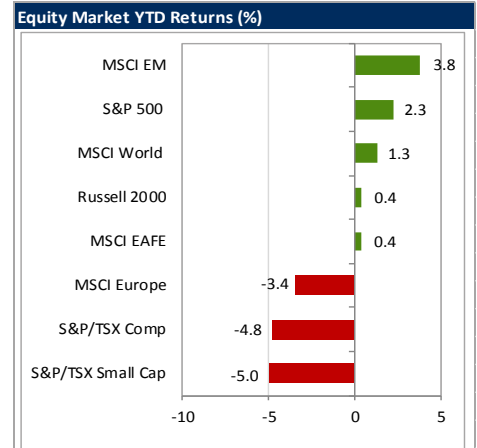


## Moody Markets

It has been an eventful couple of weeks in the markets. As we discussed last week, the fundamental back drop has not changed, in our view. The global economy remains strong, corporate earnings are set to grow ~15% in Q4/17 and full year earnings estimates have been moving higher across the board. What has changed is market sentiment, which has quickly shifted from excessively bullish territory in January to more a neutral reading and markets have rapidly moved from extremely overbought to deeply oversold in a matter of days.

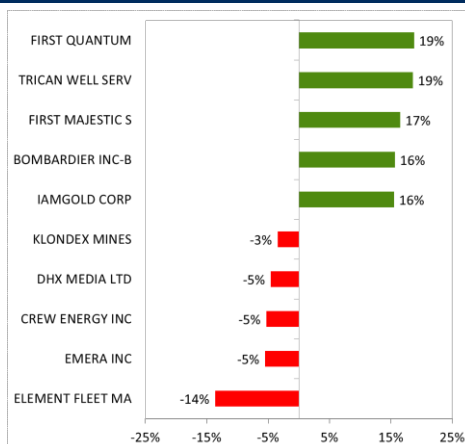
- The most recent reading (January) of US consumer confidence remains high amid solid job gains, low unemployment and newly introduced personal income tax cuts. The current readings for consumer confidence are a vote of confidence for the economy and suggest economic conditions will remain robust over the next 3-6 months.
- Measures of investor confidence can often be utilized as a contrarian indicator to identify potential inflection points in market direction. One of our preferred measures moved from an extreme reading in January to normalized levels, suggesting the extreme optimism has been largely erased and offering investors a better entry point.
- As investor confidence has returned to more normalized levels, equity markets in the US and Canada have become deeply oversold.
- The S&P/TSX now trades at 15.1x estimated earnings, a slight discount to the 10-year average. However, what is more compelling is the valuation differential between Canada and the US. The S&P/TSX trades at more than two standard deviations below the 5-year average.



Canadian Sectors	Weight	Recommendation
Consumer Discretionary	5.5	Market weight
Consumer Staples	3.7	Underweight
Energy	18.6	Overweight
Financials	35.0	Market weight
Health Care	0.9	Market weight
Industrials	9.7	Overweight
Technology	3.7	Market weight
Materials	11.6	Overweight
Communications	4.6	Market weight
Utilities	3.7	Underweight
Real Estate	3.0	Market weight

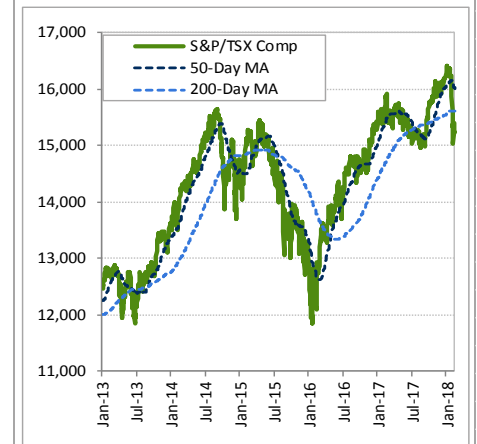
Technical Considerations	Level	Target
S&P/TSX Composite	15,436	17,650

### S&P/TSX Top 5 Gainers/Laggards\*



### S&P/TSX Market Internals

Weekly Advance	27	11%
Weekly Decline	223	89%
Advance-Decline	-196	
New 52 wk high	12	5%
New 52 wk low	11	4%
No. Stocks Above 50-d	67	27%
No. Stocks Above 200-d	108	43%
Arms Weekly Index	1.39	Neutral
RSI (14-day)	37.2	Neutral
50-DMA	16,011	Downtrend
200-DMA	15,603	Downtrend



Source: Bloomberg, Raymond James Ltd.

Sectors are based on Bloomberg classifications

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

Please read domestic and foreign disclosure/risk information beginning on page 5 Raymond James Ltd. 5300-40 King St W. | Toronto ON Canada M5H 3Y2.

2200-925 West Georgia Street | Vancouver BC Canada V6C 3L2.

It has been an eventful couple of weeks in the markets. As we discussed last week, the fundamental back drop has not changed, in our view. The global economy remains strong, corporate earnings are set to grow ~15% in Q4/17 and full year earnings estimates have been moving higher across the board. What has changed is market sentiment, which has quickly shifted from excessively bullish territory in January to a more neutral reading and markets have rapidly moved from extremely overbought to deeply oversold in a matter of days.

