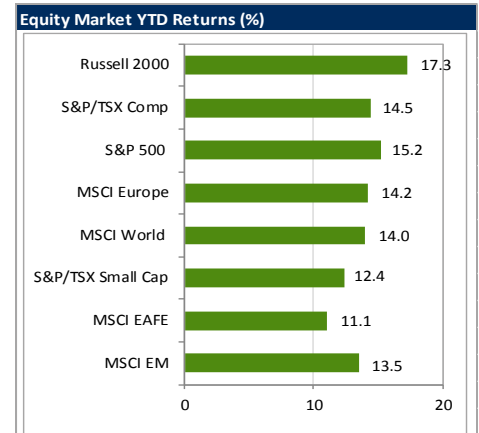


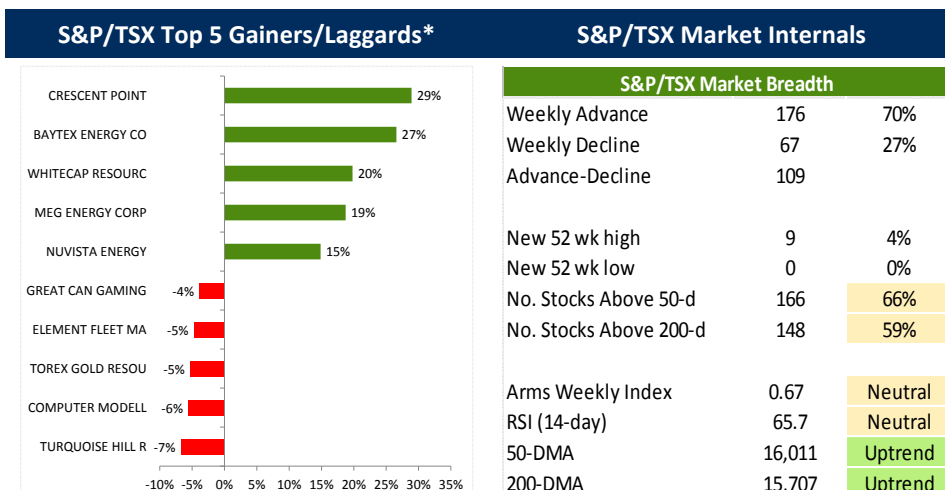
## What Markets Will Be Watching

US corporate earnings season kicks off tomorrow with JPMorgan Chase & Co. (JPM-US) and Wells Fargo & Company (WFC-US) reporting Q1/19 numbers. The Street anticipates the first quarter of the year to be a tough one for the S&P 500 Index amid rumbles of an earnings recession; this is when two or more consecutive quarters post negative earnings growth.

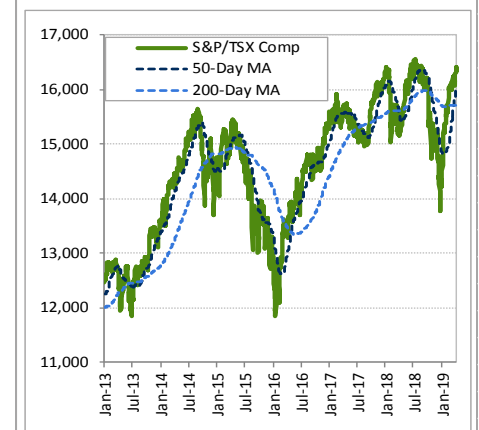
- Analysts are expecting an S&P 500 earnings decline of 4.2% year-over-year (yoy) in Q1/19, which would mark the first yoy decline since Q2/16, according to Factset.
- While the earnings growth rate has been headline-grabbing, margins for the overall S&P 500 will also be highly anticipated. The market will be watching for the ability to pass on labour, transportation and raw material costs onto the consumer.
- This quarter will also be important for the financial sector, the S&P 500's third largest by weight, especially amid a flattening yield curve.
- On top of earnings, the market will be waiting for a US-China trade deal and more economic data coming out during the months of April and May. Investors are especially looking for an improvement in small business data, health of the American consumer and housing.
- We are looking for incrementally positive earnings and economic data to support the recent rally in equity markets year-to-date. We view this current quarterly reporting season as an important catalyst to allow the market to consolidate and attempt further gains upon additional supportive data.



