

MARKET PULSE

- Equities fell today, led by declines in the consumer discretionary and information technology sectors.
- The S&P 500 fell by 2.81%, the Dow Jones Industrial Average (Dow) fell 2.38%, and the Nasdaq fell 3.95%.
- Non-U.S. markets were mixed: The Nikkei 225 (Japan) was up 0.41%, and the DAX (Germany) was down 1.20%.
- Treasury yields fell with the U.S. 2-year Treasury settling at 2.49% and the U.S. 10-year at 2.74%.

CATALYSTS

- The general risk-off sentiment continued in U.S. equity markets, with the S&P 500 falling in seven out of the last 10 trading sessions. No particular factor triggered today's decline; instead, we believe the issues that have been present for much of this year are weighing on investors.
- *Inflation:* Can the Federal Reserve (Fed) achieve a "soft landing," curbing inflation without causing a recession? Fed funds futures are pricing in an additional 225 basis points of policy tightening in 2022. The advance estimate for first quarter GDP will be released on Thursday and the Fed's preferred measure of inflation (PCE) on Friday.
- *S&P 500 Earnings:* As of Friday, one-fifth of the S&P 500 had reported earnings, with 79% beating analyst expectations. The estimated earnings growth rate for the S&P 500 in the first quarter is 6.6%. However, the increase in analysts lowering estimates for future earnings has raised questions about the sustainability of earnings growth.
- *Ukraine:* Russia's Foreign Minister Sergei Lavrov said in an interview yesterday that the danger of a nuclear war over Ukraine is real and shouldn't be underestimated. It was also reported today that Russia halted gas deliveries to Poland. Furthermore, there are also growing fears that Moldova's breakaway region may be drawn into the war.
- *China:* The latest outbreak of COVID-19 cases has led to strict lockdowns and renewed worries of an economic slowdown and possible spillover effects to the global economy, particularly via prolonged supply chain issues.

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: [Has inflation peaked?](#) How will the Fed adjust policy to ensure a "soft landing?" How will higher commodity prices impact inflation and company earnings? Are we headed into a recession?
- It's hard to predict how the Ukraine war will resolve, and therefore we assess the environment through scenarios. The biggest risk is a scenario in which 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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