



March 18, 2022

In focus

U.S. and European equities surged for the week, and other regional markets followed, as Russia and Ukraine appeared to be closing in on a peace deal and China indicated it would take measures to boost its economy. In China, however, equities declined in response to a rise in COVID-19 cases. Bond yields rose and bond prices fell, while in the energy markets, oil prices declined for the week.

On Wednesday, the U.S. Federal Reserve (the Fed) responded to surging inflation and strong labour markets by raising its benchmark Fed funds rate, bringing its target range to 0.25–0.50%. While the decision was not unanimous, Fed Chair Jerome Powell kept the door open to raising interest rates by an increment of more than 0.25% to ensure price stability. Long-term market interest rates declined and short-term rates rose, flattening the yield curve and suggesting a weaker long-term growth outlook.

From a sector perspective, consumer discretionary, information technology and financials were the best-performing sectors globally. Large-cap technology stocks such as Apple, Nvidia and Amazon advanced. Rising interest rates, and the consequent support for earnings, lifted financial stocks.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,818.47	1.66%	3.28%	2.81%
S&P500	4,463.12	6.16%	2.04%	-6.36%
NASDAQ	13,893.84	8.18%	1.04%	-11.19%
DJIA	34,754.93	5.50%	2.54%	-4.36%
Russell 2000	2,086.14	5.38%	1.86%	-7.09%
FTSE 100	7,404.73	3.48%	-0.72%	0.27%
Euro Stoxx 50	3,902.44	5.85%	-0.56%	-9.21%
Nikkei 225	26,827.43	6.62%	1.13%	-6.82%
Hang Seng	21,412.40	4.18%	-5.73%	-8.48%
Shanghai Comp.	3,251.07	-1.77%	-6.10%	-10.68%
MSCI ACWI	701.46	5.72%	0.49%	-7.07%
MSCI EM	1,122.98	3.44%	-4.13%	-8.85%
MSCI ACWI ESG Leaders	2,482.78	5.98%	0.91%	-7.65%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,113.43	-0.83%	-2.46%	-6.45%
BBG Global Agg.	503.00	-0.29%	-2.39%	-5.53%
TSX Pref	1,902.21	1.83%	-0.11%	-2.38%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	2.19%	19.9	37.9	76.6
10 yr U.S. Govt.	2.15%	15.8	32.4	63.9
30 yr Canada Govt.	2.38%	9.6	28.3	69.7
30 yr U.S. Govt.	2.42%	6.7	25.9	51.7

Commodities	Close	Weekly	MTD	YTD
Oil	104.70	-4.23%	9.38%	40.63%
Natural gas	4.86	2.92%	10.47%	38.67%
Gold	1,921.62	-3.36%	0.66%	5.05%
Silver	24.96	-3.50%	2.10%	7.10%
Copper	473.95	2.46%	6.40%	6.42%

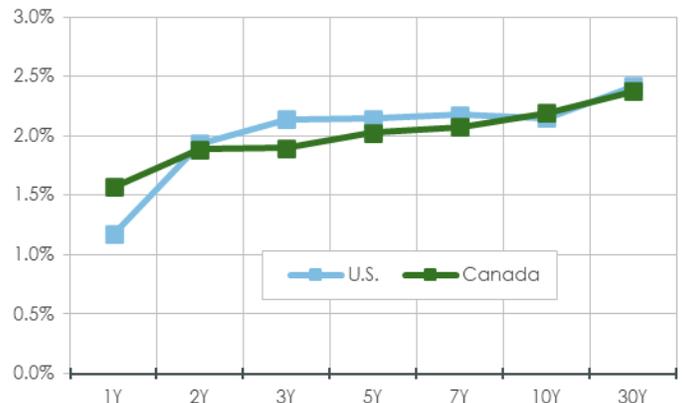
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7934	1.12%	0.56%	0.27%
USD/EUR	0.9049	-1.27%	1.51%	2.91%
CAD/EUR	0.7180	-0.14%	2.08%	3.22%
USD/JPY	119.1700	1.60%	3.63%	3.55%
USD/CNY	6.3612	0.35%	0.82%	0.08%
USD/MXN	20.3617	-2.64%	-0.53%	-0.82%
GBP/CAD	1.6609	-0.05%	-2.32%	-2.85%
GBP/USD	1.3178	1.08%	-1.80%	-2.62%

