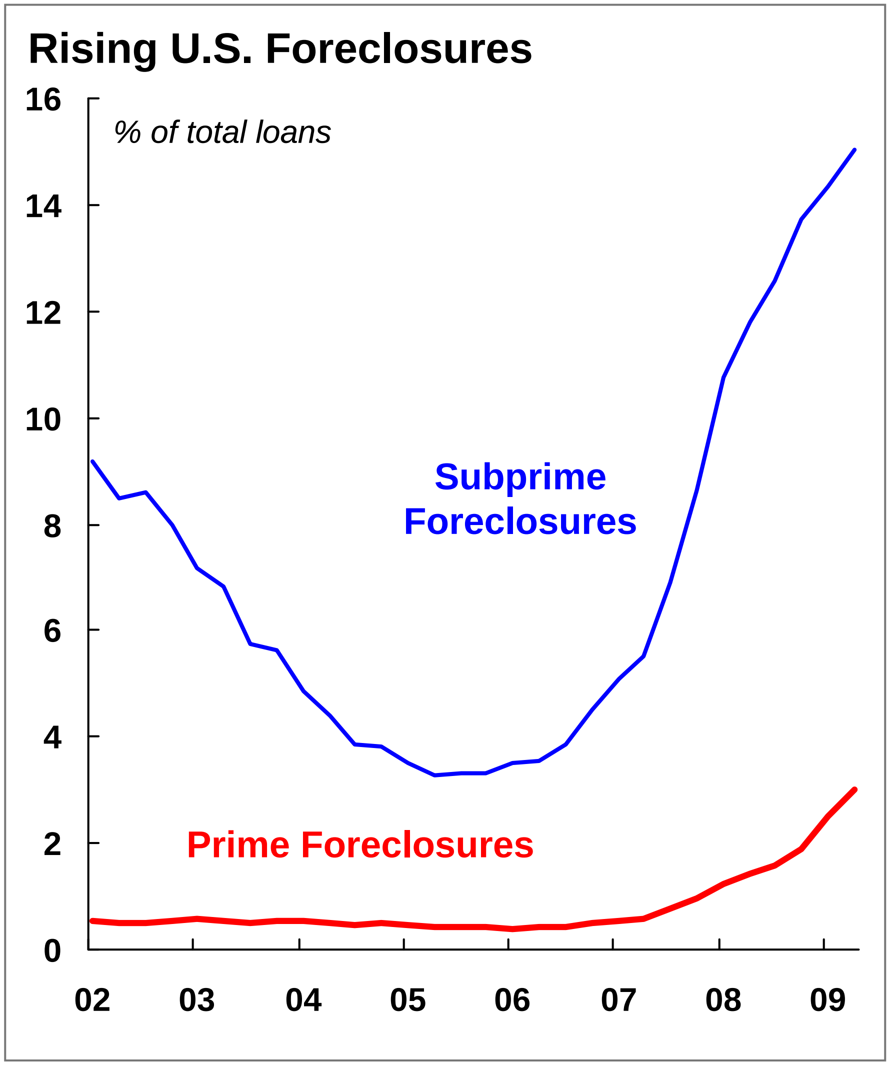
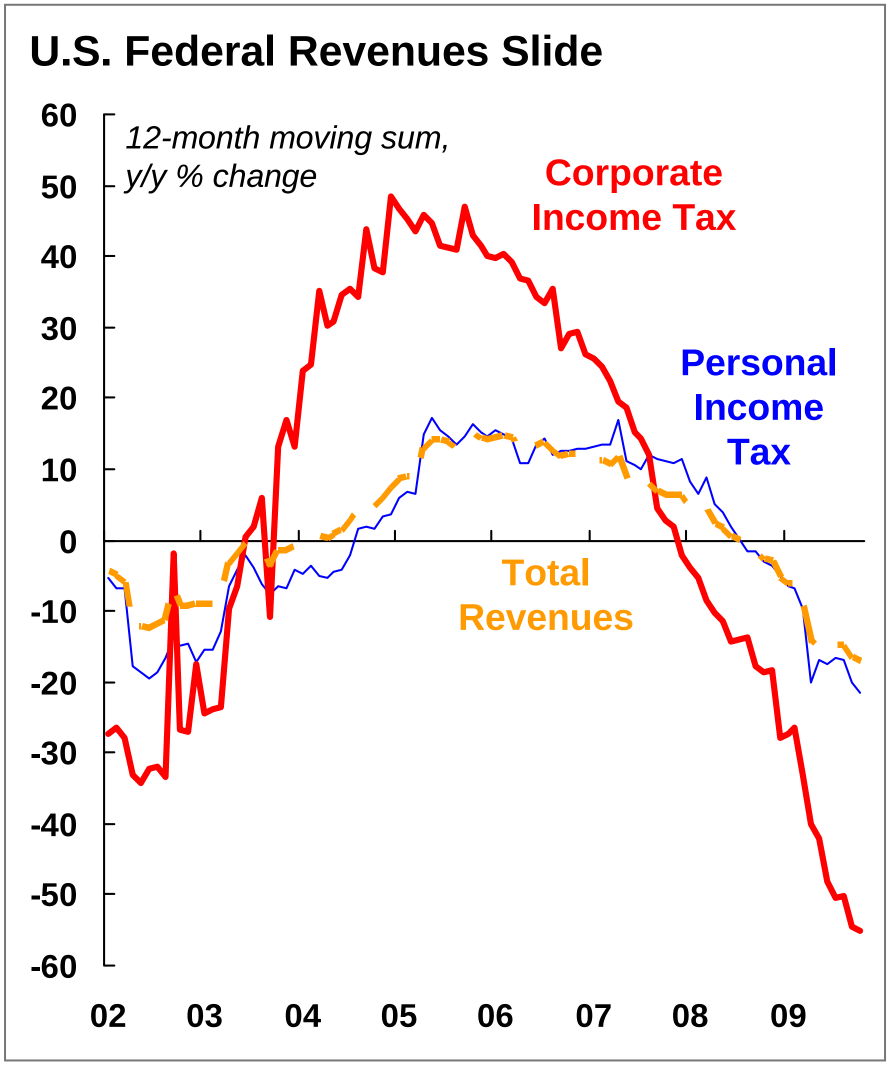
… but U.S. Private & Public Financial Strains Remain Intense



Source: Bloomberg.



Source: U.S. Treasury.

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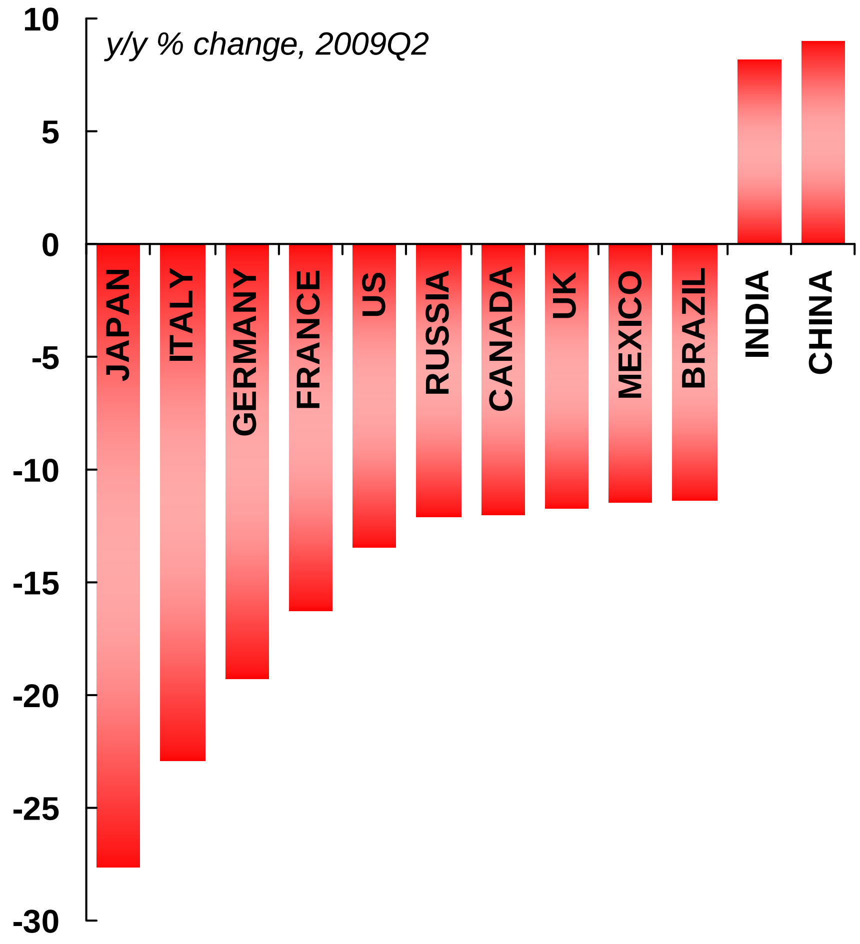
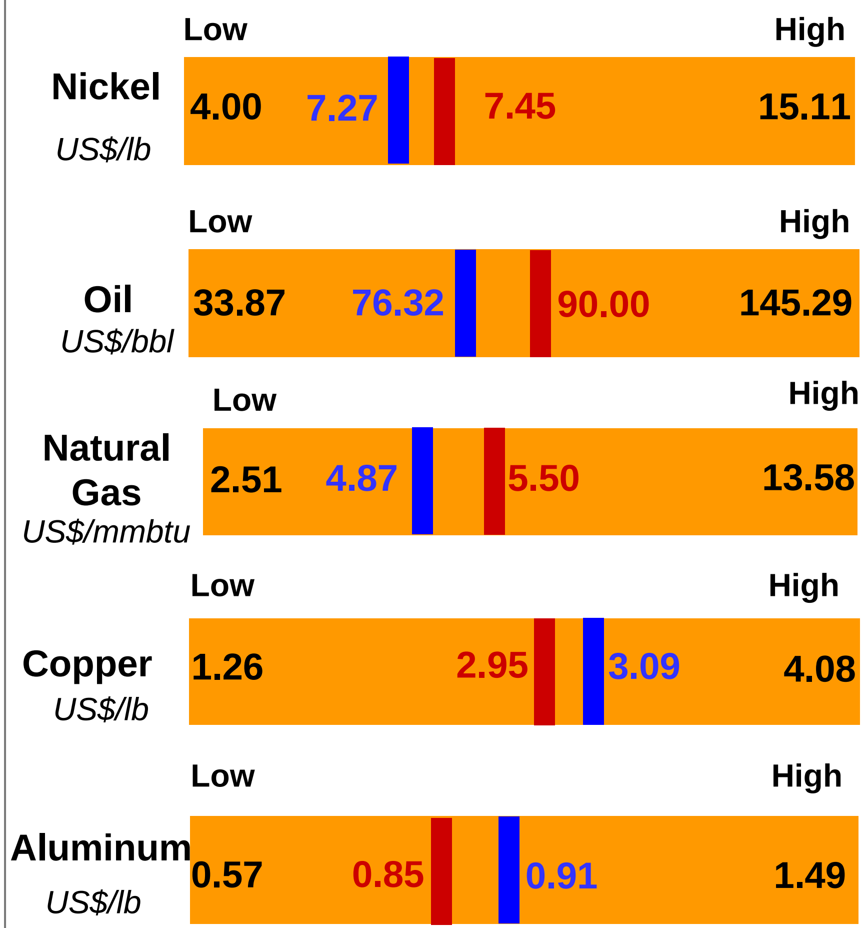
Emerging Markets Will Underpin the Recovery . . .

