



February 25, 2022

In focus

With the exception of Canada and the U.S., most global equity markets declined for the week as the outbreak of the Russia-Ukraine conflict triggered fears of a worsening geopolitical environment. In the U.S., the small-cap dominated Russell 2000 Index and the technology-heavy Nasdaq were particularly strong.

Reports of the dovish stance of the U.S. Federal Reserve (the Fed), due to the conflict between Russia and Ukraine, supported investor sentiment. The Fed said that it is monitoring the situation closely. Investors hope that the Fed and other central banks will be less aggressive in raising interest rates to tackle any potential weakness in the global economy.

Equities rebounded later in the week as investors looked to buy the hard-hit FANMAG and other technology stocks. Defence stocks rallied on war-related news.

Oil prices increased early in the week, but they gave back the gains after sanctions on Russia did not extend to the Russian energy sector. President Joe Biden also pledged to limit the rise in oil prices. Natural gas prices also rose. Gold prices declined modestly over the week.

U.S. Treasury bond yields rose for the week, reflecting the sustained rise in inflation.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,106.00	0.47%	0.04%	-0.55%
S&P500	4,384.65	0.82%	-2.90%	-8.00%
NASDAQ	13,694.62	1.08%	-3.83%	-12.47%
DJIA	34,058.75	-0.06%	-3.05%	-6.27%
Russell 2000	2,040.93	1.57%	0.62%	-9.10%
FTSE 100	7,489.46	-0.32%	0.34%	1.42%
Euro Stoxx 50	3,970.69	-2.54%	-4.88%	-7.62%
Nikkei 225	26,476.50	-2.38%	-1.95%	-8.04%
Hang Seng	22,767.18	-6.41%	-4.35%	-2.69%
Shanghai Comp.	3,451.41	-1.13%	2.68%	-5.18%
MSCI ACWI	698.53	-0.68%	-2.63%	-7.46%
MSCI EM	1,171.99	-4.85%	-3.00%	-4.87%
MSCI ACWI ESG Leaders	2,463.61	-0.91%	-3.13%	-8.36%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,135.56	-0.09%	-1.23%	-4.60%
BBG Global Agg.	513.04	-0.64%	-1.63%	-3.64%
TSX Pref	1,919.61	0.48%	-1.47%	-1.48%

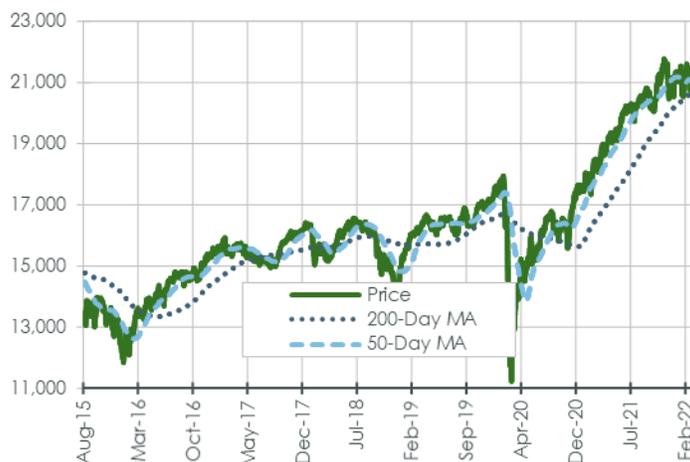
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.90%	2.3	12.9	47.4
10 yr U.S. Govt.	1.96%	3.3	18.5	45.2
30 yr Canada Govt.	2.17%	1.7	12.7	49.5
30 yr U.S. Govt.	2.27%	3.4	16.6	37.1

Commodities	Close	Weekly	MTD	YTD
Oil	91.59	1.53%	5.90%	23.02%
Natural gas	4.47	2.12%	-4.39%	27.46%
Gold	1,889.34	-0.48%	5.13%	3.29%
Silver	24.27	1.47%	8.05%	4.14%
Copper	448.50	-0.91%	3.66%	0.71%

