

## Judgement Day

At 2:40 pm on Thursday, the machines took over. Global equities went into freefall, with the Dow sliding almost 600 points in the space of about five minutes, brining the total decline to nearly 1,000 points. By 2:45 pm, investors were watching the Dow's biggest intraday point decline since the fabled 1987 crash—but nobody knew why. Word was that an errant trade triggered a wave of panic selling, which was then intensified as automated program trading took over. About \$700 bln of U.S. market value vaporized in five minutes, and one can't help but picture James Cameron, sitting in a director's chair somewhere in Hollywood saying, I told you. But Judgement Day was ultimately averted as the Dow rebounded into the close, finishing down a ho-hum 347 points.

Still, markets were hit hard on the week, with the Dow falling 5.2%, the S&P 500 shedding 5.8%, and the TSX a more modest 4.4% by Friday afternoon. Sovereign debt concerns and the threat of contagion spreading from Greece outweighed very strong April job reports in Canada and the U.S., while lost in the shuffle was Australia's Resources Super Profits Tax that tripped up global mining stocks.

While Thursday's drama might indeed have just been a technical glitch, it highlights something important for equity investors—sentiment is high but fragile in an environment of mounting risk. Let's not forget that the Dow was already down almost 7% from its April 26<sup>th</sup> high before the meltdown took place, while Chinese stocks, a good early indicator for the broad equity market, have all but broken down in recent weeks. Despite these troubles, sentiment remains extremely bullish. The Investors' Intelligence Survey is now reporting 56% bulls, the highest since October-2007 and three times the number of bears. Historically, a wall of optimism this tall has been very hard for stocks to climb. For reference, there have been two significant S&P 500 corrections (July and February) since the bull market began, but neither exceeded the 10% mark. Given the high level of sentiment now, and more serious risks, this one should break that threshold—technically, it already did at 2:45 pm on Thursday. Still, even if unwinding sentiment worsens this correction, stocks should eventually find support from a strong underlying earnings recovery and renewed job growth in Canada and the U.S.

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**EarningsWatch...** Earnings reports were a mere afterthought this week, but they continue to surpass analyst expectations. With more than 80% of S&P 500 companies now reporting, a still-impressive 82% have beaten earnings expectations, while a solid 68% have posted revenue surprises. Note that not only have earnings surprises outnumbered revenue surprises, but they have also been larger. The average surprise factor has been 16% for earnings and just above 1% for revenue. Indeed, while revenues have become an increasingly important driver of earnings growth (and surprises) in recent quarters, items below the top line (ie: cost cuts) continue to dominate. Meantime, 57% of TSX companies have beaten earnings expectations, while 43% have surprised on revenues.

### Market Performance as of May 7, 2010

	Current Price	Performance (percent)					
		1 Week	1 Month	3 Months	1 Year	YTD	2009
S&P/TSX	11,681	-4.4	-3.6	4.0	17.1	-0.6	30.7
Dow Jones	10,427	-5.2	-4.2	4.2	24.1	0.1	18.8
S&P 500	1,117	-5.8	-5.5	4.9	23.2	0.3	23.5
NIKKEI 225	10,365	-6.3	-8.2	3.1	10.4	-1.7	19.0
S&P/ASX 200	4,507	-6.8	-9.5	-0.6	15.2	-7.7	33.4
DAX	5,715	-6.9	-8.2	5.2	19.0	-4.1	23.8
NASDAQ	2,284	-7.2	-6.1	6.7	33.1	0.6	43.9
FTSE 100	5,123	-7.7	-11.1	1.2	16.5	-5.4	22.1
CAC 40	3,393	-11.1	-15.8	-4.8	4.3	-13.8	22.3

Source: Bloomberg (as of 2:00 pm)

