



June 3, 2022

In focus

Global equity markets were mixed for the week. Investors in the U.S. and Europe worried that strong job data in the U.S. and high inflation in Europe would result in more aggressive monetary policy tightening. In China, Japan and emerging markets, however, equities advanced, in part due to measures announced in China to support economic growth.

Oil prices continued to rise, despite a decision by the Organization of Petroleum Exporting Countries (OPEC) to increase output; many investors feared that the increase may not meet rising demand. In Europe, German retail sales sank in April, the biggest fall in a year, with a rise in food prices weighing on consumer spending.

Investor woes about Beijing's zero-COVID policy and a potential rise in cases was overshadowed by optimism about additional stimulus measures to bolster a sluggish economy. Meanwhile, gains in shares of Fast Retailing, due to robust domestic sales, encouraged the Japanese market.

In fixed income, U.S. Treasury yields increased substantially during the week, responding to U.S. payroll gains and a jump in eurozone inflation. Oil prices settled higher, signalling tight supply even after OPEC agreed to accelerate output increases in the next two months.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,790.73	0.20%	0.30%	-2.04%
S&P500	4,108.54	-1.20%	-0.57%	-13.80%
NASDAQ	12,012.73	-0.98%	-0.57%	-23.22%
DJIA	32,899.70	-0.94%	-0.27%	-9.46%
Russell 2000	1,883.05	-0.26%	1.02%	-16.13%
FTSE 100	7,532.95	-0.69%	-0.98%	2.01%
Euro Stoxx 50	3,783.66	-0.66%	-0.15%	-11.98%
Nikkei 225	27,761.57	3.66%	1.77%	-3.58%
Hang Seng	21,082.13	1.86%	-1.56%	-9.90%
Shanghai Comp.	3,195.46	2.08%	0.28%	-12.21%
MSCI ACWI	649.16	-0.56%	-0.56%	-14.00%
MSCI EM	1,060.74	1.68%	-1.57%	-13.90%
MSCI ACWI ESG Leaders	2,294.09	-0.55%	-0.66%	-14.67%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,056.63	-1.70%	-1.06%	-11.23%
BBG Global Agg.	470.55	-1.24%	-0.63%	-11.62%
TSX Pref	1,875.71	3.69%	1.17%	-3.74%

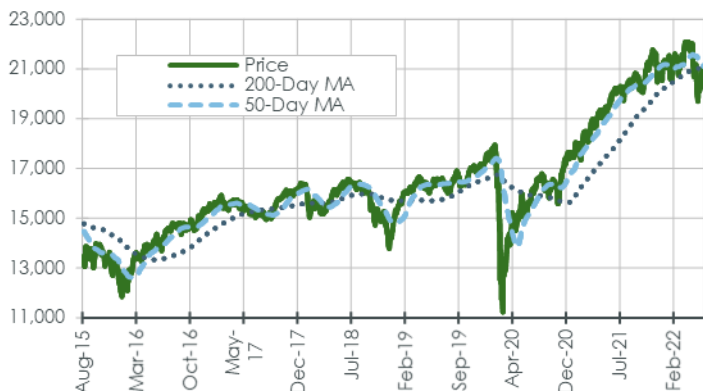
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.06%	27.4	17.3	163.8
10 yr U.S. Govt.	2.93%	19.5	8.9	142.3
30 yr Canada Govt.	2.95%	16.5	10.6	127.4
30 yr U.S. Govt.	3.09%	12.3	4.1	118.3

Commodities	Close	Weekly	MTD	YTD
Oil	118.87	3.30%	3.66%	63.33%
Natural gas	8.52	-2.34%	4.64%	134.28%
Gold	1,851.19	-0.14%	0.75%	1.20%
Silver	21.93	-0.85%	1.74%	-5.93%
Copper	447.20	3.84%	4.10%	0.66%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7940	0.99%	0.43%	0.34%
USD/EUR	0.9330	0.15%	0.14%	6.11%
CAD/EUR	0.7407	1.15%	0.56%	6.48%
USD/JPY	130.8800	2.97%	1.72%	13.73%
USD/CNY	6.6603	-0.58%	-0.17%	4.79%
USD/MXN	19.5594	-0.10%	-0.50%	-4.72%
GBP/CAD	1.5730	-2.09%	-1.32%	-7.99%
GBP/USD	1.2488	-1.13%	-0.90%	-7.72%

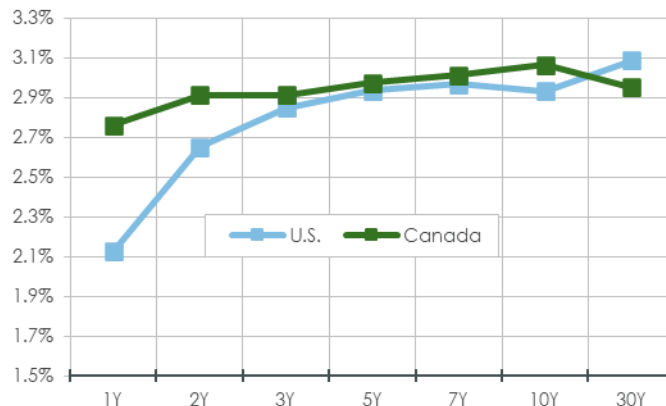
* Please refer to Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement.

