WEEKLY MARKET UPDATE, APRIL 11, 2022

GENERAL MARKET NEWS

• The Federal Reserve (Fed)'s March meeting minutes were released last week and revealed a more hawkish theme, pointing to more aggressive policy moves at future meetings. In addition to quicker interest rate hikes to address the short end of the curve, the Fed also expressed their intent to shrink their balance sheet by $100 billion per month to help elevate the longer end of the curve. U.S. Treasury yields were up across the curve last week. The 2-, 5-, 10-, and 30-year U.S. Treasury yields rose 12 basis points (bps) to 2.46 percent, 25 bps to 2.71 percent, 32 bps to 2.66 percent, and 23 bps to 2.68 percent, respectively.

• Global markets were down last week, led by the Nasdaq Composite Index. The tech-biased index fell by more than 3.8 percent as rising 10-year Treasury yields led to concerns that the Fed was playing catchup to inflation. The rise in yields signals investors are selling bonds; inflation may be more persistent than originally expected, aided by the conflict between Russia and Ukraine. These expectations were echoed by the Fed's recent meeting minutes. Committee members discussed selling $95 billion per month in U.S. Treasuries and mortgage back securities, potentially starting at the May meeting. The result was higher long-term rates and more room to hike short-term rates. As a result of these expectations, technology, consumer discretionary, and communication services sold off since growth is fueled by cheap capital. This week, Consumer and Producer Price Index reports will indicate the magnitude of inflation over the course of March.

• On Tuesday, the ISM Services index for March was released. Service sector confidence improved slightly during the month, with the index increasing from 56.5 in February to 58.3 in March against calls for a larger increase to 58.5. This is a diffusion index, with values above 50 indicating expansion, so March's report is a sign of faster growth for the service sector. Service sector confidence was well supported through most of 2021, with diminishing health risks and pent-up consumer demand helping to drive business confidence to record highs. That said, the Omicron wave at the end of the year and start of 2022 negatively affected confidence levels, and the index has only now started to recover. Medical risks from the pandemic should remain muted given the improvements we've made in vaccination and natural immunity from previous exposure, which may help support a further rebound in business confidence in the months ahead.

- On Wednesday, the FOMC meeting minutes from the Fed's March meeting were released. The Fed increased the federal funds rate by 25 bps at this meeting, the first rate hike from the central bank since 2018. Given the shift in monetary policy at the March meeting and market expectations for further rate hikes throughout the year, the minutes from the meeting were widely anticipated. The release showed that Fed board members are concerned with inflationary pressure and are determined to tighten monetary policy to combat rising prices. We've already seen the central bank start to lift interest rates, and it also discussed plans to reduce the Fed's balance sheet at some point this year. Although no firm time frame was set on balance sheet reductions at the March meeting, the minutes indicated that the Fed may be prepared to start reducing the size of its balance sheet as soon as its next meeting in May.

WHAT TO LOOK FORWARD TO

On Tuesday, the March Consumer Price Index reports are set to be released. Consumer prices are expected to increase 1.2 percent during the month, up from the 0.8 percent increase we saw in February. On a year-over-year basis, consumer prices are expected to increase 8.4 percent in March, up from 7.9 percent in February. Much of the anticipated acceleration in consumer inflation in March is due to rising gas and food prices, which, in turn, are partially due to the Russian invasion of Ukraine. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to increase 0.5 percent in March. This would be in line with the 0.5 percent increase we saw in February. On a year-over-year basis, core consumer prices are set to increase 6.6 percent in March, up slightly from the 6.4 percent increase in February. Sustained high levels of consumer inflation can erode purchasing power and negatively affect confidence and spending, so this will continue to be a widely monitored monthly report.

Wednesday will see the release of the Producer Price Index report for March. As was the case with consumer prices, producer prices are expected to increase at a faster rate in March, driven, in large part, by rising food and energy costs. Headline producer prices are expected to increase 1.2 percent during the month and 10.6 percent on a year-over-year basis. This is up from February's 0.8 percent monthly and 10 percent annual increase in producer prices. Core producer prices, which strip out the impact of food and energy prices, are expected to increase 0.5 percent during the month and 8.4 percent on a year-over-year basis. Inflationary pressure has been high throughout the economy during the past year, driven by high levels of consumer demand, rising material costs, and tangled global supply chains. The Fed is expected to tighten monetary policy throughout the year to try and tame inflationary pressure.

On Thursday, the March retail sales report will be released. Retail sales are expected to increase 0.6 percent during the month, up from the 0.3 percent increase we saw in February. Core retail sales, which strip out the impact of volatile gas and auto sales, are expected to remain flat following a 0.4 percent decline in February. Headline consumer spending has held up well through the start of the year, as consumers were willing to go out and spend throughout the first quarter. That said, we may be seeing signs that rising gas, shelter, and food costs have started to crowd out other areas of spending. Looking forward, it will be important to monitor consumer spending reports for any signs of potential weakness, given that consumer spending accounts for the majority of economic activity in the country.

Thursday will also see the preliminary estimate of the University of Michigan consumer sentiment survey for April. Economists expect to see the index drop from 59.4 in March to

58.7 in April. If estimates hold, this would mark the lowest level for the index since 2011. Consumer sentiment has been challenged since last June, as rising inflationary pressure and shifting medical risks have weighed heavily on consumer sentiment. Recently, rising gas prices have caused further pain for consumers, which accounted for the large drop in sentiment we saw in March. Historically, higher levels of consumer sentiment have supported faster spending growth; however, consumer spending has remained relatively healthy over the past few months despite the notable drop in confidence. A rebound in confidence later in the year could support faster spending growth, but we'll likely need to see progress in combating inflation before seeing a notable increase in sentiment.

We'll finish the week with Friday's release of the March industrial production report. Industrial production is set to increase 0.4 percent during the month following a 0.5 percent increase in February. Part of the anticipated increase in production in March is due to expectations for higher capacity utilization, which is set to increase from 77.6 percent in February to 77.8 percent in March. Manufacturing production is expected to increase 0.4 percent following a 1.2 percent increase in February. Industrial production slowed in December, as high levels of absenteeism due to the Omicron variant caused a temporary lull in production; however, the rebound in production has been encouraging. If estimates hold for March, the manufacturing industry may continue to show signs of healthy growth to start the year following the temporary disruption from the Omicron variant at the end of 2021.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.24%	–0.90%	–5.46%	10.23%
Nasdaq Composite	–3.85%	–3.57%	–12.19%	–0.71%
DJIA	–0.23%	0.17%	–3.94%	4.65%
MSCI EAFE	–1.38%	–1.85%	–7.65%	–3.15%
MSCI Emerging Markets	–1.53%	–1.18%	–8.07%	–13.35%
Russell 2000	–4.60%	–3.63%	–10.88%	–10.15%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–2.08%	–7.89%	–6.61%
U.S. Treasury	–1.93%	–7.39%	–5.95%
U.S. Mortgages	–2.08%	–6.95%	–7.17%
Municipal Bond	–0.83%	–7.01%	–5.70%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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