

Canadian Strategy Snapshot

TSX Poised to Outperform Into Year-End

Bottom Line

Despite lagging the S&P 500 year to date, we believe the TSX remains poised to reverse course and begin to overtake its neighbour to the south for the remainder of 2024. As a reminder, we recently increased both our S&P 500 and S&P/TSX price targets to 5,600 and 24,500 respectively. These new targets imply a near 5.5% return for the S&P 500 and a solid 9.5% return for the S&P/TSX into year end. Indeed, as we have discussed frequently over the last few quarters (see links below), we believe that a significant catch-up trade will eventually transpire in Canada. To be more specific, we believe the upside in Canadian equities will be driven by the strong relative value position, improving fundamental sentiment, returning foreign flows and the overall broadening of equity performance from the US mega-caps. Furthermore, when we analyze current Canadian index performance, two of the three largest sectors in the TSX (Energy and Materials) are already sharply outperforming the TSX this year. In fact, our work shows the TSX typically outperforms the SPX when two out of three are outperforming and rarely underperforms when ALL three of the big-three sectors are working. Furthermore, since 1956 the TSX outperformed the S&P 500 by over 10% on average in years when ALL three of these sectors were outperforming. Yes, while Financials are frankly languishing year to date, the sector is *outperforming year over year*. This suggests to us that Financials will likely reverse course much sooner than most investors believe and will begin outperforming as the year unfolds. Lastly, we believe there is significant room for a catch-up trade in the other non-big three sectors, which will also support the TSX strong returns in the second half of the year.

Overview:

- **All Three of TSX Heavy Weights Sectors Set to Outperform = Outperformance**
- **Value Advantage Key Long-Term Tailwind for TSX**
- **Improving Earnings Sentiment Is Near-Term Catalyst**

Please See these recent Snapshot for details on our view on the Canadian Catch-up Trade:

[Canadian Snapshot: Canadian Opportunities During Periods of US Volatility](#) (includes contrarian Canadian screen)

Canadian Strategy: [Canadian Small Cap Primed for Catch-Up Trade](#)

Implementation Strategies:

- [Canadian Equity PLUS](#), [Canadian Large Cap Ex Big 3 Sectors](#), [Canadian Small Cap Portfolio](#) and [Canadian GARP Portfolio](#)

Investment Strategy

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CDN Strategy – S&P/TSX Targets

S&P/TSX Price Target	
2024 Calendar Year End	24,500

S&P/TSX EPS Target	
2024 Calendar Year End	\$1500

Source: BMO Capital Markets Investment Strategy.

CDN Strategy – Recommended S&P/TSX Sector Weightings

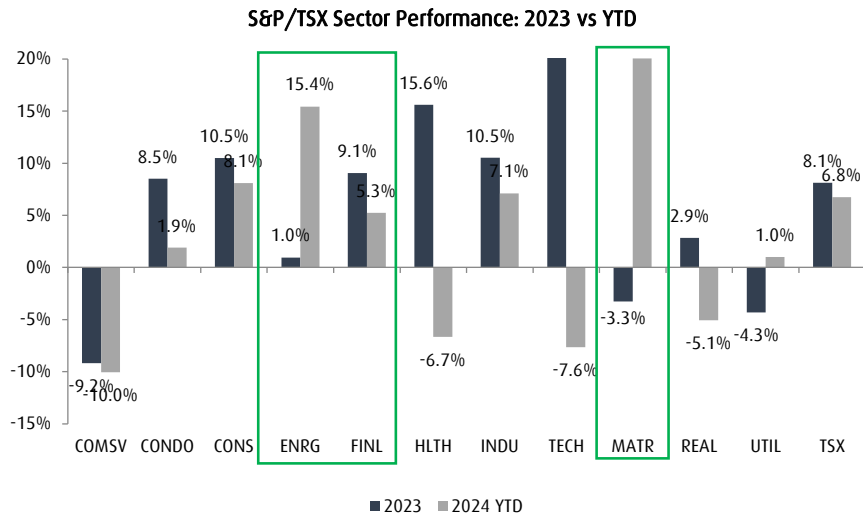
Sector	Opinion	Tgt. Wgt.
Communication Services	OW	4.5%
Consumer Discretionary	OW	4.5%
Consumer Staples	UW	3.5%
Energy	MW	18.0%
Financials	OW	31.5%
Health Care	UW	0.0%
Industrials	UW	12.0%
Information Technology	OW	9.0%
Materials	MW	11.0%
Real Estate	MW	2.0%
Utilities	MW	4.0%

Source: BMO Capital Markets Investment Strategy.

