Cidel
Asset Management

Looking Back: Q1 2022 in Review

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Equity markets experienced a difficult first quarter of 2022. For the quarter, the S&P 500, MSCI AC World and MSCI Emerging Market Indices returned -4.6%, -5.4%, -7.0% respectively, while the TSX Composite Index bucked the trend and returned +3.8%.

With two years having passed since the initial equity market sell-off in the early stages of the pandemic, global equities have almost doubled from the low point in March 2020 to the end of 2021. While a tremendous amount of fiscal and monetary support over that period led economies around the world to recover in many ways back to pre-pandemic levels, more fundamental concerns on the horizon led to equity market weakness. One of the primary concerns has been inflation, which was rising significantly even before the Russia/Ukraine war and its resultant supply shocks made things even worse. The most recent CPI print in the U.S. was 8.5%, a 40-year high. These conditions have led to a huge increase in the number of expected central bank rate hikes and, alongside that, bond yields have risen dramatically year-to-date. This has also led to a significant dispersion in equity sector performance, with energy and commodity sectors performing well year-to-date and more interest-sensitive technology sectors performing quite negatively. This has been a reversal of sector performance from the early stages of the pandemic. From an equity style perspective, value stocks globally were only slightly negative in Q1, returning -1.0%, while growth stocks globally returned -9.7%.

Interest rates increased dramatically over the quarter. In Canada, the 10-year yield began the year at 1.43% and rose almost 100 basis points to end the quarter at 2.41%. In the U.S., the 10-year Treasury yield began the year at 1.5% and ended the quarter at 2.3%. The magnitude of these rate rises led to large losses in bond market returns. For the quarter, the FTSE Canada Universe Bond Index returned -7.0%. In the U.S., the Barclays Aggregate Bond Index returned -5.9% in Q1 and High Yield bonds were also down, returning -4.4% in the quarter. Canadian preferred shares also experienced negative returns, although with less duration sensitivity, and returned -2.5% in Q1.

Meanwhile, there were sharp increases across the commodity complex in the first quarter. Oil started the quarter at the $75 level, increasing sharply all the way up to $124 in early March before trailing back to the $100 level at quarter end. Gold also experienced positive returns in the quarter, rising from $1829 at the start of the year, up to $2051 in early March before settling back to $1937 to end the quarter.

The Canadian dollar gained some strength over the first quarter, benefiting from a generally supportive commodity backdrop. The loonie traded at 1.2637 at the beginning of the year, strengthening to 1.2505 at the end of March.

After a very strong 21-month period from the beginning of the Covid pandemic to the end of 2021, equities began to experience some headwinds in the first quarter of 2022. While company fundamentals have generally been positive overall, markets have been impacted by the combination of a rising rate environment, less supportive monetary conditions, and generally slowing global economic growth. Offset against these negatives, company valuations are not particularly stretched, outside of the high growth technology areas, and Cidel's approach of focusing on quality, value and defensiveness is well positioned for this environment. With this as a backdrop, Cidel's approach is to be fairly neutral on equities.

April 2022

*Cidel is an operating name of Cidel Asset Management Inc.