

The January Effect

Equity markets rallied this week, stoked by a much more dovish-than-expected shift by the Federal Reserve. The S&P 500 rose 1.6%, while the TSX added 0.9%. Given the tone of the Fed's press statement and Chair Powell's press conference this week, we've pulled our mid-year rate hikes out of the U.S. and Canadian forecasts, leaving one move from each central bank at the end of the year. Suffice it to say that this was music to the ears of the equity market, which had stumbled hard into 2019.

With that, the S&P 500 jumped 7.9% in January, the best month since 2015 and the strongest January in 32 years. Of course, this follows the 'nightmare before Christmas', which left the index finishing the year with its worst month since the financial crisis. As such, the broad U.S. equity market is still roughly 8% below its September high and still tucked below its 200-day moving average. Meantime, Canadian investors have

finally caught a break, with the TSX surging 8.5% in January (best month in a decade) to lead most of the major-market indices. What was the driver? For one, the low-liquidity program-driven selling, like that heading into Christmas, left the market ripe for a technical bounce. South of the border, all sectors were positive and no fewer than five notched double-digit gains in the month, including banks, energy and industrials, which were all deeply negative last year. In Canada, all sectors were up too, including the heavyweight banks and energy, the

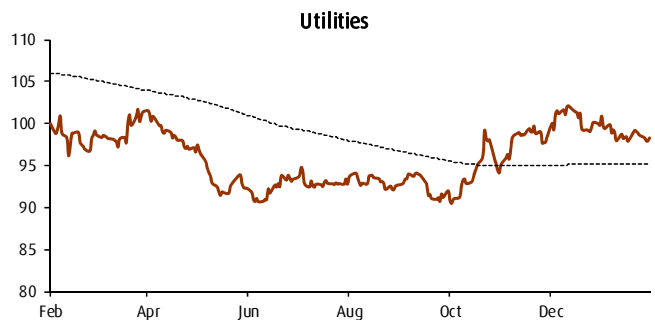
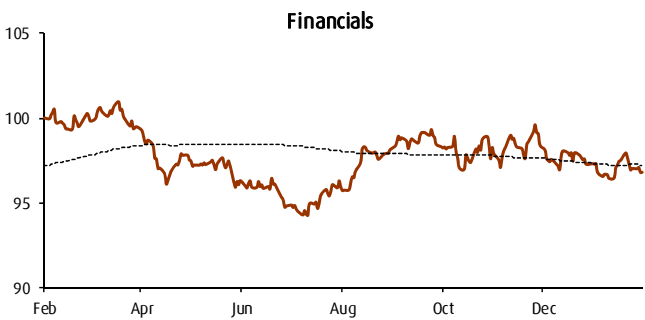
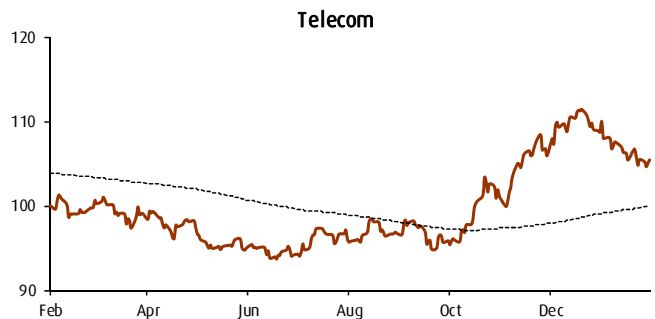
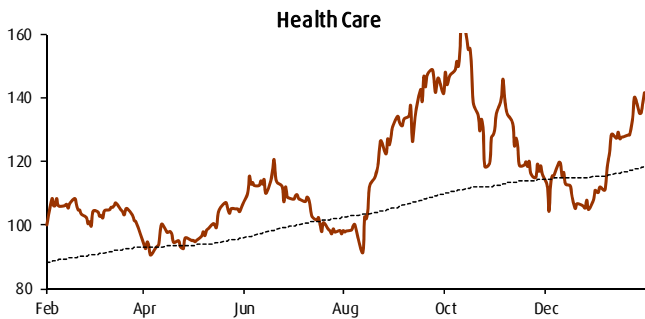
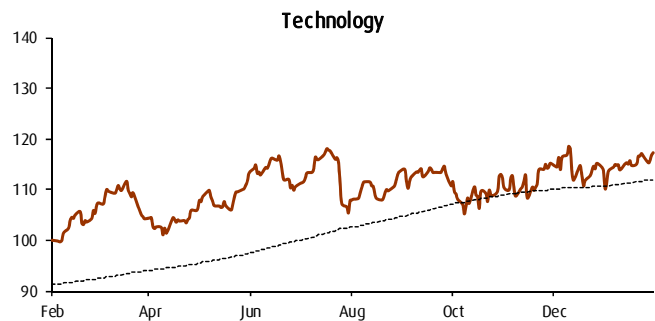
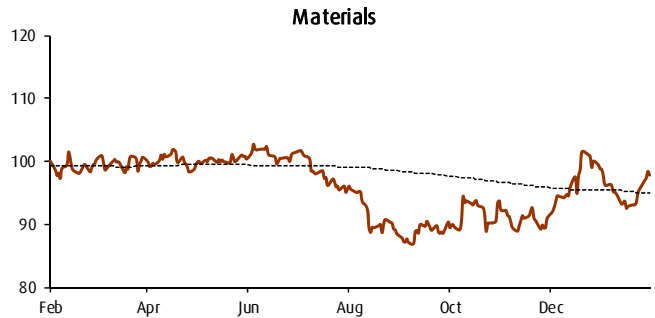
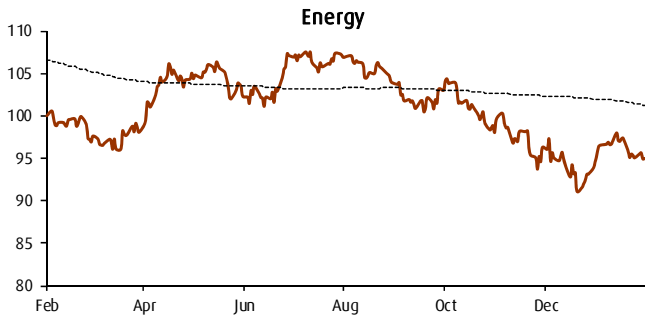
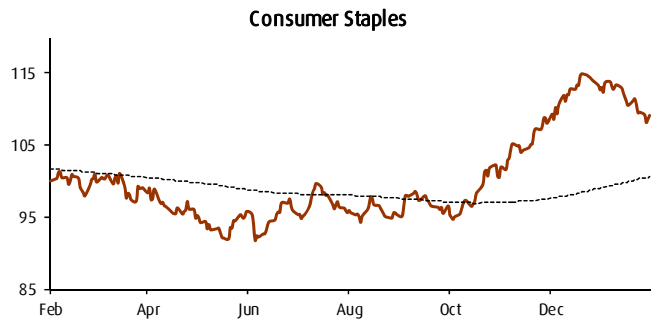
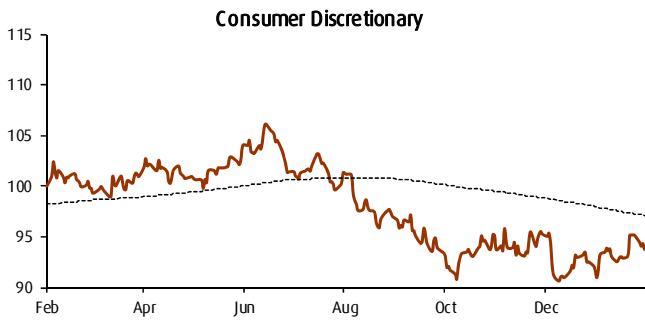
	Current Price	Performance (percent)					2018
		1 Week	1 Month	3 Months	1 Year	YTD	
FTSE 100	7,020	3.1	4.3	-1.3	-6.3	4.3	-12.5
China CSI 300	3,247	2.0	7.9	2.2	-23.5	7.9	-25.3
CAC 40	5,019	1.9	6.1	-1.3	-8.0	6.1	-11.0
S&P 500	2,707	1.6	8.0	-1.2	-4.1	8.0	-6.2
NASDAQ	7,264	1.4	9.5	-2.3	-1.7	9.5	-3.9
Dow Jones	25,064	1.3	7.4	-1.2	-4.3	7.4	-5.6
S&P/TSX	15,506	0.9	8.3	2.4	-2.2	8.3	-11.6
NIKKEI 225	20,788	0.1	3.9	-4.1	-11.5	3.9	-12.1
DAX	11,181	-0.9	5.9	-2.5	-14.0	5.9	-18.3

