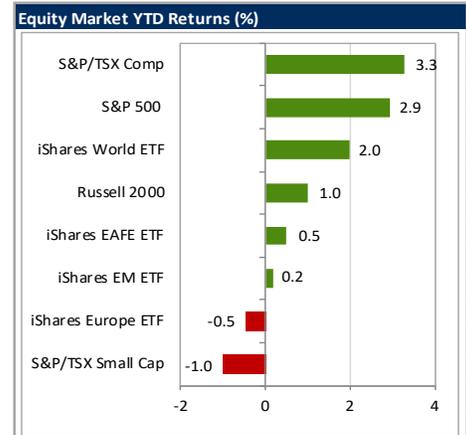


US Earnings Season

We've entered US Q4/19 earnings season, which will also give us the final growth number for the full calendar year. As it stands today, the 2019 EPS growth rate for the S&P 500 will be virtually flat at 0.2%, meaning last year's 20%+ gain was driven entirely by multiple expansion.

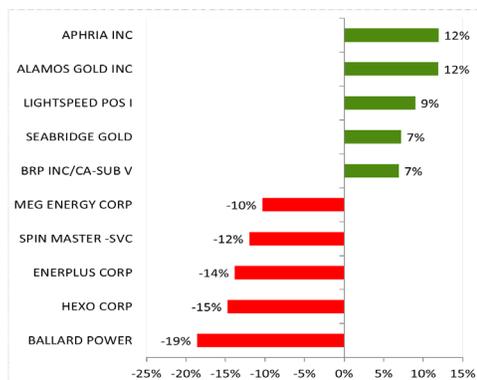
- For the fourth quarter, the S&P 500 is anticipated to report a year-over-year (yoy) decline in earnings of -2.1%, while revenue growth is forecast to grow 2.7%. The difference between earnings and revenue growth suggests margins are under pressure due to rising costs (tariffs, wages and commodity inflation).
- The consensus forecast for calendar year 2020 for earnings and revenue stands at 9.5% and 5.4%, respectively. As will be the typical pattern throughout 2020, these estimates will come down but we anticipate 5-6% earnings growth is a more reasonable and achievable growth rate. Assuming there is no multiple expansion, this would suggest a target price of 3,450 for the S&P 500.
- The global economic slowdown that began in mid-2018 has been more impactful to companies with international exposure. S&P 500 companies that generate more than 50% of revenue outside of the US have been reporting a larger decline in earnings relative to S&P 500 companies with less international revenue exposure.
- Valuation levels, as measured by price to earnings, have approached a cycle high of 18.6x, which is above the 10-year average.



Canadian Sectors	Weight	Recommendation
Consumer Discretionary	4.1	Underweight
Consumer Staples	3.9	Overweight
Energy	16.3	Market weight
Financials	32.2	Overweight
Health Care	1.3	Underweight
Industrials	11.2	Market weight
Technology	6.2	Market weight
Materials	10.8	Market weight
Communications	5.5	Market weight
Utilities	4.9	Market weight
Real Estate	3.6	Underweight

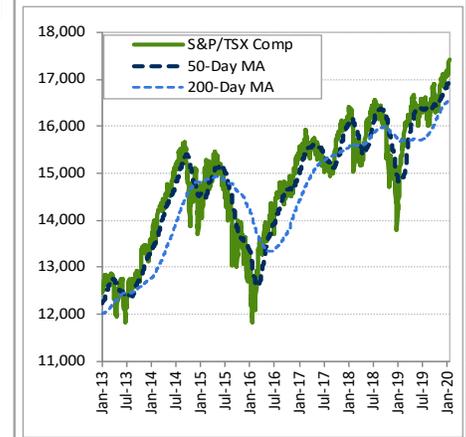
Technical Considerations	Level
S&P/TSX Composite	17,622

S&P/TSX Top 5 Gainers/Laggards*



S&P/TSX Market Internals

Weekly Advance	168	67%
Weekly Decline	65	26%
Advance-Decline	103	
New 52 wk high	26	11%
New 52 wk low	2	1%
No. Stocks Above 50-d	176	70%
No. Stocks Above 200-d	169	67%
Arms Weekly Index	1.91	Neutral
RSI (14-day)	80.9	Overbought
50-DMA	17,123	Uptrend
200-DMA	16,611	Uptrend



Source: Bloomberg, Raymond James Ltd.

