

# Hanging in the Balance (Sheet)

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

Equity markets were tripped up this week by a more hawkish Federal Reserve, while economic data continue to point to strong growth and a tightening job market. The S&P 500 slipped 1.8% by late Friday, but the high-flying Nasdaq was crunched a harder 4.1%. The TSX fell a more modest 1%, as strength in energy and banks provided support.

Growth, tech and higher-valuation stocks were under intense pressure, especially after the December FOMC minutes rang hawkish. The minutes noted that *“it may become warranted to increase the federal funds rate sooner or at a faster pace than participants had earlier anticipated. Some participants also noted that it could be appropriate to begin to reduce the size of the Federal Reserve’s balance sheet relatively soon after beginning to raise the federal funds rate”*. Looks like the Fed has seen the light, and excessively stimulative monetary policy won’t be around much longer.

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**Table 1 - Market Performance**

January 7, 2022							
	Current Price	Performance (percent)					
		1 Week	1 Mo.	3 Mo.	1 Year	Y-T-D	2021
FTSE 100	7,485	1.4	2.0	5.8	9.2	1.4	14.3
CAC 40	7,219	0.9	2.2	9.4	27.3	0.9	28.9
DAX	15,948	0.4	0.8	4.6	14.2	0.4	15.8
Dow Jones	36,356	0.1	1.8	4.6	17.1	0.1	18.7
S&P/TSX	21,015	-1.0	-0.7	2.9	16.6	-1.0	21.7
NIKKEI 225	28,479	-1.1	0.1	2.9	3.6	-1.1	4.9
S&P 500	4,681	-1.8	-0.1	6.4	23.1	-1.8	26.9
China CSI 300	4,822	-2.4	-2.0	-0.9	-12.5	-2.4	-5.2
NASDAQ	15,002	-4.1	-4.4	2.4	14.8	-4.1	21.4

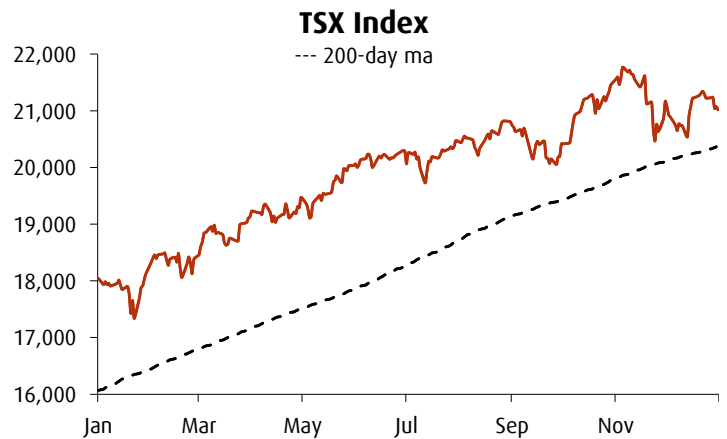
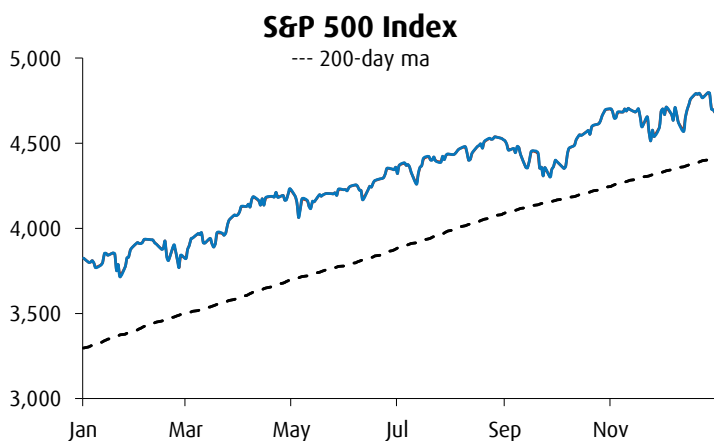
Source: BMO Economics, Bloomberg. As of noon Friday.

Equity investors were initially troubled by the thought of combined rate hikes and balance sheet reduction. If history is any guide, changes in the balance sheet trajectory (to either flat or shrinking) have coincided with, at minimum, some stagnation in overall stock prices. For example, 2011-2012; 2015-2016; and 2018 were all periods with some correction and choppy or rangebound trading. This week’s action put a spotlight on some areas of the market that have become frothy and could be subject to a bit more if that balance sheet starts to shrink again.

