# Weekly Trends

PRIVATE CLIENT SOLUTIONS

Ryan Lewenza, CFA, CMT, Private Client Strategist

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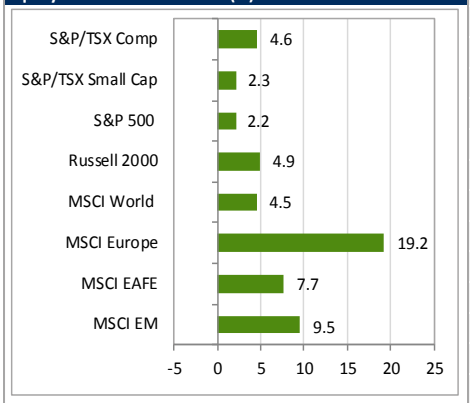
## Q1/15 Market Recap

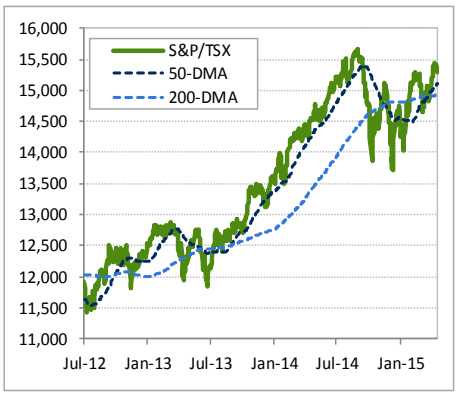
- The North American economy experienced a clear downshift in economic activity over the first quarter. In the US, manufacturing and exports were hurt by the stronger dollar, while in Canada economic growth was impacted by weak oil prices. Extreme weather conditions also likely weighed on activity during the quarter. As a result, expectations have fallen significantly with consensus estimates for CAD/US Q1/15 growth declining from 2.3% and 2.8%, respectively, to roughly 1% for both countries.
- Europe rebounded in Q1 with the weaker Euro and European Central Bank (ECB) stimulus providing a boost to the economy. Europe's Purchasing Managers Index (PMI) rebounded from 50.6 in December to 52.2 in March, and industrial production bounced back in the quarter.
- Growth in the emerging markets (EM) continued to weaken with Brazil, Russia and China all seeing slower economic activity.
- European equities were the big gainers in Q1/15. European stocks benefitted from improving economic momentum and ECB stimulus. This helped propel Germany's DAX and the Euro Stoxx 50 up 22% and 17.5%, respectively.
- The S&P/TSX Composite (S&P/TSX) was up 1.8% in the quarter, outperforming the S&P 500 Index (S&P 500) by 1.4%. Despite the better performance from the S&P/TSX in Q1/15, we still see the S&P 500 outperforming in 2015. One key factor supporting this call is the stronger earnings profile for the S&P 500 relative to the S&P/TSX.

**Equity Market YTD Returns (%)**




| Canadian Sector | TSX Weight | Recommendation |
|---|---|---|
| Consumer Discretionary | 6.3 | Overweight |
| Consumer Staples | 3.6 | Market weight |
| Energy | 22.3 | Market weight |
| Financials | 34.6 | Market weight |
| Health Care | 5.2 | Underweight |
| Industrials | 8.2 | Overweight |
| Information Technology | 2.5 | Overweight |
| Materials | 10.5 | Underweight |
| Telecom | 4.6 | Market weight |
| Utilities | 2.2 | Underweight |

