

MARKET PULSE

- Equities rose today, led by advances in the energy and consumer discretionary sectors.
- The S&P 500 rose by 2.45%, the Dow Jones Industrial Average (Dow) rose 2.15%, and the Nasdaq was up 2.51%.
- Non-U.S. markets were up: The DAX (Germany) was up 0.20%, and the Nikkei (Japan) rose 1.84%.
- Treasury yields rose with the U.S. 2-year Treasury settling at 3.22% and the U.S. 10-year at 3.30%.

CATALYSTS

- U.S. stocks rose as sentiment improved following the selloff last week that led the S&P 500 into a bear market. Investors remain on edge following the 75-basis-point rate hike by the Federal Reserve (Fed) last week and its determination to bring down inflation at the cost of economic growth. The Summary of Economic Projections (SEP) showed that the Fed now sees below-trend economic growth and unemployment moving higher this year as it hikes rates further. Investors are increasingly concerned that the runway for a “soft landing” is narrowing, and this is leading to greater volatility. However, a recession isn’t inevitable. We see about a 2 in 3 chance (67%) the skies will begin to clear, inflation and interest rates will stabilize and start to fall, equity markets move higher, and we don’t yet enter a recession. Read more about our views going forward in our latest [Sight|Lines](#). The S&P 500 is down over 21% year to date, and we expect volatility to remain as a number of uncertainties continue to weigh on markets.
- ***Inflation:*** Can the Fed achieve a “soft landing,” curbing inflation without causing a recession? The Fed revised lower its GDP projection for 2022 to 1.7% versus 2.8% in March.
- ***S&P 500 Earnings:*** Analysts are forecasting 4.0% earnings growth for the second quarter and 10.4% 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 and company margins.
- ***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 at or 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 bear market 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 economic growth and inflation will likely provide 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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