Source: Bloomberg

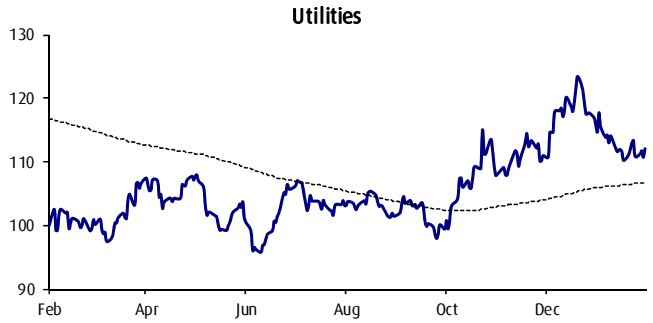
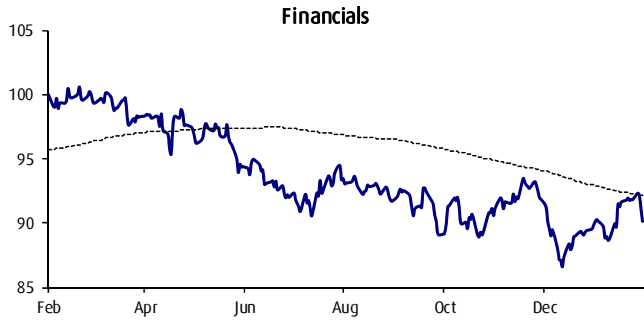
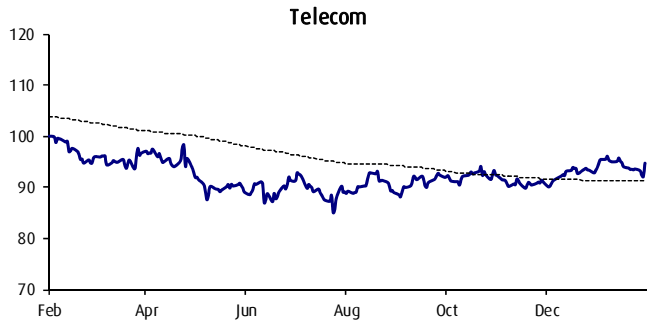
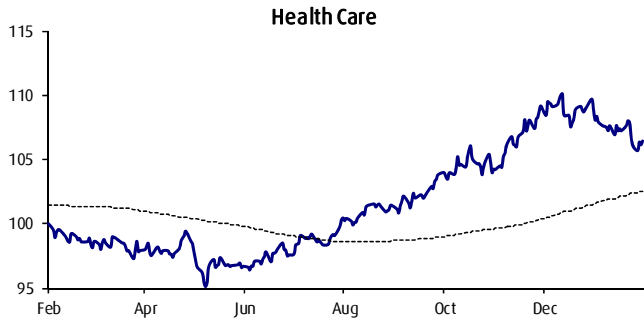
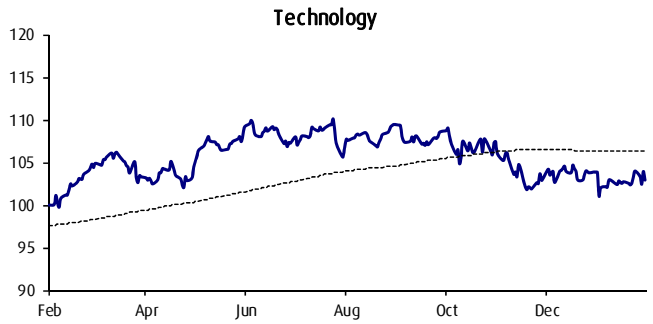
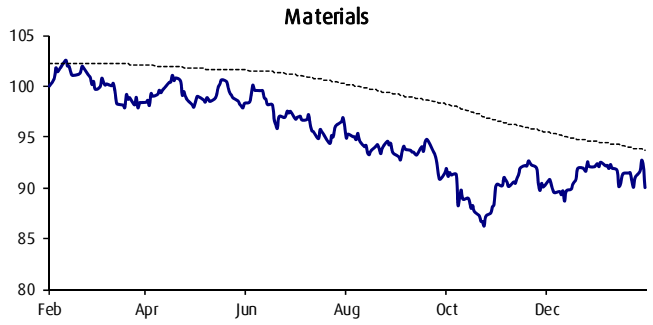
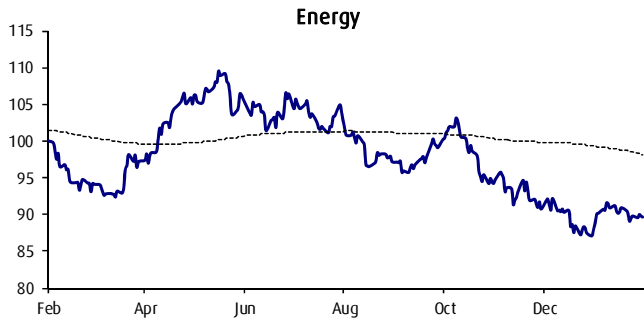
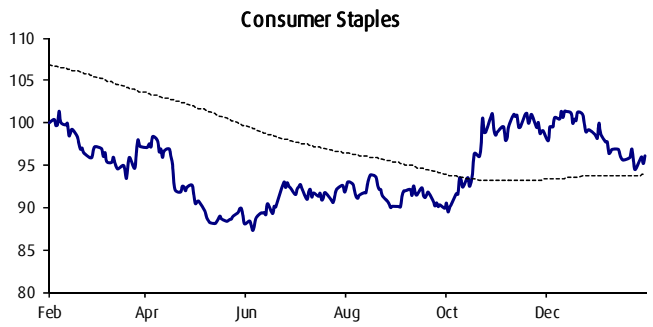
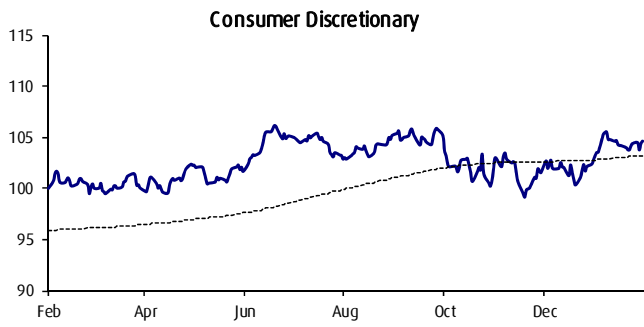
latter benefiting from a now narrow Canadian oil price discount, while health care (i.e., cannabis) surged 43%. Fundamentally, with markets sensing that we've been nearing a potential cyclical tipping point, a decisively dovish shift by the Federal Reserve capped off the month, stoking expectations that this already-long expansion can run further.

