



May 27, 2022

## In focus

Global equities surged for the week, with minutes from the U.S. Federal Reserve's most recent policy meeting revealing policy makers' sense of caution about the pace of monetary policy tightening. Although wage pressures were generally seen as remaining elevated, the minutes of the May 3–4 policy meeting noted that some members of the Federal Open Market Committee believed overall price pressures "may no longer be worsening."

A marginal decline in first-quarter U.S. GDP also appeared to boost investor sentiment, signalling that the Federal Reserve (the Fed) may not need to raise interest rates as aggressively as previously anticipated. Markets also benefited from expectations of improving Sino-U.S. relations and increased Chinese government support.

Meanwhile, a possible contraction in China's second-quarter GDP and falling industrial profits hampered the outlook for Chinese equities, which edged lower. In Europe, Germany's Ifo survey was positive, rising in contrast to expectations of a decline.

In fixed income, yields traded mostly lower against a cautious investing backdrop. Oil prices continued to rally due to increasing demand for gasoline ahead of the U.S. driving season and to the likelihood of an E.U. embargo on Russian crude oil.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,748.58	2.73%	-0.06%	-2.23%
S&P500	4,158.24	6.58%	0.64%	-12.76%
NASDAQ	12,131.13	6.84%	-1.65%	-22.46%
DJIA	33,212.96	6.24%	0.71%	-8.60%
Russell 2000	1,887.90	6.46%	1.28%	-15.92%
FTSE 100	7,585.46	2.65%	0.54%	2.72%
Euro Stoxx 50	3,808.86	4.15%	0.16%	-11.39%
Nikkei 225	26,781.68	0.16%	-0.25%	-6.98%
Hang Seng	20,697.36	-0.10%	-1.86%	-11.54%
Shanghai Comp.	3,130.24	-0.52%	2.73%	-14.00%
MSCI ACWI	652.84	4.98%	-0.13%	-13.51%
MSCI EM	1,043.17	0.76%	-3.07%	-15.33%
MSCI ACWI ESG Leaders	230671.00%	0.0	0.0	-0.1

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	107495.20%	0.55%	0.59%	-9.69%
BBG Global Agg.	476.45	0.88%	0.89%	-10.51%
TSX Pref	180893.00%	0.0	0.0	-0.1

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	2.79%	-4.5	-7.6	136.4
10 yr U.S. Govt.	2.74%	-4.3	-19.6	122.8
30 yr Canada Govt.	2.79%	-2.6	-1.4	110.9
30 yr U.S. Govt.	2.96%	-2.2	-3.4	106.0

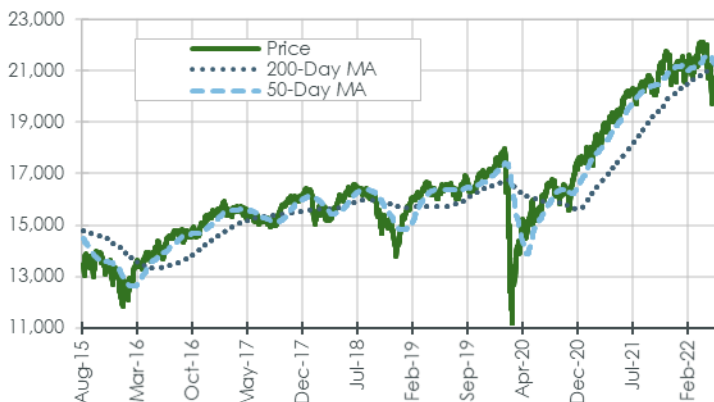
Commodities	Close	Weekly	MTD	YTD
Oil	115.07	4.34%	11.78%	58.11%
Natural gas	8.73	6.71%	18.65%	139.88%
Gold	1,853.72	0.39%	-2.28%	1.34%
Silver	22.11	1.55%	-2.91%	-5.13%
Copper	43065.00%	0.0	0.0	0.0

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7862	0.95%	1.12%	-0.64%
USD/EUR	0.9316	-1.60%	-1.77%	5.95%
CAD/EUR	0.7323	-0.69%	-0.71%	5.28%
USD/JPY	127.1100	-0.60%	-2.00%	10.45%
USD/CNY	6.6994	0.10%	1.38%	5.40%
USD/MXN	19.5789	-1.43%	-4.16%	-4.63%
GBP/CAD	1.6065	0.15%	-0.66%	-6.03%
GBP/USD	1.2631	1.21%	0.45%	-6.66%

