Robert Kavcic, Senior Economist
January 4, 2019

Jayday

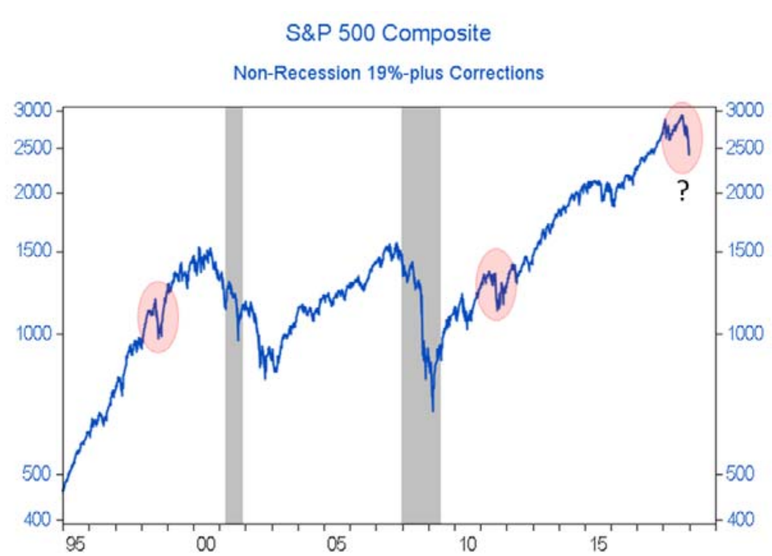
If your device was off during the holiday, you missed a pretty wild ride. U.S. equity markets plunged into Christmas, then reopened to the single-biggest daily point gain by the Dow on record. This week, equities continued to slog their way back, helped by a blowout payrolls report, easier policy in China and some calming words from Fed Chair Powell. The S&P 500 rose 1.9%, and is now up a snappy 7.7% from its December 24th low, while the TSX gained 1.4% on the week. Let's look at three items this week:

Recession? Hang on… Just as the recession chatter was reaching a loud chorus, the U.S. payrolls report flashed a hefty 312k gain in December, the biggest in 10 months and a pretty massive number given the stage of the cycle we're in. The jobless rate actually backed up to 3.9%, a five-month high, but only alongside a big increase in labour force participation, which is not a bad thing. Wage growth perked up, and has now held above 3% y/y for three straight months. While a steep decline in the factory ISM earlier in the week (albeit from high levels and still in expansion territory) added to the downturn chatter, the payrolls report quieted it down quickly.

Market Performance as of January 4, 2019

	Current Price	Performance (percent) 1 Week	1 Month	3 Months	1 Year	YTD	2018
NASDAQ	6,739	2.3	-5.9	-14.5	-4.8	1.6	-3.9
DAX	10,768	2.0	-5.0	-12.1	-18.2	2.0	-18.3
S&P 500	2,532	1.9	-6.2	-12.7	-7.1	1.0	-6.2
Dow Jones	23,433	1.6	-6.4	-12.0	-6.5	0.5	-5.6
FTSE 100	6,837	1.5	-2.6	-7.8	-11.2	1.6	-12.5
S&P/TSX	14,427	1.4	-4.2	-9.9	-12.1	0.7	-11.6
CAC 40	4,737	1.2	-5.5	-12.5	-12.5	0.1	-11.0
China CSI 300	3,036	0.8	-7.1	-11.7	-26.5	0.8	-25.3
NIKKEI 225	19,562	-2.3	-11.2	-18.4	-16.8	-2.3	-12.1

