June 17, 2022

In focus

Global equities declined sharply for the week as a number of central banks raised their interest rates to tackle rising inflation. Fears that higher interest rates would trigger a global economic slowdown dampened investor confidence and weighed on both equity and bond markets. Equities declined due to a combination of factors, such as the likely negative effect of slowing growth on earnings and the effect of higher rates on corporate balance sheets. Among bonds, yields increased, and bond prices fell, to compensate for higher interest rates and inflation.

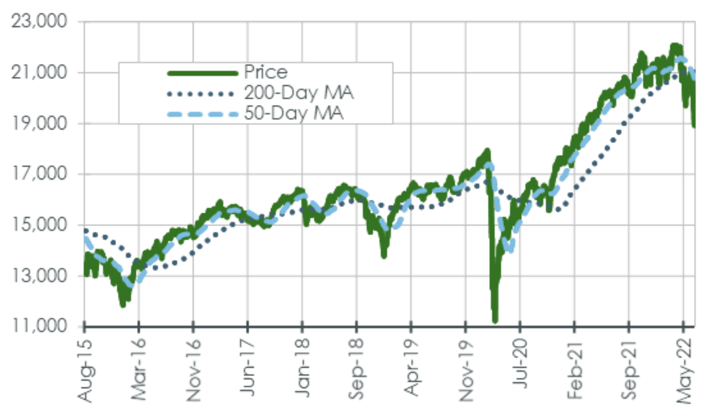
The U.S. Federal Reserve (the Fed) raised its Fed funds rate by 75 basis points at the policy meeting that ended on Wednesday, after recent data showed inflation remained at a record high. Meanwhile, as widely expected, the Bank of England raised its base rate by 25 basis points, to 1.25%, pushing borrowing costs to the highest level since 2009, and also signalled further tightening. The Swiss National Bank surprised markets by raising its benchmark rate for the first time in 15 years. The European Central Bank, which is widely expected to raise interest rates, announced plans to introduce a new instrument to help weaker European economies to deal with rising borrowing costs.

Risks to global growth also affected oil and natural gas prices. Copper, a crucial industrial commodity, also declined in view of risks to global demand amid rising interest rates.

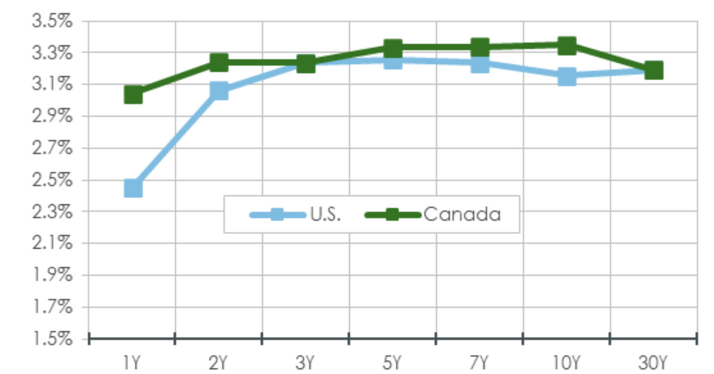
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	18,930.48	-6.63%	-8.68%	-10.80%
S&P500	3,674.84	-5.79%	-11.07%	-22.90%
NASDAQ	10,798.35	-4.78%	-10.62%	-30.98%
DJIA	29,888.78	-4.79%	-9.40%	-17.75%
Russell 2000	1,665.69	-7.48%	-10.64%	-25.81%
FTSE 100	7,016.25	-4.12%	-7.77%	-4.99%
Euro Stoxx 50	3,438.46	-4.47%	-9.26%	-20.01%
Nikkei 225	25,963.00	-6.69%	-4.83%	-9.82%
Hang Seng	21,075.00	-3.35%	-1.59%	-9.93%
Shanghai Comp.	3,316.79	0.97%	4.09%	-8.87%
MSCI ACWI	584.55	-5.76%	-10.46%	-22.56%
MSCI EM	1,004.63	-4.74%	-6.78%	-18.46%
MSCI ACWI ESG Leaders	2,081.97	-5.27%	-9.85%	-22.56%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,030.38	-0.56%	-3.52%	-13.43%
BBG Global Agg.	453.64	-1.36%	-4.20%	-14.80%
TSX Pref	1,760.30	-3.76%	-5.05%	-9.66%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	3.41%	5.7	51.4	197.9
10 yr U.S. Govt.	3.23%	7.0	38.2	171.6
30 yr Canada Govt.	3.29%	10.0	44.7	161.5
30 yr U.S. Govt.	3.28%	8.6	23.4	137.6
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	109.56	-9.21%	-4.46%	50.54%
Natural gas	6.94	-21.54%	-14.75%	90.87%
Gold	1,839.39	-1.72%	0.11%	0.56%
Silver	21.67	-0.99%	0.57%	-7.01%
Copper	402.95	-6.53%	-6.39%	-9.05%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7677	-1.85%	-2.90%	-2.98%
USD/EUR	0.9529	0.24%	2.28%	8.37%
CAD/EUR	0.7315	-1.63%	-0.69%	5.16%
USD/JPY	135.0200	0.45%	4.94%	17.33%
USD/CNY	6.7167	0.11%	0.67%	5.67%
USD/MXN	20.3423	1.91%	3.49%	-0.91%
GBP/CAD	1.5920	1.12%	-0.13%	-6.88%
GBP/USD	1.2241	-0.60%	-2.86%	-9.54%

