

Big Fat Greek Correction

Equity markets were pounded again this week as credit concerns in Greece spread thorough other parts of Europe. Despite a proposal, accepted by the EU, to reduce its budget deficit to 3% of GDP by the end of 2012 (from nearly 13%), Greek CDS spreads widened to a record high, and the default risk in other debt-laden countries like Spain and Portugal followed suit. As a result, the global appetite for risk waned, and stocks were sold aggressively—European equities took the brunt of the damage, as stocks in Greece shed 8% and are now down more than 14% in 2010. Meantime, the S&P 500 gave back a modest 0.7% and the TSX gained 1.2% after a late-Friday rally. North American employment data were solid overall, but a disturbing move upward in U.S. initial jobless claims—the fourth in five weeks—called into question the staying power of the economic recovery. All things considered, sentiment is now in full retreat, and the bears' camp, which was deserted in January, is slowly starting to fill up.

EarningsWatch... Fourth quarter earnings results continue to come in ahead of expectations. With about half of S&P 500 companies reporting, 77% have beaten analyst estimates, down slightly from the prior quarter's record, but still a hefty share by historical standards. Impressively, 70% have also beaten revenue estimates, up sharply from 59% in the prior quarter. Despite the solid results, stocks have not been able

shake the unwinding of bullish sentiment—the S&P 500 is down more than 7% since Alcoa kicked off the earnings season last month. In Canada, the results have been less impressive, with 54% beating earnings and just half beating revenue estimates—the energy sector has been a disappointment so far. Here are some highlights from the week:

Market Performance as of February 5, 2010

	Current Price	Performance (percent)					
		1 Week	1 Month	3 Months	1 Year	YTD	2009
S&P/TSX	11,223	1.2	-5.6	0.4	26.7	-4.5	30.7
NASDAQ	2,141	-0.3	-7.3	1.7	38.5	-5.6	43.9
Dow Jones	10,012	-0.5	-5.3	0.1	24.2	-4.0	18.8
S&P 500	1,066	-0.7	-6.2	0.0	26.0	-4.4	23.5
NIKKEI 225	10,057	-1.4	-5.8	3.5	26.5	-4.6	19.0
S&P/ASX 200	4,533	-1.4	-8.2	0.3	34.4	-7.2	33.4
FTSE 100	5,061	-2.5	-8.4	-1.3	19.7	-6.5	22.1
DAX	5,434	-3.1	-9.9	-0.8	20.5	-8.8	23.8
CAC 40	3,564	-4.7	-11.2	-3.9	16.2	-9.5	22.3

Source: Bloomberg

Earnings Season Summary

(% beating estimates)

	2009Q4*	2009Q3	2009Q2	2009Q1
Earnings per share				
TSX	53.8	52.9	52.7	49.3
S&P 500	77.0	82.3	72.3	67.5
Revenue				
TSX	50.0	40.3	44.4	33.3
S&P 500	70.2	59.1	50.9	38.6

*Earnings season to date. Source: Bloomberg.

Suncor: Disappointing production.

BCE: Upbeat 2010 guidance helped by strong iPhone sales.

D.R. Horton: "We expect our September quarter will be the most challenging [of 2010] as a tax credit support for home sales will have expired."

UPS: "It looks like this recession is finally over...recovery is underway in many regions of the world, but it will be gradual."

