

Yellow Card

Equity markets bounced higher this week, taking some relief from the near-relentless selling seen since the start of May. The S&P 500 rose 2.5%, boosted by materials and energy. The global economic data were mixed, but strong trade numbers in China, including a 48.5% y/y jump in May exports, helped ease concerns that Europe's financial woes are taking an additional (on top of domestic tightening measures) bite out of growth in China. Meantime, the TSX rose 0.8%, led by energy, industrials and gold. The tech sector was a drag, falling 2.1%. Canadian stocks have outperformed their U.S. counterparts during this correction, falling 5.1% versus an 11% slide in the S&P 500. While it's still premature to give this bull market a red card, especially with positive sentiment mostly evaporated during this correction, a number of warnings remain in place. The cyclical sectors remain shaky on a relative basis, with industrials, energy, materials and consumer discretionary all posting losses of more than 5% in the past month, while defensives have been the top performers. At the same time, the S&P 500 is still buried below its 200-day moving average, which poses a technical challenge in coming weeks. Interestingly though, the last World Cup (June 9th, 2006) started just two days before the end of an 8% correction in the S&P 500.

Cash is king... U.S. corporations continued to sock away the cash in the first quarter. Nonfarm nonfinancial firms ended the quarter with cash levels of more than 20% above last year, the largest share of total assets since the mid-1960s. This comes despite a 5.3% increase in capital investment in the quarter, which is now up 8.1% y/y. The first quarter was also the second consecutive with net buyback

activity, running at a \$208 bln annual rate. While that's miles below the peak seen in late-2007, it's a quick turnaround from the two quarters of equity issuance seen in the first half of 2009. So, while corporations are probably a tad more defensive right now in the wake of the crisis, they're not in hoarding mode either. The sharp rebound in corporate profits, which are up 52% y/y according to the flow of funds accounts, has been enough to offset the gradual resumption of growth in capex, stock buybacks and dividend payments.

As a result, corporate balance sheets, which entered the recession in very good shape, are quickly becoming even more flush. Cash and liquid assets in the nonfinancial sector now total more than \$1.5 trln, the highest level relative to short-term liabilities since the mid-1950s. In other words, there's a lot of firepower sitting on the balance sheet of corporate America that could be very shareholder-friendly if put to use—buybacks, dividends, M&A and capital investment have all perked up since the depths of recession, and there is plenty more where that came from if corporations decide to open their wallets.

Market Performance as of June 11, 2010

	Current Price	Performance (percent)					2009
		1 Week	1 Month	3 Months	1 Year	YTD	
CAC 40	3,556	2.9	-3.7	-9.5	6.6	-9.7	22.3
Dow Jones	10,150	2.8	-5.0	-3.8	16.4	-2.1	18.8
S&P 500	1,085	2.5	-5.6	-5.1	15.5	-2.1	23.5
DAX	6,048	1.8	0.2	2.0	18.4	1.5	23.8
NASDAQ	2,228	1.1	-5.5	-5.3	20.5	-1.1	43.9
S&P/ASX 200	4,517	1.0	-1.2	-6.4	11.6	-7.5	33.4
S&P/TSX	11,658	0.8	-2.8	-2.6	8.9	-0.7	30.7
FTSE 100	5,164	0.7	-3.2	-8.1	15.7	-4.6	22.1
NIKKEI 225	9,705	-2.0	-6.8	-9.0	-2.8	-8.0	19.0