* 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 and 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 housing starts	May	255.0k	287.3k	265.7k
Canada net change in employment	Apr	2.0%	1.7%	3.5%
U.S. initial jobless claims	11-Jun	217k	229k	232k
U.S. retail sales advance MoM	May	0.1%	-0.3%	0.7%
U.S. industrial production MoM	May	0.4%	0.2%	1.4%
U.S. housing starts	May	1693k	1549k	1810k

Canada

Canadian equities declined for the week. Energy was the worst-performing sector, given a sharp fall in oil prices. Real estate declined, with rising interest rates expected to hurt housing demand, while utilities were also lower for the week. Among other sectors, communication services and financials came under selling pressure due to a combination of factors, from concerns about high valuations to the likelihood of a fall in demand for loans.

In economic news, data showed that Canadian employers continued hiring at a brisk pace, driving down the unemployment rate to historic lows, and at the same time adding to higher wage pressure. Factory sales in April rose at a brisk pace as well. Data also revealed that firms are running up against supply constraints, with unfilled orders rising for a sixth month in a row.

U.S.

U.S. equities declined for the week. Investors started the week dealing with stubbornly high inflation that could possibly lead to lower growth in the economy. Adding to downside pressure on Monday, the U.S. yield curve inverted for the first time since April; the long-term ten-year Treasury yield traded below its two-year counterpart, signalling a looming economic contraction. Compared with a year ago, consumer prices (as measured by the CPI) rose by 8.6%, while producer prices rose by a strong 10.8% on a yearly basis. While slowing further from a record high in March, producer prices remained at a high level, mainly driven by gasoline prices.

The Fed raised its Fed funds rate by 75 basis points on Wednesday. Following the announcement, Fed Chair Jerome Powell signalled a 50- to 75-basis-point rate hike in July, and said the economy is strong enough for a tighter policy. For investors, the question remained whether policy makers can bring down persistently high inflation without tipping the economy into a recession.

On the data front, retail sales fell 0.3% on a monthly basis in May, reversing market expectations of a 0.2% rise, which signalled that consumer spending had already been dampened by surging inflation, gasoline prices and borrowing costs. Housing starts slumped 14.4% on a monthly basis in May; rising mortgage rates continued to hurt affordability, coupled with supply constraints, surging inflation and high building material costs. Elsewhere, the Philadelphia Fed Manufacturing Index fell to -3.3 in June, suggesting the first contraction in factory activity since May 2020.

Among sectors, energy, utilities and materials were the worst performers. Among companies, growth stocks were relatively weaker than value stocks. Large-cap growth stocks, such as Apple and Meta Platform, tumbled.

Rest of the world

European equities declined due to risks stemming from rising interest rates and a likely economic slowdown. German Bund yields rose as their safe asset scarcity premium diminished, following the announcement of the ECB's new tool to shield its indebted members from rising borrowing costs. However, the overall impact of this announcement on equity market performance was limited; investors were concerned, among other things, about the prospects of some of Europe's most highly indebted companies.

