

# Flock of Hawks

A Publication of BMO Capital Markets Economic Research • Douglas Porter, CFA, Chief Economist, BMO Financial Group

Equity markets struggled this week amid a heavy wave of hawkish talk from the Federal Reserve. The S&P 500 dipped 0.3%, with strength in energy offset by declines across most other groups. The TSX outperformed, gaining 1.3% thanks to a rebound in oil prices and another upward move in the sector, along with banks.

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It's almost as if, all at once, the Fed has realized that policy has been left too accommodative, for too long. To their credit, if they've realized a mistake, they're going to fix it—and fix it fast. Expectations are now for interest rate liftoff in March, with four hikes this year, as well as a faster-than-previous reduction in the balance sheet. This week's inflation fully confirmed that such moves are coming, with core inflation lurching to 5.5% y/y, the fastest clip since 1991, and shorter-term metrics showing no evidence of cooling. The headline rate hit a 40-year high of 7.0% y/y.

Despite that, equities have held up very well considering the drumbeat of earlier and more aggressive monetary tightening talk. Taking a look at performance over the past month gives a pretty good snapshot of relative performance early in a tightening cycle. Energy has led the pack on both sides of the border, with double-digit gains over the past month, while materials have also outperformed. Banks have also rallied and outperformed the broad indices in both Canada and the U.S. While the yield curve has flattened somewhat, the prospect of higher interest rates is supportive of the earnings outlook.

At the other end of the spectrum, technology has lagged, with the sector down 2% over the past month in the S&P 500, and the Nasdaq underperforming the other major North American indices. Technology has almost become a sector to just ride through the entire cycle, but with valuations rich after the massive pandemic run, the concern is that tighter monetary policy will weigh on those valuations. Finally, rate-sensitive sectors such as REITs and utilities have held their ground, for two major reasons—longer-term interest rates, while backing up, have not blown up; and many names in these sectors have solid pricing and dividend-raising power in an inflationary environment.

**Table 1 - Market Performance**

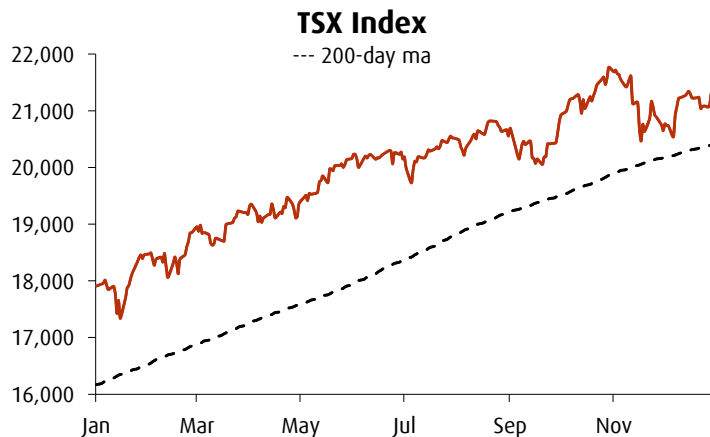
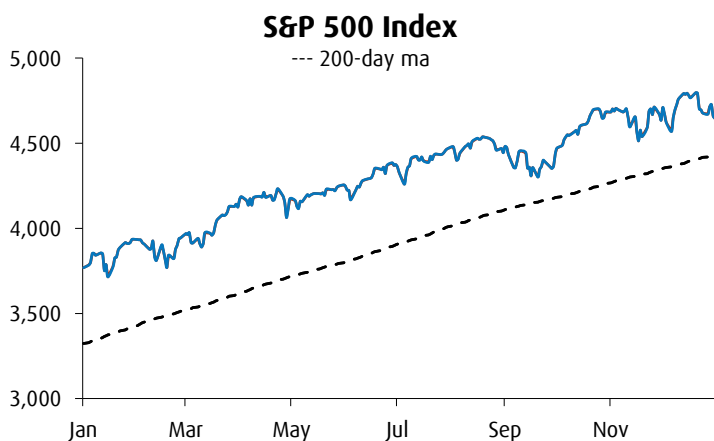
January 14, 2022							
	Current Price	Performance (percent)					
		1 Week	1 Mo.	3 Mo.	1 Year	Y-T-D	2021
S&P/TSX	21,358	<b>1.3</b>	3.4	2.6	18.9	0.6	21.7
FTSE 100	7,543	<b>0.8</b>	4.5	4.7	10.9	2.1	14.3
NASDAQ	14,894	<b>-0.3</b>	<b>-2.3</b>	0.5	13.6	<b>-4.8</b>	21.4
S&P 500	4,663	<b>-0.3</b>	0.6	5.1	22.9	<b>-2.2</b>	26.9
DAX	15,883	<b>-0.4</b>	2.8	2.7	13.5	<b>0.0</b>	15.8
Dow Jones	35,912	<b>-0.9</b>	1.0	2.9	15.9	<b>-1.2</b>	18.7
CAC 40	7,143	<b>-1.1</b>	3.6	6.8	25.7	<b>-0.1</b>	28.9
NIKKEI 225	28,124	<b>-1.2</b>	<b>-1.1</b>	<b>-1.5</b>	<b>-2.0</b>	<b>-2.3</b>	4.9
China CSI 300	4,727	<b>-2.0</b>	<b>-6.4</b>	<b>-3.8</b>	<b>-13.6</b>	<b>-4.3</b>	<b>-5.2</b>

