Weekly Trends

PRIVATE CLIENT SOLUTIONS

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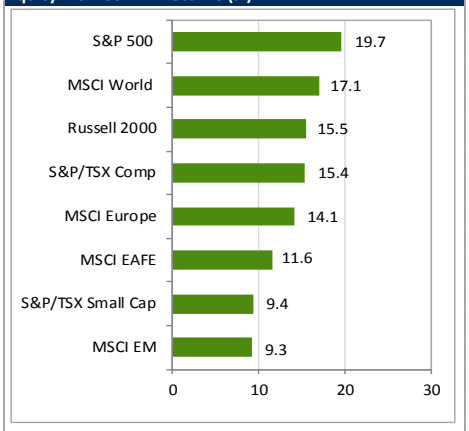
US Earnings & Charts of the Week

US earnings season is upon us with Q2/19 earnings unofficially kicking off with the large banks reporting results starting with Citigroup on Monday.

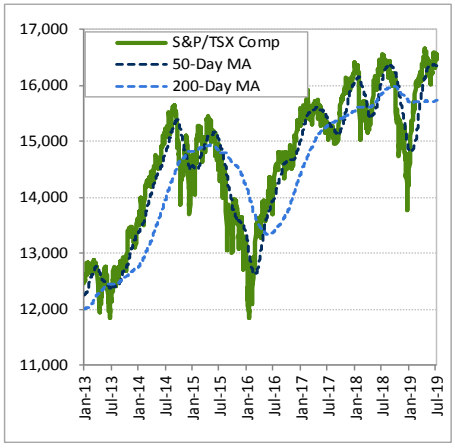
- As of last week, S&P 500 Q2/19 earnings are anticipated to decline 2.6%. If -2.6% is the actual yoy decline for the quarter, it will mark the first time the index has reported two straight quarters of negative EPS growth since 2016. However, given the typical earnings surprise, the S&P 500 should narrowly avoid this negative outcome. The estimated revenue growth rate for the quarter is 3.8%. If 3.8% is the actual growth rate for the quarter, it will mark the lowest revenue growth rate for the index since Q3/16 at just 2.7%. For the full calendar year, analysts now project earnings growth of 2.6% on revenue growth of 4.4%.
- Adding some question marks surrounding the potential magnitude of the Q2/19 EPS surprise is that there is a divergence between analyst revisions and corporate guidance. Over the past five years, analysts have lowered their Q2/19 bottom-up EPS estimate by a similar value, whereas the percentage of companies issuing negative EPS guidance is above the 5-year average at 77% versus an average of 70%.
- Well, it's official. The US expansion achieved the 10-year milestone and is now officially tying as the longest post-war business cycle expansion. The current expansion that started in 2009 has lasted 120 months, matching the length of the 1991-2001 expansion. Interestingly, the current expansion, while likely to overtake the record in terms duration, pales in comparison in terms of magnitude as GDP growth is notably smaller than the 1991-2001 expansion.

Equity Market YTD Returns (%)



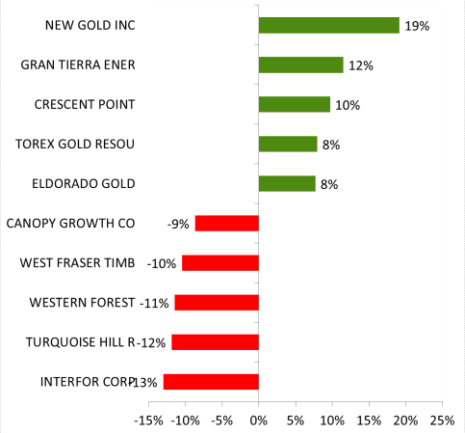
Canadian Sectors	Weight	Recommendation
Consumer Discretionary	4.2	Underweight
Consumer Staples	4.0	Overweight
Energy	17.4	Underweight
Financials	32.0	Overweight
Health Care	1.9	Underweight
Industrials	11.4	Market weight
Technology	5.2	Market weight
Materials	10.7	Market weight
Communications	5.6	Market weight
Utilities	4.4	Market weight
Real Estate	3.4	Market weight

Technical Considerations	Level	YE Target
S&P/TSX Composite	16,528	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	165	66%
Weekly Decline	73	29%
Advance-Decline	92	
New 52 wk high	19	8%
New 52 wk low	4	2%
No. Stocks Above 50-d	147	59%
No. Stocks Above 200-d	150	60%
Arms Weekly Index	1.74	Neutral
RSI (14-day)	56.6	Neutral
50-DMA	16,354	Uptrend
200-DMA	15,735	Uptrend

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

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US Earnings Preview

US earnings season is upon us with Q2/19 earnings unofficially kicking off with the large banks reporting results starting with Citigroup on Monday.

