

## Gooood!

Equity markets extended their rebound this week as European debt concerns faded a bit further into the background. The S&P 500 rose 2.4% as a successful Spanish bond auction outweighed a Moody's downgrade of Greece to junk status. The index reclaimed its 200-day moving average and has now popped more than 6% from its recent closing low. Cyclical sectors moved back to the top of the leaderboard after underperforming in recent weeks. This despite more disappointing news in the U.S. housing sector, which cast the tax credit-induced recovery in an even murkier light—the NAHB index posted its biggest monthly decline since late-2008, while May housing starts and building permits both disappointed. Initial jobless claims also jumped, making the market's recent renewed affection for defensive sectors seem somewhat prescient—that is, stocks have been sniffing out more moderate economic growth for some time now.

However, oil prices continued to climb from their recent lows this week, helping lift the TSX 2.2% but ended its winning streak at six days on Friday. The TSX has now reclaimed both the 200- and 50-day moving averages, led by a 6.3% advance in the energy sector over the past month, and assisted by strong gains in the gold sector—the metal hit another record high this week. There are many oft-cited reasons to like Canadian stocks, and the exposure to the raging bull market in gold is certainly one for the list.

**EarningsWatch...** One can't help but feel that the equity market's struggles over the past two months are largely expectations related. That is, they simply got too high. Back in April, we began pointing out various sentiment indicators that seemed to be pushing up against a ceiling of optimism, and indeed, that

optimism has been unwinding since the S&P 500 rolled over late in the month. This week's limited earnings results hint at more of the same. Best Buy posted 7% y/y revenue growth, but that trailed expectations and the stock was hammered. FedEx reported a 20% y/y jump in revenue, better-than-expected earnings and highlighted strong growth in overseas shipping volumes, while not seeing any slowdown in Europe. Still, the stock was hammered too as guidance for the coming year trailed heightened expectations. That probably sums up the situation in the equity market best: Earnings fundamentals remain solid, but they've recently been outpaced by expectations, and that's the stuff of a correction (and transition to a more mature bull market), not a new cyclical bear market.

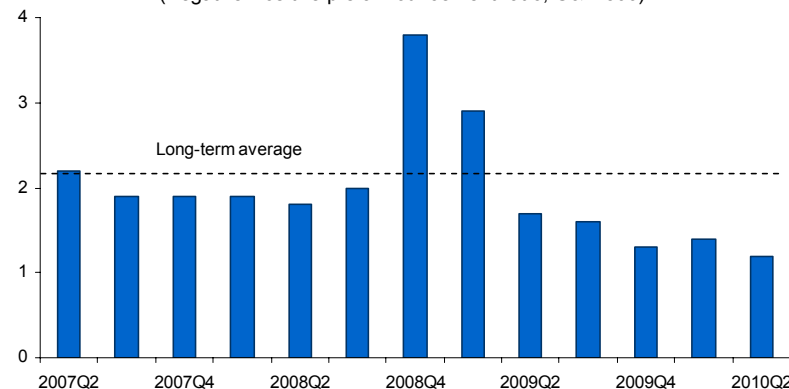
Indeed, pre-announcements for Q2 have actually been relatively good so far, despite the recent correction in stock prices. The ratio of negative-to-positive pre-announcements is sitting at just 1.2 right now versus 1.4 in the first quarter and 1.7 at the same time last year. That also compares favourably to the 2.1 long-run norm.

### Market Performance as of June 18, 2010

	Current Price	Performance (percent)					
		1 Week	1 Month	3 Months	1 Year	YTD	2009
CAC 40	3,687	3.7	1.9	-6.4	15.4	-6.3	22.3
NIKKEI 225	9,995	3.0	-2.4	-7.0	3.0	-5.2	19.0
NASDAQ	2,310	3.0	-0.3	-3.4	27.8	1.8	43.9
DAX	6,217	2.8	1.0	3.4	28.5	4.4	23.8
S&P 500	1,118	2.4	-0.3	-4.1	21.7	0.2	23.5
Dow Jones	10,451	2.3	-0.6	-3.0	22.1	0.2	18.8
S&P/TSX	11,928	2.2	1.4	-0.9	17.8	1.5	30.7
FTSE 100	5,251	1.7	-1.1	-6.9	22.7	-3.0	22.1
S&P/ASX 200	4,574	1.3	1.6	-6.2	17.7	-6.3	33.4

