

July 12 - July 16, 2010

EQUITY MARKETS – Local Currency Returns

• US equities sold off on Friday, erasing gains from earlier in the week, on weaker-than-expected earnings from Google, Bank of America, Citigroup and GE. Signs the US economic recovery may be losing momentum also weighed on the stock market.

	Level	Wkly Chg	YTD	YTD C\$	
S&P/TSX	11570	0.0%	-1.5%	-1.5%	• Sell-off Fri on concerns about US economy erased gains from earlier in the week.
DOW JONES	10098	-1.0%	-3.2%	-2.8%	• 19 of 30 members lost ground, led by Bank of America, Alcoa, Boeing.
S&P 500	1065	-1.2%	-4.5%	-4.2%	• 8 of 10 sectors fell, led by financials, industrials, materials.
NASDAQ	2179	-0.8%	-4.0%	-3.6%	• 5 of 7 sectors declined, led by banks, insurance, other financials.
RUSSELL 2000	610	-3.0%	-2.4%	-2.1%	• All 9 sectors retreated, led by materials, energy, financials.
NIKKEI 225	9408	-1.8%	-10.8%	-3.9%	• Fell on concern global economic recovery may be faltering.
EAFE	1432	1.2%	-9.4%	-9.1%	• European shrs fell on signs global recovery slowing, disappointing earnings in US.
MSCI WORLD	1113	2.0%	-4.7%	-4.4%	

TSX SECTORS

• Seven of 10 sectors finished higher, though overall performance was flat as heavily weighted resource and financial stocks were a drag.

	Level	Wkly Chg	YTD		Level	Wkly Chg	YTD
Health Care	400	4.0%	23.4%	Consumer Discretionary	983	0.7%	9.3%
Industrials	1154	1.6%	1.8%	Financials	1564	0.3%	-0.3%
Telecommunication Services	796	1.5%	9.7%	Energy	2708	-0.7%	-5.1%
Consumer Staples	1476	1.3%	-4.5%	Utilities	1667	-0.9%	-2.0%
Information Technology	218	0.9%	-16.3%	Materials	2975	-0.9%	-1.5%

Oil: West Texas Intermediate US\$/b	\$76.01	-\$0.08	-\$3.35	Gold: Spot US\$/oz	\$1,192.30	-\$19.30	\$95.35
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FIXED INCOME MARKETS

RATES %

	3-mo T-bill	10-yr Bond	30-yr Bond	
Canada	0.64	3.16	3.72	• Spreads at the short end remained positive and widened, as Canadian rose 10 bps, while US yields were little changed.
U.S.	0.15	2.93	3.94	
Spread	0.49	0.23	-0.22	
	Level	Wkly Chg	YTD	• 10-year spreads remained positive and widened, as Canadian yields fell 7 bps, while US yields were down 12 bps. • 30-year spreads remained negative and narrowed, as Canadian yields dipped 3 bps, while US yields declined 9 bps.
DEX Universe Bond	764.2	0.2%	3.7%	
DEX Real Return Bond	408.7	0.0%	2.4%	
Mer Lynch US High Yield Master II	730.8	1.0%	6.7%	
	Last Meeting	Current Rate	Next Meeting	• Overnight rate raised 25 bps in Jun, first increase since Jul 2007. • Federal funds rate unchanged in Jun & expected to stay low for extended period.
Bank of Canada	Jun 1	0.50%	Jul 20	
U.S. Federal Reserve	Jun 23	zero to 0.25%	Aug 10	

CURRENCIES

	Level	Wkly Chg	YTD	
Canadian dollar: CAD per USD	1.0568	-0.2%	-0.3%	• Fell on worry US recovery slowing, reducing appeal of commodity export currencies. • Rose on safe-haven appeal as economy concerns reduced demand for risk assets. • Rose amid weak US data, supporting prospect of low US int rates through 2010.
Japanese yen: JPY per USD	86.6800	2.2%	7.3%	
Euro: USD per EURO	1.2924	2.2%	-9.8%	
British pound: USD per GBP	1.5300	1.6%	-5.4%	• Gained as UK jobless benefits fell more & inflation higher than expected.

Relative to the Canadian dollar (Wkly Chg / YTD): **euro (4.5%/ -9.5%); British pound (3.8%/ -5.1%); yen (4.5%/ 7.7%).**

ECONOMICS

• **US Inflation Remains Tame.** Headline inflation in June came in as expected. But core inflation was stronger than expected due to higher hotel and apparel prices. Headline inflation fell for a third straight month and has fallen sharply from its recent peak of 2.8% year over year in December to 1.1%. Core inflation posted the largest monthly gain since last October. The annual core rate has been steady at 0.9% for the past three months. Aside from tobacco, hotels and apparel prices, most elements of core inflation remain benign. A key factor to watch going forward will be rents to see whether they stabilize. Rents have been the main driver of disinflation over the past year.

• **Uptrend Continues in Canada's Leading Indicators.** The Canadian Index of Leading Economic Indicators rose in June for a 13th straight month. And April and May were revised higher to 1.1%. Gains were broad-based, with 8 of the 10 components rising. Manufacturing led the way, as it has in recent months. A sharp deceleration in resale housing sales weighed on the housing component. Although the strength of the report reflects the underlying momentum in the Canadian economy, the economy faces headwinds that are expected to intensify in the months ahead.

Canada:	Index of Leading Economic Indicators - Jun m/m	1.0%	• Rose 13th mth in row; 8 of 10 areas grew, led by manufacturing, money supply.
	New Motor Vehicle Sales - May m/m	0.2%	• Modest gain as truck sales offset car sales; truck sales have led past 6 months.
	Merchandise Trade - May	-\$503m	• 3rd straight mthly deficit & largest in 8 mths as imports rose more than exports.
United States:	Consumer Price Index - Jun m/m	-0.1%	• 3rd mthly fall in row; y/y up 1.1% vs 2% May; core rose 0.2% Jun, y/y held at 0.9%.
	Producer Price Index - Jun m/m	-0.5%	• Fell with energy, food prices; y/y up 2.8% vs 5.3% May; y/y core up 1.1% vs 1.3%.
	Retail Sales - Jun m/m	-0.5%	• Declined a 2nd month after 1.1% decline in May; ex-autos dipped 0.1%.
	U of Michigan Consumer Sentiment - Jul (prelim)	66.5	• Fell to lowest in a year from 76.0 in Jun on concern about jobs, incomes.
	Industrial Production - Jun m/m	0.1%	• Unexpectedly rose on higher utility use with high temperatures; manufacturing fell.
	Rate of Capacity Utilization - Jun	74.1%	• Unchanged from May; averaged 80% over past 20 years.
	Trade Balance - May	-\$42.3b	• Deficit grew 4.8% from Apr to highest in 18 mths as imports rose more than exports.

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