Week in Review

Equity Markets:

The stock market volatility was certainly heightened this past week. On Wednesday, the Dow rallied 900 points, only to lose the gain on Thursday with a 1,000-point drop. Throughout the week, it was easy to get lost in the big swings, but the Dow and S&P ended the week nearly flat. Both were only down 0.2%. For the past 2 months, the market has been in a sideways move and we are again approaching the low levels of early March.

Amid the market uncertainty, there has been a quiet, but fairly solid, earnings season. With 87% of companies having reported, 79% have beaten earnings expectations and 74% have beat revenue expectations, according to FactSet. Expected Q1 earnings growth is 9% - an increase from 7% a week earlier, according to FactSet.

Fixed Income Markets:

For the first time in 20 years, the FOMC increased the Fed Fund's rate by 50 basis points. The benchmark rate now stands at 0.75-1%. Fed Chairman Jerome Powell said this level of hikes are likely to continue through the next two decisions, but he reduced the fear of a 75-basis point hike. Markets began to price in a more aggressive move as of late, and Powell's statement that a 0.75% hike is not something they are currently considering calmed the markets.

The 10-year treasury yield ended the week at 3.12%. Yields are at levels we have not seen since late 2018. Along with the surge in yields last week, the yield curve steepened with the 2's/10's spread ending the week at ~0.4%. After a flattening trend over the past few weeks, this is a welcomed sign by market participants.

On the international front, the Bank of England raised its benchmark rate as they attempt to tackle their local inflation, which they believe will be 10%.

Economic:

The labor market remains strong with nonfarm payrolls adding 428,000 month over month. This number handily beat Bloomberg's estimate of 380,000. The unemployment rate remained at 3.6% and average hourly earnings increased 0.3%.

Looking Ahead

Equity Markets:

We understand it is easy to sound the alarm when we experience weeks like last week. However, keeping a long-term perspective is important. Year-to-date, the S&P is down 13.5%. Historically speaking, this is very common. According to FactSet, the average non-recessionary correction from peak-to-trough is 14%. Intraday we have touched those levels from the January high. We recognize uncertainty in the market can be unsettling, but it is important to remember that these are not unchartered waters, especially during mid-term election years.

Market volatility is something we consider an opportunity for long-term investors. We believe some of these large swings have little to do with market fundamentals and are more sentiment-driven. For a long-term investor, these are great times to rebalance a portfolio and benefit from adding to quality positions that get caught up in what can be indiscriminate selling. Risks in the market have increased from a year ago, but we believe the base case is not a recession in the near term. Having a portfolio properly aligned with your long-term risk appetite will help ease fears and ensure you are able to stick to a disciplined investment plan to meet your long-term goals.

Fixed Income Markets:

In our opinion, we have seen the majority of the upward move in rates. We believe the 10-year will settle into a range of 2.55%-3.25% for the next 12-18 months. This is not to say yields won't go above the range for a short period of time. However, we believe that if this happens, market participants will pull yields back into the range.

Economic:

The inflation picture for April will likely garner the most attention. We will see readings of the CPI, PPI and Import Price Index. The NFIB Small Business Sentiment Index will provide insight into the expectations of a major piece of the economy. A preliminary read from the University of Michigan Consumer Sentiment Index will also be closely watched to gain a clearer picture on how inflation is affecting consumers.

See following page for important disclosures

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