Market Commentary—First Quarter of 2022

U.S. stocks and bonds had a dismal start to 2022. The financial markets suffered their worst decline in two years in the first quarter of 2022. The markets staged a come-back the last two weeks of March that paired losses, but still left all the major indices with a negative performance for the first quarter. The backdrop for the markets contains the headwinds of war, highest year over year inflation rate since 1981, higher short and long-term interest rates, and greater risk of recession. Historically, the financial markets decline during uncertain times brought on by war and recessions. The “Black Swan” events of the Pandemic and Russia’s invasion of Ukraine simply are outliers and outcomes are highly unpredictable. The news cycle has totally shifted away from Covid-19 and is dominated by the Ukraine conflict. It is likely that trade and economic growth is going to be negatively impacted by this war.

The Energy sector and the Commodities as an asset class was the best performing area of the equity markets. Consumer Staples and Utilities also had positive returns this quarter as investors move to these sectors for safety in uncertain times. Given increasing interest rates the bond market sold off dramatically (as interest rates rise the value of bonds decrease). Please note that the broad-based Barclays U.S. Aggregate Bond Index was down 5.9% this quarter (see below), it’s worse quarterly loss since September 1980.

The first quarter earnings season which begins this week will provide investors with company specific results of their ability to manage margins given inflationary pressures and supply constraints. We anticipate that corporate earnings will be impacted by higher wages and supply chain costs for the remainder of the year. Earnings do matter to investors, and we believe this earnings season will be very telling and will set expectations for the remainder of 2022.

The table below illustrates First Quarter, Last 12 Months and 2021 Returns (percentages are for total returns):

Time Period	Dow Jones Industrial	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate Bond
First Quarter	-4.1	-4.6	-8.9	-5.9
Last 12 Months	7.1	15.6	8.0	-4.1
Calendar Year 2021	20.9	28.7	22.2	-1.5

Higher Inflation and Interest Rates

It is anticipated that the Federal Reserve (FED) will continue to raise the federal funds rate at each of their meetings for the remainder of this year. The FED will also be reducing their balance sheet by liquidating its bond holdings, which will decrease money supply and increase long-term interest rates. The goal is to slow the economy and bring the inflation rate down. The housing market has had the most immediate impact as mortgage rates have just crossed over 5% resulting in mortgage demand being down more than 40% from a year ago. Oil prices are on the rise, due to decreased world supply resulting from sanctions against importing oil from Russia. The U.S. is a major oil-producing nation but is not self-sufficient in oil using approximately two million barrels a day more than it produces. However, the price of oil is based upon global oil prices not the quantity of oil the U.S. imports.

Despite higher prices and rising interest rates, consumers are willfully spending money on travel, leisure, and entertainment as life is getting back to “normal” after being impacted for two years by the COVID 19 pandemic. During the pandemic consumers paid down their debt and it appears that they are now increasing debt to pay for the increased cost of living. Expected increased consumer spending should help the economy over the spring/summer months of this year.

Please review this report and contact us if you wish to schedule a time to discuss your investment portfolio, the current markets and economy or any other related financial matter in person or over a video/phone call.