

Growing Pains

Equity markets slid further this week as growth concerns continued to weigh on sentiment. The S&P 500 fell 5.0% to end a dismal quarter, as consumer confidence fell sharply in June, and private-sector payroll growth of 83,000 failed to improve spirits. Banks and cyclicals took the brunt of the selling again, and the S&P 500, along with other indices in China and Europe, has suffered the dreaded dark cross—the 50-day moving average has now dipped below the 200-day moving average. Meantime, the TSX fell 4.4% on the week, and its averages are also on the verge of turning bearish. Gold stocks were a drag in Canada this week after being, by far, the top performers in recent months.

Market Performance as of July 2, 2010

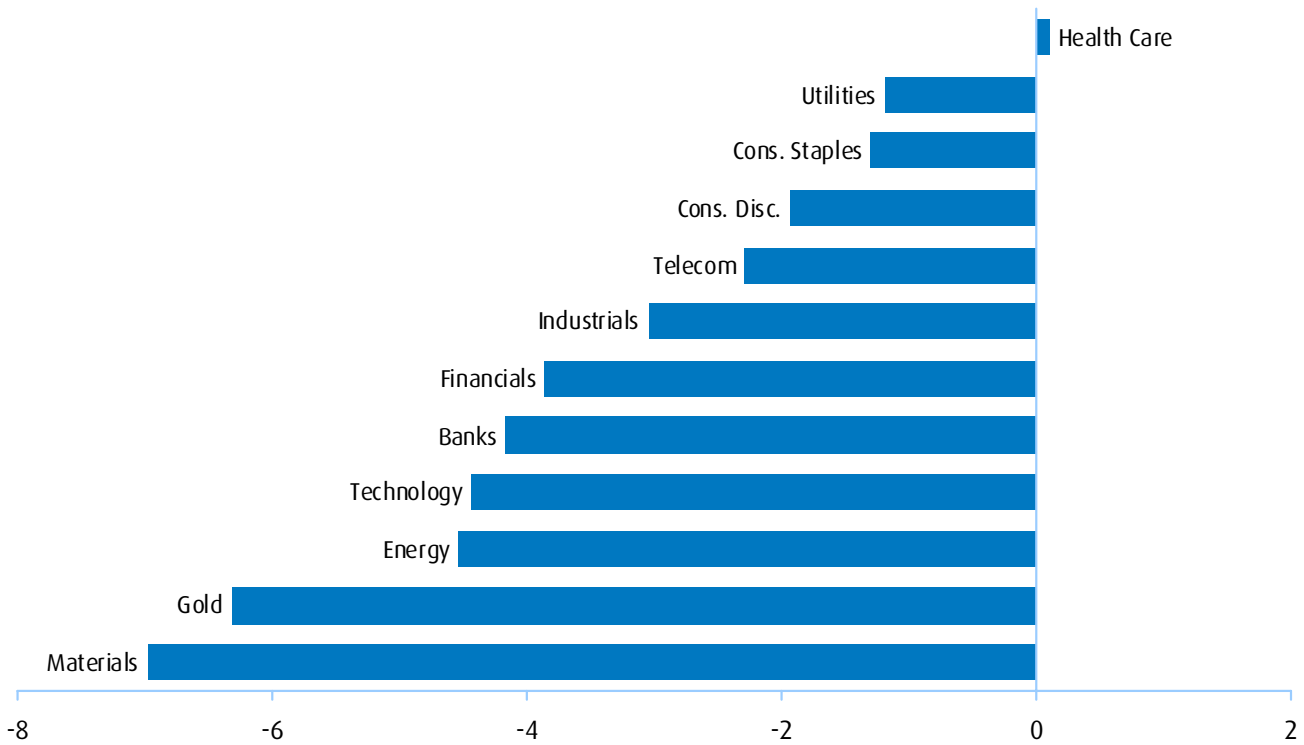
	Current Price	Performance (percent)					
		1 Week	1 Month	3 Months	1 Year	YTD	2009
DAX	5,834	-3.9	-2.5	-6.4	23.6	-2.1	23.8
S&P/ASX 200	4,265	-3.9	-3.2	-13.4	10.1	-12.7	33.4
FTSE 100	4,838	-4.1	-6.1	-15.8	14.3	-10.6	22.1
S&P/TSX	11,196	-4.4	-5.0	-7.9	9.3	-4.7	30.7
Dow Jones	9,686	-4.5	-5.5	-11.4	17.0	-7.1	18.8
CAC 40	3,348	-4.9	-4.4	-17.0	7.4	-14.9	22.3
S&P 500	1,023	-5.0	-6.9	-13.2	14.1	-8.3	23.5
NIKKEI 225	9,204	-5.5	-4.2	-18.5	-6.8	-12.7	19.0
NASDAQ	2,092	-5.9	-8.3	-12.9	16.4	-7.8	43.9

