Monthly Market Insights

Data and opinions as of March 31, 2022

Inflation, armed conflict, shape policy and interest-rate environment

A more hawkish tone from policymakers was on display in March as major central banks raised interest rates for the first time since the start of the pandemic. Inflation proved more persistent than expected, causing central banks to pivot to a more aggressive policy stance. Inflationary impulses were expected to moderate in the second half of 2022, partly as economies reopened, supply constraints eased, and the job market normalized. This may no longer be the case given the war in Ukraine, its effect on commodity prices, and further supply chain disruptions in China due to COVID-19 lockdowns.

The NEI perspective

Central banks face inflation vs. growth dilemma. Hawkish signals from policymakers continued as many major central banks raised interest rates for the first time since the start of the pandemic. Central banks are caught in a tough situation as they are forced to choose between taming inflation or supporting growth amid a war. For now, central banks have suggested that inflation is more pressing unless growth outlooks deteriorate.

Case for peak inflation now uncertain. Inflationary impulses were initially expected to moderate in the first half of 2022 on normalized economic conditions. This may no longer be the case, considering the war in Ukraine, its effect on commodity prices, and further supply chain disruptions in China due to new COVID-19 lockdowns. Inflation for most developed economies will likely be higher in 2022 than initially expected.

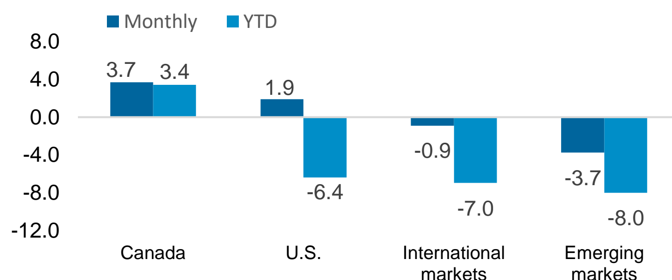
Bonds, stocks end quarter on negative note. The end of March saw bonds and equities post negative returns for the quarter. U.S. bonds had their worst performance in decades as inflation prompted central banks to turn increasingly aggressive. Equities now face pressures due to the uncertainty of war, prices, and rates. Commodities, which are driving inflation, were among the few areas of the market posting positive returns.

From NEI's Monthly Market Monitor for April. Read the full report for more insights.

NEI

Equity

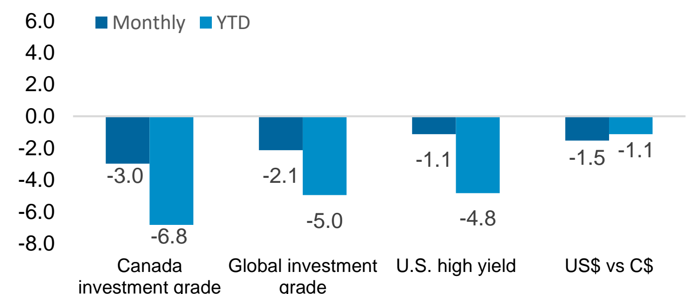
% return in C$



Canada: MSCI Canada; **U.S.:** MSCI USA; **International markets:** MSCI EAFE; **Emerging markets:** MSCI Emerging Markets. Source: Morningstar Direct.

Fixed income and currency

% return in C$



Canada investment grade: Bloomberg Barclays Canada Aggregate; **Global investment grade:** Bloomberg Barclays Global Aggregate; **U.S. high yield:** Bloomberg Barclays U.S. High Yield. Source: Morningstar Direct.

aviso wealth

Putting a possible recession in context

The term "recession" comes up frequently in the headline news during periods of economic and geopolitical uncertainty, and today's climate is no different. The popular definition of a recession is two consecutive quarters of negative GDP results. However, the National Bureau of Economic Research broadly defines a recession as a "significant decline in economic activity spreading across the economy, lasting more than a few months." NEI Investments believes the risks of a U.S. recession in the near term have increased, but a recession this year or next is still not our base case considering that consumer balance sheets are very healthy in the U.S., savings rates are elevated, and higher wages may help cushion against the impact of higher goods and energy prices.

One common, and potentially problematic, assumption about recessions is that major market declines coincide with declines in economic activity. While markets experience bouts of volatility around recessionary periods, the belief that recession news sparks market corrections is not borne out by evidence. When we examine the last 11 recessions in the United States in comparison to the equity benchmark S&P 500 Index, we can see no real case for markets always declining shortly before and during recessions. In aggregate, the declines are fairly moderate. However, what is most important to note is the degree to which stocks bounced back in the months after recessions end. What this means is that investors who leave the market during recessions might only cement their losses, and then miss the sustained growth cycle that usually follows. While each recession presents a different set of difficulties for investors, remaining invested in the portfolio that matches your investor profile has proven to be a sound strategy to ride out market volatility.

How stocks behave before, during, after recessions (as gauged by the S&P 500 Index)

Recession Start	Length (Years)	12 Months Before	6 Months Before	During Recession	6 Months After	12 Months After
31-Jul-53	0.83	-3%	-6%	18%	17%	30%
31-Aug-57	0.67	-5%	5%	-4%	18%	33%
30-Apr-60	0.83	-6%	-5%	17%	7%	10%
31-Dec-69	0.92	-11%	-6%	-5%	14%	8%
30-Nov-73	1.33	-18%	-9%	-13%	1%	23%
31-Jan-80	0.50	14%	10%	7%	6%	8%
31-Jul-81	1.33	8%	1%	6%	-19%	20%
31-Jul-90	0.67	3%	8%	5%	3%	8%
31-Mar-01	0.67	-23%	-19%	-2%	-6%	-18%
31-Dec-07	1.50	4%	-2%	-37%	21%	12%
29-Feb-20	0.17	6%	1%	-1%	12%	44%
Average		-3%	-2%	-1%	7%	16%
Median		-3%	-2%	-1%	7%	12%
% Positive Return Periods		45%	45%	45%	82%	91%

Source: Bloomberg.

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