

MARKET PULSE

May 4, 2022

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- Equities rose today, led by advances in the energy and communication services sectors.
- The S&P 500 rose by 2.99%, the Dow Jones Industrial Average (Dow) rose 2.81%, and the Nasdaq was up 3.19%.
- Non-U.S. markets were down: The DAX (Germany) was down 0.49% and the Nikkei (Japan) was closed for holiday.
- Treasury yields fell with the U.S. 2-year Treasury settling at 2.63% and the U.S. 10-year at 2.92%.

CATALYSTS

- The Federal Reserve (Fed) increased the federal funds rate by 50 basis points as it acknowledged that “inflation is much too high” and it’s “moving expeditiously to bring it down.” Chair Jerome Powell said that additional 50-basis-point hikes are “on the table” for the next few meetings, but 75-basis-point hikes aren’t actively being considered. Equity markets rallied on these comments. The Fed also said that beginning on June 1, it will begin quantitative tightening (QT), allowing \$47.5 billion of Treasuries and mortgage-backed securities to roll off its balance sheet. The S&P 500 has fallen in six of the last 10 weeks as a number of [uncertainties](#) have been weighing on markets:
- *Inflation: [Has it peaked?](#)* Can the Fed achieve a “soft landing,” curbing inflation without causing a recession?
- *S&P 500 Earnings:* As of today, 70% of S&P 500 companies have reported earnings with 78% of companies beating analyst expectations. The estimated earnings growth rate for the S&P 500 in the first quarter is 7.2%. The increase in analysts lowering estimates for future earnings has raised questions about the sustainability of earnings growth.
- *Ukraine:* Russia has halted gas deliveries to Poland and Bulgaria and investors are wary that this is the start of a general weaponization of commodities. Ukrainian officials reported that Russia may announce a general mobilization on May 9. 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 some of 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, 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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