



March 25, 2022

## In focus

Major global equities rose for the week as markets looked beyond the ongoing Russia-Ukraine crisis, with diplomatic efforts appearing to have stalled for the time being. Western nations imposed further sanctions on Russia in an effort to support Ukraine and end the war. U.S. President Joe Biden met NATO and G7 members last week in Brussels to discuss the Russia-Ukraine conflict.

Oil and natural gas prices rose due to the ongoing conflict. Over 40% of the natural gas for European nations is supplied by Russia. In light of the ongoing conflict, countries are forced to look for alternative sources to meet their requirements. Gold and silver prices continued to rise as investors continued to buy these safe-haven assets, given current volatility.

Bond yields also tracked higher after hawkish comments from U.S. Federal Reserve Chair Jerome Powell, who stated that the Federal Reserve (the Fed) would “take the necessary steps” to bring down inflation, including raising rates more aggressively if needed. Markets are now pricing in two 50-basis-point rate increases at the Fed’s May and June meetings. This contributed to the flattening of the yield curve, pointing to lower confidence in longer-term growth and an uncertain monetary policy outlook.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	22,005.94	0.86%	4.16%	3.69%
S&P500	4,543.06	1.79%	3.87%	-4.68%
NASDAQ	14,169.30	1.98%	3.04%	-9.43%
DJIA	34,861.24	0.31%	2.86%	-4.06%
Russell 2000	2,077.98	-0.39%	1.46%	-7.45%
FTSE 100	7,483.35	1.06%	0.34%	1.34%
Euro Stoxx 50	3,867.73	-0.89%	-1.44%	-10.02%
Nikkei 225	28,149.84	4.93%	6.12%	-2.23%
Hang Seng	21,404.88	-0.04%	-5.76%	-8.52%
Shanghai Comp.	3,212.24	-1.19%	-7.22%	-11.75%
MSCI ACWI	709.58	1.16%	1.66%	-5.99%
MSCI EM	1,125.01	0.18%	-3.95%	-8.68%
MSCI ACWI ESG Leaders	2,503.22	0.82%	1.74%	-6.89%

Fixed Income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,092.04	-1.92%	-4.33%	-8.25%
BBG Global Agg.	494.82	-1.63%	-3.98%	-7.06%
TSX Pref	1,888.29	-0.73%	-0.84%	-3.09%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	2.55%	35.4	73.3	112.0
10 yr U.S. Govt.	2.47%	32.4	64.8	96.3
30 yr Canada Govt.	2.55%	17.7	46.0	87.4
30 yr U.S. Govt.	2.58%	16.4	42.4	68.1

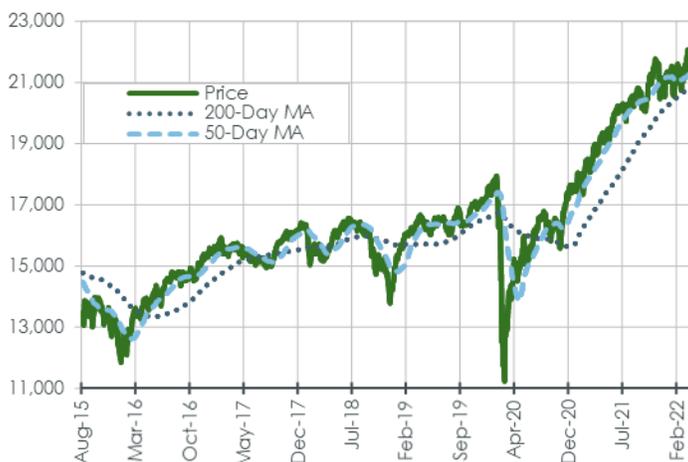
Commodities	Close	Weekly	MTD	YTD
Oil	113.90	10.49%	21.82%	54.04%
Natural gas	5.57	14.56%	26.56%	58.85%
Gold	1,958.29	1.91%	2.58%	7.06%
Silver	25.53	2.25%	4.40%	9.52%
Copper	469.85	-0.87%	5.48%	5.50%

