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## Market Commentary: March 2022

MARKET COMMENTARY April 18, 2022



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By Rob Edel, Chief Investment OfficerView the Nicola Wealth Investment Investment Returns: March 2022

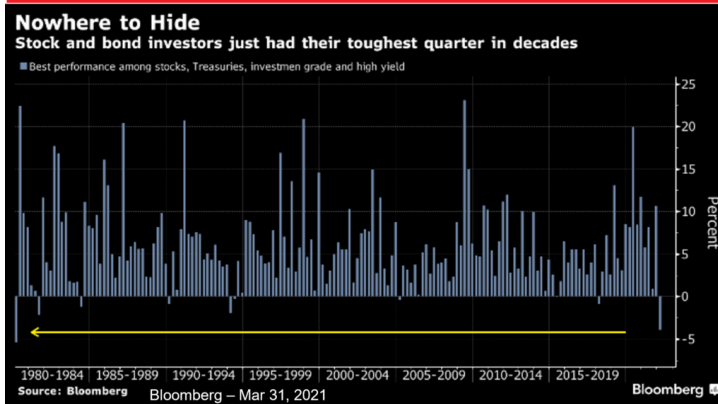
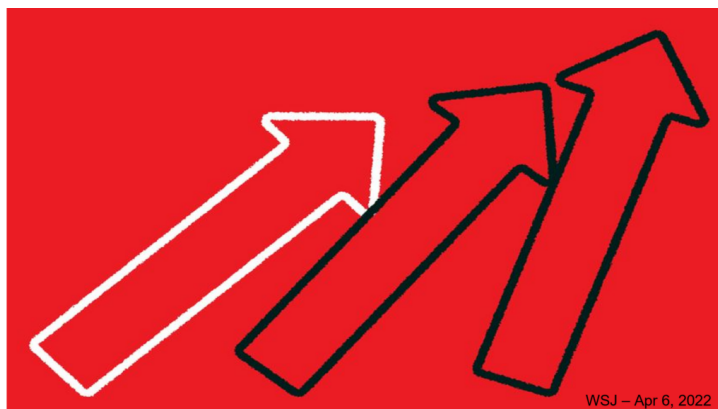
### Highlights this Month

- A historically bumpy first quarter for bond investors.
- How likely is a recession?
- Inflation continues to surge. What will it take to tame it?
- Wider credit spreads are not the only indicator of a weaker stock environment.
- Rate hikes and rising inflation continue to dominate – but there may be a silver lining.

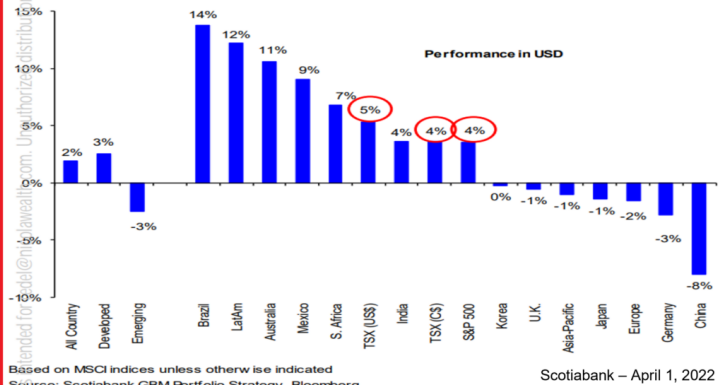
### March in Review

Canadian and U.S. markets rallied in March, but it was not enough to save the quarter from its most significant setback in two years. The S&P 500 increased 3.7% last month in U.S. dollar terms but ended the first quarter down 5.0% on a total

return basis. The quarter was not only a challenge for stock investors; it was rough all around. Morgan Stanley characterized the first quarter of 2022 as one of the worst since 1973 for stocks and bonds, particularly bonds. While global stocks were down 5.7%, Investment Grade Bonds lost 5.9%, and U.S. Treasury yields were down 5.6%. Canadian stocks were the exception, gaining nearly 4% in March on a total return basis and 3.8% for the quarter (in Canadian dollar terms).

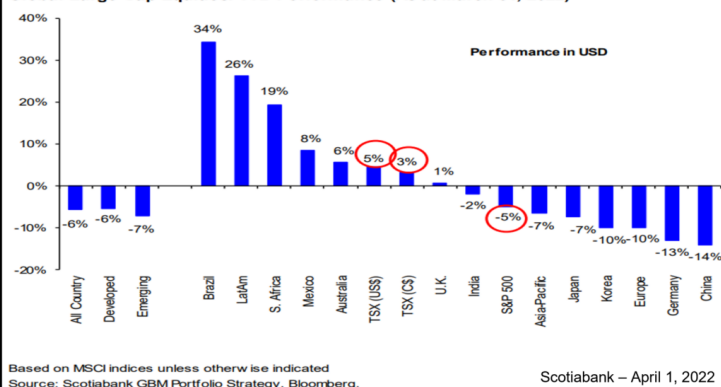


Global Large Cap Equities: MTD Performance (As at March 31, 2022)



Scotiabank – April 1, 2022

Global Large Cap Equities: YTD Performance (As at March 31, 2022)



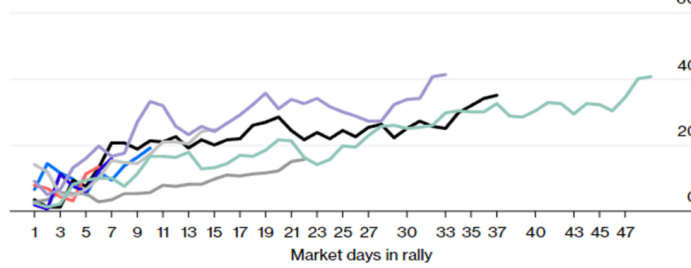
Scotiabank – April 1, 2022

The poor first-quarter results for stocks over-shadowed a very impressive rally in March. The S&P 500 rallied nearly 9% by the end of the month from its March 8 low, while the NASDAQ added over 13% to its March 14 low. The NASDAQ fell into bear market territory after dropping over 20% from highs set in early January. The S&P 500 has not yet entered bear market territory, though the vigour of the increase in the price of large-cap stocks in March was reminiscent of rallies experienced during previous bear markets. As pointed out by a recent Bloomberg article, both the dot-com bubble from 2000 to 2001 and the Great Recession bear market from 2007 to 2009 were marked by multiple sharp rallies and false dawns. Research by the Bank of America shows that the 8.2% rally for the S&P 500 in March surpassed the largest 10-day returns experienced in seven of the last 11 bear markets. So if we are in a bear market, we just experienced an above-average rally.

### Fool's Gold

The dot-com bust was marked by many bear rallies in the Nasdaq

April '00 May '00 August '00 October '00 December '00 January '01  
April '01 September '01

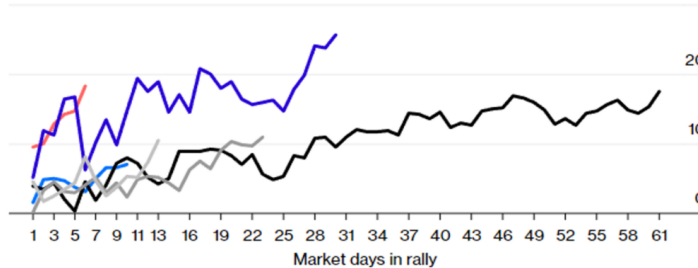


Source: Bloomberg Bloomberg – Mar 22, 2022

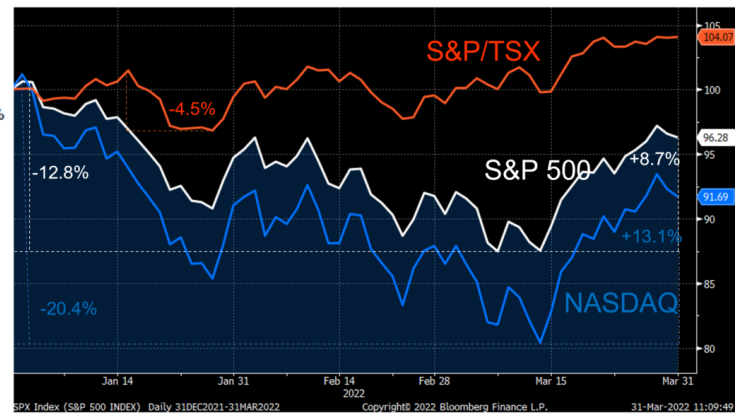
### False Hope

The Great Recession bear was also marked by many false dawns in stocks

November '07 March '08 July '08 October '08 November '08 January '09



Source: Bloomberg Bloomberg – Mar 22, 2022

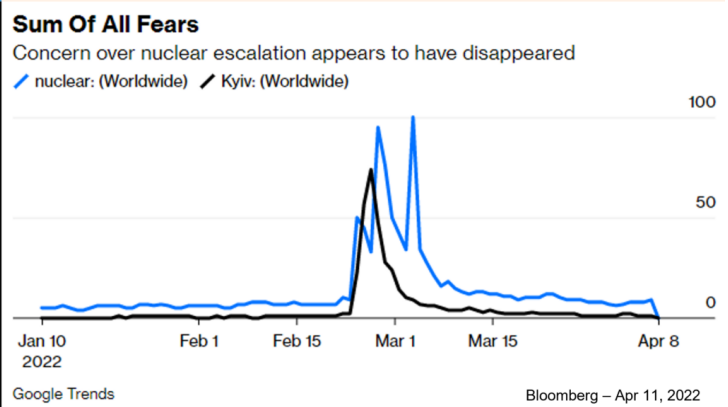


**Exhibit 10: The equity rally has also surpassed the largest 10-day returns in 7 of the S&P's 11 bear markets since 1927...**  
Largest S&P 10-day returns during prior bear markets



