ECONOMIC RESEARCH
Global Equity Weekly
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June 8, 2018

Breaking Out

Equity markets posted modest gains this week, with little in the way of major market-moving economic data. The S&P 500 rose 1.6% on broad-based strength in telecom, consumer discretionary, materials and financials, while utilities lagged. The index bounced off its 50-day moving average last week, and technicians are now likely sizing up a breakout. Meantime, the Nasdaq did break out to a new record high, before giving some back late in the week. The index has also clearly separated itself from the pack on a year-to-date basis, now up more than 10% versus low single-digit gains or modest declines across most developed-market indices. Not unlike last year, technology is the horse pulling the carriage, up 13.6% within the S&P 500 after a brief pause following the towering 37% surge in 2017. In Canada, the TSX posted a 1% gain, as strength in health care and technology (relative lightweights) was offset by softer performances in energy and banks. The index has gained no ground so far in 2018.

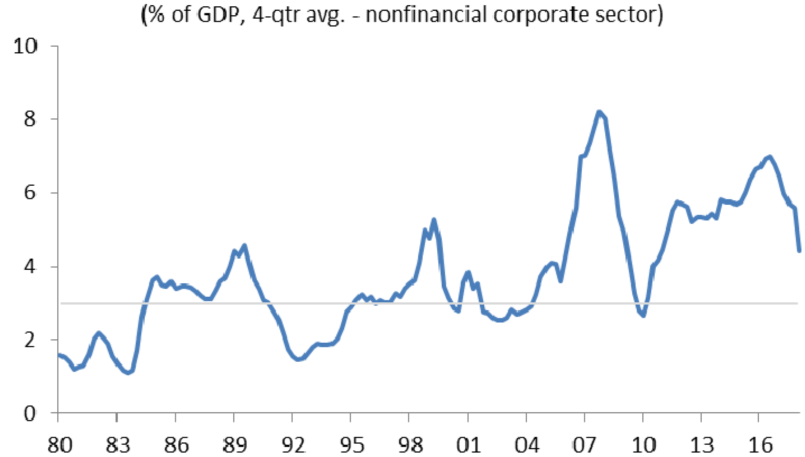
Market Performance as of June 8, 2018

	Current Price	Performance (percent) 1 Week	1 Month	3 Months	1 Year	YTD	2017
Dow Jones	25,317	**2.8**	3.9	1.7	19.5	2.4	25.1
NIKKEI 225	22,695	**2.4**	0.8	6.2	14.0	-0.3	19.1
S&P 500	2,779	**1.6**	4.0	1.5	14.2	3.9	19.4
NASDAQ	7,646	**1.2**	5.2	2.9	20.9	10.8	28.2
S&P/TSX	16,203	**1.0**	2.3	4.3	5.1	0.0	6.0
DAX	12,767	**0.3**	-1.1	3.3	0.4	-1.2	12.5
China CSI 300	3,780	**0.2**	-2.6	-7.3	6.1	-6.2	21.8
FTSE 100	7,681	**-0.3**	1.5	6.6	3.1	-0.1	7.6
CAC 40	5,450	**-0.3**	-1.3	3.7	3.5	2.6	9.3

Source: Bloomberg.

Dividends and Buybacks

(% of GDP, 4-qtr avg. - nonfinancial corporate sector)

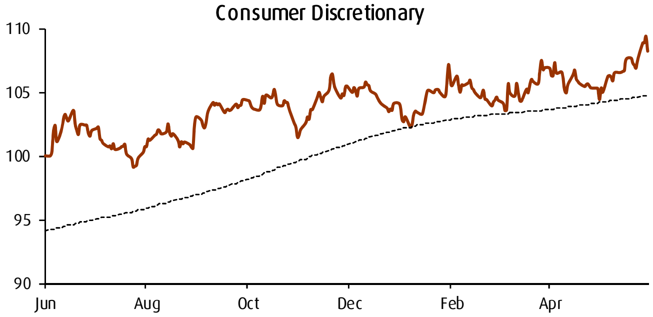


While it was a quiet week on the data front, what we did get helped firm up expectations for a Fed rate hike next week. U.S. job openings topped 6 mln in April, the highest level on record. As a share of total employment and openings, the rate held steady at 4.6%, the highest level since at least 2000. Clearly, demand for labour is there, but positions could be going unfilled for a variety of reasons—skills mismatches, immobility, etc. Note that the job openings rate has historically tracked wage growth quite well, with a lag of about 6 months. That suggests wage growth could potentially push out of the range it has been holding in for the past two years as the labour market continues to gradually tighten.