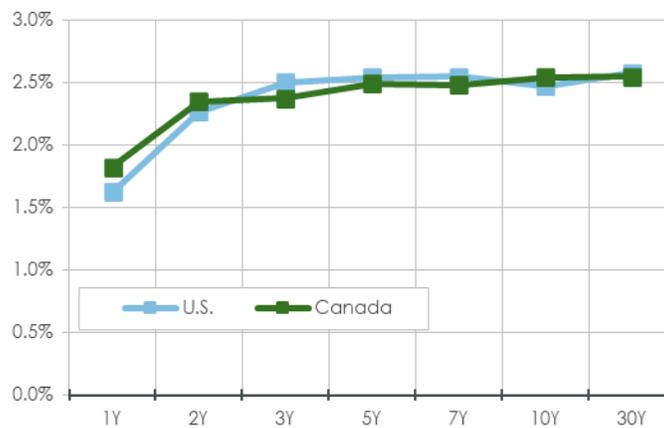
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.8015	1.02%	1.58%	1.29%
USD/EUR	0.9106	0.63%	2.15%	3.56%
CAD/EUR	0.7298	1.64%	3.75%	4.92%
USD/JPY	122.0500	2.42%	6.13%	6.06%
USD/CNY	6.3662	0.08%	0.90%	0.16%
USD/MXN	20.0336	-1.61%	-2.13%	-2.42%
GBP/CAD	1.6446	-0.98%	-3.28%	-3.80%
GBP/USD	1.3182	0.03%	-1.77%	-2.59%

\* 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 industrial product price MoM	Feb	2.5%	3.1%	3.0%
U.S. Univ. of Michigan sentiment	Mar	59.7	59.4	59.7
U.S. initial jobless claims	19-Mar	210k	187k	215k
U.S. new home sales	Feb	810k	772k	788k
Eurozone M3 money supply YoY	Feb	6.3%	6.3%	6.4%
Germany IFO business climate	Mar	94.2	90.8	98.5

## Canada

Canadian equities advanced in line with global peers, led by gains in the health care and energy sectors. In contrast, the information technology and real estate sectors declined.

In the fourth quarter of 2021, job vacancies in Canada reached their highest level, at 915,500, slightly up from the previous quarter reading of 912,600. Record-high job vacancies in the fourth quarter coincided with almost a full recovery of payroll employment and falling unemployment. The job vacancy rate, which measures vacant positions against total labour demand, was 5.3%, an increase from 3.5% in the fourth quarter of 2021. Overall, economic growth has strengthened in Canada as exports and investments continue to recover at a healthy pace.

## U.S.

U.S. equities also gained for the week, continuing their recovery after sharp drawdown early in the year. On a sector basis, the energy and materials sectors rose the most, while the real estate sector declined. The energy sector continued to gain from volatility in oil and gas prices due to the ongoing Russia-Ukraine conflict.

Hawkish comments from Fed Chair Jerome Powell fuelled expectations of a 50-basis-point increase in U.S. interest rates at the Fed's May and June meetings.

Among companies in focus, medical devices manufacturer Cutera rallied over 20% on Friday on positive clinical news. Fertilizer company Nutrien also rose over the week, due to the fallout from the ongoing Ukraine crisis. Electric vehicle manufacturer Tesla also jumped after the automaker opened its new German plant and investors bought into its growth story. In contrast, homebuilder companies such as Lennar and KB Homes declined due to poor home sales figures.

Risk appetite was hurt by news suggesting no change in the Ukraine situation, with ongoing risk of wider war in

Europe, and prolonged supply-chain disruptions. Weaker-than-expected U.S. home sales figures, with the annual sales rate at 772,000, against expectations of 810,000, reflecting the impact of rising mortgage rates and consumer prices, added to the view that the economy is facing much slower growth and weaker profits.

## Rest of the world

European equities declined for the week, detracting from the global trend. Expectations for more U.S. and E.U. sanctions on Russia, along with a stalemate on the ground in Ukraine, dampened sentiment as markets focused again on supply disruptions and other fallout from the conflict, including a worse-than-expected German Ifo report on business sentiment and a series of hawkish statements from Fed officials signalling more aggressive rate increases in May and afterwards.

Another upside surprise in U.K. February inflation figures, with consumer prices up 6.2% from a year earlier, added to the bearish narrative.

In the Asia-Pacific region, Japanese equities rose over the week as investors anticipated a government stimulus package aimed at boosting the economy.

Chinese equities declined for the week after it was reported that the U.S. Public Company Accounting Oversight Board said it was unclear whether Chinese regulators would allow Chinese firms to release enough information to meet U.S. requirements for listing. Risk appetite also suffered as investors took notice of warnings from the U.S. that China should not help Russia evade sanctions.

Among companies in focus, e-commerce giant Alibaba and consumer technology company Xiaomi announced share buybacks, supporting the falling markets.

