Economic & Market
INSIGHTS

An Executive Summary for April 2022

Developments that arose during the first quarter continued through April as capital markets experienced widespread pullbacks. Investors yearned for some calm within markets, but given the various global events that continue to rattle economies, that has yet to occur. The war in Ukraine, lockdowns in China due to the recent local uptick in COVID-19 cases, and the probability of tighter U.S. monetary policy, all weighed on sentiment. Market volatility has remained elevated when compared to pre-pandemic levels and several areas along the yield curve briefly inverted.

With inflation in the U.S. hovering around 8.5%, its highest level since 1981, several members of the Federal Reserve's Board of Governors recently voiced their desire to take rates back to "neutral" as quickly as possible. After the initial 25 basis points Fed Funds rate increase in March, the central bank raised rates by an additional 50 basis points in early May, the first hike of this magnitude in two decades. Fed Chairman Jerome Powell hinted at a few more large increases this year, which have been priced into the market, along with shrinking the Fed's balance sheet at a "considerably more rapid pace" than in the past. Powell hopes that higher borrowing costs will slow spending enough to tame inflation, yet not too much as to cause a recession – coined a "soft landing" by many economists. Additionally, the extremely strong labor market may serve to support the financial tightening actions taken by the Fed. In April, the unemployment rate remained at 3.6% as the U.S. added 428,000 jobs, marking the twelfth straight month of reporting a net increase in new jobs.

Bond yields were higher in response to the Fed's actions and from upward pressure caused by inflation. 10-Year Treasury yields increased to 2.9% through April and have since reached 3.0% in May. 2-Year yields also rose in April, although to a lesser extent than 10-Year yields. All fixed income sectors decreased and credit-spreads widened due to investors' increased risk aversion, redemptions from fixed income, and the impact from the potentially rapid decrease of monetary policy. The heightened market volatility has caused industry-wide outflows to persist, as $47 billion of net redemptions were reported this year from investment-grade corporate funds, of which $13 billion occurred in April. Within credit spreads, high-yield corporate bonds widened the most, climbing more than 50 basis points during the month.

Equity markets were overcome with volatility as the S&P 500 Index decreased for the month. Company earnings were largely in-line or beat expectations, but some mega-cap companies that missed expectations (such as Netflix and Google) added to the large day-to-day swings. The normally-defensive consumer staples sector produced the lone positive return, while technology, consumer discretionary, and communication services fell sharply. Markets outside of the U.S. were not spared from volatility either, as both international-developed and emerging markets fell as well. Shanghai was in full lockdown for all of April, which further dampened sentiment and shook local markets. Valuations on Chinese stocks, relative to developed markets, now stand at levels last seen in 2015.

Asset classes less correlated to stocks and bonds were mixed. Oil prices have come off of recent highs, but supply constraints may still outweigh demand lost from the lockdowns in China. Commodities' prices rose as heightened demand continued, given the conflict in Eastern Europe. Mortgage rates have skyrocketed to start the year and showed no signs of slowing down in April as the average 30-year fixed-rate mortgage rate ended the month around 5.4% – 200 basis points higher than at the start of the year. Residential home prices moderated last month, slightly falling, as economists suggest further declines are possible given the increased inability for people to afford homes at relatively higher mortgage rates.

Periods of heightened volatility are rarely looked forward to. As markets continue to oscillate, we recommend staying focused on long-term goals and ensuring portfolio allocations remain near target levels.

