

## Canadian Profits Keep Chugging

Equity markets were little changed this week as the earnings season continued to progress largely ahead of expectations, but failed to inspire the bulls. The S&P 500 dipped 0.1% as technology and consumer stocks weighed. Financials rose a solid 1.0% amid news that the Basel banking rules will be relaxed. Meantime, the TSX was unchanged, led by financials but hurt by declines in gold and telecom. The Canadian earnings season shifted into high gear this week, with 49% of TSX companies beating profit estimates thus far, about in line with the prior two quarters but trailing the 77% of S&P 500 companies to post surprises. Revenue surprises have been scarcer on both sides of the border, with 46% and 62% of TSX and S&P 500 companies beating the consensus forecast. Some highlights from Canada this week:

**CN and CP Rail...** Both reported 20%-plus y/y profit growth, helped by stronger volumes and cost cuts. CN says they “continue to see significant volatility in weekly demand”.

**Potash...** Higher sales volumes offset lower potash prices.

**Barrick Gold...** Boosted dividend by 20%, joining a handful of others to do the same in recent weeks.

**Suncor...** Higher oil prices and Petro-Canada takeover boost profits.

**Show me the money...** Dividends are in style again, and for good reason. For one, the S&P 500 is at about the same level it was more than 12 years ago. While investors have made nothing through price appreciation since early-1998 (and actually lost money in real terms), they would have racked up a 22%

gain by re-investing their dividends, highlighting the importance of an income stream in a secular bear market. Meantime, the alternatives for investors desiring income are not all that compelling given the low level of bond yields. At the same time, very healthy corporate balance sheets are making dividend hikes possible as we pull out of recession—see the recent increases by GE, Caterpillar, Barrick Gold and others.

Indeed, one benefit of dividends over bond coupons is their ability to grow and provide inflation protection over time. Among S&P 500 companies with dividend yields currently above the 10-year government bond yield, and that have not missed a quarterly payment in the past decade, 40 firms have produced 10-year annual growth in per-share dividends above the rate of inflation. Impressively, every major sector of the market is represented in that list, giving investors ample opportunity to create a diverse portfolio of stocks, with a steady track record of real dividend growth, that yield more than government bonds. In

### Market Performance as of July 30, 2010

	Current Price	Performance (percent)					2009
		1 Week	1 Month	3 Months	1 Year	YTD	
NIKKEI 225	9,537	1.1	1.6	-13.7	-6.2	-9.6	19.0
CAC 40	3,643	1.0	5.8	-4.6	6.0	-7.4	22.3
S&P/ASX 200	4,507	0.7	4.2	-6.8	7.4	-7.7	33.4
Dow Jones	10,466	0.4	7.1	-4.9	14.3	0.4	18.8
S&P/TSX	11,713	0.0	3.7	-4.1	9.7	-0.3	30.7
S&P 500	1,102	-0.1	6.9	-7.2	11.6	-1.2	23.5
DAX	6,148	-0.3	3.1	0.2	14.7	3.2	23.8
NASDAQ	2,255	-0.7	6.9	-8.4	13.6	-0.6	43.9
FTSE 100	5,258	-1.0	6.9	-5.3	13.5	-2.9	22.1

