

## Tricks, but no Treat

Equity markets slumped this week in sell-the-news fashion, failing to appreciate the return to growth in the U.S. economy in Q3. Indeed, it is the durability of that growth that is now being called into question as stimulus support will eventually fade—even a proposed extension/expansion of the very successful first-time homebuyers’ tax credit failed to spark a sustainable rally. Meantime, the steady stream of better-than-expected earnings results continued to pour in, making the market’s negative action this week even more suspicious—note that despite the very strong earnings results, the S&P 500 is now below the level seen when Alcoa kicked off the earnings season earlier this month. As we noted in these pages last week, this bearish response to bullish news is a near-term warning for equity investors. All told, the seemingly good news was nothing but a bag of tricks for the bulls, and the S&P 500 and TSX gave back 4.0% and 4.1%, respectively.

### Market Performance as of October 30, 2009

	Current Price	Performance (percent)					
		1 Week	1 Month	3 Months	1 Year	YTD	2008
NIKKEI 225	10,035	-2.4	-1.0	-1.3	11.1	13.3	-42.1
Dow Jones	9,713	-2.6	0.0	6.1	5.8	10.7	-33.8
FTSE 100	5,045	-3.8	-1.7	8.9	17.5	13.8	-31.3
S&P 500	1,036	-4.0	-2.0	5.0	8.6	14.7	-38.5
S&P/TSX	10,911	-4.1	-4.2	2.2	10.7	21.4	-35.0
S&P/ASX 200	4,647	-4.4	-1.9	10.7	17.4	27.0	-43.0
NASDAQ	2,045	-5.1	-3.6	3.1	20.4	29.7	-40.5
CAC 40	3,608	-5.3	-4.9	5.0	5.9	12.1	-42.7
DAX	5,415	-5.7	-4.6	1.0	11.2	12.6	-40.4

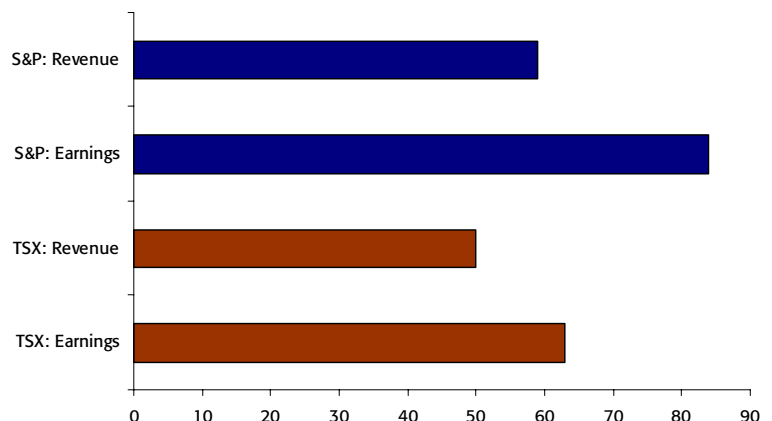
Source: Bloomberg

**EarningsWatch...** Canadian earnings reports are now starting to filter in and, while only about 20% of companies have reported, the early results are not quite as impressive as in the U.S. So far, 63% of TSX companies have beaten expectations, with energy and industrials (including the rails) giving the strongest showing—these sectors have reported a combined 11-to-2 beat versus miss ratio. Most of the downside surprises have come in the materials sector. On the revenue side, it’s been a 50/50 split.

Meantime, U.S. results continue to topple expectations. With 65% of S&P 500 companies reporting, a whopping 84% have beaten earnings estimates, still on pace for the best quarter relative to expectations since at least the early-1990s. The strength is also widespread, with surprises outweigh misses in every sector. On the revenue side, a more modest 59% have surprised, with technology the clear-cut leader (30 surprises vs. just 4 disappointments).

