

# Tech Wreck; Valuation Check

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

Equity markets steadied themselves late this week, as the deep selloff in tech stocks ran its course, but damage was still done. The S&P 500 fell 2.5%, with energy, technology and banks posting deep losses. The Nasdaq saw its cumulative decline from the September 2nd high reach precisely 10% by Tuesday's close, before rebounding later in the week. Despite letting out quite a bit of air, keep in mind that the index is still up 21% on the year despite the pandemic, as tech has feasted on monetary stimulus, while not suffering nearly the same economic cost (sometimes the opposite) as many Main Street businesses.

Valuations caught a breather in recent weeks as the market finally tripped up. Note that the forward p/e ratio for the S&P 500 now sits at 21.7, based on blended forward-year earnings compiled by Bloomberg. We haven't seen readings that high in almost 20 years. But, earnings are clearly depressed at the moment, and it's debatable if the market is even trading based on near-term earnings estimates anyway. If we use earnings two-years forward, the market is trading right in-line with where it did pre-COVID (in the 16-to-17 range). If that seems like an analytical stretch, recall that the market was also 'most expensive' by this measure in late-2009, after the rebound was already underway—that would have been the wrong conclusion. Looking at it another way, the forward earnings yield has compressed to roughly 4.6% (down 1.7 ppts versus the 2019 average), but the spread versus 10-year Treasury yields is right in line with that year. So, the Fed's extremely accommodative stance, expected to last well into the future, is playing a role here too.

The TSX was flat, with gains in materials offset by weakness in tech and energy. The Bank of Canada left interest rates and the QE program unchanged, as widely expected. The Bank argued that the economy "will continue to require extraordinary monetary policy support" until excess capacity is absorbed—we judge rate hikes won't even be in the conversation until 2023.

**ECONOMIC RESEARCH**  
economics.bmo.com

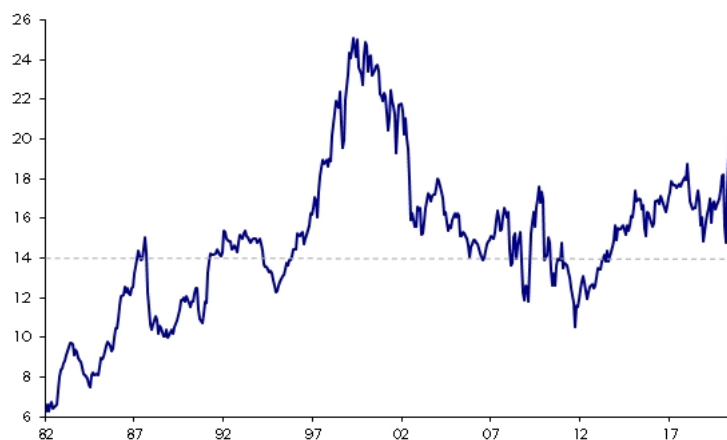
**Robert Kavcic, Senior Economist**  
robert.kavcic@bmo.com

**Table 1 - Market Performance**

September 11, 2020		Performance (percent)					
	Current Price	1 Week	1 Mo.	COVID	1 Year	Y-T-D	2019
FTSE 100	6,032	4.0	-2.0	-19.1	-17.8	-20.0	12.1
DAX	13,203	2.8	2.0	-4.3	6.8	-0.3	25.5
CAC 40	5,034	1.4	0.1	-17.6	-10.4	-15.8	26.4
NIKKEI 225	23,406	0.9	2.9	0.0	8.4	-1.1	18.2
S&P/TSX	16,222	0.0	-1.7	-9.5	-2.3	-4.9	19.1
Dow Jones	27,666	-1.7	-0.1	-5.7	1.9	-3.1	22.3
S&P 500	3,341	-2.5	0.2	-1.3	11.3	3.4	28.9
China CSI 300	4,627	-3.0	-1.2	14.2	17.7	13.0	36.1
NASDAQ	10,854	-4.1	0.7	10.6	32.9	21.0	35.2

