

The Weekly Bottom Line

February 25, 2022

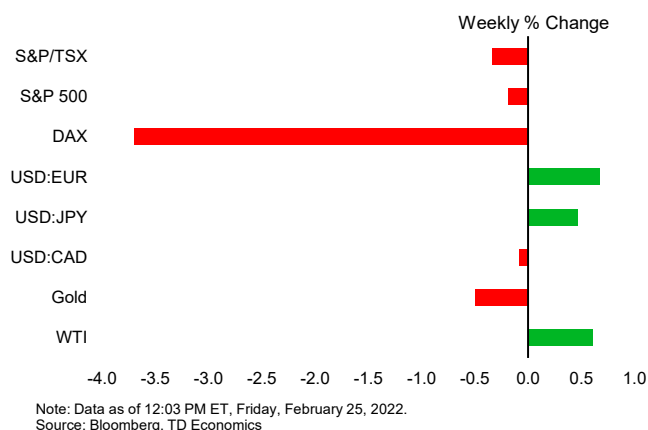
Highlights

- The Russian invasion of Ukraine shook markets this week with the S&P 500 entering correction territory before making gains Friday. Given Russia's role as a key global energy producer, market concerns about supplies have driven prices for oil and natural gas higher.
- For the U.S., the most immediate impact will come from higher oil prices, which will keep inflation elevated and weigh on growth. The impact will depend on how long the conflict lasts.
- Barring severe market disruption, we still expect the Fed to hike rates in March. The core PCE deflator reached 5.2% year-on-year in January, underscoring that the Fed is behind the curve on inflation and can't wait for the perfect time to hike.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4347	4349	4797	3768
S&P/TSX Comp.	20948	21008	21769	18060
DAX	14493	15043	16272	13786
FTSE 100	7481	7514	7672	6483
Nikkei	26477	27122	30670	25971
Fixed Income Yields				
U.S. 10-yr Treasury	1.97	1.93	2.04	1.17
Canada 10-yr Bond	1.92	1.88	1.98	1.12
Germany 10-yr Bund	0.22	0.19	0.31	-0.50
UK 10-yr Gilt	1.45	1.38	1.59	0.51
Japan 10-yr Bond	0.21	0.22	0.23	0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.79	0.78	0.83	0.77
Euro (USD per EUR)	1.13	1.13	1.23	1.11
Pound (USD per GBP)	1.34	1.36	1.42	1.32
Yen (JPY per USD)	115.5	115.0	116.2	106.2
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	92.5	91.1	95.5	57.7
Natural Gas (\$US/MMBtu)	4.78	4.59	6.52	2.39
Copper (\$US/met. tonne)	9918.5	10010.0	11299.5	8770.3
Gold (\$US/troy oz.)	1887.5	1898.4	1909.0	1683.5

*As of 11:00 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

War in Ukraine Sinks European Equities



Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	0.00 - 0.25%
Bank of Canada (Overnight Rate)	0.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.50%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts

	Current Rate	2021				2022				2023			
	2/25/22	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.00
2-yr Govt. Bond Yield	1.59	0.16	0.25	0.28	0.73	1.10	1.55	1.70	1.80	1.90	1.95	1.95	1.95
10-yr Govt. Bond Yield	1.97	1.74	1.45	1.52	1.52	2.00	2.15	2.25	2.30	2.40	2.40	2.35	2.30
30-yr Govt. Bond Yield	2.27	2.41	2.06	2.08	1.90	2.30	2.45	2.55	2.60	2.70	2.70	2.65	2.60

Forecast by TD Economics as of January 2022; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

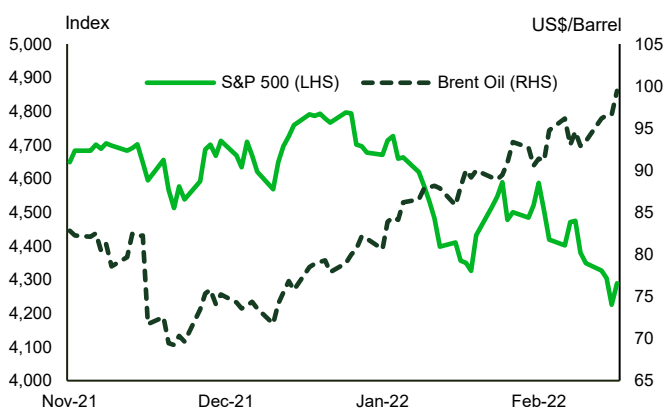
Russian Invasion Shakes Markets

Regrettably, Russia made risk reality this week, launching an all-out invasion of Ukraine. The threat of Russian military aggression had been souring market sentiment for several weeks now, and the invasion worsened declines in equity markets and sent energy prices higher (Chart 1). The S&P 500 entered correction territory this week, relative to its early January highs, and was down 0.2% at time of writing versus a week ago. With Russia's role as a key global energy supplier, worries about energy supply have driven prices for oil and natural gas higher. The Brent crude benchmark crossed the \$100 per barrel threshold for the first time since 2014.

