

EMERALD

MARKET VIEW WEEKLY

February 25th, 2022



ECONOMIC REVIEW¹

- Producer Price Index (PPI) data for the month of January was released on Tuesday, and both readings exceeded forecasts substantially.
- New home sales fell 4.5% from the December's 9-month high to 801,000 for January, which was also below forecasts of 806,000.
 - The drop was driven by pending home sales which fell -5.7% despite forecasts calling for a 1.0% increase.
- Personal Consumption Expenditure (PCE), the Fed's preferred measure of inflation, confirmed CPI data released earlier this month, rising 6.1% YoY in January – the highest since February 1982.

How does this impact you?

- Impact of Rising Rates:
 - Falling home sales are reflecting record high home prices and now rising mortgage rates chipping away at some of the strongest demand for real estate seen in recent years.
 - As the Fed prepares to address rampant inflation continuing to hurt consumers at the pump and in the grocery store (and now bleeding into the services sector) by increasing interest rates, those increases are translating to rates affecting borrowing costs, i.e., business loans and mortgages are getting more expensive, too.
 - Consumer sentiment as measured by the University of Michigan Index improved for the current period, but more importantly, the 5-year outlook for inflation expectations actually decreased to 3.0%, suggesting consumers are confirming bond market readings, which imply inflation isn't permanent, and should normalize over the course of this year and the next.



A LOOK FORWARD¹

- Non-farm payrolls for the month of February will be released on Friday, the expectation is for payrolls to increase by 450,000.

How does this impact you?

- Impact of Non-farm Payrolls:
 - As the next move of the Fed continues to be under the microscope; if the labor market continues to make strong strides the Fed may be pressured even more to begin their hiking cycle with an aggressive start. With inflation well above the Fed's dual mandate and now with the labor market near 4% unemployment the probability of a 0.50% rate hike in March has reached nearly 70%. As the Fed Funds rate increases this will raise other borrowing costs such as mortgages and auto loans.
 - On a brighter note, wages are increasing at some of the highest paces on record. Wages are expected to grow at nearly 6% on a year-over-year basis in February. Wage inflation may help offset goods inflation as pandemic pressures on supply continue to wane.

MARKET UPDATE

Market Index Returns as of 2/25/22 ¹	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	0.84%	-7.80%	-7.80%	16.12%	18.19%	15.20%
NASDAQ	1.10%	-12.37%	-12.37%	5.07%	22.97%	19.69%
Dow Jones Industrial Average	-0.03%	-5.99%	-5.99%	10.47%	11.66%	12.82%
Russell Mid-Cap	1.32%	-7.84%	-7.84%	7.25%	14.20%	12.02%
Russell 2000 (Small Cap)	1.59%	-8.99%	-8.99%	-6.30%	10.07%	9.31%
MSCI EAFE (International)	-2.49%	-6.58%	-6.58%	-0.22%	7.72%	7.18%
MSCI Emerging Markets	-4.85%	-4.78%	-4.78%	-13.51%	5.50%	6.84%
Bloomberg Barclays US Agg Bond	-0.33%	-4.00%	-4.00%	-2.59%	2.98%	2.51%
Bloomberg Barclays High Yield Corp.	0.37%	-3.92%	-3.92%	0.33%	5.34%	4.88%
Bloomberg Barclays Global Agg	-0.64%	-3.64%	-3.64%	-5.76%	1.96%	2.30%



OBSERVATIONS

- U.S. equities moved higher this week as indicated by the S&P 500 which was up +0.84% on the week.
- In the U.S., smaller sized companies outperformed their larger-sized counterparts, as the Russell 2000 index increased by +1.59% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -2.49%, underperforming domestic stocks.
- Emerging market stocks were down on the week with the MSCI EM decreasing -4.85%.
- U.S. investment grade bonds were negative last week with the Bloomberg Barclays U.S. Aggregate Bond index down -0.33%.



BY THE NUMBERS

CORRECTION - The S&P 500 closed at 4226 on 2/23/2022, down 11.9% from its 1/03/2022 closing high, the index's 8th "correction" in the last 20 years, i.e., a fall of at least 10% but less than 20%. 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).

WHERE? - The average single-family home in the USA appreciated +54.5% for the 5 years ending 12/31/2021. Homes in Idaho (+118.2%) have experienced the greatest growth while homes in North Dakota (+23.5%) have seen the least percentage increase in value (source: Federal Housing Finance Agency).

MAKES IT HARDER TO BUY - The average 30-year fixed rate mortgage nationwide was 3.89% last Thursday (2/24/2022), resulting in a \$471 monthly "principal and interest" payment per \$100,000 borrowed. The lowest average 30-year fixed rate mortgage in US history was 2.65% on 1/07/2021 (14 months ago), resulting in a \$403 monthly "principal and interest" payment per \$100,000 borrowed (source: Freddie Mac).

WIDELY EXPECTED - If the Fed does raise short-term interest rates as expected following its March 15-16 meeting, it will be the first Fed rate hike since 12/19/2018 or 39 months earlier (source: Federal Reserve).

Economic Definitions

Producer Prices - PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

New Home Sales: This concept tracks sales of newly constructed homes during the reference period. The Implicit US index is computed by taking the number of house sold in the US and dividing it by the seasonally adjusted number of houses sold in the US.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

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.

Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss. In general, the bond market is volatile; bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed-income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds or high-yield bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. International investing involves special risks do not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

The statements provided herein are based solely on the opinions of the Advisor Group Research Team and are being provided for general information purposes only. Neither the information nor any opinion expressed constitutes an offer or a solicitation to buy or sell any securities or other financial instruments. Any opinions provided herein should not be relied upon for investment decisions and may differ from those of other departments or divisions of Advisor Group or its affiliates.

Certain information may be based on information received from sources the Advisor Group Research Team considers reliable; however, the accuracy and completeness of such information cannot be guaranteed. Certain statements contained herein may constitute "projections," "forecasts" and other "forward-looking statements" which do not reflect actual results and are based primarily upon applying retroactively a hypothetical set of assumptions to certain historical financial information. Any opinions, projections, forecasts and forward-looking statements presented herein reflect the judgment of the Advisor Group Research Team only as of the date of this document and are subject to change without notice. Advisor Group has no obligation to provide updates or changes to these opinions, projections, forecasts and forward-looking statements. Advisor Group is not soliciting or recommending any action based on any information in this document.

Securities and investment advisory services are offered through the firms: FSC Securities Corporation, Royal Alliance Associates, Inc., SagePoint Financial, Inc., Triad Advisors, LLC, and Woodbury Financial Services, Inc., broker-dealers, registered investment advisers, and members of FINRA and SIPC. Securities are offered through Securities America, Inc., a broker-dealer and member of FINRA and SIPC. Advisory services are offered through Arbor Point Advisors, LLC, Ladenburg Thalmann Asset Management, Inc., Securities America Advisors, Inc., and Triad Hybrid Solutions, LLC, registered investment advisers. Advisory programs offered by FSC Securities Corporation, Royal Alliance Associates, Inc., SagePoint Financial, Inc., and Woodbury Financial Services, Inc., are sponsored by VISION2020 Wealth Management Corp., an affiliated registered investment adviser. Advisor Group, Inc. is an affiliate of these firms. 4394472

¹ Data obtained from Bloomberg as of 2/25/2022

