MONTHLY MARKET UPDATE

March 2022

While the bounce in the back half of March felt like a recovery, the upside move was limited to U.S. equities and commodities while fixed income markets posted a fourth consecutive month of losses and international markets struggled through a backdrop of the war in Ukraine. Volatility across equity and interest rate markets remained elevated with the war and the removal of monetary policy accommodation the key drivers.

U.S. equities (+3.48%) led the way in March with global ex-U.S. (+1.16) markets posting more modest returns driven by commodity oriented geographies of Brazil, Norway, Denmark, Australia, and Canada. Covid-19 lockdowns across China took mainland Chinese stocks down 8% and overall emerging markets down 2.3% while economic risks stemming from the war in Ukraine pressured European equities to a 1.7% decline. The same war that pressured European equities resulted in Russian equities being excluded from all standard indexes, effectively disappearing from the global equity market landscape. Large cap stocks outperformed small caps and from a style/sector standpoint, value outperformed growth led by energy, materials, and utilities.

Commodity markets benefited from supply disruption stemming from the Russia-Ukraine war and a safe haven/inflation bid for gold. WTI oil (+4.76%) closed above $100 while natural gas surged 28%. Commodity gains were broad based during the month with grains, industrial metals, and precious metals participating in the rally.

From an economics and earnings perspective, the landscape looks relatively encouraging with the glaring exception of the prevailing global inflationary conditions. The labor market is very tight with unemployment nearly back to pre-pandemic record low levels. Both the services and manufacturing sectors are solidly in expansionary territory with robust levels of activity while restrictive Covid health policy measures have largely disappeared with China's zero tolerance policy the only material global outlier. As we move into the first quarter earnings season, the S&P 500 is estimated to post 4.5% profit growth with a good possibility of hitting a fifth consecutive quarter of over 10% once earnings beat rates and margins begin to take shape.

Market Anecdotes

- In what Bespoke coined the 'immaculate correction' we've seen earnings estimates rising with stock prices (and multiples) falling, reflecting a relatively constructive forward runway translating to P/E multiple compression given the Fed tightening cycle and prevailing geopolitical risks.
- Across twelve separate Fed speaking engagements, officials made clear the need for rates to reach neutral and move into restrictive territory, while maintaining flexibility along the way.
- A key decision point for the economy and stock market will be what level is the true 'neutral rate' of interest. Is it the FOMC's terminal rate of 2.4% or is it closer to 3-4%? Stock markets would appreciate the Fed halting hikes below the neutral rate in the short term, policy would eventually have to counteract remaining too stimulative in the long-term.
- Strategas increased the percentage likelihood of recession to 35% due to the economic impacts of Fed tightening, higher rates, inflation, supply chain disruptions, and commodity price shocks. Meanwhile, yield curve slopes and economic data continue to paint a constructive picture.
- European policy makers will attempt to offset the impact of the Ukraine crisis through looser fiscal spending and U.S. lawmakers have reopened the door to negotiations on the reconciliation package in a slimmed down version of the initial $3.5t proposal but several roadblocks remain.
- The BCA geopolitical team is assigning a high likelihood that China will help Russia manage U.S. sanctions leading to U.S. sanctions on China later this year.

- Sector leadership across the U.S. markets so far in 2022 is basically energy then everything else, a mirror image and clear departure from the technology led market over the past three years.
- U.S. equity markets falling and rising over 10% in a quarter is both very rare and perhaps (historically?) a positive setup to the coming months.
- While the stock market bounced sharply higher over the last two weeks of March, the bond market did not. Bianco Research noted March was the eighth consecutive month of losses for The Global Aggregate Index.
- March saw an inversion of the 2yr/10yr slope, triggering much hand wringing and recession talk. The reliability of the indicator and equity market performance following inversions are mixed at best.

Economic Release Highlights

- The March employment report showed payrolls increasing 431,000 (490,000 expected), taking the U3 unemployment rate down to 3.6% and the U6 unemployment rate down to 6.9%. Labor force participation edged up 0.1% to 62.4% - a tight labor market with supply in wait.
- The February Personal Income and Outlays reported personal income (0.5%a vs 0.5%e) and expenditures (0.2%a vs 0.5%e). YoY headline (6.4%) and core (5.4%) inflation were in line while MoM came in at 0.6% and 0.4%, respectively.
- Eurozone inflation jumped to 7.5% in March, well in excess of the 6.7% consensus estimate and largely due to a 44.7% spike in energy prices.
- The March Consumer Confidence reading of 107.2 was in line with consensus of 107.0.
- UofM Consumer Sentiment survey reading of 59.7 for March was a 3.1-point drop and below consensus expectation of 61.7.
- The Case-Shiller Home Price Index rose 1.8% in January, slightly ahead of consensus expectations for 1.4%. The YoY rate of appreciation was 19.1% versus an 18.4% consensus.
- U.S. Housing Starts (1.769mm), Housing Permits (1.859mm), and Existing Home Sales (6.020mm) were relatively in line with expectations.
- The March Housing Market Index fell just short of expectations at 79 versus consensus of 81.
- March ISM Manufacturing and Service index readings remained in expansionary territory but both slightly short of consensus (57.1 v 59.0, M) (58.3 v 58.5, S)
- Final Markit PMI data readings (C,M,S) for March across the U.S (57.7, 58.8, 58.0), EU (54.9, 56.5 ,55.6), and global (52.7, 53.0 ,53.4) showed a mix bag of results with the US slightly underperforming while EU readings beat consensus.
- China PMIs (C, M, S) of 48.8, 49.5, 48.4 fell into contractionary territory.

