

# MARKET PULSE

April 28, 2022

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- Equities rose today, led by advances in the information technology and communication services sectors.
- The S&P 500 rose by 2.47%, the Dow Jones Industrial Average (Dow) rose 1.85%, and the Nasdaq was up 3.06%.
- Non-U.S. markets were up: The Nikkei 225 (Japan) was up 1.75%, and the DAX (Germany) was up 1.35%.
- Treasury yields rose with the U.S. 2-year Treasury settling at 2.63% and the U.S. 10-year at 2.84%.

## CATALYSTS

- Investors looked through today's advance GDP estimate for the first quarter (-1.4% annualized) and focused on the underlying composition, which showed solid consumer demand and business investment. Positive earnings results from several large companies in the information technology sector helped boost sentiment. The S&P 500 has fallen six of the last 10 weeks as a number of uncertainties have been weighing on markets:
- *Inflation*: Can the Federal Reserve (Fed) achieve a "soft landing," curbing inflation without causing a recession? The Fed's preferred inflation measure (PCE) will be released tomorrow. The U.S. economy is estimated to grow 3.2% this year.
- *S&P 500 Earnings*: As of today, 40% of the S&P 500 has reported earnings with 76% of companies beating analyst expectations. The estimated earnings growth rate for the S&P 500 in the first quarter is 5.5%. The increase in analysts lowering estimates for future earnings has raised questions about the sustainability of earnings growth.
- *Ukraine*: This week Russia halted gas deliveries to Poland and Bulgaria. While Poland says it has sufficient gas reserves to limit the impact, some investors are wary that this is the start of a general weaponization of commodities. 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 disruptions.

## 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 the items listed above. Clarity, or the lack thereof, on any one of these uncertainties could quickly lead to a sharp change in investor sentiment.
- 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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