

Shock & Ouch

Equity markets endured a volatile week, kicked off with a massive Monday rally after the announcement of a €750 bln EU/IMF loan package, and the decision by the ECB to buy sovereign debt. The S&P 500 jumped 4.4% to start the week in the biggest one-day rally in more than a year, while European stocks saw even stronger gains, including 10% pops in Portugal and Greece. While the shock and awe attack on the bond vigilantes helped keep Greek bond yields down, stock markets failed to hang on to their early gains, getting pummelled late in the week on concerns that aggressive austerity measures will hamper growth. The S&P 500 finished up 2.2%, led by banks and industrials, while the TSX rose 2.8%, led by the gold sector. Indeed, gold prices hit a record high this week amid sovereign concerns, and the sector has gained 15.1% in the past month, by far the best sector performance in North America. Meantime, the Chinese CSI 300 is now 24% below its August-09 peak, putting it in official bear market territory. Importantly, the low set in early-September of last year was breached this week amid concerns about the pace of tightening required to cool the hot property market and perky inflation. As we've noted in the past, Chinese stocks have been a good leading indicator for commodity prices and the TSX, having called both the 2008 peak and 2009 bottom with impressive accuracy.

Sentiment check... Sentiment is now being unwound, as this week's Investors' Intelligence Survey reported a sharp drop in bulls from 56% to 47.2% the prior week, and a increase in the number of bears, from 18.7% to 24.7% (note that the survey is taken on Friday, or in this case, the day after the Dow's near-1,000 point intraday plunge). At just below 2, the ratio of bulls to bears is about in-line with recent norms, and has room to move lower still. Also, from a longer-term perspective, global money market assets have dwindled by 27% since peaking in March-09, when sentiment was at its worst. The shift out of money market funds has been one thing fuelling the equity market rally, but that tank may finally be running low on gas. Global money market assets as a share of S&P 500 market value are now back to the pre-bear

market levels seen in early-2008, just one more sign that sentiment is no longer a tailwind for stocks, and any gains going forward should be much more modest.

EarningsWatch... The earnings season has been overshadowed by the sovereign debt concerns, but continues to come in better than expected in the U.S. So far, 81% of S&P 500 companies have beaten earnings expectations, while a solid 67% have posted revenue surprises. Still, the surprise factor remains heavily tilted toward earnings rather than revenue—the average beat size is 15.5% for earnings and just 1.1% for revenue. Cisco was the highlight earnings report this week, beating expectations, with the “*strongest quarter in our history*”, but revenue guidance was on the soft side. Meantime, 51% of TSX companies have beaten earnings expectations, while just 38% have surprised on revenues. The poor revenue performance has been driven mostly by the commodity sectors, with a combined 29% beating estimates in energy and materials.

Market Performance as of May 14, 2010

	Current Price	Performance (percent)					
		1 Week	1 Month	3 Months	1 Year	YTD	2009
DAX	6,057	6.0	-3.5	10.1	27.8	1.7	23.8
CAC 40	3,560	4.9	-12.3	-1.1	12.8	-9.6	22.3
NASDAQ	2,347	3.6	-6.3	7.5	38.9	3.4	43.9
S&P/ASX 200	4,643	3.0	-7.5	1.2	25.1	-4.9	33.4
S&P/TSX	12,015	2.8	-1.6	4.8	22.0	2.3	30.7
FTSE 100	5,263	2.7	-9.2	2.3	20.6	-2.8	22.1
Dow Jones	10,620	2.3	-4.5	5.2	27.5	1.8	18.8
S&P 500	1,136	2.2	-6.2	5.6	27.2	1.8	23.5
NIKKEI 225	10,463	0.9	-6.6	3.7	15.1	-0.8	19.0

