

## Recharging an Aging Battery

Equity markets firmed up this week, with last week's trade concerns dialed back a few notches. The S&P 500 rose 2.0%, led by energy and technology, while the TSX added just 0.4% despite higher oil prices and even a big recent rally in Western Canadian Select. Energy gained 3.5% in Canada, but banks and telecom weighed. With most major markets still down on the year, it has given valuations a chance to catch their breath after running hot through the end of 2017. Importantly in the U.S., earnings expectations have held up well during the correction, with Q1 profit growth expected to come in around 18% y/y for the S&P 500, and a still-strong 16% excluding the rebound in the energy sector based on Thomson Reuters' bottom-up

tally (the earnings season unofficially kicks off next week). That's up from around 12% expected for the quarter at the start of the year. Growth estimates for Q2 through Q4 have also improved over that period, at least partly reflecting a stronger-than-expected Q4 starting point. Still, with business investment and consumer spending rolling along, and unit labour costs contained, the underlying earnings environment still looks favourable.

Rather than a deterioration in those fundamentals, it looks more like we're seeing valuations consolidate their aggressive run through 2017, and that's probably not a bad thing. Keep in mind that the forward price-to-earnings ratio entered the year at the highest level in roughly 15 years, juiced up on fiscal policy optimism, little sign of inflation and widely-appealing narratives in the technology sector. Most sentiment measures were also flashing extremely bullish. For example, the share of respondents in the

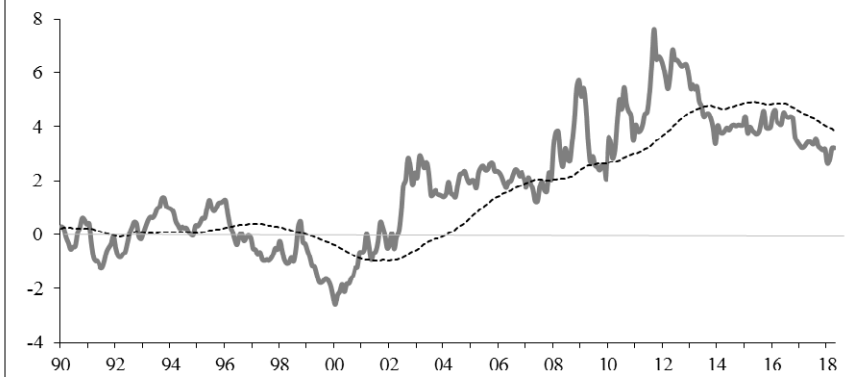
### Market Performance as of April 13, 2018

	Current Price	Performance (percent)					2017
		1 Week	1 Month	3 Months	1 Year	YTD	
NASDAQ	7,107	2.8	-5.4	-2.1	22.4	2.9	28.2
S&P 500	2,656	2.0	-3.9	-4.7	14.1	-0.6	19.4
Dow Jones	24,360	1.8	-2.6	-5.6	19.1	-1.5	25.1
DAX	12,442	1.6	1.8	-6.1	2.8	-3.7	12.5
FTSE 100	7,265	1.1	1.8	-6.6	-0.9	-5.5	7.6
CAC 40	5,315	1.1	1.4	-3.7	4.8	0.0	9.3
NIKKEI 225	21,779	1.0	-0.9	-7.9	18.2	-4.3	19.1
S&P/TSX	15,274	0.4	-2.4	-6.3	-1.7	-5.8	6.0
China CSI 300	3,871	0.4	-5.4	-8.4	10.1	-4.0	21.8

Source: Bloomberg.

