

Powell Play

Equity markets firmed this week, helped by a less hawkish tint to Fed commentary. The Nasdaq added more than 5%, while the S&P 500 jumped 4.8% and is now running headlong into its 200-day moving average. All sectors posted gains on the week, with technology and consumer discretionary hopping back in the driver's seat. Fed Chair Powell's comment that rates are now "just below" neutral had a less hawkish hue than his previous commentary, and the market was pleased. Meantime, we've trimmed our expectation of 2019 Fed rate hikes—after moving in December, we think they will raise rates twice next year, in May and September. The TSX gained a more modest 1.1%, with energy still acting as a drag despite a narrower WCS differential.

On the economic data front, U.S. real GDP growth was confirmed at 3.5% in Q3, but with most indications suggesting that growth has since softened, the real question is where we go from there. On the housing front, the story is getting murkier.

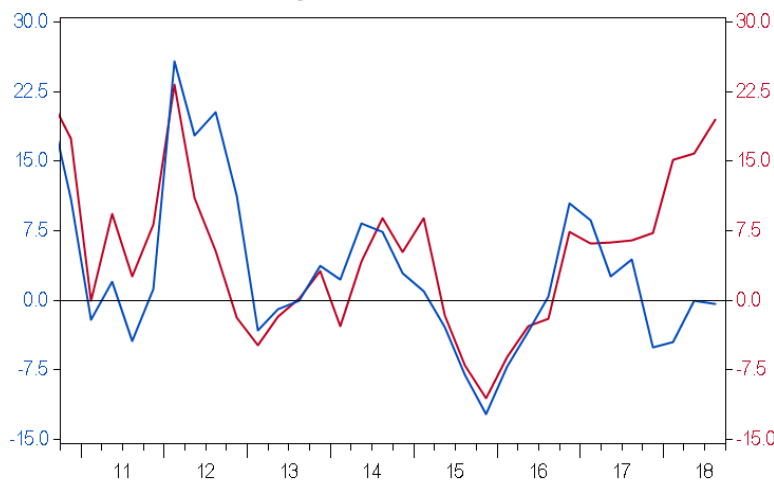
Indeed, U.S. housing market indicators have been flashing weakness in recent months, and this week's declines in new and pending home sales amped up the concerns. Through the first 10 months of the year, pending sales are down a seasonally-adjusted 7%, while new sales have slumped 15%. Aside from the fact that we are later in the cycle, it looks like monetary and fiscal policy have each chipped away at two major incentives to buy—affordability and taxes.

Market Performance as of November 30, 2018

	Current Price	Performance (percent)					2017
		1 Week	1 Month	3 Months	1 Year	YTD	
NASDAQ	7,331	5.6	2.4	-9.4	6.6	6.2	28.2
Dow Jones	25,538	5.2	2.7	-1.7	5.2	3.3	25.1
S&P 500	2,760	4.8	2.9	-4.9	4.2	3.2	19.4
NIKKEI 225	22,351	3.3	4.2	-2.3	-1.6	-1.8	19.1
S&P/TSX	15,198	1.2	2.0	-7.2	-5.4	-6.2	6.0
CAC 40	5,004	1.2	0.5	-8.7	-6.9	-5.8	9.3
China CSI 300	3,173	0.9	2.0	-5.3	-20.8	-21.3	21.8
DAX	11,257	0.6	-0.3	-9.9	-13.6	-12.9	12.5
FTSE 100	6,980	0.4	-0.8	-7.1	-4.7	-9.2	7.6