Source: Bloomberg

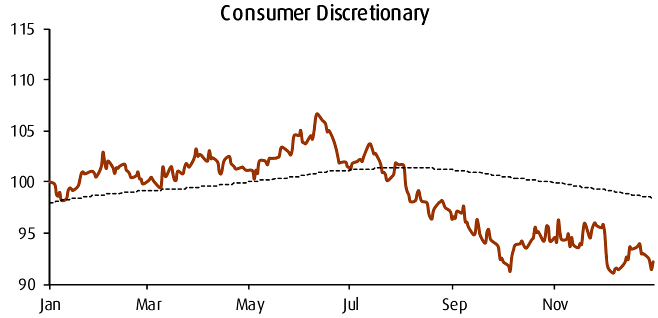


Powell speaks… Fed Chair Powell spoke on a panel Friday, and lobbed a few bones to the market. Among his comments that came across the wire, some of the most market friendly were that the data do not raise concerns about too-strong inflation; policy is not on a pre-set path, particularly with muted inflation; the Fed is sensitive to the message the markets are sending; and if balance sheet reduction is discovered to be causing problems in markets, the Fed will revisit its plan. All told, this sounds like a Fed that is fully cognizant of the signals markets are sending, and is prepared to ease off the tightening path in response. Equity markets like this, especially at this stage of the cycle where, arguably, a few more rate hikes could mark its end.

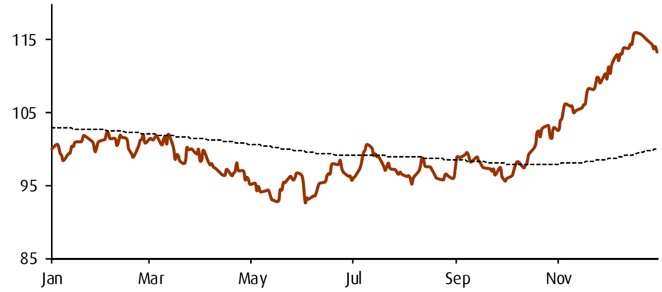
Bear spotting… As of Christmas Eve, the S&P had fallen 19.8% from its September high, precariously close to what most consider an official bear market. Such declines are necessary, but not always sufficient conditions for a recession. Interestingly, stocks fell 19.4% in 2011 and 19.3% in 1998, both cases that were followed by in-cycle rallies. The 1998 case is especially fitting given that it was late in the cycle, the market had just come off a big tech-inspired run, and external factors led the Fed to pause its tightening campaign (and actually cut rates three times). We'll see how policy evolves, but right now history rhymes a bit.

