



December 17, 2021

In focus

Global equities declined after the U.S. Federal Reserve (the Fed) turned more hawkish, the Bank of England raised its benchmark rate of interest, and the continuing effects of the omicron COVID variant dampened investor confidence.

In Europe, many cyclicals were hurt by concerns that the pandemic will dampen demand again, with governments imposing renewed restrictions. A weak German Ifo sentiment report weighed on risk appetite. Among sectors, consumer discretionary, energy and information technology were the poorest performers. Tech stocks suffered in part due to worries about China's regulatory crackdown and the U.S. blacklisting of several Chinese tech firms.

In consumer discretionary, travel and leisure-related securities were among the worst performers. This contrasted with gains in sectors such as utilities, health care and consumer staples, which are typically considered defensive. Meanwhile, Japanese equities stood out against a broad-based decline in other developed and emerging markets.

Prices of government bonds rose, sending yields lower, despite expectations of rising interest rates and increased inflation. Typically, bond yields reflect a combination of the outlooks for longer-term growth, inflation and interest rates. The fall in yields over the past week may reflect risk aversion.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,739.19	-0.72%	0.38%	18.96%
S&P500	4,620.64	-1.94%	1.17%	23.02%
NASDAQ	15,169.68	-2.95%	-2.37%	17.70%
DJIA	35,365.44	-1.68%	2.56%	15.55%
Russell 2000	2,173.93	-1.71%	-1.14%	10.08%
FTSE 100	7,269.92	-0.30%	2.98%	12.53%
Euro Stoxx 50	4,161.35	-0.90%	2.42%	17.13%
Nikkei 225	29,066.32	2.21%	4.47%	5.91%
Hang Seng	23,192.63	-3.35%	-1.20%	-14.83%
Shanghai Comp.	3,632.36	-0.93%	1.92%	4.59%
MSCI ACWI	734.67	-1.55%	1.12%	13.68%
MSCI EM	1,216.30	-1.80%	0.32%	-5.81%
MSCI ACWI ESG Leaders	2,606.90	-1.78%	0.97%	17.14%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,192.85	1.19%	1.89%	-2.32%
BBG Global Agg.	534.28	0.05%	0.21%	-4.38%
TSX Pref	1,900.58	-0.44%	-1.17%	16.41%

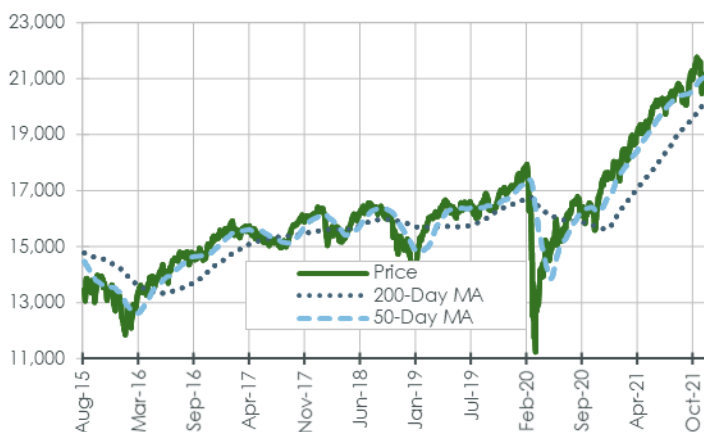
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.32%	-14.3	-24.5	64.6
10 yr U.S. Govt.	1.40%	-8.2	-4.2	48.9
30 yr Canada Govt.	1.67%	-13.0	-21.8	45.5
30 yr U.S. Govt.	1.81%	-7.1	1.5	16.2

Commodities	Close	Weekly	MTD	YTD
Oil	70.86	-1.13%	7.07%	49.21%
Natural gas	3.69	-5.99%	-19.20%	22.75%
Gold	1,798.11	0.86%	1.33%	-5.28%
Silver	22.37	0.78%	-2.04%	-15.27%
Copper	429.50	0.20%	0.35%	22.00%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7756	-1.30%	-0.88%	-1.24%
USD/EUR	0.8899	0.71%	0.91%	8.71%
CAD/EUR	0.6902	-0.60%	0.01%	7.36%
USD/JPY	113.6300	0.17%	0.41%	10.05%
USD/CNY	6.3754	0.08%	0.17%	-2.33%
USD/MXN	20.8279	-0.27%	-2.91%	4.59%
GBP/CAD	1.7065	1.07%	0.39%	-1.94%
GBP/USD	1.3245	-0.21%	-0.41%	-3.11%

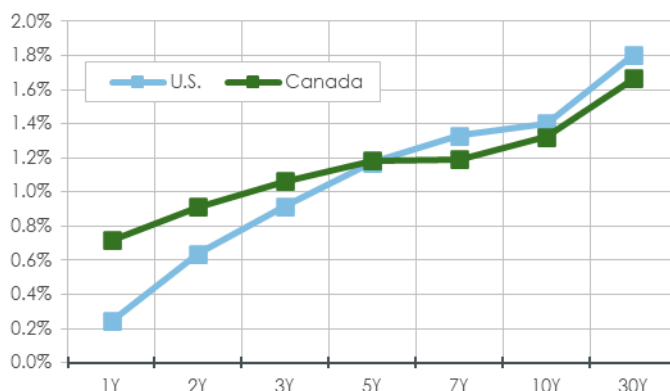
* Please refer to Appendix for the above table in Canadian dollar terms.

