

What a Difference a Year Makes

Equity markets were little-changed this week on the one-year anniversary of the market bottom. Yes, it was a year ago—March 9th to be exact—that the S&P 500 and TSX found a floor after shedding about half of their value during the worst bear market since the Great Depression. Dusting off old copies of this report is always interesting at such important anniversaries, and surprisingly, there was actually some good stuff happening a year ago: “Oil and copper prices have set solid foundations, the big U.S. banks are waving the profitability flag and even the American consumer resurfaced in February.” This led to the belief (hope?) that “with sentiment in the dumps, valuations the most attractive since the mid-80s and ample cash looking for a home, the table appears set for a good-sized cyclical rally”. That, of course, turned out to be the mother of all understatements, as the S&P 500 has since gained more than 70% while the TSX has bounced 58%—those are more than good-sized moves by any yardstick.

EarningsWatch... The Q4 North American earnings season is about 90% complete and it was a very good one. So far, 54% of TSX companies have beaten earnings expectations, well below the 75% of S&P 500 companies that have surprised to the upside. Canadian companies have also lagged on the revenue side, with more than half missing expectations even as 68% of S&P 500 companies have beaten. Weaker overall Q4 earnings growth in Canada is most directly attributed to the strong Canadian dollar—commodity prices rose 3.6% y/y in the quarter, but fell 9% in Canadian dollar terms. At the same time, growth rates in the U.S. financial and consumer sectors were exaggerated in Q4 thanks to very easy year-ago comparison at the depth of the earnings recession.

Cash cows... One thing that weathered the Great Recession very well was the balance sheet of Corporate America. Now, with global demand recovering, and profits margins expanding thanks to aggressive cost cuts, balance sheets are quickly becoming flush with cash. The financing gap in the nonfarm, nonfinancial sector has been negative for the past four quarters, averaging almost 1% of GDP, something we haven’t seen since the 1960s. In other words, free cash flow (after capex) is positive and piling up. Indeed, liquid assets as a share of short-term liabilities have jumped to the highest level since the 1950s. We saw something similar coming out of the 2001 recession, and the cash was eventually deployed in various ways including aggressive share buybacks, dividend growth and M&A activity—all of which are shareholder-friendly. In fact, we already saw some of this in behaviour in the fourth quarter, as net share buybacks were an annualized \$319 bln, erasing two quarters of net issuance. The healthy state of the balance sheet is certainly a plus for equity investors, especially if Corporate America starts to use some of its firepower.

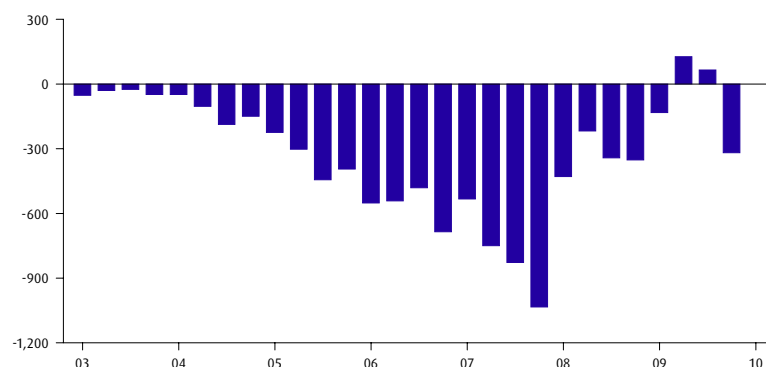
Market Performance as of March 12, 2010

	Current Price	Performance (percent)					2009
		1 Week	1 Month	3 Months	1 Year	YTD	
NIKKEI 225	10,751	3.7	6.5	6.4	49.4	1.9	19.0
NASDAQ	2,369	1.9	8.5	8.2	66.2	4.4	43.9
S&P/ASX 200	4,832	1.2	5.3	3.9	51.4	-1.0	33.4
DAX	5,945	1.2	8.1	3.3	50.3	-0.2	23.8
S&P 500	1,151	1.1	7.0	4.0	53.3	3.2	23.5
Dow Jones	10,626	0.6	5.2	1.5	48.2	1.9	18.8
FTSE 100	5,626	0.5	9.4	6.9	51.6	3.9	22.1
CAC 40	3,927	0.4	9.1	3.3	45.8	-0.2	22.3
S&P/TSX	11,982	0.1	4.5	4.9	44.7	2.0	30.7

