

Fed and the Bull: Don't Stop It Now

A Publication of BMO Capital Markets Economic Research · Douglas Porter, CFA, Chief Economist, BMO Financial Group

Equity markets were mixed this week, with the Federal Reserve all but locking in a July rate cut, while the Bank of Canada stood firmly on the sidelines. The S&P 500 rose 0.8%, punching above the 3,000 level for the first time. Last week, we described what looked like a clear technical breakout above the range that was set in early-2018—that was reinforced this week. Meantime, the TSX dipped 0.3%, and has retaken its usual position in the back seat to the U.S. indices.

The Fed is all but locked into a rate hike later this month, with market pricing going even further to reflect about a chance of a 50 bp move (we're not in that camp, for the record). Fed Chair Powell, in his testimony to Congress, said that *"since then [June 19 meeting], based on incoming data and other developments, it appears that uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the U.S. economic outlook. Inflation pressures remain muted."*

In other words, don't be confused by the fact that payrolls rebounded a chunky 224k in June, and core CPI matched its biggest month-over-month gain of the cycle—Jay wants you to know that the Fed is cutting rates.

Meantime, the Bank of Canada's policy statement (rates left unchanged), updated Monetary Policy Report and a rollicking June housing starts figure all reinforced our view that the BoC will sit back and watch the Fed move. Fundamentally, Canadian rates are already more stimulative (negative in real terms and below the presumed neutral range), inflation is firmer and the housing market is best left undisturbed at this point. Indeed, the Bank reiterated that *"the degree of accommodation being provided by the current policy interest rate remains appropriate"*.

So, what does this all imply. First, for those that automatically assume this policy combination means a surge in the loonie, think again. The currency has perked up, but remains tucked below 77 US cents, and the market is already pricing much more action from the Fed than the BoC. Back in the equity market, rate-sensitive sectors have been winners alongside Fed easing expectations and the drop in longer-term rates (e.g., utilities have outperformed on both sides of the border over the past three months). Banks, not so much, with rate cuts and a still-flat yield curve weighing. Arguably the biggest winners have been technology and other cyclicals like consumer discretionary. If the Fed cuts rates against a backdrop of full employment yet subdued inflation, that's a pretty winning combination—just need those pesky trade tensions to go away.

ECONOMIC RESEARCH
1-800-613-0205
economics.bmo.com

Robert Kavcic, Senior Economist
+1 (416) 359-8329
robert.kavcic@bmo.com

Table 1 - Market Performance

July 12, 2019		Performance (percent)					
	Current Price	1 Week	1 Mo.	3 Mo.	1 Year	Y-T-D	2018
Dow Jones	27,332	1.5	5.1	3.5	9.7	17.2	-5.6
NASDAQ	8,244	1.0	5.8	3.3	5.4	24.2	-3.9
S&P 500	3,014	0.8	4.7	3.7	7.7	20.2	-6.2
NIKKEI 225	21,686	-0.3	2.6	-0.8	-2.3	8.3	-12.1
S&P/TSX	16,488	-0.3	1.6	0.0	-0.5	15.1	-11.6
CAC 40	5,573	-0.4	3.7	1.3	3.1	17.8	-11.0
FTSE 100	7,506	-0.6	1.9	0.9	-1.9	11.6	-12.5
DAX	12,323	-2.0	1.7	2.7	-1.4	16.7	-18.3
China CSI 300	3,809	-2.2	3.2	-4.5	9.4	26.5	-25.3

Source: BMO Economics, Bloomberg

Chart of the Week

The loonie has kept the C\$-adjusted S&P 500 off a record high, but U.S. stocks are still outperforming for unhedged Canadian investors.

S&P 500 in C\$ (Jan 1, 2018 = 100)
 TSX (Jan 1, 2018 = 100)
 S&P 500 (Jan 1, 2018 = 100)



North American Sector Performances

(% change over period)