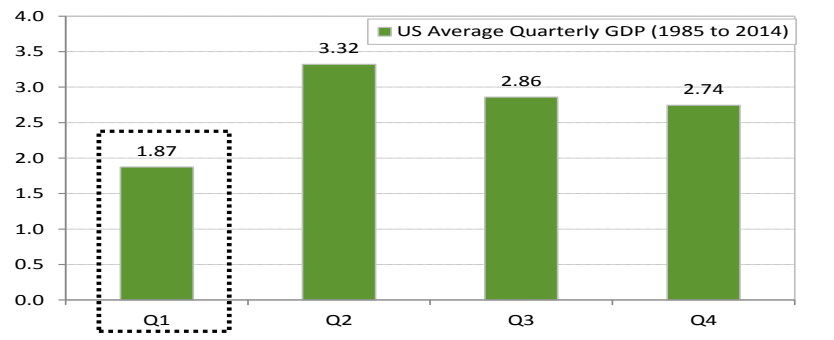
| Technical Considerations | Level | Reading |
|---|---|---|
| S&P/TSX Composite | 15,304.8 | |
| 50-DMA | 15,103.5 | Uptrend |
| 200-DMA | 14,925.9 | Uptrend |
| RSI (14-day) | 57.7 | Neutral |




Source: Bloomberg, Raymond James Ltd.

### Chart of the Week

Weaker US Q1/15 GDP Growth Is In Line With History. Since 1985, US Q1 GDP Has Averaged 1.87%, Roughly 1% Below All Other Quarters




Source: Bloomberg, Raymond James Ltd.



**Raymond James Ltd.** 5300-40 King St W. | Toronto ON Canada M5H 3Y2.
2200-925 West Georgia Street | Vancouver BC Canada V6C 3L2.

## Economic Update

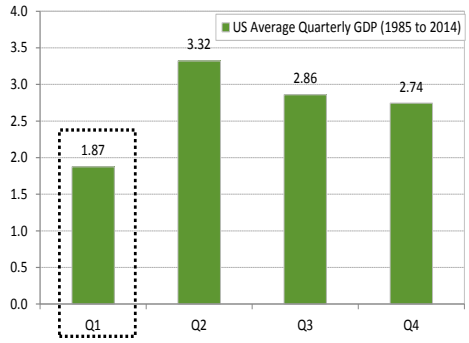
With the first quarter now over we wanted to provide a recap of the key economic and market trends over the quarter. Overall, the quarter was defined by higher volatility, economic divergences and impressive gains for European and Chinese equities.

Starting with the North American economy, we witnessed a clear downshift in economic activity over the first quarter. In the US, manufacturing and exports were hurt by the stronger dollar, while in Canada economic growth was impacted by weak oil prices. Extreme weather conditions also likely weighed on activity during the quarter. As a result, expectations have fallen significantly with consensus estimates for CAD/US Q1/15 growth declining from 2.3% and 2.8%, respectively to roughly 1% for both countries. Interestingly, the first quarter deceleration is consistent with history, as US Q1 GDP growth has averaged 1.87% since 1985, roughly 1% below the other quarters (see sidebar). As we've outlined in recent reports we expect the US and Canadian economies to improve in the H2/15.

Looking at Europe, the region rebounded in Q1 with the weaker Euro and European Central Bank (ECB) stimulus providing a boost to the economy. Europe's Purchasing Managers Index (PMI) rebounded from 50.6 in December to 52.2 in March, and industrial production bounced back in the quarter. However, Europe's improving economic momentum is best captured in the Citigroup Economic Surprise Indices, which shows Europe's improvement and clear divergence with the US economy. As illustrated below, Europe continued to post better-than-expected economic performance over the quarter with the Citigroup Surprise Index rallying from 0 in mid-December to above 50 by quarter end. Over this time, the US Surprise Index headed south, capturing the weak economic activity over the quarter.

