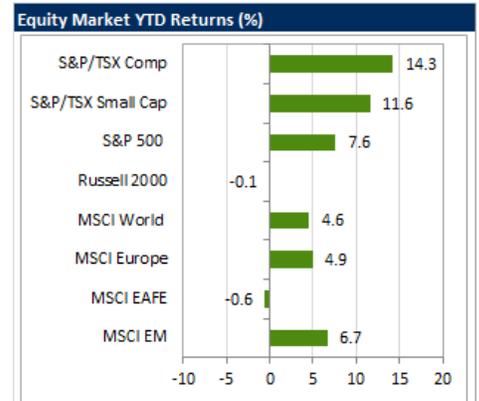


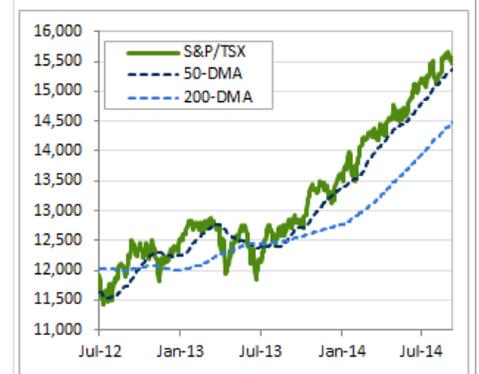
## Capex Refresh

- Business investment or capital expenditure (capex) has lagged in this recovery. However, based on our analysis we believe it is set to accelerate and therefore recommend investors gain exposure to this investment theme, notably through the information technology and industrials sectors.
- Given record cash levels on corporate balance sheets, improved fiscal clarity from Washington, higher capital utilization rates, and the oldest capital stock levels in decades, we believe the conditions are right for a strong capex spending cycle in the coming quarters.
- Within the technology sector we believe the software and equipment sub-industries could experience outsized gains as these investments can have the largest impact on productivity/efficiency gains, which in turn drives stronger corporate profit growth. On the industrials side, we believe companies levered to oil & gas, industrial automation and machinery could see stronger sales/order growth driven in part by the energy and industrial renaissance in the US.
- On page 4 we provide a list of equity ideas which could stand to benefit from this expected increase in capital spending.



Canadian Sector	Curr. Wt	Recommendation
Consumer Discretionary	5.6	Market weight
Consumer Staples	2.9	Market weight
Energy	25.9	Overweight
Financials	34.8	Overweight
Health Care	2.8	Underweight
Industrials	8.4	Overweight
Information Technology	1.9	Overweight
Materials	11.5	Market weight
Telecom	4.5	Underweight
Utilities	1.9	Underweight

Technical Considerations	Level	Reading
S&P/TSX Composite	15,566.3	
50-DMA	15,363.3	Uptrend
200-DMA	14,469.6	Uptrend
RSI (14-day)	55.1	Neutral

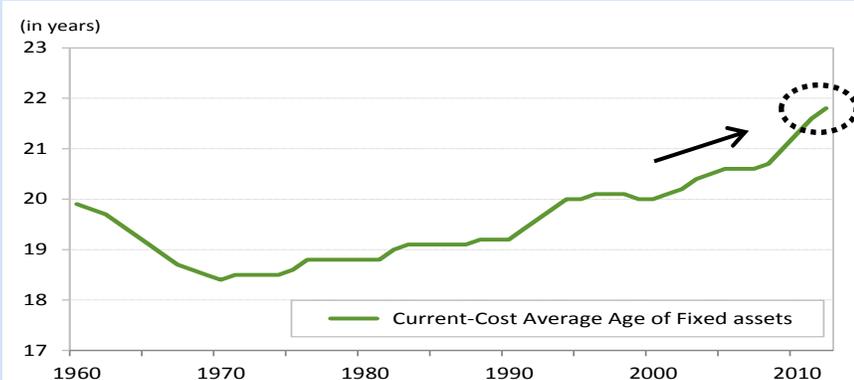


Source: Bloomberg, Raymond James Ltd.

### Chart of the Week

#### US Capital Stock Needs to be Upgraded

With Private Fixed Assets Being the Oldest Level Since the 1950s



Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 5 Raymond James Ltd. 5300-40 King St W. | Toronto ON Canada M5H 3Y2.

