Weekly Trends

PRIVATE CLIENT SOLUTIONS

Jason Castelli, CFA

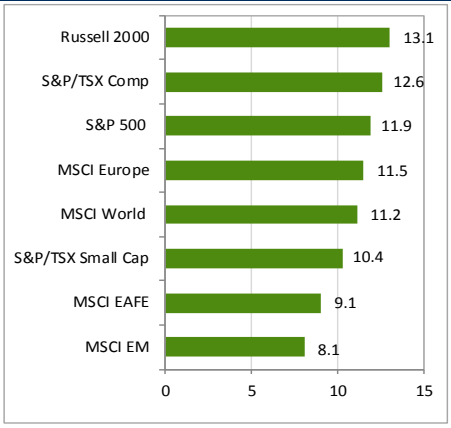
March 28, 2019

Chart Pack

This week we look at a series of charts to help us take the pulse of the market and see what has/has not been working:

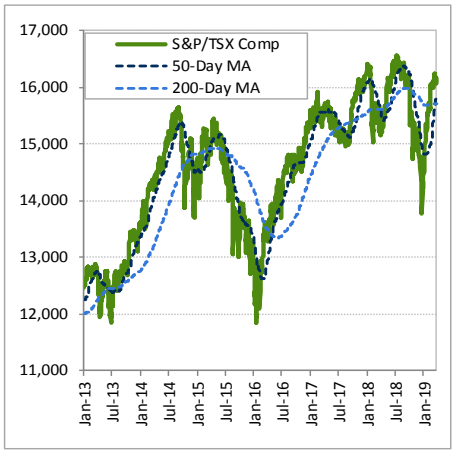
- The S&P/TSX's momentum is beginning to fade following a sharp v-shaped recovery. As of Wednesday, the S&P/TSX is on track to record its best start to the year since 1998 and will rank among the top 5 quarterly returns since the 1920s. As we head into Q2, which is the weakest of the four quarters, we anticipate some corrective action given waning momentum.
- Despite equity markets ripping higher, global bond yields have fallen aggressively across the curve. The Canadian and US 10-year yield have slipped 66 bps and 46 bps, respectively, from a year earlier.
- As with the S&P/TSX, the S&P 500 appears to be losing momentum and we look to earnings season for direction. As of last Friday, S&P 500 Q1 earnings are set to decline 3.7%, which if this occurs, it would mark the first year-over-year decline in earnings since Q2/16.
- Within the Canadian cyclical sectors, information technology continues to lead the pack although momentum is beginning to wane. Cyclical leadership appears set to transition to materials with the 50-day moving average crossing above the 200-day.
- Within the Canadian defensive sectors, real estate continues to be the go-to sector particularly with long-term yields slumping.
- The Loonie has bumped up against the downward channel resistance and continues to trade below its 200-day moving average. With the US-Canada interest rate differential widening and weakening domestic data, the bias remains to the downside.

Equity Market YTD Returns (%)



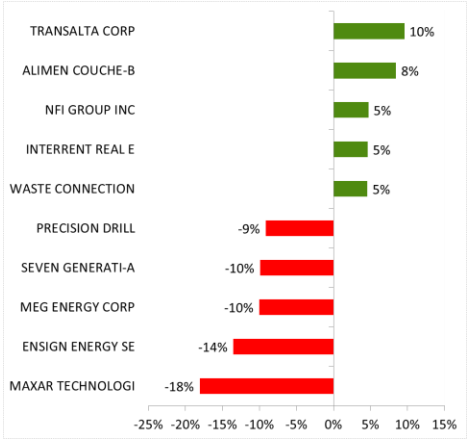
Canadian Sectors	Weight	Recommendation
Consumer Discretionary	4.1	Underweight
Consumer Staples	3.9	Overweight
Energy	18.1	Underweight
Financials	31.8	Market weight
Health Care	2.2	Underweight
Industrials	10.9	Market weight
Technology	4.4	Market weight
Materials	11.2	Market weight
Communications	5.8	Overweight
Utilities	4.2	Market weight
Real Estate	3.5	Overweight

Technical Considerations	Level	Target
S&P/TSX Composite	16,129	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	140	56%
Weekly Decline	103	41%
Advance-Decline	37	
New 52 wk high	26	11%
New 52 wk low	2	1%
No. Stocks Above 50-d	145	58%
No. Stocks Above 200-d	129	51%
Arms Weekly Index	1.66	Neutral
RSI (14-day)	57.2	Neutral
50-DMA	15,812	Uptrend
200-DMA	15,710	Uptrend

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

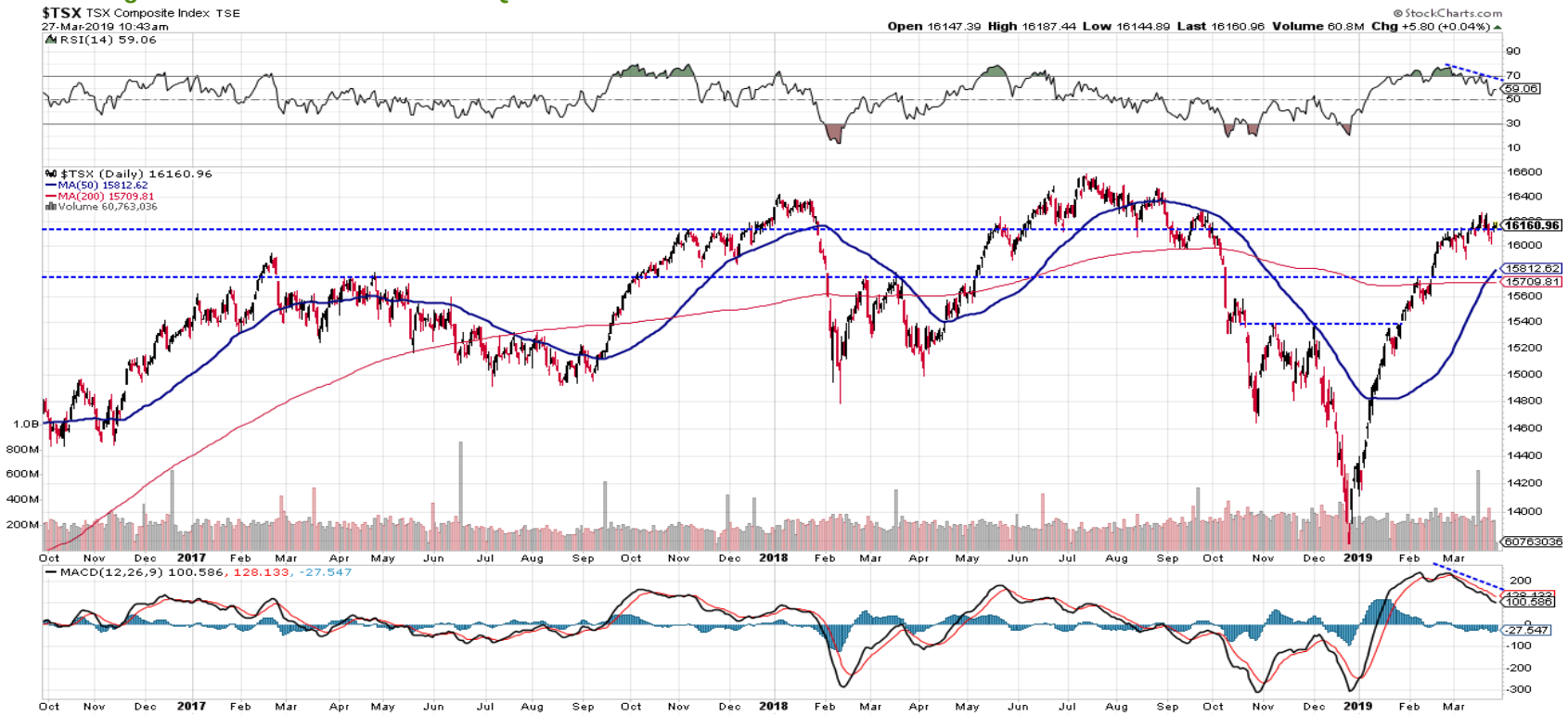
Please read domestic and foreign disclosure/risk information beginning on page 19

