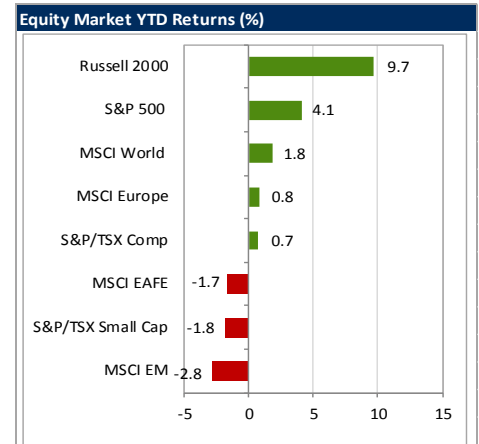


S&P/TSX Return Drivers

The S&P/TSX has gained over a thousand points, or ~8.5%, since April. As of Wednesday, the market had advanced for 7 straight days and is approaching its all-time high of 16,421 achieved in January this year. Given the average Canadian likely has an overweight in financials, particularly the Canadian banks, many may not have fully participated in the recent rally given the banks and insurers have shown mixed performances off the market low. We're all aware of the concentration issues in the S&P/TSX, in that financials, energy and materials make up ~2/3rd of the index. These sectors obviously have a significant influence on the market's performance, but if we could remove the "big 3" what would the index look like?

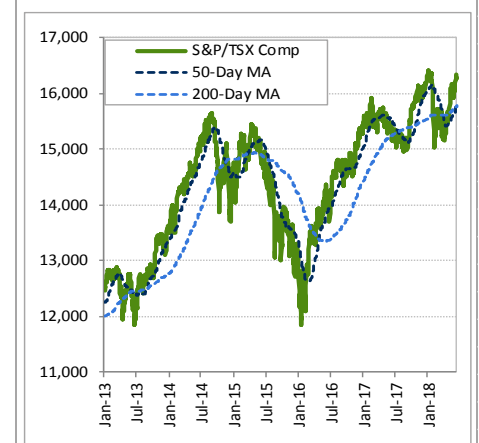
- To do this we created a composite of the big 3 S&P/TSX sectors (financials, energy and materials) and a separate index that contains all other S&P/TSX sectors.
- Over the past 12 months, industrials have outperformed the S&P/TSX by 7.7% with very broad participation. From a valuation perspective, the sector is trading 1 standard deviation above its 5-year average.
- The strength in this sector has surprised us as we had anticipated that a Canadian consumer with limited capacity to expand discretionary purchases would cap the performance.
- Valuation is one of the many factors we consider in our investment process. As shown, the industrials and technology sectors are trading a little rich relative to their past 5 years, which may suggest to some that it's time to take some chips off the table. We'd disagree as our experience is that stocks, sectors, markets or any asset class can remain overvalued (or undervalued) for extended periods of time.



Canadian Sectors	Weight	Recommendation
Consumer Discretionary	5.7	Market weight
Consumer Staples	3.3	Underweight
Energy	19.2	Overweight
Financials	33.6	Market weight
Health Care	1.4	Market weight
Industrials	10.3	Overweight
Technology	4.1	Market weight
Materials	11.9	Overweight
Communications	4.4	Market weight
Utilities	3.4	Underweight
Real Estate	2.8	Market weight

Technical Considerations	Level	Target
S&P/TSX Composite	16,329	17,650

S&P/TSX Top 5 Gainers/Laggards*		S&P/TSX Market Internals	
KIRKLAND LAKE GO	10%	Weekly Advance	157 63%
SPIN MASTER - SVC	10%	Weekly Decline	88 35%
ALACER GOLD CORP	10%	Advance-Decline	69
YAMANA GOLD INC	9%	New 52 wk high	16 6%
VALEANT PHARMACE	8%	New 52 wk low	2 1%
IVANHOE MINES LT	-10%	No. Stocks Above 50-d	165 66%
INTERFOR CORP	-11%	No. Stocks Above 200-d	133 53%
CANFOR CORP	-11%	Arms Weekly Index	0.81 Neutral
WEST FRASER TIMB	-12%	RSI (14-day)	73.6 Overbought
PROMETIC LIFE	-19%	50-DMA	15,812 Uptrend
		200-DMA	15,773 Uptrend



