Weekly Trends

PRIVATE CLIENT SOLUTIONS

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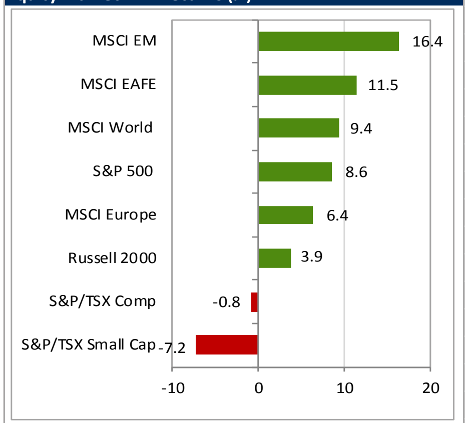
Charts of Interest

Besides the continuing political drama playing out in Washington DC, the main event this week was the Federal Reserve's FOMC 2-day meeting that concluded on Wednesday. The FOMC voted 9-1 in favor of a 25bp Fed funds hike. There were no real surprises in the dot plot, which is the Fed's future projection for the Fed funds rate. The 2017 and 2018 median dots were left unchanged at 1.375% and 2.125%, respectively, implying one further hike this year. We suppose the one surprise was the Fed's rather upbeat tone given the spotty economic data over the last few weeks. Given where long-term treasury yields stand, the bond market does not appear to be buying into the Fed's assessment of the economy (more on this within). The Fed also laid out plans for shrinking its balance sheet, which will begin sometime "this year". The initial amount will be set at US$10 bln per month (US$6 bln in treasuries and US$4 bln in MBS) and increased by US$10 bln every three months until it maxes out at US$50 bln per month in total sales. For context, the Fed's QE3 program purchased US$85 bln per month and the Fed's balance sheet currently stands at more than US$4 tln in assets.

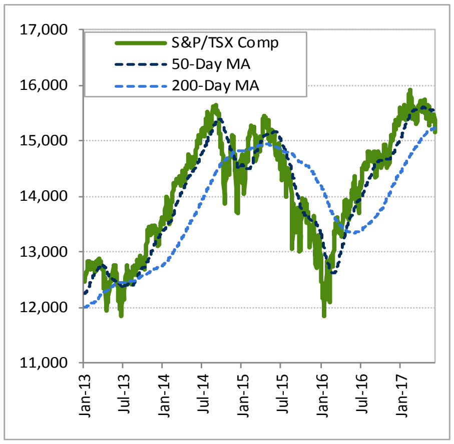
On the Canadian economic front, the Bank of Canada's Senior Deputy Governor Carolyn Wilkins propelled the Canadian dollar almost two cents higher versus the US dollar this week, on comments that there were encouraging signs economic growth is broadening across regions and sectors. Last week's employment numbers were also encouraging, but the key hurdles for the BoC from raising rates continues to be weak exports, core inflation that has stubbornly run below target and now the potential negative effects of a slowing Canadian housing market. Regardless of these headwinds, a survey of 17 economists found the majority now expect the BoC to lift the overnight rate later this year rather than in early 2017, according to Bloomberg. Next week, we'll see Canadian retail sales and CPI, which will either support the more hawkish narrative or have economists back peddling.

Equity Market YTD Returns (%)



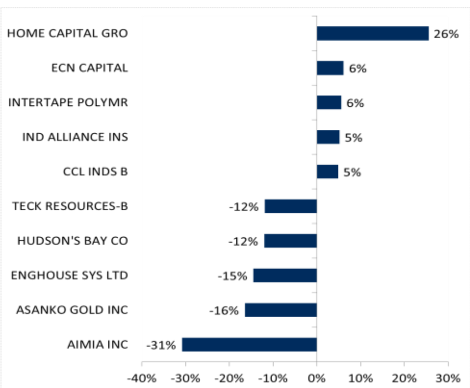
Canadian Sectors	Weight	Recommendation
Consumer Discretionary	5.4	Market weight
Consumer Staples	4.0	Market weight
Energy	20.1	Overweight
Financials	34.4	Overweight
Health Care	0.6	Underweight
Industrials	9.7	Overweight
Technology	2.9	Market weight
Materials	11.6	Market weight
Communications	5.0	Underweight
Utilities	3.3	Market weight
Real Estate	3.0	Market weight

Technical Considerations	Level	Target
S&P/TSX Composite	15,160	16,500



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	113	45%
Weekly Decline	132	53%
Advance-Decline	-19	
New 52 wk high	1	0%
New 52 wk low	24	10%
No. Stocks Above 50-d	76	30%
No. Stocks Above 200-d	119	47%
Arms Weekly Index	0.83	Neutral
RSI (14-day)	35.3	Neutral
50-DMA	15,516	Downtrend
200-DMA	15,242	Downtrend

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

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A Few Charts of Interest

The US dollar index peaked at the beginning of 2017 and has been in a steady downdraft ever since. This action is counterintuitive given the Fed has raised rates two times this year. The flip side of a weaker USD is that it's a positive for exporters and US multinationals. The S&P 500 generates 45% of revenue overseas so as the dollar weakens, US goods are more competitive in foreign markets.

