



August 19, 2022

In focus

Global equities declined for the week. Uncertainty about the pace of interest rate hikes prevailed among investors after the Federal Reserve's meeting minutes showed officials were determined to curb inflation. Investors also weighed mixed earnings data from U.S. retailers and higher-than-expected U.K. inflation.

Weaker-than-expected Chinese economic data prompted the country's central bank to cut its lending rate, fuelling recession fears. Meanwhile, investors in Europe focused on the final eurozone inflation report for July, which confirmed that annual consumer prices had increased across the 19-member currency bloc by a record high of 8.9%. Among the sectors, only consumer staples, utilities and energy posted gains, while all other sectors joined the market downturn.

In fixed income, U.S. Treasury yields rose, with the ten-year benchmark hitting nearly 3%, after Germany reported record-high increases in monthly producer prices. Core eurozone government bond yields also rose following a double-digit increase in U.K. consumer prices, as well as European Central Bank official Isabel Schnabel's comment that inflation could tick higher in the near term.

Oil prices fell for the week on a stronger U.S. dollar and fears that an economic slowdown would weaken crude demand.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,111.38	-0.34%	2.12%	-5.24%
S&P500	4,228.48	-1.21%	2.38%	-11.28%
NASDAQ	12,705.21	-2.62%	2.54%	-18.79%
DJIA	33,706.74	-0.16%	2.62%	-7.24%
Russell 2000	1,957.35	-2.94%	3.83%	-12.83%
FTSE 100	7,550.37	0.66%	1.71%	2.25%
Euro Stoxx 50	3,730.32	-1.23%	0.60%	-13.22%
Nikkei 225	28,930.33	1.34%	4.06%	0.48%
Hang Seng	19,773.00	-2.00%	-1.90%	-15.49%
Shanghai Comp.	3,258.08	-0.57%	0.15%	-10.49%
MSCI ACWI	646.81	-1.64%	1.43%	-14.31%
MSCI EM	1,001.46	-1.51%	0.77%	-18.71%
MSCI ACWI ESG Leaders	2,288.90	-1.49%	1.19%	-14.86%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,065.63	-1.06%	-1.82%	-10.47%
BBG Global Agg.	457.45	-1.92%	-2.37%	-14.17%
TSX Pref	1,771.34	-1.01%	1.11%	-9.09%

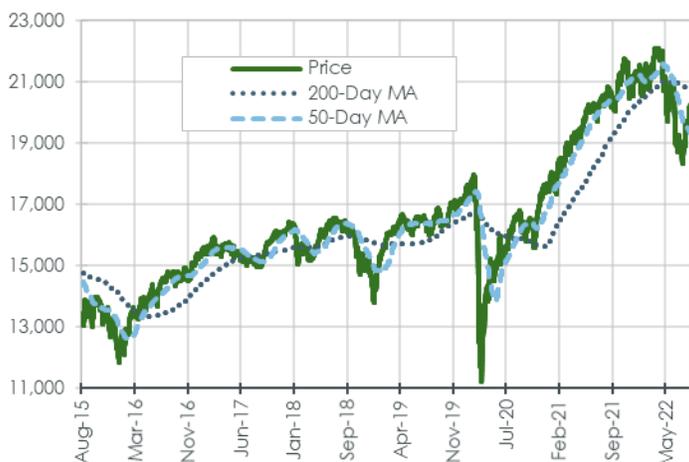
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	2.94%	20.3	33.1	151.5
10 yr U.S. Govt.	2.97%	14.1	32.3	146.2
30 yr Canada Govt.	2.94%	9.1	16.8	126.3
30 yr U.S. Govt.	3.21%	10.4	20.2	130.9

Commodities	Close	Weekly	MTD	YTD
Oil	90.77	-1.43%	-7.96%	26.84%
Natural gas	9.34	6.48%	13.45%	156.13%
Gold	1,747.06	-3.07%	-1.07%	-4.49%
Silver	19.05	-8.53%	-6.44%	-18.28%
Copper	367.10	-0.22%	2.53%	-16.75%