OW: Overweight
MW: Market Weight
UW: Underweight

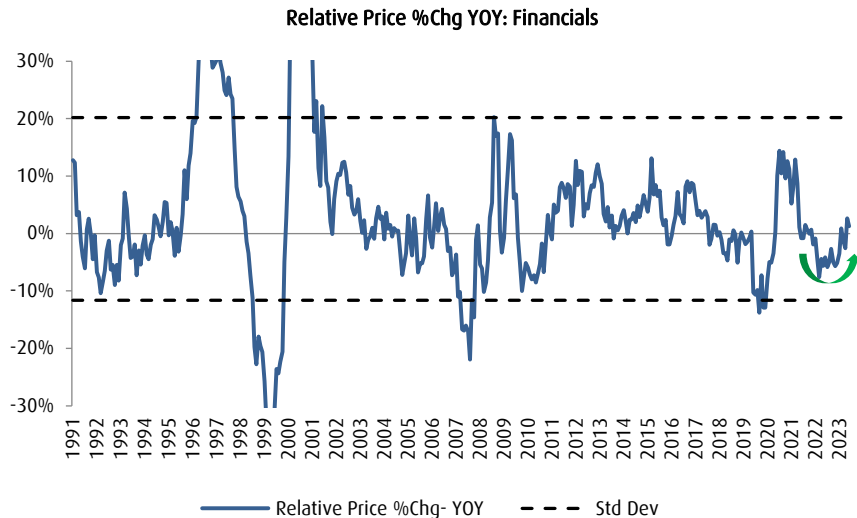
All Three TSX Heavy Weight Sectors Set to Outperform

After Sharp Underperformance in 2023; Two of the Three Large Sectors Are Working YTD



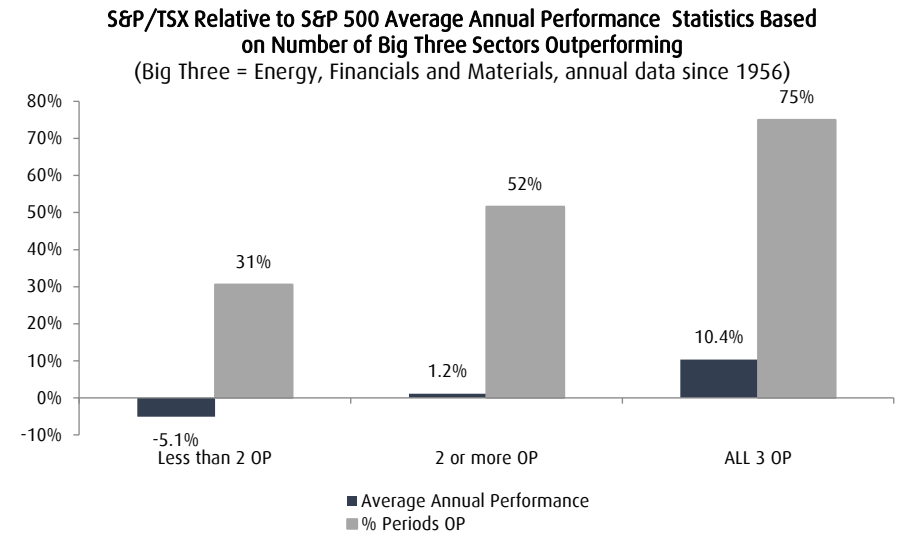
Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

