

Market Commentary

April 2022



- A challenging month for markets ended on a particularly ugly note. And while earnings season was reasonably strong, it was not enough to save markets.
- Inflation came in at another multi-decade high, and traders are on the cusp of pricing in for June the most aggressive rate hike seen from the Federal Reserve in nearly three decades.
- Consider using this volatility, and perhaps more reasonable valuations, as a time for spring cleaning your investment portfolio.

MARKET RETURNS AS OF APRIL 30, 2022¹

Index return	April (%)	Q1 (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
S&P 500 TR	-8.7	-12.9	0.2	13.8	13.7	13.7
DJ Industrial Average TR	-4.8	-8.7	-0.8	9.8	12.0	12.2
NASDAQ Composite TR	-13.2	-21.0	-11.1	16.0	16.4	16.3
Russell 2000 TR	-9.9	-16.7	-16.9	6.7	7.2	10.1
MSCI EM GR	-5.5	-12.1	-18.1	2.6	4.7	3.3
MSCI EAFE GR	-6.4	-11.8	-7.7	4.9	5.3	6.3
Bloomberg US Agg Bond TR	-3.8	-9.5	-8.5	0.4	1.2	1.7

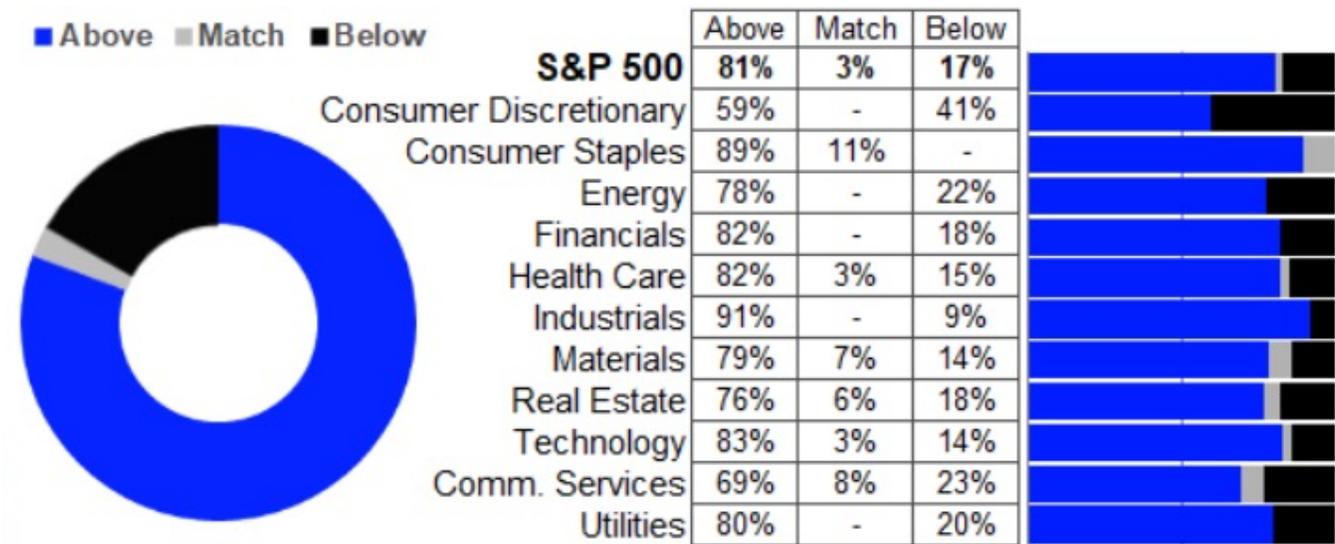
MARKETS

The S&P 500, DJ Industrial Average, and Nasdaq Composite indices were down -8.7%, -4.8%, and -13.2% respectively for the month of April.¹ If you read past the debate on whether Elon Musk will in fact buy Twitter, you probably saw headlines such as U.S. stocks experienced their worst month since March of 2020 and The Nasdaq marked its worst month since 2008. Some market commentators got creative and discovered that it was the worst April since 1970 and the worst start to the year for markets since 1939.²

The macroeconomic culprits for the market decline continued to be the war in Ukraine, supply chain disruptions, labor shortages, inflation's 40-year-high, and what that will all mean for rates (more on that below). On top of that, we saw new Covid-19 lockdowns in China, which means more supply chain disruptions and - potentially - more fuel for inflation. At the end of the month, the U.S. GDP report showed a surprise contraction (mostly due to volatile inventory and export data).³