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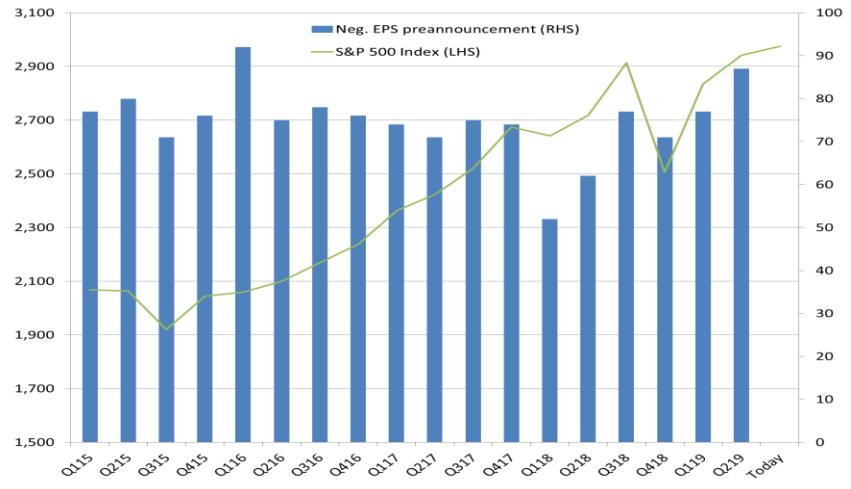
At the sector level, Information Technology is the largest contributor to the overall increase in the number of S&P 500 companies issuing negative EPS guidance. We can point to escalating trade tensions between the US and China as a potential culprit. This divergence between corporate guidance and analyst revisions sets the market up for disappointment, as analysts may have been overly conservative in their revisions over the past few weeks.

Q2/19 Preannouncements: Negative Announcements Tick Higher



Source: Factset, Raymond James Ltd.

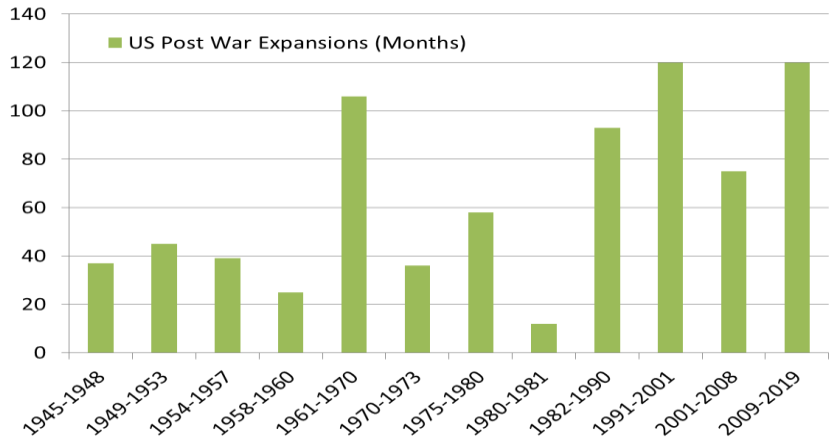
Germany's BASF is one company that can illustrate this point. The chemical maker, which is diversified across many geographic regions and end markets, warned that earnings would be considerably below analysts' expectations and significantly reduced its full year outlook. The company flagged the ongoing trade dispute between the US and China, sluggish demand in the global auto market (particularly in China) and weakness in its agricultural business due to widespread flooding in the US Midwest.

BASF is among one of many European companies within the Stoxx 600 Index that has disappointed. Earnings growth for the index thus far is 0.8% in Q2/19, down from an estimate of 1.8% a week ago. Similarly, the US reporting season may offer some negative surprises despite the lowered expectations.

Charts of the Week

Well, it's official. The US expansion achieved the 10-year milestone and is now officially tying as the longest post-war business cycle expansion. The current expansion that started in 2009 has lasted 120 months, matching the length of the 1991-2001 expansion. Interestingly, the current expansion, while likely to overtake the record in terms duration, pales in comparison in terms of magnitude as GDP growth is notably smaller than the 1991-2001 expansion. This is a fascinating point considering the depth the 2008-09 recession and amount of liquidity central banks used to right the economy. While expansions don't die of old age, the current cycle is showing its age. Even though we foresee this expansion continuing, there are an increasing number of signs economic growth is slowing. The shape of the yield curve is a good indication that the current expansion is beginning to wane. Another is manufacturing data; US Markit PMI at 50.6 is hovering just above contraction territory and is at the second-lowest level since September 2009. The ISM manufacturing index is slightly better at 51.7, but the lowest read since October 2016.

