

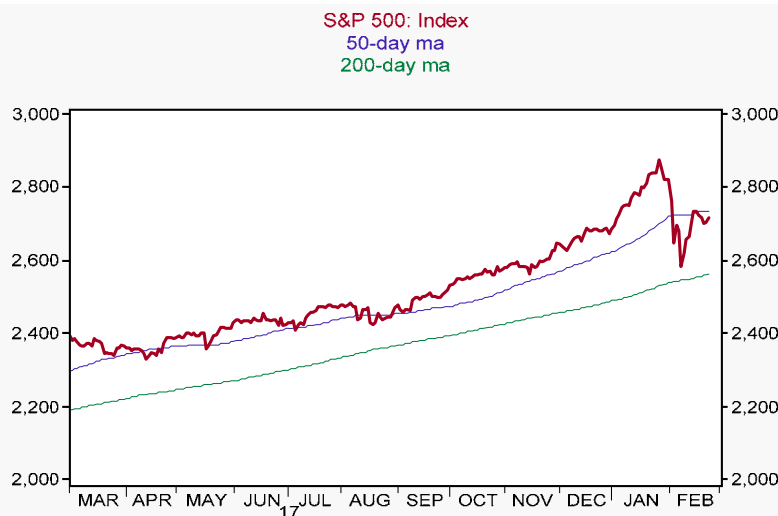
Winding Road for U.S. Fiscal and Monetary Policy

The Federal Reserve looks set to raise interest rates again in March—that’s essentially the message after a relatively quiet week on the U.S. economic front. Indeed, there was precious little data to move the forecast needle, with the focus instead on the minutes from the January 30-31 meeting, and a number of regional Fed speeches. The minutes didn’t make many waves, confirming that the gradual pace of rate hikes is set to continue. *“Members agreed that the strengthening in the near-term economic outlook increased the likelihood that a gradual upward trajectory of the federal funds rate would be appropriate. They therefore agreed to update the characterization of their expectation for the evolution of the federal funds rate in the postmeeting statement to point to ‘further gradual increases’ while maintaining the target range at the current meeting.”* In a nutshell, this all but solidifies a March rate hike.

Market Performance as of February 23, 2018

	Current Price	Performance (percent)					2017
		1 Week	1 Month	3 Months	1 Year	YTD	
China CSI 300	4,071	2.6	-7.1	-0.8	17.2	1.0	21.8
S&P/TSX	15,595	0.9	-4.7	-3.0	-1.2	-3.8	6.0
NIKKEI 225	21,893	0.8	-9.2	-2.8	13.0	-3.8	19.1
CAC 40	5,317	0.7	-3.9	-1.2	8.7	0.1	9.3
NASDAQ	7,286	0.6	-2.3	6.1	24.9	5.5	28.2
DAX	12,484	0.3	-7.9	-4.0	4.5	-3.4	12.5
S&P 500	2,728	-0.1	-3.9	5.0	15.4	2.0	19.4
Dow Jones	25,127	-0.4	-4.1	6.8	20.7	1.6	25.1
FTSE 100	7,244	-0.7	-6.3	-2.3	-0.4	-5.8	7.6