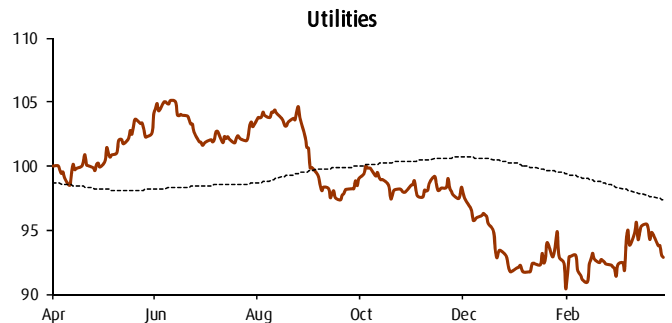
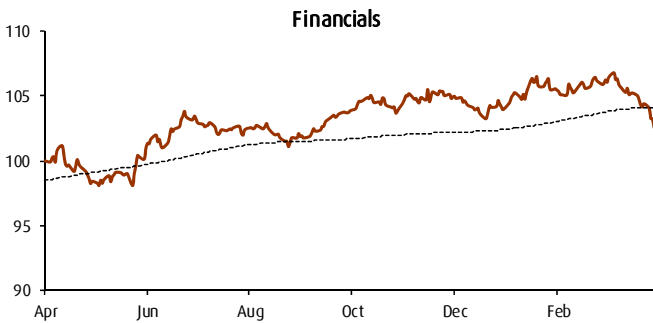
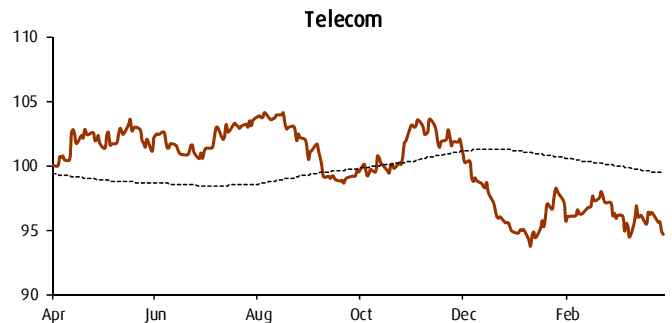
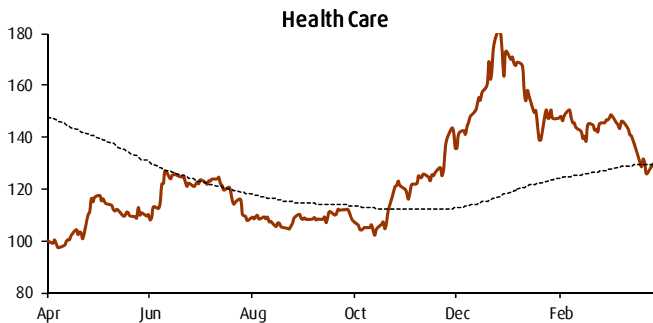
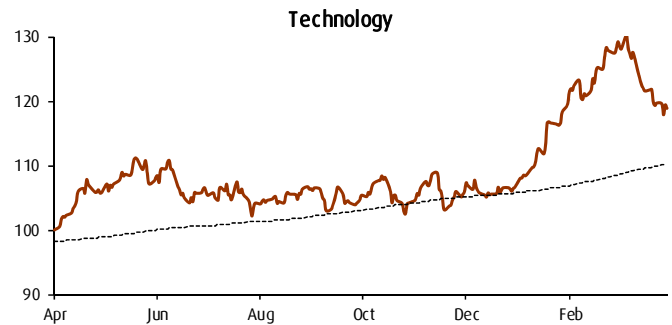
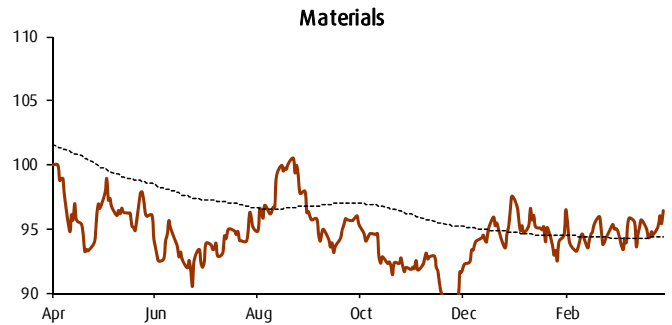
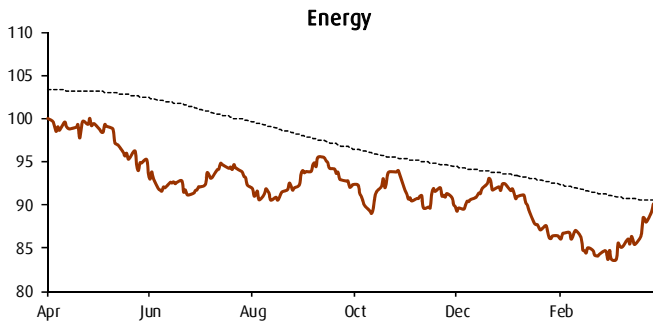
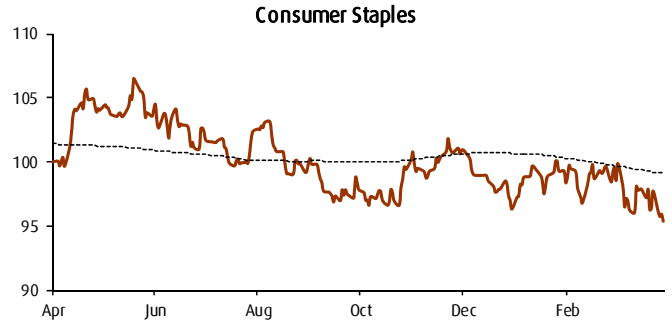
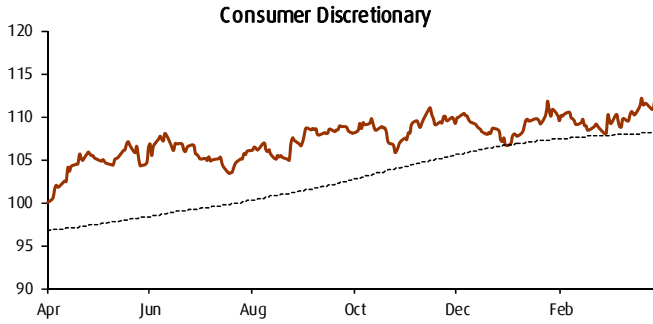
### S&P 500 Earnings Yield minus 10-Yr Treasury Yield