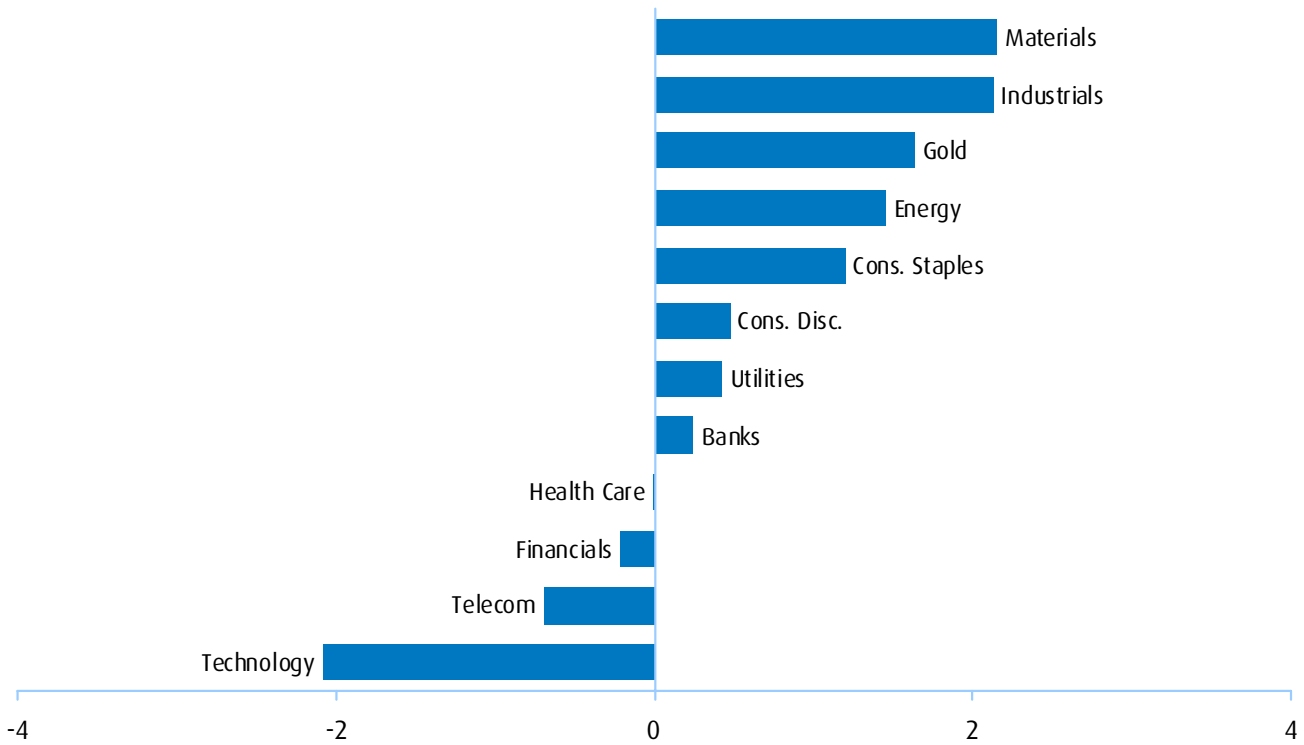
Source: Bloomberg

Liquid Assets to Short-term Liabilities U.S. Nonfinancial sector

