

# Market commentary notes

Monthly call notes  
Monday, May 2, 2022



Wealth  
Management

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**“When Harold Macmillan became Britain’s prime minister, he was asked what would determine his government’s course. He replied with Edwardian languor: ‘Events, dear boy, events.’”**

**George F. Will**  
Newsweek, Jan. 27, 2002

## Summary: April—market hopes on hold, again

We had a partial equity markets recovery in March, but that was followed by a brutal April. The reasons have a little to do with the specifics of earnings reports and especially those in the tech sector where a few prominent companies had dismal earnings. However, the larger cause is probably concerns over how much the Fed might raise rates (including in two days). Some of the more breathless Wall St. analysts claim to be expecting a 75 bp rise. While possible, I’m more inclined to take Chairman Powell at his word that he is thinking maybe 50 bp versus 25 bp. The drop in April has put the 12-month returns to the S&P around flat and returns to mid- and small-cap into negative territory. On the bond side, we had a 2.52% drop in the Barclay’s Agg and many important subcomponents, such as intermediate corporate bonds are down 12–13% YTD. Again, my sense is that at least some of this has to do with exaggerated worries over Fed actions. My guess is that both the stock market and the bond market will calm down in the second half of this year—which is just two months away.

## Global stock indexes

Total Index	April %	YTD %	1 yr. %	2021 Est PE
S&P 500	-8.72	-12.95	0.21	24.56
S&P Mid Cap	-7.11	-11.64	-7.03	20.93
S&P Small Cap	-7.81	-12.99	-8.54	26.67
FTSE All REIT	-3.66	-8.72	10.12	
MSCI All Country xUS	-6.28	-11.38	-10.31	
MSCI Emerg Mkt	-5.56	-12.15	-18.33	

Source: Morningstar as of April 30, 2022. Estimated PEs are trailing 12-month values from S&P Dow Jones Indices, based on Operating Earnings, as of January 31, 2022. Figures are provided for comparisons over time.

## Fixed income and alternatives

Total Return Index	April %	YTD %	1 yr. %
Bloom Agg Intermed	-2.52	-7.09	-7.27
ICE BofA US Convertibles	-7.01	-12.04	-13.46
S&P GSCI	5.12	39.94	59.82
Bloom US Corp HY	-3.56	-8.22	-5.22

Source: Morningstar as of April 30, 2022.

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## Sector performance

The best performing sectors YTD were energy (35.4%), utilities (-0.5%) and consumer staples (+0.7%). The worst performing sectors were communications (-26%), consumer discretionary (-21%) and IT (-19%). [[https://eresearch.fidelity.com/eresearch/markets\\_sectors/sectors/si\\_performance.jhtml?tab=siperformance](https://eresearch.fidelity.com/eresearch/markets_sectors/sectors/si_performance.jhtml?tab=siperformance), 30 Apr. 2022]

## Commodity and food price changes, current month and YoY

Copper	-8%	-2.4%
Lumber	4.6%	-30.2%
Cotton	10.7%	76.9%
Sugar	-0.5%	11.2%
Coffee	3.2%	57.4%
Wheat	3.2%	42.2%
Corn	10.8%	10.5%
Oil	-1.5%	63.8%
NatGas	28.1%	147.2%

Source: <https://tradingeconomics.com/commodities>, April 30, 2022

While commodity prices on average are up YoY, importantly compared to last month, the YoY increases are dramatically lower for everything except oil and natural gas. For instance, lumber went from +6.5% to -30.2%, sugar from +30.5% to +11.2%. Even wheat from +61% to +42%. While these are still increases, it means that the large increases from a year ago are aging out of the system. That suggests that future inflation figures could come down. Consumer commodities are about 17% of CPI. If inflation in these goes from what it was, 10–12% to 6%, that reduces the increase in CPI by a full percentage point.