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

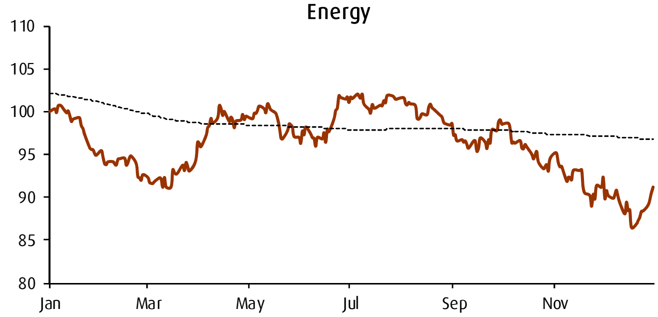
Consumer Discretionary



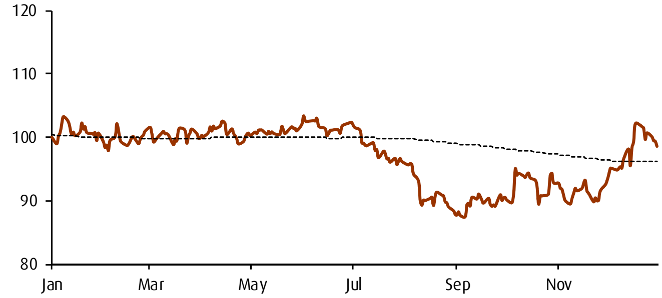
Consumer Staples



Energy



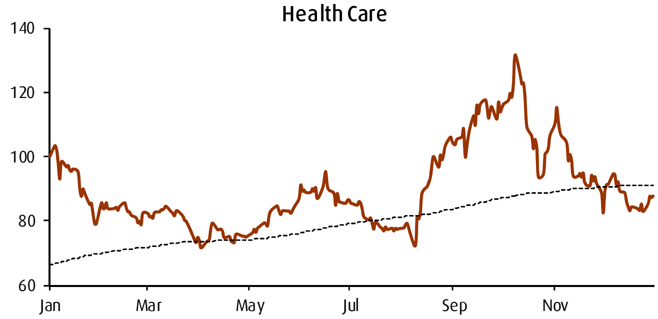
Materials



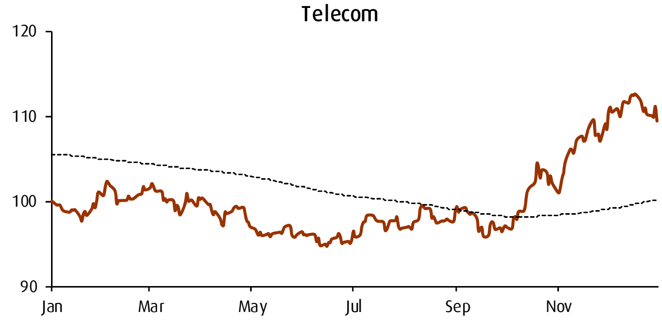
Industrials

Technology

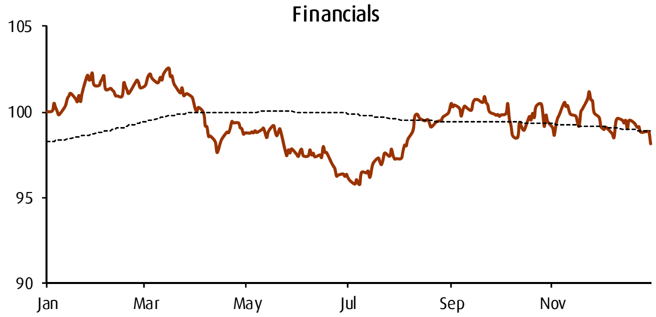
Health Care



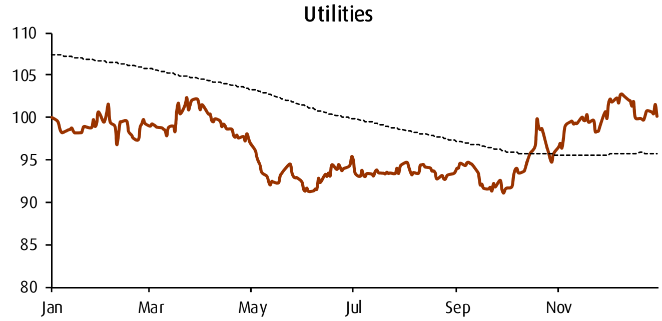
Telecom



Financials

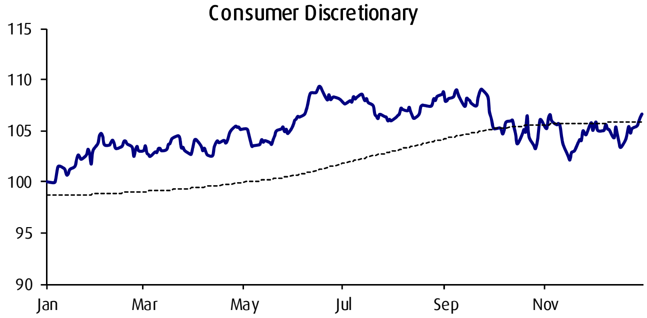


Utilities

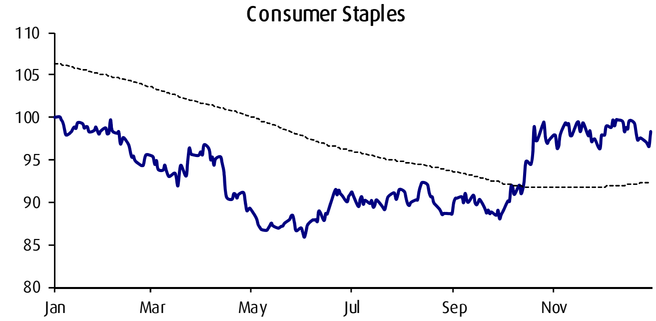


S&P 500 Sector Performance (Relative to the index, year-ago = 100, dashed line = 200-day m.a.)

