In focus

Global equities advanced for the month, due to a highly stimulative fiscal and monetary policy environment in the U.S. and a swiftly recovering global economy. Inflation concerns, which for now remain arguably transient in nature, also supported markets. In addition, the U.S. Congress appeared to be reaching a consensus on a massive infrastructure stimulus bill, which further encouraged investor confidence.

European equities rose in May, supported by improving sentiment regarding an economic reopening, coupled with strong economic data and upbeat corporate earnings. A decline in new COVID-19 cases and an acceleration in vaccine rollouts led to a gradual lifting of restrictions across the region.

In Asia, positive developments on the global front, including assurances from global central banks regarding liquidity and firmer global equity markets, supported broader investor sentiment. However, concerns about a resurgence in COVID-19 cases in some countries raised worries about more curbs and economic slowdowns.

Fixed income securities also ended with modest gains. Bonds rose immediately after data showed a rise in inflation expectations, but investors became less certain about whether pricing pressures are merely transitory or will have a more lasting impact once supply bottlenecks normalize.

S&P/TSX Composite Index

Source: Bloomberg, 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 unemployment rate | Apr | 8.0% | 8.1% | 7.5%
Canada housing starts | Apr | 285.0k | 268.6k | 334.8k
Canada CPI YoY | Apr | 3.2% | 3.4% | 2.2%
U.S. initial jobless claims | May-22 | 425k | 406k | 444k
U.S. ISM manufacturing | May | 61.0 | 61.2 | 60.7
U.S. Conference Board consumer confidence | May | 118.8 | 117.2 | 117.5

Canada

Canadian equities advanced strongly for the month in May. Materials, energy and financials were among the leading drivers of benchmark gains, with expectations of a revival in global demand for energy and commodities lifting sentiment. Risk of higher inflation drove up gold prices, while financials also benefited from attractive growth prospects.

On the economic front, inflation was ahead of expectations. As in most other developed economies, it is not yet clear whether this rise in inflation is transitory, due simply to supply constraints, or is more sustainable. Retail sales for the month of March also beat expectations, adding to confidence in a strong recovery. Substantial job gains in February and March boosted employment, but the labour market remains difficult for many Canadians, especially low-wage workers, young people and women. Against this backdrop, the Bank of Canada retained its low-interest-rate policy.

U.S.

U.S. equities gained marginally over the month as major indexes traded close to all-time highs. With most economic indicators suggesting a rebound in business activity, a lacklustre increase in jobs acted as a headwind for gains in financial markets. Meanwhile, a combination of supply shortages, price normalization in certain sectors and pent-up demand contributed to a strong headline inflation reading in April, contributing to some volatility.

Expectations of economic growth have improved: roughly 41% of the U.S. population has now been fully inoculated, and the economy has mostly reopened, with many states ending isolation and reintroducing standard working hours.

Strong corporate earnings have been a tailwind for market performance. Business surveys are at multi-decade highs, supported by reopenings. The IHS manufacturing PMI rose to 62.1 in May, up from 60.5 in April. From a style perspective, value stocks resumed their outperformance after giving up some gains in April.

Rest of the world

In Europe, all sectors reported flat to positive returns, with cyclicals outperforming defensives. Expectations of stronger economic growth and inflation favoured value names, although growth stocks marginally outpaced value toward the end of the month, after the European Central Bank downplayed inflation worries.

The eurozone’s business activity grew strongly in May as economies continued to lift COVID-19 restrictions. The region’s flash composite PMI rose to 56.9 in May, compared with the previous month’s reading of 53.8. Consumer and business confidence also rose amid the reopening of economies across the region.

In Japan, favourable U.S. equity prices, as well as share buybacks following declines ahead of the Golden Week holiday period, supported markets at the start of the month. However, an expansion of the state of emergency to cover three more prefectures in Japan, the relatively slow pace of vaccine rollouts in the country and the resurgence of the virus in other parts of Asia dampened sentiment and limited gains.

