Weekly Trends

PRIVATE CLIENT SOLUTIONS

Jason Castelli, CFA

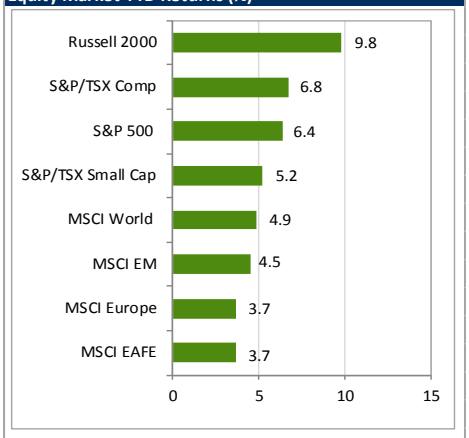
January 18, 2019

Chart Pack

This week we look at a series of charts to help us take the pulse of the market and see what has/has not been working:

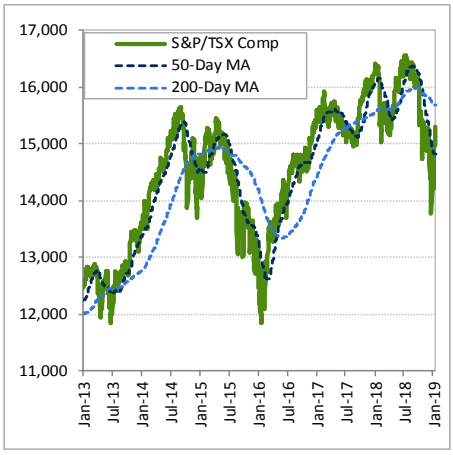
- The S&P/TSX has bounced over 1,200 points since December 24 as the market recovers from oversold conditions. We see overhead resistance around 15,400 and remain cautious in the near-term, as we anticipate markets will retest the December lows before attempting a more sustainable recovery. From a valuation perspective, the S&P/TSX trades at 13.7x, a discount to its 10-year average of 16x.
- Consumer staples and communication services have been leading the market since October. On an absolute basis, staples achieved a new 52-week high, although its relative performance has waned in January amid the risk-on bounce. The remaining defensive sectors, utilities and real estate (not shown) have performed well on a relative basis, but on an absolute basis both are struggling to make new highs.
- Energy continues to be an underperforming sector even with the significant bounce so far this year. Industrials, which was a strong performer in 2018, has now moved into 'out of favour' camp. On an absolute basis, the sector is approaching a downward trend line.
- Emerging markets relative to the MSCI World index have behaved more constructively since October. Considering the attractive valuation of the region - the MSCI Emerging Markets index trades at 11.6x forward earnings estimates, a full two-multiple discount to its 10-year average of 13.7x - we increased exposure to the region within our Global Guided Portfolio.

Equity Market YTD Returns (%)



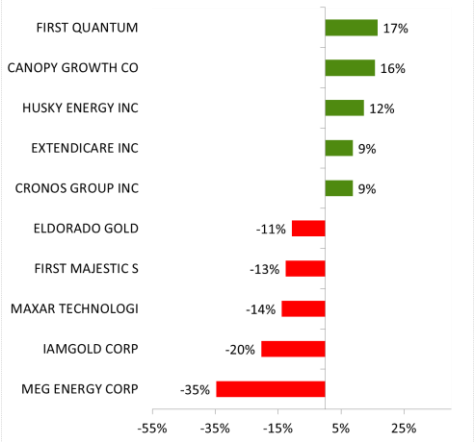
Canadian Sectors	Weight	Recommendation
Consumer Discretionary	4.3	Underweight
Consumer Staples	3.9	Market weight
Energy	18.4	Market weight
Financials	32.8	Market weight
Health Care	1.9	Underweight
Industrials	10.8	Market weight
Technology	4.0	Market weight
Materials	10.9	Market weight
Communications	5.8	Market weight
Utilities	4.0	Market weight
Real Estate	3.1	Overweight

Technical Considerations	Level	Target
S&P/TSX Composite	15,292	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	201	80%
Weekly Decline	37	15%
Advance-Decline	164	
New 52 wk high	6	3%
New 52 wk low	2	1%
No. Stocks Above 50-d	187	75%
No. Stocks Above 200-d	85	34%
Arms Weekly Index	1.28	Neutral
RSI (14-day)	66.9	Neutral
50-DMA	14,823	Uptrend
200-DMA	15,687	Downtrend

