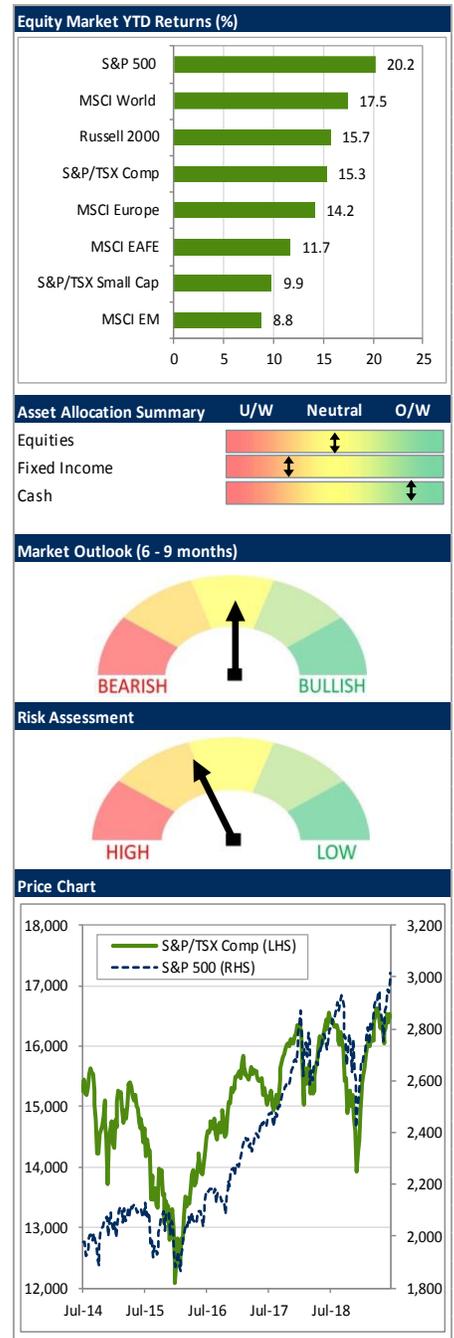


Q3/19 Outlook

- The global economy has clearly entered a slowdown, to which policy makers have responded by easing monetary conditions (more on this later). The level of global PMIs slipped below 50 last quarter with the breadth of the slowdown widespread. A reading below 50 indicates a contraction in manufacturing activity and, while the US PMI remained above 50, it is not an island upon itself. Over the past 6 months, economic activity has clearly slowed. While we believe the source of the slowdown is rooted in central banks tightening monetary conditions over the past few years, uncertainty surrounding global trade has also contributed to the deceleration and lack of business investment. On the positive side, there are indications the current slowdown will be modest and temporary. First, financial conditions remain loose, allowing continued access to credit for corporations and consumers. One of the factors that can curb an expansion is the drying up of credit, which we are not currently seeing. Second, employment conditions remain robust as the US economy added an average of 172,000 non-farm jobs over the past 6 months. Wage growth has also moderated to 3.1% yoy from a 3.4% peak this year, but nonetheless pointing to a relatively healthy labour market.
- Equity and bond markets appear to be at odds; the S&P 500 recently broke 3,000, a new all-time high, while developed world rates race to the bottom. Stocks are signalling growth is on the cusp of recovery while bonds are flashing recession signals. Historically, bonds have led equities, but perhaps the two markets are focused on different things. Equities may be focused on the positives from easier monetary conditions. Bonds on the other hand may be focused on the outlook for inflation and central bank balance sheets. Despite a tight labour market, wage inflation and overall inflation have been well-contained. Further, inflation expectations by many measures remain well-anchored. In an environment characterized by low inflation and central bank bond buying programs, one could argue that the natural level for bond yields is lower.
- The Canadian economy has been on a bit of a hot streak of late. GDP is on track to grow by 2.8% annualized in the second quarter, more than double the BoC's April forecast of 1.3%. The Canadian housing market, which has been an area of concern for the BoC, is showing signs of stabilizing buoyed by strong new home sales in Toronto. A drop in mortgage rates has also encouraged a modest pickup in lending growth. In May, consumer prices data hit an annual rate of 2.4% and the core measure achieved its highest level since 2012.



Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 7

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Q2/19 Asset Returns (in CAD) Total Return

Canadian Corporate Bonds	+2.7%
Canadian Equities (S&P/TSX)	+2.6%
Canadian Government Bonds	+2.5%
US Equities (S&P 500)	+2.2%
Canadian Dollar vs \$USD	+1.9%
International Equities (EAFE)	+1.8%

Source: Bloomberg; Returns as of June 28, 2019

The global economy has clearly entered a slowdown, to which policy makers have responded by easing monetary conditions (more on this later). The level of global PMIs slipped below 50 last quarter with the breadth of the slowdown widespread. A reading below 50 indicates a contraction in manufacturing activity and, while the US PMI remained above 50, is not an island upon itself. Over the past 6 months, economic activity has clearly slowed. While we believe the source of the slowdown is rooted in central banks tightening monetary conditions over the past few years, uncertainty surrounding global trade has also contributed to the deceleration and lack of business investment. On the positive side, there are indications the current slowdown will be modest and temporary. First, financial conditions remain loose, allowing continued access to credit for corporations and consumers. One of the factors that can curb an expansion is the drying up of credit, which we are not currently seeing. Second, employment conditions remain robust as the US economy added an average of 172,000 non-farm jobs over the past 6 months. Wage growth has also moderated to 3.1% yoy from a 3.4% peak this year, but nonetheless pointing to a relatively healthy labour market.

Global PMIs Bottoming Process in the Works?

Global PMIs	Current	1 Month Ago	3 Months Ago	6 Months Ago	1 Year Ago
	Global	49.4	49.8	50.5	51.4
U.S.	51.7	52.1	55.3	54.3	60.0
Canada	49.2	49.1	50.5	53.6	57.1
Japan	49.3	49.8	49.2	52.6	53.0
U.K.	48.0	49.4	55.1	54.3	54.0
Euro zone	47.6	47.7	47.5	51.4	54.9
Germany	45.0	44.3	44.1	51.5	55.9
France	51.9	50.6	49.7	49.7	52.5
Italy	48.4	49.7	47.4	49.2	53.3
Brazil	51.0	50.2	52.8	52.6	49.8
China	49.4	50.2	50.8	49.7	51.0

Source: Bloomberg, Raymond James Ltd.

The Power of the Pivot

Bull markets 'climb on a wall of worry', but with the Federal Reserve's reversal from a tightening to easing cycle, global equities have been a primary beneficiary. To put this year's rally in context, it is helpful to review the events leading up to this year's double-digit performance:

- On October 3, 2018, the Fed chairman spooked the market by saying the fed funds rate was "a long way" from the neutral interest rate (see point 1).
- On December 19 (pt 2), by saying the balance sheet run-off was on autopilot and "I don't see us changing that." the Fed misread the market's appetite for continued tightening, particularly in an environment where growth was decelerating. This sent the S&P 500 down 20% from its 2018 peak in just a matter of weeks.
- On January 4 (pt 3), the Fed said "we wouldn't hesitate to change it [fed funds rate] and that would include the balance sheet".
- On June 6 (pt 4), the market began pricing in three rate cuts amid an escalation in trade tensions and soft global economic data.
- On July 10 (pt 5), Chair Powell cemented the odds of a July "insurance rate cut" during his two-day semi-annual testimony on monetary policy.

The market has now fully priced in a July rate cut and continues to believe the Fed will cut rates further this year – fed futures forecast about 70 bps of easing this year.