Source: BMO Economics, Bloomberg

**S&P 500 Forward PE Ratio**



## North American Sector Performances

(% change over period)

Table 2 - S&amp;P 500 Sector Performance

September 11, 2020						
S&P 500 Sectors	1 Wk	1 Mo.	COVID	1 Year	Y-T-D	2019
Materials	<b>0.8</b>	4.3	7.4	12.6	5.8	21.9
Industrials	<b>-0.3</b>	0.0	<b>-7.7</b>	<b>-1.3</b>	<b>-4.9</b>	26.8
Utilities	<b>-0.8</b>	<b>-2.5</b>	<b>-16.3</b>	<b>-6.6</b>	<b>-9.4</b>	22.2
Health Care	<b>-1.1</b>	<b>-0.9</b>	0.5	15.0	2.3	18.7
Cons Staples	<b>-1.3</b>	1.9	0.0	5.8	2.3	24.0
Cons Discretionary	<b>-1.9</b>	2.5	14.2	23.9	21.4	26.2
Financials	<b>-2.4</b>	<b>-2.6</b>	<b>-20.6</b>	<b>-12.1</b>	<b>-20.0</b>	29.2
Banks	<b>-3.0</b>	<b>-4.2</b>	<b>-31.0</b>	<b>-23.6</b>	<b>-33.6</b>	36.5
Telecom Services	<b>-3.3</b>	2.0	2.5	15.1	8.9	30.9
Info Technology	<b>-4.4</b>	1.4	10.1	39.3	23.1	48.0
Energy	<b>-6.4</b>	<b>-15.6</b>	<b>-40.8</b>	<b>-45.5</b>	<b>-46.6</b>	7.6
S&P 400 Mid Cap	<b>-2.3</b>	<b>-4.6</b>	<b>-11.6</b>	<b>-5.6</b>	<b>-10.1</b>	24.1
S&P 600 Small Cap	<b>-2.7</b>	<b>-5.7</b>	<b>-14.6</b>	<b>-11.0</b>	<b>-15.0</b>	20.9
S&P 100 Large Cap	<b>-2.9</b>	0.9	2.0	16.7	7.5	29.5
<b>S&amp;P 500</b>	<b>-2.5</b>	0.2	<b>-1.3</b>	11.3	3.4	28.9