Source: Bloomberg (as of 2:00 pm)

Buyback Activity Resumes

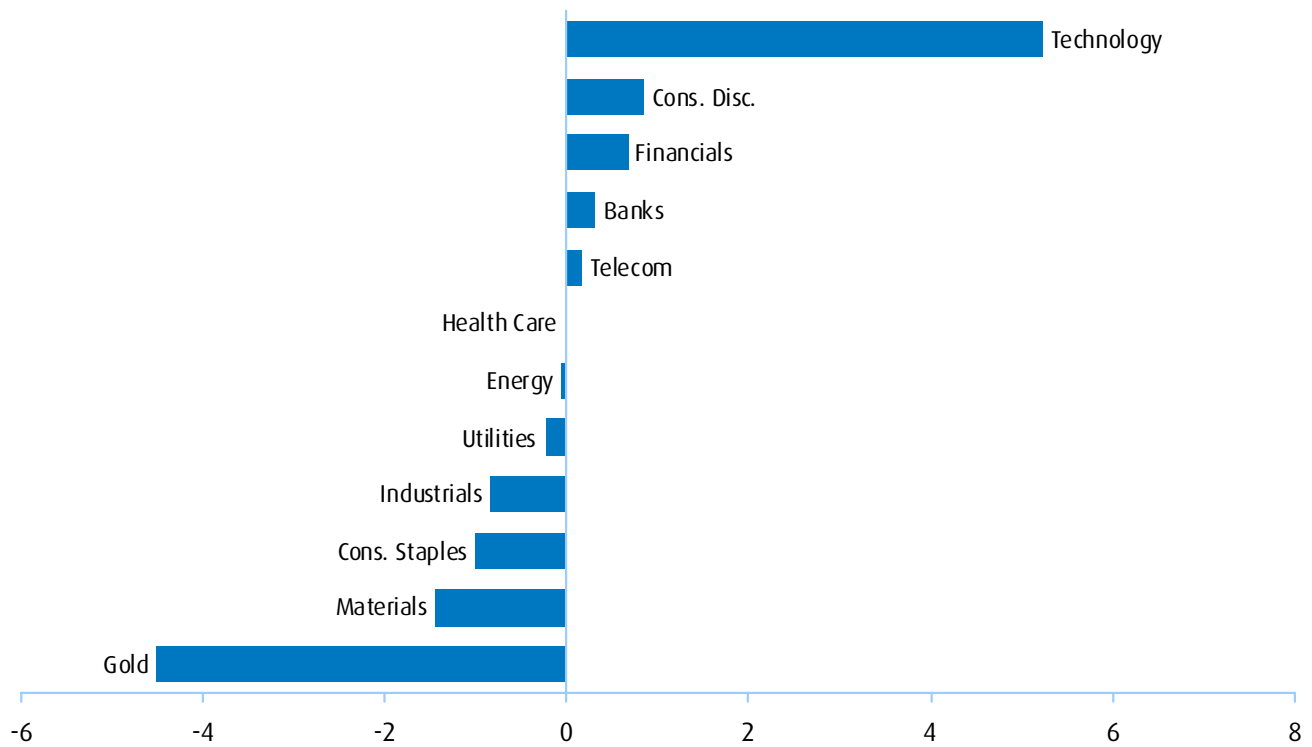
(Net new equity issuance*, \$ blns)



