TD Wealth

Q2 | Quarterly Market Review

Everything you need to know about the quarter that was

July 5, 2022

Wealth Investment Office

QMR - Q2 22 | Highlights

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Unless otherwise indicated, performance figures are stated on a total-return basis. This document is for distribution to Canadian clients only. Please refer to Appendix A of this report for important disclosure information.

U.S. Equities

- The broad U.S. equities index veered into bear territory in Q2 as investors scrambled for safety amid fears that an increasingly hawkish Fed would drive the economy into recession.
- The S&P 500 fell 16.1% in Q2, the Dow fell 10.8% and the Nasdaq Composite Index fell 22.3%.
- None of the 11 sectors in the S&P 500 produced a positive return. Consumer staples and utilities outperformed with returns of -4.6% and -5.1%. Consumer discretionary was the worst-performing sector, falling 26.2%.
- Large-cap stocks outperformed small-caps; growth stocks outperformed value.

Canadian Equities

- After a gravity-defying performance earlier in the year, Canadian equity markets followed their American peers into a correction in Q2. Canadian stocks managed to slightly outperform due to currency depreciation and relatively little tech exposure.
- The S&P/TSX Composite Index ended the quarter down 13.2%. None of the 11 S&P/TSX sub-indices posted positive returns.
- Large-cap stocks outperformed small-caps in Q2; value stocks outperformed growth.

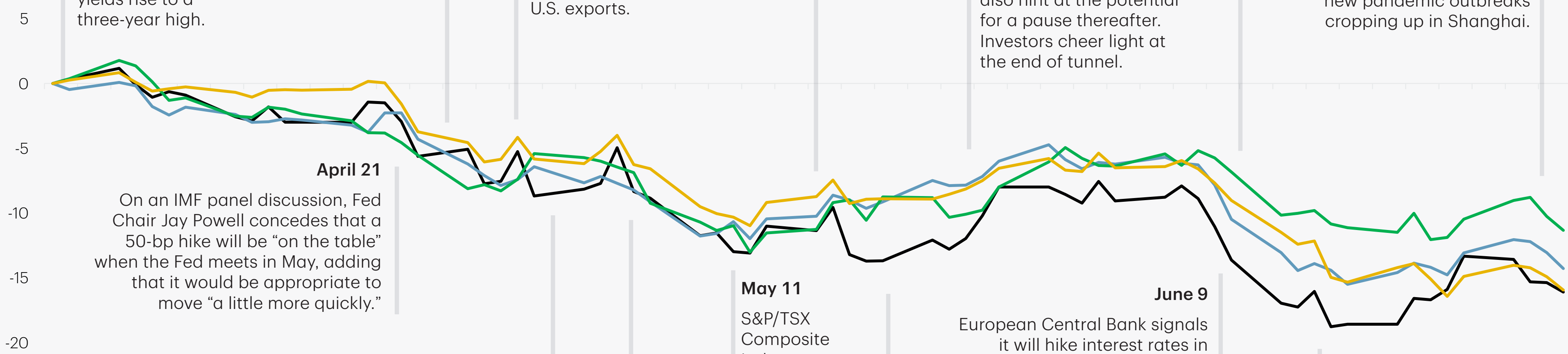
Canadian & U.S. Fixed Income

- The Canadian government bond index fell 6.0% in Q2; the U.S. government bond index fell 3.8%.
- Canadian and U.S. investment-grade corporate bond indices registered returns of -4.8% and -7.4%, respectively.
- U.S. investment-grade corporate spreads widened by 39 bps over the quarter, while high-yield spreads widened by a substantial 244 bps.

International Equities

- International developed markets outperformed their American peers in Q2, due in part to currency depreciation.
- The MSCI Emerging Markets Index fell 8% in Q2 on fears of a global economic slowdown.
- Brazilian shares fell as the government positioned itself to sell out of Petrobras, the national energy producer.
- Chinese equities bucked the trend, with investors cheering fresh monetary stimulus and easing covid restrictions.

Market Movers
Equities in Review



Early April

Investors fixate on the threat of a global economic slowdown, after a covid outbreak locks down Shanghai. Hawkish minutes from the Fed's March policy meeting raises additional concern. Tech stocks in the U.S. and Japan are hit hard. Treasury yields rise to a three-year high.

April 21

On an IMF panel discussion, Fed Chair Jay Powell concedes that a 50-bp hike will be "on the table" when the Fed meets in May, adding that it would be appropriate to move "a little more quickly."

April 24

French nationalist Marine le Pen loses her bid for the presidency. Relief from investors is muted, however, by growing fears of recession, as a new outbreak in Beijing threatens to lock down another major Chinese city.

April 28

Bank of Japan stands pat on ultra-accommodative policy, while the government plans to spend 6.2 trillion yen (US$48.32 billion) to help households struggling with inflation (which is relatively mild at around 2%).

Advance estimate pegs Q1 U.S. growth at -1.4% (revised in June to -1.6%). The poor performance is due in part to the rising U.S. dollar, which weakens demand for U.S. exports.

Late April

The U.S. dollar index rises to a 20-year high as other major currencies struggle. In Europe, an energy crisis looms after Russia halts gas exports to Bulgaria and Poland. In Japan, meanwhile, doves continue to reign.