In Asia, Chinese equities extended their gains, outperforming their global peers and ending the week with gains amid optimism that a bar-linked COVID-19 outbreak eased in Beijing and more stimulus policies would support the economy. Elsewhere, the Bank of Japan announced it would maintain its ultra-low interest rates, with a focus on supporting the economic recovery from COVID-19, which helped resist market pressure on the yen and government bonds.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	May	7.3%	6.8%
Canada retail sales MoM	Apr	0.8%	0.0%
Canada retail sales (ex auto) MoM	Apr	0.6%	2.4%
U.S. initial jobless claims	18-Jun	225k	229k
U.S. new home sales	May	592k	591k
U.S. existing home sales	May	5.4m	5.6m

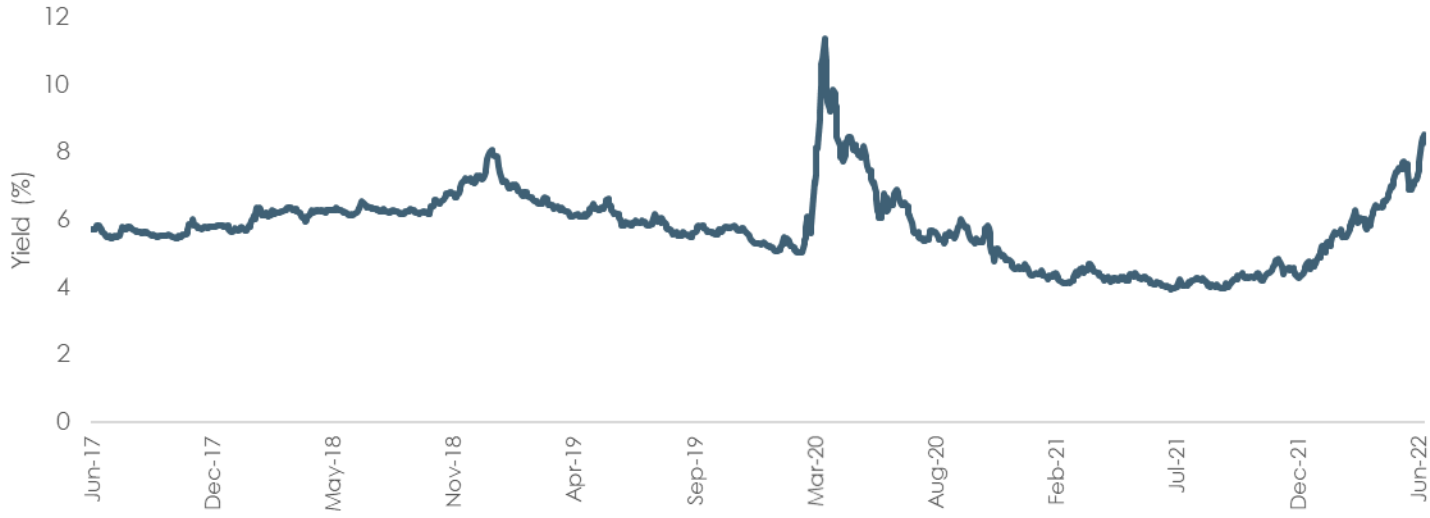
Central bank meetings			
Central banks	**Date**	**Probability of change**	**Current rate**
Bank of Canada	13-Jul-22	286.5%	1.50%
European Central Bank	21-Jul-22	333.6%	0.00%
Bank of Japan	21-Jul-22	1.0%	-0.10%
Federal Open Market Committee	27-Jul-22	283.6%	1.75%
Bank of England	4-Aug-22	168.4%	1.25%

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

High-yield bonds offer attractive income, but could be fraught with risks.

The chart below shows the yields currently offered by the U.S. high-yield benchmark, which, at 8.46% on June 17, offers a very attractive level of income. All else being equal, yields above 8% are likely to attract more investor attention. While timing the asset class is notoriously difficult, due to its liquidity profile, a focus on security selection could very well produce healthy intermediate-term returns for patient investors. While company fundamentals in this space may not yet be distressed, margins are expected to come under pressure from rising input costs, elevated inventories and ongoing supply chain challenges, particularly in consumer-facing sectors, where it may not be possible to continue passing through higher costs to consumers.



Source: Bloomberg, ICE BofA Indices (HUC0), June 17, 2022

Appendix

Global markets (Returns in Canadian dollar terms)				
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Oil	142.71	-7.49%	-1.61%	55.16%
Natural gas	9.05	-20.05%	-12.20%	96.74%
Gold	2,396.86	0.16%	3.11%	3.60%
Silver	28.24	0.90%	3.57%	-4.10%
Copper	524.88	-4.76%	-3.60%	-6.26%
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