**Oil supplies.** I've been looking at country production figures for oil. The figures for some countries are a few months old so it is hard to draw conclusions with confidence but here's what I see so far: The big five oil producers in the world, in order are: the U.S., Russia, Saudi Arabia, Canada and Iraq. Together, they account for about half of global production. Looking at their production compared to about a year ago, the U.S. is up about 0.5%. Russia is up about 4%. Saudi Arabia is up about 20%, Canada and Iraq are both up about 5%. Taken together, that sums to about 3 million additional barrels per day in production. The U.S. Energy Information Administration's (EIA) estimates are that world production will rise this year by 5 million bbl/d and another 2 MM bbl/d in 2023. Together, that is about 70% of Russia's production—which suggests to me that as long as transportation is fairly efficient, moving away from Russia's oil won't result in major global problems or price increases beyond the next few months. [[https://www.eia.gov/outlooks/steo/report/global\\_oil.php](https://www.eia.gov/outlooks/steo/report/global_oil.php), April 30, 2022]

Natural gas is a somewhat different story with global supply being stretched and with the risk of further cuts by Russia, a major producer and exporter to Europe. European inventories at this time of year are typically about 34% of total storage capacity. Currently they are at 26%, so substantially lower than average—that means about 1.4 trillion cubic feet. The U.S., which is the biggest producer of natural gas in the world, exports about 11 B cf/day and that looks to increase by about 1.3 Bcf/d this year. That helps but isn't enough. One problem within Europe is that the natural gas pipeline infrastructure isn't well developed across countries. So, the problem isn't just replacing any gas cut off by Russia, but also distributing it to the right places. For instance, Spain imports about 3 Bcf/d and is able to import 6 Bcf/d. The problem is getting the gas from Spain to other countries, such as Germany. To put this into perspective, Gazprom sent about 5,250 Bcf of gas to Europe last year and it is expected that figure will be about 3,850 Bcf this year. [<https://www.reuters.com/business/energy/gazprom-may-lose-third-its-gas-exports-europe-2022-analysts-2022-04-22/>] So the U.S. could conceivably make up about a third of the difference. The other likely major source in the short term is Qatar, which is rapidly increasing its export capacity. It's a question of moving the gas from the terminals to the users. [<https://www.eia.gov/outlooks/steo/marketreview/natgas.php>] Other major producers are Qatar, Norway, Canada, Australia and Algeria. I suspect that's a problem that will take three to five years to resolve. In the meantime, I expect that we'll see shortages and gas price increases here and abroad. [[https://www.eia.gov/outlooks/steo/pdf/steo\\_full.pdf](https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf)]

## U.S. economy

### GDP advance estimate for 1Q 2022

The first estimate for 1Q GDP growth was somewhat below the muted expectations and certainly below what was implied by the rapid increase in employment in the last six months. Overall, real GDP came in at -1.4% at annualized rates. The main culprits were decreases in inventory growth, exports and government spending, along with increases in imports, which is a negative for GDP growth. In terms of numbers, exports fell 5.9% and imports increased nearly 18%. Defense spending dropped 8.5%. The inventory decrease was mainly due to difficulties getting new cars onto the lots, while the government spending decrease was due to a lull in defense spending. On the other hand, consumer spending, the major driver of our economy, was up 2.7%, and incomes were also up—suggesting that the domestic economy remains healthy. I suspect that some of the apparent GDP drop was also due to difficulties in inflation adjustments, so it may not be real. Nominal GDP—which includes inflation—was up 6.5% annualized for the quarter, so as you might imagine, taking inflation out at a slightly wrong rate would have a big impact on your estimated real GDP growth rate.

Since inflation is volatile and varies according to the type of good or service, it is easy to see how this adjustment could go wrong. [<https://www.bea.gov/news/2022/gross-domestic-product-first-quarter-2022-advance-estimate>, April 30, 2022]

In any event, it looks to me like all of the factors that led to declining GDP are temporary. I expect a decent bounce back in the quarter that we just started. Also, you shouldn't worry about a recession based on this report as these really look like temporary factors. One example—import growth usually indicates that the domestic economy is in good shape and demand is growing. Export shrinkage indicates that the rest of the world is weakening, which is a concern, but maybe not surprising given what is happening in China (COVID-19) and Europe (war). In numbers, the import/export situation knocked about 3.2% off our GDP growth while the decline in government spending knocked another half-a-percent off. The problem with inventories—mostly the shortage of cars—accounts for a 0.84% decline. So taken together, if these hadn't occurred, we'd be looking at GDP growth of around +3%. [[https://www.bea.gov/sites/default/files/2022-04/gdp1q22\\_adv.pdf](https://www.bea.gov/sites/default/files/2022-04/gdp1q22_adv.pdf)]

### **New jobs**

No new information so far for April. My guess is that we'll see jobs growth of about half of the previous number, around 200,000—mostly due to the shortage of workers at current wage rates.

