

Vaccination Stars

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

Equity markets and risk assets rallied sharply this week on word that Pfizer had seen promising test results on a COVID-19 vaccine. Regardless of lingering questions about limited data, safety and distribution hurdles, the market opened Monday to a violent rotation. Some of this week's moves might prove to be temporary reactions, while some might foretell where relative strength will be found when the end of the pandemic really does come into view.

The equity market broadly was the big winner, with the S&P 500 jumping almost 4% in early-week trading. But, as the dust settled over the course of the week, the index finished up a more modest 2.2%. The real story was the rotation across region, sector and size.

At the **country** level, European stocks jumped almost 9% in some areas, reflecting bigger potential economic relief from any vaccine, while the U.S. lagged.

At the **sector** level, the rotation was even clearer, as sectors that have struggled most to come back during the pandemic posted the strongest gains. Notably, U.S. banks rallied 11%, and are arguably the most likely to take relief from a vaccine given the vast majority of the economic impact has been on Main Street (and therefore on banks' loan books). Cyclical sectors also rallied, with energy leading the pack, and industrials rising strongly. On the flip side, the COVID leaders—technology and consumer discretionary—abruptly swung to the bottom of the leaderboard and were down modestly despite the good news. The Nasdaq in particular was down 0.6%.

By **size**, S&P small caps surged almost 9% at one point (and finished the week up 4.7%), while the biggest components of the index barely budged. Again, this reflects the fact that more economic damage has been inflicted the lower you go on the size scale. Note that the gap between yearover-year performance in large S&P 100 stocks and the small S&P 600 group has been trending at the widest in 21 years.

Outside the equity market, Treasury yields backed up meaningfully, with the 10-year jumping about 18 bps at one point, to the highest level since March. And, with the shorter end still pinned down by Federal Reserve guidance, the yield curve (on a 10s-minus-2s basis) reached the steepest since 2017 and another bit of reprieve for the banks. Credit spreads tightened modestly, while there was shift out of the U.S. dollar—

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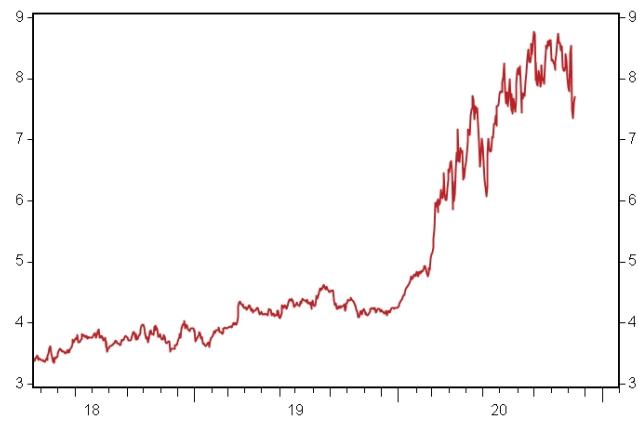
Table 1 - Market Performance

November 13, 2020	Current Price	Performance (percent)						2019
		1 Week	1 Mo.	COVID	1 Year	Y-T-D		
CAC 40	5,380	8.5	8.7	-12.0	-8.9	-10.0		26.4
FTSE 100	6,316	6.9	5.8	-15.3	-14.1	-16.3		12.1
DAX	13,077	4.8	0.4	-5.2	-1.2	-1.3		25.5
NIKKEI 225	25,386	4.4	7.6	8.5	8.9	7.3		18.2
Dow Jones	29,480	4.1	2.8	0.4	6.1	3.3		22.3
S&P/TSX	16,676	2.4	1.0	-7.0	-1.7	-2.3		19.1
S&P 500	3,585	2.2	2.1	5.9	15.9	11.0		28.9
NASDAQ	11,829	-0.6	-0.3	20.5	39.5	31.8		35.2
China CSI 300	4,857	-0.6	0.4	19.9	24.5	18.6		36.1

Source: BMO Economics, Bloomberg

S&P 500 Technology / S&P 500 Banks

(ratio)



the loonie briefly cracked the \$1.30/USD mark, which has held as resistance for about three years.