Source: BMO Economics, Bloomberg

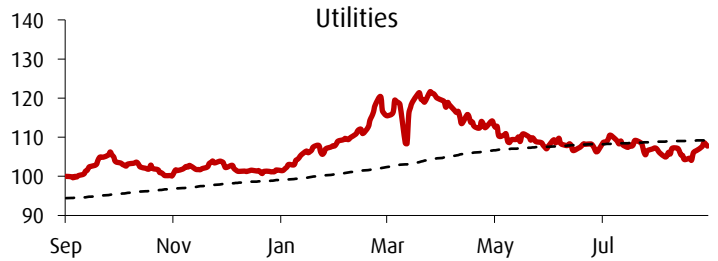
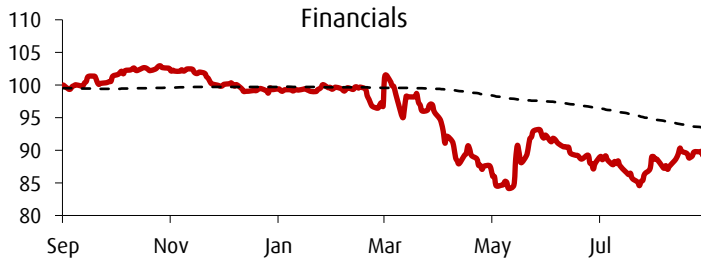
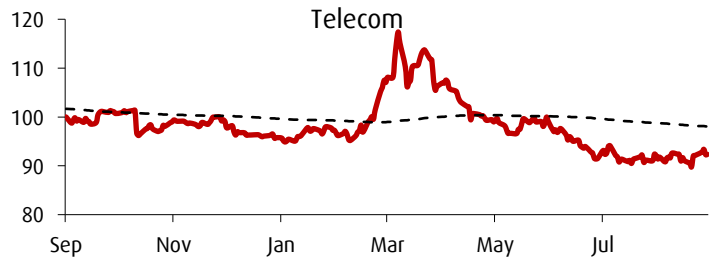
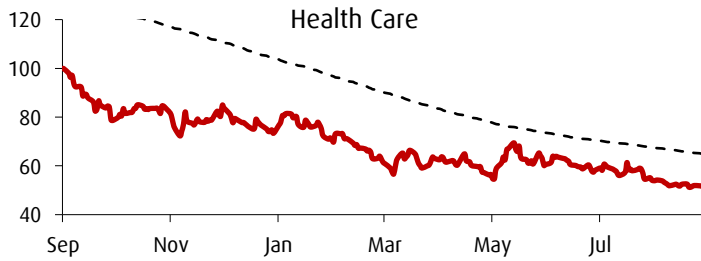
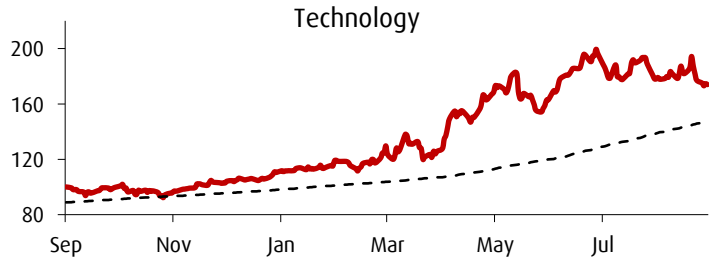
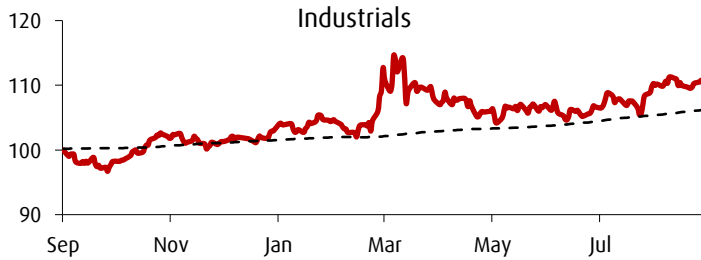
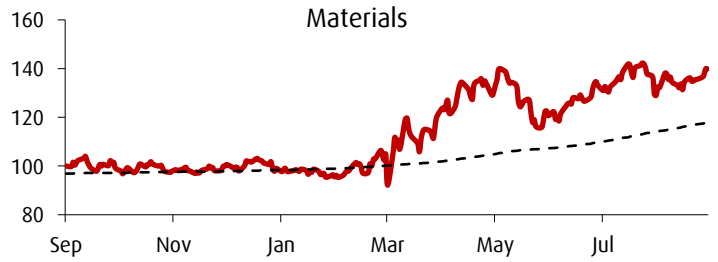
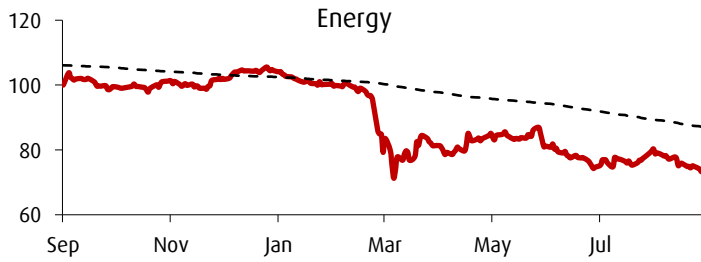
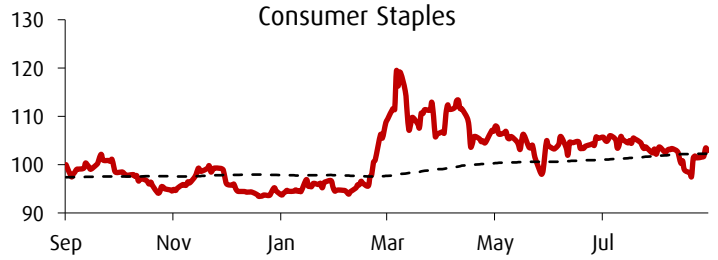
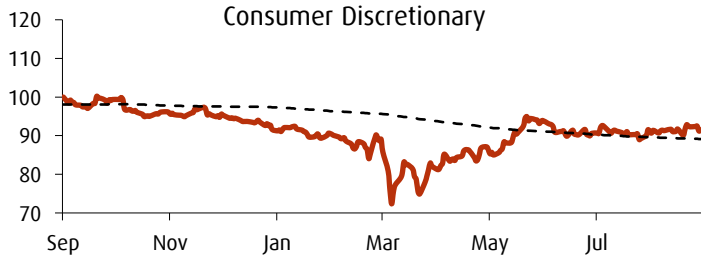
Table 3 - TSX Sector Performance

