

Bailout Blues

Equity markets slipped this week, with the attention turning away from the U.S. economy and back to Europe and China. The S&P 500 fell a modest 0.2%, with all of the weakness on Friday after Greece failed to secure the next leg of its bailout. Meantime, higher-than-expected Chinese inflation, while likely impacted by holiday distortions, scaled back the optimism that further easing is coming soon. Canadian equities resumed their underperforming ways, falling 1.5% on the week as a 2% drop in the energy sector weighed. Note that Canadian energy stocks have shed nearly 13% in the past year versus a relatively flat performance in the U.S. One contributing factor could be that the spread between WTI and Canadian heavy crude prices has widened significantly, with Canadian prices falling more than \$30/bbl below WTI this week amid a glut of supply, due to refinery shutdowns in the Midwest and surging U.S. production in the Bakken.

EarningsWatch... The Q4 earnings season continues to play out relatively quietly, largely because the results have not been overly hot or cold. To date, about 70% of S&P 500 companies have beaten earnings expectations, a slightly lower share than has been typical in the past year. Meantime, while it's still early

in the Canadian reporting season, 63% have beaten the mark—that's actually tracking better than recent norms. The overall picture continues to be one of cooling earnings growth. S&P 500 operating earnings are now expected to post 9.3% y/y growth in Q4, the first single-digit rate of year-over-year growth since early 2009. On a sequential basis, seasonally-adjusted operating earnings are on pace to grow little more than 4% annualized in Q4, down from an average pace of nearly 10% in the first three quarters of the year. Automakers were in the spotlight this week with Nissan and Toyota beating estimates as the sector continues to recover. Here are some notables from the week:

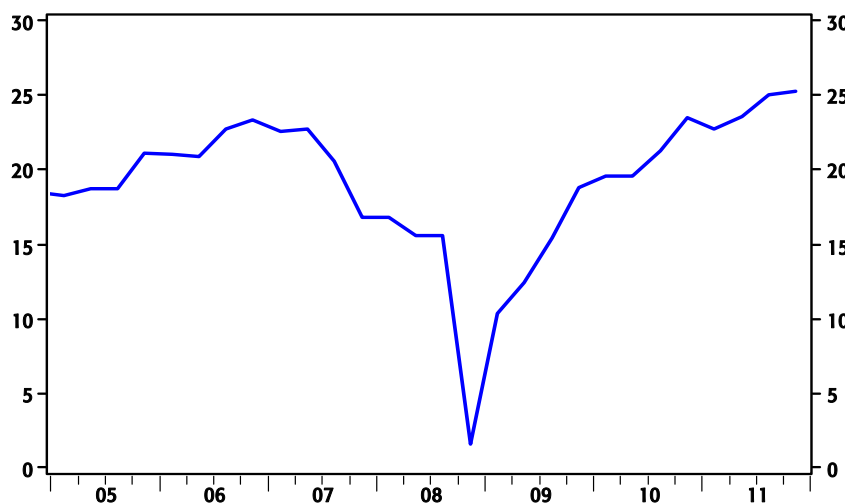
Market Performance as of February 10, 2012

	Current Price	Performance (percent)					
		1 Week	1 Month	3 Months	1 Year	YTD	2011
NIKKEI 225	8,947	1.3	6.2	5.3	-15.6	5.8	-17.3
China CSI 300	2,534	1.1	3.5	-6.1	-18.4	8.0	-25.0
NASDAQ	2,904	-0.1	7.5	10.6	4.1	11.5	-1.8
S&P 500	1,343	-0.2	3.9	8.3	1.6	6.8	0.0
Dow Jones	12,801	-0.5	2.7	7.6	4.7	4.8	5.5
FTSE 100	5,852	-0.8	2.7	7.5	-2.8	5.0	-5.6
DAX	6,693	-1.1	8.6	14.1	-8.8	13.5	-14.7
S&P/TSX	12,389	-1.5	1.0	2.3	-10.5	3.6	-11.1
CAC 40	3,373	-1.6	5.1	10.1	-17.6	6.8	-17.0

Source: Bloomberg.

