



April 2022

In focus

Global stock markets gave up their March gains and ended the month posting negative returns. Investors focused on the decision by the Federal Reserve (the Fed) to increase its benchmark rate of interest at a faster pace than expected, as well as wider Chinese anti-COVID lockdowns.

China's zero-COVID policy continued to add to global supply chain woes, with major factories being shut down and reports of new containment measures being implemented in Beijing. Disappointing earnings and feeble guidance from major U.S. companies, on weaker demand and supply shortages, further contributed to overall risk-off sentiment. Separately, risks stemming from the Russia-Ukraine conflict added to the market's worries.

Bonds reacted negatively to rising inflation and expectations of aggressive monetary tightening by central banks globally. Credit spreads, the difference in yields offered on bonds with similar tenure, but different ratings, also widened over the course of the month. The U.S. yield curve flattened, indicating expectations of weaker longer-term growth and lower inflation. Oil and natural gas were the only commodities to gain in April, due to ongoing concerns about tight worldwide supply, underscored by another drawdown in U.S. distillate and gasoline inventories.

Indexes	Close	MTD	YTD	2021
S&P/TSX	20,762.00	-5.15%	-2.17%	21.74%
S&P500	4,131.93	-8.80%	-13.31%	26.89%
NASDAQ	12,334.64	-13.26%	-21.16%	21.39%
DJIA	32,977.21	-4.91%	-9.25%	18.73%
Russell 2000	1,864.10	-9.95%	-16.98%	13.70%
FTSE 100	7,544.55	0.38%	2.17%	14.30%
Euro Stoxx 50	3,802.86	-2.55%	-11.53%	20.99%
Nikkei 225	26,847.90	-3.50%	-6.75%	4.91%
Hang Seng	21,089.39	-4.13%	-9.87%	-14.08%
Shanghai Comp.	3,047.06	-6.31%	-16.28%	4.80%
MSCI ACWI	653.67	-8.14%	-13.40%	16.80%
MSCI EM	1,076.19	-5.75%	-12.65%	-4.59%
MSCI ACWI ESG Leaders	2,319.72	-7.87%	-13.71%	20.80%

Fixed income	Close	MTD	YTD	2021
FTSE Canada Uni.	1,149.75	-3.40%	-3.40%	-2.54%
BBG Global Agg.	472.25	-5.48%	-11.30%	-4.71%
TSX Pref	1,765.52	-7.04%	-9.39%	19.35%

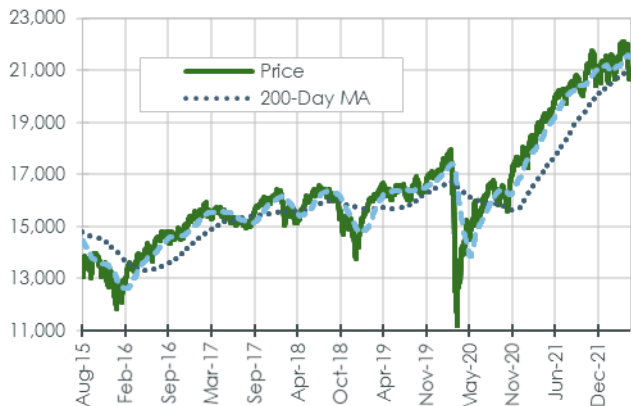
Bond yields	Close	bps chg MTD	bps chg YTD	bps chg 2021
10 yr Canada Govt.	2.87%	46.1	144.0	74.9
10 yr U.S. Govt.	2.93%	59.6	142.4	59.7
30 yr Canada Govt.	2.80%	41.8	112.3	46.6
30 yr U.S. Govt.	3.00%	55.0	109.4	25.8

Commodities	Close	MTD	YTD	2021
Oil	104.69	6.26%	42.69%	56.87%
Natural gas	7.24	27.07%	102.40%	48.38%
Gold	1,896.93	-2.09%	3.70%	-3.64%
Silver	22.78	-8.13%	-2.28%	-11.72%
Copper	440.85	-7.30%	-0.77%	26.26%

