

POT Luck

Equity markets continued to stumble this week, as growing concern about a double-dip recession outweighed a small flurry of M&A activity. The S&P 500 fell 0.7%, dragged down by a jump in initial jobless claims to 500,000 in the August 14th week, and a negative print on the Philly Fed index, it's first in more than a year. Interestingly, cyclicals performed relatively well on the week despite growth concerns—consumer stocks were helped by better-than-expected earnings results, while technology got a boost from Intel's announced \$7.7 bln purchase of McAfee.

Meantime, the TSX rose 1.7% on the back of a 7.8% gain in the materials sector. BHP Billiton's unsolicited US\$38.6 bln bid for Potash Corp. lifted the stock more than 30%, and boosted other commodity producers in a week that continued to see sentiment ravaged. With this week's action, M&A activity appears to be well on the rebound after enduring a deep freeze during the financial crisis. There has been \$412 bln worth of announced deals globally in the past quarter, up 36% from the same period last year. Still, to put it in perspective, that level of activity pales in comparison to the 2007 bonanza, which, at its height, saw \$1.8 trln worth of deals in one 13-week period.

EarningsWatch... U.S. retailers were in the earnings confessional this week, and results portrayed a still-sluggish spending environment. Home Depot and Wal-Mart beat earnings expectations, but revenues missed the mark. Home Depot lowered its full-year revenue growth projection, while Wal-Mart said, "even though we had some fairly dramatic price reductions, those reductions weren't enough to drive the traffic we had hoped for." Still, a solid 78% of retailers beat earnings expectations this reporting season (better than the S&P 500), but just half beat revenue expectations (worse than the S&P 500). The retail sector appears

to be surviving on cost cuts, while waiting for a recovery in employment and consumer confidence to rekindle sales.

While the Q2 earnings season is mostly wrapped up in the U.S., the Canadian banks will begin reporting their results next week—BMO kicks it off on Tuesday.

Yield to stocks... Bond yields continued to plunge this week, with U.S. 10-year yields now at the lowest level since March-2009, just after equity markets bottomed. Corporate yields have also fallen sharply and, interestingly, spreads have actually narrowed (Baa minus 10-year Treasuries) since mid-year. With interest rates falling to such low levels, the dividend yields on the TSX and S&P 500 are now about in-line with their respective 10-year government bond yields, something not seen (short a brief period at the height of the bear market) since the 1950s. The global hunt for yield is heating up, something we explored further in this week's edition of Focus:

<http://www.bmonesbittburns.com/economics/focus/recent/100820doc.pdf>

Market Performance as of August 20, 2010

	Current Price	Performance (percent)					2009
		1 Week	1 Month	3 Months	1 Year	YTD	
S&P/TSX	11,722	1.7	0.8	2.8	9.5	-0.2	30.7
NASDAQ	2,180	0.3	-1.9	-1.1	9.6	-3.9	43.9
S&P 500	1,072	-0.7	-1.1	0.0	6.4	-3.9	23.5
Dow Jones	10,214	-0.9	-0.2	1.4	9.2	-2.1	18.8
DAX	6,005	-1.7	0.6	2.3	13.1	0.8	23.8
FTSE 100	5,195	-1.5	1.1	2.4	9.2	-4.0	22.1
CAC 40	3,526	-2.3	1.7	2.7	0.6	-10.4	22.3
NIKKEI 225	9,179	-0.8	-1.3	-8.5	-11.6	-13.0	19.0
S&P/ASX 200	4,462	-0.4	1.0	2.8	1.6	-8.6	33.4