S&P 500 and the Fed Pivot

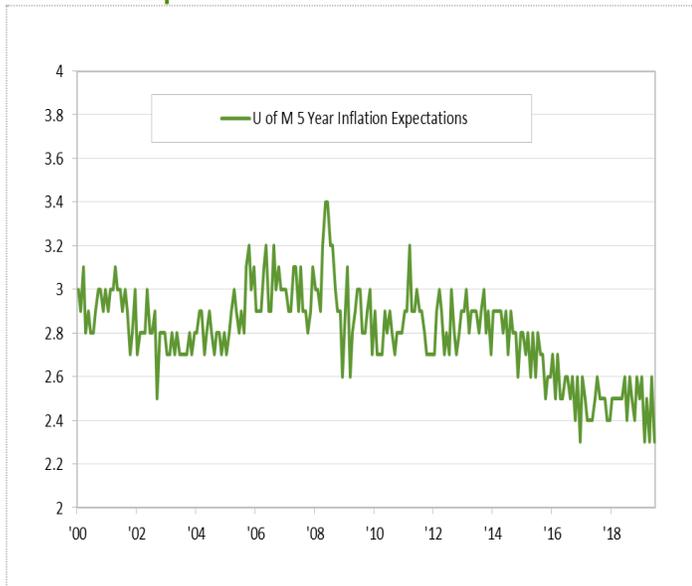


Source: Bloomberg, Raymond James Ltd.

Diverging Paths

Equity and bond markets appear to be at odds; the S&P 500 recently broke 3,000, a new all-time high, while developed world rates race to the bottom. Stocks are signalling growth is on the cusp of recovery while bonds are flashing recession signals. Historically, bonds have led equities, but perhaps the two markets are focused on different things. Equities may be focused on the positives from easier monetary conditions. Bonds on the other hand may be focused on the outlook for inflation and central bank balance sheets. Despite a tight labour market, wage inflation and overall inflation have been well-contained. Further, inflation expectations by many measures remain well-anchored. In an environment characterized by low inflation and central bank bond buying programs, one could argue that the natural level for bond yields is lower.

Inflation Expectations Well Anchored



Source: Bloomberg, Raymond James Ltd.

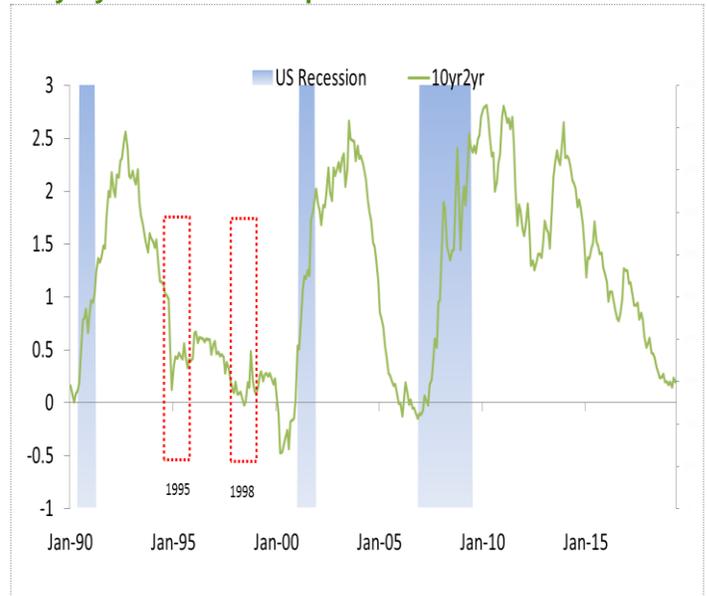
Typically, once the Fed starts easing, the fed funds rate drops by an average of 525 bps over 24 months as the Fed is typically responding to an economic slowdown. However, there are a couple of exceptions which may give us some insight into the current environment. As we don't believe the US has entered a recession (even though the risks have been rising) we can identify "mini" easing cycles that occurred in non-recessionary periods. We identify two such periods – 1995 and 1998.

Using these two periods as potential blue prints, we see some similarities between the current environment and 1995. The 1995 rate cut occurred following a visible weakening in hard economic data included declining non-farm payrolls, rising inventory to sales ratio, a slowing in housing activity as well as weaker soft data such as business sentiment.

The 1998 rate cut, in contrast, was driven by external shocks, primarily the Asian financial crisis. Another common element leading up to the rate cuts in both 1995 and 1998 was that the yield curve was flattening, but had yet to invert.

