

SAFE!

Equity markets endured some wild swings this week, reeling in the wake of last week's losses and speculation that China's sovereign wealth fund was reviewing its portfolio of euro assets. However, stocks and risky assets more broadly turned around when the State Administration of Foreign Exchange (SAFE) published a statement saying that such rumours were "groundless". Such is the trading activity when sentiment is under attack—sharp rumour-driven selloffs, followed by strong rallies when proven false. The SAFE announcement was also backed up by some other key fundamentals, including still-solid economic data, a bounce in commodities and some support for Chinese equities. Implied volatility has also started to back off after reaching the highest level since the March-2009 bottom in recent weeks, signalling that fear has started to subside somewhat.

The S&P 500 rose 0.2% for the week, with cyclicals moving back into the lead. Still, May was a good time to go away, with the index shedding more than 8% in the worst month since February-2009, and despite the late-week rebound, both the S&P 500 and Dow remain stuck below their 200-day moving averages. The TSX rose 1.3% this week with the one-two punch of gold and oil doing most of the lifting.

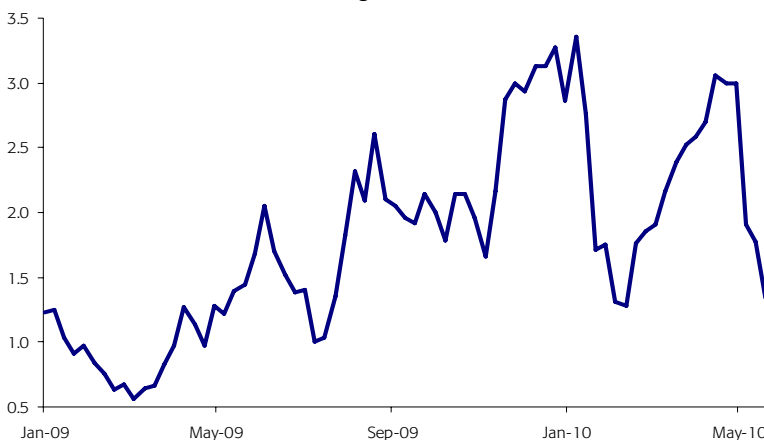
Sentiment check... Most of the bullish equity market sentiment that built up through early May has now been blown off. The latest Investors' Intelligence Survey shows just 39.3% bulls versus 56% at the start of the month when the equity market began to roll over. Bears are up to 29.2% versus 17.4%, and the ratio of bulls to bears, at 1.35, is now in-line with that seen when the market bottomed in February after a 9% correction—sentiment is no longer a near-term headwind for stock prices.

Market Performance as of May 28, 2010

	Current Price	Performance (percent)					2009
		1 Week	1 Month	3 Months	1 Year	YTD	
S&P/ASX 200	4,479	3.5	-7.7	-3.7	19.3	-8.3	33.4
FTSE 100	5,188	2.5	-7.1	-3.1	18.3	-4.1	22.1
CAC 40	3,515	2.5	-7.2	-5.2	7.7	-10.7	22.3
DAX	5,946	2.0	-2.3	6.2	20.5	-0.2	23.8
S&P/TSX	11,671	1.3	-3.4	0.4	12.3	-0.6	30.7
NASDAQ	2,257	1.3	-8.7	0.8	28.8	-0.5	43.9
S&P 500	1,089	0.2	-8.6	-1.4	20.1	-2.3	23.5
NIKKEI 225	9,763	-0.2	-10.6	-3.6	3.3	-7.4	19.0
Dow Jones	10,137	-0.6	-8.2	-1.8	20.6	-2.8	18.8