May 5

Bank of England raises rates for the fourth time in a row to 1%, warning that inflation could rise above 10%.

May 11

S&P/TSX Composite Index enters a technical correction on recession fears.

May 16

Fears of a Chinese slowdown are confirmed after the release of April economic data. Retail sales plunged 11.1% year-over-year, while industrial output dropped 2.9%.

May 20

Chinese officials quickly respond to the weakening economy. Central bank cuts five-year reference rate 15 bps to 4.45%, while the government pledges targeted support. Fresh Chinese stimulus triggers a relief rally.

May 25

Fed meeting minutes confirm two more 50-bp hikes are likely for June and July, but policymakers also hint at the potential for a pause thereafter. Investors cheer light at the end of tunnel.

June 9

European Central Bank signals it will hike interest rates in August for the first time since 2011, and may follow up with a larger move in September.

June 10

Shock U.S. inflation report snuffs out the relief rally, with the CPI rising 1% m/m. Stocks plunge yet again, sending the S&P 500, on June14, into a bear market.

June 15

Surprise inflation report forces the Fed to raise rates by 75 bps. Stocks rally briefly as Powell reaffirms "strong commitment" to bringing down inflation.

Late June

The quarter ends much as it began, with fears of a global economic slowdown in focus and new pandemic outbreaks cropping up in Shanghai.

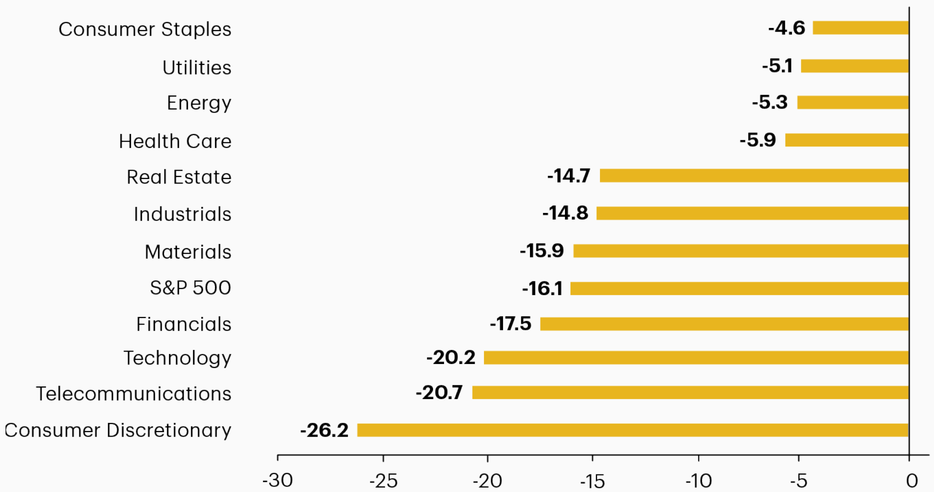
Source: TD Wealth, Reuters, Bloomberg Finance L.P. as of June 30, 2022. Note: Indices are tracked in U.S. dollars.

U.S. Equities

Indices	Q2 Return (%)	Q2 Return (%, C$)	YTD Return (%)	YTD Return (%, C$)
Dow Jones Industrial Average Index	-10.78	-7.99	-14.44	-12.93
S&P 500 Index	-16.10	-13.48	-19.96	-18.55
S&P 400 Index	-15.42	-12.77	-19.54	-18.12
NASDAQ Composite Index	-22.28	-19.85	-29.23	-27.98
Russell 2000 Index	-17.20	-14.61	-23.43	-22.08

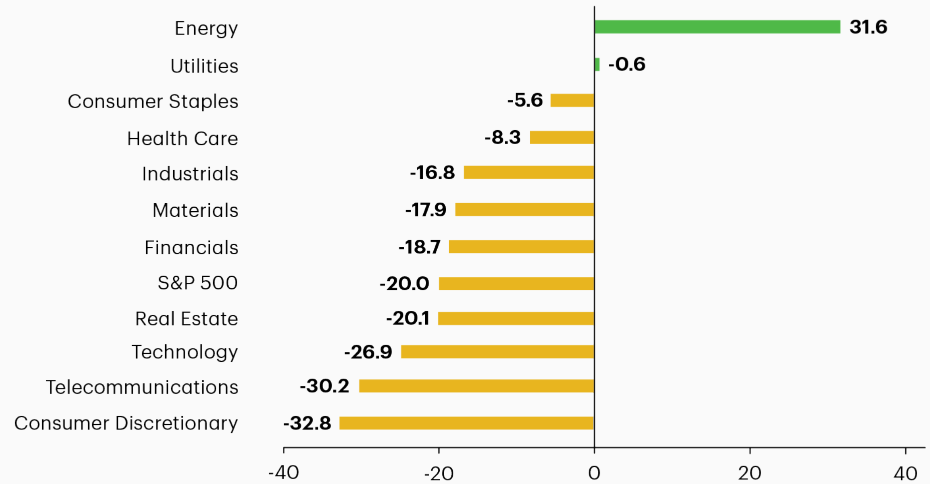
Source: Bloomberg Finance L.P. as of June 30, 2022. Total index values and returns. Index returns calculated in local currency and C$.

Q2/22 S&P 500 Sector Returns



Source: Bloomberg Finance L.P. as of June 30, 2022.

