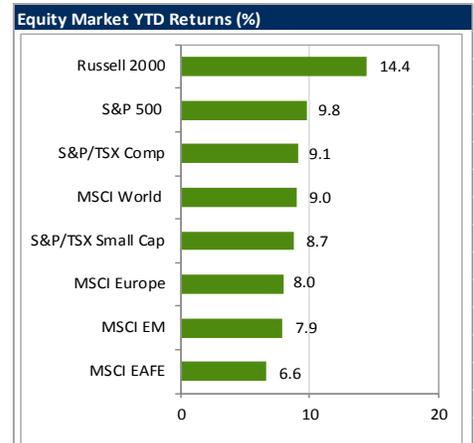


Earnings & The January Effect

We are more than half way through US Q4 earnings season as ~70% of S&P 500 companies have reported. Thus far, Q4 results have been modestly positive with 71% and 62% of companies exceeding analysts' earnings and revenue estimates, respectively. However, the magnitude of the earnings beats is running below historical averages, while sales beats are above average. Companies that have reported have shown an average earnings surprise of 4.0%, which is below the 5-year average of 4.8%; while revenue beats are 1.2% above the estimates of 0.7%, which is above the 5-year average.

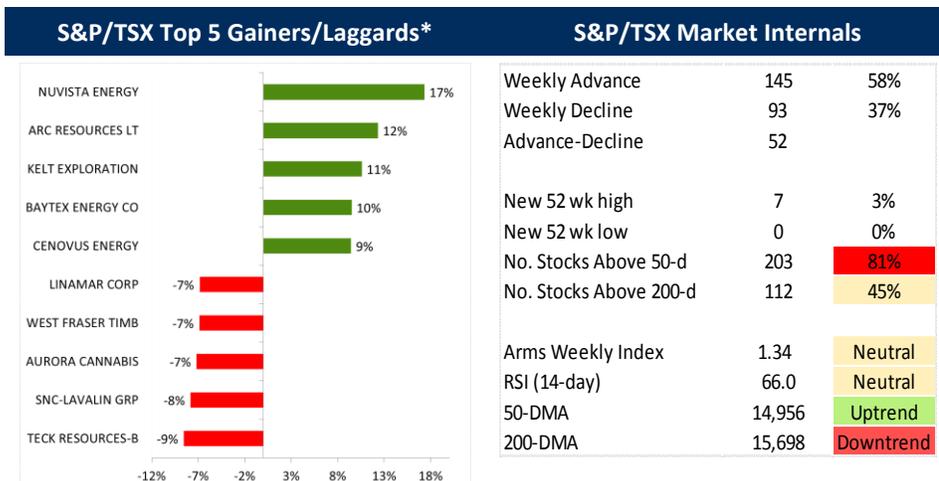
- Forward guidance, however, has been lackluster. For Q1/19, 53 S&P 500 companies have issued negative EPS guidance and 12 S&P 500 companies have issued positive EPS guidance. It appears the stronger US dollar, slower global economic growth and trade tensions are beginning to weigh on S&P 500 companies with higher international revenue exposure.
- The weaker outlook for multi-nationals is contributing to the broad weakness we are seeing in overall earnings. Earnings revisions for Q1/19 have moved lower over the past six weeks.
- As for the Canadian market, about 30% of S&P/TSX companies have reported quarterly results. The earnings and sales surprise thus far is running above average with EPS surprise of 5.2% and sales surprise of 5.9%, compared to an average of 3.4% and 1.5%, respectively.

The S&P/TSX gained an impressive 8.5% in January, recouping December's loss. At an 8.5% return, last month ranks as the seventh best January in the S&P/TSX's history going back to 1930 (in order of rank: 1975 +16%, 1980 +11.8%, 1951 +11.7%, 1987 +9.2% and 1972 +8.8%).



