Weekly Trends

PRIVATE CLIENT SOLUTIONS

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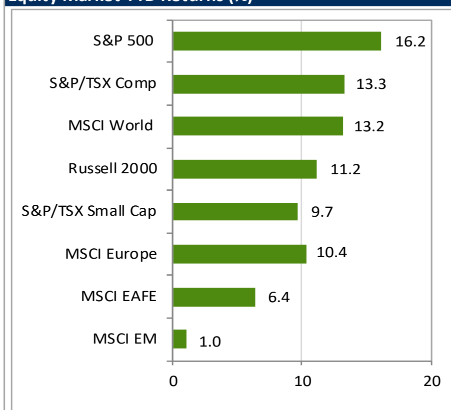
US Earnings & Sector Leaders

US earnings season has essentially wrapped up with over 90% of S&P 500 companies having reported second quarter results.

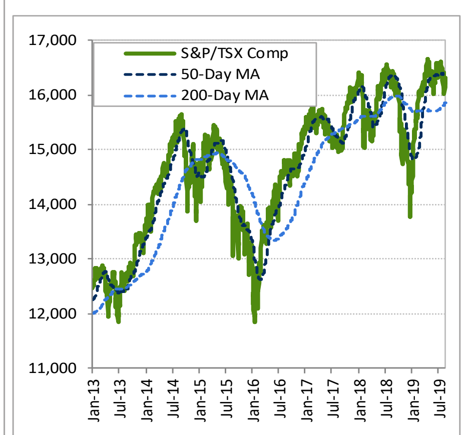
- While there are still a few more companies left to report (nineteen in the following weeks) such as Dollar Tree (DLTR-US), Costco Wholesale (COST-US) and Broadcom (AVGO-US), the latest data shows earnings for the S&P 500 are expected to decline 0.7% year-over-year (yoy). If the blended earnings growth rate (combines actual results for companies that have reported and estimated results for companies that have yet to report) comes in negative territory, this will be the first time the index sees two consecutive quarters of EPS declines, otherwise defined as an "earnings recession", since Q1/16 and Q2/16.
- During Q2/19, over a quarter of companies in the S&P 500 referenced the trade overhang in their earnings calls, 40% more than Q1/19. Now that President Trump has proposed a 10% tariff increase on an additional $300 bln worth of goods from China that could take effect between September and December, the overhang is not expected to disappear anytime soon.
- What is noteworthy in the quarter is companies with significant revenue exposure overseas are reporting EPS declines while companies with a domestic focus are seeing modest increases. This indicates that slower global growth and the trade war may be having more of an impact than some expect.
- Defensive sectors have dominated the leaderboard so far this year. Out of the six sectors that have outperformed the S&P 500 year-to-date, four are defensive and only two are cyclical.

Equity Market YTD Returns (%)



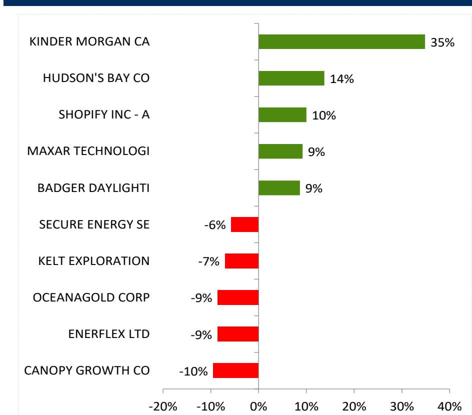
Canadian Sectors	Weight	Recommendation
Consumer Discretionary	4.2	Underweight
Consumer Staples	4.1	Overweight
Energy	16.0	Underweight
Financials	31.4	Overweight
Health Care	1.6	Underweight
Industrials	11.5	Market weight
Technology	5.7	Market weight
Materials	11.6	Market weight
Communications	5.7	Market weight
Utilities	4.6	Market weight
Real Estate	3.6	Market weight