In both instances, once the Fed cut rates the yield curve steepened, which we have already begun to see as the market has priced in a 25 bps cut this July. That said, a fed rate cut in non-recessionary times has a less meaningful impact on the real economy, but a greater impact on sentiment. As the yield curve re-steepens, equity investors can become less concerned about an impending recession, resulting in an improvement in overall risk sentiment.

10yr2yr Curve Re-steepens after Insurance Cut



Source: Bloomberg, Raymond James Ltd.

Given a lower discount rate, supportive monetary pivot, a lack of inflationary pressures and potential improved sentiment, investors may be willing to pay more for future earnings (i.e. multiple expansion). In the table below, our US team updated their S&P 500 price target to reflect the potential multiple expansion we may experience this year.

S&P 500 Target Price

Scenario	EPS	Multiple	Target	Prob.
Bull	\$174	20.0x	3,480	20%
Base	\$168	18.5x	3,108	70%
Bear	\$161	15.0x	2,415	10%

Source: Raymond James Equity Portfolio & Technical Strategy

US Earnings

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%.

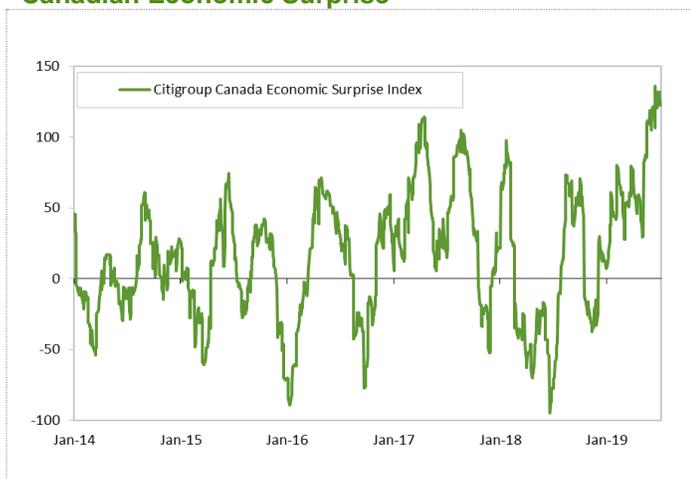
Adding some question marks surrounding the potential magnitude of the Q2/19 EPS surprise is that there is a divergence between analyst revisions and corporate guidance. Over the past five years, analysts have lowered their Q2/19 bottom-up EPS estimate by a similar value, whereas the percentage of companies issuing negative EPS guidance is above the 5-year average at 77% versus an average of 70%.

A messy reporting season may inject additional volatility during the summer months; however, our base case is for continued positive earnings growth in 2019 and 2020.

Canada

The Canadian economy has been on a bit of a hot streak of late. GDP is on track to grow by 2.8% annualized in the second quarter, more than double the BoC's April forecast of 1.3%. The Canadian housing market, which has been an area of concern for the BoC, is showing signs of stabilizing buoyed by strong new home sales in Toronto. A drop in mortgage rates has also encouraged a modest pickup in lending growth. In May, consumer prices data hit an annual rate of 2.4% and the core measure achieved its highest level since 2012.

Canadian Economic Surprise



Source: Bloomberg, Raymond James Ltd.

However, the growth outlook is anticipated to moderate in H2/19. Manufacturing data in Canada is closely mirroring the deterioration we are seeing across the globe (Markit's Canada manufacturing June PMI rose only marginally m-o-m to 49.2). Survey data suggests inflation will soften in the coming months and structural issues in the energy patch continue to dampen business investment. During the BoC's most recent policy meeting, the Bank adopted a more cautious tone citing concerns about global growth prospects, noting that "trade conflicts...are curbing manufacturing activity and business investment and pushing down commodity prices." While odds of a BoC rate cut this year have declined, Poloz's concerns closely echoes the message from Fed Chair Jerome Powell's semi-annual testimony to the US Congress.