Duration of US Expansions



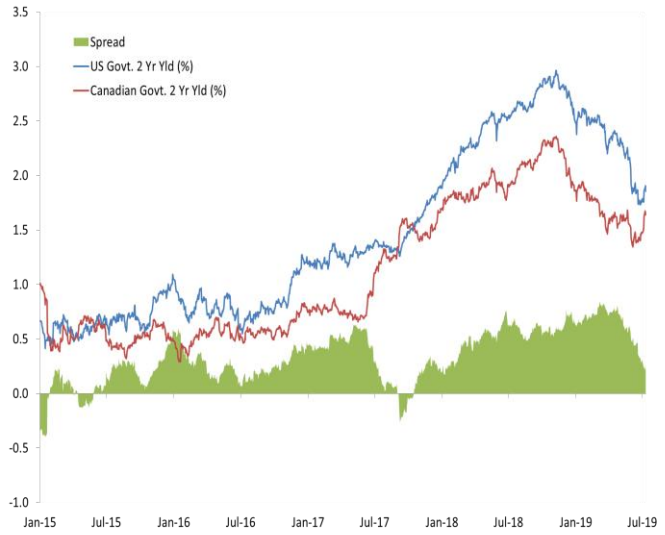
Source: Factset, Raymond James Ltd.

Will Poloz Clip the Loonie's Wings?

The loonie (versus USD) was among the best performing G10 currencies since June amid increased market expectations the Fed will cut interest rates this year. The main driver in the currency move has been the significant narrowing between the US and Canadian 2-year yields since April, which has moved 60 bps in favour of Canadian bond yields. In the near term, we anticipate the currency to test $0.77 ($1.2987 USDCAD), the 38.2% Fibonacci retracement of the 2018/19 downtrend. However, considering the BoC is forecasting export growth and business investment to support GDP growth this year, Poloz will, at some tipping point, begin to talk down the CAD (stronger CAD will make Canadian goods look less attractive, thus reducing exports and putting additional pressure on the BoC forecast).

Loonie Still has some Room

US/Cdn 2yr Spread Narrows

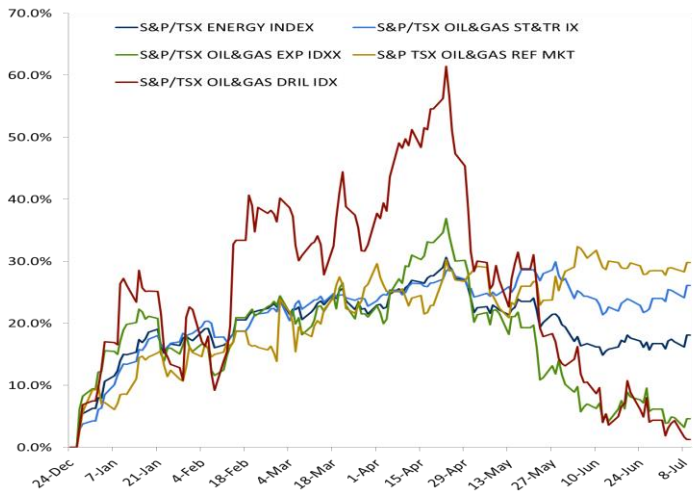


Source: stockcharts.com, Raymond James Ltd.

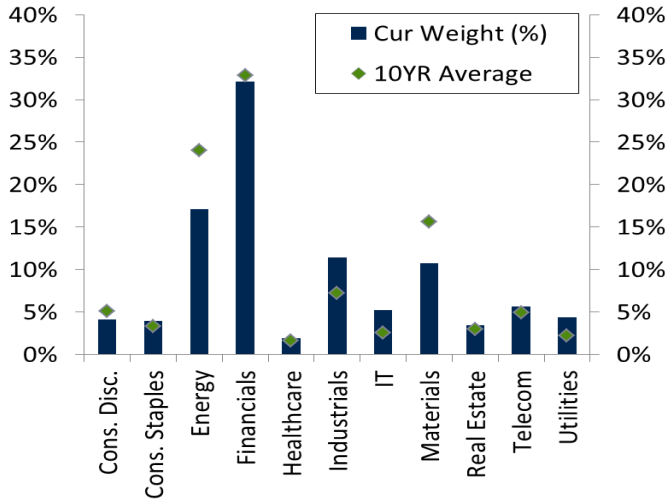
Extreme Energy Pessimism: How Low Can You Go

The Canadian energy sector can't seem to catch a break. Despite WTI gaining nearly 40% off the 2018 lows, the broader energy sector has advanced just 18% over the same period. The picture is materially worse when excluding downstream (refiners) and midstream (pipelines) sub-indices, which have advanced 30% and 26%, respectively. Given the poor performance of the energy sector, it now represents a smaller portion of the overall S&P/TSX. As a percentage, energy is now at its lowest level in a decade at just 17.1%, compared to a 10-year average of 24%.

S&P/TSX Energy Sub-industry Performance…



…Energy Weighting Continues to Shrink



Source: Stockcharts.com, Raymond James Ltd.

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