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

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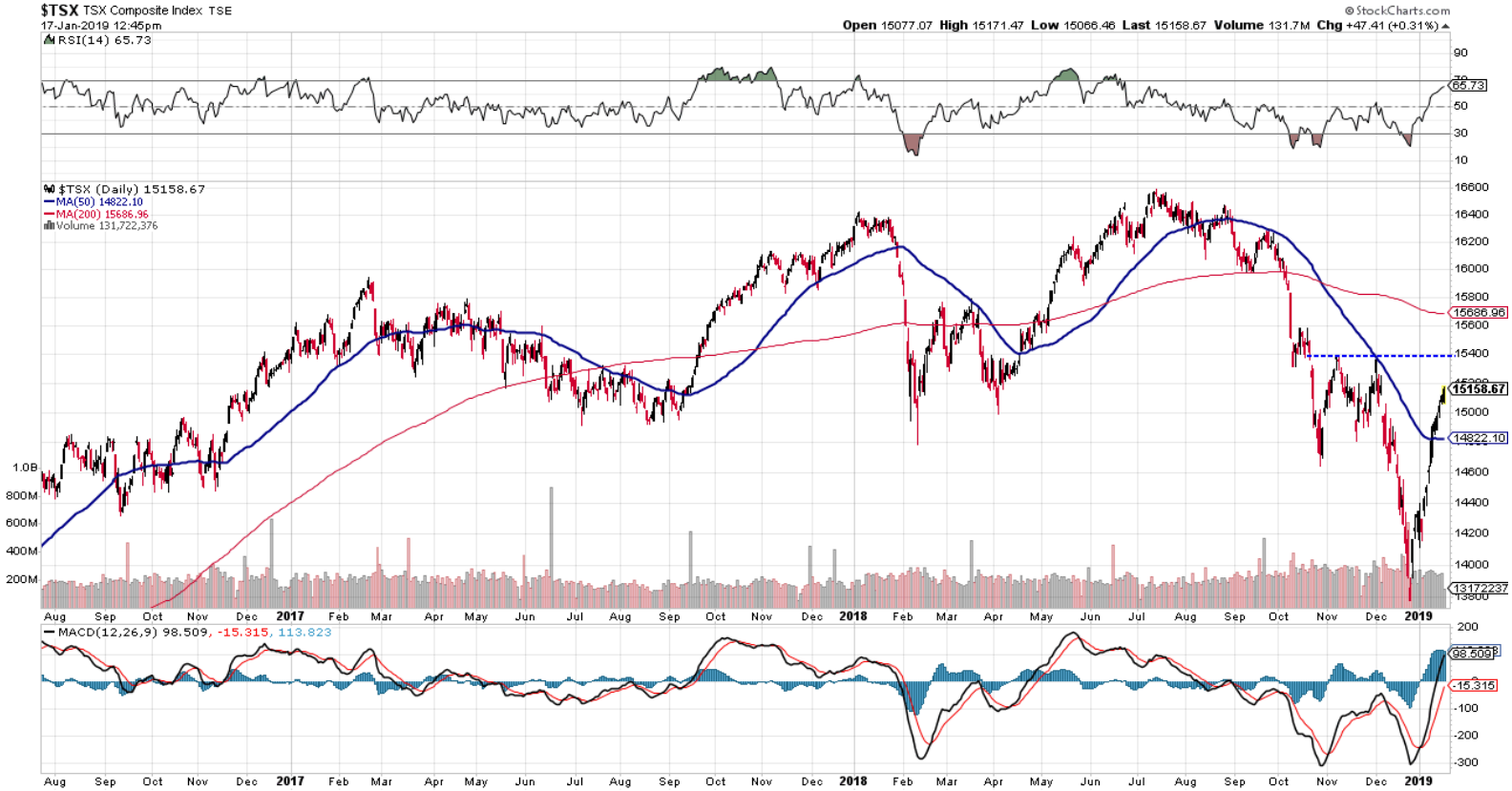
S&P/TSX: Lower Highs & Lower Lowes

The S&P/TSX has bounced over 1,200 points since December 24 as the market recovers from oversold conditions. We see overhead resistance around 15,400 and remain cautious in the near-term, as we anticipate markets will retest the December lows before attempting a more sustainable recovery. From a valuation perspective, the S&P/TSX trades at 13.7x, a discount to its 10-year average of 16x.

TSX Bouncing, But our Near-term Bias Remains to the Downside



Source: Stockcharts.com, Raymond James Ltd.

S&P/TSX: Making Up For Lost Time

The S&P/TSX has outperformed the S&P 500 since the recent market low. As we anticipate a retest of the lows, it will be important to see if the S&P/TSX can maintain leadership during the corrective phase.

