

Market Insights - April 15, 2022

MARKETS RETREAT AGAIN AS 40-YEAR HIGH INFLATION NUMBERS RATTLE WALL STREET, ESPECIALLY THE GROWTH AND TECH NAMES

- It was a holiday-shortened week, as markets were closed in observance of Good Friday, and U.S. equity markets needed the breather as growth and tech stocks struggled as interest rates marched forward and more bad inflation numbers were reported
- When the bell rang on Wall Street on Thursday afternoon, the tech-laden-NASDAQ (-2.3%) and the large-cap S&P 500 (-2.0%) underperformed significantly relative to the mega-cap DJIA (-0.7%) and the smaller-cap Russell 2000 (+0.5%)
- Traders were quick to recognize that the S&P 500 fell further below its 200-day moving average (4495) and also closed below its 50-day moving average (4418)
- Of the 11 S&P 500 sectors, 8 declined as the Information Technology (-3.8%), Communication Services (-3.0%), Health Care (-2.9%), and Financials (-2.7%) had a rough week
- Of the 3 sectors that performed well, Energy (+3.1) outperformed, as did the defensive Consumer Staples (+0.6) and Materials (+1.3%) sectors
- As was the case last week, the declines in the growth and tech names were driven by upward pressure in the Treasury market, as the 10-year Treasury yield jumped another 12 basis points and ended the week at 2.83%
- It was also the start of earnings season, and the big banks were the first to report, as there were notable misses from JPMorgan Chase and Wells Fargo
- WTI Crude oil rose about 2.6% and finished the week just a nickel under \$107/barrel

Weekly Market Update – April 15, 2022

	Close	Week	YTD
DJIA	34,451	-0.7%	-5.2%
S&P 500	4,393	-2.0%	-7.8%
NASDAQ	13,351	-2.3%	-14.7%
Russell 2000	2,119	-1.5%	-9.3%
MSCI EAFE	2,119	-1.5%	-9.3%
Bond Index*	2,154.04	-1.14%	-8.54%
10-Year Treasury	2.83%	+0.12%	1.3%

*Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results

Stocks Drop as Wall Street Digests Inflation Numbers

U.S. equity and bond performances were down again this week, as Wall Street digested very frothy inflation numbers as first quarter earnings season kicked off. As was the case last week, growth names and large-cap tech names were hit especially hard. Value stocks continued to outperform their growth cousins, but the small-caps picked up some momentum and outperformed the larger-caps.

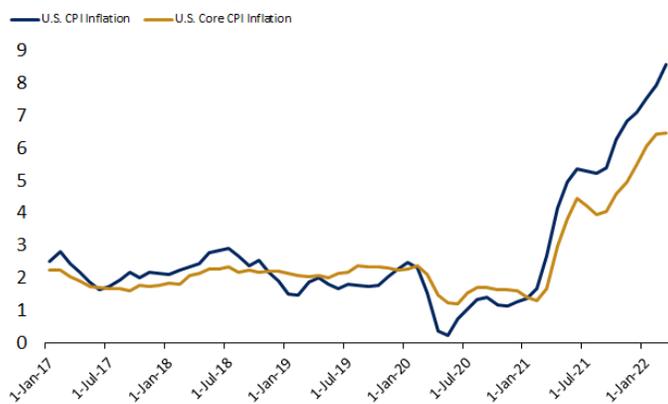
The market was closed Friday in observance of the Good Friday holiday and as was also the case last week, trading volumes were below average.

Earnings season kicked off and there were a few misses from the big banks, notably JPMorgan Chase and Wells Fargo. And as noted by research firm FactSet, analysts have been lowering earnings estimates and expected profits for most of the S&P 500 companies.

There was a decent amount of economic data in the holiday-shortened week, but Wall Street and the media focused on headline inflation numbers, which came in at 40-year highs. Specifically, on Tuesday the Labor Department reported that headline inflation leapt another 1.2% in March, which puts the 12-month increase to 8.5%, a level not seen since the early 1980s. One of the few silver linings in the CPI data was that the core rate excluding food and energy prices only rose 0.3%, whereas expectations were for an increase closer to 0.5%.

Surprisingly, markets rose when CPI data was released, as Wall Street floated the notion that inflation might be peaking, but those hopes were short-lived as oil prices marched steadily up.

