



Q1 2022 MARKET COMMENTARY

Along with everyone else, we are saddened and deeply concerned about the Russian invasion of Ukraine and hope the horrific violence ends soon.

Not surprisingly, the grave human cost of the conflict has driven uncertainty in equities, with prices declining in many markets worldwide. Other impacts include trade and supply-chain disruptions and increased inflationary pressures, particularly on food and energy.

Beyond the short-term market risks, there are longer-term issues associated with the evolving new Cold War between Russia and the West. These include boosted military spending across the NATO alliance and the West's weaning off of Russian oil and gas.

Outlook for financial markets

Prior to the invasion, markets were eyeing an uphill climb against a host of challenges, including higher interest rates due to central bank tightening, a new COVID wave propelled by the Omicron variant and uncertainty surrounding China, which was facing headwinds in its real estate and technology sectors.

With the war underway, the immediate consequences include downward economic growth pressure, with Europe the most affected, and higher inflationary pressure. Moreover, investors have more reason to be uncertain, and this increases the likelihood of higher market volatility.

KEY TAKEAWAYS

- Russia's war on Ukraine has caused grave human suffering and created significant near-term growth risks for the global economy.
- The war has spurred a drive for energy security, leading to a sharp rise in oil and gas prices.
- Other consequences of the war include downward economic growth pressure, with Europe most affected, and higher inflationary pressure.
- The market climate for international investors is particularly unclear due to the broad geopolitical nature of the Russia-Ukraine conflict.
- In the U.S., stocks declined in the first quarter, amplifying investor worries about future corporate earnings growth.
- The S&P/TSX Composite ignored the global trend to underperform in equities and finished the quarter higher, returning a gain of +3.1%.

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Risk factors brought on by Russia's war against Ukraine

The main risks in the current cycle are:

- Rising energy prices spurred by a drive for energy security, and the effect of these increases on global growth and inflation
- Rising food prices due to sanctions against Russian and the disruption of Ukraine's agriculture sector, as both countries make significant contributions to global wheat and corn supplies.
- Disruptions in the global supply chain

Meanwhile, COVID-19 remains a concern. Supply and logistics issues continue to impede the much-anticipated global vaccine rollout to combat the pandemic, and there is an ongoing risk of mutations and new variants.

Global outlook

The market climate for international investors is particularly unclear due to the broad geopolitical nature of the Russia-Ukraine conflict. Across the Eurozone, equities fell sharply in the quarter. Economically, the region is closely aligned with Ukraine and Russia, particularly when it comes to reliance on Russian oil and gas.

Further, the dramatic rise in commodity prices has already put pressure on global stock prices. In the coming months, a combination of higher commodity prices, surging inflation and higher interest rates could undermine investor sentiment, leading to lower returns for riskier assets.

In response to the Russia-Ukraine conflict, Chinese policymakers have taken a relatively accommodative stance aimed at boosting growth and consumer spending. But China faces stiff challenges on a variety of fronts, including the stifling effects of government regulation and slowing consumer spending. More recently, it's been battling a major COVID wave, with Shanghai, the country's financial hub, emerging as the most significant hotspot.

Currently, all 25 million residents are locked down, and the Chinese army has been dispatched to provide support.

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U.S. Snapshot

In the U.S., stocks declined in the first quarter, amplifying investor worries about future corporate earnings growth. At the same time, expectations for up to six rate hikes by the end of 2022 are being fed by rising inflation and tightening labour markets. In March, the U.S. unemployment rate dropped to 3.6% from 3.8% in February.

Presently, U.S. companies continue to deliver strong results. However, the war in Ukraine weighs on the economy, and tighter monetary conditions could dampen performance across the country's stock indexes.

Spotlight on Canada

The S&P/TSX Composite ignored the global trend to underperform in equities and finished the quarter higher, returning a gain of +3.1%. Based on solid price increases in oil and natural gas, energy stocks outperformed all others, posting six of the top 10 contributors to the index.

In Q1, the Canadian market led the U.S. market in both home-currency terms (the U.S. returned -4.9%) and Canadian-dollar terms (U.S. returned -6.3% in C\$ terms).

Looking ahead, a continued strengthening in commodity prices would provide a tailwind for companies in Canada's financial and energy sectors. Investors holding shares in financial and energy companies could anticipate dividend increases and share buybacks owing to their strong balance sheets.

The Bank of Canada forecasts the Canadian economy will grow by 4.3% in 2022, down from its 6.5% forecast in 2021.

What's next?

2022 is off to a rocky start with people and economies worldwide still in shock over Russia's brutal invasion of Ukraine.

For the foreseeable future, concerns about inflation, economic growth and interest rates will occupy center stage, and markets can be expected to remain volatile as investors navigate the upheaval in commodity prices and economic growth.

Like always, fundamentals, quality, and valuations should remain the key determining factors behind investment decisions and portfolio positioning.

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Getting Advice

Are you looking for additional perspective on the financial markets and how they might affect your portfolio? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.

*As at March 31, 2022				
M A R K E T M O N I T O R (Returns in CAD)				
MARKET INDICATORS	MARKET CLOSE*	2021 ANNUAL RETURN	2022 Q1 ACTUAL*	2022 YTD ACTUAL*
S&P/TSX Composite	21890.16	21.74%	3.14%	3.14%
Dow Jones	34678.35	17.62%	-5.83%	-5.83%
MSCI World	3053.07	19.02%	-6.78%	-6.78%

*As at March 31, 2022					
T O P G I C R A T E S					
ACCOUNT TYPE	1 YR	2 YR	3 YR	4 YR	5 YR
Non-Registered	2.90	3.15	3.45	3.46	3.47
RRSP	2.40	3.10	3.45	3.46	3.47
RIF	2.33	3.03	3.40	3.42	3.44