September 11, 2020						
TSX Sectors	1 Wk	1 Mo.	COVID	1 Year	Y-T-D	2019
Materials	<b>2.7</b>	5.7	28.6	34.1	28.9	22.1
Cons Staples	<b>2.2</b>	<b>-1.3</b>	<b>-0.5</b>	<b>-0.9</b>	5.4	12.8
Industrials	<b>2.1</b>	0.9	<b>-1.3</b>	9.5	5.8	23.6
Utilities	<b>1.1</b>	<b>-1.1</b>	<b>-10.9</b>	5.3	1.0	31.6
Telecom Services	<b>0.3</b>	<b>-1.5</b>	<b>-13.2</b>	<b>-10.1</b>	<b>-8.7</b>	8.2
Financials	<b>0.0</b>	<b>-0.9</b>	<b>-18.1</b>	<b>-11.4</b>	<b>-14.0</b>	16.9
Banks	<b>-0.2</b>	0.7	<b>-15.1</b>	<b>-12.0</b>	<b>-12.6</b>	10.1
Cons Discretionary	<b>-1.0</b>	<b>-1.9</b>	<b>-7.4</b>	<b>-10.6</b>	<b>-6.9</b>	13.1
Health Care	<b>-1.9</b>	<b>-7.6</b>	<b>-35.3</b>	<b>-51.1</b>	<b>-38.8</b>	<b>-11.4</b>
Energy	<b>-3.2</b>	<b>-10.5</b>	<b>-34.7</b>	<b>-29.0</b>	<b>-34.1</b>	16.2
Info Technology	<b>-3.4</b>	<b>-5.7</b>	30.7	65.4	55.2	63.5
S&P/TSX Preferred S	<b>0.1</b>	<b>-1.7</b>	<b>-8.8</b>	<b>-1.9</b>	<b>-4.0</b>	18.1
S&P/TSX REITs	<b>-0.4</b>	<b>-1.4</b>	<b>-11.8</b>	<b>-3.8</b>	<b>-8.0</b>	22.7
S&P/TSX Sml Cap	<b>-0.4</b>	0.0	<b>-8.4</b>	<b>-6.3</b>	<b>-8.2</b>	12.8
<b>TSX</b>	<b>0.0</b>	<b>-1.7</b>	<b>-9.5</b>	<b>-2.3</b>	<b>-4.9</b>	19.1

