

Rate Remedy

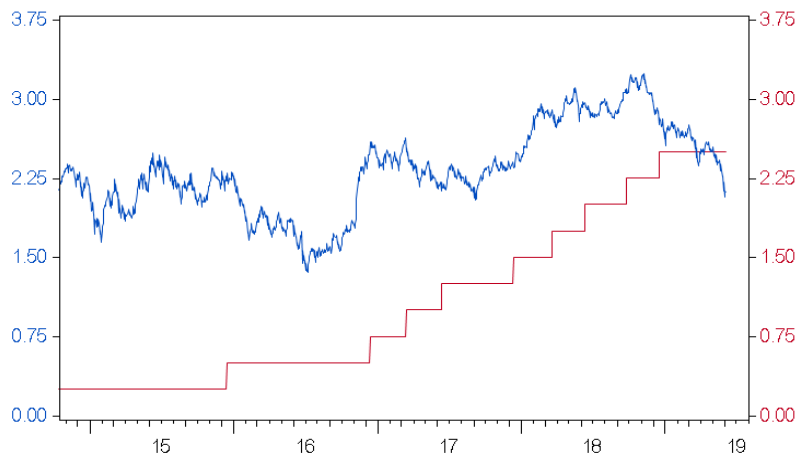
Equity markets rallied this week alongside a dive in bond yields and growing expectations that the Fed is poised to cut interest rates. The S&P 500 jumped 4.4%, led by materials, technology and industrials, though the index remains below the April high. Europe had a strong week too, with Germany and France posting gains of around 3%—the ECB delayed rate-hike plans to mid-2020, and reopened discussions about easing policy. Meantime, the TSX added a much more muted 1.2%, with the energy sector a drag on the index. WTI oil prices slumped into bear market territory at one point, before finishing the week firmer at around \$53. The Canadian data run was positive, with a strong showing on trade supporting our call for a Q2 real GDP growth rebound, while the employment report was solid despite some uninspiring details.

Market Performance as of June 7, 2019

	Current Price	Performance (percent)					2018
		1 Week	1 Month	3 Months	1 Year	YTD	
Dow Jones	25,984	4.7	0.1	2.0	2.9	11.4	-5.6
S&P 500	2,873	4.4	-0.4	4.5	3.7	14.6	-6.2
NASDAQ	7,742	3.9	-2.8	4.3	1.4	16.7	-3.9
CAC 40	5,364	3.0	-0.6	1.8	-1.5	13.4	-11.0
DAX	12,045	2.7	-0.4	4.6	-6.0	14.1	-18.3
FTSE 100	7,332	2.4	1.0	2.4	-4.8	9.0	-12.5
NIKKEI 225	20,885	1.4	-4.7	-2.7	-8.5	4.3	-12.1
S&P/TSX	16,231	1.2	-0.8	1.1	0.2	13.3	-11.6
China CSI 300	3,565	-1.8	-4.2	-6.4	-7.0	18.4	-25.3

Source: Bloomberg

U.S.: 10-yr Treasury Note Yield %
U.S.: Fed Funds Target Rate Upper Bound %



year Treasury yields have now fallen more than 50 bps since late-April, to below 2.1% and well below the fed funds target (i.e., deeper inversion). Much like when the Fed backed off its tightening cycle around the turn of the year, equity investors have cheered the latest move down in rates.

In the U.S., Friday's payrolls report only got the rate-cut chatter ringing louder. Nonfarm payrolls rose a modest 75,000 in May, and the downside surprise came with downward revisions in each of the prior two months. Wage growth also decelerated despite the jobless rate holding at a near half-century low. Let's just say this is probably not comforting for the Fed, which has an eye on the ongoing trade war, and is likely more sensitive to downside risks than upside risks, given already historically-low rates and still next to no inflation pressure. Indeed, that was the subject of much of Fed Chair Powell's speech this we22ek.