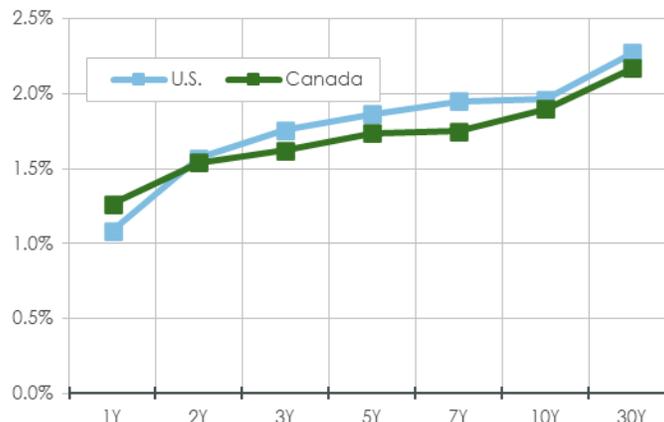
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7873	0.40%	0.05%	-0.49%
USD/EUR	0.8871	0.43%	-0.35%	0.89%
CAD/EUR	0.6979	0.77%	-0.39%	0.36%
USD/JPY	115.5500	0.47%	0.38%	0.41%
USD/CNY	6.3175	-0.13%	-0.69%	-0.61%
USD/MXN	20.3459	0.27%	-1.40%	-0.89%
GBP/CAD	1.7047	-1.63%	-0.24%	-0.35%
GBP/USD	1.3409	-1.32%	-0.28%	-0.91%

* 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 CFIB business barometer	Feb	-	62.5	54.3
U.S. initial jobless claims	19-Feb	235k	232k	249k
U.S. GDP annualized QoQ	Q4	7.0%	7.0%	6.9%
U.S. University of Michigan sentiment	Feb	61.7	62.8	61.7
U.S. durable goods orders	Jan	1.0%	1.6%	1.2%
Germany Ifo business climate	Feb	96.5	98.9	96.0

Canada

Canadian equities rose over the week, led by the energy and information technology sectors. In contrast, the health care sector declined over the week.

In economic news, the CFIB Business Barometer, a measure of small business confidence for the next 12 months, rose to 62.5 in February. The three-month outlook also rebounded strongly, rising to 53.8 from 36.9 in the previous month.

At \$37.6 billion net inflow in December, foreign investment in Canadian securities increased at the fastest pace since April 2020. Canadian investors also increased their foreign exposure by \$21.3 billion, primarily led by investments in the U.S.

U.S.

U.S. equities rose marginally over the week. The U.S. government announced fresh sanctions on Russia that limited Russia's ability to transact in dollars and other hard currencies, plus asset freezes on Russian banks, among other restrictions. However, there were no sanctions on Russian energy exports. Growth stocks outperformed value stocks as investors sought to buy the massive dips.

Among sectors, health care, real estate and utilities gained over the week. The defensive characteristics of the health care and utilities sectors may have supported the gains. The energy, information technology and communication services sectors also gained for the week. In contrast, the consumer discretionary sector declined.

U.S. Federal Reserve Governor Michelle Bowman said on Monday that she and other officials will be watching the data to "judge the appropriate size of a rate increase" in March.

Among companies in focus, software company Salesforce rose to lead technology names. Consumer electronics company Apple and e-commerce platform operator Amazon also recovered after sharp declines. In contrast, home improvement retailer Home Depot declined after issuing disappointing guidance.

In economic news, U.S. producer prices showed a sharp 1.0% rise in January from December, beating market expectations. U.S. retail sales also rose in January, by 3.8% on a monthly basis, the largest rise in past ten months.

Rest of the world

Fallout from Russia's invasion of Ukraine weighed on equities, with losses across all sectors, offsetting supportive corporate and economic signals.

Investors focused on the price rise in oil and other commodities as a result of the Russia-Ukraine conflict, anticipating new disruptions in supply chains from the resulting fallout. The banking subsector was the hardest hit, due to the financial sanctions levied on Russia by western countries.

Asia-Pacific markets dropped early in the week in a flight from risk, after investors sought to park their money in traditional safe-haven assets like gold and silver to tide over the current volatility in the market. Markets recovered marginally on Friday amid bargain hunting, in line with the bounce in U.S. markets on Thursday as investors looked to support the falling market.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada quarterly GDP annualized	Q4	6.5%	5.4%
Canada building permits MoM	Jan	0.3%	-1.9%
U.S. change in non-farm payrolls	Feb	400k	467k
U.S. ISM manufacturing	Feb	58.0	57.6
U.S. unemployment rate	Feb	3.9%	4.0%
U.S. factory orders	Jan	0.5%	-0.4%

