WEEK IN REVIEW

July 1, 2022

InFocus

Risks of a recession in the U.S. and fears that central banks across the developed world would continue to raise interest rates dominated investor sentiment, as most global equities declined for the week. This contrasted with gains in China, where equities rose on prospect of a broader reopening of its economy.

A closely watched survey from the Institute for Supply Management showed the pace of growth in the U.S. manufacturing sector declined sharply to 53.0 in June. At the same time, forward-looking new orders sub-index dropped to 49.2 from a reading of 55.1 in May because of prolonged turnaround times and high prices. Weaker economic data have investors worried that measures to curb high inflation by central banks like the Federal Reserve, European Central Bank, and Bank of England may impair major global economies.

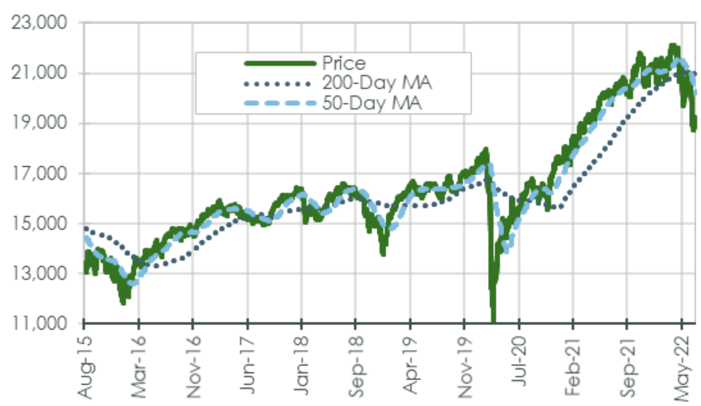
The domestic economy in China, meanwhile, showed indications of recovery from the COVID-19 lockdowns in June, as manufacturing activity grew at its fastest rate in 13 months. Optimistic comments from China's central bank governor, which stated that monetary policy would remain accommodative to support economic recovery, further bolstered sentiment. Elsewhere, a flash estimate from Eurostat showed that, in June, inflation rose in 17 of the 19 eurozone member states, with double-digit growth in nine of those states.

Oil prices settled higher, after major producers looked unlikely to expand production and outages in Libya heightened worries about reduced supply. Copper also declined in view of risks to global demand.

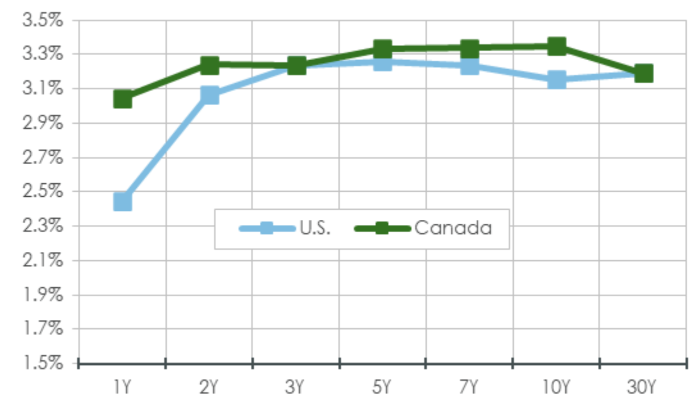
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	18,861.36	-1.06%	0.00%	-11.13%
S&P500	3,825.33	-2.21%	1.06%	-19.74%
NASDAQ	11,127.84	-4.13%	0.90%	-28.87%
DJIA	31,097.26	-1.28%	1.05%	-14.42%
Russell 2000	1,727.76	-2.15%	1.16%	-23.05%
FTSE 100	7,168.65	-0.56%	-0.01%	-2.92%
Euro Stoxx 50	3,448.31	-2.40%	-0.19%	-19.78%
Nikkei 225	25,935.62	-2.10%	-1.73%	-9.92%
Hang Seng	21,859.79	0.65%	0.00%	-6.57%
Shanghai Comp.	3,387.64	1.13%	-0.32%	-6.93%
MSCI ACWI	599.08	-2.22%	0.39%	-20.63%
MSCI EM	992.84	-1.81%	-0.78%	-19.41%
MSCI ACWI ESG Leaders	2,132.31	-2.69%	0.20%	-20.68%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,044.64	0.81%	0.00%	-12.23%
BBG Global Agg.	460.44	0.48%	0.46%	-13.52%
TSX Pref	1,756.33	-0.36%	0.00%	-9.86%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	3.22%	-10.3	0.0	179.7
10 yr U.S. Govt.	2.88%	-25.0	-13.3	137.0
30 yr Canada Govt.	3.14%	-17.0	0.1	145.8
30 yr U.S. Govt.	3.10%	-15.4	-8.0	120.0
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	108.43	0.75%	2.52%	50.24%
Natural gas	5.73	-8.77%	5.64%	56.69%
Gold	1,811.43	-0.85%	0.23%	-0.97%
Silver	19.88	-6.09%	-1.98%	-14.72%
Copper	360.40	-3.75%	-2.86%	-18.65%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7762	0.08%	-0.08%	-1.90%
USD/EUR	0.9590	1.22%	0.53%	9.06%
CAD/EUR	0.7443	1.29%	0.46%	7.03%
USD/JPY	135.2100	-0.01%	-0.38%	17.49%
USD/CNY	6.7015	0.17%	0.03%	5.43%
USD/MXN	20.2629	1.99%	0.72%	-1.30%
GBP/CAD	1.5601	-1.42%	-0.47%	-8.80%
GBP/USD	1.2095	-1.41%	-0.68%	-10.62%

