Global Market Commentary – April 2022 Was Ugly

U.S. Markets Way Down in April

U.S. equity markets headed south for the month of April, as it had for 2 of the previous 3 months (January and February). Worse, when April's numbers are added to the first quarter of 2022, a not so pleasant record was achieved – the S&P 500 has recorded its worst start to the year since World War II.

But it wasn't just U.S. equity markets that performed poorly this month – developed markets outside the U.S. turned in rotten performance too – as 34 of the 36 developed markets tracked by MSCI declined. And performance for emerging markets was poor too, with 29 of the 46 in the red, including 5 emerging markets that lost more than 60% on the month.

For the month of April:

- The DJIA was down 4.9%;
- The S&P 500 was down 8.8%;
- NASDAQ was down 13.3%; and
- The Russell 2000 was down 10.8%.

The themes that drove market performance in April were the same themes that drove markets the previous three months – but those themes seemed to be on steroids in April.

Tensions in Ukraine increased, the 10-year Treasury kept rising, volatility spiked, supply chain issues persisted, inflation got worse, Fed-watchers grew more anxious and the notion of a recession and stagflation (no growth and inflation) started to dominate Wall Street's water-cooler talk.

Volatility, as measured by the VIX, increased significantly throughout the month, starting April in the low-20s and increasing by 65% as it ended the month just over 33.

West Texas Intermediate crude advanced slightly in April, beginning the month around $99/barrel and ending the month just less than $105/barrel. For perspective, at this time last year, the price of a barrel was about $64.

Market Performance Around the World

Investors looking outside the U.S. saw poor performance too, as 34 of the 36 developed markets tracked by MSCI were down in April, with a whopping 28 of them down by more than 8%.

And performance for emerging markets was just as poor, as 29 of the 46 developing markets were negative in April. And there were some huge negative numbers for emerging markets in April, with 3 indices cratering more than 60% on the month.

Index Returns	April 2022
MSCI EAFE	-8.49%
MSCI EURO	-14.39%
MSCI FAR EAST	-10.68%
MSCI G7 INDEX	-9.03%
MSCI NORTH AMERICA	-8.66%
MSCI PACIFIC	-6.65%
MSCI PACIFIC EX-JAPAN	+2.13%
MSCI WORLD	-8.61%
MSCI WORLD EX-USA	-7.86%

Source: MSCI. Past performance cannot guarantee future results

Sector Performance Was Mixed

For the month of April, sector performance was mixed, as only 4 of the 11 S&P 500 sectors were green, compared to 10 of the 11 last month.

And while four months is not very helpful when trying to draw conclusions, it is interesting to see the difference a few months can make, as investors were reeling in January when 10 of the 11 sectors were red (with only Energy gaining that month), March saw 10 of the 11 positive and April saw a mixed bag.

In addition, for April the range in sector-returns was unusually wide, with the Energy sector gaining over 14% and the Communications Services sector losing almost 20%.

Here are the sector returns for the month of April and March (two very short time-periods):

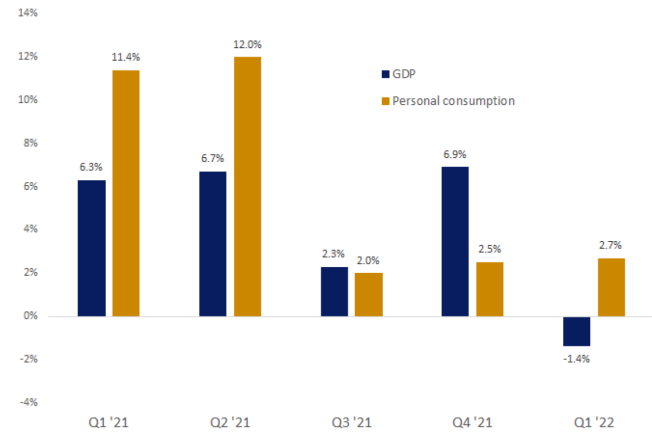
S&P 500 Sector	March 2022	April 2022
Information Technology	+3.44%	-10.53%
Energy	+8.78%	+14.32%
Health Care	+5.39%	-0.12%
Real Estate	+7.28%	-0.67%
Consumer Staples	+1.41%	+2.78%
Consumer Discretionary	+4.82%	-9.20%
Industrials	+3.29%	-4.56%
Financials	-0.35%	-10.88%
Materials	+5.82%	+2.09%
Communication Services	+0.93%	-19.02%
Utilities	+10.08%	+4.81%

Source: FMR

GDP Declines in the First Quarter

On almost the last day of the month, the Bureau of Economic Analysis reported that real gross domestic product decreased at an annual rate of 1.4% in the first quarter of 2022. In the fourth quarter, real GDP increased 6.9%.