Source: BMO Economics, Bloomberg

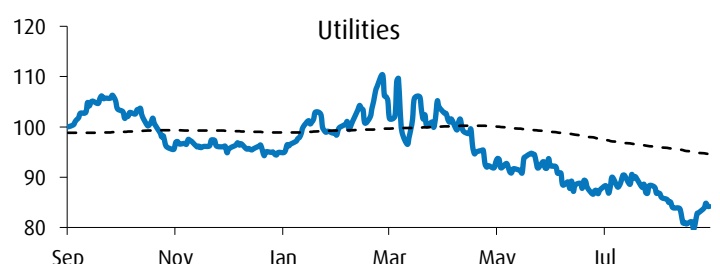
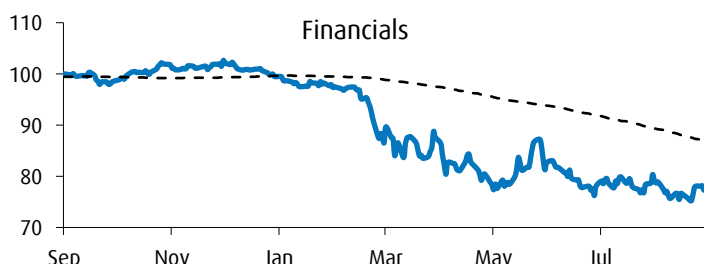
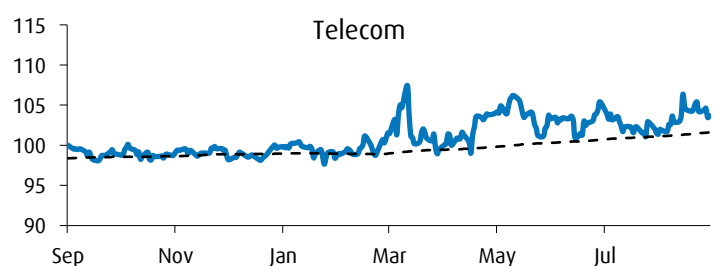
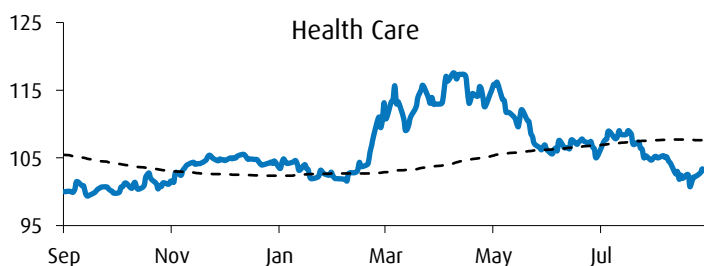
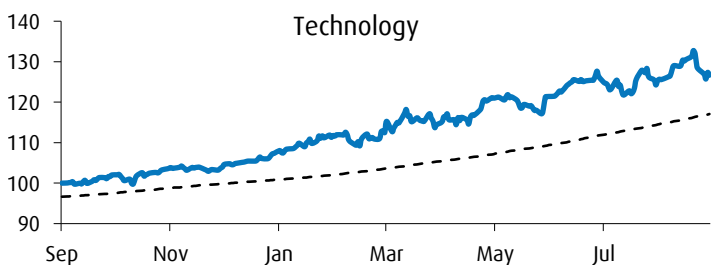
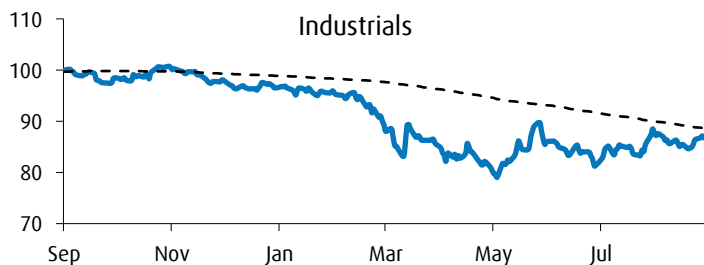
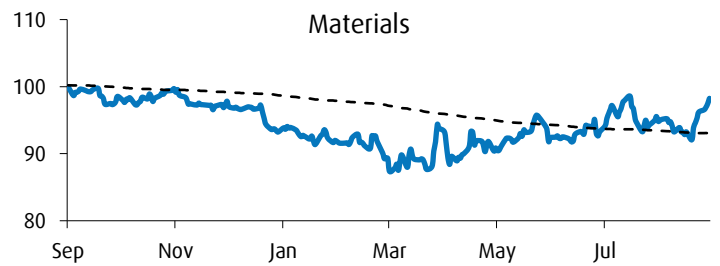
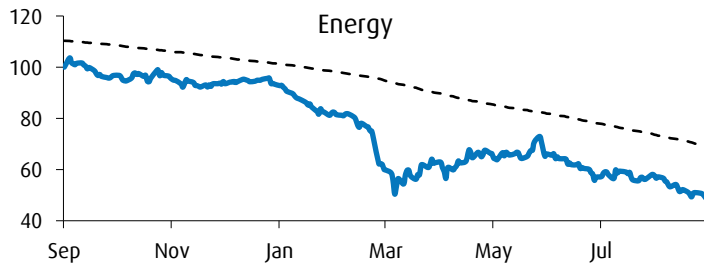
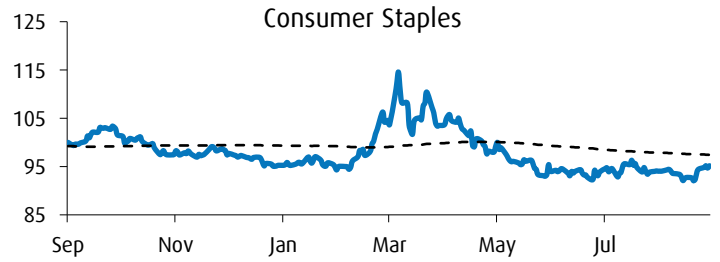
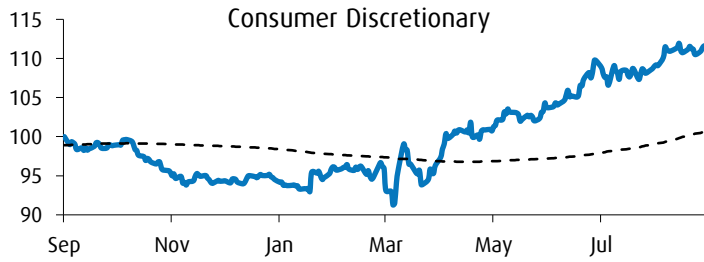
## TSX Sector Performance