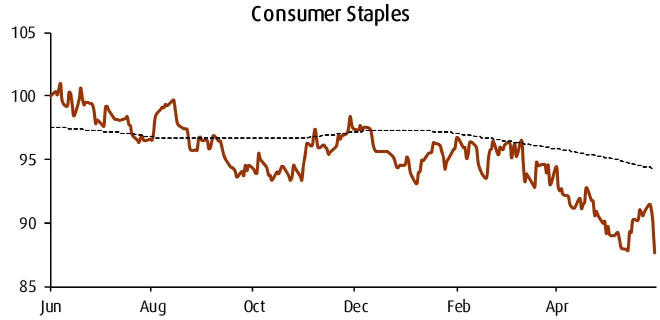
Elsewhere, flow of funds data for Q1 showed continued gains in household net worth. In the corporate sector, buyback and dividend activity have slowed meaningfully over the past four quarters, with the combined tally running at an $865 bln annualized clip. As a share of GDP, that weighs in at 4.4%, down from 7% just over a year ago. Part of this could reflect the fact that profits are again fading as a share of GDP. But it could also reflect more resources being directed toward business investment. Indeed, the slowdown in buyback and dividend flows coincides well with the sharp acceleration in nominal M&E investment that began in late-2016. If so, that's fewer dollars flowing to shareholders, for now, but a solid boost to economic growth and revenues in a number of sectors.

TSX Sector Performance (Relative to the index, year-ago = 100, dashed line = 200-day m.a.)