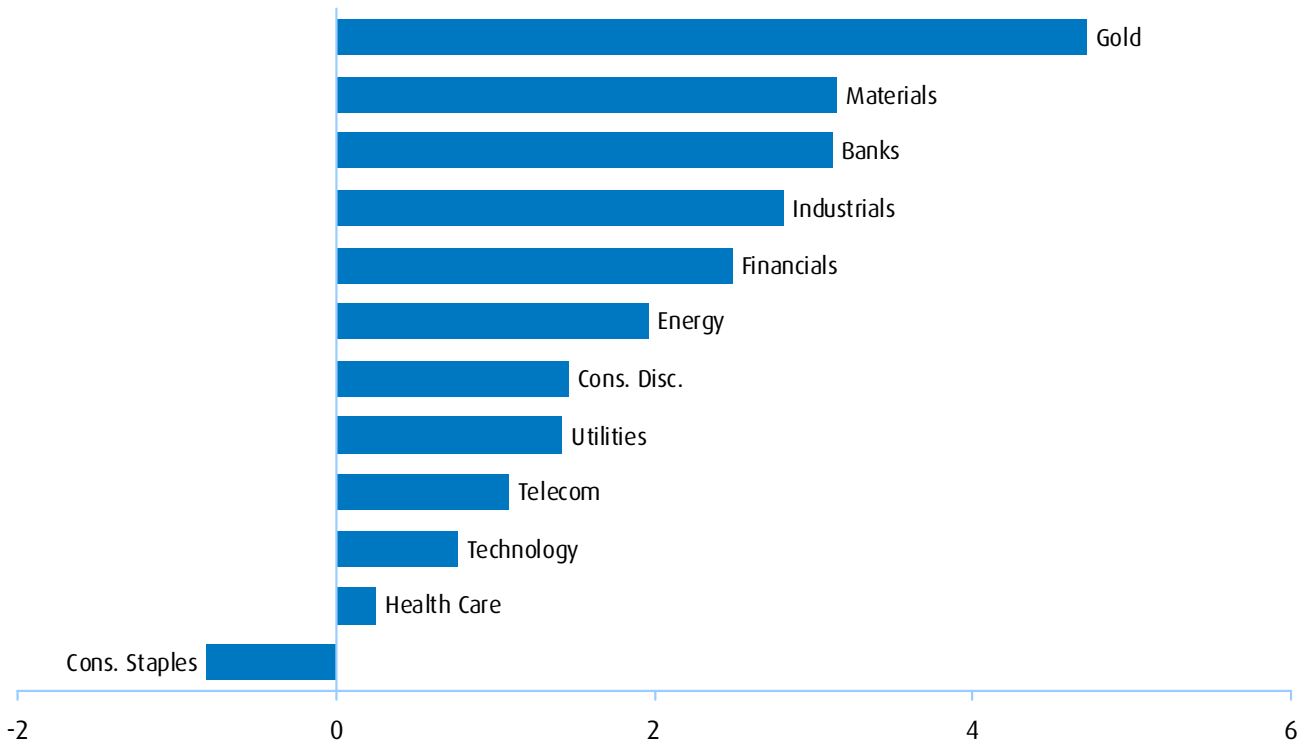
Source: Bloomberg

**Pre-announcements Still Favourable**  
(Negative/Positive pre-announcement ratio, S&P 500)