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S&P/TSX: A Year's Worth of Return in Just One Quarter!

The S&P/TSX's momentum is beginning to fade following a sharp v-shaped recovery. As of Wednesday, the S&P/TSX is on track to record its best start to the year since 1998 and will rank among the top 5 quarterly returns since the 1920s. As we head into Q2, which is the weakest of the four quarters, we anticipate some corrective action given waning momentum. From a valuation perspective, the S&P/TSX price-to-earnings multiple has expanded 2.2x over the past 13 weeks and now trades at 15.2x, a discount to its 10-year average of 16x.1.

S&P/TSX Starting to Loss Momentum Ahead of Q2



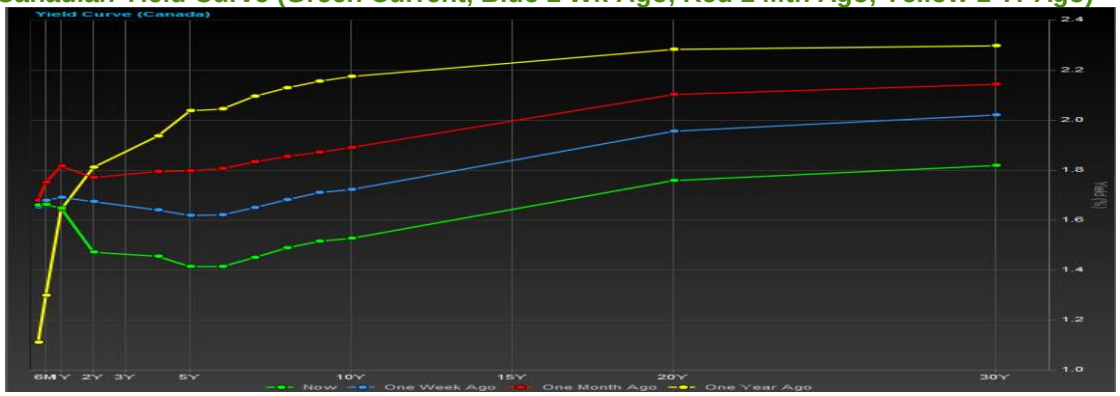
Source: Stockcharts.com, Raymond James Ltd.

Two Roads Diverge in the Woods

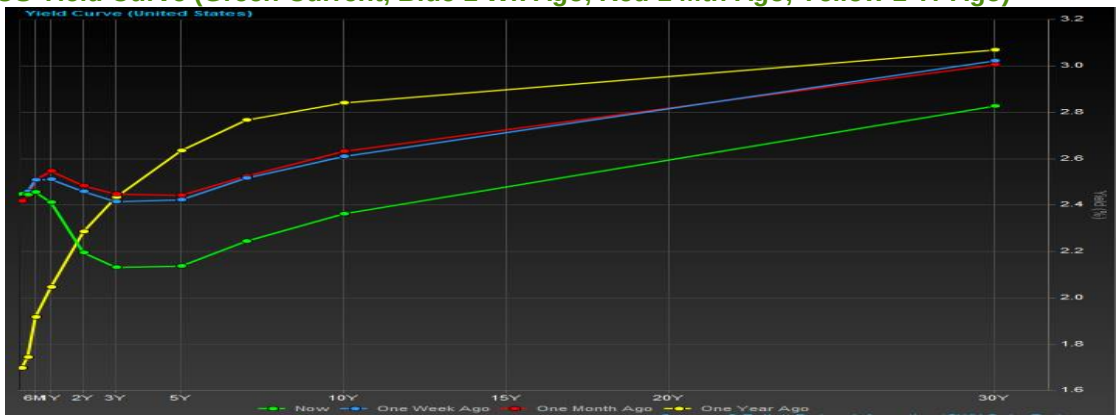
Despite equity markets ripping higher, global bond yields have fallen aggressively across the curve. The Canadian and US 10-year yield have slipped 66 bps and 46 bps, respectively, from a year earlier. The steep drop in yields has pushed the yield curve to invert across multiple maturities. However, the Chicago Fed's National Financial Conditions indicates that credit conditions have eased year-to-date (YTD), precisely what one would have anticipated.

Yield Curve Inversion

Canadian Yield Curve (Green Current, Blue 1 Wk Ago, Red 1 Mth Ago, Yellow 1 Yr Ago)



US Yield Curve (Green Current, Blue 1 Wk Ago, Red 1 Mth Ago, Yellow 1 Yr Ago)

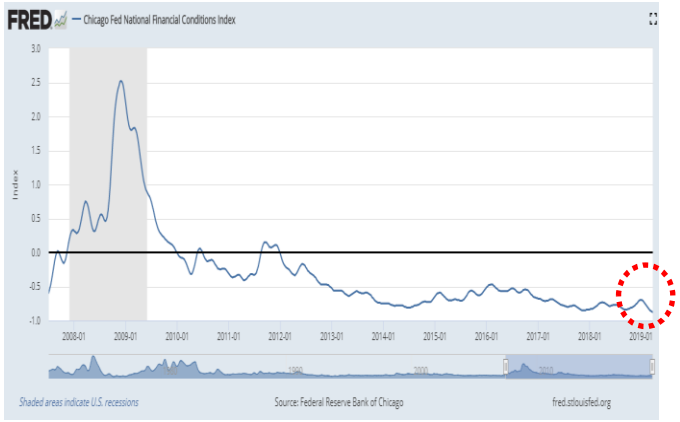


Source: Factset, Raymond James Ltd.

US Yield Curve Stats

- On the last 7 occasions that the US yield curve inverted (excluding a 2 week inversion in 1998), the US economy went into recession every single time within 15 months (on average after 11 months).
- The yield curve tends to remain negative on average for 11 months and a minimum of 5 months.
- Equities peak usually 6 months after a yield curve inversion.
- Over the 3 months after inversion the S&P 500 rose 3% on average and was up 75% of the time. After 18 months the S&P was down on average 8% and up only 38% of the time.

