WEEK IN REVIEW

February 4, 2022

In focus

Global equities advanced for the week, with investors encouraged by some positive earnings reports and bond markets signalling confidence in the U.S. Federal Reserve's ability to tame long-term inflation. After an initial adverse reaction to reports of better-than-expected employment growth data on Friday, equity markets gained as investors focused on better-than-expected quarterly earnings from Amazon and results for other growth stocks that were not as bad as investors feared.

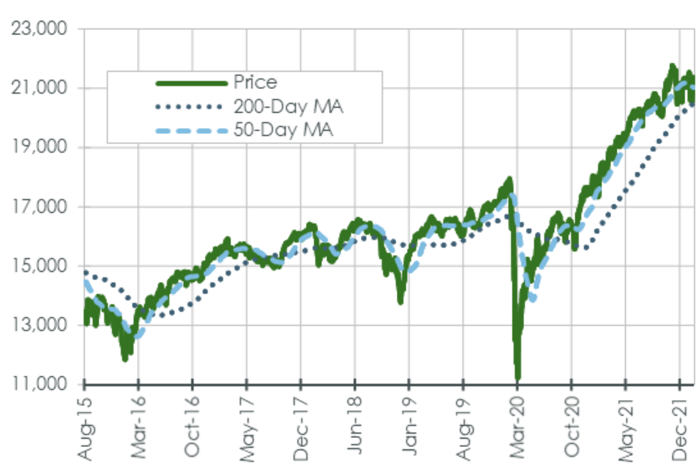
The European Central Bank (ECB) joined other central banks in adopting a cautionary tone about inflation, and ECB President Christine Lagarde signalled a hawkish policy pivot at a press conference. Meanwhile, government bond markets showed little change in their expectations of future inflation, indicating their confidence in U.S. and European central banks' ability to contain inflation. Treasury market break-evens, a measure of inflation expectations, suggested that inflation would ease to around 3% in five years.

From a sector perspective, the energy, consumer discretionary and financials sectors dominated market gains, thanks to rising oil prices, as well as higher bond yields, which benefit the earnings prospects of companies in these sectors. Canadian and U.S. government bond yields rose, and bond prices declined to compensate for the rise in yields.

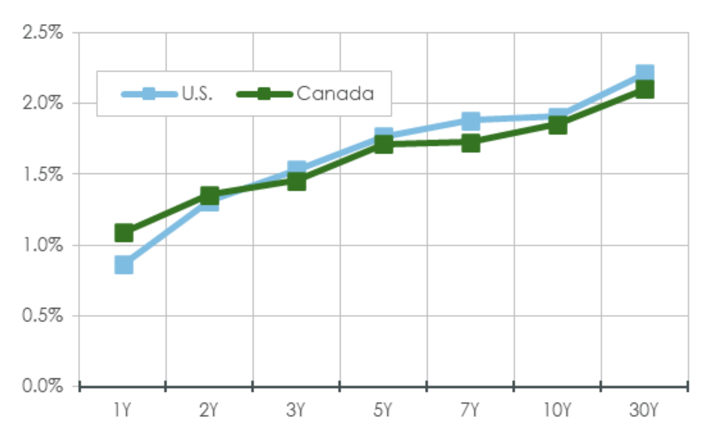
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,271.85	2.56%	0.82%	0.23%
S&P500	4,500.53	1.55%	-0.33%	-5.57%
NASDAQ	14,098.01	2.38%	-1.00%	-9.89%
DJIA	35,089.74	1.05%	-0.12%	-3.44%
Russell 2000	2,002.36	1.72%	-1.29%	-10.82%
FTSE 100	7,516.40	0.67%	0.70%	1.79%
Euro Stoxx 50	4,086.58	-1.22%	-2.11%	-4.93%
Nikkei 225	27,439.99	2.70%	1.62%	-4.69%
Hang Seng	24,573.29	4.34%	3.24%	5.02%
Shanghai Comp.	3,361.44	0.00%	0.00%	-7.65%
MSCI ACWI	718.76	1.93%	0.19%	-4.78%
MSCI EM	1,221.10	2.52%	1.07%	-0.89%
MSCI ACWI ESG Leaders	2,548.82	1.85%	0.22%	-5.19%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,144.39	-0.81%	-0.47%	-3.85%
BBG Global Agg.	519.77	-0.36%	-0.33%	-2.38%
TSX Pref	1,951.61	0.23%	0.18%	0.16%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	1.86%	9.5	8.4	42.9
10 yr U.S. Govt.	1.91%	13.9	13.2	39.8
30 yr Canada Govt.	2.10%	10.2	5.5	42.3
30 yr U.S. Govt.	2.21%	13.7	10.3	30.7
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	92.31	6.32%	4.72%	23.28%
Natural gas	4.57	-1.44%	-6.20%	28.54%
Gold	1,808.28	0.93%	0.62%	-1.14%
Silver	22.52	0.20%	0.23%	-3.39%
Copper	448.75	4.12%	3.77%	0.54%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7834	0.04%	-0.46%	-1.00%
USD/EUR	0.8734	-2.64%	-1.89%	-0.67%
CAD/EUR	0.6842	-2.59%	-2.33%	-1.64%
USD/JPY	115.2600	0.00%	0.13%	0.16%
USD/CNY	6.3612	0.00%	0.00%	0.08%
USD/MXN	20.6811	-0.60%	0.22%	0.74%
GBP/CAD	1.7269	0.92%	1.07%	1.01%
GBP/USD	1.3531	0.97%	0.62%	-0.01%

* 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.