Industrial Production



Price Fluctuations Since January 2008



Source: Scotia Economics, Global Insight.

Blue bar represents price at November 30, 2009.
Red bars represent Scotia Economics 2010F (average price).
Historical end of day observations; Source: Bloomberg.

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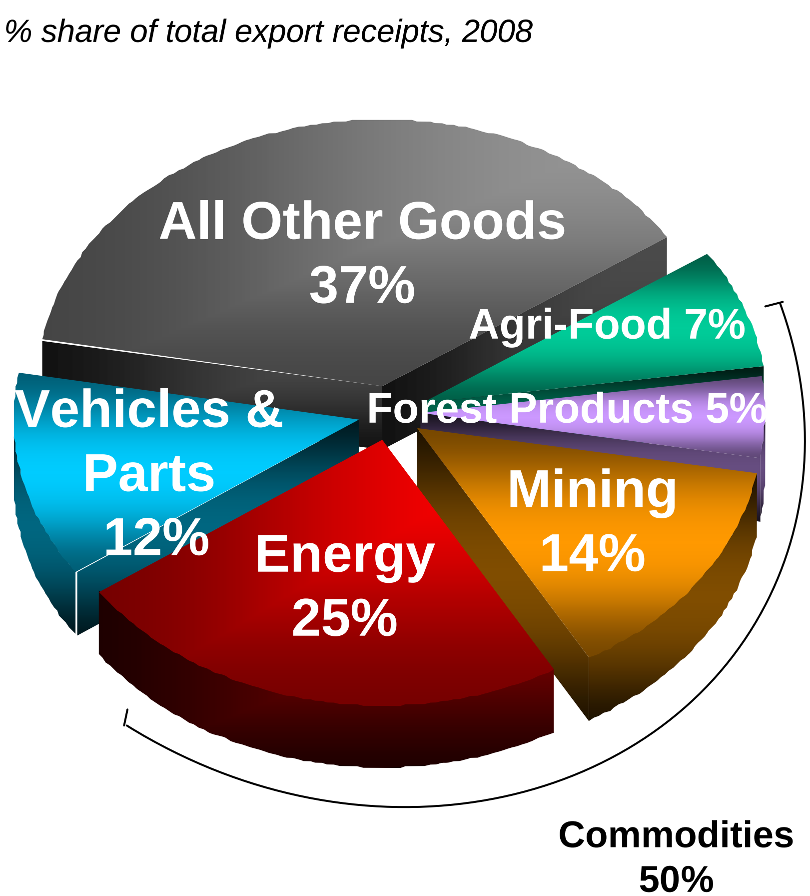
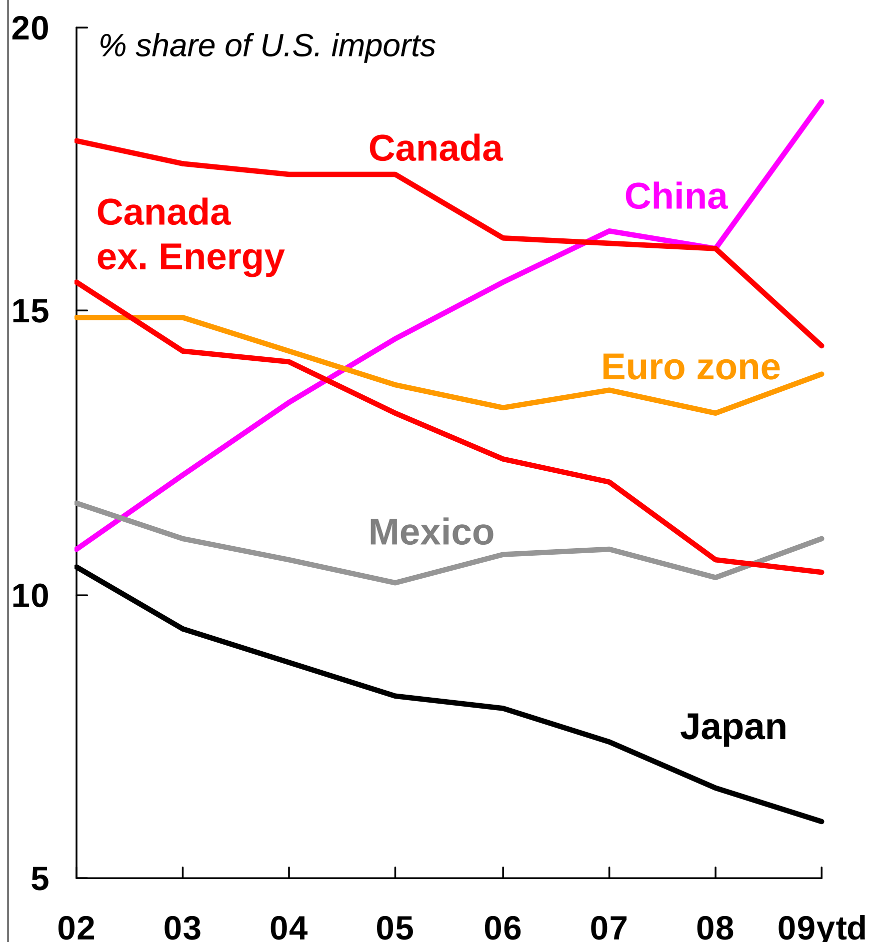
. . . Which Will Revive Canadian Export Earnings

Commodities Drive Canadian Exports



Canada's U.S. Market Share is Declining



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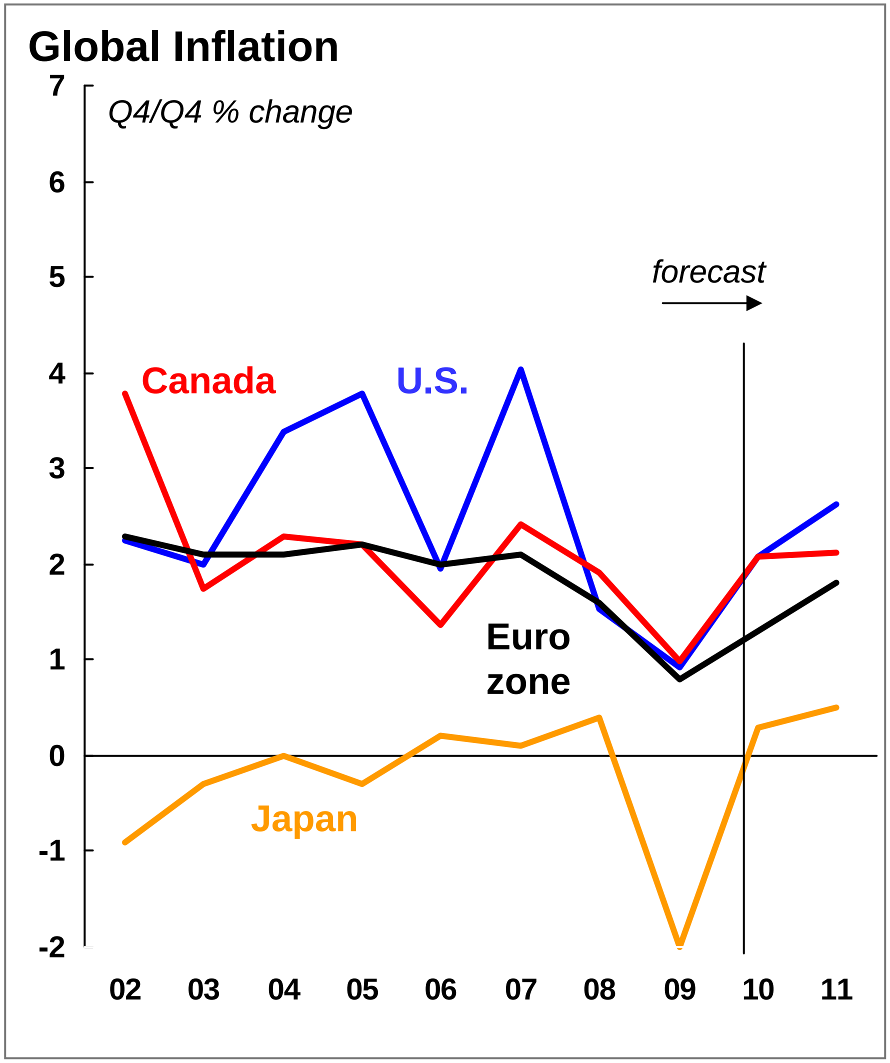
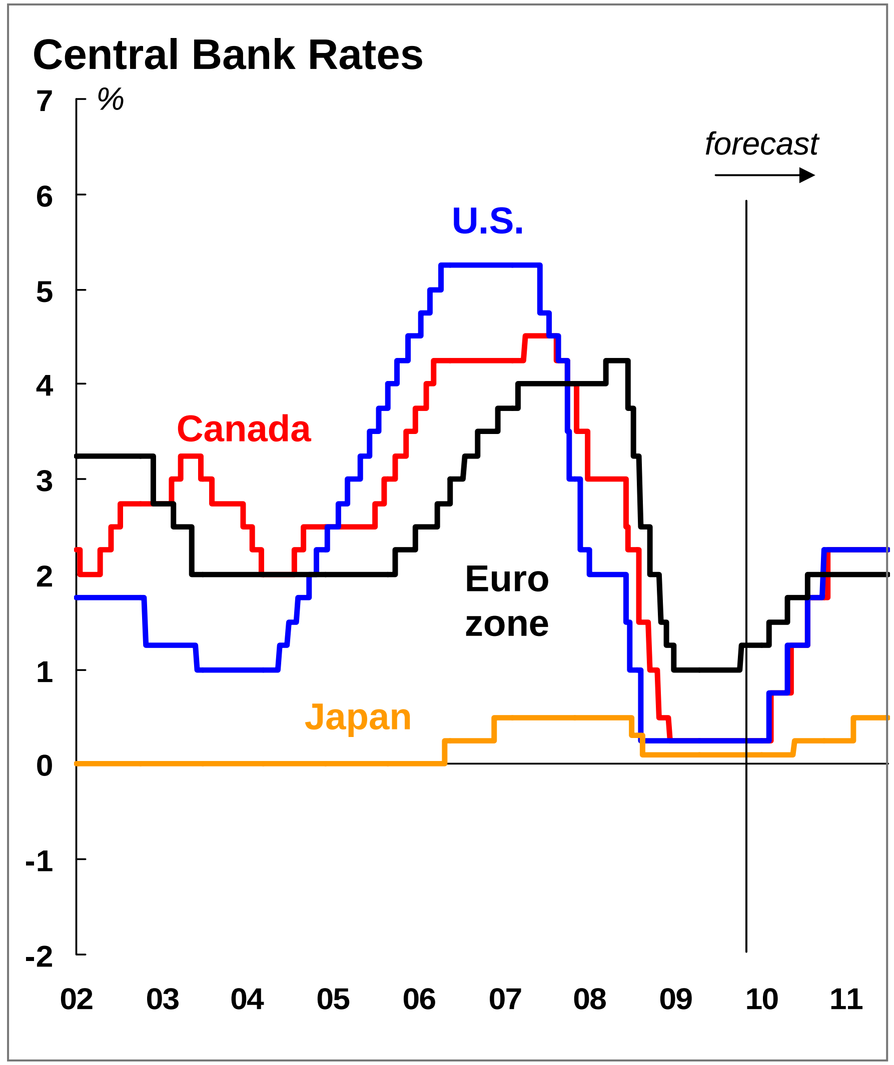
Central Banks Will Provide Less Monetary Stimulus in 2010