YTD S&P 500 Sector Returns



Source: Bloomberg Finance L.P. as of June 30, 2022.

The broad U.S. equities index veered into bear territory in Q2 as investors scrambled for safety amid fears that an increasingly hawkish Fed would drive the economy into recession. The central bank ratcheted up its rhetoric throughout the quarter, which led investors to sell out of bonds and buy into safe-haven U.S. dollars. By the end of the quarter, the yield on 10-year Treasuries had risen to 2.98%, a level not seen since the financial crisis, while the U.S. dollar index had risen to 104.91, its highest since the bursting of the dot-com bubble in 2002.

Stocks slid throughout April and May as the Fed poured cold water over the sizzling economy. In late April, the Fed announced that a 50-basis-point (bp) rate hike was merely “on the table.” It delivered that hike in May and then some — signalling that another two 50-bp hikes might be in order. At the same time, the Fed threw out the possibility that a pause might be warranted thereafter. Dovish hopes led to a rally in early June, but those were quickly dashed by higher-than-expected inflation numbers, which forced the Fed to deliver a 75-bp hike on June 15 — its most aggressive move in nearly 27 years — and sent the market plummeting yet again.

For the three months ended June 30, 2022, the S&P 500 fell 16.1%, the Dow Jones Industrial Average fell 10.8% and the Nasdaq Composite Index fell 22.3%. None of the 11 sectors in the S&P 500 produced a positive return. Consumer staples and utilities outperformed, relatively speaking, with returns of -4.6% and -5.1%. Consumer discretionary was the worst-performing sector, falling 26.2%. Large-cap growth stocks outperformed during the quarter. Large-cap stocks (S&P 500) declined by 16.1%, outperforming small-cap stocks (Russell 2000), which declined by 17.2% in the second quarter. Growth stocks (S&P 500 Growth Index) declined by 20.8% during the quarter, underperforming value stocks (S&P 500 Value Index), which declined by 11.3%.

Dismal returns on the market were followed by disappointing economic data, released in late May. The economy contracted 1.6% in Q1 (q/q annualized, +6.9% in Q4) versus a TD Economics forecast of 0.6% growth. On closer inspection, however, these numbers aren't as ugly as they seem. A widening trade deficit (due to the rising dollar) and weak spending on inventories (which are stuffed, after supply-chain readjustments) — these shaved a combined 4.3 percentage points from the headline figure. Domestic demand held up well in the first quarter: consumer spending rose 3.1% (3.1% in Q4) and business spending rose an impressive 9.2% (3.1% in Q4) as corporations continued to invest in remote-working solutions.

Moving into the second quarter of 2022, however, business confidence has waned. The Institute of Supply Management's purchasing managers index (PMI) for services edged down to 55.9 in May from 56.5 in February. The ISM Manufacturing PMI, meanwhile, fell to 56.1 in May from 57.1 in February. (Readings above 50 denote economic expansion.) As consumer spending shifts from goods back to services in the post-pandemic era, TD Economics expects the service side of the economy to benefit, while manufacturers may weaken. This is not bad news overall, given that the service side is much larger. TDE expects an economic rebound in Q2, with real GDP forecasted to rise 1.7%, although it has trimmed its projection for 2022 economic growth from 2.3% to 2.2%.

If there's going to be a drag on the services side of the economy, it will come from labour. Shortages continue to plague the travel and leisure categories — a phenomenon well documented by scores of delays and cancellations in the airline industry. The good news (for employers) is that the job market seems to be loosening ever so slightly. In May, hourly earnings were up a sizeable 5.2% from a year ago, but that's actually down from a peak of 5.6% in March. The historically low unemployment rate, meanwhile, held steady month-over-month at 3.6%. From March to May, the labour market grew at a consistent pace, with job gains of 431,000, 428,000 and 390,000 sequentially. However, TDE believes that the easy gains in the labour market are now behind us. The strong performance at the start of the year is unlikely to be repeated, and payroll gains are poised to slow further in the quarters ahead.

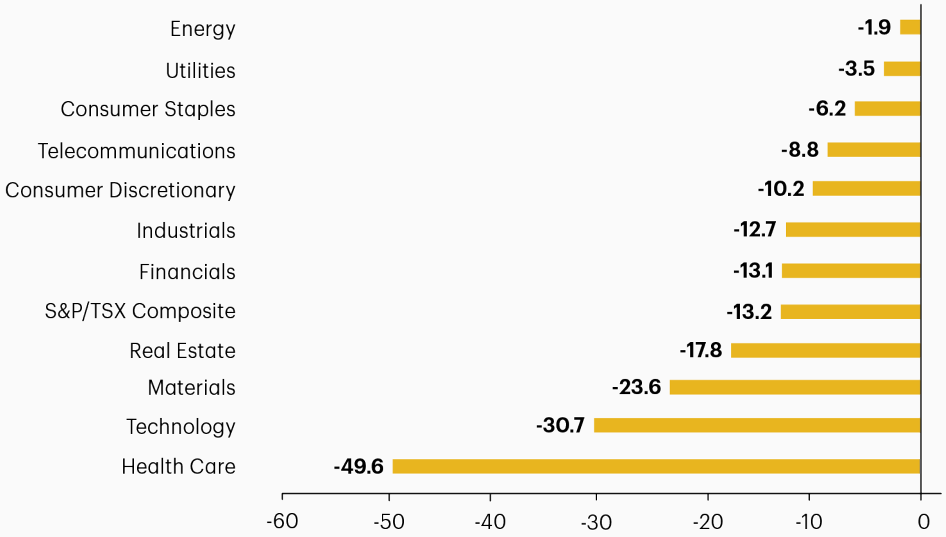
We're also beginning to see a gradual decline in core inflation, though food and energy prices remain sky-high, given the impact of the war in Ukraine. From March through May, core y/y inflation (which excludes volatile food and energy prices) came off a peak of 6.5% in March, to 6.2% in April and then to 6.0% in May — still the highest we've seen since 1982, and much higher than the Fed had anticipated, which explains its increasingly aggressive posture. In May, the U.S. central bank delivered a 50-bp rate hike, then followed up with a 75-bp hike in June. The Fed dot plot now shows the policy rate doubling to 3.5% by the end of this year, rising to a peak of 3.75% by end of 2023. TD Economics, for its part, thinks that the threat of recession will force the Fed to blink sooner than that; TDE expects the U.S. policy rate to end the year at 3.25%.

