



# INCISIVE INVESTOR

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## WEEK IN REVIEW STOCK MARKET FALLS



U.S. stocks fell sharply on Friday to suffer their biggest one-day drop since 2020, as investors continued to weigh hawkish comments on interest rates a day earlier by Federal Reserve Chairman Jerome Powell, as well as a fresh batch of corporate earnings that largely disappointed.

The Dow Jones Industrial Average DJIA fell 981.36 points, or 2.8%, to close at 33,811.40, after declining 1,019 points at its session low. The blue-chip gauge saw its steepest one-day percentage loss since October 28, 2020. The S&P 500 SPX dropped 121.88 points, or 2.8%, to end at 4,271.78. The Nasdaq Composite COMP finished at 12,839.29 after a drop of 335.35 points, or 2.6%. The S&P 500 and Nasdaq each suffered their biggest one-day drops since March 7th.

The Dow and S&P 500 on Friday posted their lowest finishes since March 15th, while the Nasdaq closed at its lowest since March 14th.



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## Fed to front load hikes

Fed Chair Jerome Powell bolstered the Fed's commitment to tame inflation by using all the tools at their disposal, putting a 50-basis point hike for May "on the table." Markets are now pricing in a 50 basis point increase for each of the May, June, and July meetings. He also suggested that front-loading the rate hikes may be necessary to combat persistent inflation, which measured 8.5% year over year in March. At the same time, it is expected that Fed officials will begin to run off assets from its nearly \$9 trillion balance sheet. On the news, Treasury yields rose, especially on the short end, where the 2-year Treasury increased to 2.73% after starting the week at 2.50%.

## G-20 walkout snubs Russians

As a result of initiation by Janet Yellen, US, Canadian, Danish, British and Ukrainian officials walked out of the Russian session at the G-20 summit. A division has emerged within the Group of 20 over the exclusion of Russia from the group, marking the latest division within the global cooperative. Adding to its support for Ukraine, the US is providing an additional \$1.3 billion in aid, including \$800 million in military aid and \$500 million in economic assistance.

## US mortgage rates breach 5%

30-year mortgage rates have reached a record of 5.2%, the highest in more than a decade. In the week ending April 15, MBA mortgage applications fell by 3% in purchases and 7.7% in refinances. Since the housing inventory has been low and borrowing rates have been low, home prices have risen rapidly in the past two years, but rising mortgage rates have hampered affordability. The National Association of Realtors reports that spring is the busiest time for home sales, with around 40% of sales taking place between March and June.

## Banks lose steam in 2022



Following a stellar year in 2021, bank shares are under pressure, falling by more than 10% this year. Longer-term rates rise usually benefit banks by increasing their net interest margin - the difference between the rates at which they borrow and lend. Yet many US banks now have significant US Treasury holdings, whose prices have fallen as interest rates have risen since 2022. The industry has also been hurt by slowing corporate deal flow and declining consumer spending.

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## HEADLINERS

Initial jobless claims in the U.S. were 184,000, exceeding expectations of 178,000. The level of continuing claims, which fell below consensus, is the lowest since February 1970.

Bloomberg noted supply chain disruptions as a result of China's COVID lockdown could take up to three months to impact the US market.



Although less than 20% of S&P 500 companies have reported earnings so far, fewer companies are beating estimates than in prior quarters. In FactSet's Earnings Scorecard, the blended growth rate for earnings is 6.5%, an increase from 4.7% at the end of the quarter. Among positive themes are economic reopening, strong corporate, and consumer balance sheets. Negative themes include China lockdowns, a tight labor market, and rising interest rates.

## MAJOR STOCK MOVES

Gap Inc. GPS stock tumbled 18%, following a bigger-than-expected drop in sales and as the retailer announced the departure of Old Navy CEO Nancy Green.

Shares of Qualtrics International Inc. XM fell 10.5% after the experience-management software company reported fiscal first-quarter forecast-beating revenue.

Snap Inc. SNAP shares rose 1.2% after the social media group reported quarterly revenue that fell short of Wall Street's expectations.

Shares of American Express Co. AXP fell 2.8% after topping earnings expectations Friday amid a continued rebound in travel and strong spending trends among younger consumers.

Verizon Communications Inc. VZ fell 5.6% after its earnings report showed a net loss of postpaid phone subscribers in its latest quarter, calling out "competitive dynamics within the industry," though it said it had its best quarter of broadband net additions in more than a decade.



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Do you have questions about your finances, the market, or the economy?

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