US Financial Condition Loosened

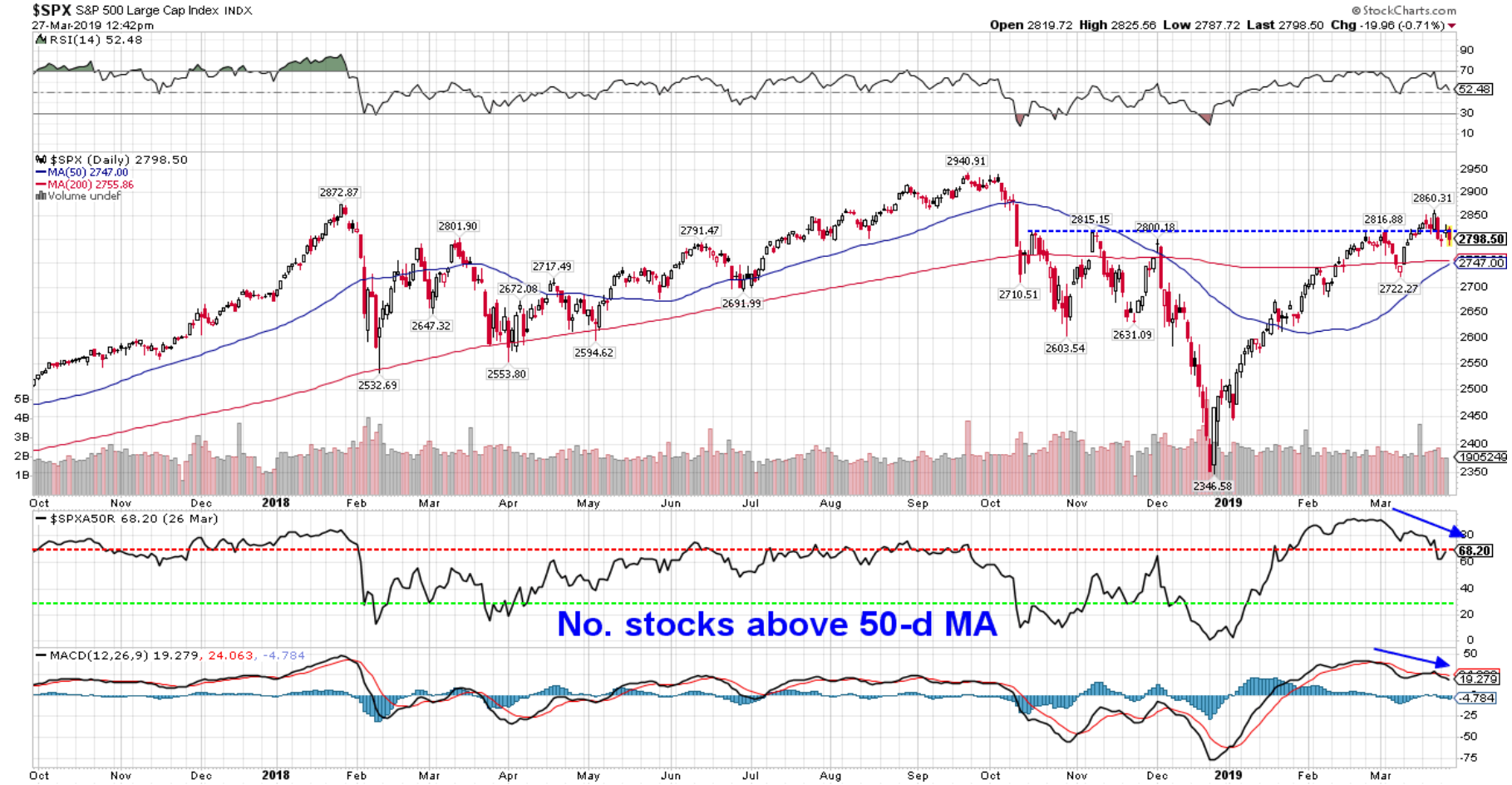


Source: Federal Reserve Bank of Chicago

S&P 500: A Pause in the Cards

As with the S&P/TSX, the S&P 500 appears to be losing momentum and we look to earnings season for direction. As of last Friday, S&P 500 Q1 earnings are set to decline 3.7%, which if this occurs, it would mark the first year-over-year decline in earnings since Q2/16. The forward PE multiple for the S&P 500 sits at 16.6x, in line with its 5 year average and a premium to its 10 year average of 14.7x.

S&P 500 Losing Steam



Source: Stockcharts.com, Raymond James Ltd.

What about the Breadth?

The S&P 500 market breadth (cumulative advance/decline line) has been nothing short of impressive, achieving a record high. The broad-based rally in US stocks is a very positive technical signal and suggests any near-term corrective impulse should be limited.

S&P 500 Recovers With Strong Breadth Thrust



Source: Stockcharts.com, Raymond James Ltd.

Maple Leaf or Stars and Stripes

Canada has been outperforming the US since December, however, that trend has stalled in the new year. With the ratio now hovering about the 200-day moving average and the 50-day set to cross the 200-day, the prospects for the S&P/TSX relative to the S&P 500 are looking positive. However, with recession fears more acute within the Canadian market, the S&P/TSX could see a quick reversal in fortunes.

S&P/TSX vs S&P 500: Will 2019 Mirror 2016?



Source: Stockcharts.com, Raymond James Ltd.

Cyclical Sectors Working In Canada

Within the Canadian cyclical sectors, information technology continues to lead the pack although momentum is beginning to wane. Cyclical leadership appears set to transition to materials with the 50-day moving average crossing above the 200-day. The material sector's relative strength began in September 2018, which coincides with bullion prices finding a bottom in the same month.