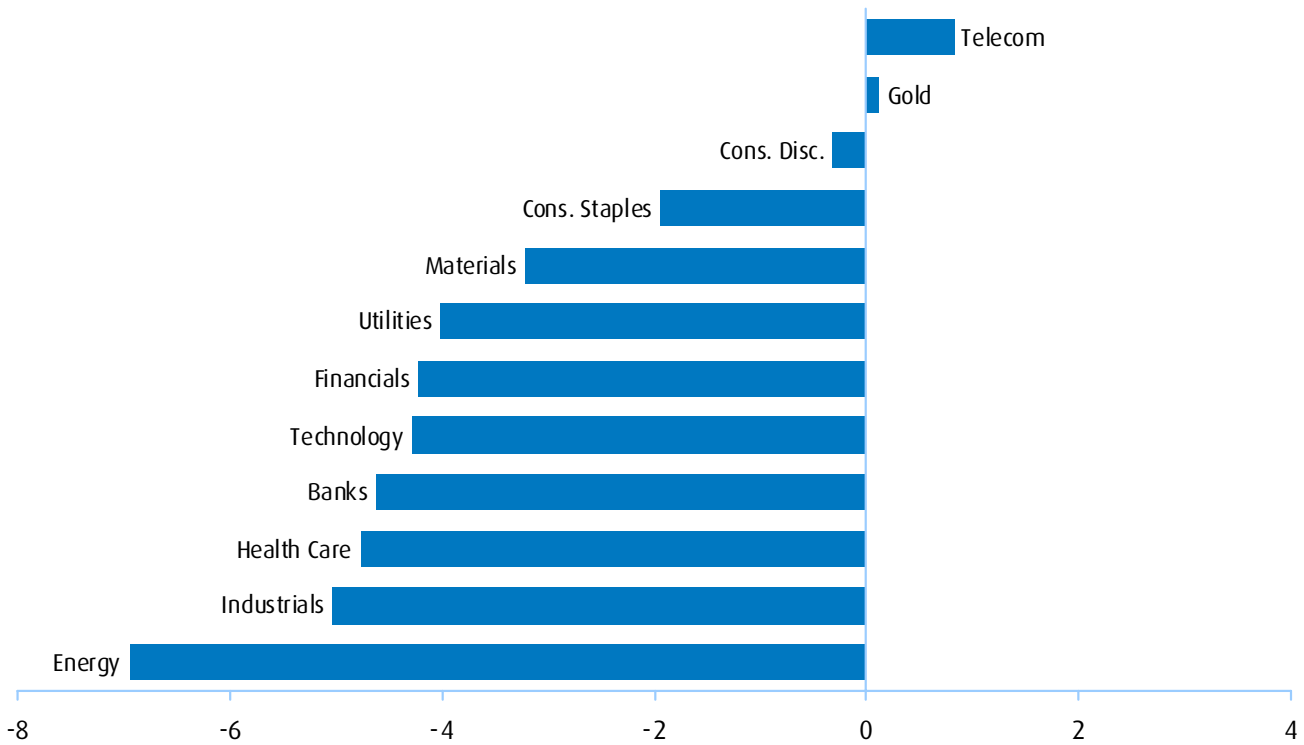
### Earnings Season Summary (% beating estimates)

	2010Q1*	2009Q4	2009Q3	2009Q2	2009Q1
<b>Earnings per share</b>					
TSX	57.4	49.8	52.9	52.7	49.3
S&P 500	81.6	76.4	82.3	72.3	67.5
<b>Revenue</b>					
TSX	42.5	46.2	40.3	44.4	33.3
S&P 500	67.6	67.8	59.1	50.9	38.6