Market selloffs at the outset of wars have historically been short and reversed quickly. That said, there is still likely to be an economic toll on global growth from the conflict, with Europe likely to take the biggest hit. The outcome depends on how long the conflict goes on, and market reaction. We outlined some potential scenarios in our recent report [Questions? We've Got Answers](#).

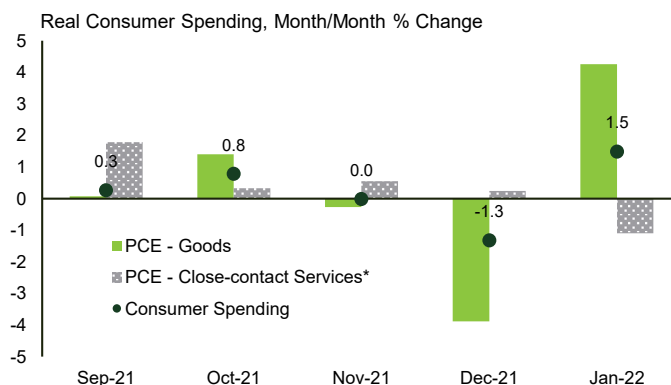
For the U.S., the most immediate impact will come from higher oil prices. These will keep inflation elevated and weigh on purchasing power longer than previously expected. We expect prices to ease as the conflict does, but how long it lasts is highly uncertain. The West Texas Intermediate oil price is around \$92 per barrel at time of writing, up over 20% from the start of the year. If it were to remain above \$90 per barrel for the remainder of the year, it would shave a few tenths off of real GDP growth in 2022. We are currently tracking real GDP to grow of 2.8% in 2022 (Q4/Q4), so a slightly softer pace would still be a solid pace for growth.

Chart 1: Russian Invasion Drives Equity Correction



Source: FT, WSJ, TD Economics. Last observation: February 24, 2022.

Chart 2: Omicron Weighs on Close-contact Services, While Goods Rebound



*Includes transportation, recreation, accommodation and food services.
Source: BEA/Haver Analytics, TD Economics.

The conflict in Europe comes just three weeks ahead of what is widely expected to be the Federal Reserve's first interest rate hike. The war is unlikely to prevent the Fed from taking its policy rate off the floor. At 0.5%, the federal funds rate will remain highly stimulative. The Fed is behind the curve on inflation and can no longer wait for the perfect moment to begin normalizing policy.

On that front, the core personal consumption expenditure (PCE) deflator – the Fed's preferred indicator – was up 5.2% in January, the fastest rate in nearly 40 years. While a bit lower than the 6% increase in the core CPI, it is still a lot higher than the Fed would like. Monetary policy works with a lag and rate hikes this year will not do much to reduce inflation until next year. In the meantime, a lot has to go right to slow inflation's roll. This increases the urgency to raise rates now or risk unmooring expectations and having to hurt the economy more later in order to rein them back in.

One piece of good news this week was a solid rebound in consumer spending in January (Chart 2). The rebound was driven by durable goods, led by spending on vehicles. Spending on close contact services weakened, showing the impact of consumer caution as Covid cases rose. We expect these categories to rebound in February and March, with the high-frequency data already showing that consumers are returning to restaurants and air travel.

