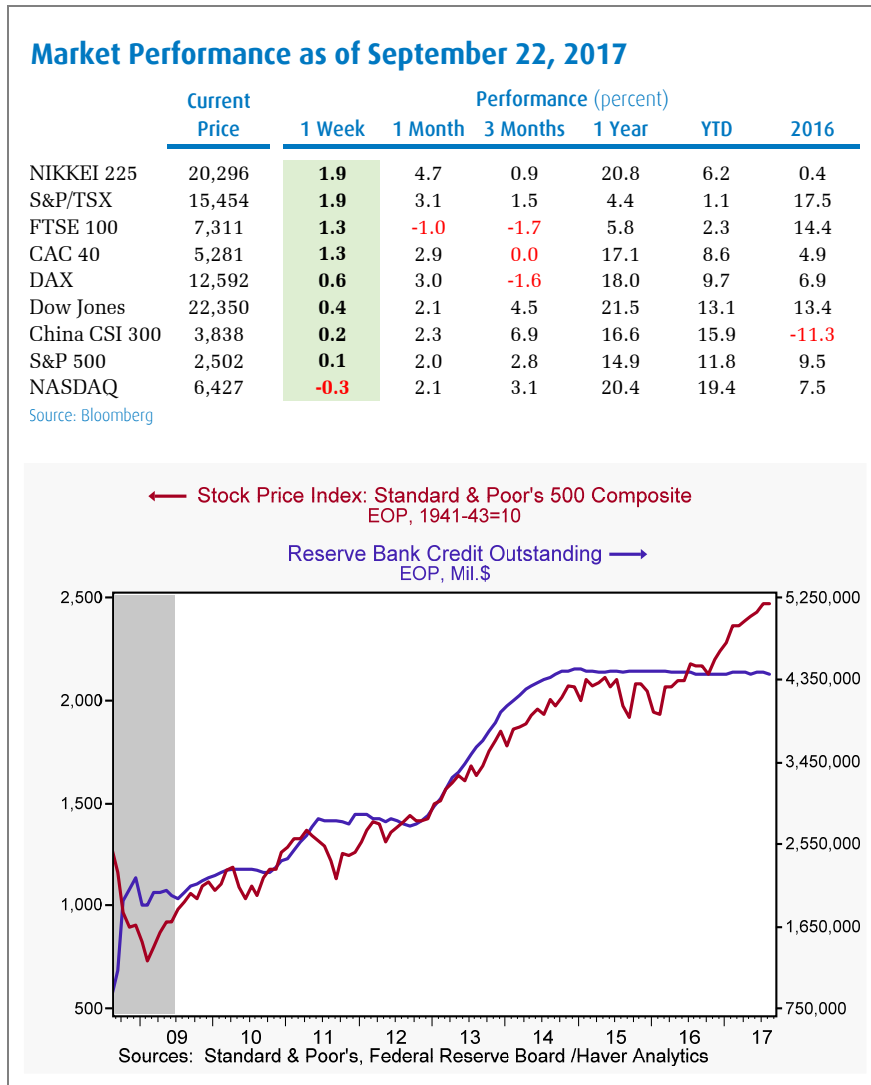


Yellen and Yawning

Equity markets were mostly higher this week, alongside a wave of mainly solid U.S. economic data and a few twists in the Federal Reserve policy announcement. The S&P 500 rose 0.1% and the Nasdaq dipped 0.3%, while most markets in Europe and Canada gained more than 1%. Consumer staples, utilities and health care lagged in the U.S., while energy and banks posted solid gains north of the border.

