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Global Economic & Market Review
Fourth Quarter 2021

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Summary

The global economic recovery continued throughout the fourth quarter albeit at a relatively muted pace as numerous challenges pointed to a slowdown in growth during the final three months of the year. In many cases, the rapid rebound in economic activity and global supply chain issues led to record high inflation around the world. As a result, major central banks signaled policy changes that would bring an end to the unprecedented support undertaken in response to the pandemic. The discontinuation of such programs will likely dampen economic growth in the future. During the final few weeks of the year, the newly discovered Omicron variant sparked concern, but even though cases spiked as a result, the impact was much less severe than the Delta variant. For the most part, major equity markets were resilient and posted strong results for the quarter to end the year with double digit returns. In contrast, a tepid performance in bond markets led to near flat returns for the year. In its latest forecast, the International Monetary Fund (IMF) expects global growth to moderate from 5.9% in 2021 to 4.4% in 2022 mainly due to lowered growth expectations in the United States and China.

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United States

Following a pullback in the previous quarter, major US equities indices saw robust returns in Q4-21 to end the year with double digit gains. The S&P 500 posted a return of 10.65% in Q4, the strongest gain amongst the three major US indices also including the Nasdaq (+8.28%) and the Dow Jones Industrial Average (+7.37%). For the year, the indices were up +26.89%, +21.39% and +18.73% respectively. Overall, US bond markets posted fairly lackluster returns, with US Treasuries 1-10 years losing -0.51% while corporate (+0.17%) and high yield (+0.66) indices rose only slightly. Despite expectations that inflation would subside next year, rising prices in the US economy remained at the forefront of the Federal Reserve's agenda. In November, the Consumer Price Index rose by 6.8% from the previous year, the largest annual increase since 1982. The jump in inflation was mainly driven by increases in energy prices; in particular, gasoline prices which surged by 58.1%. In response to higher inflation and rising growth, the Fed indicated that it would accelerate the end of its monthly bond buying program which the central bank had been using to support markets and boost growth. The US economy is estimated to have grown by and annual rate of 2.3% in Q3-21, following an expansion of 6.7% in the previous quarter. The falloff in growth was mainly due to a slowdown in consumer spending that was a result of new restrictions and delays caused by a resurgence of COVID-19 in some parts of the country. Growth for 2021 was projected at 5.6%.

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Europe

As a result of increases in household spending and imports, the euro area economy grew by a seasonally adjusted rate of 2.2% in the third quarter compared with the previous quarter. Growth in the second quarter was also reported at 2.2%. The highest Q3 growth rates were reported by Austria (3.8%), France (3.0%) and Portugal (2.9%). No country reported negative growth, with the lowest growth rate being seen in Lithuania (0.0%). The economy appeared on course to return to pre-pandemic growth levels in 2021, however, a flash estimate showed that December's composite purchasing manager's index fell to a nine-month low of 53.4 in December from 55.4 in the previous month as an increase in COVID cases dampened activity later in the quarter. Elevated inflation also remained a concern, with a persistent increase in prices resulting in a record high inflation rate of 4.9% for November. Like the Fed, the ECB announced a similar path to unravelling its economic support and stated that it would stop net bond purchases in March 2022. Regardless, investors remained optimistic, the DJ Euro Stoxx 50 index was up +6.18% in Q4-21 to end the year with a return of +20.99. Meanwhile, GDP in the UK grew by 1.1% in the three months ending September, a notable slowdown from the previous quarter's growth of 5.4%. While consistent household spending helped to maintain growth at positive levels, supply chain bottlenecks and Brexit related trade barriers resulted in a drag on exports and business investment. The FTSE 100 further advanced during the final three months of the year earning +4.21% in Q4-21 and +14.30% for the year.

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Asia Pacific

Chinese stocks continued to lag their developed market counterparts in Q4-21. The Shanghai SE Composite index returned +2.01% for the quarter to end the year up +4.80%. It was a relatively subdued performance for the world's second largest economy which grew by a disappointing 4.9% in the third quarter, below analysts' expectations of 5.2%. The country experienced external and domestic challenges during Q3-21, including an increase in coal prices and electricity shortages which resulted in authorities cutting off power in some places. Tight credit conditions also resulted in a fall in fixed asset investment, particularly real estate investment which is estimated to account for a quarter of the country's GDP. The IMF expects the Chinese economy to grow by 8.1% in 2021 and slow to 4.8% in 2022. Elsewhere in Asia, Japan experienced negative growth in Q3-21 due to an increase in COVID cases and a decline in private consumption. The world's third largest economy shrank by -0.9% over the period or an annualized rate of -3.6%. In November, the Japanese government announced yet another record-breaking stimulus package worth $490 billion or 55.7 trillion yen, contrary to other major economies which have announced plans to withdraw stimulus measures in 2022. The IMF projects that Japan will grow 1.6% for 2021 and 3.3% for 2022. Japanese equities declined during the quarter with the Nikkei 225 falling by -2.24% for an annual performance of +4.91%.