US Dollar Index – Lower Lows and Lower Highs

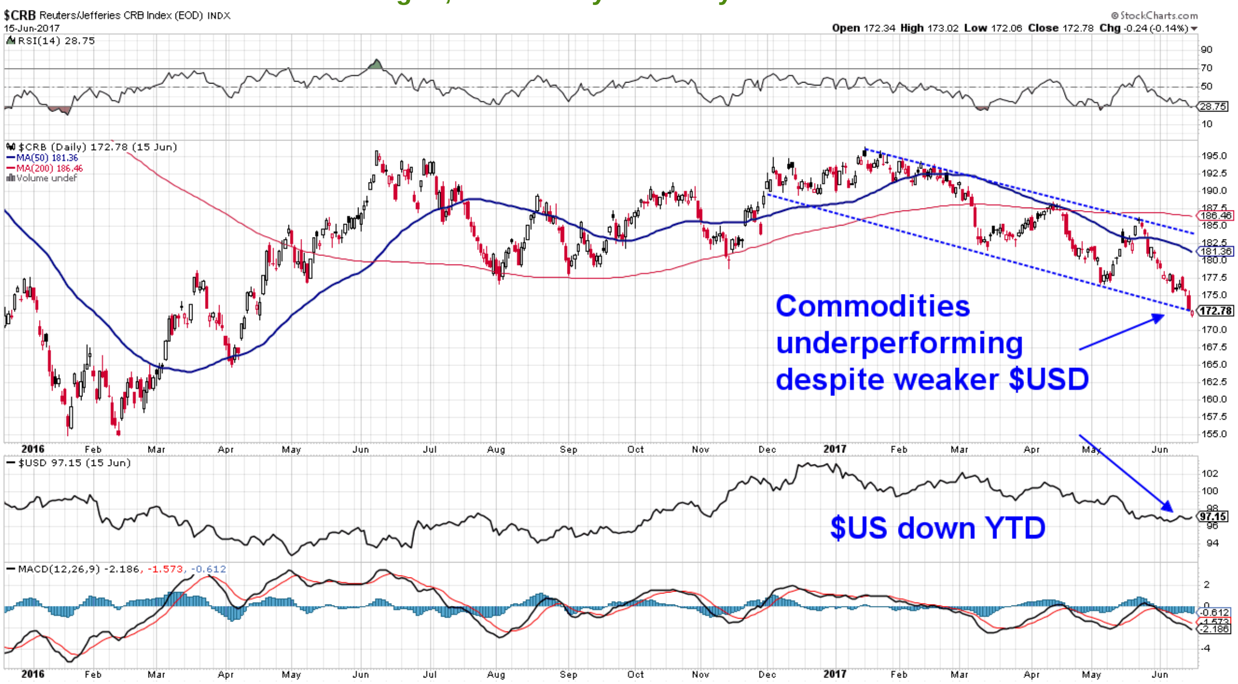
Source: Stockcharts.com, Raymond James Ltd.

Oddly, commodities have struggled despite the weaker US dollar. Historically, a weak US dollar has been good for commodities as they typically exhibit a negative correlation. However, year to date the Thomson Reuters Commodities Index (CRY-US) which tracks a basket of 19 commodities (39% allocated to energy, 41% to agriculture, 7% to precious metals and 13% to industrial metals) has been positively correlated to the US dollar. Energy has been the obvious drag on CRY and this week's American Petroleum Institute (API) and Department of Energy (DOE) inventory data put further downward pressure on oil. Both reports showed crude inventories missed the mark, but perhaps the more surprising figure given we're on the cusp of US summer driving season was the gasoline inventory numbers. This is the second week in a row of bearish inventory reports and is yet another headwind for the sector. WTI touched a year to date low this week at US$44.22/bbl.

Organization	Actual	Estimated
API (released Wednesday)		
Crude	+2.75 mln	-2.45 mln
Gasoline	+1.79 mln	-1.15 mln
DOE (released Thursday)		
Crude	-1.66 mln	-2.45 mln
Gasoline	+2.10 mln	-1.15 mln

Source: DOE, API, Raymond James Ltd.