Chinese equities posted gains as muted domestic economic data releases eased worries about policy tightening and a stronger local currency boosted foreign inflows. On the economic front, China’s exports for April and fixed asset investment for the January–April period were higher than market estimates. However, retail sales for April missed expectations. Earnings at China’s industrial firms slowed sharply in April, compared with the previous month, after high commodity prices and weaker performance in the consumer goods sector limited their profitability.
Looking ahead

<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>Period</th>
<th>Survey</th>
<th>Prior period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada unemployment rate</td>
<td>May</td>
<td>8.2%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Canada retail sales MoM</td>
<td>Apr</td>
<td>-</td>
<td>3.6%</td>
</tr>
<tr>
<td>Canada manufacturing sales MoM</td>
<td>Apr</td>
<td>-</td>
<td>3.5%</td>
</tr>
<tr>
<td>Canada industrial production MoM</td>
<td>May</td>
<td>-</td>
<td>1.6%</td>
</tr>
<tr>
<td>U.S. initial jobless claims</td>
<td>May 29</td>
<td>387k</td>
<td>406k</td>
</tr>
<tr>
<td>U.S. University of Michigan sentiment survey</td>
<td>Jun</td>
<td>83.3</td>
<td>82.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Central banks</th>
<th>Date</th>
<th>Probability of change</th>
<th>Current rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Canada</td>
<td>9-Jun</td>
<td>-5.5%</td>
<td>0.25%</td>
</tr>
<tr>
<td>European Central Bank</td>
<td>10-Jun</td>
<td>-3.9%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Federal Open Market Committee</td>
<td>16-Jun</td>
<td>6.2%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Bank of Japan</td>
<td>18-Jun</td>
<td>2.8%</td>
<td>-0.10%</td>
</tr>
<tr>
<td>Bank of England</td>
<td>24-Jun</td>
<td>0.5%</td>
<td>0.10%</td>
</tr>
</tbody>
</table>

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

Spike in inflation but real yields negative

The U.S. Federal Reserve’s preferred inflation measure – core personal consumption expenditure – rose 3.1% year-on-year for the month of April; this is a substantial increase on March’s 1.9% figure, well above the Fed’s 2% target rate, and the highest reading since 1992. The spike in inflation has been driven by businesses reopening and a surge in consumer activity at the same time as ongoing disruptions to supply chains as a result of the pandemic. At the moment, inflation appears to be driven by increases in costs that also appear to be limited in time and extent, with the U.S. and China under more pressure than the rest of the world. Only a self-reinforcing rise in prices, underpinned by an increase in costs, especially wages, would perpetuate inflation. The core PCE reading has also had little effect on yields, which are still very low and negative in real terms.

### Global markets (Returns in Canadian dollar terms)

<table>
<thead>
<tr>
<th>Indexes</th>
<th>Close</th>
<th>MTD</th>
<th>YTD</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P/TSX</td>
<td>19,730.99</td>
<td>3.26%</td>
<td>13.18%</td>
<td>2.17%</td>
</tr>
<tr>
<td>S&amp;P500</td>
<td>4,204.11</td>
<td>-1.10%</td>
<td>5.95%</td>
<td>14.38%</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>13,748.74</td>
<td>-3.14%</td>
<td>0.98%</td>
<td>41.32%</td>
</tr>
<tr>
<td>DJIA</td>
<td>34,529.45</td>
<td>0.26%</td>
<td>6.79%</td>
<td>5.51%</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>2,268.97</td>
<td>-1.53%</td>
<td>8.76%</td>
<td>16.45%</td>
</tr>
<tr>
<td>FTSE 100</td>
<td>7,022.61</td>
<td>1.74%</td>
<td>7.01%</td>
<td>-13.27%</td>
</tr>
<tr>
<td>Euro Stoxx 50</td>
<td>4,039.46</td>
<td>1.49%</td>
<td>7.50%</td>
<td>1.60%</td>
</tr>
<tr>
<td>Nikkei 225</td>
<td>28,860.08</td>
<td>-1.78%</td>
<td>-6.25%</td>
<td>19.60%</td>
</tr>
<tr>
<td>Hang Seng</td>
<td>29,151.80</td>
<td>-0.25%</td>
<td>1.08%</td>
<td>-4.53%</td>
</tr>
<tr>
<td>Shanghai Comp.</td>
<td>3,615.48</td>
<td>4.72%</td>
<td>0.82%</td>
<td>19.51%</td>
</tr>
<tr>
<td>MSCI ACWI</td>
<td>711.45</td>
<td>-0.44%</td>
<td>4.05%</td>
<td>12.48%</td>
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<tr>
<td>MSCI EM</td>
<td>1,376.21</td>
<td>0.30%</td>
<td>0.74%</td>
<td>13.97%</td>
</tr>
<tr>
<td>MSCI ACWI ESG Leaders</td>
<td>2,479.82</td>
<td>-0.20%</td>
<td>5.32%</td>
<td>14.12%</td>
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<table>
<thead>
<tr>
<th>Fixed income</th>
<th>Close</th>
<th>MTD</th>
<th>YTD</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE Canada Uni.</td>
<td>1,167.71</td>
<td>0.63%</td>
<td>-4.38%</td>
<td>8.68%</td>
</tr>
<tr>
<td>BBG Global Agg.</td>
<td>545.62</td>
<td>-0.91%</td>
<td>-7.48%</td>
<td>7.04%</td>
</tr>
<tr>
<td>TSX Pref</td>
<td>1,870.28</td>
<td>3.13%</td>
<td>14.55%</td>
<td>6.16%</td>
</tr>
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<table>
<thead>
<tr>
<th>Bond yields</th>
<th>Close</th>
<th>bps chg MTD</th>
<th>bps chg YTD</th>
<th>bps chg 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 yr Canada Govt.</td>
<td>1.49</td>
<td>-6.0</td>
<td>80.9</td>
<td>-102.5</td>
</tr>
<tr>
<td>10 yr U.S. Govt.</td>
<td>1.59</td>
<td>-3.2</td>
<td>68.1</td>
<td>-100.4</td>
</tr>
<tr>
<td>30 yr Canada Govt.</td>
<td>2.03</td>
<td>-4.7</td>
<td>82.1</td>
<td>-55.1</td>
</tr>
<tr>
<td>30 yr U.S. Govt.</td>
<td>2.28</td>
<td>-1.4</td>
<td>63.8</td>
<td>-74.5</td>
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</table>

