

Market Commentary

For the week of May 2nd, 2022

The Markets

Returns Through 4/29/22	WTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	-2.47	-8.73	-1.36	9.82	11.96
NASDAQ Composite (PR)	-3.92	-21.00	-11.83	15.78	16.40
S&P 500 (TR)	-3.26	-12.92	-0.50	13.88	13.66
Barclays US Agg Bond (TR)	-1.47	-9.50	-8.42	0.43	1.20
MSCI EAFE (TR)	-2.20	-12.00	-9.07	4.54	4.77

Observations

- U.S. equities continued their move lower as indicated by the S&P 500 which was down -3.26% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 shed -3.49%.
- International stocks as measured by the MSCI EAFE were negative again, down -2.20%, but outperforming domestic stocks.
- Emerging market stocks increased with the MSCI EM gaining +0.08%.
- U.S. investment grade bonds were negative last week with the Bloomberg Barclays U.S. Aggregate Bond index down -1.47%.

Data Obtained from Bloomberg as of 4/29/2022



Economic Review

- The Federal Reserve's (Fed) preferred inflation measure, Personal Consumption Expenditure (PCE) Price Index, was released last week and confirmed a slight easing in "core" prices seen in the CPI reading earlier this month.
 - Core PCE registered a 0.3% increase in March, in line with expectations and below the previous month's reading of 0.4%. The annual rate of core PCE also dropped to 5.2%, below February's downwardly revised 5.3%, though the headline number still sits at 6.6%, a level not seen since 1982.
- The University of Michigan Consumer Sentiment index declined below the April forecasts of 65.7 to 65.2, though current financial conditions were seen more favorably than the first quarter.
 - While inflation expectations for the year ahead clocked in at a healthy 5.4%, longer-term, 5-year inflation expectations continue to remain anchored at 3.0%.

How does this impact you?

- Impact of Core PCE:
 - Like the March Core CPI reading, Core PCE has shown some signs of easing price increases. Although food and energy prices (excluded from core measures) will likely remain elevated for some time as Russia's war in Ukraine continues to batter global energy markets, a confirmed downturn in any inflation reading is welcome news to market participants.
 - The Fed will likely take note of such a shift, though should remain committed to the path of rate hikes they have laid out in the near term while remaining observant and sensitive to changing market dynamics going forward.
- Impact of University of Michigan Consumer Sentiment:
 - Hard to imagine how the first quarter could see anything but a decline in consumer sentiment expectations, though some consumers appear more optimistic after the early market rout.
 - The current conditions subindex was revised higher to 69.4 from 67.2.
 - More importantly, 5-year inflation expectations held steady at 3.0% despite significant market uncertainty stemming from the negative impact of rising interest rates and inflation and positive impacts of a tight labor market and rising wages.

A Look Forward

- All eyes will be on Chairman Jerome Powell and the Federal Reserve's monetary policy statement come Wednesday of this week when investors expect the first 50 basis point interest rate hike since 2000.
 - Quantitative Tightening (QT) is also slated to begin this month with initial caps of \$60 billion in Treasuries and \$35 billion mortgage-backed securities set to begin the balance sheet roll-off.

How does this impact you?

- Impact of the Fed:
 - The central bank has been very clear in their objective to reign in persistently high inflation. Even the most dovish among the board governors have expressed a desire to return interest rates to neutral "expeditiously," and slight positive turn in core inflation measures will not deter them in those efforts.



BY THE NUMBERS

SHORT TERM AND LONG-TERM - The S&P 500 lost 8.7% (total return) during April 2022, its worst month since March 2020. Over the long-term, the S&P 500 has gained +12.3% per year (total return) for the 100 months through 4/30/2022, gained +9.8% per year (total return) for the last 200 months, gained +8.8% per year (total return) for the last 300 months, and gained +10.8% per year (total return) for the last 400 months. 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).

ABOUT HALF - US inflation, measured by the "Consumer Price Index," was up +7.0% during 2021. Three percentage points (out of the 7 percentage points) is a function of direct fiscal support from the US government and how American households spent the pandemic-related money (source: Federal Reserve Bank of SF).

IS INFLATION THE REASON? - The US economy shrunk by an annualized 1.4% during the 1Q 2022, an 8.3 percentage point swing from +6.9% annualized growth recorded in the 4Q 2021. Other than the volatile swings in growth in 2020 during the first year of the pandemic, the US has not seen an 8.3 percentage point quarterly downward swing in the size of the US economy since the 4Q 1981 or 40 years ago when the economy went from a +4.9% growth rate to a 4.3% contraction quarter-over-quarter (source: Commerce Department).

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