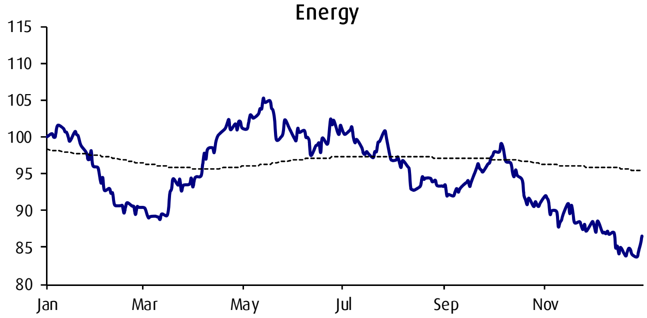
Consumer Discretionary



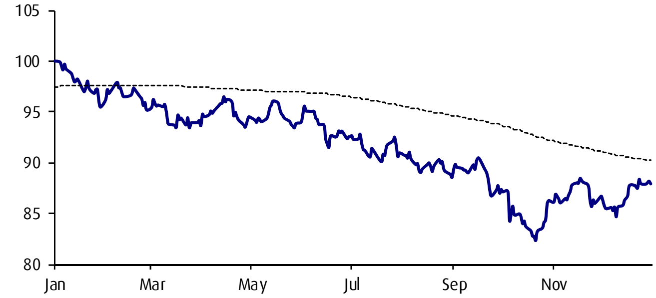
Consumer Staples



Energy



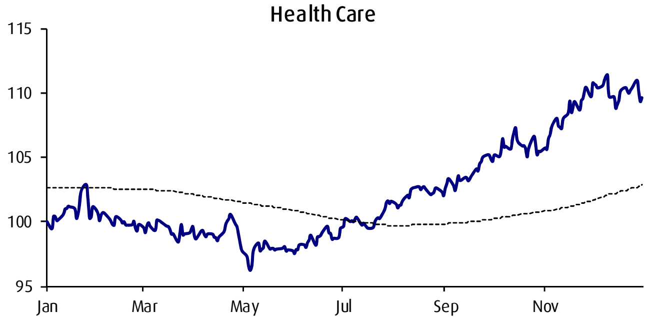
Materials



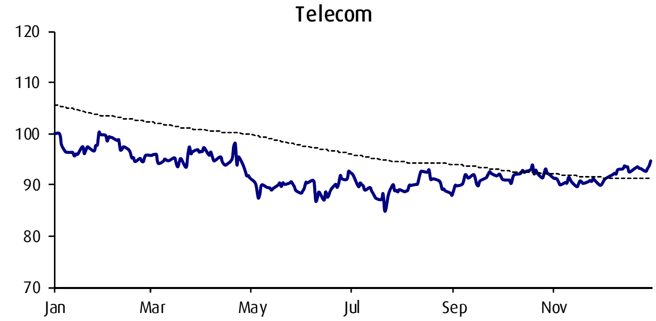
Industrials

Technology

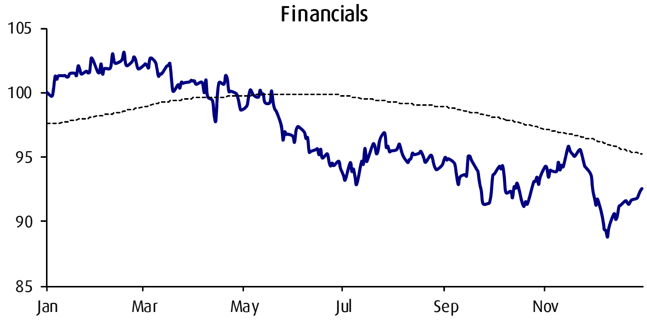
Health Care



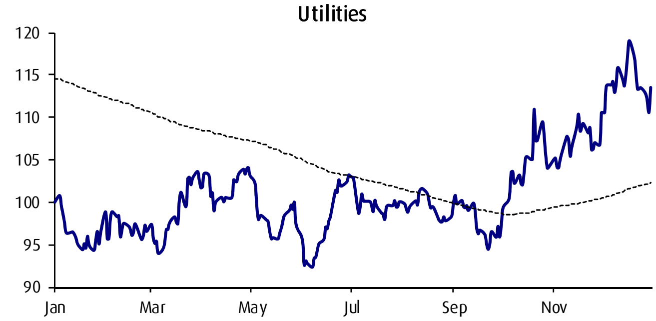
Telecom



Financials



Utilities



North American Sector Performances as of January 4, 2019

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2018
Energy	**5.0**	-8.2	-22.4	-20.0	4.6	-20.5
Banks	**4.8**	-7.5	-15.4	-16.8	4.0	-18.4
Telecom Services	**4.1**	-0.8	-9.1	-12.0	3.8	-16.4
Cons Discretionary	**3.3**	-4.8	-11.7	-0.7	2.2	-0.5
Financials	**2.7**	-6.3	-13.8	-14.4	1.7	-14.7
Materials	**2.3**	-4.5	-11.8	-17.8	1.5	-16.4
Industrials	**2.3**	-6.7	-17.8	-15.7	1.2	-15.0
Cons Staples	**1.4**	-7.0	-4.3	-10.0	1.0	-11.2
Health Care	**0.7**	-7.6	-9.0	1.7	-0.6	4.7
Information Technology	**0.1**	-7.6	-17.6	-5.3	-0.8	-1.6
Utilities	**0.0**	-5.5	0.0	2.8	-0.2	0.5
S&P 400 Mid Cap	**2.3**	-7.8	-15.0	-12.7	1.3	-12.5
