

Canadian Strategy Snapshot

Canadian Opportunities During Periods of US Volatility

Bottom Line

As we have discussed in recent comments, the current pace of US stock market gains is not likely sustainable – especially over the next few months. As such, there is an increasing risk of more stagnant US equity market returns over the near term. Please see our [US Strategy Comment: Navigating the Range](#) for details. When we examine a potential deceleration of upward momentum in the US stock market, our work shows Canada can still post solid returns AND outperform the US during more rangebound US markets. In fact, our work shows there are many areas within the Canadian equity market that are poised for a strong catch-up trade. This is particularly relevant given our view that North American equity market performance is likely to continue to broaden and Canada remains well-positioned from a valuation and fundamental standpoint. As such, we believe the TSX is likely to outperform near term even if US equity markets exhibit more tempered returns over the next few months. With respect to implementation opportunities, please refer to a broad screen of fundamentally sound Contrarian Canadian stocks that we constructed that should be poised for a strong “catch-up” trade.

Overview:

- Canada Can Post Solid Returns When US Equity Markets Performance Moderates
- Strong Breadth of Opportunities for the Catch-Up Trade
- Limitations of Sell in May Seasonal Pattern

Implementation Strategies:

- Canadian “Catch-Up” Trade and True Contrarian Screens
 1. “Catch-Up” Trade screen: A broad and well-diversified list of 57 Canadian large to small cap Canadian companies with moderate to weak performance this year and moderate to weak trends in analyst expectations.
 2. True Contrarian screen: Most disliked companies of the “Catch-up” trade screen by analysts.

Investment Strategy

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Legal Entity: BMO Capital Markets Corp.
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CDN Strategy – S&P/TSX Targets

S&P/TSX Price Target	
2024 Calendar Year End	23,500

S&P/TSX EPS Target	
2024 Calendar Year End	\$1,500

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

Canada Can Post Solid Returns When US Equity Markets Performance Moderates

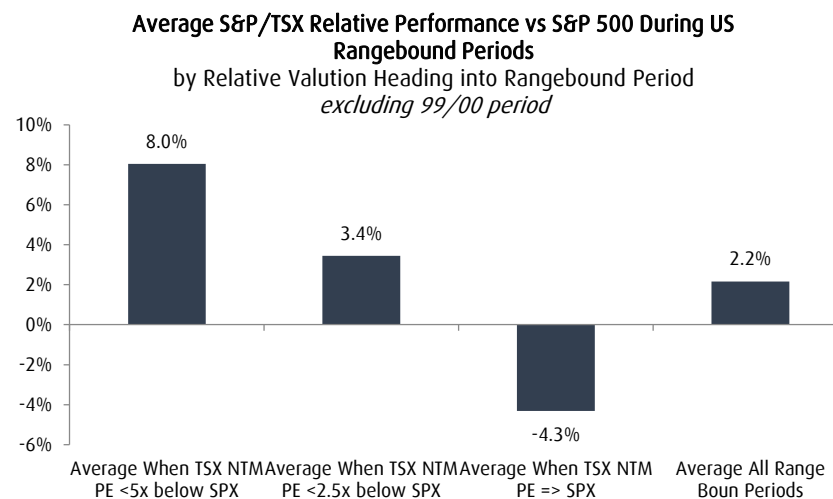
The S&P/TSX Tends to Outperform the S&P 500 During US Range-Bound Markets.

- + Typically Underperformed Heading Into These Range-Bound Markets (like current);
- + Typically Traded at Steep Discount Heading Into These Range-Bound Markets (like now).