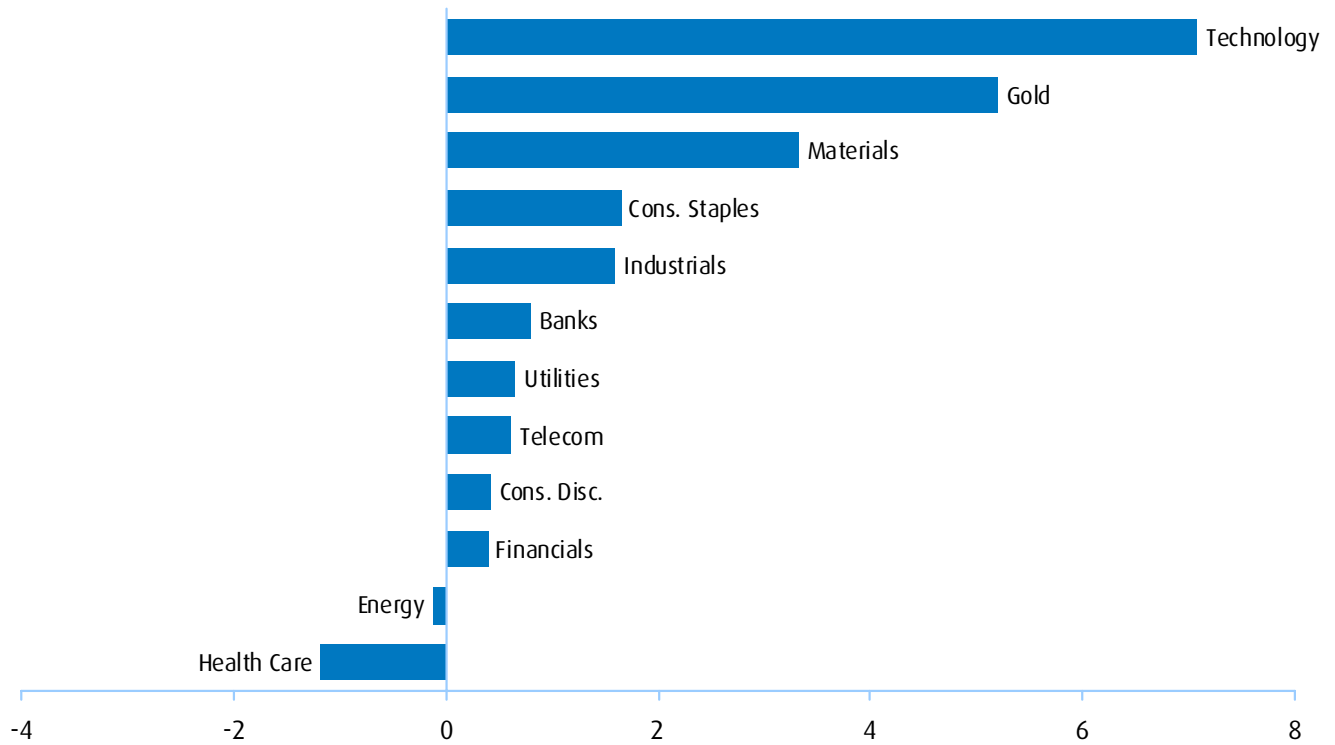
Cisco: "Almost every country is saying their momentum is better than it was before"; will hire as many as 3,000 people in the next several quarters.

