

Nerves of Steel

Equity markets slumped this week on growing risk of a U.S.-led global trade spat. The S&P 500 fell 2.0%, with all sectors in the red, though industrials and materials were among the biggest decliners. After amped-up volatility in recent weeks, that leaves the index roughly flat on the year, while most major global indices are looking at single-digit declines. The TSX gave back 1.6%, with tariff concerns overshadowing a solid run of bank earnings, including a wave of dividend increases. The banks dipped 1.1% on the week, but are the second-best performing (or least bad) sector on the Canadian landscape this year, down 2.1%.

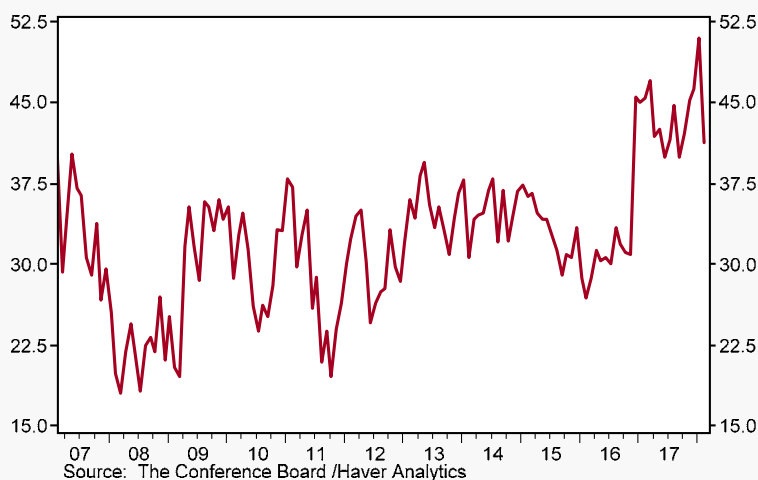
There was a truckload of mixed economic data this week. In the U.S., core durable goods orders slipped for a second straight month in January, auto sales pulled back in February, but consumer confidence hit a new cycle high. That said, the equity market correction has started to spook Main Street investors, with the share of respondents in the Conference Board survey expecting higher stock prices in the year ahead falling sharply (though it's still elevated by historical standards). Core PCE inflation was also contained at 1.5% y/y, which took some focus off inflation concerns.

Market Performance as of March 2, 2018

	Current Price	Performance (percent)					2017
		1 Week	1 Month	3 Months	1 Year	YTD	
NASDAQ	7,258	-1.1	0.2	6.0	23.8	5.1	28.2
China CSI 300	4,016	-1.3	-6.0	0.5	16.9	-0.4	21.8
S&P/TSX	15,385	-1.6	-1.4	-4.1	-1.0	-5.1	6.0
S&P 500	2,691	-2.0	-2.6	1.9	13.0	0.7	19.4
FTSE 100	7,070	-2.4	-5.0	-3.2	-4.2	-8.0	7.6
Dow Jones	24,538	-3.0	-3.9	1.3	16.8	-0.7	25.1
NIKKEI 225	21,182	-3.2	-9.0	-7.2	8.3	-7.0	19.1
CAC 40	5,137	-3.4	-4.3	-3.4	3.5	-3.3	9.3
DAX	11,914	-4.6	-6.8	-7.4	-1.2	-7.8	12.5

