



Market Bulletin

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Summary

Economic Analysis: US economy added 288,000 jobs in April, best payroll growth since January 2012, but initial positive market reaction dampened by deteriorating Ukraine situation.

Screen Shots: Canadian momentum stocks? Valeant Pharma and Avigilon are two of 10 large-cap/mid-cap Canadian stocks that have doubled over the past year.

Commentary – TSX could reach new high this year

Energy group propelling TSX gains as it trades at best levels since June 2008

XIU, XDV, XEG are three ETFs that can be used to play this potential move higher

Elvis Picardo, CFA

At today's closing level of 14,765.15, the TSX is less than 400 points or 2.6% away from its record high of 15,154.77 set on June 6, 2008, and about 300 points or 2.1% away from its closing best of 15,073.13 reached on June 18, 2008. While it may not be particularly prescient to forecast that the index could set a new record high this year, note that the last time the index reached all-time highs in June 2008, it plunged 50% in the next five months (Figure 1). We believe that level of downside is very unlikely this time, although some degree of volatility is to be expected given the index's 19.3% surge over the past year. Note the following points:

- The TSX is outperforming the S&P 500 YTD by 6.63 percentage points YTD on an absolute basis (8.40% vs. 1.77%) and by more than three percentage points on a currency-adjusted basis (4.83% vs. 1.77% in USD terms). The TSX is benefiting not just from its 3x higher weighting in the Energy and Materials groups – which are among the best sector performers YTD – compared with the S&P 500 (combined weight of 38.7% vs. 14.1%), but also from the much better performance of Canadian stocks in these sectors compared with their US counterparts (Figures 2 and 3).
- A technical picture of the TSX shows that RSI is elevated at 73 (Fig.1). The TSX recently broke through resistance around 14,330 (double-top formed in 2011), and today surged through another resistance level around 14,650 (the double-top dating back to 2007). Trend-line support (green line in Fig.1) lies around the 13,500 level.
- ETFs like the XIU (which tracks the TSX-60), XDV (which tracks the DJ Canada Select Dividend index) and the XEG (Energy ETF), can be used to play this potential move higher. While the XIU units are about 7.5% away from their previous high, XDV set a new record today. XEG (\$20.06) could have the most upside if the rally continues.

Figure 1: TSX Technical Picture – 2003 to Present



Figure 2: TSX Group Performance – YTD



Figure 3: S&P 500 Group Performance – YTD



Source: Global Securities Research, Bloomberg

Economic Analysis

U.S. economy added 288,000 jobs in April, highest since January 2012

Muted market reaction to jobs numbers on Ukraine worries

The US economy added 288,000 jobs in April, the most in 2¼ years and well above economists' median forecast of 218,000 in a Bloomberg survey. Jobs numbers for the preceding two months were revised higher by a total of 36,000. The unemployment rate fell to 6.3% (from 6.7% in March), the lowest level since September 2008, with a corresponding decline in the U-6 measure of under-employment to 12.3% (from 12.7%). The participation rate fell to 62.8% (from 63.2% in March), matching a low last seen in March 1978, as 806,000 people unexpectedly dropped out of the labour force. Wage growth remained tepid, with average hourly earnings for all private-sector employees unchanged at \$24.31, up 1.9% over the past year.

April's job gains continued to be driven almost entirely by the private sector (+273,000), with government jobs contributing only 15,000 jobs (~ 5% of total jobs growth). The service sector led job gains yet again, accounting for 220,000 jobs in areas like professional & business services, education & health services, and trade. Goods producers added 53,000 jobs, led by the construction industry, where jobs almost doubled to 32,000.

Bottom-Line: While initial market reaction to the jobs numbers was initially positive, the deteriorating situation in Ukraine weighed on sentiment later in the day. Overall, US equity indices closed this pivotal week modestly higher, with the other key event of the week – the FOMC announcement – holding few surprises.

