WEEKLY MARKET UPDATE, FEBRUARY 28, 2022

GENERAL MARKET NEWS

• The U.S. Treasury curve moved very little last week. The 2-year Treasury yield was up 4 basis points (bps), ending the week at 1.62 percent. The 5- and 10-year each rose 1 bp to finish at 1.91 percent and 1.97 percent, respectively, and the 30-year fell 2 bps over to end the week at 2.28 percent. As the world watches the Russian invasion of Ukraine, Federal Reserve (Fed) officials are expected to weigh how the conflict may affect its interest rate policy at its March meeting. Fed governor Christopher Waller recently signaled potential support for a 50-bps hike to begin the tightening cycle, and, more recently, addressed the complications from the situation in eastern Europe. "It is possible," Waller said, "that the state of the world will be different in the wake of the Ukraine attack, and that may mean that a more modest tightening is appropriate, but that remains to be seen."

• U.S. markets were a safe haven last week as war between Russia and Ukraine broke out. Investors flocked to assets away from the conflict as risk and uncertainty picked up in global markets. The Russell 2000 was up more than 1.5 percent, in part because U.S. small caps are well insulated from the situation overseas. Emerging markets and European markets, however, saw more dramatic moves to the downside. The MSCI Emerging Markets Index fell 4.85 percent last week; Russia made up approximately 4 percent of the index starting the week. Russian equities fell dramatically in the wake of European and U.S. sanctions. Elsewhere in Europe, we saw pressure on equities, with the MSCI EAFE Index (which holds exposure to the U.K., Japan, and Eurozone area) falling 2.49 percent. The Eurozone area is exposed to the conflict due to dependency on Russia energy imports, credit exposure via the banking sector, agricultural goods, and metals.

• On Tuesday, the Conference Board Consumer Confidence Index for February was released. This widely followed measure of consumer confidence declined slightly less than expected. The report showed that it fell from 113.8 in January to 110.5 against calls for a drop to 110. This marks two consecutive months with declining consumer confidence to start the year; however, the index stayed well above the pandemic-era low of 85.7 set during initial lockdowns. The decline in confidence to start the year is largely due to continued consumer concern about high levels of inflation throughout the economy. The decline in overall confidence in February was driven by lowered consumer expectations for future economic growth, which in turn was caused by rising 12-month

consumer inflation expectations during the month. Historically, improving confidence has helped support faster consumer spending growth, so this will continue to be a closely monitored report in the months ahead.

• Friday saw the release of the January personal income and personal spending reports. The spending report showed high levels of consumer demand to start the year, with spending up 2.1 percent against calls for a more modest 1.6 percent increase. This better-than-expected result echoes the better-than-expected increase in retail sales we saw to start the year. Personal spending fell by a downwardly revised 0.8 percent in December, so this quick rebound is an encouraging sign that December's weakness was likely a temporary lull caused by rising medical risks rather than the start of a downward trend for spending. Personal income also came in slightly better than expected, with average incomes remaining unchanged against calls for a 0.3 percent decline, signaling that high levels of wage growth were enough to offset the decline in income caused by the expiration of monthly child tax credits at the end of 2021.

• We finished the week with the release of the preliminary estimate of the January durable goods orders report on Friday. The report showed that durable goods orders increased more than expected, with headline goods orders increasing 1.6 percent against calls for a 1 percent increase. Core durable goods orders, which strip out the impact of volatile transportation orders, also impressed, with core orders up 0.7 percent against calls for a 0.4 percent increase. This marks 11 consecutive months with rising core durable goods orders, which is an encouraging signal for the pace of the overall economic recovery, given that core durable goods orders are often viewed as a proxy for business investment. In the months ahead, continued high levels of consumer demand for goods and services are expected to support continued business spending.

WHAT TO LOOK FORWARD TO

On Tuesday, the Institute for Supply Management (ISM) Manufacturing index for February is set to be released. This widely monitored measure of manufacturing confidence is expected to increase from 57.6 in January to 58. This is a diffusion index, where values above 50 indicate growth, so this anticipated result would signal faster expansion for manufacturers during the month. If estimates hold, this would also be the first increase in manufacturing confidence in four months, as concerns about inflation and the Omicron variant negatively affected sentiment at the end of 2021 and the start of 2022. Despite the decline in manufacturing confidence over the past four months, the index has remained in healthy expansionary territory since initial lockdowns were lifted in 2020, which has helped support strong levels of business investment throughout the pandemic. As we saw with the January durable goods orders report, business spending remained solid to start the year despite the modest drop in confidence in January. Ultimately, if estimates hold, this would be an encouraging sign that the manufacturing recovery is set to accelerate in the new year.

Thursday will see the release of the ISM Services index for February. Service sector confidence is also expected to improve during the month, with economists calling for an increase from 59.9 in January to 61. This is another diffusion index, where values above 50 indicate growth, so this result would signal continued healthy levels of service sector expansion. As was the case with manufacturing confidence, service sector confidence was negatively affected by the Omicron variant and inflation toward the end of 2021 and the start of 2022, so any

rebound for the index in February would be a positive sign. The service sector accounts for the majority of economic activity in the country. As such, an improvement to service sector confidence would be an encouraging development that should support continued business investment in the months ahead.

We'll finish the week with Friday's release of the February employment report. Economists expect to see 400,000 additional jobs added during the month, down from the 467,000 jobs that were added in January. Despite the anticipated slowdown in hiring, this would still represent a strong month of job gains on a historical basis. The underlying data is also expected to show improvements, as the unemployment rate is set to fall from 4 percent in January to 3.9 percent. If estimates hold, this would tie the lowest unemployment rate since the start of the pandemic. The labor market recovery throughout 2021 was impressive, given the headwinds created by inflation and the pandemic. The anticipated continued hiring growth to start 2022 would be a promising sign that the momentum from last year has carried over into this year despite remaining headwinds.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.84%	–2.77%	–7.80%	16.66%
Nasdaq Composite	1.10%	–3.75%	–12.37%	4.48%
DJIA	–0.03%	–2.85%	–5.99%	12.11%
MSCI EAFE	–2.49%	–1.84%	–6.58%	2.76%
MSCI Emerging Markets	–4.85%	–2.94%	–4.78%	–10.64%
Russell 2000	1.59%	0.70%	–8.99%	–6.35%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–1.88%	–4.00%	–3.40%
U.S. Treasury	–1.49%	–3.35%	–2.92%
U.S. Mortgages	–1.55%	–3.01%	–3.45%
Municipal Bond	–0.44%	–3.17%	–0.74%

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.

Authored by the Investment Research team at Commonwealth Financial Network.

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