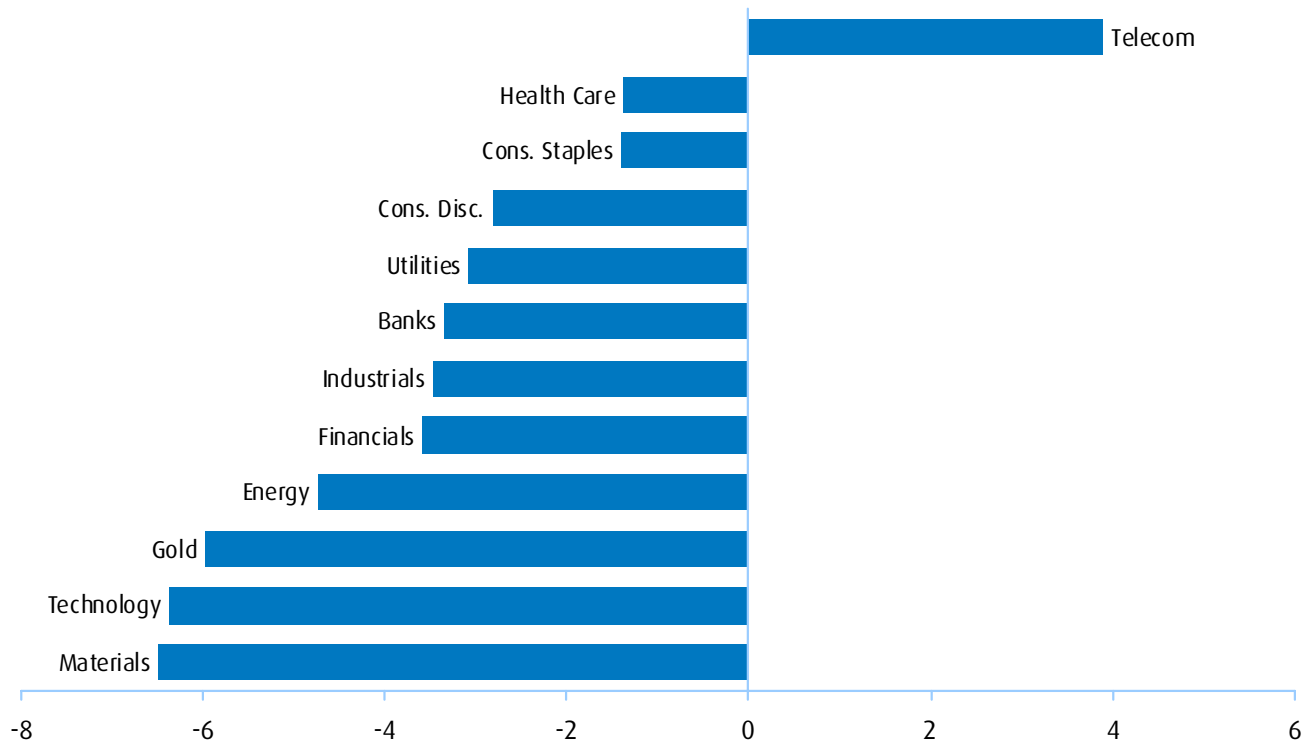
The currency is one factor that will likely distinguish the profit pictures in Canada and the U.S. this quarter, with the strong loonie hurting Canada and the weak greenback clearly helping the U.S. Not only are U.S. companies benefiting from a rebound in exports, but the big multi-nationals are also reaping currency translation gains.