As expected, the Federal Reserve pared its bond-buying program by \$10 billion (for the fourth successive time) to \$45 billion, saying that growth in economic activity has picked up recently. The Fed also said that while household spending appears to be rising more quickly, business fixed investment edged down and the housing recovery remained slow.

In any case, as we have noted in recent Bulletins, the generally positive impact of the payroll numbers to which investors have become accustomed seems likely to become a thing of the past, as the focus has turned to valuations and potential risks that could stall the rally. Closer attention is also being paid to disconcerting aspects of the labor market, such as the unexpected decline in the participation rate and weak wage growth.

On the plus side, it is these weaker aspects of the jobs market that could be reinforcing investors' perceptions that despite the Federal Reserve being on track to conclude its QE program by year-end, it may be in no hurry to ratchet short-term rates higher. Economic data in the months ahead may change this view yet again, which means that with US indices trading near all-time highs, investors should brace themselves for significantly higher volatility.

Screen Shots

North American momentum stocks include a handful of Canadian names

Dominated by Health Care, Technology and Energy sectors

Momentum stocks have been in the limelight lately, and one question that often crops up is which Canadian stocks fit this category. To keep things simple, we classified momentum stocks as Canadian and US stock with a market capitalization above US\$1 billion that have at least doubled in price over the past 12 months (based on May 1 closing prices). Table 1 below shows the results of this basic screen. Notable highlights of these momentum stocks –

- While the 70 US stocks on this list include familiar names like **Tesla** and **Facebook**, only 10 of the 80 are Canadian stocks – **Canadian Energy, Air Canada, Raging River Exploration, Badger Daylighting, Surge Energy, Linamar, Bankers Petroleum, Semafo, Avigilon and Valeant Pharma**. Four of these 10 are energy companies.
- Five sectors account for 73 of the 80 stocks. These sectors are Health Care (20), Technology (18), Energy (15), Consumer Discretionary (11) and Industrials (9). Financials, Consumer Staples and Materials contribute only two stocks each.
- With an average YTD gain of 28%, these momentum stocks could encounter profit-taking if sentiment turns. Investors who have some of these high-fliers in their portfolios should consider trimming positions or buying downside protection through options.

