Week in Review

Equity Markets:
The S&P fell sharply this week; ending down 5.1%. The majority of the weekly move came on Friday on the heels of a higher-than-expected inflation reading. The market closed ~19% below its previous high on January 4. The VIX jumped over 6% on Friday. The VIX represents investors' expectations for market volatility over the short term.

Fixed Income Markets:
Yields jumped this week on the back of the inflation report. Investors are concerned that the higher-than-expected inflation reading may cause an even more hawkish stance from the Fed. Expectations are for a 0.50% rate hike at the next couple of FOMC meetings, but the market is pricing in the potential for a steeper hike, or more consecutive hikes.

The yield curve flattened as the short-end of the yield curve saw heavy selling pressure. The 2-year yield ended the week at 3.06% while the 10-year ended at 3.16%. The 2's-to-10's spread is a closely watched recession indicator. With the spread at 0.13%; this is the smallest the spread has been since the brief inversion in early April.

Economic:
CPI came in higher than expected on Friday. Headline CPI came in at 8.6% year-over-year, above analysts' expectations of 8.3%. Core CPI (which excludes food and energy) was up 6.0% year-over-year which was slightly higher than the 5.9% analysts expected. The University of Michigan Consumer Sentiment Index surprisingly dropped to an all-time low of 50.2 as the expectations portion declined sharply. Initial jobless claims also came in higher than expected.

Looking Ahead

Equity Markets:
As the S&P sits just below bear market territory, we believe that long-term investors need to stay focused on future earnings and current valuations. Corporate earnings are the main driver for stock market growth over the long run. Q1 earnings season is essentially complete. Earnings growth has started to slow, but there is still growth. The S&P is trading at ~16.8X forward earnings which is lower than the 5-year and 10-year average.

The drawdown may not be done; calling market bottoms (or tops) is nearly impossible. Excluding the Great Depression era, the average stock market decline during a bear market has been ~32% according to data from FactSet. If history holds true, that means the majority of the move down has already occurred. Now is the time to stay disciplined and benefit from rebalancing a portfolio into underperforming assets that are starting to show attractive long-term investment opportunities.

Fixed Income Markets:
After the hot inflation read, there are rising concerns that the Fed may need to be more aggressive to dampen inflation. The FOMC meeting occurs Tuesday and Wednesday and all eyes will be on Fed Chairman Jerome Powell's press conference Wednesday afternoon. A 0.50% rate increase is expected. Along with the rate hike, market participants will be more eager to hear Chairman Powell's comments on policy action going forward.

We still believe that the 3.25-3.50% range is where the 10-year treasury will settle over the next 12-18 months. We believe the 10-year will stay in this range, despite further rate increases, because the Fed has more control over the short end of the yield curve. An upward move in rates on the short end does not always correlate to an equal move in the long end. Our opinion is that rates are much closer to the top and opportunities will start to show in the fixed income markets. At current rates; we believe that fixed income investors are generally better buyers than sellers.

Economic:
May's inflation picture will continue to develop as we see the Producer Price Index and the Import Price Index reports. Regional manufacturing out of Philadelphia and New York will provide insight into business activity. Recent numbers have shown the housing market could begin to cool off. We'll also have timely numbers from the NAHB Housing Market Index, housing starts, and building permits.

See following page for important disclosures

Important Disclosures:

Investment Advisory Services offered through Krilogy®, an SEC Registered Investment Advisor. Please review all prospectuses and Krilogy's Form ADV 2A carefully prior to investing. This is neither an offer to sell nor a solicitation of an offer to buy the securities described herein. An offering is made only by a prospectus to individuals who meet minimum suitability requirements.

All expressions of opinion are subject to change. This information is distributed for educational purposes only, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.

Diversification does not eliminate the risk of market loss. Investments involve risk and unless otherwise stated, are not guaranteed. Investors should understand the risks involved of owning investments, including interest rate risk, credit risk and market risk. Investment risks include loss of principal and fluctuating value. There is no guarantee an investing strategy will be successful. Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.The S&P data is provided by Standard & Poor's Index Services Group.

Services and products offered through Krilogy® are not insured and may lose value. Be sure to first consult with a qualified financial advisor and/or tax professional before implementing any strategy discussed herein.