Whirlpool: Guidance for 2010 beats consensus; the company is forecasting a rise

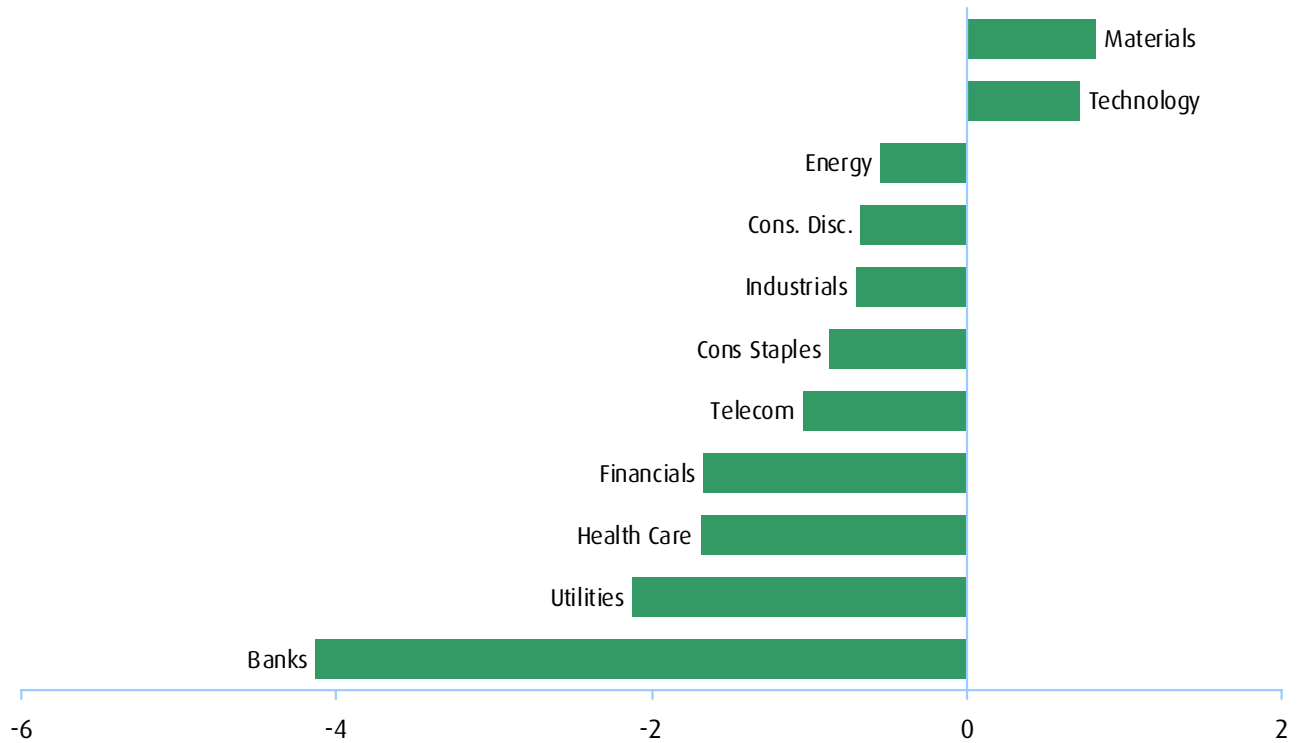
in home appliance sales for the first time in 5 years.

Earnings to watch next week... Tuesday: Disney, Coca-Cola, Pulte Homes, Agrium. **Wednesday:** Home Capital Group. **Thursday:** Sun Life, Great-West Life, Manulife, Shoppers Drug Mart, Encana.

Weekly Sector Performances as of February 5, 2010
 TSX (percent)