Source: Scotia Economics, Global Insight.

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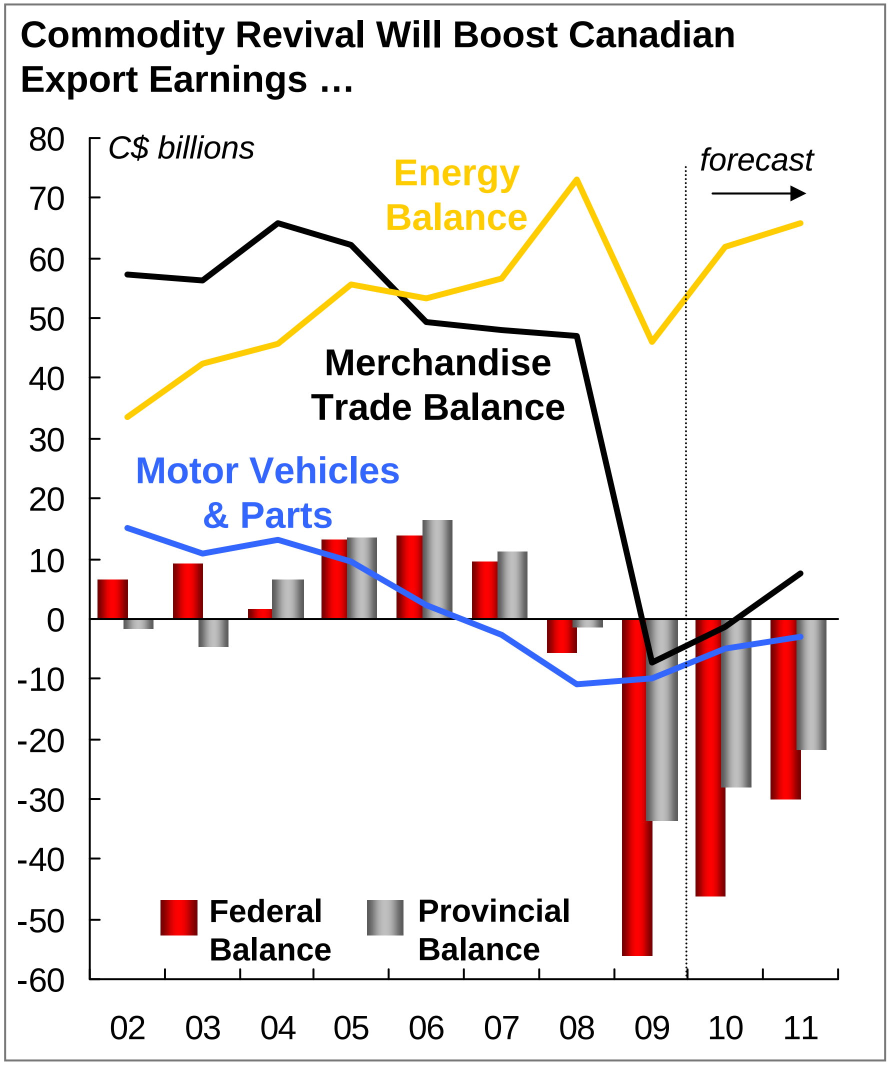
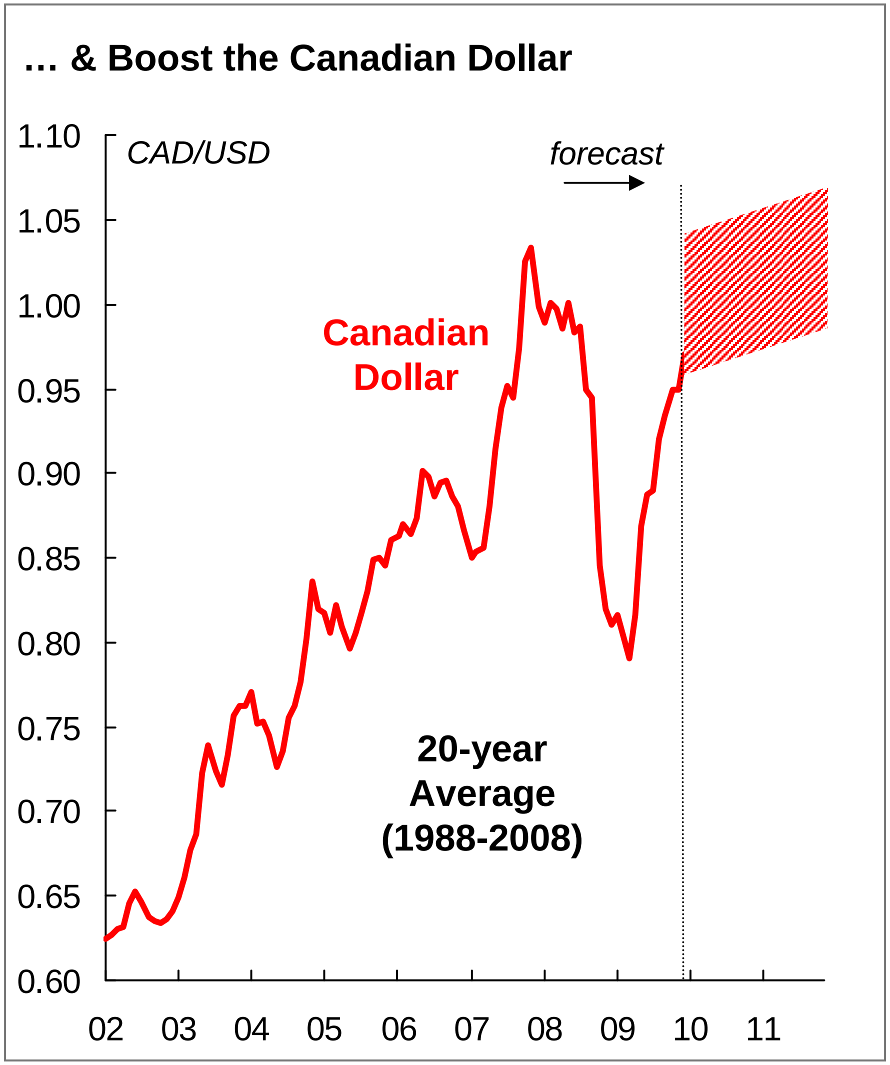
Commodity Rebound Helping the Loonie Take Flight