Source: Bloomberg

Investors' Intelligence Bull/Bear Ratio

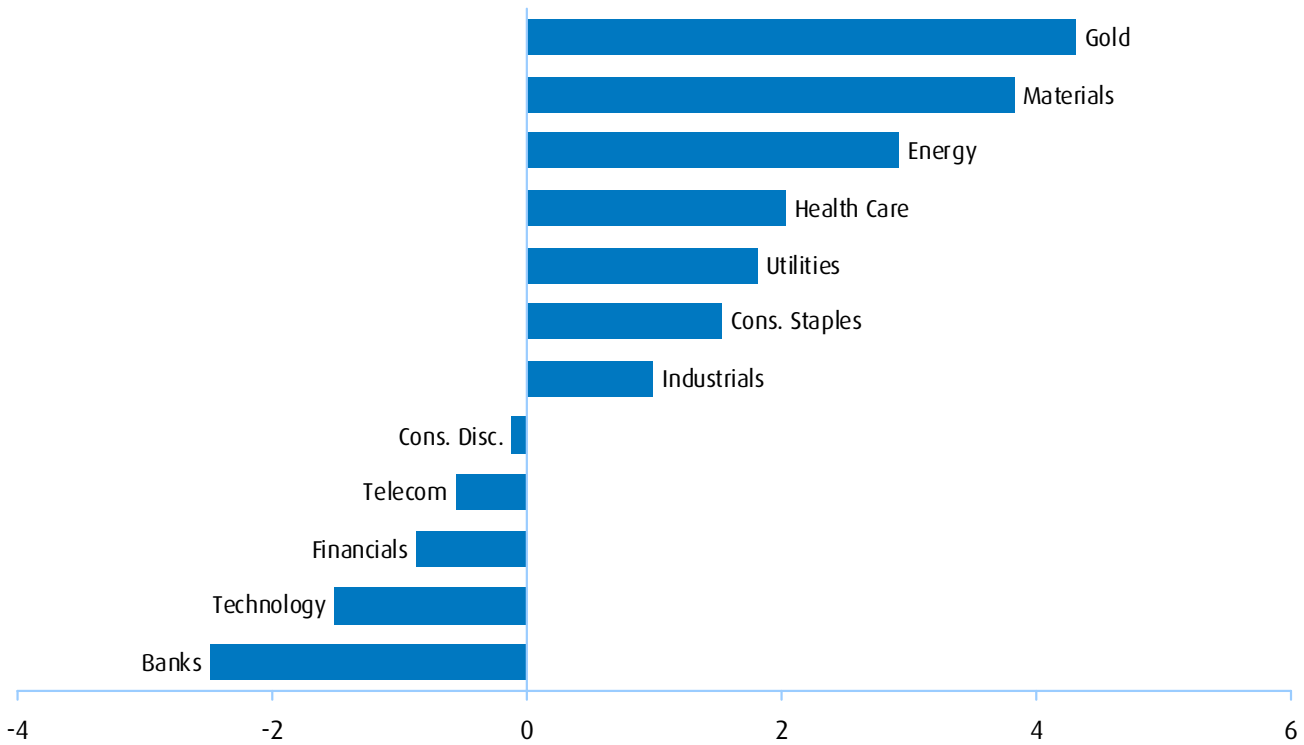


EarningsWatch... Five of the big six Canadian banks laid out their Q2 results this week, and after a very strong start by BMO, the rest largely failed to hit consensus estimates. Still, this is probably more a function of expectations getting a tad too high rather than disappointing fundamentals, which continue to improve—profits are miles above year-ago levels and loan-loss provisions continue to fall.