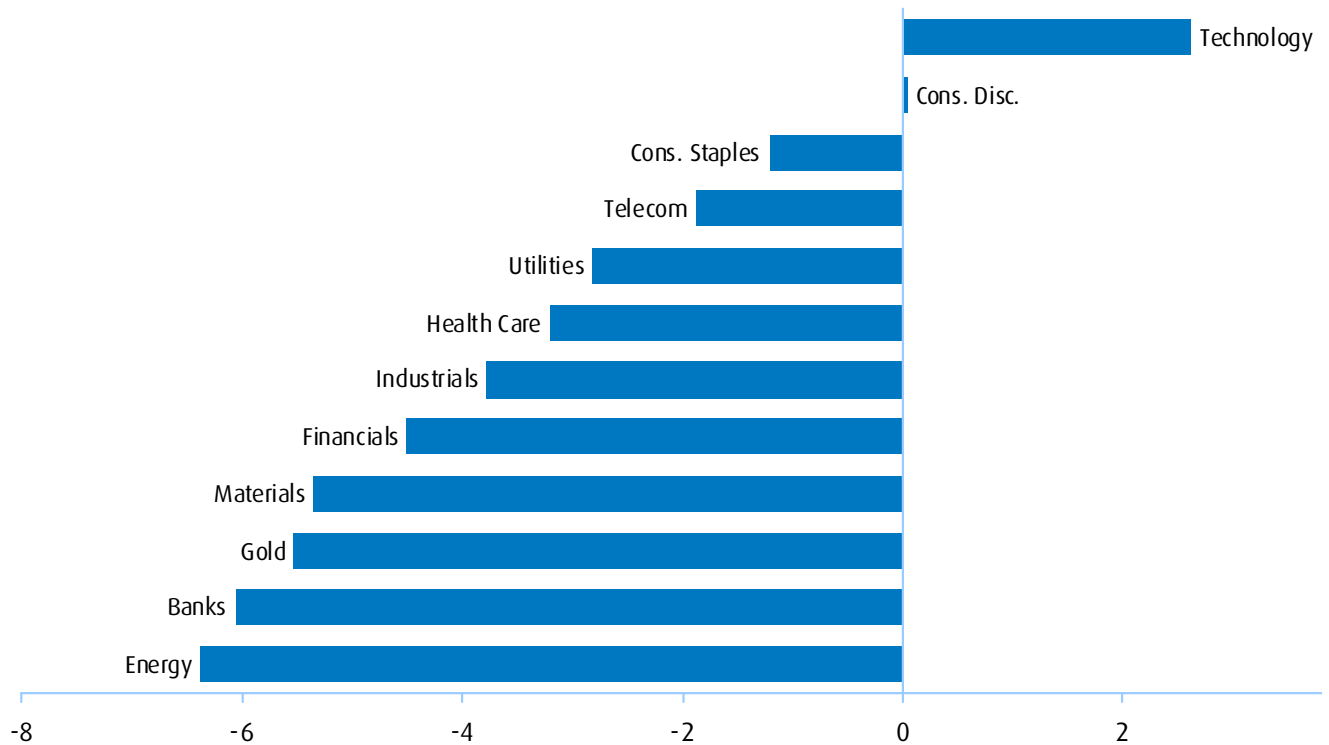


S&P 500 (percent)