Record Earnings, but Slowing Growth

S&P 500 Operating Earnings: \$/Share, SA

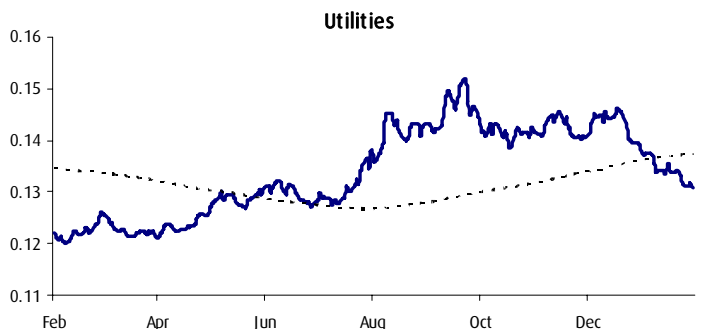
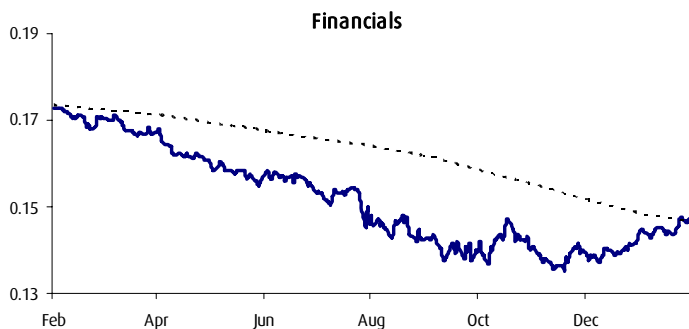
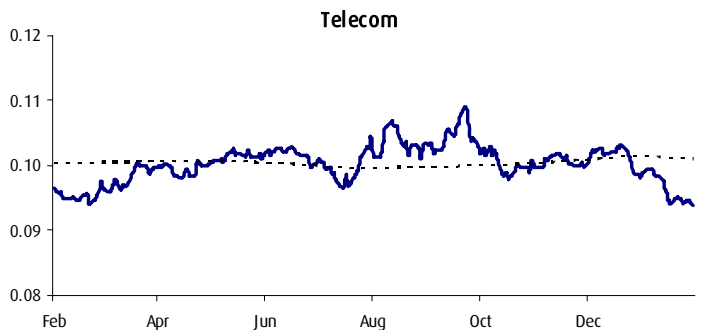
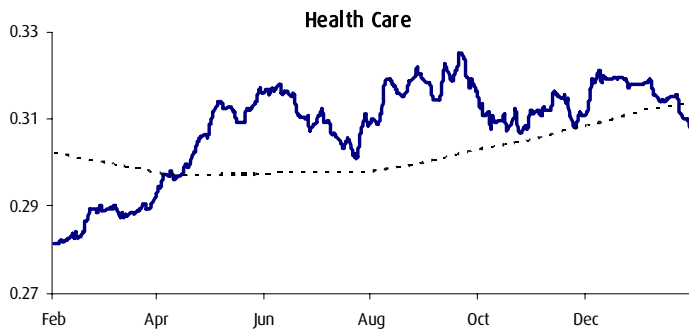
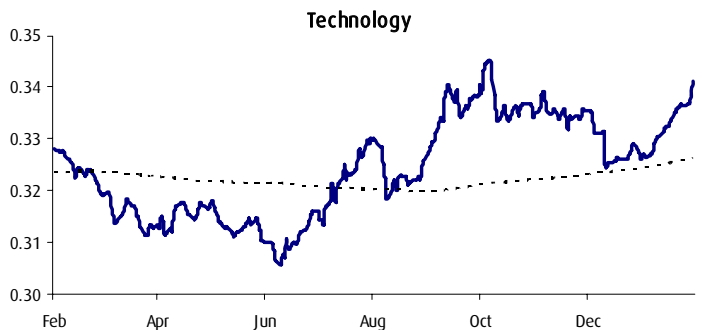
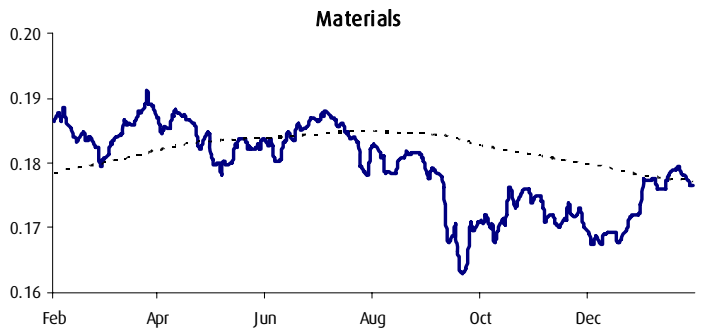
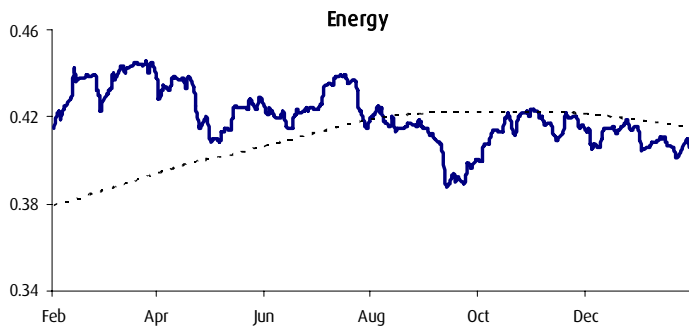
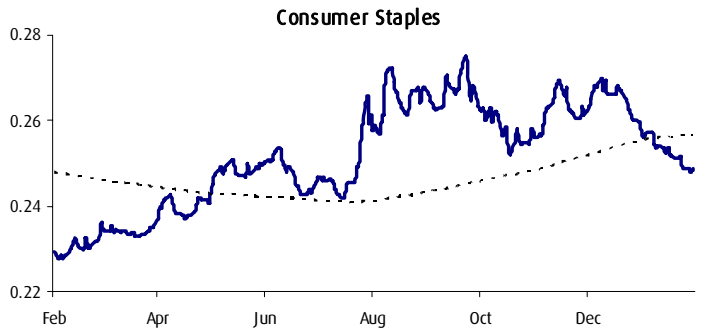
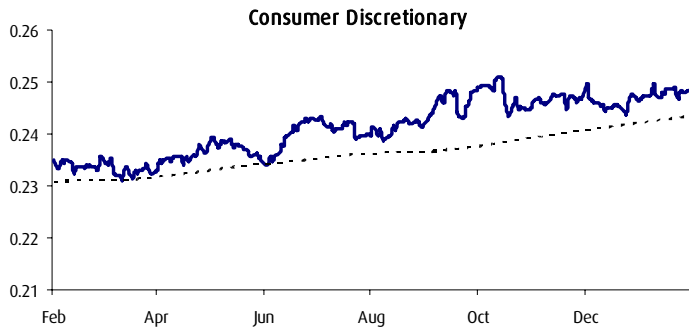