Source: BMO Economics, Bloomberg

U.S. CPI: All Items Less Food and Energy  
% Change - Year to Year



## Major Index Performance



## North American Sector Performances

(% change over period)

**Table 2 - S&P 500 Sector Performance**

January 14, 2022

S&P 500 Sectors	1 Wk	1 Mo.	3 Mo.	1 Year	Y-T-D	2021
Energy	5.2	18.0	13.8	46.4	16.4	47.7
Telecom Services	0.5	-0.5	-3.7	22.8	-2.2	20.5
Info Technology	-0.1	-2.0	7.1	28.6	-4.8	33.4
Health Care	-0.3	-0.6	5.3	15.0	-4.9	24.2
Cons Staples	-0.4	3.1	9.3	18.5	0.0	15.6
Materials	-0.6	1.7	5.9	16.0	-2.1	25.0
Industrials	-0.6	2.8	3.9	17.7	0.0	19.4
Banks	-0.8	8.5	5.9	28.2	8.5	32.3
Financials	-0.8	5.4	4.9	29.9	4.5	32.5
Utilities	-1.4	0.4	5.5	11.2	-3.0	14.0
Cons Discretionary	-1.5	-1.3	4.7	15.6	-4.0	23.7
S&P 600 Small Cap	-0.2	2.7	0.9	12.1	-1.4	25.3
S&P 100 Large Cap	-0.3	0.3	5.7	24.3	-2.0	27.6
S&P 400 Mid Cap	-0.4	1.6	1.3	13.7	-2.1	23.2
<b>S&amp;P 500</b>	<b>-0.3</b>	<b>0.6</b>	<b>5.1</b>	<b>22.9</b>	<b>-2.2</b>	<b>26.9</b>