Nonetheless, the Canadian market managed to print a fresh new high in Q2, although it quickly gave back the high water mark and has struggled to break higher over the past few weeks. One factor holding back the broader index is the continued overhang on the energy sector. Unfortunately, the passage of the highly anticipated Trans Mountain expansion project did little for the Canadian energy sector, perhaps due to the approval of both Bill C-48 (to restrict oil tanker movement along BC's northern coast) and Bill C-69 (to change how major infrastructure projects are reviewed and approved) which raise more questions for the beleaguered industry.

Unlike the US, we don't foresee the same type of multiple expansion for the S&P/TSX given the more structural challenges facing our market. As such, we maintain our base case S&P/TSX forecast of 16,100, which is modestly below the current index level.

S&P/TSX Q2/19 Sector Price Returns

Sector	3-mth Return	1-yr Return	3-mth EPS Change
Communication Services	4.1%	-8.6%	-8%
Consumer Discretionary	1.4%	16.2%	-3%
Consumer Staples	-3.9%	-16.1%	5%
Energy	2.4%	1.2%	3%
Financials	-9.4%	14.3%	13%
Health Care	4.7%	9.2%	-3%
Industrials	14.2%	31.9%	-4%
Information Technology	5.0%	-1.0%	-4%
Materials	-2.6%	7.1%	-
Real Estate	-1.3%	9.6%	-1%
Utilities	4.2%	13.2%	-7%
S&P/TSX	1.7%	0.6%	1%

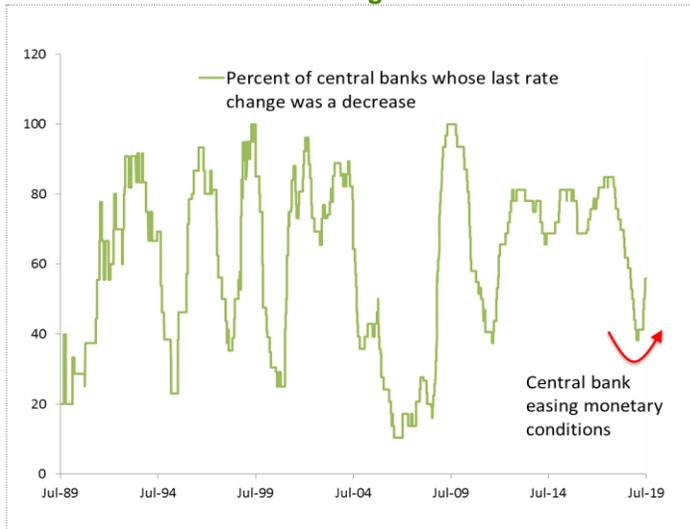
Source: Bloomberg; Price returns as of June 28, 2019

Looking Ahead

We anticipate market volatility to remain heightened throughout H2/19 as headlines on US/China relations, Fed policy, the concerns surrounding the global growth outlook, geopolitical events including US/Iran, the debt ceiling, 2020 election rhetoric and Brexit could provide plenty of reasons for the markets to swing wildly. We are also in the 3rd year of the Presidential cycle which, if markets follows the typical pattern, would indicate a strong H1 and weak-to-moderate H2.

Given the number of headline risks in the market, we anticipate additional bouts of volatility, but barring a more significant deterioration in economic data markets should continue to climb the wall of worry. Further, the notable shift in central bank positioning with global monetary conditions now easing, we anticipate global economic growth will find a firmer footing in the coming quarters.

Global Central Banks Easing



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US Recession Check List

Our “US Recession Checklist” in the table below shows seven key economic indicators. The checklist indicates whether the gauges were in expansionary, recessionary or neutral territory at the onset of the past recessions. Over the past twelve months, six indicators have moved from positive to a neutral level. We anticipate a Fed rate cut in July will help push some of these indicators back into positive territory, which will help sustain further equity market gains.