Source: Bloomberg

Earnings Season Summary

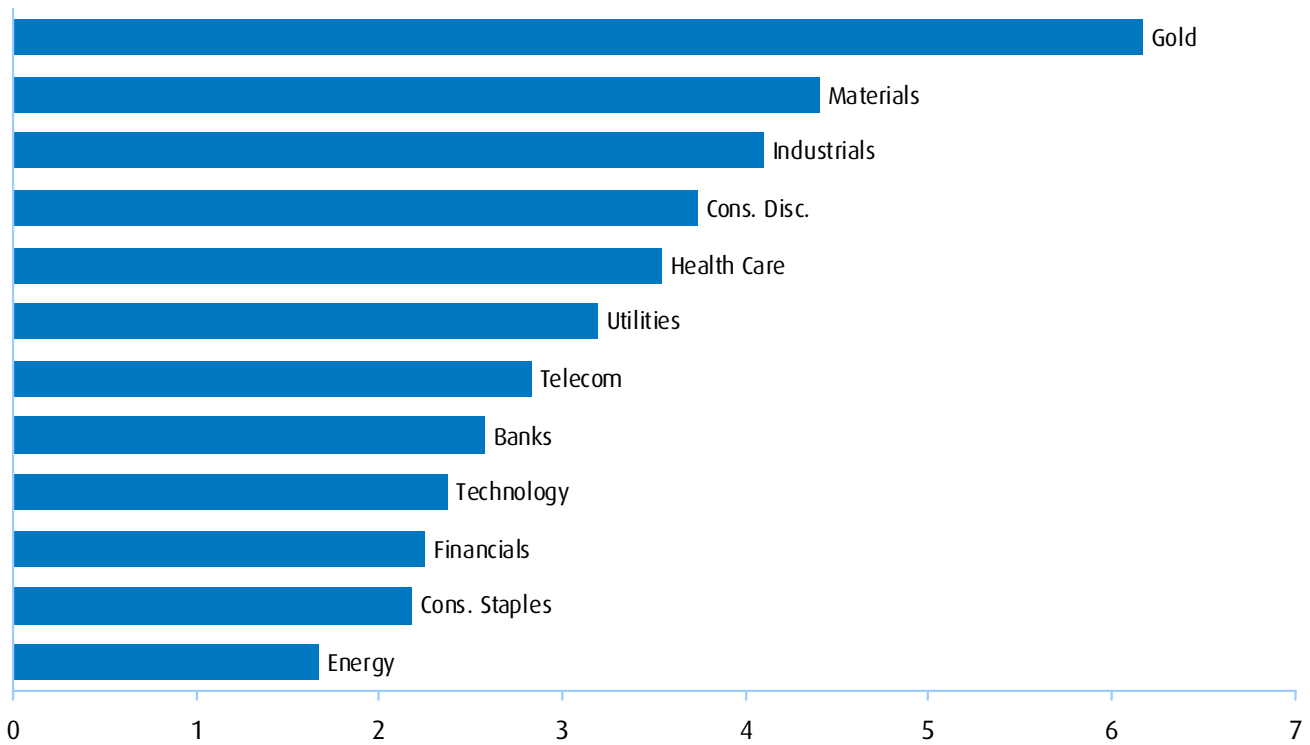
(% beating estimates)

	2010Q1*	2009Q4	2009Q3	2009Q2	2009Q1
Earnings per share					
TSX	50.5	49.8	52.9	52.7	49.3
S&P 500	81.3	76.4	82.3	72.3	67.5
Revenue					
TSX	37.6	46.2	40.3	44.4	33.3
S&P 500	67.4	67.8	59.1	50.9	38.6