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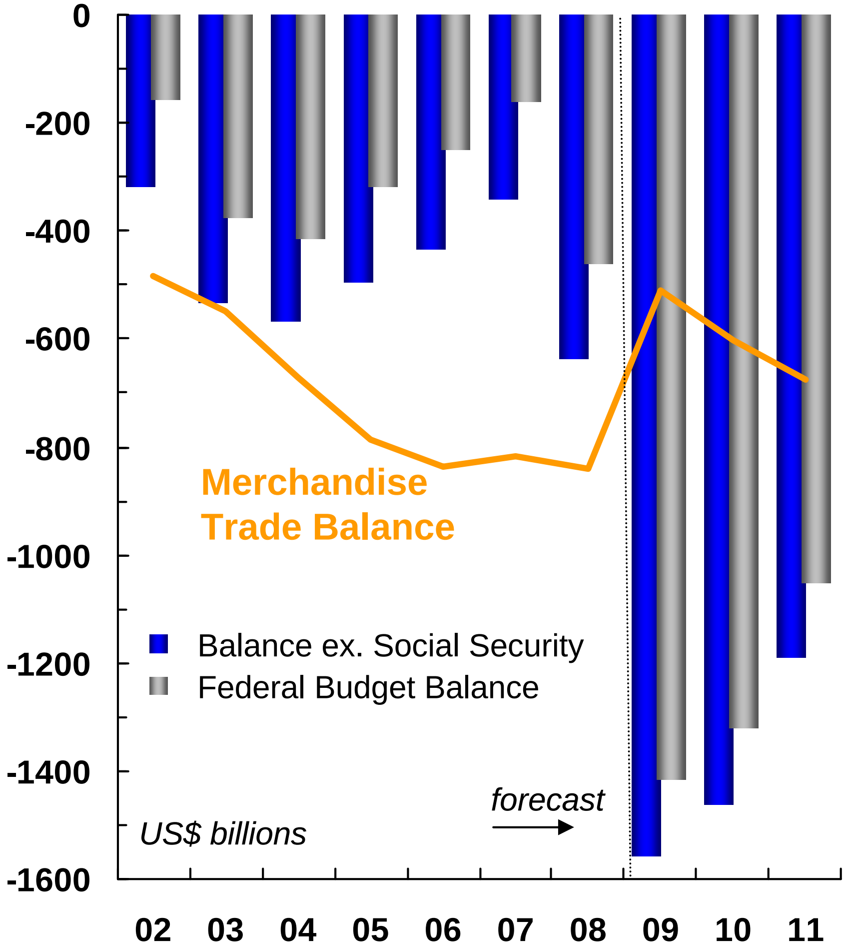
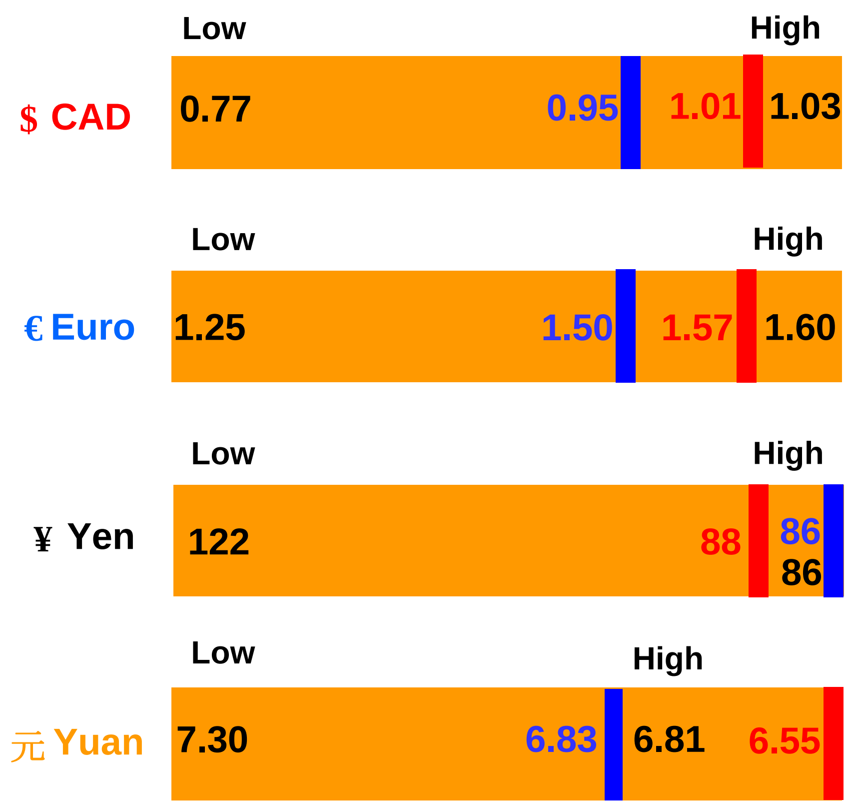
U.S. Dollar Remains on Shaky Ground

U.S. Fiscal Deficit Soars



US$ Shows Signs of Weakening

US$ Exchange Rates Since January 2008



Source: Scotia Economics, Global Insight.

Blue bar represents spot price at November 30, 2009.
Red bars represent Scotia Economics 2010F (average).
Historical end of day observations; Source: Bloomberg.

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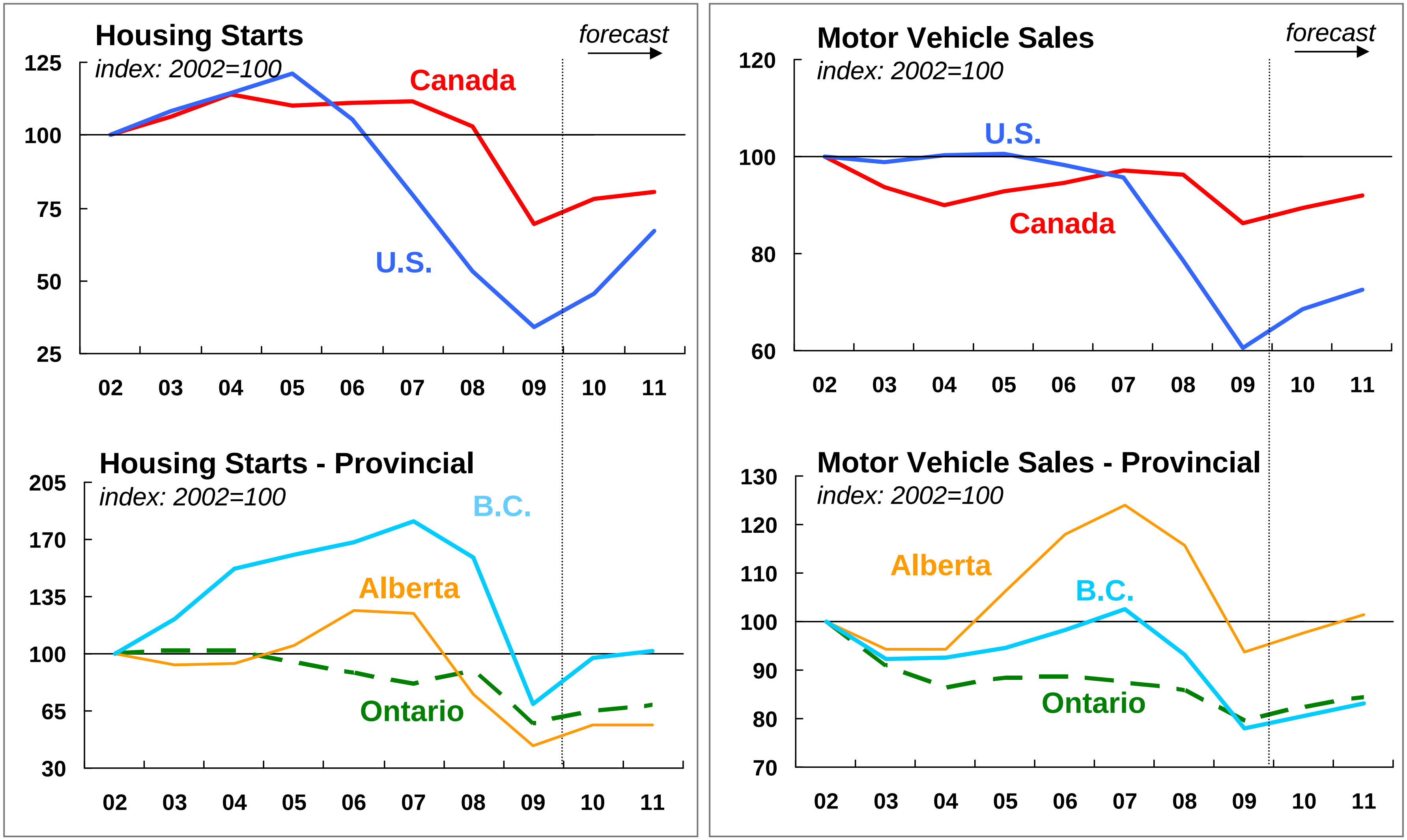
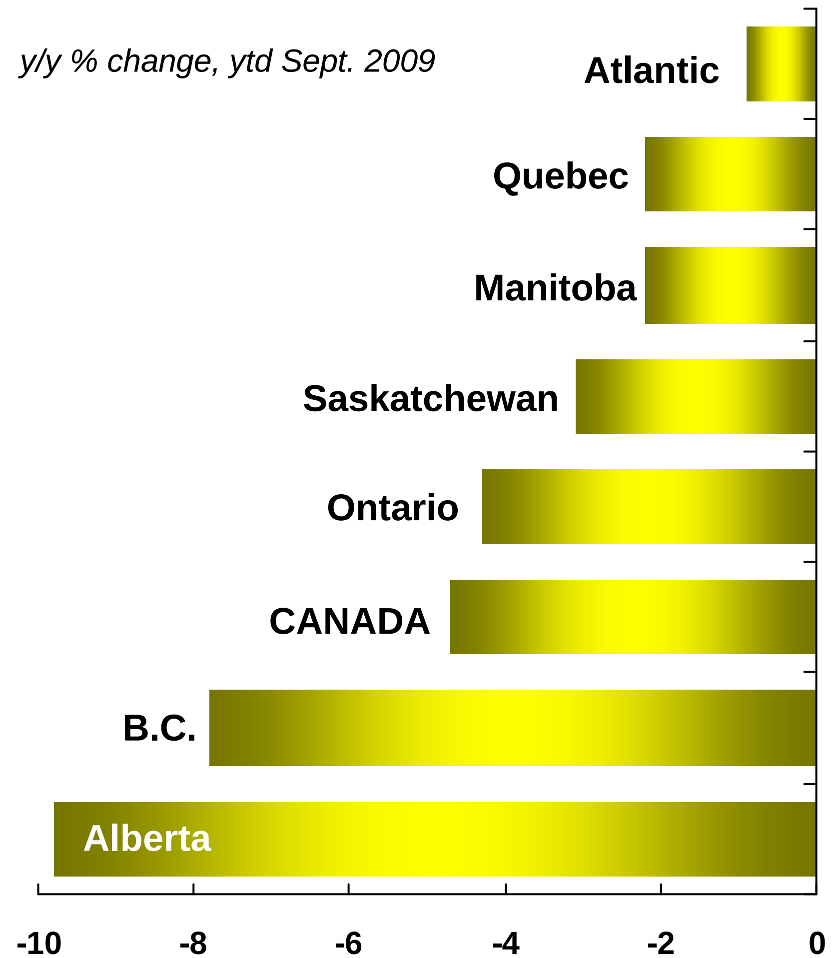
Big-Ticket Sales Have Held Up Better Here . . .



