WEEK IN REVIEW

August 5, 2022

In focus

Global equities gained over the week, supported by some positive corporate earnings. However, an uncertain global growth outlook capped the gains. A stronger-than-expected jobs report also revived investor concerns that the Federal Reserve (the Fed) will need to continue aggressive interest rate hikes to tamp down high inflation. Sentiment was further dented by escalating geopolitical tensions between the U.S. and China after U.S. House Speaker Nancy Pelosi's trip to Taiwan, despite warnings from China.

Federal Reserve Bank of Cleveland President Loretta Mester reiterated the central bank's determination to fight inflation by tightening monetary policy, likely through the first half of next year, until a clear sign that inflation is coming down to the Fed's target. Elsewhere, the Bank of England became the latest bank to raise its key interest rate by 50 basis points, to 1.75%, and forecasting an economic contraction later this year. It was the first such increase in 27 years.

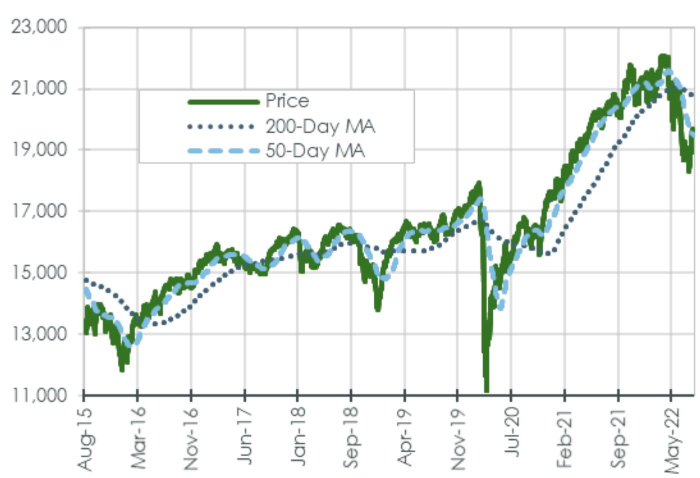
In commodities, oil prices ended the week at their lowest levels since February, amid growing fears that oil demand will collapse when western nations descend into a full-blown recession.

In fixed income, the strong jobs report and expectations of continued monetary tightening pushed U.S. Treasury yields higher this week, outweighing downward pressure from rising U.S.-China tensions.

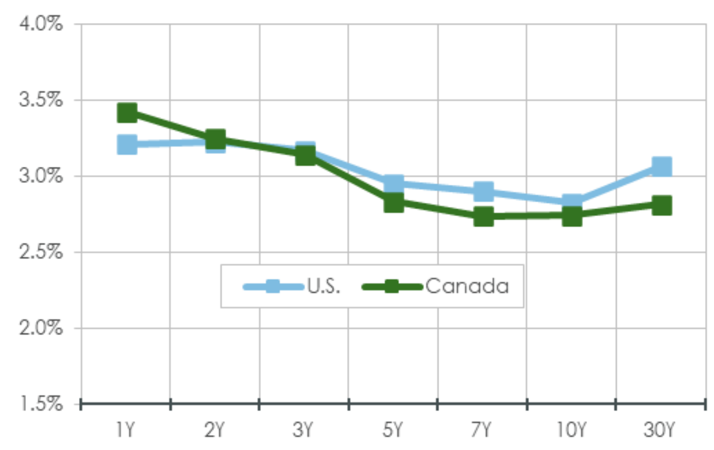
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,620.13	-0.37%	-0.37%	-7.55%
S&P500	4,145.19	0.36%	0.36%	-13.03%
NASDAQ	12,657.55	2.15%	2.15%	-19.10%
DJIA	32,803.47	-0.13%	-0.13%	-9.73%
Russell 2000	1,921.82	1.94%	1.94%	-14.41%
FTSE 100	7,439.74	0.22%	0.22%	0.75%
Euro Stoxx 50	3,725.39	0.47%	0.47%	-13.33%
Nikkei 225	28,175.87	1.35%	1.35%	-2.14%
Hang Seng	20,201.94	0.23%	0.23%	-13.66%
Shanghai Comp.	3,227.03	-0.81%	-0.81%	-11.34%
MSCI ACWI	639.53	0.28%	0.28%	-15.27%
MSCI EM	1,002.87	0.91%	0.91%	-18.60%
MSCI ACWI ESG Leaders	2,263.98	0.09%	0.09%	-15.79%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,076.44	-0.83%	-0.83%	-9.56%
BBG Global Agg.	464.02	-0.87%	-0.87%	-12.85%
TSX Pref	1,767.03	0.87%	0.87%	-9.31%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	2.74%	13.3	13.3	131.7
10 yr U.S. Govt.	2.83%	17.8	17.8	131.7
30 yr Canada Govt.	2.82%	4.2	4.2	113.7
30 yr U.S. Govt.	3.07%	5.6	5.6	116.3
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	89.01	-9.74%	-9.74%	24.39%
Natural gas	8.06	-2.01%	-2.01%	121.23%
Gold	1,775.50	0.54%	0.54%	-2.94%
Silver	19.90	-2.27%	-2.27%	-14.64%
Copper	355.20	-0.60%	-0.60%	-19.83%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7733	-1.05%	-1.05%	-2.26%
USD/EUR	0.9820	0.36%	0.36%	11.68%
CAD/EUR	0.7594	-0.64%	-0.64%	9.20%
USD/JPY	135.0100	1.31%	1.31%	17.32%
USD/CNY	6.7619	0.26%	0.26%	6.38%
USD/MXN	20.4040	0.18%	0.18%	-0.61%
GBP/CAD	1.5596	0.10%	0.10%	-8.83%
GBP/USD	1.2073	-0.81%	-0.81%	-10.78%