Source: Bloomberg

### Earnings Season Summary (% beating estimates)

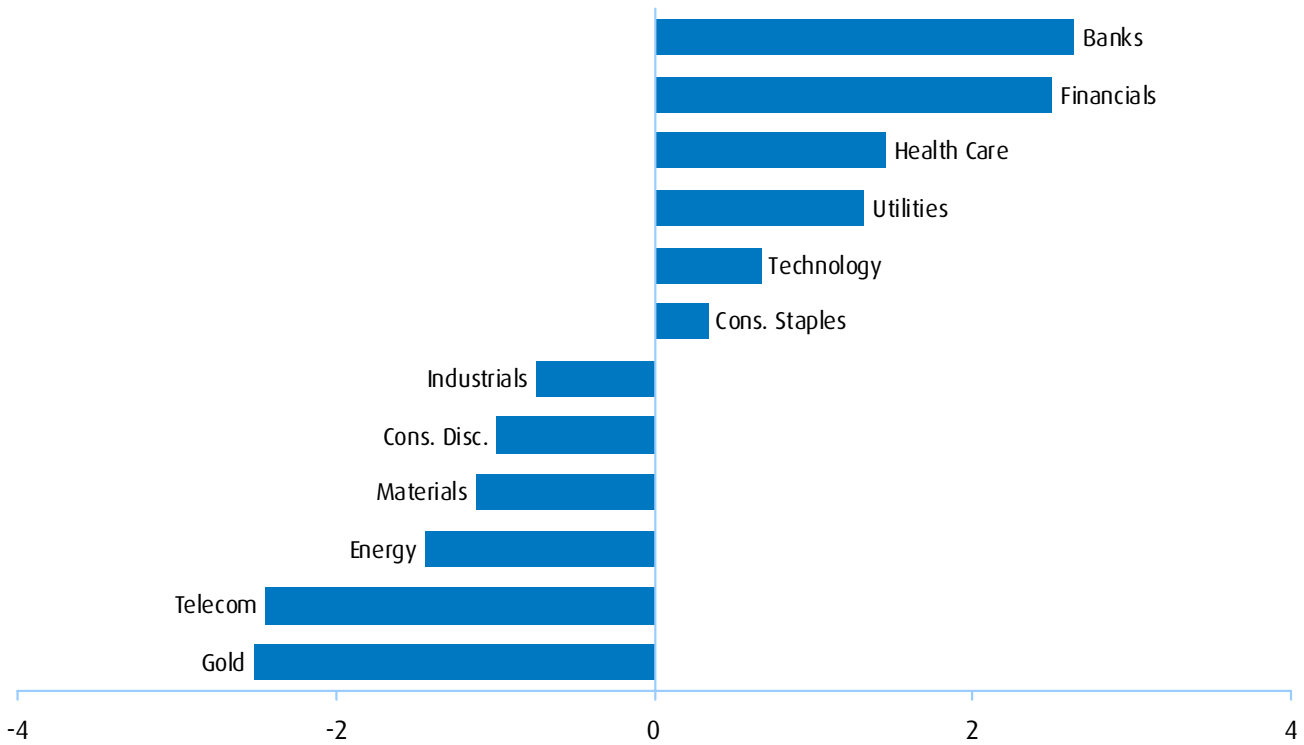
	2010Q2*	2010Q1	2009Q4	2009Q3	2009Q2
<b>Earnings per share</b>					
TSX	49.2	48.2	49.8	52.9	52.7
S&P 500	77.2	80.7	76.4	82.3	72.3
<b>Revenue</b>					
TSX	45.8	36.3	46.2	40.3	44.4
S&P 500	62.1	67.0	67.8	59.1	50.9

\*Earnings season to date. Source: Bloomberg.