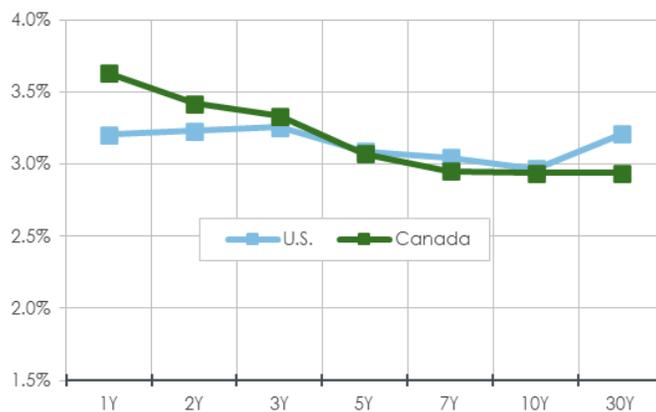
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7696	-1.62%	-1.52%	-2.73%
USD/EUR	0.9963	2.22%	1.82%	13.31%
CAD/EUR	0.7667	0.47%	0.31%	10.25%
USD/JPY	136.9700	2.66%	2.78%	19.02%
USD/CNY	6.8176	1.11%	1.08%	7.26%
USD/MXN	20.1736	1.64%	-0.95%	-1.73%
GBP/CAD	1.5375	-0.85%	-1.32%	-10.12%
GBP/USD	1.1829	-2.55%	-2.81%	-12.58%

*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
Canada CPI YoY	Jul	7.6%	7.6%	8.1%
Canada housing starts	Jul	264.1k	275.3k	272.4k
Canada retail sales MoM	Jun	0.4%	1.1%	2.3%
U.S. initial jobless claims	13-Aug	264k	250k	252k
U.S. retail sales advance MoM	Jul	0.1%	0.0%	0.8%
U.S. industrial production MoM	Jul	0.3%	0.6%	0.0%

Canada

Canadian equities ended the week lower, in line with global peers, despite data showing unexpectedly higher retail sales in June. Information technology and health care were among the worst-performing sectors, and the materials sector also fell, tracking weakness in gold and metal prices. Communication services and consumer staples made some of the top contributions.

In economic data, Statistics Canada reported that retail sales rose 1.1% in June, on higher prices for gasoline and higher sales at car dealerships, while early indicators suggested sharply lower sales in July.

U.S.

U.S. equities gave back some of the previous week's solid gains after FOMC meeting minutes released Wednesday showed no signs of a pause in the Federal Reserve's rate hiking cycle. Weak economic data from China also added to worries about an economic slowdown in the country, which could disrupt supply chains, dampen demand and eventually hurt global growth.

Earlier in the week, positive corporate earnings reports from Walmart and Home Depot indicated some resilience in consumer spending, despite inflationary pressures, and boosted investor sentiment. Cisco's optimistic sales forecast also lifted spirits. However, with higher interest rates looming, high-growth names and technology stocks such as Amazon.com and Alphabet fell sharply by the week's end. Banks also fell, finishing the week lower and breaking a six-week winning streak. The worst-performing sector was the growth-oriented communication services sector, dragged down by a sharp decline in Facebook parent Meta Platforms. Target also slumped after posting a weaker-than-expected profit that declined 90% in the second quarter, with shoppers continuing to pull back on discretionary purchases.

In other economic developments in the U.S., manufacturing production rebounded in July, rising well

above expectations, while industrial output increased more than expected. The number of jobless claims surprised by falling to 250,000, and showing little sign of surging layoffs. However, the housing market cooled in July, as indicated by falling housing starts and building permits, amid surging costs for raw materials and rising mortgage rates. Retail sales also flatlined unexpectedly in July, mainly due to a decline in sales at gasoline stations and car dealers, which offset gains in other categories.

Rest of the world

European equities (ex U.K.) ended the week posting negative returns; worries about tightening monetary policy and slowing growth weighed on sentiment. A record jump in German producer prices and U.K. inflation figures added to gloomy outlook. On the economic data front, German producer prices in July rose by 37.2% year-on-year. The upward trend in July was largely caused by a 105% jump in energy prices amid soaring natural gas and electricity costs. Meanwhile, the annual inflation rate in the U.K. climbed to 10.1% in July, the highest reading in four decades, intensifying the cost-of-living squeeze on households. On the monetary policy front, Norway's central bank lifted its benchmark interest rate by 50 basis points, to 1.75%, and flagged a further rate increase at its policy meeting in September.

In Asia, Chinese equities fell in response to weak economic data and increased COVID cases, with drought conditions in some parts of the country adding to the gloom. In July, retail sales in China increased by 2.7% year-on-year, while industrial output increased by 3.8% year-on-year, falling short of expectations.

Japanese equities rose amid upbeat economic data and corporate reports; however, sentiment remained fragile. The core consumer price index increased 2.4% year-on-year, owing to higher fuel prices and a weaker yen. It was the highest increase since December 2014 and above the Bank of Japan's 2% target.

