

MARKET PULSE

- Equities rose today, led by advances in the consumer discretionary and information technology sectors.
- The S&P 500 rose by 2.39%, the Dow Jones Industrial Average (Dow) rose 1.47%, and the Nasdaq was up 3.82%.
- Non-U.S. markets were up: The DAX (Germany) was up 2.10%, and the Nikkei (Japan) rose 2.64%.
- Treasury yields rose with the U.S. 2-year Treasury settling at 2.60% and the U.S. 10-year at 2.94%.

CATALYSTS

- Stocks jumped today after declining 4.6% over the previous four trading sessions. Inflation data this week showed that the rate of inflation slowed for the first time in eight months, but the number was still above economists' expectations. The Consumer Sentiment Index fell to 59.1, below estimates, as persistent concerns over inflation weighed on consumers' outlook on the economy. Federal Reserve (Fed) Chair Jerome Powell gave reassurance in an interview that larger rate hikes (75 basis points) are off the table despite the hotter inflation reading. The S&P 500 has fallen for six straight weeks, as a number of uncertainties have been weighing on markets.
- *Inflation:* Can the Fed achieve a "soft landing," curbing inflation without causing a recession? Chair Powell believes there is a "good chance" for a "soft or softish" landing. The U.S. economy has had a soft landing in three of the last 10 rate hike cycles, with the most recent following the 2015-2018 rate hikes.
- *S&P 500 Earnings:* As of today, 91% of S&P 500 companies have reported earnings with 76% beating expectations. The estimated earnings growth rate for the S&P 500 in the first quarter is 8.9%. The increase in analysts lowering estimates and lower guidance for future earnings have 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.
- 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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