TSX is set to rise as eurozone cloud lifts

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Firmer Canadian and U.S. fundamentals will help send the commodity-linked Toronto Stock Exchange's S&P TSX composite index to 12,225 by mid-2012, and to 12,500 by year's end, according to median forecasts from 26 analysts polled over the past week.

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Trader Michael Smyth of MND Partners gestures on the floor of the New York Stock Exchange. Firmer Canadian and U.S. fundamentals will help send the Toronto Stock Exchange's S&P TSX composite index above 12,000 by mid-2012, analysts say. Photo: Reuters

The index closed up 4.0 per cent at 12,204 on Wednesday and the forecasts were 0.2 per cent and 2.4 per cent, respectively, above that.

Global indexes rallied on Wednesday after central banks around the world announced co-ordinated steps to prevent a credit crunch among banks in Europe struggling with the region's debt crisis.

"Europe will continue to make the moves needed to keep things stable. We do not think the eurozone will break up. Or if it does it will be orderly," said Kate Warne, Canadian market strategist at Edward Jones in St. Louis, Missouri.

"As a result, energy stocks will better reflect oil prices and we will see a rebound in financials, which have clearly been negatively affected by worries about the global financial situation."

The Canadian stock index is trading at a 12-month forward multiple of 11.44 times, compared with its 10-year average of 14.34 according to Thomson Reuters I B/E S data.

The index's key pillars of energy, financials and materials stocks have slumped this year by around 19 per cent, 13 per cent and 16 per cent, respectively. Warne said those sectors were expected to lead the rebound.

Commodity prices, as measured by the Thomson Reuters Jefferies CRB index (.CRB), are down 15 per cent from the year high on May 2.

Estimates for the index heading into mid-2012 ranged from 8,500-13,500 - reflecting uncertainty and potential volatility. Targets for end-2012 were in a 10,500-14,700 range.

The index has fallen nine per cent this year, compared with a 14 per cent advance last year and a 31 per cent gain in 2009.

Most agreed things could get worse before they get better.

Two years into the EU's sovereign debt crisis, nervous investors are fleeing the eurozone bond market amid doubts about the survival of the single currency.

Analysts were mixed on how much the market had priced in the potential of a eurozone breakup. At current levels, the Toronto index is 15 per cent below its March peak, and some analysts say markets have further to fall near term.

"When the market realizes that the eurozone does not stand for very much, we are going to have the mother of all risk-off days," said John Stephenson, senior vice-president at First Asset Investment Management.

"You have to realistically assume that it is going to become a banking crisis in Europe and regardless of how good our banks are it is not going to matter."

Others, were less dire with their predictions.

"The market has priced in some sort of resolution to the eurozone crisis," said Paul Taylor, chief investment officer at BMO Harris Investment Management. "The market has not priced in the best-case scenario for the eurozone."

An improving U.S. economy has been the biggest countermeasure as decent employment numbers, consumer confidence data and retail sales have helped buffer markets from European headwinds.

Rick Hutcheon, president and chief operating officer at RKH Investments, said underlying fundamentals in North American markets remained solid and with, Europe's dark cloud eventually lifting, he saw the TSX ranging sharply higher.

"If some of these issues get sorted out this market will absolutely fly."