Canadian Sectors	Weight	Recommendation
Consumer Discretionary	4.3	Underweight
Consumer Staples	3.9	Overweight
Energy	17.9	Underweight
Financials	32.7	Market weight
Health Care	2.1	Underweight
Industrials	10.5	Market weight
Technology	4.1	Market weight
Materials	11.3	Market weight
Communications	5.7	Overweight
Utilities	4.0	Market weight
Real Estate	3.3	Overweight

Technical Considerations	Level	Target
S&P/TSX Composite	15,627	15,600



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



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

Please read domestic and foreign disclosure/risk information beginning on page 5
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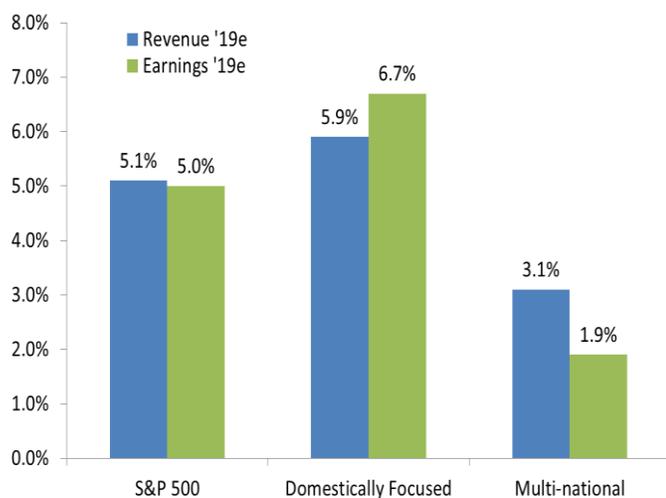
Q4/18 Earnings

We are more than half way through US Q4 earnings season as ~70% of S&P 500 companies have reported. Thus far, Q4 results have been modestly positive with 71% and 62% of companies exceeding analysts' earnings and revenue estimates, respectively. However, the magnitude of the earnings beats is running below historical averages, while sales beats are above average. Companies that have reported have shown an average earnings surprise of 4.0%, which is below the 5-year average of 4.8%; while revenue beats are 1.2% above the estimates of 0.7%, which is above the 5-year average.

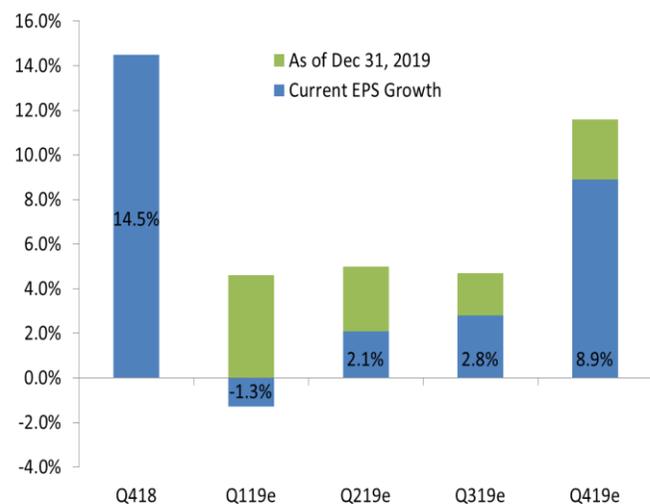
Forward guidance, however, has been lackluster. For Q1/19, 53 S&P 500 companies have issued negative EPS guidance and 12 S&P 500 companies have issued positive EPS guidance. It appears the stronger US dollar, slower global economic growth and trade tensions are beginning to weigh on S&P 500 companies with higher international revenue exposure. For those companies that generate more than 50% of sales from the US, the 2019 estimated earnings growth rate is 6.7% while companies that generate less than 50% of their sales from inside the US are expected to experience an earnings growth rate of just 1.9%. We see a similar scenario for revenue growth, as domestically-focused companies show an estimated revenue growth rate of 5.9%, while multi-nationals are anticipated to grow revenue by 3.1%.

The weaker outlook for multi-nationals is contributing to the broad weakness we are seeing in overall earnings. Earnings revisions for Q1/19 have moved lower over the past six weeks. In fact, the revision is the largest decline in the bottom-up EPS estimate since Q1/16. As of December 31, the bottom-up earnings growth estimates for the S&P 500 was 4.6%, however the number is now down to -1.3%. If the Street is correct and the index does indeed report an actual decline in earnings for the first quarter, it will mark the first year-over-year decline in earnings since Q2/16 (-3.1%). However, based on historical beat rates, it is likely the index will narrowly avoid this negative outcome.