Information Technology A Leader, But Momentum Waning…



… Materials Recovery Continues

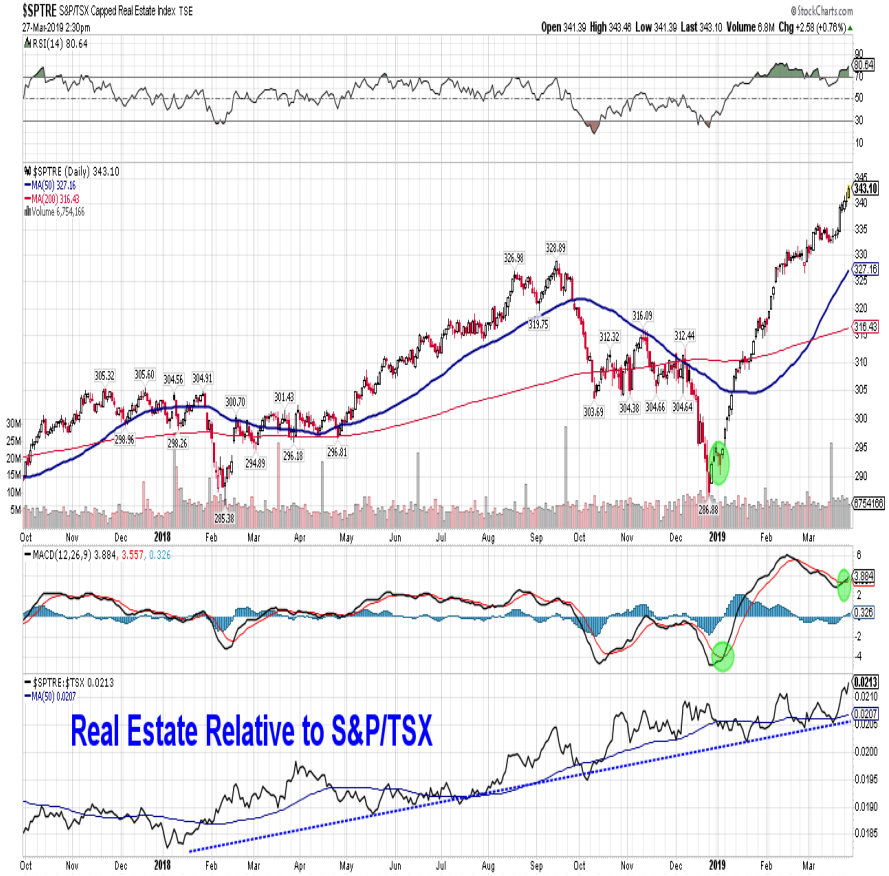


Source: Stockcharts.com, Raymond James Ltd.

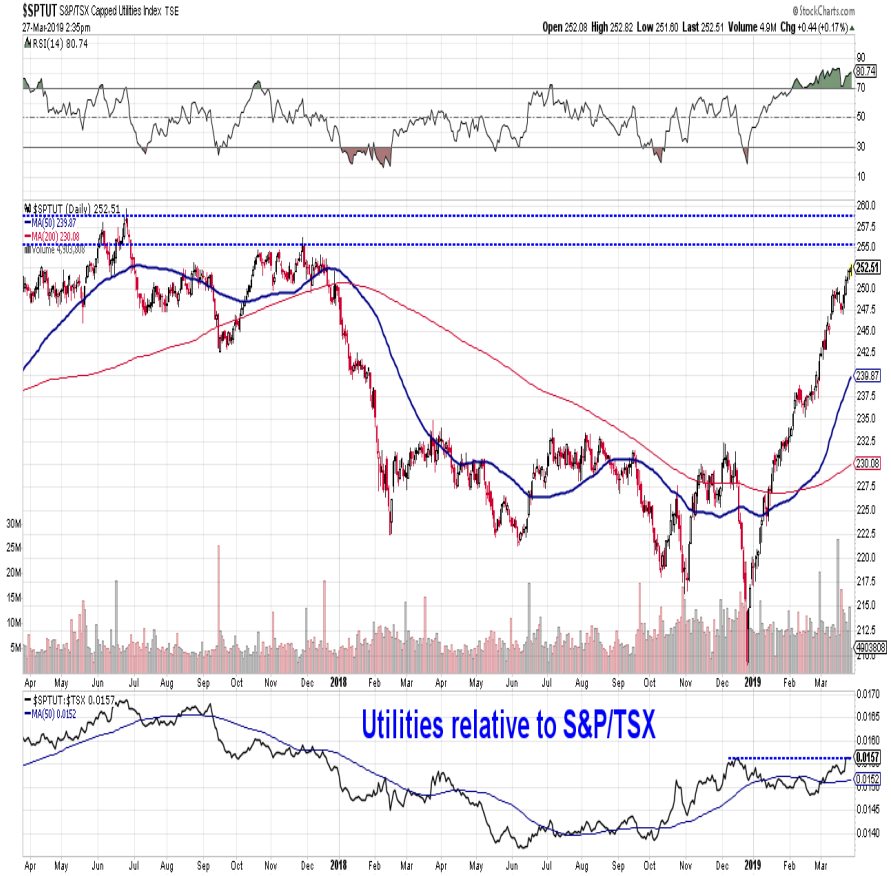
Defensive Sectors Working in Canada

Within the Canadian defensive sectors, real estate continues to be the go-to sector particularly with long-term yields slumping. The sector recorded a new 52-week high both on an absolute and relative basis. Utilities are also basking in the glow of the Canada government 10-year yield fell to 1.53%, but has a couple more hurdles to clear to take out the 2017 peaks.

