

# EMERALD

## MARKET VIEW WEEKLY

April 8<sup>th</sup>, 2022



### ECONOMIC REVIEW<sup>1</sup>

- ISM Services Index increased strongly from the 56.5 to 58.3, however, this was slightly below the expected increase to 58.5.
- The Federal Open Market Committee (FOMC) meeting minutes for the March's meeting were released, conveying more insight on the Federal Reserve's (the Fed) future path of rising interest rates.

#### How does this impact you?

- Impact of ISM Services:
  - The ISM Index serves as a key indicator of economic activity in the United States, with readings above 50 representing expansion.
  - As the service sector continues to recover from the disruptions caused by the Omicron variant, survey responses are suggesting hiring and prices are starting to see some sense of stability.
- Impact of FOMC Meeting Minutes:
  - The Fed meeting minutes offers a deeper dive into how the Fed is looking to execute their policy. This month's minutes suggest that a +0.50% increase to the Fed funds rate is imminent and is now to be expected as inflation continues to surge.
  - Higher interest rates can raise borrowing costs for consumers seeking to buy homes, cars, etc. Those increased costs could help to cool inflation by lowering demand and slowing economic growth.



### A LOOK FORWARD<sup>1</sup>

- The Consumer Price Index (CPI) for March will be released on Tuesday, economists' expectations call for headline prices to increase +1.2% on a month-over-month basis.
  - The year-over-year increase for headline prices is expected to be +8.4%.
  - Core prices which strip out volatile food and energy costs are expected to increase by +0.5% on a month-over-month basis.

#### How does this impact you?

- Impact of CPI:
  - This would be largest CPI print in well over 40 years as the effects of the Russian-Ukrainian conflict start to rear their head in economic data.
  - On a positive note, the divergence in headline and core numbers is quite significant, it is well known that food and energy costs are the most volatile parts of the price indices and are normally stripped out to get at "core" inflation.
  - Overall, companies are expecting supply chains to recalibrate while labor and productivity are improving. This data gives us confidence that inflation may be peaking.

# MARKET UPDATE

Market Index Returns as of 4/08/22 <sup>1</sup>	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-1.24%	-0.90%	-5.46%	11.08%	17.71%	15.84%
NASDAQ	-3.85%	-3.57%	-12.19%	-0.20%	20.90%	19.57%
Dow Jones Industrial Average	-0.23%	0.17%	-3.94%	5.58%	12.03%	13.43%
Russell Mid-Cap	-1.80%	-1.25%	-6.86%	3.01%	13.47%	12.47%
Russell 2000 (Small Cap)	-4.60%	-3.63%	-10.88%	-10.11%	9.44%	9.27%
MSCI EAFE (International)	-1.38%	-1.85%	-7.65%	-3.14%	6.35%	6.46%
MSCI Emerging Markets	-1.53%	-1.18%	-8.07%	-14.19%	3.53%	5.65%
Bloomberg Barclays US Agg Bond	-1.34%	-1.49%	-6.25%	-2.86%	3.85%	4.31%
Bloomberg Barclays High Yield Corp.	-1.77%	-2.33%	-8.35%	-9.39%	0.01%	1.20%
Bloomberg Barclays Global Agg	-1.24%	-0.90%	-5.46%	11.08%	17.71%	15.84%



## OBSERVATIONS

- U.S. equities moved lower this week as indicated by the S&P 500 which was down -1.24% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index decreased by -4.60% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -1.38%, underperforming domestic stocks.
- Emerging market stocks were down on the week with the MSCI EM decreasing -1.53%.
- U.S. investment grade bonds were negative last week with the Bloomberg Barclays U.S. Aggregate Bond index down -1.34%.



## BY THE NUMBERS

**STOCKS** - The S&P 500 is down 5.5% YTD (total return) through the close of trading last Friday 4/08/2022 but the index is up +4.8% (total return) since Russia invaded Ukraine on 2/24/2022. The S&P 500 consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

**INVERTED YIELD CURVE** – About 6 ½ months ago (10/01/2021), the yield on the 10-year US Treasury note (1.48%) was 1.21 percentage points higher than the yield on the 2-year US Treasury note (0.27%). Last Monday (4/04/2022), the yield on the 10-year Treasury note (2.42%) had slipped under that of the yield on the 2-year Treasury note (2.43%). The last time the yield on the 2-year note exceeded that of the 10-year note was on 8/29/2019, 6 months before a recession began in the USA (source: National Bureau of Economic Research).

**COSTS MORE** – Since 12/31/2021, the average “principal and interest” (P+I) payment on a 30-year fixed rate mortgage has increased \$92/month per \$100,000 borrowed. On 12/31/2021, the nationwide average mortgage rate of 3.11% translated into a monthly “P+I” of \$428 per \$100,000 borrowed. On 4/07/2022, the average mortgage rate of 4.72% translated into a monthly “P+I” of \$520 per \$100,000 borrowed (source: Freddie Mac).

**REPLACED BY WHAT?** - The 27-nation European Union announced on 3/08/2022 that it will end its purchase of Russian natural gas “well before 2030.” Russia currently supplies 40% of the EU’s natural gas (source: EU).

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**ISM Services Index:** PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy.

**CPI (headline and core):** Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

### Index Definitions

**S&P 500:** The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**NASDAQ:** The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

**Dow Jones Industrial Average:** The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

**Russell Mid-Cap:** Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

**Russell 2000:** The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as

of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

**MSCI EAFE:** The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

**MSCI EM:** The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**Bloomberg Barclays US Agg Bond:** The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

**Bloomberg Barclays High Yield Corp:** The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Bloomberg Barclays Global Agg:** The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

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<sup>1</sup> Data obtained from Bloomberg as of 4/8/2022



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