

A Little Red with the Fed

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

Equity markets slumped this week amid a broad-based selloff in commodities and riskier assets, as the Federal Reserve pulled tapering and rate hikes somewhat closer into view. The S&P 500 gave back 1.9%, though leaving the year-to-date gain still in double-digit territory. Banks were hit hardest, shedding 8.1% alongside a sudden flattening of the yield curve, while materials fell more than 6% amid broad-based resource price declines. Technology and consumer discretionary held up best, roughly flat on the week—this looks like an undo of some of the wholesale rotation we've seen in recent months.

Meantime, the TSX dipped a more modest 0.7%, as banks held up much better than south of the border—they were down only 0.4%. Technology also posted a massive gain, while energy dipped a modest 2.4% as oil prices held up better than most of the commodity complex, finishing the week near \$72. Canadian stocks continue to outperform on the year, up 14.7% versus a 10.9% gain in the S&P 500.

The Federal Reserve left policy unchanged as widely expected this week, but began to signal that a slightly less-easy stance is coming. Eventually. On the QE front, the time to start talking about tapering is approaching (i.e., the next meeting). This could set up a tapering announcement in September to begin shortly thereafter. Meantime, in the Summary of Economic Projections, the median forecast for the fed funds rate was lifted to now reflect two 25 bp rate hikes (none previously). Among the 18 policymakers, 13 penciled in at least one move by the end of 2023, up from 7 in March. And, there are now 7 individual forecasts of rate hikes in 2022, up from 5 before. On the inflation front, the Fed's outlook was lifted as one would expect given recent upside surprises, but forecasts for core inflation by 2023 remain well contained below 2.5%. So, the Fed is getting ready to gently dial back the stimulus later this year, but rate hikes are still a long way off, all of this anchored by the ongoing belief that inflation pressures will fade.

ECONOMIC RESEARCH
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Table 1 - Market Performance

June 18, 2021		Performance (percent)					
	Current Price	1 Week	1 Mo.	3 Mo.	1 Year	Y-T-D	2020
NIKKEI 225	28,964	0.1	2.0	-4.1	29.6	5.5	16.0
NASDAQ	14,030	-0.3	5.5	7.0	41.1	8.9	43.6
CAC 40	6,569	-0.5	3.4	8.4	32.5	18.3	-7.1
S&P/TSX	19,997	-0.7	2.5	6.2	29.2	14.7	2.2
DAX	15,448	-1.6	0.4	4.6	25.8	12.6	3.5
FTSE 100	7,017	-1.6	-0.2	3.5	12.7	8.6	-14.3
S&P 500	4,166	-1.9	0.9	6.4	33.7	10.9	16.3
China CSI 300	5,102	-2.3	-1.6	-0.8	26.2	-2.1	27.2
Dow Jones	33,290	-3.4	-2.3	1.3	27.6	8.8	7.2

Source: BMO Economics, Bloomberg

U.S. 10-yr. minus 3-mo. Treasury yield curve



Source: Haver Analytics

North American Sector Performances

(% change over period)

Table 2 - S&P 500 Sector Performance

June 18, 2021						
S&P 500 Sectors	1 Wk	1 Mo.	3 Mo.	1 Year	Y-T-D	2020
Info Technology	0.1	6.0	9.3	37.9	8.8	42.2
Cons Discretionary	-0.1	2.4	5.3	32.9	6.5	32.1
Health Care	-0.8	0.2	7.8	23.9	8.5	11.4
Telecom Services	-1.1	4.3	8.1	40.1	16.3	22.2
Cons Staples	-2.9	-2.6	4.5	15.8	1.4	7.6
Utilities	-3.2	-2.3	3.3	8.5	1.4	-2.8
Industrials	-3.8	-3.3	2.5	42.3	12.1	9.0
Energy	-5.2	-2.0	5.9	30.0	37.0	-37.3
Financials	-6.2	-6.0	1.8	46.2	19.1	-4.1
Materials	-6.3	-8.2	3.0	43.2	10.9	18.1
Banks	-8.1	-9.8	-4.1	48.9	20.8	-16.8
S&P 100 Large Cap	-1.2	2.0	7.5	33.5	10.8	19.3
S&P 600 Small Cap	-2.3	1.7	1.0	64.5	21.9	9.6
S&P 400 Mid Cap	-5.1	-2.9	0.0	45.7	13.2	11.8
S&P 500	-1.9	0.9	6.4	33.7	10.9	16.3