Source: Bloomberg

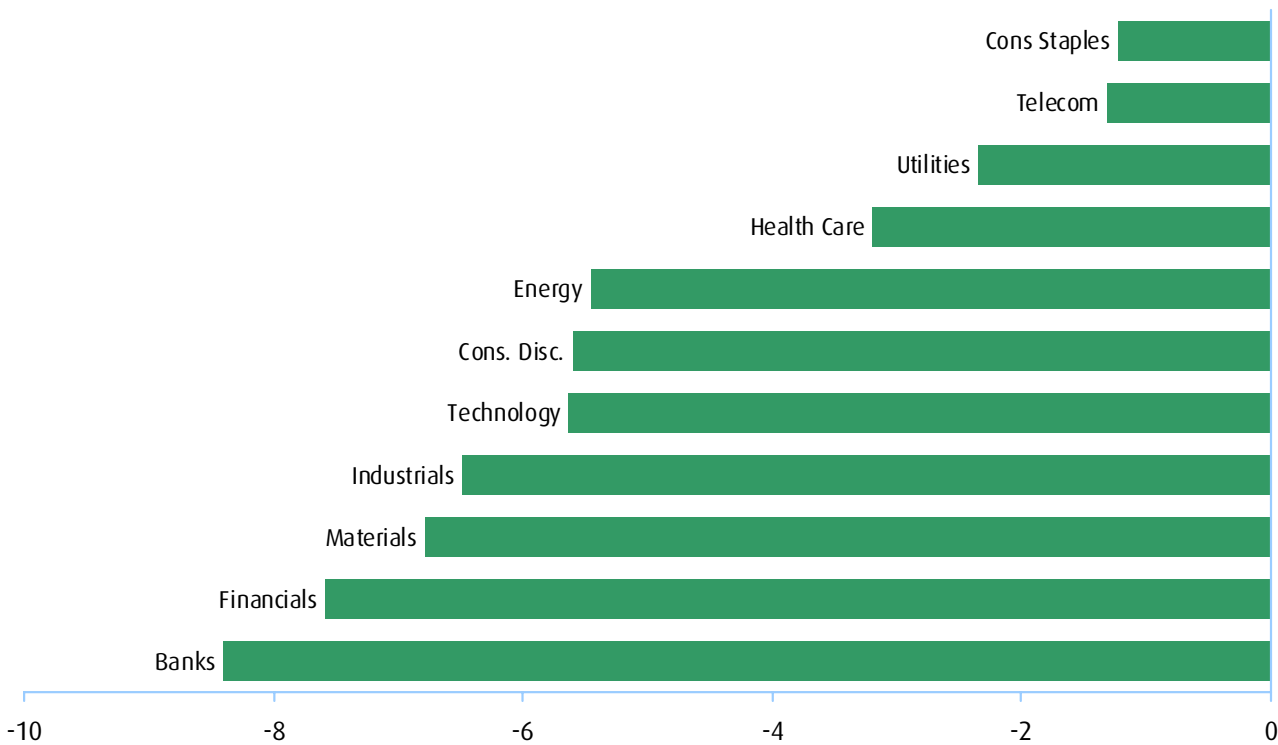
After chalking up four straight quarters of growth totalling almost 50%, the S&P 500 shed 11.9% in Q2, in what can best be described as an expectations correction. Sentiment turned from outright bullish to what is now quite bearish as the view shifted from economic recovery to fiscal belt tightening and fear of a double-dip recession. Indeed, cyclical sectors lagged along with financials in Q2, as materials, industrials, technology and consumer discretionary all posted double-digit percentage declines. The TSX fell a more modest 6.2%, buffered by a massive 21% rally in the gold sector.

This type of post-recovery expectations adjustment is not out of the ordinary. In fact, after bouncing almost 50% in about a year off the 2003 low, the S&P drifted down through the entire spring and summer, before resuming its cyclical expansion in the fall. Cyclical sectors also lagged as growth expectations downshifted, and the 50- and 200-day moving averages crossed over bearishly as they are now. Eventually, expectations were re-aligned with the reality of more modest economic growth amid tightening policy—back then it was Fed tightening, now it's fiscal tightening and some monetary tightening at various global central banks—and stock prices were cleared to move higher. A similar scenario appears to be in play right now and, unless you're firmly in the double-dip camp, the remainder of the summer could be an opportunity to accumulate equities.