Source: BofA Global Research. Data from 31-Dec-1927 to 28-Mar-22. Bear market: 20%+ selloff. Bloomberg – Mar 29, 2022 BofA GLOBAL RESEARCH

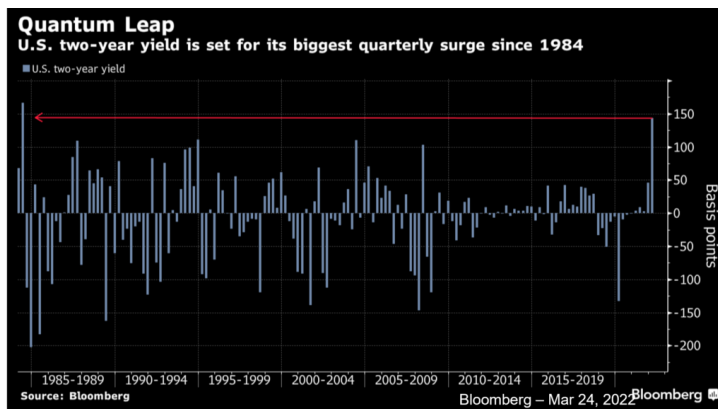
Perhaps even more remarkable; Russia's horrific invasion of Ukraine did not appear to bother investors. The Organisation for Economic Co-operation and Development expects the war to shave over 1% off global economic growth in the 12-months following the invasion, with Eurozone growth expected to be negatively impacted by 1.4%. However, since Russia entered Ukraine on February 23, risk assets have gained ground, with U.S. and European stocks back above pre-invasion levels. According to a recent Bloomberg article, investors appear to be prepared to live with the war and accept that it may drag on indefinitely. Like COVID, markets appear to have moved on despite the ongoing toll on humanity. The significant threat was an escalation and the potential use of nuclear weapons. Google search trends indicate that this is no longer a concern.



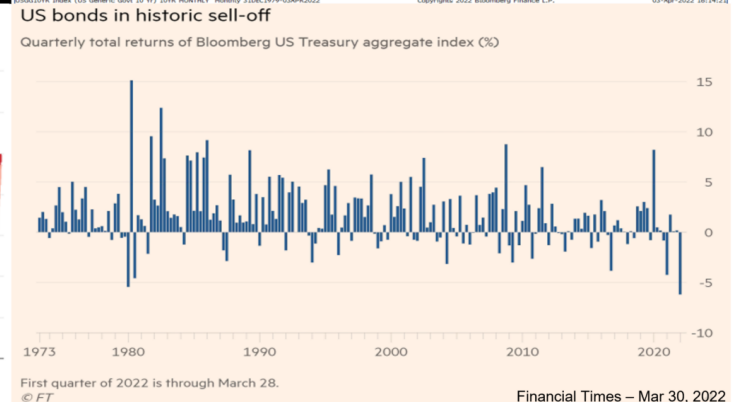
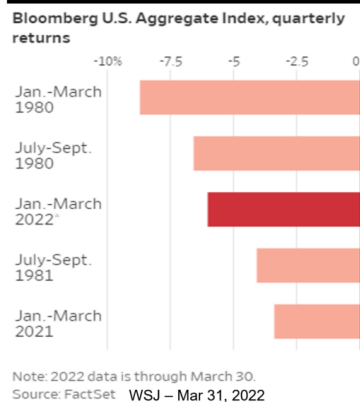
## A historically bumpy first quarter for bond investors.

However, what has been a concern is the bond market, as it appeared to be exhibiting more bear market traits than the stock market in the first quarter. Two-year bond yields experienced their biggest quarterly surge since 1984, and 10-year yields appear to be bumping up against resistance levels that Strategas pegs at 2.75%, threatening to break out of a downward trend that has lasted for over 40 years. In addition, the Bloomberg U.S. Aggregate bond index, a broad-based flagship benchmark comprised of Government Treasury Bonds, investment-grade corporate debt and mortgages, declined 6.3% in the first quarter, the worst quarterly loss since 1980. Government-issued Treasury bonds alone were down 5.6%. These are big numbers for an asset class meant to provide safety and stability.

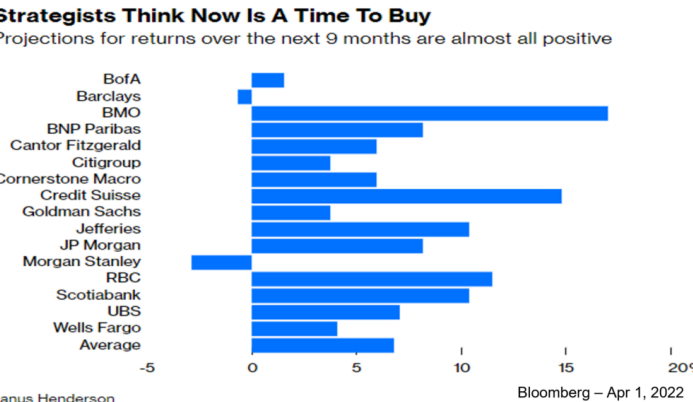
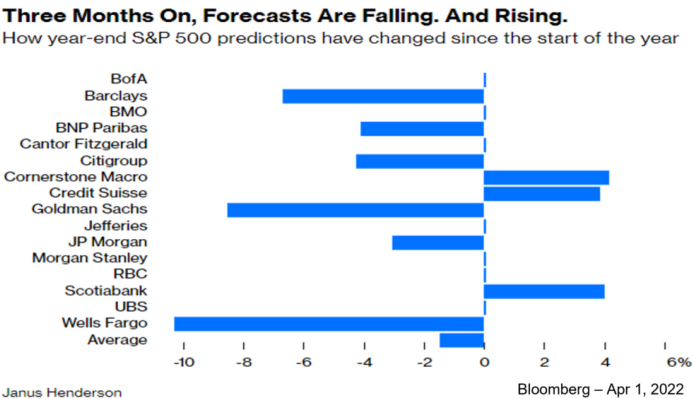
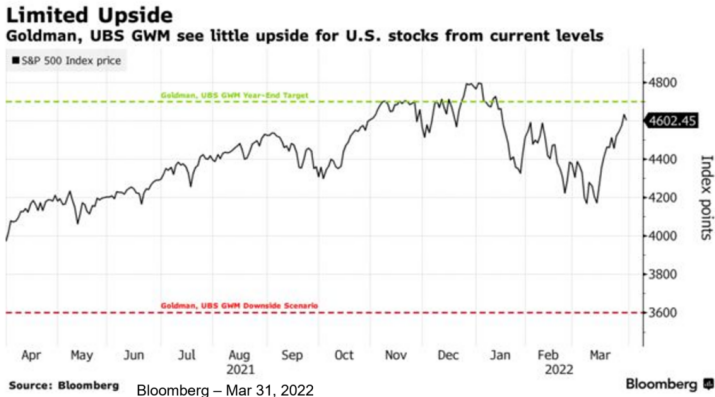




GETTING CLOSER TO LONG-TERM RESISTANCE ON 10's



But are we actually in a bear market for either stocks or bonds? While Goldman Sachs and UBS do not forecast much upside from here for stocks, both see a bear market in their downside scenario. On the other hand, a Janus Henderson report suggests strategists are nearly unanimous in projecting positive returns in stocks and bonds for the final nine months of the year. Some, like Wells Fargo, have trimmed their forecasts, but only Morgan Stanley and Barclays see investors losing more ground between now and the end of the year. However, one needs to take these forecasts with a grain of salt, as investment banks do not make money in bear markets, so self-interest may cloud their judgment.



