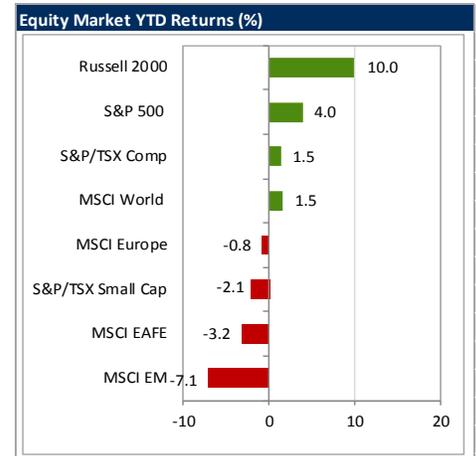


US Earnings Preview

US earnings season is set to kick off this week with quarterly earnings reports from Wells Fargo, JP Morgan and Citigroup. The S&P banks index has fallen 2.5% in the past month and 11.4% from its January highs partly due to the flattening yield curve, so we'll see if the quarter can help the banks reverse the trend.

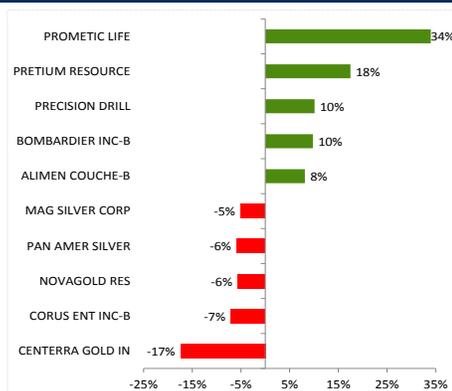
- As of July 6th, the S&P 500 is expected to report earnings growth of 20% for Q2/18. However, based on historical quarterly earnings surprise data, the actual earnings growth rate for the quarter could be closer to 24%.
- If S&P 500 earnings growth does come in at or above 20% it will mark the second consecutive quarter of growth above 20% and the third consecutive quarter of double-digit earnings growth.
- Energy should be a bright spot for the S&P 500. Seven GICS sectors are projected to report double-digit earnings growth for the quarter, but the energy sector is anticipated to lead the way thanks in part to higher commodity prices.
- For all of calendar year 2018, the bottom-up projected earnings growth rate for the S&P 500 is 21.3% and revenue growth of 7.5%. In terms of valuation, the S&P 500 trades at a forward 12-month PE ratio of 16.2x, which is in line with the 5-year average.



Canadian Sectors	Weight	Recommendation
Consumer Discretionary	5.6	Market weight
Consumer Staples	3.5	Underweight
Energy	20.2	Overweight
Financials	33.1	Market weight
Health Care	1.3	Market weight
Industrials	10.1	Overweight
Technology	4.1	Market weight
Materials	11.5	Overweight
Communications	4.4	Market weight
Utilities	3.5	Underweight
Real Estate	2.8	Market weight

Technical Considerations	Level	Target
S&P/TSX Composite	16,454	17,650

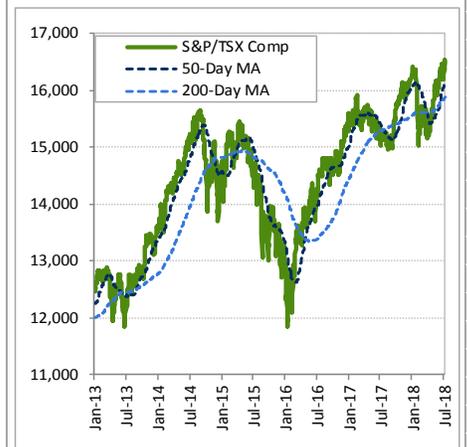
S&P/TSX Top 5 Gainers/Laggards*



S&P/TSX Market Internals

S&P/TSX Market Breadth		
Weekly Advance	157	63%
Weekly Decline	88	35%
Advance-Decline	69	
New 52 wk high	19	8%
New 52 wk low	1	0%
No. Stocks Above 50-d	159	63%
No. Stocks Above 200-d	140	56%
Arms Weekly Index	1.34	Neutral
RSI (14-day)	65.9	Neutral
50-DMA	16,127	Uptrend
200-DMA	15,872	Uptrend

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 4 Raymond James Ltd. 5300-40 King St W. | Toronto ON Canada M5H 3Y2.