**Q3 Earnings Results through October 30th**  
 (% beating estimates)

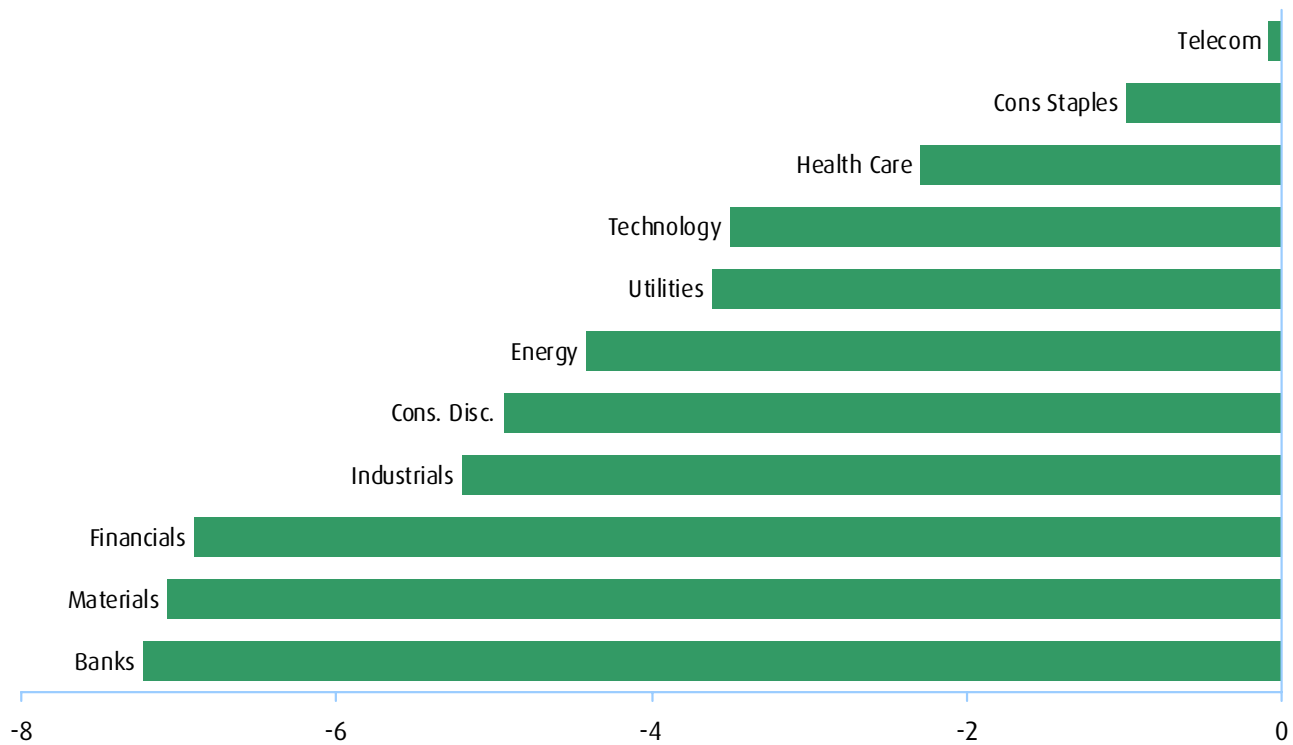


**Weekly Sector Performances as of October 30, 2009**

TSX (percent)

