

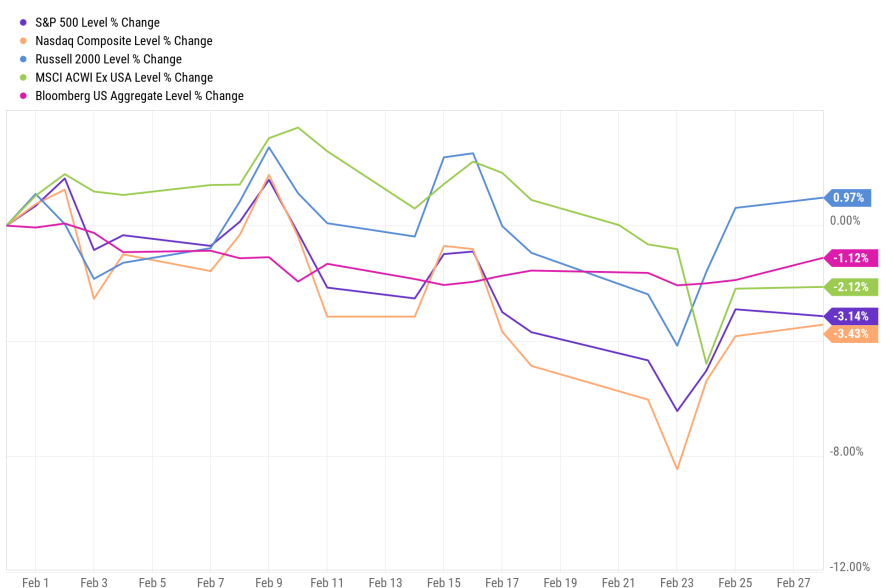
Continued Weakness for Stocks and Bonds

After such an “easy” year in 2021, the financial markets are reminding investors not to get too comfortable with those “easy” gains. After experiencing -5%-plus losses during January, stocks continued a similar trend in February. The S&P 500 was down -3.14%, the NASDAQ composite down -3.43% and the MSCI ACWI ex-USA was down -2.12%. The Russell 2000, however, bucked the trend and was up a modest +0.97%. The yield on the 10-year US Treasury note increased from 1.78% at the end of January to 1.84% at the end of February. The benchmark rate even traded above 2.00% for several sessions during the month. This increase in rates put pressure on bonds leading the Bloomberg US Aggregate index to lose -1.12% in February. (Chart 1)

Markets Fighting Two Wars

The stock and bond markets spent the month of February fighting a war on inflation while contending with a war being fought between Russia and Ukraine. In the midst of all the negative market narratives, it is important to note that we were starting to see encouraging signs appearing at the end of January and early February. After declining for much of January due to inflation concerns, etc., the market surprisingly turned positive intraday on January 24 and was starting to find fair footing in early February. This positive action had the potential to lead to better prices in the weeks ahead.

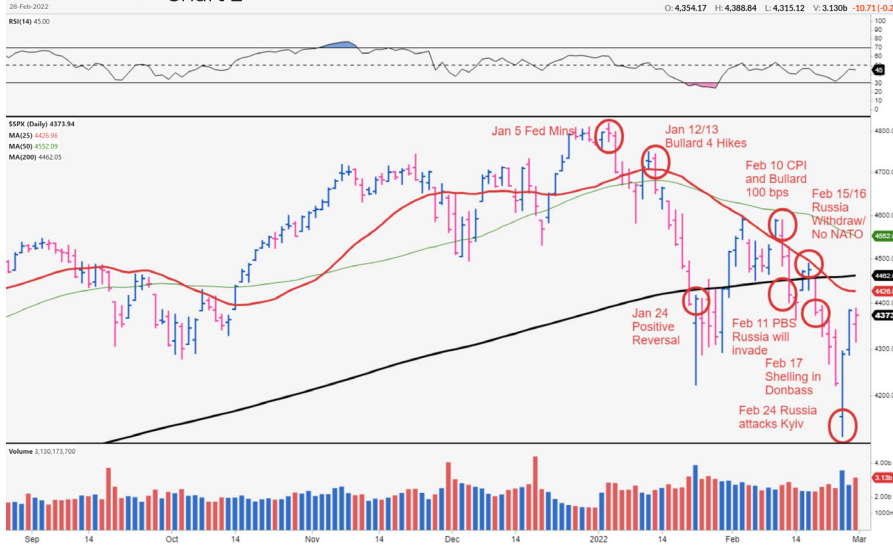
Chart 1 - Weak February Returns



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Mar 01 2022, 11:37AM EST. Powered by YCHARTS

