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"Mo Money, Mo Problems"

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Our view: It's been a monster year for equities with most North American equity indices up ~27% year-to-date, leaving many investors with "Mo Money, Mo Problems". Specifically, in conversation with clients, many are wondering how to position heading into year-end. We note that while the strong equity market performance in 2021 has been indicative of several unique variables (e.g., near-zero interest rates, extreme levels of accommodation – both monetary and fiscal, strong corporate and household fundamentals, etc.) we do not expect to see a repeat in 2022. With this in mind, we suggest two common options for clients with "Mo Problems" this year including: 1) taking profits/crystallizing gains; and/or, 2) tax-loss selling.

Money talks, so keep a lookout for the tailored suits, chauffeured cars, fine hotels, and big cigars. It's been a record year for equity markets, with major North American indices including the S&P/TSX and the S&P 500 index up ~27% year-to-date (YTD). This compares favourably to the 20-year annual average of ~10% and ~13% for the S&P/TSX and S&P 500 index, respectively since 1990. As we have highlighted ad nauseam in our past research notes, the extreme levels of accommodation from global policymakers over the past two years has been the key driver for performance of equity markets this year. These extreme levels of support have resulted in subdued levels of equity market volatility, strong market breadth with most sectors in the green and a majority of constituents listed on both indices trading in a positive territory for the year. Looking at this from the opposite side of the spectrum, the list of major losers or stocks down -20% or more is very narrow and includes only 13 names for the S&P/TSX index and 11 for the S&P 500 index.

Standin' at the crossroads, tried to flag a ride. As we head into year-end and look to 2022, we caution investors from extrapolating the return and volatility profile of 2021 for next year. This is especially true as policy makers globally pull-back/taper very extreme levels of support from the economy. Governments and central banks globally have already begun normalizing policy which we expect will cause the global economic engine to decelerate from the above-average level of +5.9% YoY in 2021 towards the long-term trend growth of +3.6% YoY in 2023. We believe these factors will result in a more challenging environment for investors to navigate and expect to see a return to historical trends for both economic and corporate fundamentals.

Final takeaways for investors. There are two options we suggest investors consider heading into year-end and into 2022. **1)** Taking profits/crystallizing gains; and/or, **2)** tax loss selling in non-registered accounts. For profit taking candidates, we would suggest investors look at their Information Technology holdings in Canada, which as a sector is trading at an elevated valuation and at a considerable premium versus its historical 5-year multiples on forward earnings. For the S&P 500 index, the sectors investors could look to for trimming candidates includes Consumer Discretionary and Information Technology. We also identify the main tax-loss selling candidates on both indices (stocks down 20% or more) and the ETFs that could help investors maintain exposure while sitting on the "sidelines" for 30 days.

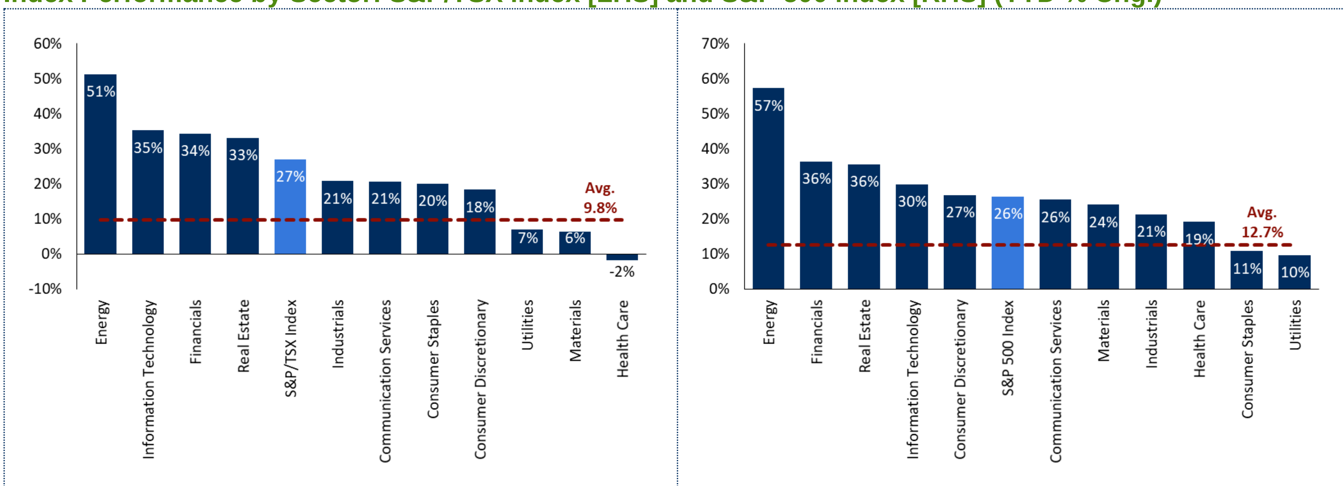
Please read domestic and foreign disclosure/risk information beginning on page 8

