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March 15, 2019

# TSX Going It Alone

Equity markets rebounded this week, with the S&P 500 adding 2.9% and the TSX gaining a more modest 0.9%. Technology and energy were strong gainers on both sides of the border. The data flow was mixed, with some signs of spring in the U.S. numbers—decent retail sales, solid durable orders and stable inflation—easing concerns that the slowdown is deepening. Canada's economy, however, is still flagging, yet the TSX is flying. Paradox? Maybe not when you consider that the TSX is a bit of a strange animal in the equity world. There's little doubt that the Canadian economy has run into a rough patch. Real GDP barely grew in 2018Q4, and will struggle to do so again in 2019Q1. While part of that reflects the impact of mandated temporary oil production cuts, weakness has also (and of more concern) spread into housing and consumer spending. Deflationary home prices and psychology have spread pretty much everywhere west of Winnipeg, while Toronto's market is still in a dogfight. The household debt-to-disposable income ratio hit a record high in Q4, not because credit growth strengthened (it decelerated), but because income growth slowed even more. Meantime, the household debt service ratio essentially matched a 27-year high despite still below-neutral rates, while the equity share of overall real estate holdings is now falling outright. Yes, these latter measures are aggregates and may mask some of the true strength and weakness at the individual level, but it's not exactly an environment that screams strong economic growth, rate hikes or an equity rally. Still, the TSX is holding onto a hefty 12% year-to-date gain. Here are a few reasons:

**Market Performance as of March 15, 2019**

| | Current Price | Performance (percent) 1 Week | 1 Month | 3 Months | 1 Year | YTD | 2018 |
|---|---|---|---|---|---|---|---|
| NASDAQ | 7,689 | **3.8** | 2.9 | 11.3 | 2.8 | 15.9 | -3.9 |
| CAC 40 | 5,405 | **3.3** | 4.9 | 11.4 | 2.6 | 14.3 | -11.0 |
| S&P 500 | 2,822 | **2.9** | 1.7 | 8.6 | 2.7 | 12.6 | -6.2 |
| China CSI 300 | 3,745 | **2.4** | 12.2 | 18.3 | -8.6 | 24.4 | -25.3 |
| NIKKEI 225 | 21,451 | **2.0** | 2.6 | 0.4 | -1.6 | 7.2 | -12.1 |
| DAX | 11,686 | **2.0** | 3.4 | 7.5 | -5.3 | 10.7 | -18.3 |
| FTSE 100 | 7,228 | **1.7** | -0.1 | 5.6 | 1.2 | 7.4 | -12.5 |
| Dow Jones | 25,849 | **1.6** | -0.1 | 7.3 | 3.9 | 10.8 | -5.6 |
| S&P/TSX | 16,140 | **0.9** | 1.9 | 10.6 | 3.0 | 12.7 | -11.6 |

Source: Bloomberg

*All's well that starts well:* Part of the strength simply reflects the starting point. Recall that stocks were hammered into the end of 2018, and the bottom just happened to coincide with the turn of the calendar. Indeed, the TSX is still down from mid-2018, the end of 2017, and is up only about 3% from five years ago. That said, Canadian stocks have outperformed the S&P 500 this year, , if only by a tick after this week, and that's something.

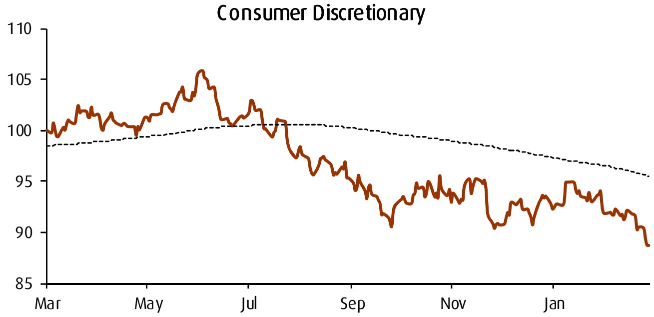
*It's always about oil:* Canadian oil prices have rallied more than 60% this year on stronger underlying WTI prices and a tighter differential. A simple answer, but usually the right one.

*Rate-sensitives are helping:* Relative TSX performance doesn't usually correlate that well with relative economic growth anyway, given the sector makeup of the index. The TSX has been acting more rate sensitive, with its biggest recent rallies (this year, mid-2018 and late-2017) coming alongside notable declines in GoC yields. In fact, utilities, banks and real estate have all posted double-digit gains this year on both sides of the border, but those sectors combined account for a sizeable 40% of the TSX versus just 20% of the S&P 500. Consider the flip side, when the market is keying in on growth—technology, industrials and consumer discretionary make up 40% of the S&P 500 versus just 20% in the TSX.

