WEEKLY MARKET UPDATE, APRIL 4, 2022

GENERAL MARKET NEWS

• The U.S. Labor Department's Friday report showed 431,000 jobs added in March, bringing the unemployment rate down to 3.6 percent. With employment numbers continuing to bolster the case for a more aggressive interest rate path moving forward, a rate hike of 50 basis points (bps) at the Federal Reserve (Fed)'s May meeting seems to be gaining momentum. U.S. Treasury yields were relatively stable over the past week with modest movements across the curve. The 2-year yield was up 1 bp to 2.38 percent, the 5-year fell 4 bps to 2.52 percent, the 10-year yield was up 3 bps to 2.4 percent, and the 30-year yield dropped by 4 bps to end the week at 2.5 percent. We saw a temporary inversion of the 10- and 2-year yields, adding to market concerns of a potential recession. Although inverted yield curves have historically preceded recessions, there are varying and unprecedented conditions in today's markets that make the future unpredictable.

• The three major domestic indices were mixed last week. The Nasdaq Composite led the way, posting modest gains as software names such as Adobe (ADBE) and Microsoft aided its move higher. The Dow Jones Industrial Average moved slightly lower as Intel (INTC), J.P. Morgan Chase (JPM), Chevron (CVX), and Home Depot (HD) moved lower. The sideways market is somewhat reflective of the calm before first-quarter earnings season and the release of the March Fed minutes. The biggest moves last week included the drop in West Texas Intermediate crude, which fell by 12.8 percent. This was the largest drop since April of 2020 as the Biden Administration announced it would release approximately 1 million barrels per day from the strategic petroleum reserves. Top-performing sectors included REITs, consumer staples, and health care. The move in REITs was a relief rally as this sector has been under pressure with mortgage rates hitting their highest levels since 2018. The worst-performing sectors included financials, energy, and industrials. The drop in oil adds to uncertainty around the Fed's rate path.

• On Tuesday, the Conference Board Consumer Confidence survey for March was released. The report showed that confidence rose from a downwardly revised 105.7 in February to 107.2 in March against calls for 107. Improving consumer views on the current state of the economy drove this modest rebound after it hit a one-year low in February, as the subindex rose to its highest level since last July. Declining medical risks and continued improvement for the labor market played a part in this improvement.

Future expectations declined to their lowest level since 2014 last month, largely due to consumer concerns about high inflation levels. Lower income consumers who were surveyed saw the largest drop in confidence in March, reflecting the disproportionate impact rising prices have. We'll likely need to see inflation come down before confidence rebounds to the pandemic-era highs we saw last summer.

• Thursday saw the February personal income and personal spending reports released. The report showed that personal spending increased by 0.2 percent, a smaller increase than the expected 0.5 percent growth. January's spending report was revised up from an initial estimate of 2.1 percent growth to 2.7 percent, which helps explain the miss against expectations in February. The revised January and new February reports indicate that consumer spending held up relatively well at the start of the year, despite headwinds created by the Omicron variant and rising prices. Personal income increased by 0.5 percent during the month, which was in line with economist estimates. The tight labor market helped support personal income growth, as wage and salary compensation increase by 0.8 percent in February, helping to offset a 0.3 percent drop in government transfer payments. Personal income is expected to show continued growth in the months ahead, which may help support continued spending growth.

• Friday saw the release of the March employment report, which showed an addition of 431,000 jobs—below economist estimates for 490,000 jobs but still very strong. The January and February reports were revised up by a combined 95,000 jobs, which helps explain some of the miss against expectation in March. The strong hiring growth helped drive the unemployment rate down to a 2-year low of 3.6 percent, which was better than the expected 3.7 percent. Wage growth increased by 0.4 percent for the month and 5.6 percent on a year-over-year basis, highlighting labor market recovery since the start of the pandemic. Given improvements we've seen for the job market and the economy's high inflation levels, the Fed is expected to focus on tightening monetary policy throughout the course of the year.

• We finished the week with Friday's release of the ISM Manufacturing report for March. This measure of manufacturing confidence declined by 58.6 in February to 57.1 against calls for an increase to 59. This is a diffusion index, with values above 50 indicating expansion, so this result still signals continued growth for the manufacturing industry despite the decline. Business confidence has been supported over the past year by strong demand for manufactured goods. Rising material and labor costs, however, have served as a headwind for the industry. New orders fell in March, likely reflecting the negative impact from rising prices and softening demand. That said, 15 of 16 sectors in the report showed growth in March, which is an encouraging sign that demand remains strong enough to support continued growth.

WHAT TO LOOK FORWARD TO

Tuesday will see the release of the international trade report for February. The trade deficit is expected to decline slightly during the month with forecasts calling for a drop from a record $89.7 billion in January to $88.5 billion in February. The advanced report showed that goods exports increased 1.2 percent, which was enough to offset the 0.3 percent increase in imports and cause the trade deficit for goods to decline in February. If estimates hold, this would represent the second-largest monthly trade deficit on record, trailing only the January deficit. The monthly trade deficit increased at the start of the pandemic, and the uneven global economic recovery and tangled supply chains caused the deficit to widen even further at the end of 2021 and the start of 2022. Given the high level of monthly deficits to start the year, net international trade is expected to serve as a headwind for GDP growth in the first quarter.

On Tuesday, the ISM Services index for March is set to be released. Service sector confidence is expected to improve during the month, with economists calling for an increase from 56.5 in February to 58.8 in March. This is another diffusion index where values above 50 indicate growth, so this anticipated result would signal faster expansion for the service sector. Service sector confidence was strong throughout most of 2021, as high levels of pent-up consumer demand helped drive the index to a record high of 68.4 last November. Since then, we've seen service sector confidence decline partially due to the rising medical risks created by the Omicron variant. The declining medical risks are expected to support a rebound in service sector confidence. This would be an encouraging signal that business owners remain confident in the current economic expansion and are willing to invest in their businesses.

On Wednesday, the FOMC meeting minutes from the Fed's March meeting are set to be released. The Fed raised the federal funds rate by 25 bps at this meeting, marking the first interest rate hike since 2018. Economists and investors will be paying close attention to these meeting minutes given the shift in monetary policy that was announced in mid-March. Looking forward, we can expect a sustained series of rate hikes throughout the year as the Fed tries to combat high levels of inflation throughout the economy. The minutes are expected to give us a better idea of the Fed's view on the current state of the economy and what factors could lead to a faster or slower series of rate hikes in the future. Given the Fed's influence on markets as the Fed seeks to normalize rates following two years with supportive policy, any updates from the central bank will be worth monitoring.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.08%	0.34%	–4.27%	14.68%
Nasdaq Composite	0.66%	0.29%	–8.68%	6.49%
DJIA	–0.12%	0.40%	–3.72%	6.98%
MSCI EAFE	0.78%	–0.48%	–6.36%	–0.03%
MSCI Emerging Markets	1.91%	0.36%	–6.64%	–12.51%
Russell 2000	0.68%	1.02%	–6.58%	–6.24%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.27%	–6.19%	–4.50%
U.S. Treasury	–0.28%	–5.84%	–4.00%
U.S. Mortgages	–0.37%	–5.32%	–5.20%
Municipal Bond	0.00%	–6.22%	–4.55%

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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