A Record Year for Equities

It's been a very strong year for equity markets with major North American indices, including the S&P/TSX and S&P 500 index up ~27% as of November 17, 2021. Record low interest rates/yields, +US$17 trillion in global fiscal stimulus, and a strong demand environment has been a boon for equity markets which have performed well above historical returns (the 20 year annual return for the S&P/TSX and the S&P 500 index, is ~10% and ~13%, respectively.

Breadth or the participation of sectors has been very strong across both indices, with all sectors in the green on the S&P 500 index and only Health Care in negative territory on the S&P/TSX. From our research looking back over 20 years, this is an infrequent occurrence. In fact, this has only occurred three times for the S&P/TSX index and eight times for the S&P 500 index during this period.

Index Performance by Sector: S&P/TSX index [LHS] and S&P 500 index [RHS] (YTD % Chg.)



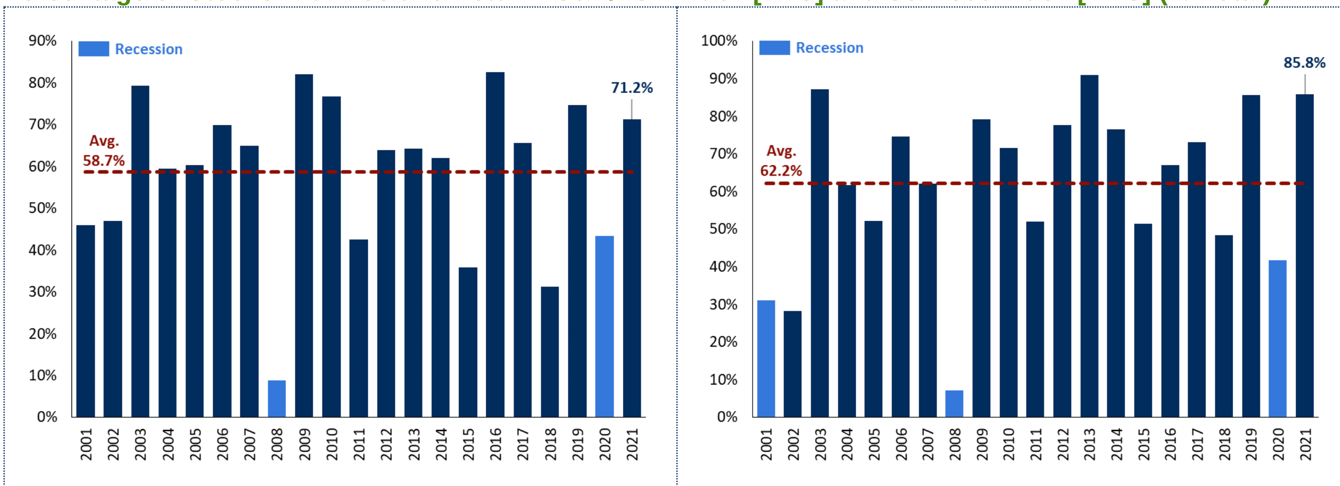
Source: FactSet, Raymond James Ltd. As of November 17, 2021.