Asset Allocation

During our quarterly meeting, members discussed the appropriate level of cash given the significant pivot the central banks have made over the past few months, current economic conditions and the earnings outlook. Members believe that the deployment of cash will be, as the Fed would say, data dependent. Key to this data dependence will be US earnings season, corporate guidance and the global economic response to the easing cycle. We anticipate H2 to present an opportunity to deploy cash as IASG members believe a US recession is not a near-term concern. Further, the Fed and other central banks’ recent shift in bias has diminished the near-term risks. We anticipate a steepening in the yield curve which should support risk sentiment and allow for further equity market gains.

Following the quarterly meeting, the IASG decided to maintain the current asset allocation for the moderate investor profile:

- Neutral equities at 50%
- Overweight cash at 10%
- Underweight bonds at 40%

Start of Recession	Indicators						
	Manufacturing	Employment	HY Spread	Yield Curve	Housing Starts	Cons. Confidence	Inflation
January 1980	☒	☒	☒	☒	☒	☒	☒
July 1981	☒	☒	☒	☒	☒	☒	☒
July 1990	☒	☒	☒	☒	☒	☒	☒
March 2001	☒	☒	☒	☒	☒	☒	☒
December 2007	☒	☒	☒	☒	☒	☒	☒
Current	☒	☑	☒	☒	☒	☒	☒

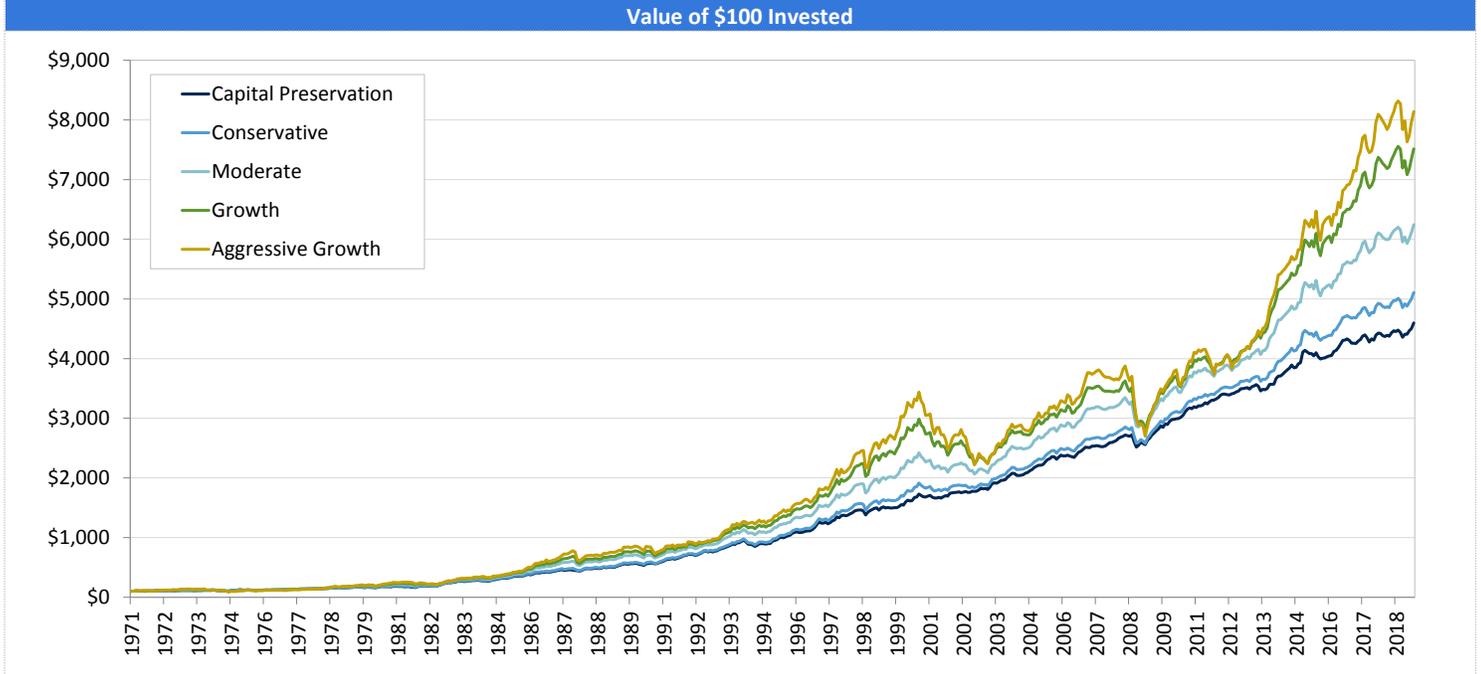
☒ Recessionary territory; ☑ Expansionary territory; ☒ Neutral