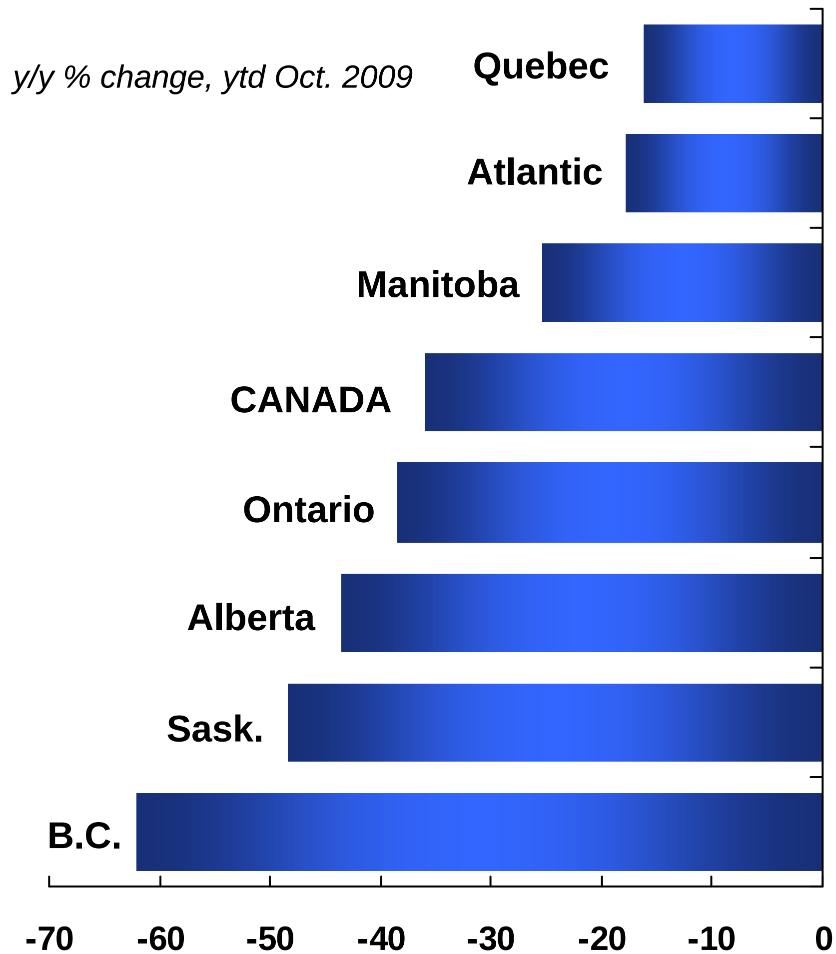
Source: Scotia Economics, Global Insight.

. . .but Spending Has Weakened in All Regions

Retail Sales



Urban Housing Starts



Source: Scotia Economics, Global Insight.

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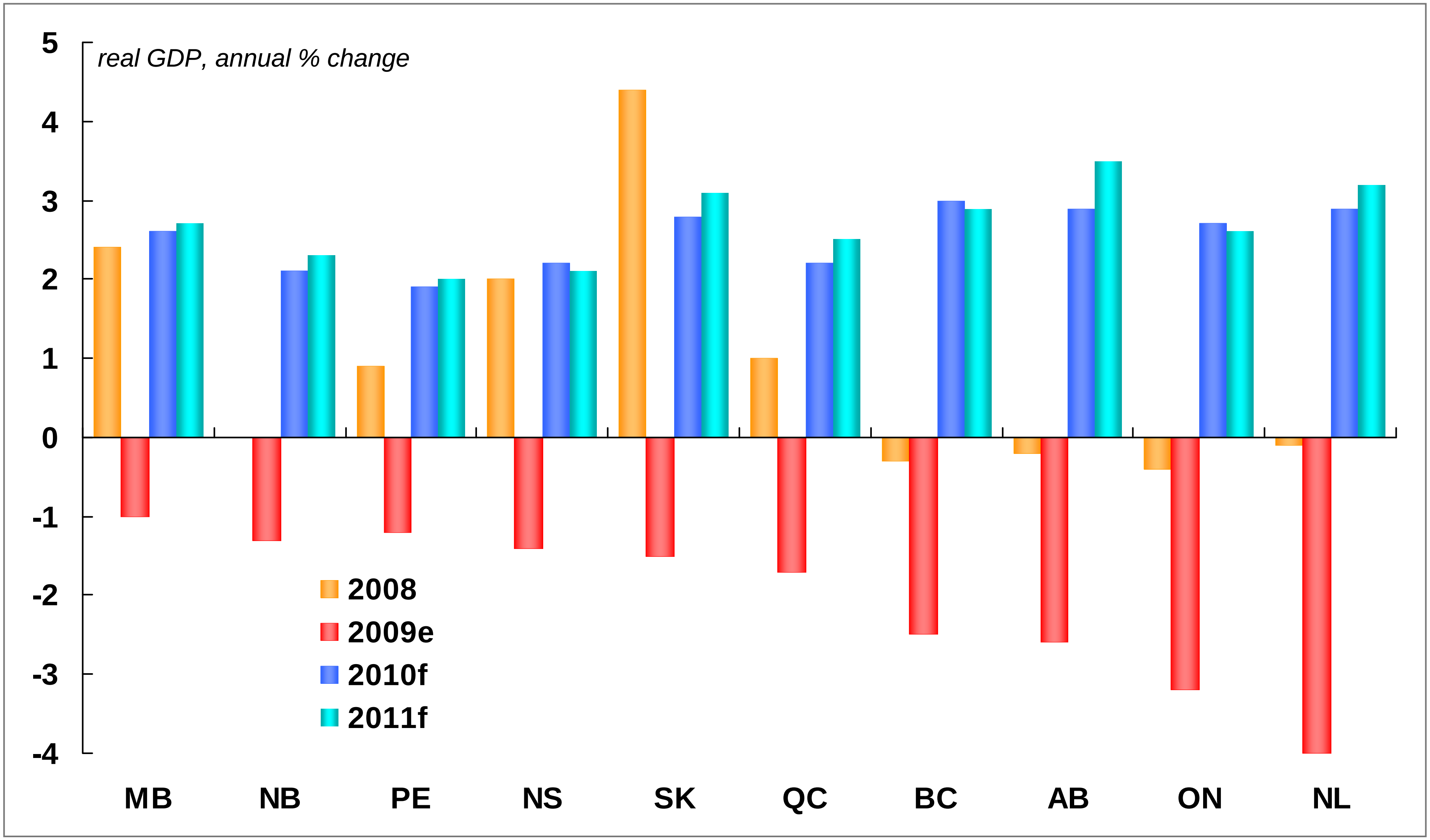
The Repair & Recovery Phase will Extend Through 2011



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2010-11 Equity Market Outlook