Nissan... Plans to increase the share of foreign-sourced parts would move faster—“given the current level of the yen, we are looking to accelerate these plans”.

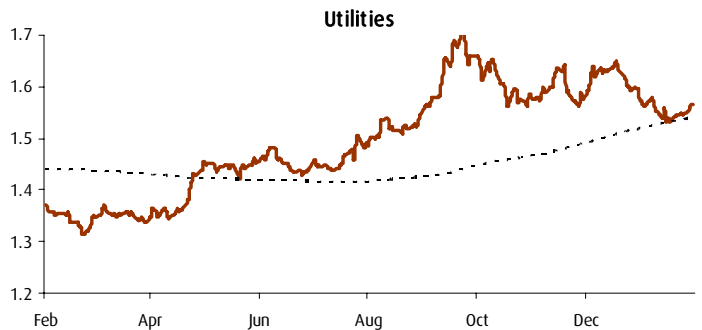
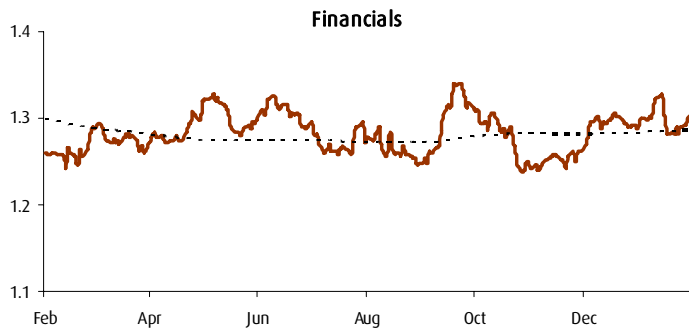
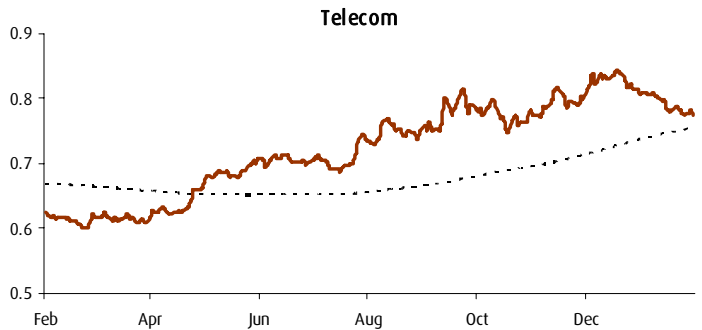
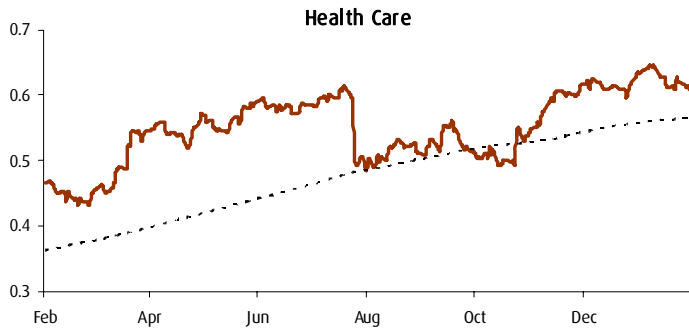