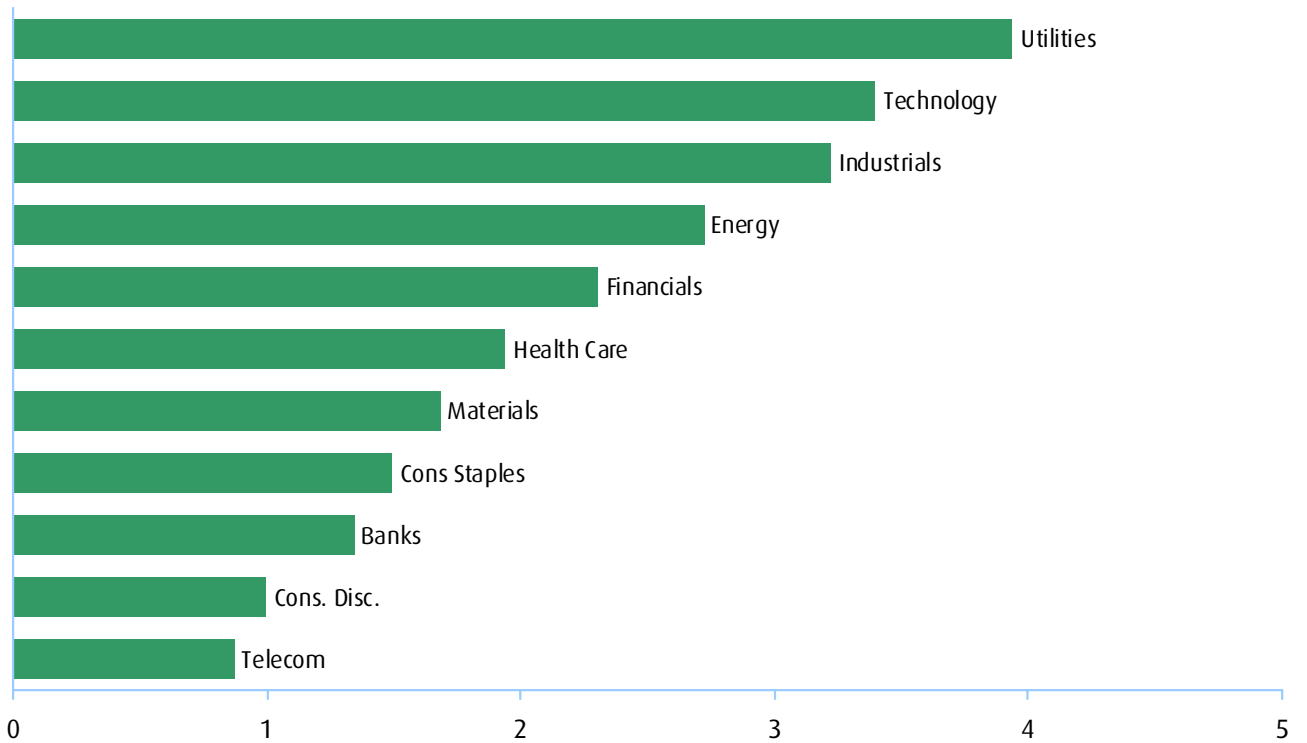


**Weekly Sector Performances as of June 18, 2010**

TSX (percent)

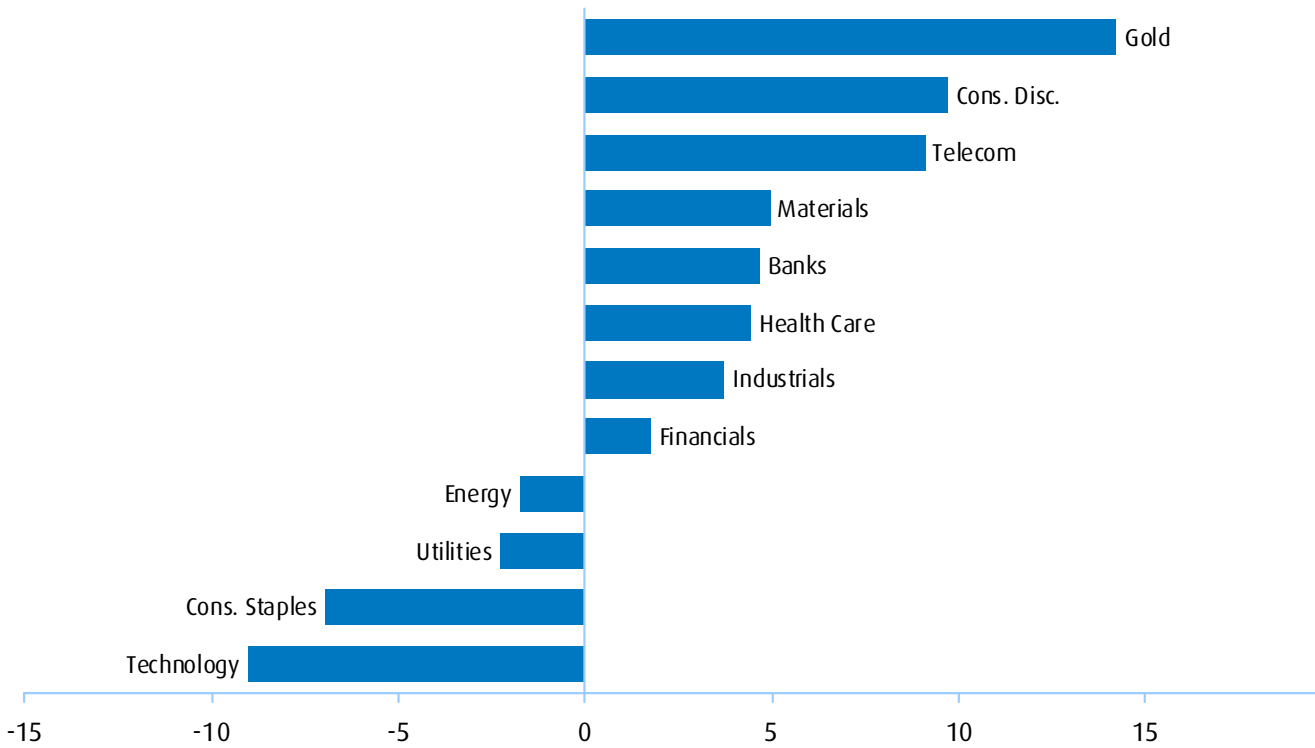


S&P 500 (percent)

