Weekly Trends

PRIVATE CLIENT SOLUTIONS

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Trade & War

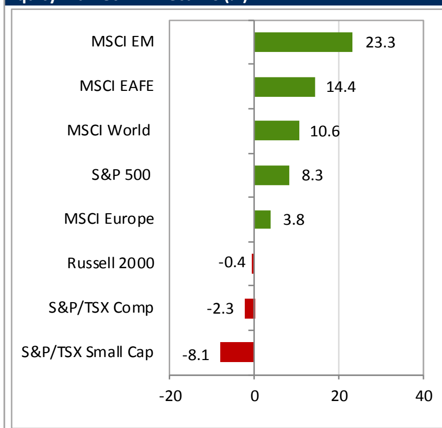
The White House's effort to dampen tensions surrounding North Korea and its state-run media reporting Kim Jong-un has decided not to fire missiles near Guam helped market sentiment this week.

Trump very quickly filled the void by turning a press conference about infrastructure into a complete and utter mess. The backlash against the president's remarks about the Charlottesville incident, the multiple executive defections and subsequent breakup of Trump's Manufacturing Council and Strategy & Policy Forum reintroduced legislative uncertainty into the market. With every tweet, we find it harder to see how Trump can successfully push through his legislative agenda. We suppose the glass half-full view is that Trump has us exactly where he wants us. Expectations are so low, that if he can achieve anything, it will be a major victory.

Global economic data was mixed this week. Japan Q2 GDP surprised to the upside. In the US, July retail sales beat and June saw upward revisions. However, housing starts and building permits missed the mark as tighter lending standards appears to have created a headwind. Last Friday, US CPI missed for the 5th consecutive month. A lack of inflationary pressures continue to confound the Fed's desire to hike; although barring a sharp deterioration in economic data, the Fed appears steadfast in their desire to raise rates one more time this year. The current Fed fund implied probability for a December rate hike is 40%.

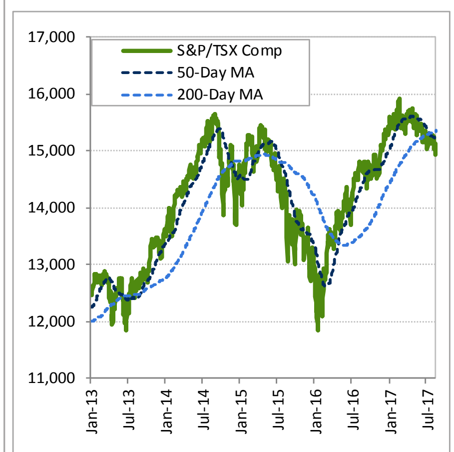
The July FOMC minutes reflected the committee's concern about inflation. The most notable reference was that "most participants expected inflation to pick up over the next couple of years….and to stabilize around the 2% objective over the medium term." However, many participants "saw some likelihood that inflation might remain below 2% for longer than they currently expected, and several indicated that the

Equity Market YTD Returns (%)



Canadian Sectors	Weight	Recommendation
Consumer Discretionary	5.4	Market weight
Consumer Staples	3.8	Market weight
Energy	19.6	Overweight
Financials	34.5	Overweight
Health Care	0.6	Underweight
Industrials	9.5	Overweight
Technology	3.2	Market weight
Materials	12.0	Market weight
Communications	5.0	Underweight
Utilities	3.3	Market weight
Real Estate	3.0	Market weight

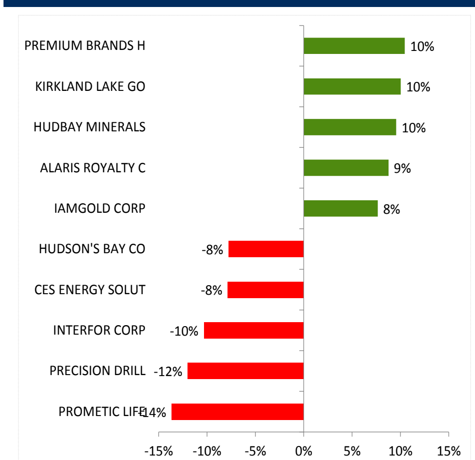
Technical Considerations	Level	Target
S&P/TSX Composite	14,935	16,500



Source: Bloomberg, Raymond James Ltd.

Sectors are based on Bloomberg classifications

S&P/TSX Top 5 Gainers/Laggards*



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

S&P/TSX Market Internals

Weekly Advance	85	34%
Weekly Decline	162	65%
Advance-Decline	-77	
New 52 wk high	4	2%
New 52 wk low	11	4%
No. Stocks Above 50-d	95	38%
No. Stocks Above 200-d	106	42%
Arms Weekly Index	1.00	Neutral
RSI (14-day)	40.3	Neutral
50-DMA	15,198	Downtrend
200-DMA	15,350	Downtrend

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

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risks to the inflation outlook could be tilted to the downside."

Commodities were mixed. Oil lagged despite crude stockpiles declining by 8.9 mln barrels, nearly three times the consensus for a 3 mln barrel draw. The overhang on WTI was the result of rising US production, which showed an increase of 79k bpd to 9.502 mln bpd, the highest level in over two years.

However, if we consider WTI futures contracts we now see the term structure is in backwardation (meaning the near-term contract is higher than the long-term contract). Historically, this is a bullish sign for the commodity and indicates spot prices may exhibit near-term strength. Investor sentiment has also shifted as ETF flows into the iShares S&P/TSX Capped Energy Index (XEG-T) rose to $42 mln in July, the biggest inflow since September 2016.

