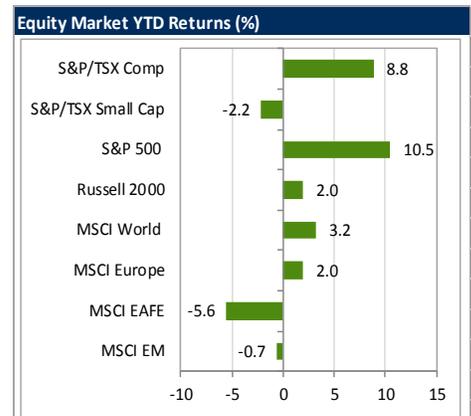


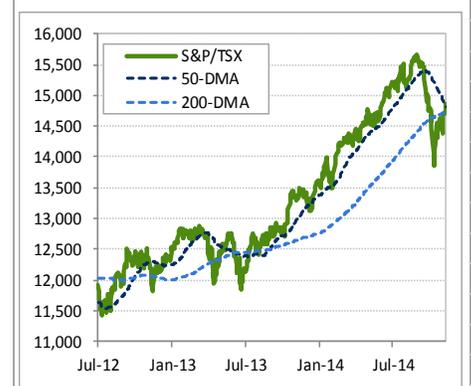
## US Elections Impact on Equity Markets

- The Republican Party had a sweeping victory in the US midterm elections, increasing its majority in the House and taking back the Senate. We believe that President Obama could take a page from President Clinton, who, after the 1994 midterm election, was forced to “move to the center” following the Congressional defeat to the Republicans.
- The Republican win could help to advance the approval of the Keystone Pipeline, roll back stringent new environmental regulations, and tackle tax and immigration reform.
- Regardless of the political outcomes, history shows that midterm elections have been bullish for the S&P 500 Index (S&P 500) in the subsequent 12-month period. Since 1945 there have been 17 midterm elections with every 12-month return following a midterm election being positive. Additionally, the S&P 500 has posted an average return of 17.5% in the subsequent 12-month period.
- The Presidential Cycle, which asserts that the stock market does best in year three of a President’s term, points to additional gains next year with 2015 being the third year of President Obama’s term.
- US election cycles point to additional gains next year, however, given the overbought condition for the US markets, we see the potential for a modest pullback in the short term. Despite this cautious short-term view, the S&P 500 remains above its rising 200-day MA, a sign of long-term technical strength.



Canadian Sector	Curr. Wt	Recommendation
Consumer Discretionary	6.1	Market weight
Consumer Staples	3.3	Market weight
Energy	23.7	Overweight
Financials	35.8	Overweight
Health Care	3.2	Underweight
Industrials	8.8	Overweight
Information Technology	2.1	Overweight
Materials	10.2	Market weight
Telecom	4.8	Underweight
Utilities	2.1	Underweight

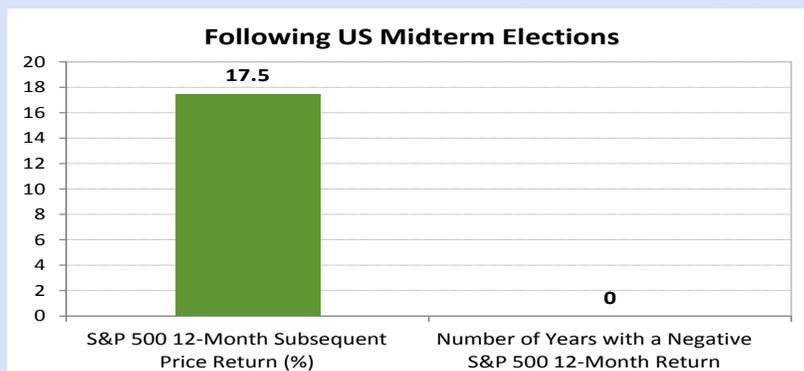
Technical Considerations	Level	Reading
S&P/TSX Composite	14,826.8	
50-DMA	14,840.0	Downtrend
200-DMA	14,730.4	Uptrend
RSI (14-day)	58.2	Neutral



Source: Bloomberg, Raymond James Ltd.

### Chart of the Week

US Midterm Elections Have Been Bullish For Subsequent 12-Month Equity Returns



Source: Bloomberg, Raymond James Ltd. Data is 1945 to 2014.

Please read domestic and foreign disclosure/risk information beginning on page 4

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### Elections and the Stock Market

After the barrage of negative attack ads and US\$3.7 bln spent on the US midterm elections, the results are in and it was a sweeping victory for the Republican Party. The Republicans fortified their control of the House by picking up over a dozen seats and maintaining their majority. More importantly, the Republicans took back the Senate after picking up seven seats. With the Republicans now in control of both chambers of Congress, the power has shifted back to the GOP, with this having significant implications for future policy. Crucially, we believe that President Obama could take a page from President Clinton, who, after the 1994 midterm election, was forced to “move to the center” following the Congressional defeat to the Republicans. We believe the same could unfold with President Obama, who may be forced to take on a more conciliatory approach with the GOP. For example, the Republican win could help to advance the approval of the Keystone Pipeline, roll back stringent new environmental regulations, and tackle tax and immigration reform. Some worry that the split President and Congress will help to exacerbate the current polarized nature of Washington politics; however, we believe it could trigger the opposite, possibly leading to increased cooperation between the parties. Regardless of the political outcome, history shows that midterm elections have been bullish for US equities in the subsequent 12-month period. In this week’s report we provide some historical context on stock market returns and US election cycles.