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 6
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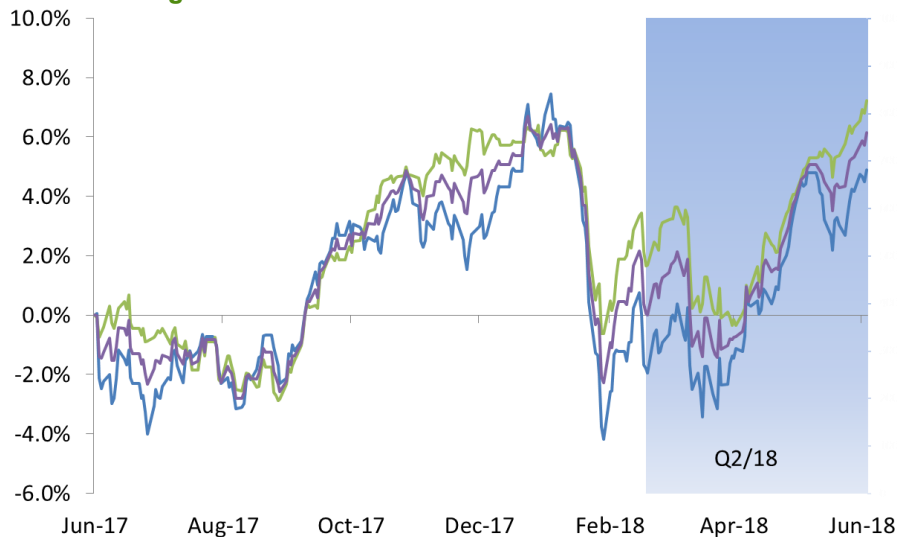
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The S&P/TSX has gained over a thousand points, or ~8.5%, since April. As of Wednesday, the market had advanced for 7 straight days and is approaching its all-time high of 16,421 achieved in January this year. Given the average Canadian likely has an overweight in financials, particularly the Canadian banks, many may not have fully participated in the recent rally given the banks and insurers have shown mixed performances off the market low.

We're all aware of the concentration issues in the S&P/TSX, in that financials, energy and materials make up ~2/3rd of the index. These sectors obviously have a significant influence on the market's performance, but if we could remove the "big 3" what would the index look like?

To do this we created a composite of the big 3 S&P/TSX sectors (financials, energy and materials) in blue and a separate index that contains all other S&P/TSX sectors in green. YTD we can see all other sectors in aggregate have been outperforming the big 3. To understand what is driving this outperformance, we'll need to look at each individual sector. In the index not including the big 3, the drivers have been industrials, consumer discretionary and information technology while the traditional defensive sectors have acted as drags.

S&P/TSX – Big 3 Not in the Driver's Seat



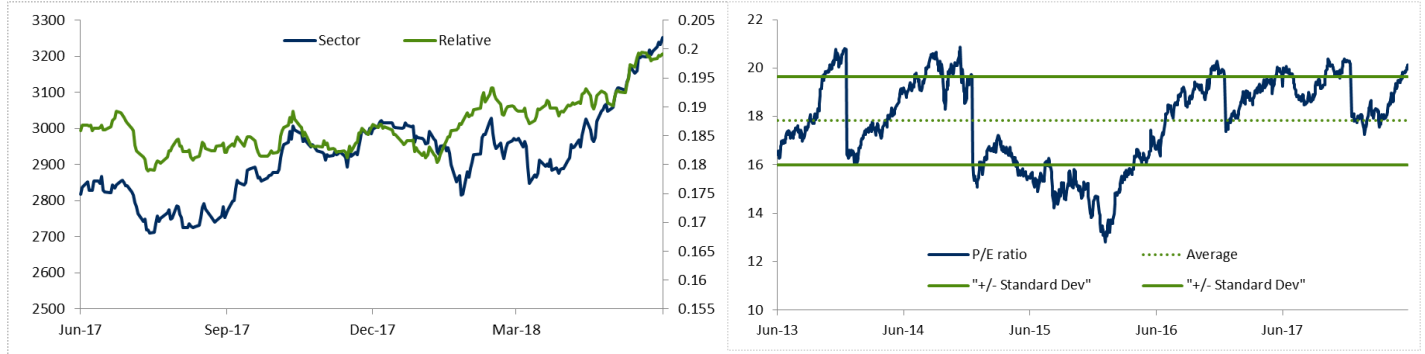
Source: Bloomberg, Raymond James Ltd.