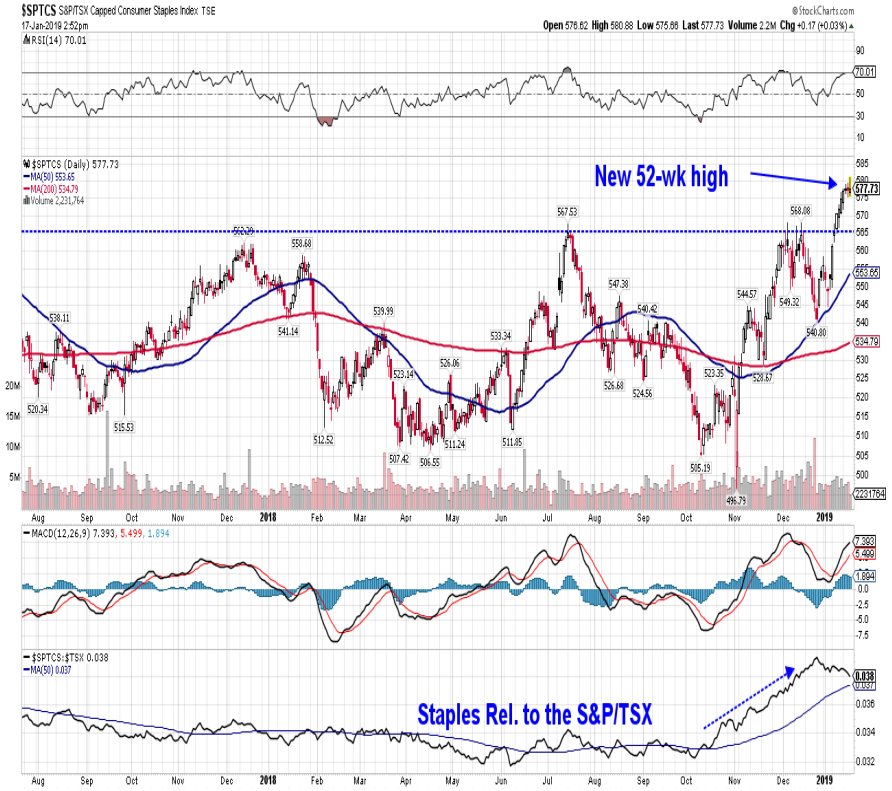
Things are Looking up for Canada…at least for now

Source: Stockcharts.com, Raymond James Ltd.

Canadian Sectors in Favour

Consumer staples and communication services have been leading the market since October. On an absolute basis, staples achieved a new 52-week high, although its relative performance has waned in January amid the risk-on bounce. The remaining defensive sectors, utilities and real estate (not shown) have performed well on a relative basis, but on an absolute basis both are struggling to make new highs.

Consumer Staples Makes a New High…



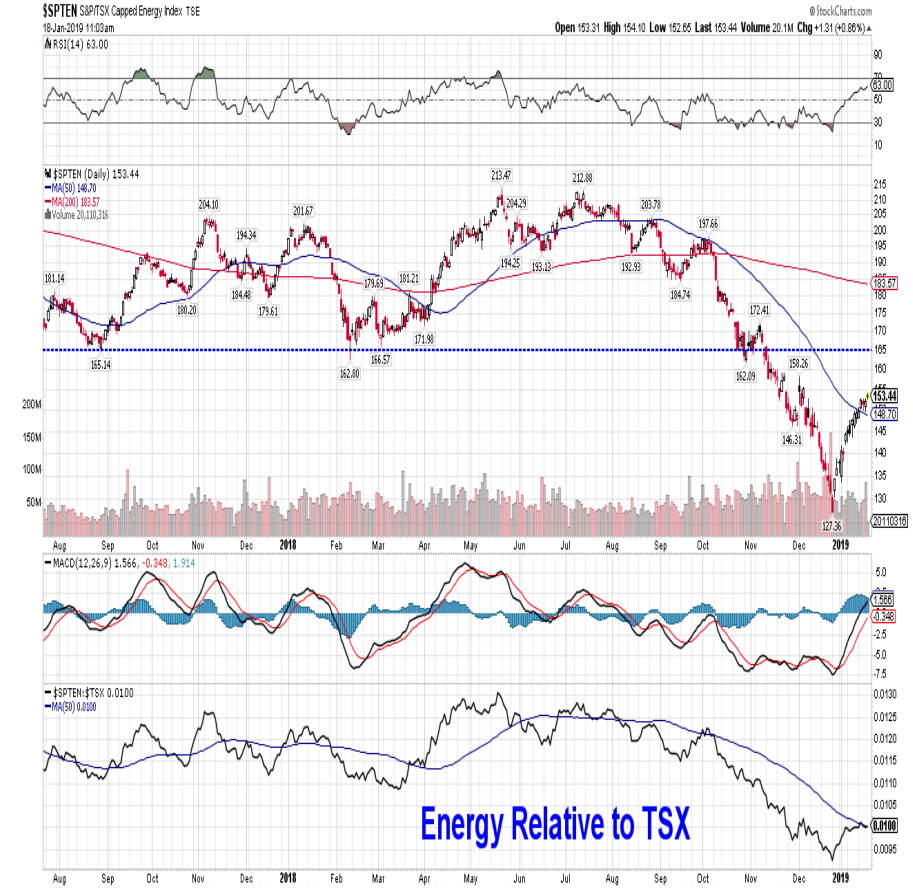
… Communication Services also showing Strength