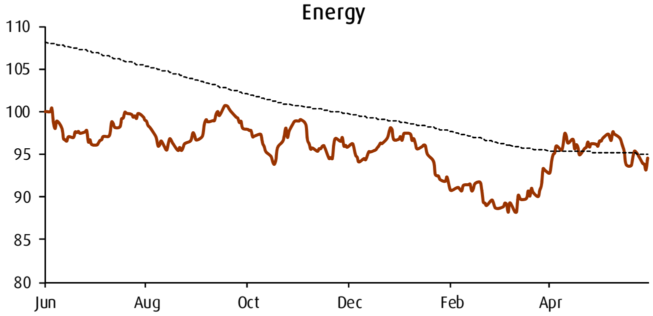
Consumer Discretionary



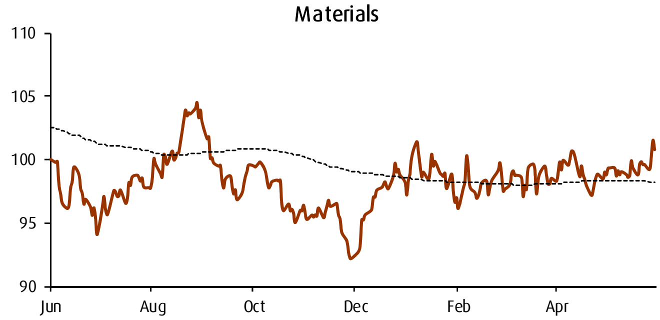
Consumer Staples



Energy

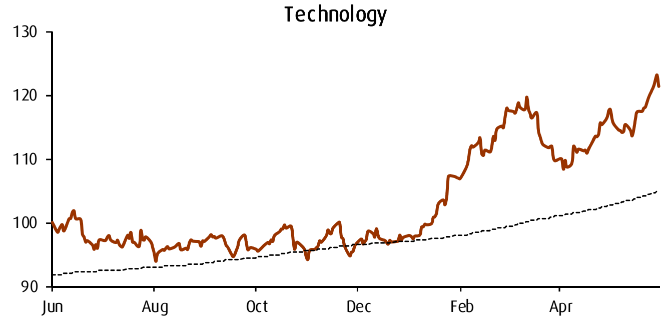


Materials

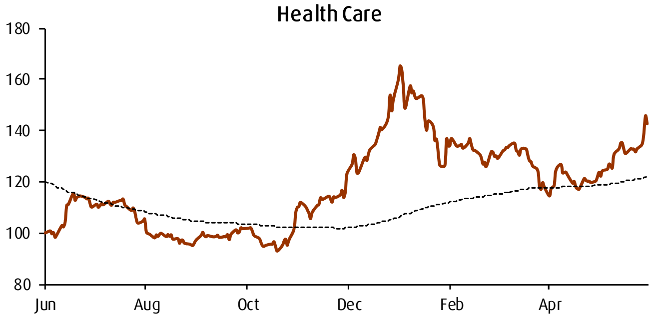


Industrials

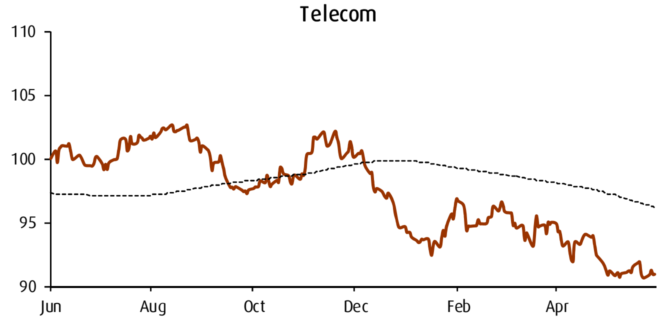
Technology



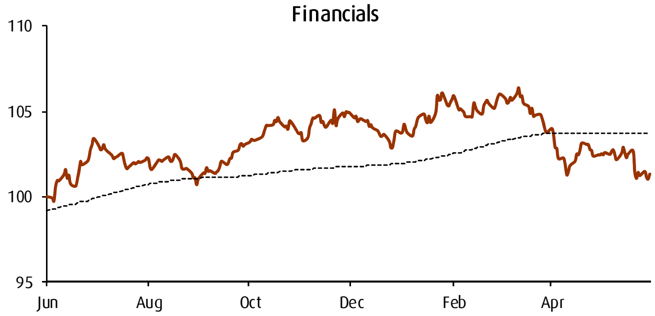
Health Care



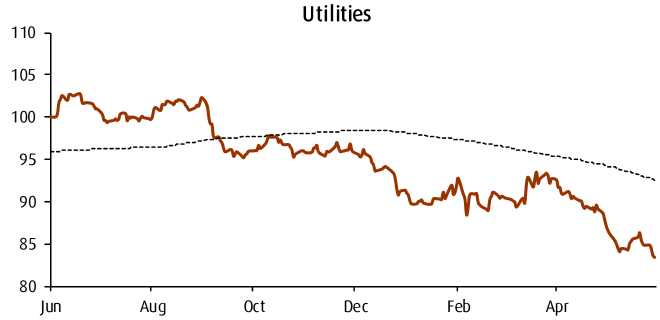
Telecom



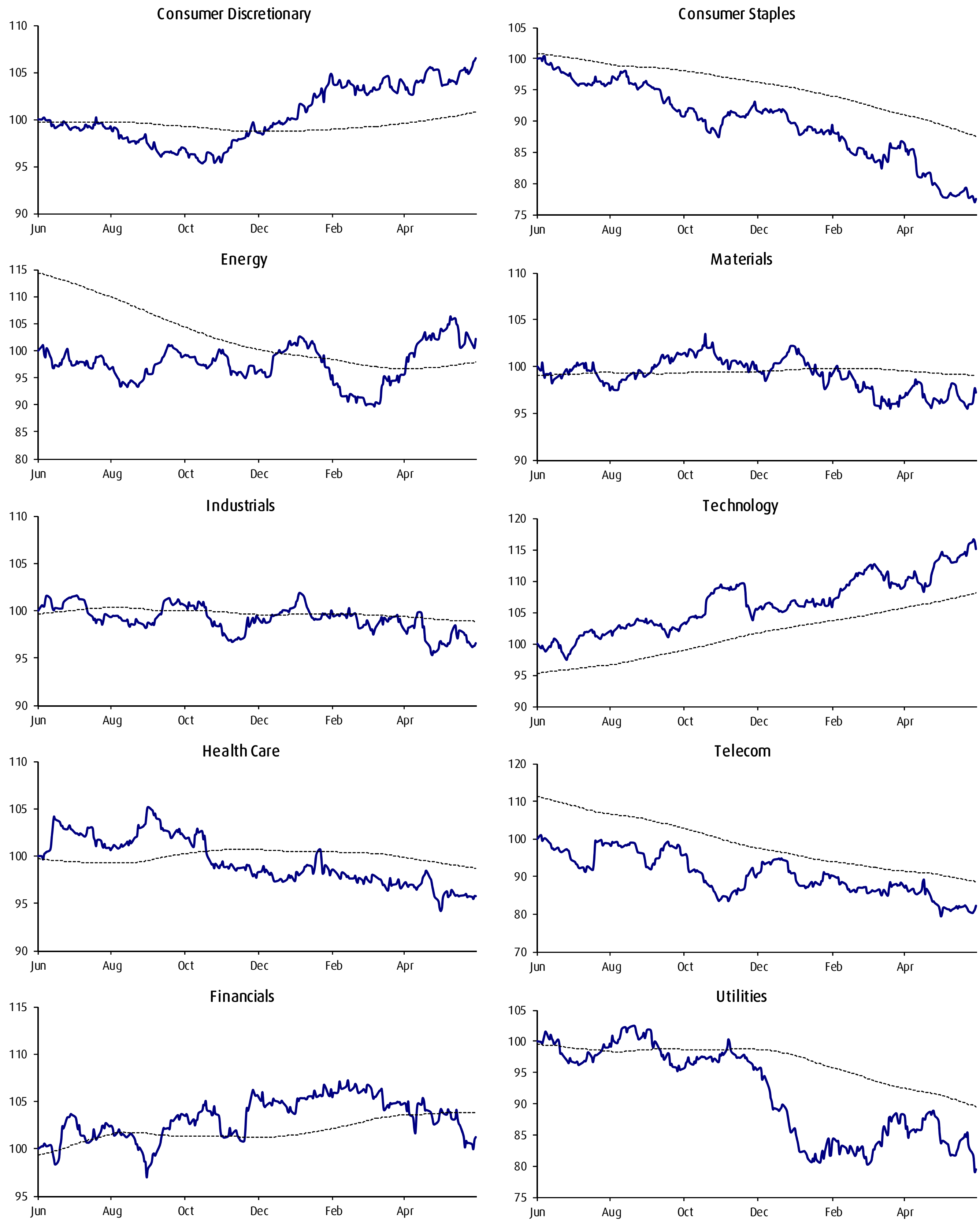
Financials



Utilities



S&P 500 Sector Performance (Relative to the index, year-ago = 100, dashed line = 200-day m.a.)



North American Sector Performances as of June 8, 2018

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2017
Telecom Services	**3.4**	5.3	-4.4	-5.3	-9.6	-6.0
Cons Discretionary	**3.2**	5.6	5.1	21.1	11.2	21.2
Materials	**2.9**	5.2	0.9	12.5	0.2	21.4
Cons Staples	**2.4**	3.2	-6.7	-10.6	-11.5	10.5
Banks	**2.2**	0.9	-4.3	20.1	0.0	20.0
Financials	**2.2**	1.5	-3.1	17.8	0.3	20.0
Health Care	**2.0**	5.8	-0.3	10.6	2.7	20.0
Industrials	**1.6**	4.0	-0.5	10.9	0.4	18.5
Information Technology	**0.7**	4.9	4.2	27.6	13.6	36.9
Energy	**0.7**	2.7	14.7	19.0	5.9	-3.8
