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December 2021 market update

Omicron isn't the only thing on the rise as home prices hit highest annual increase ever.

Jan. 11, 2021

Introduction

Economic activity came under pressure during the month of December as the quick spread of the Omicron variant resulted in new travel and lockdown restrictions across the globe. Inflation continued to tick higher with gasoline and food prices being a major contributor to the increase. Global central banks took steps to tighten policy by either reducing their asset purchases and/or announcing expectations of an interest rate increase sooner than had been expected.

Global equity markets finished higher over the month as optimism about the recovery and relatively strong economic results boosted sentiment. There were periods of volatility as the potential economic impact of the Omicron variant weighed on investor sentiment, as did expectations of monetary tightening from global central banks. In Canada, the S&P/TSX Composite Index advanced, led by the Consumer Staples and Consumer Discretionary sectors. In the U.S., the S&P 500 Index also rose, reaching a new record high, amid strength in the Consumer Staples sector. Yields on 10-year government bonds in Canada declined over the month, while the U.S. 10-year Treasury yield rose.

Biggest annual jump in home prices

According to the Canadian Real Estate Association ("CREA"), prices of homes across Canada rose by 25.3% in November over the same month in the previous year, which was a record annual increase. On a monthly basis, home prices rose by 2.7%. On a year-over-year basis, prices in New Brunswick and Ontario rose 30%, while prices were up 25% in British Columbia. The ongoing rise in home prices continues to suggest the substantial demand for housing, which has been met by relatively lower supply. However, the rise in home prices has put more financial pressure on Canadians, while making it unaffordable for many. In the third quarter of 2021, Statistics Canada reported that Canadians' credit market debt as a proportion of household income rose to 177.2%, from 176.7% in the previous quarter. The increase was largely in response to greater mortgage debt, which increased by $45.9 billion during the quarter. While the Canadian government is looking for ways to help make housing more affordable, the rise in mortgage debt along with the potential for interest rates to rise in 2022, could add financial pressure to many Canadians, which may hinder spending, savings and investment in the year ahead.

Tightening has begun

For almost two years, global central banks took a position of extraordinary accommodative monetary policy looking to support their domestic economies amid the negative impact of the pandemic. Now, those global central banks appear to be pivoting toward tightening their respective policies. December meetings appeared to be the springboard for a period of policy tightening. The U.S. Federal Reserve Board ("Fed") took steps to change its policy amid improving economic conditions. The Fed announced in December it would speed up its pace of bond purchase reductions, looking to end the program in March 2022. With inflation soaring and expected to continue into 2022, most Fed officials expect up to three federal funds rate increases in 2022. Across the Atlantic, the Bank of England ("BoE") surprised markets by raising its Bank Rate by 15 basis points to 0.25%. Markets were expecting the BoE to hold steady amid concerns of the Omicron variant, but the BoE cited inflationary pressures as a key reason to begin raising its policy interest rate. In Europe, the European Central Bank ("ECB") maintained its key interest rate at 0.00% but announced it would begin reducing bond purchases under its Pandemic Emergency Purchase Programme beginning in January, expecting to finish the program by March. The ECB believes inflation is transitory and may not persist at such elevated levels in Europe as it has in other regions and countries. Policy tightening will likely be a key theme in financial markets in 2022.

Omicron leaves recovery uncertain

The new variant of COVID-19, Omicron, which was identified in late November raised much uncertainty among investors on its potential impact on the global economic recovery. Research was done about this new variant, finding that it may be more transmissible than other variants, but may not be as harmful. Travel restrictions were quickly implemented by countries around the world looking to avoid an outbreak. However, Omicron quickly spread, which resulted in a significant rise in cases globally, along with new lockdown restrictions. New lockdown restrictions were implemented across Europe and Asia. In Canada, provinces implemented additional restrictions as cases surged higher, with daily cases reaching records in some areas. In response, some corporations delayed their return to office plans, both in Canada and around the world. This all weighed on global business activity during the month, while causing volatility in financial markets. Countries raced to get their citizens a third dose, also known as a booster, of the COVID-19 vaccines to help ease the spread and the harmful impact from the coronavirus.

Oil in surplus position

According to the International Energy Agency ("IEA"), the oil market has returned to a surplus position, which may persist into 2022. At the onset of the pandemic, a supply glut formed as demand for oil was largely halted. As economic activity improved amid easing lockdown restrictions, global demand for oil increased, using up excess supply. Then, production began to increase, particularly from the Organization of the Petroleum Exporting Countries and Russia ("OPEC+"), which boosted production over the second half of 2021. As oil prices surged higher, OPEC+ maintained their production increases at current levels, despite calls from the U.S. government to increase it further. In response, the U.S. and other major users of oil began releasing oil from strategic reserves into the market, looking to tame the rising prices. Now with demand uncertain because of the Omicron variant and supply expected to remain relatively elevated, the IEA says oil may remain in a surplus position in 2022. The IEA expects Canada, the U.S. and Brazil to post record production in 2022. OPEC+ also expects a surplus of oil in 2022. Despite the surplus, the price of oil moved higher over the month of December.

Market performance - as at December 31, 2021

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	21,222.84	2.72%	**2.72%**	21.74%	**21.74%**	21.74%	**21.74%**
S&P 500 Index US$	4,766.18	4.36%	**2.99%**	26.89%	**25.71%**	26.89%	**25.71%**
Dow Jones Industrial	36,338.30	5.38%	**3.99%**	18.73%	**17.62%**	18.73%	**17.62%**

Average US$							
MSCI EAFE Index US$	2,336.07	5.05%	**3.67%**	8.78%	**7.77%**	8.78%	**7.77%**
MSCI Emerging Markets Index US$	1,232.01	1.62%	**0.28%**	-4.59%	**-5.48%**	-4.59%	**-5.48%**
MSCI Europe Index US$	2,088.57	6.56%	**5.15%**	13.75%	**12.69%**	13.75%	**12.69%**
MSCI AC Asia Pacific Index US$	193.12	1.76%	**0.41%**	-3.40%	**-4.30%**	-3.40%	**-4.30%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,190.26	1.67%	**1.67%**	-2.54%	**-2.54%**	-2.54%	**-2.54%**
FTSE World Investment Grade Bond Index US$	244.03	-0.29%	**-1.61%**	-5.42%	**-6.30%**	-5.42%	**-6.30%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7912	0.29%	-	0.72%	-	0.72%	-

Commodities	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
West Texas Intermediate (US$/bbl)	75.21	13.64%	-	55.01%	-	55.01%	-
Gold (US$/oz)	1,829.20	3.08%	-	-3.64%	-	-3.64%	-