Source: Stockcharts.com, Raymond James Ltd.

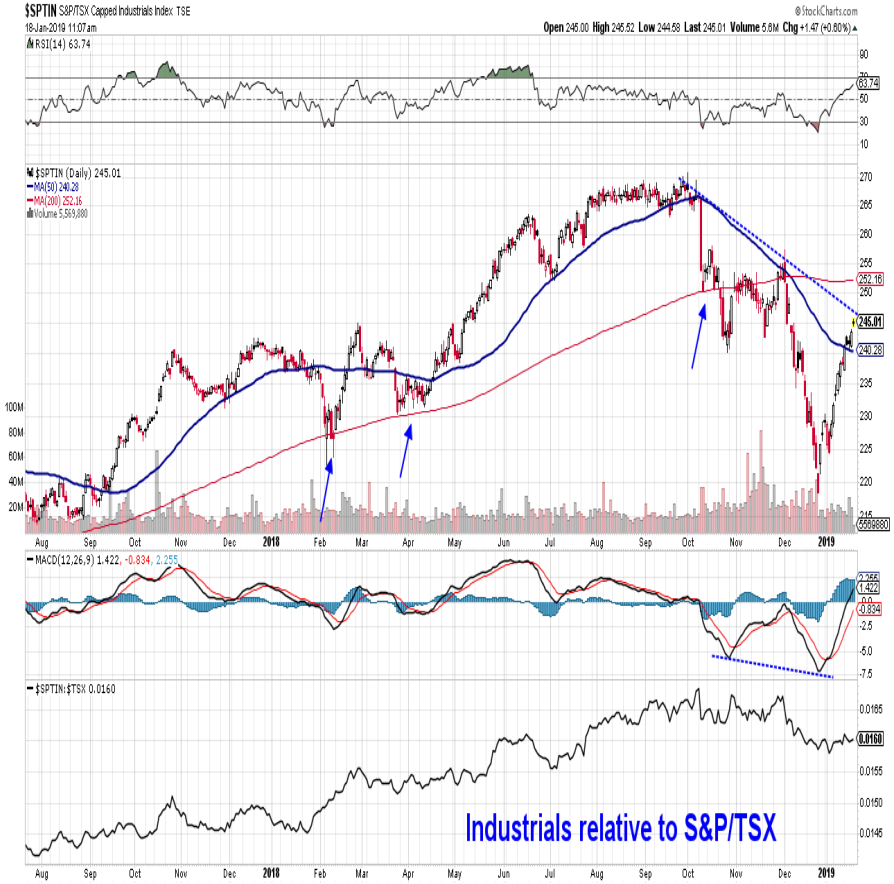
Canadian Sectors Out of Favour

Energy continues to be an underperforming sector even with the significant bounce so far this year. Industrials, which was a strong performer in 2018, has now moved into 'out of favour' camp. On an absolute basis, the sector is approaching a downward trend line.

Energy Still Under Pressure…



…Industrials Just Joined the 'Out of Favour' Camp



Source: Stockcharts.com, Raymond James Ltd.

US Small Caps at Relative Resistance

US small caps relative to large caps broke a key support level in December. Small caps are now attempting to recover but will face stiff overhead resistance. The underperformance is consistent with our view that investors continue to focus on quality large caps amid concerns surrounding the growth outlook.

Russell 2000 Small Cap Index vs the S&P 500

Source: Stockcharts.com, Raymond James Ltd.

