WEEKLY MARKET UPDATE, MARCH 14, 2022

GENERAL MARKET NEWS

- February inflation numbers show a 7.9 percent increase in prices over the past 12 months, marking the fastest Consumer Price Index (CPI) acceleration since 1982 with oil prices adding to the pressure. All eyes will be on the Federal Reserve (Fed) this week as we wait to see what comes out of the March 15-16 meeting. Markets are anticipating a hike in interest rates—around 25 basis points (bps)—based on strong signals from Fed Chair Jerome Powell. Treasury yields rose across the curve last week. The 2-, 5-, 10-, and 30-year Treasury yields increased 17, 20, 15, and 15 bps, respectively.

- U.S. equities fell for a second consecutive week as geopolitical tensions continued to weigh on both stocks and investors' minds. Ukrainian and Russian diplomats met again last Thursday but failed to reach an agreement for a ceasefire. Energy stocks continued their move higher despite a more than 5 percent drop in in WTI crude following last week's 26 percent boost. Utilities and materials stock also performed well as short-term inflationary pressure loomed over equity markets. Top-performing individual stocks included Chevron (CVX), Caterpillar (CAT), Pfizer (PFE), Schlumberger (SLB) and ExxonMobil (XOM). Sectors that struggled included technology, health care, and consumer staples. Apple (AAPL), Microsoft (MSFT), Tesla (TSLA), Procter & Gamble (PG), and Meta Platforms (FB) were notable detractors. Names like Tesla continue to come under pressure due to uncertainty about growth putting pressure on their higher valuations.

- Thursday saw the release of the February Consumer Price Index report. The report showed that the pace of monthly and year-over-year consumer inflation increased. Consumer prices increased 0.8 percent, which was up from the 0.6 percent increase we saw in January but in line with economist estimates. On a year-over-year basis, consumer inflation increased from 7.5 percent in January to 7.9 percent in February. This marks the highest annual increase in consumer prices since 1982. Inflationary pressure was widespread, as the high level of core consumer inflation shows. Core consumer prices, which strip out the impact of food and energy prices, increased 0.5 percent during the month and 6.4 percent year-over-year. Consumer prices have experienced significant inflationary pressure over the past year, driven by high levels of consumer demand, shipping bottlenecks, and rising material and labor costs. The recent Russian invasion of Ukraine is also expected to contribute to short-term inflationary pressure.

- We finished the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for March. Consumer confidence fell more than expected to start the month, as the index dropped from 62.8 in February to 59.7 against calls for a more modest decline to 61. This drop was caused by declining consumer expectations for future economic conditions, which, in turn, was largely a result of rising short-term inflation expectations. The report showed that 1-year inflation expectations increased from 4.9 percent in February to 5.4 percent in March, which was well above economist estimates for an increase to 5.1 percent. Food and gas prices were already rising before the Russian invasion of Ukraine, and the conflict contributed to the surge in inflation expectations during the month. Looking forward, we'll likely need to see inflation cool notably before consumer confidence returns to pre-pandemic levels.

WHAT TO LOOK FORWARD TO

On Tuesday, the February Producer Price Index report will be released. Economists expect to see annual producer inflation accelerate during the month, with headline prices set to rise 1 percent in February and 10 percent on a year-over-year basis. As was the case with consumer inflation, producer inflation is expected to be widespread across most sectors. Core producer prices, which strip out the impact of volatile food and energy prices, are set to increase 0.6 percent during the month and 8.7 percent on a year-over-year basis. Producers have had to contend with rising labor and material costs over the past year, and the recent rise in energy and commodity prices is expected to fuel additional inflation in the months ahead. The consistently high levels of both consumer and producer inflation are expected to drive the Fed to tighten monetary policy throughout the year to tamp down the recent price increases.

On Wednesday, the February retail sales report is set to be released. Retail sales are expected to increase 0.3 percent during the month following a 3.8 percent increase in January. January's surge in spending was largely a rebound following a decline in spending in December, so the anticipated slowdown in February is understandable. Core retail sales, which strip out the impact of volatile gas and auto sales, are set to increase 0.6 percent following a 3.8 percent increase in January. The January retail sales report showed that consumer demand remained strong to start the year despite headwinds created by the Omicron variant. If we see another month with rising retail sales, it would be an encouraging sign that consumers remain willing to go out and spend, which would be a good sign for overall economic growth.