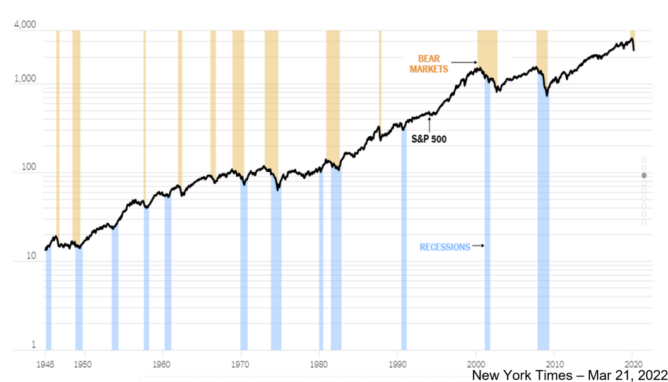
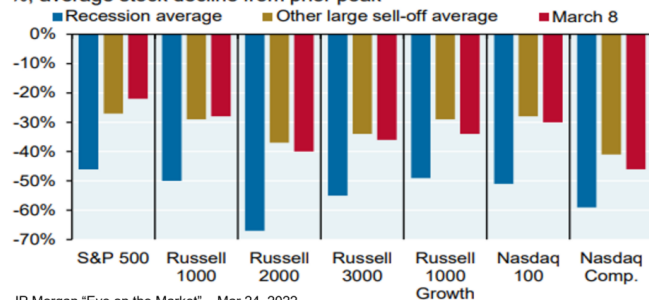
How likely is a recession?

To determine whether we experienced a mere correction in the first quarter or whether we have entered a bear market with more pain to come, we need to determine if a recession is likely, as the two typically go hand in hand. According to JP Morgan's "Eye on the Market," March 8 was likely the bottom for markets if the U.S. economy does not go into recession, but a deeper decline is probable if a recession does occur. Market Sentiment shows that the average drawdown during major recessions in the U.S. has averaged just over 29%.



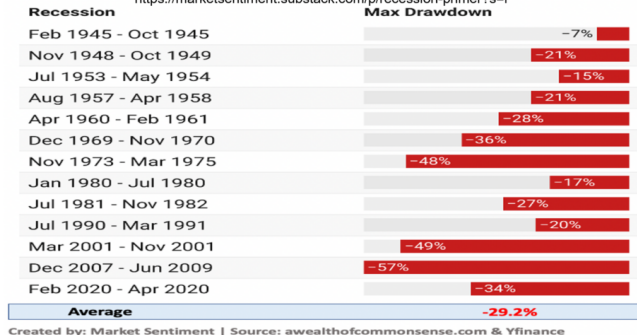
### March 8 a likely bottom if no US recession occurs

%, average stock decline from prior peak



### Max Drawdown during Major Recessions in U.S

<https://marketsentiment.substack.com/p/recession-primer?s=r>



Fortunately, most economists rank the odds of a recession fairly low. For example, a recent Bloomberg News survey indicates that economists put only a 20% probability of a recession starting in the next 12 months, while the New York and Cleveland Feds pegged the odds of a recession in the next year at 6.1% and 4.7%, respectively. In addition, Rosenberg Research and Strategas' proprietary recession barometers pointed to some deterioration in economic conditions, but not enough to conclude a recession was imminent.

### Low Odds

Economists says there is a low 20% chance of a recession happening in the next 12 months

U.S. Recession Probability Forecast



Source: Bloomberg Bloomberg – Mar 29, 2022

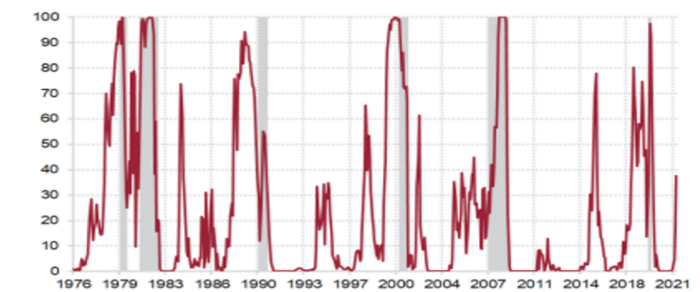


| Assets        | Neutral            | Liabilities     |
|---------------|--------------------|-----------------|
| Manufacturing | Trade Deficit      | Wage Inflation  |
| Capex Eqp     | Credit Environ     | Price Inflation |
| Employment    | Nonres Constr      | Cons Conf       |
|               | Interest Rate Envr | Govt Deficit    |
|               | Business Conf      |                 |
|               | Cons Spending      |                 |
|               | Housing            |                 |

Strategas – Mar 29, 2022

### CHART 43: Model Implied Recession Probabilities

United States (percent)

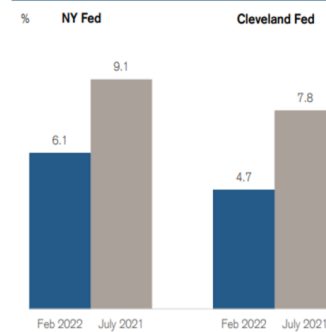


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

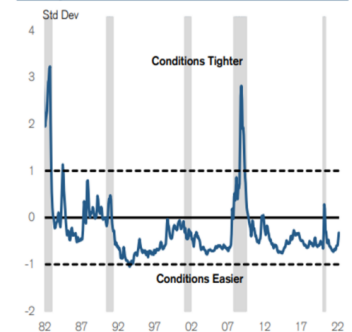
Rosenberg Research – Mar 28, 2022

### Probability of Recession in Next 12 Months



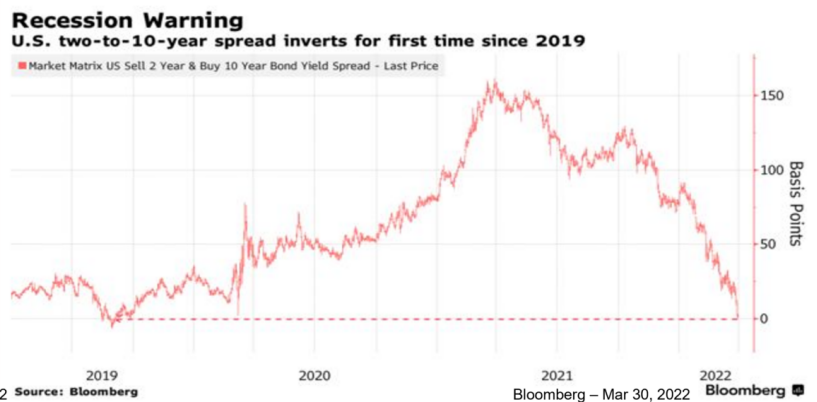
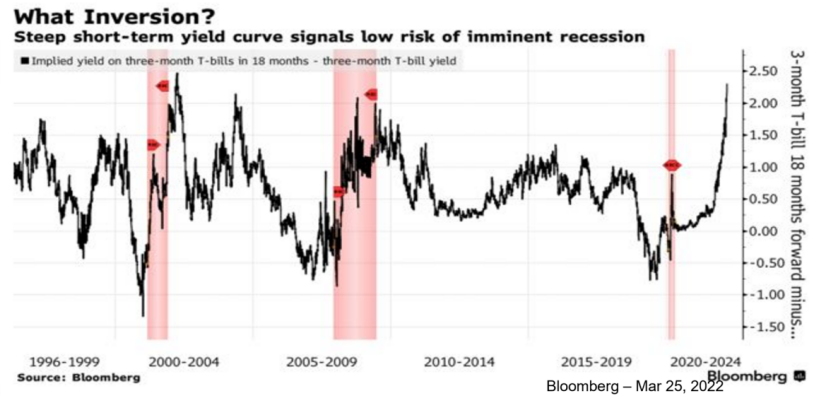
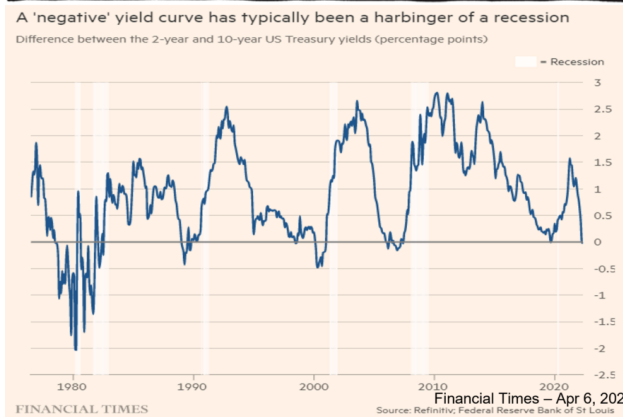
Source: NY Federal Reserve, Cleveland Federal Reserve, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

### Chicago Fed Financial Conditions Index



Source: Chicago Federal Reserve, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

For financial markets, the most ominous harbinger of an upcoming recession has historically been an inversion in the yield curve, with short rates trading above long rates. With various parts of the yield curve inverting in March and early April, recession warning bells rang. Of most concern was the 2-year versus 10-year yield curve, used by many as the bellwether indicator, which inverted for the first time since 2019 in late March. Alternatively, the very short end of the curve remains very steep, resulting in the 3-month versus 10-year curve steepening. The Federal Reserve, in fact, largely dismisses the 2-year versus 10-year yield curve as a recession indicator, preferring to concentrate its attention on the very short end of the yield curve, specifically the yield spread between three-month bills and the implied yield on three-month Treasury Bills in 18 months. Rather than inverting or even flattening, in 18 months, three-month yields are expected to be much higher than three-month yields today. In other words, the market currently believes three-month yields over the next 18 months will be moving higher, which would not be the case if the economy is about to enter a recession. The Fed, and many financial strategists, believe other external factors are keeping 10-year yields lower than they should be, like the Fed's own quantitative easing bond-buying program, thus making the 2-year versus 10-year yield curve a poor indicator.