Commodities Corner: Oil Bounces Back But May Face Overhead Resistance

Oil prices found strong support at $42/bbl, touching that level in November 2016, June 2017 and again in December 2018. We anticipate overhead resistance around $55/bbl; however, the bullish flag pattern that has formed over the past week suggests a measured move towards $61/bbl.

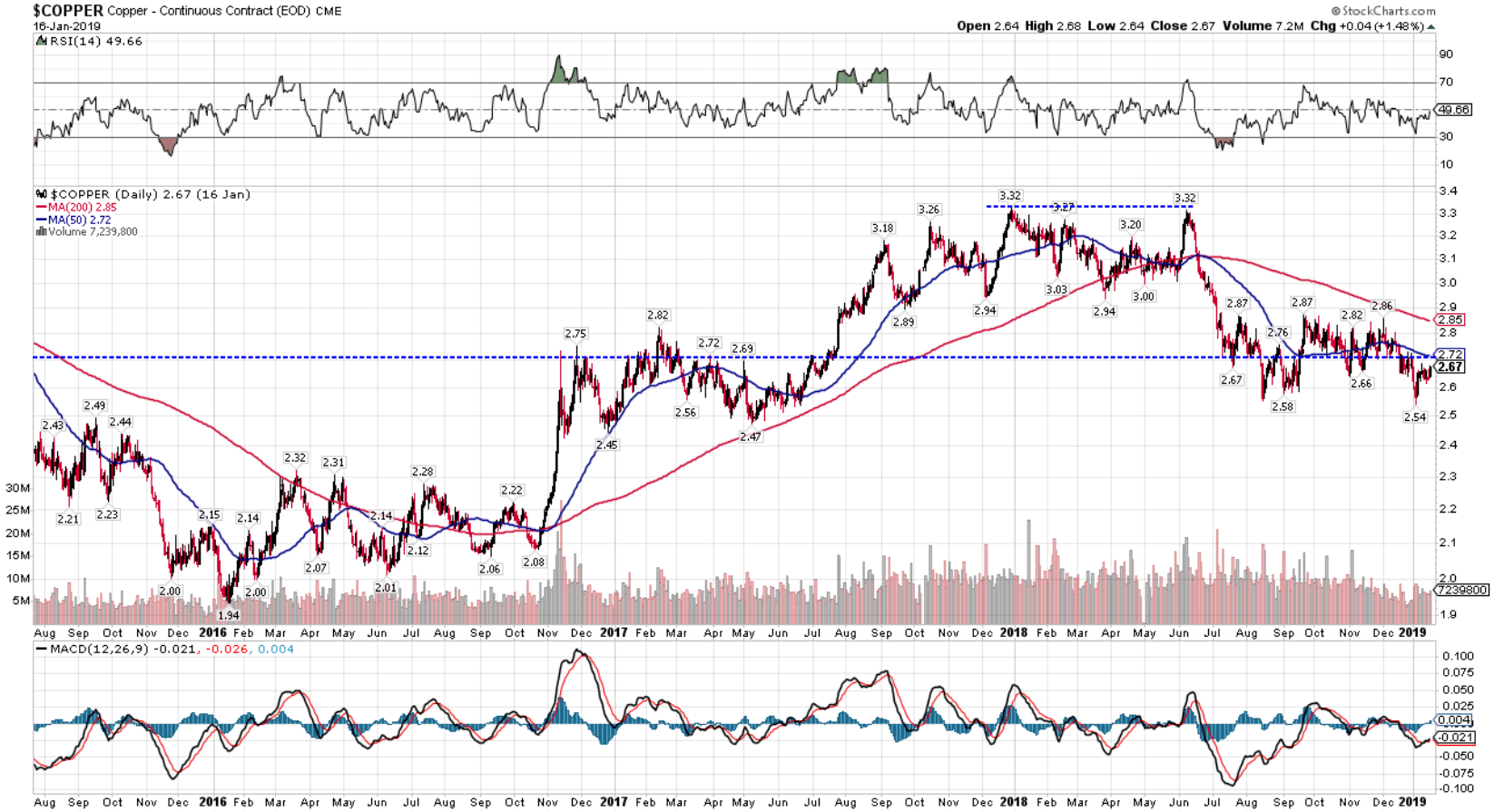
WTI Oil: Falling Off a Cliff

Source: Stockcharts.com, Raymond James Ltd.

Commodities Corner: Copper Hanging In

Copper has managed to consolidate between $2.50 to $2.80 despite the weakening economic outlook in China; however, the slope of the 200-day moving average suggests the overarching trend is to the down side.

