Economic outlook.

Second Quarter 2022.

Canada: Skating on thin ice.

By: James R. Solloway, CFA, Chief Market Strategist and Senior Portfolio Manager

SEI recently released its second-quarter Economic Outlook. A summary of the conclusions is provided below:

- The second quarter of 2022 was a tough slog for global investors with relatively few places to hide. Stocks and bonds simultaneously faced steep price declines amid extreme volatility, while commodities recorded a broad and robust gain.

- Canadian equities held up better than most other equity markets due its greater exposure to energy and limited exposure to high-growth technology stocks.

- Overall, the reasons for financial market carnage are well-known: the worst inflation in four decades; the turn in global central-bank monetary policies from extraordinary ease to more restrictive settings; Russia's invasion of Ukraine; and fears that China's zero-COVID-19 policy will continue to disrupt not only its own economy but that of the world.

- Bonds did not provide much of a diversification benefit, with long-duration bonds suffering notable declines.

- U.S. bond pricing reflects the removal of extraordinary levels of government-sponsored stimulus from the fixed-income market and rising inflation. We believe the damage has been done, inflation will slow, and any recession will take place later versus sooner and be on the milder side.

- The Bank of Canada (BoC) intends to return inflation levels to their long-term target of 2.0%. The BoC increased its key lending rate three times in 2022 and expects at least another 200 basis points of increases over the four remaining central bank meetings. Therefore, bond market predictions forecast a 3.50% Bank of Canada rate by December 2022.

- There is no denying that rising interest rates will slow economic growth. We believe the financial strength of Canadian businesses and households is likely to ebb. However, the starting point is a very high one.

- Leading indicators of economic activity are already pointing to below-average economic growth for many countries. A mild recession along the lines of the 2001 experience appears to be a more likely economic scenario than a re-run of the global financial crisis.

- While inflation and recession are the headline risks, we think much of the damage has been done, but predicting the future is a hazardous venture most of the time. In view of the uncertainties facing investors at the present time, the prediction game is, even more challenging. Accordingly, SEI believes in a diversified approach to investing. A focus on diversification, fundamentals and sound planning matter more now than ever.

  A full-length paper is available if you wish to learn more about these timely topics.

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