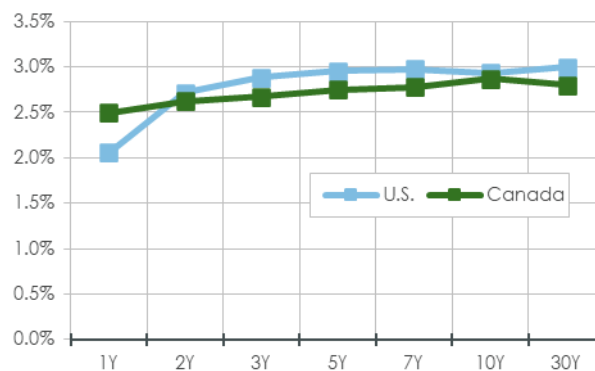
Currencies	Close	MTD	YTD	2021
CAD/USD	0.7775	-2.74%	-1.74%	0.76%
USD/EUR	0.9484	4.96%	7.86%	7.42%
CAD/EUR	0.7375	2.09%	6.02%	8.20%
USD/JPY	129.7000	6.57%	12.70%	11.46%
USD/CNY	6.6085	4.24%	3.97%	-2.62%
USD/MXN	20.4280	2.81%	-0.49%	3.09%
GBP/CAD	1.6172	-1.64%	-5.40%	-1.76%
GBP/USD	1.2574	-4.29%	-7.08%	-1.01%

* Please refer to 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 CPI YoY	Mar	6.1%	6.7%	5.7%
Canada unemployment rate	Mar	5.4%	5.3%	5.5%
Canada housing starts	Mar	250k	246.2k	250.2k
U.S. GDP annualized QoQ	Q1	1.0%	-1.4%	6.9%
U.S. ISM manufacturing	Mar	59.0	57.1	58.6
U.S. University of Michigan sentiment	Apr	59.0	65.7	59.4

Canada

Canadian markets declined in line with U.S. equities, mainly on concerns about the sustained rise in inflation and expectations of higher interest rates, as well as the risks related to the Russia-Ukraine conflict. In a major policy decision, the Bank of Canada raised its target for its overnight rate by 50 basis points, to 1%, the second recent rate hike and the biggest in 20 years, pushing borrowing costs higher.

On the economic front, Canada's annual inflation rate quickened to 6.7% in March, the highest since January of 1991, against the backdrop of a sustained rise in housing prices, substantial supply constraints and a geopolitical conflict that increased prices for energy and agricultural products.

U.S.

Concerns about a hit to economic growth due to a hawkish Fed, mixed earnings from some big growth companies, the conflict in Ukraine and pandemic-related lockdowns in China all weighed on U.S. investor sentiment. Equities and bonds declined after Fed Chair Jerome Powell said that the central bank would consider raising interest rates by 0.50 percentage points at its next meeting. A decline in first-quarter GDP, which fell by 1.4% on an annualized basis, also dampened investor sentiment. Large trade deficits, lower inventory investments and the diminishing effects of fiscal stimulus payments were some of the key factors that had a negative impact on the economy.

All sectors, except consumer staples, ended by posting negative returns, with communication services and consumer discretionary among the worst performers. From a style perspective, growth and momentum names were weaker than value and risk stocks, while mid-cap companies marginally outperformed large- and small-cap stocks.

On the economic front, the unemployment level declined to 3.6% in March, with job openings remaining strong, at 11.5 million. Inflation continued to surge, led by increasing prices of energy and food. The Personal Consumption Expenditures Index rose by 6.6% in the 12 months to March, while the Consumer Price Index rose by 8.5%. The S&P Global flash U.S. manufacturing PMI came in at 59.7 in April. Manufacturers were able to increase production due to strong demand, but confidence slipped to a six-month low.

Rest of the world

European equities declined in April. Geopolitical uncertainty following Russia's invasion of Ukraine and elevated inflation figures across the globe dominated market sentiment. Risk aversion rose amid expectations that the European Central Bank would follow the U.S. Fed and raise interest rates to combat surging inflation, while China's stringent COVID-19 lockdown policy further dampened sentiment.

In Asia, Japanese equities posted negative returns for April; however, the market rebounded somewhat at the end of the month on a weaker yen and strong earnings results from some companies. Separately, the Bank of Japan strengthened its commitment to maintain ultra-low interest rates by vowing to buy unlimited amounts of bonds daily to defend its yield target.