Table 2 - S&P 500 Sector Performance

July 12, 2019						
S&P 500 Sectors	1 Wk	1 Mo.	3 Mo.	1 Year	Y-T-D	2018
Energy	2.2	7.1	-4.5	-15.0	12.5	-20.5
Cons Discretionary	2.1	6.5	5.3	10.2	26.1	-0.5
Info Technology	1.5	6.4	5.7	11.6	30.9	-1.6
Industrials	1.2	4.5	1.4	7.2	21.8	-15.0
Telecom Services	1.2	7.5	3.6	13.8	23.0	-16.4
Cons Staples	0.9	2.3	6.2	14.4	18.0	-11.2
Banks	0.5	5.2	2.3	-0.6	18.1	-18.4
Financials	0.5	4.8	4.3	4.5	18.7	-14.7
Utilities	-0.1	1.7	4.1	15.5	14.5	0.5
Materials	-0.8	1.5	0.6	-0.3	15.6	-16.4
Health Care	-1.4	1.2	2.9	6.0	6.8	4.7
S&P 100 Large Cap	0.9	4.9	4.0	7.9	19.6	-5.9
S&P 400 Mid Cap	-0.3	3.1	-0.3	-1.8	17.9	-12.5
S&P 600 Small Cap	-1.5	2.4	-2.6	-9.8	11.8	-9.8
S&P 500	0.8	4.7	3.7	7.7	20.2	-6.2