Canadian Sectors	Weight	Recommendation	
Consumer Discretionary	4.2	Underweight	
Consumer Staples	3.9	Overweight	
Energy	18.3	Underweight	
Financials	31.8	Market weight	
Health Care	2.2	Underweight	
Industrials	10.8	Market weight	
Technology	4.4	Market weight	
Materials	11.1	Market weight	
Communications	5.7	Overweight	
Utilities	4.1	Market weight	
Real Estate	3.4	Overweight	
Technical Considerations		Level	Target
S&P/TSX Composite		16,396	15,600



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



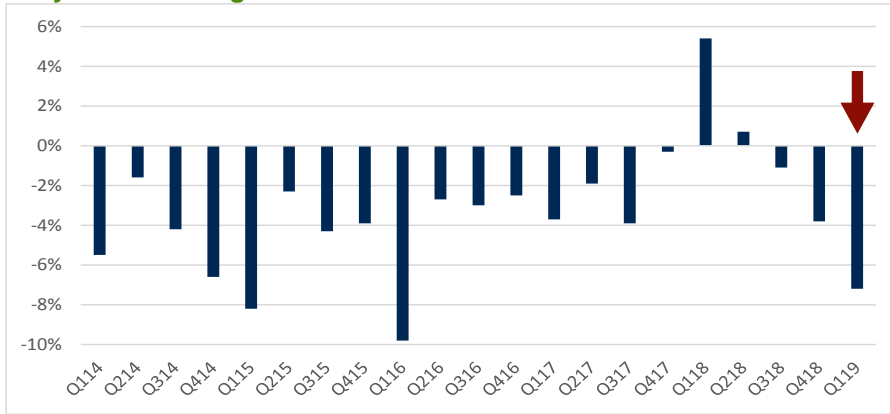
Source: Bloomberg, Raymond James Ltd.  
Sectors are based on Bloomberg classifications

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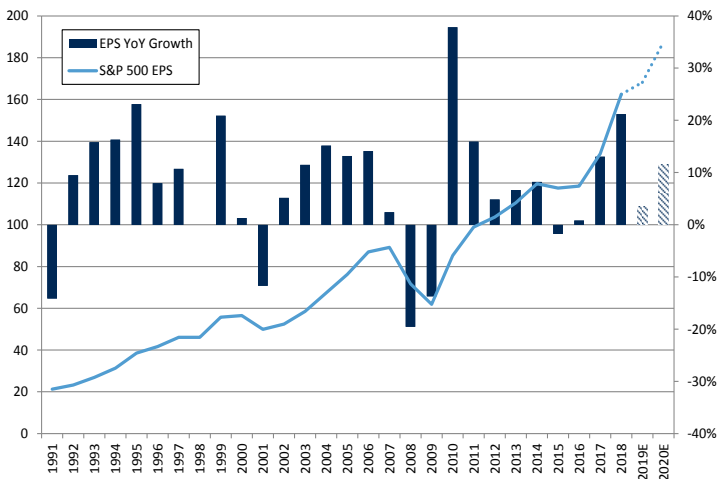
**Analysts Make Largest EPS Estimate Cuts since Q1/16**



Source: Factset, Raymond James Ltd.