Technical Considerations	Level	YE Target
S&P/TSX Composite	16,228	15,600



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

S&P/TSX Top 5 Gainers/Laggards*



S&P/TSX Market Internals

Weekly Advance	77	31%
Weekly Decline	160	64%
Advance-Decline	-83	
New 52 wk high	8	3%
New 52 wk low	7	3%
No. Stocks Above 50-d	102	41%
No. Stocks Above 200-d	138	55%
Arms Weekly Index	1.53	Neutral
RSI (14-day)	47.3	Neutral
50-DMA	16,403	Downtrend
200-DMA	15,860	Uptrend

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

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US Earnings

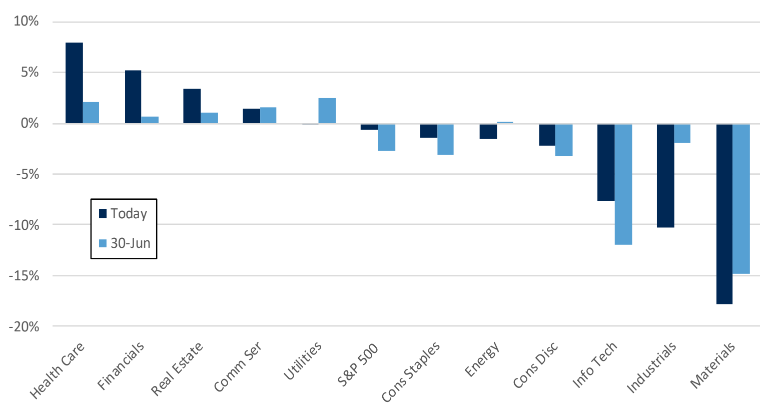
Earnings season down south is coming to a close with over 90% of companies in the S&P 500 having reported Q2/19 results. There were not many surprises during the quarter as we saw the usual earnings and sales upside surprises. The most recent data from FactSet shows that three-quarters of companies came in with earnings that were 5.7% better than expected, which is above the 5-year average earnings surprise of 4.8%. In terms of top-line, 57% of companies beat revenue estimates, with sales numbers coming in 0.8% better than expected and in line with the 5-year average.

While there are still a few more companies left to report (nineteen in the following weeks) such as Dollar Tree (DLTR-US), Costco Wholesale (COST-US) and Broadcom (AVGO-US), the latest data shows earnings for the S&P 500 are expected to decline 0.7% year-over-year (yoy). If the blended earnings growth rate (combines actual results for companies that have reported and estimated results for companies that have yet to report) comes in negative territory, this will be the first time the index sees two consecutive quarters of EPS declines, otherwise defined as an "earnings recession", since Q1/16 and Q2/16.

The EPS decline during the quarter is being driven by six out of the eleven GICS sectors, with companies in the materials and industrials sectors leading the declines. The metals & mining industry within materials along with aerospace & defense within industrials reported significant yoy declines in earnings. On the latter, Boeing was the largest contributor to the earnings decline both for the industrials sector and overall S&P 500. The company reported actual EPS of -$5.82 for Q2/19, compared to an EPS of $3.33 a year-ago. The actual EPS included a negative impact of $8.74 due to charges for the grounding of the 737 MAX airplanes.

During Q2/19, over a quarter of companies in the S&P 500 referenced the trade overhang in their earnings calls, 40% more than Q1/19. In fact, the term "tariffs" was cited 124 times on conference calls with companies in the industrials sector leading the pack in number of mentions and info tech companies experiencing the largest jump in citations from Q1/19. Now that President Trump has proposed a 10% tariff increase on an additional $300 bln worth of goods from China that could take effect between September and December, the overhang is not expected to disappear anytime soon.

