



August 12, 2022

In focus

Global equities advanced, reacting positively to signs of slowing inflation and increased expectations that the U.S. Federal Reserve (the Fed) might slow the pace of its interest hikes. With earnings and labour markets continuing to be strong, relief that any potential recession would be shallow at best encouraged investors. In the U.S., both import and export prices eased, falling more in July than expected; in the eurozone, however, industrial production rose higher in June than expected.

Among sectors, energy producers tracked oil prices higher after the International Energy Agency raised its forecast for global oil demand growth this year. The agency said that record-high gas prices will incentivize more switching from gas to oil, and forecast a roughly 20.0% reduction in Russian oil production by the start of next year, when a European Union import ban takes effect. Other economically sensitive sectors, including financials, industrials and consumer discretionary, enjoyed robust gains.

In fixed income, yields on Canadian ten-year Treasury bonds declined, but ten- and 30-year bond yields rose for the week. This was in partly due to fears that while inflation softened, tight labour markets and rising wage pressure, among other factors, may continue to add pressure on the Fed to raise interest rates further.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,179.81	2.85%	2.47%	-4.91%
S&P500	4,280.15	3.26%	3.63%	-10.20%
NASDAQ	13,047.19	3.08%	5.30%	-16.60%
DJIA	33,761.05	2.92%	2.79%	-7.09%
Russell 2000	2,016.62	4.93%	6.97%	-10.19%
FTSE 100	7,500.89	0.82%	1.04%	1.58%
Euro Stoxx 50	3,776.81	1.38%	1.85%	-12.13%
Nikkei 225	28,546.98	1.32%	2.68%	-0.85%
Hang Seng	20,175.62	-0.13%	0.09%	-13.77%
Shanghai Comp.	3,276.89	1.55%	0.73%	-9.97%
MSCI ACWI	657.57	2.82%	3.11%	-12.89%
MSCI EM	1,016.83	1.39%	2.32%	-17.47%
MSCI ACWI ESG Leaders	2,323.60	2.63%	2.73%	-13.57%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,077.03	0.06%	-0.77%	-9.51%
BBG Global Agg.	465.95	0.42%	-0.46%	-12.49%
TSX Pref	1,789.47	1.27%	2.15%	-8.16%

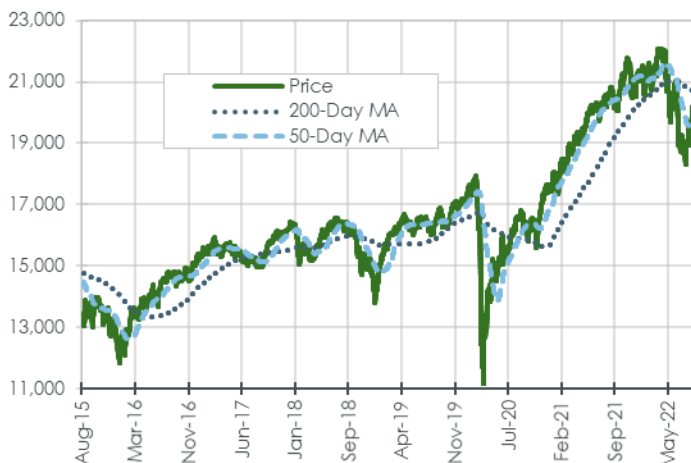
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	2.74%	-0.5	12.8	131.2
10 yr U.S. Govt.	2.83%	0.4	18.3	132.1
30 yr Canada Govt.	2.85%	3.5	7.7	117.2
30 yr U.S. Govt.	3.11%	4.2	9.8	120.5

Commodities	Close	Weekly	MTD	YTD
Oil	92.09	3.46%	-6.62%	28.69%
Natural gas	8.77	8.73%	6.55%	140.55%
Gold	1,802.40	1.52%	2.06%	-1.47%
Silver	20.82	4.67%	2.29%	-10.66%
Copper	366.85	3.28%	2.66%	-17.20%