Source: BMO Economics, Bloomberg

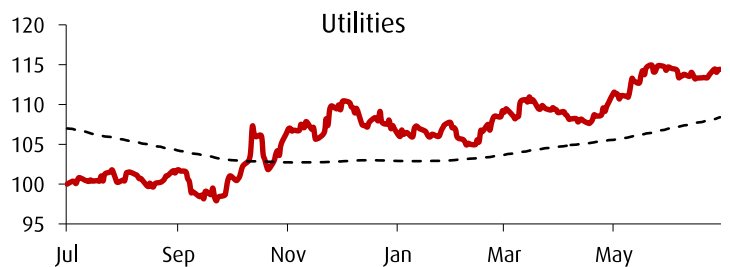
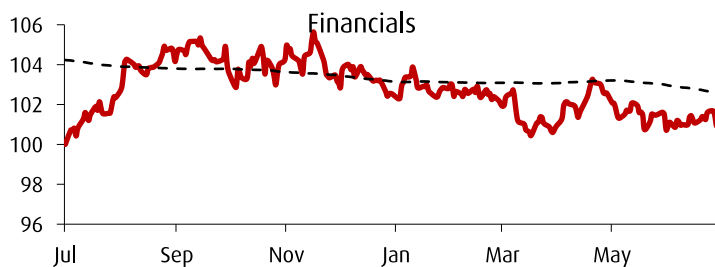
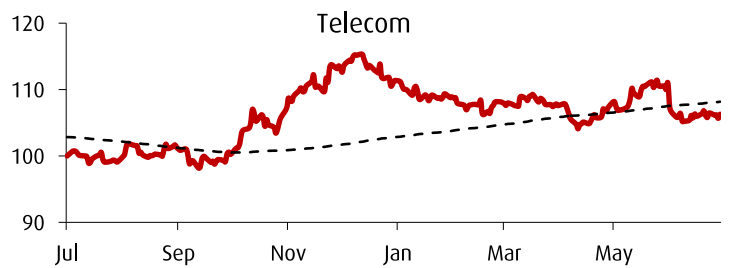
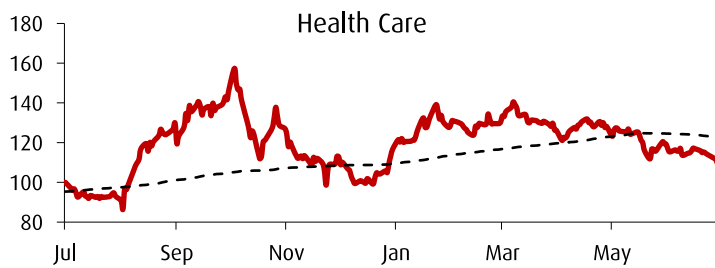
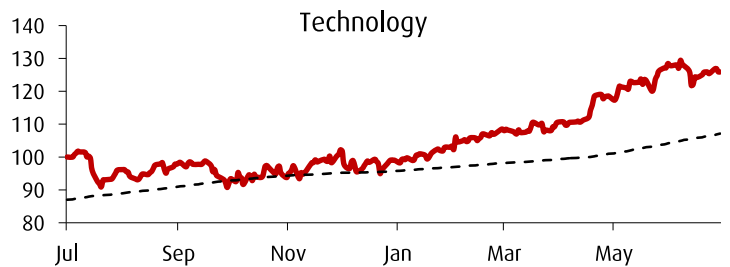
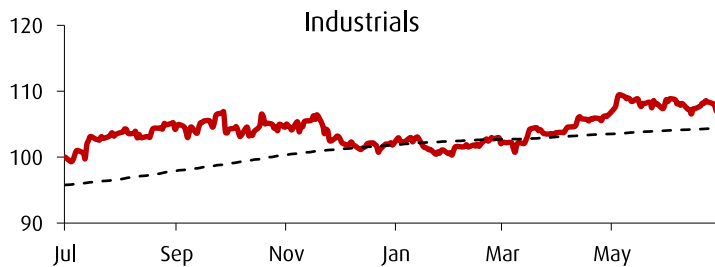
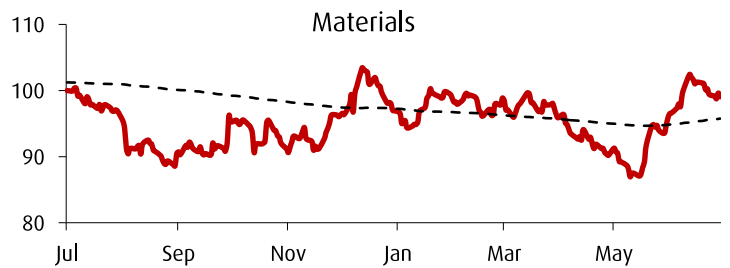
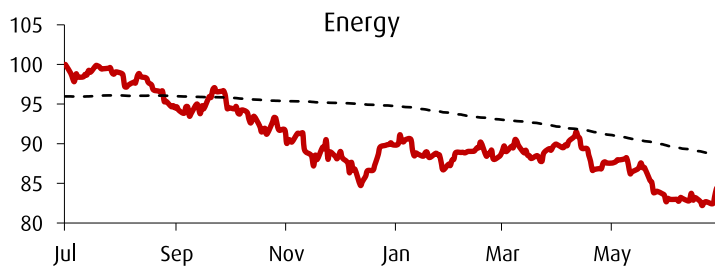
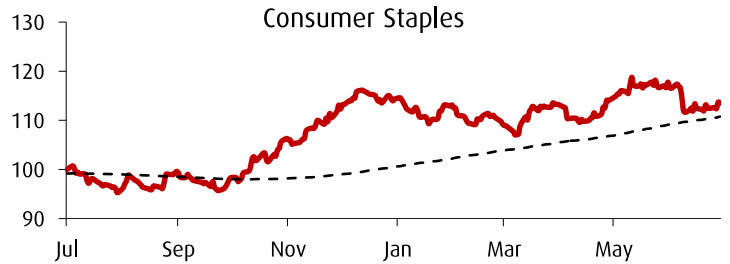
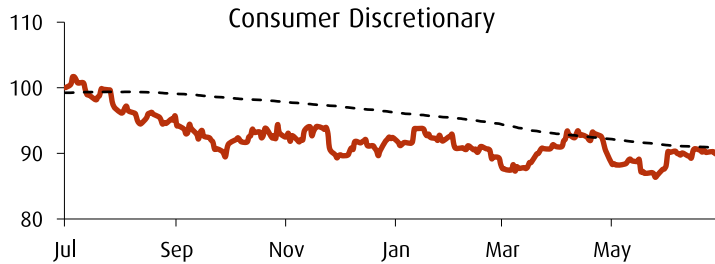
Table 3 - TSX Sector Performance

July 12, 2019						
TSX Sectors	1 Wk	1 Mo.	3 Mo.	1 Year	Y-T-D	2018
Energy	1.8	3.7	-6.1	-15.6	12.2	-21.5
Cons Discretionary	1.1	5.5	0.6	-9.1	15.5	-17.7
Cons Staples	0.3	-2.4	-0.1	13.0	13.1	0.6
Materials	-0.1	5.6	4.0	-1.2	12.5	-10.6
Utilities	-0.5	0.6	4.2	12.8	20.6	-13.4
Telecom Services	-0.6	-2.8	-1.2	5.8	8.3	-5.3
Info Technology	-0.6	-1.1	13.1	24.0	44.9	12.5
Industrials	-0.7	0.9	4.1	7.6	21.7	-3.9
Financials	-1.0	1.8	0.1	0.4	12.6	-12.6
Banks	-1.2	1.4	-0.6	-2.0	9.6	-11.4
Health Care	-9.8	-12.0	-18.2	0.4	19.9	-16.6
S&P/TSX Mid Cap	-0.1	2.5	-0.3	-2.8	16.3	-15.2
S&P/TSX Sml Cap	-0.3	2.5	-2.1	-10.7	9.4	-20.1
S&P/TSX 60 Lrg Cap	-0.4	1.3	0.1	0.3	14.7	-10.5
TSX	-0.3	1.6	0.0	-0.5	15.1	-11.6