The good news is that personal consumption remained strong, coming in at 2.7%.



“The decrease in real GDP reflected decreases in private inventory investment, exports, federal government spending, and state and local government spending, while imports, which are a subtraction in the calculation of GDP, increased. Personal consumption expenditures (PCE), nonresidential fixed investment, and residential fixed investment increased.

The decrease in private inventory investment was led by decreases in wholesale trade (mainly motor vehicles) and retail trade (notably, "other" retailers and motor vehicle dealers). Within exports, widespread decreases in nondurable goods were partly offset by an increase in "other" business services (mainly financial services). The decrease in federal government spending primarily reflected a decrease in defense spending on intermediate goods and services. The increase in imports was led by increases in durable goods (notably, nonfood and nonautomotive consumer goods).

The increase in PCE reflected an increase in services (led by health care) that was partly offset by a decrease in goods. Within goods, a decrease in nondurable goods (led by gasoline and other energy goods) was partly offset by an increase in durable goods (led by motor vehicles and parts). The increase in nonresidential fixed investment reflected increases in equipment and intellectual property products.”

In addition, the BEA reported that:

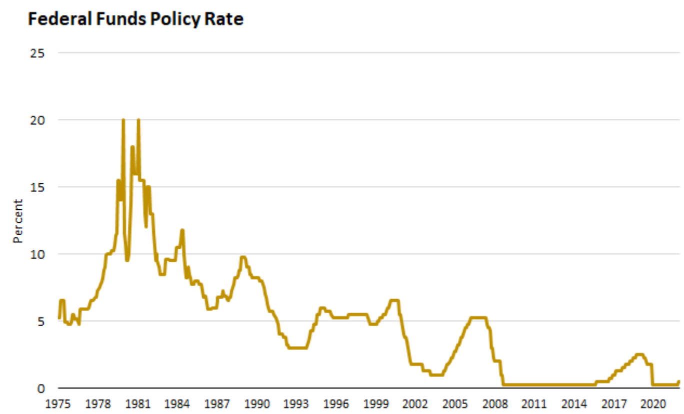
- Current-dollar GDP increased 6.5% at an annual rate, or $379.9 billion, in the first quarter to a level of $24.38 trillion.
- The price index for gross domestic purchases increased 7.8% in the first quarter, compared with an increase of 7.0% in the fourth quarter.
- The PCE price index increased 7.0%, compared with an increase of 6.4%. Excluding food and energy prices, the PCE price index increased 5.2%, compared with an increase of 5.0%.
- Current-dollar personal income increased $268.0 billion in the first quarter.
- Disposable personal income increased $216.6 billion, or 4.8%, in the first quarter.
- Real disposable personal income decreased 2.0%.
- Personal saving was $1.21 trillion in the first quarter, compared with $1.39 trillion in the fourth quarter.
- The personal saving rate – personal saving as a percentage of disposable personal income – was 6.6% in the first quarter, compared with 7.7% in the fourth quarter.

The Fed Gets Hawkish

A couple of Fed policy makers made statements and they were received as being very hawkish and somewhat surprising, in that the Fed is usually tight-lipped about its policies and internal discussions.

Nevertheless, James Bullard, president of the Federal Reserve Bank of St. Louis, stated that the Fed needs to move "expeditiously" to curb inflation by bringing interest rates to neutral or to a level that won't either stimulate or impede economic growth. Bullard further stated that an increase of 75 basis points could be up for discussion, although he was quick to state that he wouldn't start the discussion there.

