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Markets Update

April 2022

April was a difficult month for both the stock and bond markets. The S&P 500 returned -8.7%, it's worst month for returns since the onset of the pandemic in 2020. Corporate earnings continued to roll in for the first quarter and so far, year over year earnings growth rate is 7.1%, which is good, but below the last five-year average of 15% and closer to the 10-year average growth rate of 8.8%[1]. However, weakness in earnings from pandemic stay-at-home darlings like Netflix and Amazon, combined with high inflation numbers, tightening financial conditions, continued tightness in the job market lockdowns in China and war in Ukraine weighed heavily on investor sentiment. Interestingly, given the large earnings miss from Amazon, coupled with its large weight in the S&P 500 Index, if you remove Amazon's earnings from the index growth rate, 1Q earnings increases so far, to date, are 10.1%, above the ten-year average.

Bonds were hard hit as well, with the 10-year U.S. Treasury yield seeing its largest monthly rise since 2009 (bond yields and prices move inversely).

	April	YTD 2022
EQUITIES		
S&P 500	-8.7%	-12.9%
Russell 3000	-9.0%	-13.8%
Russell 1000	-8.9%	-13.6%
Russell 1000 Growth	-12.1%	-20.0%
Russell 1000 Value	-5.6%	-6.3%
Russell Midcap	-7.7%	-12.9%
Russell 2000	-9.9%	-16.7%
Russell 2000 Growth	-12.3%	-23.3%
Russell 2000 Value	-7.8%	-10.0%
MSCI EAFE	-6.5%	-12.0%
MSCI Emerging Markets	-5.6%	-12.1%
FIXED INCOME*		
U.S. Aggregate	-3.8%	-9.5%
U.S. Treasury	-3.1%	-8.5%
U.S. 1-3 Year Treasury	-0.5%	-3.0%
U.S. TIPS	-2.0%	-5.0%
U.S. Intermediate Gov/Credit	-2.0%	-6.4%
U.S. Gov/Credit	-4.0%	-10.0%
U.S. Long Gov/Credit	-9.3%	-19.2%
U.S. Investment Grade Credit	-5.2%	-12.3%

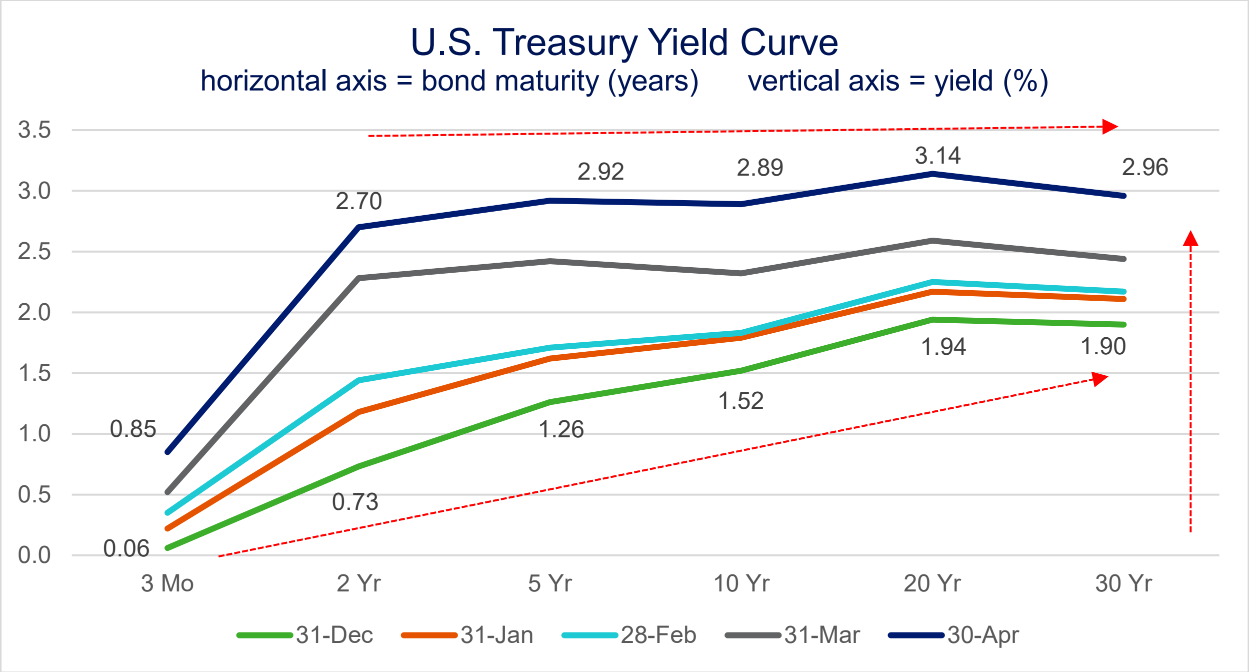
U.S. High Yield	-3.6%	-8.2%
Global Aggregate (USD)	-5.6%	-11.4%
Emerging Markets (USD)	-4.3%	-13.2%
COMMODITIES		
Bloomberg Commodity	4.1%	30.7%

Source: S&P, Russell, MSCI, Bloomberg. **Bloomberg Indices*

1Facset earnings insight May 2, 2022

Fixed Income

Upward movement across the Treasury curve this year has been extensive, with the 10-year bond yield nearly doubling in four months' time, and the 3 month yield up 14 times (!) its year end number. Longer term yields did widen more than short term yields during the month and the spread between 2-year and 10-year bond yields is no longer inverted.



Source: U.S. Department of the Treasury

Alongside higher yields, the U.S. core bellwether bond benchmark (Bloomberg U.S. Aggregate index) was battered yet again, down 3.8% for the month and now down 9.5% year-to-date. There has truly been nowhere to hide this year in fixed income; even Treasury Inflation-Protected Securities (TIPS) are down 5% notwithstanding that inflation expectations and actual inflation readings have surged. The good news is the markets are pricing close to the suggested terminal rate suggested by the Federal Reserve. So, on the glass is half full side, it is possible that the second half of 2022 is more constructive than the first four months.

Equities

Growth stocks, especially in the technology and communications services sectors have struggled mightily this year. The tech-heavy Nasdaq index had its worst month since 2008. The large cap value benchmark is down roughly one third as much as the large cap growth benchmark and has benefitted from exposure to energy stocks, the only sector with positive performance year-to-date. As discussed, we have seen some significant downturns in growth stocks and those with earnings misses having large drawdowns. The bloom is off the rose in growth stocks.

Looking Ahead

With one 25 bps rate hike in the books, the Fed has telegraphed an additional hike of 50 bps in early May. With equity benchmarks somewhere between correction (-10%) and bear market (-20%) status, significant pain has been priced in so far this year. For now, the Federal Reserve is committed to taming inflation and additional rate hikes are forthcoming. It remains to be seen how much the tightening financial conditions in the markets have already been discounted, but with the damage done in April, there is a case to be made that the worst may be priced in... If nothing else, concerns about a stock market bubble in the growth-related parts of the markets, have been squashed for now. We continue to advocate for portfolio rebalancing with more attractive entry points for stocks and bonds that were provided after the April market performance.

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