Weekly Trends

PRIVATE CLIENT SOLUTIONS

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All I Want For Christmas…

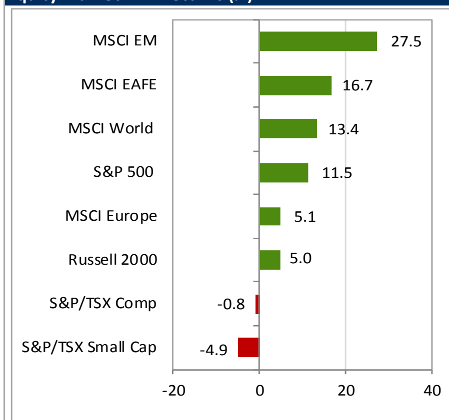
The S&P 500 touched a record high this week on decent breadth; there were 240 stocks on the NYSE that made 52-week highs and 7 stocks that made 52-week lows on Wednesday. There was little in the way of incrementally new headlines to drive US markets higher so the advance was largely attributed to reduced geopolitical tensions and the impact of Hurricane Irma was less than expected.

While US markets continued to push higher, the S&P/TSX has struggled year-to-date held back by energy and financials. However, energy price action has improved thanks in part to some supportive news from all three major oil industry bodies - OPEC seeing robust demand, which the IEA seconded, and the EIA downgrading their outlook for US production.

On the Canadian economic front, housing starts rose to 223.2k units in August, up 1.25k (+0.6%) from July. However, housing prices in Canada's most populous regions (Toronto and Vancouver) have slipped in recent months thanks to a tightening of qualification rules for uninsured mortgages and a higher interest rate. Housing's contribution to GDP is at a peak from a historical perspective, thus these measures to cool the market are anticipated to negatively impact growth in H2/17.

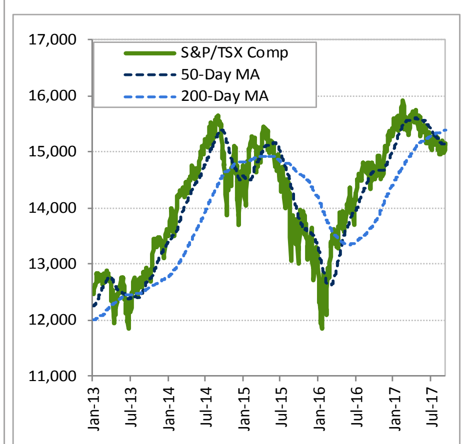
On the US economic front, JOLTS Job Openings showed a surge in job openings, smashing above 6 million for the first time ever. The sheer number of open positions suggests a mismatch in employer/employee qualifications. US consumer prices rose more than expected in August; CPI yoy rose 1.9% versus expectations of 1.8% and core CPI was 1.7% versus 1.6%. This marks the first CPI print to exceed economists' forecast in 5 months. The probability of a Fed rate hike by December increased to 44%, up from 38% prior to the CPI data.

Equity Market YTD Returns (%)



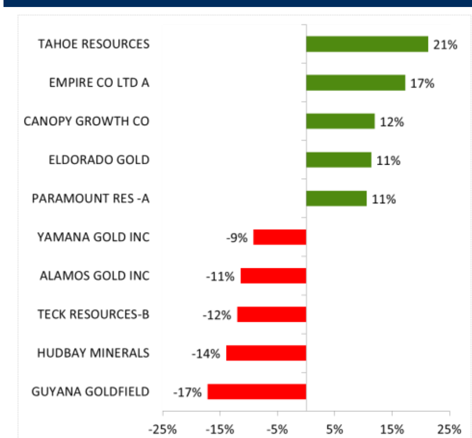
Canadian Sectors	Weight	Recommendation
Consumer Discretionary	5.4	Market weight
Consumer Staples	3.7	Market weight
Energy	20.3	Overweight
Financials	34.4	Overweight
Health Care	0.6	Underweight
Industrials	9.4	Overweight
Technology	3.3	Market weight
Materials	11.9	Market weight
Communications	4.9	Underweight
Utilities	3.2	Market weight
Real Estate	2.9	Market weight

Technical Considerations	Level	Target
S&P/TSX Composite	15,163	16,500



Source: Bloomberg, Raymond James Ltd.
Sectors are based on Bloomberg classifications

