



February 18, 2022

## In focus

Global equities declined for the week as investors continued to focus on the ongoing Russia-Ukraine crisis. Concerns that the U.S. Federal Reserve could increase interest rates at a faster pace than earlier expected also weighed on investor sentiment.

Earlier in the week, risk appetite recovered after Russian Foreign Minister Sergei Lavrov made comments that suggested a willingness to pursue diplomacy. U.S. President Joe Biden agreed to meet his Russian counterpart Vladimir Putin if Russia pulls back its military forces from the Ukrainian borders and de-escalates the situation.

Oil prices declined; however, natural gas prices continued to rise, given supply chain constraints and strong demand. Gold and silver prices also rose, due to a growing preference for safe-haven assets amid geopolitical uncertainty and rising inflation in most of the developed world.

U.S. Treasury bond yields also rose over the week, reflecting the sustained rise in inflation. Typically, bond prices decline, and yields rise, to compensate for higher interest rate, inflation and growth expectations.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,008.20	-2.51%	-0.43%	-1.01%
S&P500	4,348.87	-1.58%	-3.69%	-8.76%
NASDAQ	13,548.07	-1.76%	-4.86%	-13.40%
DJIA	34,079.18	-1.90%	-3.00%	-6.22%
Russell 2000	2,009.33	-1.03%	-0.94%	-10.51%
FTSE 100	7,513.62	-1.92%	0.66%	1.75%
Euro Stoxx 50	4,074.28	-1.95%	-2.40%	-5.21%
Nikkei 225	27,122.07	-2.07%	0.44%	-5.80%
Hang Seng	24,327.71	-2.32%	2.21%	3.97%
Shanghai Comp.	3,490.76	0.80%	3.85%	-4.09%
MSCI ACWI	703.34	-1.69%	-1.96%	-6.82%
MSCI EM	1,231.77	-0.70%	1.95%	-0.02%
MSCI ACWI ESG Leaders	2,486.16	-1.59%	-2.24%	-7.52%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,136.55	-0.25%	-1.15%	-4.51%
BBG Global Agg.	516.32	0.00%	-1.00%	-3.03%
TSX Pref	1,910.50	-0.97%	-1.93%	-1.95%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.88%	2.4	10.6	45.1
10 yr U.S. Govt.	1.93%	-0.8	15.2	41.9
30 yr Canada Govt.	2.16%	1.9	11.0	47.8
30 yr U.S. Govt.	2.24%	0.1	13.2	33.7

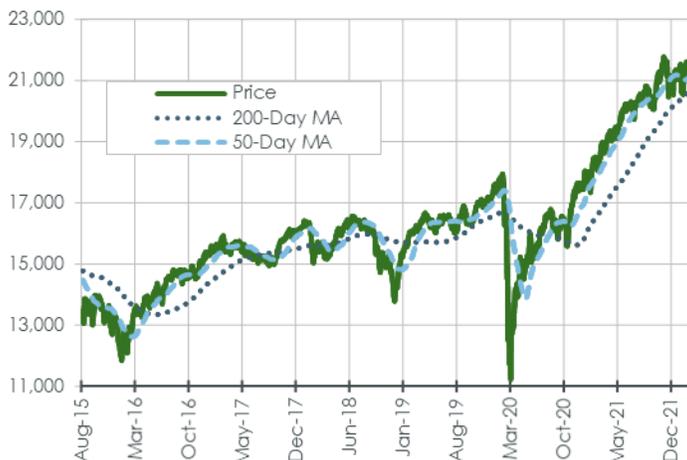
Commodities	Close	Weekly	MTD	YTD
Oil	91.07	-2.18%	3.31%	21.62%
Natural gas	4.43	12.43%	-9.09%	24.57%
Gold	1,898.43	2.13%	5.63%	3.78%
Silver	23.92	1.43%	6.48%	2.63%
Copper	452.60	0.37%	4.61%	1.63%

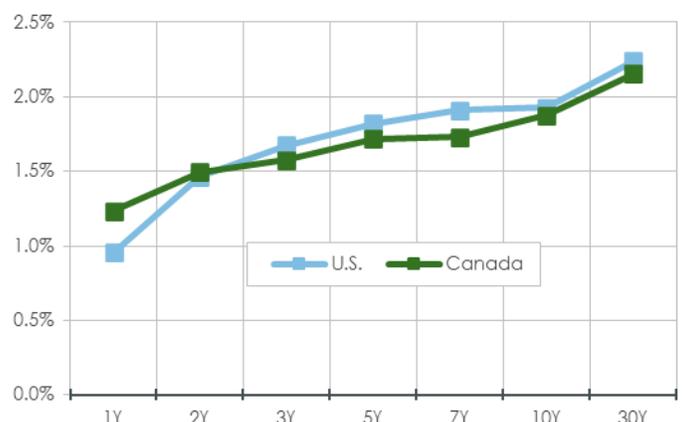
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7842	-0.13%	-0.36%	-0.90%
USD/EUR	0.8832	0.24%	-0.79%	0.44%
CAD/EUR	0.6926	0.12%	-1.13%	-0.43%
USD/JPY	115.0100	-0.36%	-0.09%	-0.06%
USD/CNY	6.3256	-0.46%	-0.56%	-0.48%
USD/MXN	20.2921	-1.20%	-1.66%	-1.16%
GBP/CAD	1.7330	0.34%	1.43%	1.37%
GBP/USD	1.3589	0.18%	1.06%	0.42%

\* Please refer to Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement.