(%, dashed line is 5-year average)

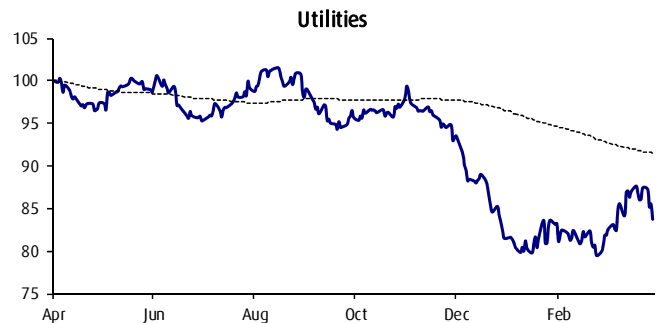
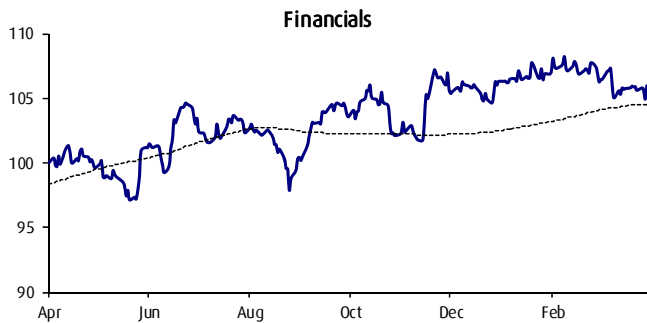
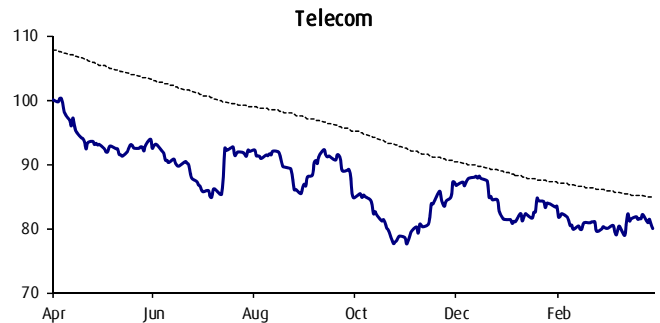
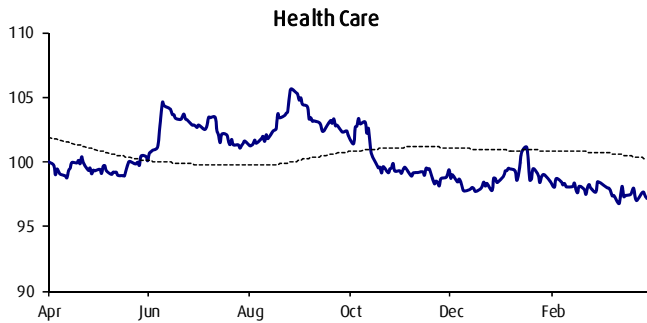
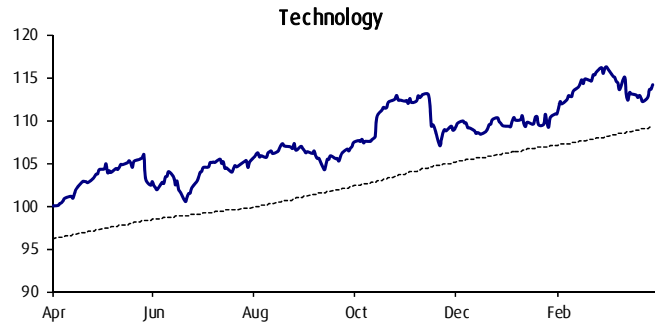
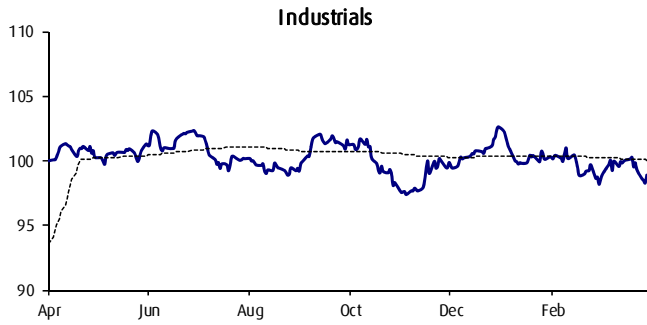
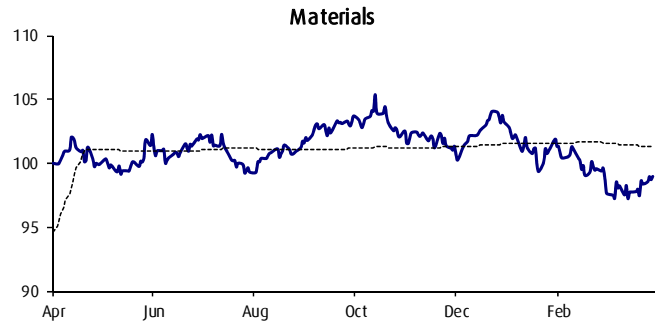
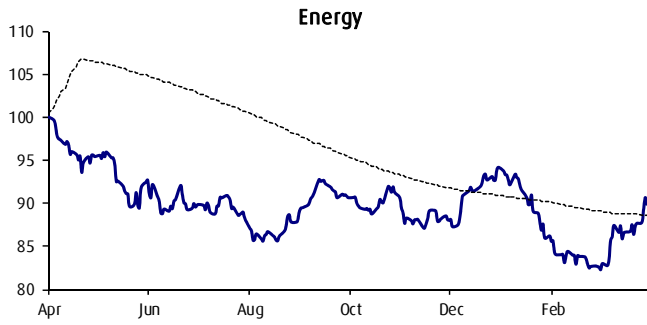
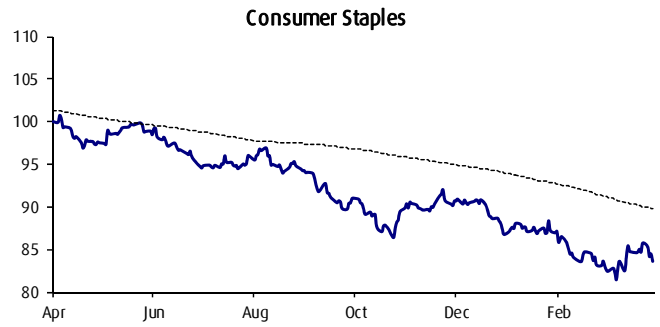
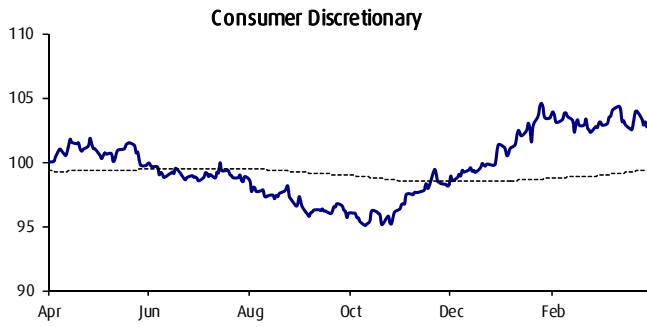


Conference Board's consumer survey expecting stock prices to rise over the next year hit a record high in January, a pretty good proxy that bull market enthusiasm was spreading to Main Street. That was also corroborated by more institutional-based surveys, such as that from Investors' Intelligence. While earnings growth has held firm, as discussed, the narrative has changed somewhat—think budget deficit reality, trade spats and Washington zeroing in on the tech sector. As such, the forward p/e on the S&P 500 is down almost two full multiple points since the start of the year, and the earnings yield spread over Treasuries has stabilized after compressing meaningfully last year—firm bond yields have prevented more re-widening. Inflation has also firmed and, while hardly breaking out, core CPI pushed back above 2% this week (March reading), reinforcing the view that the Federal Reserve will continue its quarter-per-quarter rate-hike cadence. If so, that will be nine rate hikes by the end of 2018, along with quantitative tightening, leaving us well into the latter stages of the cycle by that point—perhaps markets, always looking 6-to-12 months down the road, are mindful of this, too, right now.