Utilities	**-3.2**	-3.2	-1.3	-9.5	-8.4	8.3
S&P 400 Mid Cap	**2.2**	4.5	4.3	14.3	5.3	14.5
S&P 600 Small Cap	**2.0**	6.3	8.4	20.7	10.6	11.7
S&P 100 Large Cap	**1.6**	4.1	1.2	13.9	3.3	19.3
S&P 500	**1.6**	**4.0**	**1.5**	**14.2**	**3.9**	**19.4**

TSX Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2017
Health Care	**8.8**	20.1	14.8	46.7	2.0	32.7
Information Technology	**2.6**	5.8	7.5	25.5	25.4	16.2
Materials	**2.0**	3.9	7.6	4.6	2.9	6.3
Cons Discretionary	**1.5**	5.0	7.8	12.4	3.9	20.4
Financials	**1.2**	1.3	-0.1	7.4	-2.1	9.4
Telecom Services	**1.2**	1.5	-1.7	-4.9	-6.7	9.9
Banks	**1.0**	0.7	-1.2	8.5	-1.9	10.4
Industrials	**0.4**	5.3	9.0	12.5	7.0	17.9
Energy	**0.1**	0.3	10.7	-0.2	-2.3	-10.0
Gold	**0.0**	-1.5	7.8	-14.2	-3.7	-2.6
Utilities	**-0.3**	-2.5	-3.6	-12.6	-10.9	6.2
Cons Staples	**-2.0**	0.1	-4.0	-8.7	-7.7	6.4
Income Trusts	**0.3**	1.5	0.9	-1.5	-1.8	4.5
REITs	**0.3**	2.1	3.5	3.8	3.0	3.8
S&P/TSX Mid Cap	**1.2**	2.7	4.6	4.1	0.6	4.2
S&P/TSX 60 Large Cap	**0.9**	2.1	4.2	5.4	-0.2	6.6
S&P/TSX Small Cap	**0.3**	0.6	5.3	3.5	-1.9	0.3
TSX	**1.0**	**2.3**	**4.3**	**5.1**	**0.0**	**6.0**

Source: Bloomberg.