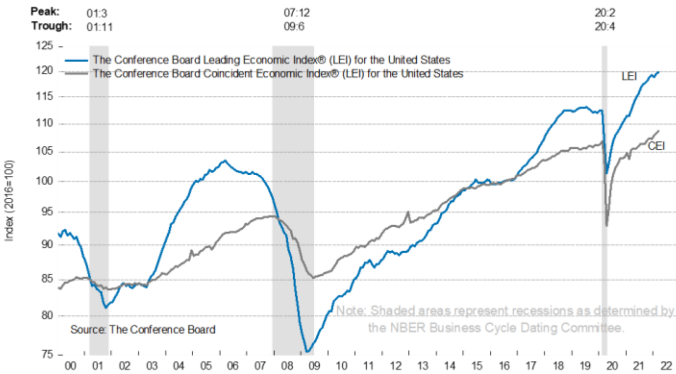
Then, speaking at an International Monetary Fund event, Fed Chair Jerome Powell said a 50-basis-point rate increase could be "on the table" for the upcoming policy meeting in early May. His exact words were: "it is appropriate…to be moving a little more quickly."



Leading Indicators Rise

The Conference Board Leading Economic Index for the U.S. increased by 0.3% in March to 119.8 (2016 = 100), following a 0.6% increase in February. The LEI increased by 1.9% in the six-month period from September 2021 to March 2022.

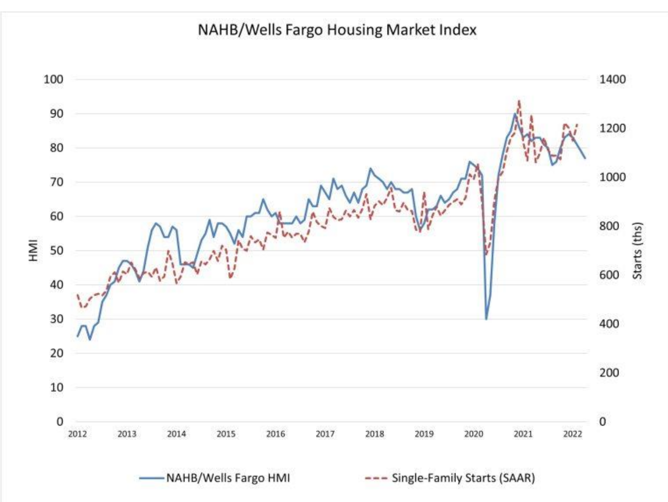
"The US LEI rose again in March despite headwinds from the war in Ukraine. This broad-based improvement signals economic growth is likely to continue through 2022 despite volatile stock prices and weakening business and consumer expectations. The Conference Board projects 3.0 percent year-over-year US GDP growth in 2022, which is slower than the 5.6 percent pace of 2021, but still well above pre-covid trend. This rate also reflects a 0.5 ppt downgrade incorporated in our base case to include the effects of the war in Ukraine compared to before the war (3.5 percent). However, downside risks to the growth outlook remain, associated with intensification of supply chain disruptions and inflation linked to lingering pandemic shutdowns and the war, as well as with tightening monetary policy and persistent labor shortages."



- The Conference Board Coincident Economic Index for the U.S. increased by 0.4% in March to 108.7 (2016 = 100), following a 0.4% increase in February
- The CEI increased by 2.2% in the six-month period from September 2021 to March 2022
- The Conference Board Lagging Economic Index for the U.S. increased by 0.6% in March to 110.9, following a 0.2% increase in February
- The LAG increased by 2.0% in the six-month period from September 2021 to March 2022

Builder Confidence Declines for 4th Month in a Row

The National Association of Home Builders announced that Builder Confidence for newly built single-family homes moved two points lower to 77 in April. This is the fourth straight month that builder sentiment has declined.



"Despite low existing inventory, builders report sales traffic and current sales conditions have declined to their lowest points since last summer as a sharp jump in mortgage rates and persistent supply chain disruptions continue to unsettle the housing market. Policymakers must take proactive steps to fix supply chain issues that will reduce the cost of development, stem the rise in home prices and allow builders to increase production.

The housing market faces an inflection point as an unexpectedly quick rise in interest rates, rising home prices and escalating material costs have significantly decreased housing affordability conditions, particularly in the crucial entry-level market."

