WEEK IN REVIEW

January 7, 2022

In focus

Global equities declined for the week. A record rise in cases of the omicron variant of COVID-19 across the world continued to hamper sentiment, with investors worried about renewed lockdown restrictions.

Value and cyclical stocks in the financials, energy, industrials and utilities sectors fared relatively better than growth stocks, which suffered due to mixed U.S. employment report. Some analysts believe these data confirm expectations of a relatively quick end to the Federal Reserve's expansive monetary policy.

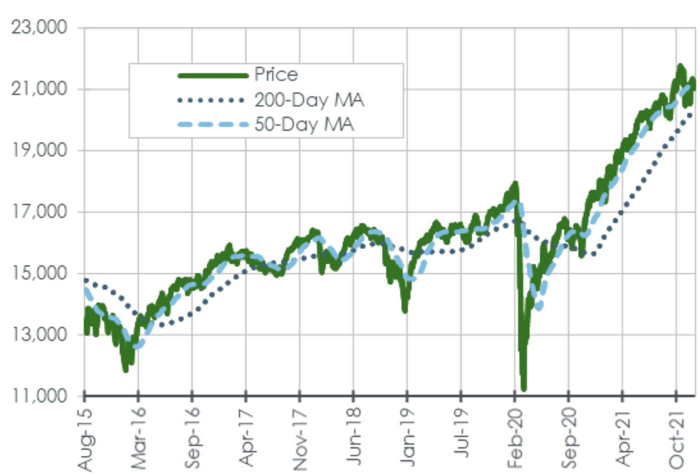
Oil prices continued to track higher due to rising global demand, supply chain bottlenecks and lower-than-expected supplies from OPEC+ nations. Natural gas prices also rose due to a cold weather-related rise in demand.

Bond yields rose sharply after the minutes of the December Federal Open Market Committee were released. Policy makers indicated the U.S. Federal Reserve (the Fed) would tighten its monetary stance sooner than expected, to control inflationary pressures. The ten-year U.S. bond yield rose to 1.76%, briefly breaking above 1.8% on Friday.

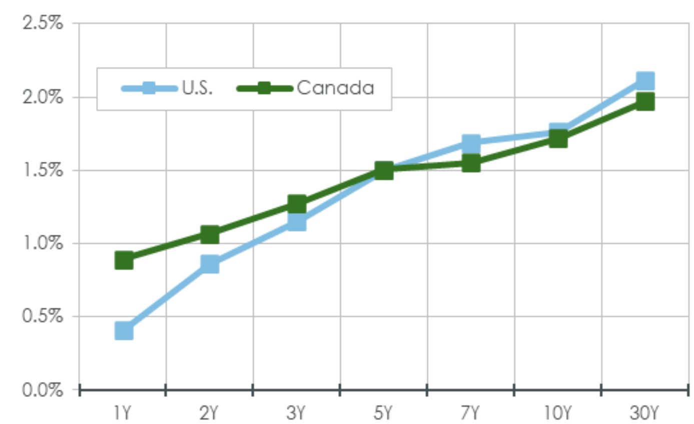
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,084.45	-0.65%	-0.65%	-0.65%
S&P500	4,677.03	-1.87%	-1.87%	-1.87%
NASDAQ	14,935.90	-4.53%	-4.53%	-4.53%
DJIA	36,231.66	-0.29%	-0.29%	-0.29%
Russell 2000	2,179.81	-2.92%	-2.92%	-2.92%
FTSE 100	7,485.28	1.36%	1.36%	1.36%
Euro Stoxx 50	4,305.83	0.17%	0.17%	0.17%
Nikkei 225	28,487.87	-1.06%	-1.06%	-1.06%
Hang Seng	23,493.38	0.41%	0.41%	0.41%
Shanghai Comp.	3,579.54	-1.65%	-1.65%	-1.65%
MSCI ACWI	743.18	-1.54%	-1.54%	-1.54%
MSCI EM	1,226.10	-0.48%	-0.48%	-0.48%
MSCI ACWI ESG Leaders	2,634.31	-2.01%	-2.01%	-2.01%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,162.98	-2.29%	-2.29%	-2.29%
BBG Global Agg.	526.18	-1.17%	-1.17%	-1.17%
TSX Pref	1,954.57	0.31%	0.31%	0.31%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	1.72%	29.4	29.4	29.4
10 yr U.S. Govt.	1.76%	25.2	25.2	25.2
30 yr Canada Govt.	1.97%	29.2	29.2	29.2
30 yr U.S. Govt.	2.12%	21.3	21.3	21.3
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	78.90	4.91%	4.91%	4.91%
Natural gas	3.92	4.99%	4.99%	4.99%
Gold	1,796.55	-1.78%	-1.78%	-1.78%
Silver	22.37	-4.03%	-4.03%	-4.03%
Copper	441.00	-1.20%	-1.20%	-1.20%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7910	-0.04%	-0.04%	-0.04%
USD/EUR	0.8801	0.09%	0.09%	0.09%
CAD/EUR	0.6961	0.07%	0.07%	0.07%
USD/JPY	115.5600	0.42%	0.42%	0.42%
USD/CNY	6.3778	0.34%	0.34%	0.34%
USD/MXN	20.4005	-0.63%	-0.63%	-0.63%
GBP/CAD	1.7181	0.50%	0.50%	0.50%
GBP/USD	1.3588	0.41%	0.41%	0.41%