*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 unemployment rate	Jul	5.0%	5.0%	4.9%
Canada net change in employment	Jul	15.0k	-30.6k	-43.2k
Canada building permits MoM	Jun	-2.0%	-1.5%	1.6%
U.S. initial jobless claims	30-Jul	260k	260k	254k
U.S. ISM manufacturing	Jul	52.0	52.8	53.0
U.S. durable goods orders	Jun	1.9%	2.0%	1.9%

Canada

Canadian equities ended the week lower after energy stocks posted sharp weekly losses, while fears about central banks' aggressive policy tightening weighed on investor sentiment. Health care and information technology, on the other hand, made some of the top contributions. Meanwhile, Canadian data showed that employment fell by 31,000 in July as workers dropped out of the labour force, adding to evidence that the economy is losing momentum.

U.S.

U.S. equities started the week on a cautious note, with economic data painting a picture of economic slowdown and weakening demand. However, markets rallied on Wednesday amid a series of resilient corporate results from technology-related companies, alongside positive economic data.

The non-farm payroll report released on Friday showed that U.S. employers had added 528,000 non-farm jobs in July, while the unemployment rate fell to 3.5%. The report added to an upbeat picture of the economy, and this offset investors' outlook on the Fed's monetary tightening. Separate data showed a slight rise in new claims for unemployment benefits.

Among sectors, information technology, consumer discretionary and communication services gained the most, while the energy sector led declines as oil prices fell due to a deterioration of prospects for demand. Information technology stocks contributed the most to the advance. PayPal and Lyft Inc. surged on robust second-quarter results and higher annual profit guidance. Bank stocks also gained on hopes that rising rates will support lending margins. rowth stocks generally outperformed value stocks.

Meanwhile, economic data surprised on the upside, including a rebound in the Institute for Supply Management non-manufacturing PMI to a reading of 56.7 in July, and a monthly rise of 2.0% in June's factory orders, reflecting improving market sentiment.

Rest of the world

European equities ended higher amid upbeat earnings announcements from companies such as Infineon, AXA and Just Eat Takeaway that helped to alleviate some apprehensions about an economic slowdown. However, weak economic data from the region, rising geopolitical tensions and worries that higher interest rates could tip the economy into a recession all weighed on investor sentiment.

Data showed that retail sales in the eurozone fell in June by 1.2 % on a monthly basis, marking the biggest decline this year. Consumers cut spending amid high prices, rising borrowing costs and dampened confidence. Similarly, the services PMI slowed to 51.2 in July. Factory orders in Germany fell in June amid stubborn inflation and supply chain disruptions. Meanwhile, industrial production in Germany and France rose unexpectedly in June, while industrial output in Italy fell more than expected.

In Asia, Chinese equities retreated for the week following heightened tensions between the U.S. and China. Semiconductors rose on expectations of government support for the domestic industry, stimulated by recent moves by the U.S. to compete with Chinese chipmakers. The official manufacturing PMI fell to 49.0, from 50.2 in June, below the 50-point mark that indicates a contraction in activity, and property sales continued to shrink.

Japanese equities gained over the week amid upbeat corporate earnings, while a massive drop in the yen lifted exporters.