Copper Hanging In

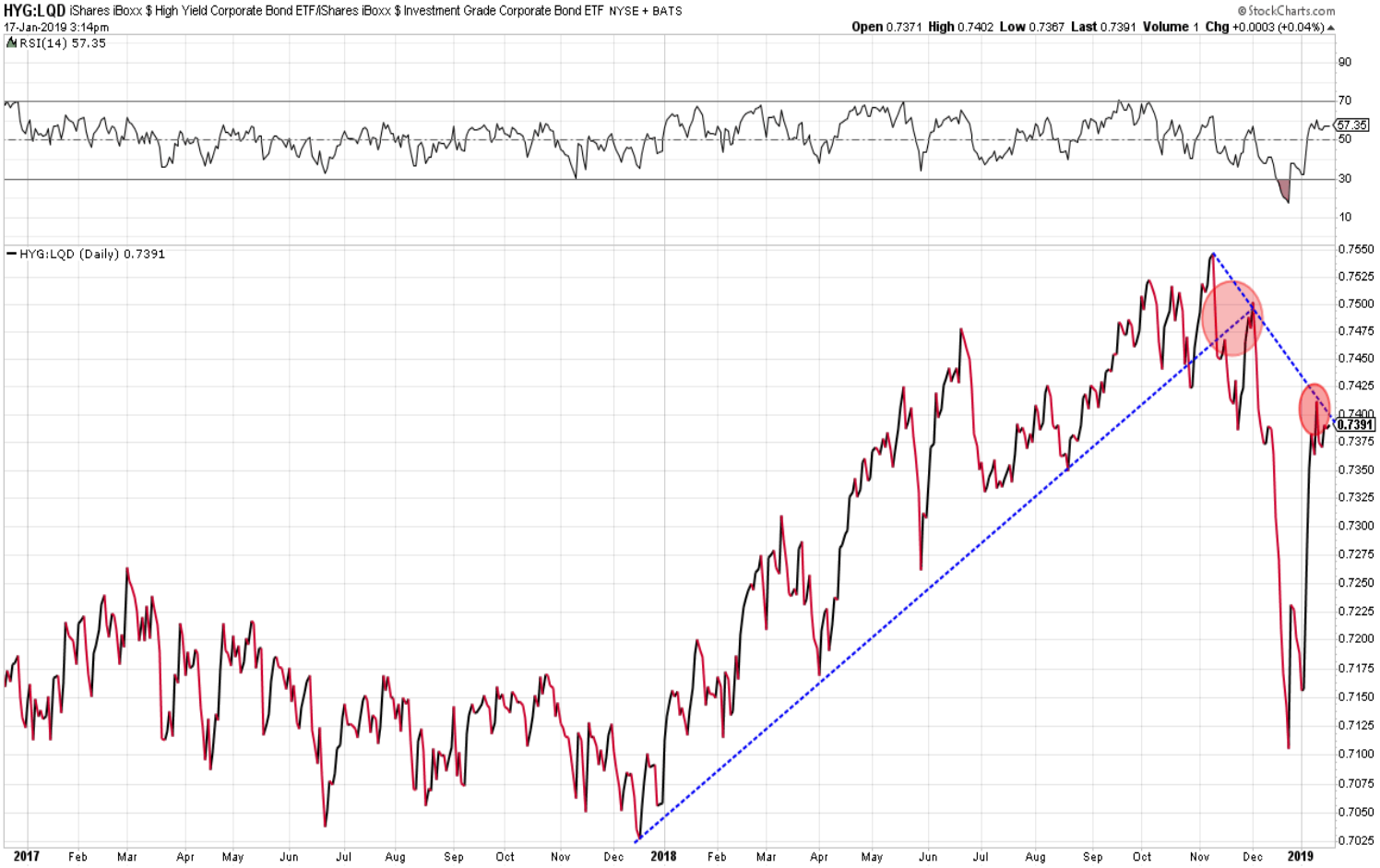


Source: Stockcharts.com, Raymond James Ltd.

Fixed Income: High Yield

High-yield bonds behave very similar to equity prices. As such, high yield relative to investment grade bounced back in January amid the risk-on environment. However, high yield has failed to surpass the downward trend line which suggests a bias towards further underperformance.

High Yield vs Corporate Bonds



Source: Stockcharts.com, Raymond James Ltd.

Around the World in 30 Seconds

Chinese mainland shares are down ~30% from their January 2018 highs, making it one of the worst performing markets around the world last year. The index continues to face resistance relative to the 50-day moving average. The 14-day RSI has not sustained a break above the 50-level, indicating market bounces lack the typical thrust needed to reverse the downward trend.