Chinese equities slipped as the COVID-19 situation worsened, with Shanghai remaining under full lockdown in April. Reports of new containment measures being implemented in Beijing weighed on manufacturing and business activity, given broken supply chains, factory closures and port congestions. However, accommodative monetary and fiscal policies by Chinese authorities provided some support.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada unemployment rate	Apr	5.2%	5.3%
Canada quarterly GDP annualized	Q1	--	6.7%
U.S. change in non-farm payrolls	Apr	385k	431k
U.S. CPI MoM	Apr	0.2%	1.2%
U.S. University of Michigan sentiment	May	63.8	65.2
China CPI YoY	Apr	1.8%	1.5%

Central bank meetings

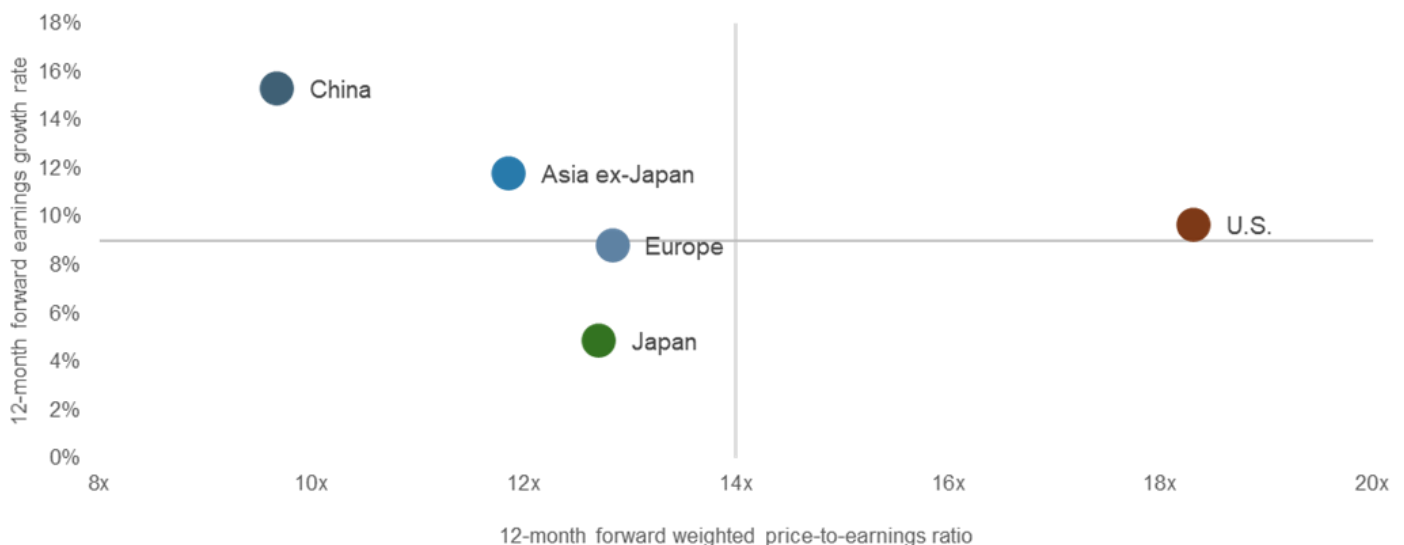
Central banks	Date	Probability of change	Current rate
Federal Open Market Committee	04-May	209.5%	0.50%
Bank of England	05-May	124.4%	0.75%
Bank of Canada	01-Jun	221.8%	1.00%
European Central Bank	09-Jun	26.2%	0.00%
Bank of Japan	17-Jun	-6.3%	-0.10%

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

Valuations and earnings reflect bad news.

The chart below shows the forward earnings expectations and the weighted price-to-earnings ratio (a valuation metric) of key regional and country markets. Concerns that a high rate of inflation and rising interest rates across major economies would result in global economic weakness weighed on corporate earnings prospects and have resulted in a sharp correction in valuations. China's troubles with COVID-19 and its economic and regulatory woes have resulted in a steep drop in valuations, while earnings prospects have improved; a series of supportive policy measures is expected to encourage economic expansion.



Source: Fidelity Investments Canada ULC and Refinitiv DataStream, April 30, 2022.

Appendix

Global markets (Returns in Canadian dollar terms)

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30 yr Canada Govt.	2.80	41.8	112.3	46.6
30 yr U.S. Govt.	3.00	55.0	109.4	25.8
Commodities	Close	MTD	YTD	2021
Oil	134.65	9.26%	45.22%	55.68%
Natural gas	9.32	30.64%	106.00%	47.26%
Gold	2,439.59	0.67%	5.45%	-4.24%
Silver	29.30	-5.52%	-0.50%	-12.43%
Copper	567.01	-4.69%	1.00%	25.30%
Currencies	Close	MTD	YTD	2021
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