Table 1: North American momentum stocks

Source: Global Securities Research, Bloomberg

Ticker	Short Name	GICS Sector	Mkt.Cap. (\$ bn.)	Last Px	1-year Price Change (%)	Total Return YTD (%)	Revenue (ttm - \$mm)	Price/Sales	P/E
ICPT US Equity	INTERCEPT PHARMA	Health Care	\$5.21	\$260.49	687.7	281.5	\$1.62	3213.7	N/A
INSY US Equity	INSYS THERAPEUTI	Health Care	\$1.38	\$40.13	673.8	59.9	\$99.29	13.9	33.6
GTAT US Equity	GT ADVANCED TECH	Information Technology	\$2.31	\$17.22	346.1	97.6	\$298.97	7.7	N/A
PVA US Equity	PENN VIRGINIA	Energy	\$1.09	\$16.26	315.9	72.4	\$431.73	2.5	N/A
TSLA US Equity	TESLA MOTORS	Consumer Discretionary	\$25.76	\$207.73	289.9	38.1	\$2,013.50	12.8	N/A
SUNE US Equity	SUNEDISON INC	Information Technology	\$5.42	\$20.32	286.3	55.7	\$2,007.60	2.7	N/A
CWEI US Equity	CLAYTON WILLIAMS	Energy	\$1.72	\$142.87	276.0	74.3	\$446.03	3.9	37.8
ITMN US Equity	INTERMUNE INC	Health Care	\$3.30	\$32.16	259.3	118.3	\$90.08	36.6	N/A
MHR US Equity	MAGNUM HUNTER RE	Energy	\$1.44	\$8.21	225.8	12.3	\$280.41	5.1	N/A
FURX US Equity	FURIEX PHARMACEU	Health Care	\$1.12	\$103.46	222.4	146.3	\$71.00	15.7	N/A
LCI US Equity	LANNETT CO INC	Health Care	\$1.20	\$34.38	199.7	3.9	\$192.35	6.2	76.2
RAD US Equity	RITE AID CORP	Consumer Staples	\$7.67	\$7.70	198.4	52.2	\$25,526.41	0.3	31.2
MTDR US Equity	MATADOR RESOURCE	Energy	\$1.84	\$27.54	192.7	47.7	\$268.12	6.9	26.0
MU US Equity	MICRON TECH	Information Technology	\$28.14	\$26.25	185.3	20.7	\$13,310.00	2.1	13.9
FANG US Equity	DIAMONDBACK ENER	Energy	\$3.71	\$71.27	169.6	34.8	\$208.00	17.8	56.0
CEU CN Equity	CANADIAN ENERGY	Energy	\$2.05	\$33.12	168.8	40.1	\$642.43	3.2	59.5
AC/B CN Equity	AIR CANADA-CL B	Industrials	\$2.04	\$7.74	167.8	1.3	\$12,023.46	0.2	N/A
UBNT US Equity	UBIQUITI NETWORK	Information Technology	\$3.57	\$40.26	167.3	-12.4	\$452.51	7.9	28.0
RRX CN Equity	RAGING RIVER EXP	Energy	\$1.63	\$9.88	165.9	42.3	\$154.60	10.5	37.5
THRM US Equity	GENTHERM INC	Consumer Discretionary	\$1.37	\$39.50	161.6	47.3	\$707.93	1.9	32.7
PCRX US Equity	PACIRA PHARMACEU	Health Care	\$2.61	\$72.22	161.5	25.6	\$110.63	23.6	N/A
PBYI US Equity	PUMA BIOTECHNOLO	Health Care	\$2.35	\$80.00	161.1	-22.7	\$0.00	N/A	N/A
SPWR US Equity	SUNPOWER CORP	Information Technology	\$4.43	\$33.86	160.5	13.6	\$2,564.19	1.7	27.0
QCOR US Equity	QUESTCOR PHARM	Health Care	\$5.01	\$82.28	159.2	52.5	\$890.90	5.6	15.3
BAD CN Equity	BADGER DAYLIGHTI	Industrials	\$1.28	\$37.77	159.2	29.0	\$314.68	4.1	34.7

