



May 6, 2022

In focus

Global equities edged lower as the U.S. Federal Reserve (the Fed) hiked its benchmark rate of interest by 50 basis points, in an effort to counter rising inflation. The ongoing Russia-Ukraine conflict and pandemic-related lockdowns in China also weighed on investor sentiment. Japanese equities were an exception; risk appetite was supported by Prime Minister Fumio Kishida's comment that Japan may ease anti-COVID border controls in June.

Bond yields rose as higher inflation and further interest rate hikes remained likely. Investors generally expect no near-term relief from rising commodity prices flowing from the ongoing Ukraine conflict and from Chinese supply chain disruptions due to anti-COVID-19 restrictions. Another solid U.S. jobs report confirmed expectations for "expeditious" U.S. rate increases, and kept long-term market rates rising, with the U.S. Treasury ten-year note yield up another nine basis points, to 3.13%. Investors talked up the drop in labour participation as an inflationary pressure, because it suggests employers will be obliged to keep raising wages to attract workers.

In commodities, oil prices continued to track higher as the E.U. manoeuvred to end purchases of Russian oil. Natural gas also ended posting positive returns over the week. Copper prices declined due to the rising lockdown restrictions in China.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,633.29	-0.62%	-0.62%	-2.78%
S&P500	4,123.34	-0.21%	-0.21%	-13.49%
NASDAQ	12,144.66	-1.54%	-1.54%	-22.37%
DJIA	32,899.37	-0.24%	-0.24%	-9.46%
Russell 2000	1,839.57	-1.32%	-1.32%	-18.07%
FTSE 100	7,387.94	-2.08%	-2.08%	0.05%
Euro Stoxx 50	3,629.17	-4.57%	-4.57%	-15.57%
Nikkei 225	27,003.56	0.58%	0.58%	-6.21%
Hang Seng	20,001.96	-5.16%	-5.16%	-14.51%
Shanghai Comp.	3,001.56	-1.49%	-1.49%	-17.53%
MSCI ACWI	643.67	-1.53%	-1.53%	-14.73%
MSCI EM	1,031.50	-4.15%	-4.15%	-16.28%
MSCI ACWI ESG Leaders	2,276.89	-1.85%	-1.85%	-15.31%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,052.19	-1.54%	-1.54%	-11.60%
BBG Global Agg.	466.30	-1.26%	-1.26%	-12.42%
TSX Pref	1,767.33	0.10%	0.10%	-9.30%

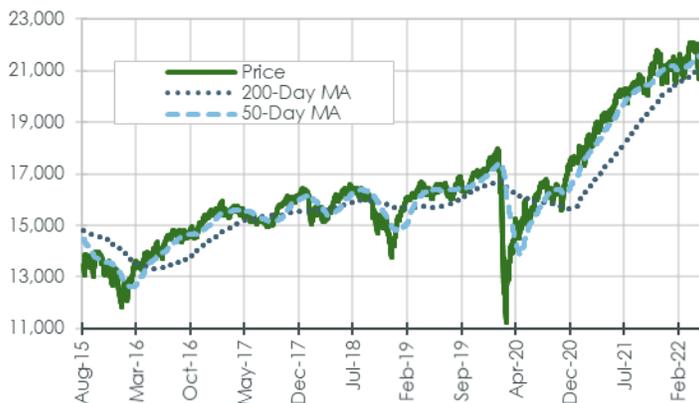
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.13%	26.1	26.1	170.1
10 yr U.S. Govt.	3.13%	19.3	19.3	161.6
30 yr Canada Govt.	3.05%	25.0	25.0	137.3
30 yr U.S. Govt.	3.23%	22.8	22.8	132.2

Commodities	Close	Weekly	MTD	YTD
Oil	109.77	4.85%	4.85%	49.61%
Natural gas	8.04	11.03%	11.03%	124.73%
Gold	1,883.81	-0.69%	-0.69%	2.99%
Silver	22.36	-1.83%	-1.83%	-4.07%
Copper	426.70	-3.21%	-3.21%	-3.95%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7746	-0.37%	-0.37%	-2.11%
USD/EUR	0.9482	-0.02%	-0.02%	7.84%
CAD/EUR	0.7346	-0.39%	-0.39%	5.61%
USD/JPY	130.5600	0.66%	0.66%	13.45%
USD/CNY	6.6667	0.88%	0.88%	4.89%
USD/MXN	20.1265	-1.48%	-1.48%	-1.96%
GBP/CAD	1.5928	-1.51%	-1.51%	-6.83%
GBP/USD	1.2348	-1.80%	-1.80%	-8.75%