As the week played out, the stark reality of surging COVID cases across much of the developed world, including the U.S. and Canada, unwound some of the early-week rotation, as it remains clear that distributing a vaccine (should we get one) could still be a long way off. But, this week's action may well have given us a good preview of what could eventually lie ahead...

North American Sector Performances

(% change over period)

Table 2 - S&P 500 Sector Performance

November 13, 2020		S&P 500 Sectors					
		1 Wk	1 Mo.	COVID	1 Year	Y-T-D	2019
Energy	16.5	10.3	-38.2	-42.0	-44.2	7.6	
Banks	11.0	10.5	-24.0	-22.5	-26.9	36.5	
Financials	8.3	7.8	-13.0	-8.6	-12.3	29.2	
Industrials	5.3	6.6	2.1	5.5	5.2	26.8	
Cons Staples	3.6	1.3	4.7	10.1	7.1	24.0	
Utilities	2.8	3.8	-5.7	5.9	2.0	22.2	
Health Care	1.8	3.4	7.8	18.3	9.9	18.7	
Materials	1.4	4.8	14.0	15.0	12.3	21.9	
Telecom Services	0.8	4.5	10.5	21.2	17.4	30.9	
Info Technology	-0.4	-1.3	18.2	40.2	32.2	48.0	
Cons Discretionary	-1.1	-3.3	18.7	31.4	26.2	26.2	
S&P 600 Small Cap	4.7	5.0	-4.7	-1.1	-5.2	20.9	
S&P 400 Mid Cap	4.3	6.0	0.7	6.4	2.4	24.1	
S&P 100 Large Cap	1.5	1.0	8.3	19.3	14.1	29.5	
S&P 500	2.2	2.1	5.9	15.9	11.0	28.9	

