

## FIRST COVERAGE WEEKLY SENTIMENT (July 26, 2010)

First Coverage Market Sentiment: <b>Bearish</b>	First Coverage Index: <b>55.7</b>	Weekly Change: <b>-0.6%</b>	Sell-Side Certainty: <b>Positive</b>
<b>Bullish Industries (8,-1)</b>	<b>Neutral Industries (2,+1)</b>	<b>Bearish Industries (0)</b>	<b>Weekly Sentiment Change</b>
Basic Materials			
Consumer Goods			
	Consumer Services		
Financials			
Health Care			<b>Bearish</b>
Industrials			<b>Bullish</b>
Oil & Gas			
Technology			<b>Bearish</b>
	Telecommunication		
Utilities			

### **Good Earnings Make Good Markets**

#### Third Week Rebound Refuels July Market Uptrend

Gentle Ben put a mid-week scare into the market last week with his testimony before Congress. His comment that "Economic outlook remains unusually uncertain" did not add to market confidence...nor did his comments that "unemployment is expected to be somewhat slower than thought" and that it was the worst labor market since the Great Depression. These were unusually pessimistic statements for a Chairman of the Federal Reserve to be making with an election less than four months away.

It may not have been all about earnings reports last week, but they turned out to be the biggest factor when the dust settled. Some disappointing earnings reports early in the week raised some concerns, but the pendulum moved heavily to the plus side as the week went on. Overall earnings were very good, but there was some waffling in the guidance from a few to raise some concerns about earnings later in the year.

After its upside Fourth of July blast, the market pulled back at the end of the following week, but it gained that and more back last week to keep the July rally going. The DJIA was up 3.2%, the S&P 500 was up 3.6%, and NASDAQ was up 4.2%, for a second impressive July week. The only loser was Health Care, down 0.5%, with the rest up at least 3%. Basic Materials led at +8%, and Industrials came in at +7%.

### **Sell-Side Sentiment Slide Continued**

First Coverage Market Sentiment remained at “bearish” for the fifth straight week. The index was only down 0.6%, but it was the eighth week in a row of declines. A downward trend is firmly in place, maybe indicating sentiment might believe this market rally is only a correction in a bear market. Sentiment declined in six of the ten industries, with five showing declines of at least 2%. Sentiment soured most in Tech, Health Care, and Telecomm, with drops of 4%, 3%, and 3%, respectively. The only big change on the positive side was a 5% gain in Industrials.

### **Oil & Gas Remained Most Favored Industry**

For the fourth week in a row, Oil & Gas had the highest sentiment index value. However, there is no established trend yet in sentiment for Oil & Gas sentiment. A few rising weeks might establish an upward trend that would then go back four months, but a few down weeks could blow any chance of establishing an upward trend for some months. While sentiment for Oil & Gas has been high relative to other industries for three months, it can't seem to build any lasting upward momentum. A blip up last week in sell-side sentiment for Industrials put that industry firmly in second place among the ten industries. Sentiment for Industrials remains in a pronounced two-month downward trend. At the moment, it appears First Coverage sentiment is only lukewarm on its top choices.

Consumer Services remains the least favored industry. It remains mired in a five-month long decline in the index value. Yet the value is high enough even in Consumer Services, that no industry carries a bearish sentiment recommendation. The only ones even rated neutral are Consumer Services and Telecomm.

### **Positive Earnings Momentum Built Last Week**

With 35% of the S&P 500 companies having now reported, First Call says the expectations for Q2'10 earnings growth stands at 34% using the actual results for those who have reported and the current estimates for the rest. That is up 6 percentage points from the estimates at the start of the reporting season. Since the remaining reporters will likely beat the estimates, the final results should be spectacular relative to expectations. Growth of as much as 40% would not be a surprise at this point. That would compare to an estimate of 23% at the start of Q2'10.

A lot of banks and tech companies reported last week, with both industries showing mixed results. But reports from other industries were heavily weighted to the positive.

Goldman Sachs struck out, while Morgan Stanley hit a home run on both earnings and revenues. The results were also mixed at the regional bank level. The technology cycle is driven not only by the

business cycles, but by new products. Resurgent PC and server sales and robust Smartphone sales demonstrate that. If you're a company sitting on a pile of cash, as many are, why not put some of it to work now by investing in your company's internet and computing capabilities? That may explain why Microsoft, EMC, Altera, and Qualcomm (and Intel the week before) had good news, but the news was somewhat disappointing at IBM and Texas Instruments. Also, on the tech bellwether plus side, Applied Materials had a positive pre-announcement on orders.