* 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, 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 GDP MoM	Apr	0.3%	0.3%	0.7%
Canada GDP YoY	Apr	4.9%	5.0%	3.5%
U.S. initial jobless claims	25-Jun	230k	231k	233k
U.S. GDP annualized QoQ	Q1'22	-1.5%	-1.6%	-1.5%
U.S. ISM manufacturing	Jun	54.5	53.0	56.1
U.S. conference board consumer confidence	Jun	100.0	98.7	103.2

Canada

Canadian equities declined ahead of a long weekend. Information technology was the worst performing sector amid a broad selloff in technology stocks and slowing e-commerce traffic. Canopy growth announcement of convertible notes exchange dragged the health care sector lower, while materials sector dropped tracking weakness in copper prices. Surge in oil and gas prices helped lift energy equities.

In economic news, preliminary estimate showed that GDP declined 0.2% in May, largely on a drop in oil and gas output, while GDP grew 0.3% in April.

U.S.

U.S. equities declined for the week. Investors started the week on a soft footing on worries of rising prices and interest rates. On Tuesday, hawkish comments from Federal Reserve officials and unexpected fall of consumer confidence data to 98.7 in June further weakened the market. GDP contraction at annual rate of 1.6% in the first quarter indicated an economic slowdown on Wednesday, adding to the downbeat mood. Investors also focused to warning indications from various firms that decreased their profit guidance, adding to fears that ongoing inflation might continue to exert pressure on share prices. However, U.S. stocks ended higher on Friday. The moves followed a mixed set of economic figures that signaled at some additional softening in key sectors of the economy.

Among sectors, consumer discretionary, communication services and information technology were the worst performing sectors, while the utilities sector was the standout gainer. Among companies, growth stocks were relatively weaker than value stocks. Large-cap growth stocks, such as Alphabet, Amazon.com and Meta Platform, tumbled.

Treasury yields had their steepest weekly fall in four months. An unfavorable report on the factory sector caused investors to flee to safer securities.

On the data front, the personal consumption expenditure (PCE) price index rose 0.6% on a monthly basis in May, while the core PCE inflation excluding energy and food prices eased to 4.7% on an annual basis in May, offering a relief to persistent price pressures. Durable goods orders unexpectedly increased for the third month in a row, rising 0.7% on a monthly basis in May, suggesting that business spending remained solid despite rising inflation and borrowing costs. Similarly, pending home sales rose 0.7%, despite higher mortgage rates.

Rest of the world

European equities declined due to risks stemming from rising interest rates, and the likely economic slowdown. The eurozone's manufacturing production dropped last month for the first time since the start of the COVID-19 outbreak in 2020, while inflation rates reached yet another all-time high of 8.6%, driven by soaring energy and food costs. Banks experienced a sharp decline in value against the background of the European Central Bank's plans to ask banks to include a more pessimistic scenario in their business plans for recalculating dividend payout recommendations, such as a potential recession or a cutoff in gas supply from Russia.

In Asia, Japanese stocks finished the week in the negative territory as consumer confidence hit an 18-month low in June. Deteriorating confidence among key Japanese manufacturers and a bigger-than-expected drop in industrial production also contributed to the negative sentiment.

In contrast, Chinese equities advanced, outperforming their global peers and ending the week with gains, amid easing of coronavirus travel rules combined with other stimulus measures that would assist the economy.

Looking Ahead

Economic indicators	Period	Survey	Prior period
Canada unemployment rate	June	5.1%	5.1%
Canada net change in employment	June	20.0k	39.8k
U.S. change in nonfarm payrolls	June	273k	390k
U.S. durable goods orders	May	0.7%	0.7%
U.S. unemployment rate	Jun	3.6%	3.6%
U.S. factory orders	May	0.5%	0.3%