Canadian Equities

Indices	Q2 Return (%)	YTD Return (%)
S&P/TSX Composite Index	-13.19	-9.87
S&P/TSX 60 Index	-12.65	-9.61
S&P/TSX Completion Index	-15.34	-10.93
S&P/TSX Cdn SmallCap Index	-20.83	-14.17
S&P/TSX Preferred Share Index	-8.70	-10.32

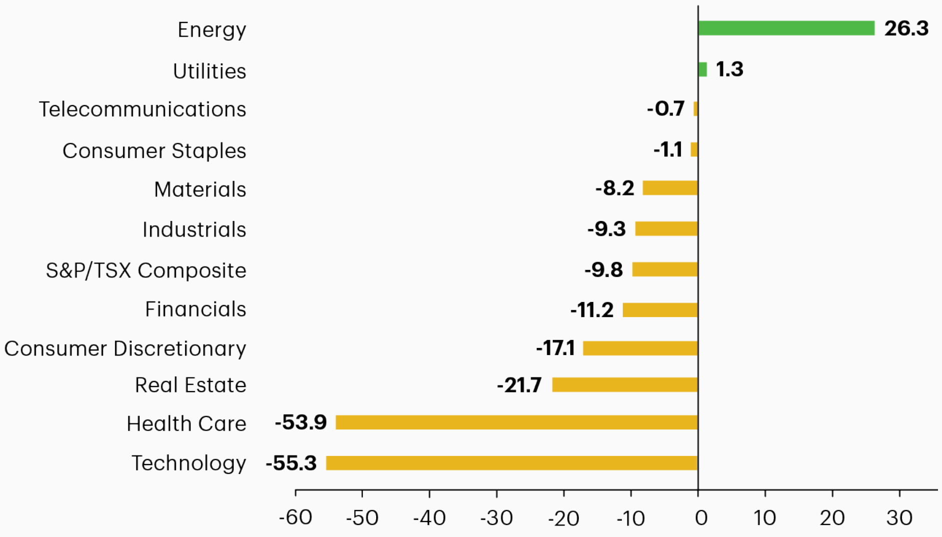
Source: Bloomberg Finance L.P. as of June 30, 2022. Total index values and returns, except the S&P/TSX Preferred Share Index which is reported on a price-return basis.

Q2/22 S&P/TSX Sector Returns



Source: Bloomberg Finance as of June 30, 2022. Index total returns.

YTD S&P/TSX Sector Returns



Source: Bloomberg Finance as of June 30, 2022. Index total returns.

After a gravity-defying performance earlier in the year, Canadian equity markets followed their American peers into a correction in Q2. Although Canadian stocks continued to outperform, this time it had less to do with exposure to energy and more to do with a relative lack of exposure to the tech sector, which has become vulnerable in the tightening financial environment. Stocks fell steadily until mid-May as risk sentiment soured on rate hikes and Chinese lockdowns, which seemed to point to a global economic slowdown. Investors flocked to the U.S. dollar, while other currencies and perceived safe havens took a back seat. The Canadian dollar fell 3.0% against the greenback in Q2, Canadian bonds fell 5.7%, and CAD-denominated gold fell 4.6%.

The equity markets managed to pare back some losses after Chinese restrictions were eased in late May. Strong earnings from the banking sector also helped to keep shares afloat, but by early June the relief rally was overwhelmed once again by economic reverberations across the border. Higher-than-expected U.S. inflation data sent the markets into another tailspin as it became clear that the Fed would have to hike rates even more aggressively — perhaps enough to drag the North American economy into recession next year.

The S&P/TSX Composite Index ended the quarter down 13.2%, with all sub-indices posting negative returns. Large-cap value stocks outperformed in the second quarter. Small-cap stocks (S&P/TSX Canadian Small Cap Index) declined by 20.8%, underperforming large-cap stocks (S&P/TSX 60 Index), which declined by 12.7%. Growth stocks (MSCI Canada Growth Index) declined by 17.4% over the quarter, underperforming value stocks (MSCI Canada Value Index), which declined by 9.0%.