US Range-Bound Period Start	End	S&P/TSX vs S&P 500 (Relative Metrics)		
		Return	T-6M Perf.	NTM P/E*
4/4/91	12/11/91	-4.3%	-10.5%	-3.7x
1/2/92	11/17/92	-8.4%	-11.5%	-3.4x
12/18/92	7/6/93	20.0%	-10.2%	-2.9x
7/16/97	1/9/98	-6.1%	-10.9%	-1.5x
3/18/99	10/8/99	6.6%	-14.2%	-5.7x
11/18/99	10/5/00	39.2%	3.2%	-5.3x
10/11/01	5/16/02	9.5%	-2.6%	-9.3x
12/23/03	10/25/04	7.6%	5.0%	-3.4x
11/12/04	10/27/05	15.6%	0.6%	-2.0x
11/25/05	7/3/06	4.6%	8.6%	-0.3x
4/25/07	12/26/07	0.0%	2.6%	-0.4x
1/18/11	7/29/11	-4.3%	-2.9%	1.2x
4/2/12	12/28/12	-0.4%	-17.9%	-0.1x
12/29/14	8/17/15	-3.4%	-9.8%	-0.9x
11/3/15	7/7/16	3.7%	-10.6%	-2.3x
1/26/2018	8/24/2018	0.7%	-8.9%	-0.8x
10/3/2018	10/9/2019	2.1%	-4.6%	-2.3x
4/30/22	5/31/23	-6.9%	9.0%	-4.2x
Current			-6.6%	-5.4x
	Average	4.2%	-4.8%	-2.6x

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

Steeper the Discount the Better the Relative Performance During These Periods



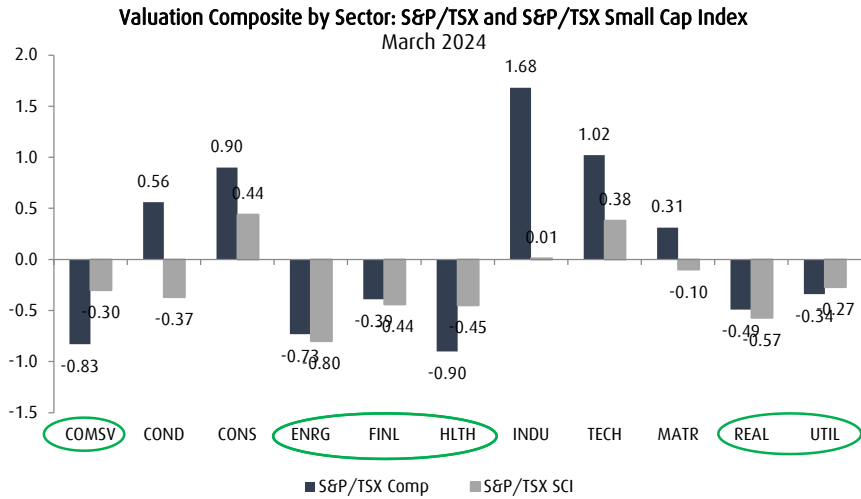
Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

As we have laid out in recent comments, we do not view the current pace of US stock market gains as sustainable over the coming months. As such, we believe there is an increasing risk of a more range-bound US equity market in the next few quarters. Please see our [US Strategy Comment: Navigating the Range](#) for details. However, despite this slowing performance in the US, our work shows Canada can post solid returns and typically outperforms the US during these periods of flat returns. In fact, since 1990, the S&P/TSX outperformed the S&P 500 by over 4% on average during US range-bound markets and outperformed in 61% of the periods. Even if we exclude the largest outlier period (11/1999 to 10/2000), the TSX still outperforms the US by over 2% on average. In parallel to the current market environment, the TSX typically underperformed heading into the range-bound markets and typically traded at a steep discount to the S&P 500 heading into these periods. As such, we believe the TSX is well-positioned to outperform even if US equity markets see more tempered and volatile returns over the coming months and quarters.

- **Steeper Discount = Better Relative Performance:** From our perspective, the steep relative valuation of the TSX means the TSX is well-positioned for a catch-up trade even as US equity markets stall. In fact, since 1990 when the TSX had an NTM P/E 5 times lower than the S&P 500, the TSX outperformed the S&P 500 by over 8% during periods.