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Emerging Markets

The MSCI Emerging Markets Index fell -1.68% in Q4-21, underperforming the MSCI World Index which gained +7.49%. Annual performance was also negative at -4.59% while the MSCI World increased +20.14%. In addition to country specific challenges, the growth outlook for emerging market (EM) economies remains uncertain due to rising global inflation and expected interest rate hikes by the Fed. In South America, Brazil slipped into a recession in Q3-21 as GDP fell -0.1% following a decline of -0.4% in Q2-21. Brazil experienced a severe drought during the year, which contributed to the country reporting one of the world's highest annual inflation rates of 10.7% as of October 2021. The country's Central Bank continued to increase the benchmark lending rate which stood at 9.25% as of December and is expected to hit double digits in 2022. Unemployment also remains high at 12.0%. As a result, the IMF lowered the 2022 growth outlook for Brazil to 0.8% following an estimated growth of 4.7% in 2021. Meanwhile, South Africa saw a Q3-21 contraction in GDP of -1.5%. In November, the country was the first to report on the highly contagious Omicron variant which led to travel bans around the world. In contrast, India's economy gained momentum in Q3-21 as the country re-opened after months of pandemic related lockdowns. GDP grew 8.4% when compared to Q3-20, however high unemployment of 7.75% as of October 2021 continued to influence consumer spending. India like other EM countries remain at risk to new coronavirus variants as vaccination rates remain relatively low in comparison to developed countries. The IMF estimates growth of 9.0% for 2021 and 2022 for the Indian economy. Overall growth for EM and developing countries including China is projected at 6.5% for 2021, while 2022 growth is forecasted at 4.8%.

"Brazil experienced a severe drought during the year, which contributed to the country reporting one of the world's highest annual inflation rates of 10.7% as of October 2021."

Commodities

In the commodities market, gold futures increased +4.11% in Q4-2021, but this rise was not enough to prevent gold from posting its first annual loss in three years. Despite signficant government stimulus and monetary policy, gold prices did not respond the way many market pundits expected. Silver prices also rose in the last quarter of the year (+5.34%) and like gold silver also closed the year in negative territory. The U.S. dollar strengthened during the fourth quarter but did not have a negative impact on either metal. The intention of the Federal Reserve to end its asset purchases by March will result in higher interest rates and likely cause weakness in precious metal prices during the second quarter of 2022. Meanwhile, copper prices posted a strong quarter, rising +9.16% as economic data continues to show an economic recovery around the world. In the oil market, U.S. WTI crude prices saw another quarter of gains and ended the year with an annual return of +58.94%. The rise in oil prices continue to be a sore point for policymakers as the consistent increases threaten to derail the global economic recovery and increase already elevated levels of inflation. While OPEC members increased production in November inline with expectations, the group does not intend to make any further adjustments to scheduled output given the continued uncertainty surrounding the pandemic. Elsewhere, lumber prices reverted to extreme levels of volatility, rising (+82.93%) as supply chain issues resurfaced in the sector. Prices remain below the previous record high but will continue to be a negative tailwind for housing.

"The rise in oil prices continue to be a sore point for policymakers as the consistent increases threaten to derail the global economic recovery and increase already elevated levels of inflation."

Conclusion

The global economy now finds itself in a weaker position as a result of new coronavirus variants, supply chain challenges and persistently high inflation. While there have been ongoing improvements in the fight against COVID-19 more still need to be done to address access to vaccines and treatments particularly in emerging markets and developing nations. While inflation is likely to normalize, policymakers are tasked with implementing an appropriate response that does not put the global economic recovery more at risk. As the pandemic lingers and other challenges emerge, the global economy will remain in a vulnerable position.

Market Returns Q4-2021

	As at 31 December 2021			
	MTD	QTD	YTD	1 year
Equity Indices *(% local currency)*				
S & P 500	4.36	10.65	26.89	26.89
Dow Jones Industrial Average	5.38	7.37	18.73	18.73
NASDAQ	0.69	8.28	21.39	21.39
S & P TSX	2.72	5.74	21.74	21.74
FTSE 100	4.61	4.21	14.30	14.30
DJ Euro Stoxx 50	5.79	6.18	20.99	20.99
Shanghai SE Composite	2.13	2.01	4.80	6.60
Nikkei 225	3.49	-2.24	4.91	4.91
Ibovespa Brasil	2.85	-5.55	-11.93	-11.93
MSCI Emerging Markets	1.62	-1.68	-4.59	-4.59
MSCI World	4.19	7.49	20.14	20.14
ICE BofA Bond Indices *(% local currency)*				
US Treasuries 0-3 months	0.01	0.02	0.05	0.05
US Treasuries 3-5 years	-0.33	-0.93	-1.96	-1.96
US Treasuries 1-10 years	-0.30	-0.51	-1.65	-1.65
US Corporates	-0.17	0.17	-0.95	-0.95
US High Yield	1.88	0.66	5.36	5.36
UK Gilts 1-10 yrs	-0.74	-0.18	-3.02	-3.02
Canada Government 1-10 yrs	0.54	-0.05	-1.84	-1.84
Euro Government	-1.57	-0.47	-3.41	-3.41
Global High Yield & Emerging Markets	1.76	-0.93	0.72	0.72
Global Broad Market Index	-0.29	-0.80	-5.24	-5.24
Currencies vs. USD				
British Pound	1.75	0.43	-1.01	-1.01
Euro	0.28	-1.81	-6.93	-6.93
Canadian Dollar	-1.11	-0.34	-0.69	-0.69
Japanese Yen	1.69	3.41	11.46	11.46
Australian Dollar	1.91	0.50	-5.60	-5.60
Swiss Franc	-0.65	-2.02	3.13	3.13
Commodities *(% USD)*				
Gold	3.08	4.11	-3.64	-3.64
Silver	2.07	5.13	-11.72	-11.72
Copper	4.29	9.60	26.79	26.79
WTI Crude Oil	14.21	2.20	58.94	58.94
Alternatives *(% USD)*				
HFRX Global Hedge Fund	0.47	0.07	3.65	3.65