

Blood on the Trading Floor

Ok, maybe the title is a tad harsh, especially given that the mid-week declines in stocks this week were nothing in the context of where they have been during the past year, but this scribe couldn't help adding to the collection of references to one past pop star. Equity markets struggled this week, with the S&P 500 sliding as much as 3.5% and the TSX 5.4% before late-week rebounds brought them back. Much of the blame was mysteriously pointed at the World Bank for downgrading its global economic forecast, but that news had long been known and was generally in-line with consensus (the OECD also upgraded its 2010 forecast a day later to much less fanfare). In reality, it was likely a healthy unwinding of the heated sentiment we discussed in these pages two weeks ago (ie: put/call ratio, sentiment surveys) that pulled down stocks, and once cooled, markets should again begin to look bullish toward economic recovery. By week's end, the S&P 500 fell 0.3%, while the TSX rose 1% on help from the gold sector. After announcing production cuts last week, Potash Corp. again tripped up the index by lowering its earnings outlook.

Market Performance as of June 26, 2009

	Current Price	Performance (percent)					
		1 Week	1 Month	3 Months	1 Year	YTD	2008
S&P/TSX	10,390	1.0	1.0	15.5	-27.3	15.6	-35.0
NIKKEI 225	9,877	0.9	6.1	14.4	-28.5	11.5	-42.1
NASDAQ	1,838	0.6	5.0	15.8	-20.8	16.6	-40.5
S&P/ASX 200	3,900	0.1	3.1	8.7	-28.1	6.6	-43.0
S&P 500	919	-0.3	0.9	10.3	-28.4	1.7	-38.5
Dow Jones	8,438	-1.2	-0.4	6.5	-26.3	-3.9	-33.8
DAX	4,776	-1.3	-4.2	12.1	-26.1	-0.7	-40.4
FTSE 100	4,241	-2.4	-3.9	8.0	-23.1	-4.4	-31.3
CAC 40	3,130	-2.8	-4.3	8.2	-29.3	-2.7	-42.7

Source: Bloomberg

EarningsWatch... While Potash Corp. garnered much of the attention again this week, the earnings news in the U.S. was generally positive, and spanned a range of sectors.

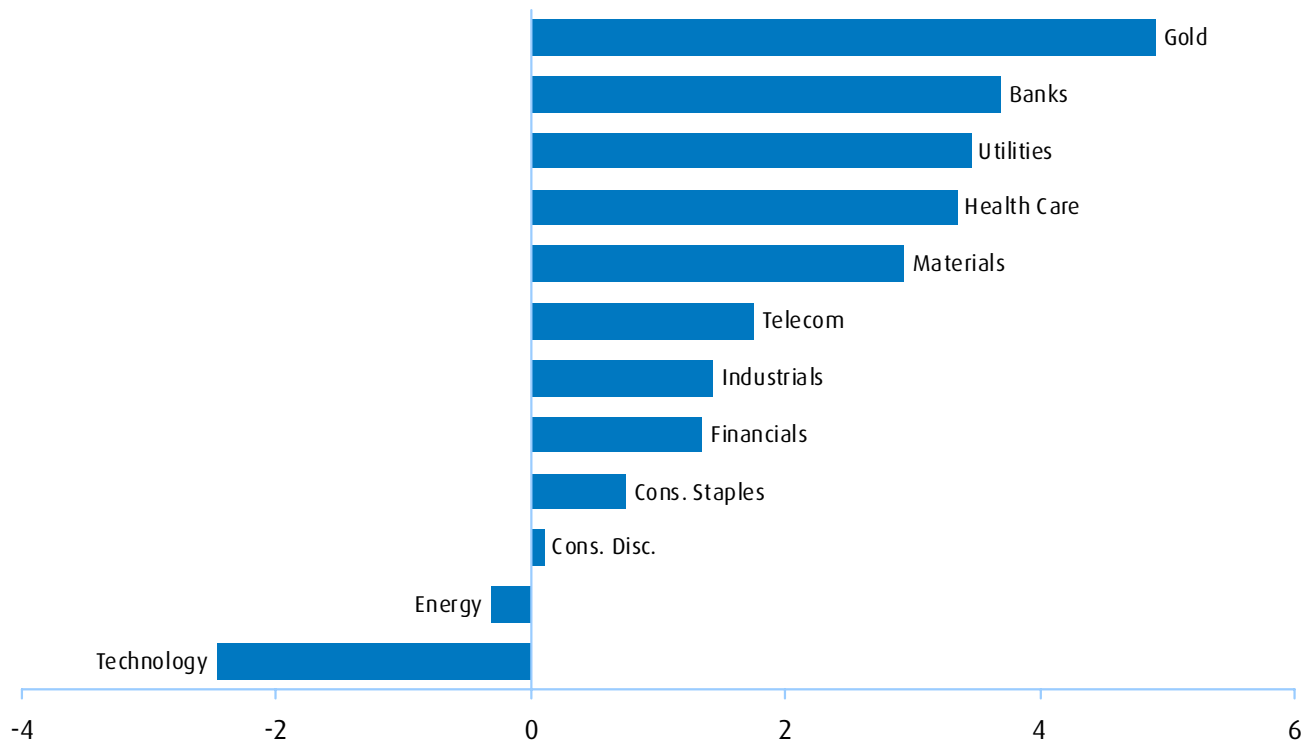
First, Oracle beat expectations in the quarter ended May 31st, adding further fuel to the tech-sector fire when it suggested that its business pipeline is improving. Technology is now at a fresh 52-week high relative to the S&P 500, and the Nasdaq is the best performing major index in North America this year—yes, even better than the resurgent TSX.

