



April 15, 2022

In focus

Major global equity indexes ended lower over a holiday-shortened week that saw the release of the first major corporate earnings reports of 2022. Markets were cautious as investors braced for more companies to issue warnings that inflation and supply chain effects, along with the impact of rapidly rising interest rates, would hit profits,

Oil prices rose as concerns grew about tighter global supply, with the deepening crisis in Ukraine raising the prospect of heavier sanctions by the west on Russia, a leading oil exporter.

Other commodities also gained ground as investors focused on Russian President Vladimir Putin's comment that Ukraine peace talks were at a "dead end." Reports that Russian forces are preparing renewed attacks in Ukraine, and news that the U.S. and its allies are expanding lethal military support for Ukraine, worsened fears.

Bond yields continued to rise on expectations of continued aggressive U.S. monetary policy tightening. Other central banks around the world moved to reduce support. Rising yields result in a fall in bond prices, as investors seek to compensate for the loss in yields by paying less for bonds.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,855.70	-0.09%	-0.16%	2.98%
S&P500	4,392.59	-2.13%	-3.04%	-7.84%
NASDAQ	13,351.08	-2.63%	-6.11%	-14.66%
DJIA	34,451.23	-0.78%	-0.65%	-5.19%
Russell 2000	2,004.98	0.52%	-3.15%	-10.70%
FTSE 100	7,616.38	-0.69%	1.34%	3.14%
Euro Stoxx 50	3,848.68	-0.25%	-1.38%	-10.46%
Nikkei 225	27,093.19	0.40%	-2.62%	-5.90%
Hang Seng	21,518.98	-1.62%	-2.18%	-8.03%
Shanghai Comp.	3,211.25	-1.25%	-1.26%	-11.77%
MSCI ACWI	690.21	-1.70%	-3.00%	-8.56%
MSCI EM	1,112.90	-1.33%	-2.53%	-9.67%
MSCI ACWI ESG Leaders	2,428.83	-2.05%	-3.53%	-9.65%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,081.60	-0.82%	-2.32%	-9.13%
BBG Global Agg.	483.46	-0.93%	-3.24%	-9.20%
TSX Pref	1,826.78	-0.37%	-3.81%	-6.25%

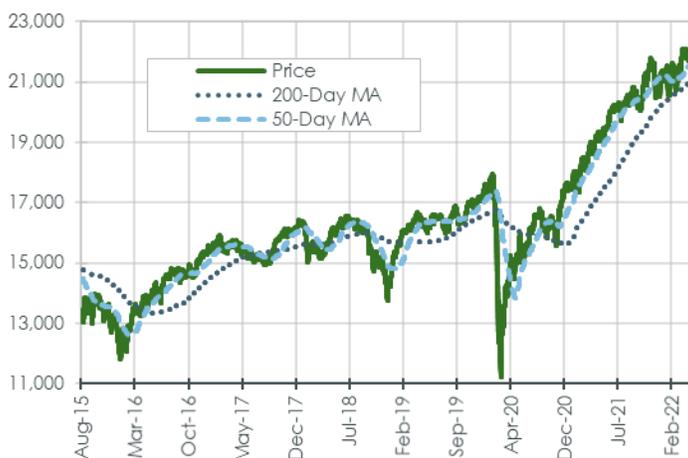
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	2.76%	12.5	35.6	133.5
10 yr U.S. Govt.	2.83%	12.8	49.0	131.7
30 yr Canada Govt.	2.71%	13.7	33.1	103.6
30 yr U.S. Govt.	2.91%	19.7	46.7	101.2

Commodities	Close	Weekly	MTD	YTD
Oil	106.95	8.84%	6.65%	44.64%
Natural gas	7.30	16.28%	29.39%	107.09%
Gold	1,978.24	1.58%	2.11%	8.15%
Silver	25.55	3.12%	3.04%	9.61%
Copper	474.10	0.07%	-0.30%	6.72%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7930	-0.30%	-0.80%	0.21%
USD/EUR	0.9247	0.57%	2.34%	5.16%
CAD/EUR	0.7331	0.25%	1.48%	5.39%
USD/JPY	126.4600	1.71%	3.91%	9.89%
USD/CNY	6.3715	0.10%	0.50%	0.24%
USD/MXN	19.9725	-0.37%	0.52%	-2.71%
GBP/CAD	1.6470	0.49%	0.18%	-3.66%
GBP/USD	1.3060	0.27%	-0.59%	-3.49%

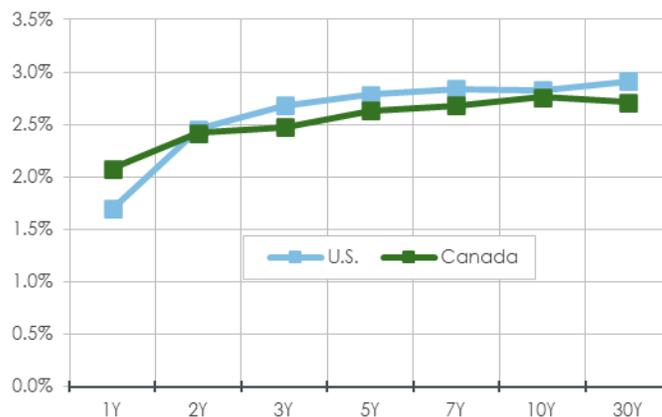
* Please refer to Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement.