Weekly Sector Performances as of July 2, 2010
 TSX (percent)

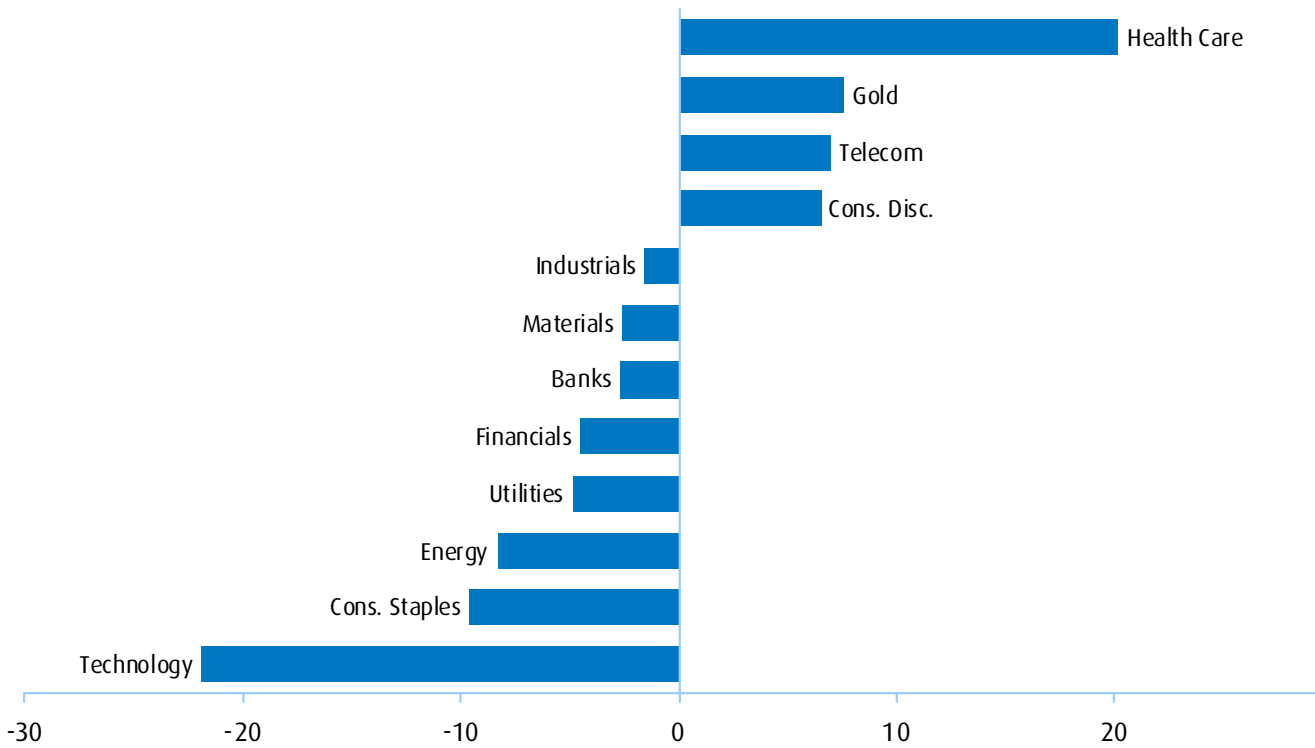


S&P 500 (percent)