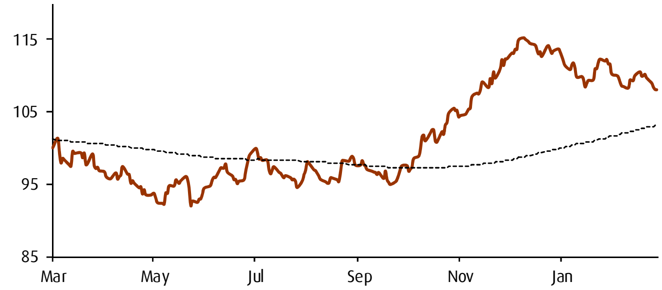
*Valuation tailwind*: One of the reasons we thought the TSX could post a rare run of good relative performance this year was that valuations were favourable heading into 2019. By December, the gap in forward earnings yields between the TSX and S&P 500 was the widest in favour of Canada in a decade. Domestically, the TSX forward earnings yield was the widest versus 10-year GoCs since 2012 (and that relationship has been incredibly tight in recent years). The recent run in Canadian stocks has taken a good chunk out of these valuations spreads, but not all yet.

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

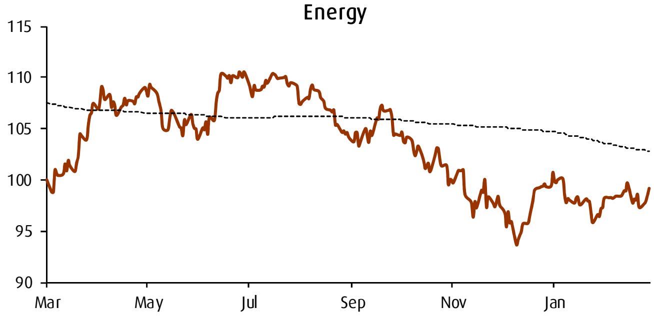
Consumer Discretionary



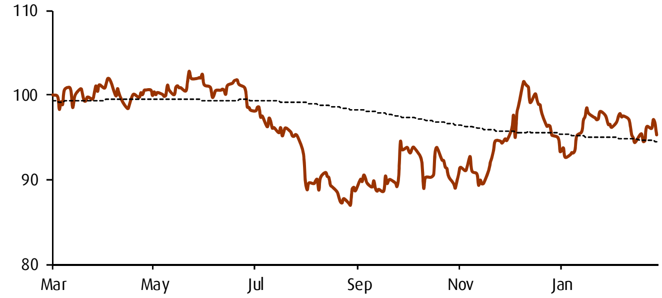