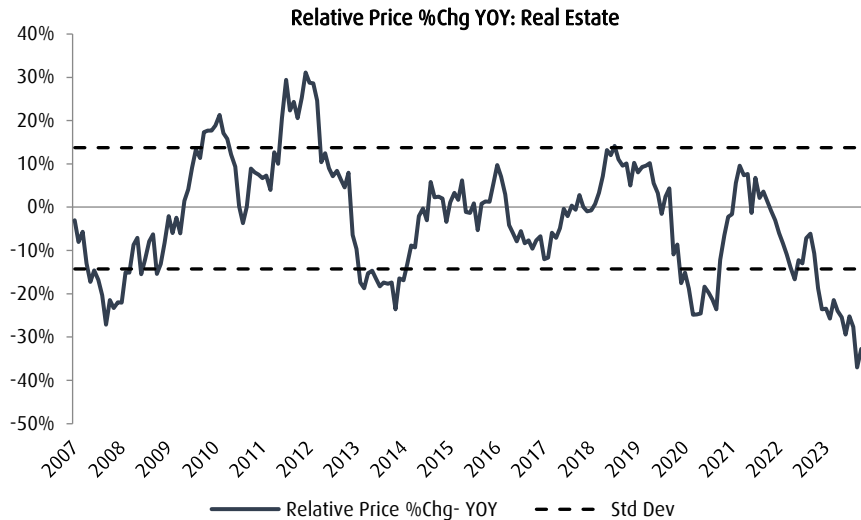
Strong Breadth of Opportunities for the Catch-Up Trade

Breadth of Value in the TSX



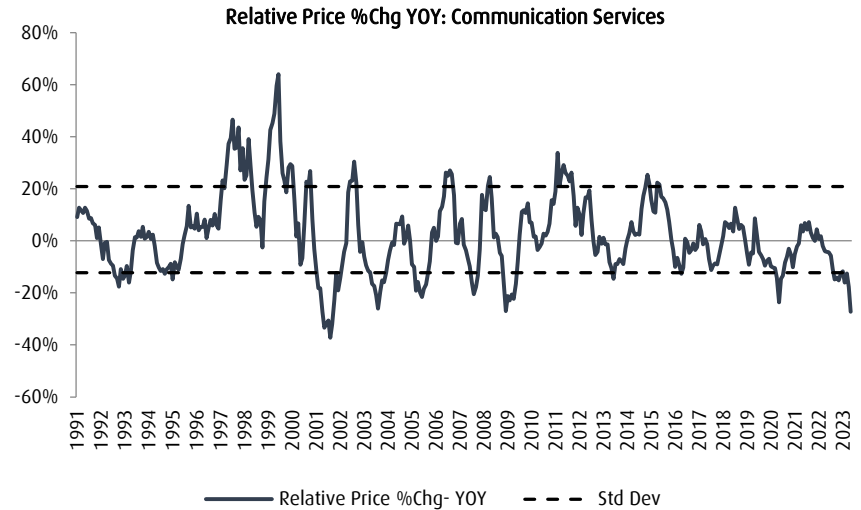
Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

Real Estate Sector Is Flagging Strong Contrarian Underperformance



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

Communication Services Is Flagging Strong Contrarian Underperformance



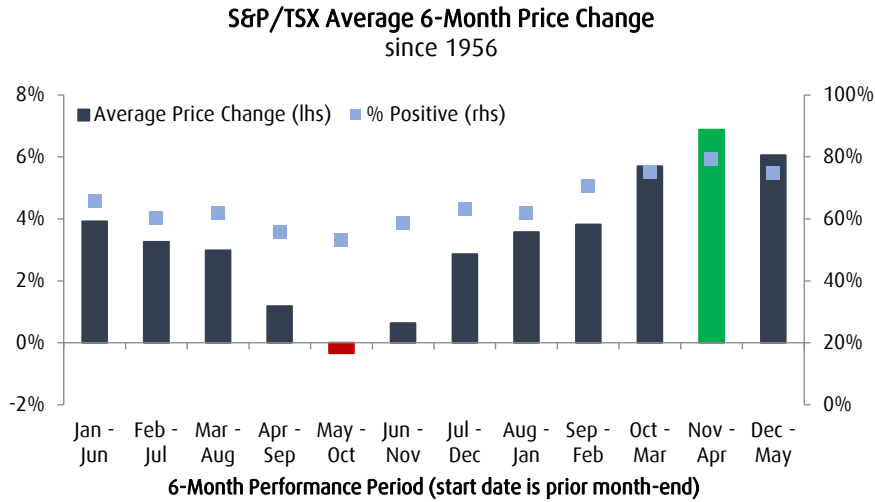
Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

There are many areas within the Canadian equity market that could see a strong catch-up trade in the quarters ahead, especially as US performance trends moderate and begin to broaden out. Indeed, our valuation composite, which is a z-score average of many core valuation metrics, continues to show broad value within the Canadian equity markets, even as the TSX hits new all-time highs.