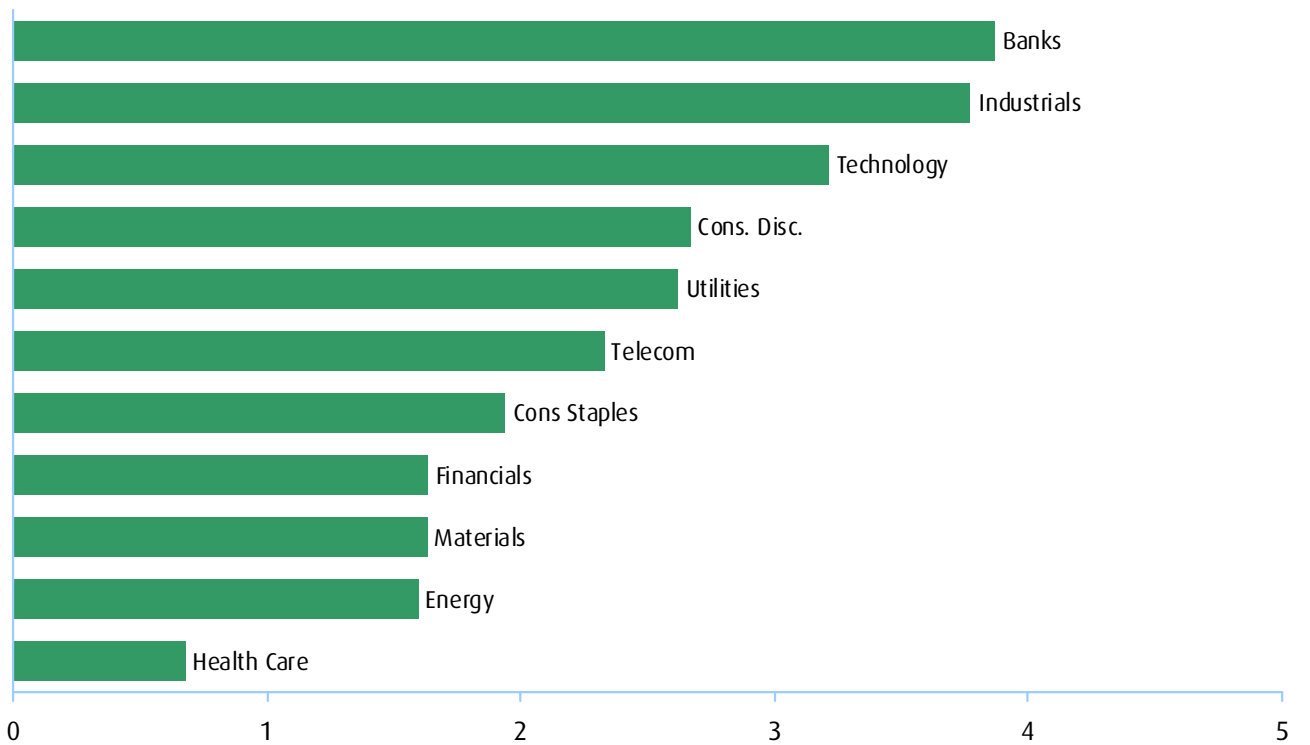
*Earnings season to date. Source: Bloomberg.

Weekly Sector Performances as of May 14, 2010

TSX (percent)