Consumer Staples



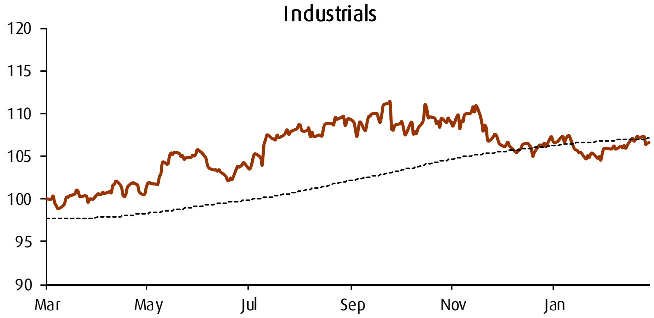

Energy



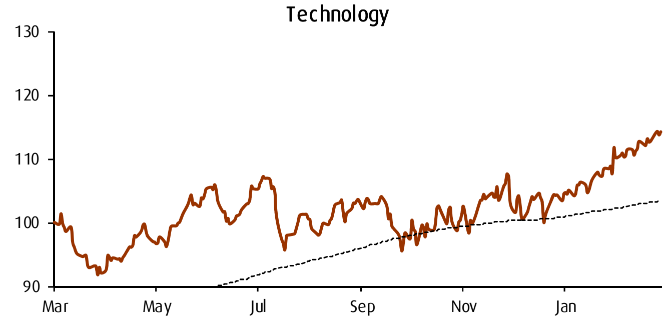

Materials



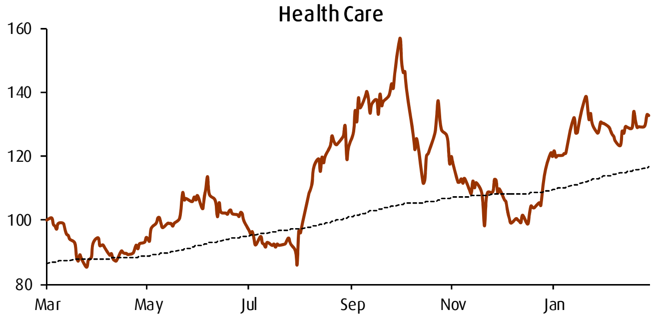

Industrials



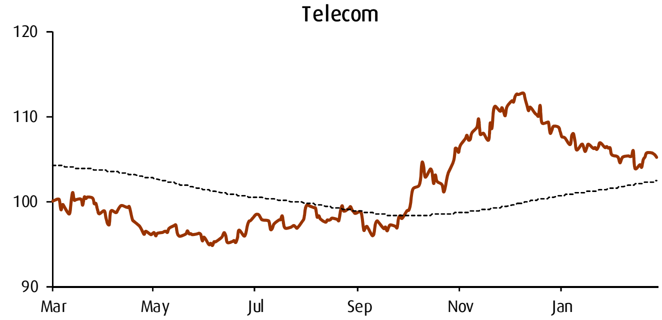

Technology



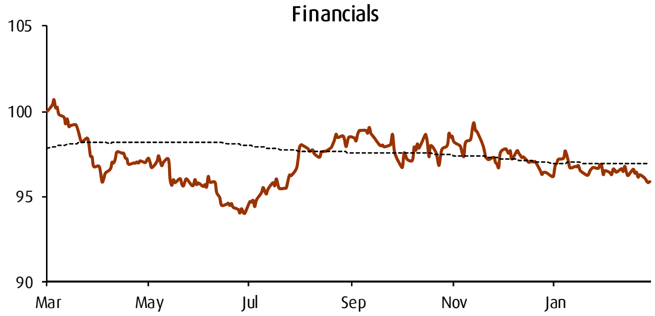

Health Care



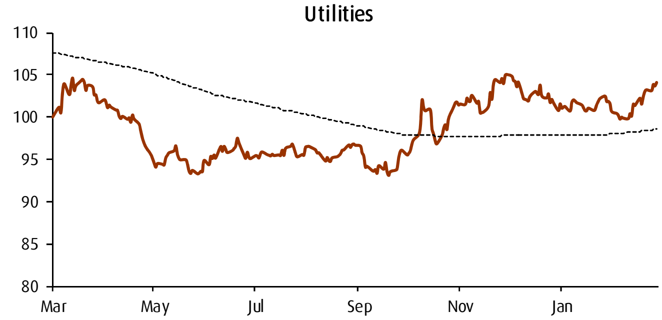

Telecom




Financials

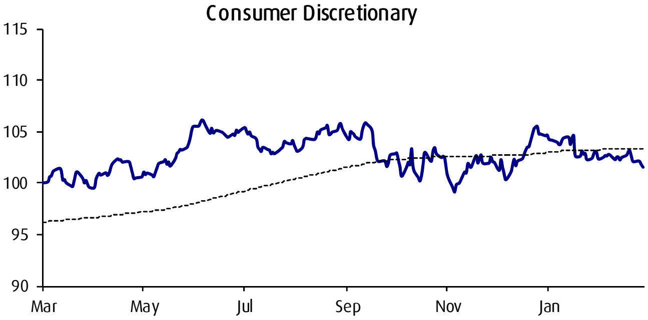



Utilities

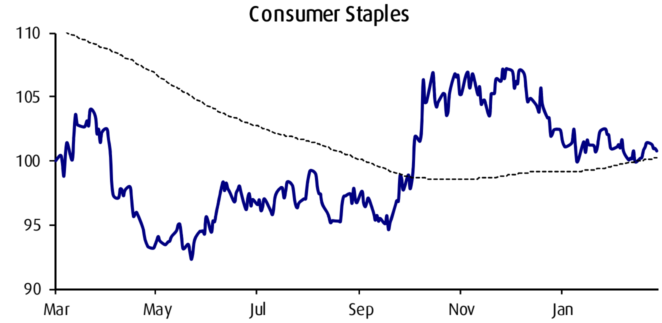


## S&P 500 Sector Performance (Relative to the index, year-ago = 100, dashed line = 200-day m.a.)

Consumer Discretionary




Consumer Staples

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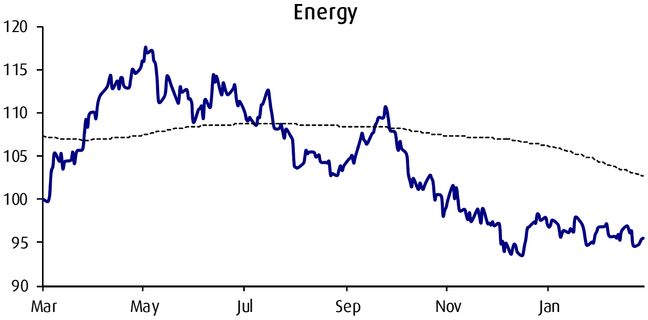
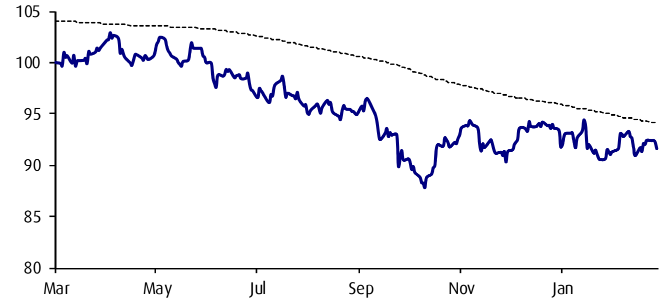
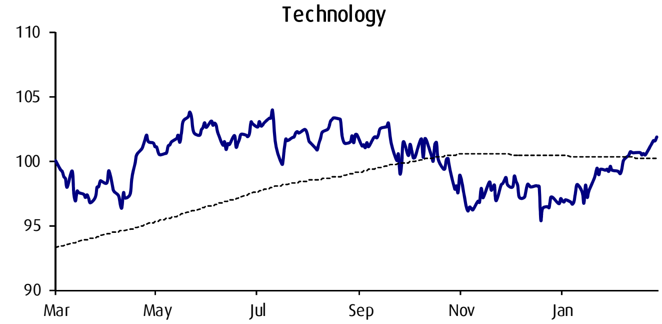