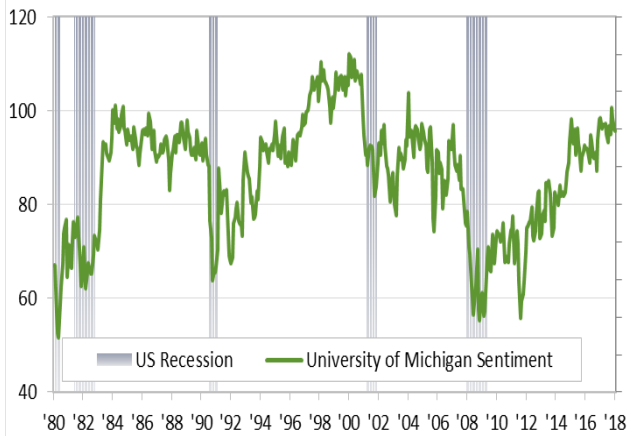
### Consumer confidence

The most recent reading (January) of US consumer confidence remains high amid solid job gains, low unemployment and newly introduced personal income tax cuts. The swoon in the market will likely negatively impact this month’s survey, but one month does not make a trend. Consumer confidence is an important measure considering ~70% of US GDP is driven by consumer demand. The University of Michigan Sentiment polls the consumer’s view on their prospects for their own financial situation and how they view the general economy over the near- to long-term. The index has remained largely unchanged for more than a year with sentiment sitting at very favorable levels. The index averaged 96.8 in 2017, the highest yearly average since 2000.

Similarly, the Conference Board Consumer Confidence Index is a barometer of the health of the US economy from the perspective of the consumer. The index is based on consumers’ perceptions of current business and employment conditions, as well as their expectations over the next 6 months regarding business conditions, employment and income.

The current readings for consumer confidence are a vote of confidence for the economy and suggest economic conditions will remain robust over the next 3-6 months.

#### Consumer Sentiment – Supportive of the US Economy



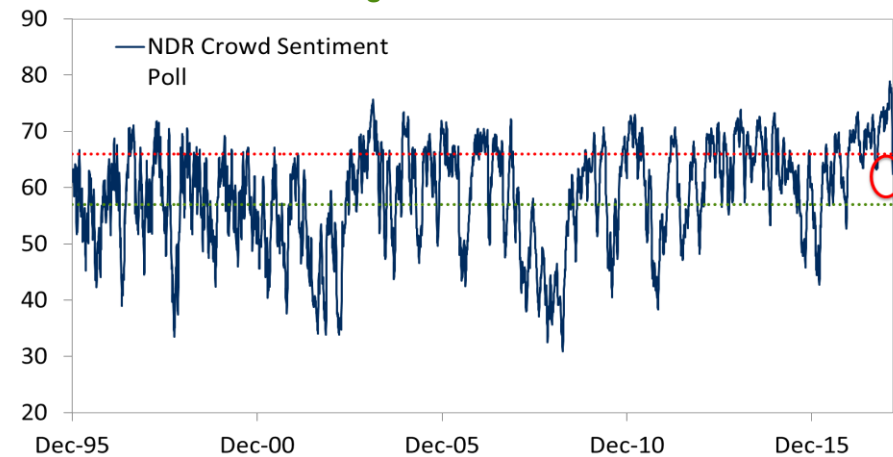
Source: Bloomberg

## Market Sentiment

There are many sentiment indicators, some are used to gauge economic activity and there are others that measure investor confidence. Measures of investor confidence can often be utilized as a contrarian indicator to identify potential inflection points in market direction. Generally, when investors are too bullish there are very few not participating in the market and therefore fewer new participants to help sustain the upward momentum. The opposite is true when investors are too bearish.

One of our preferred sentiment indicators is Ned Davis' Crowd Sentiment Poll (CSP), which is designed to highlight short- to intermediate-term swings in investor psychology. The indicators used are mostly based on ratios of relative bullishness or bearishness among different categories of investors, including data from investor surveys, options put/call ratios, bullish investment assets versus bearish investment assets, and sentiment indices. Using the CSP, an investor putting capital into the market when the indicator is above 66 has produced an average annual loss of 3.3%, while those investing when the indicator has a reading between 66 to 57 produced an average annual return of 21.1%. The CSP reached an extreme reading of 78.9 in January, but following the selloff the indicator currently reads 62, suggesting the extreme optimism has been largely erased and offering investors a better entry point.

### Investor Sentiment Returning to Normalized Levels



## Overbought/Oversold

As investor confidence has quickly returned to more normalized levels, equity markets in the US and Canada have become deeply oversold. We look at two measures to determine oversold conditions – the number of stocks trading above their 50-day moving average and the traditional relative strength index (RSI). Looking at the US market, the number of stocks trading above their 50-day moving average registered 15% last week, an extremely negative print that has often coincided with market lows over the last few years.

