WEEKLY MARKET UPDATE, APRIL 18, 2022

GENERAL MARKET NEWS

- Inflation increased 8.5 percent year-over-year in March, according to data released last week. Faced with this multidecade high, markets eagerly await the Federal Reserve's (Fed's) May meeting to see what's in store for interest rates and the Fed's balance sheet. An increasing number of top Fed officials have signaled support for a rate hike of 50 basis points (bps) at the May meeting, and minutes from the central bank's March meeting point to the addition of an aggressive balance sheet runoff of roughly $100 billion per month. The U.S. Treasury yield curve steepened, with the 2-year down 12 bps to 2.35 percent and the 5-year falling 3 bps to 2.65 percent. The 10-year increased 10 bps to 2.7 percent and the 30-year rose 18 bps to 2.81 percent.

- The S&P 500 fell for the second straight week. Investors continue to question how the Fed will navigate a soft landing for the economy with inflation and expectations for inflation reaching historic highs. Earnings season got rolling, with JPMorgan Chase, Wells Fargo, Goldman Sachs, and Morgan Stanley among notable banks reporting. Trade desks and better-than-expected credit quality were supportive, though JPMorgan CEO Jamie Dimon cited the Ukraine crisis as creating potential "storm clouds on the horizon." Despite this outlook, we saw additional signs of continued strong consumer demand via earnings reported by Delta Airlines, as people look to return to travel. Top performing sectors were materials, industrials, and energy. Underperforming sectors were technology, communication services, health care, and financials.

- On Tuesday, the March Consumer Price Index report was released. Consumer prices increased 1.2 percent, more than February's 0.8 percent increase but in line with economist expectations. Year-over-year, consumer prices rose 8.5 percent, up from 7.9 percent in February and slightly higher than the expected 8.4 percent year-over-year increase. Most of March's acceleration in consumer inflation was due to rising energy prices, which were caused by an 18.3 percent increase in gas prices. Core consumer prices, which strip out the impact of volatile food and energy prices, were much more encouraging. Core prices increased 0.3 percent, the lowest monthly increase since September 2021. On a year-over-year basis, core consumer prices rose 6.5 percent, slightly less than the expected 6.6 percent. Core consumer prices benefited from lower prices for used autos in March, and other signs indicated supply chain issues we've seen for the past year have improved.

• Wednesday saw the release of the Producer Price Index report for March. As was the case with consumer prices, producer prices increased at a faster pace last month. Headline consumer prices increased 1.4 percent, more than economist estimates for a 1.1 percent gain and greater than the 0.9 percent rise we saw in February. Year-over-year, producer prices rose 11.2 percent, up from 10.3 percent in February and above forecasts for a 10.6 percent increase. Core producer prices, which strip out the impact of food and energy prices, increased 1 percent during the month and 9.2 percent year-over-year, both above expectations. The larger-than-expected increases to headline and core consumer prices came about in large part because of an increase in producer service prices, including transportation and warehousing. Economists still mostly expect to see producer inflation peak soon as a result of global shipping improvements.

• Thursday saw the March retail sales report released. Headline sales increased 0.5 percent, slightly below economist forecasts for a 0.6 percent rise. February's retail sales growth was upwardly revised, however, from 0.3 percent to 0.8 percent, so the modest miss against expectations is understandable. Core retail sales, which strip out the impact of volatile auto and gas sales, increased 0.2 percent, in line with expectations. The solid headline and core retail sales growth in March was encouraging. Combined with the upward revision to the February report, this shows that consumer spending held up well to start the year following a temporary lull in sales in December.

• Thursday also saw the release of the preliminary estimate of the University of Michigan consumer sentiment survey for April. The report showed that sentiment improved, with the index rising from 59.4 in March to 65.7 against calls for a drop to 59. Improving consumer sentiment surrounding current economic conditions and future expectations drove this better-than-expected result. The index sits at a three-month high, which is an encouraging result after falling sentiment to start the year. Consumer expectations for inflation over the next one and three years did not change in April, which was also a sign that consumers don't expect to see the recent increases in energy and food costs linger. The strong job market also supported consumer sentiment; consumers expect to see income increase 2.7 percent, the highest such increase since 2006, over the next year. This may signal the start of a rebound in consumer confidence, particularly if inflationary pressure declines over the next few months.

WHAT TO LOOK FORWARD TO

On Monday, the National Association of Home Builders Housing Market Index for April was released. In line with expectations, this measure of home builder confidence dropped from 79 in March to 77. This is a diffusion index, where values above 50 indicate growth, so this result signals expansion for home builders, just at a slightly slower pace than in March. Home builder confidence has been well-supported throughout the past two years. Low mortgage rates, high levels of home buyer demand, and a lack of existing homes for sale have contributed to faster new home construction growth. That said, this report marks the lowest point for the index since September 2021, reflecting the challenges home builders are facing. So far in 2022, rising material and labor costs have weighed on home builder sentiment. These headwinds are expected to remain, at least for the short term.

Tuesday will see the release of the March building permits and housing starts reports. Both measures of new home construction are expected to slow, with permits and starts set to drop 1.4 percent and 1.2 percent, respectively. These reports can be very volatile on a month-to-month basis, however, and both permits and starts are well above pre-pandemic levels. So, if estimates prove accurate, the reports would mark very strong levels of home building on a historical basis. February saw housing starts hit their fastest pace since 2006, and permits weren't far behind. Given large home-builder backlogs, low supply of existing homes for sale, and rising prices, new home construction is expected to remain well above pre-pandemic levels. This environment should continue until we see home buyer demand dry up or new construction add enough units to offset some of the supply-and-demand imbalances in the housing market.

On Wednesday, we'll get a better look at home buyer demand with the release of the existing home sales report for March. Sales are set to drop 3.7 percent after a 7.2 percent decline in February. The large drop in February was largely due to a surge in existing home sales in January, which likely reflected buyers' efforts to lock in relatively low mortgage rates. Throughout the first quarter, we've seen mortgage rates rise notably. From the start of the year to the end of March, the national average for a 30-year mortgage rate increased from 3.27 percent to 4.9 percent. In the short term, higher rates, low supply of existing homes for sale, and rising home prices are expected to serve as a headwind for sales growth. If the March estimates hold, however, the pace of existing home sales would sit well above pre-pandemic levels, continuing to signal high levels of buyer demand.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–2.11%	–2.99%	–7.45%	6.43%
Nasdaq Composite	–2.62%	–6.10%	–14.50%	–4.37%
DJIA	–0.78%	–0.61%	–4.68%	2.62%
MSCI EAFE	–1.05%	–2.88%	–8.62%	–5.73%
MSCI Emerging Markets	–1.23%	–2.39%	–9.20%	–15.61%
Russell 2000	0.53%	–3.12%	–10.41%	–10.44%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–2.77%	–8.54%	–7.58%
U.S. Treasury	–2.49%	–7.92%	–6.83%
U.S. Mortgages	–2.56%	–7.40%	–7.85%
Municipal Bond	–1.36%	–7.51%	–6.64%

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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