Materials

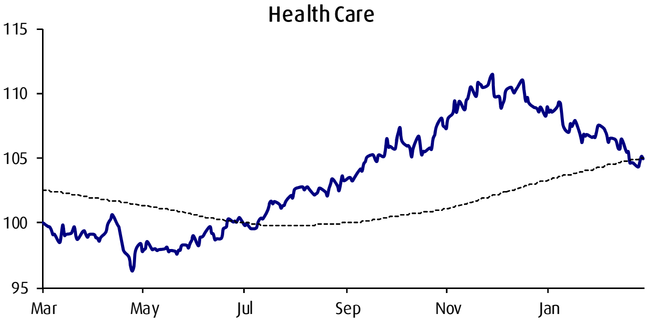



Industrials

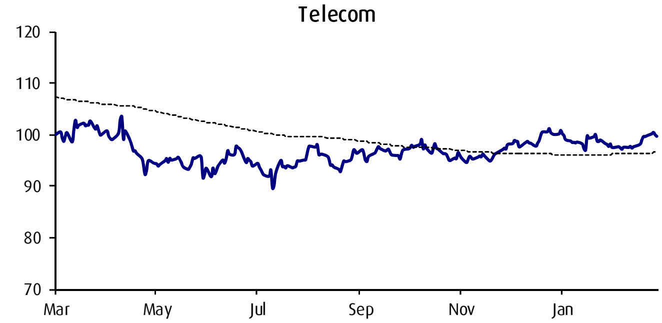

Technology



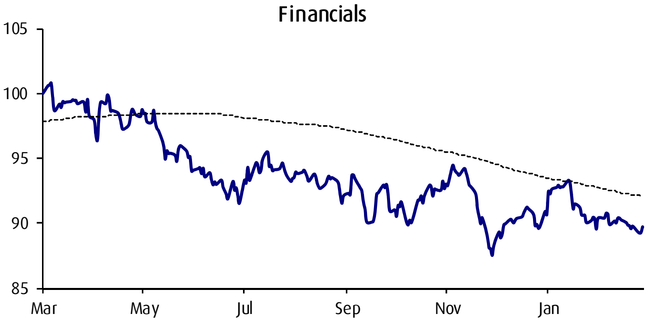

Health Care



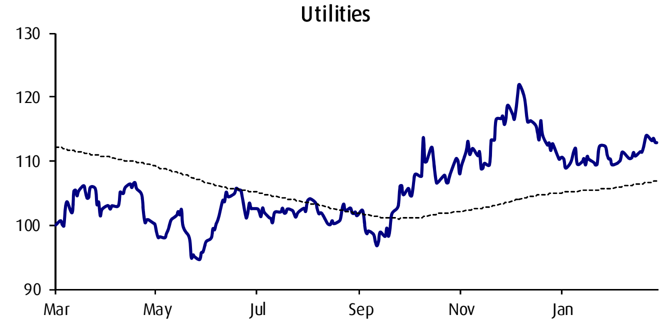

Telecom




Financials




Utilities



## North American Sector Performances as of March 15, 2019

| S&P 500 Sectors | 1 Week | 1 Month | 3 Months | 1 Year | YTD | 2018 |
|---|---|---|---|---|---|---|
| Information Technology | **4.9** | 5.1 | 13.5 | 5.1 | 17.8 | -1.6 |
| Health Care | **3.2** | -0.8 | 3.8 | 7.7 | 6.4 | 4.7 |
| Energy | **3.2** | -0.2 | 6.3 | -1.6 | 14.3 | -20.5 |
| Financials | **3.0** | 1.1 | 10.4 | -7.7 | 11.8 | -14.7 |
| Banks | **2.7** | 1.1 | 12.4 | -9.8 | 15.0 | -18.4 |
| Cons Discretionary | **2.6** | 1.1 | 8.3 | 4.3 | 11.9 | -0.5 |
| Telecom Services | **2.3** | 3.4 | 9.8 | 2.0 | 14.3 | -16.4 |
| Cons Staples | **2.2** | 1.5 | 2.1 | 3.4 | 8.7 | -11.2 |
| Utilities | **1.8** | 4.9 | 3.2 | 16.9 | 10.0 | 0.5 |
| Materials | **1.7** | 1.7 | 8.6 | -6.3 | 9.7 | -16.4 |
| Industrials | **0.3** | -1.8 | 11.3 | -2.6 | 15.2 | -15.0 |
| S&P 100 Large Cap | **3.0** | 2.4 | 8.1 | 3.0 | 12.0 | -5.9 |
| S&P 400 Mid Cap | **1.9** | -0.9 | 9.4 | -1.4 | 14.0 | -12.5 |
| S&P 600 Small Cap | **1.4** | -2.9 | 7.8 | -1.5 | 12.1 | -9.8 |