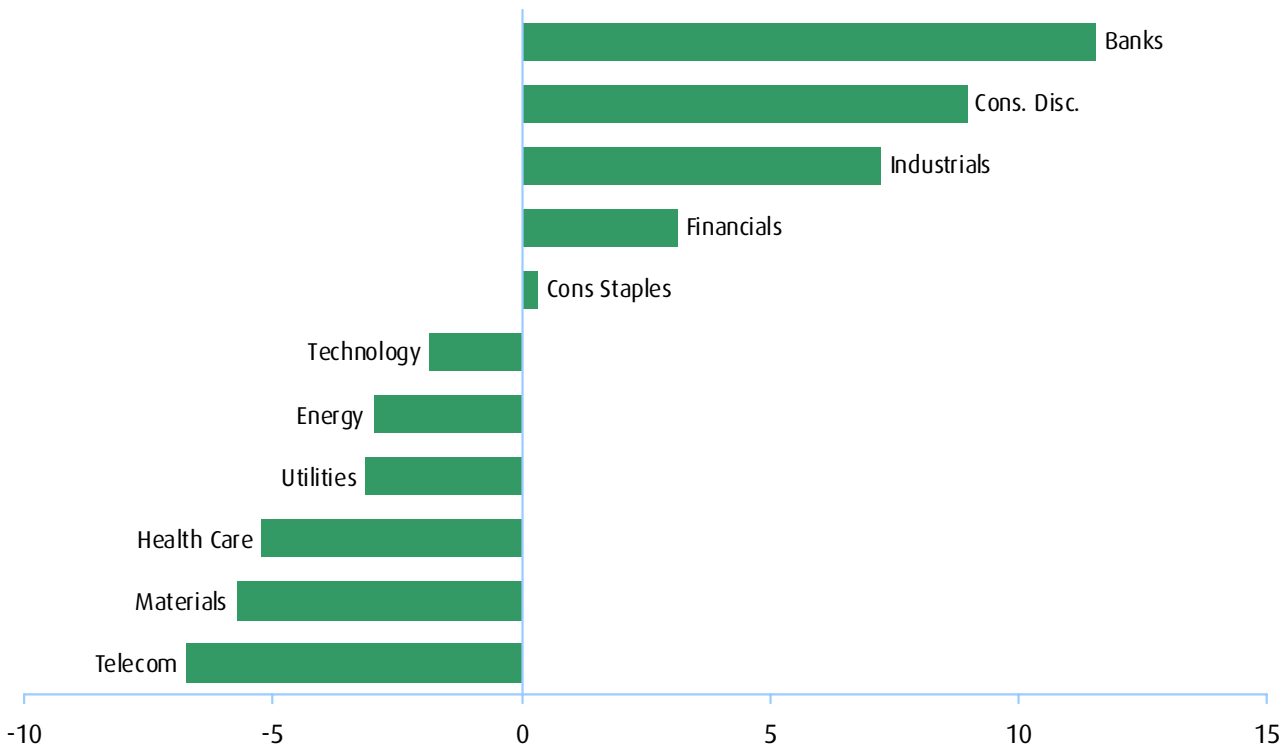


**Year-to-Date Sector Performances as of June 18, 2010**

TSX (percent)



S&P 500 (percent)