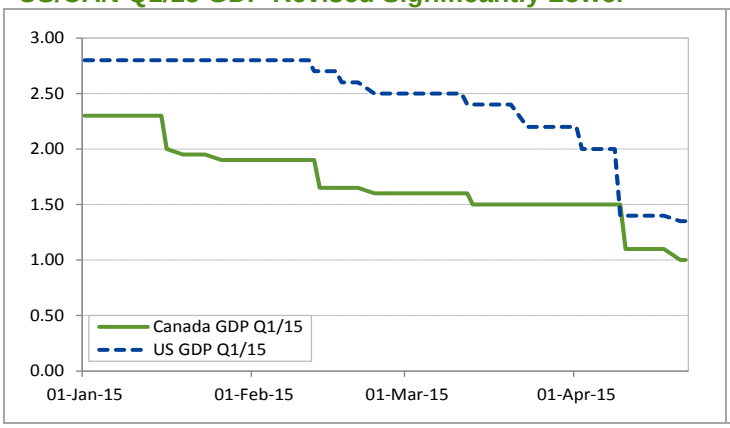
Growth in the emerging markets (EM) continued to weaken with Brazil, Russia and China all seeing slower economic activity. With China's GDP growth rate slowing to roughly 7%, PMI's stuck in neutral, and the housing market continuing to soften, Chinese officials added additional stimulus into the economy over the quarter. Overall, emerging market growth has decelerated to roughly 4% Y/Y, the lowest growth rate since the financial crisis. The weaker growth in EM is one factor behind our continued cautious view of EM equities and commodities.

### US Average Quarterly GDP

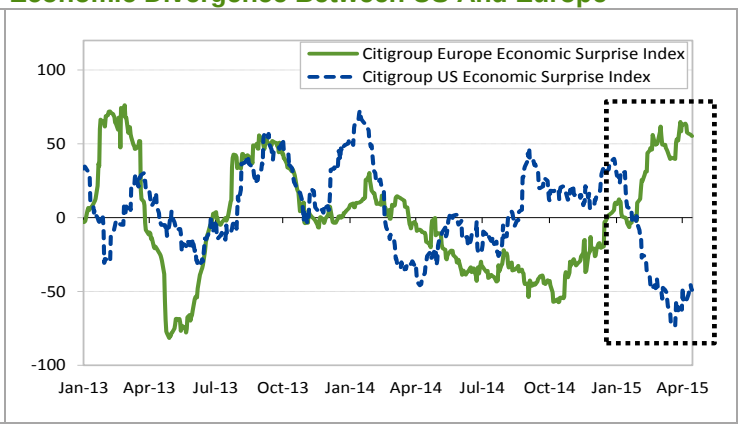



Source: Bloomberg, Raymond James Ltd.

### US/CAN Q1/15 GDP Revised Significantly Lower




### Economic Divergence Between US And Europe




Source: Bloomberg, Raymond James Ltd.

## Equity Market Performance

European equities were the big gainers in Q1/15. European stocks benefitted from the improving economic momentum and ECB stimulus. The ECB plans to inject over €1 trillion into the financial markets through to September 2016, and as we've seen, equities tend to rally on massive liquidity injections. This helped propel Germany's DAX and the Euro Stoxx 50 up 22% and 17.5%, respectively. We turned bullish on the European markets earlier this year, increasingly our weighting to the region in our asset allocation investor profiles.

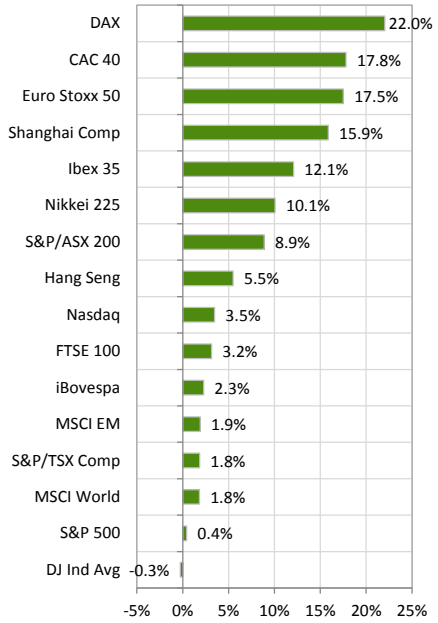
China's Shanghai also performed very well in Q1/15, up 16% YTD and up 100% since last summer. With economic growth slowing in the region, Chinese officials have ramped up stimulus through interest rate and bank reserve requirement cuts, along with increased fiscal stimulus. With low equity valuations and these stimulative policy measures it catalyzed the stock market, resulting in these outsized gains.