Taking a closer look at the year-to-date (YTD) performance for both indices we see that the percentage of stocks with positive returns this year is well above the historical 20-year average and near a record high. **We have also seen strong positive years with broad based participation for the S&P/TSX and the S&P 500 index usually observed in the years following a recession (e.g., the Global Financial Crisis, the COVID-19 pandemic, and the Dot-Com bubble).**

We note that during recessionary environments, investors usually sell stocks as the outlook turns negative with the economy contracting, while in the year following a recession, investors pile back into stocks as the economy rebounds and the outlook improves. However, once the easy gains are in and the economy is back on track, we have also noticed that the percentage of stocks ending the year in positive territory falls in the years following as the economic climate normalizes.

We expect this will probably be the case in the years ahead especially as we move beyond 2021 as many of the factors that have been in place since the onset of the pandemic (e.g., near-zero interest rates, extreme levels of accommodation – both monetary and fiscal) and very supportive of above trend equity market performance normalize. We also note that we are seeing some resemblance to 2013, when the Fed started the tapering process and begun reducing its monthly bond purchases.

Percentage of Stocks with Positive Return: S&P/TSX index [LHS] and S&P 500 index [RHS] (% Total)



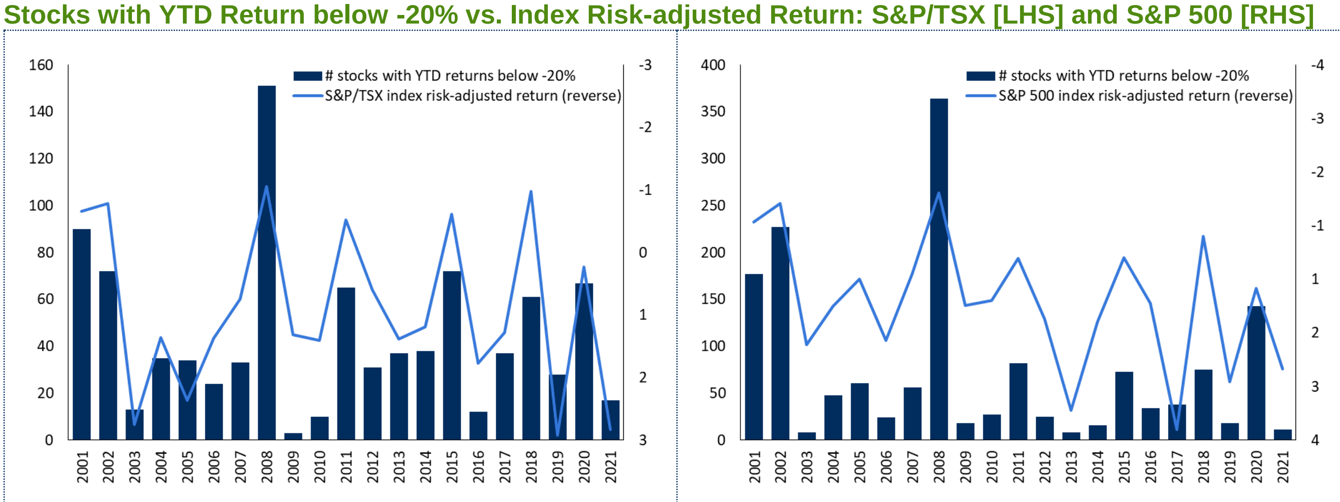
Source: Bloomberg, Raymond James Ltd. As of November 17, 2021.

While there have been many winners this year or stocks in positive territory, the list of big losers or stocks down 20% or more is relatively low. For the S&P/TSX index, there are 13 names that fall into this category, while in the U.S. there are only 11. This compares to the 20-year average of 45 and 73, respectively.