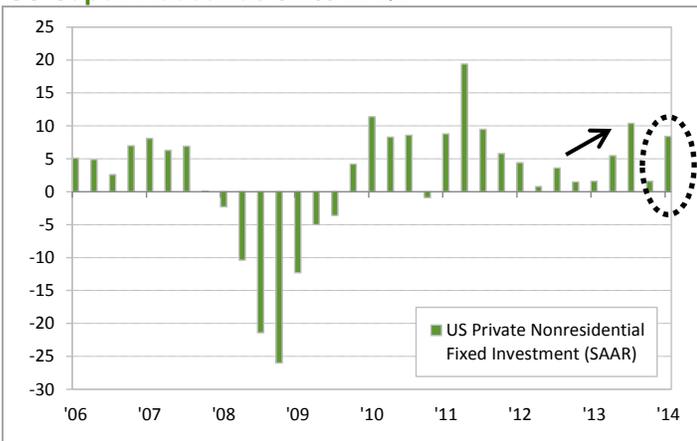
2200-925 West Georgia Street | Vancouver BC Canada V6C 3L2.

### Capex Refresh

The current economic recovery is now in its sixth year and we've seen a significant improvement across many parts of the North American economy over this period. For example, the labour market has rebounded sharply with over 8 million jobs being created in the US, helping to drive down the unemployment rate from 10% in 2009 to 6.1%. In Canada, 1 million jobs have been created since the end of the recession, with our unemployment rate declining from a peak of 8.6% in 2009 to 7% currently. Other key areas of recovery include auto sales, the housing market and the manufacturing sector, which are all up strongly since the 2009 bottom. One area that has lagged in this recovery is business investment or capital expenditure (capex). However, based on our analysis we believe it is set to accelerate and therefore recommend investors gain exposure to this investment theme, notably through the information technology and industrials sectors. In this week's report we outline our constructive case for capex spending and provide a list of equity ideas that stand to benefit from this investment theme.

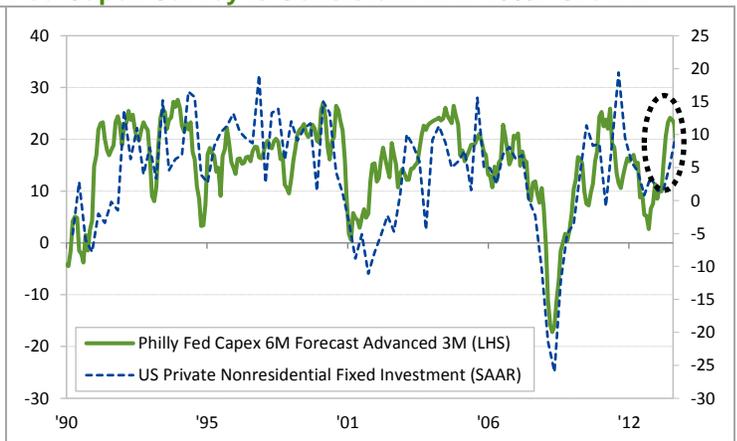
Capex spending, which entails expenditures on fixed assets such as plant, property and equipment (PP&E), rebounded in the US to 8.4% Q/Q annualized in Q2. This was up from the modest 1.6% gain in Q1, with gains coming from investment in nonresidential structures (9.4%) and business equipment (10.7%). As seen in the accompanying chart, business investment snapped back in 2010/11, but then moderated in 2012/13. We believe the economic backdrop is supportive for a ramp-up in business investment in the coming year both in Canada and the US. Capex spending is very sensitive to changes in GDP growth and based on our expectations for 3% US GDP growth in the coming quarters we estimate that business investment could increase by 6-7% in the coming quarters. Moreover, when looking at survey polls for future capex spending they point to even more strength in spending with the Philly Fed Capex Survey currently consistent with business investment of low double-digit growth. Overall, based on a number of factors, which we outline in the following pages, we believe business investment is set to accelerate which should be supportive of the industrials and information technology sectors outperforming in the coming months.