- Breadth of Value = Breadth of Catch-Up Trade Opportunities:** Six of the eleven GICS sectors in the S&P/TSX Composite and eight of the eleven GICS sectors in the S&P/TSX Small Cap universe are showing valuations below historical averages.
- Communication Services Flagging Strong Contrarian Trade:** Not only is our valuation composite for the Canadian Communication services sector nearly 1-standard deviation below its historical average, but relative performance is firmly below 1-standard deviation, and is flagging the weakest relative performance since the year 2000.
- Real Estate Is Flagging Strong Contrarian Trade:** Our valuation composite for the Canadian Real Estate sector is now 0.5 standard deviations below its historical average. Furthermore, the sharp underperformance of the sector is now firmly below 2-standard deviations versus its historical and is the weakest relative performance since 2007.

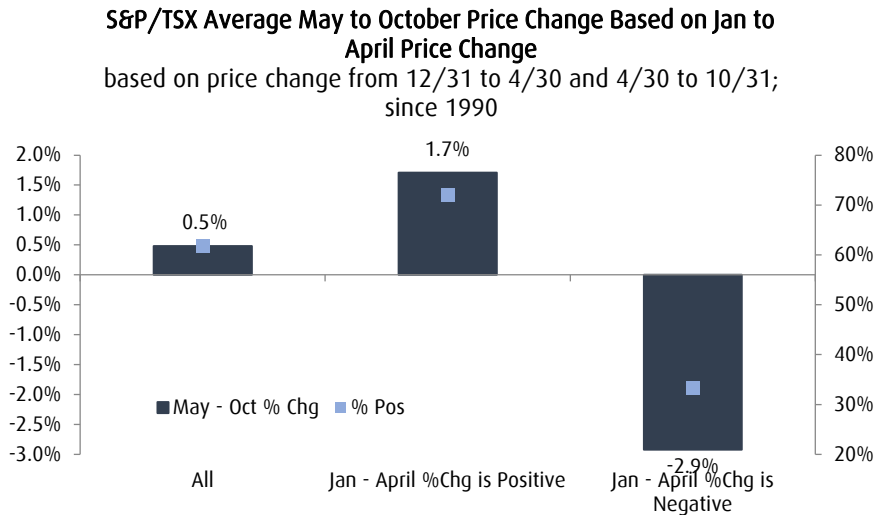
Limitations of Sell in May Seasonal Pattern

Yes, the May to October Period Has Shown the Weakest Seasonal Pattern



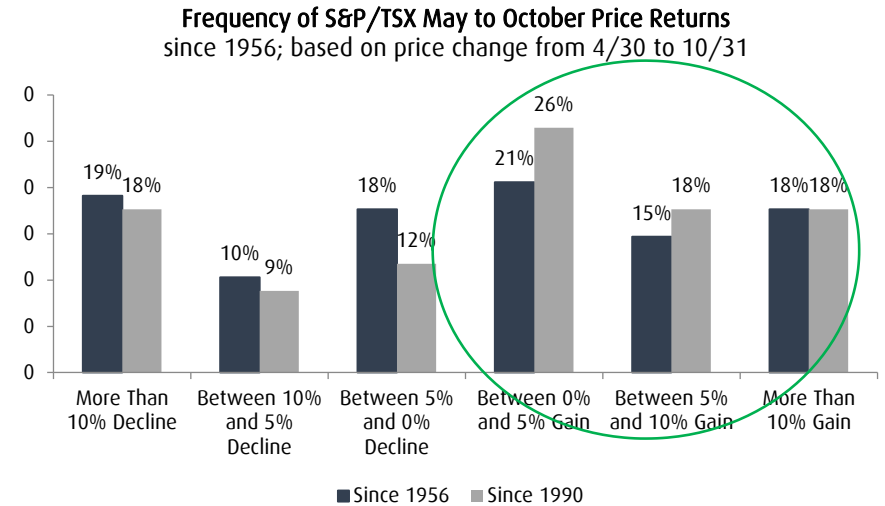
Source: BMO Capital Markets Investment Strategy Group, Factset, Compustat, IBES.