S&P/TSX Top 5 Gainers/Laggards*



S&P/TSX Market Internals

Weekly Advance	72	29%
Weekly Decline	173	69%
Advance-Decline	-101	
New 52 wk high	5	2%
New 52 wk low	1	0%
No. Stocks Above 50-d	128	51%
No. Stocks Above 200-d	104	41%
Arms Weekly Index	0.90	Neutral
RSI (14-day)	52.2	Neutral
50-DMA	15,123	Uptrend
200-DMA	15,377	Downtrend

Source: Bloomberg, Raymond James Ltd; * 5-day price return

Please read domestic and foreign disclosure/risk information beginning on page 7

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Investors Intelligence released its latest sentiment readings; bullish sentiment fell to 47.1% in the week-ending September 12th, down from 49.5% in the prior reading. It's also the lowest reading since just before Trump's surprise election victory ten months ago. From a contrarian point of view, this can be viewed as a positive and supportive of further upside in US equity markets.

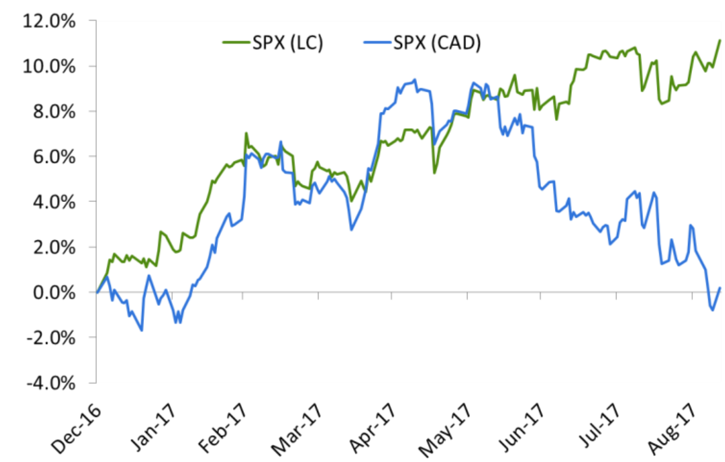
…Is A Mid-Single-Digit Return

It's been a difficult year for the average Canadian investor. The S&P/TSX is down 1.1% ytd and holding US securities has not helped much given the rapid increase in the Canadian dollar. The S&P 500 has gained 11.6% in local terms, but accounting for the loonie's appreciation, the index is up just 1.4%. A portfolio with a 60/40 Canada-US allocation would therefore be slightly underwater for the year, down 0.1%, a far cry from last year's S&P/TSX return of 17.5%.

S&P/TSX - Up One Year, Down Another…

Source: Stockchart.com

…S&P 500 Not Helping Either (At least in CAD terms)

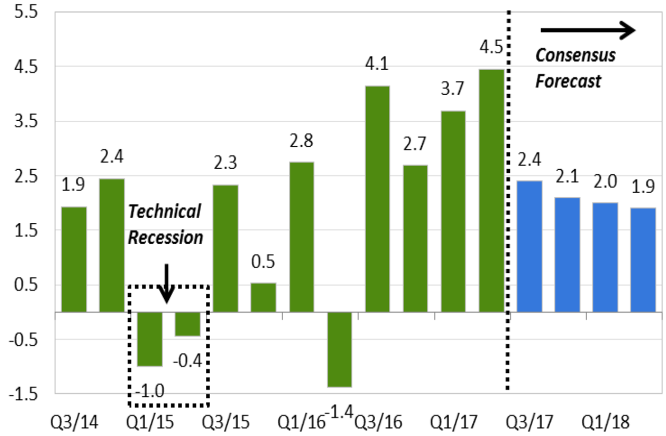


Source: Bloomberg, Raymond James Ltd.