Real Estate, Real Estate, Real Estate…



…Utilities Rip While Bond Yields Dip

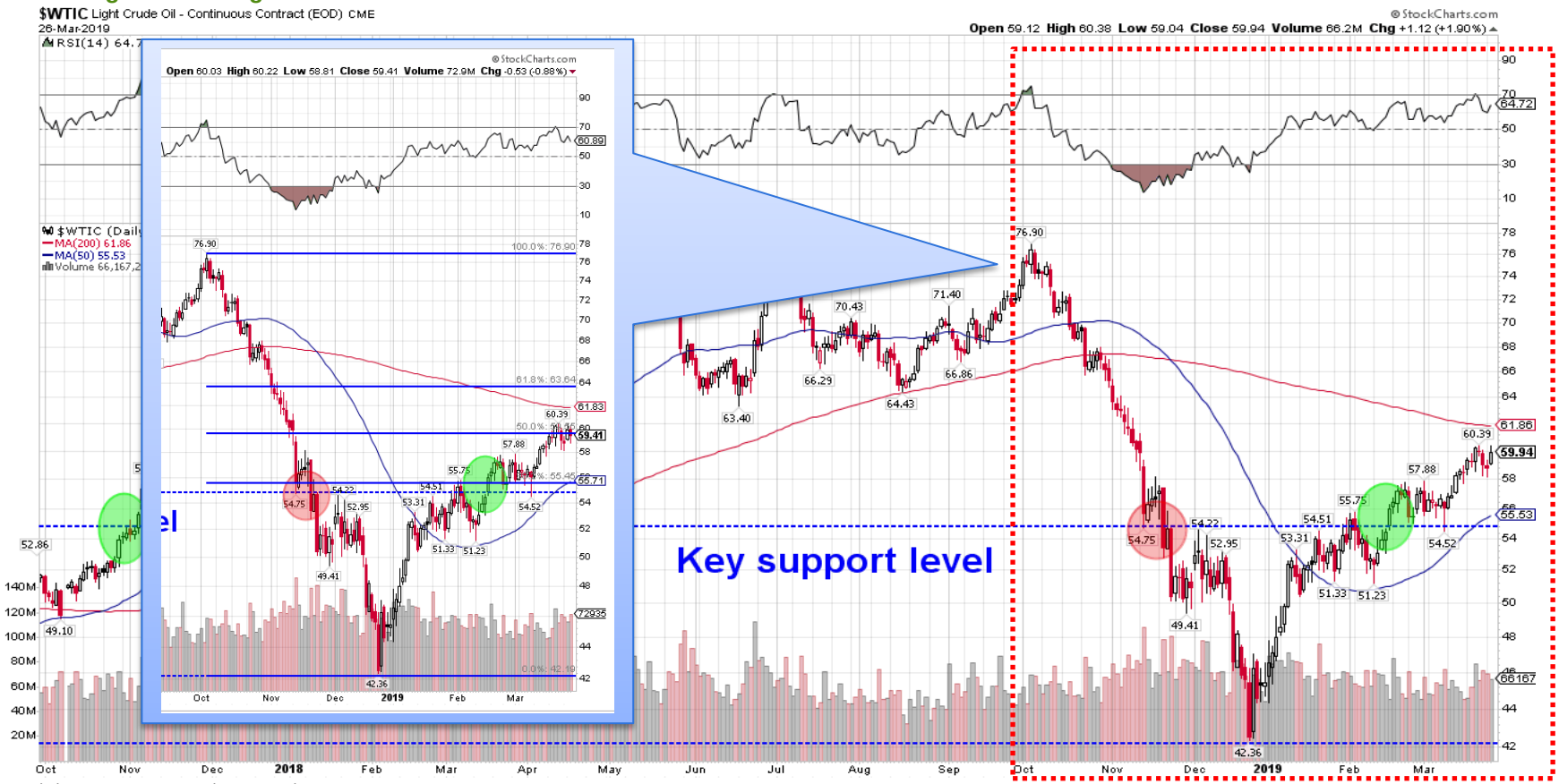


Source: Stockcharts.com, Raymond James Ltd.

Oil Bounce Back Continues

Oil prices took out key resistance at $54/bbl amid Saudi Arabia's desire to push oil prices higher, as the country's new budget assumes an average price of US$80/bbl in order to meet the country's revenue projections. We anticipate WTI to move towards US$63.50/bbl, the 61.8% retracement level; however, the ultimate direction will depend on how the global economic outlook evolves in the couple next quarters.

WTI Continuing to Grind Higher



Source: Stockcharts.com, Raymond James Ltd.

Loonie Looking More Like a Lame Duck

The Loonie has bumped up against the downward channel resistance and continues to trade below its 200-day moving average. With the US-Canada interest rate differential widening and weakening domestic data, the bias remains to the downside. Our FX desk is looking for a lower bound target of $0.735 in H1/19 and $0.725 in H2/19.

Loonie Losing Altitude

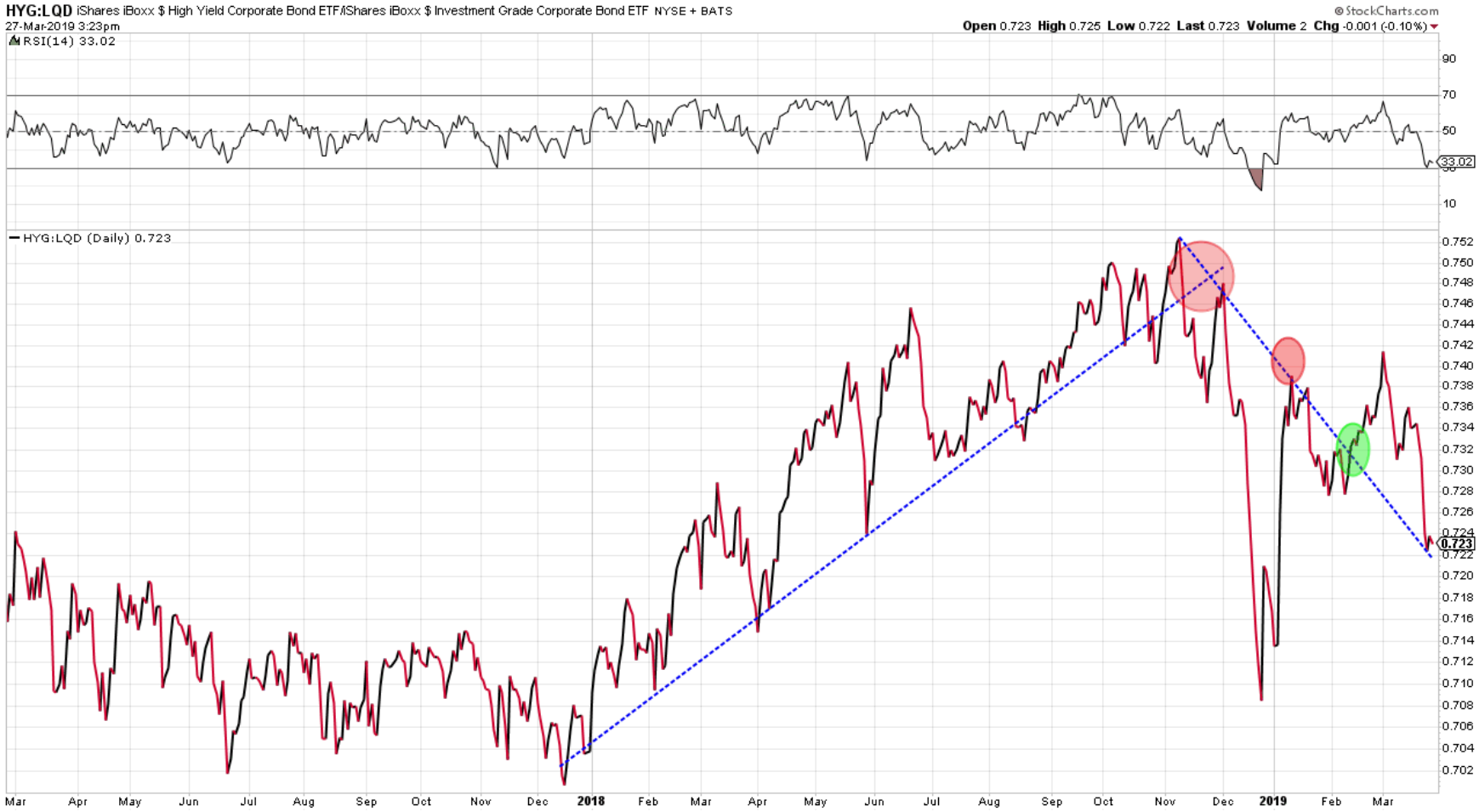


Source: Stockcharts.com, Raymond James Ltd.

Fixed Income: High Yield

High-yield bonds have been behaving very similar to equity prices up until the dramatic collapse in the long-end of the curve. Yields have been falling, credit spreads have widened and high-yield is now underperformed investment grade bonds.

