April 2022 Market Update

Special points of interest:

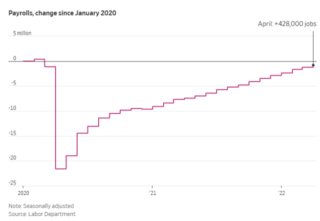
- A month of fear on Wall Street produced notable losses for both stocks and bonds in the month.
- The Fed is now in a hurry to end stimulus and get ahead of high inflation by raising interest rates and shrinking its balance sheet.
- It is going to be tough on stock and bond markets for the next few months of Fed rate increases, especially if we touch into a recession.
- However, market results year to date are average for down years and may be the set up for a positive 2023.

Inside this issue:

The Markets in April 2022

It was a month of fear on Wall Street, as concerns about high inflation, rising interest rates, and recurring geopolitical tensions dominated headlines and created market volatility. For the month, the Dow Jones Industrial Average lost 4.9% while the broader S&P 500 index dropped 8.8% (its worst monthly loss since October 2008) and the tech-heavy Nasdaq index fell a staggering 13.3%.

Unusually, market damage extended to bonds as well, continuing a historic fixed income rout. In April, the yield on the 10-year U.S. Treasury note recorded its biggest monthly increase since 2009, from 2.324% at the end of



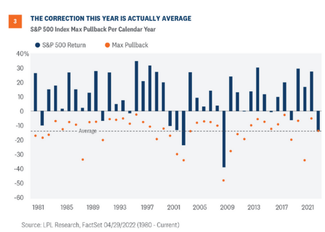
March to 2.885% at the end of April. After claiming last year that high inflation was 'transitory', the Federal Reserve is now in a hurry to end stimulus, both by raising rates (50 bp this week) and by shrinking its balance sheet.

Somewhat lost in the panic around increased rates is the idea that rate increases are contingent on fundamental domestic economic strength. To this point, the U.S. economy added 428k jobs in April, and the unemployment rate remained steady at 3.6% according to the Labor Department. This report marked the 12th consecutive month of employment gains and underscores the fact that labor gains are both a driver of consumer strength and higher wage-based inflation.

The Federal Reserve has decisively shifted from accommodative stimulus (the party's punch bowl) to a tightening stance.

The Look Ahead

Where do we go from here? Volatility in early May has only increased from April's level as we move from speculation about what the Fed could do to the fact of tightening monetary policy. It is going to be tough in both stock and bond markets over the next few months as investors parse Fed commentary and try to ascertain how the economy will react. The dreaded 'R' word (recession) has



surfaced now as one possible outcome to rising interest rates and slower economic growth, with some economists estimating a 33% chance of this possibility.

To put these events in a longer-term perspective, though, it's helpful to realize that the market correction we have seen to date is actually normal. The chart here shows that the S&P 500 index has fallen 14% on average in down years since 1980, in line with current results. Instead of considering this one of the worst market starts to a year ever, maybe we are just partying like it's 2002?

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