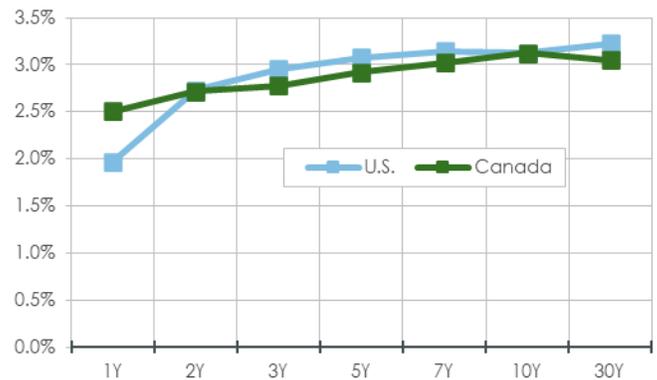
* Please refer to Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement.

S&P/TSX Composite Index



Source: Bloomberg and 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 unemployment rate	Apr	5.2%	5.2%	5.3%
Canada net change in employment	Apr	40.0k	15.3k	72.5k
U.S. change in non-farm payrolls	Apr	380k	428k	428k
U.S. initial jobless claims	30-Apr	180k	200k	181k
U.S. ISM manufacturing	Apr	57.6	55.4	57.1
U.S. durable goods orders	Mar	0.8%	1.1%	0.8%

Canada

Canadian markets declined over the week as rising bond yields dampened investor sentiment. Weak earnings data from major companies also weighed on investor confidence, along with rising inflation.

On the economic front, the Canadian economy added 15,300 jobs in April, following a 75,000 increase in March and missing the market estimates.

Employment rose in the services-producing sector by 31,400, but fell in the goods-producing sector by 16,000, mostly in construction.

U.S.

U.S. equities suffered a fifth consecutive week of losses; interest rate and inflation worries weighed on investor sentiment, especially regarding growth stocks.

Fed Chair Jerome Powell appeared to calm investor fears that the Fed might raise rates by 75 basis points at its next policy meeting. He also announced that the Fed would start letting its balance sheet holdings run off gradually, as expected. Powell said that more 50-basis-point rate increases were on the table, but there was no active consideration of larger rate moves. He repeated that the Fed would return rates to neutral “expeditiously” and that policy makers are “highly attentive” to inflation risks associated with supply chain disruptions and China’s shutdowns.

Separately, news of an unexpectedly large 7.5% decline in U.S. non-farm productivity (the worst showing in 75 years) and a surprising 11.6% surge in unit labour costs added to the worrying inflation narrative that captured the market’s attention.

Wall Street also appeared to react negatively to the non-farm payroll report, even though it came in largely in line with expectations. Employers added 428,000 jobs in April, modestly above consensus expectations of

around 390,000, but previous months’ gains were revised lower by nearly the same gap (39,000).

Rest of the world

European markets tumbled amid fears that central banks may have to step up their efforts to control rising inflation figures, potentially hampering the economic recovery. On the policy front, the Bank of England delivered a 25-basis-point rate increase, as expected, although three members of its policy committee backed a more aggressive 50-basis-point move. In economic data, German manufacturing orders fell a much-greater-than-expected 4.7% sequentially in March, driven by lower foreign orders, especially from outside the eurozone. Industrial production dropped by 3.9%.

Japanese equities rose modestly over the holiday-shortened week (the market was closed May 3–5). Risk appetite was supported by Prime Minister Fumio Kishida’s comment that Japan may ease anti-COVID border controls in June.

In the Asia-Pacific region, Chinese markets fell on reports of weak economic data and after Beijing showed no sign of relaxing its zero-tolerance approach to the coronavirus. The Chinese PMI services index dropped to 36.2 in April from an already anemic 42.0 in March. On the positive side, the People’s Bank of China said it would use incremental policy tools to support steady economic growth and stabilize employment and prices.