US High Yield vs Corporate Bonds

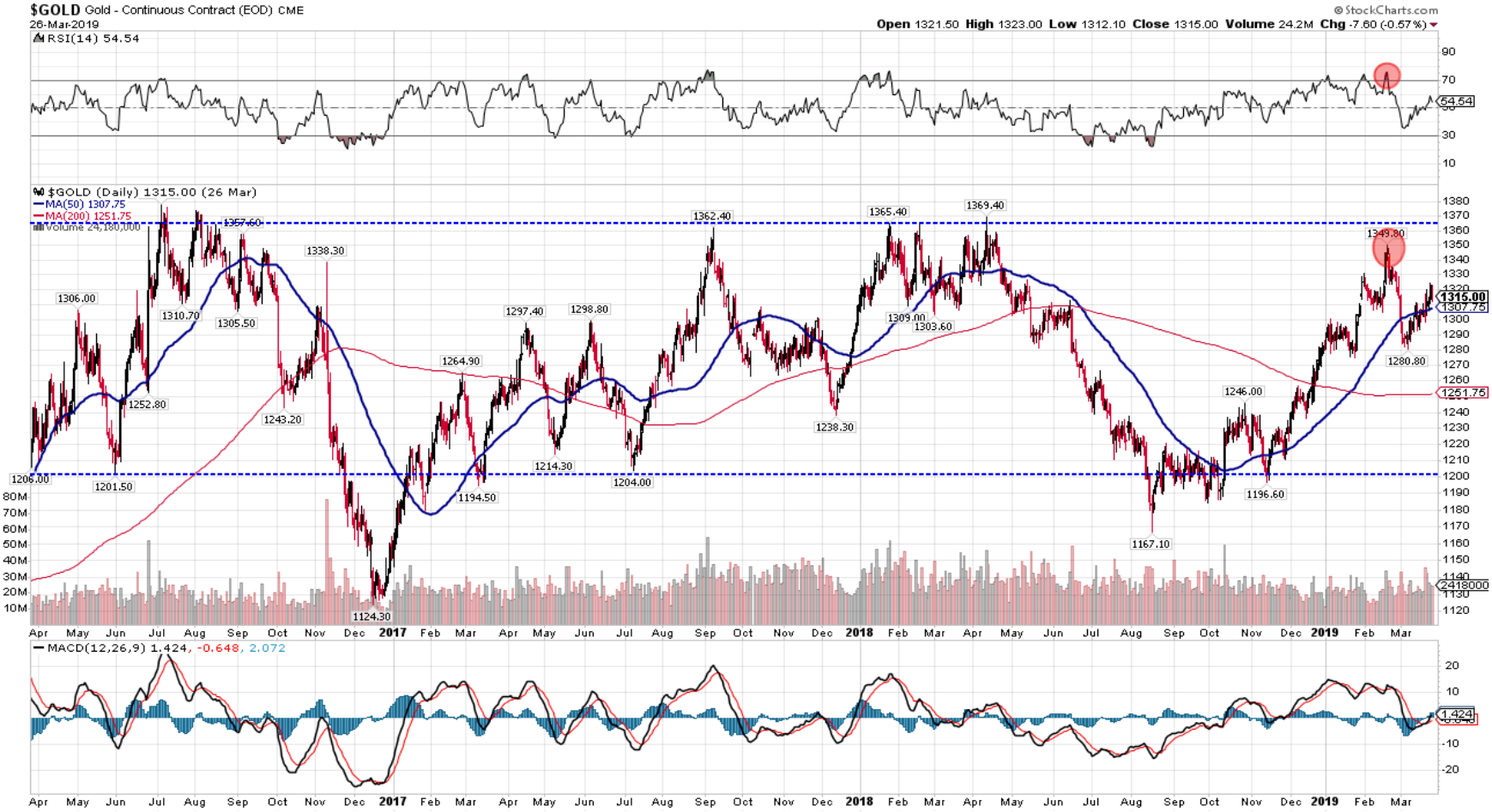


Source: Stockcharts.com, Raymond James Ltd.

Gold Moving on Up

Bullion prices have staged a recovery in March following a steep sell-off from overbought conditions in April. The dovish shift taken by central banks and relatively stable inflation expectations should be supportive of further gains in the near-term. We look for gold to attempt to break above the $1,360/oz over the next quarter.

Bullion Poised to Move Higher

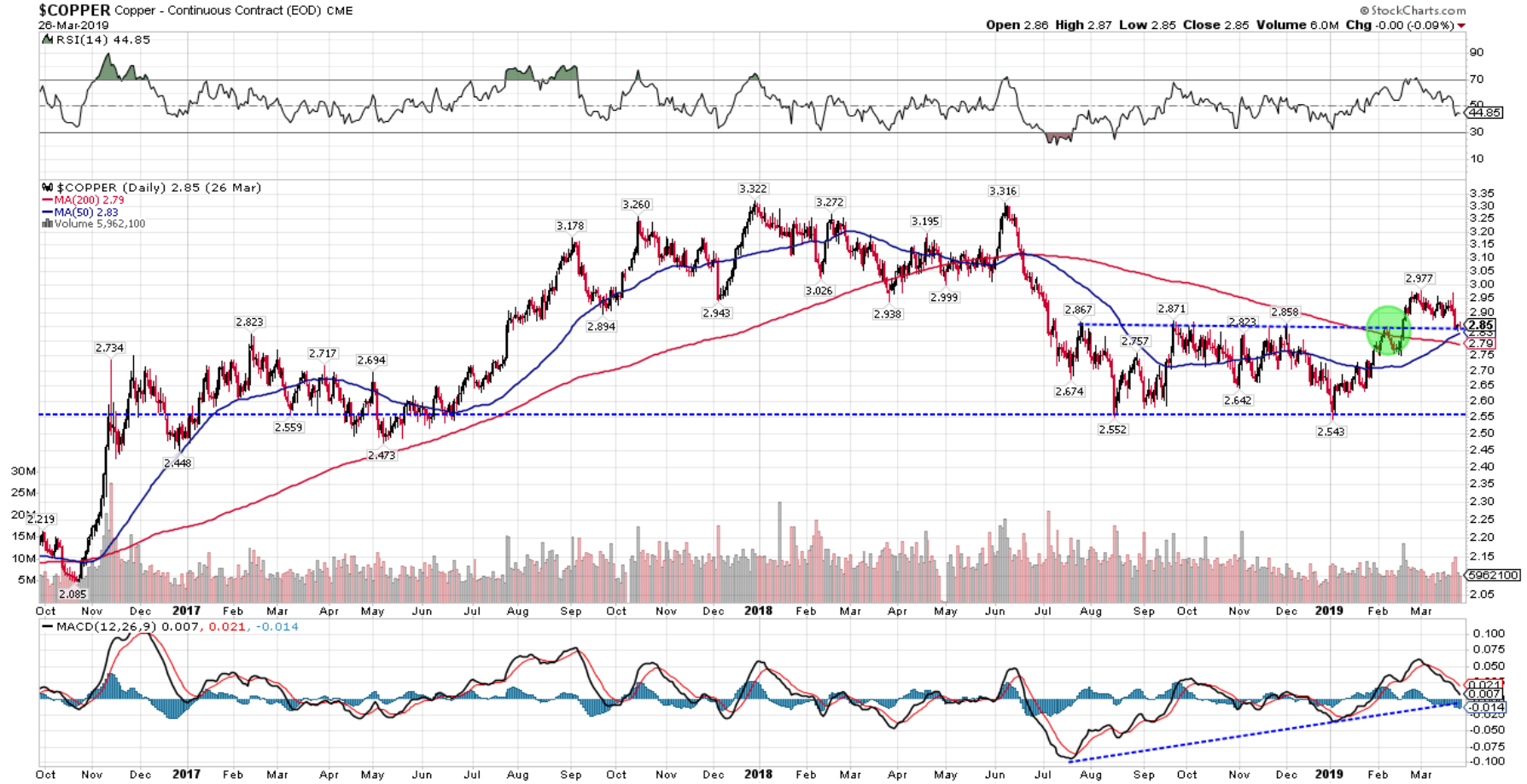


Source: Stockcharts.com, Raymond James Ltd.

