

FIRST COVERAGE WEEKLY SENTIMENT (June 28, 2010)

First Coverage Market Sentiment: Bearish	First Coverage Index: 57.1	Weekly Change: -2.1%	Sell-Side Certainty: Negative
Bullish Industries (8)	Neutral Industries (2)	Bearish Industries (0)	Weekly Sentiment Change
Basic Materials			Bullish
	Consumer Goods		
Consumer Services			Bearish
Financials			Bearish
Health Care			Bearish
Industrials			Bearish
Oil & Gas			Bearish
Technology			
	Telecommunication		Bullish
Utilities			

Both Market and Sell-Side Sentiment Hit the Skids

Another Week of Market Correction

The market got off to a great start on Monday as a result of the announcement from China that they would let the Yuan increase by an unspecified amount. Unfortunately, skeptics soon viewed it as window dressing, for ahead of last weekend's G-20 meeting, bad housing data drove the market lower as the week wore on. A Friday rally on announcements that the Dodd-Frank finreg bill had been agreed upon and that the bill was not as bad as many had expected came too late to pull the market even for the week. The DJIA declined 2.9%, while the S&P 500 and NASDAQ both fell 3.7%. Prices for all ten industries fell, with Oil & Gas and Consumer Services leading the way with declines of 6% and 5%, respectively. Financials and Health Care only fell 2%.

Sell-Side Sentiment Suffers Fourth Straight Week of Declines

First Coverage Market Sentiment took a tumble last week, and the possibility we mentioned a week ago that it might be rolling over to a downward trend has now been confirmed. After teetering at 60.0 in mid-May, which is the highest level since the Index began, sentiment fell to 57.1 last week. The drop in sentiment was 2.1%, worse than the 1.5% drop of the prior week. More importantly, the index flashed bearish, after showing bullish the prior seven weeks. Prior to that, it had registered seven straight weeks at bearish. Let's hope we are not in for six more weeks of bearish readings. Where's Punxatawny Phil when we need him?

Sentiment fell in seven of the ten industries, not quite as bad as nine the week before. Four of the seven decliners this week fell by 5% or more, with Health Care leading the way down with a 9% drop. However, Basic Materials and Telecommunications managed sturdy gains of 6% and 5%, respectively.

Shift in Sell-Side Sentiment Leadership

Three industries -- Industrials, Oil & Gas, and Health Care -- had been closely bunched at the top of sell-side sentiment rankings for seven straight weeks. The order within the group was not constant, although Industrials led in five of the seven weeks. The threesome was well ahead of the fourth ranked until Technology pulled into a very close fourth two weeks ago. Last week there was a major shift. The 9% drop in Health Care knocked it well out of the group. The 6% gain in Basic Materials not only vaulted it into the top bunch, but into the number one spot for sell-side sentiment, with Industrials, Technology, and Oil & Gas following very closely behind in that order.

Although new to leadership, Basic Materials has been oscillating between 63 and 66 over the last two months and now stands at 66. Another big move up this week would be a very positive breakout.

Sentiment for Financials Industry may be Fading

After steadily climbing in industry rankings for sell-side sentiment the last two months, Financials may be running out of gas. Sentiment fell 3% last week. We had singled out Financials in recent weeks because of that steady rise in sentiment. Week before last, Financials almost matched its highest rating, reached last November, but now the upward sentiment trend looks like it is rolling over.

Dismal News on Housing Front Last Week

Despite the bad news on housing last week, the worst news may have been the FOMC statement following their meeting. Changing the wording for the economic recovery from "continuing to strengthen" to "proceeding" may seem like only a minor change to the negative. But the FOMC for many reasons likes to put as optimistic a face as possible on the economy. Reading between the lines, one should conclude the Fed is very worried about the economy and will keep interest rates low for a long time.

Another negative for the overall economy was the downward revision on Q1'10 GDP. Advanced GDP was announced at 3.2%, revised down to 3.0% a month later, and last Friday revised down to 2.7%. That means GDP entered Q2'10 on a downward trend.

The housing market was in the spotlight last week, and it let loose a three gun salvo.

On Tuesday, May existing homes were reported to have fallen by 2%, a big surprise given that a *gain* of 5% was expected. The drop was worse than the numbers indicated. Existing home sales are based on actual closings. Since the tax credit says that home buyers have until June 30th to close, existing home sales should not have been falling in May.

