Week in Review

Equity Markets:
The S&P continued its weekly losing streak, ending down for the seventh week in a row. This is the longest weekly losing streak since 2001, according to FactSet. The S&P finished the week down 3%. After spending part of the day Friday in bear market territory, a late day rally pared the losses and the S&P closed ~18% below the January market peak.

Large retailers worried markets after disappointing earnings calls. Target and Walmart missed earnings expectations and expressed spending habits of consumers have shifted due, they believe, to the current inflationary environment. They also had profit margin compression due to inflation in transportation expenses. These large retailers are usually seen as a good gauge of consumer behavior. With consumer spending making up nearly 2/3 of GDP, the markets saw a steep sell-off. The health of the consumer is integral for this economic expansion to continue.

Earnings season is 95% completed; 77% of companies have beat earnings expectations and 73% have beat revenue expectations, according to FactSet. Although this is lower than recent quarters, it is still in line with the 5-yr average.

Fixed Income Markets:
The 10-yr yield ended the week at 2.79%. Yields have retreated due to the swift equity market sell-off over the past few weeks. After seeing the yield on the 10-yr briefly touch 3.2% a couple of weeks ago, the negative correlation to the equity market normalized and has given fixed income investors some relief.

On the global front, China cut a key lending rate in an effort to stabilize its housing market. The Chinese economy has struggled, which was led by Evergrande issues late last year. Their *zero COVID* policy will now likely add to their struggle to keep the Chinese economy growing.

Economic:
Retail sales rose 0.9% month-over-month; it is important to note this number is not adjusted for inflation. The housing market has continued to cool off as higher mortgage rates and lack of supply have decreased affordability drastically since the beginning of the year.

Economic numbers continue to soften as weekly jobless claims continued to move higher and the leading economic index surprisingly fell.

Looking Ahead

Equity Markets:
The steep sell-off has pulled valuations back to a more attractive level than what we saw only a few months ago. The Forward P/E on the S&P stands at 16.4x. According to FactSet, this is below the 5-yr average of 18.6x, and below the 10-yr average of 16.9x. Earnings season has not been as strong as in recent quarters, but the important thing to note is that earnings are still growing.

The bear market headlines dominated most of the financial media last week. According to Ned Davis Research, there have been 26 bear markets since 1928, and the average decline has been ~36%. Excluding the years of the Great Depression, the average bear market is only 32%. If history is any sign, as it tends to be in terms of the markets, this likely means we are closer to the bottom of this market than many think.

As long-term investors, we believe having a well-diversified portfolio of high-quality investments will help a portfolio handle the market volatility we are currently seeing. Having a disciplined investment approach, that matches your risk tolerance, allows an investor to stay invested and take advantage of available opportunities. These opportunities can come through dynamic rebalancing where investors have the opportunity to purchase assets at more attractive prices. We believe there are more opportunities in the market today than just a few months ago. The current environment is a perfect time to remember two of the hardest aspects of investing – staying disciplined and going against the grain. As Warren Buffett famously said,

"Be fearful when others are greedy, and greedy when others are fearful."

Fixed Income Markets:
The minutes from the most recent FOMC meeting will be released on Wednesday. Insight into the largest rate increase in 20 years and forward-looking expectations will be closely watched by market participants.

Economic:
Preliminary Manufacturing and Services PMI will be released on Tuesday. The second estimate for first-quarter GDP will be released on Thursday. Personal spending and income along with the final read on the University of Michigan Consumer Sentiment Index will give much-needed insight into the health of the consumer. To finish the week, the Personal Consumption Expenditures Price Index will garner much of the attention. The PCE is the preferred gauge by the Fed to track inflation.

See following page for important disclosures

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