Riding The Normalization Wave

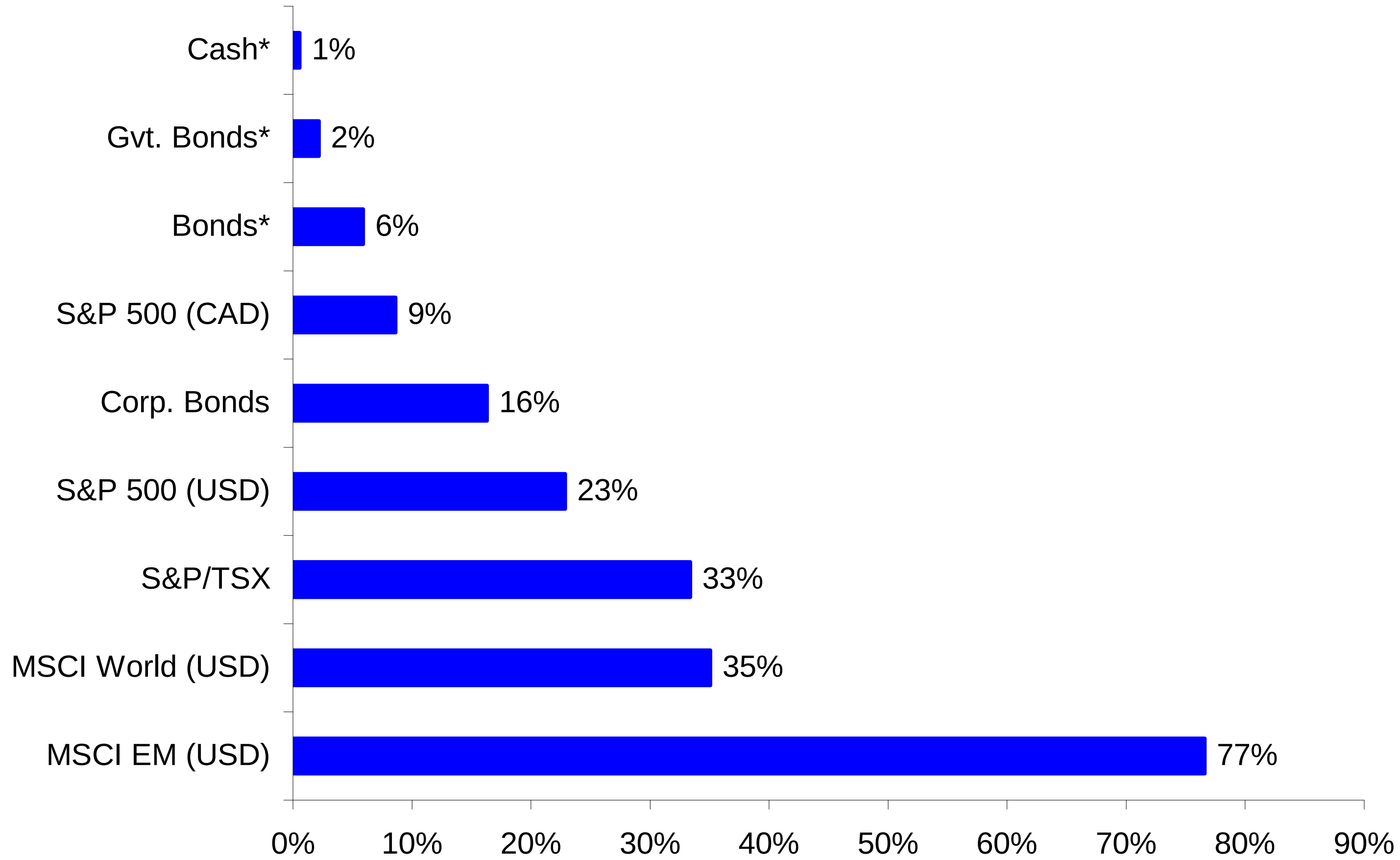
Vincent Delisle
Portfolio Strategist

December 1, 2009

Scotiabank Group

2009 Was a Bad Year for Economy, Great Year for Equities

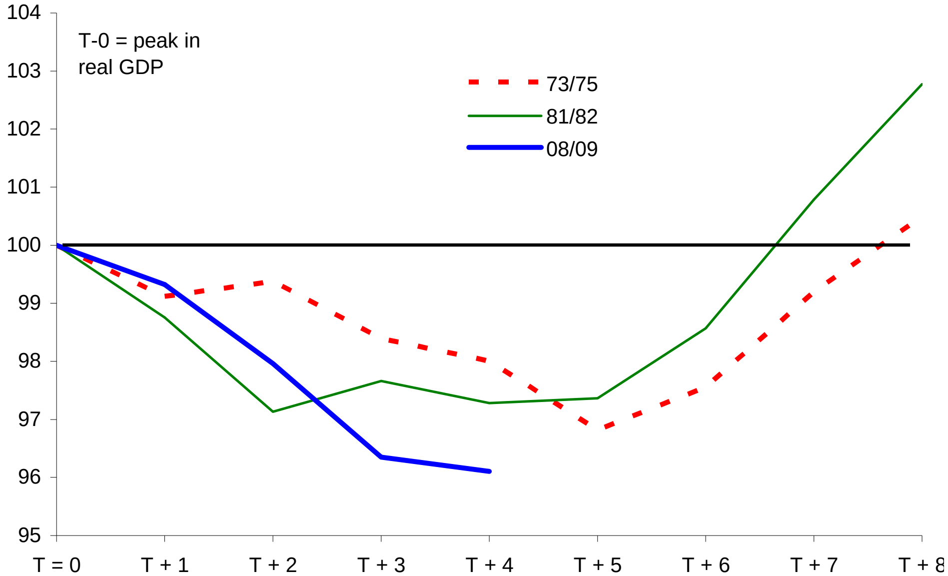
2009 Market Performance (Total Return) - As at November 18, 2009



* total returns in CAD

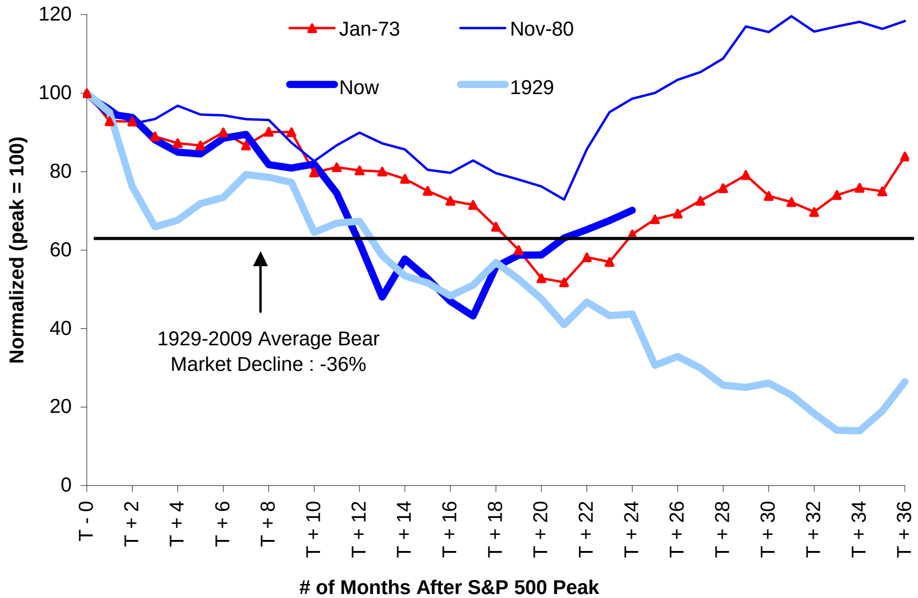
From Pricing 1930 to Pricing the End of a Very Severe Recession

Charting Deep Recessions: '08/09 versus '73/75 and '81/82



Source: Scotia Capital, BEA

S&P 500 Historical Bear Markets (1929-2009)



Source: Scotia Capital

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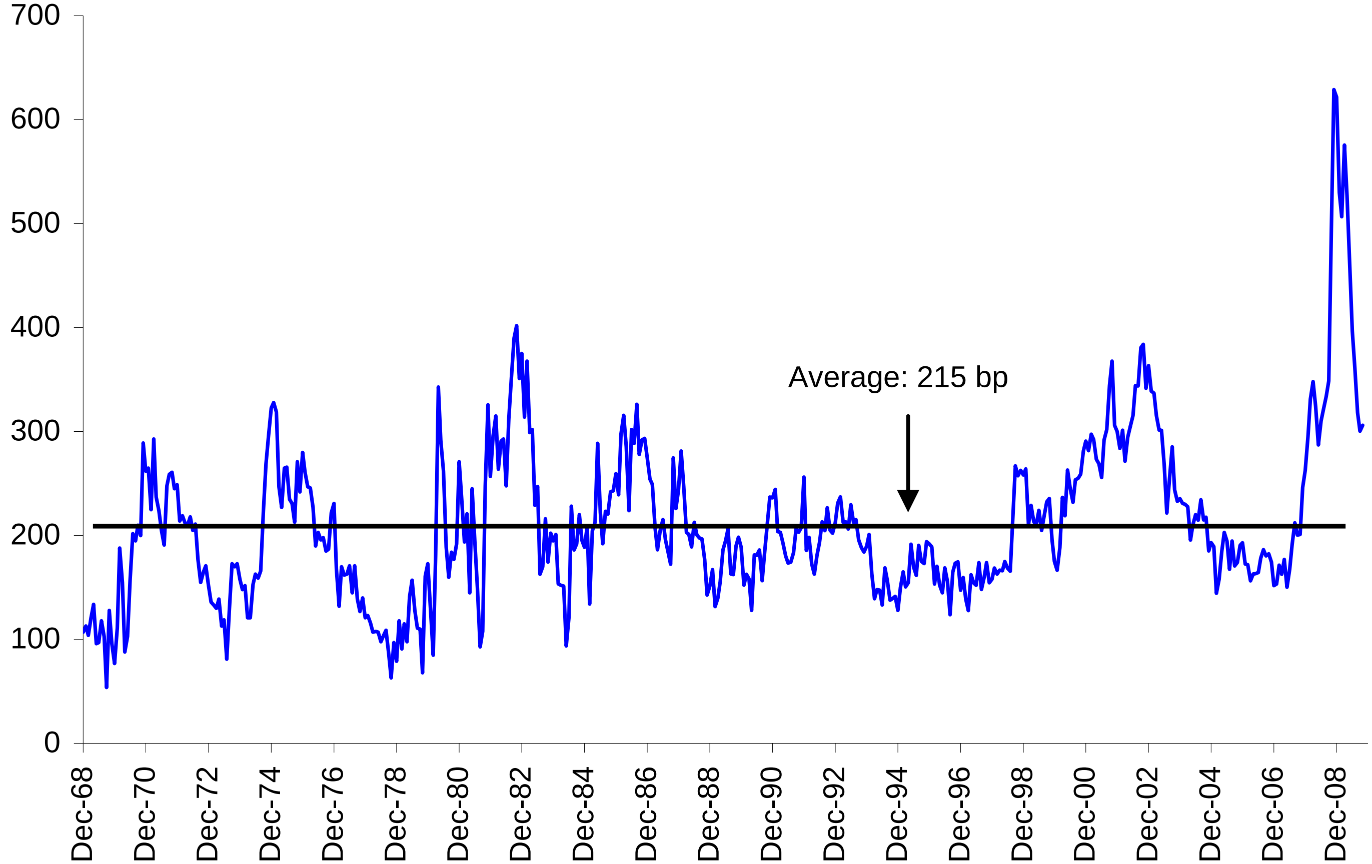
Normalization Not Over Yet