Wednesday will also see the release of the National Association of Home Builders Housing Market Index for March. This measure of home builder confidence is set to decline slightly from 82 in February to 81 in March. This is a diffusion index where values above 50 indicate growth, so this would still be a strong result despite the anticipated decline. Home builder confidence has been well supported for the past two years, as prospective home buyer demand surged following the expiration of initial pandemic lockdowns. The supply of existing homes available for sale remains low on a historical basis, which has helped keep home builders confident that any newly built homes will be quickly purchased. Historically, high levels of home builder confidence have helped support faster construction growth, which we've seen throughout the pandemic.

The final major release on Wednesday will be the FOMC rate decision from the Fed's March meeting. The Fed is expected to hike the federal funds rate 25 bps, which would represent the first rate hike since the Fed cut interest rates to virtually zero in March 2020 at the start of the pandemic. The Fed has provided unprecedented levels of support to the economy over the past two years, and the anticipated rate hike would be a step toward normalizing monetary policy. Given the labor market improvements since the expiration of initial lockdowns and the high levels of inflation throughout the economy, the Fed is expected to continue tightening policy throughout 2022 to combat rising prices. Economists and investors will be paying close attention to the post-meeting press release as well as Chairman Powell's press conference to see if there are any hints on the expected path and pace of future Fed action. Markets are currently pricing for up to six potential rate hikes throughout the year, so this meeting is expected to be a starting point for hikes but by no means an end point.

On Thursday, the February housing starts and building permits reports are set to be released. Economists expect to see mixed results, as starts are expected to increase 3.8 percent during the month, while permits are set to fall 1.7 percent. Building permits currently sit at their highest level since 2006, so the modest anticipated decline is not a major concern for this often volatile report. Housing starts declined in January but remain well above pre-pandemic levels, bolstered by continued high levels of home builder confidence, strong home buyer demand, and a lack of existing homes for sale. Given the continued low level of available homes for sale and rising housing costs, any additional construction would be a good sign for the health of the overall housing market.

Thursday will also see the release of the February industrial production report. Production is expected to increase 0.5 percent during the month, following a 1.4 percent increase in January. Manufacturing output, which rose a relatively muted 0.2 percent in January, is set to increase 1.1 percent in February, largely due to the declining health risks from the Omicron variant that allowed factories to reopen. Capacity utilization is set to increase from 77.6 percent in January to 77.9 percent in February, which would represent the highest utilization rate since mid-2019. If estimates hold, this report would be an encouraging sign that the slowdown in production we saw at the end of 2021 was largely driven by rising medical risks due to Omicron and is largely behind us for now.

We'll finish the week with Friday's release of the February existing home sales report. Sales of existing homes are set to drop 4.6 percent during the month following a better-than-expected 6.7 percent increase in sales in January. The strong January result brought the pace of existing home sales to a one-year high. Even with the anticipated pullback in February, the pace of existing home sales is expected to remain above pre-pandemic levels. Part of the January surge in sales was likely due to prospective home buyers rushing to lock in low mortgage rates given expectations for higher rates in 2022, which explains the anticipated pullback in February. Looking forward, rising prices, a lack of available homes for sale, and rising mortgage rates are all expected to serve as headwinds for faster home sales growth, but home buyer demand is expected to remain strong and could help support sales near current levels.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–2.84%	–3.82%	–11.53%	8.11%
Nasdaq Composite	–3.51%	–6.57%	–17.79%	–2.95%
DJIA	–1.91%	–2.67%	–8.93%	2.37%
MSCI EAFE	0.55%	–6.06%	–12.18%	–5.75%
MSCI Emerging Markets	–5.08%	–7.20%	–11.68%	–17.74%
Russell 2000	–1.03%	–3.28%	–11.66%	–15.00%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–1.60%	–4.79%	–3.01%
U.S. Treasury	–1.28%	–3.78%	–2.04%
U.S. Mortgages	–1.04%	–3.45%	–3.64%
Municipal Bond	–1.35%	–4.39%	–2.70%

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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