Source: BMO Economics, Bloomberg

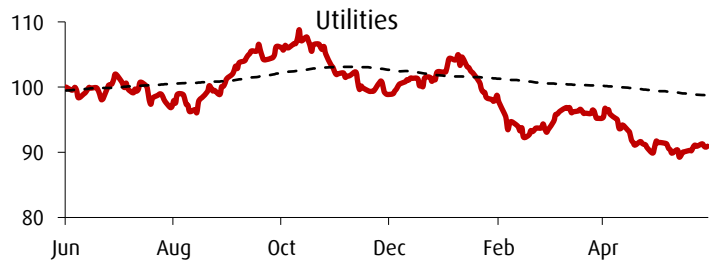
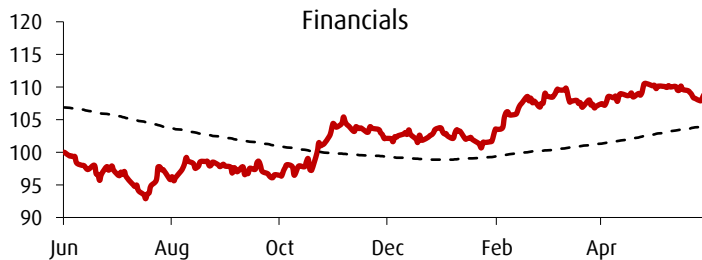
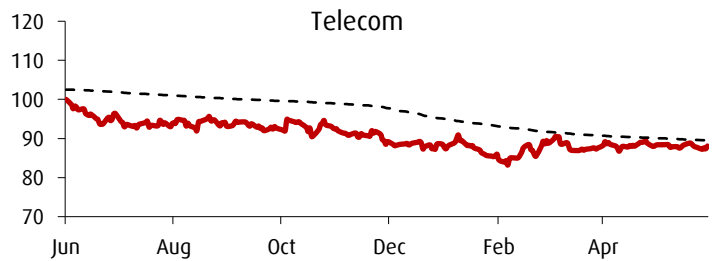
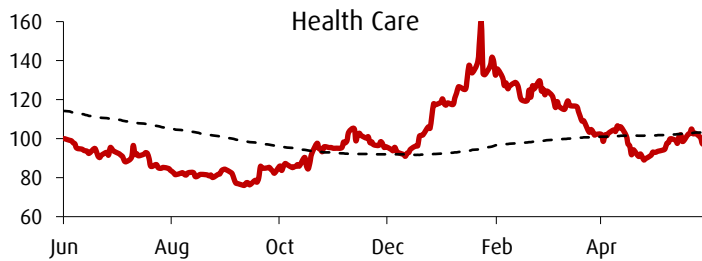
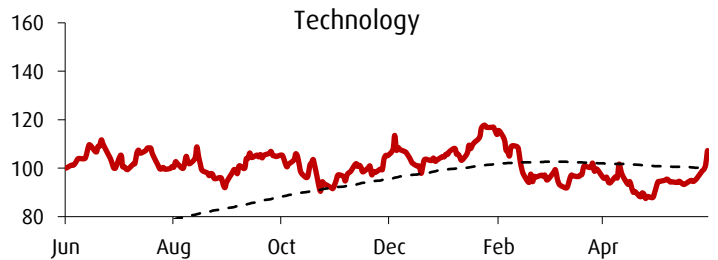
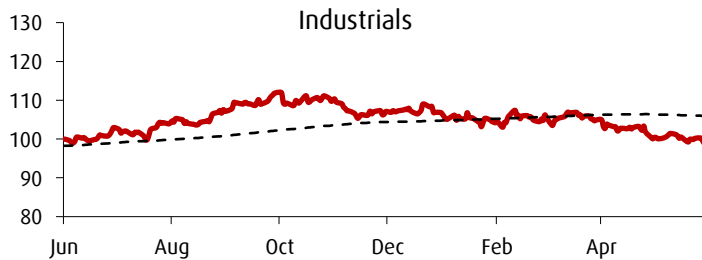
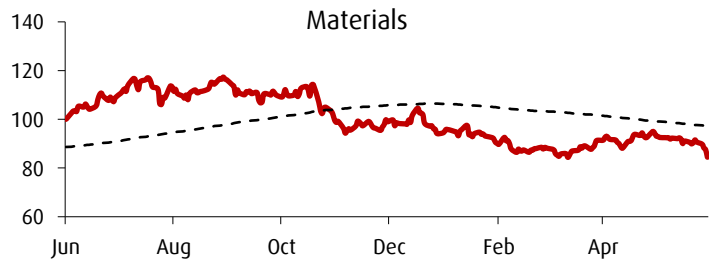
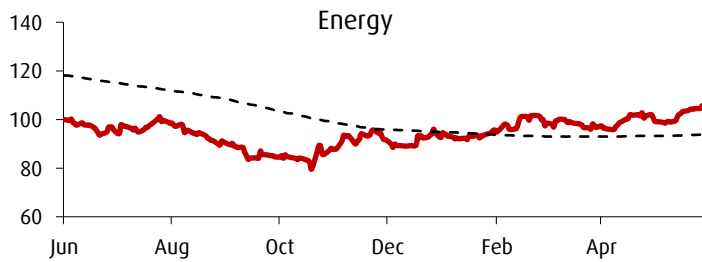
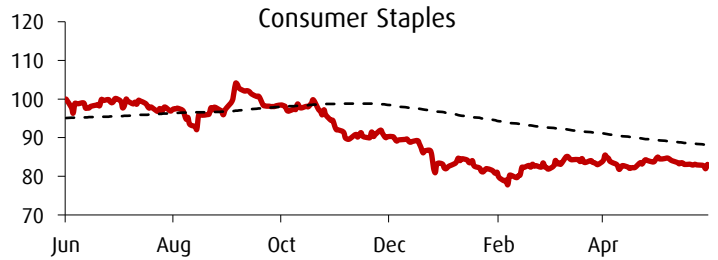
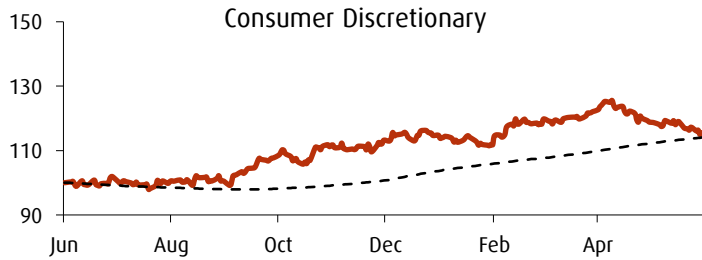
Table 3 - TSX Sector Performance