Source: Bloomberg

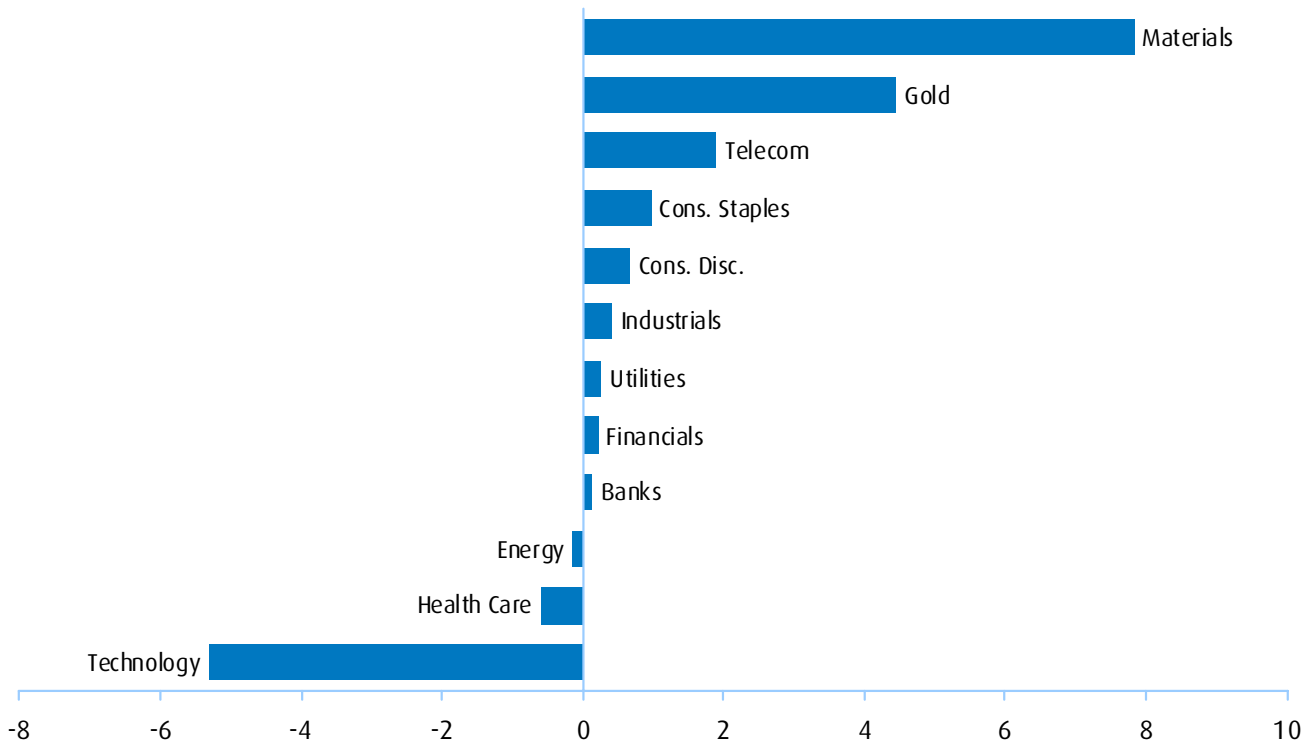
Dividend Yield minus 10-Yr Bond Yield

(ppts)