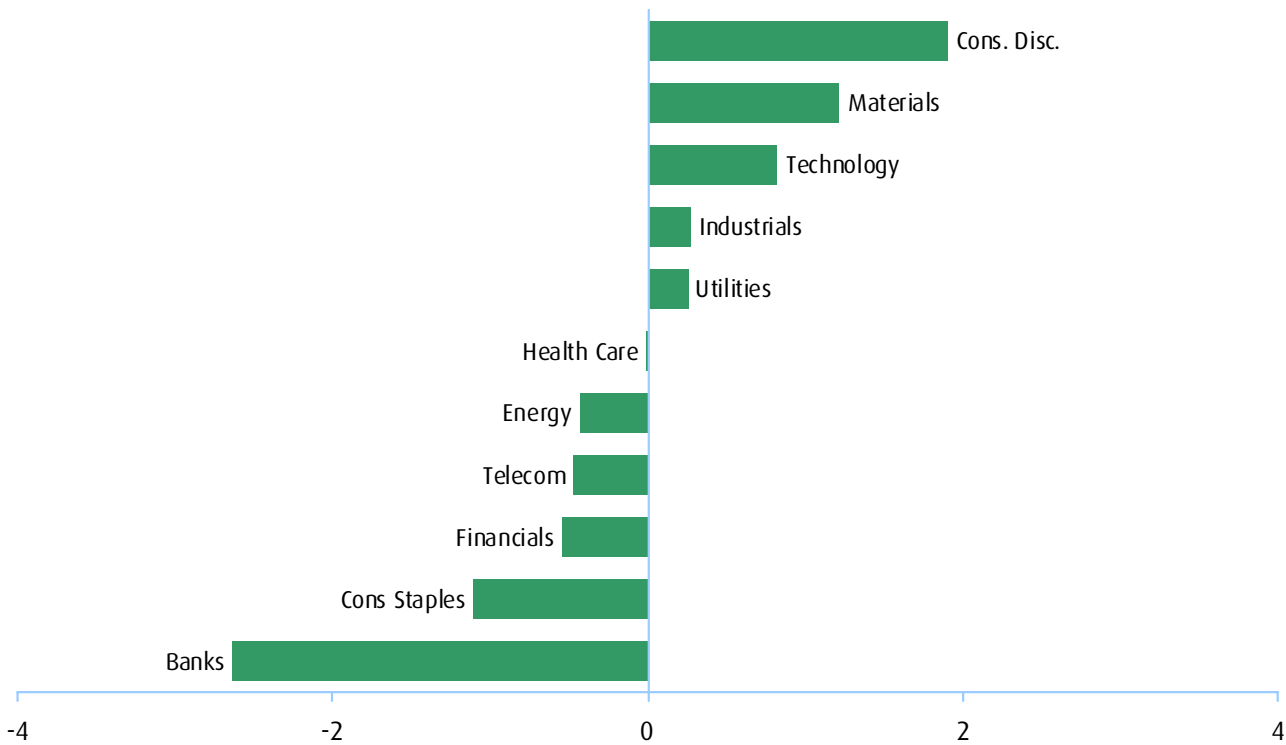
Meantime, on the same day that April new home sales were reported up 14.8%, Toll Brothers' CEO had something positive to add. He said that, "it appears our business has finally emerged from the tunnel and into a bit of daylight...activity has been driven by an increase in confidence among our buyers in their job security, their ability to sell their existing homes, and general trends in home prices". Importantly, while the April sales numbers were juiced by the expiring tax credit, Toll said that activity has increased even further since the end of April.

Weekly Sector Performances as of May 28, 2010

TSX (percent)