(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.)



## General Disclosures

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K., Bank of Montreal Europe Plc in Ireland and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited, Bank of Montreal Europe Plc and BMO Capital Markets Corp are affiliates. BMO does not represent that this document may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder. This document is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Their contents have not been reviewed by any regulatory authority. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This document is not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information be considered as investment advice or as a recommendation to enter into any transaction. Each investor should consider obtaining independent advice before making any financial decisions. This document is provided for general information only and does not take into account any investor's particular needs, financial status or investment objectives. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

### Dissemination of Economic Publications

Our publications are disseminated via email and may also be available via our web site <https://economics.bmo.com>. Please contact your BMO Financial Group Representative for more information.

### Additional Matters

This report is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Its contents have not been reviewed by any regulatory authority. BMO Capital Markets does not represent that this report may be lawfully distributed or that any financial products may be lawfully offered or dealt with, in compliance with regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder.

To Australian residents: BMO Capital Markets Limited is exempt from the requirement to hold an Australian financial services licence under the Corporations Act and is regulated by the UK Financial Conduct Authority under UK laws, which differ from Australian laws. This document is only intended for wholesale clients (as defined in the Corporations Act 2001) and Eligible Counterparties or Professional Clients (as defined in Annex II to MiFID II).

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

To U.K./E.U. Residents: In the UK, Bank of Montreal London Branch is authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority ("FCA") and BMO Capital Markets Limited is authorised and regulated by the FCA. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (i) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients. In an E.U. Member State this document is issued and distributed by Bank of Montreal Europe plc which is authorised and regulated in Ireland and operates in the E.U. on a passported basis. This document is only intended for Eligible Counterparties or Professional Clients, as defined in Annex II to "Markets in Financial Instruments Directive" 2014/65/EU ("MiFID II").