Here is the key piece: *"I'd like first to say a word about recent developments involving trade negotiations and other matters. We do not know how or when these issues will be resolved. We are closely monitoring the implications of these developments for the U.S. economic outlook and, as always, we will act as appropriate to sustain the expansion, with a strong labor market and inflation near our symmetric 2 percent objective."*

Nothing controversial there, and the market is now well of the view that the Fed could move rates down. Ten-

North American Sector Performances as of June 7, 2019

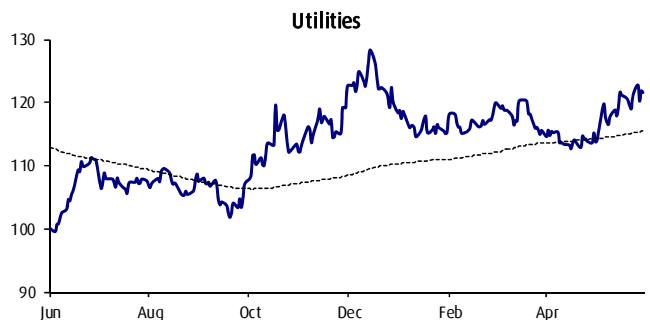
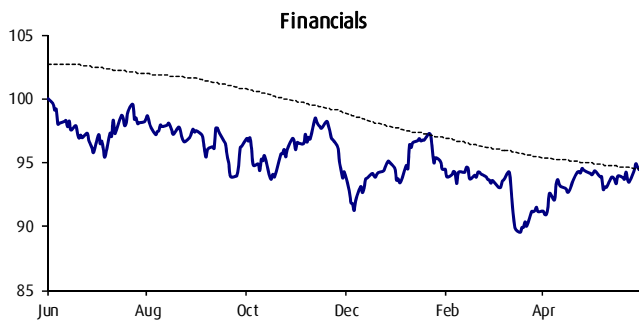
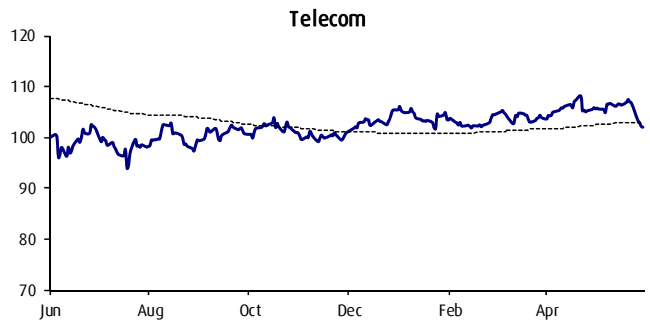
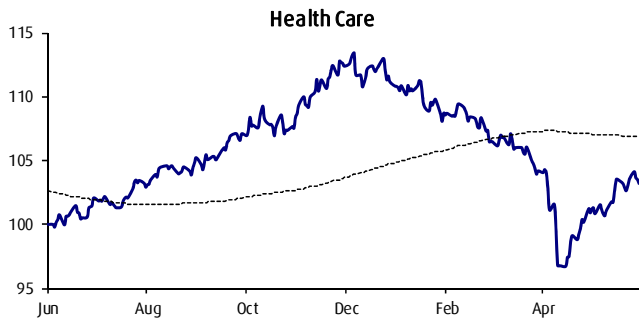
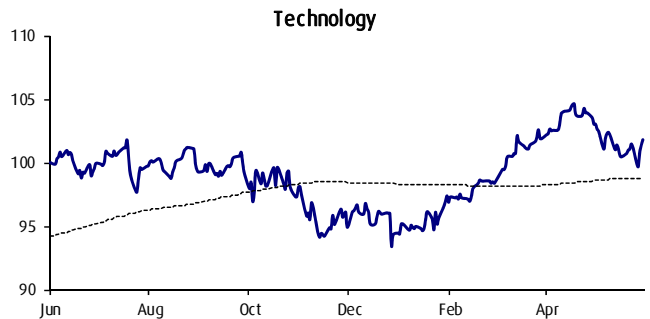