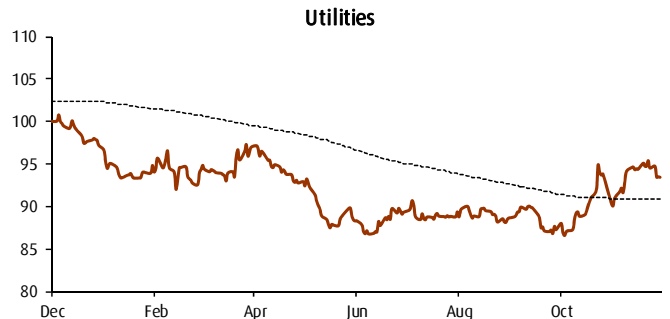
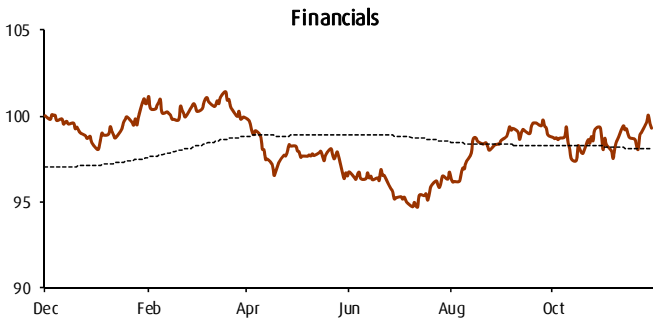
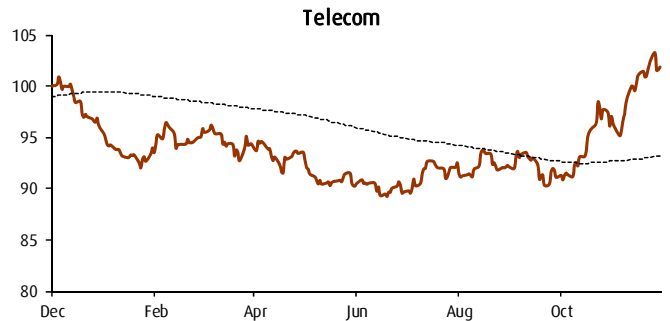
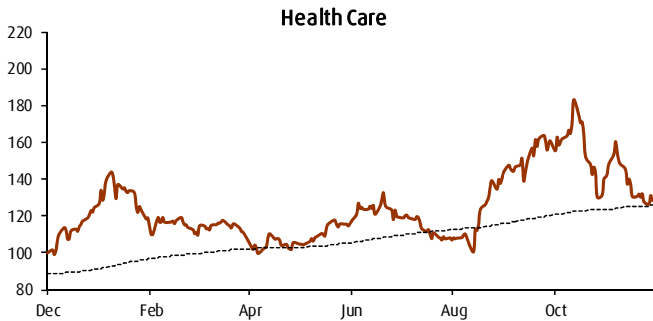
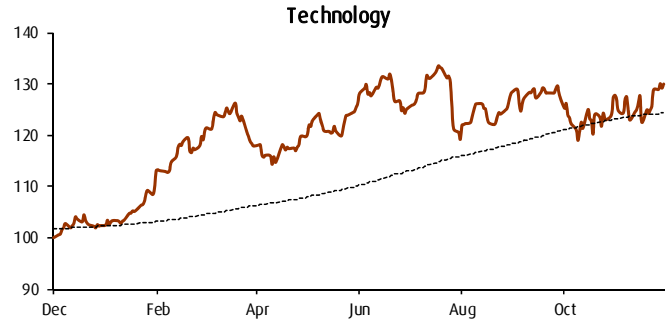
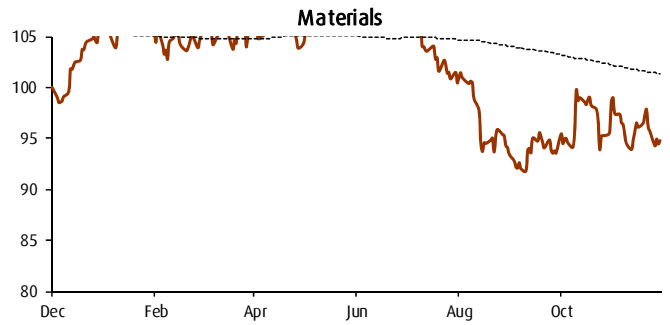
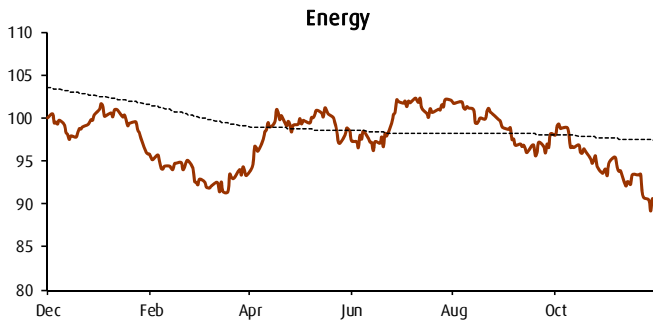
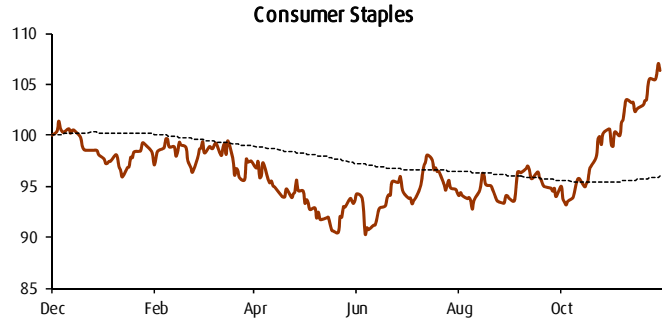
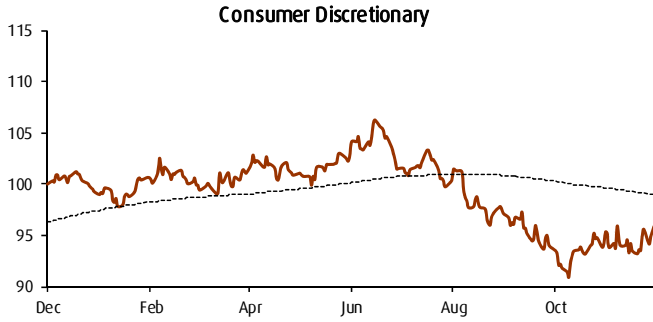
Source: Bloomberg

