

# WEEKLY COMMENTARY

## Equity Selloff: What Inning Is It?

By Jimmy Jean, Vice-President, Chief Economist and Strategist

This is probably one of the most chaotic economic and financial environments we've ever seen. But high volatility can make for attractive market opportunities—if you can stomach the swings. Some investors have begun asking whether it's time to pivot to stocks. Right now, the forward price-to-earnings ratio is at about 18, which is still above its 40-year average of 15.5. Since hitting an all-time high in September 2020, however, the S&P 500's forward price-to-earnings ratio is two-thirds of the way back to its long-term average. If the recent selloff continues, equities could soon look pretty cheap.

But timing the market is a gamble, even in normal circumstances. And it's even worse these days when everyone is talking about stagflation.

Our outlook for the rest of the year calls for slowing but positive growth and uncomfortably high inflation. When inflation is largely the result of strong demand, corporate sales and earnings are usually also strong. Markets in turn get bullish on prospects and equities thrive. But if inflation is due to surging prices for energy, labour and other inputs, earnings get squeezed unless firms can boost productivity or pass on higher costs to consumers. However, they can only sustainably pass on costs if disposable income keeps up with inflation. And right now it isn't, as we discussed in a recent [Economic Viewpoint](#).

Meanwhile the Fed needs to keep tightening. Its policy is still too accommodative and its credibility is on the line.

All in all, it appears we may be on the road to stagflation, which is one of the worst scenarios for equities.

What could stop the market madness? Reassuring inflation signals. This week's US CPI report confirmed that inflation peaked in March, but it also showed core inflation picking up more than expected in April. So long as the disinflation outlook

remains blurry, it will be difficult to make a solid case that investors should overweight equities.

"Don't fight the Fed" used to mean that trying to short bonds was futile. Now it means being long on risk assets is foolhardy. Chair Powell kept the door shut to a 75-basis-point hike this week. In our view, it's too soon to provide dovish forward guidance. Even former New York Fed President Bill Dudley suggested his former colleagues lift rates to at least the 4% to 5% range and stop sugarcoating their messaging. Our baseline assumption remains that the Fed will move by 50 basis points at its June 15 meeting. However, the May inflation report will be released less than a week before. If inflation comes in stickier than expected, all bets are off.

So where does that leave investors looking to time the bottom of the market and hit it out of the park? Let's just say it's too early in the game.

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## Week in Review

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Francis Généreux, Senior Economist, and Hendrix Vachon, Senior Economist

- ▶ **Several stock indexes posted further losses this week.** Bond yields also remained very volatile. US and Canadian 10-year yields started the week around 3.20%, then lost nearly 30 points before finally bouncing back a bit on Friday. Oil prices were held back by global demand fears, but supply fears rebounded later in the week. The cryptocurrency market suffered significant losses this week. Stablecoins have ultimately proven to be very unstable in times of financial volatility. The good news is that these losses have very little impact on other financial and economic sectors.
- ▶ **For the first time since last August, US total CPI grew at a slower annual pace.** It increased 8.3% for the 12 months ending in April compared to 8.5% for the year ending in March. Core CPI rose 6.2% over the last 12 months compared with 6.5% in March. Inflation did slow as expected in April, but prices continued to climb. Both total CPI (+0.3%) and core CPI (+0.6%) rose last month. The difference is that yearly price increases are now being measured against high price readings from spring of last year. Though inflation is down slightly, it's likely to remain elevated for some time to come, much to the Federal Reserve's dismay.
- ▶ **Other price indexes also showed a lull in the United States.** The Producer Price Index rose 0.5% in April after gaining 1.6% in March. It was up 11.5% in the 12 months ending in March and 11.0% in the year ending in April. The Export Price Index rose 4.1% in March and 0.6% in April, while the Import Price Index was unchanged in April after a 2.9% advance in March. These dips largely reflect the decline in oil prices over the past month.
- ▶ According to preliminary data, **the University of Michigan's US consumer confidence index fell to 59.1 in May** from 65.2 in April. Both the current conditions and household expectations components pulled the index lower, likely reflecting higher gas prices and market turmoil.
- ▶ **The US federal government budget balance improved significantly in April**, posting a monthly surplus of +US\$308B. In April 2021, it recorded a loss of US\$206B. The 12-month deficit was US\$1,204B in April, the "smallest" since the start of the pandemic.

