WEEKLY MARKET UPDATE, MARCH 28, 2022

GENERAL MARKET NEWS

• Although a rate hike of 50 basis points (bps) at the Federal Reserve's (Fed's) May meeting seems increasingly likely, it is anything but certain. Some Fed officials, including Chair Jerome Powell, have recently expressed a willingness to use a more aggressive increase of one-half of one percentage point if circumstances warrant. Influenced by those comments, the futures market is pricing in roughly 8 additional hikes of 25 bps before the end of 2022, but there are too many unknowns and rapidly changing conditions to make a prediction with any conviction. Last week, Treasury yields rose across the curve. The 2-year was up 22 bps to 2.14 percent, the 5-year rose 25 bps to 2.40 percent, the 10-year gained 20 bps to 2.37 percent, and the 30-year increased 7 bps to 2.54 percent.

• The S&P 500 gained 1.81 percent as investors moved out of bonds and into equities. The major driver seemed to be a more aggressive Fed, which plans to combat inflation with a pair of rate hikes at its May and June meetings. The question remains whether the hikes will be 25 bps, 50 bps, or a mix of the two. Inflation makes Treasury bonds less attractive because their fixed coupon payments are eroded by the effect of higher prices. As a result, investors have taken on more risk in the past two weeks as they seek equities that can provide growth and capital appreciation to offset the rising costs of goods. Top performing sectors this week were energy, materials, and utilities—all recent areas of inflation. West Texas Intermediate Crude was up 10.5 percent. Underperforming sectors included health care, REITs, and consumer discretionary.

• The February Producer Price Index report was released on Tuesday. The report showed that producer prices increased 0.8 percent during the month, which was slightly lower than the 0.9 percent monthly increase that was expected. On a year-over-year basis, producer prices rose 10 percent, which was in line with expectations. Core producer prices, which strip out the impact of volatile food and energy prices, increased a more modest 0.2 percent, and 8.4 percent on a year-over-year basis. Producer prices have seen high levels of inflationary pressure over the course of the past year, driven by rising material, transportation, and labor costs. As we saw with the February consumer inflation report, producers have started to pass along higher prices to consumers, which has contributed to high levels of consumer inflation to start the year. The Fed is expected to focus on stabilizing prices throughout 2022 with tighter monetary policy.

• On Wednesday, the February retail sales report was released. Retail sales increased 0.3 percent, which was slightly below economist estimates for a 0.4 percent increase. January's report was revised from an initial increase of 3.8 percent to 4.9 percent, making the modest miss for sales growth in February understandable. Despite continued sales growth, there are signs that rising gas costs have started to affect spending in other sectors. Core retail sales, which strip out the impact of gas and auto sales, declined 0.4 percent against calls for a 0.4 percent increase. March's retail sales report will be an important update, providing economists with a better idea of the true impact of rising gas prices on overall spending, given that gas prices have surged as a result of Russia's invasion of Ukraine.

• Wednesday also saw the release of the National Association of Home Builders Housing Market Index for March. This measure of home builder confidence fell slightly more than expected, with the index falling from 81 in February to 79. This is a diffusion index, with values above 50 indicating growth, so this result was still a sign that home builders remain confident despite the decline. The housing sector has been one of the strongest areas of the economy throughout the pandemic, driven by high levels of home buyer demand and record-low mortgage rates. Rising mortgage rates and scant inventory of available houses for sale may dissuade potential home buyers and slow sales growth; however, if home builder confidence remains near current levels, that would be enough to support strong new home construction growth.

• Wednesday's final major release was the Federal Open Market Committee (FOMC) rate decision from the Fed's March meeting. The Fed hiked the federal funds rate 25 bps at this meeting, marking the first rate hike since the Fed cut interest rates to virtually zero at the start of the pandemic. The widely anticipated update signals the start of the Fed's efforts to normalize interest rates following years of supportive policy. Of the nine voting members, eight approved of the interest rate increase, with the lone dissenter calling for a more aggressive hike of 50 bps. The Fed is expected to continue methodically increasing rates this year to tamp down the economy's inflationary pressure. It expects inflation to end the year well above its 2 percent target, which could lead to faster rate hikes and balance sheet reductions. Markets are currently pricing in roughly six more rate hikes for 2022, which is in line with the median Fed projection released at the meeting.