Investor Profiles and Asset Class Weightings

Recommended Asset Allocation					
Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth	
Cash	8%	8%	10%	10%	8%
Bonds	72%	62%	40%	20%	2%
Can Equities	17%	20%	20%	20%	27%
US Equities	3%	10%	16%	30%	34%
Intl Equities	0%	0%	14%	20%	29%
Tactical Asset Mix (Bonds include cash)					
Bonds Equities	80 20	70 30	50 50	30 70	10 90
Strategic Asset Mix (Bonds include cash)					
Bonds Equities	80 20	70 30	50 50	30 70	10 90
Asset Ranges					
Cash	0-20	0-20	0-20	0-20	0-20
Bonds	60-100	50-90	20-70	10-50	0-30
Equities	0-30	10-50	30-75	50-90	70-100
Description					
May be appropriate for investors with long-term income distribution needs who are sensitive to short-term losses. The equity portion of this portfolio generates capital appreciation, which is appropriate for investors who are sensitive to the effects of market fluctuation but need to sustain purchasing power. This portfolio, which invests primarily in fixed-income securities, seeks to keep investors ahead of the effects of inflation with an eye toward maintaining principal stability.	May be appropriate for investors with intermediate-term time horizons who are sensitive to short-term losses yet want to participate in the long-term growth of financial markets. The portfolio, which fixed-income securities tend to make up the largest proportion of holdings, seeks to keep investors well ahead of the effects of inflation with an eye toward maintaining principal stability. The portfolio has characteristics that may deliver returns lower than that of the broader market with lower levels of risk and volatility.	May be appropriate for investors seeking a balance between capital preservation and capital growth. This portfolio, which is a split between fixed-income securities and equities, seeks to keep investors well ahead of the effects of inflation with an eye toward maintaining principal stability. With roughly half of the portfolio invested in a diversified mix of Canadian and international equities, investors should be comfortable with moderate fluctuations in the portfolios.	May be appropriate for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which has a higher weighting in equities, seeks to keep investors well ahead of the effects of inflation with principal stability as a secondary consideration.	May be appropriate for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which is primarily invested in equities, seeks to keep investors well ahead of the effects of inflation with little regard for maintaining principal stability. The portfolio may deliver returns comparable to those of the broader equity market with similar levels of risk and volatility.	

Client Profile Statistics

	Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
Total Return (annualized)	8.3%	8.5%	8.9%	9.4%	9.5%
Avg Monthly Return	0.68%	0.70%	0.74%	0.78%	0.81%
Avg Rolling 12 Month Return	8.5%	8.8%	9.3%	9.9%	10.4%
Annualized Std Dev (36 months)	3.4%	3.7%	4.6%	6.0%	7.3%
Sharpe Ratio	2.4	2.3	1.9	1.5	1.3
Best 12 month Rolling return	46.5%	48.0%	46.1%	46.3%	47.7%
Worst 12 month Rolling Return	-7.7%	-11.3%	-18.9%	-26.1%	-32.6%



Source: Bloomberg, Raymond James Ltd. As at March 31, 2019, Inception January 1971.

Performance statistics are calculated using C\$ monthly returns that are rebalanced every calendar year using the recommended asset class weightings for each profile (cash weighting has been rolled up into the bond weighting).

Benchmarks: Bonds = FTSE/TMX Canada Universe Bond TR Index; Canadian Equities = S&P/TSX Composite TR Index, US Equities = S&P 500 TR Index; International Equities = MSCI EAFE TR Index.

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