



August 26, 2022

In focus

Global equities declined for the week after Federal Reserve Chair Jerome Powell, in his speech on Friday, reiterated a tough stance against inflation, prompting investors to consider the implications of higher interest rates for a longer period of time. This contrasted with gains in Hong Kong, where equities rose on hopes that the U.S. and China are close to reaching a deal to enable U.S. accounting regulators to review audit documents of U.S.-listed Chinese companies in Hong Kong.

Investors also received a fresh set of warnings from U.S. corporate reports about the lingering impact of inflation and a slowing economy. However, revised second-quarter GDP data showed a smaller contraction, erasing some fears of a deep economic recession. Adding to the downbeat mood, the minutes from the European Central Bank's July policy meeting suggested that more interest rate hikes could be forthcoming to subdue persistently high inflation. Meanwhile, the U.K. energy regulator announced it will raise the price cap on energy bills by 80% from October, suggesting a sharp decline in household purchasing power and bringing further concerns about the country's growth.

In fixed income, ten-year U.S. Treasury yields rose amid signs of further sharp increases in interest rates from the Federal Reserve and the European Central Bank to tame record high inflation.

Oil prices rose on supply concerns after Saudi Arabia signalled that OPEC might cut output.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,873.29	-1.18%	0.92%	-6.36%
S&P500	4,057.66	-4.04%	-1.76%	-14.87%
NASDAQ	12,141.71	-4.44%	-2.01%	-22.39%
DJIA	32,283.40	-4.22%	-1.71%	-11.16%
Russell 2000	1,899.83	-2.94%	0.77%	-15.39%
FTSE 100	7,427.31	-1.63%	0.05%	0.58%
Euro Stoxx 50	3,603.68	-3.39%	-2.82%	-16.16%
Nikkei 225	28,641.38	-1.00%	3.02%	-0.52%
Hang Seng	20,170.04	2.01%	0.07%	-13.79%
Shanghai Comp.	3,236.22	-0.67%	-0.52%	-11.09%
MSCI ACWI	627.90	-2.92%	-1.54%	-16.82%
MSCI EM	1,006.50	0.50%	1.28%	-18.30%
MSCI ACWI ESG Leaders	2,213.59	-3.29%	-2.14%	-17.66%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,061.04	-0.43%	-2.25%	-10.86%
BBG Global Agg.	453.61	-0.74%	-3.09%	-14.80%
TSX Pref	1,780.78	0.53%	1.65%	-8.61%

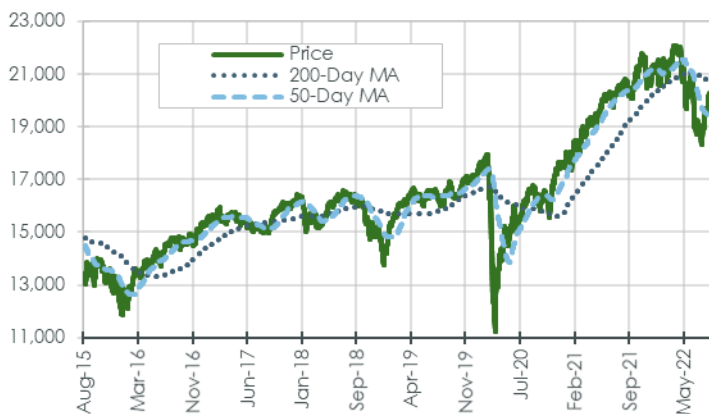
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.02%	7.6	40.7	159.1
10 yr U.S. Govt.	3.04%	6.9	39.2	153.1
30 yr Canada Govt.	2.98%	3.5	20.3	129.8
30 yr U.S. Govt.	3.19%	-2.0	18.2	128.9

Commodities	Close	Weekly	MTD	YTD
Oil	93.06	2.90%	-3.81%	31.13%
Natural gas	9.30	-0.43%	12.97%	155.03%
Gold	1,738.14	-0.51%	-1.57%	-4.98%
Silver	18.90	-0.79%	-7.18%	-18.93%
Copper	369.70	0.71%	3.25%	-16.16%