• On Thursday, February housing starts and building permits reports were released. These measures of new home construction were mixed. Housing starts increased 6.8 percent, well above the 3.8 percent increase that was expected, and permits dropped 1.9 percent against calls for a 2.4 percent decline. Permits had previously hit their highest level since 2006 in January, so the modest decline in this often-volatile report wasn't a major concern. The focus was instead on housing starts, which reached their strongest pace since February 2006. Part of the surge in new home construction was due to declining medical risks from the Omicron variant, though high levels of home buyer demand and home builder confidence also helped support the impressive increase in construction. Given the continued lack of supply of available homes for sale, this report was an encouraging sign that home builders continue to see strong demand for housing and are building and investing accordingly.

• We finished the week with Friday's release of the February existing home sales report. Sales of existing homes, which account for the majority of home sales in the country, fell 7.2 percent after a 6.6 percent increase in January. The February decline was slightly higher than economist estimates for a 6.2 percent drop in sales. The surge in sales in January brought the pace of home sales to a one-year high, as prospective home buyers rushed to lock in relatively low mortgage rates at the start of the year. The pullback in February was largely due to a lack of homes for sale and rising prices, as well as rising mortgage rates. The average 30-year mortgage rate increased from 3.78 percent at the end of January to 4.3 percent at the end of February. Looking ahead, rising mortgage rates and prices are expected to be a headwind.

WHAT TO LOOK FORWARD TO

On Tuesday, the Conference Board Consumer Confidence Index for March is set to be released. Confidence is expected to drop from 110.5 in February to 107. If estimates hold, this would be the third straight month with lowered confidence and would bring the index to its lowest level since February 2021. The previously released University of Michigan consumer sentiment survey showed that rising inflation concerns weighed on consumer sentiment during the month. Confidence is expected to remain well above pandemic-driven lows we saw in 2020 and early 2021. This should help support continued spending growth this month despite the anticipated index decline. Although rising prices may serve as headwinds for consumer confidence in the short run, we may see an uptick in sentiment if inflationary pressure starts to recede later in the year.

On Thursday, the February personal income and personal spending reports will be released, and both are expected to show improvement during the month. Spending is set to increase 0.5 percent after a 2.1 percent increase in January, and income is set to rise 0.5 percent after remaining unchanged in January. If estimates hold, this would mark two consecutive months of spending growth, which would be a positive sign for overall economic growth. Consumer demand proved to be strong in January despite headwinds created by inflation and the pandemic. The continued spending growth in February would be an encouraging sign that consumers remain willing to go out and spend. Income growth has been volatile throughout the pandemic due to shifting federal unemployment and stimulus payments; however, the strong job market is expected to support continued wage growth in the months ahead.

Speaking of the job market, Friday will see the release of the March employment report. Economists expect to see 475,000 jobs added during the month, which would be a decline from the 678,000 jobs that were added in February. If estimates are accurate, this would represent a strong month of hiring growth on a historical basis. The underlying data is also expected to improve, as the unemployment rate is set to fall from 3.8 percent in February to 3.7 percent. Average hourly earnings are expected to increase 0.4 percent. The pre-pandemic low for unemployment was 3.5 percent, and the fact that the unemployment rate is approaching this level highlights the impressive labor market recovery over the past two years. Given the improvements for the job market and the rise in inflationary pressure throughout 2021, the Fed is expected to focus on tightening monetary policy throughout 2022 to combat rising prices.

We'll finish the week with Friday's release of the Institute for Supply Management (ISM) Manufacturing index for March. This measure of manufacturing confidence is expected to decline slightly from 58.6 in February to 58.4. This is a diffusion index, where values above 50 indicate expansion, so if estimates hold, this report would still point toward continued manufacturing growth during the month. Last month, we saw the positive impact that high levels of manufacturing confidence can have, as manufacturing output increased more than expected while confidence remained high. Manufacturing confidence has been supported by high levels of demand for manufactured goods over the past year, but rising material and labor costs have served as headwinds for the industry. Looking ahead, continued demand for manufactured goods is expected to support manufacturing confidence and output in the months ahead.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.81%	3.98%	–4.35%	15.92%
Nasdaq Composite	1.99%	3.10%	–9.28%	8.55%
DJIA	0.31%	3.03%	–3.60%	7.38%
MSCI EAFE	0.19%	–0.61%	–7.09%	–0.33%
MSCI Emerging Markets	0.22%	–3.75%	–8.39%	–12.08%
Russell 2000	–0.38%	1.58%	–7.22%	–5.48%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–3.76%	–6.89%	–5.22%
U.S. Treasury	–3.91%	–6.36%	–4.76%
U.S. Mortgages	–3.52%	–5.87%	–5.86%
Municipal Bond	–3.20%	–6.19%	–4.42%

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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