## Inflation continues to surge. What will it take to tame it?

How much time markets have will likely be determined by the future path of inflation. Inflation occurs when there is an imbalance between supply and demand, specifically, too much demand or too little supply. The pandemic gave us a little of both (fiscal stimulus increased the demand for certain goods), but most of the imbalance has stemmed from the supply side. According to the US Federal Reserve Bank of San Francisco, the bulk of the current surge in inflation can still be attributed to COVID and supply chain issues, given their COVID Sensitive inflation index has moved significantly higher. In contrast, their COVID insensitive basket has only recently returned to early 2018 levels.

The belief that inflationary pressures should be transitory and normalized once supply chains ease is reasonable, though a return to 2% or lower is questionable. The longer that inflation remains elevated, the more likely inflationary expectations will permanently ratchet higher. Goldman Sachs highlights that inflationary pressures are broadening, with inflation on two-thirds of the consumption basket above 4% and almost 20% above 10%.



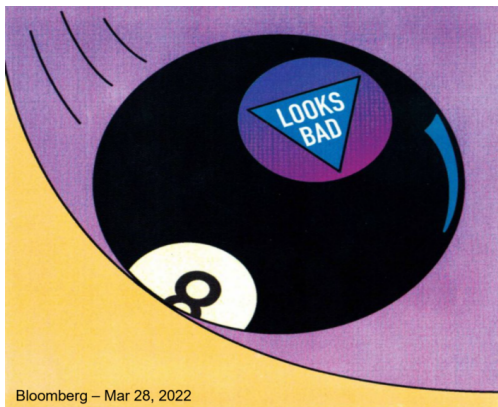
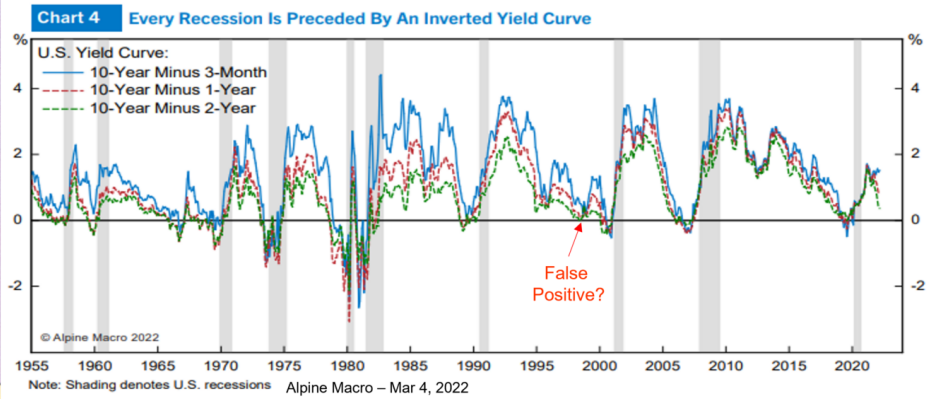


Table 2: US yield curve, S&amp;P500 and recessions

| # of months between        |                  |                      |                                  |                      |
|----------------------------|------------------|----------------------|----------------------------------|----------------------|
| Yield Curve inversion date | S&P500 peak date | Recession start date | Yield curve inversion & SPX peak | SPX peak & recession |
| Dec-67                     | Nov-68           | Dec-69               | 12                               | 13                   |
| Mar-73                     | Jan-73           | Nov-73               | -2                               | 10                   |
| Aug-78                     | Feb-80           | Jan-80               | 18                               | 1                    |
| Dec-88                     | Jul-90           | Jul-90               | 19                               | 0                    |
| Feb-00                     | Mar-00           | Mar-01               | 2                                | 12                   |
| Feb-06                     | Oct-07           | Dec-07               | -20                              | 2                    |
| Aug-19                     | Feb-20           | Feb-20               | 6                                | 0                    |
| Median                     |                  |                      | 12                               | 7                    |
| Average                    |                  |                      | 11                               | 5                    |

Source: Datastream, J.P. Morgan Bear Traps – Mar 24, 2022



## Yield Curve Inversions Can Be Bullish For Stocks

### 2 year/10 year Yield Curve Inversions

| Date of Inversion | Bull Market Peak Date | S&P 500 Index Return | Months Till Bull Market Peak |
|-------------------|-----------------------|----------------------|------------------------------|
| 12/13/1988        | 7/16/1990             | 33.2%                | 19.1                         |
| 5/26/1998         | 3/24/2000             | 39.6%                | 22.0                         |
| 12/27/2005        | 10/9/2007             | 24.6%                | 21.4                         |
| 8/27/2019         | 2/19/2020             | 18.0%                | 5.8                          |
|                   | Average               | 28.8%                | 17.1                         |
|                   | Median                | 28.9%                | 20.2                         |

Source: LPL Research, St. Louis Fed 03/30/2022 (Last Four Inversions)

Dave Lutz/Jones Trading – Mar 31, 2022

While the start of a central bank tightening cycle and the inevitable inversion of the yield curve has historically been a good time to own stocks, this cycle may prove more challenging. The yield curve has been unusually quick to invert, for starters, taking only 16 days since the first hike in the Fed Funds rate on March 16. Driving the inversion has been a sharp increase in 2-year yields, which are more sensitive to the overnight Fed Funds rate. According to the Fed Funds futures in late March, financial markets expect interest rates to rise by 50 basis points three times in a row, starting in May, followed by three 25 basis point increases by the end of 2022 and two more 25 basis point increases in early 2023.

Multiple basis point increases would bring Fed Funds to 3.0% in just over a year. This increase is quick and, according to Strategas, still might not be enough to tame inflation. Strategas believes the Fed will need to raise rates above the inflation rate and keep it there if they want to do the job. Given where inflation is right now, that might be a bridge too far for capital markets. We do not need a yield curve inversion to tell us a recession and bear market would be in the cards, and the lag would be shorter than average.



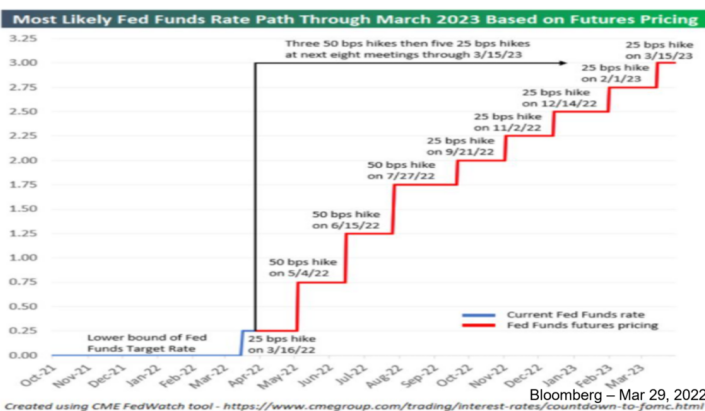
## Upside Down

2022 marks quickest yield curve inversion since Fed hiking cycle starts

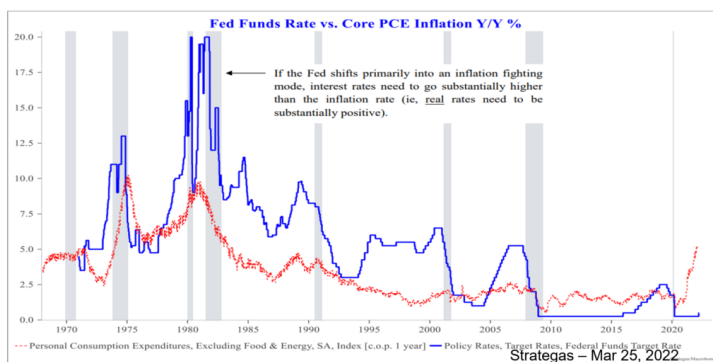
■ Days since first Fed hike until 2-year, 10-year curve inverts

|            |       |
|------------|-------|
| 1998-05-26 | 1,572 |
| 2000-02-02 | 217   |
| 2005-12-27 | 545   |
| 2019-08-26 | 1,349 |
| 2022-04-01 | 16    |