### **Inflation**

Inflation isn't a U.S. problem, but rather a global issue. In part, that ought to temper some people's concerns that our inflation is due to runaway benefits or money creation. Those factors here at home wouldn't have caused inflation in Canada or Germany. While the U.S. has inflation in the 8's at the moment, the EuroArea is at 7.5%. Canada is at 6.7%. UK is at 7%. Australia is at 5.1%. So, inflation is very much a global phenomenon right now and likely not due to U.S. policy but rather supply shortages and transportation constraints. [<https://tradingeconomics.com/country-list/inflation-rate>, April 30, 2022]

### **U.S. PMI statistics**

The U.S. Manufacturing PMI for mid-April came in at 59.7, up from last month and up 2.4 from two months ago—indicating healthy growth. [Trading Economics, PMI statistics April 30, 2022] However, our Services PMI, covering some 80% of the economy, dropped to 54.7—still a reflection of moderate growth. [Trading Economics, <https://tradingeconomics.com/country-list/services-pmi> April 30, 2022]

### **The Fed**

The Fed is meeting this week and is poised to hold a press conference on May 4. It is widely expected that the Fed will raise rates by half-a-percent. Since it's already anticipated, paradoxically, it may not have much impact on interest rates. One key item to watch for will be the wording of the release. Is the Fed expecting to be aggressive or more laid back about future increases? Given what governors have been saying in the last month, I suspect that the Fed will try to ease concerns about possibly being overly aggressive in rate hikes this year. That could possibly lead to longer-term rates coming down a little bit after the press conference.

### **Quarterly earnings**

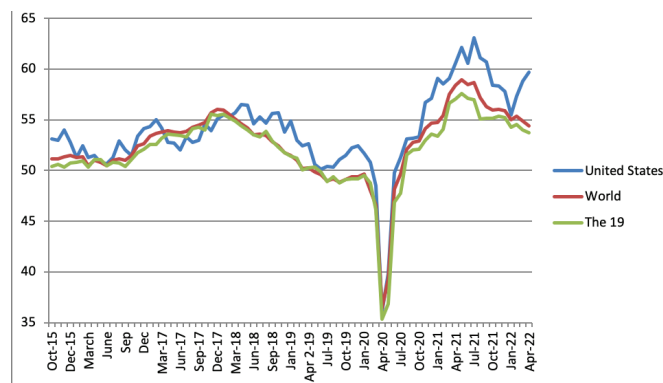
So far, earnings are coming in +10.1% on average compared to a year ago. That is a low rate relative to recent experience, but I think that merely signals that we are past the COVID-19 recovery phase and into a more normal growth cycle. The highest earnings increases were in energy (+258%), materials (+39%) and industrials (+32%). So far, the worst performers have been consumer discretionary—due mainly to Amazon (-8.4%), financials (-18%) and communications (-4.3%) [<https://insight.factset.com/sp-500-earnings-season-update-april-29-2022>, April 30, 2022] [<https://lipperalpha.refinitiv.com/2022/04/sp-500-earnings-dashboard-3/>]

## **International**

### **Manufacturing PMI**

Every month I look at global Purchasing Managers Index (PMI) statistics. Last month six of our 38 countries registered PMI's below 50. It's the same this month, although not all the April updates are in, so that may change. Overall, the average dropped by 0.5, which is just noise. The most noticeable changes are that China came in at 46, due to the COVID-19 clamp-down. The Euro-area remains in moderate territory, around 55 and the economies of Canada and Australia appear to be growing and possibly accelerating. Looking across the major Asian economies, most appear to be coasting along slightly above 50, so growing, but slowly. Japan, at 53.4, is doing better than most for the moment. [<https://tradingeconomics.com/country-list/manufacturing-production>] On the services side, the Euro area came in at a very strong 57. Australia is also growing well, although the other Asian economies, including Japan are barely above 50. Russia came in at 38 for March and we don't have an April report yet. I expect it will be similar. [<https://tradingeconomics.com/country-list/services-pmi>]

## Here's our updated graph of Manufacturing PMIs:



Source: Author's calculations based on published PMI statistics, as of April 30, 2022.

