

## Good to the Core

Equity markets rose this week amid a flurry of better-than-expected Q1 earnings results, suggesting that the economic recovery is alive and well. The S&P 500 added 2.1%, led by a blowout earnings report from Apple, which included 49% y/y revenue growth. But Apple was the only company bearing fruit, as a whopping 84% of S&P 500 companies so far to report Q1 results have beaten expectations—that's well above the 66% historical norm and is even outpacing the prior two quarters, which could be considered blowouts in their own right. Consumer discretionary, banks and industrials led on the week, while the defensives continued to lag. Meantime, the TSX added 1.4% despite a surprisingly more hawkish tone from the Bank of Canada, with gold and telecom leading the advance.

**EarningsWatch...** My, aren't we picky. Despite the earnings strength, stock prices have responded somewhat poorly in many cases, with excuses like "yes, they beat expectations, but not those of the most wildly bullish analyst. Sell." This temperament suggests that, in the very near term, sentiment and stock prices might have run somewhat ahead of the fundamentals. Indeed, the trusty Investors' Intelligence Survey is now reporting three bulls for every bear, an extreme last seen in January just before the S&P 500 slipped into a near-10% correction—interestingly, that was right at the start of the earnings season as well.

Importantly, if another sentiment-related correction does indeed hit the equity market, continued improvement in the underlying earnings fundamentals should again provide support. This week's results have showed that loan losses are falling at banks and credit card companies, technology spending

continues to climb, consumer spending is on the rebound, and air & freight traffic are on the rise. While margin expansion should start to level off in the coming quarters, there are increasing signs that top-line growth will be able to step in and support the profit recovery.

Here are some highlights from this week:

**Wells Fargo...** Lower loan losses. "We believe that credit at Wells Fargo has turned the corner".

**Amex...** Lower provisions for bad consumer loans. "Spending has rebound across all business sectors."

**Eaton...** Increased 2010 earnings forecast on demand for car and truck parts.

**Boeing...** Seeing stronger operating margins and a "tangible improvement" in the air traffic outlook.

**Yahoo!/Ebay...** Forecasts for Q2 miss expectations, citing competition.

**Microsoft...** "Consumer demand is still strong, but we also saw for the first time growth in business hardware spending."

**Union Pacific...** "It looks like the strength we saw in the first quarter is continuing."

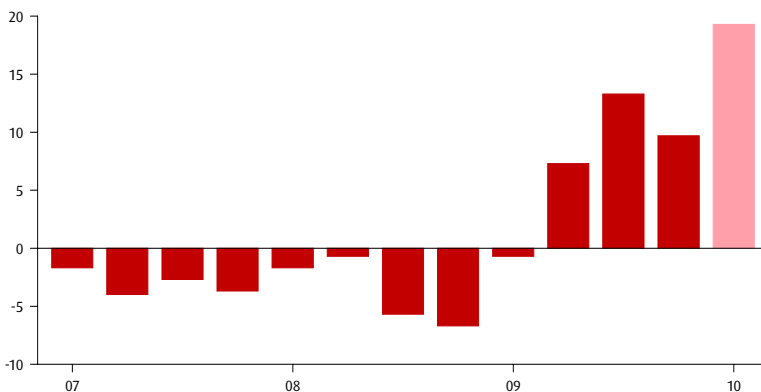
### Market Performance as of April 23, 2010

	Current Price	Performance (percent)					YTD	2009
		1 Week	1 Month	3 Months	1 Year			
S&P 500	1,217	2.1	3.7	11.5	42.9	9.2	23.5	
NASDAQ	2,530	2.0	4.8	14.7	53.1	11.5	43.9	
Dow Jones	11,204	1.7	2.9	10.1	40.8	7.4	18.8	
S&P/TSX	12,240	1.4	1.6	7.9	30.1	4.2	30.7	
DAX	6,260	1.3	4.0	9.9	37.9	5.1	23.8	
FTSE 100	5,724	-0.4	0.9	7.9	42.4	5.7	22.1	
CAC 40	3,951	-0.9	0.0	3.4	31.3	0.4	22.3	
NIKKEI 225	10,914	-1.7	1.3	3.1	23.4	3.5	19.0	
S&P/ASX 200	4,914	-1.9	0.5	3.0	32.9	0.6	33.4	