Looking closer to home, the S&P/TSX was up 1.8% in the quarter, outperforming the S&P 500 by 1.4%. The S&P/TSX outperformance was driven by strong gains in the health care, information technology and consumer discretionary sectors. While we underestimated the gains from the health care sector, we were correct on our overweight recommendations for the information technology and consumer discretionary sectors. The financials sector reported a disappointing -1.1% in the quarter which prompted us to downgrade the sector on March 6, 2015.

Despite the better performance from the S&P/TSX in Q1/15, we still see the S&P 500 outperforming in 2015. One key factor supporting this call is the stronger earnings profile for the S&P 500 relative to the S&P/TSX. While forward earnings estimates for the S&P 500 have declined 5% YTD, estimates for the S&P/TSX have declined by 12%. As illustrated below, the stronger relative performance of the S&P 500 to the S&P/TSX has closely tracked the relative trends in forward earnings estimates, which we expect to continue. Similar to last year we believe the outperformance by the S&P/TSX in Q1 could wane in the coming quarters, and therefore continue to recommend Canadian investors increase their exposure to US equities.

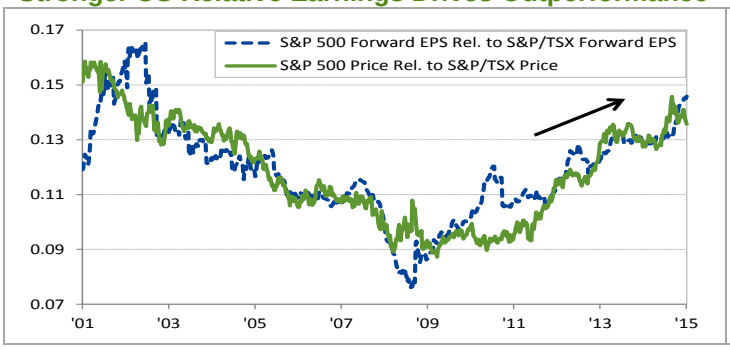
Overall, we maintain our constructive outlook on equities with our preference for the European and US markets. Our continued bullish view of equities is predicated on: 1) global central bank stimulus; 2) a slowly improving global economy; 3) an accommodative US Federal Reserve; 4) bullish and supportive technicals; and 5) attractive valuations relative to other asset classes. While we see the potential for weakness over the slower seasonal summer period, we believe North American equities will deliver another year of positive returns.

### Q1/15 Global Equity Returns

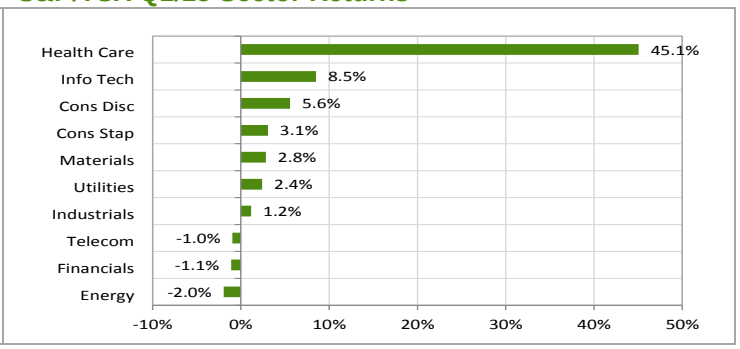



Source: Bloomberg, Raymond James Ltd.

### Stronger US Relative Earnings Drives Outperformance




### S&P/TSX Q1/15 Sector Returns




Source: Bloomberg, Raymond James Ltd.

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