The Reserve Bank of Australia raised its policy rate by 25 basis points, more than the expected 15-basis-point move, and signalled an end to quantitative easing and more rate increases to come. Meanwhile, unexpected news that the Reserve Bank of India had raised its repo rate by 40 basis points and was issuing warnings about high inflation had a negative impact on Indian equities.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada building permits MoM	Mar	--	21.0%
Germany ZEW survey expectations	May	-43.5	-41.0
U.S. initial jobless claims	07-May	190k	200k
U.S. CPI MoM	Apr	0.2%	1.2%
U.S. CPI YoY	Apr	8.1%	8.5%
China CPI YoY	Apr	1.8%	1.5%

Central bank meetings

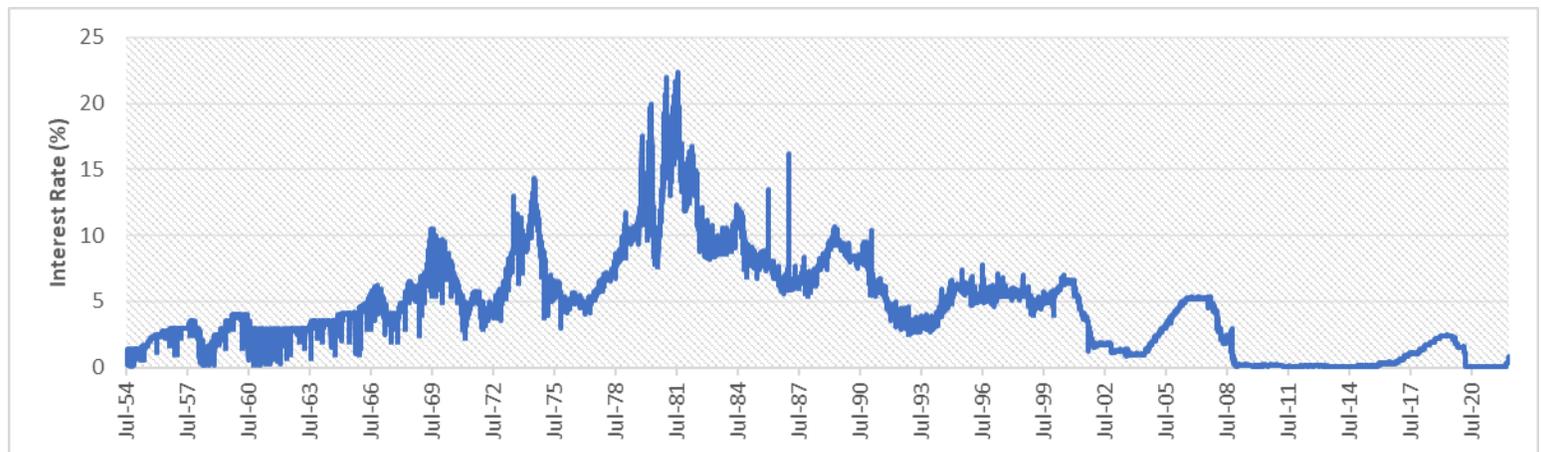
Central banks	Date	Probability of change	Current rate
Bank of Canada	1-Jun-22	204.0%	1.00%
European Central Bank	9-Jun-22	44.9%	0.00%
Federal Open Market Committee	15-Jun-22	219.4%	1.00%
Bank of England	16-Jun-22	111.6%	1.00%
Bank of Japan	17-Jun-22	-8.3%	-0.10%

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

Fed's interest rates through the decades

The chart below shows the daily level of the Fed funds rate since 1954. Aiming to tackle soaring inflation, the Fed raised the target range for the Fed funds rate by half a point, to 0.75%–1.00%, at its May 2022 meeting, the second consecutive monthly rate hike and the biggest rise in borrowing costs since 2000. The central bank added that ongoing increases in the target range will be appropriate, with Fed Chair Jerome Powell pointing to 50-basis-point hikes at the next couple of meetings. The Fed will also begin reducing asset holdings on its \$9 trillion balance sheet on June 1. On the economic front, policy makers noted that the invasion of Ukraine and related events are creating additional upward pressure on inflation and are likely to weigh on economic activity. In addition, COVID-19-related lockdowns in China are also likely to worsen the ongoing supply chain disruptions.



Source: Board of Governors of the Federal Reserve System (U.S.). fred.stlouisfed.org

Appendix

Global markets (Returns in Canadian dollar terms)				
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Silver	28.86	-1.47%	-1.47%	-1.97%
Copper	550.86	-2.85%	-2.85%	-1.88%
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