The Markets

In April, losses in mega-cap tech companies spilled over to the broader market creating a challenging month for investors.

US Market Highlights		Global Market Highlights	
Consumer Confidence	↑ ↓	MSCI EAFE-International Stocks	↓
Jobs	↑	Emerging Markets	↓
Consumer Spending	↑	Oil Prices	↑
GDP	↓	COVID Progress	↑
Interest Rates	↑	Germany, Italy & France	↓
US Stock Market	↓	Inflation	↑

Here are the selected updated market stats:

Index	4/30/2022	12/31/2021	12/31/2020	12/31/2010	12/31/2000
DJIA	32,977	36,338	30,606	11,578	10,788
NASDAQ	12,335	15,645	12,888	2,653	2,292
S&P 500	4,132	4,766	3,756	1,258	1,320
MSCI EAFE	2,034	2,336	2,148	1,658	1,405
10 Yr UST Yield	2.89%	1.51%	0.91%	3.31%	5.11%

** Source: Yahoo Finance, MSCI.com

Summary

April was a challenging month for investors as losses in mega-cap technology companies and high-valuation stocks spilled over to the broader market. The Dow Jones Industrial Average lost 4.91% while the Standard & Poor's 500 Index dropped 8.80%. The Nasdaq Composite was hit the hardest falling 13.26%.

Stocks struggled all month as investors grew increasingly skittish over a stream of hawkish comments by Federal Reserve officials. Fed Chair Jerome Powell unnerved investors when he suggested that it may be appropriate to consider front-end loading rate hikes. A few weeks earlier, Fed governor Lael Brainard, considered one of the Fed's more dovish members, implied that the Fed could take a more aggressive monetary tightening approach.

Inflation continued to be an overhang on the market. March's Consumer Price Index (CPI) was 8.5% year-over-year, the fastest pace since December 1981, while the Producer Price Index reflected continuing price pressures in the pipeline, picked up 11.2% from a year ago—a new all-time high. The combination of a tightening monetary policy and hot inflation drove bond yields higher, with the 10-year Treasury Note yield moving from 2.32% at March-end to 2.89% by the close of April.

The first-quarter earnings season got off to a mostly positive start. Of the 55% of the S&P 500 companies reporting earnings so far, 80% have beaten Wall Street analysts' earnings estimates. Companies appear to be navigating accelerating inflation, shaky consumer confidence, higher rates, and supply chain challenges. Markets closed out April with a volatile week, reflecting the general investor unease that weighed on markets all month.

Sector Scorecard

Only 1 sector managed a gain in April, Consumer Staples. All others were under pressure with Technology, Consumer Discretionary, and Communications all falling by more than 10%. I also included longer term data for perspective.

GICS Sectors	April %	2022%	2021%	vs. 52-week High	vs. 52-week Low
Staples	2.6%	1.5%	18.6%	-4.6%	14.8%
Energy	-1.5%	36.8%	54.4%	-7.7%	69.1%
REITs	-3.4%	-9.2%	45.4%	-10.4%	14.2%
Basic Materials	-3.5%	-5.8%	27.3%	-7.9%	8.4%
Utilities	-4.2%	0.3%	17.7%	-7.7%	12.9%
Healthcare	-4.7%	-7.2%	26.1%	-9.2%	8.2%
Industrials	-7.5%	-9.7%	21.1%	-11.8%	2.0%
Financials	-9.9%	-11.2%	34.9%	-17.3%	0.3%
Technology	-11.3%	-18.7%	34.5%	-20.4%	7.8%
Consumer Disc.	-13.0%	-20.9%	24.4%	-25.2%	0.3%
Communications	-15.6%	-25.7%	21.6%	-31.6%	0.9%

Indicators

Gross Domestic Product: The economy shrank at an annualized rate of 1.4% percent in the first quarter. The decline in GDP growth was largely attributable to a widening trade deficit and a slowing rate of inventory build-up by businesses.

Employment: The unemployment rate dipped to 3.6% as employers added 431,000 jobs in March, while January and February estimates were revised higher. This marks the eleventh consecutive month that payrolls have increased by more than 400,000. Wage growth (+5.1% in February), while strong, remains below the rate of inflation.