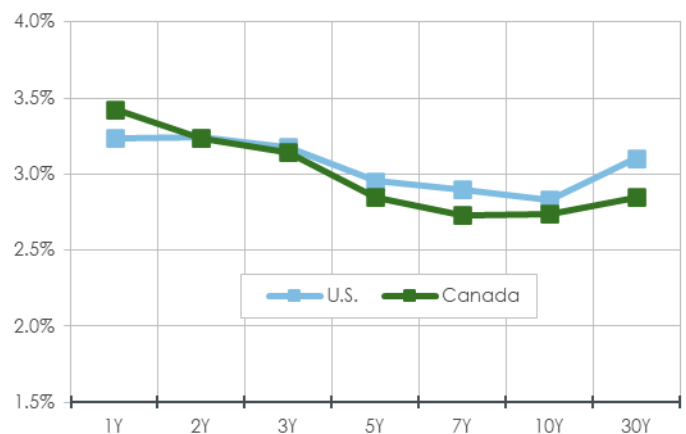
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7823	1.16%	0.10%	-1.12%
USD/EUR	0.9747	-0.74%	-0.39%	10.85%
CAD/EUR	0.7631	0.49%	-0.16%	9.74%
USD/JPY	133.4200	-1.18%	0.11%	15.94%
USD/CNY	6.7428	-0.28%	-0.03%	6.08%
USD/MXN	19.8487	-2.72%	-2.55%	-3.32%
GBP/CAD	1.5507	-0.57%	-0.47%	-9.35%
GBP/USD	1.2138	0.54%	-0.27%	-10.30%

*Please refer to the 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
U.S. initial jobless claims	06-Aug	265k	262k	248k
U.S. CPI MoM	Jul	0.2%	0.0%	1.3%
U.S. University of Michigan sentiment	Aug	52.5	55.1	51.5
U.S. CPI YoY	Jul	8.7%	8.5%	9.1%
Eurozone harmonized CPI YoY	Jul	8.4%	8.4%	8.4%
China CPI YoY	Jul	2.9%	2.7%	2.5%

Canada

Strong gains in materials and energy, as well as a rise in the interest rate-sensitive real estate and financials sector, lifted Canadian equities for the week. In part, the gains were supported by positive global cues; investors also expect softer inflation and sustained retail sales growth in Canada.

Among companies, Brookfield Asset Management gained on better-than-expected quarterly earnings growth, due to strong fundraising. TD Bank, Canadian Natural Resources and fertilizer company Nutrien made leading gains against the backdrop of broader optimism about earnings growth.

U.S.

U.S. equities started the week on a cautious note, with a stronger-than-expected payroll report supporting prospects of a continued hawkish stance for the Fed. A fall in semiconductor stocks was among the key signs of downward pressure on stock markets; Micron Technology flagged a dismal revenue outlook, along with NVIDIA, and other chipmakers warned of recent weakening demand.

However, investor sentiment improved sharply on cooler-than-expected inflation prints that reduced the chances of another aggressive 75-basis-point Fed rate hike in September. The annual inflation rate unexpectedly slowed to 8.5% in July, pulling back from a four-decade high of 9.1% in June, mainly due to a significant decline in gas prices. Core inflation, excluding volatile food and energy prices, held steady at 5.9% on an annual basis, below expectations, signalling that inflation may have peaked. Subsequently, data showed an unexpected drop in producer prices in July, a first in over two years, mainly due to a decline in gasoline prices.

Among stocks, mega-cap technology names such as Apple, Microsoft, Meta and Tesla made leading contributors to gains in the S&P 500 Index.

In other U.S. economic developments, the University of Michigan consumer sentiment index improved to a three-month high in August, beating market expectations. The inflation outlook for the year ahead eased, while five-year inflation expectations increased slightly, suggesting that high prices could be sticky. Less positively, labour productivity dropped on an annual basis for a second quarter in a row, marking the sharpest decline on record, while unit labour costs jumped more than expected, indicating that strong wage pressures may help inflation remain high. Meanwhile, the economic optimism index fell back to a 11-year low amid a pessimistic outlook.

Rest of the world

European equities ended higher as investors continued to monitor economic data and corporate results to assess the economy's health and gauge the extent of central banks' aggressiveness on interest rate increases. Earnings reports aided gains, with companies such as Aegon and Zurich Insurance Group reporting robust profit growth. Engineering group Siemens reported continued strong industrial demand during its third quarter. On the economic data front, the annual inflation rate in Germany slowed slightly in July, to 7.5%, with the help of a relief package and a fuel discount since June. However, inflation remained at near a 40-year high, mainly due to higher energy costs, underpinned by the impact of the ongoing war between Russia and Ukraine.

