

April was the cruelest month of the year thus far with all major global financial assets performing poorly with the exception of the U.S. dollar. Monetary policy, inflation, supply chain disruptions, Chinese zero tolerance Covid policy, and the war in Ukraine combined to push rates and commodities sharply higher and global equities lower. After posting one of the only positive numbers in March, U.S. equity markets lost 8.7% in April, one of the worst returning equity markets globally with technology stocks leading the way down as evidenced by the NASDAQ marking its worst monthly decline since the global financial crisis in 2008. Chinese equity markets (-4.1%) saw a late month rally with expectations of easing both monetary policy and technology regulation while Europe was a top relative performer losing only 0.75% in local currency terms but -5.75% after adjusting for the strong U.S. dollar.

Fixed income markets posted a fifth consecutive month of losses with both U.S. bonds (-3.75%) and non-U.S. bonds (-6.99%) losing substantial ground. Interest rates crept higher on monetary policy (Fed among others) and inflation concerns with inflation data sticking at multi-decade highs. High yield credit spreads moved methodically higher through the month, from 3.43% to 3.97% but remain relatively low in a longer-term context.

Commodity markets enjoyed another strong month of gains mostly through the energy and agricultural complexes while industrial and precious metals both lost ground in April. The Russia-Ukraine war has sent energy and agricultural prices soaring this year with oil (+44%) and natural gas (+103%) as well as corn, wheat, soybeans up 27%-38%.

The labor market, economic activity, and corporate earnings all look relatively encouraging with elevated inflation and its uncertain path forward posing questions to any bullish thesis. Unemployment of 3.6%, service and manufacturing surveys solidly in expansionary territory, and U.S. earnings growth of approximately 9% all suggest relatively healthy underlying fundamentals.

Market Anecdotes

- FactSet noted that, through April, 55% of S&P 500 companies have reported earnings with beats and margins of 80% and 3.4% respectively. Blended earnings growth is at 7.1%. Revenue beats and margins of 72% and 2.2% alongside revenue growth of 12.2% remain relatively encouraging.
- The yield on the 10-year Treasury note posted its biggest monthly gain in 13 years. Global bonds have lost 11.30% in the first four months of the year and 5.48% just in April resulting in the worst monthly and YTD return in history. Bloomberg's U.S. Aggregate Index posted worse monthly returns on only two occasions, October 1979 and February 1980 during the last bout of runaway inflation in the U.S.
- Stocks are also off to their worst start on record. The S&P 500 is down 12.9% so far this year, marking the index's worst YTD return in almost 95 years of history.
- The Nasdaq dropped 13.2% just in the month of April; its worst showing since October 2008. The index is down 21% in 2022; its worst start to a year on record. The FANMAG complex lost over \$1 trillion in market cap just in April.
- Commodities continued to power higher in April. The Bloomberg Commodities Index returned 30.75% in the first four months of the year, far outpacing the returns at a similar point of any other year on record.
- For the month, WTI rallied 4.4% and finished the month at \$104.7 per barrel. Factors include lack of Russian supply to the West, Saudis holding back supply, and US ramp up. April's rally marks a five-month streak of higher prices which is second on record only to the eight-month rally of late 2010/early 2011.
- The French election victory of Emmanuel Macron over Marine Le Pen gave markets a dose of familiarity and certainty with respect to France's role within the EU and globally.

