

## **FIRST COVERAGE WEEKLY SENTIMENT (May 24, 2010)**

<b>First Coverage Market Sentiment: Bullish</b>	<b>First Coverage Index: 60.0</b>	<b>Weekly Change: +1.9%</b>	<b>Sell-Side Certainty: Negative</b>
<b>Bullish Industries (9)</b>	<b>Neutral Industries (1)</b>	<b>Bearish Industries (0)</b>	<b>Weekly Sentiment Change</b>
Basic Materials			
Consumer Goods			<b>Bullish</b>
Consumer Services			<b>Bullish</b>
Financials			<b>Bullish, x2</b>
Health Care			
Industrials			
Oil & Gas			<b>Bullish, x3</b>
Technology			<b>Bullish, x2</b>
	Telecommunication		<b>Bearish</b>
Utilities			

### **Volatility Now Rules the Roost for Markets and Sentiment**

#### **The Bear Went Over the Mountain...**

For over a year, the market had only a few bear sightings as the bull relentlessly climbed the mountain of worry. But in the last two weeks, it looks like the bear found a different route (maybe through Greece) to the mountain and is now on his way down the other side of it. The generally accepted definition of a correction is a drop of 10%, which we hit last week. The issue at the moment is whether this is merely the long awaited correction in a bull market that still has a way to run, or whether this correction is just getting started.

This bear has already knocked off some of those milestones that we were applauding the bull for achieving recently. At 1,088, the S&P 500 closed below the 1,100 milestone it hit a few weeks ago. The bear even took some swipes at the DJIA 10,000 and, at one point, just missed. The DJIA and S&P 500

were down 4% for the week, while the NASDAQ fell 5%. It would have been worse if not for a big surge at the close on Friday. Friday was a very volatile day, with option expiration and short covering playing some role. This Monday's market action will probably be more indicative of market direction.

And who would have believed only weeks ago 10-year Treasury bonds were flirting with a 4% yield, but closed out last week at a mere 3.20%? Staggering!

### **Boys and Girls, Can You Say Deflation?**

The CFA Institute held their national conference last week, with almost 1,600 investment professionals attending. Given that the word deflation was uttered more than once by a number of speakers, it would not have been surprising if the conference generated a number of sell calls to the attendees' trading desks. It would seem that the Fed may be more worried about deflation rather than inflation for some time to come. This probably should be a bigger worry for the market than the Euro zone problems or U.S. financial regulation. It is a threat not to be ignored. The Fed has already used a lot of its anti-deflation bullets.

### **The Market Decline Stimulates Increases in Sell-Side Sentiment**

The volatility of the market is showing up in sell-side sentiment. First Coverage's overall sell-side sentiment index was up 2.9% three weeks ago, fell back 1.1% the next week, and more than made up that pullback with a 1.9% increase last week. However, with all this volatility, the First Coverage Sell-Side *Certainty* index has turned negative. Maybe investors should take last week's sentiment increases with a grain of salt. But better that the trend is up rather than down.

Sentiment rose in seven of the ten industries, with double-digit increases of 16% in Oil & Gas and 12% in Financials. Also seeing big increases were Consumer Goods at 7%, Consumer Services at 6%, and Technology at 5%.

### **Suddenly It's Oil & Gas on Top**

The Oil & Gas industry surged to the top spot in sell-side sentiment, moving from a distant third to the top spot among the ten industries. After showing the same upward trend as the market from mid-April '09 through mid-December '09, Oil & Gas sell-side sentiment fell for the next four months. Four weeks ago that downward trend reversed with a 9% rise. That was followed by an 8% rise the next week, but an 8% decline seemed to indicate the reversal might be over. Last week's rise of 16% put that fear to rest. The sell-side sentiment index for Oil & Gas has eked past the mid-December '09 cycle high but is still 12% from the high made on August 1, 2009.

### **Financial Industry Breaks Out of the Sentiment Basement**

A week ago, we reported that the Financial Industry seemed to be crawling out of the basement. It did so last week as sell-side sentiment for the industry rose 12%. It passed the Telecomm and Consumer Goods industries and is now the eighth ranked industry in sentiment reading. Its breakout to the upside

from its mid-November '09 to mid-April '10 decline was further confirmed. It is now up 24% from that mid-April low, but still 10% below its mid-November high.

