Balance Sheet Normalization Looms

Equity markets posted modest gains this week, with hurricane-related distortions starting to creep into the U.S. economic data, and ahead of next week’s Federal Reserve meeting. The S&P 500 rose 1.6%, with banks and telecom the biggest gainers, while defensive sectors lagged. All signs point to the announcement of gradual balance sheet normalization at next week’s meeting, with a rate hike still a December-or-later story—this week’s sturdy core CPI print at least help keep that meeting in play. Meantime, the TSX rose 1.3% on strength across most sectors outside utilities and gold. With a relatively uneventful week this week, and ahead of next week’s FOMC meeting, here’s a quick look at what’s working, and what’s not:

Smokin’: U.S. technology remains the best performing sector in North America this year, up a hefty 26%, while the Nasdaq is the best performing major index on our global leaderboard.

Hot: The rest of U.S. continues to notch solid gains, with the Dow and S&P 500 posting double-digit gains on the year and among the global leaders over the past three months. While technology has done the most lifting, consumer discretionary and healthcare are pitching in with double-digit gains on the year as well.

Warm: Europe and the U.K. have posted gains in the mid-to-high single-digit range on the year, slightly behind the U.S., but well ahead of Canada. Europe’s economy just reeled off three straight quarters of 2%-plus growth (strong for that region). But in typical leading fashion, equity gains have faded somewhat as the ECB and BoE are on the verge of removing some monetary stimulus.

Cool: The TSX remains the dog of 2017, down 0.7% on the year. This still boils down to weakness in oil prices (TSX energy is down 12% on the year) and the reality that the index lacks exposure to those sectors that are actually performing very well (think technology and consumer spending).

Cold: Canadian rate-sensitive sectors have been battered by the Bank of Canada’s back-to-back rate hikes. Utilities have slumped 4.3% in the past three months, while REITs have fallen 2.9%—those are among the worst performances in North America over that period.
TSX Sector Performance (Relative to the index, dashed line = 200-day m.a.)

- **Consumer Discretionary**
  - September: 1.1
  - November: 1.2
  - January: 1.3
  - March: 1.4
  - May: 1.5
  - July: 1.6

- **Consumer Staples**
  - September: 3.6
  - November: 3.2
  - January: 2.8
  - March: 2.4
  - May: 2.0
  - July: 1.6

- **Energy**
  - September: 1.8
  - November: 1.6
  - January: 1.4
  - March: 1.2
  - May: 1.0
  - July: 0.8

- **Materials**
  - September: 1.6
  - November: 1.4
  - January: 1.2
  - March: 1.0
  - May: 0.8
  - July: 0.6

- **Industrials**
  - September: 1.9
  - November: 1.7
  - January: 1.5
  - March: 1.3
  - May: 1.1
  - July: 0.9

- **Technology**
  - September: 0.0
  - November: 0.2
  - January: 0.4
  - March: 0.6
  - May: 0.8
  - July: 1.0

- **Health Care**
  - September: 0.8
  - November: 0.6
  - January: 0.4
  - March: 0.2
  - May: 0.0
  - July: -0.2

- **Telecom**
  - September: 1.5
  - November: 1.6
  - January: 1.7
  - March: 1.8
  - May: 1.9
  - July: 2.0

- **Financials**
  - September: 1.2
  - November: 1.3
  - January: 1.4
  - March: 1.5
  - May: 1.6
  - July: 1.7

- **Utilities**
  - September: 1.4
  - November: 1.5
  - January: 1.6
  - March: 1.7
  - May: 1.8
  - July: 1.9
S&P 500 Sector Performance (Relative to the index, dashed line = 200-day m.a.)

- **Consumer Discretionary**
- **Consumer Staples**
- **Energy**
- **Materials**
- **Industrials**
- **Technology**
- **Health Care**
- **Telecom**
- **Financials**
- **Utilities**
## North American Sector Performances as of September 15, 2017

### S&P 500 Sectors

<table>
<thead>
<tr>
<th>S&amp;P 500 Sectors</th>
<th>1 Week</th>
<th>1 Month</th>
<th>3 Months</th>
<th>1 Year</th>
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### TSX Sectors

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*Source: Bloomberg*
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