Weekly Trends

PRIVATE CLIENT SOLUTIONS

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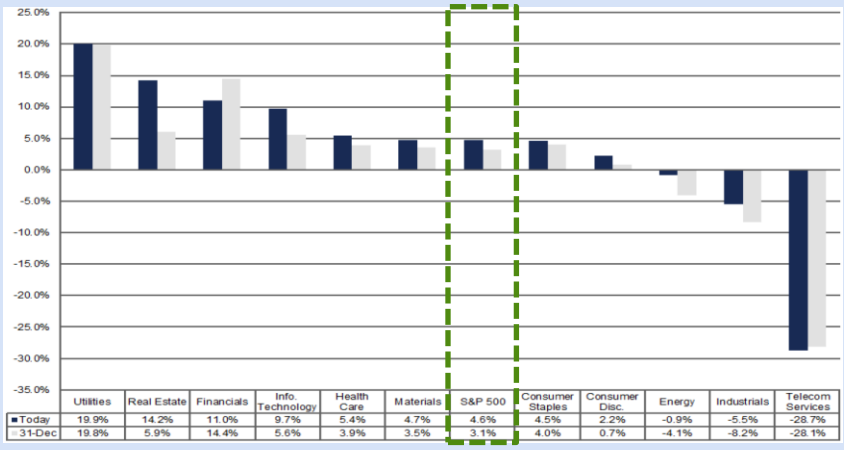
S&P 500 Q4/16 Earnings Overview

82% of S&P 500 companies have reported Q4/16 results as of February 16, with 66% beating on the bottom line and 53% beating on the top line. Q4/16 EPS and sales growth are expected to be 4.6% and 5.0% year-over-year (yoy), respectively; this is higher than the 3.1% and 4.9% estimated as at December 31, 2016. If EPS growth comes in positive, which we think it will, this will mark the second consecutive quarter of positive growth since Q4/14.

- Utilities are leading with 19.9% EPS growth this reporting period; the next best sector in terms of bottom-line growth is Real Estate with 14.2% funds-from-operations (FFO) growth; Financials are third in the pack with EPS growth estimated at 11.0%. The largest detracting sector during Q4/16 is Telecom, with an estimated negative 28.7% EPS growth.
- Energy will be a focus sector for Q4/16 with the sector looking for EPS growth of negative 0.9%, up from negative 4.1% on December 31.
- Analysts remain positive on energy and are expecting 2017 EPS and revenue growth of 290.3% and revenue growth of 25.7%, respectively, driven by higher expected oil prices and easier comparison from the weak 2016 season.
- The S&P 500 Index is trading at 17.9x forward price-to-earnings (P/E), above the five-year average and well beyond one standard deviation above the mean.
- While energy weakness, global growth and earnings recession worries seem to be behind us, markets believe development of Trump's policies, the Fed's tightening policies and volatility out of European elections may keep a lid on further valuation expansion.

Chart of the Week

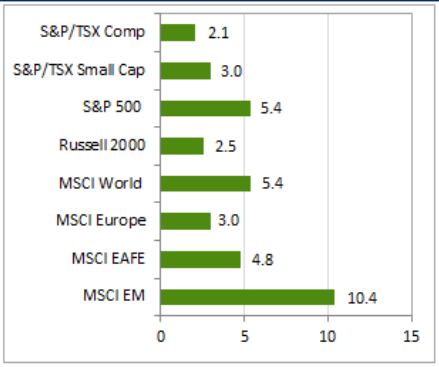
S&P 500 Q4/16 EPS Growth (yoy) By Sector



	Utilities	Real Estate	Financials	Info. Technology	Health Care	Materials	S&P 500	Consumer Staples	Consumer Disc.	Energy	Industrials	Telecom Services
Today	19.9%	14.2%	11.0%	9.7%	5.4%	4.7%	4.6%	4.5%	2.2%	-0.9%	-5.5%	-28.7%
31-Dec	19.8%	5.9%	14.4%	5.6%	3.9%	3.5%	3.1%	4.0%	0.7%	-4.1%	-8.2%	-28.1%