Industrial metals are rallying on reports that China's daily production in July contracted to the lowest level in three years, suggesting supply constraints may be negatively impacting production. Zinc prices surged to their highest in almost a decade on Wednesday, while aluminium and copper hit their highest since 2014.

US Military Conflicts & Market Performance

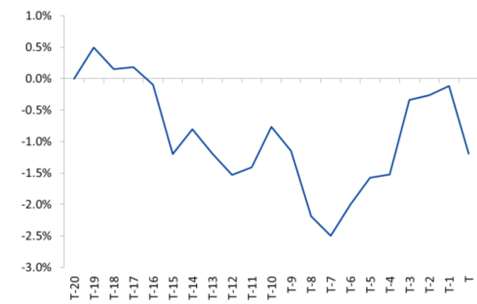
Markets dislike uncertainty. The latest unanswered question overhanging the market is whether the US and North Korea will engage in a military conflict. The war of words between the two nations has escalated in recent weeks, but for the moment both countries have decided to deescalate the situation.

From a market perspective we found it surprising that the uncertainty of conflict is more damaging than an actual conflict. Historically, US markets have underperformed ahead of a military conflict, and once the military operation begins, the markets rally.

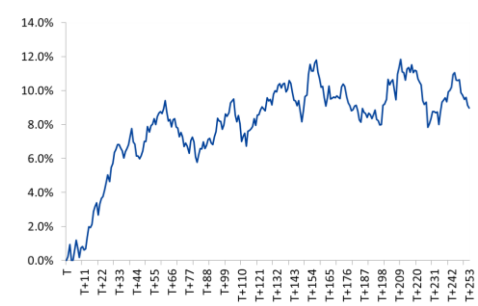
On average, the month prior to the beginning of a US military event, the S&P 500 fell 1.2%, or 190 bps lower than the average of all months. However, this underperformance was quickly reversed. In the month after the US military entered a conflict, the index gains almost 4.0%, or 330 bps greater than the average, and continues to gain throughout the year. Twelve months from the initial military action the S&P 500 gains 9.0%, or 30 bps better than the average annual return.

War, what is it good for? Apparently, market returns. Somehow the beginning of a military operation brings an end to the uncertainty and a decline in overall market volatility. We often see this type of behaviour in the market; buy the rumour, sell the news. However, in this case it is sell the uncertainty of war and buy into the conflict.

S&P 500 Performance Pre-Military Engagement…



Post-Military Engagement*



Source: Raymond James Ltd., Bloomberg; *S&P 500 average performance: Korean War, Invasion of Grenada, Gulf War, U.S. War in Afghanistan & Iraq War

NAFTA 2.0

The North American free-trade agreement (NAFTA) created the world's largest free trade zone covering over 450 million people. Trade between the three nations has more than tripled in dollar value since 1993 and there have been numerous benefits. However, the agreement has also created problems for the US given the discrepancy in wages compared to Mexico. Corporations have moved production from higher wage to lower wage regions, resulting in the loss of millions of US manufacturing jobs, which has become one of Trump's primary concerns.

While the US is looking for a better deal, each country has outlined a list of must-haves that will make compromising a difficult task. In the table below, we identify the main negotiation points, although we caution against drawing too many conclusions from this initial list as negotiations will stretch well into 2018.

Major Negotiation Points	Industries Impacted
Narrow US trade deficit. Last year the US ran a US$63 bln trade deficit with Mexico, meaning the US imported more goods than it exported to MXN. In the case of Canada, the US ran a surplus of US$7.7 bln last year making this less of an issue. However, the US is looking to improve market access in both Canada and Mexico for American manufacturing, agriculture and services (telecommunications & banking).	Canadian domestic-focused companies with low barriers of entry
Chapter 19: Trade Dispute Resolution. The US wishes to eliminate the trade dispute panel that has favoured Canada in the past. Canada has successfully used the panel to fight duties on exports. Since NAFTA's inceptions, Canada and the US have faced off in 50 Chapter 19 cases ranging from softwood, solar panels, steel and metal products.	Materials sector (lumber, steel & metals)
Buy American & Rules of Origin. The US wishes to increase the percentage of US components in a product to qualify for tariff exemptions.	Canadian exporters would be negatively impacted, primarily auto part manufacturers. Canadian companies with US operations could benefit.
Autos. Mexico sends an average of US$4.3 bln of auto parts and US$2.6 bln of finished vehicles a month to the U.S. The US wishes to level the playing field by forcing Mexico to agree to higher wages and labour standards.	Increasing US auto manufacturing & parts market share could benefit Canadian auto part manufacturers with US operations.
Ecommerce. Raising the limits on duty-free imports to $800	Increasing the duty free limit will allow Canadian consumers greater access to online US retailers at the expense of traditional Canadian brick & motor retails. However, increased ecommerce would benefit transportation & logistics companies, as well as warehousing & distribution centers.
Labour mobility. Technology companies want more access to NAFTA's work visas that would allow programmers to move between the three nations with ease.	Increasing labour mobility may allow greater innovation and productive improvements for Canadian technology firms with US operations.
Environment & labour. There are no clear labor and environment standards outlined in NAFTA which makes them difficult to enforce. Canada wishes to strengthen measures to protect labour and wants efforts to reduce carbon emissions added to the deal.	Increased environmental standards will provide additional headwinds for oil & gas producers. Clean and renewable energy may benefit.
Regulations. Harmonize regulations to ease the flow of cross-border business.	Less bureaucracy at the border would increase trade and benefit transportation & logistics firms.
Government procurement. Canada wishes to improve access to US government procurement of goods, services or constructions.	Increased access to government contracts may benefit Canadian engineering & construction firms, particularly those with US operations. Canadian technology firms with US operations would also benefit.

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