The rising interest in Financials has no doubt been aided by greater clarity in FinReg. Although the bill the Senate approved last week included a number of tough provisions for the industry, some of the uncertainties have been removed. The bill now goes to congress for reconciliation between the House and Senate bills, but the whole debate and passage will likely be behind us in another month or so.

### **Industrials and Health Care Industries Still Highly Rated by Sell-Side**

The two industries we had highlighted a week ago for positive sell-side sentiment were Industrials and Health Care. Sentiment for both only changed slightly last week, and both still appear to be in an upward trend. After the huge rise in sentiment for Oil & Gas, the sentiment index readings for Industrials and Health Care industries are now behind the reading for Oil & Gas, but only slightly behind.

### **Sell-Side Hesitant to Say "Sell" for Any Industry**

It's hard to find an industry the sell-side dislikes. Telecomm has the lowest sentiment index rating. Last week, it was the only industry showing a bearish change, dropping 4%. Nevertheless, Telecomm has not yet broken out of the upward trend that began in mid-January of this year. The next lowest rated is Consumer Goods. Despite its 7% rise in sentiment last week, that industry appears to still be stalled at the level of the last six months.

### **Major Economic Reports May Add to Market Volatility This Week**

The news from Europe on the Euro group fiscal and debt problems and the news on FinReg have been having an impact on the market and will continue to do so. Nevertheless, the direction of the U.S. equity market ultimately depends on the recovery of the U.S. economy. The two aforementioned problems may have some impact on the U.S. economy, but the U.S. economy depends mainly on whether the U.S. consumer is going to re-lever and spend at a much better rate than now or continues to de-lever and hold back on spending or do something in between.

This week there is a spate of economic news related to the outlook for consumer spending. In addition to key reports Friday on April consumer spending and personal income, there are reports on consumer confidence on Tuesday and consumer sentiment on Friday. Also of import is April orders for durable goods on Wednesday. Monday and Wednesday bring good news on existing and new home sales, although these reports will not be as meaningful as usual because April was the last month before expiration of the tax breaks.

### **Stocks to Watch**

Over the last week, the following stocks had the largest bullish and bearish sentiment shifts amongst the sell-side.

**Bullish:**

Symbol	Company	Industry	Exchange
GE	General Electric Ord Shs	Industrials	NYSE
CSCO	Cisco Systems Ord Shs	Technology	NASDAQ
DNDN	Dendreon Ord Shs	Health Care	NASDAQ
MON	Monsanto Ord Shs	Consumer Goods	NYSE
XOM	Exxon Mobil Ord Shs	Oil & Gas	NYSE

**Bearish:**

Symbol	Company	Industry	Exchange
AMGN	Amgen Ord Shs	Health Care	NASDAQ
ESI	ITT Education Ord Shs	Consumer Services	NYSE
DECK	Deckers Outdoor Ord Shs	Consumer Goods	NASDAQ
SHOO	Steven Madden Ord Shs	Consumer Goods	NASDAQ
CTRP	ctrip.com International ADR	Consumer Services	NASDAQ

Until next week ...

**About The First Coverage Weekly Street Sentiment**

*Derived from the aggregated analysis of thousands of actual trade ideas and data being sent in real-time from the sell-side to the buy-side, the First Coverage Weekly Street Sentiment provides a snapshot of market trends and a unique perspective of the mindset of the Street for the week ahead. The following data has been extracted directly from all information transmitted in the past week by sell-side representatives from more than 300 firms submitting information to portfolio and asset managers worldwide via the First Coverage platform.*

**About First Coverage**

*Catering to more than 300 financial institutions worldwide, [First Coverage](#) provides a web-based platform that simplifies the gathering, evaluation and organization of all sell-side services and information. For more information, visit [www.firstcoverage.com](http://www.firstcoverage.com) or contact us at [info@firstcoverage.com](mailto:info@firstcoverage.com).*

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