Looking ahead

Economic indicators	Period	Survey	Prior period
U.S. initial jobless claims	06-Aug	265k	260k
U.S. CPI MoM	Jul	0.2%	1.3%
U.S. University of Michigan sentiment	Aug	52.5	51.5
U.S. CPI YoY	Jul	8.7%	9.1%
Eurozone harmonized CPI YoY	Jul	8.4%	8.4%
China CPI YoY	Jul	2.9%	2.5%

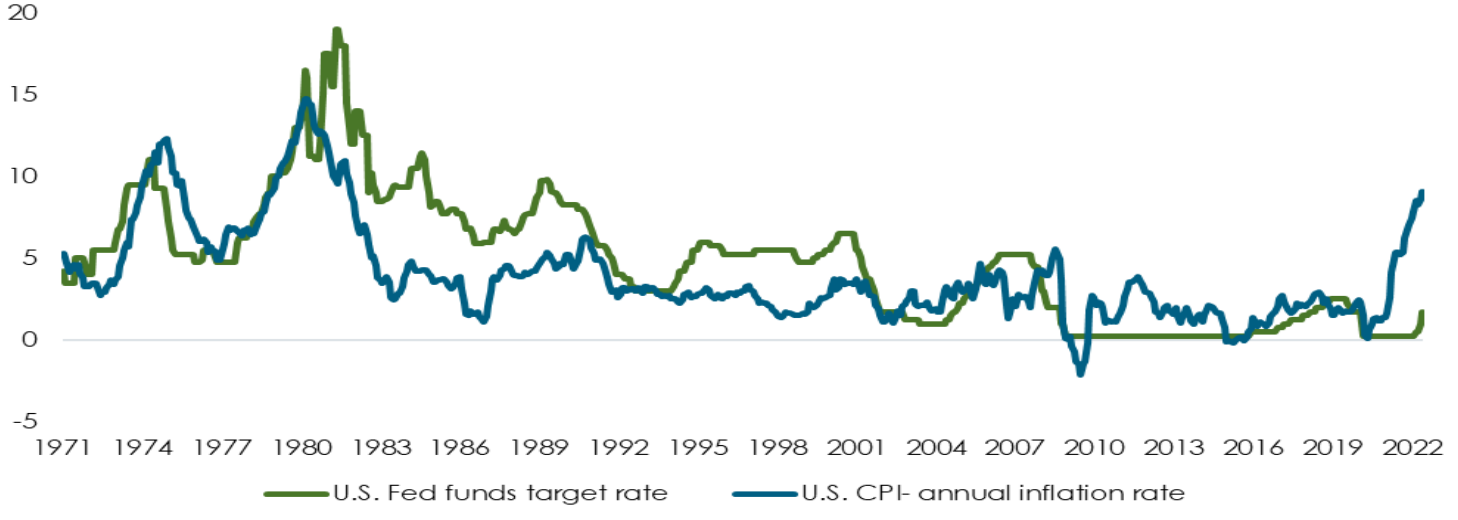
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	7-Sep-22	275.0%	2.50%
European Central Bank	8-Sep-22	188.6%	0.50%
Bank of England	15-Sep-22	160.2%	1.75%
Federal Open Market Committee	21-Sep-22	277.8%	2.50%
Bank of Japan	22-Sep-22	-15.6%	-0.10%

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

More room for the Fed's policy rate to rise

The chart below shows the relationship between the U.S. Fed funds target rate and the U.S. CPI annual inflation rate. Year-on-year inflation is at the highest level in over 40 years and has become more broad-based. Historically, the Fed has not ended a tightening cycle until its policy rate was above the inflation rate. This should come as no surprise, given the Fed's dual mandate of price stability and full employment. Employment shows no signs of slowing, with job openings remaining high, wage growth picking up as employers try to attract workers, and the unemployment rate staying at a healthy low of 3.5%. Given that one of the Fed's two mandates has been met – as employment remains healthy – there is an opportunity for the Fed to be more aggressive, not less aggressive, in tackling inflation, which is more than four times higher than its inflation target.



Source: Refinitiv DataStream, as at June 30, 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Oil	115.10	-8.79%	-8.79%	27.26%
Natural gas	10.43	-0.97%	-0.97%	126.36%
Gold	2,296.49	1.62%	1.62%	-0.74%
Silver	25.74	-1.19%	-1.19%	-12.58%
Copper	459.33	0.45%	0.45%	-17.97%
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