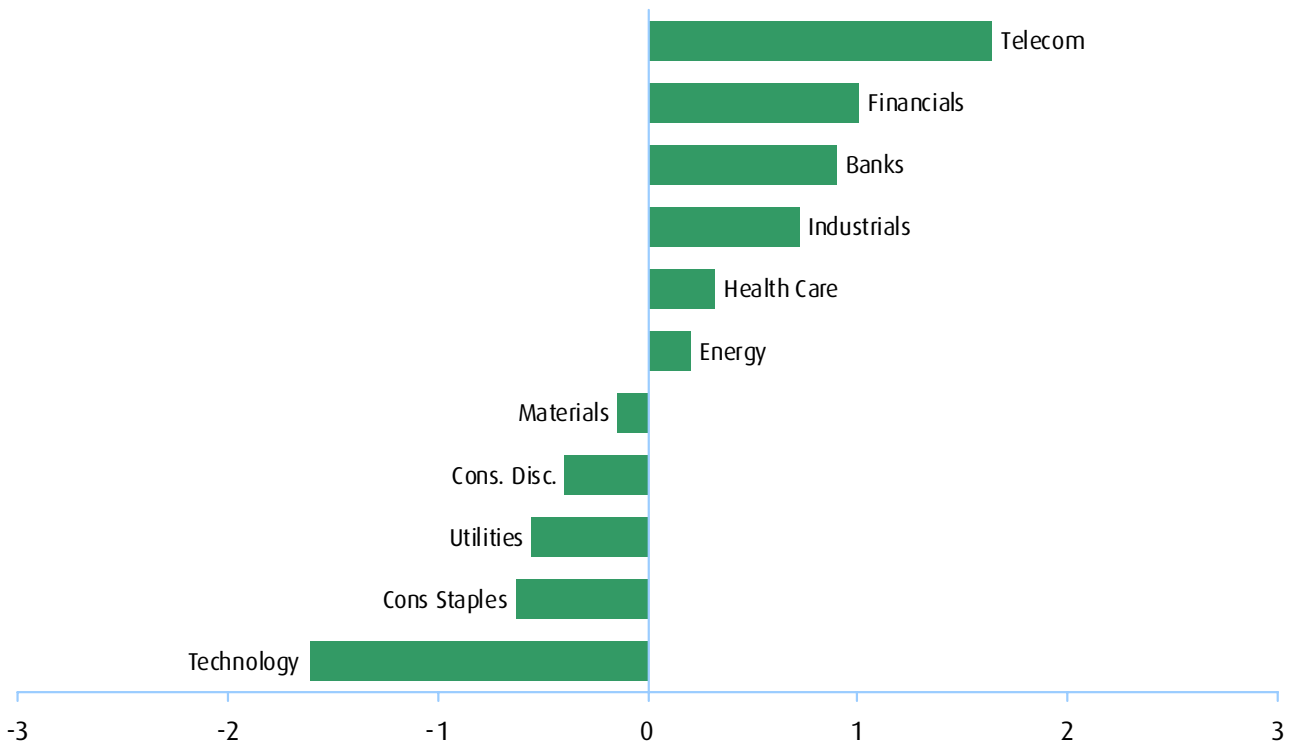
Canada, there are 17 companies that fit the same bill, mostly concentrated in the financial sector, but with representation also in energy, utilities, industrials and telecom. After being rendered nearly obsolete in 1999, dividends matter again, and there are plenty of stocks in North America that offer a higher yield than government bonds, while providing inflation protection at the same time.

**Weekly Sector Performances as of July 30, 2010**

TSX (percent)

