Economic Commentary

First Quarter 2022

Easing of Restrictions Leads to New COVID Wave

As restrictions were gradually eased in many parts of the world, a corresponding pick-up in the number of people who contracted the COVID virus has occurred. It is becoming more difficult to track the number of actual cases as testing programs have almost been eliminated. The underlying belief is that everyone will eventually contract the virus, with the hope that the additional cases will not put a strain on the health care system. Barring any major setback, there should be a pick-up in economic growth as restrictions are lifted and many businesses and consumers return to a somewhat normal pace of activity.

Inflation Pressures Higher and Longer Lasting

Inflation remains the key driver impacting financial markets. Inflationary pressures have been more persistent and have increased beyond levels that were previously anticipated by global policy makers. The inflation rate in the U.S. is 7.9%, the highest level in forty years, while in Canada it is 5.7%, the highest level since 1991. The inflation rate in Europe has also increased and is now 7.5%. Expectations are for inflation to continue to move higher before receding by the end of the year. Surging costs for gas, food and housing are propelling prices higher and tight labour markets are contributing to underlying wage increases. In addition, on-going supply chain bottlenecks, which have been amplified as a result of the Ukrainian conflict, continue to add to inflationary pressures

Central Banks Embark on Tightening Campaign

As a result of the higher-than-expected inflation levels, both the U.S. Federal Reserve and the Bank of Canada have adopted a more aggressive interest rate policy for 2022. Both central banks raised rates in March for the first time since the onset of the pandemic. The initial rate hike was 25 b.p., however, expectations are for more aggressive increases throughout the balance of the year. It is expected that both the Fed and the Bank of Canada will raise rates by 50 b.p. at their next meetings. The Fed, which may have been slow to react to the increasing threat of inflation, now seems determined to do whatever it takes to wrestle it under control, even if it means negatively impacting the economic recovery. The Bank of Canada had initially been projecting more aggressive rate hikes than in the U.S., but expectations are now for both central banks to move somewhat in tandem during 2022.

North American labour markets continue to show improvement, with job gains increasing at a healthy pace and unemployment rates declining to pre-pandemic levels. The housing sector continues to be a key driver of the economy, with home prices increasing at a steady pace. The consumer sector is also contributing to economic growth, as retails sales have bounced back following a decline at year-end.

Conflict in Ukraine Rattles Markets

The Russian invasion of Ukraine in late February shook financial markets and created volatile conditions. World leaders were uncertain with respect to both the duration and magnitude of the conflict. Normally in times of crisis, there is a flight-to-quality in global financial markets, with government bond yields declining and equity markets selling off. There was only a brief reaction in this regard before bond yields

(Continued ...)

Key Metrics

Indicator	Value	Chg Q1	Chg 1Y
S&P/TSX Composite	21,890.16	3.8%	20.3%
S&P 500 (USD)	4,530.41	-4.6%	15.6%
iShares MSCI EAFE ETF (USD)	73.60	-6.5%	0.3%
USD/CAD	$ 0.80	1.0%	0.4%
WTI Crude ($/bl))	$ 100.28	33.3%	69.5%
GoC 10Y Bond	2.41%	98 bps	85 bps
GoC Deposit Rate	0.50%	25 bps	25 bps
Cdn CPI YoY	5.7%	0.9%	3.5%
US 10Y Treasury	2.34%	83 bps	60 bps
Fed Funds Rate	0.50%	25 bps	25 bps
USD CPI YoY	7.9%	0.9%	5.3%

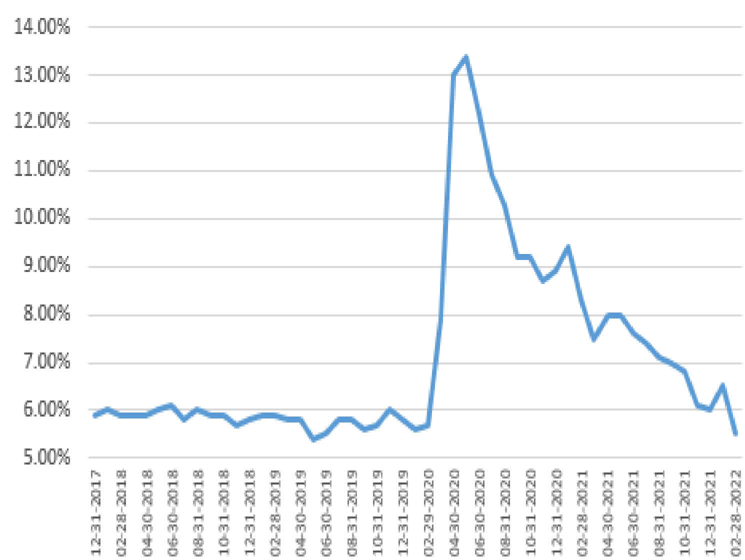
Top Themes

Inflation pressures more persistent than expected

U.S. Fed and Bank of Canada ramping up tightening expectations

All eyes on Ukraine and global response to the conflict

Top Chart: Canada Labour Force Unemployment Rate



Source: Bloomberg, Lincluden

(...Continued from page 1)

propelled higher and equity markets recovered. Both markets are now at levels much higher than when the conflict began. A consequence of the conflict is that there will be increased pressure on the global supply chain, which further exacerbates inflationary concerns.

Oil prices have moved dramatically higher due to heightened supply concerns resulting from the impact of the conflict on exports of Russian oil. The price of oil had already increased dramatically preceding the start of the Ukrainian conflict and approached US$120 a barrel in early March following the invasion. U.S. President Joe Biden recently announced that the U.S. would release one million barrels of oil per day for six months in order to help alleviate some of the supply pressure. The higher energy prices have had a positive impact on the Canadian dollar as it rallied nicely to end the quarter at 1.25.

Equity Markets Recover, Bond Yields Soar

U.S. equity markets declined substantially for most of the quarter before rallying in late March following the first interest rate hike by the U.S. Federal Reserve. Equity markets recovered as investors took comfort in the fact that the Fed would be more aggressive in dealing with inflationary pressures going forward. The Canadian stock market performed much better due to the positive impact of the energy sector, which benefitted from higher prices in the market. Bond yields came under pressure for most of the quarter as the market reacted to higher-than-expected inflation data. The yield curve flattened significantly as shorter-term bond yields got hit hard as projected interest rate hikes by the central banks led to underperformance at the front end of the yield curve. The yield on the benchmark 10 year U.S. Treasury bond ended the quarter at 2.34%, up 83 b.p. on the quarter.