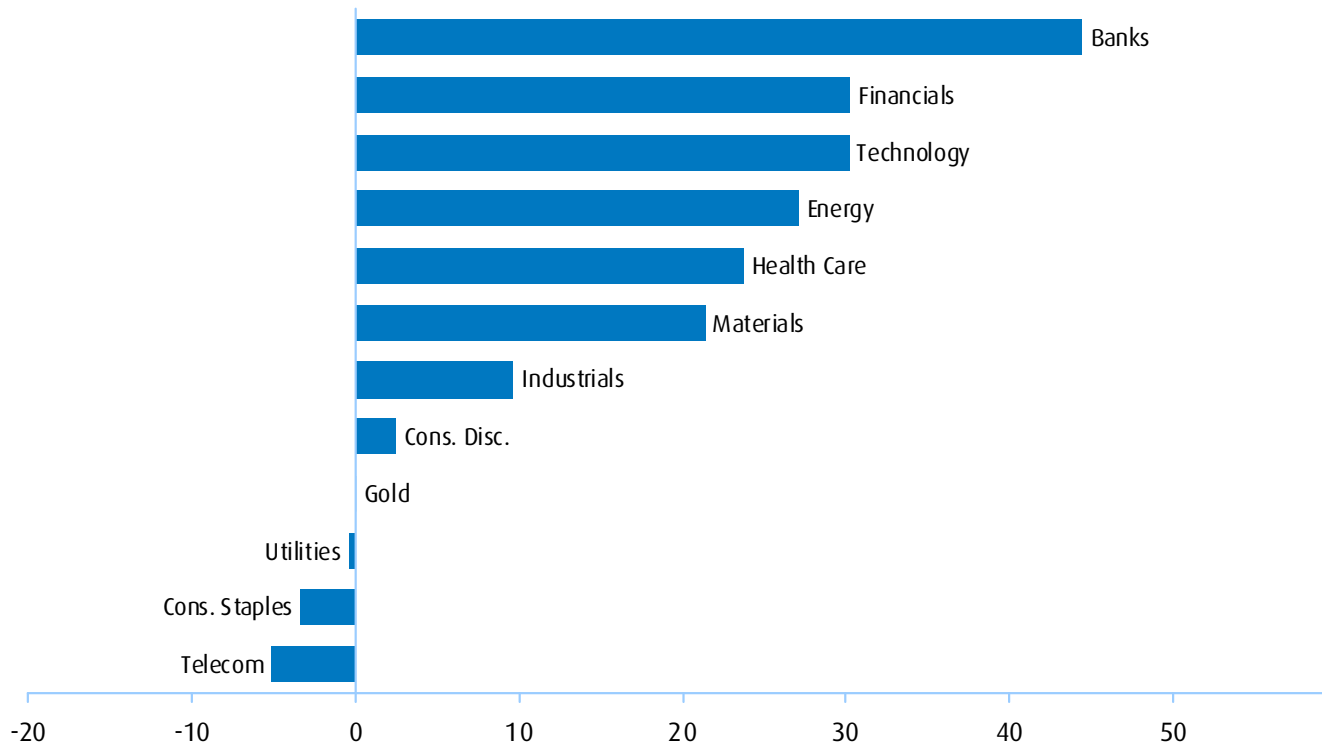


S&P 500 (percent)