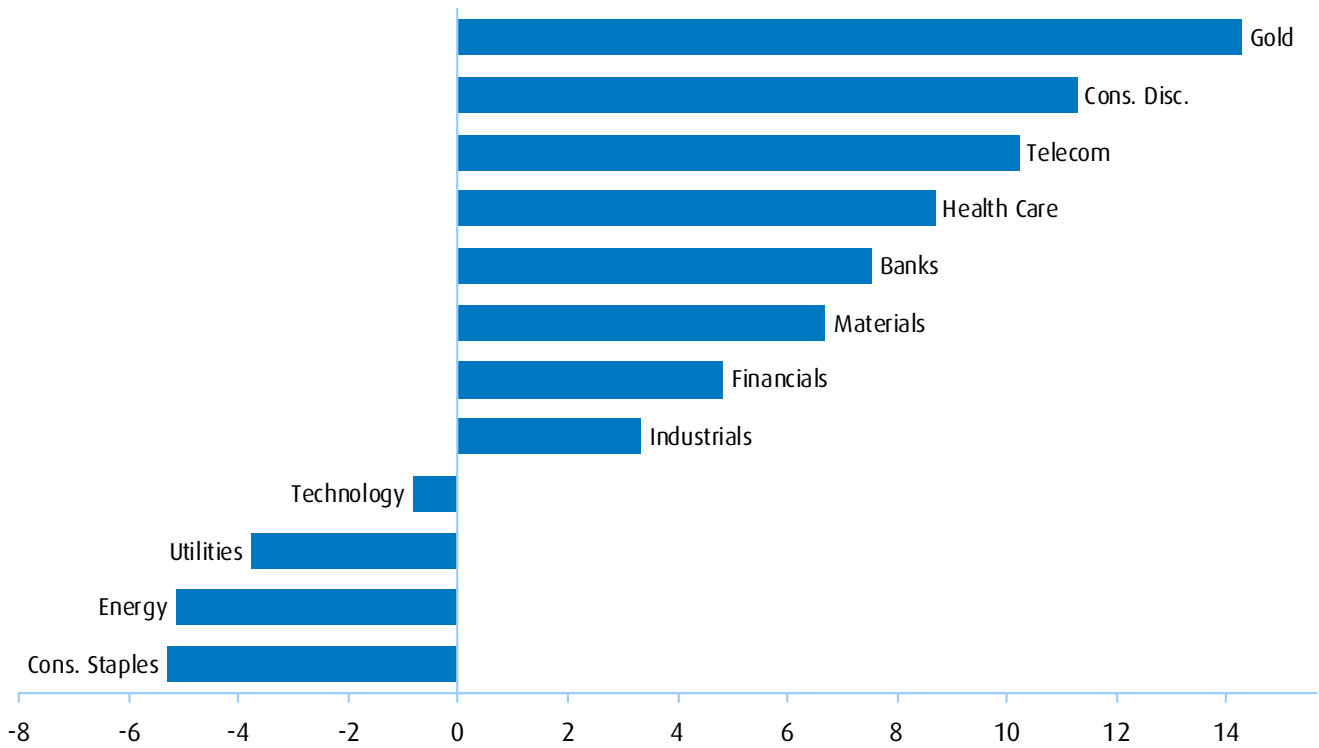


S&P 500 (percent)

