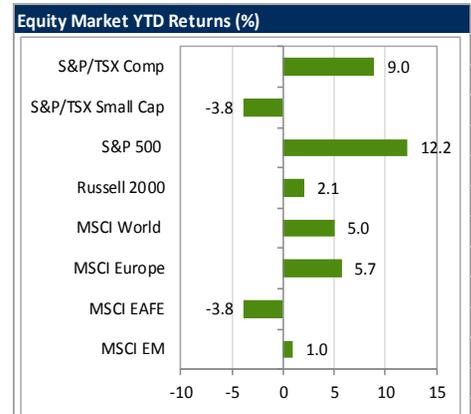


## Reduce Staples into Strength

- The S&P/TSX Consumer Staples sector has been the strongest performing sector year-to-date (YTD), up 32.3% as of November 24. Given our continued neutral view of the sector, we would recommend investors take advantage of the gains by trimming exposure. With the proceeds we recommend investors look to the consumer discretionary sector.
- Our more constructive outlook for the consumer discretionary sector is predicated on: 1) valuations for the consumer discretionary sector are more attractive compared to the consumer staples; 2) the earnings outlook for the consumer discretionary sector is stronger relative to staples; 3) we believe the precipitous drop in oil and gasoline prices could be a boon to consumer spending into the holidays and coming months; and 4) technicals are bullish for the consumer discretionary sector, with the sector recently breaking out and showing better relative strength.
- We highlight Cineplex Inc. (CGX-T), Linamar Corp. (LNR-T) and BRP Inc. (DOO-T) as attractive equity ideas in the consumer discretionary space.

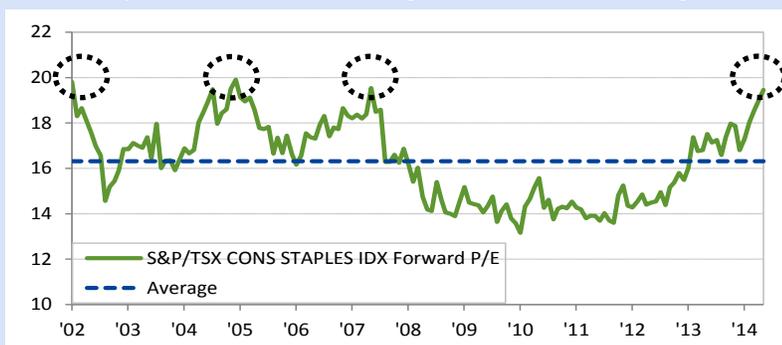


Canadian Sector	Curr. Wt	Recommendation
Consumer Discretionary	6.3	Market weight
Consumer Staples	3.4	Market weight
Energy	21.6	Overweight
Financials	36.6	Overweight
Health Care	3.5	Underweight
Industrials	8.9	Overweight
Information Technology	2.1	Overweight
Materials	10.6	Market weight
Telecom	4.9	Underweight
Utilities	2.2	Underweight

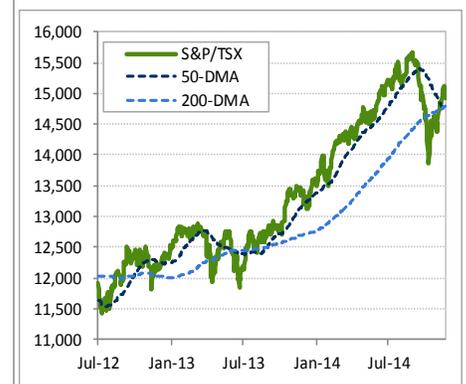
Technical Considerations	Level	Reading
S&P/TSX Composite	14,841.3	
50-DMA	14,717.1	Uptrend
200-DMA	14,801.4	Uptrend
RSI (14-day)	54.3	Neutral

### Chart of the Week

The S&P/TSX Consumer Staples Sector Is Expensive Trading At The Top-End Of Its Historical Range At 20x Forward Earnings



Source: Bloomberg, Raymond James Ltd.



Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 5

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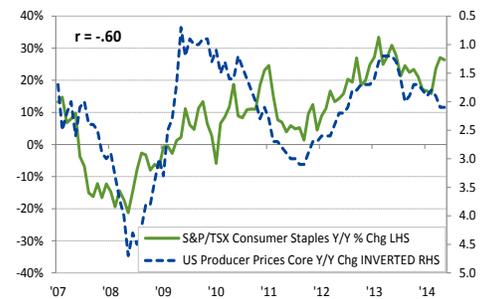
2200-925 West Georgia Street | Vancouver BC Canada V6C 3L2.

### Reduce Staples into Strength

The S&P/TSX Consumer Staples sector has been the strongest performing sector YTD, up 32.3% as of November 24. The strong gains have come as a surprise to many, including us, as we've recommended a market weight in the sector. Given our continued neutral view of the sector, we would recommend investors take advantage of the gains by trimming exposure and rotate these funds into the consumer discretionary sector, which we believe could outperform the staples sector in the coming months. Our neutral view of the consumer staples sector is based on the following factors:

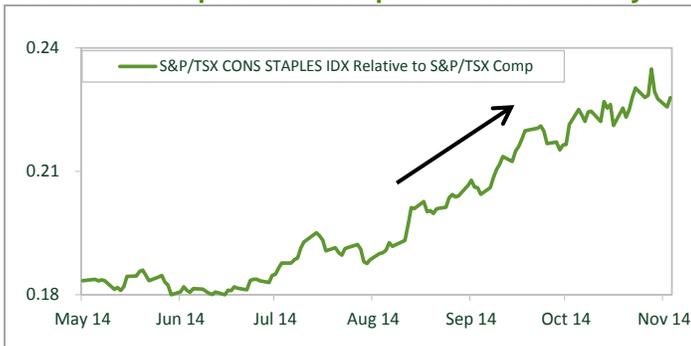
- Consumer staples are defensive and tend to outperform during periods of economic uncertainty. With the global economy slowing in recent months this would help to explain the strong performance. However, we believe the global economy could begin to strengthen which could be a headwind for the sector as investors rotate out of defensive sectors.
- With the strong gains in the sector, the dividend yield for the staples sector lowest level since 2005.
- The foundation of our analytical framework is to isolate relationships between economic indicators and stock/sector performance. In that vein, we have found that there is a negative correlation (-0.60) between inflation and the performance of consumer staples (sidebar). We expect inflation to tick higher in the coming months which could be a headwind to the sector.
- Valuations have become stretched with the consumer staples trading at 19.8x forward earnings, a 22% premium to its long-term average. More importantly, the sector is trading at the top-end of its historical range of 14x to 20x. We believe the sector is expensive, both in relation to its long-term average and the overall stock market, which could limit further upside.
- Finally, the staples sector has benefited from numerous M&A and corporate restructuring announcements (e.g., Loblaw's and Shoppers Drug Mart Corp.) With fewer potential acquisition targets, we could be near a peak in M&A activity, which if correct, would remove a tailwind for the sector.

### Consumer Staples Have Been Negatively Correlated with Inflation

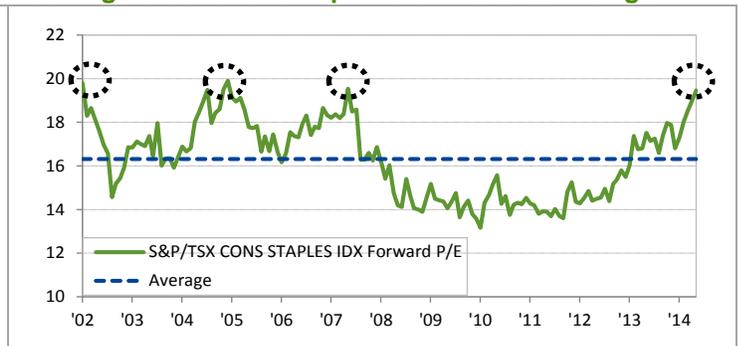


In sum, valuations have reached typical peak levels for the consumer staples sector, while many of the supportive fundamental factors have largely played out. We would recommend investors trim exposure to the sector and look to reallocate those funds into the consumer discretionary sector, where we see more attractive valuations and potential catalysts.

### Consumer Staples Have Outperformed Since July



### Pushing Valuations to Top-End of Historical Range



Source: Bloomberg, Raymond James Ltd.