## Looking ahead

Economic indicators	Period	Survey	Prior period
S&P Global Canada manufacturing PMI	Mar	-	56.6
Canada GDP MoM	Jan	0.2%	0.0%
U.S. initial jobless claims	26-Mar	200k	187k
U.S. change in non-farm payrolls	Mar	490k	678k
U.S. ISM manufacturing	Mar	59.0	58.6
China manufacturing PMI	Mar	49.8	50.2

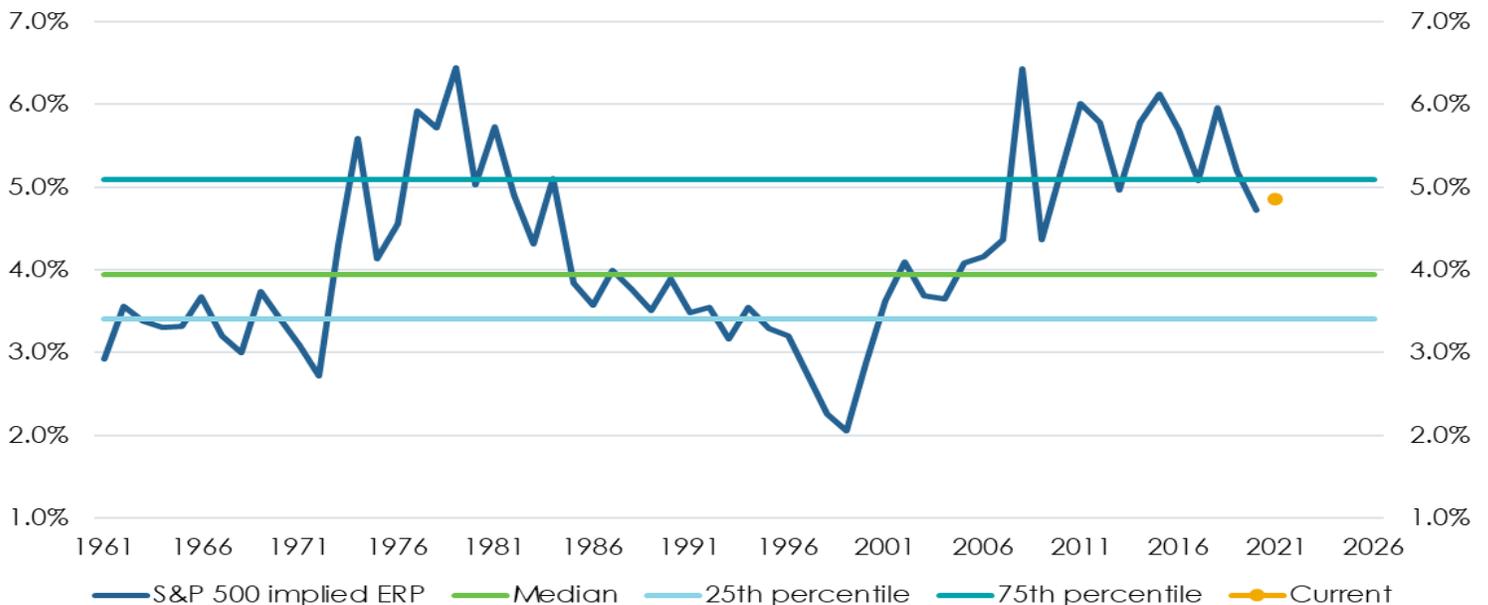
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	13-Apr-22	192.5%	0.50%
European Central Bank	14-Apr-22	3.6%	0.00%
Bank of Japan	28-Apr-22	-3.9%	-0.10%
Federal Open Market Committee	4-May-22	177.4%	0.50%
Bank of England	5-May-22	116.9%	0.75%

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

### Equity risk premium edges higher.

Equity risk premium corresponds to the premium investors seek over the risk-free rate to invest in equity markets. Generally, equity risk premium rises in times of volatility as investors become more risk averse and demand a higher risk/reward payoff. In the chart below, we can see that the equity risk premium breached the 75<sup>th</sup> percentile mark during the COVID-19 crisis, and then came back below the mark at the end of 2021, signalling a return to normalcy. However, rising inflation figures across the world and supply chain disruptions due to the ongoing conflict still threaten to raise the premium investors ask to invest in the highly volatile equity markets.



Source: Aswath Damodaran, Fidelity International.

## Appendix

### Global markets (Returns in Canadian dollar terms)

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Natural gas	6.95	13.40%	24.58%	56.83%
Gold	2,443.32	0.88%	0.99%	5.61%
Silver	31.85	1.27%	2.81%	8.18%
Copper	586.21	-1.87%	3.83%	4.16%
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