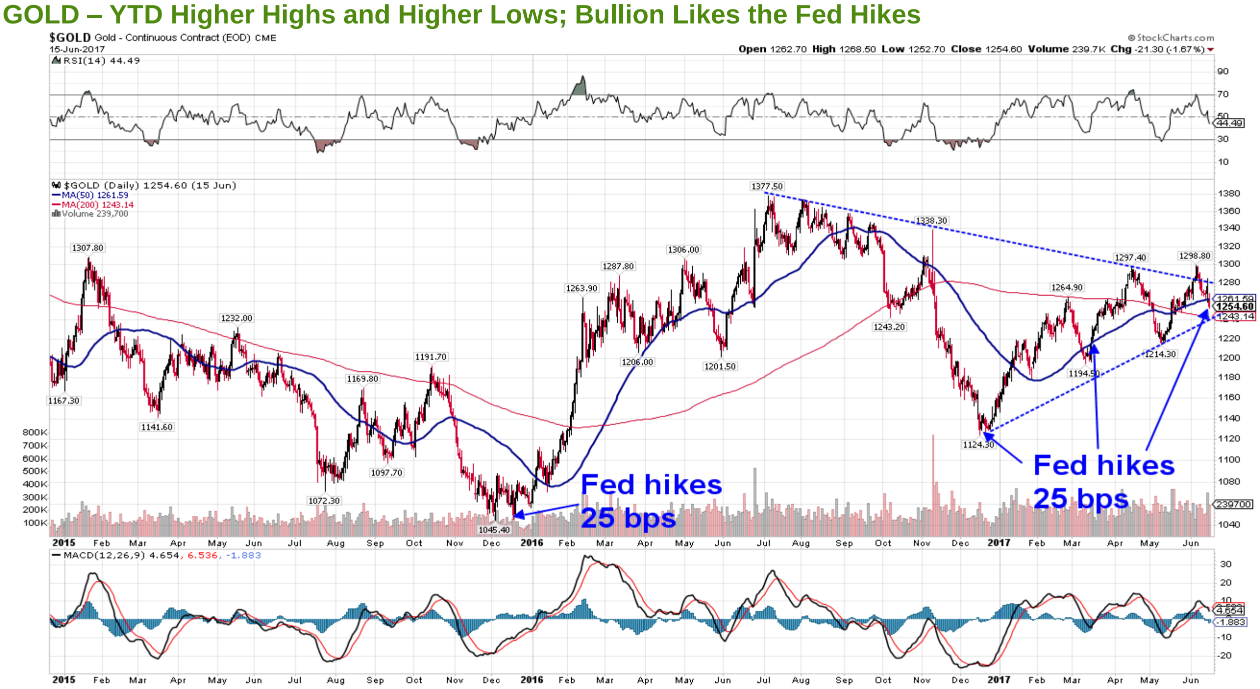
CRY – Lower Lows and Lower Highs; Commodity-Currency Correlation Breaks Down



Source: Stockcharts.com, Raymond James Ltd.

Gold, however, has responded to the weaker US dollar and safe-haven trade given the geopolitical tensions. However, it is interesting to note the strength exhibited by bullion prices is atypical given that the metal has historically underperformed when the Fed is raising rates.

GOLD – YTD Higher Highs and Higher Lows; Bullion Likes the Fed Hikes



Source: Stockcharts.com, Raymond James Ltd.

A series of weaker-than-expected US economic prints scattered across the first half of this year (in particular three consecutive CPI prints below expectations) has helped support government bond prices, sending the US 10-year yield to a recent low of 2.10%. A break below this level could potentially open up a rather significant move, but for this to occur we'd believe economic data would need to continue to deteriorate. At the moment, the 10-year yield has found trend line support that was established in July 2016.

US Government 10-Yr Yield – Bonds Not Buying into the Growth Story, But Finds Support @ 2.14%

Source: Stockcharts.com, Raymond James Ltd.

The yield curve has been flattening all year and has now given up all the steepening that occurred due to the prospects of Trump's pro-growth agenda. Post US-election, the 10-2 spread widened 131 bps by mid-December 2016, but has now contracted to 81 bps; a level similar to where we were in prior to the election. The bond market appears to be discounting the diminishing prospects of pro-growth legislation making its way through Congress and doesn't share the same positive outlook given by the Fed this week.

There has been a clear divergence between equities and fixed income markets. Bonds have reacted to the slowdown in US economic activity; however, equities remain resilient in part due to the strength in quarterly earnings. We believe Q2 reporting season will be closely watched for evidence of the weaker economic data seeping its way into corporate results.

US Yield Curve – Curve Flattens Giving up the Trump Pump

Source: Stockcharts.com, Raymond James Ltd.

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