

Monthly Market Insights

Data and opinions as of May 31, 2022



“Four headwinds” may be shifting

There's little doubt that 2022 has been challenging for investors. The “four headwinds” of market volatility—inflation, central banks tightening monetary policy, the war in Ukraine, and the pandemic—have applied extreme pressures on investors. There are a few recent developments that suggest we may be nearing an inflection point, however. The stock market selloff in May pushed valuations and sentiment indicators to attractive levels, and some sentiment and technical indicators are at levels typical of stock market bottoms, a good sign for a potential rebound.

The NEI perspective

Stocks stage late-May relief rally, muted returns for the month. After consecutive weeks of declines, the S&P 500 Index, Nasdaq Composite, and global equity markets experienced a moderate relief rally in the final week of May. That week, the technology-heavy NASDAQ rallied 7.3% off lows due to the strong performance of large-cap technology stocks. The S&P 500 Index closed the month up 0.72%, while the Nasdaq was fairly flat.

The BoC hikes by 50 bps, prepares to act “forcefully” if needed. On June 1, the Bank of Canada increased the overnight interest rate by 50 basis points, adopting a more forceful, hawkish tone toward moderating inflation. This moved yields upward, especially on the shorter end of the curve. Questions remain as to whether the BoC could hike rates to more restrictive levels or make other policy changes if inflation pressures continue.

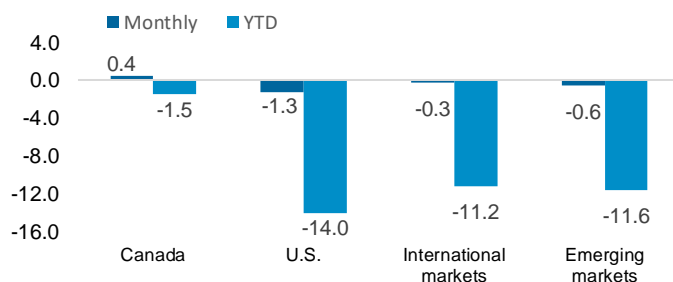
As economies combat inflation, world growth in question. Global growth is expected to moderate as central banks tighten monetary policy, as economies continue to deal with inflation pressures. The IMF projects healthy growth rates in Canada (3.9%) and the U.S. (3.7%) relative to Europe (2.8%). However, some analysts believe tightening monetary policy could tip the world into a recession.

From NEI's Monthly Market Monitor for June. [Read the full report](#) for more insights.

NEI

Equity

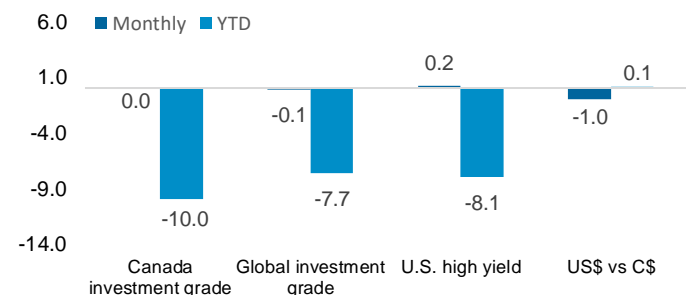
% return in C\$



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.