Enter Canadian equities. The TSX has had a great run, but is still lagging well behind the S&P 500, and held up very well this week while the higher-growth names were under pressure. Are Canadian stocks getting cheap? Probably. We say ‘probably’ because the Canadian market is just not built to run with the S&P 500 (think sector composition), and perennially underperforms with only a few exceptions (i.e., commodity booms). Lower valuations are also often a trap, partly because Canada doesn’t have the more richly-valued tech names (and consider how Europe has looked ‘cheap’ pretty much forever).

Even still, Canadian stocks seem to have fallen a bit too far behind (or U.S. stocks have run too far ahead). On a relative basis, the TSX index is probing lows not seen since the late 1990s. And, the recent underperformance is not because of a lack of earnings. In fact, the forward p/e on the TSX is roughly where it was pre-COVID, even as the S&P multiple has expanded by about 4 pts. If valuations concern you, the TSX isn’t a bad-looking hiding place.

## Major Index Performance



## North American Sector Performances

(% change over period)

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

January 7, 2022						
S&P 500 Sectors	1 Wk	1 Mo.	3 Mo.	1 Year	Y-T-D	2021
Energy	<b>10.3</b>	8.1	12.0	49.0	10.3	47.7
Banks	<b>9.3</b>	6.7	5.1	33.5	9.3	32.3
Financials	<b>5.3</b>	5.0	6.0	33.1	5.3	32.5
Industrials	<b>1.2</b>	2.3	6.2	19.3	1.2	19.4
Cons Staples	<b>0.6</b>	6.7	11.2	17.9	0.6	15.6
Materials	<b>-1.3</b>	2.2	9.7	16.1	<b>-1.3</b>	25.0
Utilities	<b>-1.7</b>	2.6	7.8	13.8	<b>-1.7</b>	14.0
Cons Discretionary	<b>-1.8</b>	<b>-2.9</b>	8.5	19.1	<b>-1.8</b>	23.7
Telecom Services	<b>-2.4</b>	<b>-1.8</b>	<b>-4.6</b>	18.2	<b>-2.4</b>	20.5
Health Care	<b>-4.3</b>	1.9	5.8	15.5	<b>-4.3</b>	24.2
Info Technology	<b>-4.4</b>	<b>-3.4</b>	9.1	28.0	<b>-4.4</b>	33.4
S&P 600 Small Cap	<b>-0.1</b>	0.4	2.4	16.7	<b>-0.1</b>	25.3
S&P 400 Mid Cap	<b>-1.5</b>	<b>-0.1</b>	3.5	15.6	<b>-1.5</b>	23.2
S&P 100 Large Cap	<b>-1.7</b>	<b>-0.3</b>	6.7	24.4	<b>-1.7</b>	27.6
<b>S&amp;P 500</b>	<b>-1.8</b>	<b>-0.1</b>	6.4	23.1	<b>-1.8</b>	26.9

Source: BMO Economics, Bloomberg. As of Noon Friday.