West Texas Intermediate finished the quarter at US$105.76, up about 5.5% from its March 31 close of US$100.28. There was significant volatility again this quarter, with a low of US$92.93 in early April and a peak of US$123.68 in mid-June. Fears over Russian supply and insufficient energy development competed with concerns over high prices and the possibility that the U.S. government could force oil producers to increase supply.

Canadian financials outperformed but were nonetheless pulled down by negative sentiment. The banking sector, which reported strong quarterly earnings, were down 12.8%, while capital-markets stocks, such as asset managers and brokers, were down 18.4%. Insurers were the top performers, down 10.7%. The spot price of gold, meanwhile, ended the quarter at US$1,807.30, a decline of 7.5% from its March 31 close of US$1,954.00. Gold fell throughout the quarter, regaining its traditional hedge against the rising U.S. dollar.

The Canadian economy slowed to a crawl in the first quarter. In May, Statistics Canada reported that economic growth for Q1 decelerated to 0.8% (q/q annualized, 6.6% in Q4), significantly less than the 3.1% growth forecast by TD Economics. This was largely due to the failure of the service industry to pick up alongside the economic reopening. Consumer spending on services rose a meagre 0.7% quarter-over-quarter (0.6% in Q4), but consumption growth was disappointing overall, coming in at 0.8% (1% in Q4), with negligible albeit broad gains across most categories. Business investment, meanwhile, rose 3% (2% in Q4), due in part to increased spending on energy-related structures.

While the Canadian economy (as opposed to that of the U.S.) managed to expand slightly in Q1, it was aided in no small part by the rising U.S. dollar, which increased the CAD-denominated value of cross-border exports. The rise in exports (up 7.1% q/q) was supported by higher prices for refined petroleum products (up 21.2%), lumber (up 25%) and electricity (up 24.8%). Without this, the Q1 data would have been even worse. It's clear now that economic momentum is slowing, which was expected to some degree, given historically high inflation and rapidly rising interest rates, but the deceleration is happening much faster than predicted. Although TD Economics is forecasting a swift rebound in Q2 (raising its forecast from 3.5% to 4.4%) it's also predicting a much cooler economy for the remainder of the year (cutting its annual forecast from 3.7% to 3.0%).

The labour market, meanwhile, seems to have stabilized in the wake of the Omicron pandemic wave. While the market continues to tighten — with the unemployment rate at all-time lows — monthly gains in Q2 were less dramatic than the six-figure swings generated during the pandemic. Employers continue to search for workers, particularly in the services sector, to meet heightened demand. This has left job vacancy rates at record levels, making it clear that the economy is operating beyond full employment. Canadian businesses added 73,000 jobs in March, 15,300 jobs in April and 40,000 jobs in May. Over the course of these three months, the unemployment rate fell from 5.5% in February to 5.1% in May.

Similarly, the rise in household wealth seems to be petering out. Net worth rose 1.2% in the first quarter, due to the last gasp of the real estate boom. Residential valuations rose 3.9% in Q1, while investments fell 1%. Given what we know about second-quarter performance and declining real estate valuations, it's reasonable to assume that a sizeable drop in wealth is on its way. Strong wage growth, however, is helping to compensate.

Disposable income rose 3.3% in Q1, with a ratio to debt that now stands at 182.4%, an all-time high. Higher disposable income also led to a slight reduction in the ratio to debt servicing costs in Q2, which ticked lower to 13.5%. However, with rising prices and weaker markets, there's some question as to how long wage growth can keep consumers spending.

A generation of Canadians is experiencing high inflation for the first time, and TD Economics does not expect much of a reprieve going forward. From February through May, core inflation (CPI-Common) rose from 2.6% to 3.9%. Meanwhile, the more volatile consumer price index (which includes energy and food prices) recorded an annual increase of 7.7% in May, due to a 48% rise in gasoline prices (y/y) and an 8.8% rise in food prices. This was the fastest inflationary pace since January 1983, and prices are expected to remain elevated through 2022.

All of this reinforces the view that the Bank of Canada will hike aggressively at its upcoming July meeting. In the second quarter, the BoC raised the overnight rate from 0.5% to 1.5%, with two 50-bp hikes in April and early June. In minutes following the June meeting, the BoC stated that "with the economy in excess demand, and inflation persisting well above target and expected to move higher in the near term, the Governing Council continues to judge that interest rates will need to rise further." TDE now expects a 75-bp hike in July followed by 100 bps for the remainder of the year — all of which would represent an enormous three-percentage-point hike over the course of the calendar year, from 0.25% to 3.25%.

Preferred Shares

In line with other risk assets, the second quarter for preferred shares was characterized by high volatility, as the market adjusts for higher inflation and the increasing likelihood of slower growth, if not a recession. Defensiveness drove investors to withdraw an estimated $428 million from the five largest ETFs, compared to net outflow of $232 million in Q1 and net inflow of $582 million for the full year 2021. The S&P/TSX Preferred Share Index declined 8.7% in Q2, while the five-year government of Canada yield increased 69.6 bps. On a total-return basis, Canadian preferred shares are down 9.9% since the beginning of the year, outperforming Canadian bonds (-10.9%) and equities (-11.1%).

