KRILOGY

WEEKLY MARKET RECAP | April 18, 2022

Week in Review

Equity Markets:

All major indices ended the week negative. The NASDAQ was the worst performer, down 2.6% while the S&P was down 2.1%. Inflation and a less than stellar start to earnings season were the major contributors.

Banks kicked off Q1 earnings with many beating earnings expectations. Many banks mentioned geopolitical concerns and discussed the rising risks to the US and global economy. As the conflict in Ukraine extends, the economic impacts are likely to spread. Although Europe's inflation numbers are not as high as the US, the war in Ukraine could change that quickly. Europe's reliance on Russian energy, and the current sanctions, could have a long-lasting impact on the European economy. As more economies become affected by the conflict, the risk of contagion to the rest of the global economy increases.

Fixed Income Markets:

The yield curve continued its steepening trend last week as we saw the 2's/10's spread widen to ~0.37% after a brief period of inversion a couple of weeks ago. The 10-year closed at 2.83%, a level not seen in over three years. Members of the FOMC reiterated the Fed's focus on battling inflation, and their commitment to continuing to raise interest rates.

Economic:

Inflation remains at levels unseen in decades as the CPI came in at 8.5%. Core CPI, which excludes food and energy because of its higher volatility, rose 6.5%. Core CPI came in lower than expectations and could be a sign that inflation is peaking. The PPI, which measures producer prices, rose 11.2% year-over-year.

Consumer Sentiment had a surprising jump with confidence in the job market and wage expectations increasing. Initial jobless claims were sightly higher than the expected 170,000 and came in at 185,000.

Looking Ahead

Equity Markets:

Higher interest rates will likely continue to cause volatility in the equity markets. To overcome the interest rate headwind, companies must show strong earnings and have favorable outlooks in order to overpower the sentiment around rates. The S&P is down 7.8% YTD, and it is our belief that earnings are one of the major catalysts that can help stabilize the stock market and propel progress forward.

As we continue through earnings season, we believe it is important to focus on the relative earnings rather than the absolute earnings numbers. Earnings are very likely to be much lower than we have seen recently. Current earnings growth stands at 9.5% after 45% in 2021 according to FactSet. A leveling out process is natural, but we think it is most important that companies are still showing growth outpacing expectations, and expectations have improved. Analysts' earnings projections have slowly risen since the beginning of the year.

Fixed Income Markets:

So far this year the yield on the 10-year treasury has increased 1.3%+. That is a ~85% increase. There has been tremendous selling pressure and we believe the 10-year will settle into a range of 2.5%-3% over the next 12-18 months. There will likely be short periods outside of this range, but we do not believe those will be long-lasting.

After the swift run-up, the bond market is looking more attractive than it has in the past 12 months. With the 10-year in our target range, this could be an opportunity for investors to re-enter the treasury market and drive yields lower. The downside protection of a treasury allocation from equity market risk has also become more attractive as rates have moved further from zero.

Economic:

The housing market will garner much of the attention this week with the releases of the NAHB Housing Market Index, building permits/starts, and existing home sales. The Fed's Beige Book will be released mid-week and will give insight into the levels of economic activity around the country. The Leading Economic Index will also be heavily watched.

See following page for important disclosures

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