June 2022 market update

Canada's housing market is under pressure amid rising rates and prices

July 8, 2022

Introduction

Global equity markets fell significantly in June as surging inflation and aggressive policy stances by global central banks heightened concerns about a potential recession. The U.S. Federal Reserve Board ("Fed") raised the target range of its federal funds rate by 75 basis points ("bps"), while the Bank of Canada ("BoC") raised its benchmark overnight interest rate by 50 bps. The Bank of England ("BoE") raised its Bank Rate by 25 bps, and the European Central Bank suggested a 25-bps rate increase is likely in July.

In Canada, the S&P/TSX Composite Index dropped, with all 11 sectors finishing in the red. The Health Care sector posted the biggest decline. In the U.S., the S&P 500 Index also fell, dragged down by the Energy and Materials sectors. The tech-heavy NASDAQ Composite Index fell almost 9% over the month. Yields on 10-year government bonds in Canada and the U.S. increased over June. Oil and gold prices both fell.

Keeping an aggressive policy stance

With consumer prices rising at decades-high levels and little sign of near-term abatement, the BoC and Fed maintained their aggressive stance to combat inflation and bring it back closer to their 2% targets. At its meeting in early June, the BoC lifted its benchmark overnight interest rate by 50 bps to 1.50%. It was the BoC's second consecutive 50-bps rate hike. The BoC also noted it's continuing to reduce its sizeable balance sheet and must remain aggressive to avoid the risk of higher inflation becoming rooted in the Canadian economy. Meanwhile, the Fed proceeded with its largest rate increase since 1994. The Fed raised the target range of its federal funds rate by 75 bps to 1.50%-1.75%, citing surging inflationary pressures. In subsequent remarks to the U.S. government, Chair Jerome Powell indicated that the Fed is committed to bringing inflation back to its 2% target but will need to carefully navigate this course of rate increases to avoid a potential recession. Markets expect more rate increases from the BoC and Fed this year.

Housing market under pressure

The BoC has raised its key interest rate to curb surging inflation but acknowledged that it might take some steam out of Canada's red-hot housing market. Low interest rates, robust demand and low supply have driven home prices up across Canada since 2020, but rising mortgage rates and elevated prices have raised affordability concerns and might be muting demand. Recent data appears to reinforce this development. According to the Canadian Real Estate Association, home sales dropped by 8.6% in May, its third straight monthly decline. Meanwhile, the benchmark price dropped 0.8% in May, its second consecutive monthly drop. In Toronto and Vancouver, the two largest real estate markets in Canada, the average home price fell by 3.1% and 1.7%, respectively, while the number of units sold also fell in both markets. The BoC said it might be too early to predict a correction in Canada's housing market, but a shift may be underway with slowing sales volumes and price growth. Recent consumer confidence figures from Bloomberg Nanos also show Canadians believe the value of real estate might not strengthen over the next six months.

Partial ban on Russian oil

As a result of Russia's invasion of Ukraine, the European Union ("EU") imposed widespread financial sanctions on Russia, including a sixth package of sanctions that partially banned Russian oil. In early June, the EU implemented the sanctions that will ban the import of Russian crude oil by sea starting December 5 and a ban on petroleum products by February 5, 2023. Crude oil and petroleum products imported via pipeline will be exempt. The new sanctions took more than a month of negotiations among EU members because of their dependence on Russian crude oil and other petroleum products. With the oil sanction in place, new opportunities will emerge. The EU could speed up its shift away from fossil fuels. The EU will consider allowing some renewable energy products to get permits within the next year. At the G7 summit, Canadian Prime Minister Justin Trudeau engaged with EU members in the G7, particularly Germany, to talk about how they might turn to Canadian oil and energy products. Trudeau indicated he would look to increase energy infrastructure to help supply Europe in the short term, which can be used to export hydrogen in the future.

Inflation keeps ticking higher

In the U.K., inflationary pressures continue to build, despite the best efforts of the BoE. The U.K inflation rate reached 9.1% year-over-year in May, matching economists' expectations. The increase marked the highest rate of inflation since 1982. Main contributors to inflation during May included a 19.4% increase in housing, a 13.8% increase in transport prices and an 8.6% increase in food and non-alcoholic beverage prices. While the BoE began its path to taming inflation last December, external factors, including the conflict in Ukraine, supply chain disruptions and product shortages, continued to push prices higher. The BoE raised its key interest rate at five consecutive meetings, lifting it from 0.10% to 1.25%. Market participants expect more rate increases this year. The BoE reiterated its stance that it will act aggressively when warranted and remains committed to taming inflation and bringing it to its 2% target. Based on its outlook, the BoE believes inflation may reach 11% by October, suggesting more rate hikes are on the way, including the potential for an increase greater than 25 bps.

Market performance - as at June 30, 2022

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	18,861.36	-9.01%	**-9.01%**	-11.13%	**-11.13%**	-6.47%	**-6.47%**
S&P 500 Index US$	3,785.38	-8.39%	**-6.66%**	-20.58%	**-19.18%**	-11.92%	**-8.62%**
Dow Jones Industrial Average US$	30,755.43	-6.71%	**-4.95%**	-15.31%	**-13.82%**	-10.80%	**-7.47%**
MSCI EAFE Index US$	1,846.28	-9.40%	**-7.69%**	-20.97%	**-19.57%**	-19.90%	**-16.90%**
MSCI Emerging Markets Index US$	1,000.67	-7.15%	**-5.39%**	-18.78%	**-17.35%**	-27.20%	**-24.48%**
MSCI Europe	1,626.39	-10.07%	**-8.36%**	-22.30%	**-20.39%**	-19.74%	**-16.74%**

Index US$							
MSCI AC Asia Pacific Index US$	158.01	-6.78%	**-5.02%**	-18.18%	**-16.73%**	-24.02%	**-21.18%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,044.64	-2.18%	**-2.18%**	-12.23%	**-12.23%**	-11.39%	**-11.39%**
FTSE World Investment Grade Bond Index US$	209.03	3.13%	**-1.29%**	-14.34%	**-12.83%**	-15.97%	**-12.96%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7768	-1.76%	-	-1.83%	-	-3.69%	-

Commodities	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
West Texas	105.76	-7.77%	-	40.62%	-	43.95%	-

Intermediate (US$/bbl)							
Gold (US$/oz)	1,807.27	-1.64%	-	-1.20%	-	2.10%	-