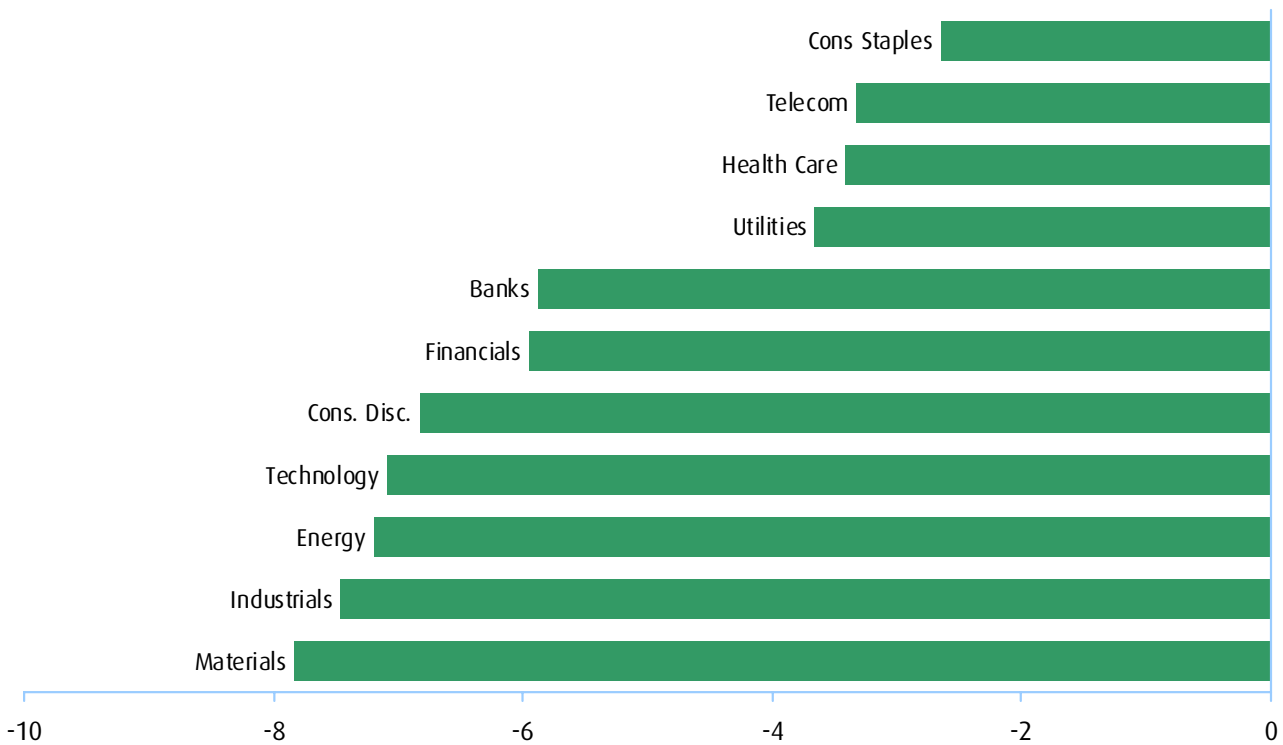
\*Earnings season to date. Source: Bloomberg.

**Weekly Sector Performances as of May 7, 2010**

TSX (percent)