Source: BMO Economics, Bloomberg

**Table 3 - TSX Sector Performance**

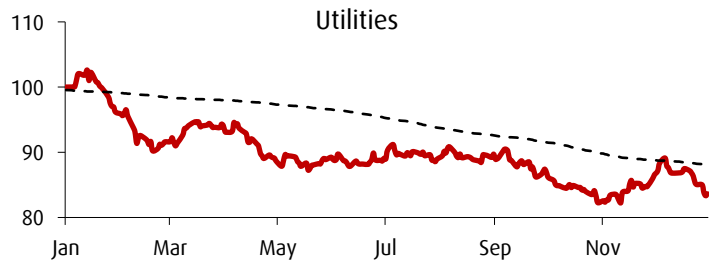
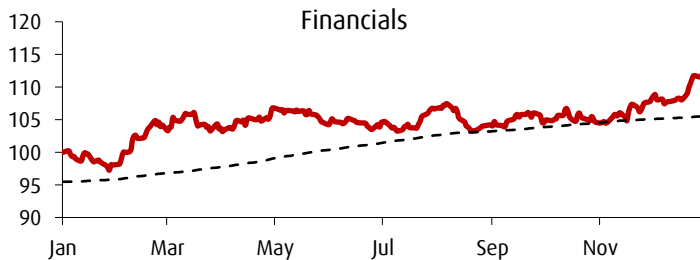
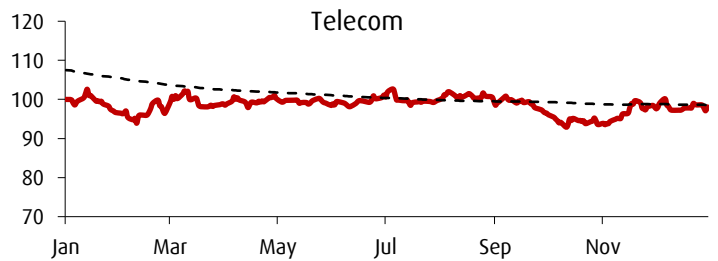
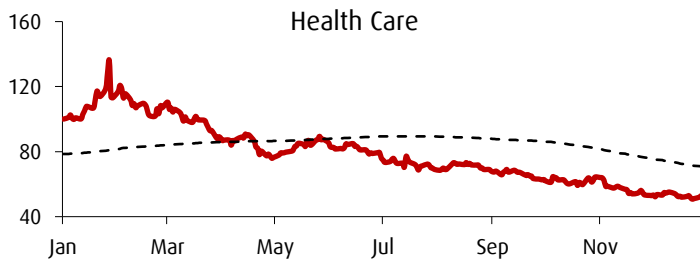
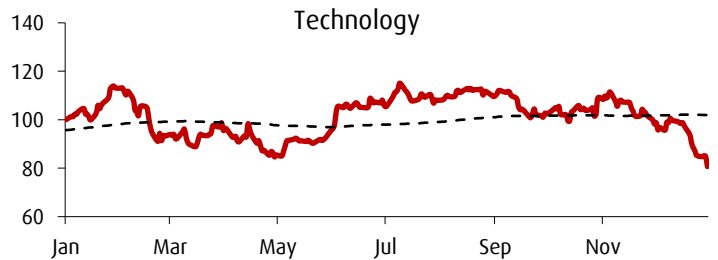
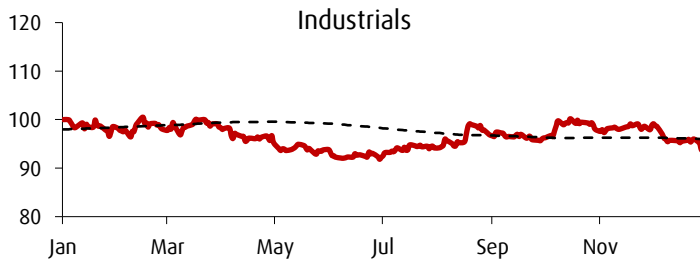
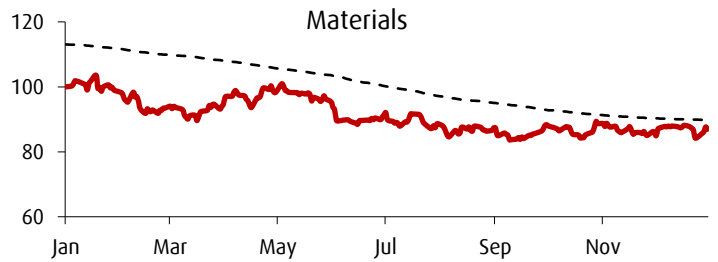
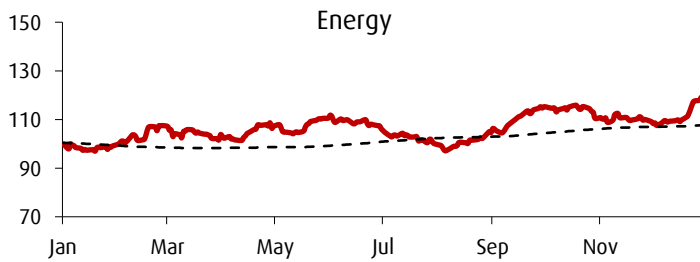
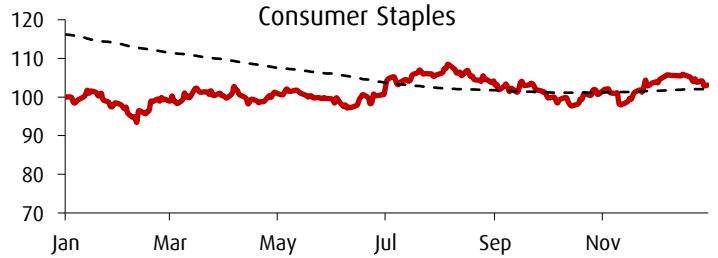
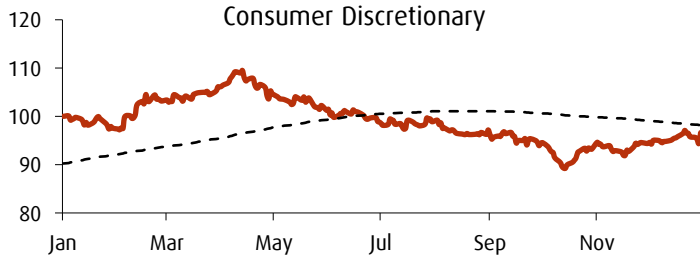
January 14, 2022