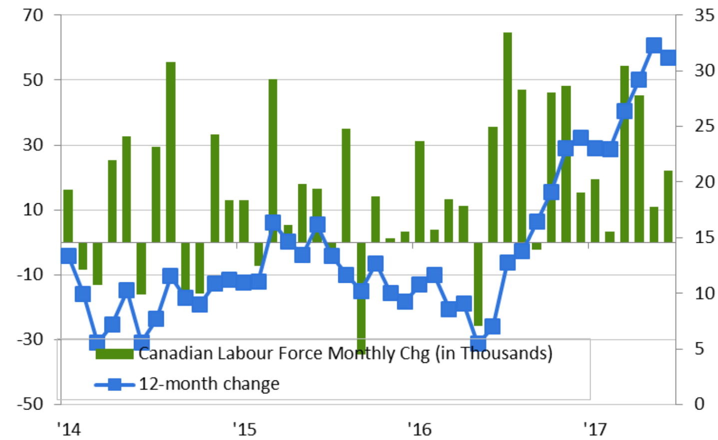
The S&P/TSX's underperformance this year is even more surprising considering the Canadian economy apparently is firing on all cylinders. Canadian GDP growth this year has been the best among the G7 and last quarter registered a sizzling 4.5%! Growth has been driven by a recovery in oil and gas spending, but more so by consumer consumption and housing-related activities. Combined, the consumer and housing now represents the greatest proportion of GDP on record. This is somewhat concerning should the housing market in major centers continue to slow and/or experience a significant correction.

Thus far the Canadian consumer and housing market has been able to absorb the increase in interest rates and stricter lending standards. Employment gains have helped this year. As long as the Canadian economy can continue to produce employment gains and avoid an unexpected spike in unemployment due to some exogenous shock, we believe housing can experience a soft landing. Looking at economist forecast for Canadian GDP growth, economic activity is anticipated to slow from the torrid pace set in the first half of this year.

Canadian GDP – Q2 Sizzle, But Moderation in the Cards…



…Employment Gains Have been Solid

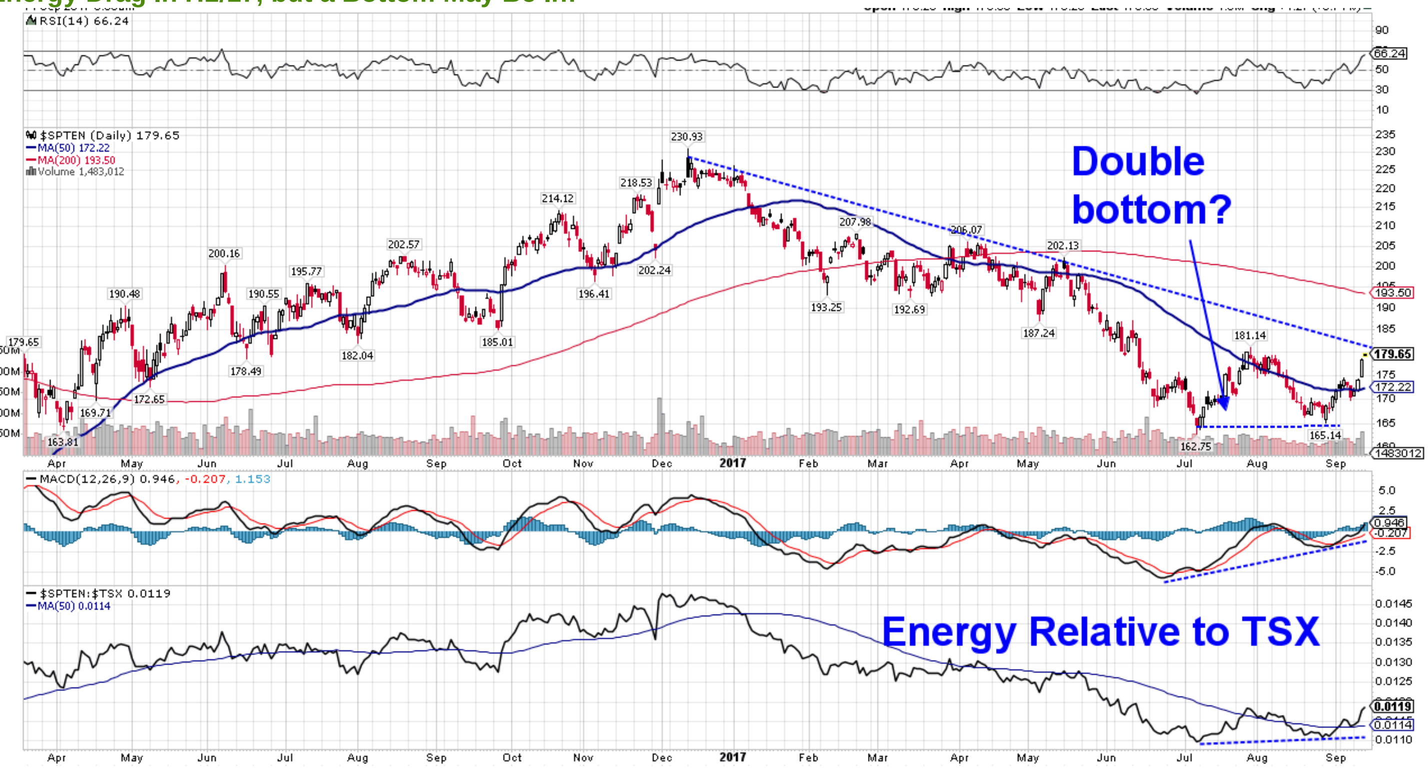


Source: Bloomberg, Raymond James Ltd.