China – A-shares Continue to Struggle

Source: Stockcharts.com, Raymond James Ltd.

Around the World in 30 Seconds - Japan

Following a successful breakout in September last year, Japanese equities leadership has reversed and the Nikkei is now underperforming the MSCI World Index. The recent underperformance also broke below the previous overhead resistance level, which we anticipated would have been a strong support level. The break opens up further underperformance relative to world equities.

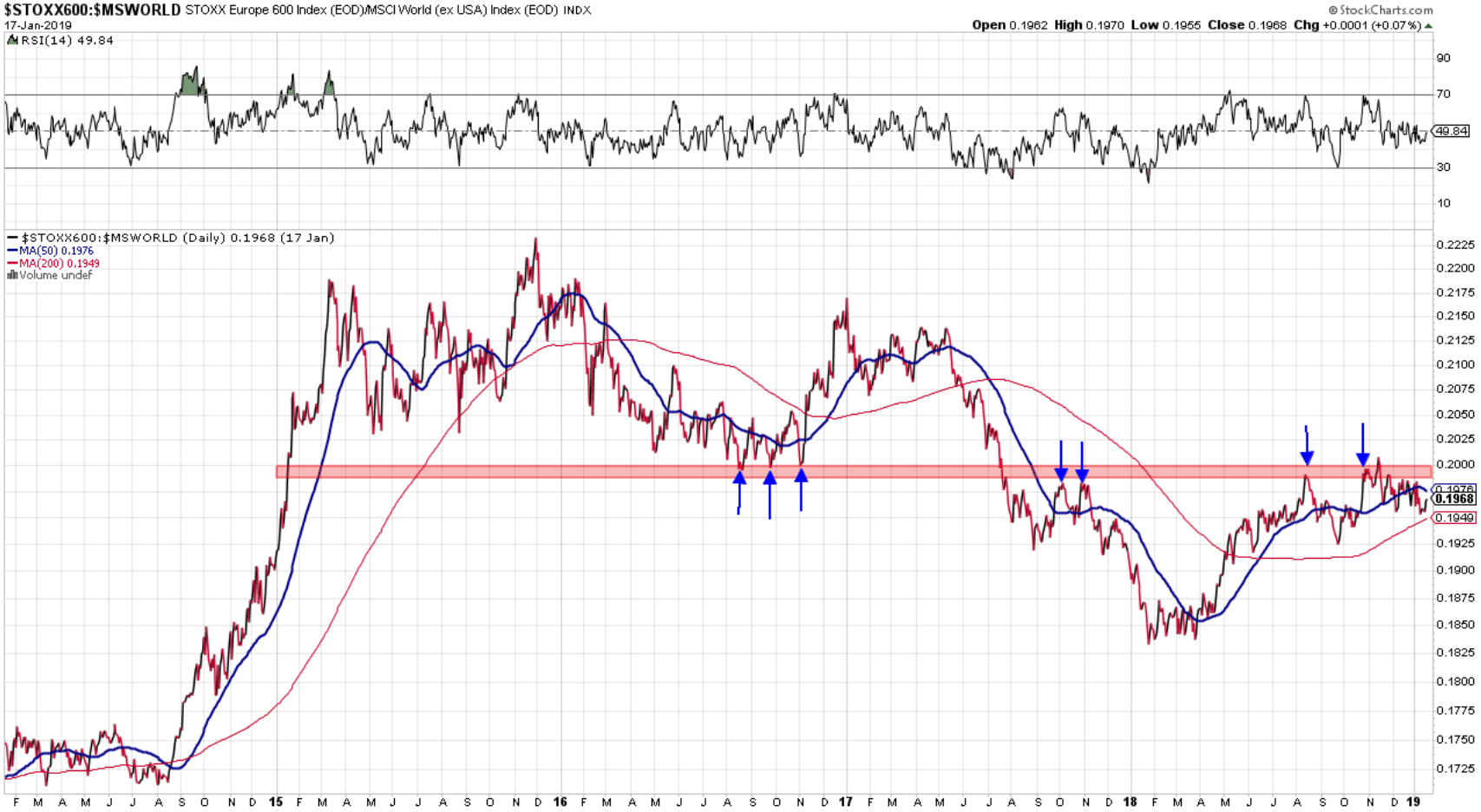
Japanese: Nikkei Breakdown!

Source: Stockcharts.com, Raymond James Ltd.

Around the World in 30 Seconds - Europe

Europe continues to face resistance relative to the World and appears to be struggling to break out from past support levels (support has turned into resistance).