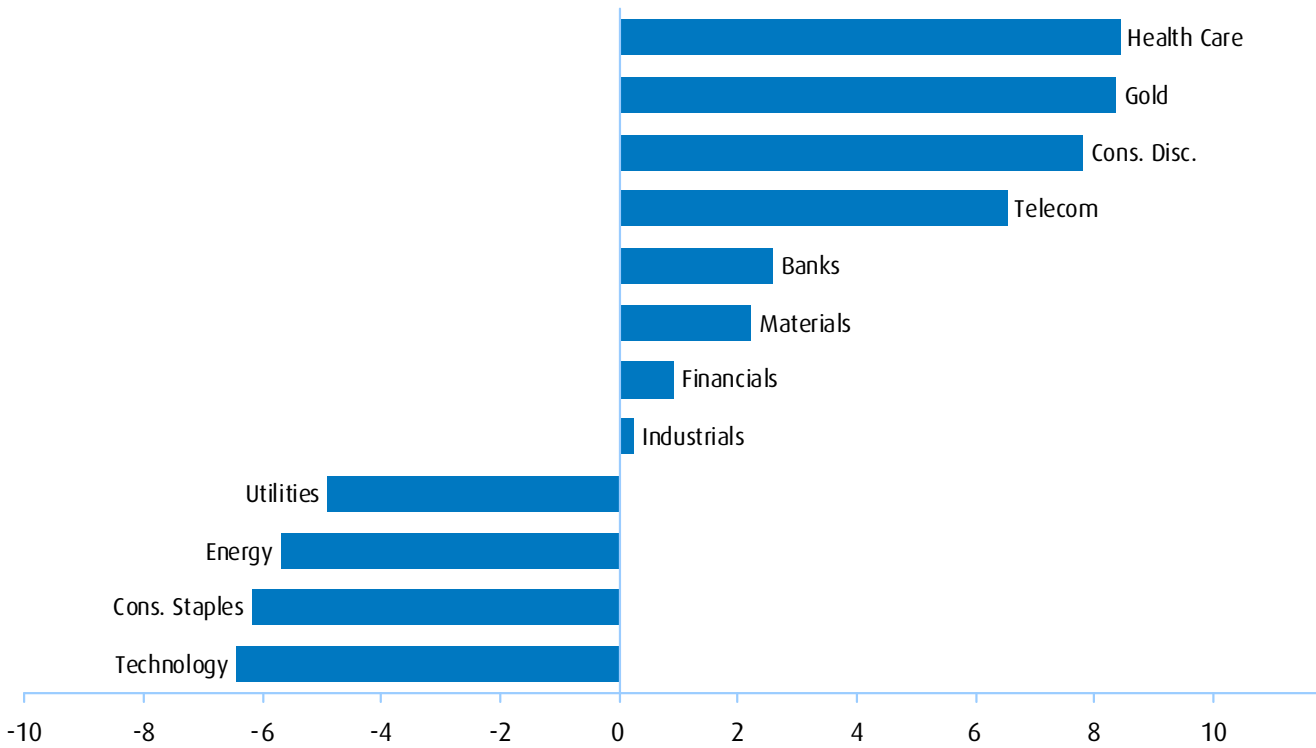


S&P 500 (percent)