Sectors are based on Bloomberg classifications

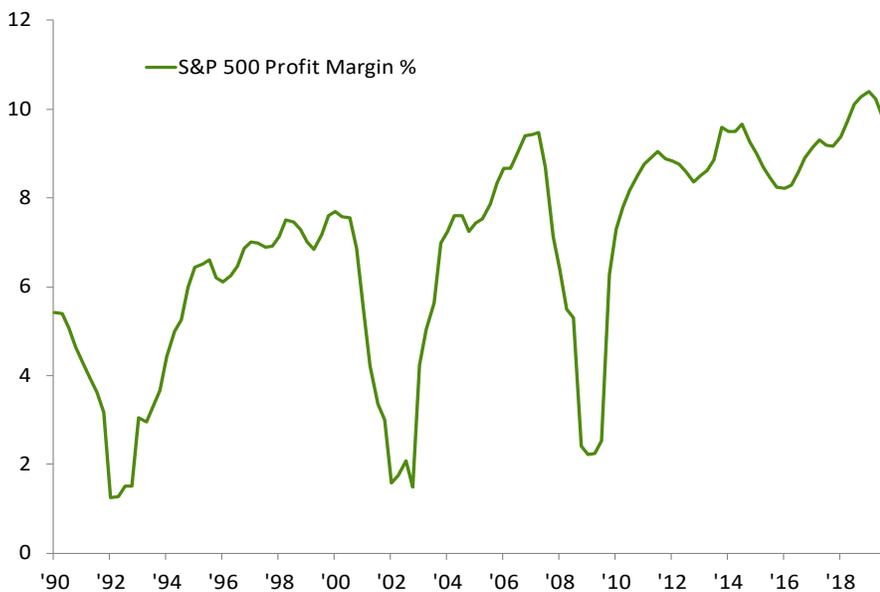
Please read domestic and foreign disclosure/risk information beginning on page 4
Raymond James Ltd. 5300-40 King St W. | Toronto ON Canada M5H 3Y2.

US Earnings Season

We've entered US Q4/19 earnings season, which will also give us the final growth number for the full calendar year. As it stands today, the 2019 EPS growth rate for the S&P 500 will be virtually flat at 0.2%, meaning last year's 20%+ gain was driven entirely by multiple expansion. This has pushed valuation levels to near cycle highs, as the market now trades at well through one full standard deviation above its long term mean. Supporting valuation levels is the lack of inflationary pressures, near record low interest rates and a significant shift in global monetary policy, however we would like to see some earnings growth in 2020 to further justify where the market is today.

For the fourth quarter, the S&P 500 is anticipated to report a year-over-year (yoy) decline in earnings of -2.1%, while revenue growth is forecast to grow 2.7%. The difference between earnings and revenue growth suggests margins are under pressure due to rising costs (tariffs, wages and commodity inflation). S&P 500 margins may have peaked early last year as the current forecast is for a continued decline to 9.7%. If 9.7% is the actual profit margin for the quarter, it will mark the first time the index has reported four straight quarters of yoy declines since 2009. In addition, if earnings also slip -2.1% in Q4/19 it will mark the first time the index has reported four straight quarters of yoy declines in earnings since 2016. However, given the extraordinary measures take by global central banks in 2019 (rate cuts and accelerating asset purchases), as well as the prospects of fiscal stimulus this year, the earnings outlook for 2020 remains positive.

S&P 500 Profit Margin Peaked?



