

RBC Canadian Index Fund



Commentary as at June 30, 2022

Canada's stock market finished the first half of 2022 lower but was still among the best-performing global equity indexes, which gave back most of the gains made in 2021. The Canadian equity benchmark, the S&P/TSX Composite Index, briefly reached an all-time high in April, as its exposure to rising commodity prices offset a macroeconomic backdrop of high inflation, rising interest rates and slowing global economic growth. Canadian stocks were supported by the Energy sector during a period in which geopolitical uncertainty and improving demand led to higher oil and gas prices. The Energy and Materials sectors, which together represent about one-third of the Canadian benchmark, were the best-performing sectors in the first half of the year.

Economic growth has recovered from the pandemic lows, and consensus forecasts are for the Canadian economy to expand 4.1% in 2022 and 2.6% in 2023. Aiding Canada's economy are a healthy labour market, strong business investment and higher immigration. The big issue for the second half of 2022 is, however, inflation running at the highest levels in 40 years due to improving consumer demand, higher wages, rising commodity prices and supply disruptions. As a result, the Bank of Canada (the "BOC") is focused on restraining inflation even if economic growth is compromised. The BOC increased its benchmark rate to 1.5% in June from 0.25% as recently as February and remains focused on slowing inflation to its 2% target from the 7.7% recorded for May. Further rate hikes are expected in the second half of the year.

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