Looking ahead

Economic indicators	Period	Survey	Prior period
U.S. initial jobless claims	20-Aug	252k	250k
U.S. GDP annualized QoQ	Q2	-0.9%	-0.9%
U.S. University of Michigan sentiment	Aug	55.5	55.1
U.S. durable goods orders	Jul	0.8%	2.0%
Germany IFO business climate	Aug	86.8	88.6
China industrial profits YoY	Jul	-	0.8%

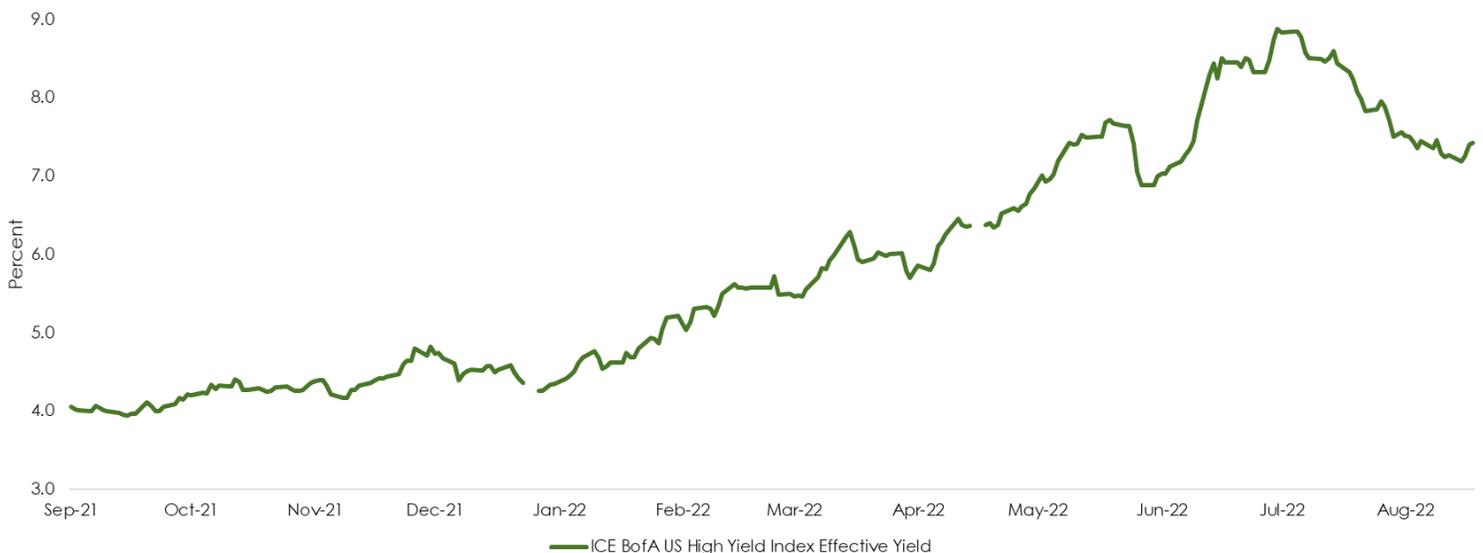
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	7-Sep-22	269.5%	2.50%
European Central Bank	8-Sep-22	229.5%	0.50%
Bank of England	15-Sep-22	197.4%	1.75%
Federal Open Market Committee	21-Sep-22	259.6%	2.50%
Bank of Japan	22-Sep-22	-10.4%	-0.10%

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. junk bond yields have declined from recent peak.

Junk bond yields narrowed to about 7.2% on August 15, from a peak yield this year of about 8.9% on July 30, reflecting renewed optimism about the Federal Reserve's ability to cool inflation and provide for a soft landing. A drop in commodity prices and strong labour market reports fuelled the junk bond rally, alleviating fears of an impending recession and re-energizing investors. Last week, junk bond spreads against Treasuries narrowed at the sharpest pace in over a month. With last week's inflation data coming in lower than expected, as well as a lack of new junk bond issuance, the price of these issues has rebounded.



Source: St. Louis Fed, as at August 18, 2022.

Appendix

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30 yr U.S. Govt.	3.21%	10.4	20.2	130.9
Oil	117.94	0.19%	-6.54%	30.40%
Natural gas	12.13	8.24%	15.21%	163.32%
Gold	2,269.44	-1.43%	0.42%	-1.91%
Silver	24.74	-6.98%	-5.03%	-15.98%
Copper	477.00	1.43%	4.11%	-14.41%
CAD/USD	0.7696	-1.62%	-1.52%	-2.73%
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