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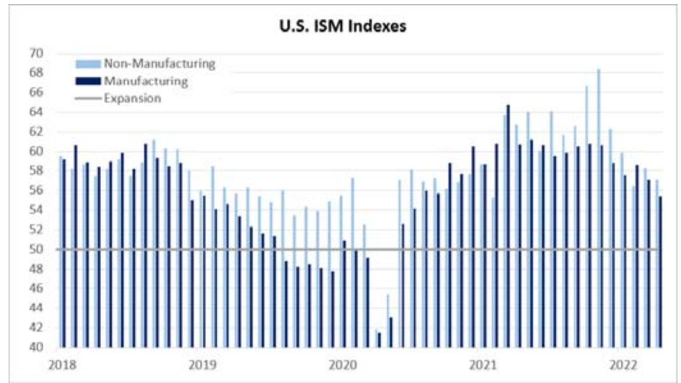

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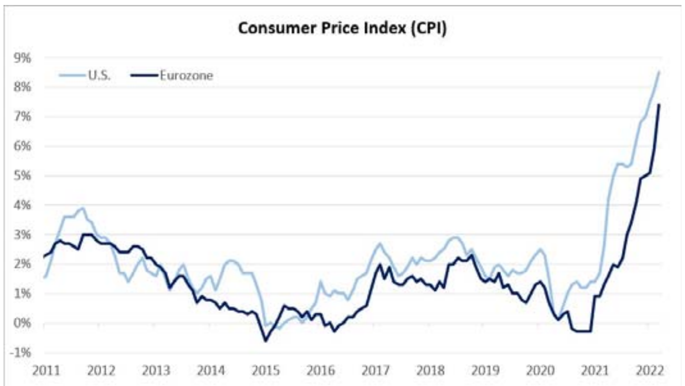

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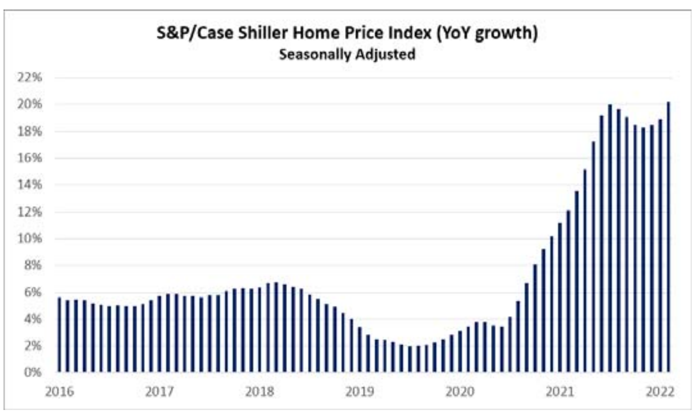

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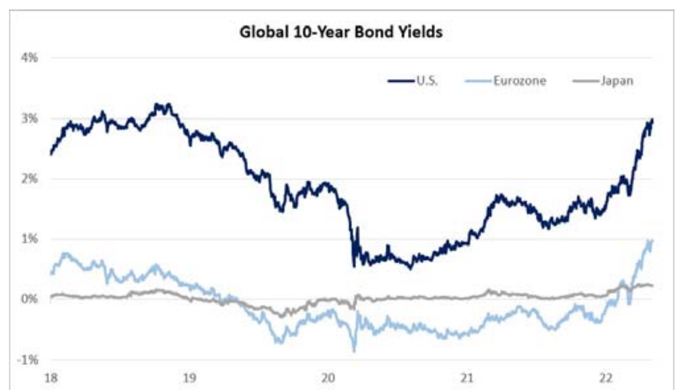

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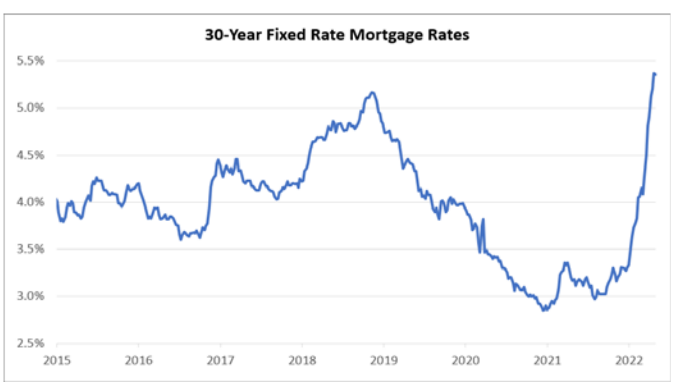

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