WEEK IN REVIEW

May 20, 2022

In focus

Global equity markets were mixed for the week. While investors in the U.S. worried about the outlook for the economy amid rising inflation and monetary policy tightening, China, Japan, emerging markets and Canada saw equities advance. Fading COVID-19 risks in China and the People's Bank of China's decision to reduce a key lending rate bolstered sentiment.

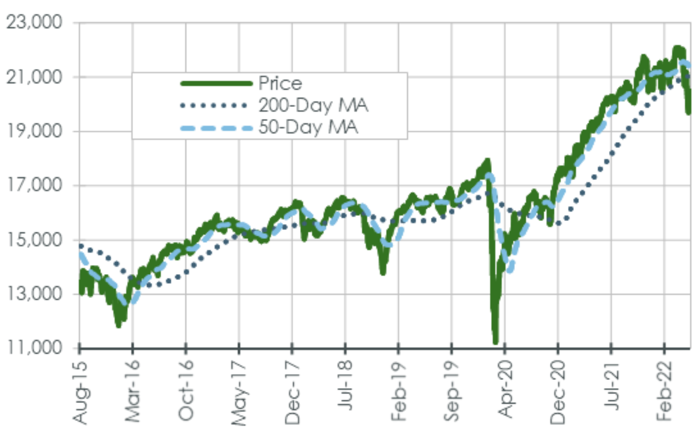
The week started on a positive note with the news of easing COVID case counts in Shanghai. However, by Wednesday, most markets were at their weekly lows, after some major U.S. retailers, led by Walmart, reported weaker-than-expected earnings and warned about their outlook due to rising costs. The Ukraine conflict also dominated headlines. Weakness in consumer expectations and a drop in residential permits in the U.S., as well as a slower-than-expected rise in existing home sales, added to investor worries. Rising U.S. mortgage rates also contributed to a slowdown in single-family home starts, a key measure of health of U.S. housing markets.

In fixed income, tighter monetary policy from the Federal Reserve (the Fed), amid elevated inflation and signals of slowing economic growth, kept yields volatile. U.S. Fed Chair Jerome Powell maintained his hawkish stance, supporting the view the Fed may continue to raise interest rates to cool down an overheating economy.

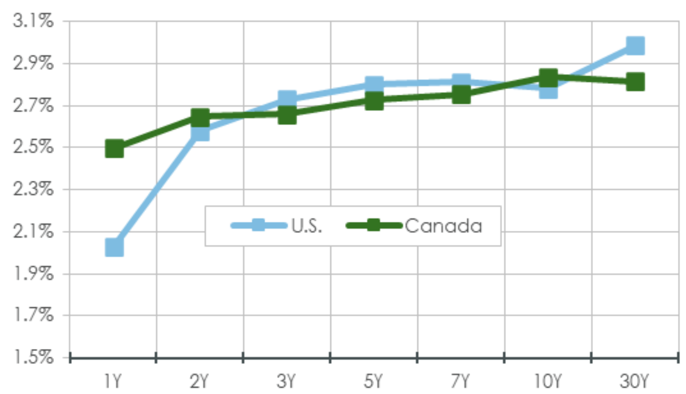
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,197.61	0.49%	-2.72%	-4.83%
S&P500	3,901.36	-3.05%	-5.58%	-18.14%
NASDAQ	11,354.62	-3.82%	-7.95%	-27.42%
DJIA	31,261.90	-2.90%	-5.20%	-13.97%
Russell 2000	1,773.27	-1.08%	-4.87%	-21.02%
FTSE 100	7,389.98	-0.38%	-2.05%	0.07%
Euro Stoxx 50	3,657.03	-1.25%	-3.83%	-14.92%
Nikkei 225	26,739.03	1.18%	-0.41%	-7.13%
Hang Seng	20,717.24	4.11%	-1.76%	-11.46%
Shanghai Comp.	3,146.57	2.02%	3.27%	-13.55%
MSCI ACWI	621.89	-1.16%	-4.86%	-17.61%
MSCI EM	1,035.31	3.07%	-3.80%	-15.97%
MSCI ACWI ESG Leaders	2,198.55	-1.34%	-5.22%	-18.22%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,069.07	0.59%	0.04%	-10.18%
BBG Global Agg.	472.31	0.99%	0.01%	-11.29%
TSX Pref	1,779.08	0.92%	0.77%	-8.70%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	2.84%	-12.5	-3.1	140.9
10 yr U.S. Govt.	2.78%	-13.7	-15.3	127.1
30 yr Canada Govt.	2.81%	-12.5	1.2	113.5
30 yr U.S. Govt.	2.99%	-9.3	-1.1	108.3
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	110.28	1.52%	7.13%	51.53%
Natural gas	8.08	5.48%	11.58%	125.85%
Gold	1,846.50	1.92%	-2.66%	0.95%
Silver	21.78	3.13%	-4.40%	-6.58%
Copper	427.50	2.40%	-3.03%	-3.77%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7788	0.58%	0.17%	-1.58%
USD/EUR	0.9467	-1.46%	-0.18%	7.67%
CAD/EUR	0.7374	-0.87%	-0.01%	6.01%
USD/JPY	127.8800	-1.04%	-1.40%	11.12%
USD/CNY	6.6930	-1.42%	1.28%	5.30%
USD/MXN	19.8626	-1.22%	-2.77%	-3.25%
GBP/CAD	1.6041	1.29%	-0.81%	-6.17%
GBP/USD	1.2480	1.78%	-0.75%	-7.77%