- Fed comments have firmed up market expectations of the pace and scale of rate hikes with 325bps currently priced in over the next twelve months. In response, the Bloomberg Aggregate bond index (YTD) has experienced its worst return in history.
- April data releases from China reveal a mixed bag of moderate growth countered by Covid-19 related drag on economic activity at a time with depressed private sector demand and weak housing market. Shipping congestion in Chinese ports is also clearly on the rise.
- A weak Yen in 2022 hasn't translated to strong performance by Japanese exporters as evidenced by Japan's equity market being down double-digits. Several forces factoring in with a rebound/reversion opportunity seemingly still in wait.
- The NFIB Small Business Optimism Index of 93.2 was within consensus range but slightly lower than the point forecast of 95.0.
- The April Consumer Confidence Index registered 107.3, higher than the 106.8 expectation and in line with the prior month. The April UofM Consumer Sentiment reading of 65.7 came in well above consensus of 58.8.
- The Case-Shiller Home Price Index rose 2.4% MoM and 20.2% YoY, both more than consensus expectations. New Home Sales of 763k were within the consensus range of 757k-800k while Pending Home Sales fell 1.2%, in line with the -1.1% forecast.
- The April Housing Market Index was relatively unchanged from the prior month (77 versus 79) maintaining a relatively high level of optimism across homebuilders. Housing Starts (1.793M) and Permits (1.873M) both beat consensus while Existing Home Sales (5.77M) missed consensus.

Economic Release Highlights

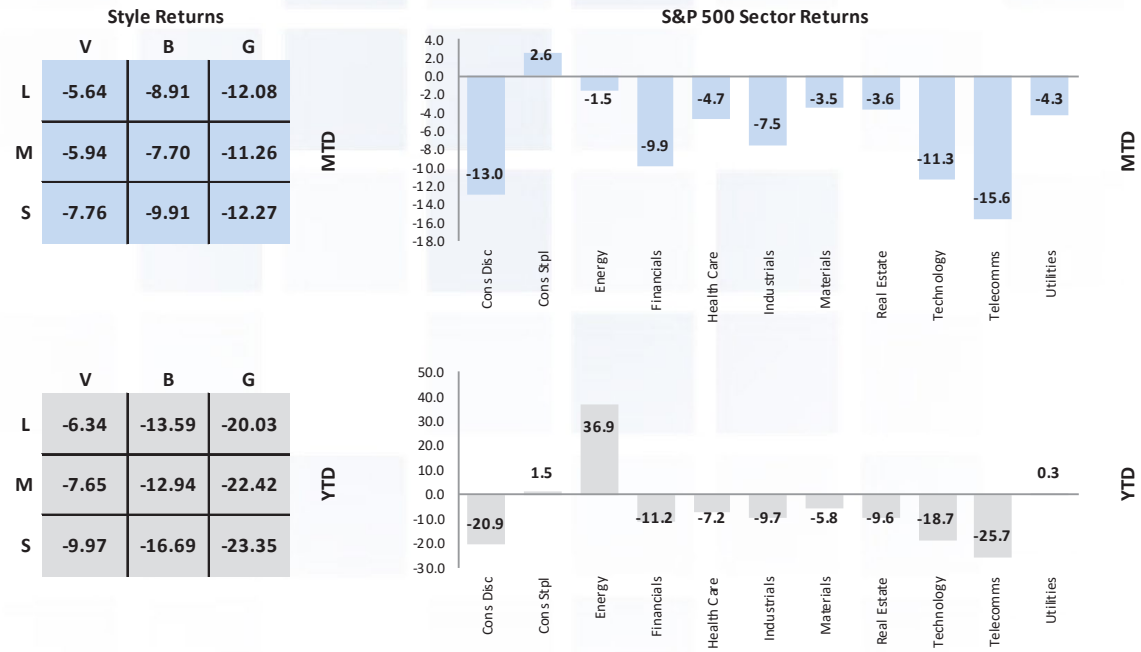
- April's Employment Report showed payrolls increasing 428,000, an unemployment rate of 3.6%, a decrease in labor market participation to 62.2%, and YoY hourly earnings increase of 5.5%.
- Headline and core CPI registered 8.5% and 6.5% respectively with MoM increases of 1.5% and 0.3%, all relatively in-line with consensus expectations.
- Headline and core PPI registered 11.2% and 9.2% respectively, with MoM increases of 1.4% and 1.0%, all higher than their respective consensus estimates.
- Personal Income and Outlays headline and core PCE inflation were 6.6% and 5.2% YoY (0.9% and 0.3% MoM). Meanwhile, the Dallas Fed trimmed-mean PCE accelerated to 3.7% YoY.
- The April U.S. ISM Manufacturing Index registered 55.4, short of consensus call of 58.0 while ISM Services registered 57.1, also short of consensus at 58.6.
- April U.S. PMIs (C, M, S) of 55.1, 59.7, 54.7 saw manufacturing readings surprise on the upside but services coming in under consensus.
- Eurozone and Japan PMIs (C, M, S) of (55.8, 55.3, 57.7) and (50.9, 50.7, 50.5) respectively had Europe exceeding on all three metrics and Japan registering mildly expansive results.