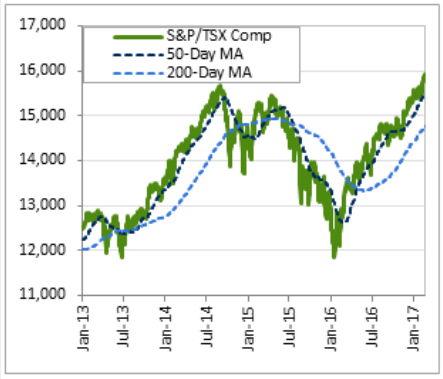
Source: FactSet

Equity Market YTD Returns (%)



Canadian Sectors	Weight	Recommendation
Consumer Discretionary	5.0	Market weight
Consumer Staples	3.7	Market weight
Energy	19.6	Overweight
Financials	35.9	Overweight
Health Care	0.6	Underweight
Industrials	8.9	Overweight
Technology	2.8	Market weight
Materials	12.7	Market weight
Communications	4.9	Underweight
Utilities	2.9	Market weight
Real Estate	3.1	Market weight

Technical Considerations	Level	Reading
S&P/TSX Composite	15,607.3	
50-DMA	15,498.4	Uptrend
200-DMA	14,760.0	Uptrend
RSI (14-day)	60.1	Neutral



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

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

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RAYMOND JAMES

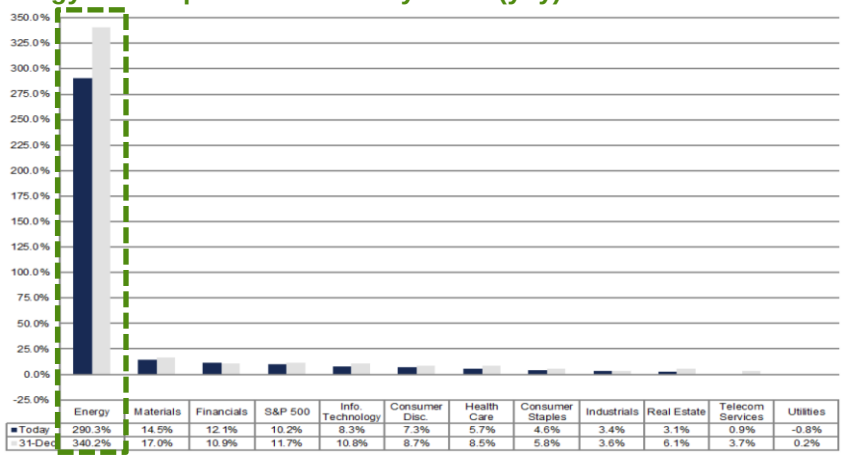
Utilities, Real Estate and Financials Lead; Telecom Offsets

Utilities are leading with 19.9% EPS growth this reporting period, driven by NRG Energy, Inc. (NRG-US), PG&E Corporation (PCG-US), and Dominion Resources, Inc. (D-US); without these companies, the growth rate would drop to 0.4% from 19.9%. The next best sector in terms of bottom-line growth is Real Estate with 14.2% FFO growth driven by Office REITs (91% FFO growth), Specialized REITs (21%) and Real Estate Services (16%). In fact, the Real Estate sector experienced the largest change in growth estimates since December 31 when the FFO growth rate was estimated at 5.9%. Financials are third in the pack with EPS growth currently at 11.0%, down from the estimated 14.4% in December 31. The majority of the drop was led by American International Group, Inc. (AIG-US), which experienced an actual EPS decline to negative US$2.72 after taking a US$5.6 bln charge in Q4/16. Excluding IAG's results, the S&P 500's EPS growth rate would be at 5.1% today, instead of 4.6% (or a 500 bp impact). The largest detracting sector during Q4/16 is Telecom, with an estimated negative 28.7% EPS growth rate with four of five telecom companies projecting a decrease in EPS in Q4/16. Level 3 Communications, Inc. (LVLT-US) is leading the decline due to the tough Q4/15 EPS comparable. Without LVLT, Telecom EPS would drop to negative 2.5%. Looking forward, 90 companies issued EPS guidance, of which 29 gave positive guidance and 61 gave negative guidance. For the full year 2017, analysts expect 10.2% EPS growth and 5.6% revenue growth for the index.

