Economic and Market Review March 2022

March 31, 2022

Equity Indices	YTD Return
Dow Jones	-5.67%
S&P500	-6.45%
NASDAQ	-12.54%
MSCI - Europe	-8.74%
MSCI–Emerging	-8.64%
Bonds	**Yield**
2yr Treasury	2.47%
10yr Treasury	2.66%
10yr Municipal	2.38%
U.S. Private Agg	3.23%
Commodities	**Price**
Gold	$1,927/oz
Silver	$24.63/oz
Crude Oil	$95.64/barrel
Currencies	**Rate**
CAD/USD	$0.79
GBP/USD	$1.31
USD/JPY	¥123.96
EUR/USD	$1.09

Invasion and Inflation

The Russia-Ukraine war has intensified inflation expectations due to the threat of global supply chains which are expected to be impaired for an extended period of time. Supply chain issues were already wreaking havoc on global manufacturing, production costs, and consumer availability before the Russian invasion started.

A strengthening U.S. dollar over the past few weeks has been the result of global investors seeking stability as the Russian invasion of Ukraine has progressed. Optimistically, a stronger dollar can help stem inflation as it can make imported products less costly for American consumers. The most recent inflation data revealed a 7.9% annual rate, the highest in 40 years, putting pressure on consumers as wages struggle to keep pace with heightened inflation.

Consumers are rapidly losing purchasing power as rising rates and inflation have created higher borrowing costs for homebuyers and consumers overall. Quickly elevating mortgage rates have some borrowers being disqualified on mortgage loans that had previously been approved.

Fed Raises Rates

The Federal Reserve initiated its long awaited rate increase in March, making its first of several additional increases projected this year. Consumer loan rates, mortgage rates, and auto loan rates all increased. The Fed’s objective is to circumvent inflationary pressures by raising rates in order to ease consumer demand for products and services. Economists believe that the tremendous spike in global commodity prices is creating commodity-led inflation, which increases costs for production, manufacturing, and consumers globally.

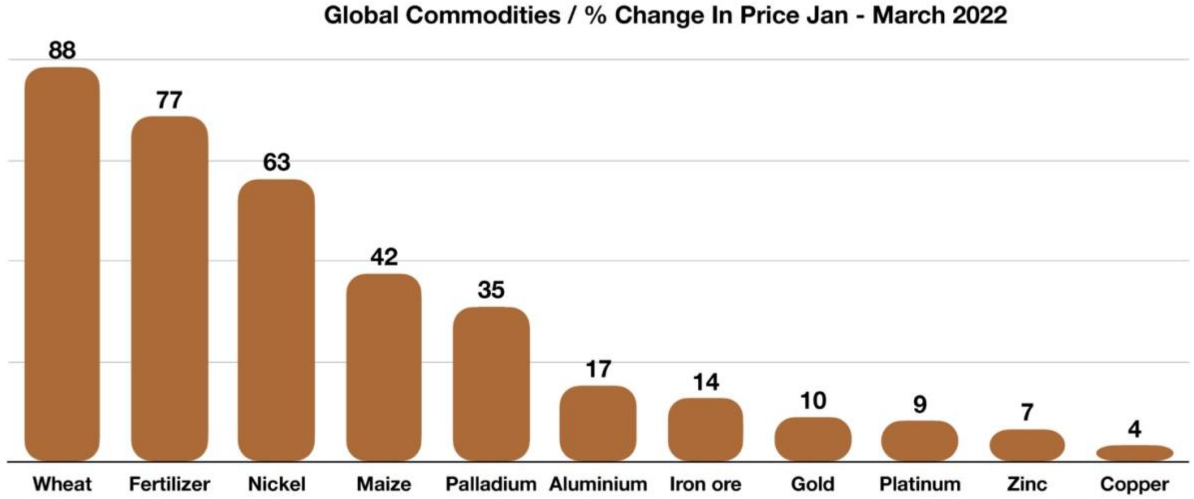
Short-term Treasury bond yields began to move higher than some long-term Treasury bond yields, viewed as an indication of a possible economic slowdown. Rising short-term rates may signal inflationary pressures, while lower long-term rates may suggest a recessionary environment sometime in the future. Shorter term Treasury bonds have begun to yield more than some longer term Treasury bond maturities. Known as an inversion, economists and bond analysts view such a dynamic as indicative of a recessionary environment sometime in the future.

The pandemic-induced demand for homes nationwide may eventually subside as mortgage rates have reduced affordability for millions of homebuyers. The average 30-year conforming mortgage rate rose to 4.67% in March, up from a low of 2.66% in December 2020.

Commodity Price Risk

Global commodity prices have experienced extreme volatility since the inception of the Russian invasion of Ukraine. Of concern is that many of the affected commodities are essential to food production and industrial manufacturing worldwide. As exports of some of these commodities from Russia and Ukraine have cratered since the war began, supply issues have become critical and prices have rapidly risen.