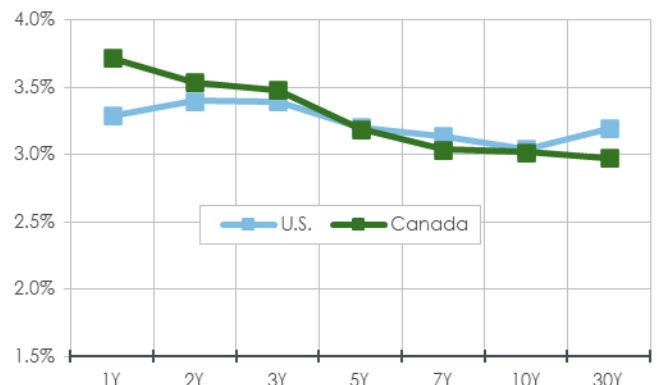
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7673	-0.30%	-1.82%	-3.02%
USD/EUR	1.0035	0.72%	2.55%	14.12%
CAD/EUR	0.7700	0.43%	0.75%	10.73%
USD/JPY	137.6400	0.49%	3.28%	19.60%
USD/CNY	6.8717	0.79%	1.89%	8.11%
USD/MXN	20.0405	-0.66%	-1.60%	-2.38%
GBP/CAD	1.5306	-0.45%	-1.76%	-10.53%
GBP/USD	1.1744	-0.72%	-3.51%	-13.21%

*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	20-Aug	252k	243k	245k
U.S. GDP annualized QoQ	Q2	-0.7%	-0.6%	-0.9%
U.S. University of Michigan sentiment	Aug	55.5	58.2	55.1
U.S. durable goods orders	Jul	0.8%	0.0%	2.2%
Germany IFO business climate	Aug	86.8	88.5	88.7
China industrial profits YoY	Jul	-	0.6%	0.8%

Canada

Canadian equities declined for the week, mirroring weak sentiment regarding U.S. peers because of a hawkish stance taken by the Federal Reserve (the Fed). The information technology sector led the declines, with the prospect of further rate hikes weighing on high-growth stocks. The heavily weighted financials sector also finished lower to cap a week that saw mixed quarterly results from some of Canada's major banks. Energy and materials, on the other hand, made top contributions, tracking a rise in oil and gold prices.

U.S.

U.S. equities ended the week sharply lower after investors became less optimistic that the Fed will be able to tame inflation without causing a significant economic slowdown.

All sectors except energy closed lower, with technology and growth stocks, whose valuations are more sensitive to changes in interest rates, leading the decline. Energy stocks rose on stronger oil prices as markets focused on tight supplies. Among companies, Dell Technologies declined after the personal computer giant lowered its full-year guidance. Nordstrom also fell after the retailer lowered its annual revenue and profit forecasts amid increasing inventories. Meanwhile, U.S.-listed Chinese companies rose after the U.S. audit regulator said it has signed an agreement with Chinese regulators.

Investors also absorbed a slew of disappointing economic data, including new home sales slumping 12.6% monthly in July, suggesting demand was dampened by rising prices and mortgage rates. The manufacturing PMI fell in August more than expected, to 51.3, marking the lowest growth in factory activity in two years, mainly due to weakening demand and production reduction amid inflationary pressure. The services PMI declined sharply in August to 44.1, pointing to the second consecutive contraction in the services sector, amid rising business expenses, including wages,

transportation fees and supplier costs. Elsewhere, both personal income and personal spending figures for July fell short of expectations, adding to concerns as to whether the Fed will succeed in guiding the economy to a soft landing as policy tightens.

On a positive note, the personal consumption expenditure price index declined slightly in July, mainly due to a drop in energy costs. Meanwhile, the University of Michigan consumer sentiment was revised higher in August, while inflation expectations moderated. A separate Labor Department report also showed initial jobless claims dropped unexpectedly last week.

Rest of the world

European equities ended the week posting negative returns amid persistent concerns about the continued aggressive monetary tightening cycle, a worsening European energy crisis and a potential global economic recession. On the data front, business activity in the eurozone shrank in August for a second straight month, with the cost-of-living squeeze forcing consumers to cut back on spending, while supply disruptions hurt manufacturers. German economic data surprised to the downside; the consumer sentiment indicator is set to fall to a new record low in September, with households fretting over rising energy bills. In contrast, French consumer confidence rose unexpectedly in August.

In Asia, Chinese equities declined for the week; COVID-19 outbreaks and property woes kept investor sentiment subdued. Recent policy support also failed to lift the market amid persistent concerns about an economic slowdown.