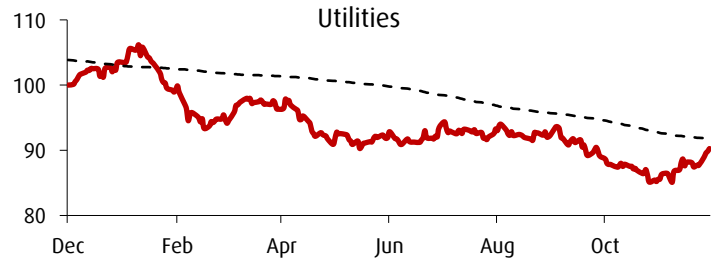
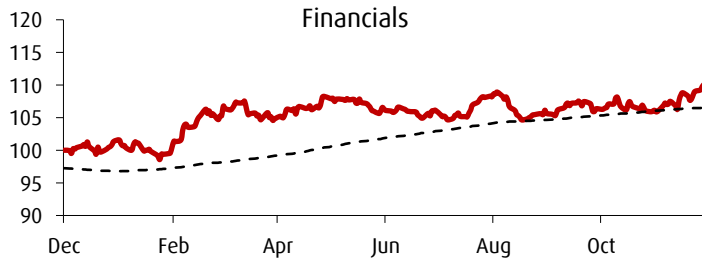
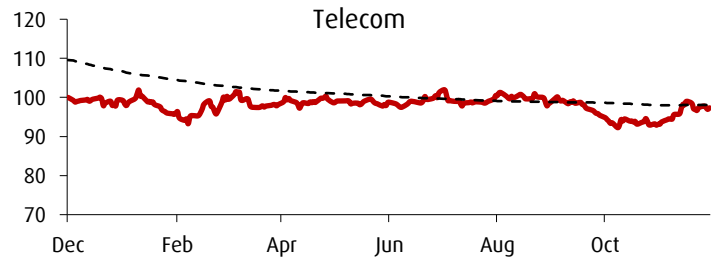
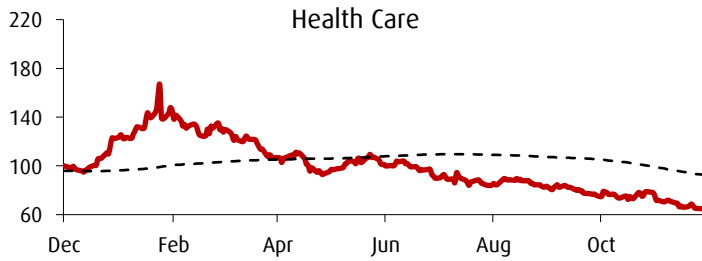
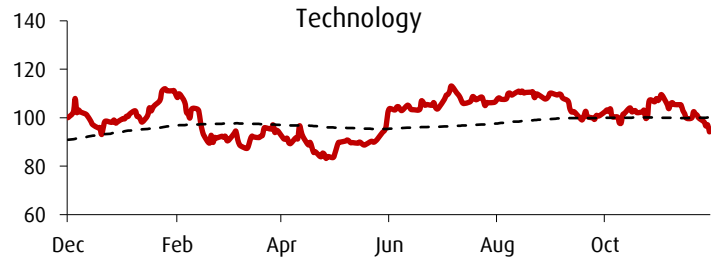
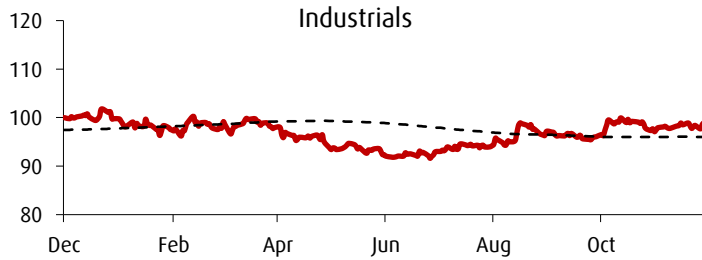
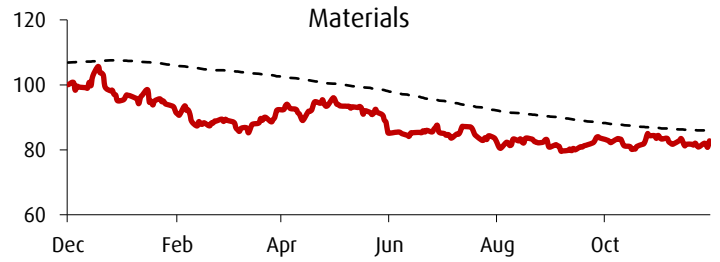
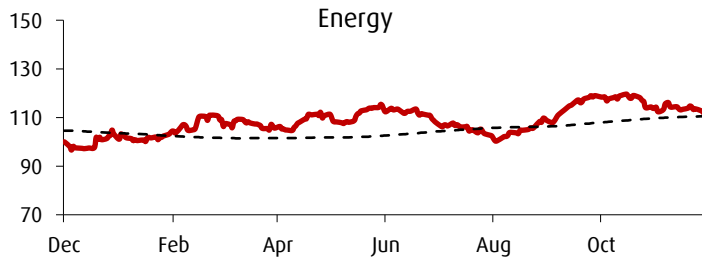
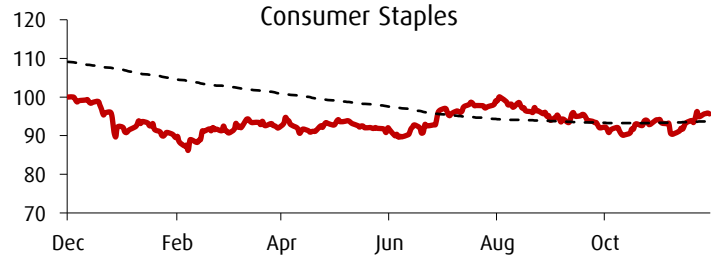
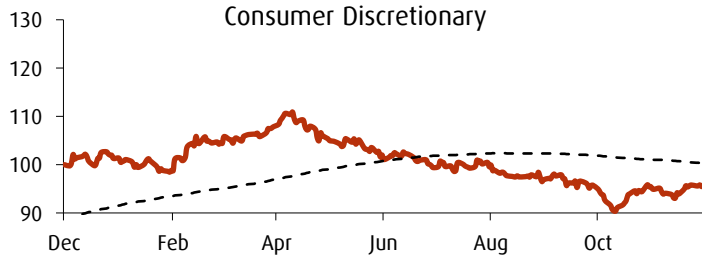
**Table 3 - TSX Sector Performance**