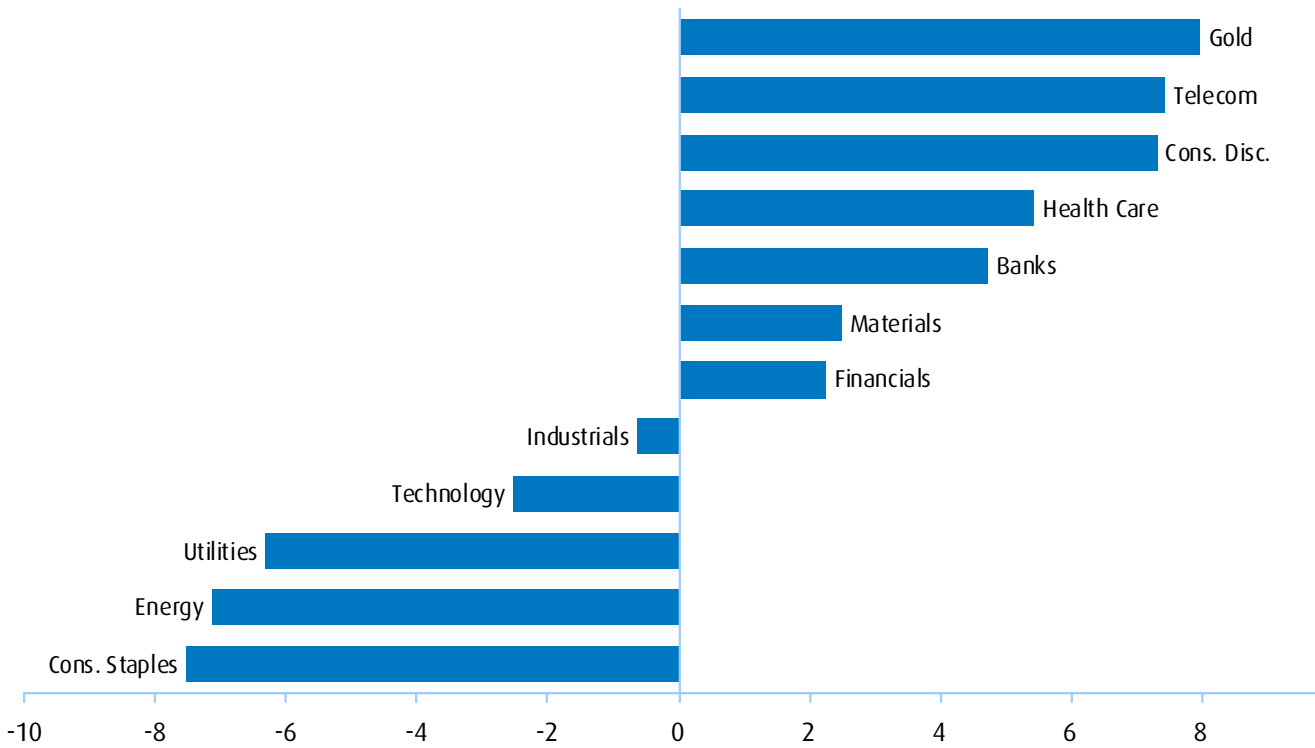


S&P 500 (percent)