Copper Holding the Line

Dr. Copper took out overhead resistance thanks to central bank's dovish pivot and the reflationary trade. However, the basic material is now retesting the prior resistance level.

Copper Attempting to Hold the Line



Source: Stockcharts.com, Raymond James Ltd.

Dollar Index Hanging in Here

The US dollar index has held up remarkably well considering the market went from pricing in at least two Fed rate hikes in 2019 to now pricing in no hikes. In a world where over $10 trillion in bonds trade with sub-zero yields, the allure of safe-haven dollars and positive US government bond yields is too hard to resist.

US Dollar Index: Trade Higher YTD



Source: Stockcharts.com, Raymond James Ltd.

Around the World in 30 Seconds: Year of the Pig Brings Better Fortunes

China A-shares paused after a very strong start to the year, working off overbought conditions. The market is now consolidating in a flag pattern with a potential measured move to 3,300, or approximately 10% upside for current levels.

The Year of the Pig Bring Good Fortunes for the Shanghai Exchange

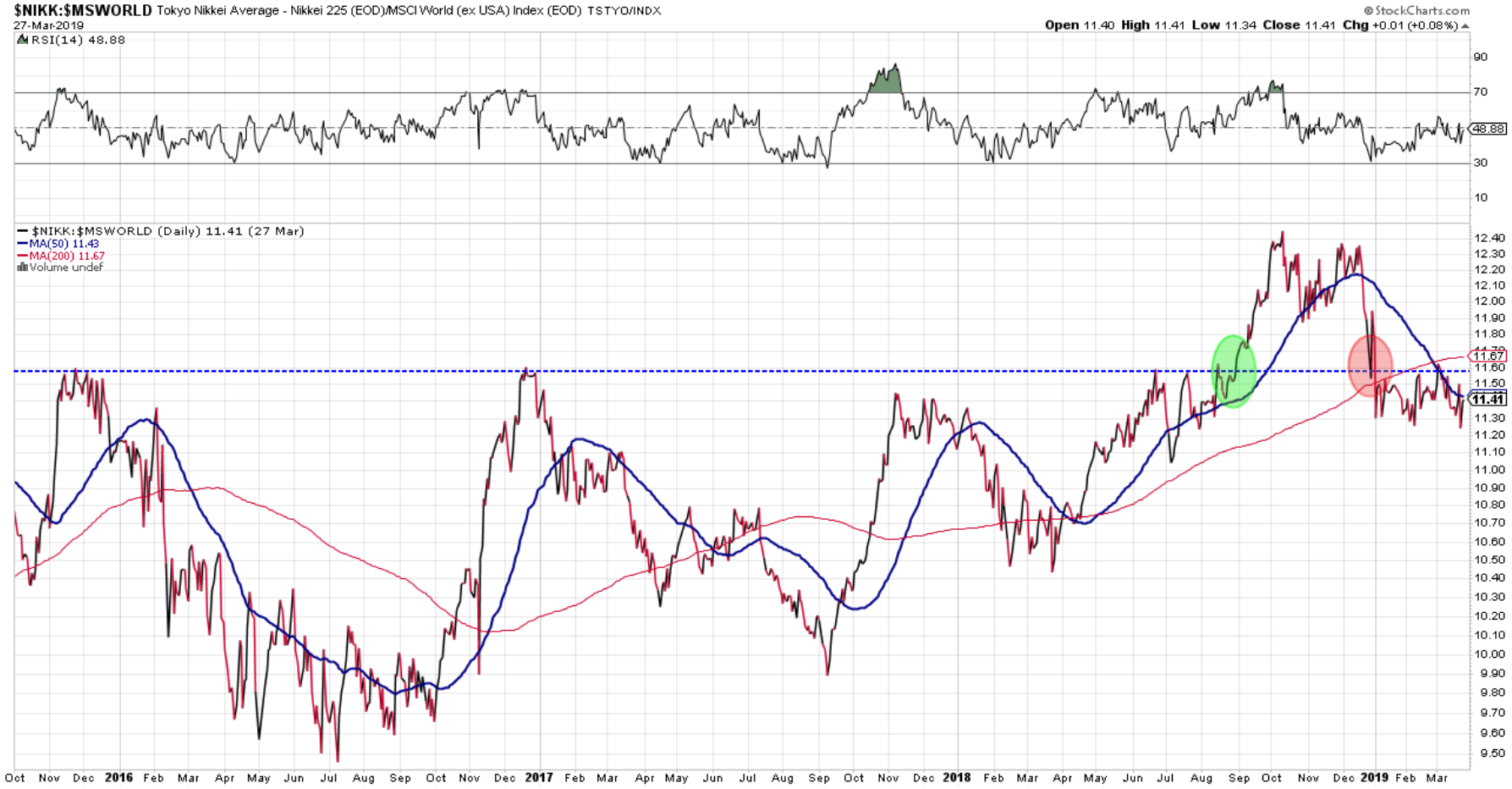


Source: Stockcharts.com, Raymond James Ltd.

Around the World in 30 Seconds - Japan

The Nikkei relative to the MSCI World index has struggled YTD. However, we view the Japanese market as an indirect way to gain exposure to China and emerging markets as it has one of the highest export exposures to China along with moderate exposure to emerging markets in comparison to the euro area.

