

May 2022 market update

Canadians aren't just having a difficult time at the pumps. Read our monthly update to find out what's been moving markets.

June 7, 2022



Introduction

Global equity markets finished the month of May largely unchanged. Markets were volatile with persistent geopolitical tensions, while investors tried to anticipate aggressive central bank actions and the effect on economic growth. Equity markets climbed higher late in the month as the U.S. Federal Reserve Board's ("Fed") most recent meeting minutes outlined the Fed's aggressive policy tightening path. China lifted lockdown restrictions late in the month, raising hope for an economic pickup. The S&P/TSX Composite Index posted a small loss, with eight of 11 sectors declining. The Health Care and Materials sectors were the worst performers. In the U.S., the S&P 500 Index finished largely unchanged. The tech-heavy NASDAQ Composite Index fell during the month.

Consumer prices continued to grow during the month but showed signs of slight easing. Both manufacturing and service sector activity slowed during the month, partly due to ongoing supply chain disruptions and lockdown restrictions in China. The Fed raised the target range of its federal funds rate by 50 basis points ("bps") to 0.75% to 1.00%. The Bank of England raised its Bank Rate by another 25 bps to 1.00%, its fourth consecutive rate increase. The yield on 10-year government bonds in Canada and the U.S. fell over May.

Largest rate increase since 2000

At its meeting in early May, the Fed raised the target range for its federal funds rate by 50 bps to 0.75% - 1.00%. This was the Fed's second consecutive rate increase and its largest since 2000. With inflationary pressures rapidly building, the Fed believed an aggressive stance to raising its key policy rate was warranted. The Fed also announced that starting in June, it will reduce its US\$9 trillion balance sheet by offloading US\$47.5 billion of Treasuries and mortgage-backed securities, with the amount moving incrementally higher over the coming months. In the minutes from the same meeting, most Fed officials agreed to continue its aggressive stance, with 50-bps rate increases likely at its next two meetings. U.S. central bankers believe this action may help tame rampant inflation at its highest level since the early 80s. The Fed also noted it would give them the ability to shift policy later this year if economic conditions weaken amid higher prices, rising rates, and geopolitical tensions.

Inflation weighing on finances

Statistics Canada ("StatsCan") reported that Canadian consumer prices continued to tick higher in April. Canada's inflation rate came in at 6.8% year-over-year, just above the 6.7% rate economists expected. Consumers faced pressure, particularly from higher food, shelter, and energy prices. Now, signs are pointing to consumer stress and confidence concerns. In March, retail sales remained largely unchanged, missing the 1.4% increase economists expected. A drop in new vehicle purchases offset a rise in gasoline sales. Consumer confidence has fallen for five straight weeks ended May 27. Personal finances pose a big question for many Canadians, as 41% believe their personal financial situation is worse off right now than one year ago. The concerns come largely as a result of surging prices and higher rates, with the Bank of Canada ("BoC") expected to raise rates even further in 2022¹(#1). Meanwhile, StatsCan reported household debt rose by 0.5% in March, spurred partly by credit card debt at banks, which rose by 0.9%. The data suggests Canadians are facing financial stress, which could hinder the Canadian economy.

¹ Since the time of writing, the BoC raised its benchmark overnight interest rate by another 50 bps to 1.50% on June 1, 2022.

Record high for gas prices

For the first time in Canada, the average gas price across the country reached \$2.00 per litre on May 16, according to Natural Resources Canada. This was a \$0.30 increase in the price per litre since mid-April. After plummeting during the initial lockdowns amid the onset of the pandemic, gasoline prices jumped significantly alongside the price of oil. Oil prices reached \$119 per barrel in May after increasing by 10%. Over the past year, oil prices have risen by more than 70%. With strong demand as economic activity picked up after lockdown restrictions eased, the remaining supply was relatively subdued, and prices increased. A recent report from Bloomberg showed the Organization of the Petroleum Exporting Countries' production increases were not as sharp as planned, partly due to some countries' limited production capacity. The Russia-Ukraine conflict continues, and with the European Union's decision to partially ban Russian oil late in the month combined with China's reopening, oil prices may move higher, driven by greater global demand. High gas prices have taken a toll on Canadians' finances, leaving many worried about the impact of more increases on their personal finances.

OECD finds growth slowed

Based on provisional estimates, the Organisation for Economic Co-operation and Development (“OECD”) found economic growth among member nations slowed in the first quarter of 2022. Economic growth for OECD members was 0.1% in the first quarter, significantly slower than the 1.2% increase in the fourth quarter of 2021. Among G7 nations, the economy shrank by 0.1%, down from the 1.2% growth rate in the fourth quarter. Overall growth was weighed down by a drop in the U.S. and Japan, where the economies shrank largely due to a drop in net trade in response to the ongoing supply chain challenges. The OECD noted gross domestic product (“GDP”) in Canada, the U.S. and France remained above their pre-pandemic levels, while Japan, Germany and Italy remain below their pre-pandemic levels. The U.K.’s GDP surpassed its pre-pandemic level for the first time in the first quarter. Several factors could weigh on economic growth in future quarters, including surging prices, monetary tightening, supply chain disruptions and geopolitical tensions.

Market performance - as at May 31, 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\$	20,729.34	-0.16%	-0.16%	-2.33%	-2.33%	5.06%	5.06%
S&P 500 Index US\$	4,132.15	0.01%	-1.43%	-13.30%	-13.41%	-1.71%	2.74%
Dow Jones Industrial Average US\$	32,990.12	0.04%	-1.40%	-9.21%	-9.33%	-4.46%	-0.13%
MSCI EAFE Index US\$	2,037.87	0.21%	-1.23%	-12.77%	-12.88%	-12.69%	-8.60%
MSCI Emerging Markets Index US\$	1,077.67	0.14%	-1.30%	-12.53%	-12.64%	-21.69%	-18.03%

MSCI Europe Index US\$	1,808.41	0.04%	-1.39%	-13.61%	-13.72%	-12.08%	-7.97%
MSCI AC Asia Pacific Index US\$	169.51	0.42%	-1.03%	-12.23%	-12.34%	-19.42%	-15.53%

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\$	1,067.93	-0.07%	-0.07%	-10.28%	-10.28%	-8.55%	-8.55%
FTSE World Investment Grade Bond Index US\$	215.78	0.30%	-1.14%	-11.58%	-11.69%	-13.94%	-9.78%

Currencies	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
CAD/USD	0.7906	1.68%	-	-0.11%	-	-4.64%	-

Commodities	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
	114.67	10.09%	-	53.24%	-	73.78%	-

West Texas Intermediate (US\$/bbl)							
Gold (US\$/oz)	1,837.35	-3.13%	-	0.46%	-	7.04%	-

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