

Stress Relief

Equity markets rose this week as solid earnings results outweighed weak U.S. housing market data and anti-climactic European bank stress test results. The S&P 500 rose 3.5%, with cyclicals moving back to the top of the leaderboard after underperforming for about three months—Caterpillar and 3M were among many industrials posting strong Q2 earnings results. Caterpillar and GE were among a handful of companies to serve up a dividend hike, including a 30% boost by Starbucks. Meantime, Friday’s long-awaited release of the European bank stress test results had little market impact as only 7 of 91 banks failed, but the criteria were deemed by most to be on the generous side. The TSX added a more modest 1.2% as the banks underperformed their U.S. counterparts.

EarningsWatch... The Q2 reporting season is off to an impressive start. Even if many stocks are struggling to move higher, the underlying results look solid, with little to suggest that companies are seeing a double-dip recession coming down the pipe. To date, 84% of S&P 500 companies have beaten earnings expectations, on pace for the highest rate so far this cycle. However, a more modest 69% have beaten revenue estimates, which seems to be the real measuring stick this quarter—investors don’t seem interested in rewarding cost cut-driven earnings surprises anymore at this stage of the cycle, but rather want to see signs of firm demand. Forward earnings guidance also remains strong. In the past quarter, 46% of all U.S. companies have issued above-consensus earnings guidance, almost 10 ppts more than the historical norm. Net positive guidance (i.e., positive minus negative) also remains high, indicating that

companies themselves continue to see a brighter earnings environment ahead than most analysts (see chart).

Some highlights from this week:

Caterpillar... *“Orders continue to outpace shipments, and we expect to increase production in the second half of the year.”*

GE... Revenue missed estimates, but media buying, rail loadings and credit demand were all higher.

Intel... Increased 2010 guidance to record level; said consumer led initial recovery, but businesses are now spending too.

Microsoft... Reported strong sales to corporate customers.

Bank of America... *“We’re in a period of muddling along with this economy, and it’s going to take a few more quarters for you to see sustained activity.”*

Wells Fargo... *“Credit quality has indeed turned the corner...this positive trend will continue over the coming year.”*

Citigroup... Lower loan loss reserves, and *“credit quality improved for the fourth consecutive quarter”*.

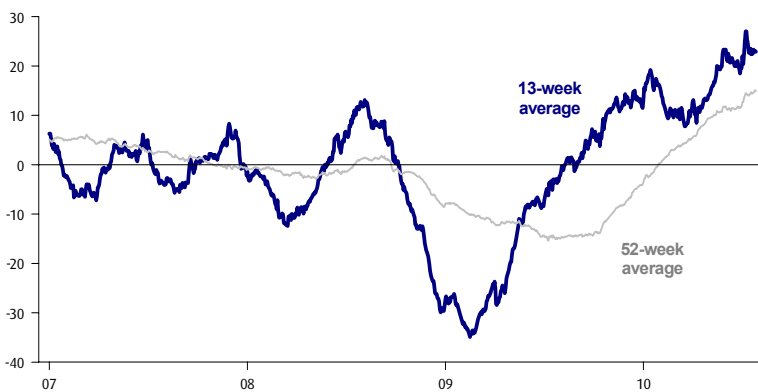
Market Performance as of July 23, 2010

	Current Price	Performance (percent)					2009
		1 Week	1 Month	3 Months	1 Year	YTD	
NASDAQ	2,269	4.1	0.7	-10.3	15.0	0.0	43.9
S&P 500	1,103	3.5	1.0	-9.4	12.9	-1.1	23.5
Dow Jones	10,425	3.2	1.2	-7.0	14.9	0.0	18.8
CAC 40	3,607	3.1	-1.0	-8.7	6.9	-8.4	22.3
FTSE 100	5,313	3.0	2.6	-7.2	16.5	-1.9	22.1
DAX	6,166	2.1	-0.6	-1.5	17.5	3.5	23.8
S&P/TSX	11,714	1.2	-0.8	-4.3	9.7	-0.3	30.7
S&P/ASX 200	4,475	0.9	-0.8	-8.9	9.9	-8.3	33.4
NIKKEI 225	9,431	0.2	-5.0	-13.6	-3.7	-10.6	19.0

