WEEK IN REVIEW

September 2, 2022

In focus

Global equities declined for the week, with investors expecting central banks globally to continue to raise interest rates in an effort to combat rising inflation. Reports that Russia had shut its Nord Stream gas pipeline due to mechanical issues further dampened sentiment.

Economic data for the week were mixed. While a slight uptick in the unemployment rate and a slower pace of job growth encouraged investors, the number of job openings increased unexpectedly in July after three straight monthly declines, reflecting persistent tightness in the job market amid labour shortages. Producer prices in the eurozone continued to rise in July, beating market expectations, mainly due to a rise in energy costs.

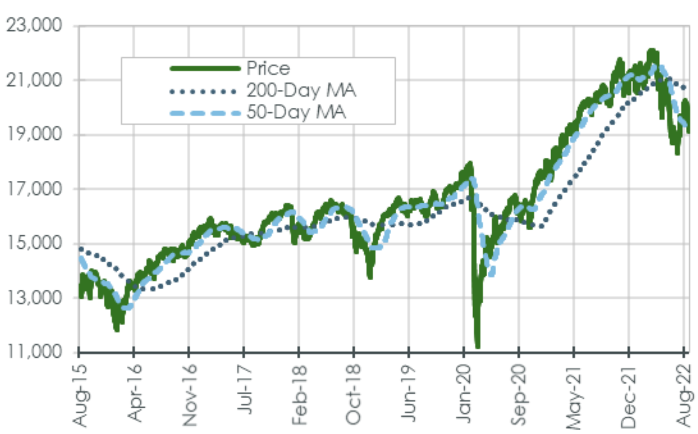
Among sectors, information technology, materials and energy were among the worst performers. Financials and utilities sectors also declined, but held up relatively better than other sectors. In commodities, concerns about the outlook for the global economy weighed on oil and copper prices, which declined sharply for the week.

In fixed income, yields on ten- and 30-year Treasury yields increased on expectations that the U.S. Federal Reserve (the Fed) would raise interest rates.

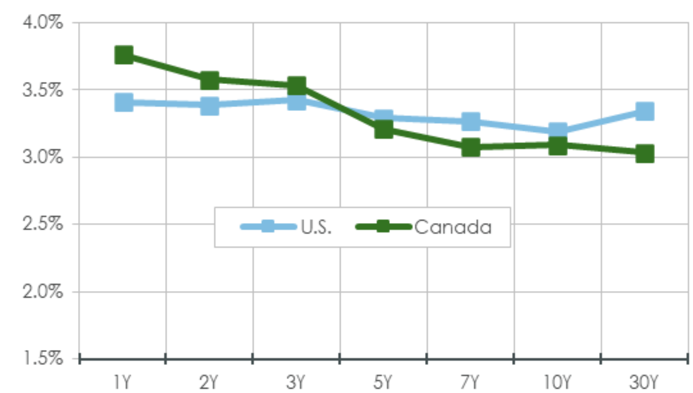
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,270.85	-3.03%	-0.31%	-9.20%
S&P500	3,924.26	-3.29%	-0.78%	-17.66%
NASDAQ	11,630.86	-4.21%	-1.57%	-25.66%
DJIA	31,318.44	-2.99%	-0.61%	-13.81%
Russell 2000	1,809.75	-4.74%	-1.86%	-19.40%
FTSE 100	7,281.19	-1.97%	-0.04%	-1.40%
Euro Stoxx 50	3,544.38	-1.65%	0.77%	-17.54%
Nikkei 225	27,650.84	-3.46%	-1.57%	-3.96%
Hang Seng	19,452.09	-3.56%	-2.52%	-16.86%
Shanghai Comp.	3,186.48	-1.54%	-0.49%	-12.45%
MSCI ACWI	606.98	-3.33%	-1.00%	-19.59%
MSCI EM	972.02	-3.43%	-2.22%	-21.10%
MSCI ACWI ESG Leaders	2,136.50	-3.48%	-1.07%	-20.53%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,056.83	-0.40%	0.11%	-11.21%
BBG Global Agg.	447.87	-1.27%	-0.39%	-15.88%
TSX Pref	1,765.71	-0.85%	-0.32%	-9.38%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	3.09%	7.2	-2.9	166.3
10 yr U.S. Govt.	3.19%	14.9	-0.3	167.9
30 yr Canada Govt.	3.04%	6.0	0.6	135.8
30 yr U.S. Govt.	3.34%	15.2	5.1	144.0
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	86.87	-6.65%	-2.99%	22.40%
Natural gas	8.79	-5.21%	-3.74%	139.01%
Gold	1,712.19	-1.49%	0.07%	-6.40%
Silver	18.04	-4.53%	0.28%	-22.60%
Copper	341.35	-7.67%	-2.98%	-22.59%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7614	-0.77%	-0.03%	-3.77%
USD/EUR	1.0047	0.12%	1.01%	14.26%
CAD/EUR	0.7652	-0.62%	1.00%	10.04%
USD/JPY	140.2000	1.86%	0.89%	21.83%
USD/CNY	6.9000	0.41%	0.14%	8.56%
USD/MXN	19.9457	-0.47%	-0.96%	-2.84%
GBP/CAD	1.5115	-1.25%	-0.96%	-11.64%
GBP/USD	1.1509	-2.00%	-0.97%	-14.95%