| **S&P 500** | **2.9** | **1.7** | **8.6** | **2.7** | **12.6** | **-6.2** |

| TSX Sectors | 1 Week | 1 Month | 3 Months | 1 Year | YTD | 2018 |
|---|---|---|---|---|---|---|
| Health Care | **5.5** | 5.7 | 36.1 | 39.9 | 54.1 | -16.6 |
| Information Technology | **2.0** | 5.5 | 22.5 | 16.7 | 22.9 | 12.5 |
| Energy | **2.0** | 2.1 | 11.6 | 2.6 | 15.8 | -21.5 |
| Utilities | **1.2** | 4.8 | 9.0 | 6.0 | 13.3 | -13.4 |
| Banks | **0.9** | 0.9 | 8.0 | -1.9 | 11.0 | -11.4 |
| Financials | **0.9** | 1.6 | 9.1 | -1.0 | 11.8 | -12.6 |
| Telecom Services | **0.8** | 2.0 | 5.1 | 8.3 | 7.8 | -5.3 |
| Industrials | **0.4** | 2.5 | 10.7 | 9.6 | 12.7 | -3.9 |
| Materials | **-0.1** | 1.0 | 11.3 | -1.8 | 7.2 | -10.6 |
| Cons Staples | **-0.9** | -0.4 | 6.1 | 9.8 | 6.3 | 0.6 |
| Gold | **-1.0** | 1.9 | 12.4 | 6.8 | 5.0 | -7.2 |
| Cons Discretionary | **-1.3** | -1.8 | 7.9 | -9.4 | 8.1 | -17.7 |
| Income Trusts | **0.7** | 2.5 | 9.0 | 8.3 | 13.2 | -7.0 |
| REITs | **-0.5** | 2.1 | 7.0 | 13.0 | 11.2 | 0.9 |
| S&P/TSX 60 Large Cap | **1.0** | 2.0 | 9.6 | 3.7 | 12.1 | -10.5 |
| S&P/TSX Mid Cap | **0.7** | 1.7 | 13.8 | 0.9 | 14.6 | -15.2 |
| S&P/TSX Small Cap | **0.6** | 1.0 | 11.4 | -5.6 | 10.9 | -20.1 |
| **TSX** | **0.9** | **1.9** | **10.6** | **3.0** | **12.7** | **-11.6** |

Source: Bloomberg