Source: BMO Economics, Bloomberg

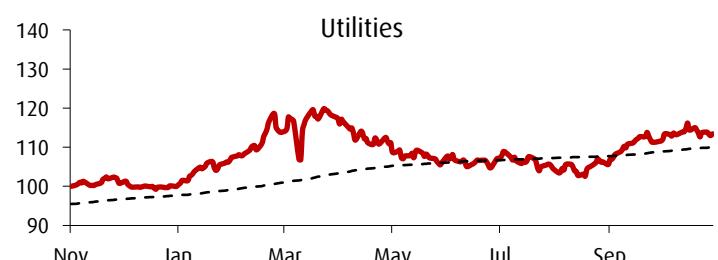
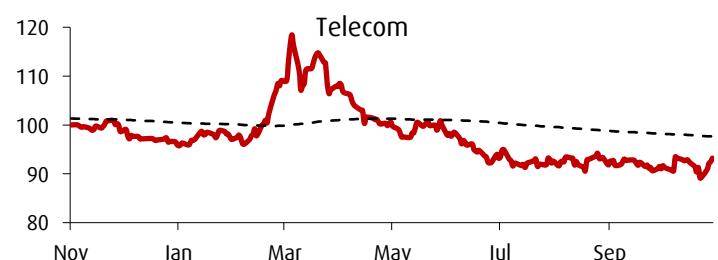
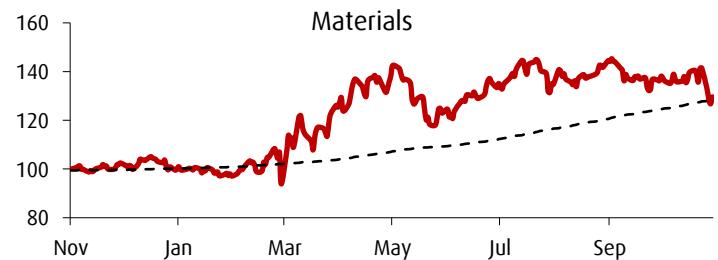
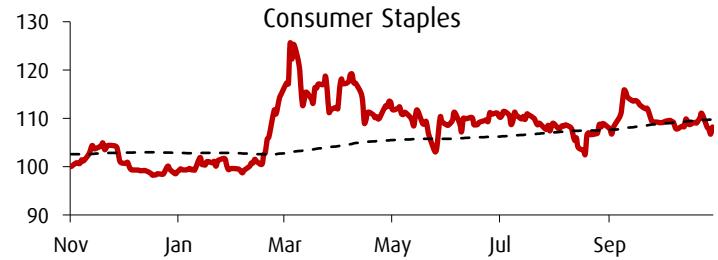
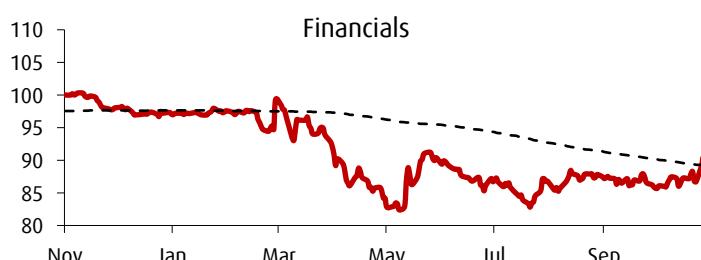
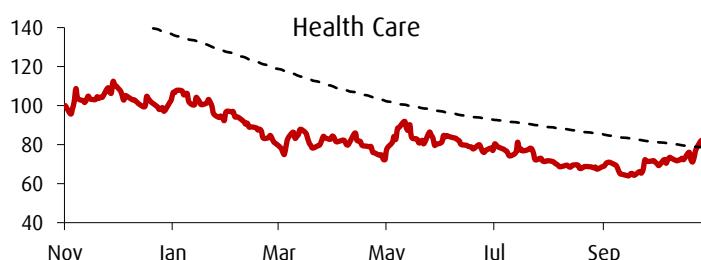
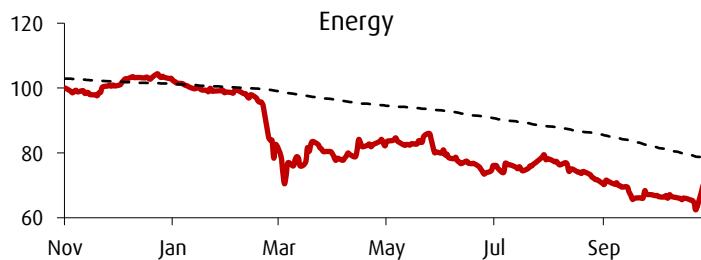
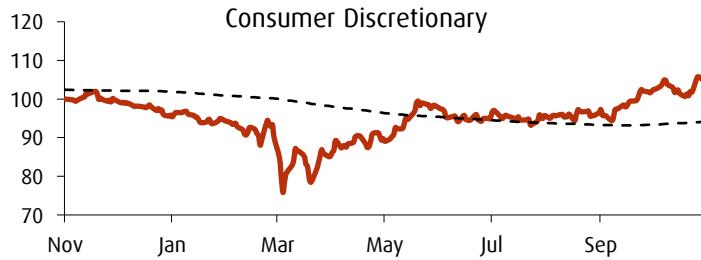
Table 3 - TSX Sector Performance