Source: Bloomberg

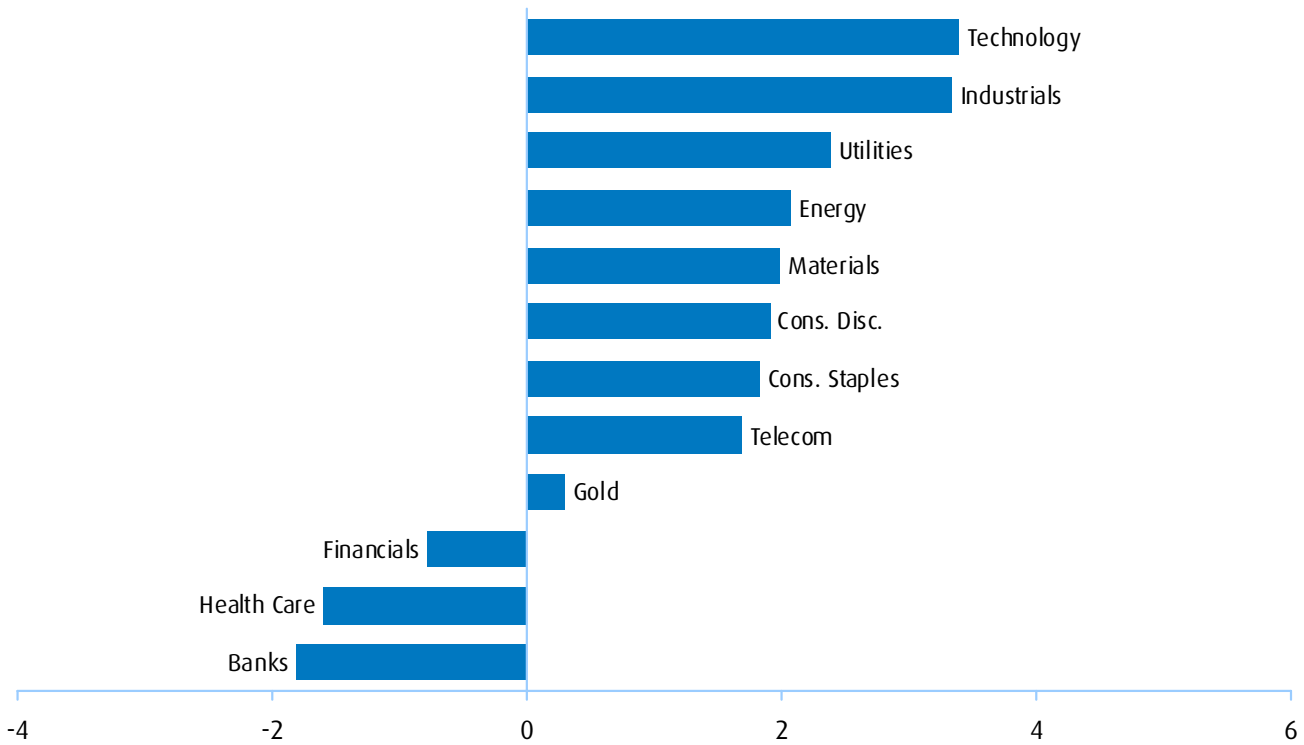
Net % of U.S. Companies Issuing Above-Consensus EPS Guidance

