Monthly Market Commentary

April 2022

Markets caught in a downpour as rates spring up.

- Global equities posted their largest one-month decline since March 2020 and most major equity markets delivered their poorest monthly performances of 2022.
- Government bond interest rates increased across all maturities in Canada, the U.S., U.K. and eurozone. Generally, longer-term rates increased by more than short-term rates.
- In periods of unusual stress, a clear philosophy and process can guide calm, rational, long-term decision-making.

Economic Backdrop

April's market action extended the trends that shaped the first quarter. Equities and bonds tumbled, while commodities climbed.

Global equities posted their largest one-month decline since March 2020 and most major equity markets delivered their poorest monthly performances of 2022. Developed-market stocks fared worse than emerging markets.

The selloffs in U.K. and mainland Chinese equities were comparably shallow against the broad-based decline. Hong Kong stocks fell by a bit more, followed by European equities, while Japanese and U.S. stocks suffered steeper losses. Growth-oriented equities tumbled by considerably more than value-oriented stocks.

Government bond interest rates increased across all maturities in the U.S., U.K. and eurozone during April. Generally, longer-term rates increased by more than short-term rates, resulting in steeper yield curves and partially reversing the flattening (and, in the case of Treasurys, inversion) that had taken place in recent months.

Bonds were universally negative in April as interest rates climbed (yields and prices have an inverse relationship). Inflation-indexed securities experienced relatively modest declines, while corporate bonds tumbled, and emerging-market debt delivered the deepest losses.

The sustained commodities rally was mild compared to its first-quarter pace with the exception of natural gas. The spot price of natural gas leapt by 30.5% in April, while Brent and West-Texas Intermediate crude oil prices gained 2.3% and 4.4%, respectively. Wheat prices climbed by 4.9%.

The U.S. dollar continued to strengthen against most other currencies, climbing 4.7% during April according to the U.S. Dollar Index (DXY).

International Energy Agency (IEA) member nations announced plans in early April to release 120 million barrels of crude oil from their strategic reserves over a six-month period, representing the largest release since the IEA's establishment in 1974. Half of the total will be drawn from U.S. reserves.

The EU moved closer to banning Russian oil imports at the end of April as German representatives yielded their original opposition to the plan. The German government reported that dependence on Russian oil could end this summer, paving the way for EU-wide sanctions. An early-April ban imposed by the EU on Russian coal was expected to hit 25% of all Russian coal exports.

Gazprom, Russia's state-controlled natural gas conglomerate, announced that supplies to Poland and Bulgaria would be turned off in late April given their refusal to pay for gas in rubles.

In mid-April, Sweden and Finland announced their intentions to join NATO on a fairly short timeline. The Scandinavian countries are working through respective internal reviews and debates with next steps expected in the middle of May.

Two high-level U.S. delegations visited Ukraine toward the end of April as the country faced a Russian advance in the east and a worsening siege in the southeast. The first visit, by Antony Blinken (the Secretary of State) and General Lloyd Austin (the Secretary of Defense), came with a pledge of $300 million in defense financing and an approval for $165 million in ammunition sales. The second, a Congressional delegation led by Speaker of the House Nancy Pelosi, coincided with Congressional consideration of the Biden administration's budget request for $33 billion in funding for Ukrainian defense and longer-term aid.

The Congress passed a bill terminating the most-favoured-nation trade status that Russia and Belarus have enjoyed, paving the way for higher tariffs and duties on imports from the two countries. The ban on Russian energy imports that was enacted via executive order following Russia's invasion of Ukraine was also formally passed into law.

Central Banks

- The Bank of Canada (BoC) raised the policy interest rate by 0.50% to 1.0%. This move was largely expected as demand and economic growth have both been strong while inflation has been running higher than the BoC target of about 2.0%. The BoC began letting the assets on its balance sheet roll off (commonly referred to as quantitative tightening) and noted that more rate hikes will likely be needed to tame inflation.

- The Bank of England's (BOE) Monetary Policy Committee (MPC) did not meet in April. In mid-March, it increased the bank rate to 0.75% and has begun to reduce the size of its balance sheet by ceasing to re-invest proceeds from its asset-purchase programme and through corporate bond sales.

- Following its mid-April monetary policy meeting, the European Central Bank (ECB) restated its commitment to winding down its Asset Purchase Programme—which will conclude in the third quarter following monthly net purchases of €40 billion in April, €30 billion in May and €20 billion in June.

- The US Federal Open Market Committee (FOMC) did not hold a meeting in April after voting to increase the federal funds rate by 0.25% in mid-March—its first rate hike since December 2018—and concluding new asset purchases. At its early May meeting, the central bank increased the benchmark rate by 0.50%—to a range between 0.75% and 1%—the first hike of its size since 2000. The FOMC also announced it will begin to reduce its balance sheet in June, allowing Treasurys and mortgages to run off (that is, mature without being replaced) at maximum respective paces of $60 billion and $35 billion per month.

