

**MARKET PULSE**

- Equities fell today, led by declines in the communication services and information technology sectors.
- The S&P 500 fell by 2.38%, the Dow Jones Industrial Average (Dow) fell 1.94%, and the Nasdaq was down 2.75%.
- Non-U.S. markets were mixed: The DAX (Germany) was down 1.71%, and the Nikkei (Japan) rose 0.04%.
- Treasury yields rose with the U.S. 2-year Treasury settling at 2.82% and the U.S. 10-year at 3.05%.

**CATALYSTS**

- Stocks accelerated losses into the close as investor anxiety rose ahead of the inflation reading that's due to be released before U.S. markets open tomorrow. Disappointing labor market data weighed on sentiment as weekly filings for unemployment rose to the highest since January. The European Central Bank (ECB) said that it will raise interest rates by 25 basis points (bps) next month and potentially by 50 bps in September to combat higher inflation. While the decision was widely expected, the ECB raised its inflation projections once again, leading some investors to question if the ECB is behind the curve. The S&P 500 is down over 11% in the quarter, and we expect volatility to remain as a number of uncertainties continue to weigh on markets.
- [Inflation](#): Can the Federal Reserve (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](#): Analysts are forecasting 4.1% earnings growth for Q2 and 10.2% for the full year. 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. The European Union is accusing Russia of purposely attacking Ukrainian agriculture in a bid to worsen the global food shortage.
- [China](#): The latest outbreak of COVID-19 cases has led to strict lockdowns along with 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 slow, but still 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 being higher a year from now. 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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