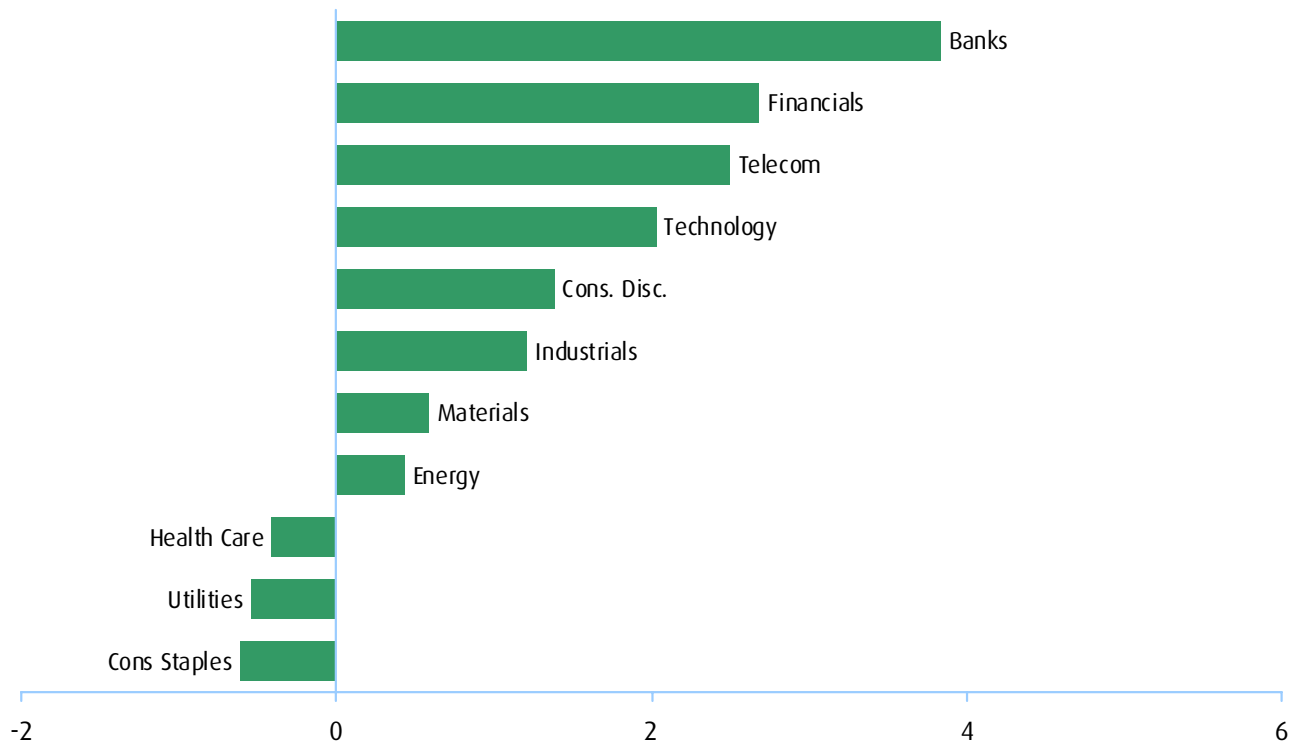
*Nonfarm, nonfinancial business sector

Weekly Sector Performances as of March 12, 2010

TSX (percent)