Source: Bloomberg. As of 2:00 pm

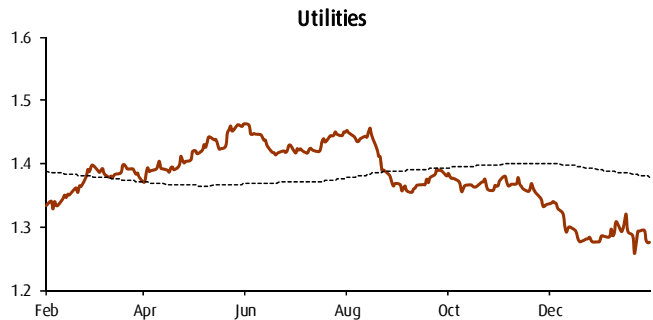
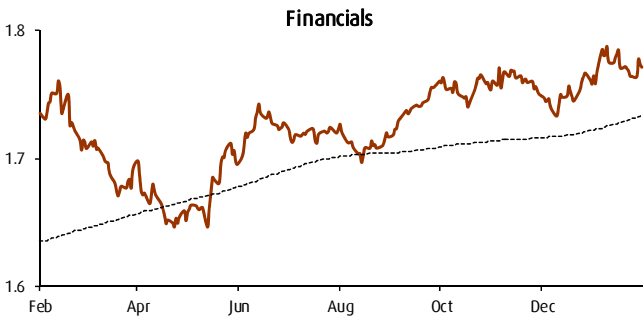
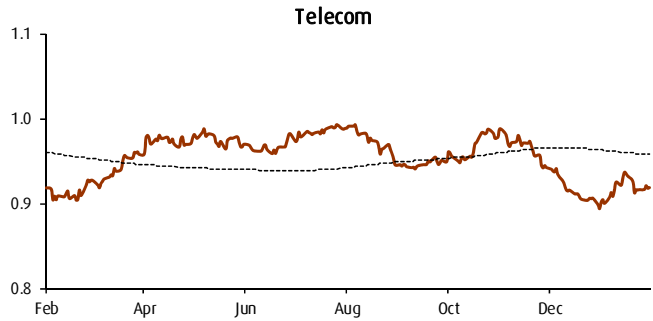
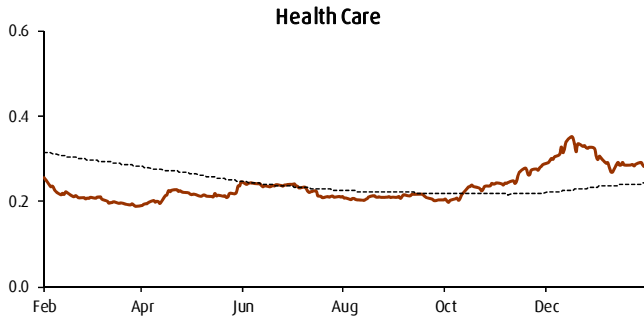
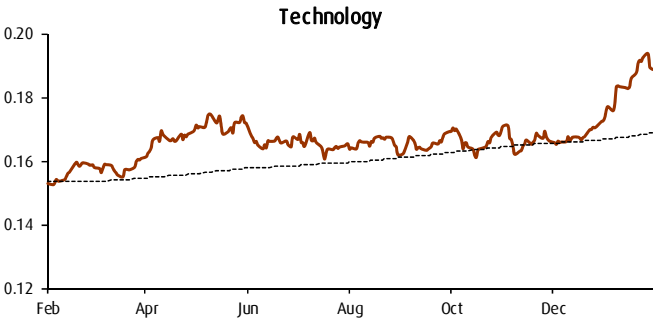
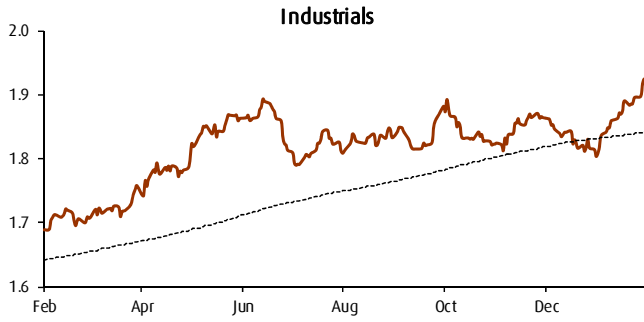
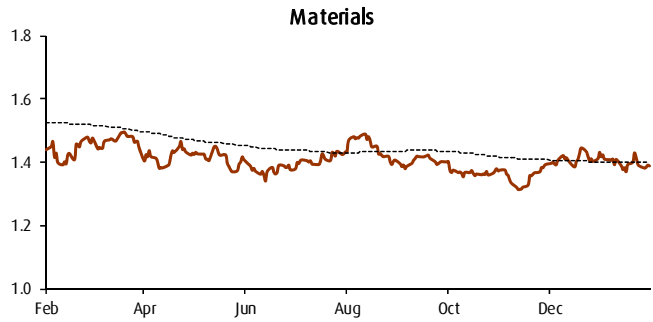
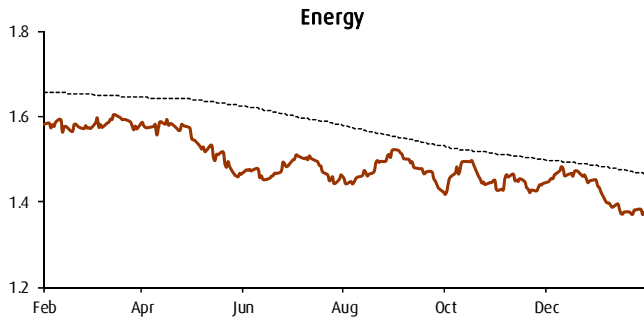
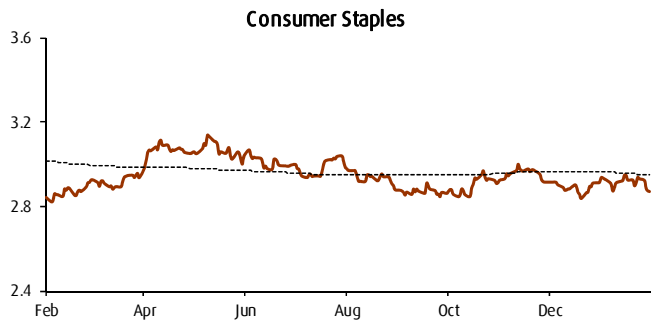
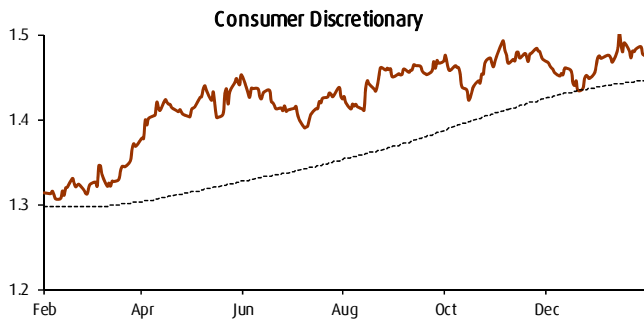