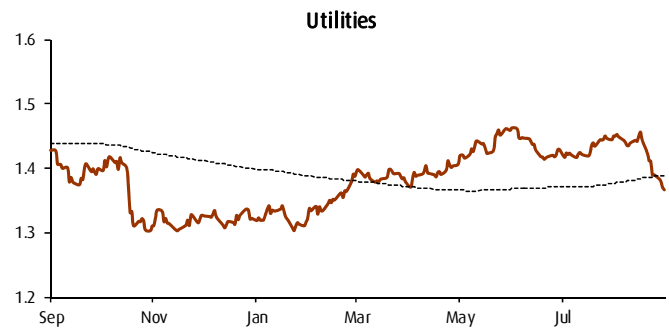
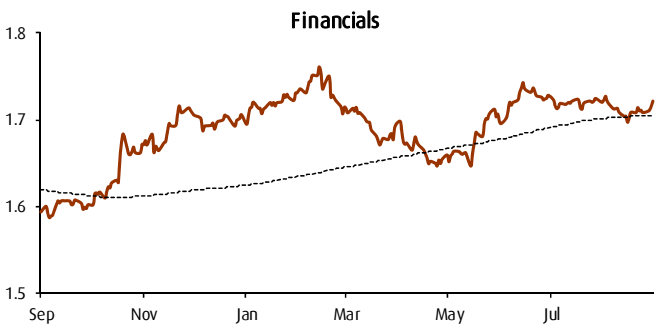
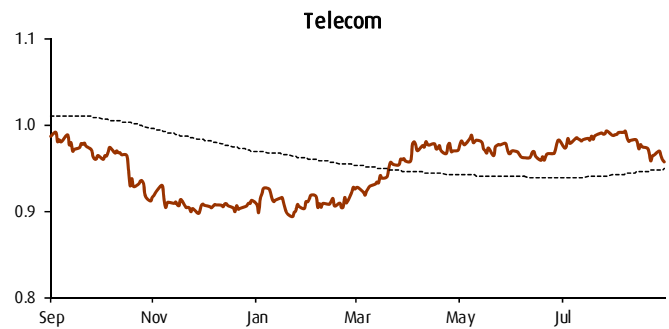
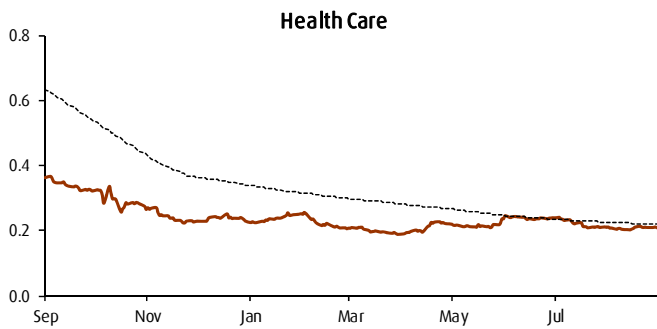
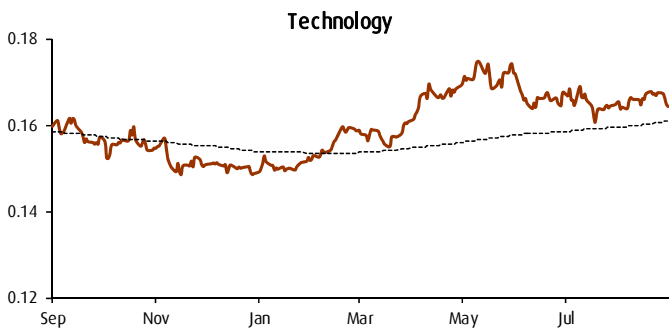
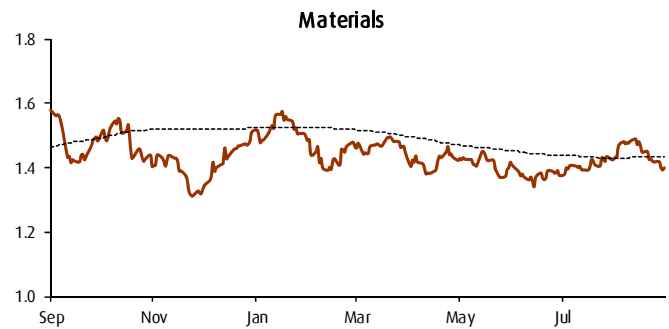
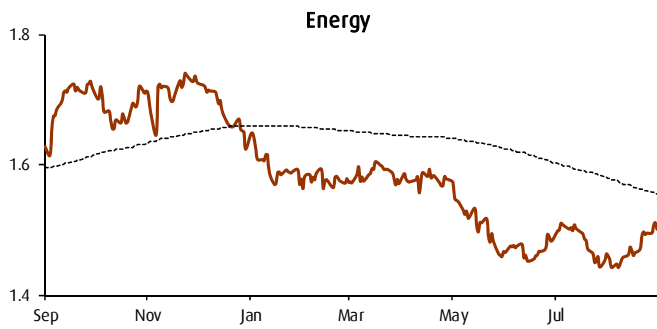
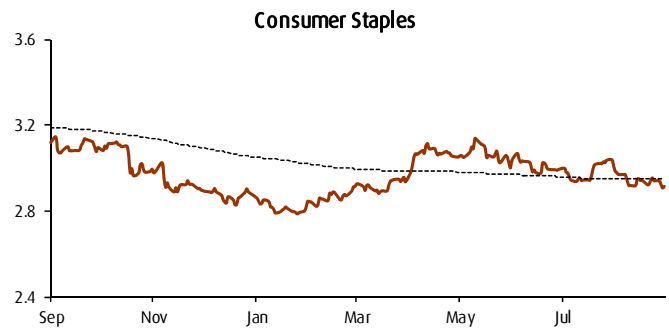
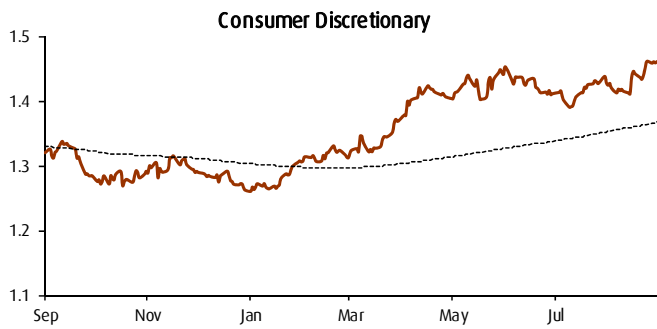