Corporate Profits Before Tax
% Change - Year to Year SAAR, Bil.\$
Corporate Profits After Tax with IVA & CCAadj
% Change - Year to Year SAAR, Bil.\$

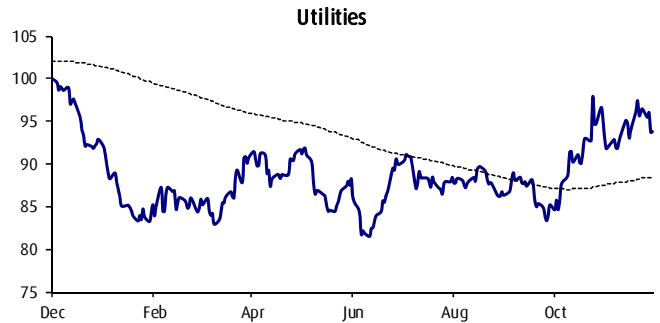
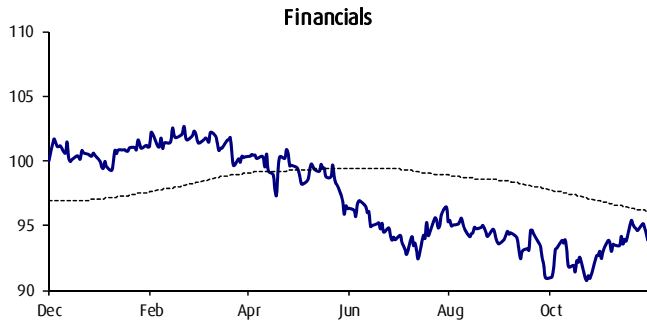
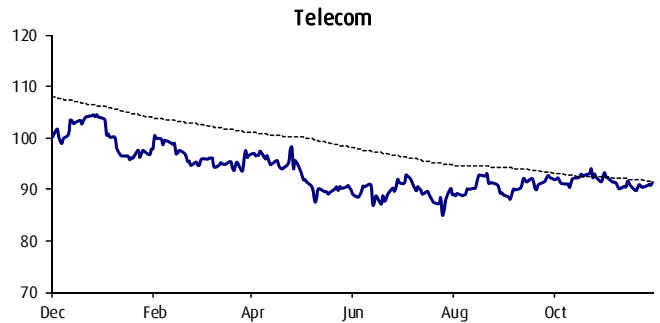
