February 2022 market update

Tensions escalate over the invasion of Ukraine.

March 8, 2022

Introduction

Positive economic signals in response to easing lockdown restrictions around the world and rising inflation were the two dominant themes in February until Russia invaded Ukraine. Volatility spiked across global equity markets as the conflict intensified and the major global economies imposed tough economic sanctions against Russia. Gold and oil prices both climbed higher in response to the conflict, with crude touching US$100/barrel for the first time since 2014.

Despite the conflict, the positive economic news and rising inflation raised expectations that the major central banks, including the U.S. Federal Reserve Board ("Fed"), Bank of Canada ("BoC") and European Central Bank, will begin raising rates this year. In Canada, protestors in Windsor blocked the Ambassador Bridge in Windsor, temporarily closing off the major trade route between Canada and the U.S. The six-day long blockade added to supply chain issues, particularly for automotive manufacturers, who were forced to halt or reschedule production in response to product shortages.

Predictions about the timing and pace of monetary policy tightening by the Fed caused some bouts of volatility. In Canada, the S&P/TSX Composite Index posted a small gain, led higher by the Materials sector. In the U.S., the Communication Services sector pulled down the S&P 500 Index. The tech-heavy NASDAQ Composite Index fell over 3% over the month. Yields on 10-year government bonds in Canada and the U.S. ticked higher over the month.

Sanctions implemented as tensions escalate

Escalating geopolitical tensions between Russia and Ukraine came to the fore as Russia invaded Ukraine late in the month. In response, many Western nations – from Canada to Switzerland – imposed tough economic sanctions in an attempt to pressure Russia to end the conflict. The Canadian federal government is halting all export permits and banning Canadians from purchasing the sovereign debt of Russia. The Canadian government also imposed sanctions on some of Russia's elite, large Russian banks, and the paramilitary organization Wagner Group. Meanwhile, the U.S. has moved to freeze assets of the largest Russian financial institutions and prevented Americans and American companies from doing business with the Bank of Russia and their National Wealth Fund. The European Union imposed similar measures. The financial sanctions put enormous pressure on Russian stocks and the ruble. The Central Bank of Russia responded by raising its key policy rate to 20.0%, to help limit the downward pressure on the ruble. Globally, financial markets were volatile as the tensions mounted, causing uncertainty about what impact this may have on the global economy.

Inflationary pressures persist

Elevated inflation in Canada persisted into January. According to Statistics Canada, inflation hit 5.1% year-over-year, its sharpest pace since September 1991. Rising costs for gasoline, food and shelter continue to be amongst the major contributors to inflation and there are few signs inflation will abate in the short term. Easing lockdown restrictions could put further pressure on prices as Canadians spend on goods and services restricted during the lockdowns. Ongoing global supply chain disruptions also continue to add to the inflationary pressures. Protests at the Ambassador Bridge in Windsor that shut down one of the most important trade routes between Canada and the U.S. exacerbated the supply chain issues. The automotive sector experienced the largest disruption, forcing several manufacturers to shut down production. The BoC is scheduled to make its interest rate announcement in early March; the inflation data suggests an interest rate hike is likely*.

*Since the time of writing, the BoC raised its benchmark overnight interest rate to 0.50%, from 0.25%, on March 2, 2022.

How much and how quickly?

With the U.S. inflation rate at a 40-year high, volatility has picked up this year as financial markets try to gauge when the Fed might begin to tighten monetary policy. Based on a survey from Bloomberg, economists expect the Fed will raise rates by 25 basis points ("bps"), and possibly by as much as 50 bps, at the next Fed meeting on March 16. In an interview, James Bullard, President of the Federal Reserve Bank of St. Louis and a Federal Open Market Committee participant, said that the Fed may need to raise rates by 100 bps before July to get a handle on inflation. The minutes from the Fed's January meeting were released in February, showing the Fed is committed to raising rates soon, and will let the path of inflation guide how aggressive it may be in lifting rates this year.

Labour returning to pre-pandemic levels

The labour market across members of the Organization for Economic Cooperation and Development ("OECD") is returning to pre-pandemic levels. The unemployment rate amongst OECD member countries fell to 5.4% in December, from 5.5% in the previous month. This was its eighth straight monthly decline. According to the OECD, the unemployment rate is now just 10 bps of its pre-pandemic levels. Several countries have already surpassed their pre-pandemic unemployment rate, including France, Spain, Australia and Chile. In Canada, the unemployment rate dropped to 6.0% in December, just above the 5.7% unemployment rate posted in February 2020. Meanwhile, the OECD found per capita household income rose by 0.2% in the third quarter of 2021 over the previous quarter, putting it 4.0% higher than its pre-pandemic level in the fourth quarter of 2019. Canada's household income per capita has grown by 7.9% over that same period.

Market performance - as at February 28, 2022

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	21,126.36	0.13%	**0.13%**	-0.45%	**-0.45%**	16.98%	**16.98%**
S&P 500 Index US$	4,373.94	-3.14%	**-3.21%**	-8.23%	**-7.95%**	14.77%	**14.55%**
Dow Jones Industrial Average US$	33,892.60	-3.53%	**-3.60%**	-6.73%	**-6.44%**	9.57%	**9.36%**
MSCI EAFE	2,179.10	-1.95%	**-2.03%**	-6.72%	**-6.43%**	0.47%	**0.28%**

Index US$							
MSCI Emerging Markets Index US$	1,171.31	-3.06%	**-3.13%**	-4.93%	**-4.63%**	-12.54%	**-12.71%**
MSCI Europe Index US$	1,937.56	-2.95%	**-3.03%**	-7.44%	**-7.15%**	4.48%	**4.28%**
MSCI AC Asia Pacific Index US$	182.33	-1.29%	**-1.37%**	-5.59%	**-5.30%**	-11.74%	**-11.91%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,141.47	-0.72%	**-0.72%**	-4.10%	**-4.10%**	-3.04%	**-3.04%**
FTSE World Investment Grade Bond Index US$	235.15	-1.43%	**-1.50%**	-3.64%	**-3.34%**	-6.15%	**-5.96%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)

CAD/USD	0.7891	0.28%	-	-1.05%	-	-0.26%	-

Commodities	**Level**	**Month to date**	**Month to date (C$)**	**Year to date**	**Year to date (C$)**	**1 year**	**1 year (C$)**
West Texas Intermediate (US$/bbl)	95.82	8.70%	-	27.19%	-	55.54%	-
Gold (US$/oz)	1,909.89	6.22%	-	4.36%	-	10.09%	-