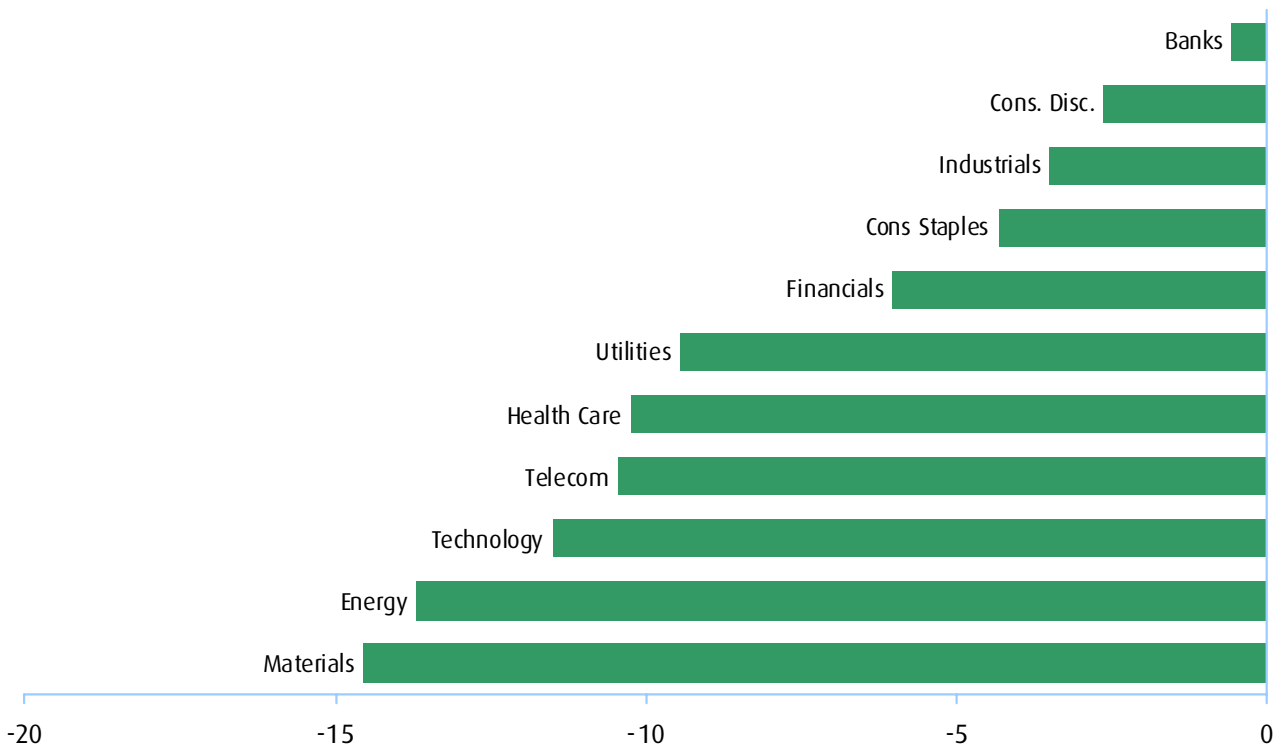


Year-to-Date Sector Performances as of July 2, 2010

TSX (percent)



S&P 500 (percent)



North American Sector Performances as of July 2, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Cons Staples	-1.2	-4.3	-9.4	10.2	-4.3	11.2
Telecom Services	-1.3	-1.0	-6.0	0.4	-10.5	2.6
Utilities	-2.3	-1.1	-6.3	2.9	-9.5	6.8
Health Care	-3.2	-3.6	-13.3	8.6	-10.3	17.1
Energy	-5.5	-6.2	-15.2	2.7	-13.7	11.3
Cons Discretionary	-5.6	-10.8	-12.2	30.0	-2.6	38.8
Information Technology	-5.6	-7.9	-13.0	16.1	-11.5	59.9
Industrials	-6.5	-8.9	-14.7	26.1	-3.5	17.3
Materials	-6.8	-7.8	-18.0	13.6	-14.6	45.2
Financials	-7.6	-8.6	-16.0	18.6	-6.0	14.8
Banks	-8.4	-12.8	-16.8	21.8	-0.6	-8.9
S&P 100 Large Cap	-4.7	-6.9	-13.8	10.4	-9.8	19.1
S&P 400 Mid Cap	-5.8	-7.9	-11.9	24.3	-3.4	35.0
S&P 600 Small Cap	-6.2	-8.4	-11.1	22.7	-2.9	23.8
S&P 500	-5.0	-6.9	-13.2	14.1	-8.3	23.5

TSX Sectors

Health Care	0.1	13.4	10.8	41.4	20.2	28.6
Utilities	-1.2	-1.8	-6.9	9.2	-4.9	12.7
Cons Staples	-1.3	-4.0	-9.8	-5.0	-9.6	6.1
Cons Discretionary	-1.9	-1.9	0.4	19.1	6.5	11.1
Telecom Services	-2.3	-2.3	2.2	20.9	7.0	0.7
Industrials	-3.1	-1.8	-6.4	19.3	-1.5	23.7
Financials	-3.9	-6.5	-11.1	9.1	-4.5	38.3
Banks	-4.2	-6.3	-10.0	12.6	-2.7	54.4
Information Technology	-4.4	-16.6	-21.3	-26.4	-21.9	44.3
Energy	-4.5	-3.9	-8.2	7.5	-8.3	35.0
Gold	-6.3	-1.6	12.3	13.4	7.6	5.7
Materials	-7.0	-5.1	-4.5	13.8	-2.6	33.4
REITs	-0.9	0.6	0.9	31.8	3.3	42.4
Income Trusts	-3.4	-1.1	-6.4	21.5	-0.1	29.5
S&P/TSX Mid Cap	-4.1	-3.6	-7.4	24.6	-2.2	41.7
S&P/TSX 60 Large Cap	-4.4	-5.4	-8.0	5.6	-5.4	27.9
S&P/TSX Small Cap	-4.9	-3.9	-7.8	32.0	-2.7	56.2
TSX	-4.4	-5.0	-7.9	9.3	-4.7	30.7

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