**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 April 13, 2018

<b>S&amp;P 500 Sectors</b>	<b>1 Week</b>	<b>1 Month</b>	<b>3 Months</b>	<b>1 Year</b>	<b>YTD</b>	<b>2017</b>
Energy	<b>6.0</b>	5.9	-7.7	3.6	-1.1	-3.8
Information Technology	<b>3.7</b>	-5.1	-0.5	30.2	4.6	36.9
Materials	<b>2.8</b>	-4.4	-8.5	13.0	-4.0	21.4
Health Care	<b>2.4</b>	-5.0	-5.7	10.8	-1.0	20.0
Industrials	<b>1.6</b>	-3.7	-8.1	12.9	-2.5	18.5
Financials	<b>1.0</b>	-6.0	-6.2	19.8	-1.8	20.0
Banks	<b>0.7</b>	-7.2	-6.8	21.3	-2.2	20.0
Cons Discretionary	<b>0.5</b>	-4.2	-3.6	16.9	2.6	21.2
Cons Staples	<b>0.2</b>	-3.2	-7.4	-4.0	-7.8	10.5
Telecom Services	<b>-0.6</b>	-4.1	-6.2	-8.9	-9.4	-6.0
Utilities	<b>-1.3</b>	0.8	-1.1	-3.7	-5.6	8.3
S&P 600 Small Cap	<b>2.4</b>	-1.4	-1.3	17.3	2.2	11.7
S&P 100 Large Cap	<b>2.1</b>	-4.2	-5.4	13.3	-1.3	19.3
S&P 400 Mid Cap	<b>1.6</b>	-2.9	-4.2	12.1	-0.9	14.5
<b>S&amp;P 500</b>	<b>2.0</b>	<b>-3.9</b>	<b>-4.7</b>	<b>14.1</b>	<b>-0.6</b>	<b>19.4</b>

### TSX Sectors

Health Care	<b>6.1</b>	-8.2	-21.5	32.9	-16.4	32.7
Energy	<b>3.5</b>	4.9	-7.8	-10.5	-6.0	-10.0
Gold	<b>2.5</b>	4.5	-6.2	-19.1	-4.7	-2.6
Materials	<b>1.9</b>	-1.3	-6.6	-6.4	-3.6	6.3
Industrials	<b>0.1</b>	-2.8	-2.9	8.3	-3.8	17.9
Cons Discretionary	<b>0.0</b>	0.4	-3.2	9.2	-3.5	20.4
Information Technology	<b>-0.5</b>	-9.4	4.0	16.2	5.7	16.2
Cons Staples	<b>-0.6</b>	-5.4	-7.8	-5.9	-9.1	6.4
Financials	<b>-1.0</b>	-5.4	-7.7	1.4	-7.0	9.4
Banks	<b>-1.4</b>	-6.1	-7.4	2.2	-6.4	10.4
Telecom Services	<b>-1.5</b>	-5.0	-7.0	-7.4	-9.8	9.9
Utilities	<b>-1.5</b>	-1.7	-5.1	-9.1	-8.8	6.2
REITs	<b>0.0</b>	0.0	0.2	-0.7	-0.6	3.8
Income Trusts	<b>-0.6</b>	-1.2	-2.3	-3.0	-3.8	4.5
S&P/TSX Small Cap	<b>2.3</b>	0.4	-6.6	-6.9	-5.5	0.3
S&P/TSX Mid Cap	<b>1.3</b>	-0.9	-4.4	-2.2	-4.4	4.2
S&P/TSX 60 Large Cap	<b>0.2</b>	-2.9	-7.0	-1.5	-6.2	6.6
<b>TSX</b>	<b>0.4</b>	<b>-2.4</b>	<b>-6.3</b>	<b>-1.7</b>	<b>-5.8</b>	<b>6.0</b>

Source: Bloomberg.

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