



The S&P/TSX has been trending lower since early March and has been trading below its 50-dma since the middle of the month. The cause of the reversal is no surprise, the war in the Middle East, which has led to widespread losses in global equity markets.

Despite the downward pressure, the S&P/TSX remains above its 200-dma. By comparison, three of the major US markets (S&P 500, DJIA, Nasdaq) are all below their 200-dma. The energy sector has played a very important role in keeping the S&P/TSX above that critical threshold.

Middle East war, boosts Energy drags on Financials and Materials

The recent performance of the S&P/TSX sectors has been quite interesting. On the upside, the energy sector has been on a strong upswing since the start of the year. The most recent upswing is easy to understand, given that oil prices surged once Israel and the US attacked Iran and then as Iran effectively closed the Strait of Hormuz.

However, the energy sector surge was not enough to lift the overall market. At best, it cushioned the blow of the war in the Middle East. Notably, two of the other large sectors in the S&P/TSX (Financials and Materials) have been under downward pressure in recent weeks.

- Financials had been trending sideways since the start of the year, but have rolled over since early March, as the market began to price in the possibility that the Bank of Canada might have to raise its policy rate in response to emerging upside risks to inflation from the war in the Middle East.
- The Materials sector has been weighed down by a mix of factors, the most important being the spike in geopolitical risk due to the war. As a result, there has been downward pressure on cyclical commodity prices. The price of gold has also declined, most notably since the middle of the month, in part due to USD strength, but also due to higher interest rates and the rising probability of rate hikes. Though there was a bit of a recovery in the Materials sector index on 25 March, the index is still down by 21% from its late February peak.

Most other S&P/TSX sectors have been in retreat

In all, nine of the 11 S&P/TSX sectors are below their 50-dma. Among them, Industrials, Information Technology, Real Estate, and Health Care are also below their 200-dma. These indices represent 19% of the S&P/TSX. Of them, only IT has had a clear break of its 50-dma below its 200-dma — a Death Cross. Industrials and Health Care are on the verge of similar crossovers.

Apart from the Energy, the only other sector in the S&P/TSX that is still above its 50-dma is Utilities. In part, this is a reflection of the data center/AI infrastructure investment theme. As well, plans for substantial infrastructure investment in coming years will likely lead to a sustained increase in demand for utilities and ongoing utility capacity build out.

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