Industrials

Industrials have benefited from a recovering oil & gas space, infrastructure investment from the federal government and now with the federal government's purchase of Trans Mountain Pipeline ensuring its completion; further contract awards improve the prospects for the industrial/manufacturing sector. In addition, the creation of Canadian Infrastructure Bank signals that large, profitable projects remain on the horizon. The goal of the bank is to provide funding or loans for large projects led by the private sector that might not otherwise go ahead. The Bank will invest \$35 billion divided evenly between public transit, trade and transportation corridors and green infrastructure projects, such as safe water systems and renewable-power generation.

Over the past 12 months, industrials have outperformed the S&P/TSX by 7.7% with very broad participation. From a valuation perspective, the sector is trading 1 standard deviation above its 5-year average.

S&P/TSX Industrials – Price and Relative Performance S&P/TSX Industrials – PE Ratio



S&P/TSX Industrials Members

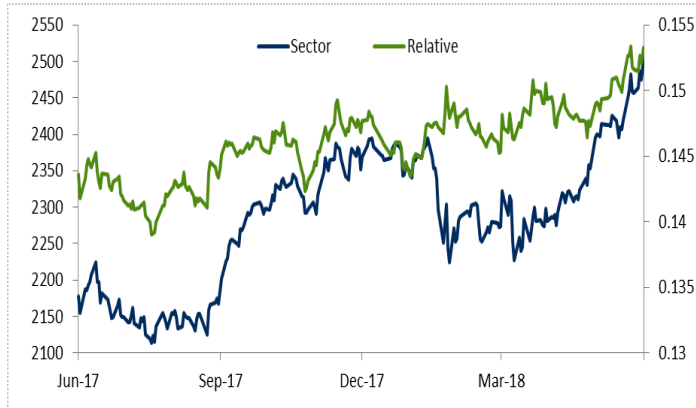
	FY EPS			Valuation		Relative Performance			
	FY1	FY2	4-wk Chg	PE	Rel PE	1-mth	3-mth	6-mth	12-mth
S&P/TSX INDUSTRIALS IDX	\$ 161.49	\$ 190.75	1%	20.1x	1.3x	4.0	5.4	6.6	7.7
E&C									
SNC-LAVALIN GRP	\$ 2.69	\$ 3.12	-2%	22.1x	1.4x	3.6	1.8	4.1	5.7
WSP GLOBAL INC	\$ 3.29	\$ 3.69	1%	22.4x	1.4x	10.1	20.4	23.6	36.5
STANTEC INC	\$ 1.94	\$ 2.18	0%	17.5x	1.1x	1.7	-1.4	-4.8	0.6
BADGER DAYLIGHTI	\$ 1.70	\$ 2.00	1%	17.9x	1.1x	5.8	24.9	7.0	17.1
AECON GROUP INC	\$ 0.80	\$ 1.07	2%	19.6x	1.2x	-14.2	-20.1	-22.9	-5.1
Transportation									
CAN NATL RAILWAY	\$ 5.15	\$ 5.85	0%	21.2x	1.3x	4.0	9.6	4.1	-4.2
CANADIAN PACIFIC	\$ 13.02	\$ 14.54	0%	19.5x	1.2x	5.5	6.0	8.8	16.3
TFI INTERNATIONA	\$ 2.59	\$ 2.98	1%	15.9x	1.0x	8.0	24.6	25.5	46.6
Airline & Aerospace									
CAE INC	\$ 1.23	\$ 1.37	2%	22.3x	1.4x	10.5	11.7	20.2	17.8
AIR CANADA	\$ 2.79	\$ 3.89	0%	8.3x	0.5x	-7.4	-21.7	-10.5	27.8
WESTJET AIRLINES	\$ 1.46	\$ 2.17	-1%	13.1x	0.8x	-6.1	-26.6	-30.3	-21.7
EXCHANGE INCOME	\$ 2.88	\$ 3.21	0%	11.9x	0.7x	-0.1	-4.5	-5.8	-0.6
CHORUS AVIATION	\$ 1.02	\$ 1.14	0%	6.7x	0.4x	-12.0	-22.2	-27.8	-13.5
Other									
NFI GROUP INC	\$ 2.71	\$ 2.95	0%	14.4x	0.9x	-5.4	-15.1	-7.8	-14.9
RITCHIE BROS	\$ 1.07	\$ 1.31	0%	32.9x	2.1x	8.0	5.9	22.6	6.7
BROOKFIELD BP-U	\$ 3.15	\$ 4.30	142%	13.0x	0.8x	7.4	13.5	24.8	45.7
MAXAR TECHNOLOGI	\$ 4.74	\$ 5.11	0%	10.9x	0.7x	10.6	13.7	-21.1	0.2
TRANSCONTINENT-A	\$ 2.81	\$ 3.00	5%	11.2x	0.7x	7.5	11.6	20.1	18.3
BOYD GROUP INCOM	\$ 4.35	\$ 5.13	0%	26.8x	1.7x	4.7	2.3	15.7	12.1
MORNEAU SHEPELL	\$ 0.96	\$ 1.07	0%	28.4x	1.8x	6.6	4.8	20.3	21.4
WASTE CONNECTION	\$ 2.52	\$ 2.78	0%	30.2x	1.9x	2.3	-0.6	8.4	6.3
FINNING INTL INC	\$ 1.79	\$ 2.17	0%	18.9x	1.2x	-0.6	-0.6	6.0	24.1
RUSSEL METALS	\$ 2.46	\$ 2.52	2%	11.7x	0.7x	-4.1	-5.6	-2.0	9.5
TOROMONT INDS	\$ 2.75	\$ 3.25	0%	21.4x	1.3x	-0.4	1.7	5.8	20.2
ATS AUTOMATION	\$ 0.90	\$ 1.03	0%	21.8x	1.4x	9.6	4.1	27.8	48.7
BOMBARDIER INC-B	\$ 0.07	\$ 0.19	-9%	51.7x	3.3x	13.4	27.3	57.5	93.5
WESTSHORE TERMIN	\$ 1.68	\$ 1.76	0%	14.1x	0.9x	-0.4	3.8	-9.8	7.4

