March 2022 market update

Rate increases begin – will Canadians cut spending?

April 7, 2022

Introduction

The global economy was under pressure during the month of March amid the Russia-Ukraine conflict, supply chain disruptions and still-surging inflationary pressures. Global consumers were hindered by elevated consumer prices and economic risk. Oil prices rose over the month to reach, at one point, over US$123/barrel, their highest level since 2008. Meanwhile, investors searched for safe havens amid economic risks and rising inflation, which pushed gold prices above US$2,000 early in the month, before they pared back.

Under the backdrop of substantial inflationary pressures, which are expected to remain elevated for some time still, central banks took action to tame the growth in consumer prices. The U.S. Federal Reserve Board ("Fed") raised the target range for its federal funds rate by 25 basis points ("bps") to 0.25% to 0.50%. The Bank of Canada ("BoC") took its first step towards policy normalization by raising its benchmark overnight interest rate from 0.25% to 0.50%. For the third consecutive time, the Bank of England also raised its bank rate, this time by 25 bps to 0.75%. With expectations of more rate increases on the horizon, global bond yields pushed higher, while prices fell over the month. The yield on the benchmark 10-year government bonds in Canada and the U.S. both increased over the month.

Despite global economic uncertainty resulting from the Russia-Ukraine conflict and rising inflation, global equity markets posted a small gain in March. In Canada, the S&P/TSX Composite Index moved higher, led by the Consumer Staples sector. Canada's main index reached a record high closing price during the month. South of the border, the Utilities sector helped push the S&P 500 Index higher. The tech-heavy NASDAQ Composite Index advanced over 3% in March.

Rate increases begin

The anticipated interest-rate liftoff has begun. Global central banks in Canada and the U.S. began the process of tightening monetary policy by raising their key rates in March. The BoC raised its benchmark overnight interest rate by 25 bps to 0.50%, its first increase since 2018. The BoC cited significant inflationary pressures as the key reason for beginning to lift rates. Canada's central bank also projects inflation will run at elevated levels over the short-term, suggesting more interest rate increases are likely on the way. Meanwhile, the Fed also raised its federal funds rate by 25 bps to a target range of 0.25% to 0.50%, its first increase since 2018. The Fed believes the interest rate increase is warranted amid surging inflation. The Fed acknowledges the Russia-Ukraine conflict poses a risk to economic growth, but Fed Chair Jerome Powell says he isn't too worried about a recession. Both central banks acknowledged the possibility of an additional 50-bps rate increase at upcoming meetings. Markets began pricing in the likelihood of six more interest rate increases this year.

Pivoting away from Russian energy

The Russia-Ukraine conflict persisted throughout March, adding further pressure on the global supply chain. With sanctions enacted on Russia, prices for many commodities have surged higher, including for wheat and nickel. The Bloomberg Commodity Index, which tracks a variety of commodity prices, rose over 8% in March, reaching its highest level since 2014. Oil prices also rose substantially during the month.

The U.S. was swift in implementing sanctions against Russia, including banning imports of Russian oil. The U.K. followed with similar sanctions. While the European Union did not ban Russian oil imports, partly due to its reliance on energy products from Russia, concerns about the supply of oil helped push prices higher over the month. With so much focus on oil prices and the global reliance on oil, there is a push to move to cleaner options to cut down reliance on oil suppliers. The European Union has sped up its plan for adding additional wind and solar power systems by 2027. Oil prices moved over 5% higher during the month.

Inflation impacting consumers

While retail sales growth has remained relatively strong in recent months, there are signs that higher prices may be having a negative impact on consumers. The U.S. Census Bureau reported U.S. retail sales grew by 0.3% in February, down from their 4.9% increase in January. Most of the increase in sales during February came from surging gasoline prices. Excluding gasoline, retail sales fell by 0.2% in February. Rising prices for gasoline are hurting sales elsewhere, particularly e-commerce and health and personal care sales, which both fell during the month. North of the border, Statistics Canada ("StatsCan") reported January's retail sales in Canada rose by 3.2%, largely in response to COVID-19 reopening efforts. However, the strong sales may be masking some underlying concerns for consumers. A recent Leger poll found about 80% of respondents have begun to buy, or are planning to buy, less-expensive items from grocery stores, while about 50% are trying to use their car less to save on gas. Meanwhile, consumer confidence indicators in Canada and the U.S. have ticked lower in recent months, with inflation being one of the key concerns for consumers. With consumer spending being such a large contributor to gross domestic product, a decline in spending in response to higher prices could have a negative impact on economic growth.

Risks to growth

Canada's economy posted its strongest rate of growth since the last quarter of 2020 in the fourth quarter of 2021, according to StatsCan. StatsCan says Canada's economy expanded by an annualized rate of 6.7% in the fourth quarter, a sharper pace than the 5.5% increase in the previous quarter. Growth was driven by a rise in business spending. It came amid a slowdown in economic activity late in the quarter in response to new lockdown restrictions brought on by the rapid spread of the Omicron variant. Despite the strong economic conditions that continued into 2022, risks to Canada's economy may be growing. The Russia-Ukraine conflict is causing havoc with the global supply chain, which could add further pressure on Canadian manufacturers and sellers of goods and services. This is helping push up prices across a broad range of products, most notably oil prices. While that could be a positive for Canada's key energy sector, higher prices at the pump may have a negative impact on Canadian consumers. With inflation surging and threats to Canada's economy growing, concerns about stagflation have heightened.

Market performance - as at March 31, 2022

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	21,890.16	3.62%	**3.62%**	3.14%	**3.14%**	17.06%	**17.06%**
S&P 500 Index US$	4,530.41	3.58%	**1.90%**	-4.95%	**-6.20%**	14.03%	**13.21%**

Dow Jones Industrial Average US$	34,678.35	2.32%	**0.66%**	-4.57%	**-5.83%**	5.14%	**4.38%**
MSCI EAFE Index US$	2,181.63	0.12%	**-1.51%**	-6.61%	**-7.84%**	-1.21%	**-1.92%**
MSCI Emerging Markets Index US$	1,141.79	-2.52%	**-4.10%**	-7.32%	**-8.55%**	-13.27%	**-13.89%**
MSCI Europe Index US$	1,927.37	-0.53%	**-2.14%**	-7.93%	**-9.14%**	1.17%	**0.44%**
MSCI AC Asia Pacific Index US$	180.45	-1.03%	**-2.64%**	-6.56%	**-7.79%**	-11.36%	**-12.00%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,107.29	-2.99%	**-2.99%**	-6.97%	**-6.97%**	-4.52%	**-4.52%**
FTSE World Investment Grade Bond Index US$	228.01	-3.03%	**-4.61%**	-6.57%	**-7.80%**	-7.53%	**-8.15%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7995	1.31%	-	1.25%	-	0.65%	-

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)	101.20	5.73%	-	33.33%	-	69.51%	-
Gold (US$/oz)	1,937.37	1.49%	-	5.92%	-	13.45%	-