April 5, 2022

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March 2022 Market Update

Special points of interest:

- **Domestic stock markets posted positive results for the month but negative for the quarter.**
- **5% dips and 10% corrections are not causes for worry if they happen during periods of rising economic strength.**
- **However, it's clear that we are at the end of an era of 0% rates.**
- **It's time to start getting defensive against the risk of a rate– and energy-induced recession later in the year.**

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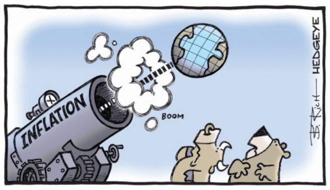
The Markets in March 2022

Geopolitics notwithstanding, March's market results proved a welcome respite from the prior two months' selling pressures. The S&P 500 and Nasdaq indices posted a 3.6% and 3.4% increase respectively for the month, and the Dow rose 2.3%. For the quarter as a whole, however, the S&P 500 index fell 4.9% while the average U.S. stock fund dropped 6.2% and the average international stock fund fell 8.3% according to tracking service Refinitiv Lipper. Bonds fared no better in the quarter, down 5.9% including reinvested interest as the 10-year Treasury rate rose from 1.512% at the end of 2021 to 2.327% by March's end.

Crises & Corrections Though Painful, are Inevitable

	Occurrences Since 1928	Frequency of Occurrences
5% Dip	320	≈ 3 per year
10% Correction	99	≈ 1 per year
20% Bear Market	26	≈ every 3 years

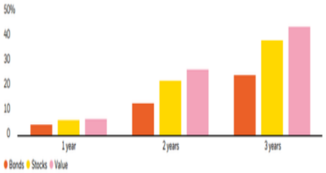
It's clear that war in Europe and rising international tensions are playing a significant role in investor perceptions of risk. However, inflation continues to be the market's leading concern, with the latest Commerce Department readings showing that prices were 6.4% higher this February than in the prior year. With the resulting headwinds to both equities and bonds, perhaps its timely to remember that market corrections are not abnormal. Far from it, they happen often—a 5% drop in markets (as we have seen with the S&P 500 this quarter, for instance) has historically happened up to 3 times per year, as in the chart here. It's also worth remembering that the Fed's projected forward rate increases are meant to address growing strength in our domestic economy.



February's 6.4% inflation reading was the largest year-over-year rise since January 1982—and is happening worldwide concurrently.

The Look Ahead

For the path forward on interest rates, the Fed is weighing persistently high inflation against potential economic disruption from the ongoing war in Ukraine and recurring Covid infections. Still, it's clear that we are facing the end of an era as the inexorable pull on rates will be up. This will continue to cause short-term pain to stocks and bonds, with the impact most concentrated in those sectors with the highest 'duration'. Further, high energy costs will weigh on our global economy and likely restrain (or eliminate) short-term growth. With this in mind, it's time to start getting defensive against the risk of a rate-and energy-induced recession later in the year. Bonds may require more active management in this environment, and stock-picking will need to be more selective. Unlike with bonds, though, rising rates in a time of economic strength tends to be intermediate-term positive for some stock categories like value over 1-3 years, as seen here.



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