June 18, 2021						
TSX Sectors	1 Wk	1 Mo.	3 Mo.	1 Year	Y-T-D	2020
Info Technology	13.4	25.1	22.0	43.3	21.3	80.3
Utilities	0.0	3.5	4.4	16.8	3.5	10.6
Telecom Services	-0.3	2.6	4.6	14.4	14.2	-8.3
Banks	-0.4	1.5	6.8	43.3	22.7	-1.6
Financials	-0.6	0.8	5.6	39.5	20.2	-2.9
Cons Staples	-1.1	1.0	6.6	8.3	6.7	2.8
Industrials	-2.1	1.2	-1.3	26.5	5.0	15.3
Energy	-2.3	4.1	12.1	31.0	32.3	-30.8
Cons Discretionary	-2.9	-1.1	3.0	45.8	14.4	14.4
Health Care	-7.4	5.6	-16.9	23.2	18.3	-23.6
Materials	-7.8	-8.7	1.4	11.6	-2.2	19.5
S&P/TSX REITs	0.6	3.5	10.8	25.6	19.7	-17.6
S&P/TSX Preferred	-0.8	1.1	3.6	28.6	11.4	0.1
S&P/TSX Sml Cap	-4.2	-0.1	2.8	53.8	16.1	10.0
TSX	-0.7	2.5	6.2	29.2	14.7	2.2