US Domestically-focused vs Multi-nationals



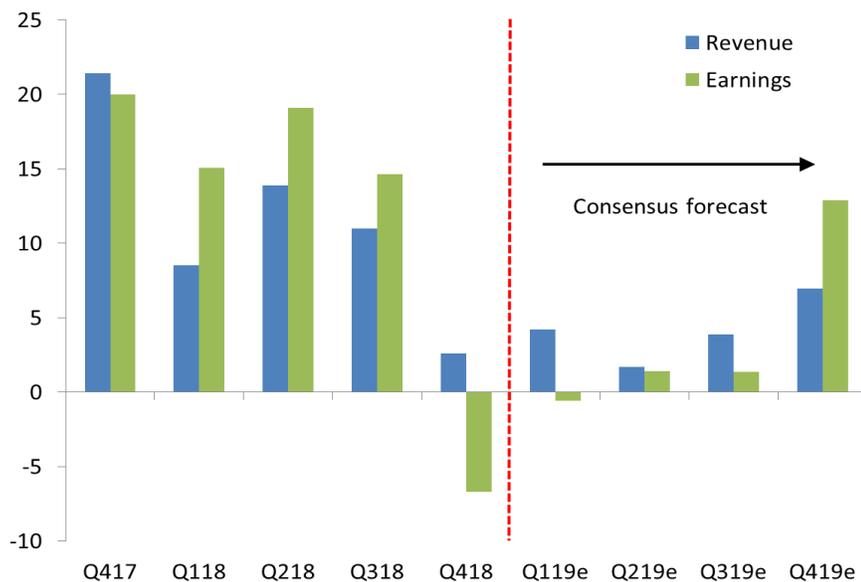
S&P 500 Change in Quarterly Earnings Estimates



Source: Factset, Raymond James Ltd.

As for the Canadian market, about 30% of S&P/TSX companies have reported quarterly results. The earnings and sales surprise thus far is running above average with EPS surprise of 5.2% and sales surprise of 5.9%, compared to an average of 3.4% and 1.5%, respectively. The earnings and sales growth rate in Q4/18 stands at -6.0% and 2.6%, respectively. If the actual Q4/18 growth rate finishes in negative territory and given the current estimated Q1/19 earnings growth rate of -0.6%, it is possible the S&P/TSX will experience an earnings recession (two consecutive quarters of negative growth).

S&P/TSX Earnings & Revenue Quarterly Growth Rats



Source: Bloomberg, Raymond James Ltd.

What a January!

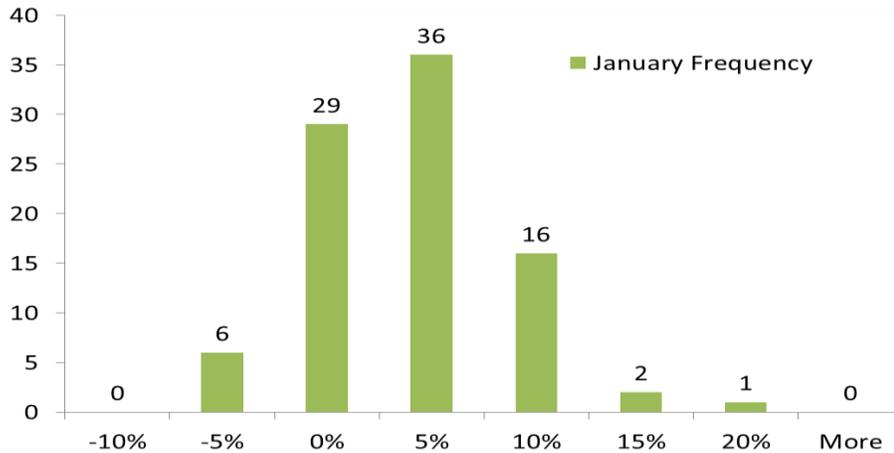
The S&P/TSX gained an impressive 8.5% in January, recouping December's loss. At an 8.5% return, last month ranks as the seventh best January in the S&P/TSX's history going back to 1930 (in order of rank: 1975 +16%, 1980 +11.8%, 1951 +11.7%, 1987 +9.2% and 1972 +8.8%). With such an impressive return the natural question is: what can history tell us about strong starts to the year?