To Hong Kong Residents: This document is issued and distributed in Hong Kong by Bank of Montreal ("BMO"). BMO is an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution with the Securities and Futures Commission (CE No. AAK809) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This material has not been reviewed or approved by any regulatory authority in Hong Kong. Accordingly the material must not be issued, circulated or distributed in Hong Kong other than (1) except for "structured products" as defined in the Securities and Futures Ordinance, in circumstances which do not constitute it as a "Prospectus" as defined in the Companies Ordinance or which do not constitute an offer to the public within the meaning of that Ordinance, or (2) to Professional investors as defined in the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules made thereunder. Unless permitted by the securities laws of Hong Kong, no person may issue in Hong Kong, or have in its possession for issue in Hong Kong this material or any other advertisement, invitation or document relating to the products other than to a professional investor as defined in the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules.

To Korean Residents: This material is not provided to make a recommendation for specific Korean residents to enter into a contract for trading financial investment instruments, for investment advising, for discretionary investment, or for a trust, nor does it constitute advertisement of any financial business or financial investment instruments towards Korean residents. The material is not provided as advice on the value of financial investment instruments or any investment decision for specific Korean residents. The provision of the material does not constitute engaging in the foreign exchange business or foreign exchange brokerage business regulated under the Foreign Exchange Transactions Act of Korea.

To PRC Residents: This material does not constitute an offer to sell or the solicitation of an offer to buy any financial products in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the "PRC"). BMO and its affiliates do not represent that this material may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. This material may not be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

Singapore Residents: This document has not been registered as a prospectus with the Monetary Authority of Singapore and the material does not constitute an offer or sale, solicitation or invitation for subscription or purchase of any shares or financial products in Singapore. Accordingly, BMO and its affiliates do not represent that this document and any other materials produced in connection therewith may lawfully be circulated or distributed, whether directly or indirectly, to persons in Singapore. This document and the material do not and are not intended to constitute the provision of financial advisory services, whether directly or indirectly, to persons in Singapore. This document and any information contained in this report shall not be disclosed to any other person. If you are not an accredited investor, please disregard this report. BMO Singapore Branch does not accept legal responsibility for the contents of the report. In Asia, Bank of Montreal is licensed to conduct banking and financial services in Hong Kong and Singapore. Certain products and services referred to in this document are designed specifically for certain categories of investors in a number of different countries and regions. Such products and services would only be offered to these investors in those countries and regions in accordance with applicable laws and regulations. The information is directed only at persons in jurisdictions where access to and use of such information is lawful.

To Thai Residents: The contents hereof are intended solely for the use of persons qualified as Institutional Investors according to Notification of the Securities and Exchange Commission No. GoKor. 11/2547 Re: Characteristics of Advice which are not deemed as Conducting Derivatives Advisory Services dated 23 January 2004 (as amended). BMO and its affiliates do not represent that the material may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any regulatory requirements in Thailand, or pursuant to an exemption available under any applicable laws and regulations.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal.

These documents are provided to you on the express understanding that they must be held in complete confidence and not republished, retransmitted, distributed, disclosed, or otherwise made available, in whole or in part, directly or indirectly, in hard or soft copy, through any means, to any person, except with the prior written consent of BMO Capital Markets.

### ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (member FDIC), Bank of Montreal Europe p.l.c., and Bank of Montreal (China) Co. Ltd, the institutional broker dealer business of BMO Capital Markets Corp. (Member FINRA and SIPC) and the agency broker dealer business of Clearpool Execution Services, LLC (Member FINRA and SIPC) in the U.S., and the institutional broker dealer businesses of BMO Nesbitt Burns Inc. (Member Investment Industry Regulatory Organization of Canada and Member Canadian Investor Protection Fund) in Canada and Asia, Bank of Montreal Europe p.l.c. (authorised and regulated by the Central Bank of Ireland) in Europe and BMO Capital Markets Limited (authorised and regulated by the Financial Conduct Authority) in the UK and Australia.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

™ Trademark Bank of Montreal in the United States and Canada.

© COPYRIGHT 2020 BMO CAPITAL MARKETS CORP.

A member of BMO Financial Group