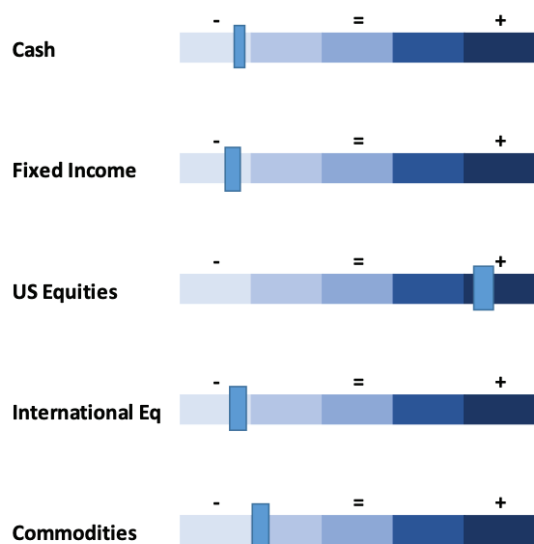
## Table summary

Region	Manu PMI	Last Month	12 Mo. Ago
US	59.7	58.8	60.6
19 majors	53.7	54.0	57.0
38 world	54.4	54.9	58.4
EU	55.3	56.5	63.3
China	46	48.1	51.9

Source: Author's calculations based on published PMI statistics, April 30, 2022.

## GTAS allocation tilts

## GTAS Asset Allocation Dashboard



(+/-/-) represents our group's views over a 6- to 18-month time horizon concerning tilts relative to our strategic positions.

+ implies an overweight in that asset class.

= implies a weighting similar to our strategic weight.

- implies an underweight. Index definitions

## Index definitions

Past performance is no guarantee of future results. You cannot invest directly in an index.

**Bar Agg Intermed** — Bloomberg Barclays U.S. Aggregate Intermediate Total Return index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which includes the daily reinvestment of dividends.

**Bar U.S. Corp HY** — Bloomberg Barclays U.S. Corporate High Yield Total Return index includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Baa1, a minimum amount outstanding of \$100 million, and at least one year to maturity.

**FTSE All REIT** — FTSE Nareit All Equity REITs Total Return index is an index of publicly traded Real Estate Investment Trusts (REITs) that own commercial property. All tax-qualified REITs with common shares traded on the NYSE, AMSE or NASDAQ National Market List are eligible. Additionally, each company must be valued at more than US\$100 million at the date of the annual review.

**ICE BofA US Convertibles** — ICE BofA U.S. Convertible Bonds Total Return index tracks the returns of U.S.-traded convertible debt issued by companies with a significant presence in the United States. The index is composed of various combinations of convertible structure and credit quality, e.g. it includes investment-grade, speculative-grade, and non-rated issues. The returns for the index are total returns, which include reinvestment of dividends.

**MSCI All Country xUS** — MSCI All Country World Index Ex USA NR is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index consists of 48 developed and emerging market country indices. The returns for the index are total returns, which include reinvestment of dividends.

**MSCI Emerg Mkt** — MSCI Emerging Markets NR index consists of 26 developing economies including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

**S&P 500** — S&P 500 Total Return index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the U.S.; it's often used as a proxy for the U.S. stock market. Total Return (TR) indexes include daily reinvestment of dividends.

**S&P GSCI** — S&P GSCI Total Return index is a composite index of the commodity futures. It represents unleveraged, long only investments in commodity futures that are broadly diversified.

**S&P Mid Cap** — S&P MidCap 400 Total Return index is comprised of stocks in the middle-capitalization range, and includes approximately 10% of the capitalization of U.S. equity securities. Total Return (TR) indexes include daily reinvestment of dividends.

**S&P Small Cap** — S&P SmallCap 600 Total Return index consists of 600 domestic stocks chosen for market size, liquidity, and industry group representation. Total Return (TR) indexes include daily reinvestment of dividends.



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22-NF-01193 (05/22)