Source: Bloomberg

### Earnings Surprises

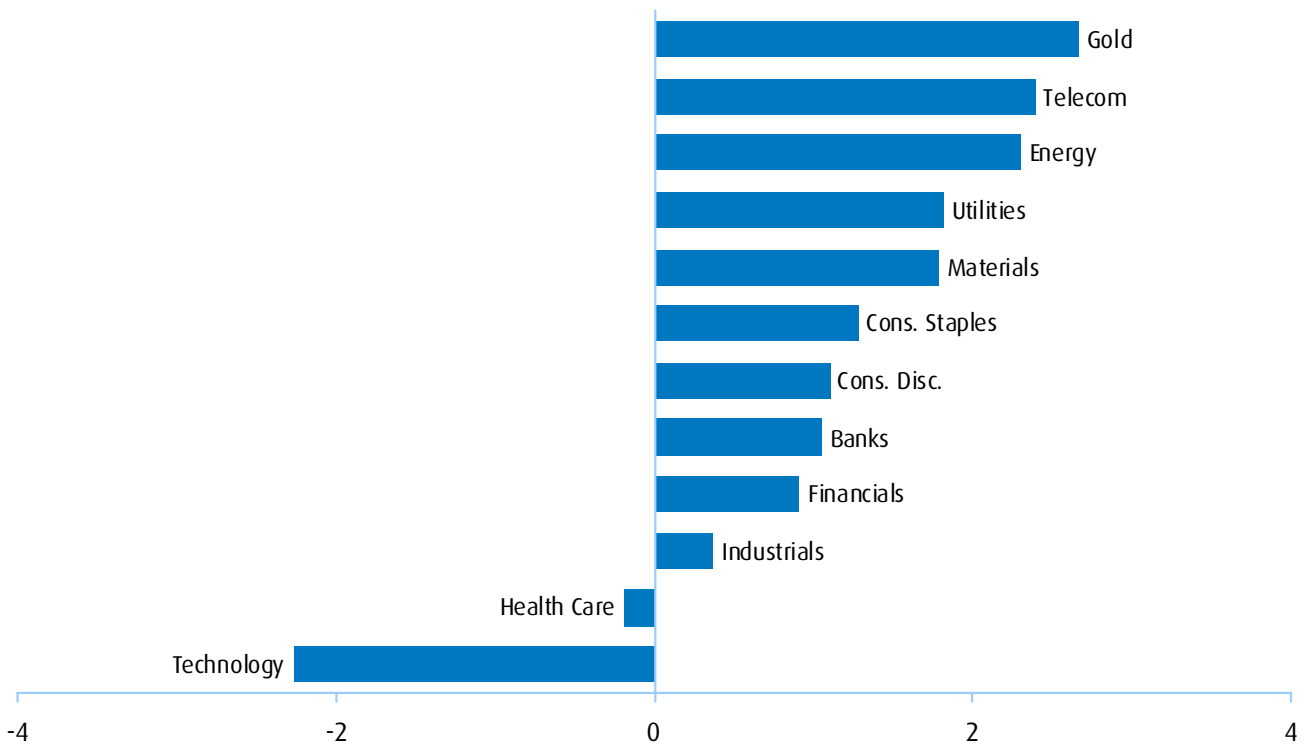
S&P 500: % of companies beating expectations versus historical norm\*