## Outlook for the Consumer Discretionary Sector

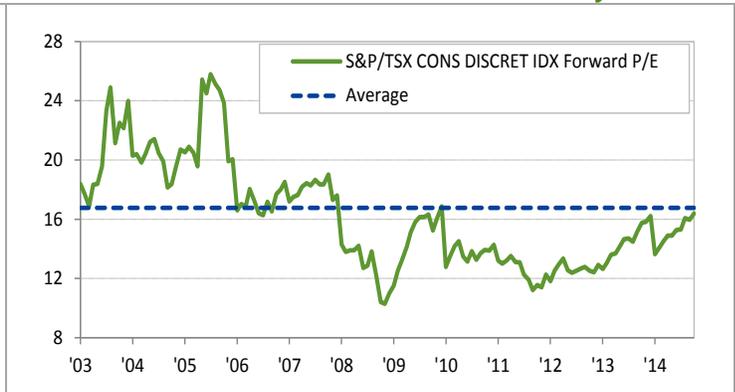
The consumer staples have outperformed consumer discretionary stocks by 11% YTD, but we believe this period of outperformance could soon end and therefore recommend investors look to rotate funds into the consumer discretionary sector. Our more constructive outlook for the consumer discretionary sector is predicated on the following:

- Valuations for the consumer discretionary sector are more attractive compared to the consumer staples. Currently, the consumer discretionary sector trades at 16.9x forward earnings, which is in-line with its long-term average, and well below the consumer staples sector at 19.6x (22% premium to its long-term average).
- The earnings outlook for the consumer discretionary sector is stronger relative to consumer staples. Over the last three years the discretionary sector has posted average earnings growth of 25% versus 9% for staples. Looking forward, analysts are forecasting the discretionary sector to post average earnings growth of 24% in 2014 and 2015, versus 18% for staples. Therefore, investors are paying a lower multiple for the discretionary sector, which is expected to deliver stronger earnings growth.
- We believe the precipitous drop in oil and gasoline prices could be a boon to consumer spending into the holidays and coming months. For example, average gasoline prices have declined 20% since the summer to \$1.12/liter. This is a significant “tax cut” for consumers and could result in stronger consumer spending in the coming months. Indeed, Canadian retail sales for September were released this week and showed impressive M/M and Y/Y gains for durable goods such as motor vehicles and part sales (8.1% Y/Y), home furnishings (6.7%), and electronics (5.2%).
- Finally, the technicals are bullish for the consumer discretionary sector, with the sector recently breaking out, and showing better relative strength.

### Gasoline Prices Are Down 20% Since the Summer



### Reasonable Valuations For Cons. Discretionary Sector



Source: Bloomberg, Raymond James Ltd.

## Consumer Discretionary Equity Ideas

We highlight three names within the consumer discretionary sector that we find attractive:

### Cineplex Inc. (CGX-T: \$43.70)

- Cineplex is the largest Canadian movie exhibitor. Its operations include more than 1,600 screens at more than 160 theatres under brands such as Cineplex Odeon, Galaxy, and Famous Players.
- We see 2015 as being a blockbuster year for movie releases with notable movies including James Bond, Jurassic Park and the new Star Wars film. We believe the strong movie lineup could translate into robust sales and earnings next year.

### Linamar Corp. (LNR-T: \$65.95)

- Linamar is a global manufacturer of engineered products. The company operates two main businesses: driveline and industrial. The driveline division focuses on precision metallic components and driveline systems designed for passenger vehicles. The industrial division focuses on similar products but for on and off highway vehicle, energy and other industrial markets.
- With our belief that the US economy will continue to expand in 2015, we believe US auto sales will remain robust, likely remaining above the 16 mln level.
- Additionally, we see LNR as a good play on the aging US vehicle fleet, which currently is 11.4 years, the oldest since 1995.

### BRP Inc. (DOO-T: \$27.88)

- BRP is the former recreational products division of Bombardier Inc. (BBD'B-T). BRP manufactures 'powersport' vehicles ranging from snowmobiles, personal water craft, ATVs, outboard marine engines and side-by-side and three-wheeled recreational vehicles. Brands include Ski-Doo, Sea-Doo and Evinrude.
- The company has a number of new products, including the Sea-Doo Spark (the market's lowest-priced personal watercraft) and Spyder RT (three-wheeled roadster) which could provide a boost to future sales.
- We believe BRP could benefit from another cold winter, which is expected by most weather forecasters.

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