Week in Review

Equity Markets:

The S&P 500 nearly hit the formal definition of a bear market, defined as a 20% decline from the market peak. On Thursday, the S&P was down ~19.55% intraday from the peak on January 4. The markets recovered well on Friday following a rough start to the week. The S&P finished the week down 2.4% and stands at -15.6% year-to-date. Last week marked the seventh straight down week for the Dow and the sixth straight down week for the S&P and NASDAQ. This is the worst start to a year for the S&P since 1932, according to Bloomberg

Q1 Earnings season is 90% complete. Of the 445 companies that have reported, 77% have beat earnings expectations and 74% have beat sales expectations. Both are on par with the 5-year average, according to FactSet. Earnings growth so far in Q1 is 9.1%. This is nearly double the 4.6% expected growth rate on March 31st.

Fixed Income Markets:

A retreat to quality amid the stock market pullback this week was a welcomed sight for investors. The yield on the 10-year treasury dropped to 2.93% after briefly reaching 3.2% earlier in the week.

The senate confirmed Fed Chair Jerome Powell for a second term. With no change at the helm, the path for fighting inflation will likely stay the same. Fed Chair Powell is tasked with maneuvering the current inflationary pressures without putting a lid on the expansion.

Economic:

Consumer sentiment declined from last month, according to the preliminary University of Michigan Consumer Sentiment Index. Much of the decline was due to consumer expectations turning more negative than expected.

Headline CPI for April came in at 8.3%, a slight decline from March's 8.5%. This could indicate a peaking process for inflation. Month-over-month numbers were higher than expected, with core CPI increasing 0.6%.

Looking Ahead

Equity Markets:

In the midst of the recent market volatility, earnings season has been fairly strong overall. The Forward P/E on the S&P stands at 16.6x. According to FactSet, this is below the 5-year average of 18.6x; and below the 10-year average of 16.9x.

As long-term investors, we want to look at the market in relative terms without the noise from the headlines. The market has dropped nearly 20%, earnings expectations have held solid, and inflation appears to be in the peaking process. Last Thursday may not be THE market bottom, but we do see some attractive valuations at current levels.

We expect volatility to continue until the macro factors become clearer. The market needs further confirmation of inflation peaking, which will take more time. The war in Ukraine is still putting pressure on the global economy and the zero COVID policy in China is likely to continue to strain the supply chain. Now is the time for investors to stay disciplined and stick to their strategic allocations.

Fixed Income Markets:

We believe bouts of fixed income market volatility will continue until the equity market stabilizes, and finds a bottom. The 10-year approached the top end of our range before retreating below 3%. As the 10-year approaches the 3.25% mark, we believe market participants will push yields down as they move to safe-haven assets.

Economic:

The April retail sales report will likely garner the most attention. The health of the consumer will be a backbone for the continued economic expansion. As mortgage rates have spiked this year, housing reports will be highly watched, as well. The NAHB housing market index, building permits, and housing starts will also be reported. The leading index for April and regional manufacturing reports will round out the reports for the week.

See following page for important disclosures

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