We observe a negative and significant correlation (-0.76) between the number of stocks with YTD returns below -20% and the indices risk-adjusted returns (defined simply as the ratio of annual return to volatility). In plain English, this means few names in the below -20% category usually result in higher risk-adjusted returns for the broad market.

Our expectations as mentioned above is that we will likely see some normalization (or mean-reversion tendency) in the years ahead and thus caution against extrapolating the performance/behaviour of markets in 2021 forward. We expect more volatility and a tougher market climate as we move beyond the early phase of the recovery – easy gains are behind us.

Stocks with YTD Return below -20% vs. Index Risk-adjusted Return: S&P/TSX [LHS] and S&P 500 [RHS]



Source: Bloomberg, Raymond James Ltd. As of November 17, 2021.

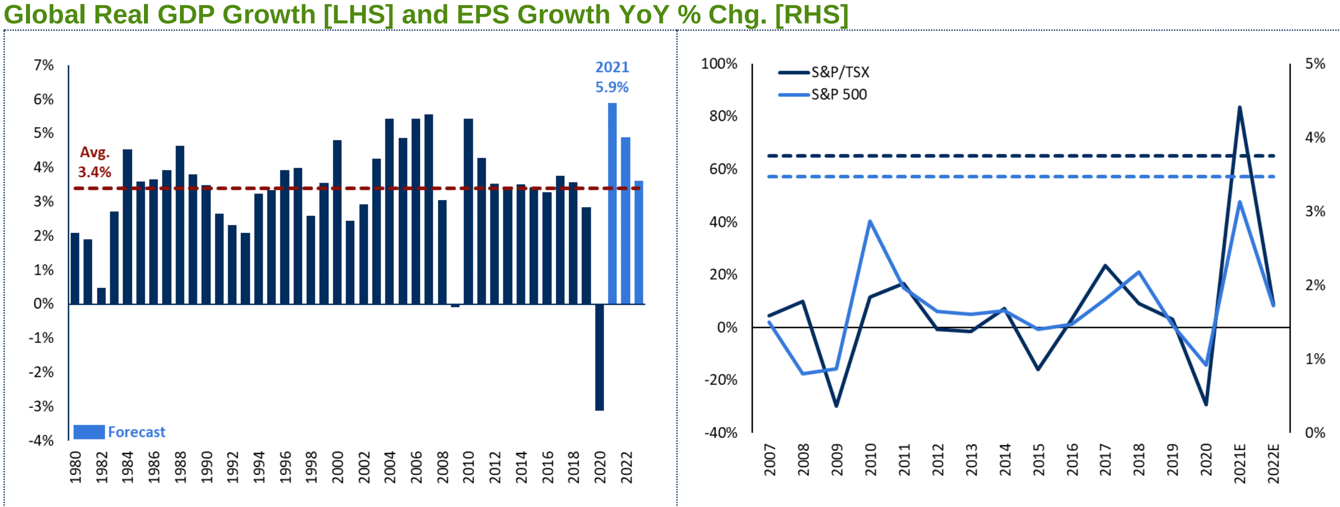
Two Options for Investors to Consider

1) Crystalizing Gains/Taking Profits

The global economy has had the wind at its back since the lows of 2020 and much of 2021 with economic growth rising well above the historical long-term trend, which we expect to normalize as we transition to the mid-phase of the business cycle. Globally governments and central banks have already begun to normalize policy, which we expect will cause the global economic engine to decelerate from above-average growth of +5.9% YoY in 2021 towards the long-term trend of around-average +3.6% YoY in 2023.

Corporate earnings have also surged YoY for both the S&P/TSX index and the S&P 500 index to well above their long-term median growth rate of +3.75% and +3.50%, respectively, which we also expect to normalize in the years ahead. That said, while our outlook for the global economy including Canada and the U.S. remains rather positive, we do not expect the performance of equities in 2021 to reflect what investors should expect going forward – i.e., we anticipate risk-adjusted returns to converge towards historical averages.