- The Bank of Japan (BOJ) redoubled its commitment to loose monetary policy at its late-April meeting. Its short-term interest rate remained at -0.1% and the 10-year Japanese government-bond (JGB) yield target held near 0%. The central bank offered unlimited purchases of 10-year JGBs at 0.25% in order to keep its yield within the BOJ's acceptable range.

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, the rate of inflation increased (as measured by the change in the Consumer Price Index (CPI)) by a robust 1.4% for March, and 6.7% for the one-year period—the largest 12-month inflation since 6.9% in January 1991. The main drivers of inflation were higher costs for gasoline and other fuels, along with price increases for durable goods such as passenger vehicles and furniture. Producer prices were dramatically higher as well. The Industrial Product Price Index (IPPI) was up 4.0% in March (the largest monthly increase since records began in 1956), while the Raw Materials Price Index (RMPI) rose 11.8%. On a year-over-year basis, the IPPI climbed 18.5% (the largest increase since December 1974) and the RMPI jumped a staggering 42.7%. Commodity prices fueled the gains with significantly higher prices for crude oil, agricultural crops, and metals as the Russian invasion of Ukraine continued to roil the global commodities market. The labour market remained strong—unemployment ticked down 0.1% to 5.4% in April, while wages grew at a 3.3% clip over the past 12 months.

- U.S. job openings and resignations climbed to their highest levels in decades during March, and new weekly claims for unemployment benefits fell to a 54-year low in April. The U.S. consumer-price index increased by 8.5% in the year through March, the highest level since 1981, after rising 7.9% in the year through February. Manufacturing conditions in the U.S. continued to recover during April after growth slowed in January before beginning to rebound. U.S. services growth slowed significantly in April after accelerating sharply from the beginning of the year. The overall U.S. economy contracted by an annualized 1.4% during the first quarter, representing the first decline since the second quarter of 2020. Net exports (that is, exports minus imports) declined at an accelerating pace as imports continued to climb on high demand, private inventories decreased, and the withdrawal of fiscal spending all combined to offset continued strength in consumer and businesses outlays.

- The U.K. consumer prices index climbed by 6.2% in the 12 months to March, an increase from 5.5% in February. U.K.'s claimant count (which calculates the number of people claiming Jobseeker's Allowance) continued to improve in March—declining by about 47,000, with total claimants representing 4.3% of the population in March compared to 4.4% in February. U.K. manufacturing growth remained healthy in April, just above March's pace of expansion, but subdued relative to the more frenzied activity that defined conditions through most of 2021. Services activity moderated to still-elevated levels in the U.K. during April after peaking at red-hot growth levels in March.

- The eurozone unemployment rate fell to 6.8% in March—the lowest level since Eurostat began tracking the dataset in 1998—from an upward-revised 6.9% in February. Eurozone inflation increased by 0.6% in April (down from 2.4% in March) and 7.5% over the prior year (up from 7.4%). Eurozone manufacturing activity held in April at the moderate growth pace that prevailed in March after settling through early 2022. The pace of expansion in eurozone services continued to accelerate during April, climbing to robust levels. The eurozone expanded by 0.2% during the first quarter and 5.0% year over year, compared to 0.3% and 4.7%, respectively, in the fourth quarter of 2021.

Market Impact (Referenced Index Returns are in CAD)

Global equity markets stumbled to their worst performance since the COVID-19 decline in early 2020. Developed equities fared better in the U.K. and Europe than in Japan and North America; still, declines were registered across the board. U.S. equities performed poorly, although the losses can be partially attributed to the effects of a strong U.S. dollar. In the domestic market, large companies outperformed small companies. Energy and consumer staples were the only positive sectors, while information technology and healthcare led the way down. Emerging markets were led by meager gains in India and a modest loss for China.

Persistent inflation and rate hikes—with the expectation of more to come—continued to pummel fixed-income markets. Residential mortgages and 30-day treasury bills produced slight gains. Corporate debt underperformed government bonds, while real return bonds, which tend to have longer duration profiles and hence more sensitivity to interest rates, struggled with higher rates. U.S. high-yield bonds, which are risky and more correlated to equity markets than most fixed-income assets, were down as well.

Index Data (April 2022)

- The S&P/TSX Composite Index fell 4.96%.
- The FTSE Canada Universe Bond Index returned -3.49%.
- The S&P 500 Index, which measures U.S. equities, declined 6.60%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, dropped 5.87%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned -3.70% (currency hedged) and -1.40% (unhedged).
- The Chicago Board Options Exchange Volatility Index—a measure of implied volatility in the S&P 500 Index that is also known as the "fear index"—remained elevated, ending the month at 33.40.
- WTI Cushing crude oil prices—a key indicator of movements in the oil market—moved higher from US$100.28 to US$104.69 a barrel to end April.
- The Canadian dollar weakened to C$1.28 per U.S. dollar. The U.S. dollar was stronger versus the world's other major currencies as well; it ended April at US$1.05 versus the euro, US$1.26 against sterling and at 129.56 yen.