Adding to the pressure on prices was a large supply of limited recourse capital notes (LRCNs) from financial institutions. In June, Manulife Financial Corp., Bank of Nova Scotia and Canadian Imperial Bank of Commerce issued LRCNs with total proceeds of $3.3 billion, an average coupon rate of 7.08% and an average reset spread of 396 bps. To give some perspective, there wasn't a single investment-grade fixed rate-reset with a current yield of 7.0% or higher at the end of June. The uncertainty in the path of inflation and what this could mean for investment return prospects is driving investors to seek higher yields. It's also worth noting that 79% of the fixed rate-resets universe will pay a fixed dividend for longer than one year. The farther the date until the next reset, the higher the uncertainty surrounding the next dividend reset and the weaker the performance. This is evident in the fact that issues that reset in one year or less, including floating rate-resets, have outperformed issues with a reset date beyond one year. Perpetuals, which are at the far end of the duration spectrum, declined 17% since the beginning of the year.

Redemptions reached $2.4 billion in the second quarter, and an equivalent amount is expected to be redeemed over the next six months. For preferred shares that reset in Q2, rising interest rates have increased the dividend by 48% on average. The average yield on investment-grade fixed rate-resets increased to 5.0% from 4.6% at the end of the previous quarter. The yield on investment-grade perpetuals increased to 6.0% in Q2 from 5.2% the previous quarter, which is equivalent to a bond yield of 7.8% after accounting for the tax advantage of Canadian dividends.

Canadian & U.S. Fixed Income

Government Bond Yield	Canada			United States		
	Current (%)	Q/Q Change (pp)	YTD Change (pp)	Current (%)	Q/Q Change (pp)	YTD Change (pp)
91-Day Treasury Bill	2.09	1.36	1.93	1.63	1.14	1.60
2-Year Government Bonds	3.09	0.81	2.15	2.95	0.62	2.22
5-Year Government Bonds	3.11	0.70	1.85	3.04	0.58	1.77
10-Year Government Bonds	3.22	0.82	1.80	3.01	0.67	1.50
30-Year Government Bonds	3.13	0.75	1.46	3.18	0.74	1.28

Source: Bloomberg Finance L.P. as of June 30, 2022. Index returns are reported on a total-return basis; pp (percentage point).

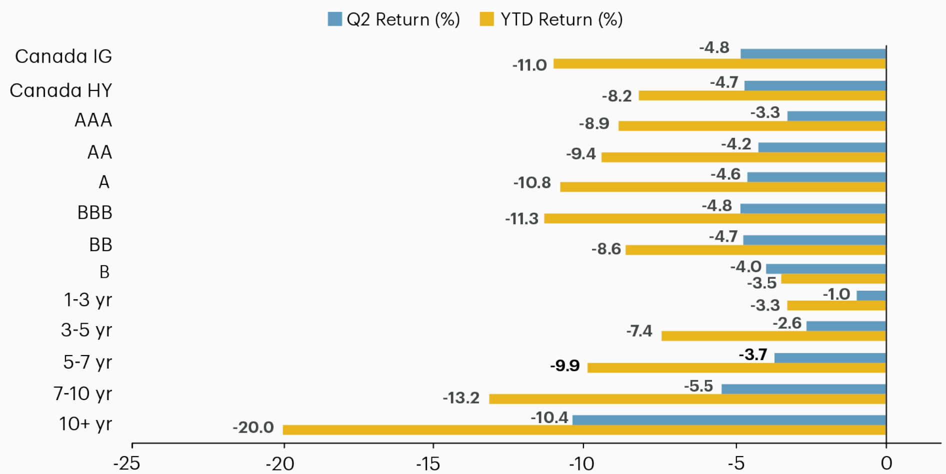
Fixed income markets continued their painful normalization over the second quarter. Price pressures broadened, and most developed-market central banks delivered substantial policy rate hikes amid hawkish rhetoric. This resulted in upward market repricing of government bond yields across the maturities. The higher yields and wider credit spreads drove most of the underperformance in fixed income, with the FTSE Canada Universe Bond Index posting -5.7%, while the Bloomberg U.S. Aggregate Bond Index (CAD-hedged) posted -4.8% over the same period. Almost nothing was left unscathed within fixed income. Differing levels of interest-rate sensitivity drove relative outperformance, but with absolute negative returns.

In the U.S., the Fed hiked twice over the quarter, with a hike of 0.5% in May and 0.75% in June, which was the largest increase in the policy rate since 1994. The Fed also began its quantitative-tightening program, allowing its balance sheet to run off. Fed Chair Jay Powell argued that the rising consumer price index and heightened inflation expectations led to a larger rate increase in June, despite telegraphing a 50-bp hike prior to the blackout period. Powell also reminded market observers that, prior to the 75-bp hike, he had signalled the Fed's intention to "consider a more aggressive move" if data came in worse than expected, which happened when May inflation proved higher than expected. At the June meeting of the Federal Open Market Committee, the median projection for the fed funds rate was lifted to 3.4% in 2022, 3.8% in 2023 and 3.4% in 2024, with a long-run neutral rate of 2.5%.