Positioning

The renewed appetite for a fast and firm removal of monetary policy accommodation sets the table for yields to press higher and elevated interest rate and equity market volatility in the near term. This and the ongoing conflict in Ukraine will continue to exert near term pressures on financial and commodity markets. The fluidity of the Ukraine situation and increasing hawkishness of the Fed bolsters a cautious view of risk assets in the short term but this is countered by robust global economic conditions across most developed markets and corresponding healthy corporate earnings making the case for a cautiously optimistic outlook over the intermediate term.

Acknowledging the uncertainty surrounding the Ukraine situation and inflation/supply chain dynamics, we believe a healthy and recovering economy, fading Covid-19 dynamics, sound corporate earnings, and a strong labor market should drive markets through sharply higher but still historically low interest rates amid what is still the early stages of a Fed tightening cycle. This brings us to more of a neutral short-term view on equities with a more constructive posture into the last half of 2022.

Across equity markets we are favoring value-oriented exposures over higher valuation/growth pockets (select tech and shadow tech) which may continue to face headwinds. Fixed income investors should continue to maintain a modestly short duration and remain overweight credit sectors.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	34678	2.49	(4.10)	(4.10)	7.11	12.57
NASDAQ	14221	3.48	(8.95)	(8.95)	8.06	23.57
S&P 500	4530	3.71	(4.60)	(4.60)	15.65	18.92
Russell 1000 Growth		3.91	(9.04)	(9.04)	14.98	23.60
Russell 1000 Value		2.82	(0.74)	(0.74)	11.67	13.02
Russell 2000		1.24	(7.53)	(7.53)	(5.79)	11.74
Russell 3000		3.24	(5.28)	(5.28)	11.92	18.24
MSCI EAFE		0.76	(5.79)	(5.79)	1.65	8.29
MSCI Emg Mkts		(2.22)	(6.92)	(6.92)	(11.08)	5.31

Fixed Income	Δ Yield	1 Mo	3 Mo	YTD	1 Yr	3 Yr
US Aggregate	1.83	0.03	0.06	0.06	(0.30)	(0.87)
High Yield	4.50	0.08	0.24	0.24	(0.48)	(1.05)
Municipal	1.79	0.04	0.08	0.08	(0.12)	(0.42)

Commodities	3/31/22	1/31/22	10/31/21	7/31/21
Oil (WTI)	103.29	89.16	83.50	73.93
Gold	1942.20	1795.30	1769.20	1825.80

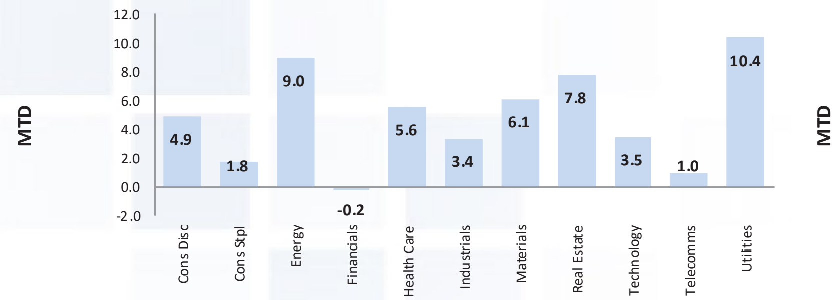
Currencies	3/31/22	1/31/22	10/31/21	7/31/21
USD/Euro ($/€)	1.11	1.12	1.16	1.19
USD/GBP ($/£)	1.32	1.34	1.37	1.39
Yen/USD (¥/$)	121.44	115.22	114.03	109.70

Treasury Rates	3/31/22	1/31/22	10/31/21	7/31/21
3 Month	0.52	0.22	0.05	0.06
2 Year	2.28	1.18	0.48	0.19
5 Year	2.42	1.62	1.18	0.69
10 Year	2.32	1.79	1.55	1.24
30 Year	2.44	2.11	1.93	1.89

Style Returns

	V	B	G
L	2.82	3.37	3.91
M	3.04	2.56	1.61
S	1.96	1.24	0.46

S&P 500 Sector Returns



	V	B	G
L	-0.74	-5.13	-9.04
M	-1.82	-5.68	-12.58
S	-2.40	-7.53	-12.63

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