Strong Starts to the Year – Lower Likelihood of Seasonal Weakness



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

Positive Returns Remain More Likely, Especially Since 1990



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

With the S&P/TSX up 6.1% to start the year and hitting new all-time highs, many cautious investors have shifted their focus to summer seasonality to remain more cautious. While there is certainly some historical merit to this pattern, we believe there is still significant room for Canadian equities to catch-up to global markets. Furthermore, our work shows this strategy has limited effectiveness, particularly more recently and when the market has started the year strong. When we look at this seasonal pattern back to 1956, yes, we found the May to October seasonal period posted a negative return on average, suggesting sell in May is an effective strategy. However, since 1990, this seasonal period has posted a positive return on average with 65% of the years posting positive returns. Breaking this down even further, we found that when the January to April period is positive, the average return from May to October is up 1.7% on average with over 70% of the years posting positive returns.

Indeed, while the sell in May strategy may be tempting for investors looking to take profits, our work shows this strategy has limited effectiveness. As such, we believe investors should remain invested and avoid using this seasonal pattern for long-term investment strategies.

Canadian “Catch-Up” Trade and True Contrarian Screens

The “Catch-Up” Screen:

- Listed on the Toronto Stock Exchange, Market Cap > \$600 million
- **Moderate to weak performance:** YTD Price Return: < +10%; but > -20%.
- **Moderate to Weak Revision Trends:** Breadth of Upward FY1 EPS Revisions < 60%
- **Moderate to Low Valuation:** NTM PE < 20x
- **Moderate Relative Expectations:** % Buy Ratings < 80%; Price Target < 40%

The True Contrarian Screen:

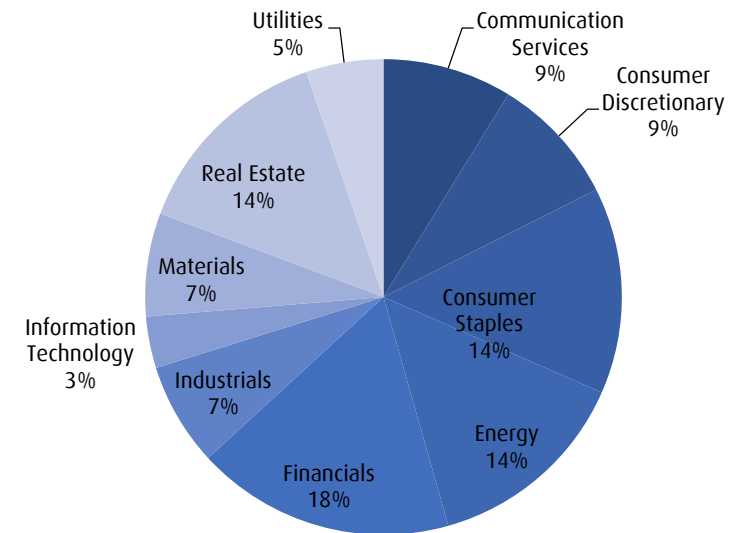
- Using the “Catch-Up” trade Screen
- **Analyst Pessimism:** % Buy Ratings < 50% buy rated; Breadth of FY1 EPS Revisions < 50% positive.