# What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics,  
Tiago Figueiredo, Associate – Macro Strategy, and Francis Généreux, Senior Economist

TUESDAY May 17 - 8:30

<b>April</b>	<b>m/m</b>
Consensus	0.9%
Desjardins	1.1%
<b>March</b>	<b>0.5%</b>

TUESDAY May 17 - 9:15

<b>April</b>	<b>m/m</b>
Consensus	0.4%
Desjardins	0.5%
<b>March</b>	<b>0.9%</b>

WEDNESDAY May 18 - 8:30

<b>April</b>	<b>ann. rate</b>
Consensus	1,765,000
Desjardins	1,800,000
<b>March</b>	<b>1,793,000</b>

THURSDAY May 19 - 10:00

<b>April</b>	<b>ann. rate</b>
Consensus	5,650,000
Desjardins	5,580,000
<b>March</b>	<b>5,770,000</b>

THURSDAY May 19 - 10:00

<b>April</b>	<b>m/m</b>
Consensus	0.0%
Desjardins	0.1%
<b>March</b>	<b>0.3%</b>

MONDAY May 16 - 8:15

<b>April</b>	<b>ann. rate</b>
Consensus	247,400
Desjardins	241,500
<b>March</b>	<b>246,200</b>

## UNITED STATES

**Retail sales (April)** – Retail sales had a strong start to 2021, with automotive-driven gains of 2.7% in January and a February increase of 1.7%. But growth slowed somewhat in March, edging up 0.7% on lower automobile sales. They seem to have turned around in April, however, as the number of new cars sold climbed 6.6%. Preliminary data from card transactions shows solid sales growth for other durable goods as well, including furniture and electronics. Gains are also expected in clothing and food services. However, we anticipate a sharp decline in gas station receipts, as lower average gasoline prices in April likely pushed sales lower. All in all, retail sales should post a gain of 1.1%.

**Industrial production (May)** – Total industrial production rose 0.9% in March, largely thanks to a 7.8% jump in the automotive sector. However, we anticipate that this sector will be flat in April based on hours worked during the month. The mining sector is also likely to stagnate. Manufacturing output excluding the automotive sector is expected to grow by a modest 0.4%, in line with the recent trend in the production component of the Manufacturing PMI. However, energy generation is projected to spike due to above-average temperatures in the southern United States, which drove up demand for air conditioning. Overall, we expect industrial production to increase 0.5% and manufacturing to rise 0.4%.

**Housing starts (April)** – After a solid 6.5% gain in February, housing starts were up by a more modest 0.3% in March. We’re anticipating a third consecutive month of growth in April. The number of building permits issued in March remained extremely high at 1,870,000 and suggests that new construction will rise further in the short term, although not by much. The 3,500 jobs added in the residential construction sector is a rather weak—albeit positive—figure. Sales of new homes have also fallen this year. All told, we expect housing starts to hit 1,800,000 units. We may see declines later in the year as higher mortgage rates increasingly temper demand for homes.

**Existing home sales (April)** – For the first time in a year, sales of existing homes dropped for the second straight month, falling 8.6% in February and 2.7% in March. Based on the drop in pending home sales, we may see this short-lived downturn continue in April. Mortgage applications for home purchases are also down. Some regional data is showing the resale market contracting too. We think sales of existing homes will drop to 5,580,000 units, the lowest level since June 2020.

**Leading indicator (April)** – After falling 0.4% in January and rebounding 0.7% in February, the leading indicator rose 0.3% in March. We’re forecasting a 0.1% gain in April. Consumer confidence will be the main drag on the indicator, while the interest rate spread is expected to be the biggest contributor.

## CANADA

**Housing starts (April)** – Data are expected to show another pullback in housing starts in April along with a general cooling in the housing market on higher interest rates. Seasonally-adjusted building permits issued have been coming down from their Q4 2021 high, a harbinger of lower housing starts in April and beyond. While this continues the downward trend from the peak reached in the first half of 2021, housing starts remain well above their pre-COVID range of around 200,000 to 220,000 per month.

**MONDAY May 16 - 8:30**

<b>March</b>	<b>m/m</b>
Consensus	2.0%
Desjardins	2.7%
<b>February</b>	<b>4.2%</b>

**MONDAY May 16 - 8:30**

<b>March</b>	<b>m/m</b>
Consensus	-0.2%
Desjardins	-0.3%
<b>February</b>	<b>-0.4%</b>

**MONDAY May 16 - 9:00**

<b>April</b>	<b>m/m</b>
Consensus	n/a
Desjardins	-23.0%
<b>March</b>	<b>-5.4%</b>