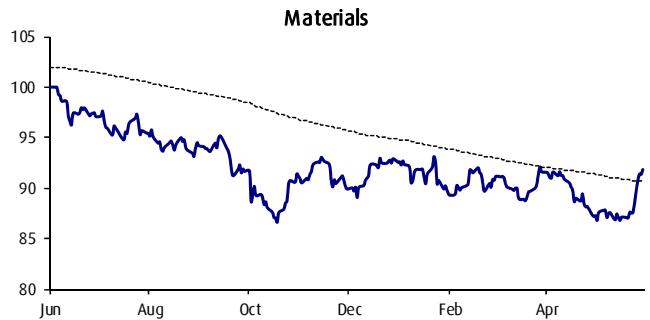
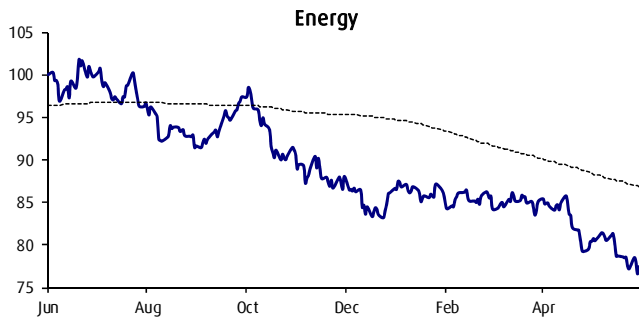
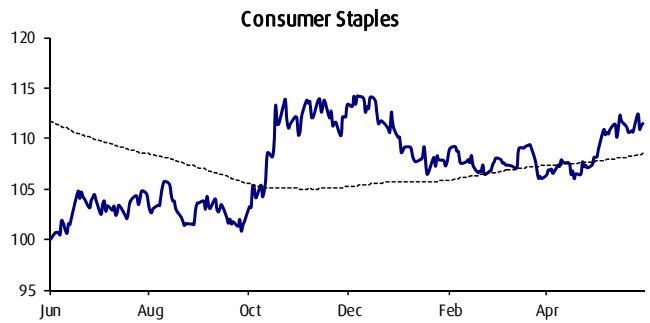
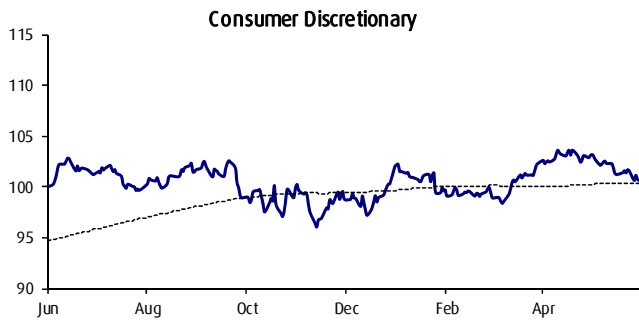
S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2018
Materials	9.1	4.6	5.4	-5.1	13.4	-16.4
Information Technology	6.0	-0.7	9.1	6.2	22.5	-1.6
Cons Staples	5.2	2.7	8.2	16.7	14.8	-11.2
Industrials	5.1	-0.8	1.9	-0.4	17.2	-15.0
Health Care	4.3	2.1	1.5	7.7	4.9	4.7
Financials	4.2	-1.3	4.4	-3.3	13.3	-14.7
Energy	4.1	-4.6	-6.1	-20.6	6.0	-20.5
Cons Discretionary	4.0	-2.2	6.4	4.9	16.9	-0.5
Banks	3.6	-4.2	0.1	-8.7	11.7	-18.4
Utilities	2.9	3.3	4.6	23.4	12.6	0.5
Telecom Services	0.9	-3.6	2.5	6.1	14.6	-16.4
S&P 400 Mid Cap	4.5	-2.4	1.4	-5.0	13.8	-12.5
S&P 100 Large Cap	4.2	-1.0	4.4	3.9	13.6	-5.9
S&P 600 Small Cap	2.8	-5.9	-2.4	-11.8	8.1	-9.8
S&P 500	4.4	-0.4	4.5	3.7	14.6	-6.2