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

S&P/TSX Composite Index



Treasury yield curves



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

Economic indicators	Period	Survey	Actual	Prior period
Canada unemployment rate	Dec	6.0%	5.9%	6.0%
Markit Canada manufacturing PMI	Dec	-	56.5	57.2
U.S. change in non-farm payrolls	Dec	450k	199k	249k
U.S. initial jobless claims	01-Jan	195k	207k	200k
Markit eurozone manufacturing PMI	Dec	58.0	58.0	58.0
Caixin China PMI manufacturing	Dec	50.0	50.9	49.9

Canada

Canadian equities declined for the week in line with global peers. From a sector perspective, the energy and financials sectors led the gains, while the information technology and materials sectors were the main laggards.

In economic news, the total value of building permits rose 6.8% in November, to $11.2 billion. Residential construction intentions were up by 12%, while non-residential intentions were down 3.4%. Employment also rose by 55,000 in December, up 0.3%, while the unemployment rate declined to 5.9%. Canada's merchandise trade surplus rose to $3.1 billion in November, up from $2.3 billion in the previous month.

U.S.

U.S. equities declined for the week due to rapidly rising cases of the omicron variant of COVID-19. From a sector perspective, the energy and financials sectors contributed to the gains, while the real estate and information technology sectors detracted.

Energy stocks gained as oil prices rose, after OPEC and other oil exporters agreed to maintain planned output increases, on the view that pandemic effects are fading. Higher interest rates supported financials stocks.

Investors remained focused on the surprisingly hawkish tone of the December Federal Open Market Committee meeting, which raised expectations of more aggressive rate increases, starting in March, to be followed by a quick runoff of the Fed's huge bond holdings.

Among companies, consumer technology company Apple briefly reached a $3.0 trillion market capitalization, becoming the first U.S. company to achieve the milestone. Ford rose after announcing it would increase the production of its F-150 electric truck. In contrast, health insurance company Humana declined sharply on disappointing guidance and results. Technology companies Salesforce and Adobe also declined over the week after analyst downgrades.

In economic news, U.S. non-farm payrolls were below consensus expectations, but other aspects of the report, including a drop in unemployment and a stronger gain in average earnings, played into inflation concerns that have spurred Fed officials to pledge a faster end to policy accommodation.

Rest of the world

European equities ended the week on a flat note as Europe contends with a surge in the omicron variant of COVID-19.

Germany and other member nations are set to tighten mobility restrictions. Soft French and German industrial production reports hampered sentiment, as did a rise in eurozone inflation figures. Sentiment further weakened after the Fed hinted it would tighten its monetary stance, and as investors anticipated an eventual rise in interest rates.

In Japan, real spending by households fell 1.3% on the year in November, marking the fourth straight year-on-year drop, after a 0.6% fall in October. Growth stocks continued to lag value/cyclicals, as has been the recent trend.

China recovered after initial losses, after the head of the Chinese Securities Regulatory Commission pledged to limit market volatility. Property stocks took a hit on contagion fears after Shimao Group Holdings Ltd., another embattled property developer, reportedly failed to make a yuan debt payment. Health care stocks lagged on weakness in the biotech industry, amid Chinese regulatory concerns.