## North American Sector Performances as of June 18, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Utilities	3.9	2.0	0.3	8.2	-3.2	6.8
Information Technology	3.4	0.9	-3.1	28.3	-1.9	59.9
Industrials	3.2	-2.5	-3.7	34.3	7.2	17.3
Energy	2.7	0.8	-3.8	8.2	-3.0	11.3
Financials	2.3	-0.4	-6.1	25.1	3.1	14.8
Health Care	1.9	-0.3	-8.3	13.8	-5.2	17.1
Materials	1.7	0.2	-7.4	19.8	-5.8	45.2
Cons Staples	1.5	-2.3	-4.1	15.1	0.3	11.2
Banks	1.3	-5.4	-4.7	31.8	11.6	-8.9
Cons Discretionary	1.0	-0.4	0.0	42.0	9.0	38.8
Telecom Services	0.9	1.1	-1.0	4.6	-6.8	2.6
S&P 100 Large Cap	2.4	-0.9	-5.3	17.6	-1.8	19.1
S&P 600 Small Cap	2.4	-3.1	-2.1	32.5	6.7	23.8
S&P 400 Mid Cap	2.1	-0.6	-2.3	34.6	6.6	35.0
<b>S&amp;P 500</b>	<b>2.4</b>	<b>-0.3</b>	<b>-4.1</b>	<b>21.7</b>	<b>0.2</b>	<b>23.5</b>

### TSX Sectors

Gold	4.7	3.0	17.1	30.4	14.2	5.7
Materials	3.2	1.8	2.5	29.5	4.9	33.4
Banks	3.1	-1.5	-2.4	27.1	4.7	54.4
Industrials	2.8	3.3	0.8	27.7	3.8	23.7
Financials	2.5	-1.7	-4.5	18.4	1.8	38.3
Energy	2.0	6.3	1.5	13.6	-1.7	35.0
Cons Discretionary	1.5	0.5	4.5	24.3	9.7	11.1
Utilities	1.4	3.0	-5.5	16.8	-2.3	12.7
Telecom Services	1.1	-0.2	3.4	24.5	9.1	0.7
Information Technology	0.8	-7.2	-14.7	-19.2	-9.0	44.3
Health Care	0.3	-1.7	-1.4	30.1	4.5	28.6
Cons Staples	-0.8	-1.7	-6.6	-0.1	-7.0	6.1
Income Trusts	3.0	4.6	-1.1	24.9	4.0	29.5
REITs	2.0	0.8	-0.1	32.0	3.4	42.4
S&P/TSX Small Cap	2.4	3.9	-1.2	40.5	4.0	56.2
S&P/TSX 60 Large Cap	2.3	0.9	-0.9	14.2	1.0	27.9
S&P/TSX Mid Cap	2.2	2.9	-1.1	33.2	3.3	41.7
<b>TSX</b>	<b>2.2</b>	<b>1.4</b>	<b>-0.9</b>	<b>17.8</b>	<b>1.5</b>	<b>30.7</b>

Source: Bloomberg

The information, opinions, estimates, projections and other materials contained herein are provided as of the date hereof and are subject to change without notice. Some of the information, opinions, estimates, projections and other materials contained herein have been obtained from numerous sources and Bank of Montreal ("BMO") and its affiliates make every effort to ensure that the contents thereof have been compiled or derived from sources believed to be reliable and to contain information and opinions which are accurate and complete. However, neither BMO nor its affiliates have independently verified or make any representation or warranty, express or implied, in respect thereof, take no responsibility for any errors and omissions which may be contained herein or accept any liability whatsoever for any loss arising from any use of or reliance on the information, opinions, estimates, projections and other materials contained herein whether relied upon by the recipient or user or any other third party (including, without limitation, any customer of the recipient or user). Information may be available to BMO and/or its affiliates that is not reflected herein. The information, opinions, estimates, projections and other materials contained herein are not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information, opinions, estimates, projections and other materials be considered as investment advice or as a recommendation to enter into any transaction. Additional information is available by contacting BMO or its relevant affiliate directly. BMO and/or its affiliates may make a market or deal as principal in the products (including, without limitation, any commodities, securities or other financial instruments) referenced herein. BMO, its affiliates, and/or their respective shareholders, directors, officers and/or employees may from time to time have long or short positions in any such products (including, without limitation, commodities, securities or other financial instruments). BMO Nesbitt Burns Inc. and/or BMO Capital Markets Corp., subsidiaries of BMO, may act as financial advisor and/or underwriter for certain of the corporations mentioned herein and may receive remuneration for same. "BMO Capital Markets" is a trade name used by the Bank of Montreal Investment Banking Group, which includes the wholesale/institutional arms of Bank of Montreal, BMO Nesbitt Burns Inc., BMO Nesbitt Burns Ltée/Ltd., BMO Capital Markets Corp. and Harris N.A., and BMO Capital Markets Limited. TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd. TO U.K. RESIDENTS: The contents hereof are not directed at investors located in the U.K., other than persons described in Part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

™ - "BMO (M-bar roundel symbol) Capital Markets" is a trade-mark of Bank of Montreal, used under licence. © Copyright Bank of Montreal 2006