Financials Performance Outperforming Year Over Year and Set to Outperform in 2024



Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

TSX Typically Outperforms When Two or More Big-Three Sectors Are Outperforming

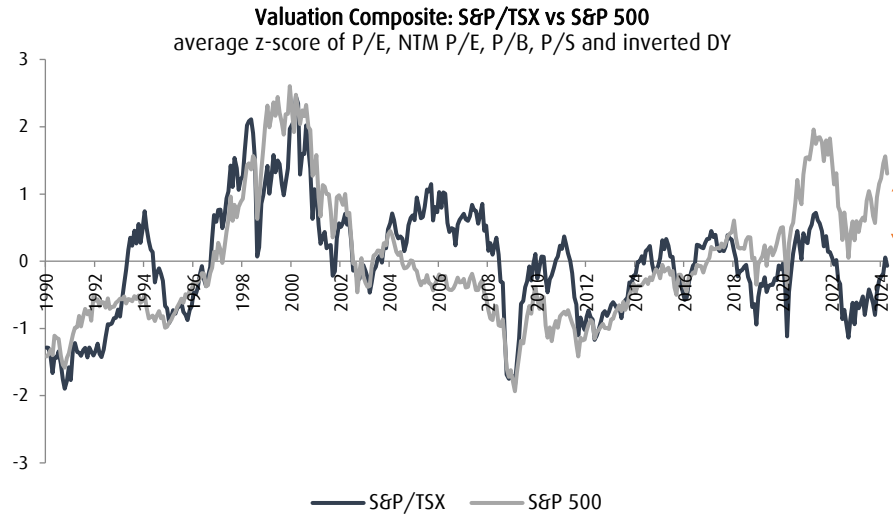


Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

- Unlike in 2023 when ALL the big three sectors (Energy, Financials, and Materials) underperformed, two of these three sectors in the TSX are sharply outperforming so far this year. However, despite lagging the S&P 500 year to date, we believe the catch-up trade in Financials and many of the other non-big three sectors in the second half of 2024 suggests the TSX is primed to outperform the S&P 500 over the next several quarters.
- Indeed, our work shows the TSX rarely underperforms the S&P 500 when ALL three of the big three sectors are outperforming the S&P/TSX. In fact, on average since 1956 the TSX outperformed the S&P 500 by over 10% on average in years when all three of these sectors were outperforming. Additionally, the TSX outperformed in 75% of these years.
- While Financials are not outperforming year to date, the sector is outperforming year over year, suggesting Financials are likely to start outperforming as the year progresses.

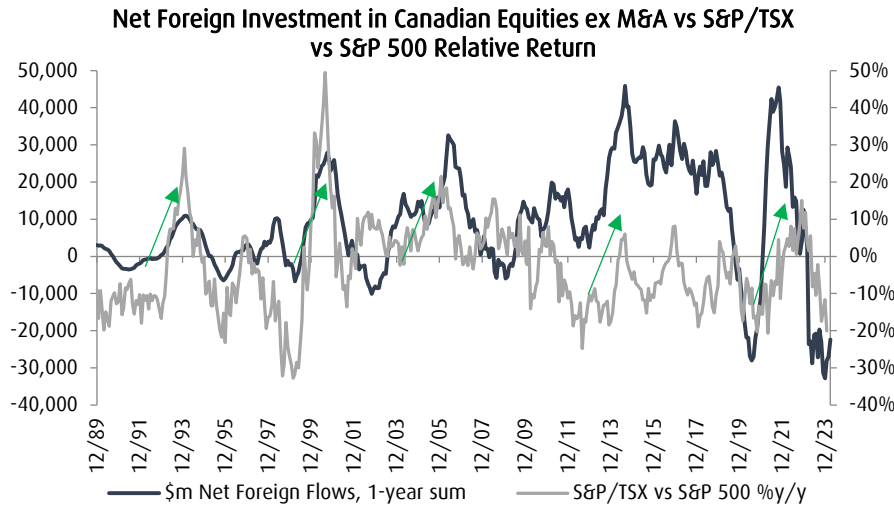
Value Advantage Key Long-Term Tailwind for TSX