Equities were relatively more volatile in Asia, with the Hong Kong-based Hang Seng Index ending lower for the week. In China, fresh inflation data came in lower than expected in July, and reignited worries about weak domestic demand; consumer-related stocks declined as a consequence.

Looking Ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	Jul	7.6%	8.1%
Canada housing starts	Jul	264.6k	273.8k
Canada retail sales MoM	Jun	0.3%	2.2%
U.S. initial jobless claims	13-Aug	265k	262k
U.S. retail sales advance MoM	Jul	0.1%	1.0%
U.S. industrial production MoM	Jul	0.3%	-0.2%

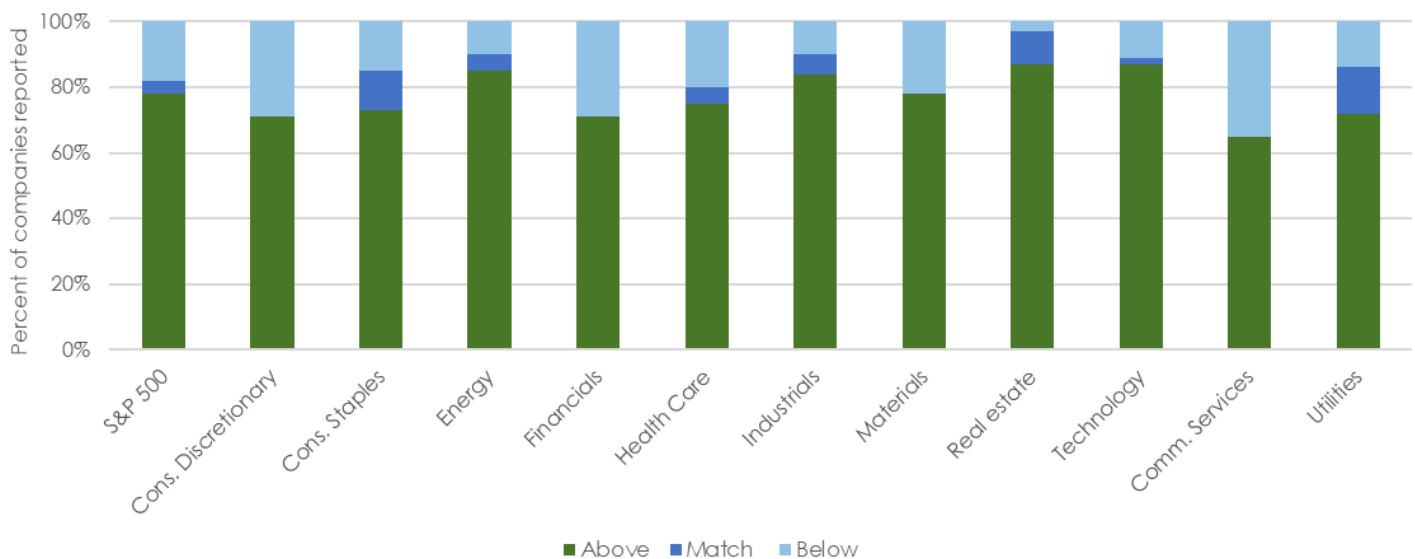
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	7-Sep-22	243.4%	2.50%
European Central Bank	8-Sep-22	180.9%	0.50%
Bank of England	15-Sep-22	185.2%	1.75%
Federal Open Market Committee	21-Sep-22	255.8%	2.50%
Bank of Japan	22-Sep-22	-14.9%	-0.10%

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

U.S. corporate earnings surprised.

Second-quarter corporate earnings have significantly exceeded the expectations of a market that was preparing for the beginning of a downgrade cycle. As at the end of August 12, data from Refinitiv DataStream showed that of the 456 companies in the S&P 500 that had reported second-quarter earnings, 77.6% had beaten forecasts, compared with a long-term average of 66%. The second-quarter blended revenue growth estimate was 13.7%, mainly supported by energy sector growth. Excluding energy, the blended revenue growth rate for the Index was 8.5%. Results showed divergence, with recessionary trends, but resilience was seen in information technology.



Source: Refinitiv DataStream, as at August 12, 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Natural gas	11.21	7.48%	6.44%	143.29%
Gold	2,302.33	0.25%	1.87%	-0.48%
Silver	26.59	3.32%	2.09%	-9.68%
Copper	468.94	2.09%	2.55%	-16.26%
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