January 7, 2022						
TSX Sectors	1 Wk	1 Mo.	3 Mo.	1 Year	Y-T-D	2021
Energy	<b>5.3</b>	4.4	6.6	37.9	5.3	41.8
Banks	<b>3.9</b>	6.2	11.9	34.6	3.9	32.8
Financials	<b>2.4</b>	4.5	9.2	32.4	2.4	31.6
Telecom Services	<b>-0.3</b>	<b>-0.1</b>	3.3	16.4	<b>-0.3</b>	19.1
Industrials	<b>-0.6</b>	<b>-3.4</b>	2.9	11.2	<b>-0.6</b>	15.1
Cons Discretionary	<b>-0.6</b>	1.2	4.1	12.1	<b>-0.6</b>	16.3
Cons Staples	<b>-2.0</b>	2.5	4.8	17.9	<b>-2.0</b>	20.6
Health Care	<b>-2.2</b>	<b>-7.7</b>	<b>-18.7</b>	<b>-30.9</b>	<b>-2.2</b>	<b>-20.1</b>
Utilities	<b>-3.8</b>	<b>-0.1</b>	0.7	1.4	<b>-3.8</b>	7.5
Materials	<b>-5.2</b>	<b>-2.1</b>	1.6	<b>-9.0</b>	<b>-5.2</b>	2.3
Info Technology	<b>-13.0</b>	<b>-18.6</b>	<b>-15.8</b>	1.8	<b>-13.0</b>	18.3
S&P/TSX Preferred	<b>0.0</b>	1.7	0.5	12.5	0.0	13.7
S&P/TSX Sml Cap	<b>-1.9</b>	<b>-1.7</b>	<b>-1.4</b>	10.3	<b>-1.9</b>	18.2
S&P/TSX REITs	<b>-2.5</b>	1.0	2.9	26.3	<b>-2.5</b>	30.0
<b>TSX</b>	<b>-1.0</b>	<b>-0.7</b>	2.9	16.6	<b>-1.0</b>	21.7

Source: BMO Economics, Bloomberg. As of Noon Friday.