Global Real GDP Growth [LHS] and EPS Growth YoY % Chg. [RHS]



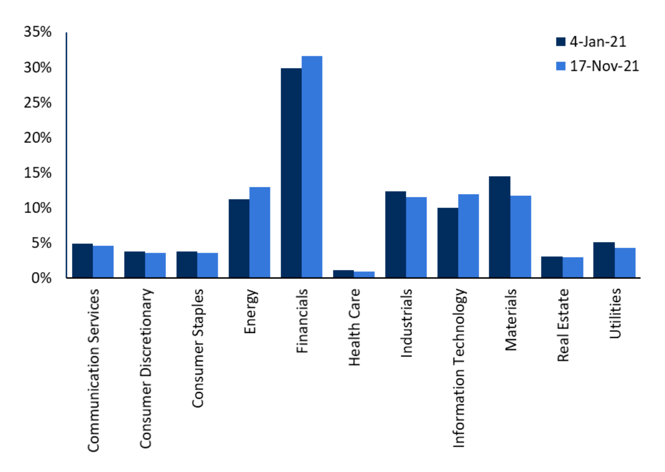
Source: IMF, FactSet, Raymond James Ltd. As of November 17, 2021.

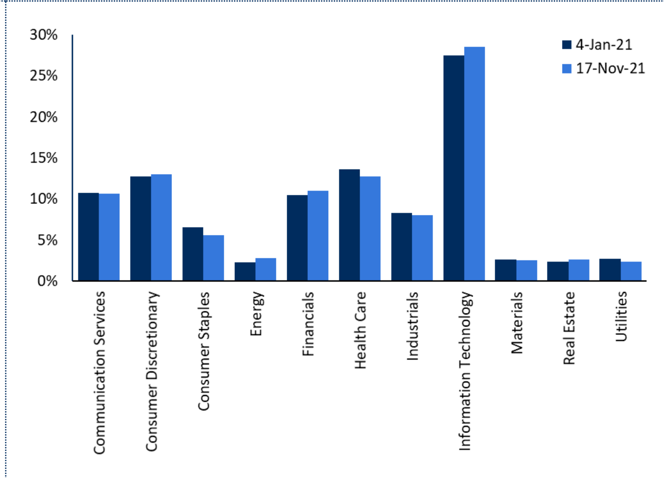
Given this, we believe investors should consider:

1) Taking profits on some of the biggest winners, trading at very elevated valuations. Risk-adjusted returns have been very high with strong positive returns and subdued levels of volatility when compared to historical levels.

2) Rebalancing asset allocations weights back to strategic targets and individual holdings back to their target weights. This will ensure the risk profile of an investor's portfolio is inline with his/her risk tolerance and should help to avoid the risk of overconcentration in a particular asset class, sector, stock, etc., due to the strong performance over the past year.

Index Weights by Sector: S&P/TSX index [LHS] and S&P 500 index [RHS] (Beginning of 2021 vs Current)





Source: FactSet, Raymond James Ltd. As of November 17, 2021.

Below we highlight in red sectors that are trading at elevated valuations and could represent areas for investors to look to for profit taking candidates. For the S&P/TSX index, Information Technology is trading at an elevated valuation and also at a considerable premium versus its historical 5-year average on forward earnings. Investors should be aware, however, that not all industries in this sector are trading rich. For example, while the Software and Services industry is trading rich at a P/E multiple of 73.8x, Hardware and Equipment is trading at only 8.1x.

S&P/TSX Sector Valuations

	P/E Next 12M	P/E 5Yr	Premium 5Yr
S&P/TSX Composite	**14.7**	**15.4**	**-0.6**
Communication Services	18.5	16.7	1.9
Consumer Discretionary	15.7	14.5	1.2
Consumer Staples	17.3	16.6	0.7
Energy	10.5	16.4	-5.8
Financials	11.6	11.1	0.5
Health Care	26.8	25.5	1.3
Industrials	29.6	21.4	8.2
Information Technology	71.4	37.0	34.4
Materials	13.3	18.9	-5.7
Real Estate	18.7	14.9	3.8
Utilities	9.0	15.6	-6.6

Source: FactSet, Raymond James Ltd. As of November 17, 2021.