* 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	Feb	5.5%	5.7%	5.1%
Canada housing starts	Feb	240.0k	247.3k	229.2k
U.S. initial jobless claims	12-Mar	220k	214k	229k
U.S. retail sales advance MoM	Feb	0.4%	0.3%	4.9%
Eurozone CPI YoY	Feb	5.8%	5.9%	5.8%
Eurozone ZEW survey expectations	Mar	-	-38.7	48.6

Canada

Canadian equities advanced in line with global peers. Information technology was the best-performing sector, with companies such as Shopify and Lightspeed gaining strongly as investors bought into some oversold positions. Some airline stocks gained due to the fall in energy prices, lifting the industrials sector. Consumer discretionary and financials also rose. In contrast, communication services, energy and materials declined.

On the economic front, Canadian inflation rate hit a three-decade high, with rising wheat, gasoline, fertilizer and other costs rising due to the Russia-Ukraine conflict. This, in addition to already-rising prices across the board due to supply chain constraints, added to pressure on the Bank of Canada to raise its benchmark rate of interest at a faster pace. Meanwhile, data showed that Canadian retail sales rose in January.

U.S.

U.S. equities surged for the week, after starting with losses on Monday due to the ongoing Russia-Ukraine conflict and a rise in COVID-19 cases in China. However, equities recovered on Tuesday; mega-cap stocks led the rebound, appearing to be oversold after recent losses. Falling oil prices contributed, as did a softer-than-expected U.S. producer price reading, which, although up just 0.8% for the month, showed inflation running hot, with a 10.0% year-over-year advance. The producer price index tracks the prices businesses receive for their goods and services. The market saw strong gains on Friday among heavily weighted big tech stocks.

As expected, the Fed raised rates for the first time in this cycle at its March meeting, increasing its target Fed funds rate by 25 basis points. But in a hawkish surprise, relative to consensus views, the Fed's dot plot of expected future rate paths showed a big shift in Federal Open Market Committee participants'

expectations, with the median dot now showing seven hikes for 2022 and four for 2023, and the median 2024 dot settling at an above-neutral level of 2.75%.

In his comments, Fed Chair Powell indicated a consensus among the FOMC members for restricting price stability in the economy, including guidance on starting quantitative tightening at "a coming meeting." Powell also assessed the risk of recession as "not particularly elevated."

Rest of the world

European equities gained for the week amid volatility due to the Russia-Ukraine conflict. Hopes for progress in Russia-Ukraine talks and optimistic signals from the U.S. market lifted sentiment. In economic news, eurozone data disappointed. The ZEW German economic sentiment index dropped to -39.3 in March, far below expectations for a reading of 10. Separately, eurozone industrial production was unchanged in January from December, below expectations of a 0.2% increase. January's output of 1.3% fell on the year, in contrast to expectations of a decline of 0.5%.

In Asia, equities in China declined amid regulatory concerns and the threat of U.S. sanctions over Chinese ties to Russia, plus widening anti-COVID lockdowns and restrictions. While ending the week with losses, markets recovered somewhat toward the end of the week, rising on speculation that the People's Bank of China will provide more stimulus as part of a wider government pro-growth effort announced this week. Investors awaited details on the government pledge to rein in a regulatory push and to take other steps to boost financial markets.