The Federal Reserve left interest rates unchanged this week, as widely expected, but kept a December move solidly on the table. At the same time, the median estimate of the long-run neutral level fell again, to 2.75%—recall that this had been grinding down steadily from 4.25% when first published in 2012, but then held steady for about a year until now.

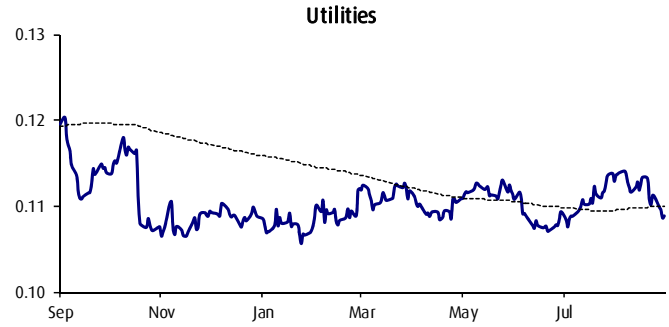
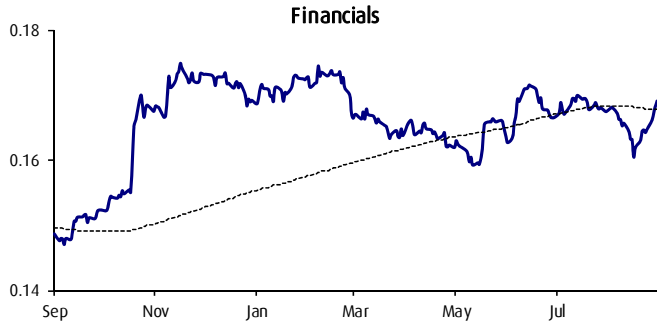
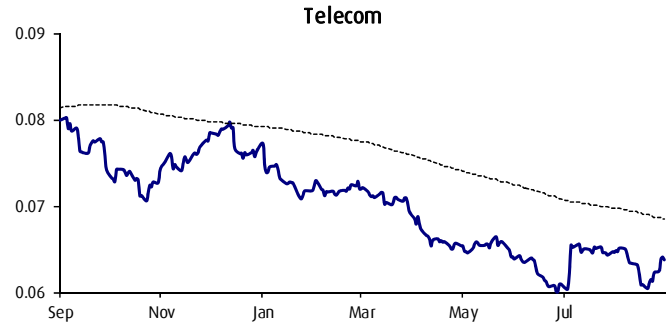
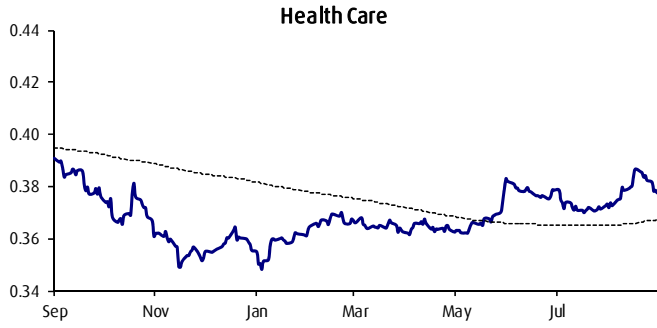
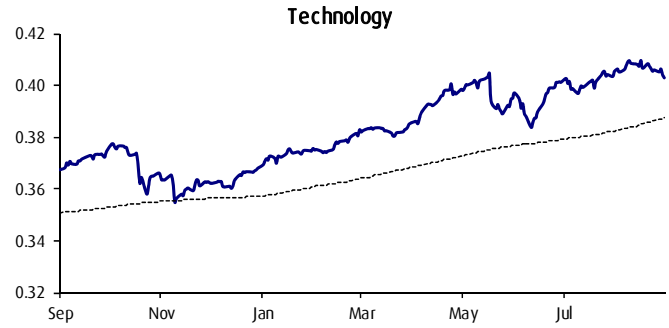
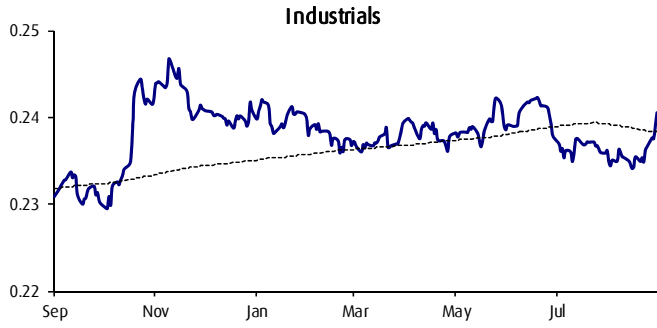
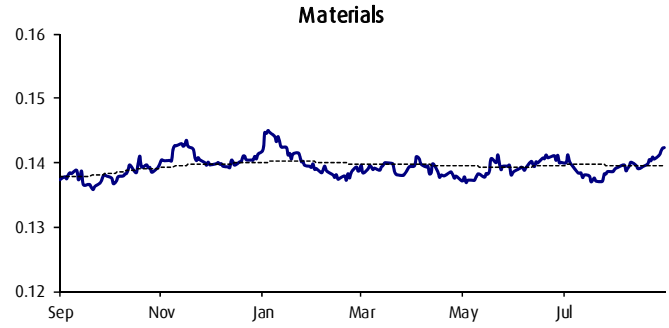
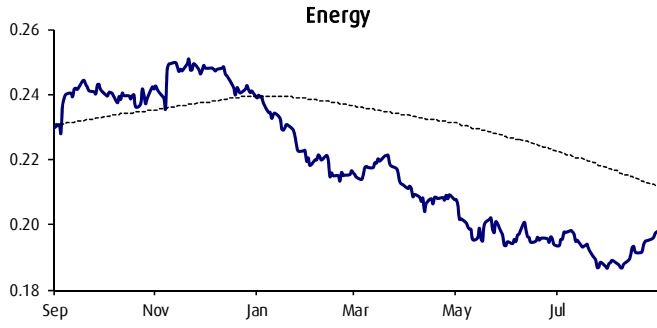
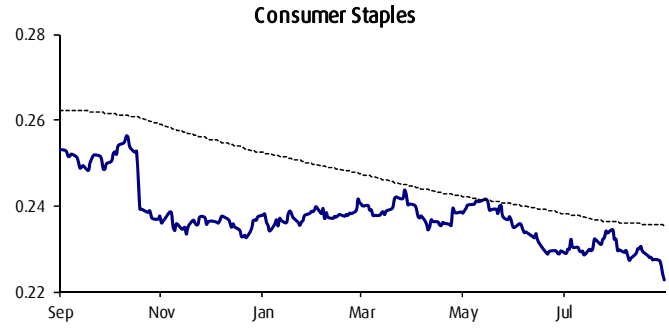