On the other end of the spectrum, sectors that are trading at attractive valuations include Energy, Materials, and Utilities. While consensus earnings growth expectations for the next 12 months remains attractive for the Energy sector (+18.8% YoY), the Materials and Utilities sectors are projected to grow +1.9% YoY and +7.8% YoY, respectively, less than the +8.8% YoY consensus earning growth expectations for the S&P/TSX index.

As it relates specifically to the outlook/earning growth expectations for the Materials sector, it is driven by the performance for gold miners which represents close to 80% of the sector. For our latest thoughts and outlook on the gold sub-sector please refer to our Portfolio Strategy note **Goldilocks and the Three Bears**.

S&P 500 Sector Valuations

	P/E Next 12M	P/E 5Yr	Premium 5Yr
S&P 500	**21.6**	**18.7**	**2.8**
Communication Services	21.8	20.1	1.6
Consumer Discretionary	35.0	27.6	7.4
Consumer Staples	20.7	19.6	1.1
Energy	11.6	9.9	1.7
Financials	14.7	13.2	1.5
Health Care	17.1	16.3	0.8
Industrials	21.8	19.2	2.5
Information Technology	27.6	20.6	7.0
Materials	16.9	17.5	-0.6
Real Estate	23.2	19.3	3.9
Utilities	19.5	18.2	1.3

Source: FactSet, Raymond James Ltd. As of November 17, 2021.

Looking south of the border, in particular at the S&P 500 index, most sectors are trading at elevated multiples on a relative and historical basis. In fact, unlike the S&P/TSX index, the S&P 500 index is trading at a 3x premium above its 5-year historical price-to-earnings (P/E) multiple. In terms of profit taking candidates, we suggest investors look at holding across some of the best performing sectors, namely Consumer Discretionary and Information Technology. We note Energy, Financials, Health Care, and Materials are trading at attractive valuation multiples despite the run-up this year, with only the Materials sector trading at a discount versus it 5-year average P/E multiple.

2) Tax-loss Selling

For investors holding investments trading below their original cost in a non-registered account, using tax-loss selling, or tax harvesting could be a viable strategy to employ heading into year-end.

Key things to keep in mind:

1) The sale of securities **must settle** before the last business day of the calendar year if an investor wants to use the losses to offset capital gains in the same year. Since settlement typically takes two business days, the last day for investors to sell securities listed on Canadian and U.S. exchanges is **December 29** (click here **for Tax Planning Opportunities).**

2) If an investor chooses not to use their capital losses to offset capital gains during the year, keep in mind these losses can be **carried back three years and forward indefinitely**.

3) Investors should also know the **superficial loss rule**. The capital loss cannot be used to offset gains if **the investor or an affiliate** (e.g., spouse, common-law partner, a corporation controlled by the investor or partner, etc.) buys an **identical security 30 days before or after** the settlement date.

In terms tax-loss candidates, some of the worst performers on the S&P/TSX index, namely stocks down 20% or more on an YTD basis, are gold miners.

Looking south of the border on the S&P 500 index, the list of the worst performers is more dispersed than the S&P/TSX index and includes firms going through company-specific/idiosyncratic issues (e.g., Activision Blizzard's multiple investigations alleging discriminatory behaviour and workplace harassment).

Tax-loss selling is a strategy available to investors who have investments that are trading below their original cost in non-registered accounts. This strategy involves selling these investments and using the subsequent capital loss to offset any capital gains incurred that tax year.

Settlement date is two business days after the trade date for equities, corporate and long-term government bonds, mutual funds, and ETFs. For call or put options, settlement date is one business day.

