

Market Watch

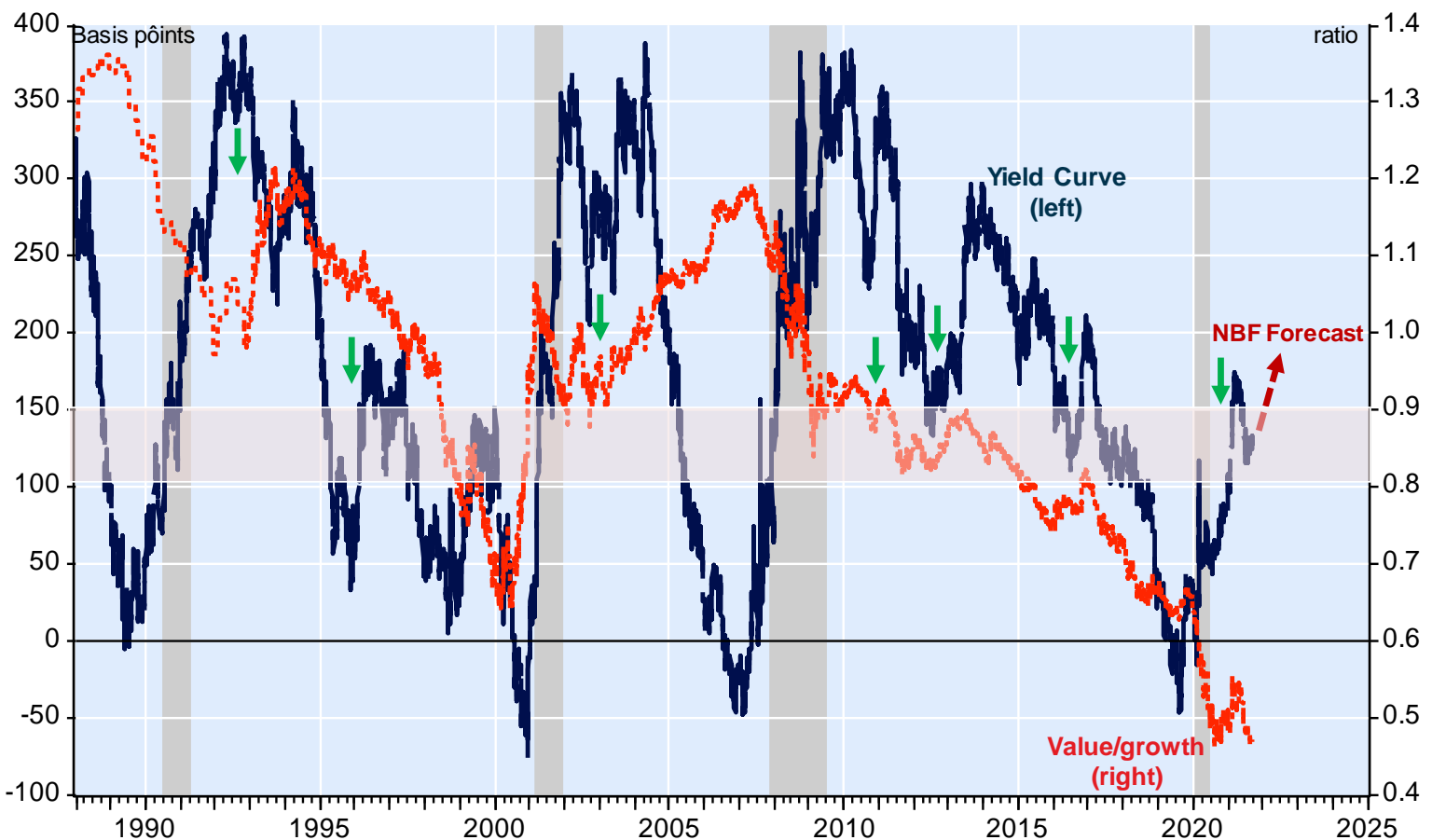
By Stéfane Marion

Our colleagues wrote a great summary of the Fed's statement and Powell's press conference yesterday available [here](#). Three important takeaways from the note were that: 1) Powell said he would only need to see a "decent" or "reasonably good" September jobs report for him to be convinced that the time to taper had arrived; 2) Should that kick off in November, this would imply a roughly 8-month process, and; 3) On rate hikes, Powell stressed that the test for liftoff is still far from being met. Moreover, he all but ruled out rate hikes during the taper process.

Bottom line: With the start of QE tapering a near certainty in November and with rate hikes still a long way off, our [current forecast](#) calls for a steepening of the yield curve (10-year Treasury yield minus 3-month Treasury bills) from the current level of 130 bps to 165 bps by the middle of next year. As today's Hot Chart shows, a yield curve that steepens above 150 bps during the expansion phase of the economic cycle will often result in value stocks outperforming growth stocks (green arrows). That should also be good for the Canadian dollar which we [see](#) appreciating by five cents against the USD.

Equities: Value stocks should benefit from QE tapering

Ratio of value-to-growth stocks in the S&P 500 vs. yield curve (10-year Treasury yield less 3-mo. T-bill)



Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Alexandra Ducharme

Economist
alexandra.ducharme@nbc.ca

Matthieu Arseneau

Deputy Chief Economist
matthieu.arseneau@nbc.ca

Daren King

Economist
daren.king@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Paul-André Pinsonnault

Senior Economist
paulandre.pinsonnault@nbc.ca

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist
taylor.schleich@nbc.ca

Alpa Atha

Fixed Income Economist
alpa.atha@nbc.ca

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