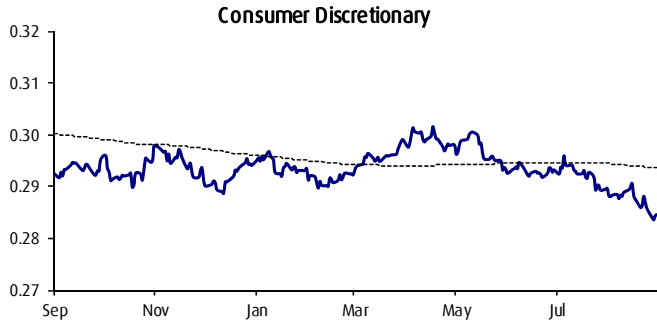
Meantime, the balance sheet normalization process was officially announced to a chorus of yawns. The quick details, as already known: Monthly Treasury and MBS reinvestment to be reduced by \$6 bln and \$4 bln, respectively, then ratcheted up every three months until they reach \$30 bln and \$20 bln by October 2018. This sets a path toward normalization of just under \$3 trln by the end of 2021, from \$4.5 trln today. See the attached chart on how stock prices have tracked the balance sheet higher this cycle. While the chart might jack your heart rate up a notch, we've argued most of the year that the shift to normalization will be handled relatively well by the