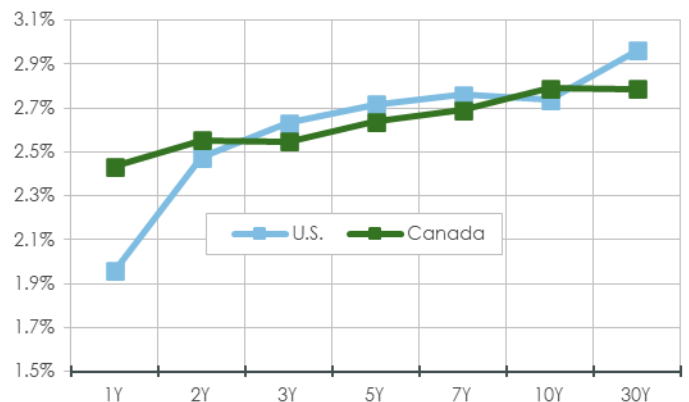
\* Please refer to Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement.

## 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 retail sales MoM	Mar	1.4%	0.0%	0.2%
Canada retail sales ex auto MoM	Mar	2.1%	2.4%	1.8%
U.S. initial jobless claims	21-May	215k	210k	218k
U.S. GDP annualized QoQ	Q1	-1.3%	-1.5%	-1.4%
U.S. University of Michigan sentiment	May	59.1	58.4	59.1
U.S. durable goods orders	Apr	0.6%	0.4%	0.6%

## Canada

Canadian equities advanced on solid earnings announcements from Canadian banks, along with signals of Fed flexibility. From a sector perspective, energy rose strongly on higher crude oil prices. Financials gained after leading Canadian banks reported positive quarterly earnings, benefiting from higher consumer spending and business investment. Consumer discretionary, consumer staples and industrials also ended the week with strong gains. On the economic front, retail sales remained unchanged in March, with a slump in new car sales.

## U.S.

U.S. equities broke a seven-week losing streak to make strong gains. After a positive start in anticipation of easing Trump-era tariffs on Chinese goods, equities declined on Tuesday as unfavourable economic and company news weighed on U.S. sentiment. However, sentiment improved again on Wednesday, when markets reacted positively to Fed minutes that suggested the Fed would adopt a softer monetary policy stance than earlier expected.

Stocks surged further on Friday, when the PCE price indexes, which the Fed uses in its policy assessment, rose only 0.2% for the month of April, while the core index, which excludes food and energy, rose 0.3%.

All major sectors advanced on anticipation that inflationary pressures could be peaking, with consumer discretionary, energy and information technology among the best-performing sectors. Financials also rose strongly.

Among companies, department store chain Macy's soared after reporting strong first-quarter sales. Dollar General and Dollar Tree also made gains, exceeding quarterly earnings projections as inflation-stricken consumers sought cheaper prices. Twitter gained on reports that Elon Musk has committed to his buyout deal. Apple's stock surged after the company announced it will not boost iPhone production this year.

Separately, in economic data, revised GDP figures contracted at a 1.5% annual pace in the first quarter, largely because the trade deficit widened and commercial inventory investment dipped. Consumer spending grew at a rate of 3.1%, and initial jobless claims fell to 210,000 from 218,000 last week. The personal consumption expenditures index fell to 6.3% level and the core index eased to 4.9%. The personal saving rate fell to 4.4%, indicating that much of the consumer spending is coming at the expense of accumulated savings.

## Rest of the world

The European stock market finished the week on a positive note. Positive sentiment in Europe remains fragile, however, after the European Central Bank president blogged about tightening monetary policy and raising the Bank's current deposit rate out of negative territory. The U.K. announced a 25% windfall tax on profits of oil and gas producers and continued rate hikes to combat the country's inflation. Markets also remained affected by Russia's incremental progress to the Donbas region.

The Japanese stock market ended the week with positive returns, taking optimistic cues from the U.S. In May, however, the manufacturing sector expanded at its slowest pace in three months, due to supply chain disruptions and increasing coronavirus cases in Beijing.

Concerns about slowing economy growth in China, aggravated by the government's zero-COVID policy, weakened Chinese markets. Profits for China's industrial firms fell in April at their sharpest rate in two years, further dampening confidence.