Source: Bloomberg, Raymond James Ltd.

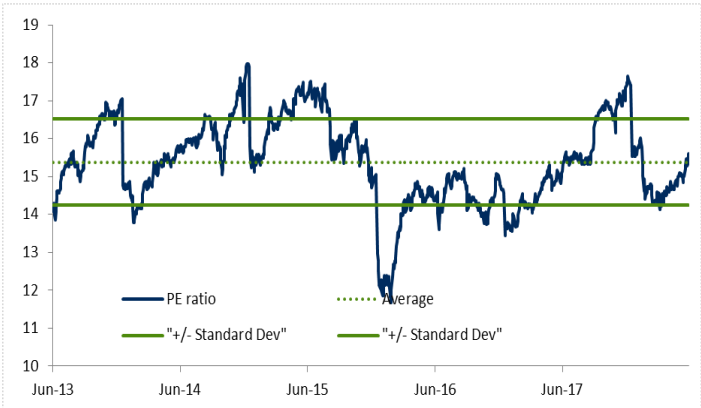
Consumer Discretionary

The strength in this sector has surprised us as we had anticipated that a Canadian consumer with limited capacity to expand discretionary purchases would cap the performance. However, over the past 12 months, the sector has outperformed the S&P/TSX by 7.3% with some members doubling in value over the period. From a valuation perspective, the sector is trading in line with its 5-year PE, but a significant number of members are trading cheap on a PE basis relative to the S&P/TSX – Quebecor, Martinrea, Star Group, Dorel Industries, Linamar, Uni-Select, Cogeco, Canadian Tire and Corus.