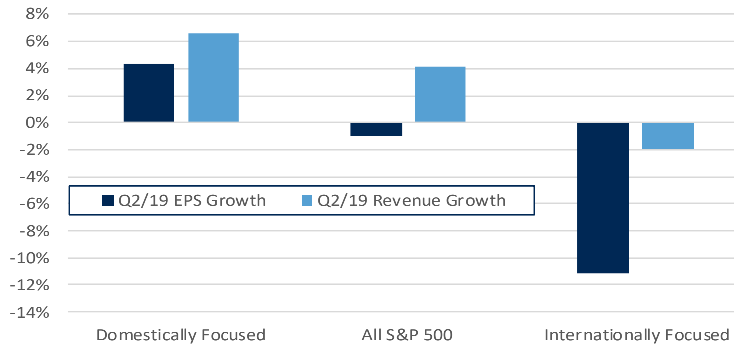
Q2/19 EPS Growth



Source: FactSet, Raymond James Ltd.

The blended revenue growth rate for the quarter is expected to be 4.1%, the lowest since Q3/16. What is noteworthy in the quarter is companies with significant revenue exposure overseas are reporting EPS declines while companies with a domestic focus are seeing modest increases. This indicates that slower global growth and the trade war may be having more of an impact than some expect. Companies with more than 50% of their revenues derived internationally are seeing a blended revenue decline of -2% and earnings decline of -11.2% compared to peers that are more domestically focused with +6.6% revenue increase and + 4.4% earnings increase.

Domestic Companies Showing Better Q2/19 Growth

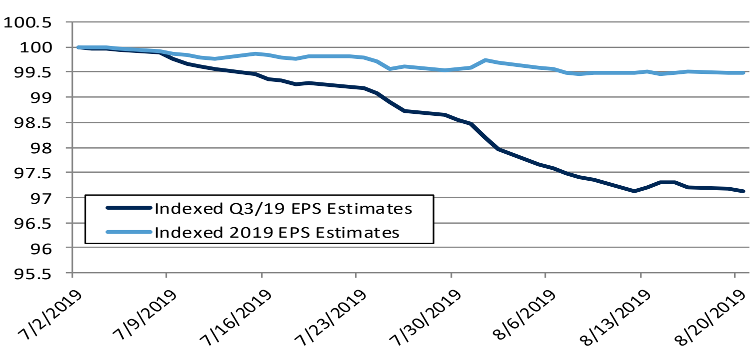


Source: FactSet, Raymond James Ltd.

Looking ahead to the next quarter, both companies and analysts are giving a bleak view of Q3/19; 71% of companies are issuing negative guidance and sell-side analysts expect earnings to come in at -3.1% yoy for the quarter. While company guidance is by no means out of the ordinary (average percentage of companies that issue negative EPS guidance is 70%) and downward analyst revisions are in line with previous trends, increased mention of the trade war may imply that concerns over a slower global economy and the trade war could prove to be a drag on companies that generate more of their revenues overseas.

In terms of valuation, the S&P 500 is trading at 16.6x forward P/E, 11% above the ten-year average of 14.9x. Given the S&P 500 is up 16.5% so far in 2019, trading above its long term average valuation multiple along with sell-side analysts estimating almost-flat earnings growth for the year (1.5% for 2019), we believe market direction may depend on the US and China reaching a trade deal along with central bank support amid slower global growth.

Downward Revisions to Earnings Estimates

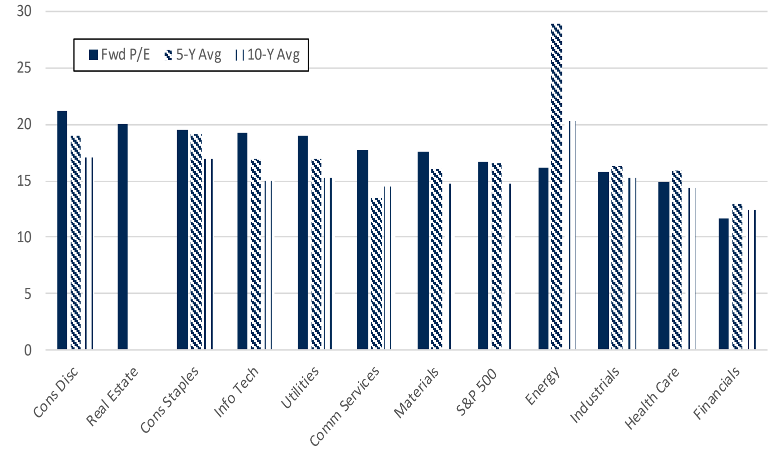


Source: Bloomberg, Raymond James Ltd.