**WEDNESDAY May 18 - 8:30**

<b>April</b>	<b>m/m</b>
Consensus	0.5%
Desjardins	0.3%
<b>March</b>	<b>1.4%</b>

**SUNDAY May 15 - 22:00**

<b>April</b>	<b>y/y</b>
Consensus	-6.6%
<b>March</b>	<b>-3.5%</b>

**TUESDAY May 17 - 19:50**

<b>Q1 2022</b>	<b>q/q</b>
Consensus	-0.4%
<b>Q4 2021</b>	<b>1.1%</b>

**FRIDAY May 20 - 10:00**

<b>May</b>	
Consensus	-21.5
<b>April</b>	<b>-22.0</b>

**Manufacturing sales (March)** – Manufacturing sales continued to advance in March, with increases expected in both volumes of shipments as well as prices. On a seasonally-adjusted basis, motor vehicle production has been steadily picking up every month since September, with March seeing another meaningful move. At the same time, cross-border trade in manufactured goods generally moved higher in the month as well, most notably in motor vehicles. Manufacturing employment has also been on a steady rise, further supporting the positive outlook for March manufacturing sales.

**Wholesale trade (March)** – With restaurants, bars, sports arenas and music venues all back in business following the latest round of lockdowns in January, March wholesale trade is expected to soften again for a second consecutive month as Canadians preferred socializing over shopping. Lower volumes are expected to drive the decline, with prices tracking higher as they have elsewhere. That said, wholesale trade remains near record levels, as do wholesale inventories.

**Existing home sales (April)** – The precipitous drop in Canadian existing home sales in April came as a surprise, with housing market activity responding more quickly than expected to the recent increase in interest rates. According to regional real estate boards, sales in major urban centers from Quebec to British Columbia took a big step back in the month. The monthly drop in sales varied across Canadian cities and regions, from the high single digits in Quebec to north of 20% m/m in places like Toronto.

**Consumer price index (April)** – Inflation seems to have crested, but that doesn't mean Canadians can rest easy. Headline year-over-year price growth is forecast to have decelerated in April from its March peak. Some will say that's a sign price pressures are easing. However, excluding volatile items such as food and energy, momentum remained strong. New global supply chain disruptions and the ongoing domestic reopening saw firms passing on higher costs to consumers. Moreover, gasoline prices in Canada have surged even higher in May, with oil prices rising and the Canadian dollar not providing an offset. The latest trends in consumer prices indicate that inflation will come in miles above the Bank of Canada's latest forecasts. So despite the headline pace slowing in April, the central bank will continue to expeditiously tighten monetary policy into the summer.

**OVERSEAS**


**China: Retail sales (April)** – Lockdowns in China under the country's strict zero-COVID policy have become more widespread in recent months and impacted several major cities. This is clearly affecting the Chinese economy, though more in terms of consumption than production for the moment. Retail sales were down 3.5% year-on-year in March. April's data will tell us whether the situation has deteriorated further. If it has, Chinese real GDP may fall into the red in the second quarter of 2022.


**Japan: Real GDP (Q1)** – Japan's economic recovery has been rocky since the first wave of the pandemic. However, real GDP growth was fairly strong in late 2021, with a non-annualized gain of 1.1% in the fourth quarter. Unfortunately, the consensus forecast calls for very weak real GDP growth—perhaps even a decline—in early 2022 as the Omicron variant took a toll on the economy.

**Euro zone: Consumer confidence (May – preliminary)** – European consumer sentiment has clearly been dampened by the war in Ukraine and exacerbated by soaring energy prices. The European Commission's consumer confidence indicator plummeted in March, then dropped even further in April to its lowest level since April 2020. It'll be interesting to see if May's flash indicator shows any sign of improvement.