Key Statistics of “Catch-Up” Trade Screen

	"Catch-Up"	True Contrarian	TSX
Number of Stocks	57	18	224
Average Price Performance YTD	-2%	-5%	0%
Average Breadth of Upward Revisions	34%	30%	45%
Average % Buy Ratings	52%	25%	70%
Average Dividend Yield	4.3%	5.1%	3.3%
Average FCF Yield	10.1%	9.7%	4.9%
Median FCF Yield	7.5%	7.3%	
Average NTM PE	12.8	13.3	14.8
Average NTM EPS Growth	31%	29%	7%
Median NTM EPS Growth	9%	8%	
Average LTM ROE	12%	12%	13%

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

“Catch-Up” Screen Shows Clear Breadth Across ALL Sectors



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

- The Canadian “Catch-Up” trade screen is well-diversified, with the largest Overweight in Canadian Real Estate.
- Both screens show key **contrarian** statistics,
 - ✓ Average price performance year to date is just -2%,
 - ✓ Only 34% of analyst FY1 revision over the last three months have been positive for the broader screen.
 - ✓ Only 52% of all analyst ratings are a BUY rating versus 70% for the TSX Composite.
- Yet, fundamental statistics are **STRONG**
 - ✓ The average dividend yield is a solid 4.3%, well below the average and median free cash flow yield.
 - ✓ The average and median NTM P/E is sub-13x. Below the market and well below historical averages.
 - ✓ Growth is expected to rebound, with Median NTM EPS growth of 9%.
 - ✓ Finally, LTM profitability remains strong with LTM ROE of 12%.

Canadian “Catch Up” Trade Screen

Ticker	Company	Price	Sector	BMO Rating
AP.UT	Allied Properties Real Estate Investment Trust	18.03	Real Estate	NR
BCE	BCE Inc.	44.5	Communication Services	Mkt
BIR	Birchcliff Energy Ltd.	5.38	Energy	Mkt
BMO	Bank of Montreal	133.08	Financials	NR
BNS	Bank of Nova Scotia	68.46	Financials	Mkt
CAE	CAE Inc.	27.29	Industrials	OP
CAR.UT	Canadian Apartment Properties Real Estate Investment Trust	44.42	Real Estate	OP
CCA	Cogeco Communications Inc.	57.23	Communication Services	Mkt
CM	Canadian Imperial Bank of Commerce	68.13	Financials	OP
CNR	Canadian National Railway Company	177.15	Industrials	OP
CPX	Capital Power Corporation	36.96	Utilities	Mkt
CRR.UT	Crombie Real Estate Investment Trust	13.64	Real Estate	OP
CRT.UT	CT Real Estate Investment Trust	13.6	Real Estate	Mkt
CTC.A	Canadian Tire Corporation, Limited Class A	133.4	Consumer Discretionary	Mkt
CU	Canadian Utilities Limited Class A	30.47	Utilities	Mkt
CWB	Canadian Western Bank	27.89	Financials	OP
D.UT	Dream Office Real Estate Investment Trust Class A	19.54	Real Estate	NR
DOO	BRP, Inc.	97.84	Consumer Discretionary	OP
EMP.A	Empire Co. Ltd. Class A	32.27	Consumer Staples	Mkt
ENB	Enbridge Inc.	47.84	Energy	Mkt
ENGH	Enghouse Systems Limited	29.8	Information Technology	NR
FCR.UT	First Capital Real Estate Investment Trust	15.83	Real Estate	OP
FRU	Freehold Royalties Ltd.	14.58	Energy	Mkt
GOOS	Canada Goose Holdings, Inc.	15.14	Consumer Discretionary	NR
HR.UT	H&R Real Estate Investment Trust	9.35	Real Estate	NR
IAG	iA Financial Corporation Inc.	84.59	Financials	OP
IFC	Intact Financial Corporation	222.2	Financials	OP
IGM	IGM Financial Inc.	34.29	Financials	Mkt
JWEL	Jamieson Wellness, Inc.	26.6	Consumer Staples	OP
LAS.A	Lassonde Industries, Inc. Class A	149.18	Consumer Staples	NR
LIF	Labrador Iron Ore Royalty Corporation	29.63	Materials	Mkt
LNR	Linamar Corporation	69.66	Consumer Discretionary	OP

Source: BMO Capital Markets Investment Strategy. Prices as of 4/8/2024. Rating Key, according to BMO Capital Markets Equity Research: OP: Outperform, Mkt: Market Perform, Und: Underperform, NR: Not rated by BMO Capital Markets Equity Research. ** Covered by BMO Capital Markets, Corp.; all others are covered by BMO Nesbitt Burns, Inc.