Many of the transportation companies other than airlines are very good bellwethers on the overall economy. Last week UPS and Union Pacific had very positive news. Even a number of airlines, not always good bellwethers, had good earnings news.

Earnings reports and guidance from other industries were heavily on the plus side, including bellwethers 3M, Caterpillar, and copper barometer Freeport McMoRan. Other big companies with good news included Apple, United Technologies, Coca-Cola, AT&T and Verizon. Johnson & Johnson and Amazon were among those that disappointed.

It was another tough week for reports from the two areas of greatest concern – unemployment and housing reports, but the market didn't seem to care much.

Weekly jobless claims, which had fallen in the prior two weeks – maybe because GM did not shut down to retool, rose more than expected to 464,000 from 427,000 the week before, indicating that the euphoria created by the falling claims in the prior two weeks was likely a GM induced anomaly. The rise put claims back in the area they have been running since the beginning of the year. So much for the improving trend in jobless claims!

The Homebuilder's Sentiment Index fell from a downward revised 16 in June to 14 in July, the lowest since April '09. Housing starts and building permits remained weak. Starts were reported last week to have fallen 5% in June, following a month-to-month drop of 15% in May. Numbers for permits were up 2% in June, after a 6% drop in May. The gain in permits was nothing to cheer about since they were down 2% from a year ago. Existing home sales fell 5% from a disappointing May. Even worse in the report was the news that inventories of unsold homes rose by 3% in June to an 8.9 month supply, the highest since August 2009.

Thank goodness for earnings!

### **Earnings in the Driver's Seat Again This Week**

There will be even more companies reporting Q2'10 earnings this week than reported in the big week last week. So far, one-third of the S&P 500 companies have reported, so the die is pretty much cast as to the outcome for actual Q2'10 earnings. But with 157 more S&P 500 companies reporting what surely will be more good news in their reports, it will be hard for any economic reports this week to have much impact on the market unless their announcements are dramatically different from expectations.

Bellwethers to watch this week include Norfolk Southern, International Paper, Sealed Air, Masco, Corning, KLA-Tencor, Visa, DuPont, Automatic Data Processing, and Monster Worldwide. Also watch what bellwether Microsoft has to say in its Thursday analyst meeting.

After the spate of manufacturing news two weeks ago that was disappointing, the economic report in the spotlight this week will likely be durable goods orders to see if those manufacturing reports were anomalies or the start of a downward trend. Durable goods orders are expected to rise this week.

Probably the next most important report will be the weekly initial jobless claims. Will this week's number confirm last week's return to the typical level for 2010, or will it show that last week's snapback was the anomaly rather than the drop in each of the prior two weeks?

Also ranking high on the watch list are the two reports on consumer confidence, especially after the disappointing early July report from the University of Michigan survey. The new Michigan number is expected to be up a tad, but a drop is expected in the Conference Board version.

The first reading of Q2'10 GDP merits attention, but for a timelier look at the overall economy, watch the anecdotal Beige Book survey for July. The key number in GDP will be how much impact inventory changes had on the results, although these numbers often are revised in the later preliminary and final reports.

After the discouraging housing reports last week, it's hard to image any good news from the reports this week on new home sales, pending home sales, and purchase mortgage agreements. It is still too soon after the end of the homebuyer tax breaks to get any meaningful indication of where housing is headed. Therefore, housing reports are not likely to have much impact even if they show a surprise.

Enjoy the earnings reports but not too much. They won't be the story going forward. Once the earnings reporting season is over, we would expect sell-side sentiment to coalesce and provide some stronger direction on the market outlook.

### **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
STX	Seagate Technology Ord Shs	Technology	NASDAQ
WFC	Wells Fargo & Company Ord Shs	Financials	NYSE
SHS	Sauer Ord Shs	Industrials	NYSE
CYPB	Cypress Bio Ord Shs	Health Care	NASDAQ

BTU	Peabody Energy Ord Shs	Basic Materials	NYSE
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**Bearish:**

Symbol	Company	Industry	Exchange
KWK	Quicksilver Rsrc Ord Shs	Oil & Gas	NYSE
BRK-B	Berkshire Hatha Class B Ord Shs	Financials	NYSE
APD	Air Products and Chemicals Ord Shs	Basic Materials	NYSE
PRGO	Perrigo Ord Shs	Health Care	NASDAQ
ATHN	athenahealth Ord Shs	Technology	NASDAQ

Until next week ...

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*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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