## 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 CPI YoY	Jan	4.8%	5.1%	4.8%
Canada CPI NSA MoM	Jan	0.6%	0.9%	-0.1%
U.S. initial jobless claims	12-Feb	218k	248k	225k
U.S. retail sales advance MoM	Jan	2.0%	3.8%	-2.5%
U.S. housing starts	Jan	1695k	1638k	1708k
China CPI YoY	Jan	1.0%	0.9%	1.5%

## Canada

Canadian equities declined for the week, following global cues. From a sector perspective, the information technology and health care sectors were the main laggards, while the materials sector supported the gains.

In economic news, retail sales in Canada fell 1.8% on a monthly basis in December, to \$57 billion. In volume terms, sales were down 2.5% in December.

Foreign investment in Canadian securities was \$37.6 billion in December, the highest since April 2020.

Canadian investors also increased their foreign exposure by \$21.3 billion, primarily led by purchases of U.S. instruments.

## U.S.

U.S. equities declined over the week, primarily due to the volatile geopolitical environment created by the Russia-Ukraine conflict. Among sectors, energy and communication services sectors declined the most, while consumer staples rose modestly.

Rising bond yields added to selling pressure, with conflicting comments from Federal Reserve officials on the likely pace of tightening. Kansas City Federal Reserve President Esther George, a voting member of the Federal Open Market Committee (FOMC), called for a "systematic" and "gradual" approach. On the hawkish side, however, St. Louis Federal Reserve President Jim Bullard, another FOMC voter, repeated his support for faster rate increases.

Among companies in focus, e-commerce platform Shopify declined sharply on an earnings disappointment. Video streaming company Roku, a pandemic favorite, and sports betting business DraftKings, also tanked after missing revenue expectations.

In contrast, semiconductor company Nvidia rose sharply early in the week, but gave back the gains in the latter half of the week. A rebound in bitcoin and crypto stocks, including Coinbase, showed the market's renewed appetite for risk.

In economic news, U.S. producer prices showed an enormous 1.0% rise in January from December, double the market's expectation. U.S. retail sales also rose 3.8% in January on a monthly basis, the largest rise in the past ten months.

## Rest of the world

European equities declined after U.S. and NATO officials said Russia was still increasing its forces around Ukraine. Strong economic data, including U.S. retail sales and U.K. inflation figures, also kept investors focused on the prospect of higher interest rates, another negative.

Bank of France Governor François Villeroy de Galhau reiterated that the European Central Bank is in no rush to remove policy accommodation.

Germany's ZEW indicator of economic sentiment rose to 54.3 in February, the highest since July 2021, as the COVID-19 situation improved across the region.

Japanese markets declined on disappointing company news and Ukraine worries. Soft Japanese growth figures were another negative; analysts noted Japan's sluggish recovery from the COVID-19 pandemic, relative to global peers.

The Shanghai composite index rose over the week, with a boost for growth shares after the People's Bank of China aggressively added liquidity in its open market operations. Internet names were down over the week, after Chinese regulators told e-commerce firms to cut their fees and warned against fundraising in the metaverse.

## Looking ahead

Economic indicators	Period	Survey	Prior period
U.S. initial jobless claims	19-Feb	235k	248k
U.S. GDP annualized QoQ	Q4	7.0%	6.9%
U.S. University of Michigan sentiment	Feb	61.7	61.7
U.S. durable goods orders	Jan	0.8%	-0.7%
Germany Ifo business climate	Feb	96.5	95.7
Eurozone CPI YoY	Jan	5.1%	5.0%

Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	2-Mar-22	156.0%	0.25%
European Central Bank	10-Mar-22	0.6%	0.00%
Federal Open Market Committee	16-Mar-22	124.8%	0.25%
Bank of England	17-Mar-22	140.2%	0.50%
Bank of Japan	18-Mar-22	-1.1%	-0.10%

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

### Global earnings outlook on a downtrend

The chart below shows the historic global earnings revision index, which tracks the monthly change in the ratio of companies with rising earnings expectations over the next 12 months. The graph is not an indicator of the amplitude of upgrades or downgrades: it says only if the number of upgrades is higher than the number of downgrades, or vice versa. Typically, equity markets tend to follow the earnings outlook ahead of the curve, falling ahead of a general decline in earnings and rising before an actual recovery in earnings. However, this is not always certain.



Source: Refinitiv DataStream, as at January 31, 2022.

## Appendix

Global markets (Returns in Canadian dollar terms)				
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MSCI ACWI	703.34	-1.04%	-1.51%	-6.03%
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Commodities	Close	Weekly	MTD	YTD
Oil	116.13	-2.06%	3.68%	22.72%
Natural gas	5.65	12.58%	-8.76%	25.70%
Gold	2,421.22	2.27%	6.03%	4.66%
Silver	30.51	1.59%	6.84%	3.61%
Copper	577.15	0.49%	4.98%	2.55%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7842	-0.13%	-0.36%	-0.90%
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