Source: Bloomberg Bloomberg - April 2, 2022



TO FIGHT INFLATION, THE FED HAD TO TAKE THE FUNDS RATE ABOVE THE INFLATION RATE (AND KEEP IT THERE)



The Federal Reserve is confident it can raise rates and engineer a soft landing, but its track record suggests otherwise. While it is true that the Fed managed to raise rates and avoid a single quarter of economic contraction from 1964-66, 1983-84, and 1994-95, current conditions will make it much harder for the Fed to bring inflation under control without causing a hard landing this cycle. Unlike in 1964, 1983, and 1994, inflation is much higher than the Fed's target level, and the labour market is tighter. With U.S. real interest rates still in deeply negative territory, the economy looks to be running too hot while Fed monetary policy is still very stimulative. In the previous soft landing, the unemployment rate fell. The unemployment rate will likely need to rise to slow inflation enough in this tightening cycle. According to former Treasury Secretary and recent inflation prognosticator Larry Summers, the current level of labour market tightness means wage growth is likely to rise even further than its current 6.5% pace. Summers believes that a recession will be required to tame inflation using monetary policy under current economic conditions. In other words, Summers is not buying the soft-landing story.



The Fed has a somewhat mixed track record of delivering perfect soft landings (i.e., no quarters of economic contraction)

| Tightening period     | Change in RFF (bps) | NBER first recession month | Real GDP drop | Policy-induced recession?        |
|-----------------------|---------------------|----------------------------|---------------|----------------------------------|
| Sep. 1965 - Nov. 1966 | 175                 | --                         | None          | No                               |
| July 1967 - Aug. 1969 | 540                 | Jan-70                     | -0.6%         | Soft-ish landing                 |
| Feb. 1972 - July 1974 | 960                 | Dec-73                     | -2.7%         | Hard landing                     |
| Jan. 1977 - Apr. 1980 | 1300                | Feb-80                     | -2.2%         | Hard landing                     |
| July 1980 - Jan. 1981 | 1000                | Aug-81                     | -2.1%         | Hard landing                     |
| Feb. 1983 - Aug. 1984 | 315                 | --                         | None          | No                               |
| Mar. 1988 - Apr. 1989 | 325                 | Aug-90                     | -1.4%         | Soft-ish landing                 |
| Dec. 1993 - Apr. 1995 | 310                 | --                         | None          | No                               |
| Jan. 1999 - July 2000 | 190                 | Apr-01                     | -0.1%         | Soft-ish landing                 |
| June 2004 - June 2006 | 425                 | Jan-08                     | -3.8%         | Policy not main recession driver |
| Oct. 2015 - Jan. 2019 | 225                 | Mar-20                     | -10.1%        | Policy not main recession driver |
| Mar. 2022 - ?         | ?                   | --                         | --            | ?                                |

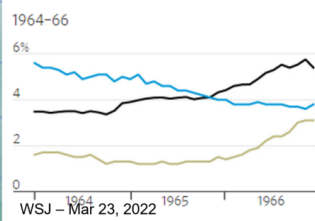
Source: "Landings Hard and Soft: The Fed, 1965-2020" Alan Blinder (2022), Goldman Sachs GFR.

Goldman Sachs - Mar 15, 2022

### Soft Landings, Past and Future

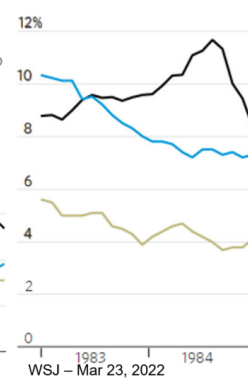
The Fed points to historical episodes when it raised interest rates without causing a recession. Today inflation is higher and the job market tighter.

■ Federal funds rate  
■ Unemployment rate  
■ Core inflation



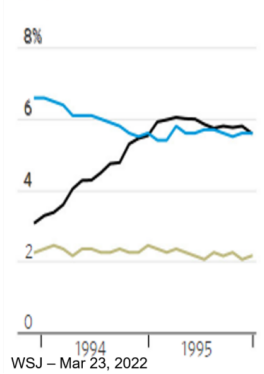
WSJ - Mar 23, 2022

1983-84



WSJ - Mar 23, 2022

1994-95



WSJ - Mar 23, 2022

### Soft Landings

The Fed's most benign tightening cycles didn't increase unemployment

| Tightening cycle      | Change in federal funds rate | Change in unemployment rate |
|-----------------------|------------------------------|-----------------------------|
| Oct. 1964 - Nov. 1966 | 2.4pp                        | -1.5pp                      |
| Feb. 1984 - Aug. 1984 | 2.0                          | -0.3                        |
| Dec. 1993 - Apr. 1995 | 3.0                          | -0.7                        |

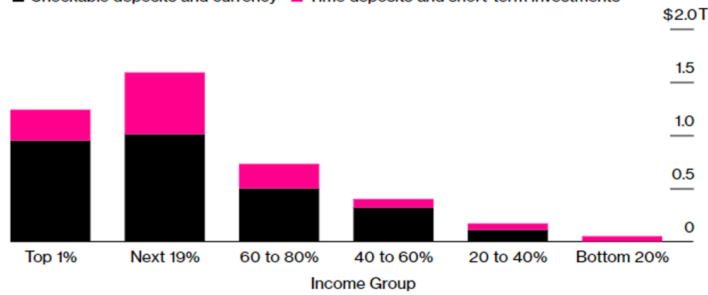
Source: Bloomberg Bloomberg - Mar 29, 2022

Critical for the economy will be how durable the U.S. consumer is as the Fed tries to put on the brakes. U.S. household total net worth soared during the pandemic, and Bloomberg estimates that cash sitting in savings accounts exceeds \$2 trillion. Most of this financial buffer predictably falls to the top 20% earners, who invariably have a lower propensity to spend. In other words, the vast financial buffer might not be spent because it is held by those that need it the least. With the University of Michigan's consumer sentiment index continuing to fall, there is at least some concern that economic growth might be peaking even before the Fed's tightening drive gets off the ground.

### U.S. Extra Liquidity

From 2019 to 2021, many households were able to build a financial buffer

■ Checkable deposits and currency ■ Time deposits and short-term investments

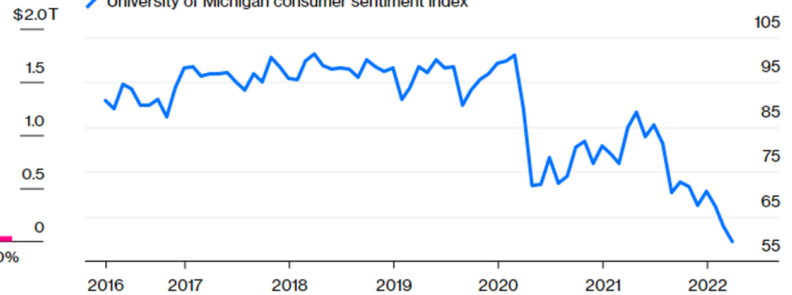


Source: Federal Reserve Bloomberg – Mar 31, 2022

### Steadily Deteriorating

Consumer sentiment has dropped to its lowest since 2011

■ University of Michigan consumer sentiment index



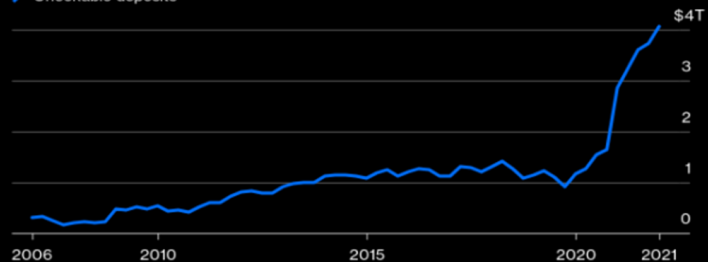
Sources: University of Michigan, Bloomberg

Bloomberg – Mar 28, 2022

### Straight Up

Cash sitting in savings accounts is more than \$2 trillion above pre-pandemic levels