S&P/TSX Composite Index



Source: Bloomberg, Refinitiv DataStream. Index returns are in local currency. All equity indexes are price returns and do not include dividends.

Treasury yield curves



Economic indicators	Period	Survey	Actual	Prior period
Canada CPI YoY	Nov	4.7%	4.7%	4.7%
Canada manufacturing sales MoM	Oct	4.1%	4.3%	-3.0%
U.S. initial jobless claims	11-Dec	200k	206k	188k
FOMC rate decision (upper bound)	15-Dec	0.25%	0.25%	0.25%
Markit U.S. manufacturing PMI	Dec	58.5	57.8	58.3
Japan industrial production MoM	Oct	-	1.8%	1.1%

Canada

Canadian equities declined for the week, in line with developed market peers. From a sector perspective, information technology companies and energy producers came under pressure, while the utilities and materials sectors helped contain overall losses.

In economic news, wholesale sales rose 1.4% in October, to \$72.5 billion, the highest level on record. This was largely attributed to a rise in sales in the automobile and automobile parts sector. Inflation, as measured by the consumer price index, rose 4.7% on a year-on-year basis in November as the market continued to be affected by global supply chain disruptions.

U.S.

U.S. equities declined over the week as markets worried about the omicron variant of COVID-19. After reacting positively to the Fed's more hawkish policy stance, equities declined in the second half of the week. Information technology shares declined the most, with companies such as Adobe and Nvidia hurt by a negative growth outlook. Energy producers fell, reflecting the decline in oil prices.

In its latest announcement, the Fed doubled its tapering pace to \$30 billion per month, starting in mid-January, which will end asset purchases by mid-March, instead of the earlier plan to unwind by mid-June. The Fed is now expected to raise policy rates by the spring instead of the summer. The announcement generally matched expectations of a hawkish policy shift, and pushed bond yields somewhat higher, but many equity investors appeared relieved the Fed policy outlook was not more aggressive still, noting that an immediate source of uncertainty has been removed.

Among companies, health care stocks, including Moderna and Novavax, rose on positive COVID-19 vaccine news. Eli Lilly also rose after raising its guidance. In contrast, Nucor, the steelmaker, declined after

issuing a profits warning. Retail company Target declined after an analyst downgrade.

In economic news, U.S. producer prices rose 0.8% in November, far above the average expectations of a gain of 0.5%. The 12-month rate rose to 9.6% from 8.8%, above what was expected and the largest move since November 2010. Excluding food and energy, prices jumped 0.7% for the month, and 7.7% year-over-year, also well above the high end of forecasts.

Rest of the world

Resurgent worries about the omicron variant weakened European equities, and the market fell over the week. Risk assets reacted badly to U.K. Prime Minister Boris Johnson's statement that Britain faces "a tidal wave" of omicron cases, and his call for people to work from home.

Investors were generally relieved by the Fed policy announcement and reacted in a similar way to the European Central Bank's plans for its various asset purchase facilities, including news that it will keep reinvesting proceeds from its pandemic emergency program through 2024, even as it phases out new purchases and continues other bond purchases. The market also took in stride the Bank of England's 15-basis-point rate increase, and U.K. banks outperformed, with yields on Gilts rising.

Chinese tech stocks were shaken by a report in the *Financial Times* that the U.S. was set to place eight Chinese companies on its investment blacklist, including drone maker DJI. Among companies, social media company Weibo dropped over the week after the Chinese authorities fined the social media giant and signalled further tightening of government control over the internet.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada GDP YoY	Oct	3.6%	3.4%
Canada retail sales MoM	Oct	1.0%	-0.6%
U.S. initial jobless claims	Dec-18	205k	206k
U.S. GDP annualized QoQ	3Q	2.1%	2.1%
Germany GfK consumer confidence	Jan	-2.7	-1.6
Japan national CPI YoY	Nov	0.5%	0.1%

Central bank meetings

Central banks	Date	Probability of change	Current rate
Bank of Japan	18-Jan-21	-5.8%	-0.10%
Bank of Canada	26-Jan-21	54.3%	0.25%
Federal Open Market Committee	27-Jan-21	2.4%	0.25%
Bank of England	3-Feb-21	65.5%	0.25%
European Central Bank	3-Feb-21	3.9%	0.00%

Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

Equities and yields declined.

No major U.S. index could hold onto gains as the Fed's hawkish tone and news of a new COVID variant quickly soured the mood, leading to a sharp decline in the yield on U.S. ten-year Treasuries, which fell from a November peak of 1.69% to 1.48% on December 7, 2021.



Source: Fidelity Investments Canada ULC, Bloomberg, December 7, 2021.

Appendix

Global markets (Returns in Canadian dollar terms)

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Shanghai Comp.	3,632.36	0.06%	1.99%	7.75%
MSCI ACWI	734.67	-0.49%	1.36%	14.39%
MSCI EM	1,216.30	-0.74%	0.55%	-5.22%
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30 yr U.S. Govt.	1.81%	-7.1	1.5	16.2
Commodities	Close	Weekly	MTD	YTD
Oil	91.36	0.17%	8.02%	51.08%
Natural gas	4.76	-4.75%	-18.48%	24.29%
Gold	2,318.36	2.19%	2.24%	-4.04%
Silver	28.84	2.08%	-1.19%	-14.23%
Copper	553.76	1.52%	1.24%	23.53%
Currencies	Close	Weekly	MTD	YTD
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