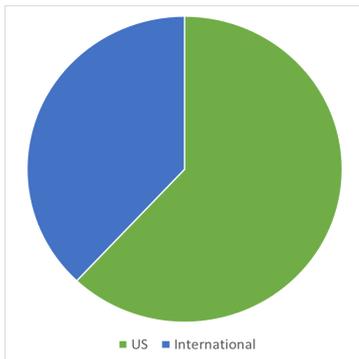
Source: Bloomberg, Raymond James Ltd.

Indeed, the consensus forecast for calendar year 2020 for earnings and revenue stands at 9.5% and 5.4%, respectively. As will be the typical pattern throughout 2020, these estimates will come down but we anticipate 5-6% earnings growth is a more reasonable and achievable growth rate. Assuming there is no multiple expansion, this would suggest a target price of 3,450 for the S&P 500.

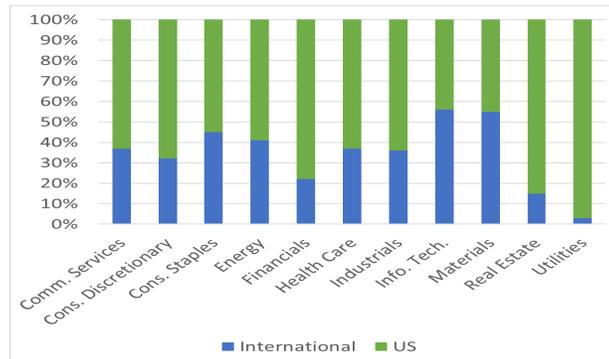
International Exposure

The global economic slowdown that began in mid-2018 has been more impactful to companies with international exposure. S&P 500 companies that generate more than 50% of revenue outside of the US have been reporting a larger decline in earnings relative to S&P 500 companies with less international revenue exposure (companies with international -5.1% versus domestic -0.4%). The recent coronavirus will be an additional headwind for global growth. During the 2003 SARs outbreak, Chinese retail sales slumped from 9% annual growth to 4% in just a matter of months and this being Chinese New Year, one of the bigger holiday for the nation, we anticipate a similar scenario to play out.

S&P 500 Rev. Exposure (%)



Sector Rev. Exposure

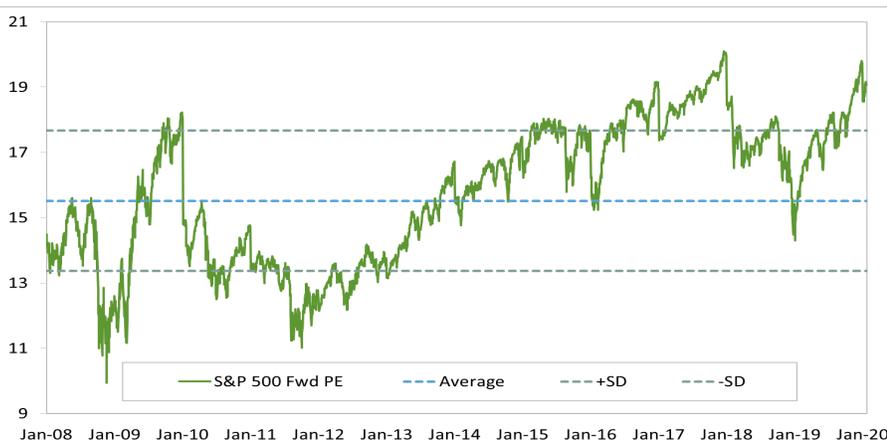


Source: FactSet, Raymond James Ltd.

Valuation

Valuation levels, as measured by price to earnings, have approached a cycle high of 18.6x, which is above the 10-year average. At the sector level, the Information Technology (22.7x) and Consumer Discretionary (22.5x) sectors have the highest forward 12-month P/E ratios, while the Financials (13.3x) sector has the lowest.

S&P 500 Fwd PE Ratio



Source: Bloomberg, Raymond James Ltd.

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