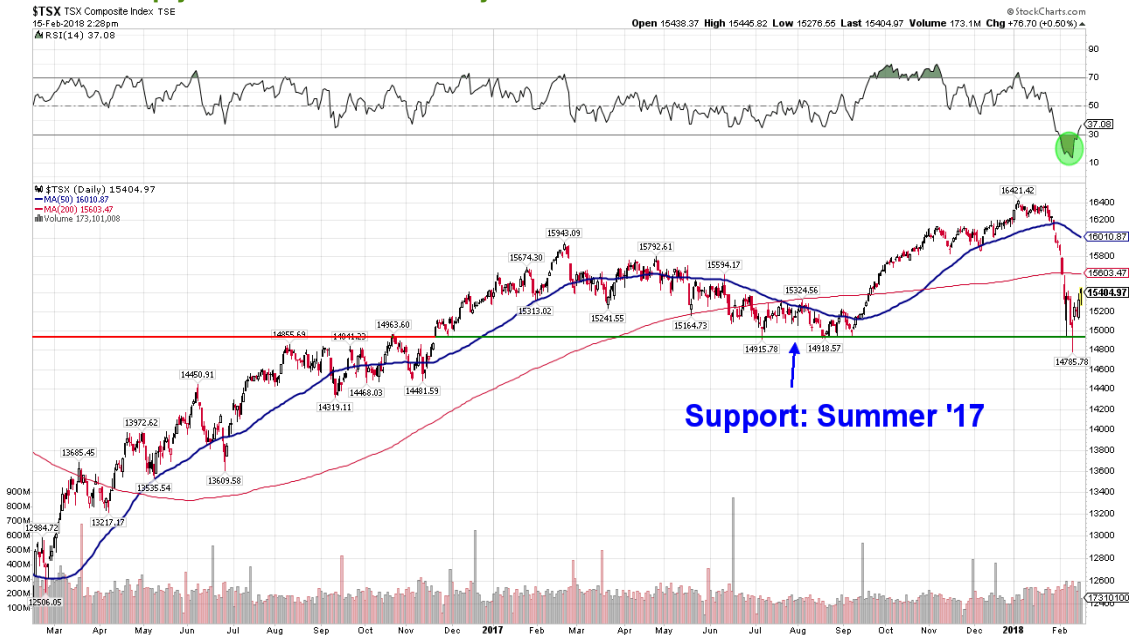
### NYSE % Stocks Above 50-day MA Bounced From An Extreme Reading



Source: Bloomberg

We then turn our attention to the Canadian market and look at one of the more popular oscillators, the 14-day RSI. We can see the S&P/TSX became deeply oversold last week. On oversold conditions, the index also found key support at the 2017 summer lows.

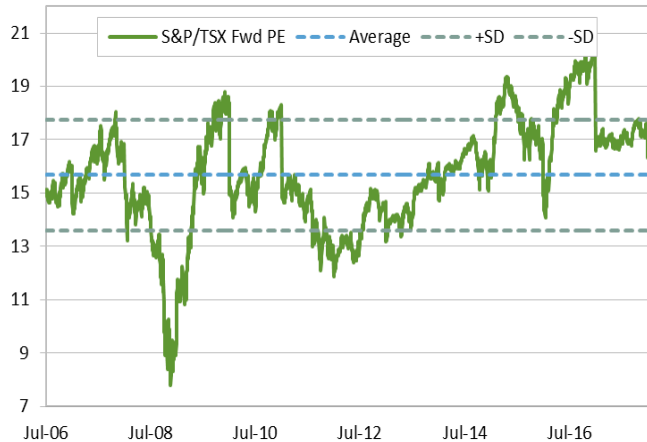
### S&P/TSX Deeply Oversold on the 14-day RSI



Source: Bloomberg

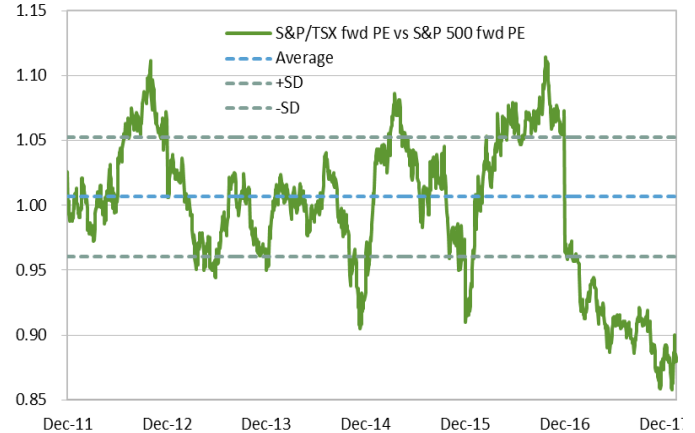
The S&P/TSX now trades at 15.1x estimated earnings, a slight discount to the 10 year average. However, what is more compelling is the valuation differential between Canada and the US. The S&P/TSX trades at more than two standard deviations below the 5-year average.

### S&P/TSX Fwd PE – Historically Cheap...



Source: Bloomberg, Raymond James Ltd.

### ...And Very Cheap Relative to the US



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