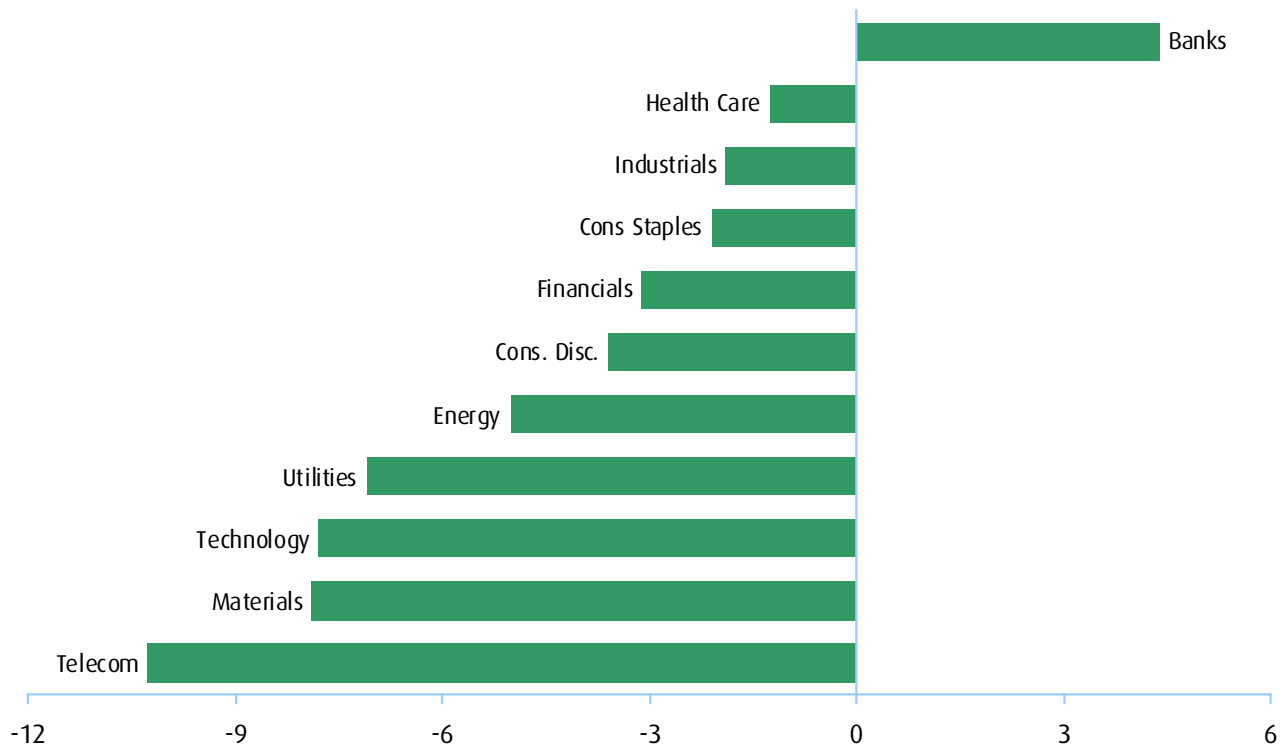


Year-to-Date Sector Performances as of February 5, 2010

TSX (percent)



S&P 500 (percent)



North American Sector Performances as of February 5, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Materials	0.8	-10.9	-0.6	37.8	-7.9	45.2
Information Technology	0.7	-9.2	-0.7	43.5	-7.8	59.9
Energy	-0.5	-8.4	-6.2	5.0	-5.0	11.3
Cons Discretionary	-0.7	-4.6	3.6	47.0	-3.6	38.8
Industrials	-0.7	-3.9	2.9	31.7	-1.9	17.3
Cons Staples	-0.9	-3.0	-0.4	17.4	-2.1	11.2
Telecom Services	-1.0	-11.8	-0.9	1.0	-10.3	2.6
Financials	-1.7	-6.7	-2.9	54.5	-3.1	14.8
Health Care	-1.7	-2.1	6.1	13.3	-1.3	17.1
Utilities	-2.1	-6.2	-0.1	-2.6	-7.1	6.8
Banks	-4.1	0.6	4.0	65.8	4.4	-8.9
S&P 100 Large Cap	-0.8	-6.3	-0.7	23.3	-4.4	19.1
S&P 400 Mid Cap	-0.8	-5.8	2.2	36.4	-4.1	35.0
S&P 600 Small Cap	-1.8	-6.8	2.5	31.7	-5.2	23.8
S&P 500	-0.7	-6.2	0.0	26.0	-4.4	23.5

TSX Sectors

Information Technology	7.1	6.1	17.2	10.9	2.6	44.3
Gold	5.2	-8.2	-8.1	-3.2	-5.5	5.7
Materials	3.3	-9.3	-2.6	19.2	-5.3	33.4
Cons Staples	1.6	-0.8	5.4	7.1	-1.2	6.1
Industrials	1.6	-3.8	4.0	25.4	-3.8	23.7
Banks	0.8	-4.8	-2.6	58.7	-6.1	54.4
Utilities	0.7	-1.9	9.0	13.7	-2.8	12.7
Telecom Services	0.6	-0.1	2.9	2.0	-1.9	0.7
Cons Discretionary	0.4	-0.5	6.1	19.3	0.0	11.1
Financials	0.4	-4.5	-0.3	41.7	-4.5	38.3
Energy	-0.1	-8.2	-1.7	29.5	-6.4	35.0
Health Care	-1.2	-5.6	1.3	9.4	-3.2	28.6
Income Trusts	1.1	-1.5	3.5	34.5	-0.2	29.5
REITs	-0.1	1.9	9.6	47.6	1.5	42.4
S&P/TSX 60 Large Cap	1.2	-6.4	-1.0	22.5	-5.3	27.9
S&P/TSX Mid Cap	0.9	-2.8	5.3	43.5	-1.4	41.7
S&P/TSX Small Cap	0.9	-4.2	5.5	53.6	-2.3	56.2
TSX	1.2	-5.6	0.4	26.7	-4.5	30.7

Source: Bloomberg

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