Fixed Income Indices	Q2 Return (%)	YTD Return (%)
FTSE Canada Universe Bond Index	-5.7%	-12.2%
FTSE Canada Universe All Government Bond Index	-6.0%	-12.7%
FTSE Canada All Corporate Bond Index	-4.8%	-11.0%
FTSE Canada Real Return Bond Index	-8.9%	-17.4%
FTSE Canada Provincial Bond Index	-7.7%	-15.6%

Source: Bloomberg Finance L.P. as of June 30, 2022. Index returns are reported on a total-return basis.

Canadian & U.S. Fixed Income



Source: Bloomberg Finance L.P. as of June 30, 2022.

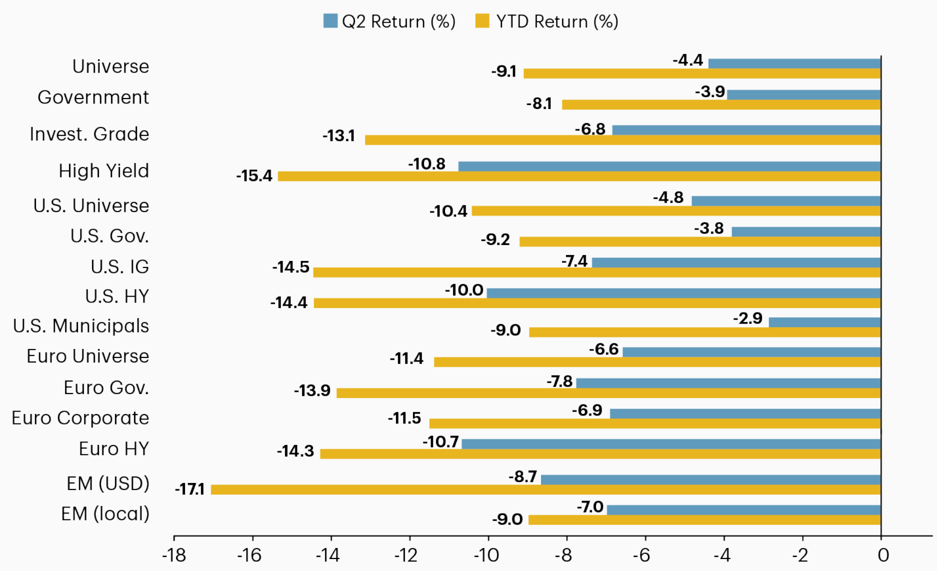
As widely expected, the Bank of Canada raised the overnight rate to 1.5% at its June meeting. The policy statement struck a hawkish tone, citing strong economic activity and expectations for inflation to push even higher in the near term. Forward-looking language was also strengthened and now states that the Bank is prepared to act more forcefully if needed to meet its inflation target.

Broad global fixed income, represented by the Bloomberg Global Aggregate Index (CAD-hedged), posted -4.4% over the quarter. Canadian government bonds underperformed U.S. Treasuries and the global universe, with the U.S. Treasury Index (CAD-hedged) returning -3.8%, while the Canadian government bond index returned -6.0%. The U.S. 10-year Treasury yield started the quarter at 2.34% and ended at 3.01%, while the equivalent Canadian government bond yield started at 2.40% and ended at 3.22%.

Hawkish central banks, higher inflation, heightened volatility in government yields, the Ukraine-Russia conflict, heightened recession fears — all these led to widening of credit spreads. On the Canadian side, the investment-grade spread widened by 26 bps and ended the quarter at an option-adjusted spread of 164 bps. Due to wider spreads and higher government yields, the sector posted returns of -4.8% but modestly outperformed the aggregate Canadian fixed income index return of -5.7%. Diving deeper, Canadian AAA-rated corporate credit benefited the most due to stronger balance sheets and therefore less credit-spread widening, posting returns of -3.3% and outperforming lower-quality AAs at -4.2%, A-rated credit at -4.6% and BBB-rated credit at -4.8%.

Understandably, the longest-maturity corporate bonds underperformed medium- and short-maturity bonds, as rising government bond yields had more impact on longer maturities, while credit spreads also widened across the credit maturity profile. Over the quarter, the shorter-maturity cohorts of three- to five-year and one- to three-year bonds returned -2.6% and -1.0%. The medium-maturity cohort of seven- to 10-year and five- to seven-year returned -5.5% and -3.7%. And the longest-maturity cohort of 10-year-plus posted returns of -10.7%. Higher real yields offset the improving inflation contribution for Canadian real-return bonds and

Global Fixed Income



Source: Bloomberg Finance as of June 30, 2022.

led the sector to post returns of -8.9%, underperforming the government bond universe at -6.0%. Canadian provincial bonds, also with higher interest-rate sensitivity, underperformed corporate bonds over the quarter, returning -8.9%.

For global corporates, we witnessed similar action in government bond yields and spreads. U.S. investment-grade corporate spreads widened by 39 bps over the quarter, while U.S. sub-investment-grade ("high-yield") corporate spreads widened by a substantial 244 bps. The U.S. investment-grade corporate bond universe (CAD-hedged) returned -7.4%, underperforming the global investment-grade corporate universe (CAD-hedged), which returned -6.8%. With growing recession concerns, U.S. sub-investment-grade corporate bonds (CAD-hedged) lost 10.0% over the quarter, modestly outperforming the global sub-investment-grade corporate universe (CAD-hedged) at -10.8%. USD emerging-market debt was severely punished over the quarter, posting -8.7% due to higher yields and wider spreads, while local-currency debt returned -7.0%.