TSX Sectors	1 Wk	1 Mo.	3 Mo.	1 Year	Y-T-D	2021
Energy	4.3	14.9	7.8	41.7	10.9	41.8
Materials	3.6	3.8	0.1	0.7	-1.6	2.3
Banks	3.0	10.2	14.6	37.8	7.4	32.8
Financials	2.1	7.6	10.5	34.6	4.9	31.6
Cons Discretionary	1.3	4.9	4.0	13.2	0.6	16.3
Telecom Services	0.8	3.4	4.3	18.5	1.0	19.1
Health Care	-0.4	-1.8	-18.0	-40.5	-2.7	-20.1
Cons Staples	-0.5	1.7	4.3	24.8	-2.9	20.6
Industrials	-1.0	-1.8	0.0	11.6	-1.2	15.1
Utilities	-1.2	-0.9	-2.0	-0.2	-4.6	7.5
Info Technology	-2.6	-13.7	-17.9	-2.0	-15.2	18.3
S&P/TSX Sml Cap	1.8	5.7	-2.8	12.7	0.2	18.2
S&P/TSX Preferred	0.1	2.2	0.4	12.3	0.3	13.7
S&P/TSX REITs	-0.5	1.5	0.4	25.5	-3.0	30.0
<b>TSX</b>	<b>1.3</b>	<b>3.4</b>	<b>2.6</b>	<b>18.9</b>	<b>0.6</b>	<b>21.7</b>