November 13, 2020		TSX Sectors					
		1 Wk	1 Mo.	COVID	1 Year	Y-T-D	2019
Energy	10.1	1.5	-37.1	-34.0	-36.5	16.2	
Financials	6.7	6.1	-13.4	-11.2	-9.1	16.9	
Cons Discretionary	6.6	5.3	5.4	4.1	5.9	13.1	
Health Care	6.4	13.5	-20.4	-26.0	-24.7	-11.4	
Banks	6.2	5.9	-11.4	-12.1	-8.7	10.1	
Telecom Services	5.5	1.7	-12.0	-9.7	-7.4	8.2	
Industrials	3.4	1.8	5.8	13.4	13.5	23.6	
Utilities	1.1	1.6	-3.2	11.0	9.6	31.6	
Cons Staples	-1.6	-1.2	0.2	5.2	6.2	12.8	
Materials	-5.9	-3.6	21.2	27.7	21.5	22.1	
Info Technology	-7.7	-11.9	30.9	68.8	55.4	63.5	
S&P/TSX Preferred S	2.9	0.7	-6.9	-2.1	-2.0	18.1	
S&P/TSX Sml Cap	2.9	4.7	-2.4	4.5	-2.3	12.8	
S&P/TSX REITs	0.6	2.1	-7.1	0.1	-3.1	22.7	
TSX	2.4	1.0	-7.0	-1.7	-2.3	19.1	