S&P/TSX Cons. D – Price and Relative Performance



S&P/TSX Cons. D – PE Ratio



S&P/TSX Industrials Members

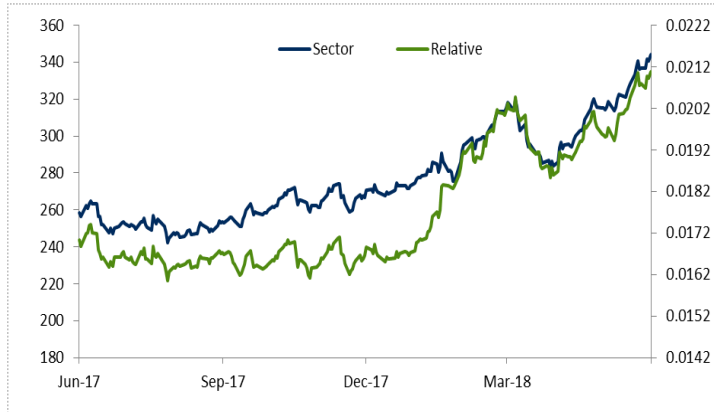
	FY EPS			Valuation		Relative Performance			
	FY1	FY2	4-wk Chg	PE	Rel PE	1-mth	3-mth	6-mth	12-mth
S&P/TSX CONS DISCRET IDX	\$ 160.57	\$ 180.57	0%	15.6x	1.0x	2.9	3.6	3.9	7.3
CINEPLEX INC	\$ 1.24	\$ 1.50	0%	24.8x	1.6x	7.4	-5.6	-23.8	-48.9
QUEBECOR INC-B	\$ 1.70	\$ 1.91	0%	15.5x	1.0x	3.0	3.5	8.3	18.0
DOLLARAMA INC	\$ 5.23	\$ 5.91	-1%	29.0x	1.8x	1.0	-6.1	-3.8	15.4
SLEEP COUNTRY CA	\$ 1.82	\$ 2.05	0%	18.7x	1.2x	3.8	-10.2	-1.7	-20.7
SPIN MASTER -SVC	\$ 1.91	\$ 2.11	0%	21.8x	1.4x	5.4	-3.6	1.5	46.8
GILDAN ACTIVEWEA	\$ 1.87	\$ 2.05	0%	15.4x	1.0x	1.0	-4.1	-8.9	-15.0
ENERCARE INC	\$ 0.76	\$ 0.88	0%	24.1x	1.5x	5.9	-2.6	-11.9	-13.6
GREAT CAN GAMING	\$ 2.46	\$ 2.87	1%	22.4x	1.4x	3.5	51.7	83.8	126.8
MARTINREA INTERN	\$ 2.25	\$ 2.55	0%	7.0x	0.4x	-9.7	-1.1	0.2	37.3
BRP INC/CA-SUB V	\$ 2.88	\$ 3.32	4%	21.6x	1.4x	20.7	31.3	28.9	53.8
STARS GROUP INC/	\$ 2.55	\$ 3.06	0%	14.7x	0.9x	5.5	26.6	64.2	100.5
CANADA GOOSE HOL	\$ 0.67	\$ 0.87	-2%	89.9x	5.7x	17.9	33.8	73.1	105.4
HUDSON'S BAY CO	\$ (2.17)	\$ (1.49)	-21%	NM	NM	30.4	21.2	9.3	29.9
DOREL INDS-B	\$ 1.55	\$ 2.07	0%	11.2x	0.7x	-2.4	-34.3	-27.8	-40.2
LINAMAR CORP	\$ 9.47	\$ 10.50	0%	6.7x	0.4x	-16.5	-17.1	-13.9	-6.0
UNI-SELECT INC	\$ 1.36	\$ 1.49	0%	11.9x	0.8x	5.7	-6.8	-25.4	-39.5
COGECO COMMUNICA	\$ 6.41	\$ 6.07	1%	10.6x	0.7x	-9.2	-9.3	-23.9	-21.0
CANADIAN TIRE-A	\$ 11.84	\$ 13.17	0%	14.6x	0.9x	3.1	-4.1	3.9	8.1
RESTAURANT BRAND	\$ 2.69	\$ 2.91	0%	22.3x	1.4x	7.4	0.8	-1.5	-8.0
MAGNA INTL	\$ 7.05	\$ 7.69	1%	9.2x	0.6x	0.7	12.1	17.2	35.1
SHAW COMM-B	\$ 1.13	\$ 1.37	0%	24.5x	1.5x	3.5	7.0	-7.2	-15.6
CORUS ENT INC-B	\$ 1.07	\$ 0.98	0%	6.0x	0.4x	-1.6	-17.0	-46.2	-57.4

Source: Bloomberg, Raymond James Ltd.