Meantime, Bed Bath and Beyond beat expectations in the consumer sector. While not a very robust earnings report (ie: it's a small company, and cost cutting was a bigger factor than actual consumer spending), it's consistent with recent revision trends in the sector. That is, consumer discretionary earnings estimates have been becoming consistently less bad—now expected to fall 29% y/y in Q2, versus expectations of a 42% y/y decline at the start of May, and a 91% y/y decline reported in the first quarter.

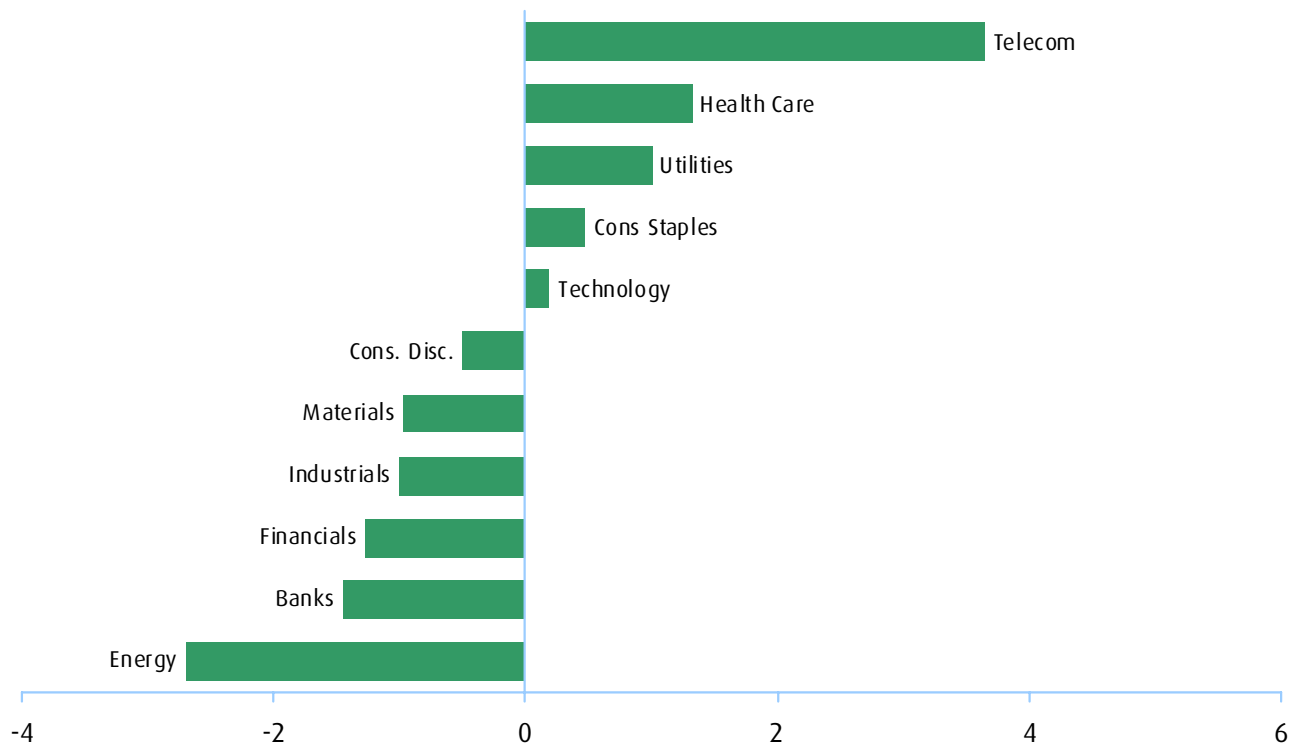
Finally, homebuilder Lennar reported a massive 63% jump in sales in the quarter ended May 31st (still down about 20% y/y). At the same time, the company's cancellation rate was an encouraging 15% in the quarter, less than half peak levels. One reason for the sales surge was mortgage-rate incentives. While 30-year rates concerningly rose from 4.8% to nearly 5.5% in the period, the company was offering a 3.63% life-of-loan rate—so even as rates backed up in the quarter, some builders were still providing incentives to maintain affordability. Still, the new home market is flooded with supply (10.2 months' worth versus an average of about 6), and the company said that, *"while we are sensing pent-up demand in the market, rising unemployment, increased foreclosures and tighter credit standards continue to present challenges for the industry."*

Weekly Sector Performances as of June 26, 2009

TSX (percent)