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US Earnings Preview

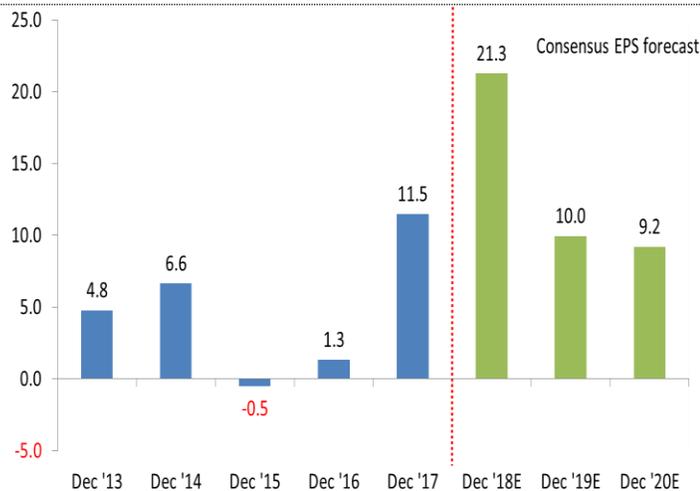
Well, the trade war officially started last Friday but the market preferred to focus on the US jobs report which showed strong payroll gains but weaker-than-expected wage growth. The combination of good employment with a lack of inflationary pressures allows the Fed some additional breathing room in terms of raising the Fed funds rate. That said, the June CPI report this Thursday will give us a better reading on inflationary pressures building within the US economy. Consensus for the core reading is looking for +0.2% mom, while the annual rate is anticipated to tick up 0.1% to +2.3% yoy. At 2.3%, this would be the highest since January 2017. Headline CPI is expected to come in at +0.2% mom and +2.9% yoy.

Elsewhere, US earnings season is set to kick off this week with quarterly earnings reports from Wells Fargo, JP Morgan and Citigroup. The S&P banks index has fallen 2.5% in the past month and 11.4% from its January highs partly due to the flattening yield curve, so we'll see if the quarter can help the banks reverse the trend. As of July 6th, the S&P 500 is expected to report earnings growth of 20% for Q2/18. However, based on historical quarterly earnings surprise data, the actual earnings growth rate for the quarter could be closer to 24%.

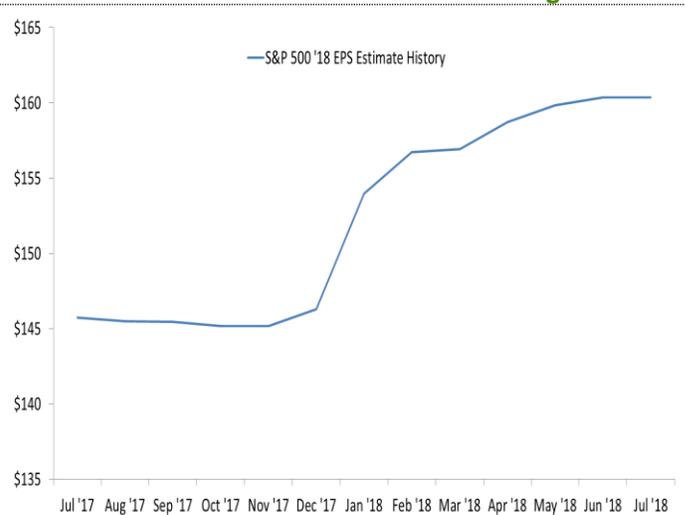
If S&P 500 earnings growth does come in at or above 20% it will mark the second consecutive quarter of growth above 20% and the third consecutive quarter of double-digit earnings growth. The strength in earnings at this point in the cycle is certainly an anomaly, but so is the amount of fiscal stimulus that can be attributed to the Republican tax cuts.

We can also see this variance in quarterly analyst earnings revisions. In a typical quarter, analysts usually reduce earnings estimates; over the past 5 and 10 years earnings estimates have fallen by 3.4% and 5.0%, respectively, on average during a quarter. However, during the past quarter estimated earnings have actually been revised higher by 0.8%. As a result of the upward revisions, the estimated yoy growth moved from 18.9% to 20.0%. Similarly, the full year earnings estimate has been marked significantly higher over the past few months.