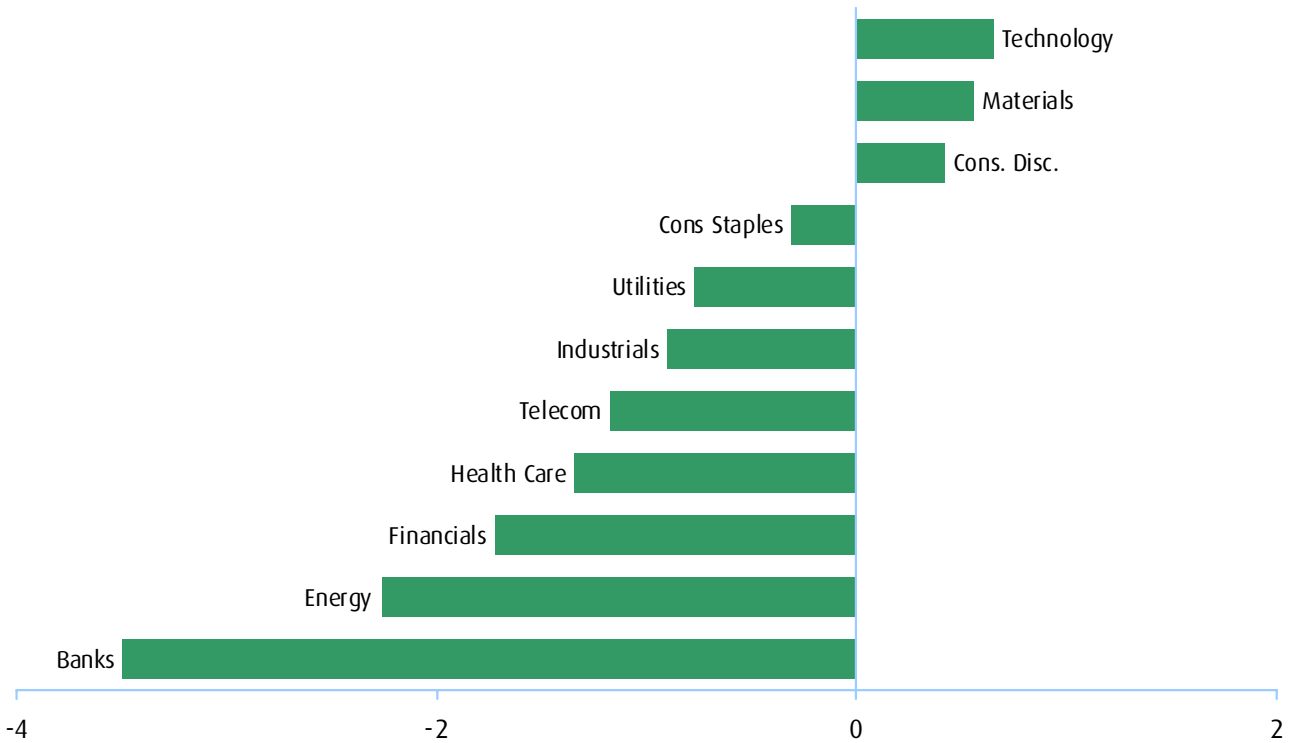


Weekly Sector Performances as of August 20, 2010

TSX (percent)