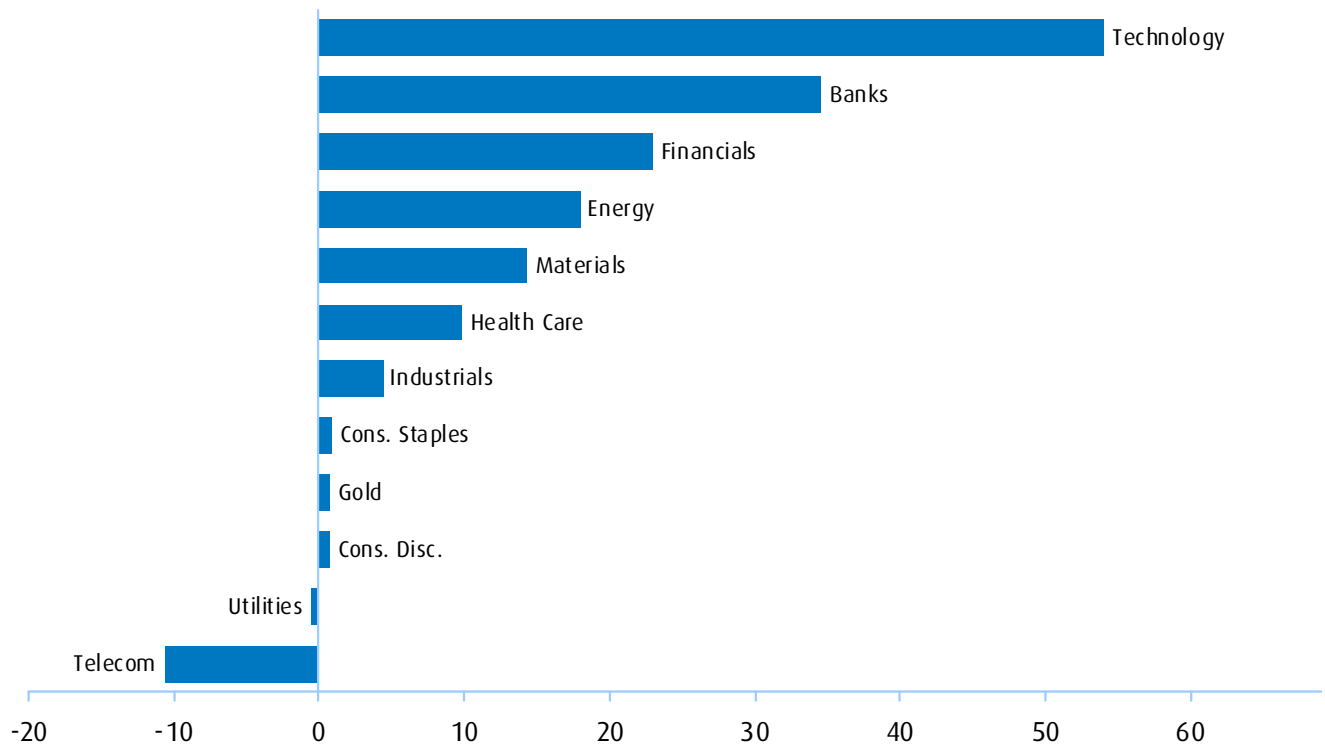


S&P 500 (percent)