<table>
<thead>
<tr>
<th>Commodities</th>
<th>Close</th>
<th>MTD</th>
<th>YTD</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>80.01</td>
<td>2.56%</td>
<td>29.50%</td>
<td>-12.17%</td>
</tr>
<tr>
<td>Natural gas</td>
<td>3.60</td>
<td>-1.57%</td>
<td>5.36%</td>
<td>13.11%</td>
</tr>
<tr>
<td>Gold</td>
<td>2,301.03</td>
<td>5.85%</td>
<td>-4.76%</td>
<td>22.57%</td>
</tr>
<tr>
<td>Silver</td>
<td>33.81</td>
<td>6.15%</td>
<td>0.55%</td>
<td>44.97%</td>
</tr>
<tr>
<td>Copper</td>
<td>564.30</td>
<td>2.77%</td>
<td>25.66%</td>
<td>21.79%</td>
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<table>
<thead>
<tr>
<th>Currencies</th>
<th>Close</th>
<th>MTD</th>
<th>YTD</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAD/USD</td>
<td>0.8289</td>
<td>1.87%</td>
<td>5.55%</td>
<td>2.01%</td>
</tr>
<tr>
<td>USD/EUR</td>
<td>0.8179</td>
<td>-1.69%</td>
<td>-0.09%</td>
<td>-8.22%</td>
</tr>
<tr>
<td>CAD/EUR</td>
<td>0.6780</td>
<td>0.19%</td>
<td>5.46%</td>
<td>-8.36%</td>
</tr>
<tr>
<td>USD/JPY</td>
<td>109.580</td>
<td>0.25%</td>
<td>6.13%</td>
<td>-4.94%</td>
</tr>
<tr>
<td>USD/CNY</td>
<td>6,370.1</td>
<td>-1.62%</td>
<td>-2.41%</td>
<td>-8.26%</td>
</tr>
<tr>
<td>USD/MXN</td>
<td>19,953.4</td>
<td>-1.45%</td>
<td>0.20%</td>
<td>5.22%</td>
</tr>
<tr>
<td>GBP/CAD</td>
<td>1,714.7</td>
<td>0.86%</td>
<td>-1.58%</td>
<td>1.14%</td>
</tr>
<tr>
<td>GBP/USD</td>
<td>1,421.2</td>
<td>2.82%</td>
<td>3.96%</td>
<td>3.12%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Refinitiv DataStream.
All equity indexes returns are price returns and do not include dividends.
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