

## Stocks like the Heat

*David Andrews CFA, Director, Investment Management & Research*

Searing heat and humidity engulfed much of the east last week but it wasn't just the temperature that was rising as stock markets strung together the first four day rally since April. Bouncing off the lows of 2010, stocks regained their footing after having fallen on fears of a double-dip recession. We acknowledge the latest data suggests that economic momentum may have peaked, but we do not subscribe to the notion of a double-dip (maybe ice cream... but not for the economy!). Aside from the statistical fact that double dips are rare events (only one on record in past 90 years) our view of the world economy is that the trajectory of the growth curve has flattened, but is not falling as spooked markets would suggest. Supporting our view last week was news the International Monetary Fund (IMF) bumped up its 2010 global economic growth projections to 4.6% for 2010. The IMF did acknowledge that regional recovery will take place at varying speeds and most of the economic heavy lifting will be done by emerging rather than developed nations. Canada's outlook was boosted (+0.5%) for this year due to our strong first half performance, but the IMF did trim Canada's 2011 outlook citing ongoing worldwide financial turbulence as a cloud on the horizon.

The economic data cupboard was essentially bare last week but it appears consumers have been avoiding the oppressive summer heat by heading to the air conditioned comfort of the local retail shopping mall. June sales data came in ahead of expectations for several retailers, suggesting Americans have embraced a little retail therapy to deal with the temperatures outside. Weekly jobless claims were reported lower than expected which also gave the nervous markets a boost. The 10-year U.S. Treasury bond saw its yield rise back over 3% for the first time this month as economic fears abated somewhat last week. The 10-year bond had its worst weekly performance since April on better economic data and stronger equity market performance. In Canada, the highlight last week was the June employment report which showed a surge of 93,000 new jobs. Only 20,000 or so new positions were expected, so the employment situation contradicts with other data points (April GDP) which suggest the Canadian economy is slowing. The unemployment (or politically correct "pre-employment") rate fell from 8.1% to 7.9%. Does the Bank of Canada follow up with another hike this month? Immediately following the job data, the futures market priced in about 85% likelihood the bank will bump rates another 25 bps in July. Stay tuned.

This week, the economic data is plentiful but markets are likely to take their cues from the opening of Earnings Season (the next three weeks or so during which companies will report their most recent quarterly results). Traditionally, Alcoa kicks things off with its results due out after the close on Monday. With the S&P500 and TSX down significantly over the past month, investors have priced in flat to little earnings growth over the next year. Equity analysts have also lowered their expectations, but unlike investors, they have only dropped their expectations slightly. Consensus forward estimates for the market still remain mostly bullish, calling for roughly 20% earnings growth over the next year. During Earnings Season, we will be paying exceptionally close attention to management guidance. Guidance captures the front line view of what is happening in the economy. It would not surprise us to hear less negativity about the actual economy than what both the equity and bond markets have currently priced in. Guidance may prove to be the long awaited positive catalyst to offset the past few weeks of negative sentiment about stocks and the economy.

Similar to equities last week, commodities also jumped on renewed optimism the global economy may grow at a reasonable pace in 2010. Central banks in South Korea, Malaysia, Taiwan, and India have all raised rates in the past two weeks signalling fears over Europe's debt crisis will not stall global growth. Copper, which moves in tandem with manufacturing, rose 5% last week due to improved risk sentiment and news that global stockpiles of the metal were at their lowest levels since December of 2009. The U.S. dollar index fell last week as well, which also boosts energy and base metals priced in the currency. Like the temperature, crude oil prices rose (~+5%) as did natural gas price forecasts. The fourth hottest June on record in the U.S. and the prospect of an intense hurricane season have pushed natural gas price forecasts up on average 27% since the first quarter.



Gold slumped the most in three weeks as futures slid below US\$1200 before recovering late last week. Steady European Central Bank policy and indications that the European bank stress tests will not be all that 'stressful' have allowed the Euro to strengthen taking some shine off of gold. Gold finished the week up about 1.25% but is down over the past three weeks. The gold price remains up over 9% on a year to date basis.

No fewer than twenty five U.S. companies report quarterly results this week. Keep your eye on bellwethers INTEL, General Electric, Google, JP Morgan, Bank of America, and Citigroup as catalysts for market sentiment in the week and weeks ahead.



## Market Performance

Index	Last Week	Year to Date	Close (07/09/2010)
S&P/TSX Composite	3.3%	-1.5%	11,570
Dow Jones Ind Avg	5.3%	-2.2%	10,198
NASDAQ Composite	5.0%	-3.2%	2,196
S&P 500	5.4%	-3.3%	1,078
Canadian Dollar (US\$/CAD\$)	2.9%	1.8%	\$0.97
S&P 500 (C\$)	2.5%	-5.1%	NA
Dow Jones Ind Avg (C\$)	2.3%	-4.0%	NA

## Weekly Economic Data

Day	 Canada	Est.	Prior	 U.S.	Est.	Prior
Monday	Business Outlook Future	35.50	44.00			
Tuesday	Int'l Merchandise Trade	-0.2B	0.2B	Trade Balance	-\$39.0B	-\$40.3B
				IBD/TIPP Economic Optimism	45.5	46.2
				Monthly Budget Statement	-\$69.5B	-\$136B
Wednesday				Import Price Index (m/m)	-0.4%	-0.6%
				Import Price Index (y/y)	5.3%	8.6%
				Advance Retail Sales	-0.3%	-1.2%
				Retail Sales ex Autos	0.0%	-1.1%
				Sales ex Autos and Gas	0.2%	-0.8%
				Business Inventories	0.3%	0.4%
Thursday	New Motor Vehicle Sales	0.0%	-4.7%	PPI (m/m)	-0.1%	-0.3%
	Manufacturing Sales (m/m)	-0.5%	0.2%	PPI ex Food & Energy (m/m)	0.1%	0.2%
				PPI (y/y)	3.1%	5.3%
				PPI ex Food & Energy (y/y)	1.1%	1.3%
				Initial Jobless Claims	447k	454k
				Continuing Claims	4500k	4413k
				Empire Manufacturing	18.00	19.57
				Industrial Production	-0.1%	1.3%
				Capacity Utilization	74.2%	74.1%
				Philadelphia Fed	10.0	8.0
Friday	Leading Indicators (m/m)	0.7%	0.9%	CPI (m/m)	-0.1%	-0.2%
				CPI ex Food & Energy (m/m)	0.1%	0.1%
				CPI (y/y)	1.2%	2.0%
				CPI ex Food & Energy (y/y)	0.9%	0.9%
				CPI NSA	218.3	218.2
				Net LT TIC Flows	NA	\$83.0B
				Total Net TIC Flows	NA	\$15.0B
				U of Michigan Confidence	74.0	76.0

## Company Earnings Reports

	 Canada Companies	Qtr	Est.	 U.S. Companies	Qtr	Est.
Monday				Alcoa Inc	Q2	\$0.11
Tuesday	Alimentation Couche-Tard	Q4	\$0.26	Intel Corp	Q2	\$0.43
Wednesday	Corus Entertainment Inc-B	Q3	\$0.40			
Thursday	Astral Media Inc	Q3	\$0.86	Google Inc-CI A	Q2	\$6.54
	Nexen Inc	Q2	\$0.36	JPMorgan Chase & Co	Q2	\$0.70
Friday				Bank Of America Corp	Q2	\$0.22
				Citigroup Inc	Q2	\$0.05
				General Electric Co	Q2	\$0.27

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