Source: BMO Economics, Bloomberg

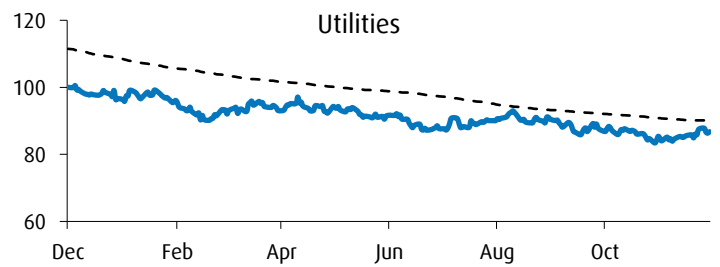
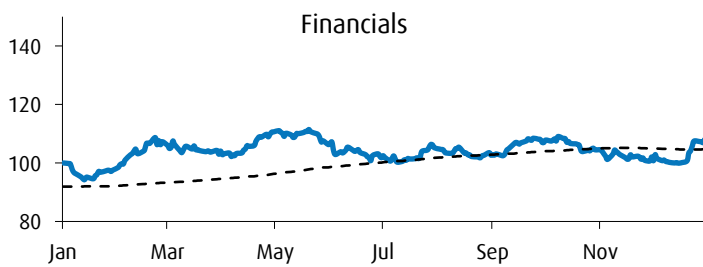
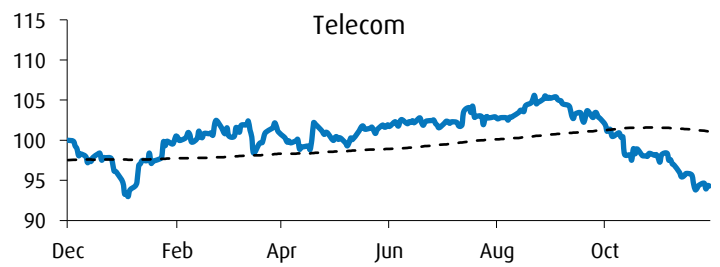
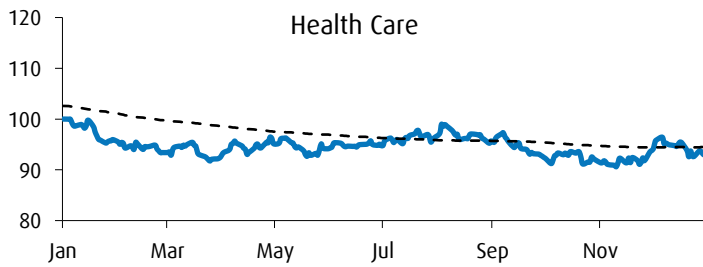
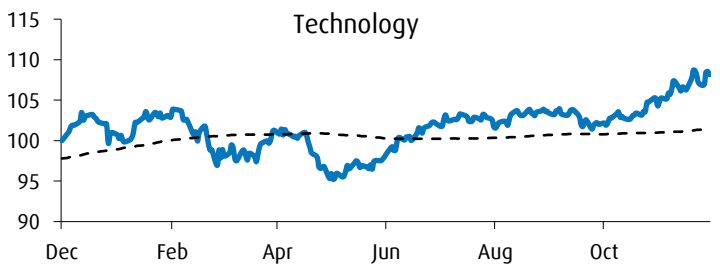
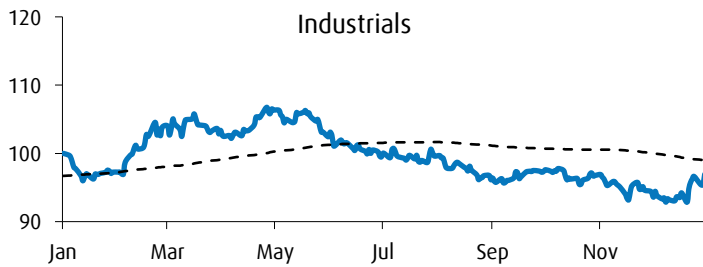
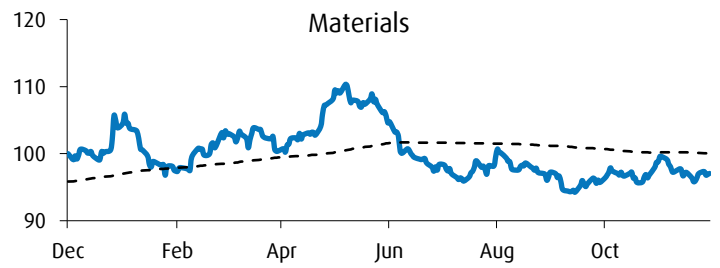
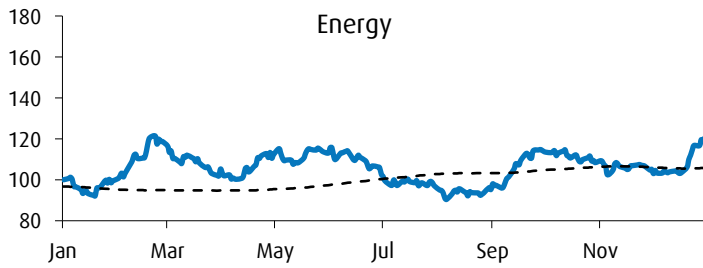
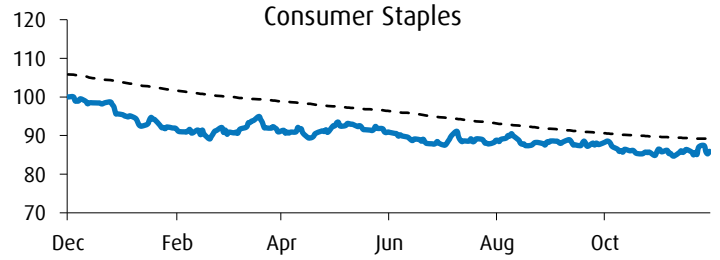
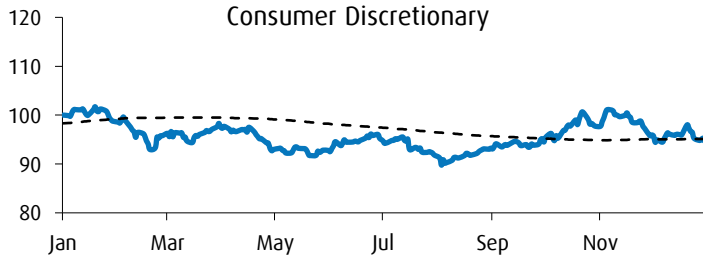
## TSX Relative Sector Performance

(relative to the index, year-ago = 100; dashed line = 200-day m.a.)



## S&P 500 Relative Sector Performance

(relative to the index, year-ago = 100; dashed line = 200-day m.a.)



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