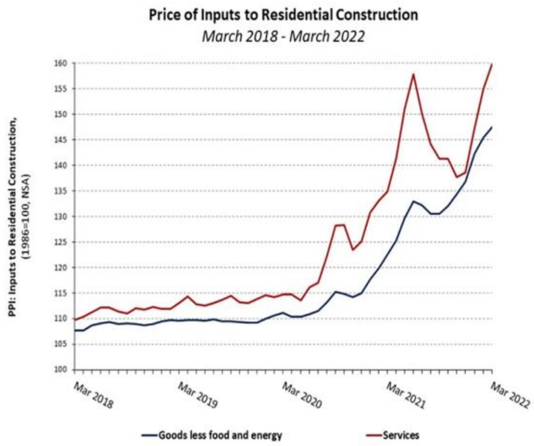
Further:

- Mortgage interest rates have jumped more than 1.9 percentage points since the start of the year and currently stand at 5%, the highest level in more than a decade.
- The HMI index gauging current sales conditions fell two points to 85 and the component charting traffic of prospective buyers posted a six-point decline to 60.
- The gauge measuring sales expectations in the next six months increased three points to 73 following a 10-point drop in March.

Looking at the three-month moving averages for regional scores, the Northeast posted a one-point gain to 72 while the Midwest dropped three points to 69, the South fell two points to 82 and the West edged one-point lower to 89.

33% Jump in Building Materials Since Pandemic

According to the latest Producer Price Index reported by the Bureau of Labor Statistics, the prices of goods used in residential construction ex-energy climbed 1.4% in March, following an upwardly revised increase of 2.2% in February and 4.1% in January. This adds up to an 8% jump in building materials prices since the start of 2022.



Building materials prices increased 20.4% year over year and have risen 33% since the start of the pandemic.

Earnings Holding Up Ok

As of the last day of the month, 55% of the companies in the S&P 500 had reported earnings for Q1 2022. According to research firm FactSet, "80% have reported actual EPS above estimates, which is above the five-year average of 77%. In aggregate, companies are reporting earnings that are 3.4% above estimates, which is below the five-year average of 8.9%."

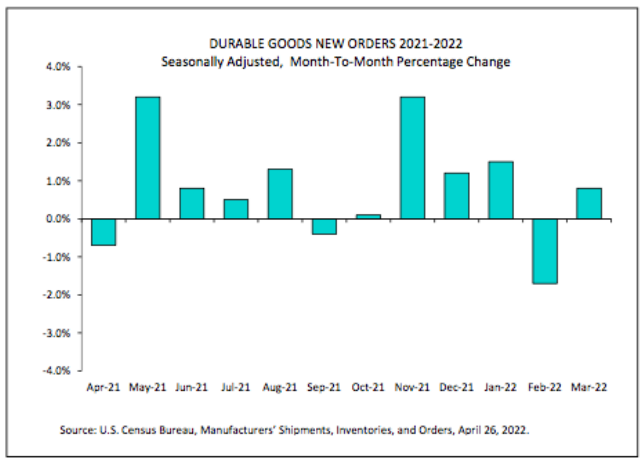
Further, FactSet reports that:

- "Looking ahead, analysts expect earnings growth of 5.5% for Q2 2022, 10.9% for Q3 2022, and 10.5% for Q4 2022.
- For CY 2022, analysts are predicting earnings growth of 10.3%.
- The forward 12-month P/E ratio is 18.1, which is below the five-year average (18.6) but above the 10-year average (16.9). It is also below the forward P/E ratio of 19.4 recorded at the end of the first quarter (March 31), as prices have decreased while the forward 12-month EPS estimate has increased over the past month.

Durable Goods Orders Up 5 of the Last 6 Months

The U.S. Census Bureau announced the Advance Durable Goods Orders report for March.

- New orders for manufactured durable goods in March increased $2.3 billion or 0.8% to $275.0 billion.
- This increase, up five of the last six months, followed a 1.7% February decrease.
- Excluding transportation, new orders increased 1.1%.
- Excluding defense, new orders increased 1.2%.
- Computers and electronic products, up two of the last three months, led the increase, $0.7 billion or 2.6% to $26.3 billion.



Sources: *conference-board.org; bea.gov; census.gov; factset.com; nahb.org; msci.com; fidelity.com; nasdaq.com; wsj.com; morningstar.com*