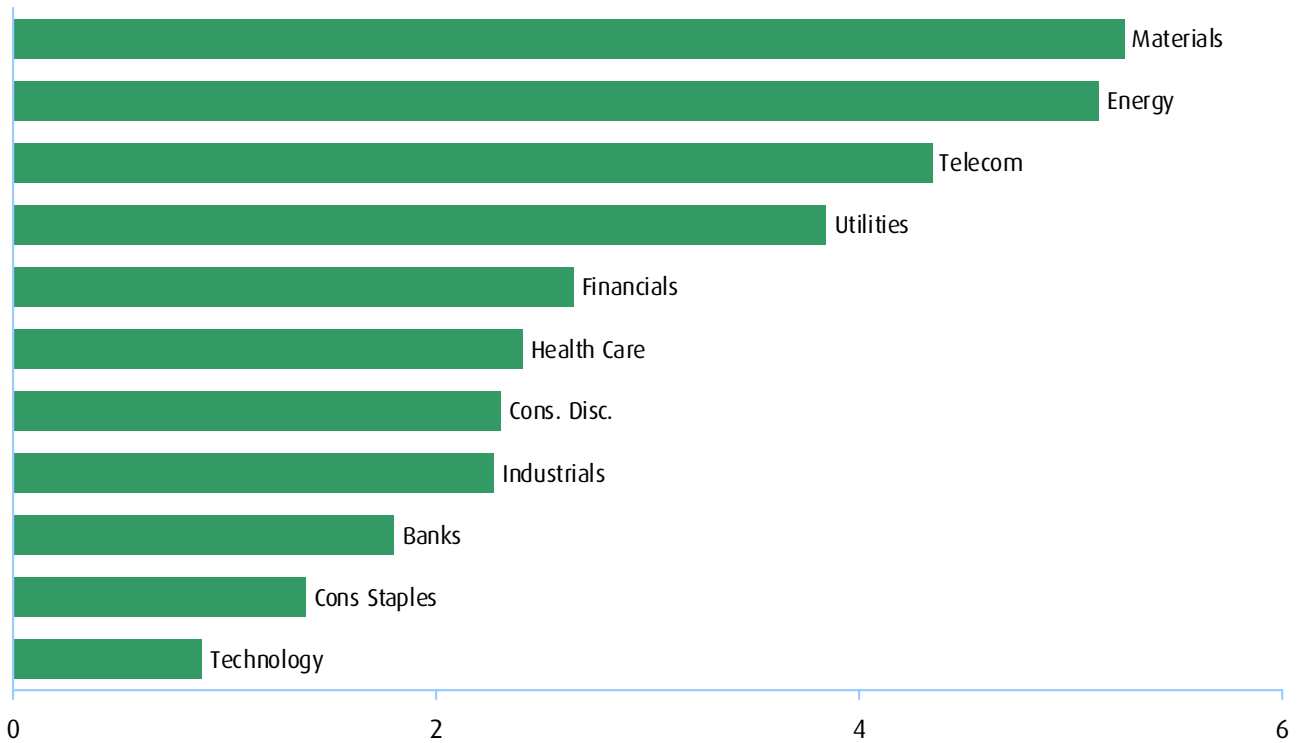


Weekly Sector Performances as of June 11, 2010

TSX (percent)