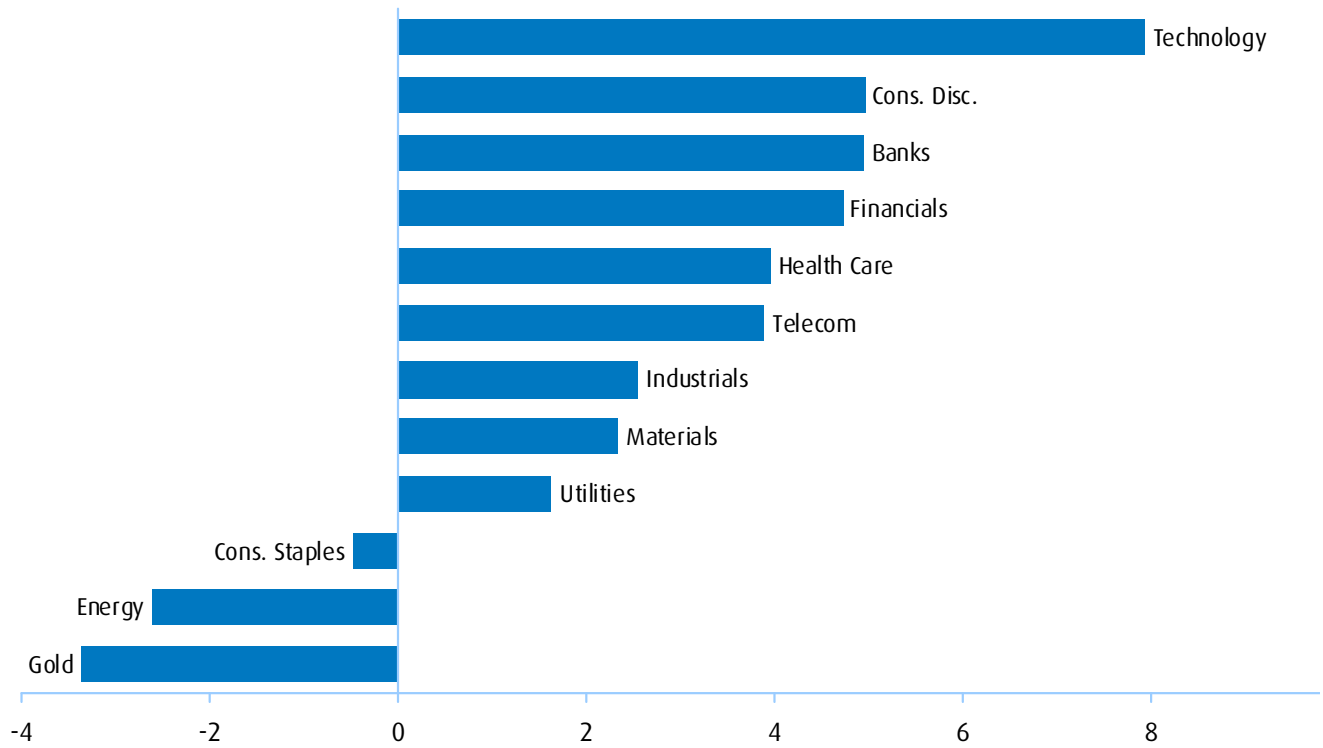


S&P 500 (percent)