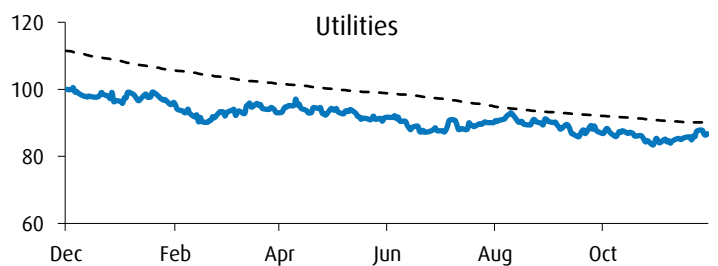
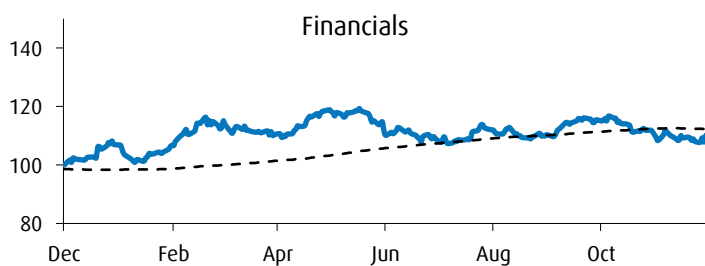
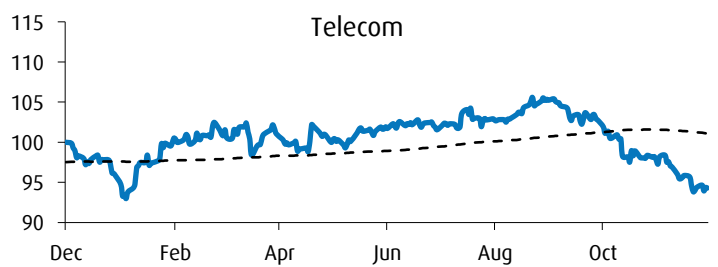
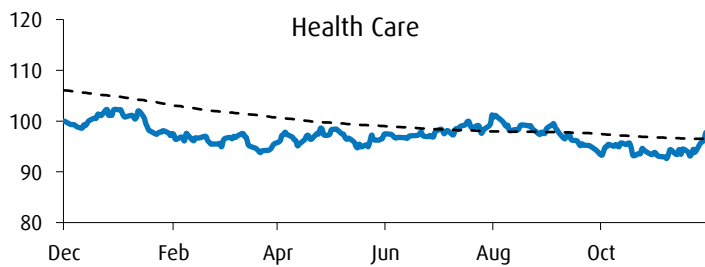
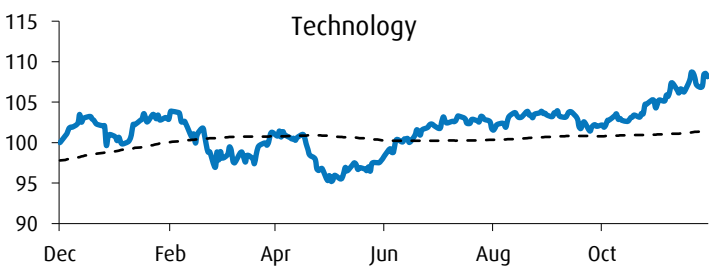
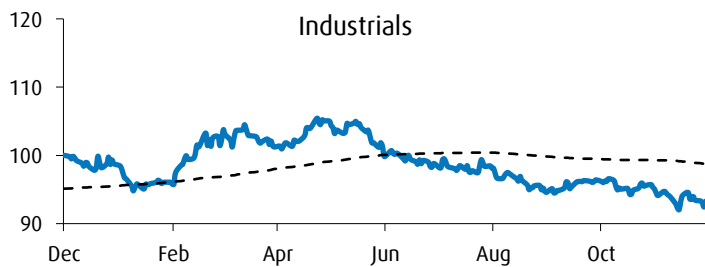
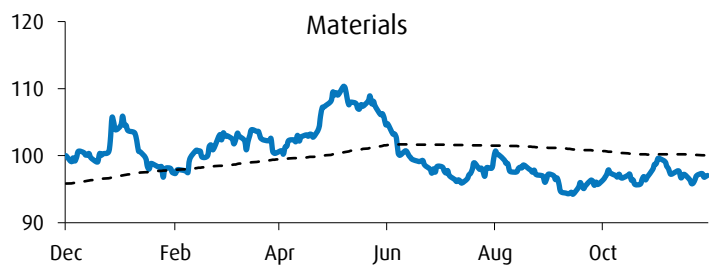
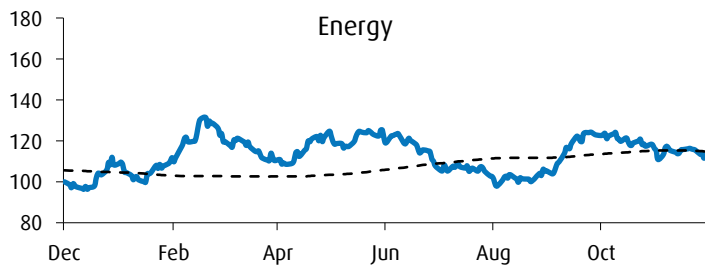
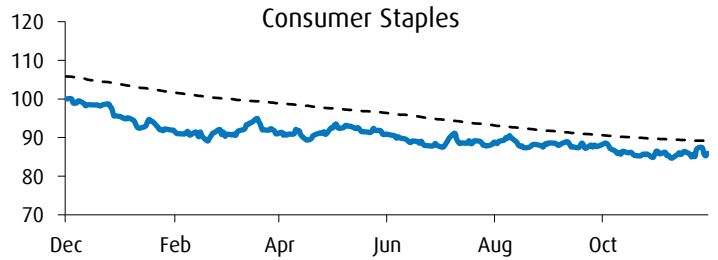
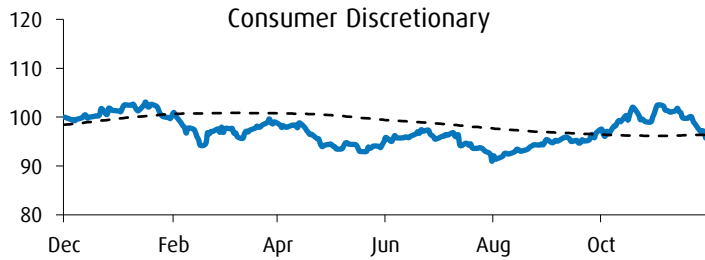
## TSX Relative Sector Performance

(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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