Source: Bloomberg. As of 2:00 pm

Expectations 12 Mos Hence: Stock Prices, Increase
% Respondents; NSA

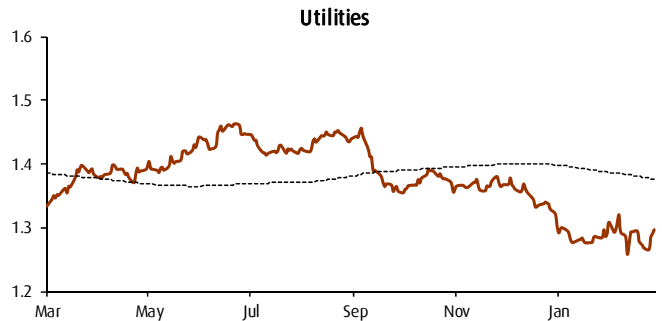
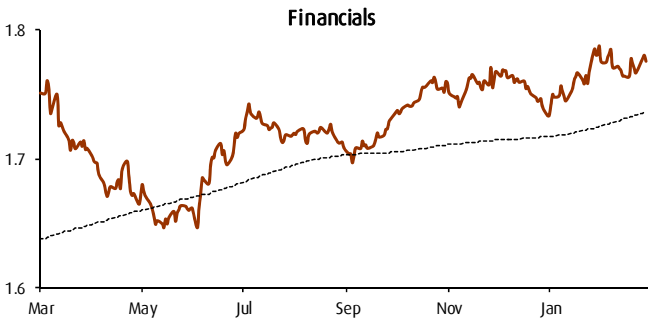
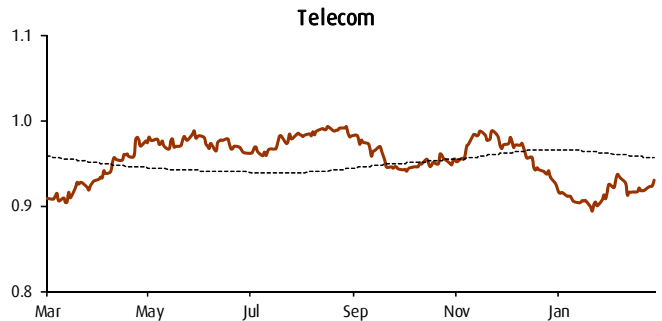
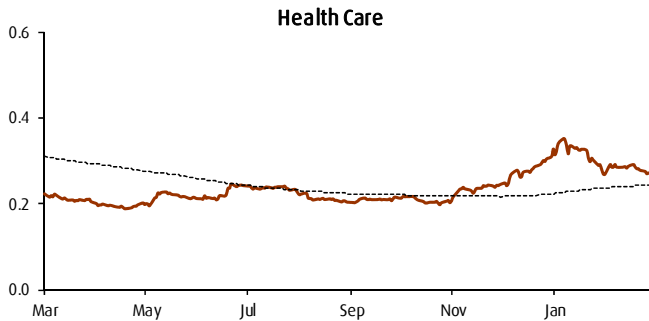
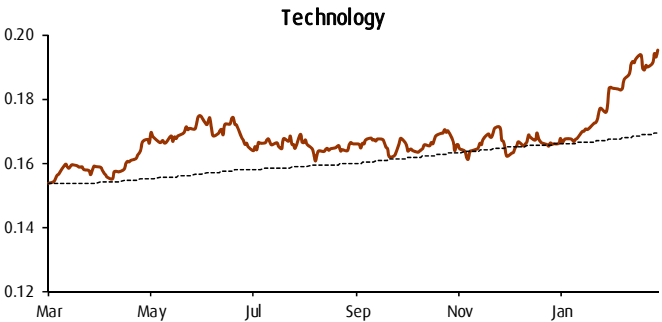
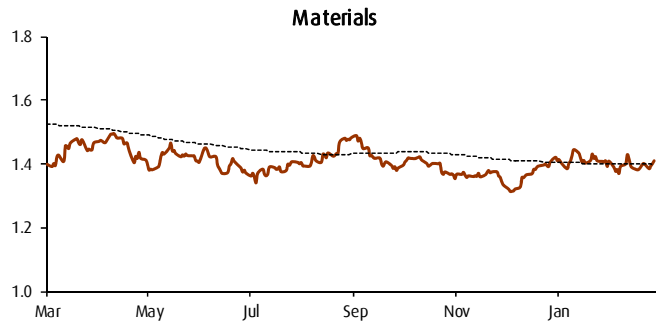
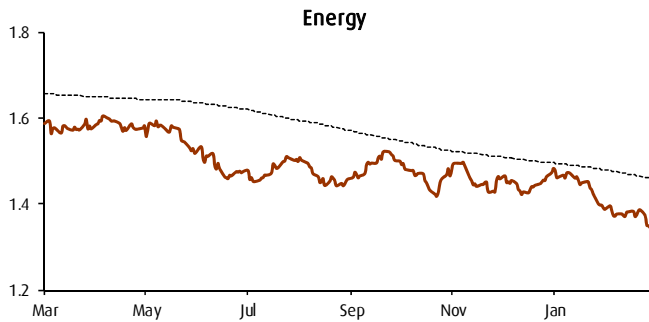
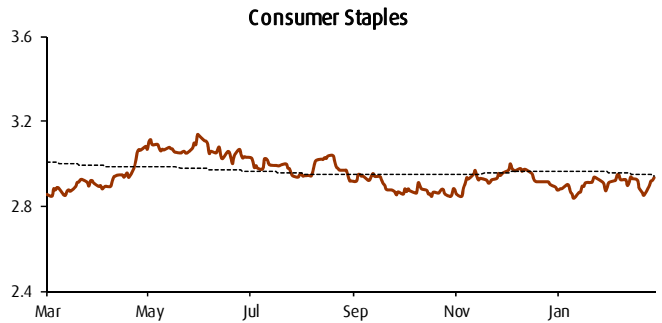
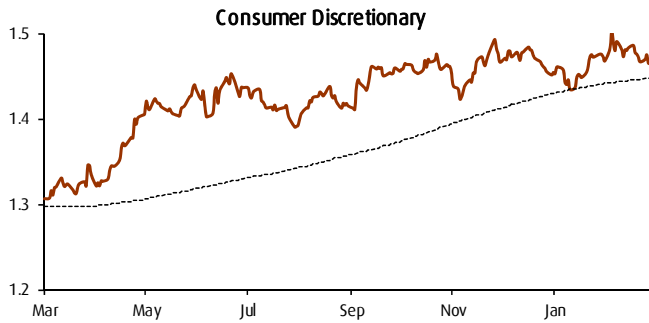