# Economic Indicators

## Week of May 16 to 20, 2022

Day	Hour	Indicator	Period	Consensus		Previous data
<b>UNITED STATES</b>						
<b>MONDAY 16</b>	8:30	Empire manufacturing index	May	15.0	20.0	24.6
	8:55	Speech of the Federal Reserve Bank of New York President, J. Williams				
	16:00	Net foreign security purchases (US\$B)	March	n/a	n/a	141.7
<b>TUESDAY 17</b>	8:00	Speech of the Federal Reserve Bank of St. Louis President, J. Bullard				
	8:30	Retail sales				
		Total (m/m)	April	0.9%	1.1%	0.5%
		Excluding automobiles (m/m)	April	0.3%	0.4%	1.1%
	9:15	Industrial production (m/m)	April	0.4%	0.5%	0.9%
	9:15	Production capacity utilization rates	April	78.5%	78.7%	78.3%
	9:15	Speech of the Federal Reserve Bank of Philadelphia President, P. Harker				
	10:00	NAHB housing market index	May	75	n/a	77
	10:00	Business inventories (m/m)	March	1.9%	1.9%	1.5%
	14:00	Speech of the Federal Reserve Chair, J. Powell				
14:30	Speech of the Federal Reserve Bank of Cleveland President, L. Mester					
18:45	Speech of the Federal Reserve Bank of Chicago President, C. Evans					
<b>WEDNESDAY 18</b>	8:30	Housing starts (ann. rate)	April	1,765,000	1,800,000	1,793,000
	8:30	Building permits (ann. rate)	April	1,820,000	1,830,000	1,873,000
	16:00	Speech of the Federal Reserve Bank of Philadelphia President, P. Harker				
<b>THURSDAY 19</b>	8:30	Initial unemployment claims	May 9-13	200,000	200,000	203,000
	8:30	Philadelphia Fed index	May	17.0	20.0	17.6
	10:00	Existing home sales (ann. rate)	April	5,650,000	5,580,000	5,770,000
	10:00	Leading indicator (m/m)	April	0.0%	0.1%	0.3%
<b>FRIDAY 20</b>	---	---				
<b>CANADA</b>						
<b>MONDAY 16</b>	8:15	Housing starts (ann. rate)	April	247,400	241,500	246,200
	8:30	Manufacturing sales (m/m)	March	2.0%	2.7%	4.2%
	8:30	Wholesale sales (m/m)	March	-0.2%	-0.3%	-0.4%
	9:00	Existing home sales (m/m)	April	n/a	-23.0%	-5.4%
<b>TUESDAY 17</b>	8:30	International transactions in securities (\$B)	March	n/a	n/a	7.44
<b>WEDNESDAY 18</b>	8:30	Consumer price index				
		Total (m/m)	April	0.5%	0.4%	1.4%
		Total (y/y)	April	6.7%	6.6%	6.7%
<b>THURSDAY 19</b>	8:30	Industrial product price index (m/m)	April	n/a	-0.1%	4.0%
	8:30	Raw materials price index (m/m)	April	n/a	-1.5%	11.8%
<b>FRIDAY 20</b>	---	---				

Note: Desjardins, Economic Studies are involved every week in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are Eastern Standard Time (GMT - 4 hours).  Forecast of Desjardins, Economic Studies of the Desjardins Group.

# Economic Indicators

## Week of May 16 to 20, 2022

Country	Hour	Indicator	Period	Consensus		Previous data		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
<b>OVERSEAS</b>								
<b>SUNDAY 15</b>								
Japan	19:50	Producer price index	April	0.8%	9.4%	0.8%	9.5%	
China	22:00	Industrial production	April		0.5%		5.0%	
China	22:00	Retail sales	April		-6.6%		-3.5%	
<b>MONDAY 16</b>								
Euro zone	5:00	Trade balance (€B)	March	-17.8		-9.4		
<b>TUESDAY 17</b>								
Japan	0:30	Tertiary industry activity index	March	1.1%		-1.3%		
France	1:30	ILO unemployment rate	Q1	7.4%		7.4%		
United Kingdom	2:00	ILO unemployment rate	March	3.8%		3.8%		
Italy	4:00	Trade balance (€M)	March	n/a		-1,662		
Euro zone	5:00	Net change in employment – preliminary	Q1	n/a	n/a	0.5%	2.2%	
Euro zone	5:00	Real GDP – preliminary	Q1	0.2%	5.0%	0.2%	5.0%	
Japan	19:50	Real GDP – preliminary	Q1	-0.4%		1.1%		
<b>WEDNESDAY 18</b>								
Japan	0:30	Industrial production – final	March	n/a	n/a	0.3%	-1.7%	
United Kingdom	2:00	Consumer price index	April	2.6%	9.1%	1.1%	7.0%	
United Kingdom	2:00	Producer price index	April	1.0%	12.5%	2.0%	1.9%	
Euro zone	5:00	Consumer price index – final	April	0.6%	7.5%	0.6%	7.4%	
Japan	19:50	Trade balance (¥B)	April	-1,520.9		-899.8		
<b>THURSDAY 19</b>								
Euro zone	4:00	Current account (€B)	March	n/a		20.8		
Italy	4:30	Current account (€M)	March	n/a		-1,517		
Euro zone	5:00	Construction	March	n/a	n/a	1.9%	9.4%	
United Kingdom	19:01	Consumer confidence	May	-39		-38		
Japan	19:30	Consumer price index	April		2.5%		1.2%	
<b>FRIDAY 20</b>								
United Kingdom	2:00	Retail sales	April	-0.3%	-7.2%	-1.4%	0.9%	
Germany	2:00	Producer price index	April	1.2%	31.3%	4.9%	30.9%	
Euro zone	10:00	Consumer confidence – preliminary	May	-21.5		-22.0		

Note: In contrast to the situation in Canada and the United States, disclosure of overseas economic figures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are Eastern Standard Time (GMT - 4 hours).