S&P/TSX Composite Index



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

Treasury yield curves



Economic indicators	Period	Survey	Actual	Prior period
Canada manufacturing sales MoM	Feb	3.70%	4.20%	0.60%
Canada wholesale trade sales MoM	Feb	0.90%	-0.40%	4.20%
U.S. initial Jobless claims	09-Apr	170k	185k	167k
U.S. CPI MoM	Mar	1.20%	1.20%	0.80%
U.S. University of Michigan sentiment	Apr	59.0	65.7	59.4
China CPI YoY	Mar	1.40%	1.50%	0.90%

Canada

Canadian equities declined in the holiday-shortened week. Higher commodity prices bolstered the energy and materials sectors, but gains were limited as bond yields climbed to multi-year highs.

The Bank of Canada this week raised rates by 0.50% and committed to ending its balance-sheet purchases by the end of the month. Maturing Government of Canada bonds on the Bank's balance sheet will no longer be replaced, and as a result, the size of the balance sheet will decline over time.

U.S.

U.S. equities declined for the week, with value stocks outperforming their growth counterparts; small caps also rose. On a sector basis, financials, health care and utilities lagged, while energy shares recorded solid gains.

A lower-than-expected 0.3% monthly rise in core CPI for March was seen as a sign that underlying inflation might be fading. After their early enthusiasm, investors resumed their worries about consecutive 50-basis-point Federal Reserve rate increases and weaker company profits.

In economic news, the U.S. producer price index rose in March and advanced 1.4% from February. On a 12-month basis, the index topped expectations with an 11.2% increase, up from 10.3% in February. Industrial production jumped 0.9% percent in March, well above some estimates. Manufacturing rose 0.9% too, with a boost from a 7.8% surge in autos and parts production. Capacity utilization topped expectations, rising to 78.3%. Separately, the U.S. Empire State Manufacturing Index rocketed by 36 points to 24.6, far above expectations, which had centred on 2.0 points. Expectations were much weaker, with the six-month outlook index slipping to 15.2 in April from 36.6 in March.

Rest of the world

European shares declined for the week. Rising bond yields and stagflation worries continued to weigh on investor sentiment. However, relief that the European Central Bank (ECB) did not adopt a more hawkish stance at its policy meeting helped contain losses.

The ECB confirmed plans on Thursday to end its hallmark stimulus scheme in the third quarter, worried that high inflation could become entrenched, even as the war in Ukraine left the outlook uncertain. ECB President Christine Lagarde said, after the meeting, that policy makers would "maintain optionality, gradualism and flexibility" in the conduct of monetary policy.

Separately, National Rally party leader Marine Le Pen and President Emmanuel Macron beat other challengers in the first round of the French presidential election and will face each other in the second round on April 24. In economic data, French inflation rose sharply in March. A final 1.4% monthly increase in prices was in line with the provisional estimate and lifted the annual rate from February's final 3.6% to 4.5%.

In the Asia-Pacific region, Japanese equities gained over the week. Bank of Japan Governor Haruhiko Kuroda asserted that Japan's economy will continue to recover despite surging commodity prices, but he noted that the central bank needs to maintain its massive monetary stimulus to support the still-fragile post-coronavirus recovery. Chinese equities declined as the coronavirus outbreak in Shanghai fuelled concerns about supply chain disruptions. The People's Bank of China said on its website it would cut the reserve requirement ratio for all banks by 25 basis points, effective from April 25, to cushion a slowdown in economic growth.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	Mar	6.1%	5.7%
Canada housing starts	Mar	250.0k	247.3k
Canada retail sales MoM	Feb	-0.5%	3.20%
U.S. initial jobless claims	16-Apr	180k	185k
S&P Global U.S. manufacturing PMI	Apr	58.0	58.8
U.S. housing starts	Mar	1741k	1769k

Central bank meetings

Central banks	Date	Probability of change	Current rate
Bank of Japan	2-Apr-22	-16.0%	-0.10%
Federal Open Market Committee	4-May-22	198.1%	0.50%
Bank of England	5-May-22	106.7%	0.75%
Bank of Canada	1-Jun-22	191.3%	1.00%
European Central Bank	9-Jun-22	31.2%	0.00%

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

Not all bad news as investment-grade bond yields rise

The chart below shows that the yields on U.S. investment-grade bonds have risen sharply over the past few weeks. While this is largely negative news, investors must be aware of the multiple implications of this development. As higher yields weigh on the incentive for corporates to issue new debt, and equity valuations start to come off, the expected supply for U.S. investment-grade has fallen materially – so much so that the 2022 number is now projected to be the lowest it has been since 2014. Lower new issuance may be good news for investors such as Fidelity, given its flexibility and the resources it has to identify value opportunities across the broad U.S. investment-grade market.



Source: Federal Reserve Economic Data. As at April 14, 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Silver	32.22	3.46%	3.91%	9.43%
Copper	597.86	0.38%	0.50%	6.49%
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