Japanese equities finished the week lower amid downbeat economic data. Fresh PMI data showed Japan's manufacturing activity growth slowed to a 19-month low in August; new orders dropped sharply amid rising costs and weakening global demand.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada quarterly GDP annualized	Q2	4.4%	3.1%
Canada GDP YoY	Jun	4.9%	5.6%
Canada GDP MoM	Jun	0.1%	0.0%
U.S. initial jobless claims	Aug 27	249k	243k
U.S. ISM manufacturing	Aug	52.0	52.8
U.S. Conference Board consumer confidence	Aug	97.7	95.7

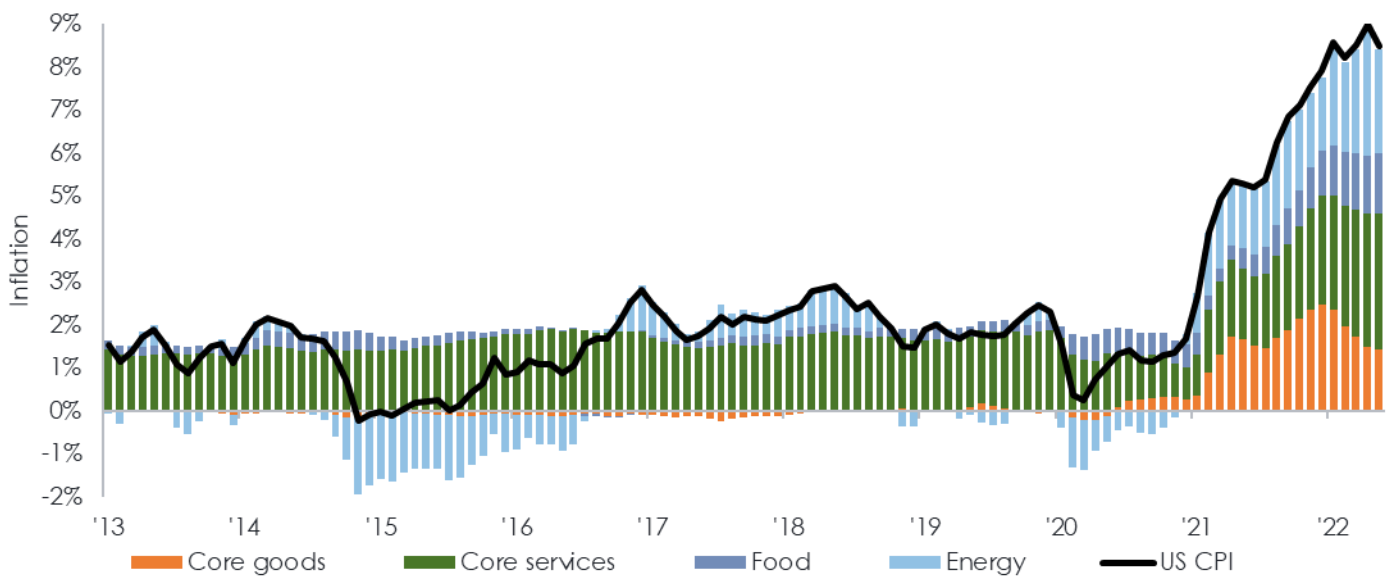
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	7-Sep-22	331.8%	2.50%
European Central Bank	8-Sep-22	250.3%	0.50%
Bank of England	15-Sep-22	230.0%	1.75%
Federal Open Market Committee	21-Sep-22	266.1%	2.50%
Bank of Japan	22-Sep-22	11.9%	-0.10%

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

Inflation broadening out beyond energy

The chart below shows the components driving the current rise in U.S. inflation, as measured by the year-on-year rise in the CPI. The rise in inflation over the past year or so appears at first to be a direct consequence of the supply-demand imbalance in the wake of the COVID-19 lockdowns and the subsequent reopening. The outbreak of the Russia-Ukraine conflict also contributed, due to a rise in energy prices. As central banks globally, including the Fed the U.S., have raised their benchmark interest rates, a look at the factors driving the rise in inflation may prove useful. As we head into the winter, when energy demand is expected to rise, the outlook for inflation remains challenging.



Source: Bloomberg, as at July 31, 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Commodities	Close	Weekly	MTD	YTD
Oil	121.28	3.21%	-2.03%	35.21%
Natural gas	12.12	-0.13%	15.06%	162.98%
Gold	2,265.89	-0.16%	0.26%	-2.06%
Silver	24.64	-0.41%	-5.42%	-16.32%
Copper	481.82	1.01%	5.16%	-13.55%
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