Risk premiums (credit spreads) not back to normal yet

U.S. Corporate Credit Spreads



Source: Scotia Capital, Bloomberg

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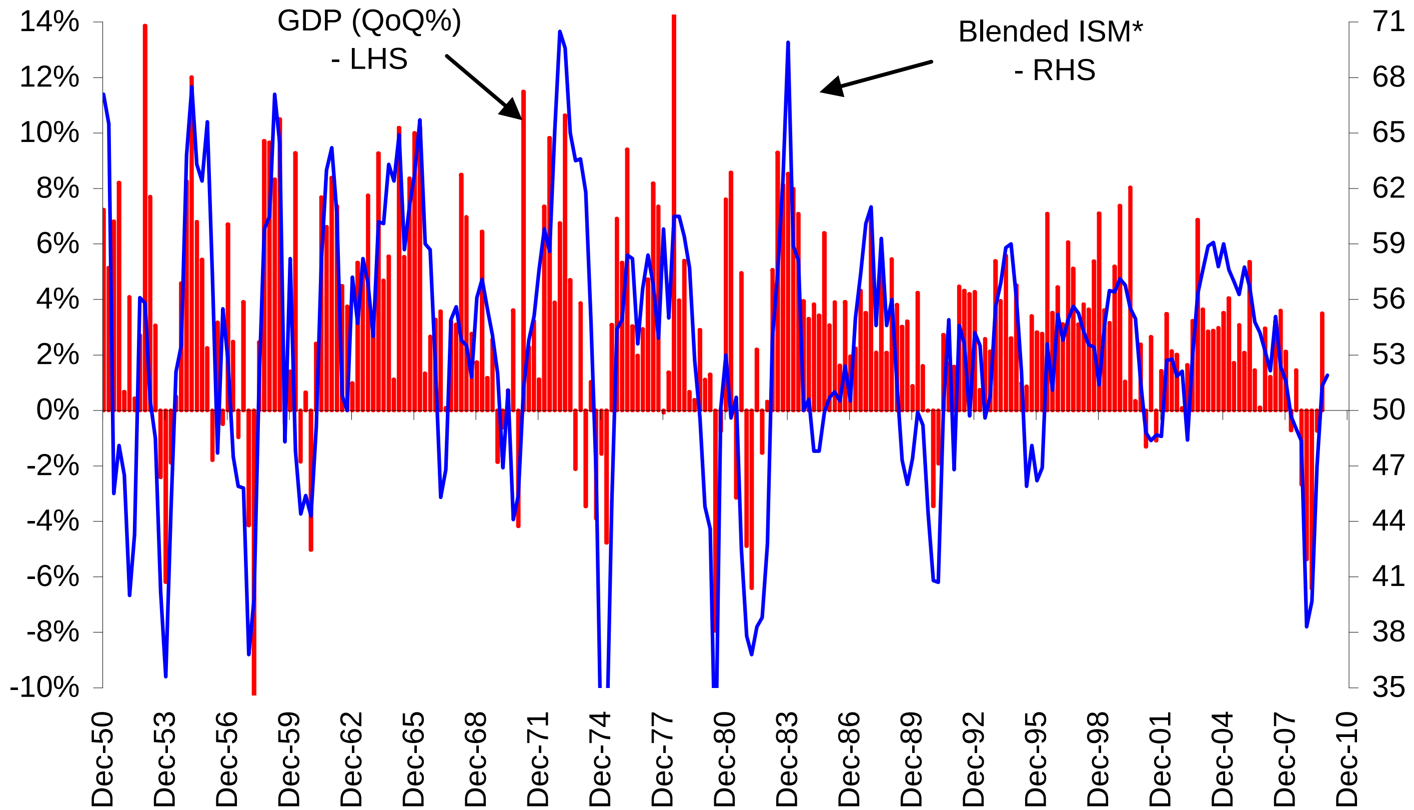
S&P 500 Risk-Reward Window is Closing

S&P 500 & ISM index move in synch

Our Blended ISM Indicator IS Back Above 50



*ISM Manufacturing prior to Jul-97, Blended thereafter (25% manuf. / 75% non-manuf.)

Source: Scotia Capital

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Investing in the “Show-me-the-$” Zone

Blended ISM has rebounded from 37 in Q4/08 to 53 in Q4/09

ISM Index and Investment Phases (1950-2009)*: One-year Forward Equity and Interest Rate Behaviour

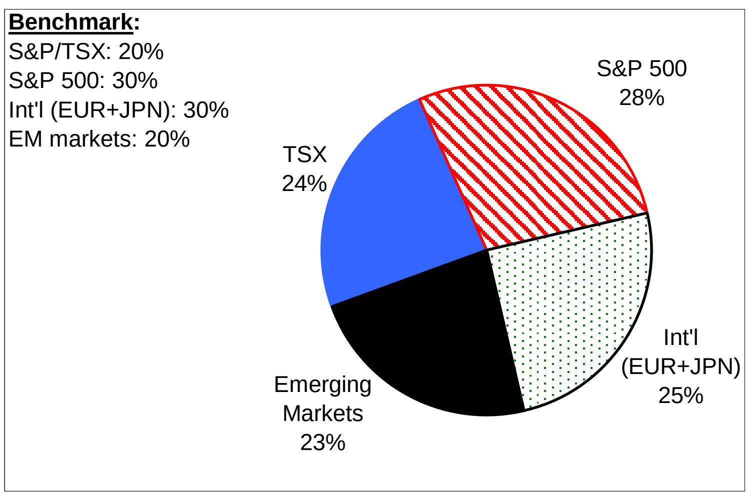
		1-Yr Forward			
Phases	**ISM Ranges**	**S&P 500**	**Prob. of Positive Return**	**Fed Funds (bp)**	**10-Yr Yield (bp)**
Apocalyspe	< 40	27%	100%	-106	-32
Worse-to-Bad	40-50	10%	74%	-102	-23
Show-me-the-Money	50-55	8%	72%	-47	-1
Optimism	55-60	6%	67%	+73	+13
Goldilocks	60+	2%	62%	+113	+32

Asset Mix Recommendation

Scotia Capital Asset Mix - Winter 2010

	Asset Mix		Change from	Total Return
	Benchmark	Recommended	Last Quarter	Next 12-M
Equities (TSX)	**60%**	**68%**	**0%**	**10%-12%**
Bonds	**38%**	**28%**	**-2%**	**0%-5%**
Government	*28%*	*15%*	*0%*	0%
Corporate	*10%*	*11%*	*-2%*	5%
Cash (91-D Tbills)	**2%**	**6%**	**+2%**	**1%-2%**

Scotia Capital Equity Mix - Winter 2010



Source: Scotia Capital

"By the end of 2010, portfolios should not look as cyclical as they do now"

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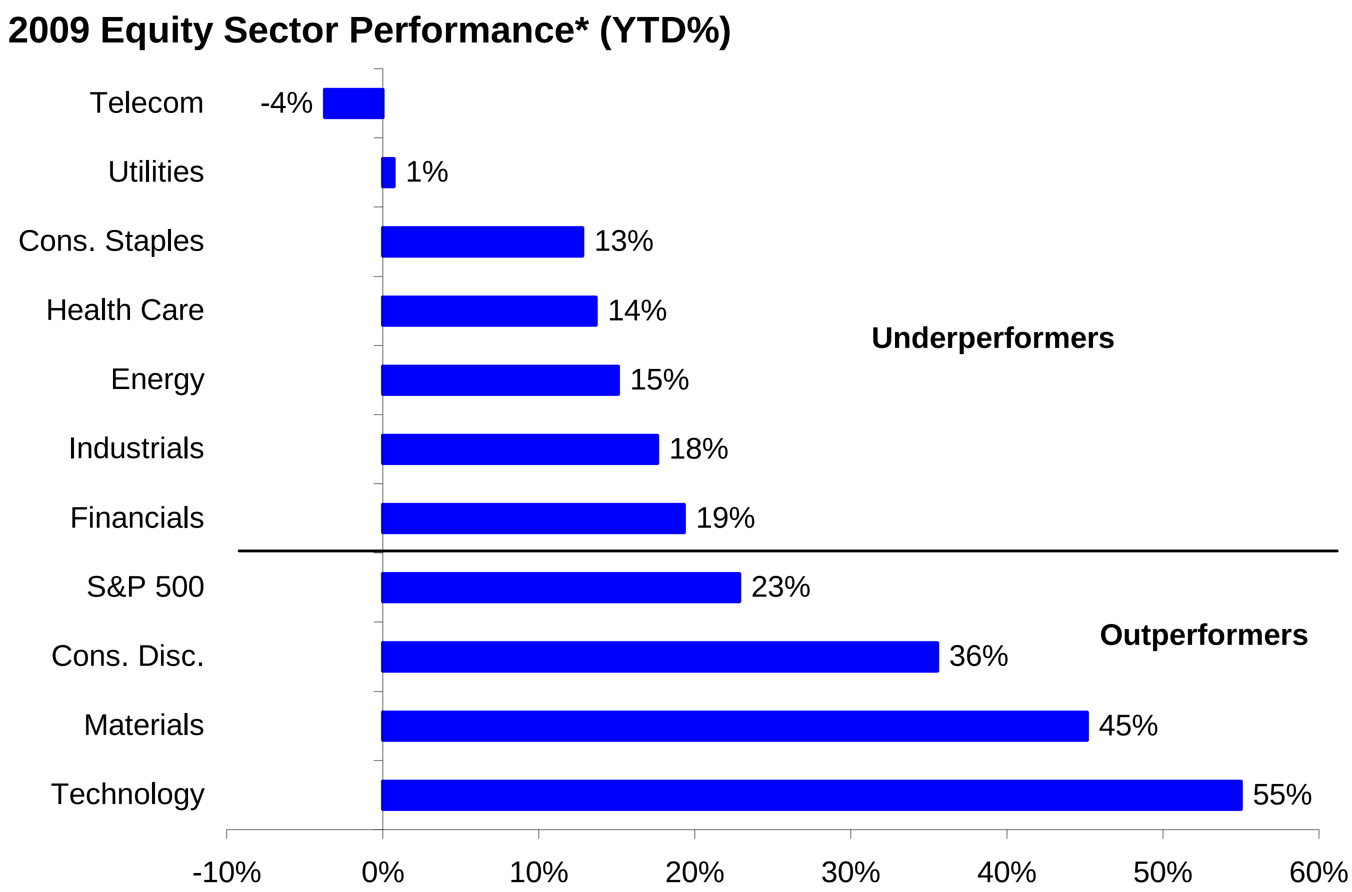
Equity Strategy Recommendation

Classic sector leadership by Cyclicals since March 2009



*Based on S&P 500 sectors.

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Equity Strategy Recommendation

Stick to Cyclical bias early in 2010, less so in 2H10

2010 Sector Strategy

Sector	Recommendation
Energy (Oil over Natural Gas)	Overweight
Materials	Overweight
Industrials (biased higher)	Neutral
Discretionary	Overweight
Staples	Underweight
Health Care	Underweight
Financials (overweight Banks)	Neutral
Technology	Overweight
Telecom (biased higher)	Neutral
Utilities	Underweight

Source: Scotia Capital

2010 Strategy Game Plan

• Improving macro and earnings trends should continue in 2010, and so should cyclical outperformance (albeit at a lesser margin)

• Robust earnings growth (25 to 30%) and positive funds flows could lift equity indices another 10-12% by December 2010

• Rising interest rates will represent the main challenge to the investment outlook next year as Central Banks likely implement their "exit strategies" in 2H10

• Bond returns are expected to range between 0% (government) to low single digits (corporate bonds) next year, warranting an equity overweight stance to kick off 2010

• With the normalization phase well under way, however, the equity risk-reward outlook is not as compelling as it was at the start of 2009

• By the end of 2010, portfolios should not look as cyclical as they do now.

• Flattening yield curves will be the catalyst to take some risk off the table.