Defensives Continue to Lead

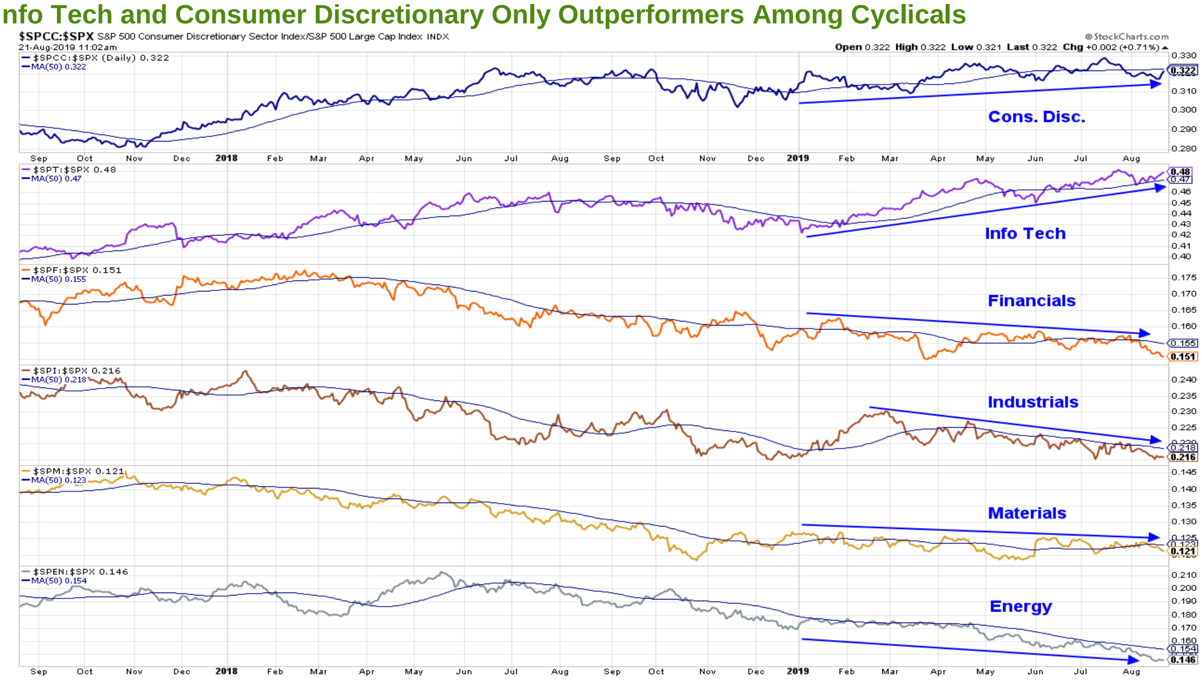
Defensive sectors have dominated the leaderboard so far this year. Out of the six sectors that have outperformed the S&P 500 year-to-date, four are defensive and only two are cyclical. In order of performance, info tech came in first followed by real estate, consumer discretionary, consumer staples, communication services and utilities. The strong performance comes with higher valuation multiples as all six sectors trade at a premium to the S&P 500, along with materials. Consumer discretionary has the highest multiple at 21.2x while financials are trading at the lowest multiple of 11.7x.

S&P 500 Trading at a Premium to Historical Average



Source: FactSet, Raymond James Ltd.

Info Tech and Consumer Discretionary Only Outperformers Among Cyclicals



Source: StockCharts.com

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