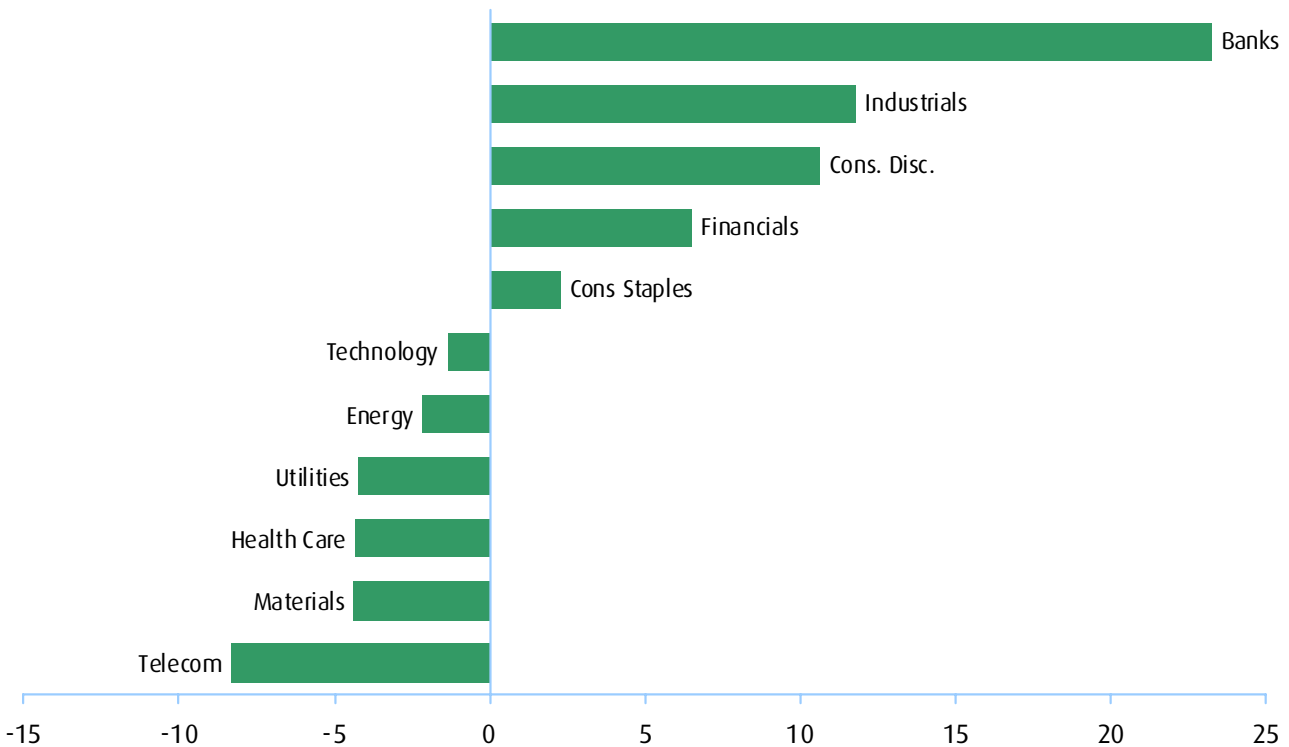


Year-to-Date Sector Performances as of May 14, 2010

TSX (percent)



S&P 500 (percent)



North American Sector Performances as of May 14, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Banks	3.9	-4.0	19.7	37.5	23.3	-8.9
Industrials	3.8	-3.9	12.8	41.6	11.8	17.3
Information Technology	3.2	-6.9	5.5	39.4	-1.4	59.9
Cons Discretionary	2.7	-4.8	13.0	47.7	10.7	38.8
Utilities	2.6	-1.4	4.0	12.8	-4.2	6.8
Telecom Services	2.3	-3.1	2.1	1.1	-8.3	2.6
Cons Staples	1.9	-2.9	2.9	20.8	2.3	11.2
Financials	1.6	-10.1	10.4	30.2	6.5	14.8
Materials	1.6	-9.3	2.1	23.5	-4.4	45.2
Energy	1.6	-6.8	1.4	10.9	-2.2	11.3
Health Care	0.7	-6.3	-3.2	16.9	-4.3	17.1
S&P 600 Small Cap	6.1	-2.7	14.8	45.9	11.8	23.8
S&P 400 Mid Cap	4.3	-5.0	10.2	43.1	8.6	35.0
S&P 100 Large Cap	1.9	-6.7	4.3	23.4	0.4	19.1
S&P 500	2.2	-6.2	5.6	27.2	1.8	23.5

TSX Sectors

Gold	6.2	15.1	18.1	24.7	14.3	5.7
Materials	4.4	3.9	8.1	25.9	6.7	33.4
Industrials	4.1	-2.3	6.1	33.7	3.3	23.7
Cons Discretionary	3.7	5.2	9.5	29.8	11.3	11.1
Health Care	3.5	0.6	11.9	38.7	8.7	28.6
Utilities	3.2	-3.7	-1.5	21.4	-3.8	12.7
Telecom Services	2.8	6.2	9.1	25.4	10.2	0.7
Banks	2.6	-2.2	10.3	44.0	7.5	54.4
Information Technology	2.4	-4.6	-6.3	-7.7	-0.8	44.3
Financials	2.3	-3.1	7.1	32.1	4.8	38.3
Cons Staples	2.2	-1.4	-4.3	3.8	-5.3	6.1
Energy	1.7	-5.5	0.5	11.2	-5.2	35.0
REITs	3.2	0.7	5.7	43.0	3.6	42.4
Income Trusts	2.4	-3.2	0.3	28.0	1.8	29.5
S&P/TSX Small Cap	3.8	-2.6	3.8	46.4	4.4	56.2
S&P/TSX Mid Cap	3.0	-2.2	3.0	38.8	3.5	41.7
S&P/TSX 60 Large Cap	2.7	-1.4	5.3	18.1	1.9	27.9
TSX	2.8	-1.6	4.8	22.0	2.3	30.7

Source: Bloomberg

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