Source: BMO Economics, Bloomberg

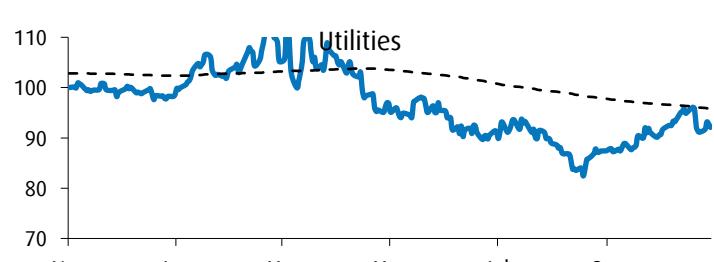
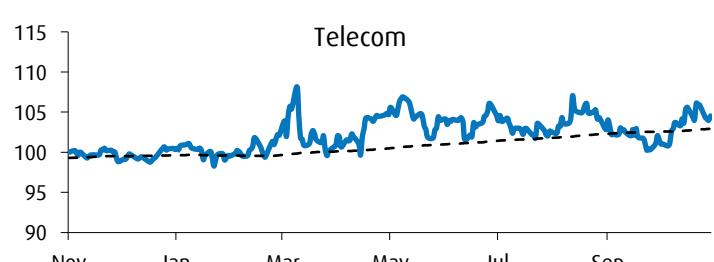
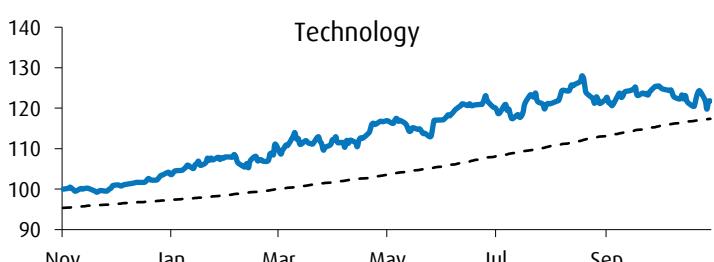
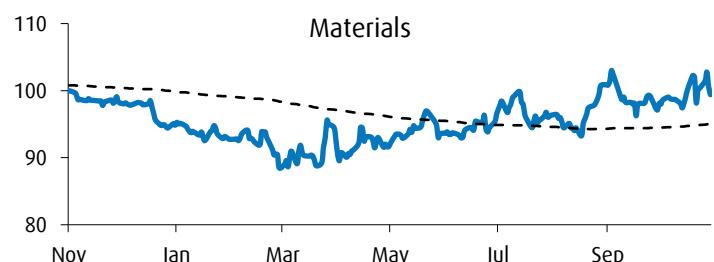
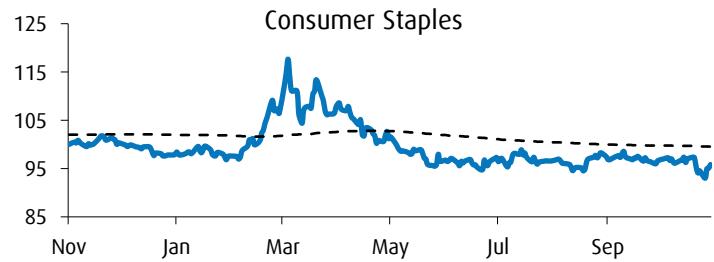
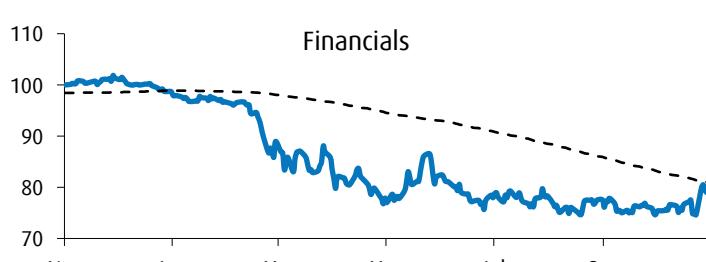
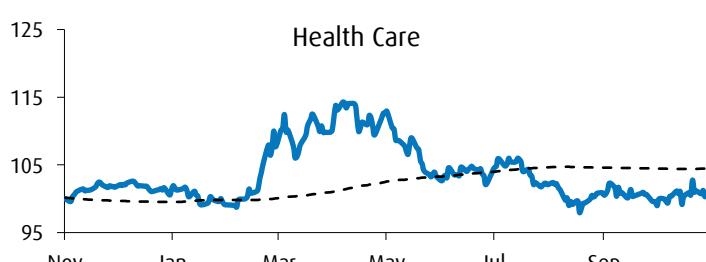
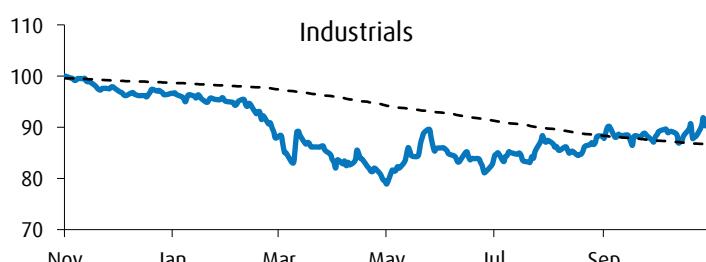
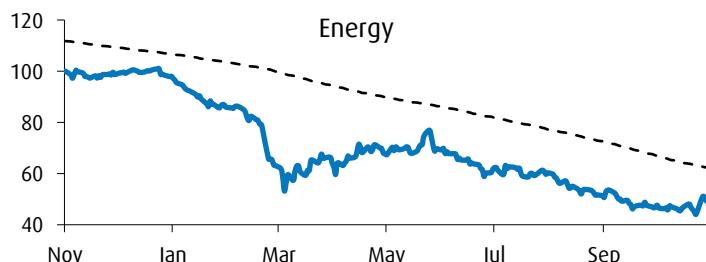
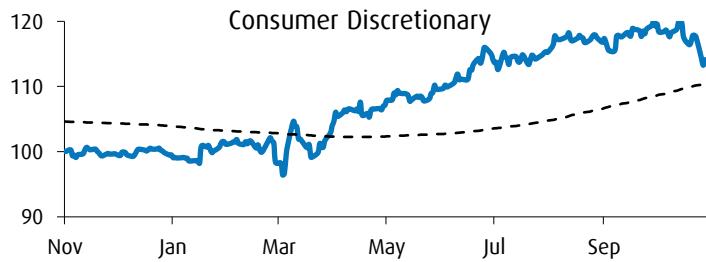
TSX Relative Sector Performance

(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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