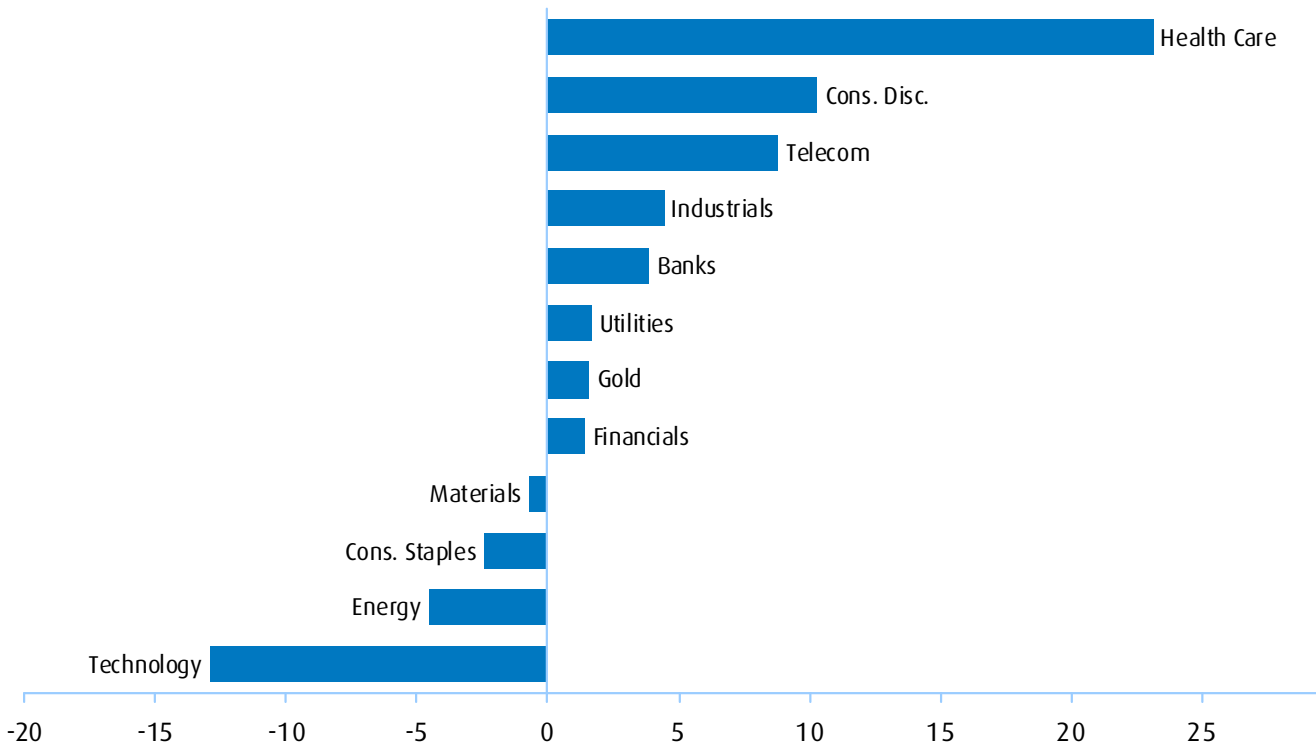


S&P 500 (percent)