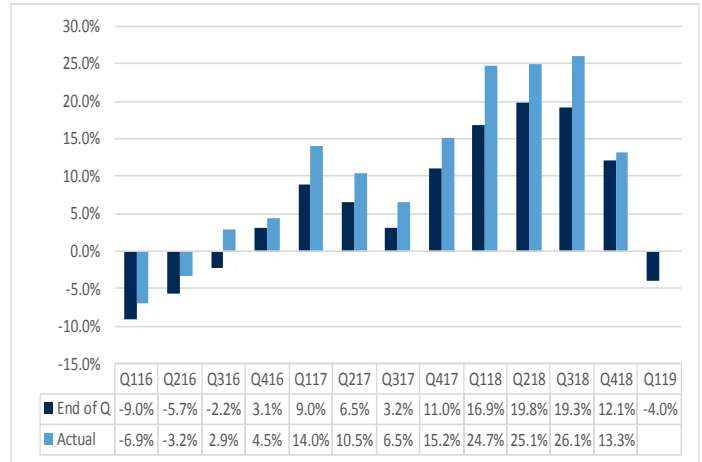
If history holds, this may set up companies for the possibility of an actual earnings beat as reported earnings generally tend to exceed estimates. Over the past five years, the earnings surprise rate was 4.8% above estimates so it is likely we will see things get better as the quarter unfolds. Even with fears of an earnings recession, the Street expects growth to pick up in H2/19 and close the year with an earnings growth rate of 3.6%, following the 22% increase in 2018.

**EPS Growth Set at 3.6% for 2019**



Source: Bloomberg, Factset, Raymond James Ltd.

**End of Quarter EPS Estimates Vs Actual**

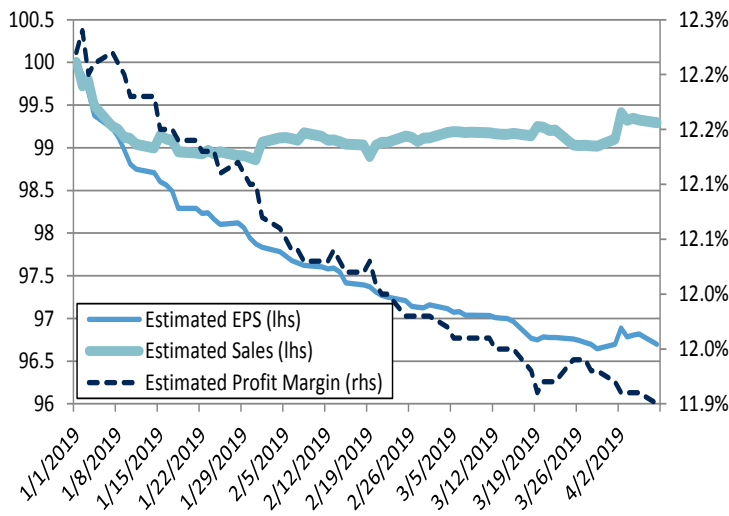


Source: Factset, Raymond James Ltd.

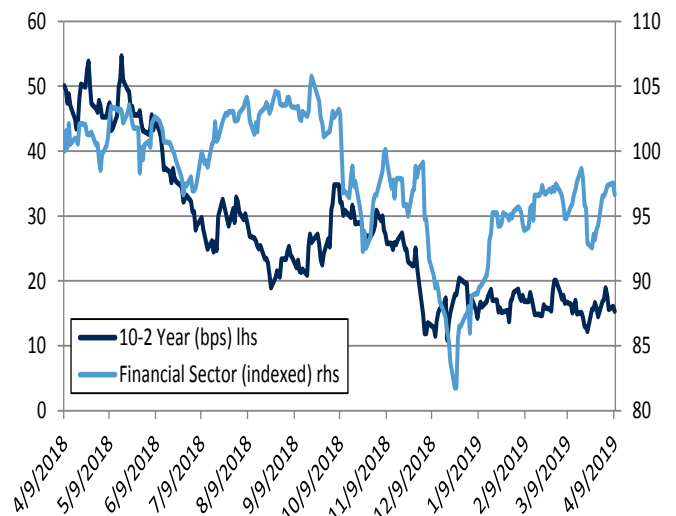
While the earnings growth rate has been headline-grabbing, margins for the overall S&P 500 will also be highly anticipated. The market will be watching for the ability to pass on labour, transportation and raw material costs onto the consumer. In fact, analysts have been aggressively reducing their earnings expectations in part due to a contraction in margin estimates that have now fallen below 12%.