Source: BMO Economics, Bloomberg

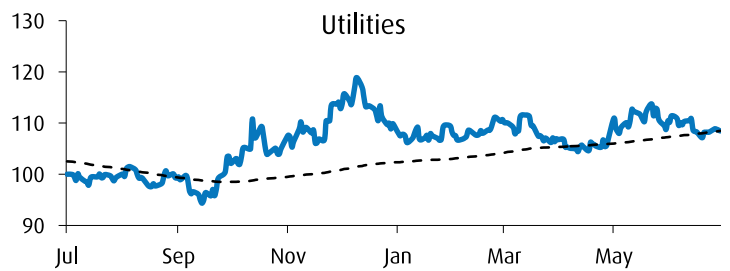
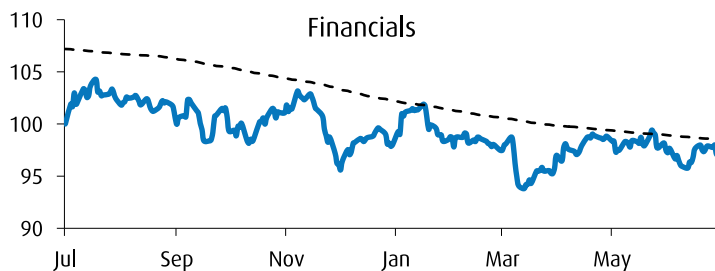
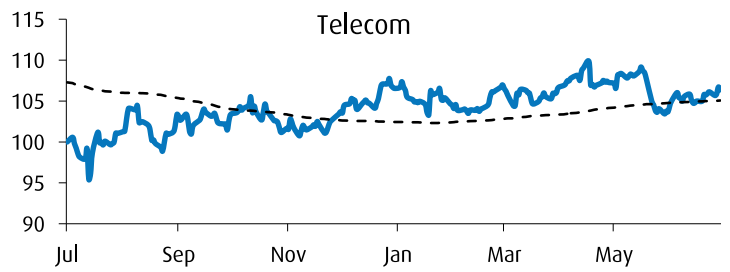
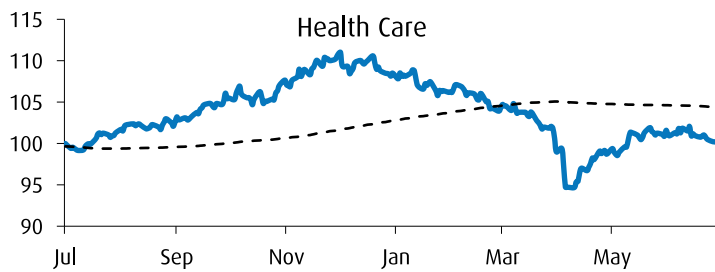
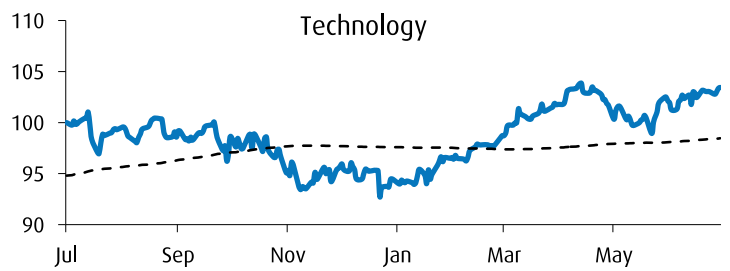
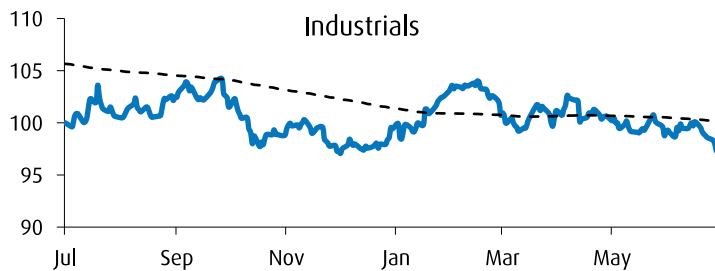
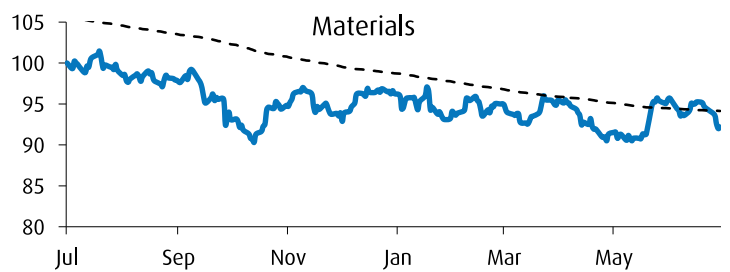
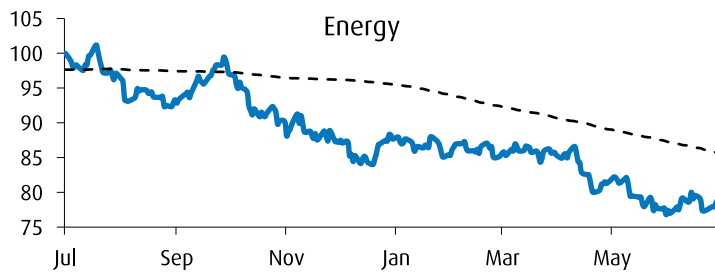
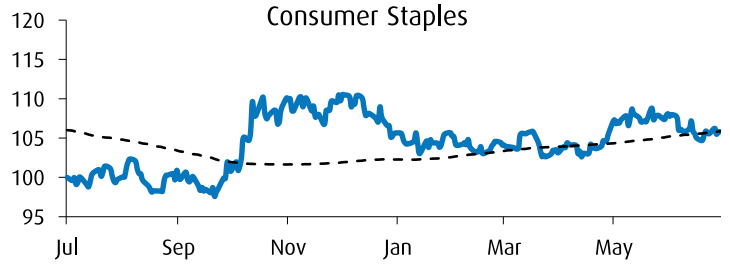
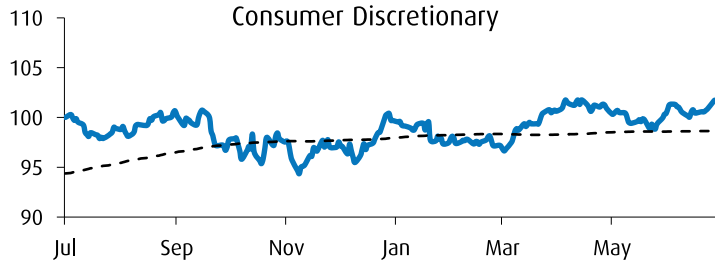
TSX Sector Performance

(relative to the index, year-ago = 100; dashed line = 200-day m.a.)



S&P 500 Sector Performance

(relative to the index, year-ago = 100; dashed line = 200-day m.a.)



General Disclosures

"BMO Capital Markets" is a trade name used by the BMO Financial Group for the wholesale banking businesses of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. This document is issued and distributed in Hong Kong by Bank of Montreal ("BMO"). BMO is an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution with the Securities and Futures Commission (CE No. AAK809) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). BMO does not represent that this document may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder. This document is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Their contents have not been reviewed by any regulatory authority. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This document is not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such Information be considered as investment advice or as a recommendation to enter into any transaction. Each investor should consider obtaining independent advice before making any financial decisions. This document is provided for general information only and does not take into account any investor's particular needs, financial status or investment objectives. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Research

Our publications are disseminated via email and may also be available via our web site <https://economics.bmo.com>. Please contact your BMO Financial Group Representative for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., Member FDIC. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets. BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A., BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Inc., used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

™ Trademark Bank of Montreal in the United States and Canada.

© COPYRIGHT 2019 BMO CAPITAL MARKETS CORP.

A member of BMO Financial Group