Meantime, the roster of regional speakers largely towed the party line, picking up on Fed Chair Powell’s hint last week that three rate hikes this year seem to be the appropriate pace, in-line with the 2017 pace. We still think there is upside risk to that trajectory, and have four moves penciled into the forecast this year. Dallas President Kaplan summed it up well this week, saying that *“history suggests that if the Fed waits too long to remove accommodation at this stage in the economic cycle, excesses and imbalances begin to build, and the Fed ultimately has to play catch-up.”* Consider that the output gap is now effectively closed, the jobless rate is running below its long-run neutral level and, despite these classic later-cycle signals, Washington is about to unleash a heavy dose of fiscal stimulus. The Fed is keenly aware how these factors could interplay.

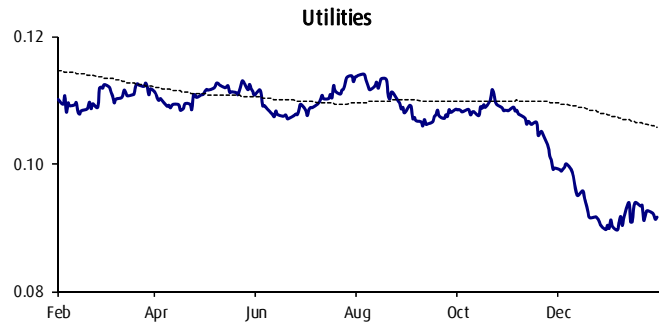
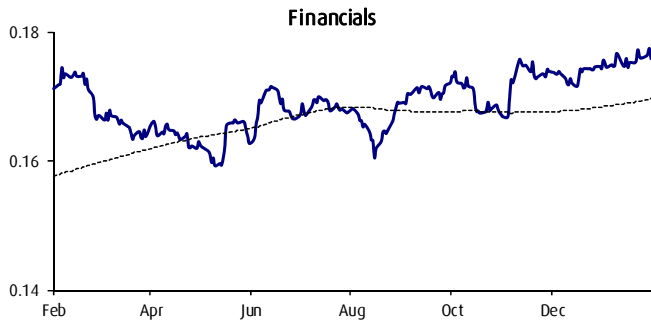
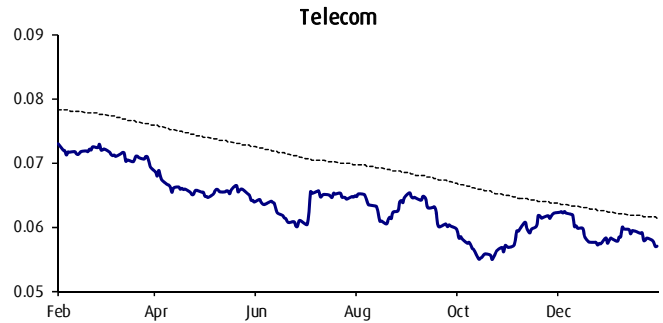
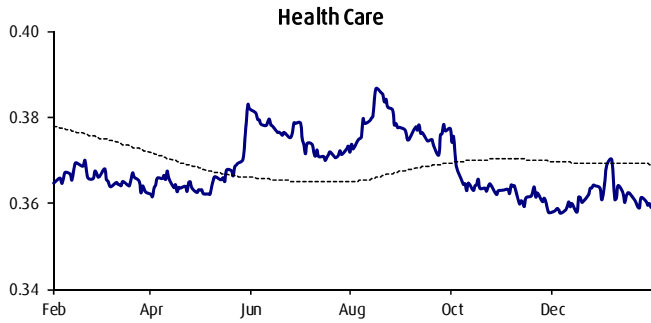
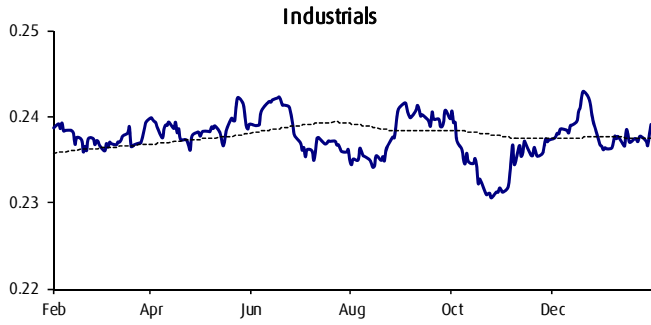
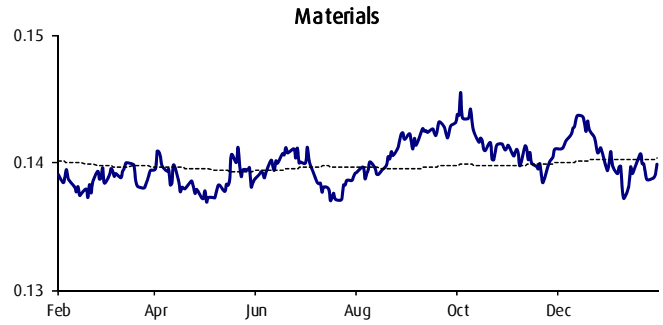
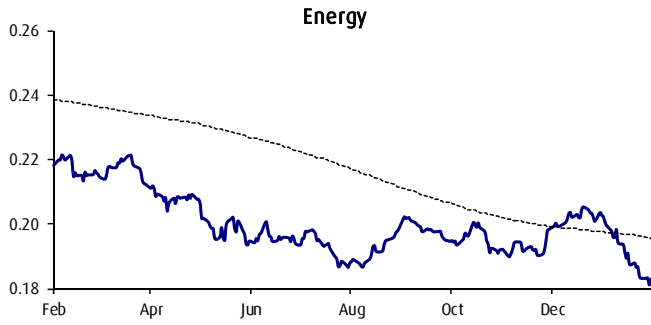
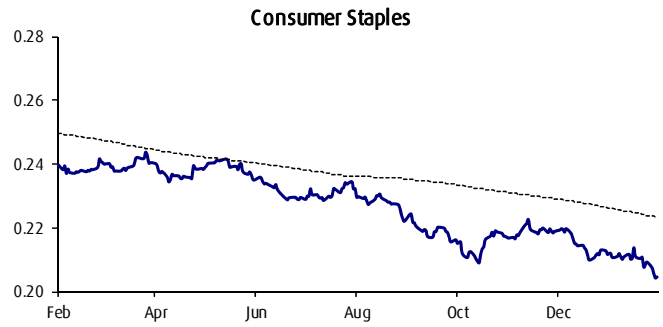
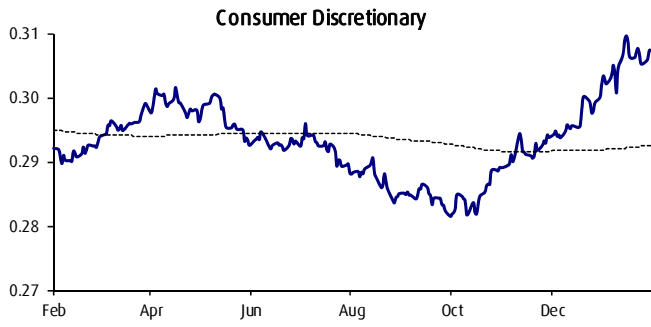
Back in financial markets, it was relatively quiet this week too, with Treasury yields modestly higher and