If all that wasn't enough to drive markets wild, key quarterly earnings were also reported this month. Little publicized fact: earnings reports were overall reasonably strong in April, with more than 80% of companies beating analysts' expectations.⁴ But it wasn't enough to save markets, as investors were hyper-focused on outlook and commentary, with bold statements like Apple saying it would face up to \$8 billion in losses due to restrictions in Shanghai, drawing more attention than the fact that it grew revenue nearly 9% year over year and beating analyst estimates.⁵ And then of course the month ended on Amazon's disappointing report, with the company's first net loss in four years.⁶

Refinitiv S&P 500 Q1 2022 Earnings Dashboard⁶



THE FED AND RATES

As markets digest each new piece of information that comes in, the underlying question remains, “what does this mean for inflation, growth, and the Fed’s plan to hike interest rates?”

In early April, notes from the March meeting were released, which confirmed that 50bps increases are likely in the cards. “Many participants noted that one or more 50 basis point increases in the target range could be appropriate at future meetings, particularly if inflation pressures remained elevated or intensified.”⁷

By the last day of April, investors were on the cusp of pricing in the most aggressive rate hike seen from the Fed in nearly three decades, with a near-equal chance that Fed policy makers in June will raise their benchmark rate by 75 basis points, following the half-point move that’s expected at their meeting in May. The Fed hasn’t done a 75-basis-point increase since 1994, toward the end of a path from 3% to 6%.⁸

WHAT'S NEXT?

Over the past two years, JPMorgan's composite tracker of the U.S. economic lifecycle has shown the fastest move from recession to the middle stages of an expansion since 1975. At this rate, investors might find themselves navigating "late" cycle by year-end. Here are some ideas for preparing your portfolio for the changing seasons.⁹

- Be mindful of your cash. Given the combination of (i) inflation eating away at purchasing power and (ii) the recent increase in yields, the current environment may offer the opportunity to put any extra, investable cash to work in short duration fixed income.
- Take advantage of the recent draw-down, which has brought some equity valuations back down to earth. While attractive valuations don't guarantee near-term performance, they can certainly factor into performance over the medium to long-term.

These are just ideas, not recommendations, and whether they make sense will depend on an individual's personal circumstances.

If you have questions on your portfolio positioning, or have any changes to your goals, risk tolerance, or time horizon, please reach out to schedule a conversation.



1. Data from Morningstar unless otherwise specified. Returns over one year are annualized.
2. Paraphrased (not real headlines). Sourced from various news outlets including Wall Street Journal, Yahoo Finance, and MarketWatch. https://www.wsj.com/articles/global-stocks-markets-dow-update-05-02-2022-11651476917?mod=hp_lead_pos1, <https://finance.yahoo.com/video/nasdaq-sees-worst-month-since-133406039.html>, <https://www.marketwatch.com/story/a-rough-4-months-for-stocks-s-p-500-at-risk-of-booking-the-worst-start-to-a-year-since-1942-heres-what-pros-say-you-should-do-now-11651250525>, <https://www.marketwatch.com/story/stock-futures-lower-ahead-of-inflation-data-with-tech-under-pressure-after-apple-amazon-disappointment-11651220738>
3. JPMorgan as of April 29, 2022. <https://www.chase.com/personal/investments/learning-and-insights/article/tmt-april-twenty-nine-twenty-two>
4. Refinitiv as of May 2, 2022. <https://lipperalpha.refinitiv.com/2022/05/sp-500-earnings-dashboard-3/>
5. CNBC as of April 28, 2022. <https://www.cnbc.com/2022/04/28/apple-aapl-earnings-q2-2022.html>
6. Investopedia as of April 28, 2022. <https://www.investopedia.com/amazon-q1-fy2022-earnings-report-recap-5270247>
7. The Federal Reserve, March 15-16 minutes. <https://www.federalreserve.gov/monetarypolicy/fomcminutes20220316.htm>
8. Bloomberg as of April 29, 2022. <https://www.bloomberg.com/news/articles/2022-04-29/traders-price-near-even-odds-of-75-basis-point-fed-hike-in-june>
9. JPMorgan as of April 14, 2022. <https://www.chase.com/personal/investments/learning-and-insights/article/tmt-april-fourteen-twenty-two>

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Returns shown are total returns of indices. Returns over one year are annualized. Past performance is no guarantee of future returns.

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