*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 quarterly GDP annualized	Q2	4.4%	3.3%	3.1%
Canada GDP YoY	Jun	4.9%	4.7%	5.6%
Canada GDP MoM	Jun	0.1%	0.1%	0.0%
U.S. initial jobless claims	Aug 27	248k	232k	237k
U.S. ISM manufacturing	Aug	51.9	52.8	52.8
U.S. Conference Board consumer confidence	Aug	98.0	103.2	95.3

Canada

Companies in the materials and energy sectors declined, in line with falling commodity and energy prices in international markets. Companies in the information technology sector also declined as higher interest rate expectations added to pressure on valuations. In contrast, the consumer staples sector ended the week with gains, likely due to its defensive earnings profile.

In economic news, a robust consumer recovery supported a healthy rise in second-quarter GDP growth, while weak trade figures disappointed. In a sign that the Bank of Canada's rate hikes may be working, residential investment fell, renovation spending declined, and residential sales plummeted.

U.S.

The U.S. opened the week with losses following hawkish remarks from Fed Chair Jerome Powell that interest rates may need to stay higher for longer, until inflation gets back under control, even at the risk of some economic pain. The central bank's determination to keep tightening monetary policy led the market to lengthen the odds for another 75-basis-point rate hike at the Federal Open Market Committee's next meeting in September; that would be the third consecutive hike of that size. While markets reacted with some optimism that a modest rise in unemployment would ease pressure on central banks, gains were short-lived, and the market ended the week with losses.

All sectors participated in the sell-off, with sharp losses for interest rate-sensitive information technology, materials, real estate and industrials. Semiconductor stocks dragged down the information technology sector. Chipmakers NVIDIA and Advanced Micro Devices remained under pressure amid new restrictions imposed by the government on the exports of artificial intelligence chips to Chinese customers. Megacap growth stocks, such as Apple, Microsoft and Amazon, also declined for the week. In contrast, some health care stocks, such as Molina Health Care, Cardinal Health and Gilead Sciences, ended the week with some gains.

Economic data surprised on the upside, which added to expectations that the Fed will continue its aggressive tightening to control inflation. The number of job openings increased unexpectedly in July after three straight monthly declines, reflecting persistent tightness in the job market amid labour shortages. A separate report showed consumer confidence rebounding more than expected in August, marking the first rise in four months and signalling strong business and labor market conditions. The latest non-farm payroll report showed that the U.S. economy added 315,000 jobs in August, slightly above expectations, while the unemployment rate unexpectedly edged up and wage growth slowed.

Rest of the world

Expectations of rising interest rates also weighed on European equities. In economic developments, the latest manufacturing PMI data confirmed a contraction in eurozone factory activity in August, the second consecutive month of decline. New orders and manufacturing output declined amid weakening demand as high inflation continued to erode purchasing power. A separate report showed the unemployment rate in the currency bloc decreased slightly to a record low of 6.6% in July, as widely expected, reinforcing expectations that the European Central Bank will deliver a 75-basis-point rate hike at its policy meeting next week. Adding to downside pressure, the annual inflation rate in the eurozone rose higher than expected in August, to 9.1%, hitting another all-time high, and with energy and food prices remaining elevated.