Retail Sales: Retail sales rose 0.5% in March. Much of that gain was attributable to an 8.9% jump in sales at gas stations, a reflection of rising gasoline prices.

Industrial Production: Industrial production expanded by 0.9%, as factory capacity utilization rose to 78.8%, the highest since 2007.

Housing: Housing starts rose 0.3%. Economists had expected a decline for the month. The increase was driven by a jump in multifamily homes, as starts of single family homes tumbled. Sales of existing homes fell 2.7% in March amid higher mortgage rates and home prices. The median price of an existing home sold last month was $375,300, which represents a 15% increase from March 2021 and the highest price ever recorded. New home sales slowed in March, falling 8.6% from February and 12.6% from March 2021.

Consumer Price Index: Consumer inflation hit a 40-year high, climbing 8.5% year-over-year. Core inflation (excludes the more volatile energy and food prices) rose 6.5% over last year, the steepest increase since August 1982.

Durable Goods Orders: Durable goods orders increased 0.8% percent, in line with expectations. Excluding the defense sector, durable goods orders rose by 1.2%.

The Fed

On April 6th, the minutes from March's FOMC meeting were released. These pointed to a growing consensus for one or more future rate hikes of 50 basis points (0.50%) and a general agreement on a framework for reducing the Fed's balance sheet by $95 billion per month. The balance sheet reduction is likely to begin in May and be phased in over three months.

During the FOMC meeting, the participants concluded, "Ukraine was perceived as adding to the uncertainty around the outlook for economic activity and inflation, as the conflict carried the risk of further exacerbating supply chain disruptions and of putting additional upward pressure on inflation by boosting the prices for energy, food, and other key commodities.

World Markets

Global markets trended lower as China's lockdowns and the war in Ukraine continued to weigh on investor sentiment. Major European markets moved lower as investors grappled with an uncertain energy picture. Italy lost 3.07%, Germany dropped 2.2%, and France fell 1.89%.

Stocks in the Pacific Rim markets were also under pressure. China's Hang Seng Index lost 4.13%, Korea's KOSPI Index slipped 2.27%, and Australia's ASX 200 lost 0.86%.

What Investors May Be Talking About in May 2022

In May, investors will be focused on the Fed and future interest rates. The next Fed meetings will be held in rapid succession on June 14-15 and July 26-27. Undoubtedly the markets have priced in multiple rate hikes with Fed Funds expectations around 2.5% by year end. Yet, inflation is currently about 3X higher than that, and Fed officials will take rates higher if inflation persists at current levels. There is a risk to raising rates too far and to tightening monetary policy too quickly, that risk is putting the US economy into recession. The BEA's initial estimate of the first quarter's Gross Domestic Product was -1.4%. This followed a +6.9% for Q4 2021. The "second" estimate for Q1 2022 GDP, which will be based on more complete data, will be released on May 26.

Of course news in Ukraine is still front and center. Russia's grinding attacks are pounding the Ukrainian people and their economy. The US Congress is considering approval of a $40 billion package focused on military and humanitarian aid. Interesting developments include a change in posture from Finland and Sweden, both of which are considering NATO membership. This would strengthen Western security architecture in Europe and most likely anger Russia.

As investors we are often challenged with looking past the headlines of the moment, most of which seem so dramatic and consuming at the time, and forward in the future. It's not always an easy task, especially when down markets reflect significant declines in portfolio balances. Let's just be honest, it's no fun opening investment account statements that are down in value!

The reality is that owning anything comes with certain risks. The risks that we take as smart investors (primarily ownership risk and market risk) have proven to pay us well if we have the patience and discipline to ride out the periodic storms that markets encounter. We are in the business of owning great companies, both in the US and around the globe, that produce products and services that are desired and/or essentially necessary to the global population. That has always been a recipe for success. Positioning, coaching, and encouraging our investors to hold (and to add to if possible) those investment positions during the inevitable periods of market declines is one of the many ways where we add tremendous value for our clients.

Please know that we are here for you. If anything has changed in your personal circumstances that may impact your planning, please let us know.