NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

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# 2022 - FINANCIAL MARKETS REVIEW

**<u>FIXED INCOME</u>** (historical average returns of 2% to 4%)

**BONDS: 2022 return <u>below</u> historical average** – Rapid inflation has forced central banks to raise interest rates in an effort to cool the economy. Interest rate hikes have a significant effect on bonds. Because bond prices and interest rates move in opposite directions, central bank movements have eroded the value of bond portfolios. Overall, 2022 is actually the worst year in history for Canadian bonds (-11.5%). This loss is in addition to the decline observed in 2021 (-2.7%), marking the first time that the Canadian bond universe has recorded two consecutive annual declines.
TMX Universe Bond Index 2022 return: -11.5%.

**<u>EQUITIES</u>** (historic average returns of 7% to 9%)

**CANADA: 2022 return <u>below</u> historical average** – Canadian equities ended the year lower but performed better than most developed equity markets. The economy benefited from strong export demand, while consumption declined. At the sectoral level, health care, information technology and real estate performed the worst. However, gains in the energy sector contrasted with the decline in Canadian equities as a whole as higher oil prices supported earnings in this sector.
S&P/TSX Composite Index 2022 return: with dividend -5.8% / ex-dividend -8.7%.

**UNITED-STATES: 2022 return <u>below</u> historical average** Higher cost of capital (in the form of higher interest rates) hurt U.S. equities during the year. Valuations have corrected sharply, and earnings growth forecasts have been revised downwards. Major tech companies like Meta Platforms (Facebook), Amazon, Netflix and Alphabet (Google) have seen their prices fall significantly. Investors were concerned not only about high prices (these same stocks outperformed in 2021), but also about earnings prospects because rising inflation could further erode consumers' purchasing power. The U.S. dollar has been rising sharply for much of 2022 due to the Fed's aggressive interest rate hikes.
S&P 500 2022 return (US$): -18.1%.

**INTERNATIONAL: 2022 return <u>below</u> historical average** – European equities have been hit hard by the ongoing conflict between Russia and Ukraine and China's zero-Covid policy. This caused a commodity supply shock, which sent inflation soaring to a multi-decade high. European and emerging market equities all posted their worst annual performance since 2008.
MSCI ACWI Global 2022 return (US$): -18.0%.

**ALTERNATIVE INVESTMENTS:** Real estate securities have come under pressure because rising interest rates are negatively impacting housing demand. While gold provided a safe haven from painful stock market losses, it disappointed investors who expected the metal to live up to its reputation as a hedge against inflation.
Dynamic Infrastructure 2022 return: -1.8%. Dynamic REIT: -20.5%. Gold: -0.6%.

**In summary, 2022 was a very difficult year for investors. If your portfolio suffered losses in 2022, you're not alone. There were few places where investors could hide. In addition to stocks that spent most of the year in a bear market, many parts of the bond market recorded their biggest losses in history, meaning fixed income fell short of their traditional role of providing a cushion to weather the decline in equities. Market corrections have traditionally provided attractive buying opportunities for investors who hold cash. For 2023, central banks will begin the most difficult part of their fight against inflation: assessing when they will have to stop – or even reverse – their rate hike cycle to ensure a definitive victory against inflation.**