Ticker	Short Name	GICS Sector	Mkt. Cap. (\$ bn.)	Last Px	1-year Price Change (%)	Total Return YTD (%)	Revenue (ttm - \$mm)	Price/Sales	P/E
SGY US Equity	STONE ENERGY	Energy	\$2.47	\$48.34	157.5	39.8	\$975.55	2.5	16.7
ATRO US Equity	ASTRONICS CORP	Industrials	\$1.01	\$56.61	153.0	11.0	\$339.94	3.0	29.7
YELP US Equity	YELP INC	Information Technology	\$4.39	\$64.02	153.0	-7.2	\$263.26	16.7	N/A
FRX US Equity	FOREST LABS INC	Health Care	\$24.94	\$93.30	152.0	55.4	\$3,646.90	6.8	71.8
MTOR US Equity	MERITOR INC	Industrials	\$1.35	\$13.95	151.8	33.7	\$3,771.00	0.4	16.3
TQNT US Equity	TRIQUINT SEMICON	Information Technology	\$2.36	\$14.31	147.6	71.6	\$886.28	2.7	1035.2
LGND US Equity	LIGAND PHARM	Health Care	\$1.29	\$63.46	144.5	20.6	\$48.97	26.3	136.3
JAZZ US Equity	JAZZ PHARMACEUTI	Health Care	\$8.12	\$139.27	143.4	10.0	\$872.42	9.3	36.0
HAR US Equity	HARMAN INTL	Consumer Discretionary	\$7.54	\$107.47	143.2	31.7	\$5,086.30	1.5	29.6
KND US Equity	KINDRED HEALTHCA	Health Care	\$1.37	\$24.80	139.6	26.3	\$5,388.12	0.3	23.2
ALNY US Equity	ALNYLAM PHARMACI	Health Care	\$4.15	\$54.43	138.5	-15.3	\$47.17	88.0	N/A
FDML US Equity	FEDERAL-MOGUL HO	Consumer Discretionary	\$2.60	\$17.32	137.9	-12.0	\$6,935.00	0.4	14.3
SGY CN Equity	SURGE ENERGY INC	Energy	\$1.17	\$7.11	137.3	5.2	\$209.44	5.6	21.5
LNR CN Equity	LINAMAR CORP	Consumer Discretionary	\$3.35	\$55.24	137.0	21.9	\$3,490.84	1.0	17.1
GBX US Equity	GREENBRIER COS	Industrials	\$1.43	\$51.11	133.9	55.6	\$1,910.45	0.7	27.2
BNK CN Equity	BANKERS PETROLEU	Energy	\$1.36	\$5.88	133.3	30.5	\$472.09	2.9	22.2
INCY US Equity	INCYTE CORP	Health Care	\$8.58	\$50.05	132.6	-1.1	\$373.66	23.0	N/A
SLCA US Equity	US SILICA HOLDIN	Materials	\$2.50	\$45.73	128.5	34.5	\$603.77	4.1	31.1
FLDM US Equity	FLUIDIGM CORP	Health Care	\$1.06	\$37.55	127.2	-1.9	\$71.18	14.9	N/A
PPC US Equity	PILGRIM'S PRIDE	Consumer Staples	\$6.01	\$22.05	126.6	35.7	\$8,392.28	0.7	10.3
WWE US Equity	WORLD WRESTLIN-A	Consumer Discretionary	\$1.42	\$20.33	125.9	23.1	\$509.57	2.8	N/A
INVN US Equity	INVENSENSE INC	Information Technology	\$1.65	\$20.59	125.8	-0.9	\$252.53	6.6	91.2
ETFC US Equity	E*TRADE FINANCIA	Financials	\$6.51	\$22.66	124.8	15.4	\$2,014.23	3.2	21.3
CRZO US Equity	CARRIZO OIL&GAS	Energy	\$2.50	\$53.67	123.1	19.9	\$528.20	4.7	49.6
FB US Equity	FACEBOOK INC-A	Information Technology	\$155.65	\$61.15	122.9	11.9	\$8,916.00	17.5	80.5
GPRE US Equity	GREEN PLAINS REN	Energy	\$1.04	\$28.87	122.2	49.2	\$3,009.43	0.3	13.2
DAL US Equity	DELTA AIR LI	Industrials	\$31.51	\$37.12	120.4	35.4	\$38,189.00	0.8	10.3
IGTE US Equity	IGATE CORP	Information Technology	\$2.13	\$36.14	120.0	-10.0	\$1,178.21	1.8	28.7
GLOG US Equity	GASLOG LTD	Energy	\$2.20	\$26.99	119.4	58.8	\$157.24	14.0	37.6
ILMN US Equity	ILLUMINA INC	Health Care	\$17.83	\$139.68	118.9	26.3	\$1,511.00	11.8	81.1
BOFI US Equity	BOFI HOLDING INC	Financials	\$1.17	\$82.97	115.8	3.9	\$175.89	6.6	25.1
SLXP US Equity	SALIX PHARM	Health Care	\$6.96	\$111.45	113.1	23.9	\$933.84	7.5	50.3
ENV US Equity	ENVESTNET INC	Information Technology	\$1.28	\$37.45	112.9	-7.1	\$242.54	5.3	149.8