Meantime, Canada's economy churned out a soggy fourth quarter, with real GDP growing 1.7% a.r., reinforcing the marked downshift in growth from the first half of the year.

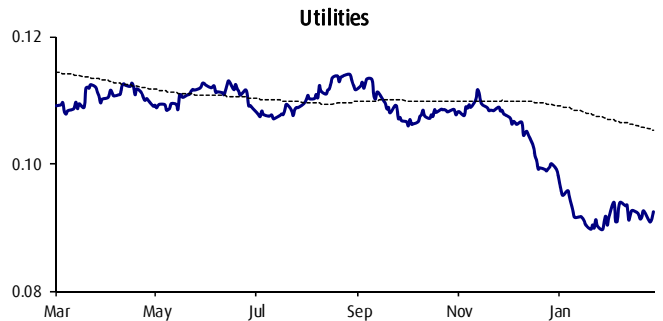
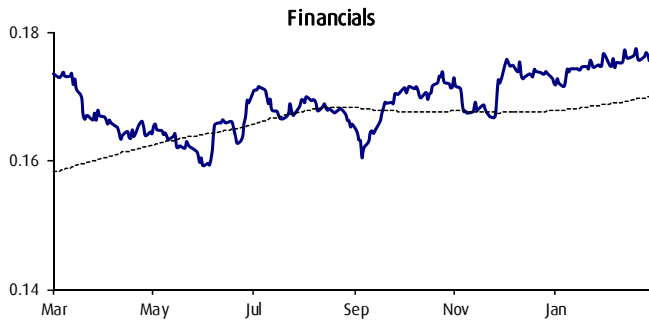
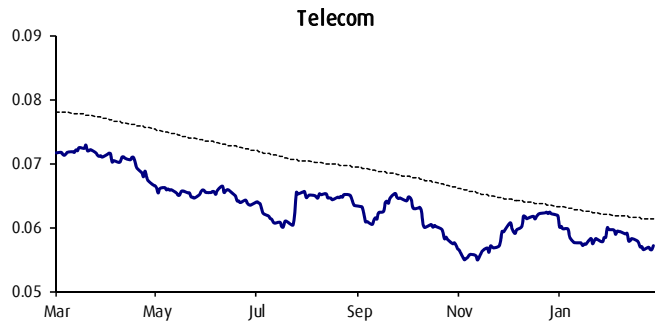
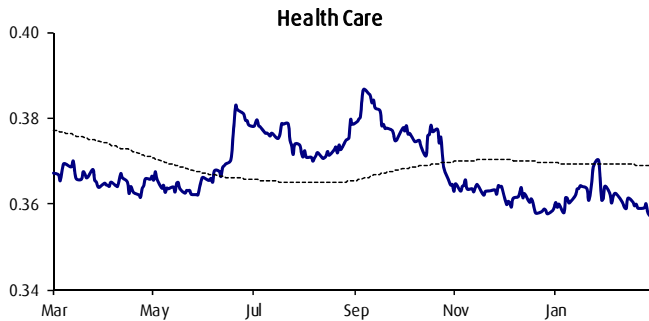
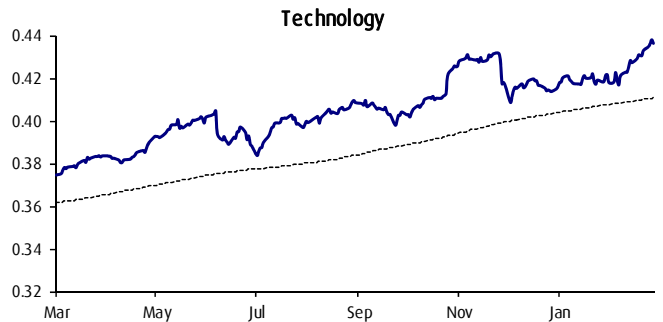
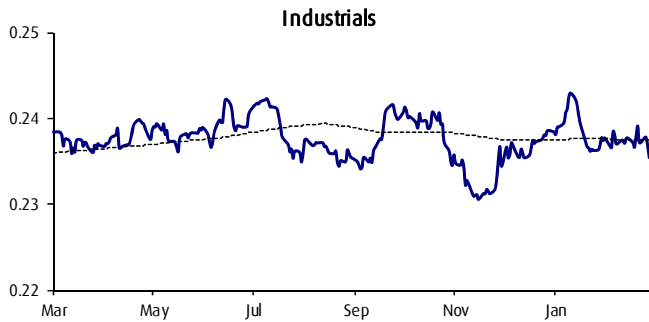
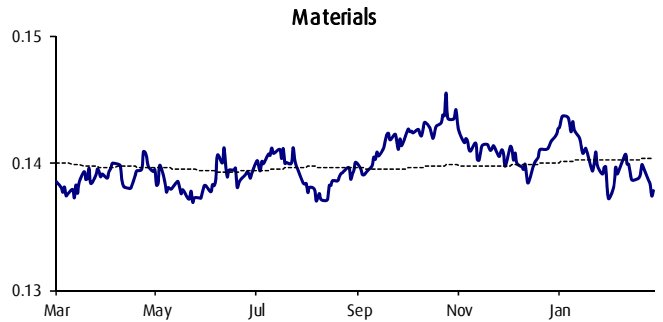
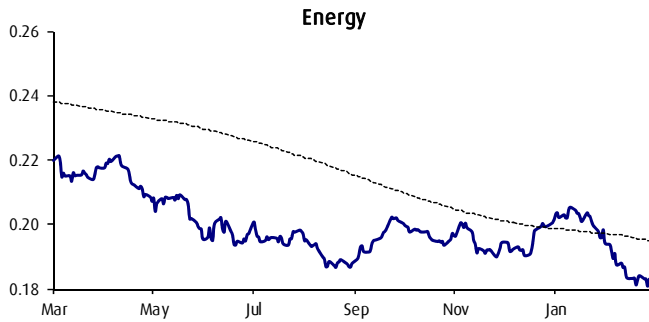
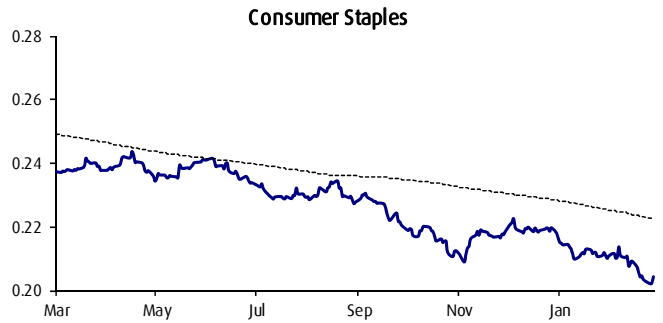
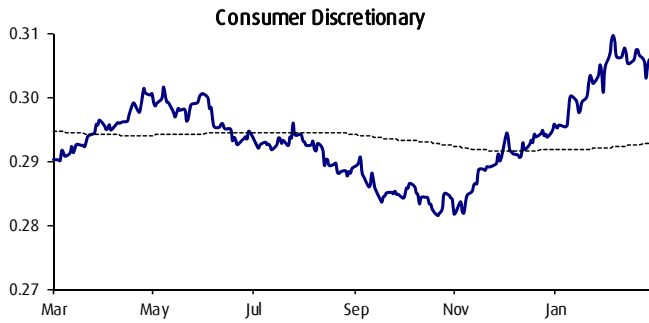
The real focus, however, was on two key developments in Washington this week. First, and perhaps most critically, President Trump announced a looming 25% duty on steel imports and a 10% tariff on aluminum. It's still not clear if the tariffs will apply to all countries, but keep in mind that Canada is the largest foreign supplier of U.S. steel, accounting for 18% of total imports in 2017—the TSX materials sector, of course, did not respond well. Meantime, Fed Chair Powell gave the first formal remarks in his new role, and largely stuck to the policy