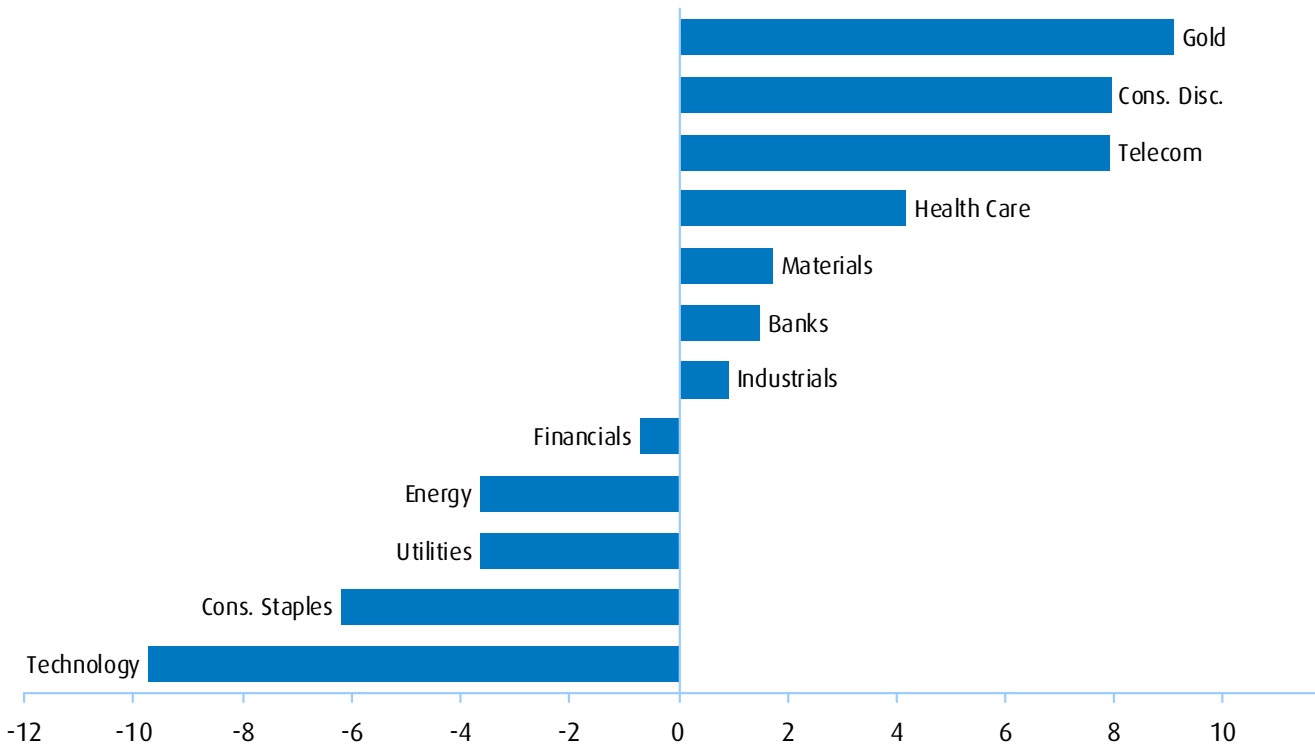


S&P 500 (percent)