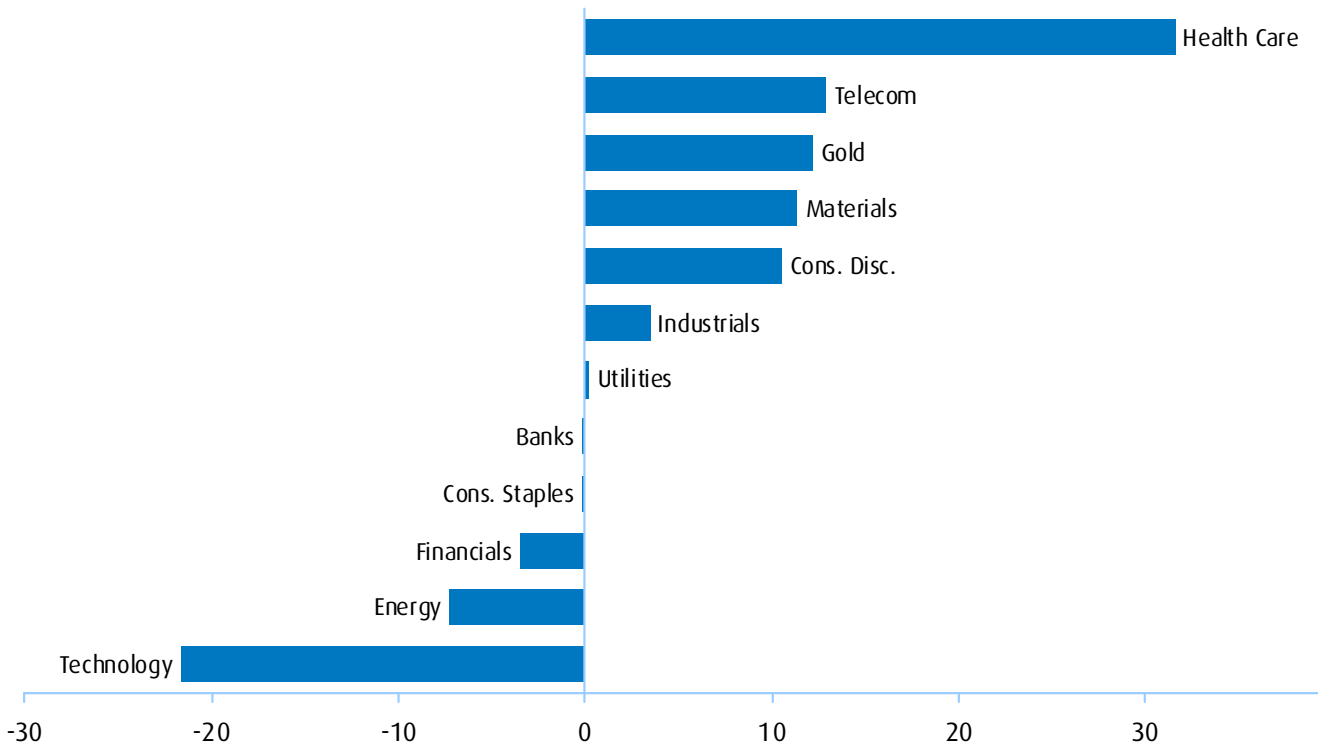


S&P 500 (percent)