Looking ahead

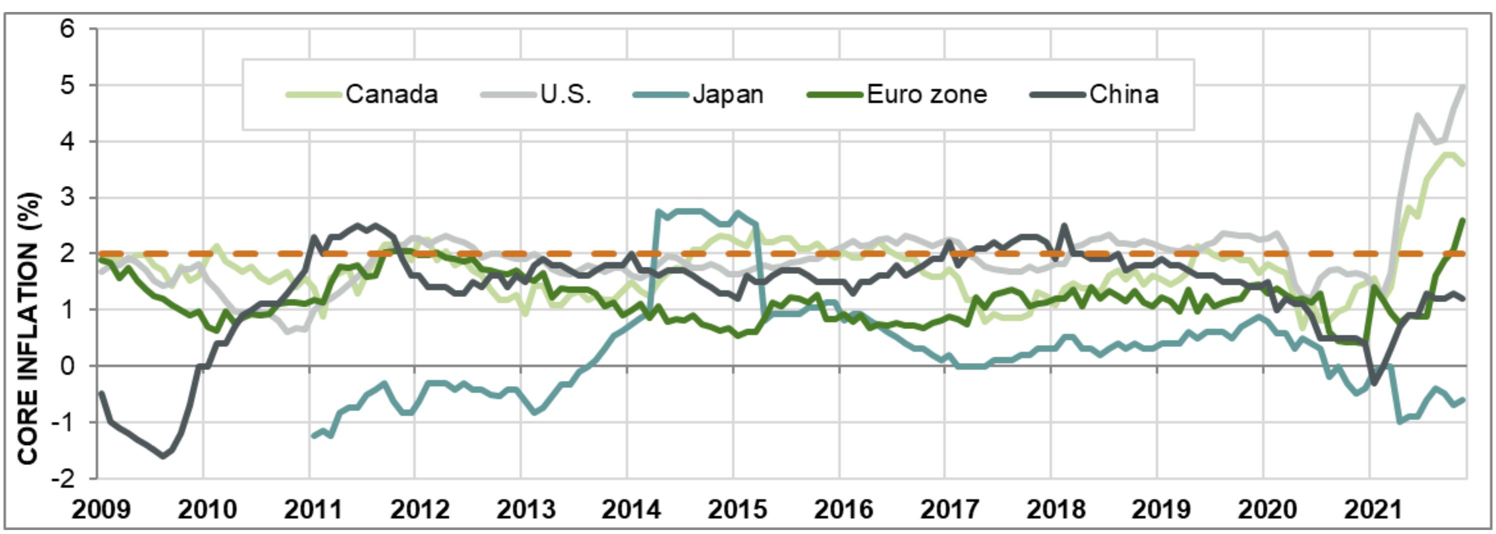
Economic indicators	Period	Survey	Prior period
U.S. initial jobless claims	8-Jan	200k	207k
U.S. CPI MoM	Dec	0.4%	0.8%
U.S. retail sales advance MoM	Dec	-0.1%	0.3%
U.S. industrial production MoM	Dec	0.2%	0.5%
China CPI YoY	Dec	1.7%	2.3%
Japan PPI YoY	Dec	8.8%	9.0%

Central bank meetings			
Central banks	**Date**	**Probability of change**	**Current rate**
Bank of Japan	18-Jan-22	-21.5%	-0.10%
Bank of Canada	26-Jan-22	58.4%	0.25%
Federal Open Market Committee	27-Jan-22	7.8%	0.25%
Bank of England	3-Feb-22	82.5%	0.25%
European Central Bank	3-Feb-22	-0.2%	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

Inflation pressure continues to mount.
All major economies around the world have continued to witness a steady rise in inflation. Policy makers previously considered the inflation to be transitory, but they are now realizing that it may be more persistent than expected. Continued monetary support by central banks, supply chain disruptions, low interest rates and lockdown restrictions have all contributed to the rise in inflation. The Fed recently hinted at tightening monetary stance and a rise in interest rates as early as March 2022, and all other central banks are expected to follow the same route eventually. However, with the recent rise in cases of the omicron variant of COVID-19, policy makers are again required to balance supporting the markets and easing inflationary pressures.



Source: Fidelity Investments Canada ULC, Refinitiv, December 2021.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Silver	28.29	-3.93%	-3.93%	-3.93%
Copper	557.52	-1.16%	-1.16%	-1.16%
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