* 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	Apr	6.7%	6.8%	6.7%
Canada housing starts	Apr	245.7k	267.3k	248.4k
U.S. initial jobless claims	14-May	200k	218k	197k
U.S. retail sales advance MoM	Apr	1.0%	0.9%	1.4%
U.S. housing starts	Apr	1756k	1724k	1728k
Eurozone CPI YoY	Apr	7.5%	7.4%	7.4%

Canada

Despite persistent volatility, higher interest rates and the likely negative impact on consumption and business investments, Canadian equities rose for the week. Higher commodity and oil prices lifted sentiment regarding companies in the energy and materials sectors. From a sector perspective, consumer stocks followed their U.S.-listed peers, declining on a weaker earnings outlook. Utilities also advanced, in part due to what many investors view as the sector's defensive earnings.

U.S.

U.S. equities endured a seventh consecutive weekly loss; markets reacted to weakness at U.S. retailers, who are suffering from higher costs and an inflation-hobbled consumer.

Among sectors, consumer staples, consumer discretionary, information technology, industrials and communications services led the way lower; the energy sector, however, outperformed as crude oil prices gained for the fourth week in a row.

Among companies, big box discount chain Target declined significantly after missing first-quarter earnings expectations, due to high costs, including for labour and for energy. Home improvement retailer Lowe's fell after posting a drop in first quarter same-store sales. Harley-Davidson fell after suspending production for two weeks in a move tied to questions about a supplier's regulatory compliance. Cisco fell on a disappointing outlook.

Separately, in economic data, retail sales rose 0.9% in April, slightly more than expected, but still overpowered by earnings results. Existing home sales also missed expectations, down 2.4% to an annual rate of 5.61 million, reflecting the pressure of higher mortgage rates. By contrast, industrial production beat expectations with a very strong 1.1% April rise and an annual growth at 6.45%.

Rest of the world

European markets ended the week lower. Ongoing inflation concerns and disappointing earnings from some key U.S. retailers overshadowed China's central bank announcement that it would reduce rates on five-year loans.

Minutes from the European Central Bank's April meeting showed doubts about rising inflation and the outlook for growth. Among worries, the energy shock resulting from the Ukraine war could severely erode incomes and, in turn, household spending and personal savings. Meanwhile, U.K. consumer prices took off in April after the cap on domestic fuel bills was raised by more than 50%, enough to lift the annual inflation rate to 9.0%, the highest level in more than 40 years.

The Japanese stock market finished the week on a strong note, bolstered by China's move to boost its property sector, which has been hindered by the zero-COVID policy. Japan's announcement that it would relax border controls was also encouraging. Core consumer prices in the country surged, due mainly to high food and energy costs.

Chinese stocks rose as the People's Bank of China, the central bank, cut its five-year loan prime rate at national level by 15 basis points, to 4.45%, to support the housing market, while COVID lockdowns in some of nation's biggest cities weighed on demand for new loans from businesses and homebuyers. Worries about the health of the information technology sector remained, with Tencent, an online games and social media platform operator, warning about its earnings outlook.