S&P 500 YoY EPS Growth Rates



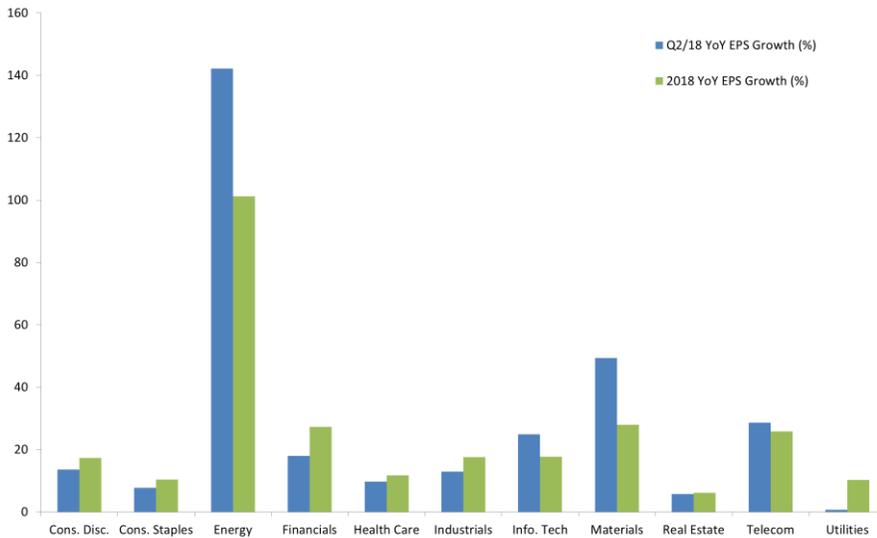
S&P 500 Full Year EPS Estimate Marked Higher



Source: Factset, Raymond James Ltd.

Energy should be a bright spot for the S&P 500. Seven GICS sectors are projected to report double-digit earnings growth for the quarter, but the energy sector is anticipated to lead the way thanks in part to higher commodity prices. WTI oil averaged US\$67.91/bbl in Q2/18 versus US\$48.22/bbl a year prior, a 41% recovery.

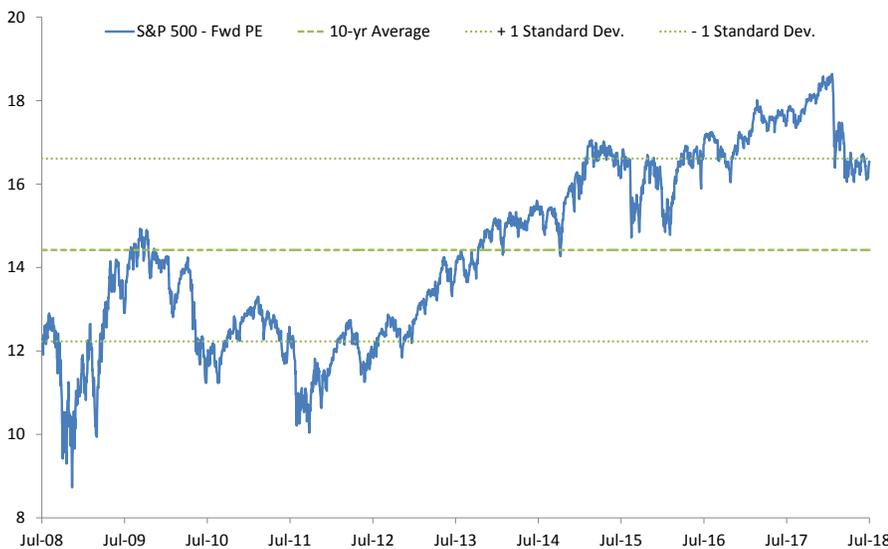
S&P 500 GICS Sectors EPS Growth Rates



Source: Factset, Raymond James Ltd.

For all of calendar year 2018, the bottom-up projected earnings growth rate for the S&P 500 is 21.3% and revenue growth of 7.5%. In terms of valuation, the S&P 500 trades at a forward 12-month PE ratio of 16.2x, which is in line with the 5-year average. Compared to the 10-year PE average, the S&P 500 is trading nearly one standard deviation about the mean but well below the peak valuation levels touched late last year.

S&P 500 Fwd PE 10 Year Chart



Source: Factset, Raymond James Ltd.

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