S&P 100 Large Cap	**2.0**	-5.9	-12.8	-6.6	1.1	-5.9
S&P 600 Small Cap	**-0.9**	-10.0	-19.3	-11.9	-1.4	-9.8
S&P 500	**1.9**	**-6.2**	**-12.7**	**-7.1**	**1.0**	**-6.2**

TSX Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2018
Energy	**4.9**	-4.0	-16.8	-20.6	4.1	-21.5
Health Care	**3.8**	-5.8	-31.0	-17.1	5.9	-16.6
Utilities	**1.5**	-4.6	-0.8	-11.3	0.2	-13.4
Banks	**0.8**	-4.5	-11.2	-12.0	0.7	-11.4
Cons Discretionary	**0.6**	-7.5	-10.1	-18.5	-0.1	-17.7
Industrials	**0.6**	-6.4	-13.5	-4.5	-0.3	-3.9
Financials	**0.4**	-5.7	-11.4	-13.4	0.0	-12.6
Materials	**0.1**	1.8	-2.0	-14.4	-1.6	-10.6
Gold	**0.1**	8.5	13.5	-10.3	-1.9	-7.2
Cons Staples	**-0.1**	-1.5	6.6	-0.1	-0.7	0.6
Telecom Services	**-0.2**	-4.2	1.6	-4.1	-0.2	-5.3
Information Technology	**-0.9**	-6.8	-8.3	8.0	-2.5	12.5
Income Trusts	**1.7**	-4.4	-5.9	-4.8	0.7	-7.0
REITs	**-0.2**	-3.8	-3.1	1.4	-0.6	0.9
S&P/TSX Small Cap	**4.1**	-0.5	-12.5	-19.2	2.4	-20.1
S&P/TSX Mid Cap	**2.5**	-3.0	-12.2	-14.6	1.1	-15.2
S&P/TSX 60 Large Cap	**1.1**	-4.6	-9.1	-11.3	0.6	-10.5
TSX	**1.4**	**-4.2**	**-9.9**	**-12.1**	**0.7**	**-11.6**

Source: Bloomberg