**US Capex Rebounds 8.2% in Q2**



Source: Bloomberg, Raymond James Ltd.

**Fed Capex Survey is Consistent with 10%+ Growth**

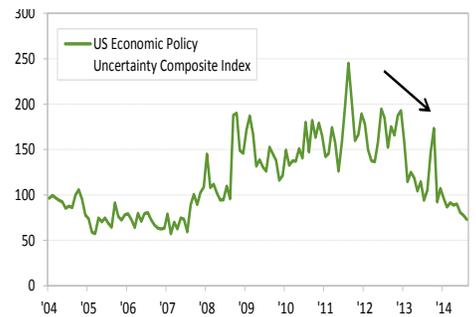


### Outlining Our Bullish Case

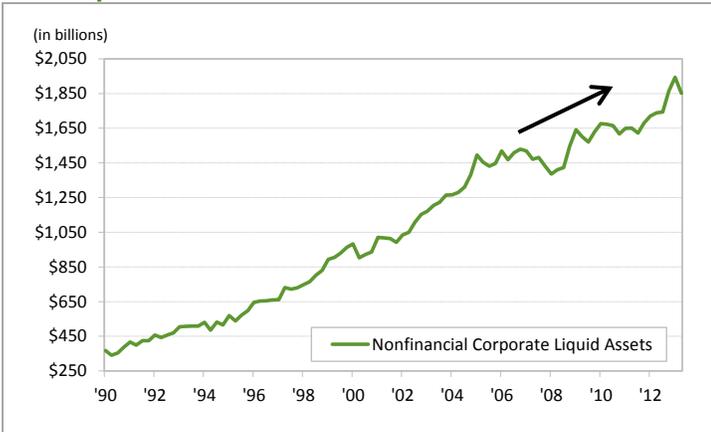
Our constructive view on capex spending is predicated on the following factors:

- North American corporations are flush with cash as a result of strong corporate profits and their hesitancy to spend on much needed capital projects. For example, US and Canadian nonfinancial corporations are sitting with record cash levels of US\$1.85 tln and \$630 bln, respectively. We believe that under the right conditions (which are present), corporate managers could be open to spending this cash hoard on capital investments.
- Crucially, fixed assets, which includes office buildings to pipelines and computer equipment, are old and in need of being replaced/updated. In the US, private fixed assets are 22 years old on average, which is the oldest level seen since the 1950s.
- Capacity utilization, which measures the amount of spare capacity in the economy, has risen steadily and is signalling a potential increase in capital spending. US capacity utilization currently stands at 79%, which is in line with the long-term average of 80%, and up from a low of 67% in 2009. Often, rising capacity utilization leads to increases in capex spending.
- We believe there have been a number of positive developments on the fiscal policy front from Washington that is likely to reduce uncertainty and improve confidence among corporate managers. In particular, Washington passed a two-year budget deal that outlines government spending through 2015, providing a reprieve from the brinkmanship seen over the last few years. Additionally, US deficits have narrowed dramatically over the last few years, from a high of 10% of GDP in 2009 to 3.1% today. These positive developments have contributed to a reduction in policy uncertainty with the US Economic Policy Uncertainty Index declining materially over the last year (see sidebar).
- Finally, we believe the economic outlook for the North American economy has improved which could provide the impetus for corporations to finally begin to spend their cash hoard on capital projects and investment. Given the historical sensitivity of capex spending to GDP growth (1.65x to GDP growth), we see capital spending increasing at a good clip in the coming quarters.

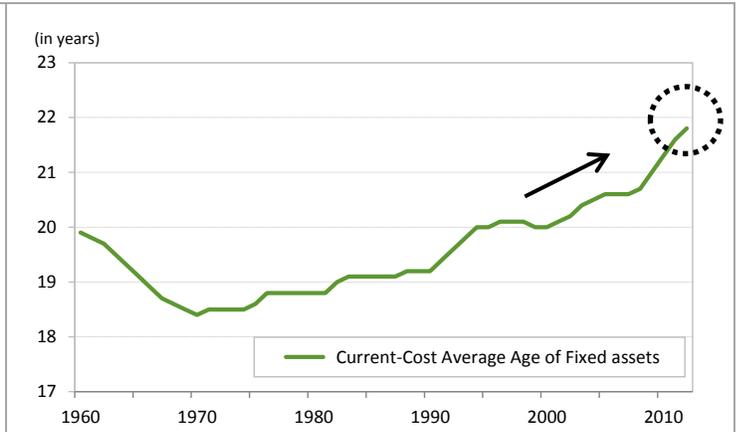
#### Improved Clarity from Washington is Helping Reduce Uncertainty