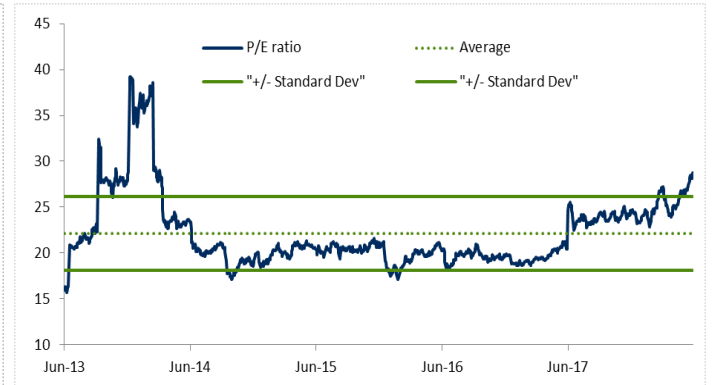
Technology

The Canadian technology space is relatively narrow compared to the US. As such, significant moves by individual companies can have a meaningful impact on the broader sector. That being said, we're seeing good participation across all the members within the sector and, in fact, over the past 6 months, the sector's outperformance has accelerated with only one member (Seirra Wireless) not participating in the broader sector advance. The sector is trading 1 standard deviation above its 5-year PE valuation range, although the sector has experienced wild valuation swings in the past.

S&P/TSX IT – Price and Relative Performance



S&P/TSX IT – PE Ratio



S&P/TSX IT Members

	FY EPS			Valuation		Relative Performance			
	FY1	FY2	4-wk Chg	PE	Rel PE	1-mth	3-mth	6-mth	12-mth
S&P/TSX INFO TECH INDEX	\$ 11.98	\$ 13.84	1%	28.7x	1.8x	7.8	3.9	25.4	25.5
Software									
CONSTELLATION SO	\$ 28.30	\$ 32.09	0%	28.2x	1.8x	7.1	13.4	34.1	42.7
OPEN TEXT CORP	\$ 2.51	\$ 2.76	0%	14.3x	0.9x	6.1	-4.6	9.9	5.2
DESCARTES SYS	\$ 1.14	\$ 1.29	9%	27.5x	1.7x	3.8	5.4	11.1	17.8
KINAXIS INC	\$ 0.98	\$ 1.33	0%	66.8x	4.2x	2.3	-4.7	12.5	-5.0
ENGHOUSE SYS LTD	\$ 1.91	\$ 2.41	7%	38.7x	2.4x	9.2	5.7	25.7	32.9
MITEL NETWORKS C	\$ 0.99	\$ 1.18	0%	11.0x	0.7x	-0.3	16.2	34.8	36.6
COMPUTER MODELL	\$ 0.29	\$ 0.32	-6%	34.6x	2.2x	-1.2	6.3	2.1	-8.9
Other									
CGI GROUP INC-A	\$ 4.18	\$ 4.56	0%	19.5x	1.2x	4.3	2.0	15.4	15.5
BLACKBERRY LTD	\$ 0.06	\$ 0.15	2%	202.8x	12.8x	5.2	-11.6	12.9	6.8
CELESTICA INC	\$ 1.14	\$ 1.31	0%	10.7x	0.7x	1.4	4.1	17.7	-19.7
SHOPIFY INC - A	\$ 0.17	\$ 0.57	1%	NA	NA	18.6	10.0	61.1	86.2
SIERRA WIRELESS	\$ 0.87	\$ 1.26	0%	18.6x	1.2x	-9.4	-6.0	-21.2	-52.7

Source: Bloomberg, Raymond James Ltd.

If It Ain't Broke, Don't Fix It!

Valuation is one of the many factors we consider in our investment process. As shown, the industrials and technology sectors are trading a little rich relative to their past 5 years, which may suggest to some that it's time to take some chips off the table. We'd disagree as our experience is that stocks, sectors, markets or any asset class can remain overvalued (or undervalued) for extended periods of time.

We view the elevated valuation as a yellow flag, which heightens our attention to be focused for a potential red flag. Price action can often be an early indication of a change in the long-term trend; therefore we'll be looking for a technical breakdown and change in leadership. A technical breakdown can be the sector breaking a long-term trend support line, a topping formation like a head-and-shoulder or double top. A change in leadership could be a shift from industrials to utilities outperforming the market.

At this time, there are no indications that the positive trend within industrials, consumer discretionary and information technology is about to stall. With this knowledge, we feel comfortable looking for opportunities within these spaces and by doing so we increase our chances of outperforming the market.

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