Valuation Normalization Remains Key Long-Term Tailwind for TSX



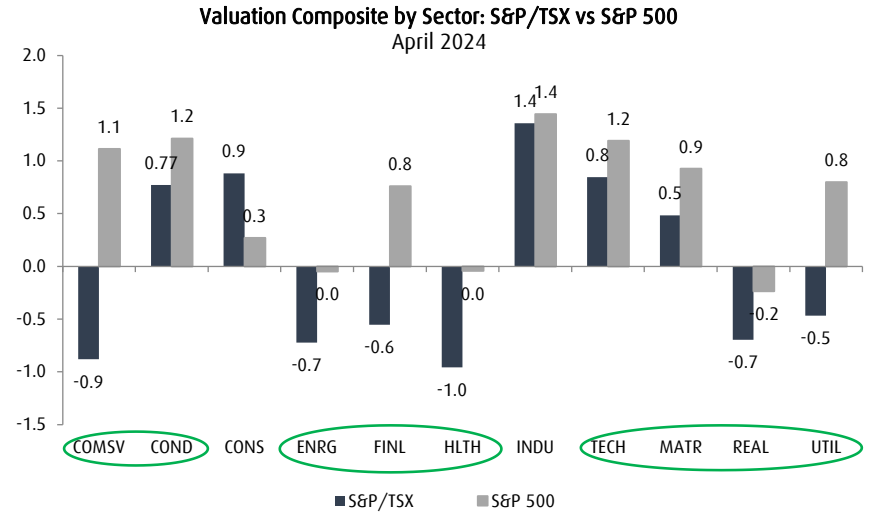
Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

Foreign Flows Have Stabilized and Beginning to Rebound = Contrarian Positive



Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES, Statscan.

Most TSX Sectors Show Value Advantage vs the US

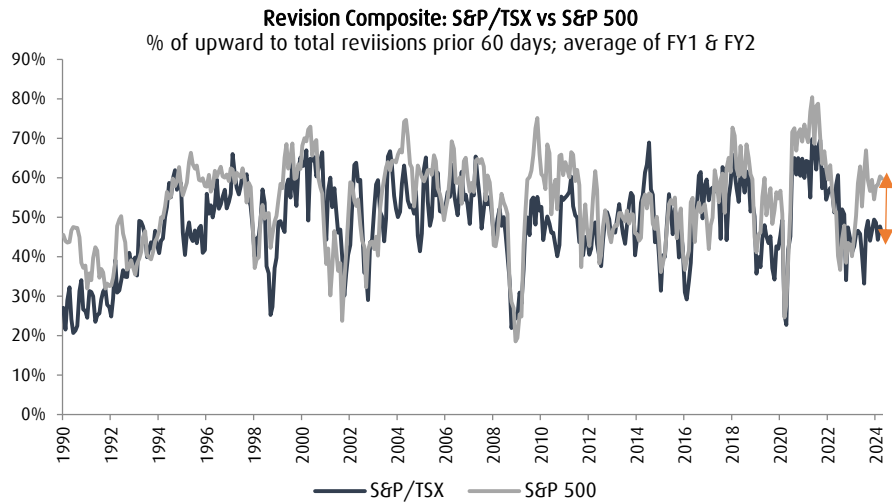


Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

- Yes, the current steep TSX valuation discount to the US can last for an extended period, especially given the S&P 500's heavy weight in Technology/growth areas of the market. (*We are NOT calling for a sharp valuation reversion*). However, from our perspective, the discount is overdone and will be a key long-term tailwind for the TSX, especially as confidence in earnings growth returns.
- **The Valuation Discount Is Broad Based:** When we look at the valuation discount by sector, the TSX is showing strong relative value in almost all sectors. In fact, only Canadian Consumer Staples is showing valuation above their US peers. Furthermore, 6 of the 11 TSX sectors have valuations below the long-term average, while only 3 of the 11 S&P 500 sectors are only slightly below historical averages.
- Canadian equities saw the sharpest net foreign outflows on record over the last year, easily surpassing the 2020 low. However, from our perspective, this is a strong contrarian positive for 2024. In fact, our work has shown that once these headwinds subside, rebounding flows (even just a moderation of outflow pressure) can be a strong tailwind for TSX relative performance. While Financials typically benefit the most and are the proxy trade for foreign investors, we believe rebounding flows will benefit all sectors given the strong value proposition and improving fundamentals.