This quarter will also be important for the financial sector, the S&P 500's third largest by weight, especially amid a flattening yield curve. Earnings estimates for the sector have been dropping faster than revenue estimates, indicating concerns that margins may come under pressure. Remember that banks borrow at the short end of the yield curve and lend at the long end, so when the curve flattens, banks make less money. The sector is trading at 11.2x forward PE, making it the cheapest sector in the index, and below both its 5-year/10-year averages and the S&P 500's 16.3x.

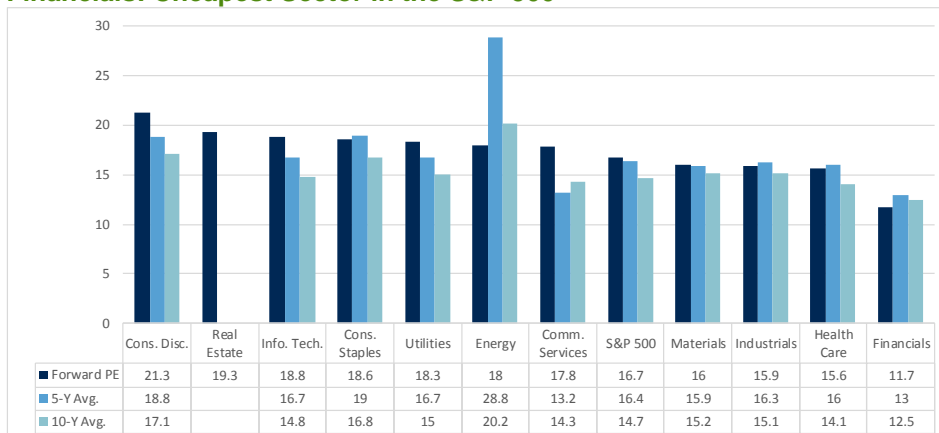
**Margins Under Pressure...**



**...Financials & the Flattening Curve**



**Financials: Cheapest Sector in the S&P 500**



Source: Bloomberg, Factset, Raymond James Ltd.

On top of earnings, the market will be waiting for a US-China trade deal and more economic data coming out during the months of April and May. Investors are especially looking for an improvement in small business data, health of the American consumer and housing. Next week we have industrial production on April 16, retail sales and leading indicators on April 18 and housing starts on April 19.

### Select US Economic Data for April and May

Date	Event	Consensus	Prior
16-Apr-2019	Industrial Production SA M/M	0.25%	0.04%
18-Apr-2019	Retail Sales SA M/M	0.80%	-2%
18-Apr-2019	Leading Indicators SA M/M	0.40%	0.20%
19-Apr-2019	Housing Starts SAAR	1,270K	1,162K
26-Apr-2019	GDP SAAR Q/Q (First Preliminary)	1.6%	2.2%
29-Apr-2019	Personal Consumption Expenditure SA M/M	0.20%	0.10%
29-Apr-2019	Personal Income SA M/M		0.20%
30-Apr-2019	Consumer Confidence	97.9	124.1
01-May-2019	ISM Manufacturing SA		55.3
01-May-2019	Fed Funds Target Upper Bound	2.50%	2.50% R
03-May-2019	BEA Domestic Auto Sales SAAR		3.9M
03-May-2019	Nonfarm Payrolls SA		196.0K
03-May-2019	ISM Non Manufacturing SA		56.1
07-May-2019	Consumer Credit SA		\$15.2B
09-May-2019	PPI SA M/M		
10-May-2019	CPI NSA Y/Y		
14-May-2019	NFIB Small Business Index		101.8
15-May-2019	Retail Sales SA M/M		
15-May-2019	Industrial Production SA M/M		
16-May-2019	Housing Starts SAAR		
17-May-2019	Leading Indicators SA M/M		
28-May-2019	Consumer Confidence		
30-May-2019	GDP SAAR Q/Q (Second Preliminary)	1.6%	
31-May-2019	Personal Consumption Expenditure SA M/M		
31-May-2019	Personal Income SA M/M		

Source: Factset, Raymond James Ltd.

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