Fidelity INVESTMENTS

Economic indicators	Period	Survey	Actual	Prior period
Canada unemployment rate	Jan	6.3%	6.5%	5.9%
Markit Canada manufacturing PMI	Jan	-	56.2	56.5
U.S. change in non-farm payrolls	Jan	125k	467k	510k
U.S. initial jobless claims	29-Jan	245k	238k	261k
Eurozone GDP SA Q-o-Q	4Q	0.4%	0.3%	2.3%
Germany factory orders MoM	Dec	0.3%	2.8%	3.6%

Canada

Canadian equities rose for the week. Materials, consumer staples and energy were the best-performing sectors for the week. Financials also continued to do well in a rising-interest-rate environment, while the strength of banking core capital further supported confidence. Performance in the industrials and real estate sectors was relatively tame. Rising interest rates could dampen the outlook for housing demand.

In economic news, Statistics Canada reported that the Canadian economy grew for the six months to November, although analysts expect that growth in December could disappoint, due to the omicron wave. Meanwhile, Canada’s unemployment rate was higher than expected, at 6.5%, compared with 5.9% reported earlier.

U.S.

U.S. equities ended a volatile week with strong gains, encouraged by signs that the longer-term inflation could return to normal due to strong central bank action, while confidence in economic growth prospects remained intact. Investor sentiment was also encouraged by comments from some Federal Reserve officials who suggested they want to avoid disrupting financial markets with abrupt rate increases.

Dip-buying in beaten-down technology stocks helped contain losses in the wake of disappointing results for Meta, parent of social media platform operator Facebook. Stocks such as Spotify also declined, spelling trouble for internet and digital businesses generally, as the market priced in more earnings disappointments from businesses driven by digital advertising.

From a sector perspective, energy producers advanced on rising oil prices, and consumer discretionary gained in view of strong performance by companies such as Amazon, while financials rose mainly due to the rise in bond yields, which supports earnings prospects. In contrast, the communication services, materials and real estate sectors edged lower.

In economic news, the U.S. economy added 467,000 jobs in January, despite the surge in omicron infections, significantly exceeding Bloomberg consensus expectations of a relatively tame 150,000 new jobs.

Rest of the world

European equities declined for the week: prospects of a Russia-Ukraine conflict and the likelihood of higher interest rates dampened the outlook for European equities and government bonds, with investors pricing in rate hikes in June and September.

Eurozone inflation accelerated again last month. A flash 5.1% annual rate was up a tick versus December's final print, a new record high for the region and above consensus expectations. The ECB statement expressed concern after the latest inflation developments; just like its other developed market counterparts, the ECB appeared to be looking to protect its credibility as an inflation-targeting central bank.

Equities in Asia also rose; however, activity was somewhat limited due to holidays in China, Taiwan and South Korea. In Japan, Nintendo rose after raising its earnings guidance. Japan Airport Terminal gained on reports that Japan may ease travel restrictions. The Hong Kong-based Hang Seng was the best-performing index in the region.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada international merchandise trade	Dec	2.45bn	3.13bn
U.S. initial jobless claims	05-Feb	230k	238k
U.S. CPI MoM	Jan	0.4%	0.5%
U.S. University of Michigan sentiment	Feb	67.5	67.2
U.S. MBA mortgage applications	04-Feb	--	12.0%
Germany industrial production MoM	Dec	0.5%	-0.2%