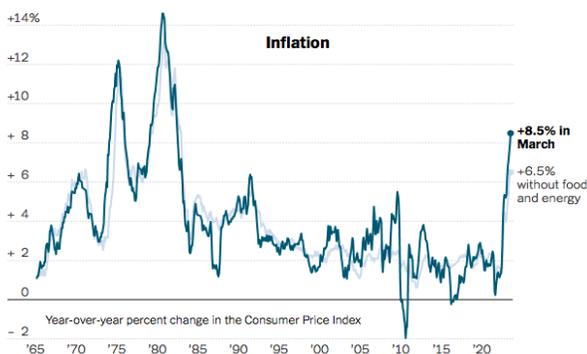
U.S. CPI and Core CPI Inflation (year-over-year %)



Inflation Hits Highest Level in 40 Years

The Consumer Price Index for All Urban Consumers increased 1.2% in March on a seasonally adjusted basis after rising 0.8% in February, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 8.5% before seasonal adjustment.

Inflation Since 1965



Source: Bureau of Labor Statistics

Details for March 2022

“Increases in the indexes for gasoline, shelter, and food were the largest contributors to the seasonally adjusted all items increase. The gasoline index rose 18.3% in March and accounted for over half of the all items monthly increase; other energy component indexes also increased. The food index rose 1.0% and the food at home index rose 1.5%.

The index for all items less food and energy rose 0.3% in March following a 0.5% increase the prior month. The shelter index was by far the biggest factor in the increase, with a broad set of other indexes also contributing, including those for airline fares, household furnishings and operations, medical care, and motor vehicle insurance. In contrast, the index for used cars and trucks fell 3.8% over the month.

The all items index continued to accelerate, rising 8.5% for the 12 months ending March, the largest 12-month increase since the period ending December 1981. The all items less food and energy index rose 6.5%, the largest 12-month change since the period ending August 1982. The energy index rose 32.0% over the last year, and the food index increased 8.8%, the largest 12-month increase since the period ending May 1981.”

Specific Price Increases

Here are a few of the price increases over the last year:

ITEM	INCREASE
Fuel Oil	+70.1%
Gas (all types)	+48.3%
Used Cars and Trucks	+35.3%
Gas Utilities	+21.6%
Meats/Fish/Eggs	+13.7%
New Cars	+12.5%
Electricity	+11.1%
Food At Home	+10.0%
All Items	+8.5%

Inflation Over the Last Two Decades

12-month percentage change, Consumer Price Index

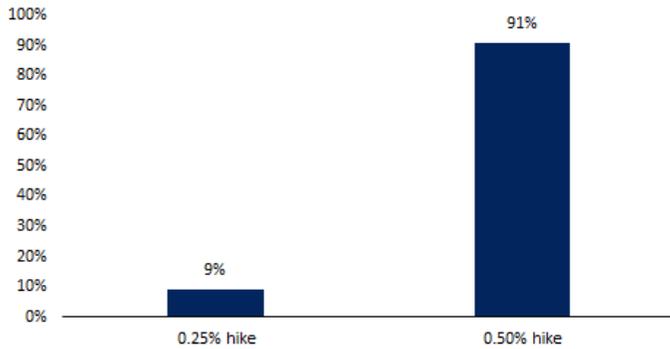


Inflation and the Fed

Many global central-bank meetings are meeting to discuss inflation and rates, but most eyes are on our Fed's May FOMC meeting, where expectations for a 50-basis point rate hike are ratcheting up.

In fact, Wall Street is ascribing a 91% probability to a 50-basis point hike in May.

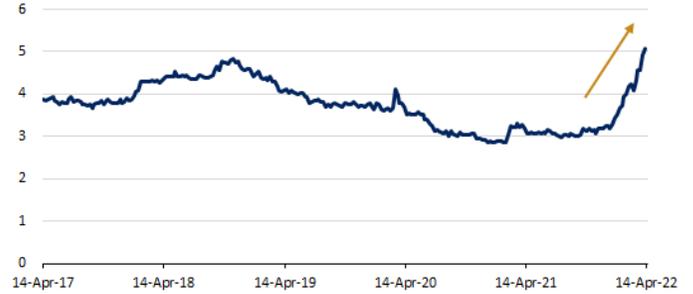
Probability of a 0.50% rate hike at May Federal Reserve meeting



Mortgage Rates are on the Rise

Diving into the CPI data, the shelter component of inflation, which accounts for about 1/3 of the CPI number, has been very high, as home prices and rents have increased in the U.S. consistently for some time. Exacerbating that is continued low supplies of housing amidst strong demand. However, as mortgage rates are rising above 5%, there might be a pull-back in the frothy housing market.

U.S. Fixed 30-Year Mortgage Rate (%)



Sources: [bls.gov](https://www.bls.gov/); [msci.com](https://www.msci.com/); [fidelity.com](https://www.fidelity.com/); [nasdaq.com](https://www.nasdaq.com/); [wsj.com](https://www.wsj.com/); [morningstar.com](https://www.morningstar.com/);