Relative to historical norm

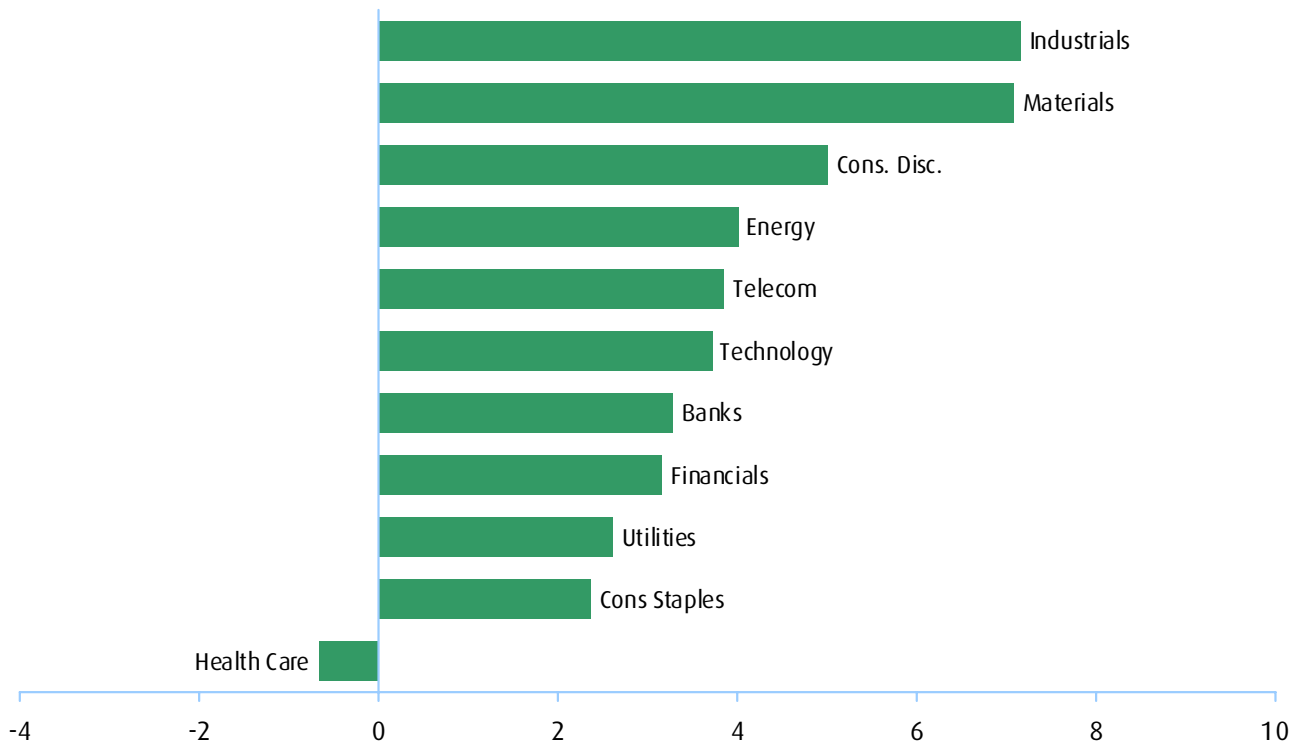


Weekly Sector Performances as of July 23, 2010

TSX (percent)