Europe Relative to the World

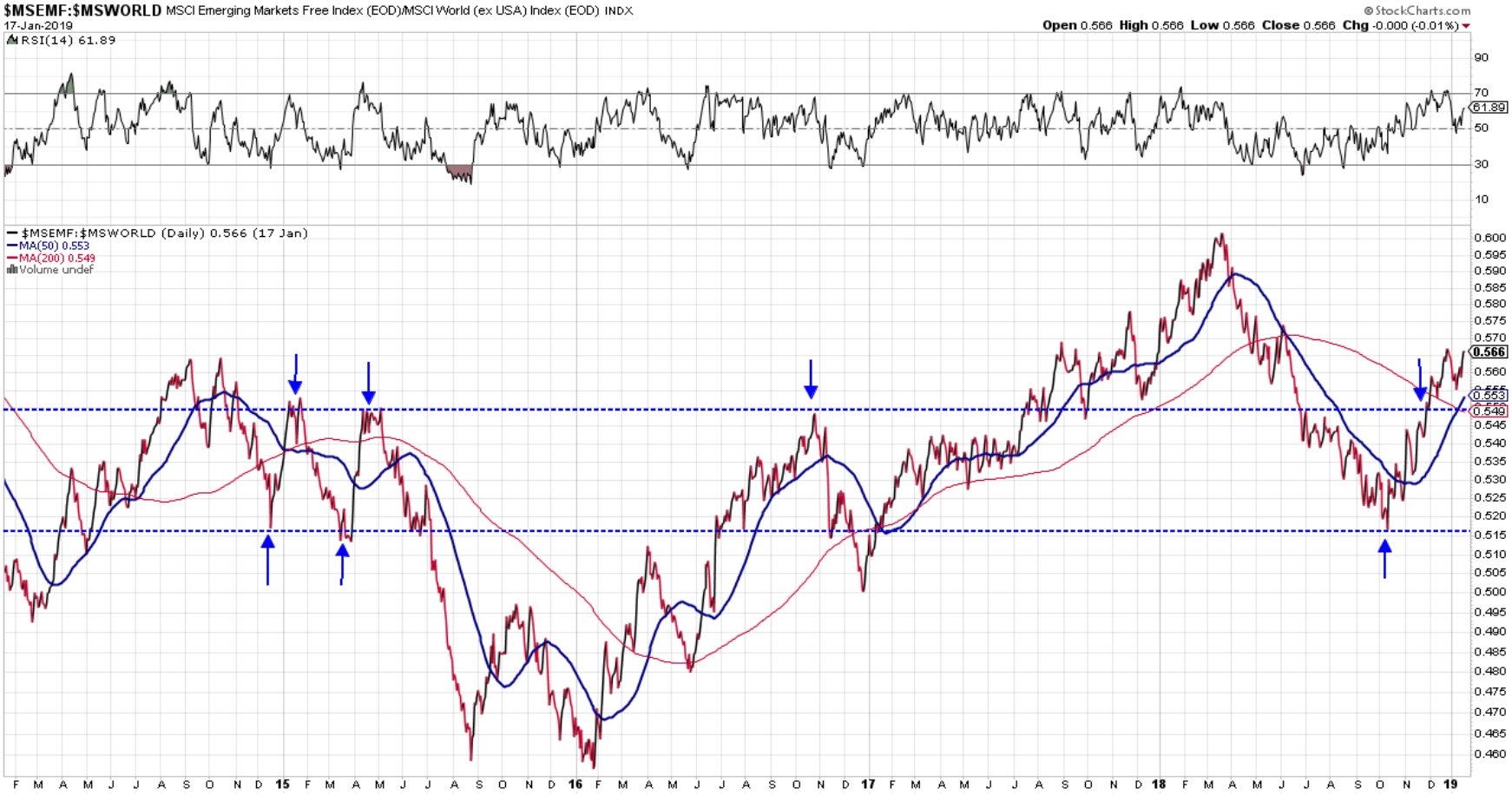


Source: Stockcharts.com, Raymond James Ltd.

Around the World in 30 Seconds – Emerging Markets

Emerging markets relative to the MSCI World index have behaved more constructively since October. Considering the attractive valuation of the region - the MSCI Emerging Markets index trades at 11.6x forward earnings estimates, a full two-multiple discount to its 10-year average of 13.7x - we increased exposure to the region within our Global Guided Portfolio.

Emerging Markets: EM vs the World



Source: Stockcharts.com, Raymond James Ltd.

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