The Focus Sector

Energy will be a focus sector for Q4/16 with the sector looking for EPS growth of negative 0.9%, up from negative 4.1% on December 31. With WTI and Natural Gas ending Q4/16 up 11.4% and 28.1%, respectively, following OPEC's agreement to cut back production, optimism is higher. Analysts now believe that energy companies will experience a recovery in earnings. Exxon Mobil Corporation (XOM-US) and ConocoPhillips (COP-US) reported solid earnings, offsetting weak numbers out of Phillips 66 and Valero Energy Corporation. As 2016 marked the energy sector's worst EPS growth rate at negative 82% since 2008, it remains a focus sector. Analysts are still positive on Energy and are expecting 2017 EPS and revenue growth of 290.3% and revenue growth of 25.7%, respectively, driven by higher expected oil prices and easier comparison from the weak 2016 season. Though EPS estimates for Energy have fallen since December 2016, they are still at impressively high levels.

Energy EPS Expected to Grow by 290% (yoy) in 2017



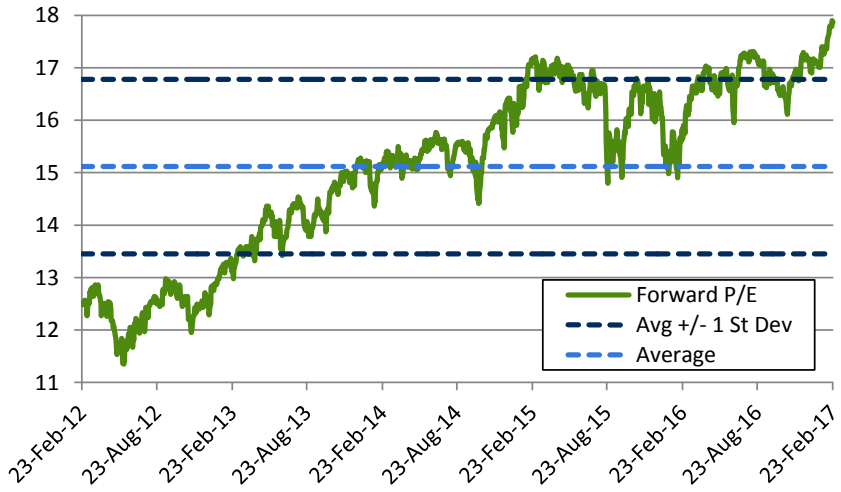
	Energy	Materials	Financials	S&P 500	Info. Technology	Consumer Disc.	Health Care	Consumer Staples	Industrials	Real Estate	Telecom Services	Utilities
Today	290.3%	14.5%	12.1%	10.2%	8.3%	7.3%	5.7%	4.6%	3.4%	3.1%	0.9%	-0.8%
31-Dec	340.2%	17.0%	10.9%	11.7%	10.8%	8.7%	8.5%	5.8%	3.6%	6.1%	3.7%	0.2%

Source: FactSet

Valuation

The S&P 500 Index is trading at 17.9x forward P/E, above the five-year average and well beyond one standard deviation above the mean. While energy weakness, global growth and earnings recession worries seem to be behind us, markets believe development of Trump's policies, the Fed's tightening policies and volatility out of European elections may keep a lid on further valuation expansion. In fact, corporate America did not hold back on their expectations with regards to Trump's administration during quarterly conference calls. While most were optimistic about the corporate tax reform, deregulation trend and more regulatory clarity, others cited concerns over the border adjustment tax and possible retaliation by US trade partners regarding Trump's protectionist rhetoric. Any talks of OPEC non-compliance or any trade wars spilling over from Trump's protectionist speeches may cap further valuation upside.

S&P 500 Valuation Stretched



Source: FactSet, Raymond James Ltd.

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