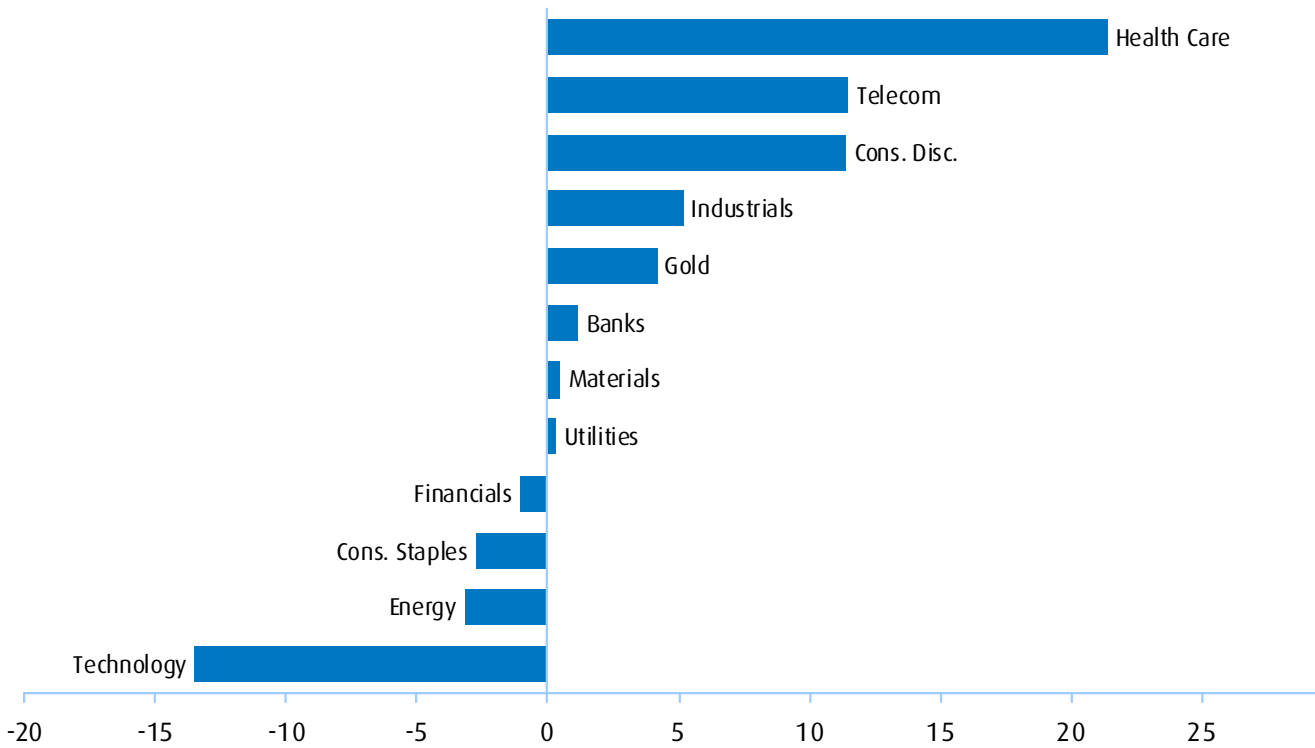


S&P 500 (percent)