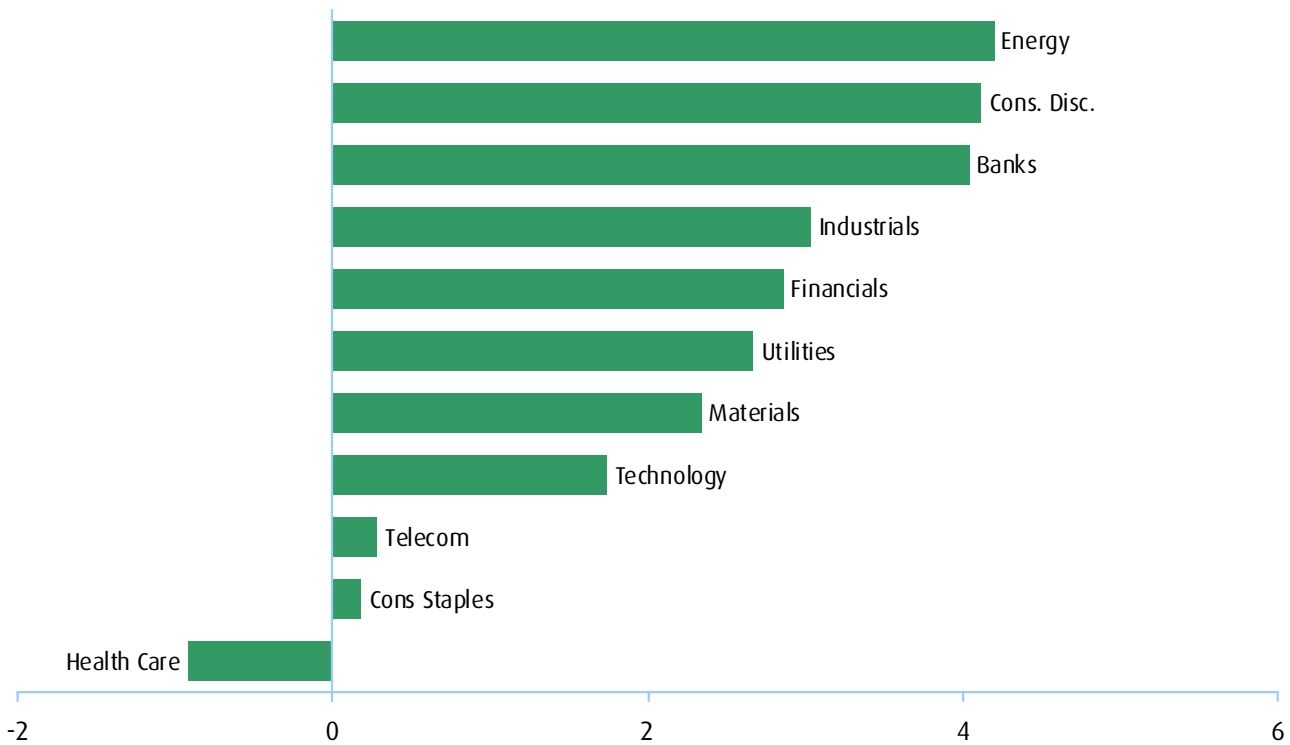
\*2010Q1 result is with 30% of S&P 500 companies reporting.

**Weekly Sector Performances as of April 23, 2010**

TSX (percent)