Looking Ahead

Economic indicators	Period	Survey	Prior period
Canada industrial product price MoM	Feb	2.5%	3.0%
U.S. initial jobless claims	Mar 19	211k	214k
U.S. University of Michigan Survey	Mar	59.7	59.7
U.S. durable goods orders	Feb	-0.6%	1.6%
Germany IFO business climate	Mar	94.2	98.9
Eurozone consumer confidence	Mar	-12.9	-8.8

Central bank meetings

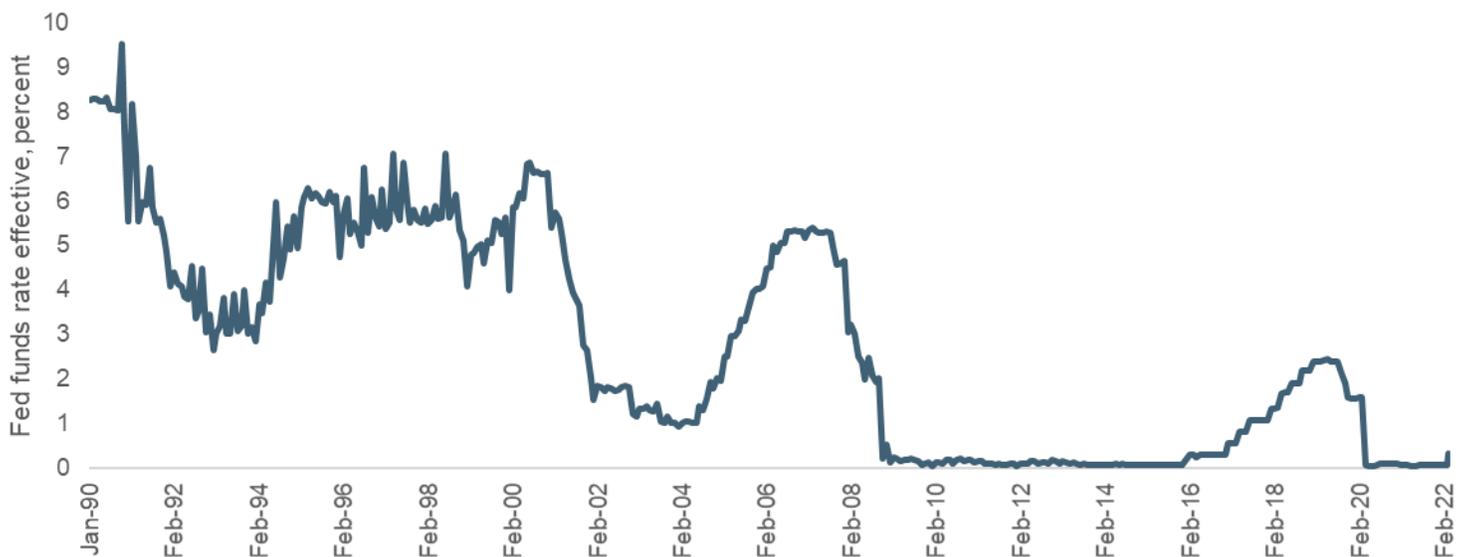
Central banks	Date	Probability of change	Current rate
Bank of Canada	13-Apr-22	161.7%	0.50%
European Central Bank	14-Apr-22	-0.4%	0.00%
Bank of Japan	28-Apr-22	-6.5%	-0.10%
Federal Open Market Committee	4-May-22	151.6%	0.50%
Bank of England	5-May-22	92.2%	0.75%

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 may continue to dominate investor sentiment for some time to come.

The chart below shows the effective Fed funds rate since January 1990. The effective rate is the rate set by the FOMC (Federal Open Market Committee) for banks to borrow funds from each other. The Fed funds rate is extremely important, because it can act as a benchmark to set other rates. The effective Fed funds rate reached a peak of 22% at the end of December 1980, when the Federal Reserve was battling high consumer price inflation at more than 12% per year.



Source: Federal Reserve Bank of St. Louis, as at March 17, 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
Indexes	Close	Weekly	MTD	YTD
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Natural gas	6.13	1.78%	9.86%	38.30%
Gold	2,422.08	-4.44%	0.11%	4.69%
Silver	31.45	-4.58%	1.52%	6.82%
Copper	597.37	1.33%	5.81%	6.14%
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