Week in Review

Equity Markets:

The S&P gained over 6% for the week, and posted one of the best weeks since the fall of 2020. Investor sentiment helped push the markets higher, while the VIX fell over 20%. The VIX is a useful gauge in measuring investors' expectations of short-term volatility in the stock market. The war in Ukraine has intensified, but there have been indications of productive peace talks. It appears some sort of resolution is possible, which helped ease the nerves of investors and contributed to the market strength for the week.

Oil dropped below $100 a barrel, down from its recent highs just a couple weeks ago. The drop in oil was positive for the stock market amid concerns around the extent of the damage that high oil prices could have on economic growth.

Fixed Income Markets:

The wait is over, and the Fed has officially started its tightening cycle. The Fed Funds Rate was increased by 0.25%, which marks the first rate hike since 2018. The Fed also indicated their anticipated plans for the remainder of the year. In somewhat of a hawkish surprise, they stated they will likely raise rates six more times this year. This is a slightly more aggressive approach than most anticipated, and it indicates the Fed believes they must get a hold on inflation before it runs away from them.

The 10-year Treasury ended the week at 2.15% after the rate hike. The yield curve also saw significant flattening with bonds in the 3-year to 10-year range being separated by only a few basis points.

Economic:

The Leading Economic Index rose in line with expectations and posted a 0.3% gain month-over-month. Positive numbers from jobless claims and ISM new orders were large contributors to the monthly increase.

Existing home sales fell 7.2% in February as the housing market appears to be cooling off some. Housing affordability has become a major challenge as home buyers are on the back end of strong price increases and rising mortgage rates.

Looking Ahead

Equity Markets:

A meaningful leg of uncertainty has been reduced now that interest rate increases have begun. Now, the stock market can continue to work through the balance between rates and inflation, while being attentive to the slowing pace of economic growth and earnings. Historically, stocks have struggled leading up to the first rate hike and in the short-term following the first rate hike. According to FactSet, stocks tend to be positive six months and one year following the start of the rate-hiking cycle.

The other key influential market factor involves the developments out of the war in Ukraine. As the length of the war extends, the negative impacts on the European economy will increase and could put pressure on the global economy. We believe the impacts on a global scale will be limited, but if the war causes a slowdown in major European economies, the ripple effects will still be felt.

As seen on a few different occasions so far, positive news from the Ukrainian war has correlated with an almost instant stock market surge. We believe it is important to stick to a long-term investment plan. If talks become productive and the end of this war becomes more of a reality, investors could miss out on a swift market recovery.

Fixed Income Markets:

Attention has shifted to the yield curve after there was significant flattening last week, most notably in the often-highlighted 2-year and 10-year Treasury bond yields. The Fed appears to be taking a more aggressive stance, and their decisions will need to be very calculated to ensure they do not dampen economic growth while raising rates too quickly.

We continue to believe that the 10-year Treasury will establish its new higher range between 2-3% over the next year. We also believe there will be volatility in rates as many structural deflationary pressures remain in the economy.

Economic:

This week's economic calendar will be light. We will see Manufacturing and Services PMIs along with regional manufacturing reports. To finish the week, the University of Michigan Consumer Sentiment Index will report its final numbers for the month.

See following page for important disclosures

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