cont., Canadian “Catch Up” Trade Screen

Ticker	Company	Price	Sector	BMO Rating
MRU	Metro Inc.	71.13	Consumer Staples	Mkt
MTY	MTY Food Group Inc.	48.93	Consumer Discretionary	NR
NTR	Nutrien Ltd.	75.74	Materials	OP
NVA	NuVista Energy Ltd.	12.01	Energy	NR
NWC	North West Company Inc.	39.44	Consumer Staples	Mkt
OTEX	Open Text Corporation	50.4	Information Technology	OP
PBH	Premium Brands Holdings Corp	86.78	Consumer Staples	OP
POW	Power Corporation of Canada	37.66	Financials	Mkt
PPL	Pembina Pipeline Corporation	48.74	Energy	OP
PSI	Pason Systems Inc.	16.95	Energy	OP
QBR.B	Quebecor Inc. Class B	29.85	Communication Services	Mkt
RCH	Richelieu Hardware Ltd	41.5	Industrials	NR
RCI.B	Rogers Communications Inc. Class B	53.86	Communication Services	OP
REI.UT	RioCan Real Estate Investment Trust	18.5	Real Estate	Mkt
RUS	Russel Metals Inc.	43.41	Industrials	Mkt
RY	Royal Bank of Canada	139.95	Financials	OP
SAP	Saputo Inc.	26.65	Consumer Staples	OP
SLF	Sun Life Financial Inc.	72.4	Financials	OP
SPB	Superior Plus Corp	9.71	Utilities	OP
STLC	Stelco Holdings, Inc.	45.05	Materials	OP
T	TELUS Corporation	22.05	Communication Services	OP
TCW	Trican Well Service Ltd.	4.39	Energy	OP
VET	Vermilion Energy Inc.	17.03	Energy	NR
WN	George Weston Limited	179.01	Consumer Staples	Mkt
WPK	Wipak Ltd.	39.23	Materials	Mkt

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Canadian True Contrarian Screen:

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Recent Canadian Strategy Research Reports

Date	Title
Canadian Strategy Snapshots	
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
3/12/2024	Canadian Strategy Snapshot: Unwinding Reliance of the Few to the Many
2/27/2024	Canadian Strategy Snapshot: Contrarian Positives Amid Canadian Equity Apathy
2/15/2024	Canadian Strategy Snapshot: Canadian YARP Opportunities
2/7/2024	Canadian Strategy Snapshot: Our Overweight Canadian Consumer Discretionary
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
6/13/2023	Canadian Strategy Snapshot: Hidden Strength and Opportunities Within the TSX
6/5/2023	Canadian Strategy Snapshot: Upgrading Technology to Overweight
5/17/2023	Canadian Strategy Snapshot: Factor Performance Observations of the TSX
5/10/2023	Canadian Strategy Snapshot: Downgrading Consumer Staples to Underweight
4/26/2023	Canadian Strategy Snapshot: Canadian GARP Opportunities
Monthly Reports	
4/3/2024	Canadian Strategy: Canadian Chartbook – April 2024
4/3/2024	Canadian Strategy - Canadian Factor Profiles – April 2024
Investment Strategy Snapshots and Special Reports	
11/27/2023	2024 Market Outlook: The Year Ahead for the US and Canada
US Strategy	
<i>Please call or e-mail us to be added to our standalone US Strategy research</i>	

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Distribution of Ratings (April 08, 2024)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	49.1 %	18.9 %	46.2 %	55.6 %	57.1 %	57.7%
Hold	Market Perform	48.3 %	21.5 %	51.6 %	42.8 %	42.0 %	37.5%
Sell	Underperform	2.6 %	16.7 %	2.2 %	1.6 %	0.9 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

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OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis;

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

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(S) = Speculative investment;

Spd = Suspended - Coverage and rating suspended until coverage is reinstated;

NR = No Rated - No rating at this time; and

R = Restricted - Dissemination of research is currently restricted.

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Prior BMO Capital Markets Rating System

(April 2013 - October 2016)

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

(January 2010 - April 2013)

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

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