TSX Sectors

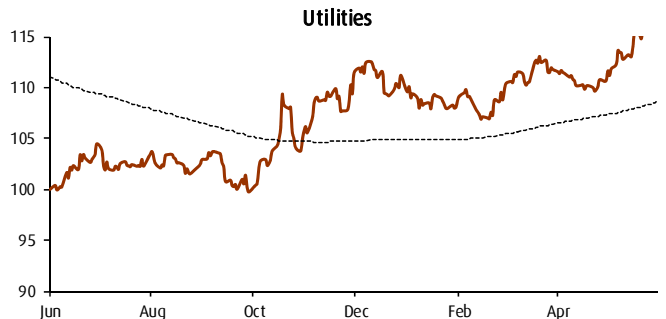
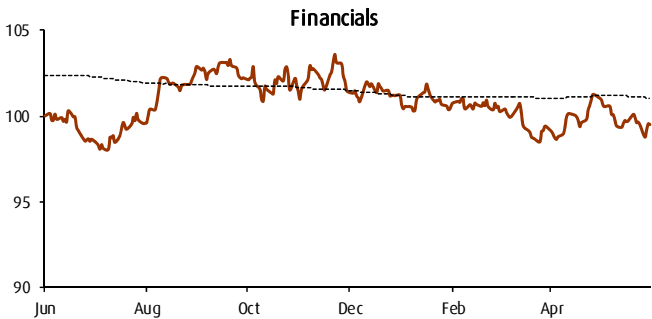
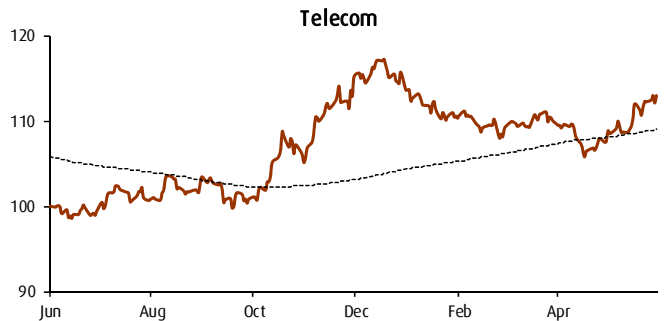
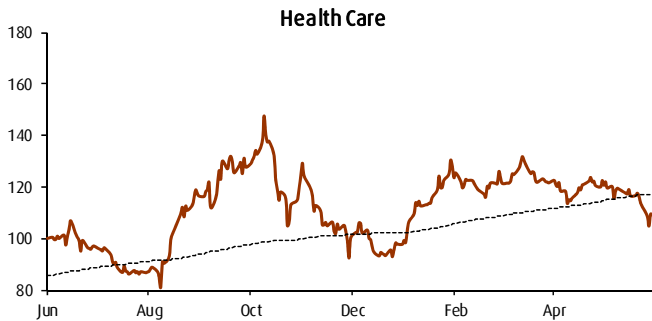
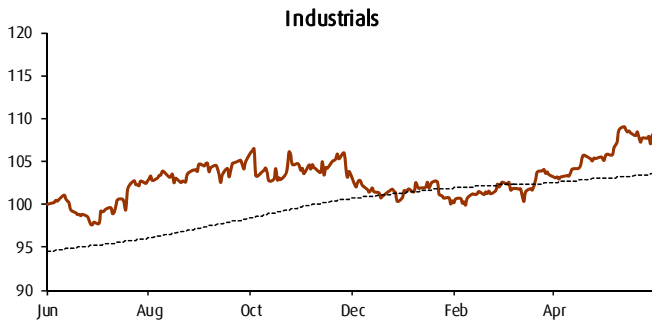
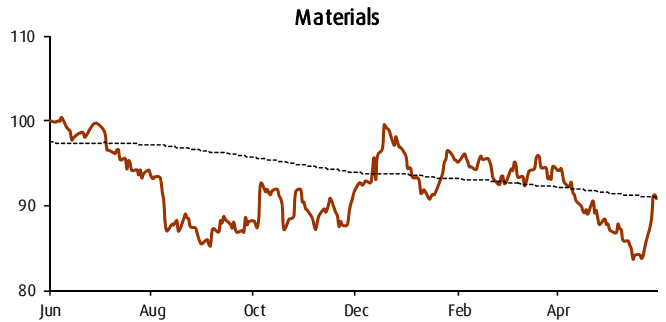
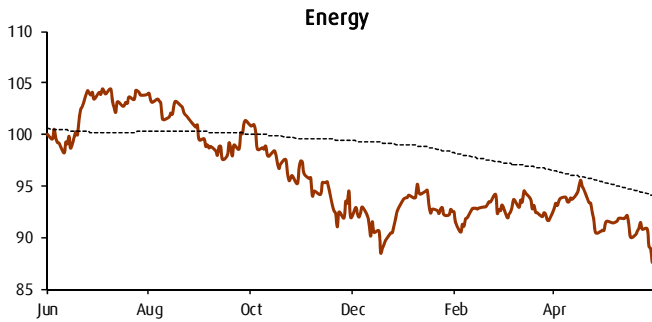
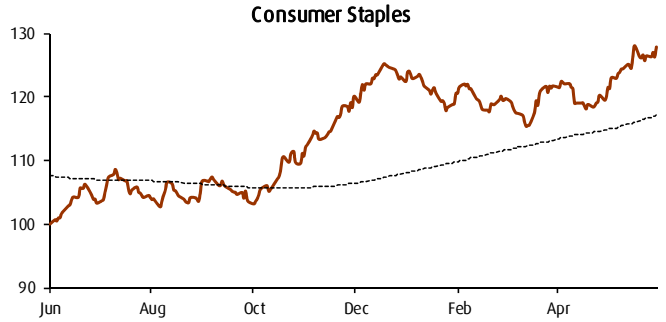
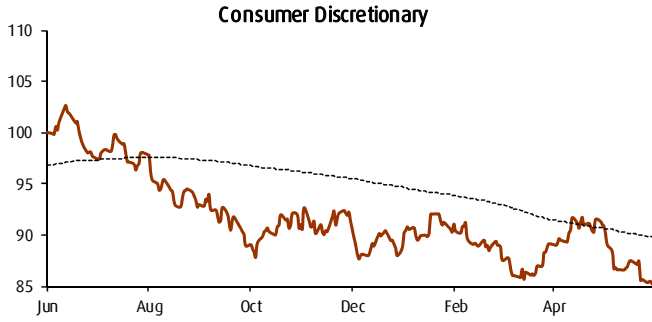
Gold	3.9	7.1	3.6	3.1	6.9	-7.2
Materials	3.7	2.2	-1.4	-9.4	4.5	-10.6
Information Technology	3.6	6.3	19.3	29.5	43.9	12.5
Financials	2.0	-2.2	0.3	-0.3	11.5	-12.6
Health Care	1.8	-10.1	-8.9	9.6	33.3	-16.6
Banks	1.8	-3.1	-1.5	-1.9	8.6	-11.4
Utilities	1.4	4.0	7.2	17.3	20.2	-13.4
Industrials	1.2	1.6	6.1	7.9	19.9	-3.9
Telecom Services	1.1	2.4	3.8	12.6	11.0	-5.3
Cons Discretionary	0.8	-7.1	-1.8	-14.8	7.7	-17.7
Cons Staples	0.8	2.7	6.2	26.1	14.8	0.6
Energy	-2.3	-4.0	-4.8	-12.1	9.8	-21.5
Income Trusts	1.8	1.9	2.8	10.3	16.2	-7.0
REITs	1.6	2.2	1.0	11.1	13.3	0.9
S&P/TSX Small Cap	1.5	-0.3	-3.3	-13.8	6.4	-20.1
S&P/TSX Mid Cap	1.2	0.0	-0.5	-4.6	13.3	-15.2
S&P/TSX 60 Large Cap	1.2	-1.0	1.5	1.8	13.3	-10.5
TSX	1.2	-0.8	1.1	0.2	13.3	-11.6

Source: Bloomberg

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



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



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