#### US Corporations are Flush with Cash



#### While Fixed Assets Are 22 Years Old



Source: Bloomberg, Raymond James Ltd.

## Ways to Play Stronger Capex Spending

From a sector perspective the industrials and information technology sectors stand to benefit the most from an increase in capex spending. This is one factor in our call to overweight these sectors. Within the technology sector we believe the software and equipment sub-industries could experience outsized gains as these investments can have the largest impact on productivity/efficiency gains, which in turn drives stronger corporate profit growth. On the industrials side, we believe companies levered to oil & gas, industrial automation and machinery could see stronger sales/order growth driven in part by the energy and industrial renaissance in the US.

Below we highlight stocks within the industrials and information technology sectors that we believe could be beneficiaries of our capex spending thesis. We recommend investors look to add exposure to this investment theme using this list for potential buy ideas.

## Stock Ideas That Could Benefit From a Capex Spending Cycle

Name	Ticker	Price	YTD (%)	P/E Fwd (x)	Dvd Yield (%)	Sector	Industry	Technical Trend
<b>Canada (S&amp;P/TSX)</b>								
<b>BLACK DIAMOND GR</b>	<b>BDI-T</b>	<b>\$28.58</b>	<b>-4.7</b>	<b>16.3</b>	<b>3.1</b>	<b>Industrial</b>	<b>Commercial Services</b>	<b>Negative</b>
<b>THOMSON REUTERS</b>	<b>TRI-T</b>	<b>\$41.67</b>	<b>3.7</b>	<b>18.6</b>	<b>3.5</b>	<b>Industrial</b>	<b>Media</b>	<b>Positive</b>
<b>OPEN TEXT CORP</b>	<b>OTC-T</b>	<b>\$63.15</b>	<b>29.3</b>	<b>14.9</b>	<b>1.1</b>	<b>Technology</b>	<b>Software</b>	<b>Positive</b>
CGI GROUP INC-A	GIB'A-T	\$39.29	10.6	12.7	0.0	Technology	Computers	Positive
<b>US (S&amp;P 500)</b>								
EATON CORP PLC	ETN-T	\$67.72	-11.0	13.6	2.1	Industrial	Miscellaneous Manufactur	Negative
<b>GENERAL ELECTRIC</b>	<b>GE-N</b>	<b>\$26.06</b>	<b>-7.0</b>	<b>15.2</b>	<b>3.3</b>	<b>Industrial</b>	<b>Miscellaneous Manufactur</b>	<b>Neutral</b>
ROCKWELL AUTOMAT	ROK-N	\$116.13	-1.7	17.3	2.4	Industrial	Machinery-Diversified	Neutral
INGERSOLL-RAND	IR-N	\$60.25	-2.2	17.0	1.5	Industrial	Miscellaneous Manufactur	Neutral
ORACLE CORP	ORCL-Q	\$40.52	5.9	12.8	1.2	Technology	Software	Positive
MICROSOFT CORP	MSFT-Q	\$46.76	25.0	16.8	2.4	Technology	Software	Positive
IBM	IBM-N	\$191.51	2.1	9.9	2.1	Technology	Computers	Neutral
CITRIX SYSTEMS	CTXS-Q	\$72.32	14.3	20.9	0.0	Technology	Software	Positive
CISCO SYSTEMS	CSCO-Q	\$25.14	12.1	11.6	2.9	Technology	Telecommunications	Positive
EMC CORP/MA	EMC-N	\$29.64	17.9	14.4	1.4	Technology	Computers	Positive

Source: Bloomberg, Raymond James Ltd.

Note: Bolded names are held in the Guided Portfolios

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