Central bank meetings

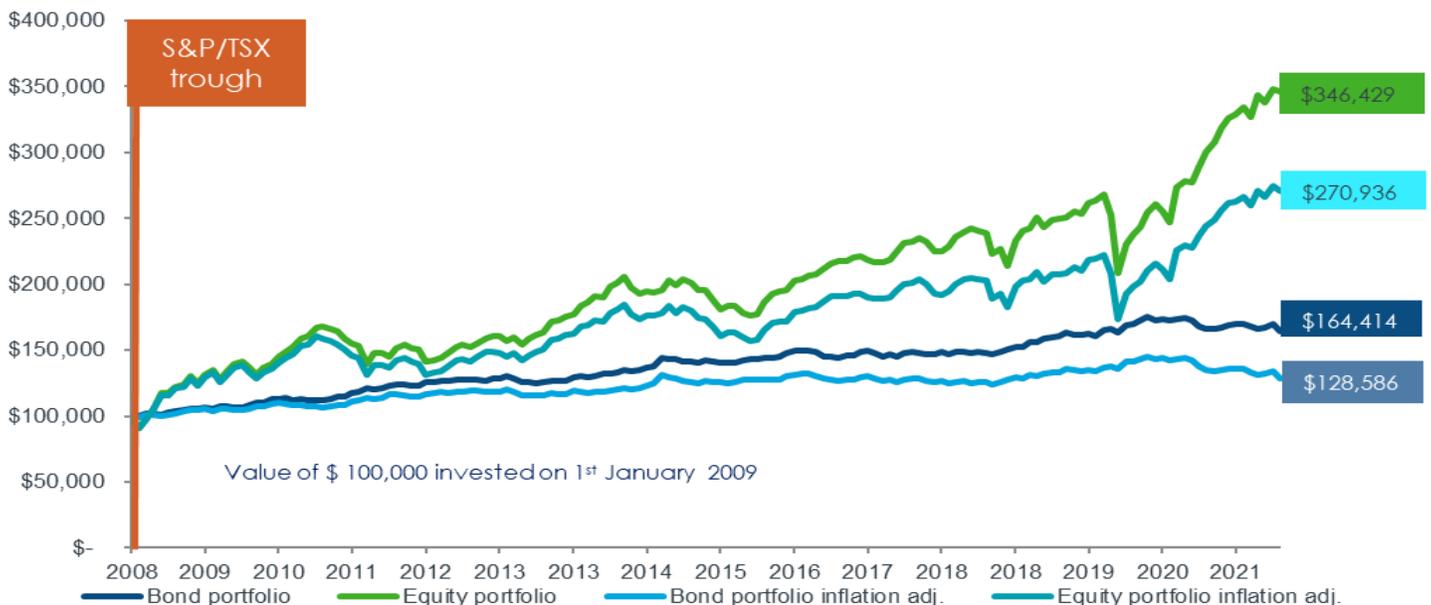
Central banks	Date	Probability of change	Current rate
Bank of Canada	2-Mar-22	175.3%	0.25%
European Central Bank	10-Mar-22	2.2%	0.00%
Federal Open Market Committee	16-Mar-22	127.8%	0.25%
Bank of England	17-Mar-22	117.1%	0.50%
Bank of Japan	18-Mar-22	-4.8%	-0.10%

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

Staying invested

The chart below shows the effect inflation has on portfolio value in the long term, and how it eats into investments if left unattended. The chart shows the journey of a diversified portfolio of Canadian equities, bonds and short-term money market instruments through the volatile past since 2009. Regardless of the risk events, the inflation-adjusted equity portfolio has beaten the bond portfolio. Remaining invested in the equity markets, irrespective of external shocks, may generate better returns in the long term, in comparison with less risky debt funds.



Source: Refinitiv DataStream, as at January 31, 2022. Bond portfolio is based on FTSE Canada Overall Universe Bond Index, equity portfolio is based on S&P/TSX Composite Total Return Index, and inflation is based on Canadian CPI MOM.

Appendix

Global markets (Returns in Canadian dollar terms)

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Oil	116.33	1.13%	5.84%	23.63%
Natural gas	5.68	1.72%	-4.43%	28.09%
Gold	2,401.65	-0.81%	5.17%	3.81%
Silver	30.82	1.03%	7.94%	4.68%
Copper	569.67	-1.30%	3.61%	1.21%
Currencies	Close	Weekly	MTD	YTD
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