May new home sales fell a shocking 33%. They were expected to fall about 19%, primarily as a result of the expiration of the homebuyer tax credit that required purchase agreements to be signed by April 30th. Even after taking that into account, the May number is even worse than it sounds because April sales were revised down from 504k to 426k. Based on the old number, from which no doubt some economists were keying their May estimates, the drop would have been 40%. The 300k in new home sales for May was the lowest since data keeping started in 1970.

Weekly purchase mortgage applications continued its downward slide, with a drop of 5.9%. The one plus in the housing market was 30-year fixed mortgage rates dropped to 4.69% per Freddie Mac. That was the lowest since December 2009, and a record low since FRE began the weekly database in 1971.

In the broader consumer spending area, the University of Michigan Consumer Sentiment index rose and slightly beat expectations. There was also good news on the business spending side. Durable goods orders fell, but excluding transportation and defense, a good measure of business capital spending, rose.

The economic data tug of war continues between housing and consumer spending on one hand and manufacturing and services on the other. One of the technology bellwethers, electronics products contract manufacturer Jabil Circuits reported booming sales last week. Oracle had a terrific quarter with good guidance to boot. On the other side, homebuilders KB Homes and Lennar had terrible quarters. KB Homes said orders were down 20%, much worse than analyst expectations. Lennar's orders declined 10%.

It's Employment Numbers Time Again and Plenty Else for This Week

As has been the case for many months, the focus of economic and market analysis is on employment. This is the week of the giant of reports in this area. The Friday employment report for June will overhang the market all through this week. Consensus forecast is for a decline of 110,000, but no one knows how many census workers were dropped. Don't focus on the headline number. The Friday report will be preceded on Wednesday by the ADP payroll report, which often gives indication of what is to come in the private sector part of the Friday report. The weekly jobless claims report on Thursday reflects claims made after the June survey data reported in the Friday employment report, so it is not indicative of Friday numbers. Weekly jobless claims last month were about flat with the prior month.

Even though there is a summer holiday weekend at the end of this week, this is not a good week for investors to be away from the market. There will be major reports on employment, housing, and consumer spending, and also on manufacturing. There is likely to be disappointing news in the first

three areas, while manufacturing reports are likely to continue to be encouraging. Bulls will focus on the ISM numbers on Thursday.

The week starts off with Monday morning reports on May consumer spending and personal income, two of the most important monthly reports in the consumer area. A gain of only 0.1% is expected in spending, while income is expected to rise 9.5%. Tuesday brings June consumer confidence. Consumer confidence has risen each of the last three months, but a small decline is forecast for June. Housing sector reports for the week are Case-Schiller home prices for April on Tuesday, weekly mortgage purchase applications on Wednesday, and May pending home sales on Thursday. The last two reports will be significantly affected negatively by the expiration of homebuyer tax credits.

This is one of the peak weeks for pre-announcements on Q2'10 earnings. So far, so good! The ratio of negative to positive earnings pre-announcements at 1.2 for Q2'10 is running well below the 2.1 average. There have been concerns voiced that Q2'10 earnings could be vulnerable to shrinking margins resulting from companies increasing capital spending and starting to rehire. In April, during the reporting for Q1'10 S&P 500 when earnings beat estimates by 20 percentage points, far above the 3% average over the last fifteen years, analysts did increase year over year earnings growth expectations for Q2'10 from 23% to 27%. That is not much above the 2% average increase over the last fifteen years. Since then earnings growth estimates have tapered off a few tenths of a percentage point instead of the usual rise of about one percentage point. We believe that Q2'10 earnings in the aggregate will not disappoint, although there is a possibility of some negative comments about the outlook for revenue growth and margins later in 2010.

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
FDX	Fedex Corp Ord Shs	Industrials	NYSE
GE	General Electric Ord Shs	Industrials	NYSE
BIG	Big Lots Ord Shs	Consumer Services	NYSE
DNDN	Dendreon Ord Shs	Health Care	NASDAQ
X	US Steel Corp Ord Shs	Basic Materials	NYSE

Bearish:

Symbol	Company	Industry	Exchange
CTRP	ctrip.com International ADR	Consumer Services	NASDAQ
PQ	Petroquest Energy Ord Shs	Oil & Gas	NYSE
ALGN	Align Technology Ord Shs	Health Care	NASDAQ
CLNE	Clean Energy Fuels Ord Shs	Consumer Services	NASDAQ
NUVA	NuVasive Ord Shs	Health Care	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

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