First, we are entering the best period for stock returns based on the Presidential Cycle. The Presidential Cycle asserts that the stock market does best in year three of a President’s term. As illustrated in the accompanying chart, the S&P 500 has returned on average 16.1% in year 3 of a President’s term, well above the average 5-6% annual returns for all other years. With 2015 being the third year of President Obama’s term, this is one argument for continued gains next year.

Second, our analysis shows that 12-month stock returns following a midterm election have been very strong. Since 1945 there have been 17 midterm elections, with every 12-month subsequent return following a midterm election being positive. Additionally, the S&P 500 has posted an average return of 17.5% in the subsequent 12-month periods. While we do not envision the S&P 500 posting a 17.5% gain over the next 12 months, the historical data suggests continued gains in 2015.

Finally, we have found that the US stock market has performed the strongest during periods of a Democratic President and a Republican Congress. Since 1900, the DJIA has posted an average annual return of 9.6% under this scenario, which is above returns for all other scenarios. While history is just a guide, the midterm elections and Presidential Cycle suggests continued equity gains in the coming year.

Midterm Date	S&P 500 12-Month Subsequent Price Return
1946	4.0%
1950	17.5%
1954	33.6%
1958	12.1%
1962	30.9%
1966	17.1%
1970	13.2%
1974	20.5%
1978	9.3%
1982	22.3%
1986	3.2%
1990	29.1%
1994	23.1%
1998	24.1%
2002	18.6%
2006	12.4%
2010	5.9%
<b>Average</b>	<b>17.5%</b>
<b>Median</b>	<b>17.5%</b>

#### Presidential Cycle is Pointing to Gains in 2015



Source: Bloomberg, Raymond James Ltd.

#### Solid Equity Gains Occur Under a Split Government

Scenario	Democratic President	Republican President
Democratic Congress	7.3%	2.2%
Republican Congress	9.6%	7.0%

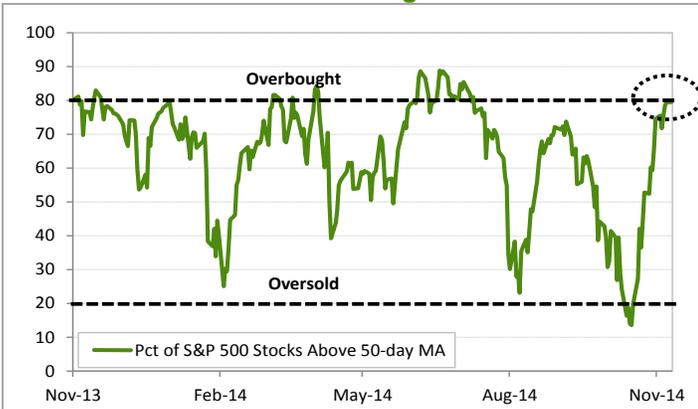
Annualized DJIA Returns from 1900 to 2014

### Possible Short-term Weakness

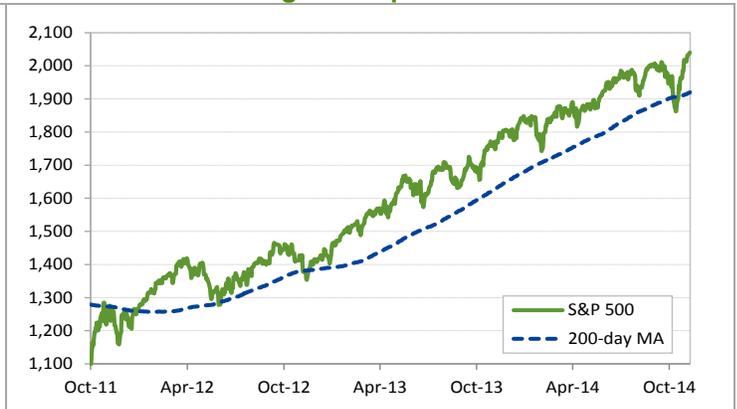
In the very short term, the equity markets could come under some selling pressure. As a result of the v-shaped recovery and the 10% gain for the S&P 500 since the October low, the US equity markets have become technically overbought. A number of indicators we follow point to a market with low “internal energy”. For example, the 14-day Relative Strength Index (RSI) for the S&P 500 is currently at 79 (above 80 indicates overbought) and the percentage of stocks in the S&P 500 above their 50-day moving averages (MAs) is currently at 80%. These levels are consistent with modest pullbacks in the 2-4% range. We believe a small pullback is possible over the next few weeks and note that the 50- and 100-day MAs for the S&P 500 converge round 1,970, which is roughly 3% below current levels. This looks a logical level for the S&P 500 to pull back to in the coming weeks. Despite this cautious short-term view, the S&P 500 remains above its rising 200-day MA, a sign of long-term technical strength.

For now, economic momentum is improving, notably in the US. Corporate earnings are benefiting as a result. Central banks continue to inject liquidity, while US election cycles suggest further strength in 2015. Finally, technicals remain long-term bullish and supportive of our continued constructive stance on equities.

#### S&P 500 is Short-term Overbought



#### But Remains in a Long-term Uptrend



Source: Bloomberg, Raymond James Ltd.

## Important Investor Disclosures

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