Chart 2



That potential, unfortunately, did not come to fruition. The market instead was hit with hawkish commentary from Fed member James Bullard after a higher-than-expected CPI report on February 10. Next, PBS reported on February 11 that Russia has decided to invade Ukraine. This 1-2 punch turned out to be more than the market could handle and led to a fairly steady decline until February 24 when Russia finally attacked Kyiv, the capital of Ukraine. The market responded by trading off over -2.5% before reversing and finishing up +1.5% for the day. These positive intraday reversals are small, but important clues that better days may lie ahead. (Chart 2)

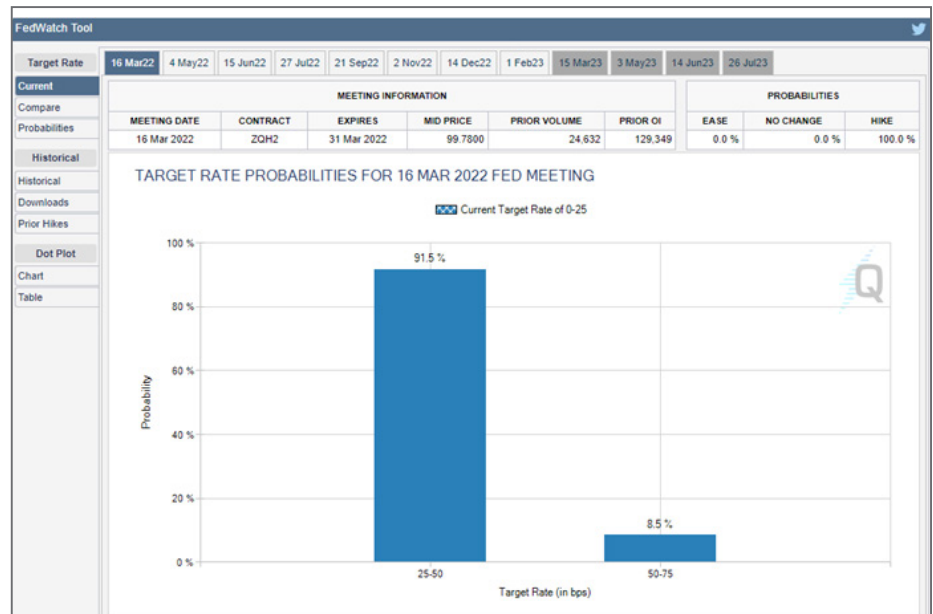
Context for Past Conflicts

This month has felt more like studying for a fifth-grade social studies test than analyzing financial markets. This is not the first time it has felt this way in our 25+ years of experience. Geopolitical conflicts, unfortunately, are fairly common events that we must navigate calmly as investors. The chart below is labeled with some of the past conflicts and gives a longer-term perspective to help navigate the current environment. As you can see, these conflicts tend to be associated with stock market lows rather than stock market highs. The declines tend to average around -5% to -8% and last two to three weeks. For context, the current crisis between Russia and Ukraine has lasted about two weeks and the S&P 500 was down -8.6% at the low on February 24.

We continue to expect the stock market will be challenged in the near-term by inflation, less accommodation from the Federal Reserve and a potentially slowing economy; however, we are starting to see hints that the market is beginning to incorporate some of these challenges. (Chart 3)



Chart 4



War (Huh). What is it Good for?

Absolutely nothing. It ain't nothing but a heart breaker; friend only to the undertaker. Despite this thoughtful analysis by Edwin Starr in 1970, however, the Russian invasion of Ukraine may serve as a catalyst for a less-hawkish monetary policy going forward. For example, on February 23 the market was pricing in a 33.7% probability for a 0.50% rate increase at the March 16 FOMC meeting. Those odds dropped to just 8.5% by the end of February. The market is now assessing a 91.5% likelihood that the Fed increases rates just 0.25% at their next meeting. (Chart 4)

While we anticipate continued volatility around expectations for rate increases, a smaller-than-expected raise at the March meeting would likely be fundamentally positive for the US stock market. We remain hopeful that the market can find its footing, but diligently watch for contrary evidence that may cause us to change our course.

2/28/2022		
S&P 500	4,373.94	
DJIA	33,892.60	
NASDAQ	13,751.40	
OIL	\$ 93.00	/barrel
GOLD	\$ 1,899.40	/ounce
10yr Yield	1.84%	
Unemployment	4.00%	
GDP	7.00%	
PPI	9.65%	Year-Over-Year
CPI	7.48%	Year-Over-Year

(Source: yCharts and Dorsey Wright)

2/28/2022				
Index	3mo	1yr	3yr	5yr
S&P 500	-4.45%	16.39%	18.24%	15.17%
MSCI EAFE	-3.14%	3.30%	8.29%	7.67%
Bar AGG Bond	-3.31%	-2.64%	3.30%	2.71%

(Source: yCharts)

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