Source: BMO Economics, Bloomberg

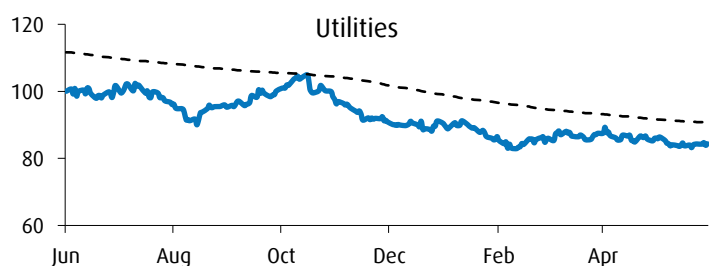
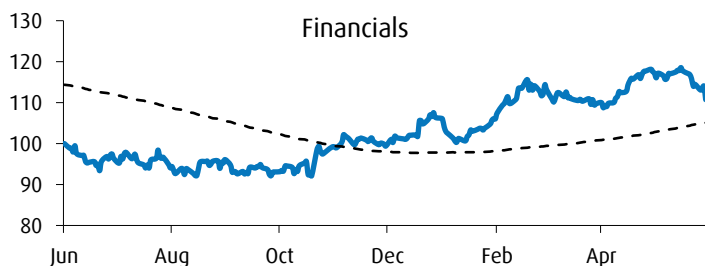
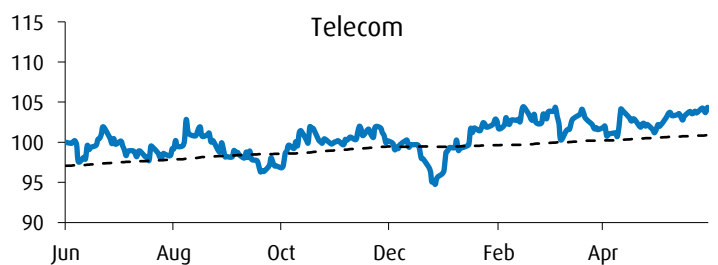
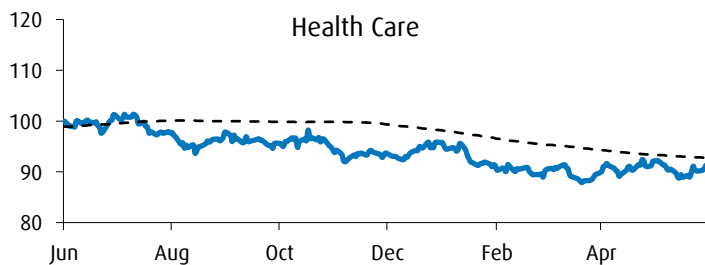
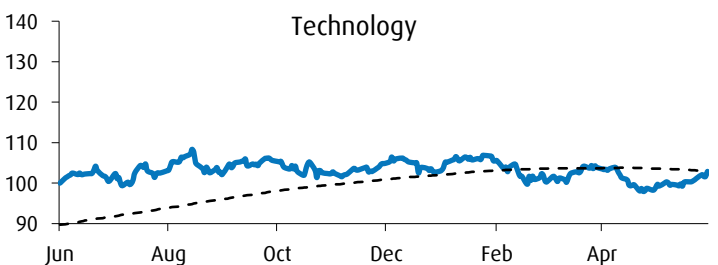
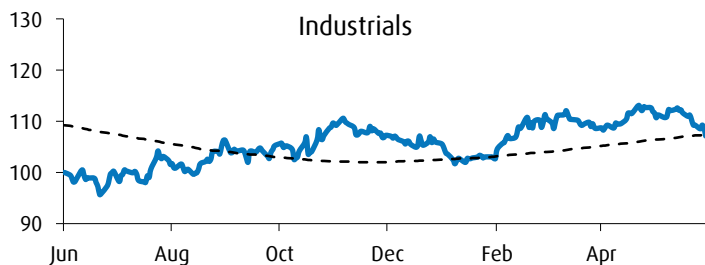
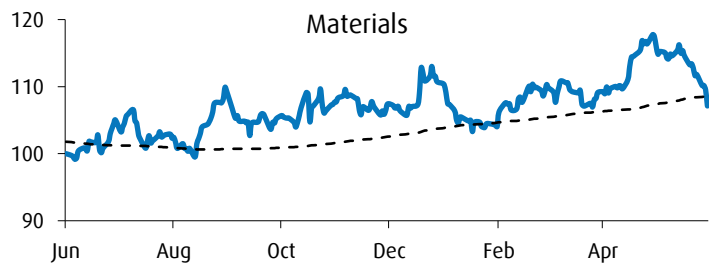
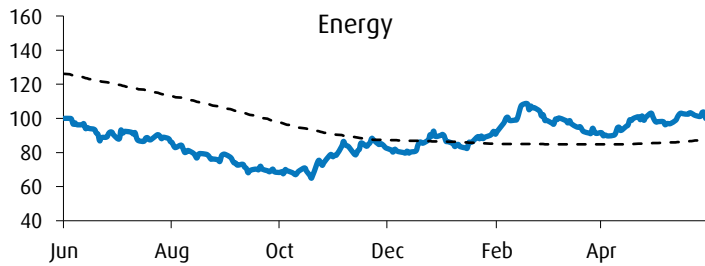
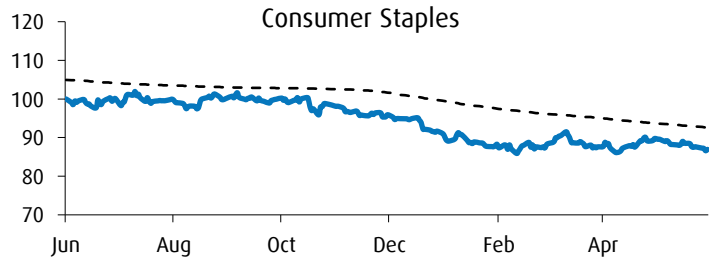
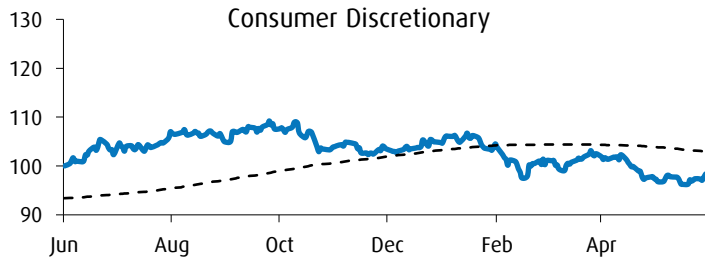
TSX Relative Sector Performance

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



S&P 500 Relative Sector Performance

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



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