script, while keeping the door open to four rate hikes this year—the median FOMC projection is currently three moves. He said that “by continuing to gradually raise interest rates over time,” the central bank is trying to “achieve inflation moving up to target but also make sure the economy doesn’t overheat.” He clarified later that “there’s no evidence the economy is currently overheating”.

TSX Sector Performance (Relative to the index, dashed line = 200-day m.a.)



S&P 500 Sector Performance (Relative to the index, dashed line = 200-day m.a.)



North American Sector Performances as of March 2, 2018

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2017
Telecom Services	-0.7	-6.5	-2.3	-9.7	-7.2	-6.0
Information Technology	-0.8	2.2	7.2	32.4	6.6	36.9
Cons Staples	-1.3	-5.3	-4.5	-2.9	-6.1	10.5
Health Care	-2.0	-3.9	0.5	10.9	1.1	20.0
Financials	-2.3	-3.2	3.2	14.5	1.6	20.0
Cons Discretionary	-2.7	-2.6	6.7	18.3	4.4	21.2
Banks	-2.7	-3.2	6.5	15.7	3.5	20.0
Energy	-2.7	-8.3	-4.2	-6.5	-7.8	-3.8
Utilities	-2.9	-2.4	-13.2	-5.4	-7.6	8.3
Industrials	-3.3	-4.1	1.7	11.0	-1.2	18.5
Materials	-4.0	-2.9	-0.3	11.3	-2.9	21.4
S&P 400 Mid Cap	-1.3	-2.0	-0.8	8.1	-1.2	14.5
S&P 100 Large Cap	-2.2	-2.9	2.0	12.6	0.5	19.3
S&P 600 Small Cap	-3.1	-2.8	-2.2	7.7	-2.0	11.7
S&P 500	-2.0	-2.6	1.9	13.0	0.7	19.4

TSX Sectors

Information Technology	1.3	5.2	14.2	25.9	12.2	16.2
Cons Staples	1.0	0.3	-4.5	1.8	-4.2	6.4
Utilities	0.3	-1.0	-8.9	-4.2	-7.9	6.2
Telecom Services	-0.2	0.2	-7.7	1.5	-6.1	9.9
Gold	-0.6	-4.7	-7.3	-15.7	-10.2	-2.6
Banks	-1.1	-1.8	-1.5	1.8	-2.1	10.4
Financials	-1.2	-2.0	-3.3	1.0	-3.4	9.4
Materials	-1.2	-0.6	0.3	-1.8	-4.3	6.3
Industrials	-1.3	1.6	0.8	11.0	-1.9	17.9
Cons Discretionary	-2.1	-1.9	-4.8	10.2	-4.7	20.4
Energy	-4.4	-4.7	-11.9	-15.7	-12.2	-10.0
Health Care	-6.3	-1.7	6.2	12.7	-14.8	32.7
Income Trusts	0.1	0.5	-2.6	-1.6	-4.0	4.5
REITs	-0.4	0.7	-1.1	0.0	-2.0	3.8
S&P/TSX Mid Cap	-1.0	-0.7	-3.0	-1.4	-4.7	4.2
S&P/TSX 60 Large Cap	-1.8	-1.6	-4.4	-0.8	-5.2	6.6
S&P/TSX Small Cap	-2.2	-2.4	-5.4	-6.9	-7.4	0.3
TSX	-1.6	-1.4	-4.1	-1.0	-5.1	6.0

Source: Bloomberg. As of 2:00 pm

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