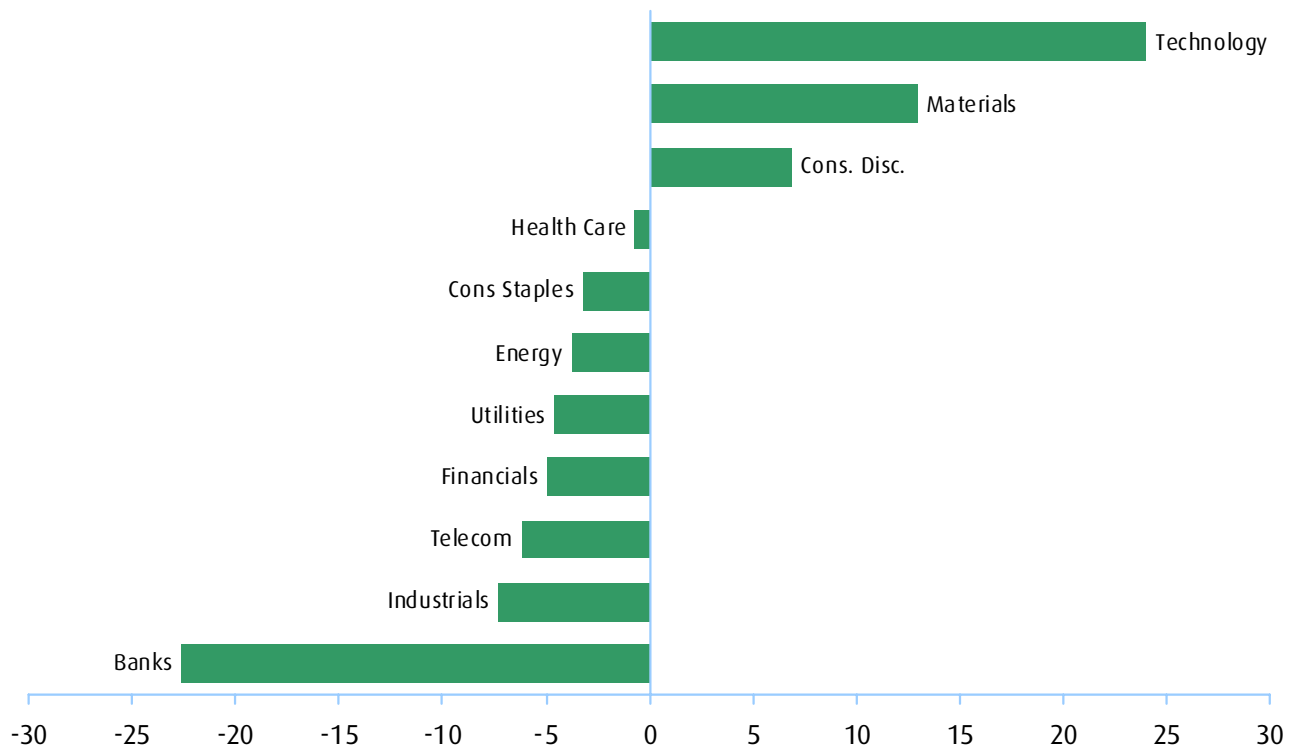


Year-to-Date Sector Performances as of June 26, 2009

TSX (percent)



S&P 500 (percent)



North American Sector Performances as of June 26, 2009

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2008
Telecom Services	3.6	2.1	-1.1	-21.7	-6.2	-33.6
Health Care	1.3	3.9	7.3	-12.0	-0.7	-24.5
Utilities	1.0	5.3	6.2	-30.6	-4.6	-31.5
Cons Staples	0.5	0.3	5.5	-13.9	-3.3	-17.7
Information Technology	0.2	5.8	15.0	-20.5	24.0	-43.7
Cons Discretionary	-0.5	-1.3	11.7	-20.3	6.9	-34.7
Materials	-1.0	-3.1	9.5	-40.3	13.0	-47.0
Industrials	-1.0	-1.9	11.7	-36.3	-7.3	-41.5
Financials	-1.3	-1.2	25.7	-42.9	-5.0	-57.0
Banks	-1.5	-4.8	27.8	-40.3	-22.6	-49.9
Energy	-2.7	-2.6	2.5	-41.5	-3.8	-35.9
S&P 600 Small Cap	-0.1	1.5	15.4	-27.2	0.3	-32.0
S&P 400 Mid Cap	-0.2	0.8	12.8	-30.2	7.1	-37.3
S&P 100 Large Cap	-0.4	1.1	9.2	-26.5	-0.6	-37.1