■ Checkable deposits



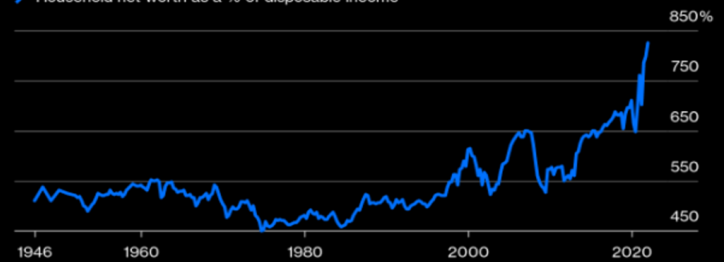
Sources: Federal Reserve, Bloomberg

Bloomberg – Mar 18, 2022 BloombergOpinion

### Big Cushion

Household net worth has soared as a percentage of disposable income, providing a cushion against faster inflation

■ Household net worth as a % of disposable income

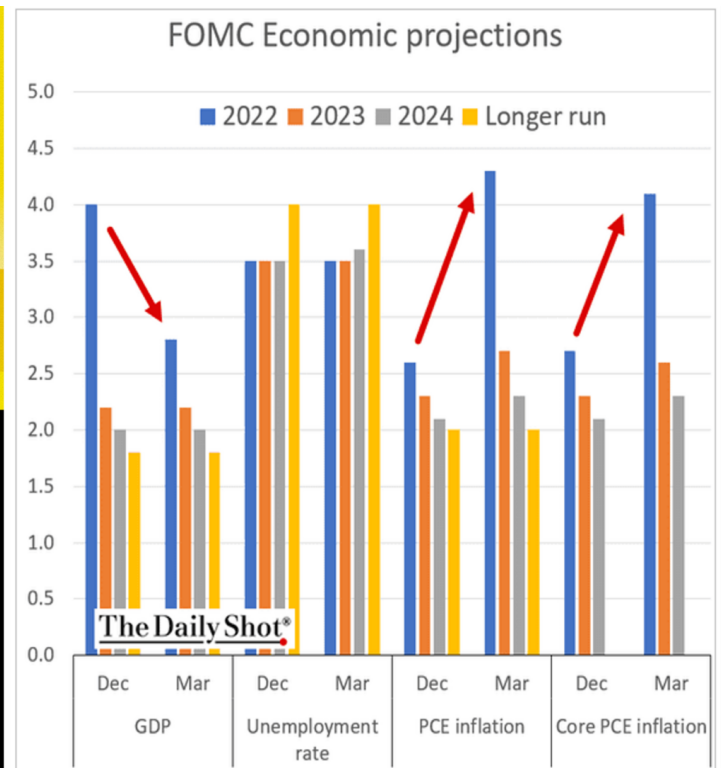
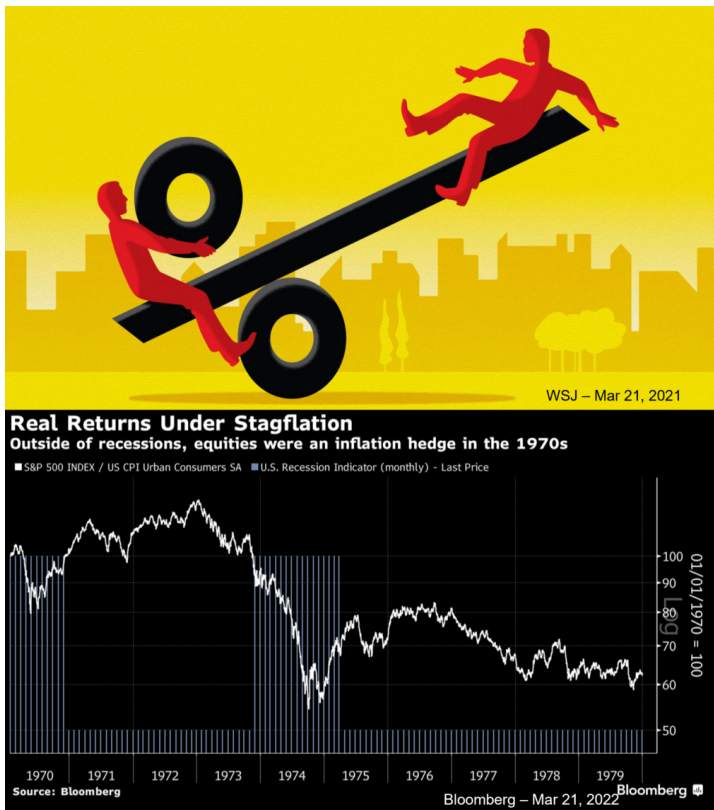


Sources: Federal Reserve, Bloomberg

Bloomberg – Mar 18, 2022 BloombergOpinion

This is likely one of the factors behind the market's strength in the face of an epic dose of Fed tightening; investors do not believe the Fed will follow through. Either because inflation falls or economic growth tails off, many believe the Fed will not end up tightening anywhere close to what the market is currently discounting. If they are forced to wave the red flag with too high inflation, stagflation might be the outcome. The Federal Open Market Committee economic projections comparing December 2021 and March 2022 show that GDP in 2022 declined while inflation increased. Things tend to break when the Fed aggressively raises rates, and recession and lower corporate earnings remain the biggest concerns. Equities have historically been a good inflation hedge, except when economic growth contracts.





Source: The Daily Shot

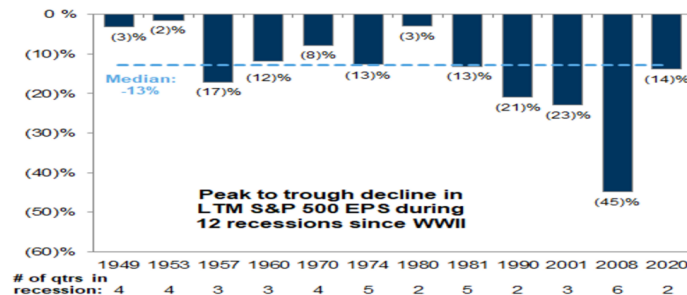
The Daily Shot – Mar 17, 2022

So far in 2022, corporate earnings look okay. Estimates are still rising, but the percentage of upward revisions looks to have rolled over. Perhaps more concerning, the National Federation of Small Business's actual earnings changes have turned lower. Of course, a recession would change everything. According to Goldman Sachs, S&P 500 earnings declined by an average of 13% during recessions, ranging from negative 2% in 1953 to negative 45% in 2008.