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
Bank of Canada rate decision	01-Jun	1.5%	1.5%	1.0%
Canada quarterly GDP annualized	Q1'22	5.2%	3.1%	6.6%
Canada GDP YoY	Mar	3.7%	3.5%	4.5%
U.S. initial jobless claims	28-May	210k	200k	211k
U.S. ISM manufacturing	May	54.5	56.1	55.4
U.S. Conference Board consumer confidence	May	103.8	106.4	108.6

Canada

Despite a broad sell-off on Friday that hit every sector except consumer staples, Canadian equities managed to end the week higher. On the economic front, GDP grew at an annualized rate of 3.1% in the first quarter, missing expectations, but in line with central bank projections, while real GDP climbed 0.2% in April.

At its policy meeting on Wednesday, Canada's central bank raised interest rates by 50 basis points for the second straight meeting. The bank also confirmed that it would continue its policy of quantitative tightening. The bank's Governing Council also expressed its willingness to act more forcefully to achieve its 2% inflation target.

U.S.

U.S. equities ended the holiday-shortened week posting negative returns on inflation and recession fears. Soaring oil prices and hawkish comments from a Federal Reserve governor pushed the market down from last week's highs. On Wednesday, comments from JPMorgan Chase CEO Jamie Dimon that an economic "hurricane" was coming, because of increasing interest rates and high commodity prices, seemed to unnerve some investors. However, sentiment improved on Thursday, led by mega-cap growth stocks, amid mixed job market data.

The latest employment data released on Friday showed that the U.S. economy added 390,000 jobs in May, with solid wage gains, while the unemployment rate remained stable, at 3.6%. The market dropped sharply on expectations that the labour market remained resilient, thus exacerbating bets on an aggressive monetary tightening cycle.

Among sectors, rising oil prices boosted the energy sector; investors anticipated that OPEC's decision to increase output will have little influence on the world's tight supply. On the negative side, health care, real estate and financials were hit the hardest. The information technology sector saw record job cuts in May amid rising inflation.

Among companies, Tesla shares sank after CEO Elon Musk said he has a "super bad feeling" about the economy and needs to cut about 10% of jobs at the electric car maker.

In economic data, the ISM's gauge of services sector activity fell more than expected, while manufacturing data showed a surprising acceleration in activity in May, driven in part by new orders.

Rest of the world

European markets ended lower; sentiment remained under pressure from a strong U.S. job report supportive of the Federal Reserve's aggressive tightening policy, and investors ramped up their bets on rate hikes by the European Central Bank following record-high inflation data this week. The E.U.'s recent announcement of a partial restriction on Russian oil imports also weighed on investors sentiment.

Japan's stock market ended the week on a positive note. Market sentiment was lifted by a further loosening of Japan's strict border controls and by Chinese authorities' decision to allow parts of the economy to reopen following strict coronavirus lockdowns. The signed revision to the U.S.-Japan Trade Agreement's "beef safeguard" mechanism was also encouraging.

Chinese equities rose for the week ended Thursday. Chinese policy makers unveiled a package of 33 stimulus measures, using a wide range of mechanisms to support an economy affected by COVID lockdowns. A stronger-than-expected Caixin reading of 48.1 echoed a similar uptick in the official manufacturing PMI in May, and indicated that the worst of the country's lockdown-related disruption may have passed.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada unemployment rate	May	5.2%	5.2%
Canada net change in employment	May	25.0k	15.3k
Canada international merchandise trade	Apr	2.6bn	2.49bn
U.S. initial jobless claims	04-Jun	206k	200k
U.S. CPI MoM	May	0.7%	0.3%
U.S. CPI YoY	May	8.3%	8.3%

Central bank meetings			
Central banks	Date	Probability of change	Current rate
European Central Bank	9-Jun-22	16.5%	0.00%
Federal Open Market Committee	15-Jun-22	202.9%	1.00%
Bank of England	16-Jun-22	129.2%	1.00%
Bank of Japan	17-Jun-22	-1.0%	-0.10%
Bank of Canada	13-Jul-22	231.2%	1.50%

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

Consumer confidence vs. real spending

The relationship between consumer confidence and real spending is depicted the graph below. Consumer confidence dropped in May to its lowest level since February, highlighting the impact of decades-high inflation on the U.S. economic outlook. Consumer spending, on the other hand, climbed 4.9% year-over-year in April, with consumers delving into their savings; the personal savings rate fell to levels last seen in 2008. Consumers are increasingly depending on credit cards to acquire goods and services, with the ratio of household debt servicing to income at record lows. While this may help to support consumption in the short term, rising prices and further interest rate hikes will put a damper on consumer spending.



Source: Bloomberg, as at May 31, 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
Indexes	Close	Weekly	MTD	YTD
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Oil	149.71	2.29%	3.22%	62.77%
Natural gas	10.73	-3.30%	4.19%	133.48%
Gold	2,331.63	-1.11%	0.30%	0.78%
Silver	27.62	-1.81%	1.29%	-6.21%
Copper	563.22	2.82%	3.65%	0.32%
Currencies	Close	Weekly	MTD	YTD
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