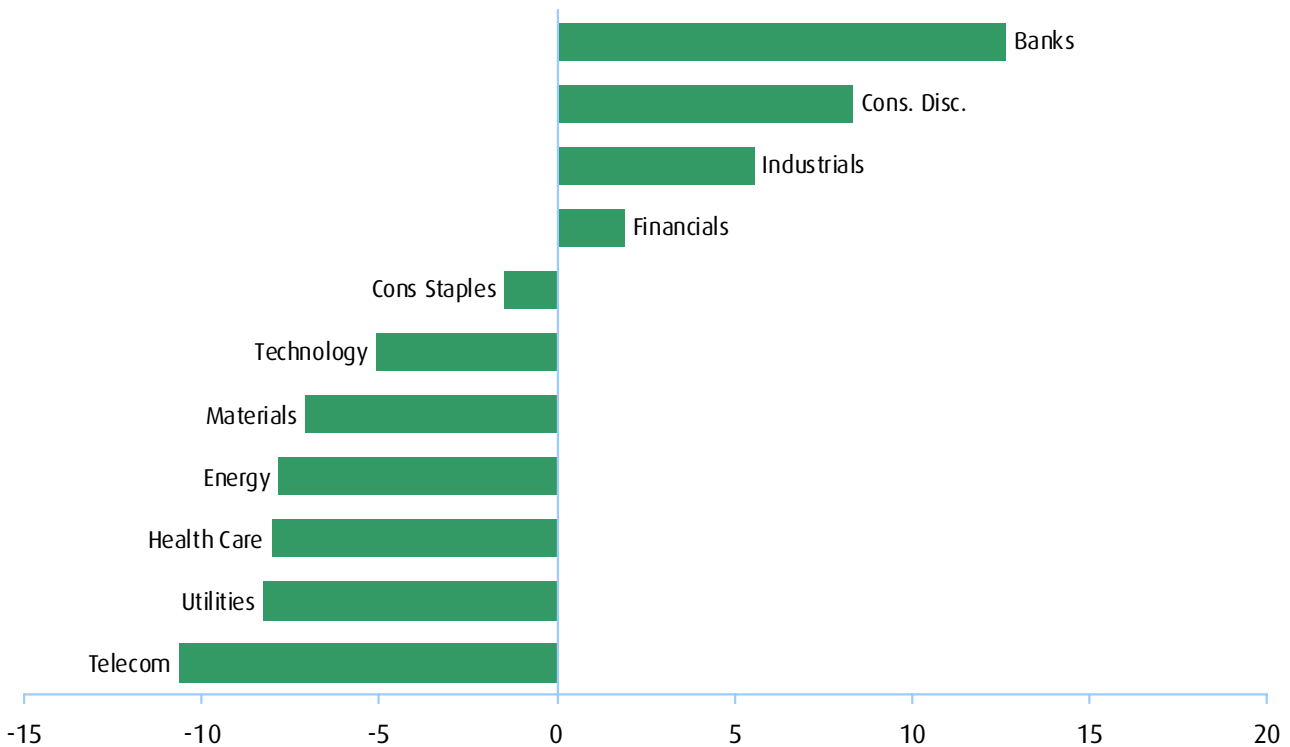


Year-to-Date Sector Performances as of May 28, 2010

TSX (percent)



S&P 500 (percent)



North American Sector Performances as of May 28, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Cons Discretionary	1.9	-7.1	6.0	42.2	8.3	38.8
Materials	1.2	-10.3	-2.4	17.7	-7.1	45.2
Information Technology	0.8	-9.5	-0.4	28.7	-5.1	59.9
Industrials	0.3	-9.9	2.2	33.4	5.6	17.3
Utilities	0.3	-5.7	-1.5	8.2	-8.3	6.8
Health Care	0.0	-6.9	-8.4	13.2	-8.0	17.1
Energy	-0.4	-12.7	-5.3	2.2	-7.8	11.3
Telecom Services	-0.5	-3.8	-0.2	-0.2	-10.6	2.6
Financials	-0.5	-9.3	0.0	22.1	1.9	14.8
Cons Staples	-1.1	-4.8	-2.9	14.6	-1.5	11.2
Banks	-2.6	-9.7	5.6	29.0	12.7	-8.9
S&P 400 Mid Cap	1.7	-7.8	3.3	34.6	5.0	35.0
S&P 600 Small Cap	1.1	-8.1	5.6	35.7	6.2	23.8
S&P 100 Large Cap	-0.3	-9.0	-2.6	16.7	-4.1	19.1
S&P 500	0.2	-8.6	-1.4	20.1	-2.3	23.5

TSX Sectors

Gold	4.3	3.5	10.9	9.3	8.4	5.7
Materials	3.8	-1.8	2.5	13.9	2.2	33.4
Energy	2.9	-4.2	-1.0	3.6	-5.7	35.0
Health Care	2.0	0.2	7.7	37.0	8.4	28.6
Utilities	1.8	-2.3	-2.7	19.0	-4.9	12.7
Cons Staples	1.5	-0.5	-5.7	3.1	-6.2	6.1
Industrials	1.0	-4.1	1.7	25.2	0.2	23.7
Cons Discretionary	-0.1	1.3	5.4	25.0	7.8	11.1
Telecom Services	-0.6	0.6	4.9	15.1	6.5	0.7
Financials	-0.9	-4.6	0.5	20.1	0.9	38.3
Information Technology	-1.5	-8.3	-11.2	-18.4	-6.4	44.3
Banks	-2.5	-5.6	2.2	28.7	2.6	54.4
Income Trusts	3.0	-4.8	-2.6	20.7	0.7	29.5
REITs	2.4	0.0	-0.6	31.6	1.8	42.4
S&P/TSX Small Cap	3.8	-5.7	0.1	36.2	1.0	56.2
S&P/TSX Mid Cap	3.0	-3.9	-0.7	30.8	1.2	41.7
S&P/TSX 60 Large Cap	0.8	-3.2	0.7	8.0	-1.2	27.9
TSX	1.3	-3.4	0.4	12.3	-0.6	30.7

Source: Bloomberg

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