Growing worries about the economic outlook for China amid recent COVID-19 flare-ups further dented market sentiment in Asia.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada unemployment rate	Aug	5.0%	4.9%
Canada net change in employment	Aug	15.0k	-30.6k
U.S. initial jobless claims	Sep-03	240k	232k
U.S. wholesale inventories MoM	Jul	0.8%	0.8%
U.S. ISM services index	Aug	55.4	56.7
China CPI YoY	Aug	2.8%	2.7%

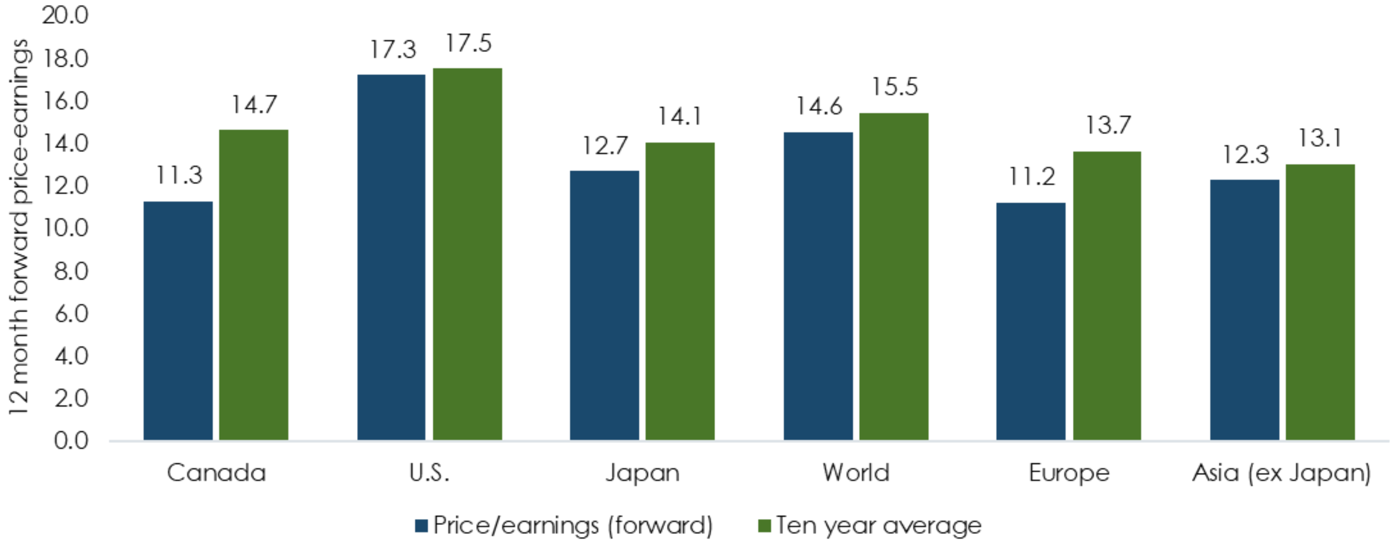
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	7-Sep-22	348.6%	2.50%
European Central Bank	8-Sep-22	262.0%	0.50%
Bank of England	15-Sep-22	265.6%	1.75%
Federal Open Market Committee	21-Sep-22	258.6%	2.50%
Bank of Japan	22-Sep-22	16.0%	-0.10%

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

Equity market valuations below their ten-year average

The chart below shows the 12-month forward price-to-earnings ratio against the ten-year average. The fall in this ratio mostly reflects an uncertain outlook for corporate earnings and the global economy. As central banks raise interest rates to combat rising inflation, higher bond yields have led to the sharp underperformance of companies exposed to quality (high return on equity, low debt) and growth factors (sales and earnings-per-share growth) compared with value factors (low price/earnings, low price/book). While it is difficult for bottom-up stock pickers to predict the timing of a likely recovery, investors can profit from the opportunities that arise from this period of uncertainty.



Source: Refinitiv DataStream, as at August 31, 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Gold	2,247.74	-0.80%	0.03%	-2.84%
Silver	23.70	-3.81%	0.28%	-19.51%
Copper	448.32	-6.95%	-2.96%	-19.56%
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