SIGHT|LINES
MARKET **PULSE**

April 22, 2022

MARKET PULSE

- Equities fell today, led by declines in the Materials and Health Care sectors.
- The S&P 500 fell by 2.77% , the Dow Jones Industrial Average (Dow) fell 2.82%, and the Nasdaq fell 2.55%.
- Non-U.S. markets fell: The Nikkei 225 (Japan) was down 1.63%, and the DAX (Germany) was down 2.48%.
- The Treasury curve flattened with the U.S. 2-year Treasury settling at 2.69%, and the U.S. 10-year at 2.90%.

CATALYSTS

- U.S. equity markets fell, as weaker corporate earnings results and the prospect for a more aggressive Federal Reserve (Fed) weighed on sentiment. Fed Chair Jerome Powell recently said that a half point interest rate increase "will be on the table" during the May meeting, and that it may be prudent to front-end load tightening. Traders of Fed funds futures are pricing in 250 basis points of tightening before the year is over. On top of mind for investors is whether the Fed will be able to achieve a "soft landing," curbing inflation without causing a recession. The war in Ukraine is complicating the Fed's strategy, as it's further exacerbating inflation and supply chain issues. We discuss whether or not inflation is peaking in our latest Sight|Lines.
- First quarter (Q1) 2022 earnings season is underway, and the estimated earnings growth rate for the S&P 500 is 6.6%. This is lower than prior quarters given the difficult comparison to the unusually high earnings in Q1 2021 (91.1%), but also the continued macroeconomic headwinds, including higher costs and supply chain issues. If the energy sector was excluded, the S&P 500 earnings growth rate would fall to 0.7%. For the full year, earnings are expected to grow 11%.

INVESTMENT STRATEGY OUTLOOK

- We are in a period of intense uncertainty, with a wider range of potential outcomes. Volatility will likely be higher until there is further clarity on several items: How long will the conflict in Ukraine last? Will the Fed change policy? How will higher commodity prices impact inflation and company earnings? Are we headed into a recession?
- It's hard to predict how the war will resolve, and therefore we assess the environment through various scenarios. The U.S. has limited direct exposure to Russia, but the war could impact the U.S. economy through two main channels: 1) higher oil and commodity prices and 2) tightening financial conditions. The biggest risk is a scenario in which sustained higher prices slow consumer spending, financial conditions tighten through market volatility and Fed policy, and businesses postpone investment. We assign a lower probability to this outcome.
- We believe the U.S. economy will grow above-trend in 2022, and earnings will be positive as the lingering effects of COVID-19 restrictions ease, supply chain issues resolve, and consumer spending remains strong. But, given the uncertainty in the current environment, our conviction in this view is more muted than usual. In our portfolios, we are focusing further on quality and earnings stability.
- While we have entered a correction and may experience multiple periods of weakness during the year, we foresee the S&P 500 ending the year higher from current levels. We don't expect interest rates to rise much higher from here, but above-trend economic growth and inflation will likely provide some upward pressure.

Past performance does not indicate future results. The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market, and Capital Market. The Nikkei 225 consists of the shares of the 225 largest companies in Japan. DAX Index consists of the 30 most actively traded German companies on the Frankfurt Stock Exchange.

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