CW US Equity	CURTISS-WRIGHT	Industrials	\$3.31	\$67.89	112.2	9.7	\$2,559.50	1.3	19.3
MDCA US Equity	MDC PARTNERS-A	Consumer Discretionary	\$1.20	\$23.88	111.8	-4.9	\$1,176.69	1.0	N/A
MEG US Equity	MEDIA GENERAL	Consumer Discretionary	\$1.49	\$16.95	111.3	-26.3	\$414.42	3.6	N/A
LVLV US Equity	LEVEL 3 COMM INC	Telecommunication Servi	\$10.26	\$42.80	110.6	29.0	\$6,345.00	1.6	55.1
SMF CN Equity	SEMAFO INC	Materials	\$1.01	\$4.09	110.1	37.3	\$277.45	3.6	N/A
AVO CN Equity	AVIGILON CORP	Information Technology	\$1.11	\$26.53	109.6	-17.7	\$172.62	6.4	50.9
GT US Equity	GOODYEAR TIRE	Consumer Discretionary	\$6.32	\$25.46	108.7	7.2	\$19,156.00	0.3	9.1
SAVE US Equity	SPIRIT AIRLINES	Industrials	\$4.14	\$56.99	108.1	25.5	\$1,721.94	2.4	22.1
MEI US Equity	METHODE ELEC	Information Technology	\$1.15	\$29.27	107.9	-17.0	\$696.29	1.7	18.1
LNG US Equity	CHENIERE ENERGY	Energy	\$13.49	\$57.00	105.5	32.9	\$268.86	50.2	N/A
VRX CN Equity	VALEANT PHARMAC	Health Care	\$45.64	\$149.85	103.9	17.9	\$5,769.61	7.9	N/A
EXAM US Equity	EXAMWORKS GROUP	Health Care	\$1.37	\$35.96	103.9	20.4	\$616.02	2.2	N/A
CMLS US Equity	CUMULUS MEDIA-A	Consumer Discretionary	\$1.46	\$6.46	103.1	-16.4	\$1,085.31	1.3	15.6
FNSR US Equity	FINISAR CORP	Information Technology	\$2.43	\$25.45	103.0	6.4	\$1,094.22	2.2	25.5
AVGO US Equity	AVAGO TECHNOLOGI	Information Technology	\$16.06	\$64.39	102.7	20.6	\$2,653.00	6.1	27.2
DWRE US Equity	DEMANDWARE INC	Information Technology	\$1.94	\$54.23	102.6	-13.9	\$103.74	18.7	N/A
NPSP US Equity	NPS PHARM INC	Health Care	\$2.76	\$27.01	102.6	-13.2	\$155.59	17.7	N/A
SCOR US Equity	COMSCORE INC	Information Technology	\$1.11	\$32.00	101.9	10.6	\$294.91	3.8	292.7
LOGM US Equity	LOGMEIN INC	Information Technology	\$1.08	\$43.98	101.8	31.1	\$177.84	6.1	501.1
HEES US Equity	H&E EQUIPMENT SE	Industrials	\$1.31	\$37.04	101.3	27.8	\$1,012.60	1.3	28.9
CRR US Equity	CARBO CERAMICS	Energy	\$3.21	\$139.41	100.4	18.7	\$668.30	4.8	37.4
SKX US Equity	SKECHERS USA-A	Consumer Discretionary	\$2.05	\$40.10	100.0	26.7	\$1,941.26	1.1	25.3

Market Snapshot

At close on Friday, May 2, 2014

S&P TSX	14765.15	+101.08	Commodities			Yields (%)	Can.	US
TSX Venture	1014.46	+7.94	Canadian \$ (US cents)	91.13	-0.13	90 Day T-Bill	0.92	0.02
DJIA	16512.89	-45.98	Gold (Spot)-US\$	1299.62	+15.32	2-Year Bond	1.07	0.42
S&P 500	1881.14	-2.54	Oil (WTI-June)	99.76	+0.34	10-Yr. Bond	2.34	2.58
NASDAQ	4123.90	-3.55	CRB Index	307.14	+0.16	30-Yr. Bond	2.87	3.37

Thought for the Day

“The game of life is not so much in holding a good hand as playing a poor hand well.”
 – H.T. Leslie

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Speculative Buy: Significant gains expected over the next 6 – 12 months, but entire investment may be at risk.

Hold: Expected total returns of 0% to 10% over the next 6 – 12 months.

Reduce: Expected total returns of up to -10% over the next 6 – 12 months.

Sell: Expected total returns of over -10% over the next 6 – 12 months.

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