With the Canadian economy registering economic growth only the US can dream about, one has to wonder why Canadian equities have underperformed. Well, it's a two part answer – energy and financials. The energy sector was has been a significant drag on performance in the first half of the year and is currently down ~14%. Skepticism about OPEC's ability to curb production, higher-than-expected US inventory builds and rising US production have all weighed on sentiment and depressed energy share valuations. However, some of these headwinds have abated and energy price action has improved since mid-summer.

As soon as energy found a firmer footing, financials began to underperform. Surprisingly, this occurred despite the positive catalysis of higher short-term rates (higher rates are a positive for lenders' net interest margins) and Canadian banks reporting yet another strong quarter. Bank of Montreal (BMO-T) was the only bank to disappoint; other than that the quarter was characterized by much stronger-than-expected Canadian retail results. The market does not appear to be giving Canadian banks enough credit for the resilience and diversification of their earnings stream, preferring to take a wait-and-see approach on how higher rates will impact their core businesses.

Energy Drag In H1/17, but a Bottom May Be In!



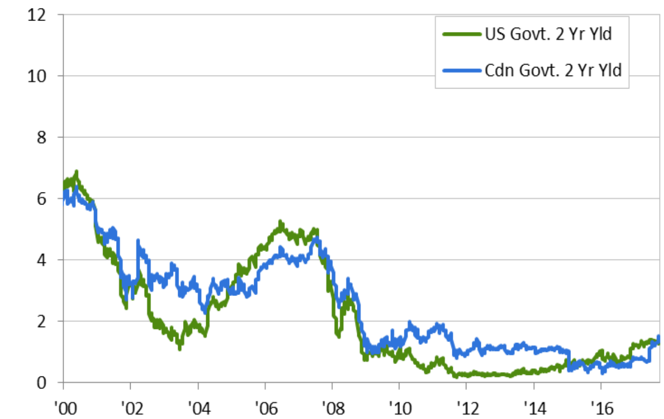
Source: Stockchart.com

While the Canadian economy is performing well year-to-date, financial conditions have likely tightened too much, in our view. Canadian rates have been on the rise to the point that Canadian yields now exceed those in the US and while our economy is experiencing a mini growth spurt, Canada's more narrowly focused expansion pales in comparison to the depth and breadth of the US economic expansion. The rapid ascent in the Canadian yield curve has resulted in a corresponding increase in the Canadian dollar, a double whammy for the consumer and exporters.

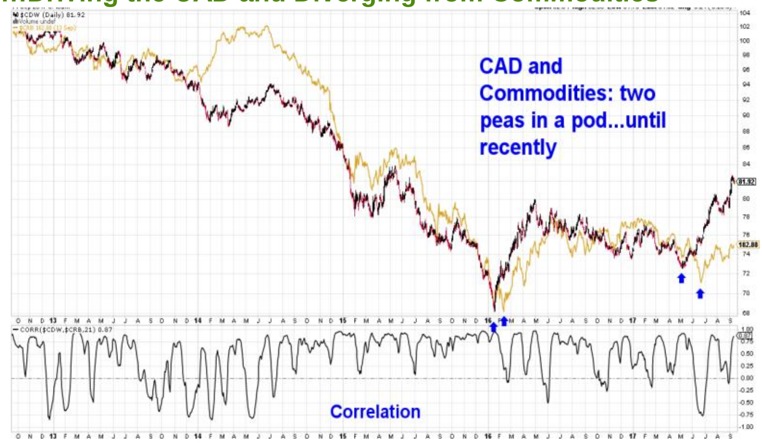
Not that this is a typical cycle for any central bank, but historically once the BoC begins to tighten monetary conditions, the overnight rate tends to move higher over the next 11 months. Over the past 6 tightening cycles, the overnight rate has increased approximately 200 bps before it levelled off and the bank began to cut rates again.