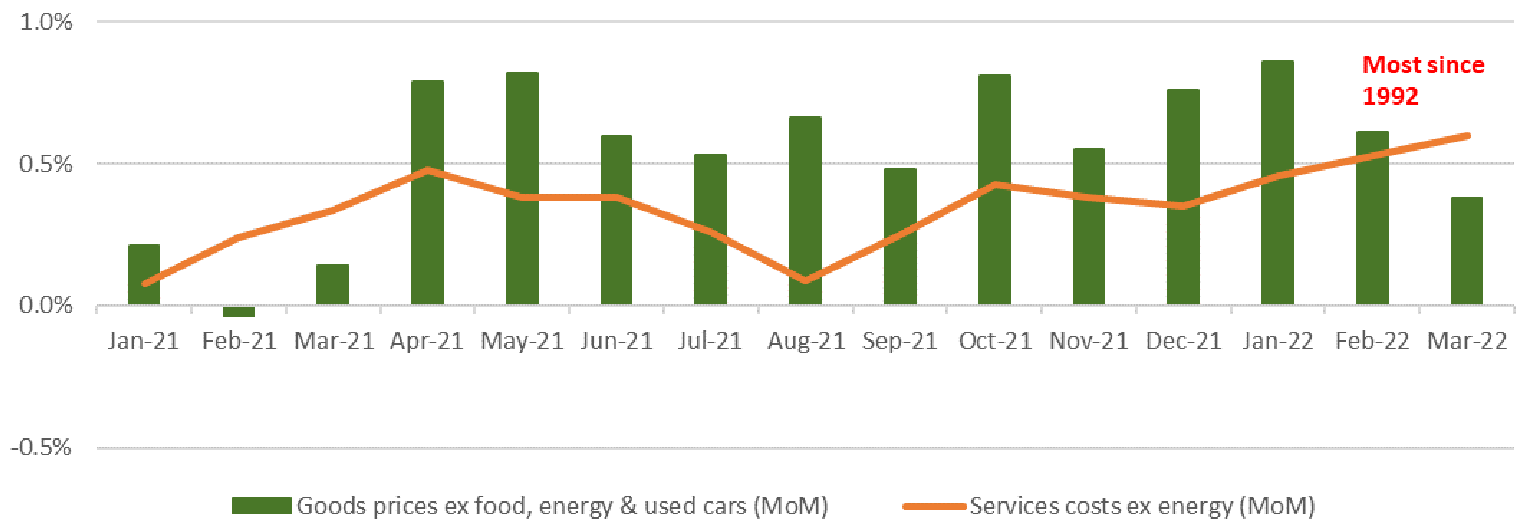
Central bank meetings			
Central banks	**Date**	**Probability of change**	**Current rate**
Bank of Canada	13-Jul-22	286.1%	1.50%
European Central Bank	21-Jul-22	290.5%	0.00%
Bank of Japan	21-Jul-22	-11.1%	-0.10%
Federal Open Market Committee	27-Jul-22	275.0%	1.75%
Bank of England	4-Aug-22	160.6%	1.25%

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

Inflation transition

The chart below shows core goods prices in the U.S. show signs of cooling, while costs of services pick up. As we enter the second half of the year, global inflation readings remain well above target and stubbornly high (except for China). The drivers of inflation are also broadening and, while goods inflation shows some signs of easing, non-core inflation and services inflation rising. This is not surprising; as mobility restrictions in response to the Covid-19 pandemic are eased, consumers are shifting their purchasing to areas that were most depressed during the lockdowns, for example travel and leisure.



Source: Bureau of Labor Statistics, May 2022

Appendix

Global markets (Returns in Canadian dollar terms)				
Indexes	**Close**	**Weekly**	**MTD**	**YTD**
S&P/TSX	18,861.36	-1.06%	0.00%	-11.13%
S&P500	3,825.33	-2.22%	1.41%	-18.04%
NASDAQ	11,127.84	-4.14%	1.25%	-27.37%
DJIA	31,097.26	-1.29%	1.40%	-12.61%
Russell 2000	1,727.76	-2.16%	1.51%	-21.42%
FTSE 100	7,168.65	-2.37%	-0.74%	-11.77%
Euro Stoxx 50	3,448.31	-3.75%	-0.61%	-25.16%
Nikkei 225	25,935.62	-2.19%	-1.11%	-22.49%
Hang Seng	21,859.79	0.31%	0.00%	-5.53%
Shanghai Comp.	3,387.64	0.95%	-0.01%	-9.85%
MSCI ACWI	599.08	-2.23%	0.74%	-18.95%
MSCI EM	992.84	-1.82%	-0.44%	-17.71%
MSCI ACWI ESG Leaders	2,132.31	-2.70%	0.55%	-19.00%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,044.64	0.81%	0.00%	-12.23%
BBG Global Agg.	460.44	0.41%	0.54%	-11.85%
TSX Pref	1,756.33	-0.36%	0.00%	-9.86%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	3.22%	-10.3	0.0	179.7
10 yr U.S. Govt.	2.88%	-25.0	-13.3	137.0
30 yr Canada Govt.	3.14%	-17.0	0.1	145.8
30 yr U.S. Govt.	3.10%	-15.4	-8.0	120.0
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	139.69	0.67%	2.60%	53.15%
Natural gas	7.38	-8.84%	5.72%	59.71%
Gold	2,333.11	-0.97%	0.29%	0.85%
Silver	25.63	-6.03%	-1.81%	-12.96%
Copper	464.31	-3.83%	-2.78%	-17.08%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7762	0.08%	-0.08%	-1.90%
USD/EUR	0.9590	1.22%	0.53%	9.06%
CAD/EUR	0.7443	1.29%	0.46%	7.03%
USD/JPY	135.2100	-0.01%	-0.38%	17.49%
USD/CNY	6.7015	0.17%	0.03%	5.43%
USD/MXN	20.2629	1.99%	0.72%	-1.30%
GBP/CAD	1.5601	-1.42%	-0.47%	-8.80%
GBP/USD	1.2095	-1.41%	-0.68%	-10.62%

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