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Recent Key Economic Indicators: Feb 21 - 25, 2022					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 22	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	18.8	18.8
Feb 22	Markit US Manufacturing PMI	Feb	Index	57.5	55.5
Feb 22	Markit US Services PMI	Feb	Index	56.7	51.2
Feb 22	Conf. Board Consumer Confidence	Feb	Index	110.5	111.1
Feb 24	Core Personal Consumption Expenditure	4Q	Q/Q % Chg.	5.0	4.9
Feb 24	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	7.0	6.9
Feb 24	Initial Jobless Claims	Feb 19	Thsd	232.0	249.0
Feb 24	Personal Consumption	4Q	Q/Q % Chg.	3.1	3.3
Feb 24	New Home Sales	Jan	Thsd	801.0	839.0
Feb 25	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	0.9	0.4
Feb 25	Durable Goods Orders	Jan	M/M % Chg.	1.6	1.2
Feb 25	Personal Consumption Expenditure Deflator	Jan	Y/Y % Chg.	6.1	5.8
Feb 25	Personal Income	Jan	M/M % Chg.	0.0	0.4
Feb 25	Real Personal Spending	Jan	M/M % Chg.	1.5	-1.3
Feb 25	Pending Home Sales	Jan	M/M % Chg.	-5.7	-2.3
Canada					
Feb 24	CFIB Business Barometer	Feb	Index	62.5	54.3
International					
Feb 21	EZ Markit Eurozone Manufacturing PMI	Feb	Index	58.4	58.7
Feb 21	UK Markit UK PMI Manufacturing SA	Feb	Index	57.3	57.3
Feb 23	EZ Consumer Price Index	Jan	Y/Y % Chg.	5.1	5.0
Feb 24	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	1.0	0.6
Feb 25	MX Gross Domestic Product NSA	4Q	Y/Y % Chg.	1.1	1.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Feb 28 - Mar 4, 2022						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 28	8:30	Advance Goods Trade Balance	Jan	Blns	-99.0	-100.5
Feb 28	10:30	<i>Fed's Bostic Discusses the Economy</i>				
Mar 1	9:45	Markit US Manufacturing PMI	Feb	Index	-	57.5
Mar 1	10:00	ISM Manufacturing	Feb	Index	58.1	57.6
Mar 1	14:00	<i>Fed's Bostic Discusses Survey of Business Uncertainty</i>				
Mar 1		Wards Total Vehicle Sales	Feb	Mlns	14.5	15.0
Mar 2	8:15	ADP Employment Change	Feb	Thsd	323.0	-301.0
Mar 2	9:00	<i>Fed's Evans Discusses Economy and Monetary Policy</i>				
Mar 2	9:30	<i>Fed's Bullard Discusses the Economic Outlook</i>				
Mar 2	14:00	<i>U.S. Federal Reserve Releases Beige Book</i>				
Mar 3	8:30	Initial Jobless Claims	Feb 26	Thsd	230.0	232.0
Mar 3	8:30	Unit Labor Costs	4Q	Q/Q % Chg.	0.3	0.3
Mar 3	9:45	Markit US Services PMI	Feb	Index	-	56.7
Mar 3	10:00	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	-	0.9
Mar 3	10:00	Durable Goods Orders	Jan	M/M % Chg.	-	1.6
Mar 3	10:00	Factory Orders	Jan	M/M % Chg.	0.5	-0.4
Mar 3	10:00	Factory Orders Ex Trans	Jan	M/M % Chg.	-	0.1
Mar 3	10:00	ISM Services Index	Feb	Index	61.0	59.9
Mar 3	18:00	<i>Fed's Williams Takes Part in Discussion on the Economy</i>				
Mar 4	8:30	Average Hourly Earnings	Feb	M/M % Chg.	0.5	0.7
Mar 4	8:30	Change in Nonfarm Payrolls	Feb	Thsd	400.0	467.0
Mar 4	8:30	Unemployment Rate	Feb	%	3.9	4.0
Canada						
Feb 28	8:30	Industrial Product Price	Jan	M/M % Chg.	1.0	0.7
Mar 1	8:30	Gross Domestic Product	Dec	M/M % Chg.	0.0	0.6
Mar 1	8:30	Quarterly Gross Domestic Product Annualized	4Q	Q/Q % Chg.	6.5	5.4
Mar 1	9:30	Markit Canada Manufacturing PMI	Feb	Index	-	56.2
Mar 2	10:00	Bank of Canada Rate Decision	Mar 2	%	0.50	0.25
Mar 2	10:00	<i>Interest Rate Announcement</i>				
Mar 3	11:30	<i>Speech: Governor Tiff Macklem</i>				
International						
Feb 28	7:00	IN Gross Domestic Product	4Q	Y/Y % Chg.	5.9	8.4
Feb 28	19:30	JN Jibun Bank Japan PMI Mfg	Feb	Index	-	52.9
Feb 28	20:30	CH Manufacturing PMI	Feb	Index	49.8	50.1
Feb 28	20:45	CH Caixin China PMI Mfg	Feb	Index	49.2	49.1
Mar 1	4:00	EZ Markit Eurozone Manufacturing PMI	Feb	Index	58.4	58.4
Mar 1	4:30	UK Markit UK PMI Manufacturing SA	Feb	Index	57.3	57.3
Mar 2	5:00	EZ Consumer Price Index Estimate	Feb	Y/Y % Chg.	5.3	5.1
Mar 3	5:00	EZ Unemployment Rate	Jan	%	7.0	7.0
Mar 3	18:30	JN Jobless Rate	Jan	%	2.7	2.7
Mar 4	5:00	EZ Retail Sales	Jan	Y/Y % Chg.	9.1	2.0
Mar 4	7:00	BZ Gross Domestic Product	4Q	Y/Y % Chg.	1.0	4.0

*Eastern Standard Time. Source: Bloomberg, TD Economics.

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