If investors hold positions in the stocks listed in the below tables but would like to sell the shares for tax-loss purposes, while maintaining some exposure to the broader sectors after selling the stocks, we have also provided ETF recommendations for both the S&P/TSX and S&P 500 indices.

S&P/TSX Tax-Loss Selling Candidates and ETF Alternatives for 2021

Tax Loss Security			ETF Option	
Company	**Ticker**	**YTD % Change**	**ETF Name**	**Ticker**
Consumer Discretionary				
Martinrea International Inc.	MRE	-25.6%	Invesco S&P 500® Equal Wt Cnsm Disc ETF	RCD-US
Consumer Staples				
SunOpta Inc.	SOY	-43.6%	BMO Global Consumer Discrt H CAD ETF	DISC-T
Healthcare				
Canopy Growth Corporation	WEED	-45.2%	Horizons Marijuana Life Sciences ETF	HMMJ-T
Cronos Group Inc	CRON	-20.8%	Horizons Marijuana Life Sciences ETF	HMMJ-T
Industrials				
Westport Fuel Systems, Inc.	WPRT	-50.4%	BMO Equal Weight Industrials ETF	ZIN-T
Ballard Power Systems Inc.	BLDP	-29.4%	BMO Equal Weight Industrials ETF	ZIN-T
Materials				
Fortuna Silver Mines Inc.	FVI	-51.2%	iShares Silver Bullion ETF (CAD-Hedged)	SVR
Silvercorp Metals Inc.	SVM	-32.6%	Royal Canadian Mint ETR Silver	MNS.TO
Centerra Gold Inc.	CG	-26.8%	BMO Junior Gold ETF	ZJG-T
Eldorado Gold Corporation	ELD	-25.6%	BMO Equal Weight Global Gold ETF	ZGD-T
New Gold Inc.	NGD	-20.0%	BMO Equal Weight Global Gold ETF	ZGD-T
Technology				
Real Matters, Inc.	REAL	-58.0%	Evolve Cyber Security ETF Hdg	CYBR-T
Utilities				
Innergex Renewable Energy Inc.	INE	-27.4%	iShares Global Clean Energy ETF	ICLN-US

Source: FactSet, Raymond James Ltd. As of November 17, 2021.

S&P 500 Tax-Loss Selling Candidates and ETF Alternatives for 2021

Company	Ticker	YTD % Change	ETF Name	Ticker
Communication Services				
Activision Blizzard, Inc.	ATVI	-30.5%	Evolve E-Gaming ETF	HERO-T
Consumer Discretionary				
Penn National Gaming, Inc.	PENN	-36.4%	iShares Global Consumer Discr ETF	RXI-US
Las Vegas Sands Corp.	LVS	-34.1%	Invesco S&P 500® Equal Wt Cnsm Disc ETF	RCD-US
Consumer Staples				
Lamb Weston Holdings, Inc.	LW	-24.4%	First Trust Nasdaq Food & Beverage ETF	FTXG-US
Financials				
MarketAxess Holdings Inc.	MKTX	-32.5%	Global X FinTech ETF	FINX-US
Health Care				
Incyte Corporation	INCY	-25.3%	First Trust NYSE Arca Biotech ETF	FBT-US
Vertex Pharmaceuticals Incorporated	VRTX	-20.4%	Vanguard Health Care ETF	VHT-US
Viatris, Inc.	VTRS	-26.1%	iShares US Pharmaceuticals ETF	IHE-US
Information Technology				
Global Payments Inc.	GPN	-41.5%	Global X FinTech ETF	FINX-US
Citrix Systems, Inc.	CTXS	-32.6%	First Trust Cloud Computing ETF*	SKYY-US
IPG Photonics Corporation	IPGP	-23.6%	Vanguard Information Technology ETF	VGT-US

*Correlation is less than .5

Source: FactSet, Raymond James Ltd. As of November 17, 2021.

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