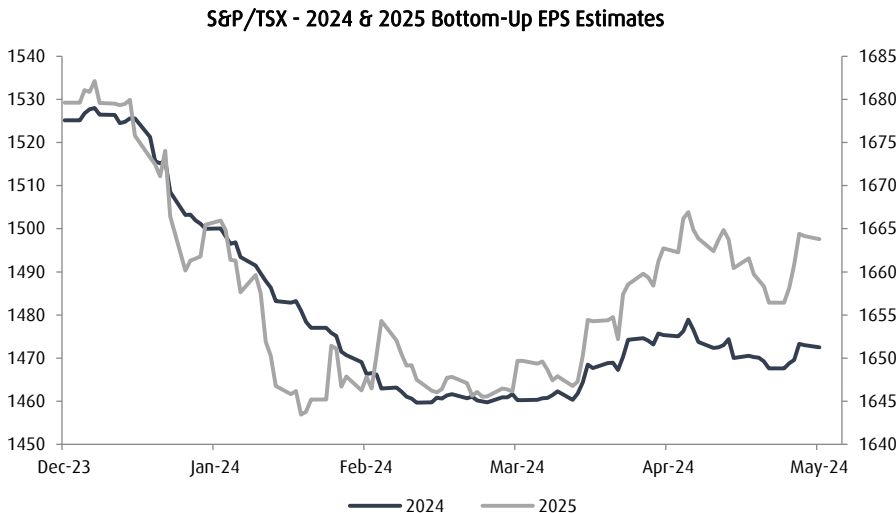
Improving Earnings Sentiment Is Near-Term Catalyst

Catch-Up in Earnings Confidence Will be Key to S&P/TSX Outperformance



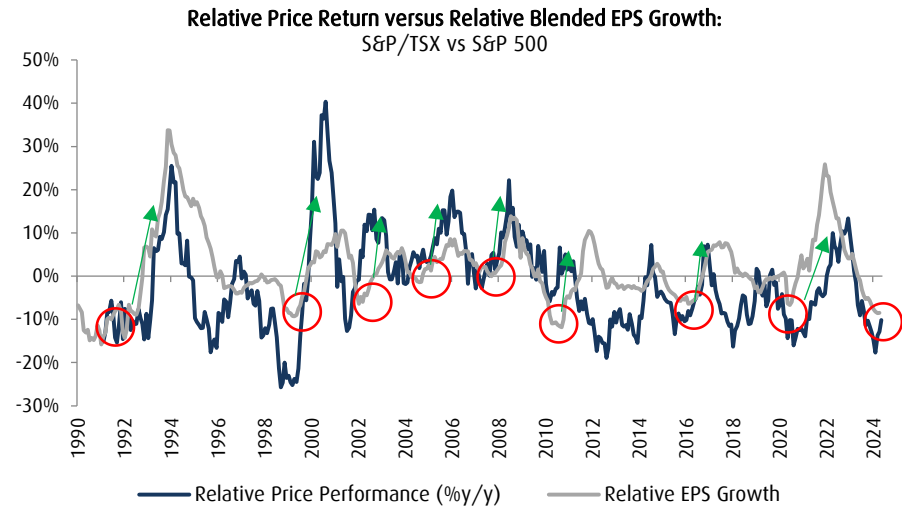
Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