Japanese: Nikkei Struggling YTD

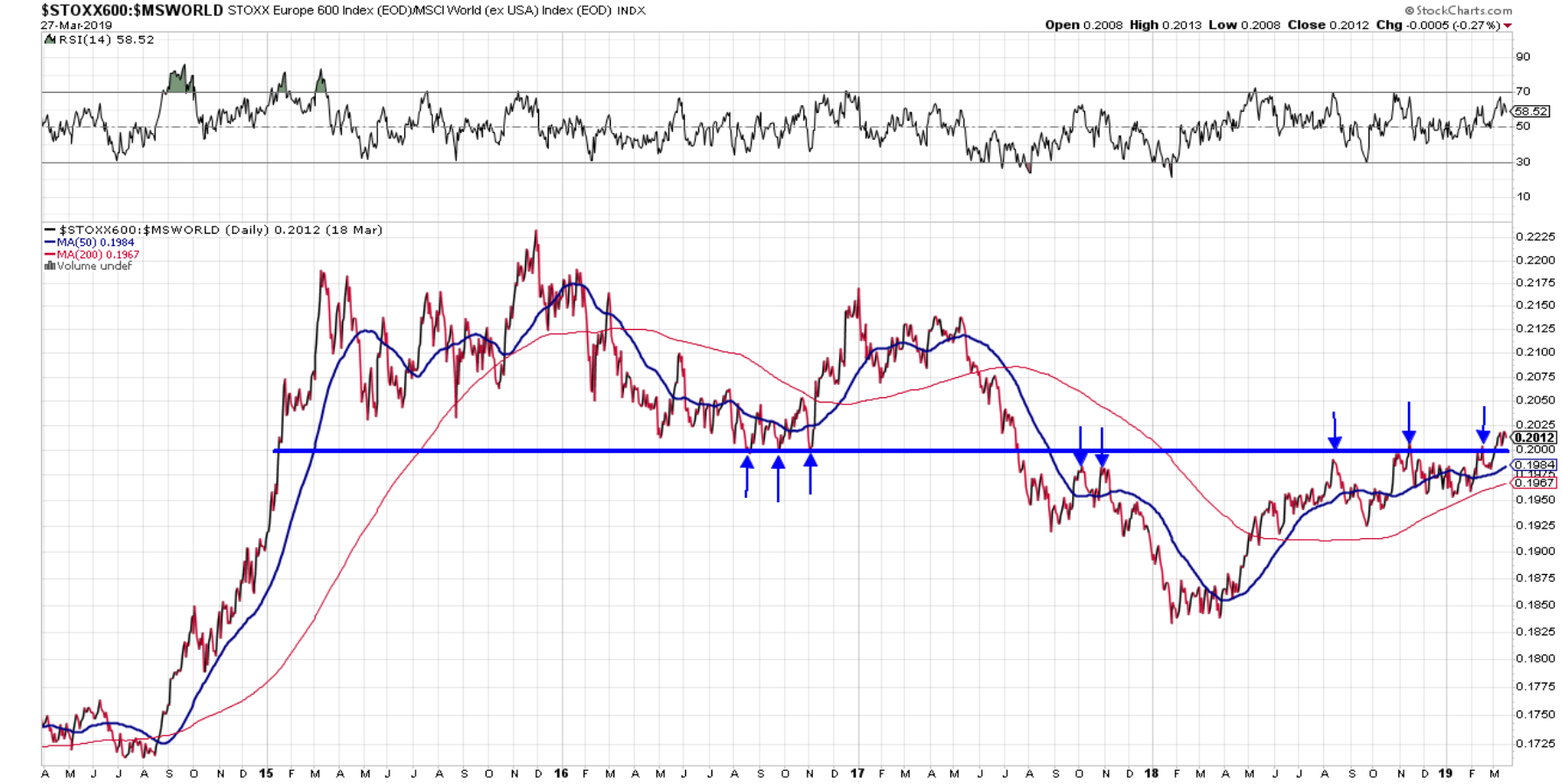


Source: Stockcharts.com, Raymond James Ltd.

Around the World in 30 Seconds - Europe

European equities overtook overhead resistance relative to the MSCI World Index this month. The ECB's dovish shift seemed to do the trick, as the central bank responded to a slowdown in Eurozone growth. However, with Italy in a recession and the rest of the Eurozone experiencing an abrupt downturn in global trade, the ECB will be under pressure to offer additional monetary stimulus.

Europe Relative to the World: Monetary Stimulus Does the Job!

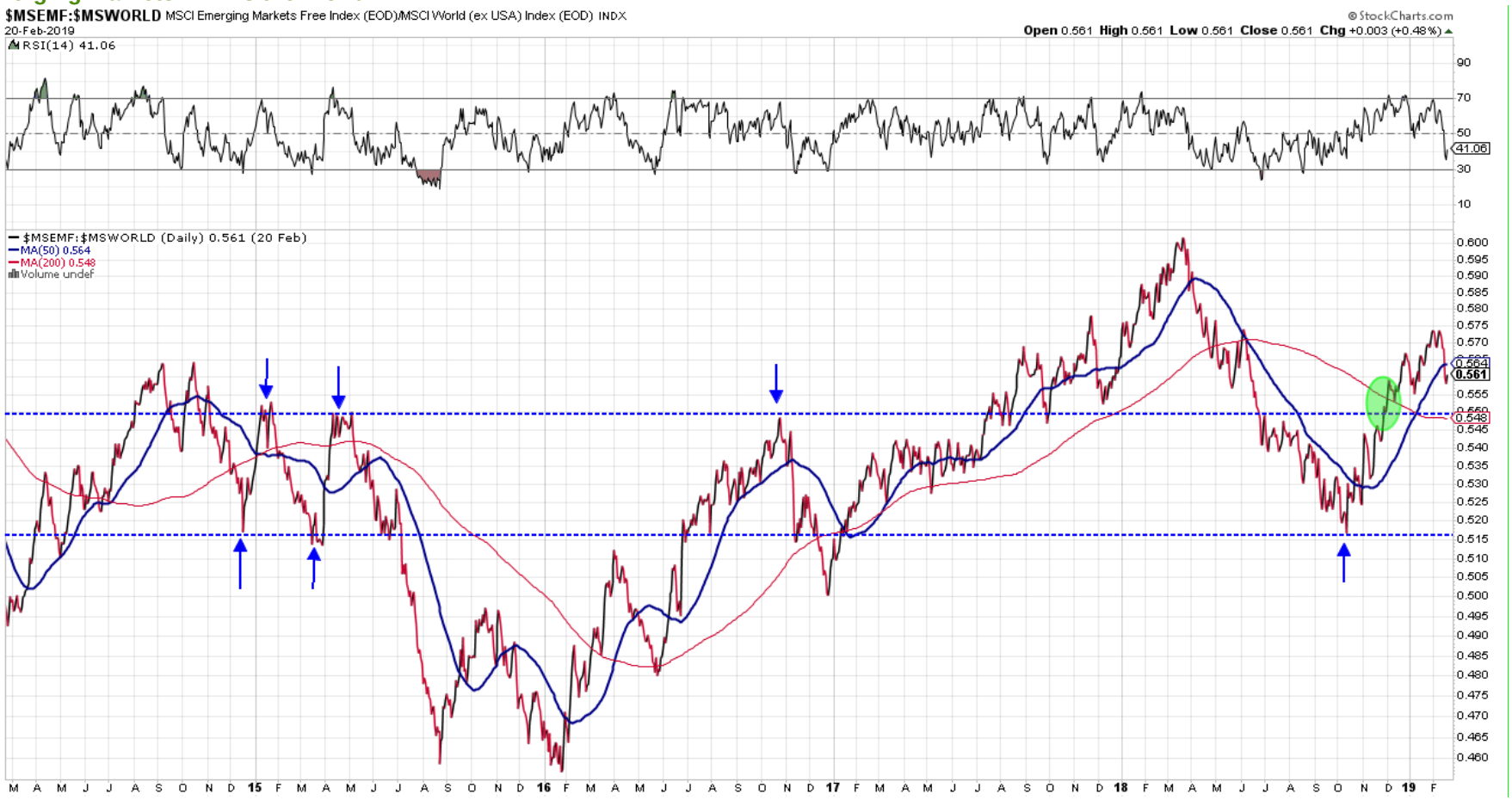


Source: Stockcharts.com, Raymond James Ltd.

Around the World in 30 Seconds – Emerging Markets

Emerging markets (EMs) relative to the MSCI World Index have behaved more constructively since October. However, given the troubles facing Turkey, which is on the verge of financial collapse, the contagion effect will weigh on other EMs in the near-term.

Emerging Markets: EM vs the World



Source: Stockcharts.com, Raymond James Ltd.

Weekly Trends

Jason Castelli, CFA

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