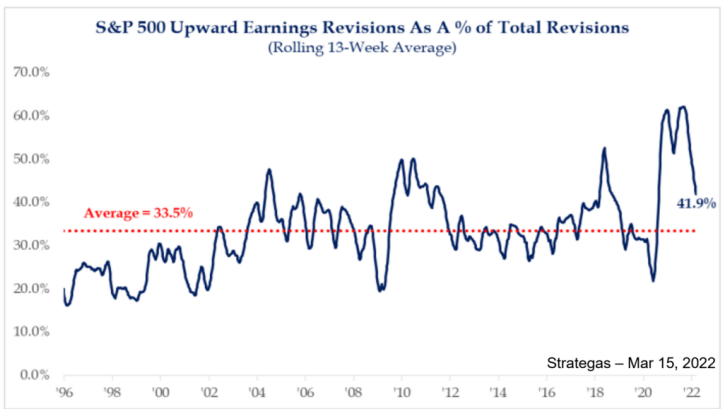


Exhibit 8: S&amp;P 500 EPS typically declines by 13% during recessions

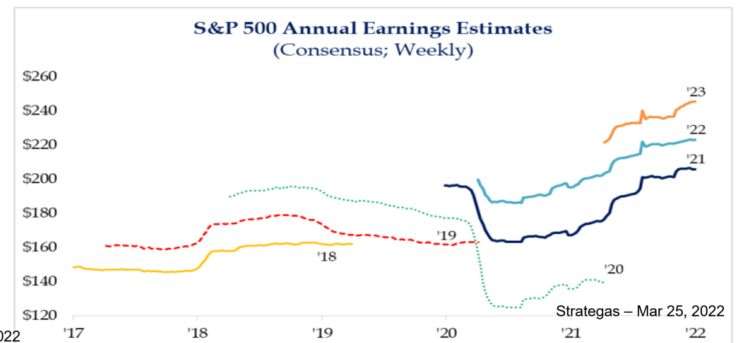


Source: Compustat, Goldman Sachs Global Investment Research

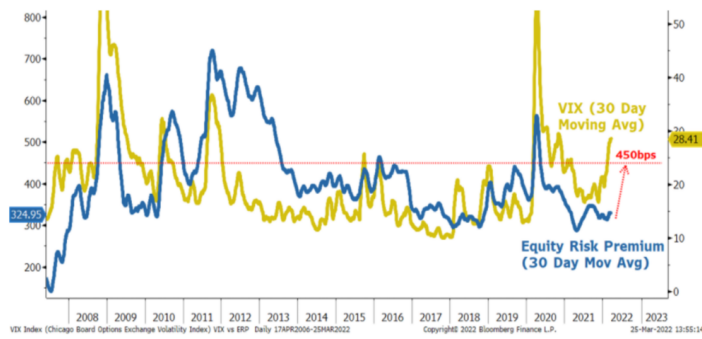
Goldman Sachs - Mar 14, 2022



### IX. CONSENSUS EARNINGS ESTIMATES ARE BEING REVISED HIGHER

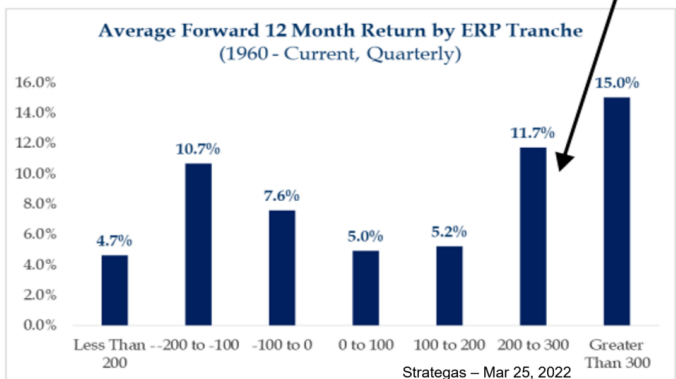
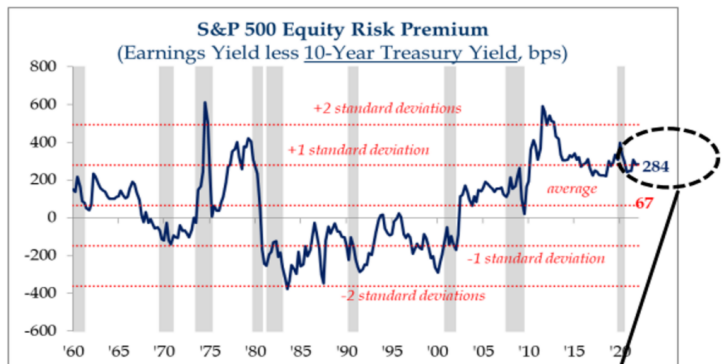


Do not expect higher valuations to bail investors out if earnings falter. Strategas believes current valuations are reasonably attractive when measured by equity risk premium and, based on data since 1960, would correspond to a projected return over the next 12 months of 11.7%. Morgan Stanley is a little less optimistic, believing current market conditions merit an even higher equity risk premium, meaning stock valuations need to come down. As for bonds, credit spreads have been trending higher since November, which according to Strategas, have historically corresponded to a challenging environment for stock returns as wider spreads can be a predictor of brewing credit issues. Higher bond yields also pressure stock valuations as they increase equity risk premiums. If yields move higher, it is hard to build a case for higher stock valuations.

**Exhibit 3:** ERP looks underpriced for the current level of uncertainty as measured by volatility

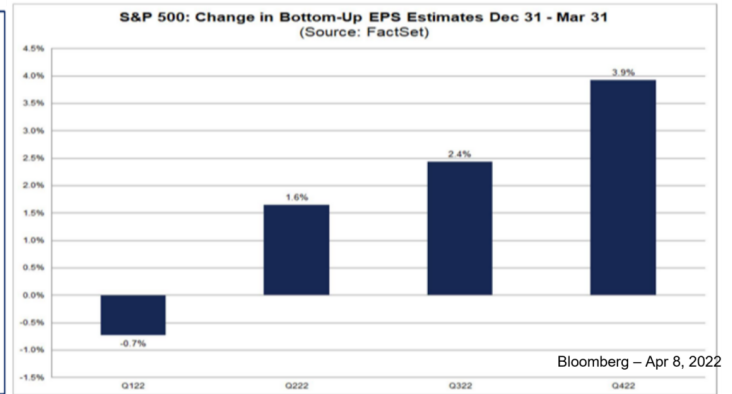
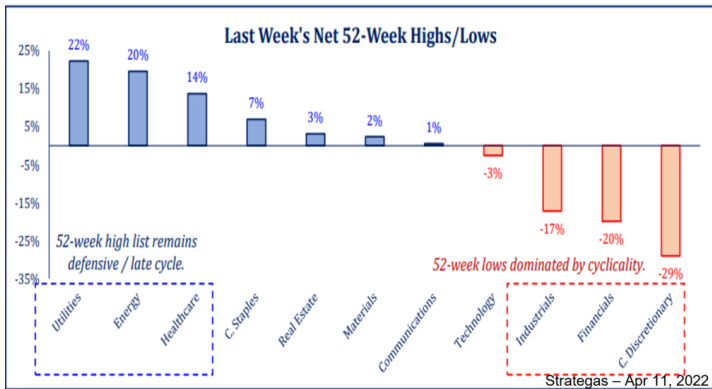
**TREND FOR SPREADS IS HIGHER (& HAS BEEN SINCE NOVEMBER BREAKOUT)**

## I.&II. ERP & FUTURE RETURNS



## Wider credit spreads are not the only indicator of a weaker stock environment.

While stock index returns were positive in March, individual sector returns exhibited less investor confidence, with defensive stocks and sectors primarily responsible for the gains. According to the Bear Traps Report, defensive stocks outperforming cyclical stocks, or consumer staples outperforming consumer discretionary, is a negative leading indicator. Investors are becoming more defensive and positioning for a pullback in earnings. According to Strategas, more Utility, Energy and Healthcare stocks, traditionally defensive sectors, are hitting 52-week highs, while cyclical sector stocks, like Industrials, Financials, and Consumer Discretionary, dominate the 52-week low list. Bloomberg notes that while full-year 2022 earnings estimates for the S&P 500 are positive, first-quarter estimates are negative as analysts back-end load their models in hopes that economic conditions improve as the year progresses. It's wishful thinking if economic growth stalls.



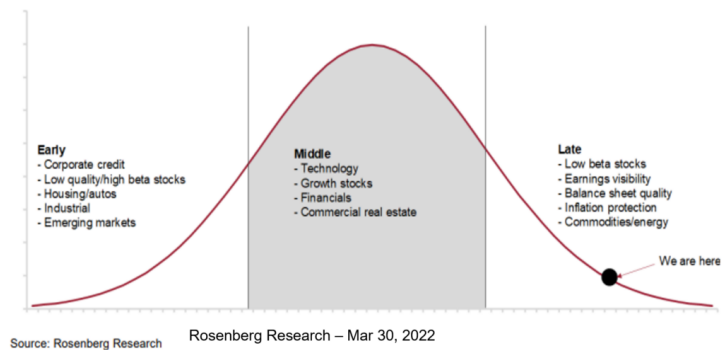
If inflation stays high and interest rates continue to move higher, high-duration stocks and sectors, like technology, will continue to struggle. According to Bridgewater, bond prices will no longer be a good diversifier for stocks, as both will move down together. A better diversifier for stocks in an inflationary environment may be commodities, whose correlation to stocks is low and getting lower. Rosenberg Research agrees, though they highlight inflation protection as late-cycle stocks, and we are late in the late part of the overall cycle, with transitory inflation set to decline.

### High-duration stocks have done better when interest rates have been lower

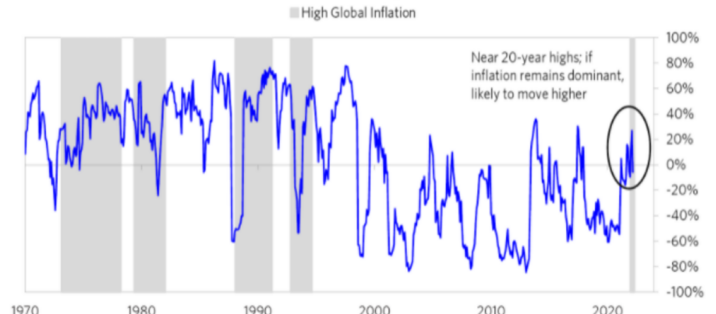
Cumulative change in stock prices from two decades ago



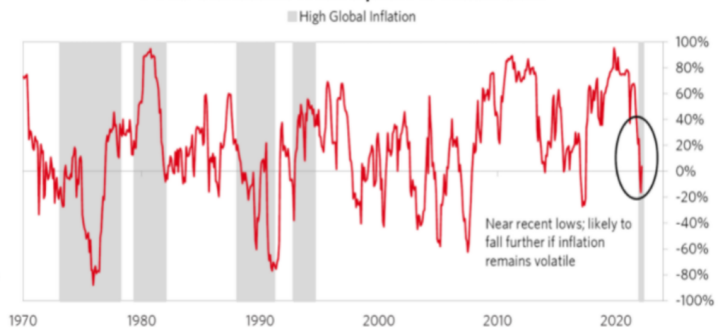
**CHART 5: As the Cycle Turns, So Should Your Portfolio**  
Global