With that in mind, is the equity-market lore (as goes January, so goes the rest of the year) true? Historically (since 1960), the January direction has successfully predicted the rest-of-year direction 64% of the time. While that looks solid on the surface, we wouldn't boast about the statistical significance, and there have been a few notorious misses (think 1987). Another approach is to look at past Januarys that have started with a 5% or better jump, as we saw this year. In those cases (there have been 11 of them), the S&P 500 has followed through with gains through the rest of the year 82% of the time, with a solid average gain of 12%, and an impressive six of those years coming in around 20%. Of course, last year was an outlier, with the index sliding 11% after a 5.6% pop to start 2018. At any rate, there's a hint of truth to the January-effect lore, especially when the first month is very strong, but given the small sample, we'd prefer to focus on the fundamentals such as how Fed policy evolves this year.

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 February 1, 2019

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2018
Energy	3.2	13.1	-4.4	-14.3	13.1	-20.5
Cons Staples	2.9	4.7	-4.0	-7.8	4.7	-11.2
Industrials	2.6	11.6	1.2	-9.7	11.6	-15.0
Telecom Services	2.4	9.7	0.8	-10.0	9.7	-16.4
Utilities	2.2	3.1	2.2	8.6	3.1	0.5
Health Care	2.0	4.9	1.0	3.0	4.9	4.7
Information Technology	1.1	7.5	-4.9	-1.6	7.5	-1.6
Materials	0.8	6.0	-0.9	-13.8	6.0	-16.4
Financials	0.1	9.1	-1.3	-13.3	9.1	-14.7
Cons Discretionary	-0.1	8.3	-0.5	-0.3	8.3	-0.5
Banks	-1.6	11.4	-3.7	-16.6	11.4	-18.4
S&P 100 Large Cap	1.3	7.0	-2.3	-4.8	7.0	-5.9
S&P 400 Mid Cap	1.3	10.7	-1.1	-5.9	10.7	-12.5
S&P 600 Small Cap	1.2	10.6	-3.6	-3.1	10.6	-9.8
S&P 500	1.6	8.0	-1.2	-4.1	8.0	-6.2

TSX Sectors

Health Care	6.2	45.7	12.6	32.6	45.7	-16.6
Gold	5.3	3.1	15.0	-1.5	3.1	-7.2
Materials	3.8	5.8	7.2	-4.5	5.8	-10.6
Telecom Services	1.6	4.7	5.9	5.0	4.7	-5.3
Information Technology	1.3	10.5	6.5	15.0	10.5	12.5
Banks	0.7	8.3	2.0	-4.8	8.3	-11.4
Financials	0.7	7.6	1.4	-5.7	7.6	-12.6
Cons Staples	0.5	3.6	10.9	8.0	3.6	0.6
Energy	0.5	10.3	-1.7	-7.8	10.3	-21.5
Utilities	0.3	6.2	6.5	-2.3	6.2	-13.4
Cons Discretionary	-0.5	9.8	0.8	-8.8	9.8	-17.7
Industrials	-0.9	7.2	-1.5	5.5	7.2	-3.9
REITs	0.2	6.9	3.0	9.0	6.9	0.9
Income Trusts	0.1	7.2	1.2	2.8	7.2	-7.0
S&P/TSX Mid Cap	1.6	9.8	1.1	-4.8	9.8	-15.2
S&P/TSX Small Cap	1.6	7.4	-2.5	-11.7	7.4	-20.1
S&P/TSX 60 Large Cap	0.7	7.8	2.8	-1.4	7.8	-10.5
TSX	0.9	8.3	2.4	-2.2	8.3	-11.6

Source: Bloomberg

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