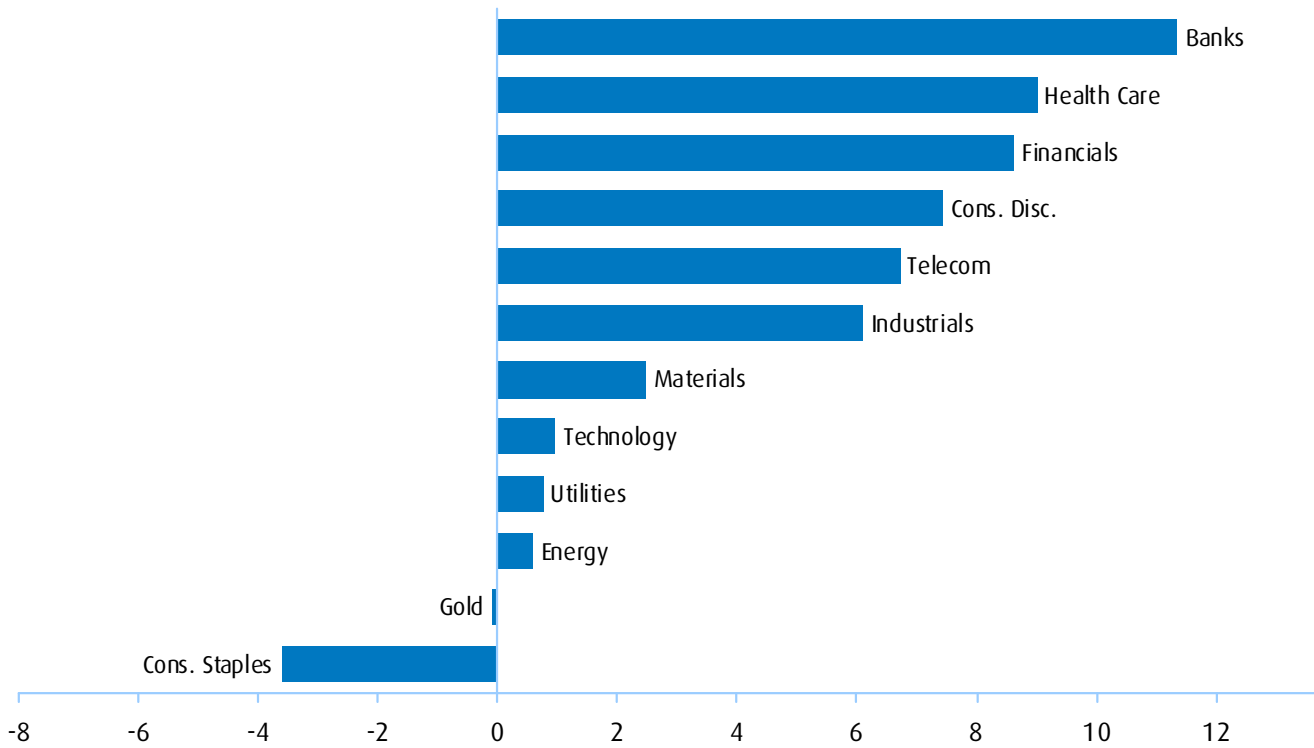


S&P 500 (percent)