Both 2024 and 2025 EPS Sentiment Has Been Improving Since Last Earnings Season



Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

Troughs in Relative Growth Often Coincide With Troughs in Relative Performance



Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

- **Our revision composite for the S&P/TSX and the S&P 500 clearly show the more cautious revision trends in Canada versus the US.** The S&P 500 has seen over 50% net positive revisions throughout 2023 and into 2024, while the S&P/TSX has not had 50% net positive revisions since 2022. From our perspective, this has been one of the key headwinds that has been holding the TSX valuations back. As such, as earnings revision begin to improve (“Catch-up”) this will be a key catalyst for valuation expansion in the second half of the year, in our opinion.
- Canadian growth and growth expectations have clearly diverged from the US. Yes, while the slowing resource sectors earnings growth played a major role in this divergence, our work shows the spread between the TSX and SPX earnings growth has reached an extreme. From our perspective, this is another strong contrarian indicator for Canada. Since 1990, troughs in the spread of earnings growth have typically marked the trough in relative price performance. As such, we believe Canada is poised from a strong contrarian catch-up trade as earnings confidence returns in the second half of the year.
- The clearest sign of bottoming earnings sentiment is that both FY2024 and FY2025 bottom-up earnings expectations troughed in mid-March and are now up almost 1% since the fourth-quarter earnings season (March-April).

Recent Canadian Strategy Research Reports

Date	Title
Canadian Strategy Snapshots	
5/16/2024	Canadian Strategy Snapshot: S&P/TSX Target Update
5/9/2024	Canadian Strategy Snapshot: Factor Performance Observations of the TSX
4/24/2024	Canadian Strategy Snapshot: Our View on Yield Sectors and Interest Rate Regimes
4/9/2024	Canadian Strategy Snapshot: Canadian Advantage During Periods of US Volatility
3/27/2024	Canadian Strategy Snapshot: Canadian Small Cap Primed for Catch-Up Trade
3/21/2024	Canadian Strategy Snapshot: No Signs of 'Tigger' Yet
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2/27/2024	Canadian Strategy Snapshot: Contrarian Positives Amid Canadian Equity Apathy
2/15/2024	Canadian Strategy Snapshot: Canadian YARP Opportunities
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1/17/2024	Canadian Strategy Snapshot: Our Underweight Canadian Industrials
1/11/2024	Canadian Strategy Snapshot: Strong Fourth Quarter Provides Hints for 2024
12/13/2023	Canadian Strategy Snapshot: Notes From the Road – Canadian Year Ahead Edition
10/30/2023	Canadian Strategy Snapshot: Canada Well Positioned for Normalization
10/18/2023	Canadian Strategy Snapshot: Canadian Small Cap Opportunities
10/12/2023	Canadian Strategy Snapshot: As Yield Advantage Fades Focus on Dividend Growth
9/21/2023	Canadian Strategy Snapshot: Divergent Growth Outlook Is Oversold
9/12/2023	Canadian Strategy Snapshot: Post Summer Performance Observations
8/16/2023	Canadian Strategy Snapshot: Four Observations From Q2 Earnings Season
8/10/2023	Canadian Strategy Snapshot: Cash Generation Key Source of Strength & Stability
7/26/2023	Canadian Strategy Snapshot: The Canadian Value Proposition
7/13/2023	Canadian Strategy Snapshot: Spotlight on Key Revision Trends in the TSX
6/29/2023	Canadian Strategy Snapshot: 2023 Mid-Year Update for the TSX
6/21/2023	Canadian Strategy Snapshot: Overweight Financials With Heightened Selectivity
Monthly Reports	
5/3/2024	Canadian Strategy: Canadian Chartbook – May 2024
5/3/2024	Canadian Strategy - Canadian Factor Profiles – May 2024
Investment Strategy Snapshots and Special Reports	
11/27/2023	2024 Market Outlook: The Year Ahead for the US and Canada
US Strategy	
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Buy	Outperform	49.6 %	20.0 %	49.5 %	56.0 %	60.8 %	57.7%
Hold	Market Perform	48.1 %	20.2 %	48.4 %	42.6 %	38.4 %	37.5%
Sell	Underperform	2.4 %	18.2 %	2.2 %	1.4 %	0.8 %	4.8%

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http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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