The odd of a third rate hike from the BoC in October, like September, is a coin flip so the BoC could surprise the market again by not moving. Given the move in rates and the Canadian dollar, we'd prefer to see the BoC pause and assess the impact before moving another 25 bps.

Canadian US Rate Differential Closed…



…Driving the CAD and Diverging from Commodities



Source: Stockchart.com

Despite the increase in Canadian rates, rate sensitive sectors have held their ground. Since the BoC's indication that short-term rates would begin to rise, the best performing defensive sectors has been telecom slipping just 2.2%, while the best performing cyclical sectors have been consumer discretionary and financials.

S&P/TSX Sector Performance

	Performance since June 12	YTD Performance
Cyclical		
Con. Disc.	0.5%	10.4%
Energy	-3.0%	-14.0%
Financial	0.1%	0.2%
Health	-3.5%	-12.7%
Industrial	-2.8%	8.1%
Info Tech.	-2.4%	9.4%
Material	-1.4%	1.6%
Defensive		
Real Estate	-5.1%	0.2%
Telecom	-2.2%	5.5%
Utilities	-2.5%	4.7%
Con. Staples	-6.0%	-0.4%
S&P/TSX	-1.7%	-1.1%

Source: Bloomberg

Looking at particular styles, Canada value has made a recovery, but growth continues to also perform well. Dividend styles have come out of favour as both dividend growers and dividend yielders have underperformed amid a yield curve that has pushed higher.

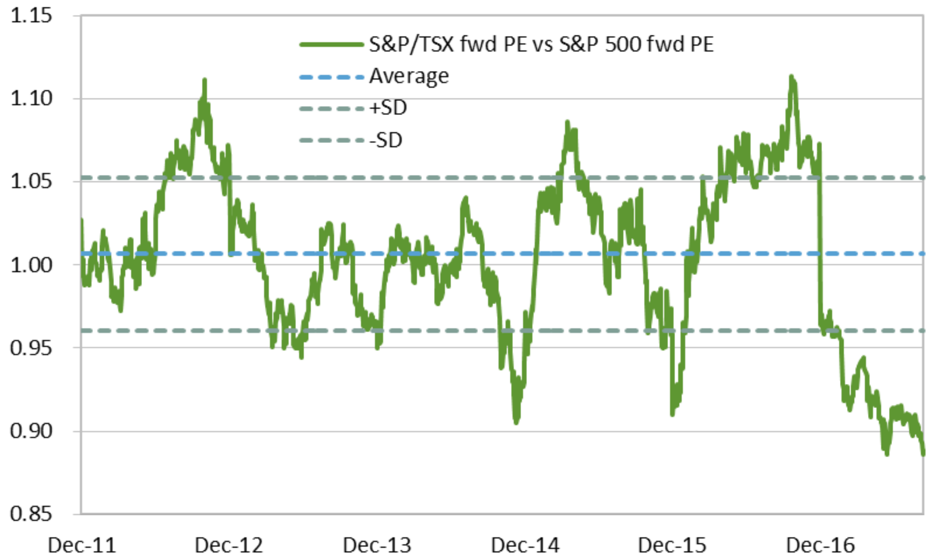
The Canadian market remains abnormally cheap relative to the US. A re-rating could occur if we experience a soft landing in Canadian housing and/or an extension of the recovery in commodity prices.

While we are of the view the BoC should take a wait-and-see approach to its recent rate hikes, the bias and history suggests a hike may be in the October cards. Until we get a clear indication the BoC is taking a break we reiterate our preference/positions:

- Dividend growers over Dividend payers. Dividend growers offer a lower yield, but can grow the dividend at a relatively fast pace. Dividend payers are generally mature companies that offer a higher dividend, but dividend growth is similar to the growth of the overall economy.

- Cyclical over defensive sectors. We believe we are in the later stages of the economic cycle, which suggests industrials and energy may outperform. While there is little evidence of inflationary pressure building, the materials sector has been benefiting from higher bullion prices and industrial metals benefiting from supply disruptions.
- Value versus Growth. Synchronized global economic growth should lead to a positive re-rating of value-oriented stocks. However, given our view that this cycle will not follow the historical pattern we believe growth will continue to garner a premium over value.

Canada Abnormally Cheap Relative to the US



Source: Bloomberg, Raymond James Ltd.

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