equities giving back some of last week’s rebound. The S&P 500 slipped 0.1% by late Friday, while the TSX was up 0.9% thanks to solid earnings results from a few of the banks. The test for stocks now is part technical and part fundamental. On the former, the S&P 500 bounced hard off its 200-day moving average in early February, but this week was firmly turned back by the 50-day average. Regardless of how much faith you put in these metrics, they do appear to be having some effect right now. On the latter, we’re starting to see a scenario where fiscal stimulus hits a capacity-constrained economy, leading to more meaningful Fed tightening, which ultimately rolls the economy over down the road. The question is, how far down that road do equity investors want to look?

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



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



North American Sector Performances as of February 23, 2018

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2017
Information Technology	1.2	-1.4	5.7	33.2	6.8	36.9
Materials	0.6	-3.7	4.1	16.1	0.6	21.4
Cons Discretionary	0.4	-2.4	11.5	21.6	6.6	21.2
Energy	0.3	-12.8	0.7	-3.7	-5.9	-3.8
Utilities	0.2	-1.2	-9.9	-1.4	-5.2	8.3
Industrials	-0.4	-3.6	7.5	15.1	1.5	18.5
Banks	-0.4	-1.8	14.3	18.8	5.4	20.0
Financials	-0.4	-3.3	10.0	17.2	3.2	20.0
Health Care	-0.8	-4.5	3.8	13.9	2.4	20.0
Cons Staples	-2.8	-7.5	-1.5	-1.7	-5.4	10.5
Telecom Services	-2.9	-5.3	4.2	-9.9	-7.0	-6.0
S&P 100 Large Cap	-0.2	-4.0	5.5	15.3	2.0	19.3
S&P 400 Mid Cap	-0.5	-5.1	1.8	9.1	-0.5	14.5
S&P 600 Small Cap	-0.8	-4.5	1.0	9.6	-0.1	11.7
S&P 500	-0.1	-3.9	5.0	15.4	2.0	19.4

TSX Sectors

Banks	1.8	-3.5	-0.8	1.5	-1.3	10.4
Industrials	1.5	0.2	1.5	12.7	-1.0	17.9
Telecom Services	1.4	-2.4	-8.6	-0.1	-5.9	9.9
Financials	1.3	-4.1	-2.1	1.1	-2.4	9.4
Materials	1.0	-5.7	-1.8	-7.0	-3.5	6.3
Energy	0.9	-9.4	-7.7	-13.6	-8.7	-10.0
Health Care	0.6	-16.9	13.9	10.8	-9.0	32.7
Cons Discretionary	0.5	-3.4	-2.2	11.6	-2.8	20.4
Information Technology	0.4	5.3	9.8	23.9	10.4	16.2
Utilities	-0.1	-4.4	-9.0	-4.3	-7.9	6.2
Cons Staples	-1.5	-6.1	-4.3	-0.3	-5.3	6.4
Gold	-3.6	-11.3	-10.6	-23.2	-9.9	-2.6
REITs	-1.2	-2.4	-1.2	-0.8	-1.4	3.8
Income Trusts	-1.2	-2.8	-2.8	-2.6	-3.8	4.5
S&P/TSX 60 Large Cap	1.1	-4.6	-3.0	-0.7	-3.8	6.6
S&P/TSX Mid Cap	0.3	-4.7	-2.9	-2.5	-3.8	4.2
S&P/TSX Small Cap	-0.3	-6.6	-3.3	-9.4	-5.6	0.3
TSX	0.9	-4.7	-3.0	-1.2	-3.8	6.0

Source: Bloomberg. As of 2:00 pm

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