Investment Advisors, Inc.
Integrity • Independence • Insight

1st Quarter, 2022

Markets At A Glance

Period	S&P 500	DJIA	INT'L (EAFE)	Emerging Markets	Barclays Intermediate Govt/Credit	Barclays 1-15 Yr Muni	INFLATION (CPI)
1st Quarter	-4.6%	-4.1%	-5.8%	-7.0%	-4.5%	-5.3%	1.8%
12 Months	15.6%	7.1%	1.6%	-11.3%	-4.1%	-4.2%	7.1%

Markets sold off at the beginning of 2022 in response to inflation spiking, the Federal Reserve (Fed) starting to raise interest rates, and the war in Ukraine. Equity markets bounced from the lows in March, but stocks still ended with the first quarterly loss since 2020. It was an unusual quarter as bonds also experienced a significant drop in value as rising interest rates caused bond valuations to decline. The municipal bond market suffered its worst quarter in decades. The yield on the 10-year U.S. Treasury increased from 1.5% to 2.3%.

The economy came into 2022 with positive momentum from strong underlying fundamentals and continued reopening. Growth will be negatively impacted by higher energy prices and higher food prices along with supply chain disruptions. Consumer confidence has been negatively impacted, but a continued very strong labor market will help support consumer spending. The overall outlook for corporate earnings remains positive. Most economists are projecting slower but still positive economic growth for 2022 and 2023, although the risk of a recession has risen.

The Fed hiked rates for the first time and signaled their intention to aggressively raise rates the rest of this year and into 2023. The Fed is clearly focused on fighting inflation. In addition to raising rates, they plan to start withdrawing liquidity by reducing the size of their balance sheet, also referred to as quantitative tightening. The markets have responded negatively to past attempts at quantitative tightening and the size of the Fed's balance sheet is significantly higher than it has ever been. They face a difficult balancing act between fighting inflation and not slowing the economy so much it falls into recession. As we have noted before, the risk of a policy mistake is extraordinarily high.

We expect markets to remain unsettled given the elevated uncertainty. At this point, markets are pricing in the assumption that the situation in Ukraine does not escalate further. The near-term outlook for equities is muted by the slowing economy and rising interest rates. Looking beyond the next several months, markets are pricing in continued solid growth in corporate earnings. We will be watching first quarter earnings releases very closely as companies assess the outlook for the next several quarters.