### 1-Year Correlation: World Equities vs Bonds



### 1-Year Correlation: World Equities vs Commodities

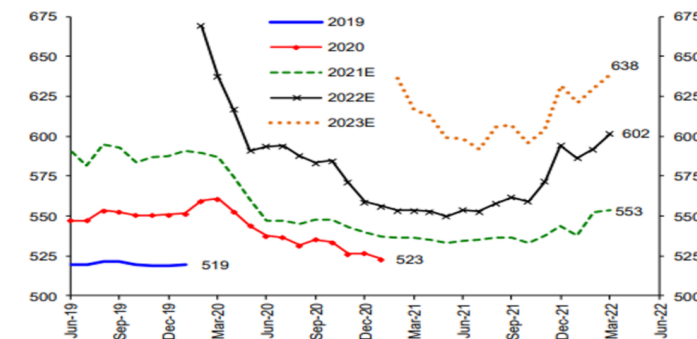


Bridgewater – Mar 31, 2022

Where can one find exposure to commodity stocks, you ask? Canada, of course, which is why the S&P/TSX is one of the few markets in positive territory this year. Canadian stocks outperformed U.S. stocks by more than 8% in the first quarter and are still trading cheaper than their five-year average valuation and much lower than U.S. stocks. Even better, bottom-up earnings estimates for the TSX composite have been moving higher.



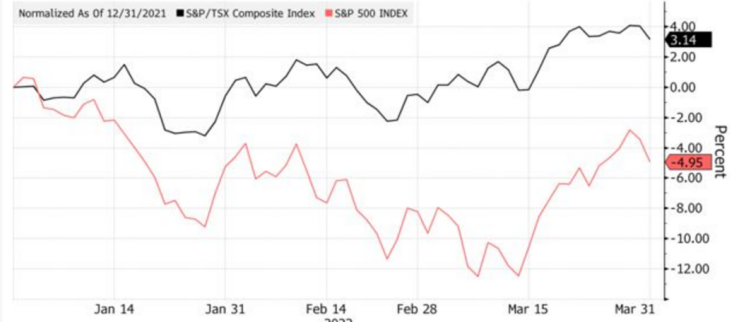
**TSX Composite FY DPS Estimates (Bottom-up Consensus; CAD)**



Source: Scotiabank GBM Portfolio Strategy, Refinitiv, Bloomberg  
Scotiabank – Mar 30, 2022

### Banner Quarter

Canadian stocks beat their U.S. counterparts by more than 8 percentage points



Source: Bloomberg

Bloomberg – Apr 1, 2022

### Cheap Valuations

Canadian stocks are trading below their five-year average valuations



Source: Bloomberg

Bloomberg – Apr 1, 2022

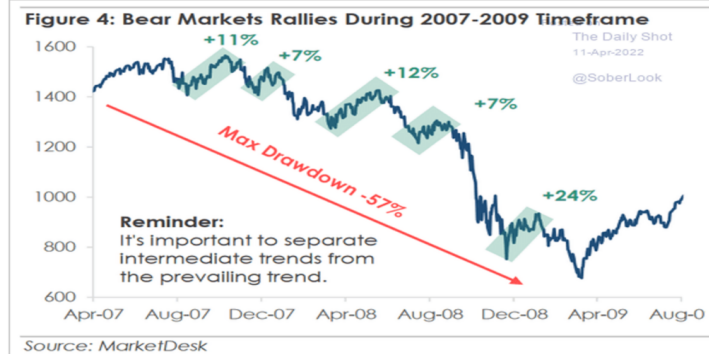
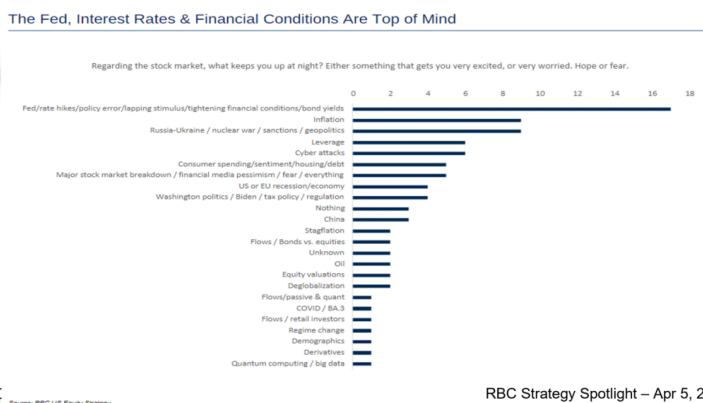
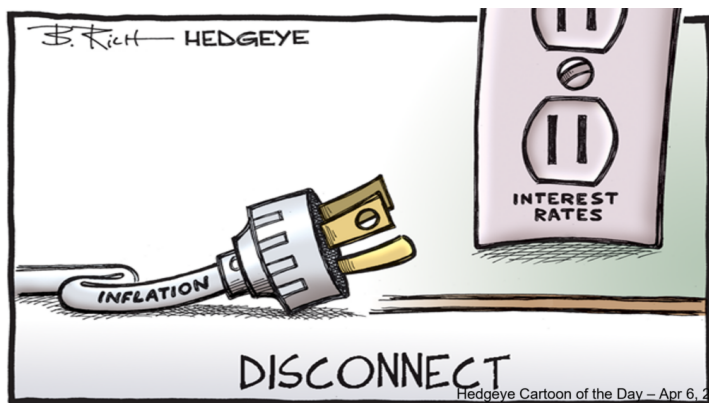
## Rate hikes and rising inflation continue to dominate – but there may be a silver lining.

Outperformance by the Canadian market assumes one is concerned about inflation. According to RBC Capital markets, Institutional Investors rank Fed rate hikes, policy error, tightening financial conditions, and bond yields as their primary concerns. If this is true, and the central banks follow through on their goal to tame inflation, despite what might happen to the economy or the markets, there seems to be a bit of a disconnect with investors bidding stocks higher last month. Rather than a continuation of the bull market, March's rally could eventually be exposed as a bear market rally, with performance in the first two months of the year confirming the prevailing trend is downward.

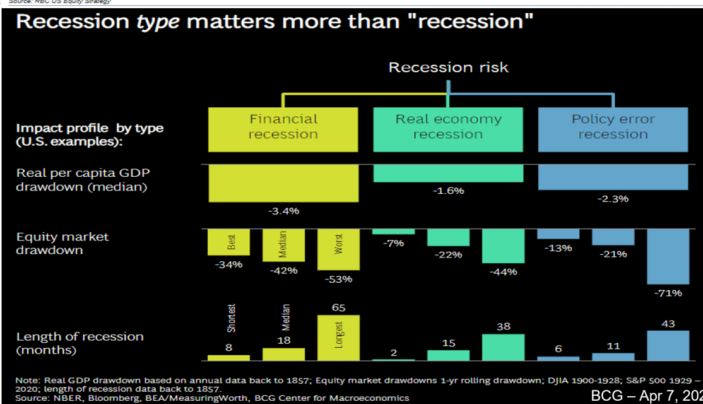
Alternatively, if the economy and U.S. consumers are strong enough to weather the storm of higher rates, central banks could engineer a soft landing. Somewhere in between where the Fed loses its nerve, inflation remains high, and growth remains stagnant would be the worst of both worlds. What central banks do will ultimately determine if markets have already peaked and when a recession will happen, and while the yield curve might have started the shot clock, we do not know how long the countdown is. Perhaps shorter than usual?

We expect that Canadian stocks should still outperform on a relative basis in this environment, but would struggle to deliver positive returns, as would bonds, in a hard landing scenario. Optimistically, Boston Consulting Group believes that even if we have a recession, it would not be a financial recession, which tends to be more severe and cause larger equity drawdowns. More likely it would be a policy error recession in the U.S., where an over-zealous Fed tightens too much, and a Real Economy recession in Europe due to supply shocks caused by the Ukraine war. A silver lining, perhaps?





Source: [MarketDesk Research](#) The Daily Shot – Apr 11, 2022



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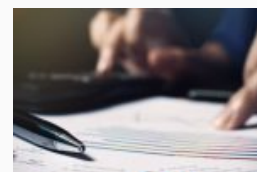
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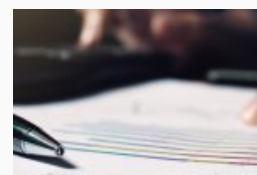


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