Staying invested is about time in the market, not timing the market

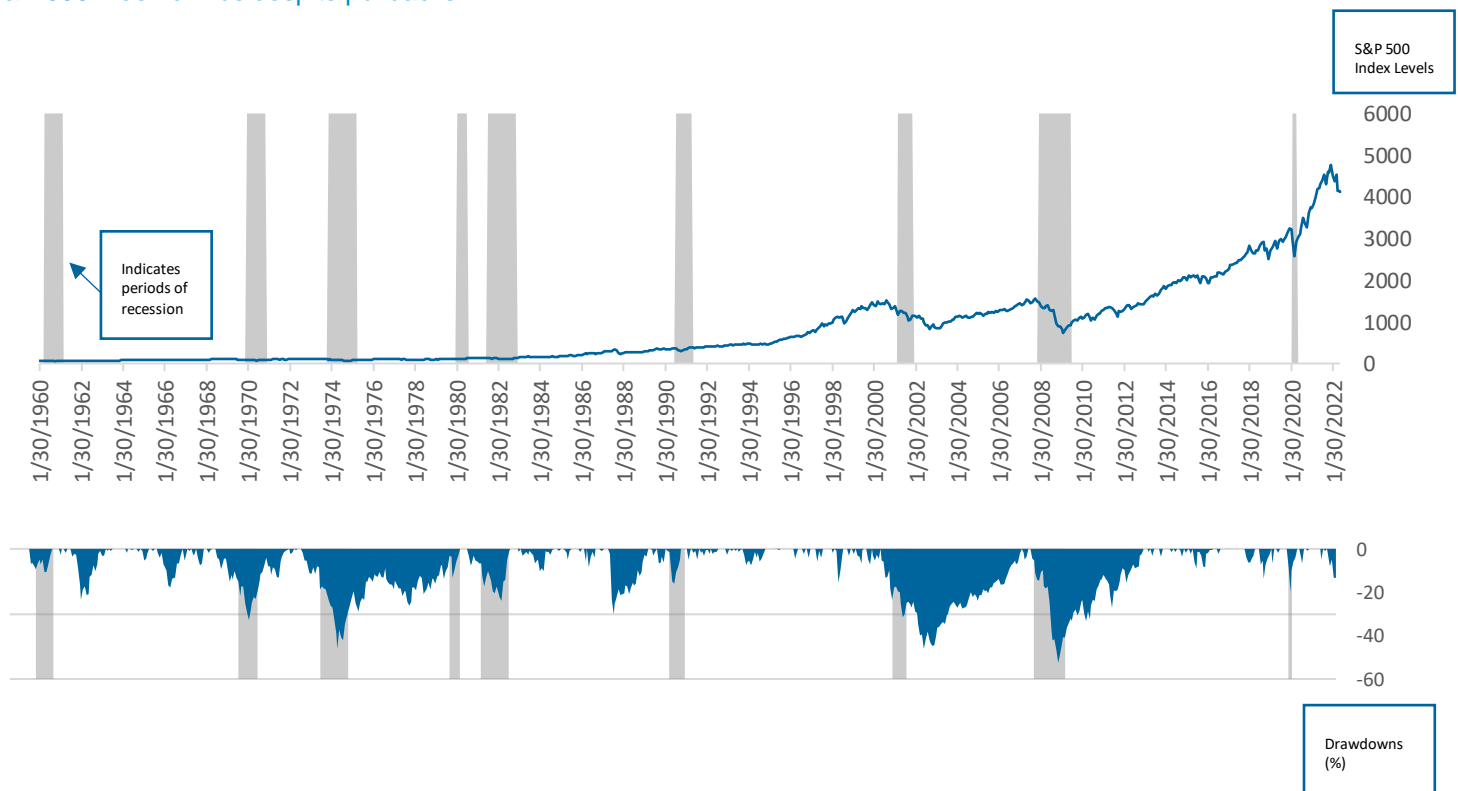
The technical definition of a bear market is a drawdown of at least 20% in a stock market index from its most recent high. The S&P 500 Index briefly entered bear market territory on May 20, 2022, before reversing course. The Nasdaq Index also entered bear market territory in recent months. Of note, while bear markets are synonymous with strongly negative sentiment around equities, it is not uncommon for the market to see significant drawdowns on its way toward generating longer-term gains.

Analyzing the history of the U.S. stock market, we see four major market bottoms prior to March 2020—1932 (Great Depression), 1974 (energy crisis), 2003 (dotcom bubble), and 2009 (Global Financial Crisis)—that resulted in protracted bear markets. On the journey toward these troughs from the prior market peak, in each case there were at least three rallies of 10% magnitude. The four bear markets leading to these market bottoms cumulatively saw 18 rallies of over 10%. In short, bear markets rallies tend to be a feature, not a defect, of equity investing.

An additional salient point is that some of the best days in equities tend to come during periods of elevated volatility, and when broader sentiment is negative. For example, in the history of the S&P 500 Index, 19 out of the 20 largest daily gains have come around bear market periods (1929–1933, 1987, 2008, 2020). Notably, these outlier days tend to cluster together and occur during periods of elevated volatility.

The key lesson from this is an old adage, that long-term investors benefit from “time in the market, and not from timing the market.” A desire to avoid the worst days also comes with missing out on the best days. Missing out on the best days in turn significantly reduces long-term returns for investors. Expecting multiple market rallies as a typical feature of bear markets and staying invested throughout the process sets up investors for considerable potential for long-term investment success. The chart below illustrates the growth over time of equity market returns, despite multiple market pullbacks.

S&P 500 Index climbs despite pullbacks



Aviso Wealth Inc. ("Aviso Wealth") is the parent company of Credential Qtrade Securities Inc. ("CQSI"), Credential Asset Management ("CAM"), Qtrade Asset Management ("QAM") and Northwest & Ethical Investments L.P. ("NEI"). NEI Investments is a registered trademark of NEI. Any use by CQSI, CAM, QAM or NEI of an Aviso Wealth trade name or trademark is made with the consent and/or license of Aviso Wealth. Aviso Wealth is a wholly-owned subsidiary of Aviso Wealth Limited Partnership, which in turn is owned 50% by Desjardins Financial Holdings Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and the CUMIS Group Limited.

This material is for informational and educational purposes and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. This document is published by CQSI, CAM and QAM and unless indicated otherwise, all views expressed in this document are those of CQSI, CAM and QAM. The views expressed herein are subject to change without notice as markets change over time. Views expressed regarding a particular industry or market sector should not be considered an indication of trading intent of any funds managed by NEI Investments. Forward-looking statements are not guaranteed of future performance and risks and uncertainties often cause actual results to differ materially from forward-looking information or expectations. Do not place undue reliance on forward-looking information. Mutual funds are offered through Credential Asset Management Inc. Mutual funds and other securities are offered through Credential Qtrade Securities Inc. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise stated, mutual fund securities and cash balances are not insured nor guaranteed, their values change frequently and past performance may not be repeated.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to computing, computing or creating any MCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.