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April 2022 market update

A closer look at inflation and economic growth in Canada and around the world.

May 9, 2022

Introduction

Global equity markets fell substantially during April 2022. Investor sentiment waned amid the Russia-Ukraine conflict as its negative impact on the global supply chain helped push prices higher. Oil prices finished slightly higher, as lower supply was offset by expectations of falling demand and persistent lockdown restrictions in China.

In Canada, the S&P/TSX Composite Index fell, dragged down by the Information Technology and Health Care sectors. In the U.S., the S&P 500 Index was hindered by weakness in the Communication Services and Consumer Discretionary sectors. The tech-heavy NASDAQ Composite Index had a double-digit loss during the month. High-growth technology stocks came under pressure as rising yields raised concerns about valuations, while late in the month, Amazon.com Inc. reported a drop in-e-commerce sales during its most recent quarter.

With inflation surging and heightening expectations of aggressive central bank interest rate increases, yields climbed higher over the month. Yields on 10-year government bonds in both Canada and the U.S. advanced. The Bank of Canada ("BoC") raised its key interest rate by 50 basis points ("bps") to 1.00% during the month, while the U.S. Federal Reserve Board hinted at an aggressive rate hike announcement at its next meeting in May. The European Central Bank held steady in April but reiterated its commitment to ending its asset purchases in the third quarter. Economists are expecting the Bank of England to raise its Bank Rate by another 25 bps in May, which would mark its fourth consecutive increase.

Up by 50

As widely expected, the BoC raised its benchmark overnight interest rate by 50 bps to 1.00%. The hike marked the second straight rate increase after the central bank raised it by 25 bps at its previous meeting. At the same meeting, the BoC noted it was ending its reinvestment program by not replacing Government of Canada bonds that mature on its balance sheet. The BoC's action demonstrates its aggressive stance toward combating surging and persistent inflationary pressures in Canada's economy. The BoC projects inflation to average approximately 6% over the first half of 2022 and estimates it will stay above its 2% target for the remainder of the year. The central bank suggested more interest rate increases are coming this year, and it will remain relatively aggressive. At the IMF and World Bank meetings in April, Governor Macklem indicated a 75-bps rate increase is on the table. Still, when speaking before the Parliamentary Committee, he said it would be "very unusual."

Tensions and supply chain disruptions hinder growth

Several factors, including the Russia-Ukraine conflict, supply chain disruptions, rising prices, and weaker consumer sentiment, weighed on economic growth during the first quarter of 2022, raising concerns about a potential recession. Slower growth is particularly acute in Europe and the U.S., which both reported weakness in their respective economies in the first quarter. In Europe, gross domestic product ("GDP") growth slowed to 0.2% in the first quarter over the previous quarter, its slowest growth pace since the first quarter of 2021. The conflict in Ukraine, along with rising commodity prices, slowed economic growth significantly. A preliminary estimate from the U.S. Bureau of Economic Analysis indicates U.S. GDP shrank at an annualized rate of 1.4% in the first quarter of 2022, a steep decline from the 6.9% increase in the previous quarter. The drop in economic growth is the first since the onset of the pandemic in the second quarter of 2020. While the U.S. consumer showed relative strength, this was offset by a fall in net exports and government spending. With geopolitical tensions persisting and little signs of inflation taming in the short-term, global economic growth could be muted again in the second quarter.

No signs of abatement

Inflationary pressures continue worldwide, and there are few signs of abatement as geopolitical tensions, supply chain disruptions, and rising commodity prices persist. Energy prices are one of the main contributors and have gained further upward momentum in response to the Russia-Ukraine conflict. Around the globe, major economies are reporting either record inflation levels or levels not seen in decades. In March, the U.S. inflation rate was 8.5% year-over-year, its highest level since December 1981. The rate increase was a sharp acceleration from the 7.9% rate in February. Rising energy prices, particularly for gasoline, which increased 48.0% and contributed the most to the March increase. New vehicle prices also contributed significantly. According to a flash estimate from Eurostat, the inflation rate in Europe was 7.5% in April. This would mark the highest ever rate of inflation in the European economy. The European economy has been particularly hard hit by the energy disruption in Russia given its high dependence on Russian oil and other energy products. In Canada, the inflation rate reached 6.7% in March, its highest since 1991, while in the U.K., March's inflation rate was 7.0%, its highest since 1992.

China's growth expected to slow

China's economy expanded by 4.8% year-over-year in the first quarter of 2022, up slightly from the 4.0% growth pace in the last quarter of 2021. This was the first time China's economy posted a higher growth rate over the previous quarter since the beginning of 2021. However, signs suggest an upcoming period of weakness in China's economy. In March, retail sales and industrial production growth fell considerably as new lockdown restrictions were implemented in response to a surge in COVID-19 cases. Further supply chain disruptions caused by the Russia-Ukraine conflict have contributed to the recessionary operating levels of China's manufacturing sector. Weakness in the labour market could also weigh on China's growth. China's unemployment rate continues to tick higher, reaching 5.8% in March, its highest level since May 2020. The property market is under immense pressure with elevated debt levels. While China has pledged support to keep its economy healthy, a slowdown may occur in the coming months.

Market performance - as at April 30, 2022

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	20,762.00	-5.15%	**-5.15%**	-2.17%	**-2.17%**	7.82%	**7.82%**
S&P 500 Index US$	4,131.93	-8.80%	**-6.35%**	-13.31%	**-12.16%**	-1.89%	**2.32%**
Dow Jones Industrial	32,977.21	-4.91%	**-2.35%**	-9.25%	**-8.04%**	-3.18%	**0.97%**

Average US$							
MSCI EAFE Index US$	2,033.70	-6.78%	**-4.28%**	-12.94%	**-11.79%**	-11.27%	**-7.46%**
MSCI Emerging Markets Index US$	1,076.19	-5.75%	**-3.22%**	-12.65%	**-11.49%**	-21.13%	**-17.75%**
MSCI Europe Index US$	1,807.60	-6.21%	**-3.70%**	-13.65%	**-12.50%**	-9.71%	**-5.84%**
MSCI AC Asia Pacific Index US$	168.80	-6.46%	**-3.94%**	-12.59%	**-11.43%**	-19.14%	**-15.67%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,068.67	-3.49%	**-3.49%**	-10.22%	**-10.22%**	-7.79%	**-7.79%**
FTSE World Investment Grade Bond Index US$	215.14	-5.65%	**-3.11%**	-11.84%	**-10.67%**	-13.55%	**-9.82%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7775	-2.38%	-	-1.35%	-	-4.11%	-

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)	104.69	4.40%	-	39.20%	-	61.04%	-
Gold (US$/oz)	1,896.93	-2.09%	-	3.70%	-	7.04%	-