On the economic front, China's industrial production fell 2.9% on the year, and retail sales by 11.1%, both worse than expected.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada retail sales MoM	Mar	1.4%	0.1%
Canada retail sales ex auto MoM	Mar	1.9%	2.1%
U.S. initial jobless claims	21-May	210k	218k
U.S. GDP annualized QoQ	Q1	-1.3%	-1.4%
U.S. University of Michigan sentiment	May	59.1	59.1
U.S. durable goods orders	Apr	0.6%	1.1%

Central bank meetings

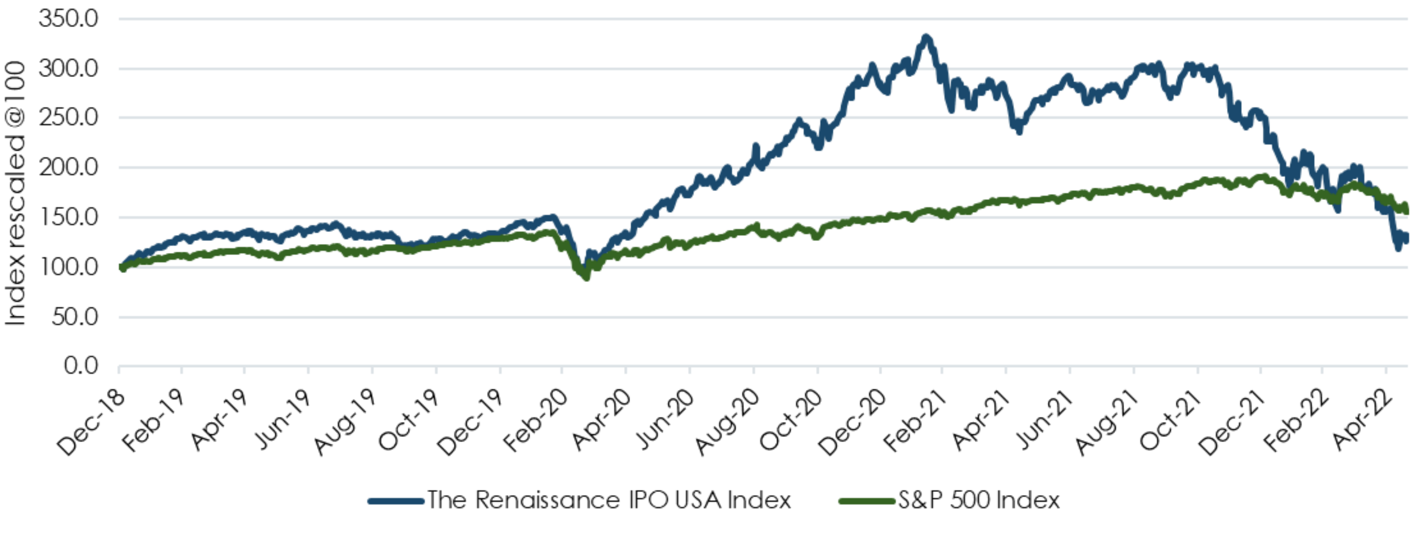
Central banks	Date	Probability of change	Current rate
Bank of Canada	1-Jun-22	257.3%	1.00%
European Central Bank	9-Jun-22	17.5%	0.00%
Federal Open Market Committee	15-Jun-22	207.3%	1.00%
Bank of England	16-Jun-22	128.9%	1.00%
Bank of Japan	17-Jun-22	1.0%	-0.10%

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

Correction in parts of the market may highlight the value of careful stock selection.

The Renaissance IPO Index, shown below, measures the performance of new issues over the past two years. That performance has declined by nearly 48% since the start of the year, and underperformed the S&P 500 Index. This highlights the risk of investing in trendy companies – and the advantage of careful, bottom-up security selection, which, although no guarantee of success, can help avoid the trap of "following the herd." After the current correction, we are likely to see a somewhat quieter period for new issues, and more sensible valuations.



Source: Fidelity International and Bloomberg, May 20, 2022. Returns for the Renaissance IPO Index and the S&P 500 Index are in U.S. dollars. The Renaissance IPO Index is a diversified portfolio of U.S.-listed newly public companies that provides exposure to securities under-represented in broad benchmark indexes. IPOs that pass a formulated screening process are weighted by float, capped at 10% and removed after two years.

Appendix

Global markets (Returns in Canadian dollar terms)				
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FTSE 100	7,389.98	0.86%	-2.68%	-6.38%
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Shanghai Comp.	3,146.57	2.79%	2.16%	-16.65%
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Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	141.60	0.93%	6.95%	53.96%
Natural gas	10.38	4.87%	11.40%	129.47%
Gold	2,371.01	1.34%	-2.81%	2.49%
Silver	27.94	2.54%	-4.63%	-5.11%
Copper	548.92	1.80%	-3.19%	-2.23%
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