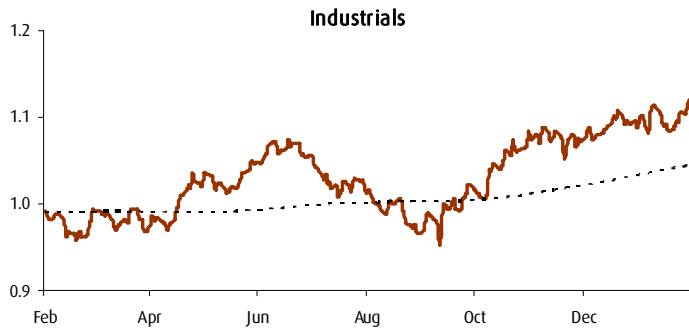
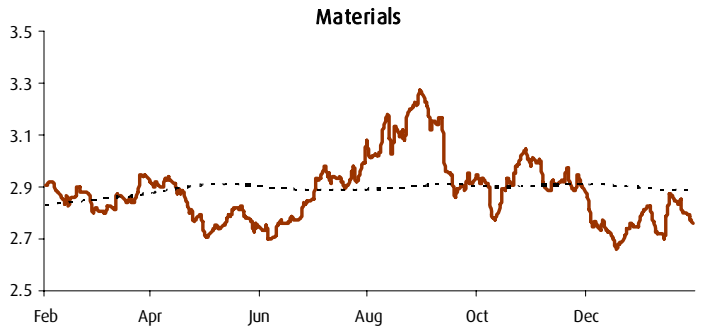
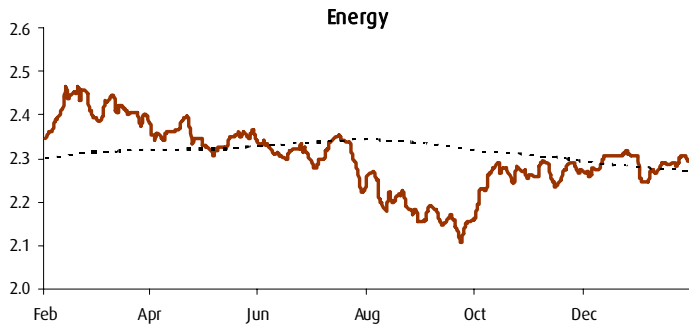
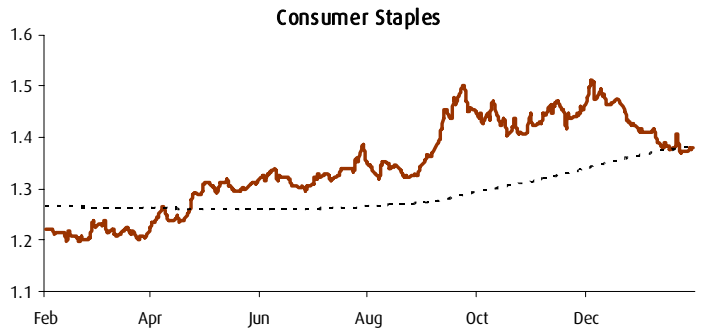
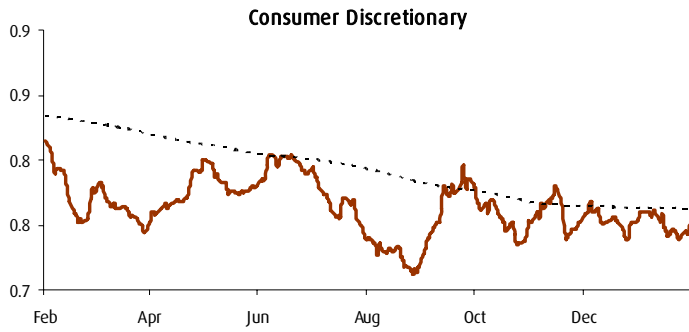
Toyota... Investing \$400 mln into its Highlander SUV plant in Indiana, adding 400 jobs.