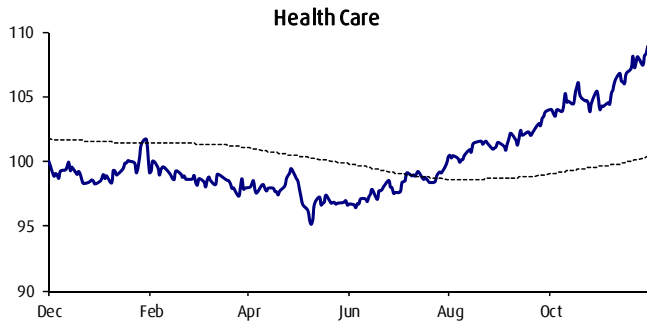
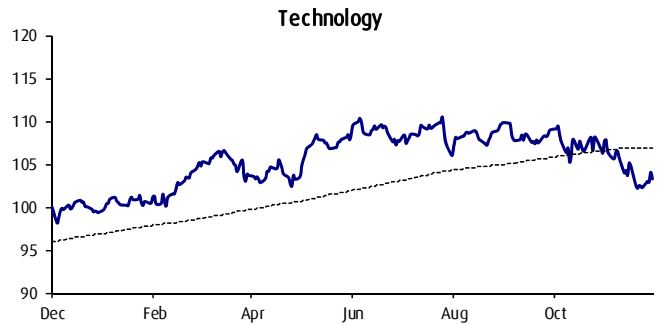
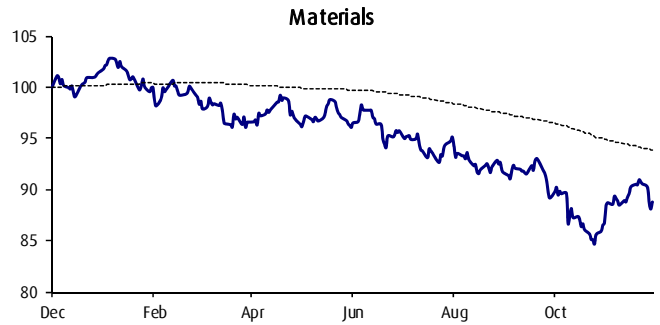
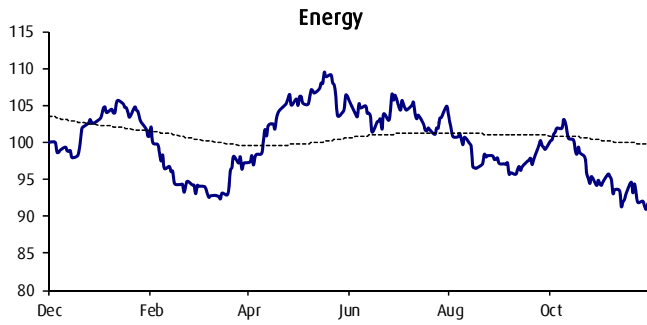
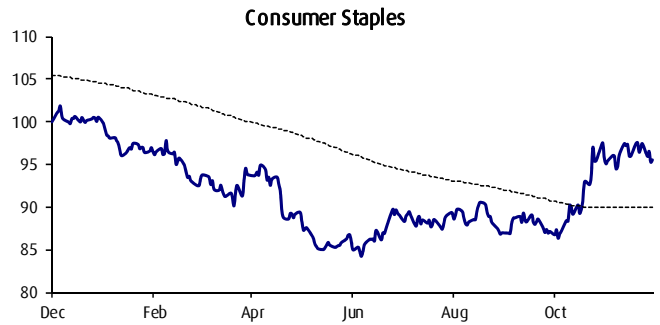
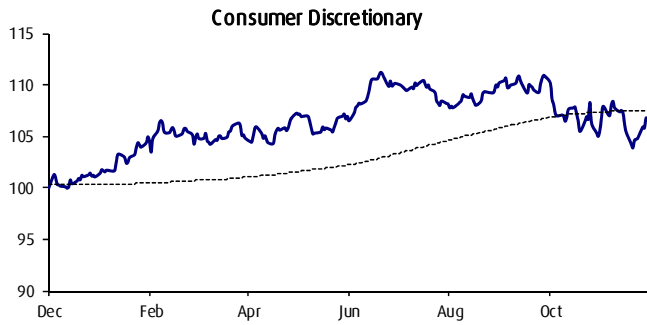