International Equities

Indices	Q2 Return (%)	Q2 Return (%, C$)	YTD Return (%)	YTD Return (%, C$)
FTSE 100 Index	-3.74	-8.00	-0.97	-9.34
DAX Index	-11.31	-13.49	-19.52	-24.91
CAC 40 Index	-8.92	-11.15	-15.00	-20.36
MSCI Europe (LC) Index	-11.99	-14.15	-20.24	-25.27
Nikkei 225 Stock Average	-4.94	-12.16	-7.30	-20.75
MSCI Emerging Markets Free (LC) Index	-7.95	-8.68	-13.53	-16.17

Source: Bloomberg Finance L.P. as of June 30, 2022. Total index values and returns. Index returns calculated in local currency and C$.

International developed markets outperformed their American peers in Q2, due in part to local currency depreciation vis-à-vis the U.S. dollar. In the United Kingdom, the blue-chip FTSE 100 was the top performer, dipping a mere 3.7%. Relatively high exposure to energy and mining provided ballast, keeping stocks rangebound. By June 8, for instance, the S&P 500 was down 10% for the quarter, while the FTSE was up 1%. Then a quick succession of hawkish signals sent the FTSE down for six straight sessions: on June 9, a hawkish announcement from the ECB (see below); on June 10, much higher-than-expected U.S. inflation data; and on June 16, a fifth straight 25-bp hike from the Bank of England. Economic growth in the UK moderated in Q1, with GDP rising 3.2% (q/q annualized, 4.0% in Q4). Inflation neared an all-time high in May (9.1%), while the consumer confidence index hit an all-time low (-40) and economic data showed a contraction in April (-0.3% m/m); on the bright side, the labour market remains strong and PMIs remain expansionary for the time being.

The MSCI European Monetary Union Index fell 12.0% in Q2. European equities fell through April and early May on fears over Chinese lockdowns and hawkish rhetoric coming from the U.S. Federal Reserve and the European Central Bank. Stocks pared losses later in May before plummeting on multiple hawkish signals. In particular, the ECB announced on June 9 that it would discontinue its asset purchase program and, in July, raise rates by 25 bps, its first hike since 2011. That news, spurred by historic inflation across the developed world, sent European shares down for six consecutive sessions, largely in sync with other developed markets. The European economy, however, seems to be lagging its North American counterparts. Data from Q1 show a better-than-expected 2.4% economic expansion (q/q annualized, 1.2% in Q4) due to inventory restocking (which boosted Q4 expansion in America). If this pattern repeats, the second quarter may see a slowdown, especially given that consumer and business confidence are now falling. Private consumption in Europe fell 0.7% in Q1, and the Eurozone Composite PMI fell from 54.8 in May to 51.9 in June, marking the worst reading since February 2021.

Japan's Nikkei 225 Stock Average fell 4.9% in volatile but rangebound trading in Q2. Japan has yet to face the kind of historic inflation being seen in the U.S. and elsewhere. Core inflation came in at 2.1% in April, just a touch above target. The inflation report still marked a seven-year high for Japan, but the central bank there has remained steadfastly accommodative. At its June meeting, the Bank of Japan maintained its -0.1% target for short-term rates and its pledge to use bond purchases to guide the 10-year yield to around 0%. Extreme dovishness has rendered Japan an outlier among economic peers, sending the yen down to 20-year lows against the U.S. dollar. This, in turn, has benefited the export-dependent Japanese economy at the expense of consumers. Opposition parties have seized on the disaffection of stretched consumers, but the Kishida government has pledged 6.2 trillion yen (US$48.5 billion) to support households struggling with higher costs. In the first quarter, real GDP contracted by

1% (q/q annualized, 3.8% in Q4) while business confidence suggests that the economy is slowly heading back into expansionary territory. The Jibun Bank Composite PMI rose to 53 in June, from 52.3 the prior month.

Emerging markets were supported by Chinese stimulus even as they fell overall on fears of a global economic slowdown. The MSCI Emerging Markets Index (which no longer includes Russian equities) fell 8% in Q2, led by an 18% drop for Brazilian equities. The Bovespa Index in Brazil fell hard on aggressive Fed tightening in addition to domestic-market turmoil, after the Brazilian government positioned itself to sell its majority stake in Petrobras, the national energy producer. Mexican stocks also fell on fears that U.S. rate hikes would drag its southern neighbour into a recession. Both economies, however, are coming off solid economic performances, with the Brazilian economy expanding 4% in Q1 (2.8% in Q4) and the Mexican economy expanding 3.6% (0.8% in Q4). Indian shares slipped 10% but managed to outperform American indices as metal producers and exporters benefited from higher prices and a much weakened rupee. Indian GDP grew 3.2% in calendar Q1 (6.8% in Q4). Chinese shares, meanwhile, bucked the overall trend in emerging markets, rising close to 3% in Q2 after the central bank cut rates, injecting fresh stimulus into the economy. Investors also cheered the lifting of Covid lockdowns in Shanghai and Beijing later in May. Economic growth in China decelerated to 5.2% in Q1 (6% in Q4). TD Economics forecasts 2022 growth of 0.8%, 2%, 6.6% (fiscal 2023) and 4%, respectively, for these nations.

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