Ingersoll Rand... North American commercial-construction is “weak and uneven”; demand for residential HVAC will likely “remain depressed for most of 2012”.

S&P 500 Sector Performance (Relative to the index, dashed line = 200-day m.a.)



TSX Sector Performance (Relative to the index, dashed line = 200-day m.a.)



North American Sector Performances as of February 10, 2012

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2011
Information Technology	1.3	8.8	10.6	5.5	11.8	1.3
Cons Staples	0.3	0.4	4.8	10.6	0.0	10.5
Cons Discretionary	0.2	5.1	10.2	8.1	8.4	4.4
Energy	-0.1	1.3	3.4	-1.5	4.3	2.8
Utilities	-0.1	-1.1	0.1	8.8	-3.5	14.8
Telecom Services	-0.3	-0.4	1.1	-0.8	-2.8	0.8
Industrials	-0.8	4.1	12.1	-2.1	9.0	-2.9
Health Care	-1.0	0.8	7.1	10.9	3.1	10.2
Financials	-1.2	5.9	12.7	-13.6	11.9	-18.4
Banks	-1.3	2.5	17.8	-8.5	9.5	-12.3
Materials	-2.2	4.6	8.7	-4.9	10.8	-11.6
S&P 100 Large Cap	0.0	3.6	8.9	2.3	6.4	0.9
S&P 400 Mid Cap	-0.7	6.2	10.6	0.4	9.7	-3.1
S&P 600 Small Cap	-2.3	5.9	13.0	5.2	9.1	-0.2
S&P 500	-0.2	3.9	8.3	1.6	6.8	0.0

TSX Sectors

Cons Discretionary	0.5	1.3	2.7	-16.8	4.2	-17.9
Banks	0.3	1.9	9.2	-3.9	3.5	-2.9
Utilities	0.2	1.0	1.5	2.7	0.2	1.6
Financials	0.1	2.6	7.4	-6.5	4.2	-6.6
Industrials	-0.5	3.6	5.4	1.2	4.5	2.0
Cons Staples	-1.4	-1.5	-2.7	2.0	-2.9	4.8
Energy	-2.0	0.4	3.7	-12.9	3.1	-12.3
Telecom Services	-2.1	-3.4	0.9	10.1	-4.9	19.0
Gold	-3.0	-2.3	-13.9	-7.6	3.3	-17.3
Materials	-3.3	0.0	-5.4	-15.5	6.4	-21.8
Information Technology	-3.6	4.8	-5.4	-56.3	6.2	-52.6
Health Care	-3.8	-3.6	14.9	15.4	2.9	49.6
REITs	1.0	2.1	9.0	14.4	3.4	15.1
Income Trusts	0.9	1.6	7.4	14.4	2.9	16.7
S&P/TSX Mid Cap	-0.7	2.0	2.5	-7.6	4.4	-10.3
S&P/TSX 60 Large Cap	-1.8	0.6	2.3	-11.5	3.4	-11.4
S&P/TSX Small Cap	-1.8	3.4	3.9	-13.3	8.5	-18.4
TSX	-1.5	1.0	2.3	-10.5	3.6	-11.1

Source: Bloomberg.

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