Central bank meetings

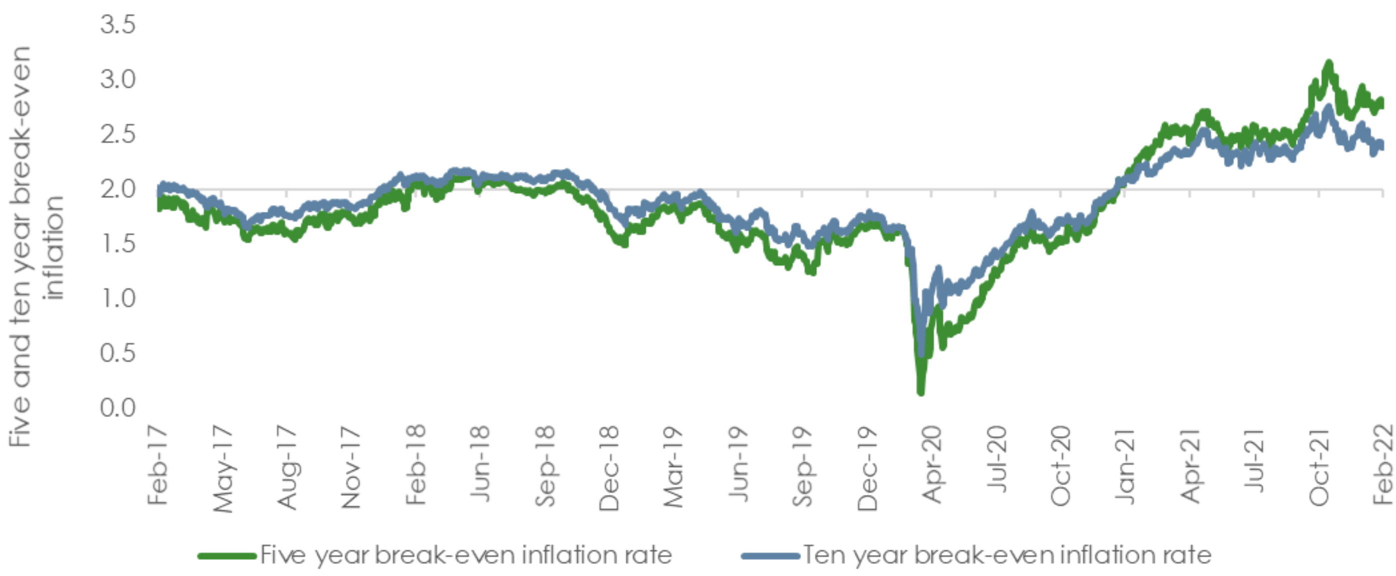
Central banks	Date	Probability of change	Current rate
Bank of Canada	2-Mar-22	122.9%	0.25%
European Central Bank	10-Mar-22	3.0%	0.00%
Federal Open Market Committee	16-Mar-22	140.0%	0.25%
Bank of England	17-Mar-22	130.5%	0.50%
Bank of Japan	18-Mar-22	0.6%	-0.10%

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

Could inflation outlook continue to moderate in the U.S.?

The chart below shows the five- and ten-year break-even inflation rate. Derived from five-year Treasury Constant Maturity Securities and five-year Treasury Inflation-Indexed Constant Maturity Securities, the break-even inflation rate represents a measure of expected inflation. The latest value implies what market participants expect inflation to be in the next five and ten years, on average. The chart suggests that the medium- and longer-term outlook reflects investor confidence in central banks' ability to contain inflation to an acceptable level.



Source: Federal Reserve Bank of St. Louis, February 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
Indexes	**Close**	**Weekly**	**MTD**	**YTD**
S&P/TSX	21,271.85	2.56%	0.82%	0.23%
S&P500	4,500.53	1.38%	0.17%	-4.73%
NASDAQ	14,098.01	2.21%	-0.50%	-9.08%
DJIA	35,089.74	0.88%	0.38%	-2.57%
Russell 2000	2,002.36	1.55%	-0.79%	-10.02%
FTSE 100	7,516.40	1.60%	1.94%	2.69%
Euro Stoxx 50	4,086.58	1.30%	0.45%	-3.51%
Nikkei 225	27,439.99	2.53%	2.03%	-4.90%
Hang Seng	24,573.29	4.21%	3.86%	6.08%
Shanghai Comp.	3,361.44	0.00%	0.00%	-6.74%
MSCI ACWI	718.76	1.77%	0.70%	-3.93%
MSCI EM	1,221.10	2.35%	1.57%	0.00%
MSCI ACWI ESG Leaders	2,548.82	1.68%	0.73%	-4.34%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,144.39	-0.81%	-0.47%	-3.85%
BBG Global Agg.	519.77	-0.40%	0.12%	-1.39%
TSX Pref	1,951.61	0.23%	0.18%	0.16%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	1.86%	9.5	8.4	42.9
10 yr U.S. Govt.	1.91%	13.9	13.2	39.8
30 yr Canada Govt.	2.10%	10.2	5.5	42.3
30 yr U.S. Govt.	2.21%	13.7	10.3	30.7
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	117.83	6.28%	5.20%	24.52%
Natural gas	5.84	-1.48%	-5.77%	29.83%
Gold	2,307.76	0.85%	1.06%	-0.25%
Silver	28.73	0.16%	0.63%	-2.41%
Copper	572.82	4.08%	4.25%	1.55%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7834	0.04%	-0.46%	-1.00%
USD/EUR	0.8734	-2.64%	-1.89%	-0.67%
CAD/EUR	0.6842	-2.59%	-2.33%	-1.64%
USD/JPY	115.2600	0.00%	0.13%	0.16%
USD/CNY	6.3612	0.00%	0.00%	0.08%
USD/MXN	20.6811	-0.60%	0.22%	0.74%
GBP/CAD	1.7269	0.92%	1.07%	1.01%
GBP/USD	1.3531	0.97%	0.62%	-0.01%

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