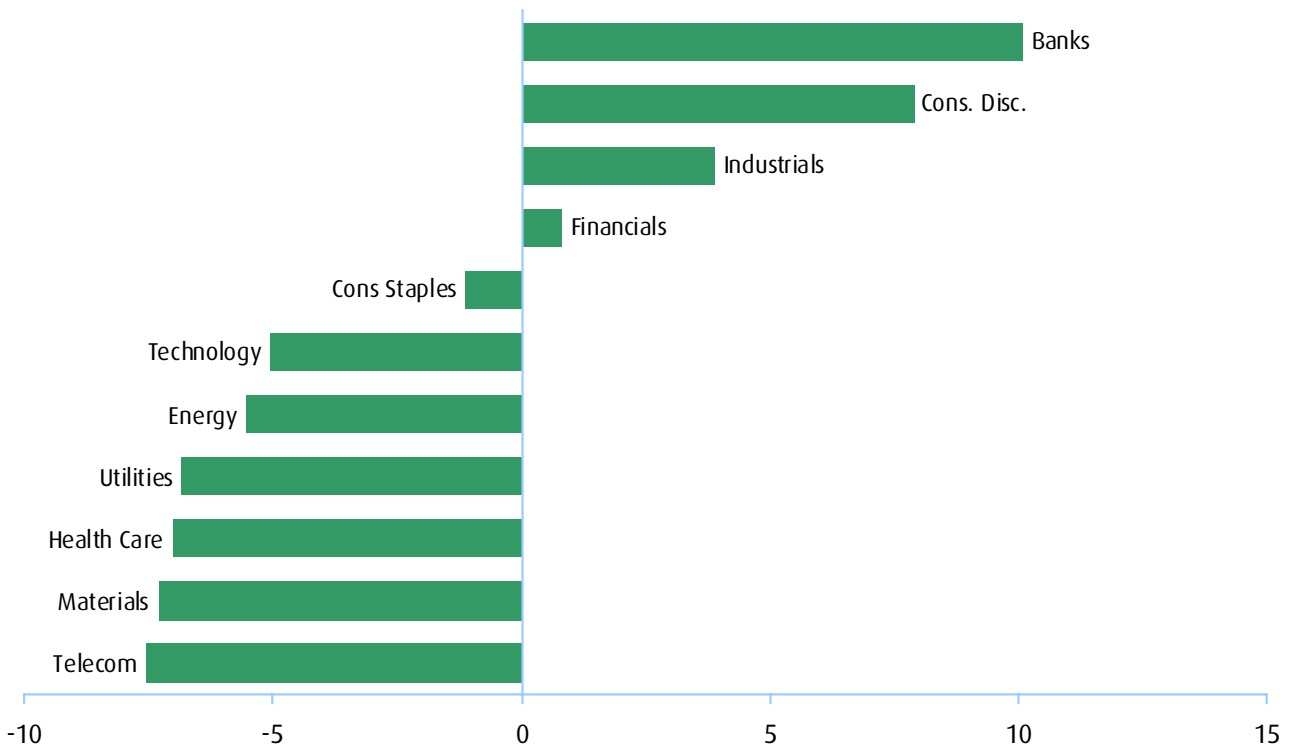


Year-to-Date Sector Performances as of June 11, 2010

TSX (percent)



S&P 500 (percent)



North American Sector Performances as of June 11, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Materials	5.3	-4.9	-7.3	9.1	-7.3	45.2
Energy	5.1	-4.9	-6.6	-1.6	-5.6	11.3
Telecom Services	4.3	0.9	-0.1	2.4	-7.6	2.6
Utilities	3.8	-3.2	-2.8	5.1	-6.8	6.8
Financials	2.6	-8.5	-6.9	17.4	0.8	14.8
Health Care	2.4	-4.6	-9.1	13.9	-7.0	17.1
Cons Discretionary	2.3	-4.9	0.4	35.4	7.9	38.8
Industrials	2.3	-8.6	-3.7	23.1	3.9	17.3
Banks	1.8	-13.3	-4.1	23.9	10.1	-8.9
Cons Staples	1.4	-4.1	-3.9	13.1	-1.1	11.2
Information Technology	0.9	-4.9	-5.3	20.8	-5.1	59.9
S&P 400 Mid Cap	3.0	-5.0	-3.1	26.7	4.4	35.0
S&P 600 Small Cap	2.2	-6.7	-3.3	25.4	4.3	23.8
S&P 100 Large Cap	2.0	-6.2	-6.2	12.2	-4.1	19.1
S&P 500	2.5	-5.6	-5.1	15.5	-2.1	23.5

TSX Sectors

Materials	2.2	-4.5	0.1	14.3	1.7	33.4
Industrials	2.1	-1.5	-1.7	22.0	0.9	23.7
Gold	1.6	-4.5	11.4	18.2	9.1	5.7
Energy	1.5	1.2	-1.4	1.6	-3.6	35.0
Cons Staples	1.2	-0.8	-6.2	0.5	-6.2	6.1
Cons Discretionary	0.5	-2.2	3.4	20.5	7.9	11.1
Utilities	0.4	0.1	-5.2	14.4	-3.7	12.7
Banks	0.2	-5.4	-2.8	22.2	1.5	54.4
Health Care	0.0	-2.8	-1.5	27.2	4.2	28.6
Financials	-0.2	-5.3	-5.0	13.0	-0.7	38.3
Telecom Services	-0.7	0.1	2.8	18.3	7.9	0.7
Information Technology	-2.1	-9.0	-17.2	-25.4	-9.7	44.3
Income Trusts	0.8	-0.8	-4.0	14.8	1.0	29.5
REITs	0.8	-1.8	-2.8	28.3	1.4	42.4
S&P/TSX Small Cap	1.5	-2.7	-3.3	30.3	1.6	56.2
S&P/TSX Mid Cap	1.2	-2.6	-3.1	24.3	1.1	41.7
S&P/TSX 60 Large Cap	0.7	-2.8	-2.5	5.3	-1.2	27.9
TSX	0.8	-2.8	-2.6	8.9	-0.7	30.7

Source: Bloomberg

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