Food related commodities such as wheat and fertilizer have risen substantially, raising food production costs to developed and poorer, emerging economies already struggling with food shortages. Metals such as nickel, palladium, aluminum and copper are widely used in manufacturing and industrial production, affecting the technology and automotive sectors.

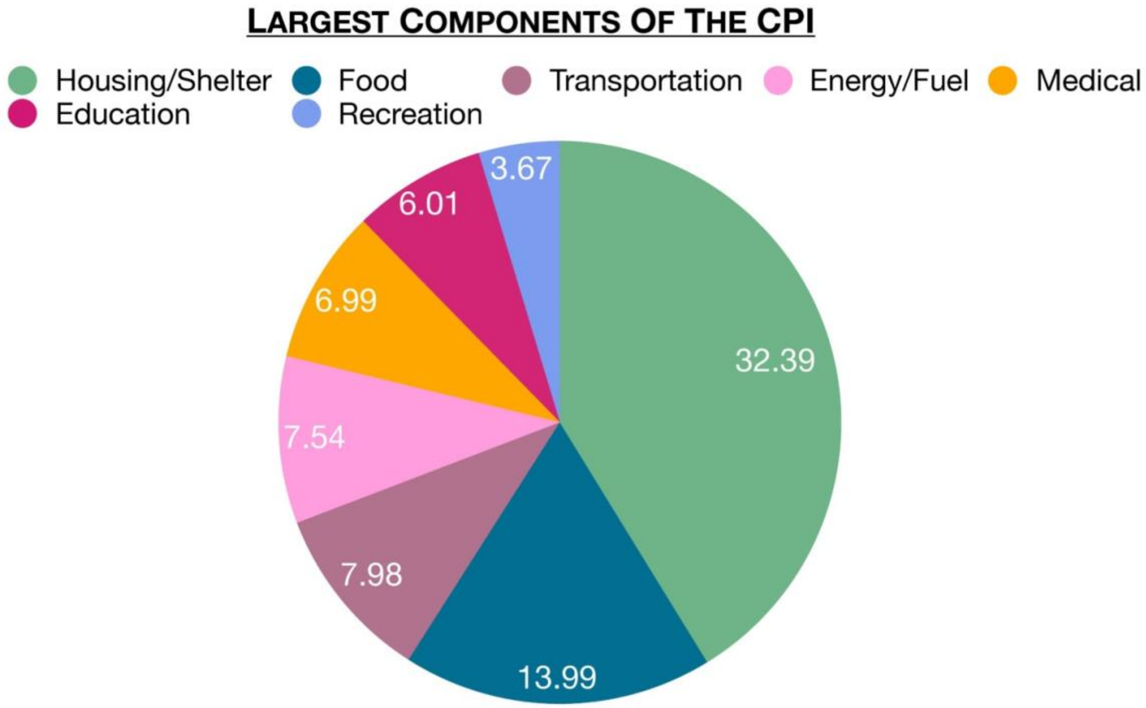


Consumers See Ache Amidst Rising Price Levels

Food and energy have become the two fastest rising expenses for consumers nationwide, as well as representing a larger proportion of total living costs. Currently, 21.5% of the Consumer Price Index (CPI) is composed of food and energy expenditures, where the cost of groceries alone were 6.5% higher and the price of gasoline 50.8% higher than a year ago.

The concern that many economists have identified is that as millions of Americans are spending more on food and energy, they have less to spend on what they'd truly desire or want, also known as discretionary goods. As funds for discretionary items become scarce, economic growth suffers as sales of cars, furniture, clothing, and dining out become less affordable for millions of consumers.

Historically, food and energy prices have always been very volatile, making up more or less of consumer expenditures over time. Where consumers live and how old they are also dictates how influential components of the CPI are. Gasoline for example is less expensive in Oklahoma than in California, and seniors may not spend any funds on education but may spend more on medical expenses.



Equities See Tough First Quarter

The yield on the 10-year Treasury bond rose above the S&P 500 Index yield in March, meaning that the 2.32% yield on the 10 year Treasury bond is more than the 1.32% dividend yield for the S&P 500 Equity Index.

Some analysts believe that current earnings estimates for the S&P 500 Index, which represents a wide swath of the equities market, may be distorted. Almost all of the growth in 2022 earnings for the index since the beginning of the year can be traced to the energy sector alone. The dramatic rise in oil and energy prices have propelled profits for oil and energy companies, which aren't representative of other sectors.

Major equity indices recouped some ground in March, with the S&P 500 Index , Dow Jones Industrial Average and the Nasdaq all having a positive month. First quarter returns were not as generous, as all three indices saw negative performance with the worst quarter in two years. Some analysts are skeptical if an upward trajectory will continue, while others see fundamental optimism surrounding earnings and economic growth, both of which affect stock prices.

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