2010-11 Foreign Exchange Outlook

Balancing on a Tightrope

Camilla Sutton
Currency Strategist

December 1, 2009

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Global Forecast

REAL GDP - A return to growth

	2008	2009f	2010f	2011f
US	0.4	(2.5)	3.3	2.5
Canada	0.4	(2.6)	2.7	2.8
Mexico	1.3	(6.8)	3.4	3.1
Euro Zone	0.8	(3.8)	1.3	1.1
UK	0.7	(4.5)	1.2	1.1
Japan	(0.7)	(5.3)	1.3	0.9
China	9.0	8.3	9.5	9.0

FX - USD continues its downward trend

	2008	2009f	2010f	2011f
USDCAD	1.20	1.04	0.97	0.95
CADUSD	0.83	0.96	1.03	1.05
USDMXN	13.00	13.30	13.80	14.20
EURUSD	1.42	1.50	1.60	1.57
GBPUSD	1.46	1.65	1.68	1.67
USDJPY	88	87	85	90
USDCNY	6.80	6.80	6.40	6.00

INFLATION - Contained

US	3.8	(0.4)	2.1	2.3
Canada	2.4	0.3	1.7	2.1

COMMODITIES - Yearly Averages

Oil	100	62	90	92
Gold	872	975	1,200	1,050

INTEREST RATES - Begin to rise

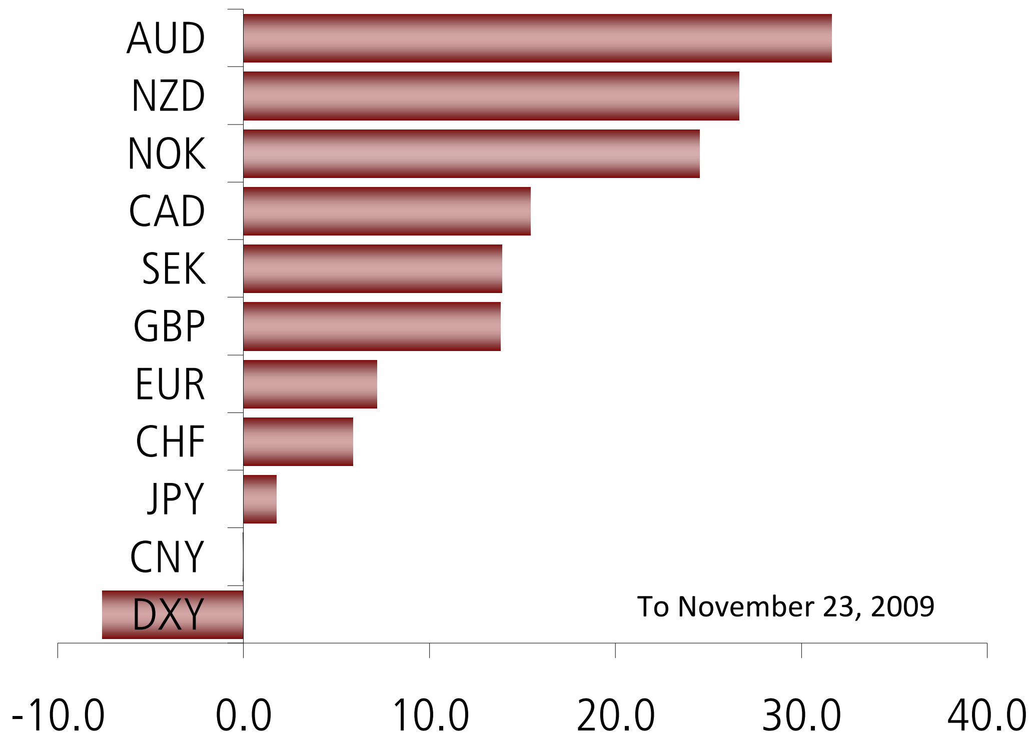
	Q1/10	Q2/10	Q3/10	Q4/10
FED	0.25	0.25	0.75	1.25
BoC	0.25	0.25	0.75	1.25
ECB	1.00	1.25	1.50	1.75
BoE	0.50	0.50	0.50	0.75
BoJ	0.10	0.10	0.10	0.25

Global Themes in FX

<u>CURRENT FX DRIVERS AND THEMES</u>

1. A climb back to pre-crisis asset pricing has almost completed.
2. Relative central bank policy is most important FX driver into early 2010.
3. Broad based USD weakness has yet to complete.
4. Sentiment – investors’ risk appetite has increased.
5. A return to the importance of fundamentals – China as the proxy for the global recovery.

Currency Returns vs USD Year-to-Date



OUTLOOK: General year-to-date return pattern carries on into year-end and early 2010

Commodity currencies outperform; EUR is a mid performer; but GBP underperforms.

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USD Weakness

Key Weights Against the USD

Flow:

1) Long-term USD downtrend is intact.

2) Absence of USD positive flows (like we saw in fall and winter).

3) Sentiment has swung dramatically back to bearish USD.

Market Themes:

4) Questions surrounding the sustainability of the USD status as a reserve currency.

5) The USD as a carry trade funding currency.

6) Increasing pressure on CNY to allow slow appreciation – this would be USD negative.

Structural:

7) Question as to sustainability of large foreign investment flows - will China keep buying Treasurys?

8) Twin negative account balances (fiscal and current accounts).

We do not expect a USD crisis, but do expect a slow and measured decline in the USD over time.

USDCAD Drivers into 2010

<u>USDCAD Drivers</u>

I. Interest rate spreads

II. Global growth outlook

III. Broad USD movements

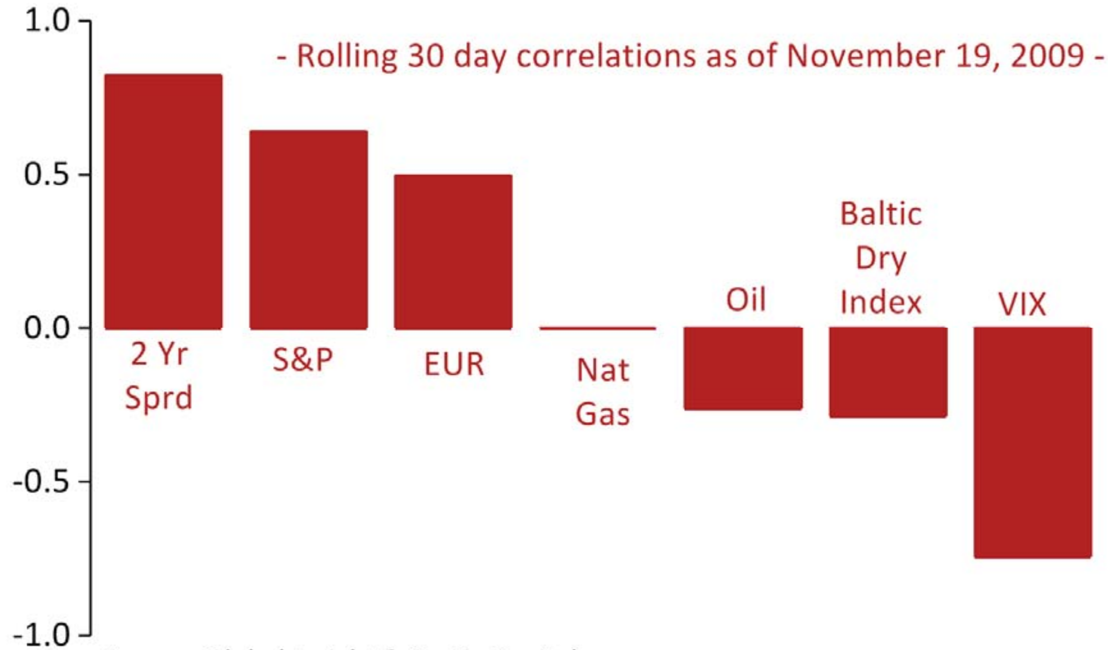
IV. Oil & commodities

V. Flow

VI. Sentiment

VII. Technicals

Traditional CAD Correlations



Source: Global Insight & Scotia Capital

<u>CAD Correlations</u>

-Traditional correlations have strengthened as market re-focuses on fundamentals and removes financial crisis premium.

-Oil and broad USD moves prove to be most important long-term drivers; but varying short-term impacts.

-Currently, most important near-term drivers are: interest rate spreads, equities & the USD.

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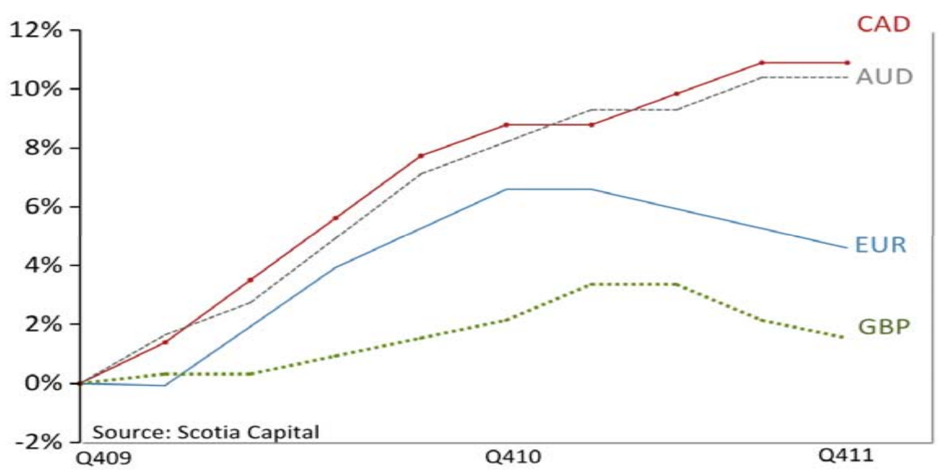
Currency Forecast

FX - USD continues its downward trend

	2008	2009f	2010f	2011f
USDCAD	1.20	1.04	0.97	0.95
CADUSD	0.83	0.96	1.03	1.05
EURUSD	1.42	1.50	1.60	1.57
GBPUSD	1.46	1.65	1.68	1.67
AUDUSD	0.70	0.93	0.99	1.01
USDJPY	88	87	85	90

Currency Forecast Path



Global outlook

-Ongoing USD weakness in 2010; stabilization against some currencies in 2011.

-CAD continues to gain against the USD throughout forecast horizon.

-GBP underperforms - weighed down by its fiscal position, fragile economic recovery and sentiment.

-Ongoing large intraday swings.

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