## Looking ahead

Economic indicators	Period	Survey	Prior period
Bank of Canada rate decision	01-Jun	1.5%	1.0%
Canada quarterly GDP annualized	Q1'22	5.2%	6.7%
Canada GDP YoY	Mar	3.8%	4.5%
U.S. initial jobless claims	28-May	210k	210k
U.S. ISM manufacturing	May	54.5	55.4
U.S. Conference Board consumer confidence	May	103.8	107.3

### Central bank meetings

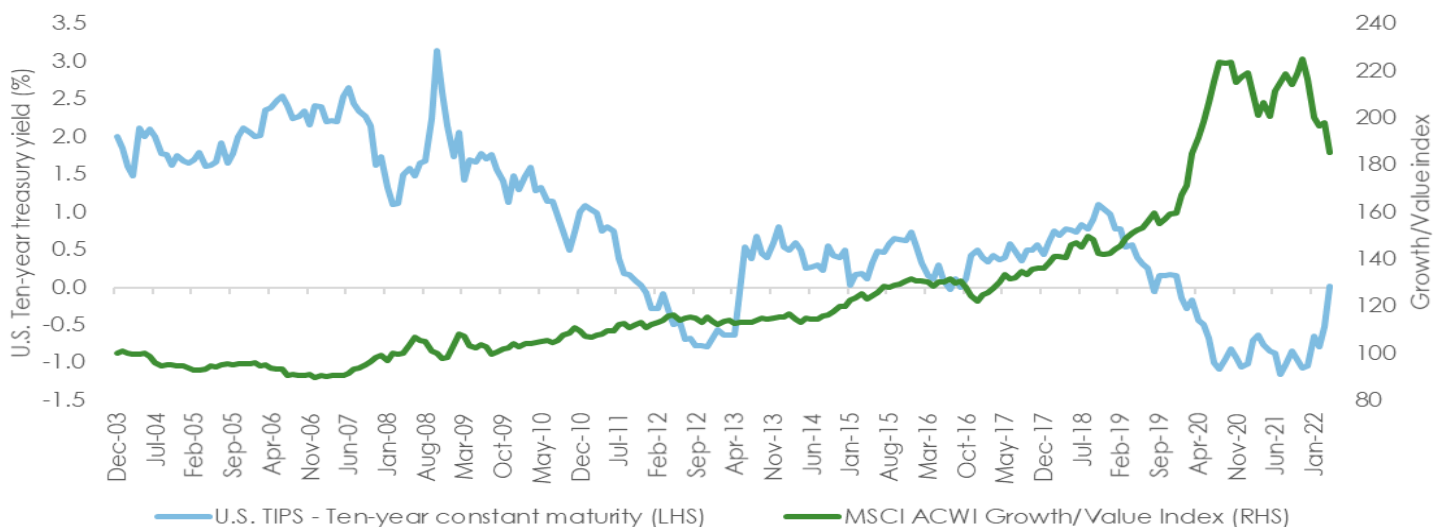
Central banks	Date	Probability of change	Current rate
Bank of Canada	1-Jun-22	252.8%	1.00%
European Central Bank	9-Jun-22	14.7%	0.00%
Federal Open Market Committee	15-Jun-22	205.4%	1.00%
Bank of England	16-Jun-22	121.4%	1.00%
Bank of Japan	17-Jun-22	-3.6%	-0.10%

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

### Shift in the regime as interest rates head higher

The relationship between the ten-year real yield (as measured by TIPS) and the MSCI ACWI Growth/Value Index is depicted in the graph below. Low interest rates have supported growth-style investing for most of the past decade or so since the global financial crisis. As we have seen in the past six months, the penalty for disappointment by high-rated growth stocks can be far larger than for cheaper value stocks. Even with the recent correction, some growth stocks may still be more expensive (against expected near-term earnings) than they were five years ago, and value stocks may be cheaper than they were. For investors, it might be best to start to look for outstanding opportunities in both growth and value camps, rather than trying to hide in the middle ground.



Source: Refinitiv DataStream, as at April 29, 2022

## Appendix

Global markets (Returns in Canadian dollar terms)				
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Natural gas	11.10	5.71%	17.34%	141.44%
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Silver	28.12	0.66%	-4.00%	-4.48%
Copper	547.76	-0.21%	-3.39%	-2.43%
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