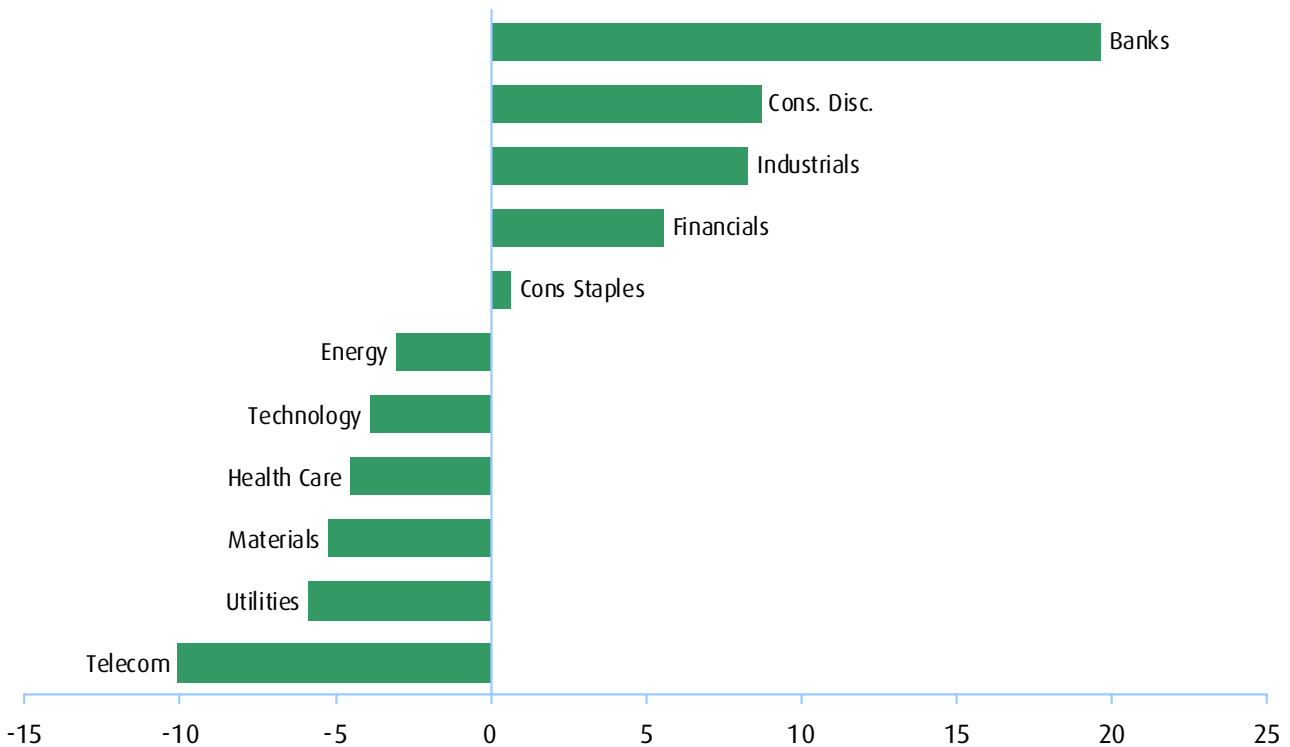


**Year-to-Date Sector Performances as of May 7, 2010**

TSX (percent)



S&P 500 (percent)



## North American Sector Performances as of May 7, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Cons Staples	-2.7	-3.7	2.8	19.7	0.7	11.2
Telecom Services	-3.3	-3.7	0.2	-1.9	-10.1	2.6
Health Care	-3.4	-6.9	-3.3	18.0	-4.5	17.1
Utilities	-3.7	-3.1	1.3	9.0	-5.9	6.8
Banks	-5.9	-2.8	14.6	32.6	19.7	-8.9
Financials	-5.9	-7.0	9.0	26.0	5.6	14.8
Cons Discretionary	-6.8	-2.7	12.8	36.8	8.7	38.8
Information Technology	-7.1	-6.4	4.2	33.5	-3.9	59.9
Energy	-7.2	-5.3	2.1	9.1	-3.0	11.3
Industrials	-7.5	-4.4	10.4	31.7	8.3	17.3
Materials	-7.8	-9.7	2.9	20.4	-5.2	45.2
S&P 100 Large Cap	-5.7	-5.6	3.7	20.5	-0.9	19.1
S&P 600 Small Cap	-6.8	-4.3	12.7	34.4	6.8	23.8
S&P 400 Mid Cap	-7.1	-5.5	9.7	34.6	5.2	35.0
<b>S&amp;P 500</b>	<b>-5.8</b>	<b>-5.5</b>	<b>4.9</b>	<b>23.2</b>	<b>0.3</b>	<b>23.5</b>

### TSX Sectors

Telecom Services	0.8	2.7	9.5	19.4	7.5	0.7
Gold	0.1	9.1	14.3	24.2	8.0	5.7
Cons Discretionary	-0.3	1.6	7.3	20.4	7.3	11.1
Cons Staples	-1.9	-7.1	-6.4	2.2	-7.5	6.1
Materials	-3.2	-0.7	8.3	26.6	2.5	33.4
Utilities	-4.0	-7.6	-3.6	15.0	-6.3	12.7
Financials	-4.2	-3.5	7.1	25.6	2.3	38.3
Information Technology	-4.3	-2.7	-5.0	-12.1	-2.5	44.3
Banks	-4.6	-1.3	11.5	35.7	4.7	54.4
Health Care	-4.8	-3.8	8.9	34.5	5.5	28.6
Industrials	-5.0	-4.7	3.3	19.6	-0.6	23.7
Energy	-6.9	-6.8	-0.8	7.2	-7.1	35.0
REITs	-4.0	-1.6	-1.5	40.5	0.0	42.4
Income Trusts	-6.1	-5.9	-0.3	21.7	-0.5	29.5
S&P/TSX 60 Large Cap	-4.1	-3.2	4.6	13.4	-0.9	27.9
S&P/TSX Mid Cap	-5.4	-5.1	2.0	33.1	0.6	41.7
S&P/TSX Small Cap	-6.3	-5.6	3.1	40.0	0.7	56.2
<b>TSX</b>	<b>-4.4</b>	<b>-3.6</b>	<b>4.0</b>	<b>17.1</b>	<b>-0.6</b>	<b>30.7</b>

Source: Bloomberg (as of 2:00 pm)

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