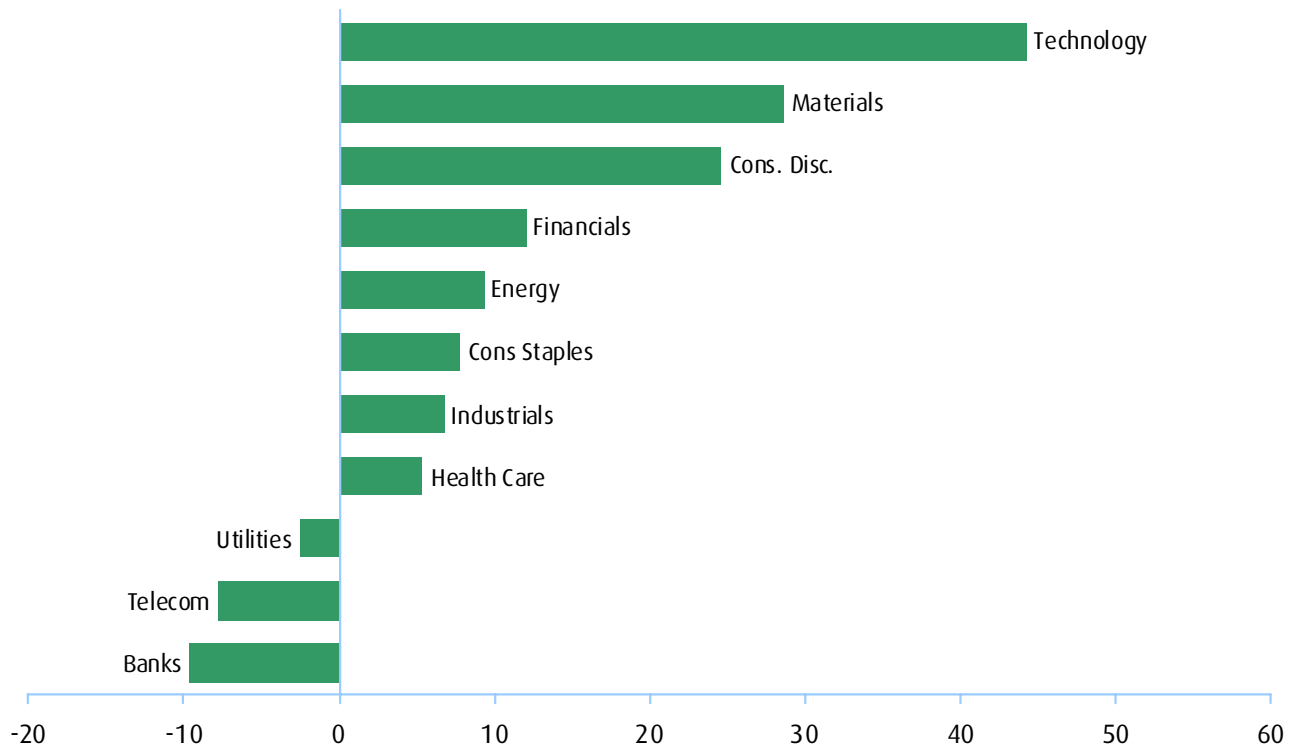


**Year-to-Date Sector Performances as of October 30, 2009**

TSX (percent)



S&P 500 (percent)



## North American Sector Performances as of October 30, 2009

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2008
Telecom Services	-0.1	-4.8	-5.1	-2.1	-7.8	-33.6
Cons Staples	-1.0	1.0	4.9	5.8	7.8	-17.7
Health Care	-2.3	-2.3	0.0	5.7	5.4	-24.5
Information Technology	-3.5	-0.4	6.3	30.0	44.2	-43.7
Utilities	-3.6	-3.2	-3.1	-4.2	-2.6	-31.5
Energy	-4.4	3.2	9.0	5.9	9.3	-35.9
Cons Discretionary	-4.9	-2.5	6.1	21.4	24.6	-34.7
Industrials	-5.2	-4.7	6.3	1.0	6.7	-41.5
Financials	-6.9	-6.0	9.0	-4.7	12.0	-57.0
Materials	-7.1	-5.3	2.0	14.3	28.6	-47.0
Banks	-7.2	-3.7	10.0	-22.2	-9.6	-49.9
S&P 100 Large Cap	-3.5	-1.2	4.8	5.2	11.8	-37.1
S&P 600 Small Cap	-5.8	-5.8	1.1	8.6	11.3	-32.0
S&P 400 Mid Cap	-6.0	-4.6	5.1	19.3	22.5	-37.3
<b>S&amp;P 500</b>	<b>-4.0</b>	<b>-2.0</b>	<b>5.0</b>	<b>8.6</b>	<b>14.7</b>	<b>-38.5</b>
<b>TSX Sectors</b>						
Telecom Services	3.9	-0.1	4.7	-19.9	-5.1	-27.4
Health Care	-1.4	-6.7	13.2	13.5	23.7	-34.4
Cons Staples	-1.4	-1.8	-0.6	3.1	-3.3	-7.8
Cons Discretionary	-2.8	-3.0	1.4	-0.6	2.5	-37.5
Utilities	-3.1	-1.3	2.0	-3.3	-0.4	-24.0
Banks	-3.3	-7.0	0.8	12.7	44.5	-34.3
Industrials	-3.5	-4.1	2.4	1.5	9.7	-26.9
Financials	-3.6	-7.5	-3.0	6.9	30.3	-39.0
Energy	-4.7	-1.5	8.1	10.3	27.1	-36.3
Gold	-6.0	-6.6	6.2	56.5	0.0	3.6
Information Technology	-6.4	-9.1	-17.1	15.1	30.2	-54.3
Materials	-6.5	-3.6	7.3	45.1	21.4	-27.1
REITs	0.7	-3.3	13.0	16.0	30.6	-43.1
Income Trusts	-4.1	-0.3	12.6	-1.0	21.5	-33.8
S&P/TSX Mid Cap	-3.6	-1.8	12.0	21.6	28.7	-41.4
S&P/TSX Small Cap	-4.2	-0.2	18.1	33.0	39.1	-47.9
S&P/TSX 60 Large Cap	-4.3	-4.9	-0.1	8.0	19.5	-33.0
<b>TSX</b>	<b>-4.1</b>	<b>-4.2</b>	<b>2.2</b>	<b>10.7</b>	<b>21.4</b>	<b>-35.0</b>

Source: Bloomberg

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