equity market for a few reasons. First, the Fed is putting safety first, telegraphing the moves well in advance and even pausing the rate-hike campaign to ensure an orderly start. We suspect they'll be keeping a keen eye on any market dislocations. Also, the process begins against a backdrop of solid growth and accelerating earnings momentum, the latter of which has taken some of the responsibility off the shoulders of valuations to keep the market moving higher. All in, we suspect that the process will gradually pressure bond yields higher than they otherwise would be (roughly 80 bps through 2021). That could stir up a bit of an extra relative headwind on rate sensitives, but should be manageable for the overall market.

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 September 22, 2017

S&P 500 Sectors	1 Week	1 Month	3 Months	1 Year	YTD	2016
Telecom Services	3.8	2.0	3.6	-6.2	-8.5	17.8
Banks	3.6	4.2	7.3	38.9	7.9	21.4
Financials	2.6	2.9	6.1	30.4	9.4	20.1
Energy	2.0	8.7	5.5	-1.2	-10.3	23.7
Industrials	2.0	4.1	3.8	19.9	12.1	16.1
Materials	1.0	4.2	5.3	18.8	13.7	14.1
Cons Discretionary	-0.1	0.4	-0.1	12.4	10.1	4.3
Information Technology	-0.7	1.4	4.8	25.5	24.8	12.0
Health Care	-1.2	3.2	1.4	11.3	18.6	-4.4
Cons Staples	-2.3	-2.4	-3.0	0.9	4.5	2.6
Utilities	-2.8	-2.4	-0.3	4.3	9.5	12.2
S&P 600 Small Cap	0.9	5.3	2.8	13.6	3.7	24.7
S&P 400 Mid Cap	0.8	3.6	1.9	13.2	6.5	18.7
S&P 100 Large Cap	0.1	2.0	3.0	14.9	11.6	8.8
S&P 500	0.1	2.0	2.8	14.9	11.8	9.5

TSX Sectors

Industrials	2.7	4.2	0.7	18.1	11.9	20.7
Energy	2.6	6.8	4.7	-3.7	-11.3	31.2
Banks	2.5	4.0	2.1	13.8	3.0	24.8
Cons Discretionary	2.4	4.7	2.6	15.8	14.8	8.2
Financials	2.4	3.1	2.4	12.8	2.8	19.3
Health Care	1.1	2.0	-9.9	-40.1	-11.4	-78.6
Telecom Services	0.7	-0.5	0.1	1.7	6.2	9.9
Materials	0.6	1.6	1.7	-7.8	2.1	39.0
Information Technology	0.4	2.9	-4.1	8.4	9.9	4.4
Utilities	0.0	-2.5	-5.1	0.7	3.4	12.7
Cons Staples	-0.1	-1.6	-2.8	-3.4	0.9	6.1
Gold	-2.2	-0.3	-5.0	-21.3	-0.4	46.8
REITs	-0.1	-0.6	-2.9	-3.2	-1.0	11.0
Income Trusts	-0.6	-1.6	-4.1	-3.1	-0.7	8.9
S&P/TSX 60 Large Cap	2.0	2.9	1.4	5.5	0.9	17.7
S&P/TSX Small Cap	1.9	5.0	3.9	-1.9	-3.5	35.2
S&P/TSX Mid Cap	1.5	3.8	2.2	1.4	1.6	17.1
TSX	1.9	3.1	1.5	4.4	1.1	17.5

Source: Bloomberg

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