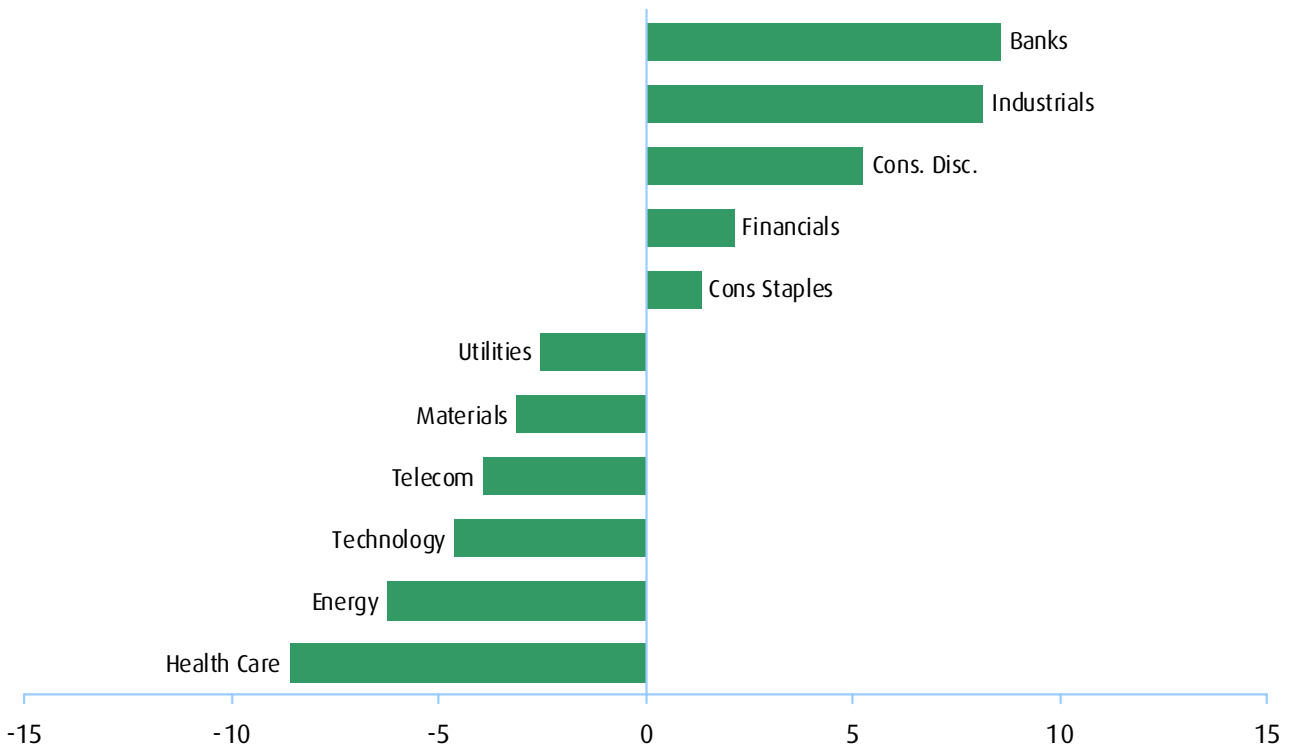


**Year-to-Date Sector Performances as of July 30, 2010**

TSX (percent)



S&P 500 (percent)



## North American Sector Performances as of July 30, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Telecom Services	1.6	7.9	3.3	1.4	-3.9	2.6
Financials	1.0	6.6	-9.0	14.2	2.1	14.8
Banks	0.9	6.3	-14.6	20.5	8.6	-8.9
Industrials	0.7	10.3	-7.6	26.4	8.2	17.3
Health Care	0.3	1.3	-7.6	1.5	-8.6	17.1
Energy	0.2	8.0	-10.3	4.1	-6.2	11.3
Materials	-0.1	12.2	-5.8	11.6	-3.1	45.2
Cons Discretionary	-0.4	7.7	-9.8	24.4	5.3	38.8
Utilities	-0.5	7.3	-0.3	3.5	-2.5	6.8
Cons Staples	-0.6	5.8	-2.0	9.6	1.3	11.2
Information Technology	-1.6	7.2	-7.8	12.4	-4.6	59.9
S&P 100 Large Cap	0.1	7.0	-7.4	8.8	-2.6	19.1
S&P 600 Small Cap	-0.2	6.3	-8.6	17.8	4.8	23.8
S&P 400 Mid Cap	-0.4	6.8	-7.6	21.2	4.6	35.0
<b>S&amp;P 500</b>	<b>-0.1</b>	<b>6.9</b>	<b>-7.2</b>	<b>11.6</b>	<b>-1.2</b>	<b>23.5</b>

### TSX Sectors

Banks	2.6	6.4	-5.4	11.9	3.8	54.4
Financials	2.5	5.9	-5.0	4.4	1.4	38.3
Health Care	1.5	1.6	11.2	44.9	23.1	28.6
Utilities	1.3	6.7	4.1	17.3	1.6	12.7
Information Technology	0.7	9.5	-14.5	-20.0	-12.9	44.3
Cons Staples	0.3	8.1	3.5	6.4	-2.4	6.1
Industrials	-0.7	6.0	-0.2	20.5	4.4	23.7
Cons Discretionary	-1.0	3.7	2.4	21.2	10.3	11.1
Materials	-1.1	-1.5	-6.2	17.2	-0.7	33.4
Energy	-1.4	3.9	-4.4	9.6	-4.6	35.0
Telecom Services	-2.4	1.7	2.1	20.9	8.8	0.7
Gold	-2.5	-10.3	-5.8	14.0	1.6	5.7
REITs	0.8	6.1	3.9	33.3	8.2	42.4
Income Trusts	-2.0	2.8	-3.2	22.9	2.5	29.5
S&P/TSX 60 Large Cap	0.2	3.5	-4.3	5.6	-1.2	27.9
S&P/TSX Small Cap	0.1	3.9	-4.6	35.8	2.5	56.2
S&P/TSX Mid Cap	-0.7	4.5	-3.3	26.8	2.9	41.7
<b>TSX</b>	<b>0.0</b>	<b>3.7</b>	<b>-4.1</b>	<b>9.7</b>	<b>-0.3</b>	<b>30.7</b>

Source: Bloomberg

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