

MARKET PULSE

May 5, 2022

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- Equities fell today, led by declines in the consumer discretionary and information technology sectors.
- The S&P 500 fell by 3.55%, the Dow Jones Industrial Average (Dow) fell 3.12%, and the Nasdaq was down 4.99%.
- Non-U.S. markets were down: The DAX (Germany) was down 0.49% and the Nikkei (Japan) was closed for a holiday.
- Treasury yields rose with the U.S. 2-year Treasury settling at 2.70% and the U.S. 10-year at 3.03%.

CATALYSTS

- There is no real catalyst for today's decline, as the same issues that markets have been contending with continue to weigh on investors. The Federal Reserve's (Fed) 50-basis-point hike was what the market expected, but investors are jittery as to whether the Fed will be successful in taming inflation. Economic data today showed inflationary pressures remain with nonfarm productivity declining more than expected, while labor costs increased amid a tight job market. The S&P 500 has fallen in six of the last 10 weeks, as a number of [uncertainties](#) continue to weigh on markets.
- *Inflation: [Has it peaked?](#)* Can the Fed achieve a "soft landing," curbing inflation without causing a recession? Chair Jerome Powell expressed the view yesterday that there is a "good chance" for a "soft or softish" landing.
- *S&P 500 Earnings:* As of today, 77% 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 7.5%. The increase in analysts lowering estimates and some technology companies guiding lower for future earnings has brought into question the sustainability of earnings growth.
- *Ukraine:* 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 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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