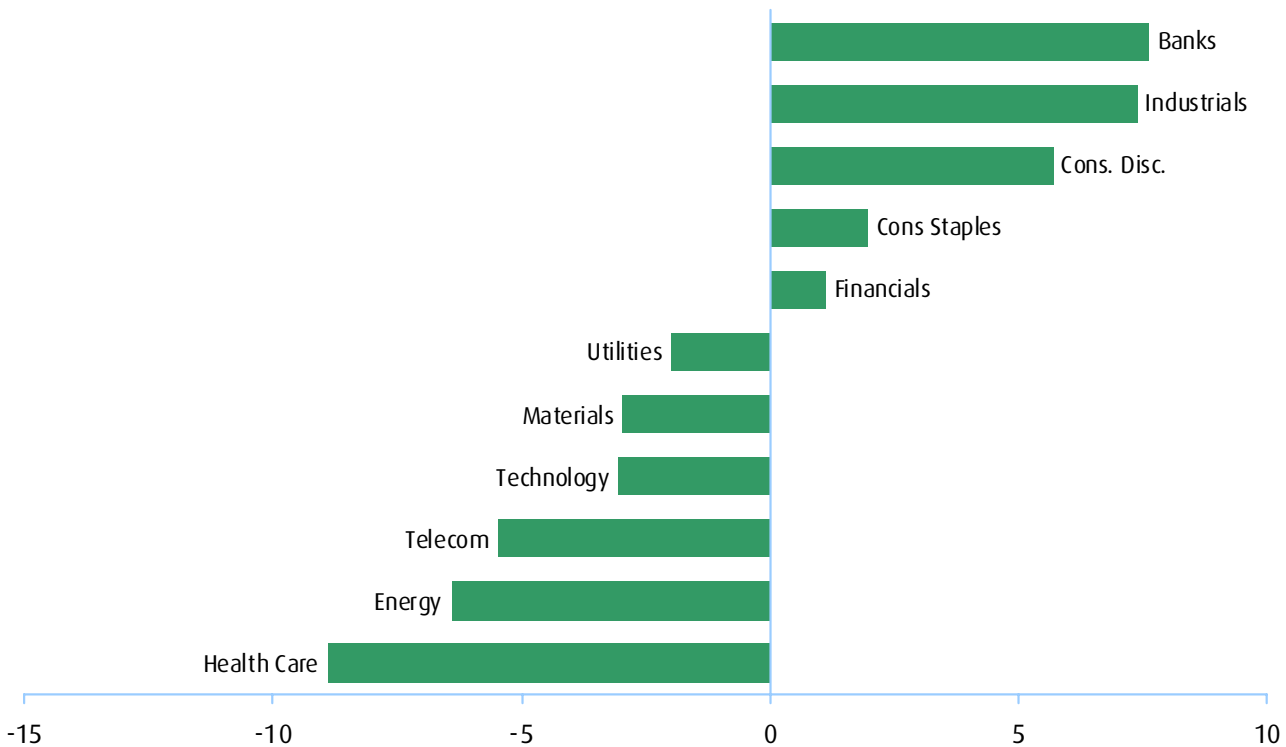


Year-to-Date Sector Performances as of July 23, 2010

TSX (percent)



S&P 500 (percent)



North American Sector Performances as of July 23, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Industrials	7.2	2.8	-9.8	28.1	7.4	17.3
Materials	7.1	4.8	-8.4	13.0	-3.0	45.2
Cons Discretionary	5.0	0.1	-11.8	26.0	5.7	38.8
Energy	4.0	0.3	-13.1	2.5	-6.4	11.3
Telecom Services	3.9	1.4	0.7	2.1	-5.5	2.6
Information Technology	3.7	0.9	-9.3	13.7	-3.1	59.9
Banks	3.3	-1.0	-17.0	24.7	7.6	-8.9
Financials	3.2	0.1	-13.4	16.6	1.1	14.8
Utilities	2.6	5.7	-0.5	4.7	-2.0	6.8
Cons Staples	2.4	2.7	-2.8	11.7	2.0	11.2
Health Care	-0.7	-2.4	-9.2	3.4	-8.9	17.1
S&P 600 Small Cap	6.1	1.6	-11.5	20.5	5.0	23.8
S&P 400 Mid Cap	5.0	1.7	-10.2	23.6	5.1	35.0
S&P 100 Large Cap	3.2	1.1	-9.6	9.7	-2.8	19.1
S&P 500	3.5	1.0	-9.4	12.9	-1.1	23.5

TSX Sectors

Information Technology	3.4	-4.5	-14.3	-20.9	-13.5	44.3
Industrials	3.3	3.1	-0.8	23.6	5.2	23.7
Utilities	2.4	3.8	-0.4	15.9	0.3	12.7
Energy	2.1	0.1	-3.7	8.5	-3.2	35.0
Materials	2.0	-3.2	-2.0	15.6	0.4	33.4
Cons Discretionary	1.9	1.5	3.7	22.0	11.4	11.1
Cons Staples	1.8	4.6	0.9	3.3	-2.8	6.1
Telecom Services	1.7	1.5	4.5	22.5	11.5	0.7
Gold	0.3	-7.1	4.3	11.7	4.2	5.7
Financials	-0.8	-1.8	-8.9	5.7	-1.1	38.3
Health Care	-1.6	4.4	11.4	38.8	21.4	28.6
Banks	-1.8	-2.2	-9.1	11.6	1.2	54.4
Income Trusts	3.0	1.5	-2.2	25.0	4.6	29.5
REITs	2.0	3.1	2.9	34.4	7.4	42.4
S&P/TSX Mid Cap	3.0	1.7	-2.9	27.6	3.5	41.7
S&P/TSX Small Cap	2.6	0.4	-4.9	35.4	2.4	56.2
S&P/TSX 60 Large Cap	0.7	-1.5	-4.7	5.4	-1.4	27.9
TSX	1.2	-0.8	-4.3	9.7	-0.3	30.7

Source: Bloomberg

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