Positioning

Elevated uncertainty stemming from the Russia-Ukraine conflict and supply chain issues combined with tightening monetary policy have us expecting a continuation of interest rate and equity market volatility in the near term, but the war in Ukraine seems unlikely to expand into a larger conflict. Covid case counts in China are falling sharply, and inflation is probably peaking. While the fluidity of the war in Ukraine has the potential to translate to a material upside (truce) or downside (energy embargos) catalyst for risk assets and therefore is a challenging consideration for risk asset positioning, markets have priced in a good deal of rate increases and ensuing multiple compression leading us closer to a tactical upgrade to equity market beta and bolstering a constructive intermediate-term view. Our base case expectation is that peak inflation is upon us, and the second half of 2022 will allow for the Fed to reassure market participants. Decelerating inflation should also relax the strong upside bias to interest rates.

Across equity markets we are continuing to favor value-oriented exposures over higher valuation/growth pockets (select tech and shadow tech) and international equities over U.S. counterparts with the expectation that currencies, valuation discounts, and recovering fundamentals will aid the former. Fixed income investors should begin to extend duration back toward neutral and remain overweight credit sectors.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr	Commodities	4/30/22	2/28/22	11/30/21	8/31/21
Dow Jones	32977	(6.48)	(4.57)	(8.73)	(1.36)	9.82	Oil (WTI)	105.18	96.13	66.14	68.43
NASDAQ	12335	(15.60)	(10.27)	(21.00)	(11.83)	15.72	Gold	1911.30	1909.90	1804.40	1814.90
S&P 500	4132	(10.70)	(6.43)	(12.92)	(0.50)	13.88	Currencies	4/30/22	2/28/22	11/30/21	8/31/21
Russell 1000 Growth		(14.46)	(9.89)	(20.03)	(5.99)	16.54	USD/Euro (\$/€)	1.05	1.12	1.14	1.18
Russell 1000 Value		(7.31)	(3.00)	(6.34)	0.51	9.78	USD/GBP (\$/£)	1.26	1.34	1.33	1.37
Russell 2000		(12.53)	(5.01)	(16.69)	(17.92)	6.57	Yen/USD (¥/\$)	129.84	115.11	113.22	110.05
Russell 3000		(11.06)	(6.42)	(13.78)	(3.87)	13.13	Treasury Rates	4/30/22	2/28/22	11/30/21	8/31/21
MSCI EAFE		(7.01)	(6.45)	(11.80)	(8.62)	5.03	3 Month	0.85	0.35	0.05	0.04
MSCI Emg Mkts		(5.06)	(9.11)	(12.09)	(19.07)	2.49	2 Year	2.70	1.44	0.52	0.20
Fixed Income	Δ Yield	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Year	2.92	1.71	1.14	0.77
US Aggregate	1.89	0.06	0.09	0.12	(0.16)	(0.84)	10 Year	2.89	1.83	1.43	1.30
High Yield	4.74	0.24	0.35	0.47	(0.15)	(0.82)	30 Year	2.96	2.17	1.78	1.92
Municipal	1.84	0.04	0.07	0.13	(0.05)	(0.37)					



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