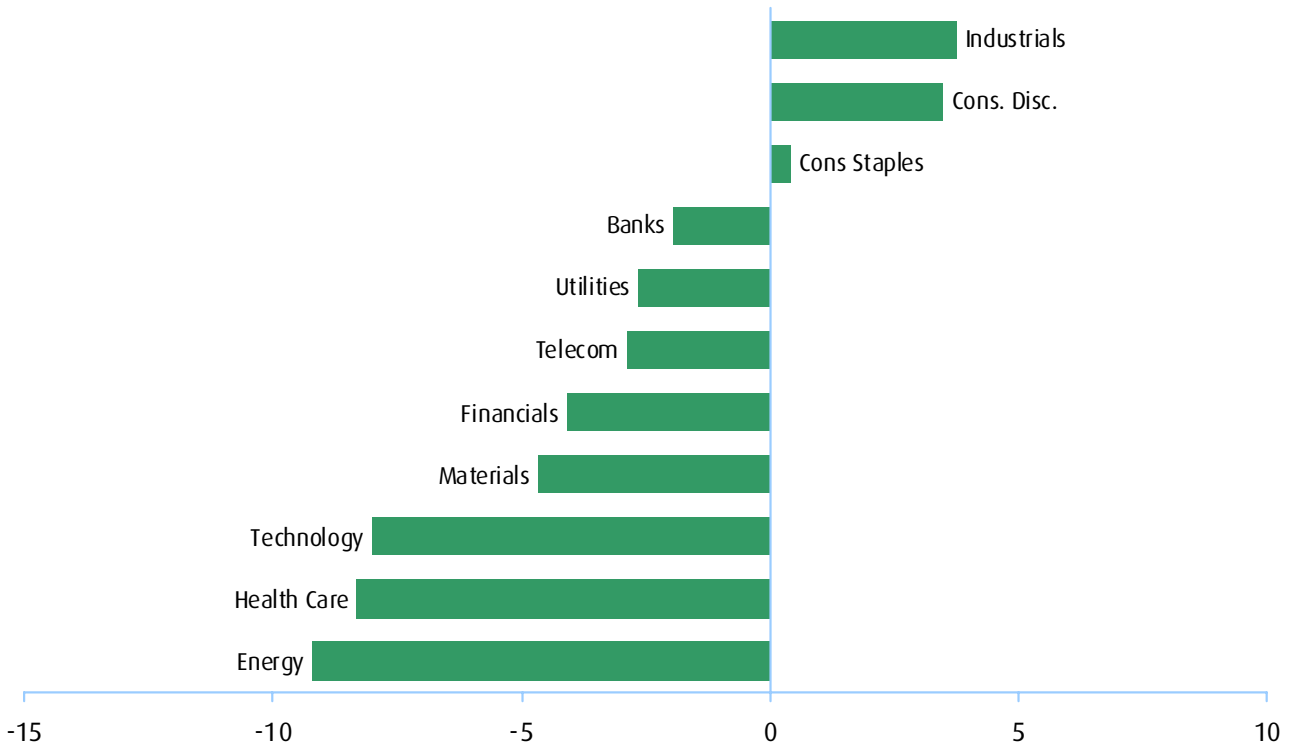


Year-to-Date Sector Performances as of August 20, 2010

TSX (percent)



S&P 500 (percent)



North American Sector Performances as of August 20, 2010

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2009
Information Technology	0.6	-3.3	-1.3	7.6	-8.0	59.9
Materials	0.6	2.1	6.4	7.4	-4.7	45.2
Cons Discretionary	0.4	0.4	-0.8	19.7	3.5	38.8
Cons Staples	-0.3	-0.7	1.2	9.2	0.4	11.2
Utilities	-0.8	-0.4	7.0	4.5	-2.6	6.8
Industrials	-0.9	1.3	0.1	17.6	3.7	17.3
Telecom Services	-1.2	5.8	8.5	6.9	-2.9	2.6
Health Care	-1.3	-0.2	0.0	1.1	-8.3	17.1
Financials	-1.7	-3.3	-3.0	-3.1	-4.1	14.8
Energy	-2.3	-1.9	-0.2	0.3	-9.2	11.3
Banks	-3.5	-5.4	-11.6	-2.1	-1.9	-8.9
S&P 400 Mid Cap	0.3	-0.8	-0.2	13.8	1.4	35.0
S&P 600 Small Cap	0.2	-2.9	-5.2	8.7	-1.7	23.8
S&P 100 Large Cap	-1.0	-1.2	-0.4	3.8	-5.5	19.1
S&P 500	-0.7	-1.1	0.0	6.4	-3.9	23.5

TSX Sectors

Materials	7.8	13.0	13.9	28.8	11.3	33.4
Gold	4.5	8.6	7.2	24.5	12.2	5.7
Telecom Services	1.9	2.3	6.1	22.1	12.9	0.7
Cons Staples	1.0	2.6	8.0	8.0	-0.1	6.1
Cons Discretionary	0.7	0.4	3.6	19.0	10.5	11.1
Industrials	0.4	1.2	6.1	14.9	3.5	23.7
Utilities	0.3	-0.6	9.4	12.5	0.2	12.7
Financials	0.2	-2.6	-4.3	2.4	-3.5	38.3
Banks	0.1	-2.3	-3.9	8.1	-0.1	54.4
Energy	-0.1	-3.6	2.7	5.1	-7.2	35.0
Health Care	-0.6	8.7	25.3	44.1	31.6	28.6
Information Technology	-5.3	-9.2	-18.0	-27.8	-21.6	44.3
REITs	1.4	3.3	12.5	28.3	10.6	42.4
Income Trusts	-0.1	-0.4	6.6	19.2	2.5	29.5
S&P/TSX 60 Large Cap	1.7	0.1	1.3	6.1	-1.5	27.9
S&P/TSX Small Cap	1.5	4.3	9.6	32.3	4.5	56.2
S&P/TSX Mid Cap	1.5	2.9	7.9	23.4	4.3	41.7
TSX	1.7	0.8	2.8	9.5	-0.2	30.7

Source: Bloomberg

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