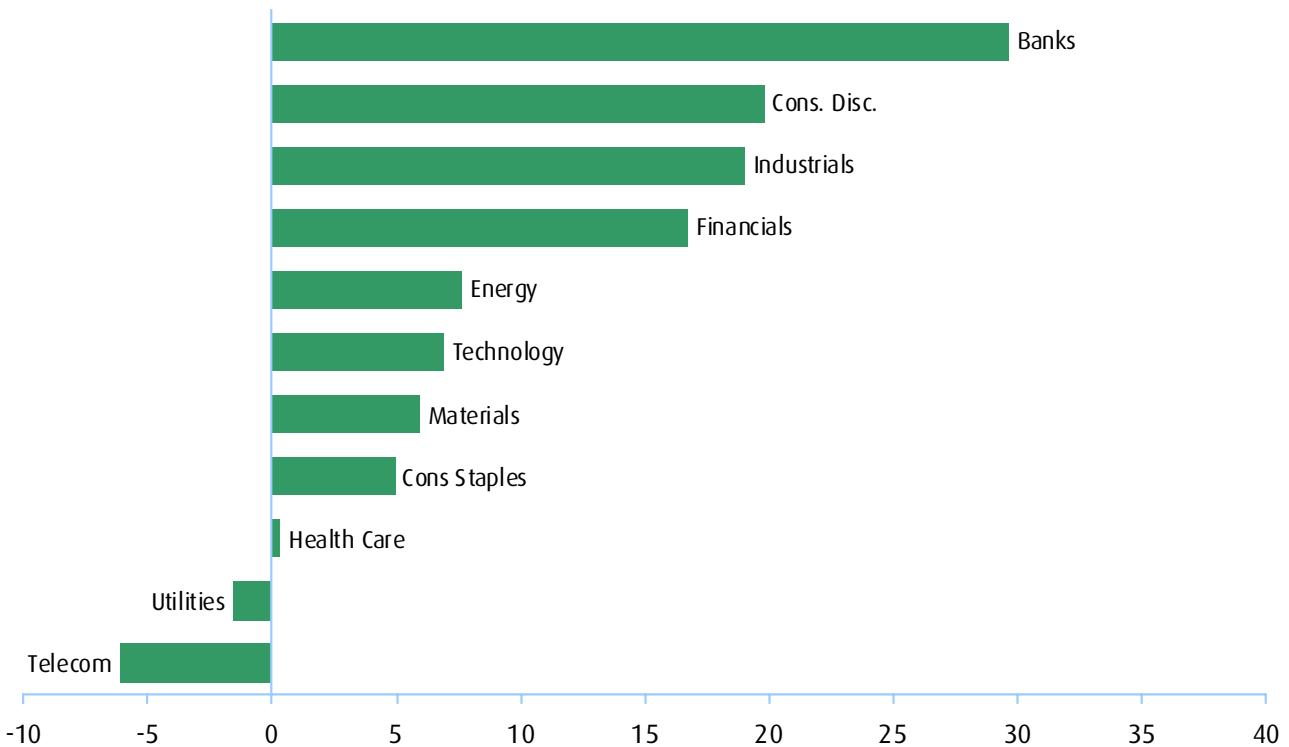


**Year-to-Date Sector Performances as of April 23, 2010**

TSX (percent)



S&P 500 (percent)



## North American Sector Performances as of April 23, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Energy	4.2	7.7	9.5	32.6	7.7	11.3
Cons Discretionary	4.1	8.7	22.9	60.6	19.8	38.8
Banks	4.0	9.1	21.9	65.4	29.7	-8.9
Industrials	3.0	5.9	18.5	55.6	19.0	17.3
Financials	2.9	5.7	18.5	57.4	16.7	14.8
Utilities	2.7	2.5	2.4	20.7	-1.6	6.8
Materials	2.3	2.5	10.9	47.1	5.9	45.2
Information Technology	1.7	4.6	12.5	51.7	6.9	59.9
Telecom Services	0.3	-2.3	2.3	3.0	-6.1	2.6
Cons Staples	0.2	-0.9	6.1	30.0	4.9	11.2
Health Care	-0.9	-3.9	-1.1	31.7	0.4	17.1
S&P 600 Small Cap	4.2	7.2	19.9	58.4	18.6	23.8
S&P 400 Mid Cap	3.6	6.2	17.8	58.6	16.9	35.0
S&P 100 Large Cap	1.5	2.9	10.0	39.3	7.5	19.1
<b>S&amp;P 500</b>	<b>2.1</b>	<b>3.7</b>	<b>11.5</b>	<b>42.9</b>	<b>9.2</b>	<b>23.5</b>

### TSX Sectors

Gold	2.7	3.9	4.7	19.8	-0.1	5.7
Telecom Services	2.4	0.7	10.0	18.9	6.7	0.7
Energy	2.3	5.0	4.7	25.4	0.6	35.0
Utilities	1.8	-1.8	1.8	26.4	0.7	12.7
Materials	1.8	0.7	4.3	38.4	2.5	33.4
Cons Staples	1.3	-3.3	-1.8	6.6	-3.6	6.1
Cons Discretionary	1.1	1.7	7.6	22.9	7.4	11.1
Banks	1.1	1.9	19.7	52.1	11.3	54.4
Financials	0.9	0.9	14.2	41.2	8.6	38.3
Industrials	0.4	2.7	8.0	30.7	6.1	23.7
Health Care	-0.2	0.2	9.3	33.1	9.0	28.6
Information Technology	-2.3	-6.3	7.9	-7.0	1.0	44.3
Income Trusts	2.5	1.9	6.4	39.1	7.0	29.5
REITs	2.1	0.9	3.8	54.3	4.3	42.4
S&P/TSX Mid Cap	1.6	2.3	6.4	48.7	6.7	41.7
S&P/TSX 60 Large Cap	1.3	1.4	8.3	25.7	3.5	27.9
S&P/TSX Small Cap	1.1	2.4	7.4	62.7	7.7	56.2
<b>TSX</b>	<b>1.4</b>	<b>1.6</b>	<b>7.9</b>	<b>30.1</b>	<b>4.2</b>	<b>30.7</b>

Source: Bloomberg

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