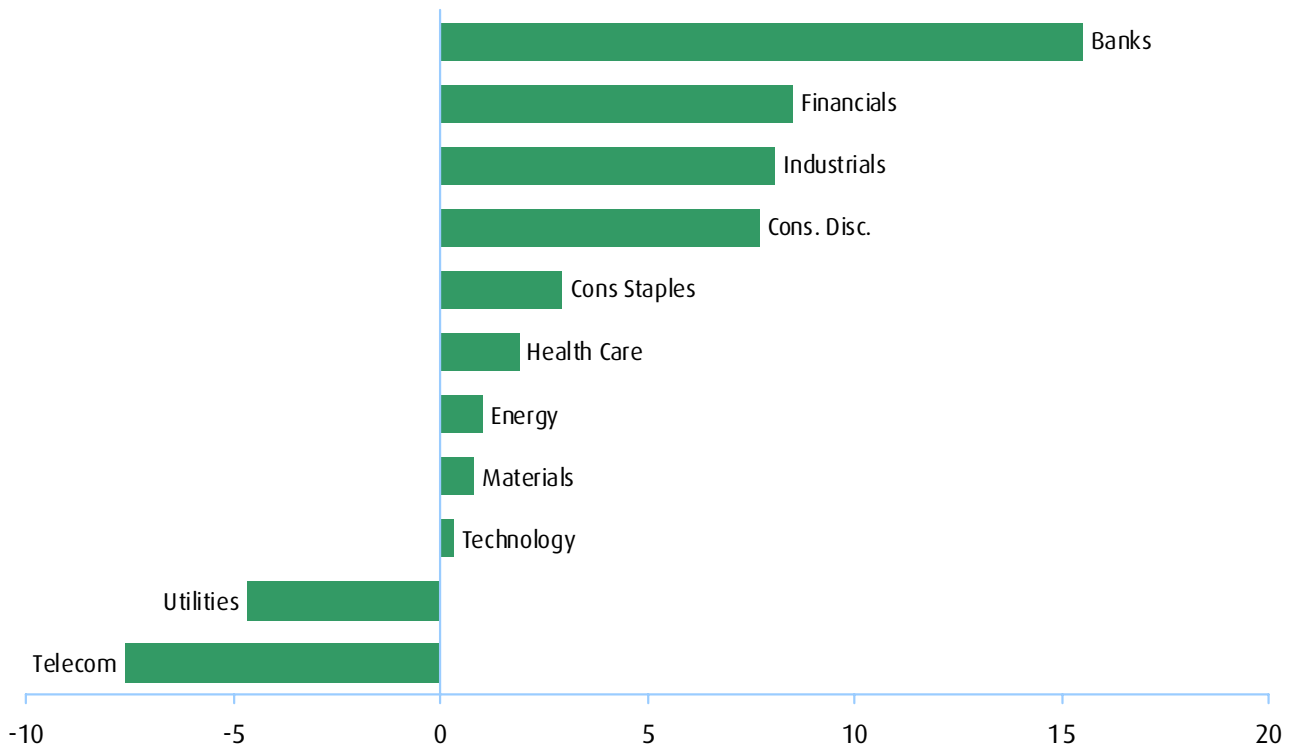


Year-to-Date Sector Performances as of March 12, 2010

TSX (percent)



S&P 500 (percent)



North American Sector Performances as of March 12, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Banks	3.8	12.1	17.3	97.4	15.5	-8.9
Financials	2.7	12.4	8.8	92.7	8.5	14.8
Telecom Services	2.5	2.9	-8.0	8.3	-7.6	2.6
Information Technology	2.0	7.3	4.1	65.3	0.3	59.9
Cons Discretionary	1.4	9.9	8.5	78.9	7.7	38.8
Industrials	1.2	9.0	7.1	74.0	8.1	17.3
Materials	0.6	7.7	2.9	65.1	0.8	45.2
Energy	0.4	4.7	2.6	30.6	1.0	11.3
Health Care	-0.4	3.1	1.9	36.2	1.9	17.1
Utilities	-0.5	3.5	-6.0	28.1	-4.7	6.8
Cons Staples	-0.6	3.6	1.5	35.0	2.9	11.2
S&P 400 Mid Cap	1.6	9.4	10.9	72.2	7.8	35.0
S&P 600 Small Cap	1.6	10.6	13.0	74.7	7.8	23.8
S&P 100 Large Cap	1.0	6.3	2.4	47.4	2.3	19.1
S&P 500	1.1	7.0	4.0	53.3	3.2	23.5

TSX Sectors

Information Technology	5.2	2.0	13.8	51.4	7.9	44.3
Cons Discretionary	0.8	3.3	7.0	33.2	5.0	11.1
Financials	0.7	7.0	8.1	66.2	4.7	38.3
Banks	0.3	7.6	7.0	70.3	4.9	54.4
Telecom Services	0.2	2.8	9.1	20.2	3.9	0.7
Health Care	0.0	7.0	5.9	27.3	4.0	28.6
Energy	0.0	3.2	2.8	36.9	-2.6	35.0
Utilities	-0.2	4.0	5.7	29.5	1.6	12.7
Industrials	-0.8	5.3	5.0	49.0	2.6	23.7
Cons Staples	-1.0	0.6	2.5	11.1	-0.5	6.1
Materials	-1.4	3.7	0.1	40.3	2.3	33.4
Gold	-4.5	-0.1	-5.5	11.3	-3.4	5.7
REITs	1.6	6.7	10.7	70.3	4.5	42.4
Income Trusts	0.5	3.4	10.3	57.4	4.9	29.5
S&P/TSX Small Cap	0.4	4.0	9.6	84.5	4.6	56.2
S&P/TSX 60 Large Cap	0.1	4.8	3.9	39.5	1.4	27.9
S&P/TSX Mid Cap	0.0	3.5	8.6	67.0	4.1	41.7
TSX	0.1	4.5	4.9	44.7	2.0	30.7

Source: Bloomberg (as of 2:00 pm)

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