S&P 500	-0.3	0.9	10.3	-28.4	1.7	-38.5
TSX Sectors						
Gold	4.9	-1.9	-3.2	-8.9	0.7	3.6
Banks	3.7	9.1	32.5	-1.5	34.5	-34.3
Utilities	3.5	9.4	11.5	-22.8	-0.5	-24.0
Health Care	3.4	5.5	8.6	-15.8	9.8	-34.4
Materials	2.9	-3.5	4.0	-30.6	14.3	-27.1
Telecom Services	1.8	-4.1	-3.6	-27.9	-10.6	-27.4
Industrials	1.4	3.7	13.8	-24.5	4.4	-26.9
Financials	1.3	5.5	30.1	-14.4	22.9	-39.0
Cons Staples	0.8	4.9	5.6	-1.1	0.8	-7.8
Cons Discretionary	0.1	4.5	6.6	-16.7	0.7	-37.5
Energy	-0.3	-1.0	13.2	-37.0	17.9	-36.3
Information Technology	-2.5	-3.5	39.0	-33.4	54.0	-54.3
REITs	0.9	2.3	25.7	-30.8	11.6	-43.1
Income Trusts	-0.3	1.7	11.6	-38.2	8.0	-33.8
S&P/TSX 60 Large Cap	1.1	0.4	15.3	-26.0	16.3	-33.0
S&P/TSX Mid Cap	0.6	3.7	16.3	-32.0	12.4	-41.4
S&P/TSX Small Cap	-0.4	2.0	19.5	-37.5	16.7	-47.9
TSX	1.0	1.0	15.5	-27.3	15.6	-35.0

Source: Bloomberg

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