Considering S&P/TSX data dating back to 1930, the index has recorded a positive January return 61% of the time. When January is positive, 72% of the time the index closes in positive territory with an average annual return of 8.5%. However, we think it better to look at how the index performs for the remainder of the year given January skews the overall annual return number. Excluding January, the index finished positive 59% of the time over the remaining 11 months of the year and the average return over those months has been 4.3%.

While historical return information can be a useful tool and the strong start to 2019 suggests we may be in for further gains, we believe investors should not place too much emphasis on the January effect given the current backdrop. Our primary concern remains: to what degree will the global slowdown impact corporate

earnings, as we are already seeing the negative impact on forward guidance. As such, despite the very strong start to the year, we continue to recommend a greater focus on defensive positioning by focusing on high-quality large caps and defensive areas of the market such as staples, communication services, utilities and real estate.

January Returns; January '19 Seventh Best on Record

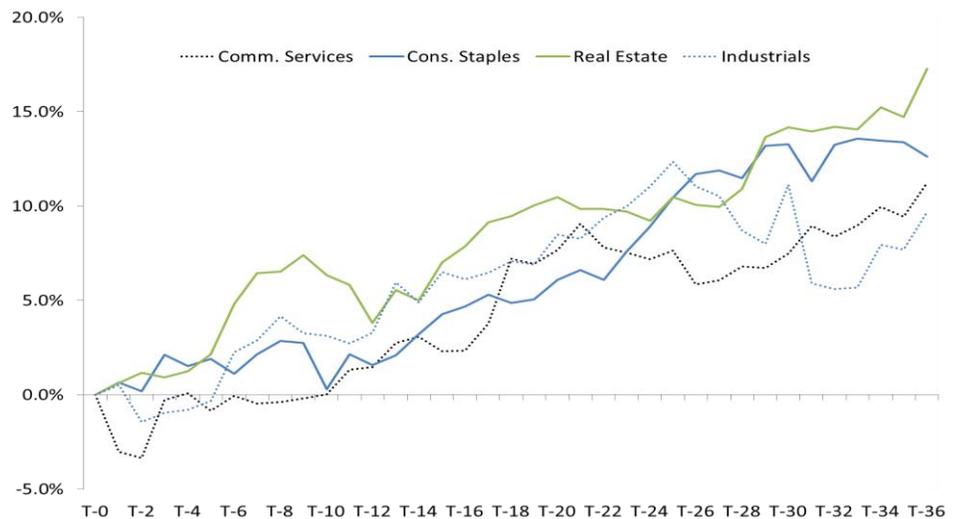


Source: Bloomberg, Raymond James Ltd.

As we highlighted last week, the more defensive pockets of the market have shown a tendency to perform well when the Bank of Canada (BoC) pauses. Consumer staples and communication services appear to be the clear winners across both scenarios when the BoC has paused following a hiking and cutting cycle. Looking at each of these sector performances from the last rate hike in October, staples and communication services have gained 15.2% and 6.5%, respectively. At 15.2%, staples is the second best performing sector while communications currently ranks 7th.

Sector Performance During Pause* Top Sector Performance 36-weeks After BoC Pause

GICS Sector	Average	BoC Pause After	
		Hiking	Cutting
Comm. Services	14.9%	22.1%	6.2%
Cons. Disc.	8.9%	15.5%	0.9%
Cons. Staples	20.6%	29.5%	10.1%
Energy	4.5%	4.9%	4.2%
Financials	11.7%	15.3%	7.6%
Industrials	17.8%	26.1%	7.9%
Info. Tech	-2.4%	-9.1%	5.9%
Materials	-1.4%	-10.2%	9.6%
Real Estate	15.0%	20.4%	8.7%
Utilities	7.0%	7.4%	6.8%



Source: Bloomberg, Raymond James Ltd. * Sector performance during a pause; outlier health care excluded from table.

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