Meantime, the relentless strength in corporate profits has been one of the factors bucking typical late-cycle behaviour seen across many other indicators, but the picture isn't as strong below the surface. In Q3, headline corporate profits were up a hefty 19.5% y/y (after tax and with CCA adjustment). But, that picks up tax relief and accelerated depreciation allowances. Before tax and ex-CCA, profit growth was flat in the quarter, and is actually down from the 2014Q3 high. From another perspective, headline profits as share of GDP have turned higher (counter to what you'd see late in the cycle), but that's not the case after stripping out stimulus effects. The latter looks a lot more like what you'd expect at this later stage. Note also that in those terms, the profit share of GDP is now below levels seen at the end of the 2001-2006 cycle.

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.)



North American Sector Performances as of November 30, 2018

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2017
Cons Discretionary	6.4	4.3	-7.8	11.2	8.7	21.2
Information Technology	6.1	0.2	-10.2	7.5	7.6	36.9
Health Care	5.9	7.0	2.4	13.8	14.7	20.0
Telecom Services	5.5	1.4	-3.1	-4.6	-9.8	-6.0
Banks	4.1	3.9	-6.7	-1.3	-4.1	20.0
Industrials	4.1	4.3	-5.8	-3.0	-4.7	18.5
Financials	3.9	4.0	-4.8	-1.9	-3.6	20.0
Energy	3.5	-1.6	-11.8	-4.5	-8.8	-3.8
Cons Staples	2.9	0.8	4.5	0.1	-1.9	10.5
Utilities	2.7	1.9	3.6	-1.7	5.0	8.3
Materials	2.4	5.2	-8.4	-8.4	-10.0	21.4
S&P 100 Large Cap	5.5	2.6	-4.8	4.9	3.5	19.3
S&P 400 Mid Cap	3.0	3.3	-7.9	-1.1	-1.1	14.5
S&P 600 Small Cap	2.0	0.6	-12.4	1.5	2.2	11.7
S&P 500	4.8	2.9	-4.9	4.2	3.2	19.4

TSX Sectors

Information Technology	4.3	6.6	-5.1	19.1	18.7	16.2
Cons Staples	3.1	8.6	5.6	1.7	1.9	6.4
Industrials	2.1	1.9	-5.0	8.3	6.1	17.9
Banks	2.0	1.3	-6.9	-4.0	-5.0	10.4
Financials	1.9	2.2	-6.1	-5.2	-5.6	9.4
Cons Discretionary	1.9	3.9	-9.3	-10.5	-9.9	20.4
Telecom Services	1.2	6.5	2.4	-3.7	-1.6	9.9
Health Care	0.1	1.3	-12.1	24.3	0.1	32.7
Energy	-0.2	-1.9	-16.2	-14.7	-15.4	-10.0
Materials	-0.4	1.1	-6.9	-12.2	-15.1	6.3
Utilities	-0.7	4.1	-1.4	-11.3	-10.2	6.2
Gold	-1.7	1.4	1.2	-16.9	-18.3	-2.6
REITs	0.5	1.4	-1.2	6.0	4.9	3.8
Income Trusts	-0.5	0.8	-3.7	-0.4	-1.9	4.5
S&P/TSX 60 Large Cap	1.5	2.7	-6.2	-4.1	-4.8	6.6
S&P/TSX Mid Cap	0.4	-0.2	-10.2	-9.5	-10.5	4.2
S&P/TSX Small Cap	-0.6	-3.1	-13.1	-15.0	-16.9	0.3
TSX	1.2	2.0	-7.2	-5.4	-6.2	6.0

Source: Bloomberg

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