Weekly Market Recap

May 9, 2022

	Price	Price Returns	
Index	**Close**	**Week**	**YTD**
S&P 500® Index	4,123	-0.2%	-13.5%
Dow Jones Industrial Average	32,899	-0.2%	-9.5%
NASDAQ	12,145	-1.5%	-22.4%
Russell 2000® Index	1,840	-1.3%	-18.1%
MSCI EAFE Index	1,993	-2.0%	-14.7%
Ten-year Treasury Yield	3.13%	0.2%	1.6%
Oil WTI ($/bbl)	$110.51	5.6%	46.9%
Bonds[1]	$101.57	-1.3%	-10.0%

Source: Bloomberg L.P.; FactSet

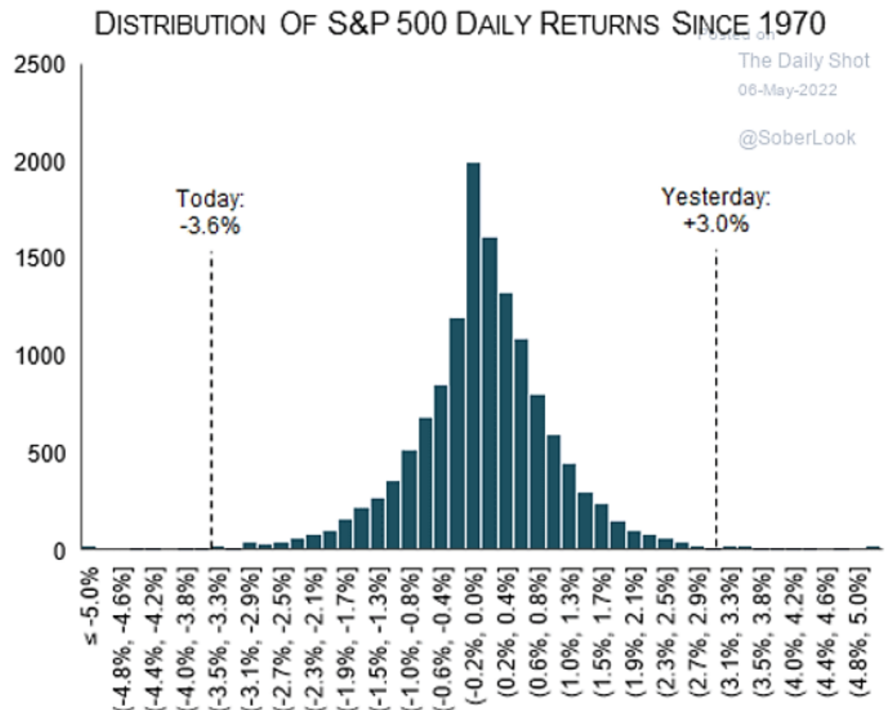
[1]Bonds represented by the iShares U.S. Aggregate Bond ETF

Last Week:

U.S. Equity Market

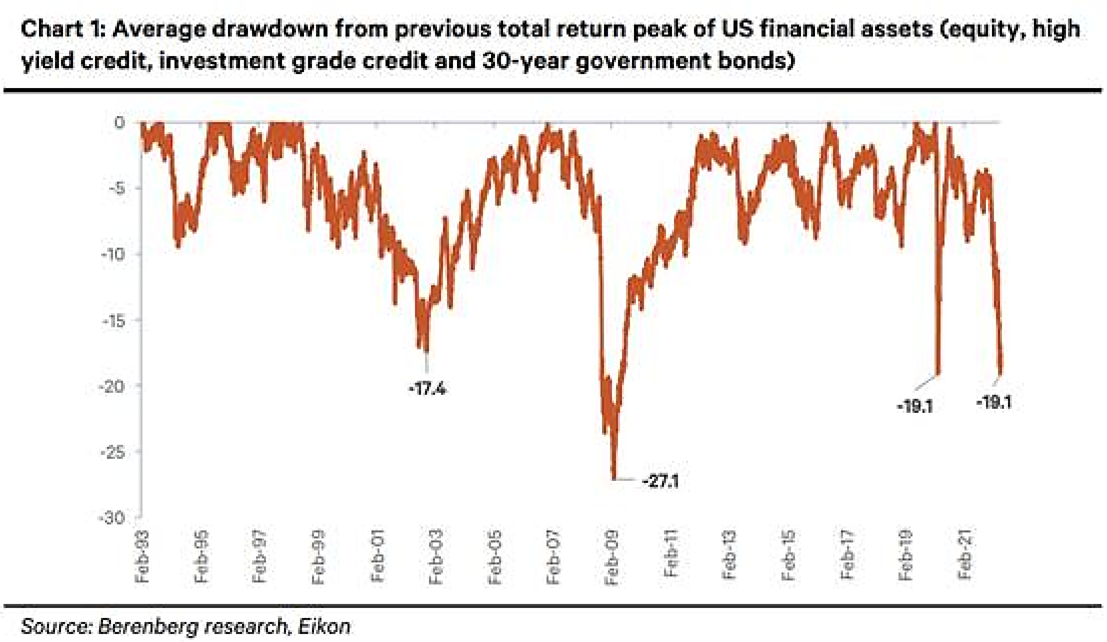
- U.S. large cap equities (S&P 500 Index) fell -0.2% this week with downside volatility on Thursday and Friday, erasing gains from earlier in the week as concerns of rising rates due to elevated inflation continued to weigh on equity sentiment. The Federal Reserve (Fed) hiked short-term rates by +0.50% as expected and said that a hike of +0.75% was unlikely, causing a rally on Wednesday. Wednesday's rally reversed on Thursday, with futures markets pricing in a 90% change of a 75 basis points (bps) hike in June 2022. The April nonfarm payrolls report showed a headline payrolls growth of 428k, ahead of consensus expectations for 396k. The ten-year yield rose 24 bps to +3.13%, the dollar was stronger, gold was down -1.5%, and West Texas Intermediate oil (WTI) rose +5.6%.
- S&P 500 Index Sector Returns (Price Return):
  - Energy (+10.2%) rose, as the price of WTI increased +5.6%.
  - Utilities (+1.2%) rose, led by Dominion Energy (+2.9%) and NextEra Energy (+2.0%).
  - Communication services (+1.1%) rose, led by Megacap internet.
  - Financials (+0.6%) increased, led by the banks amid the increase in yields.
  - Industrials (+0.4%) rose, led by logistics and defense stocks.
  - Healthcare (-0.5%) fell, led lower by bio tech, managed care, and med tech.
  - Materials (-0.6%) fell, led lower by industrial and precious metals.
  - Technology (-0.7%) fell, led lower by high-valuation/non-profitable stocks.
  - Consumer staples (-1.3%) fell, led lower by Procter & Gamble (-2.8%) and **Tyson Foods** (-2.5%).
  - Consumer discretionary (-3.4%) fell, led lower by **Amazon** (-7.6%) and travel stocks.
  - Real Estate Investment Trusts (REITs) (-3.8%) underperformed, led lower by Prologis (-12.1%) and Public Storage (-9.3%).

- The chart below shows that the equity market volatility last week was extreme. May 4 (marked yesterday) experienced a +3.0% move, followed by a significant drop of -3.6% on May 5 (marked today).



Source: The Daily Shot

- The current drawdown from the previous total return peak of U.S. equities, high-yield bonds, investment-grade bonds, and 30-year government bonds is approximately -19.1%, similar to the March 2020 drawdown, but below the 2008/2009 financial crisis drawdown of -27.1%.



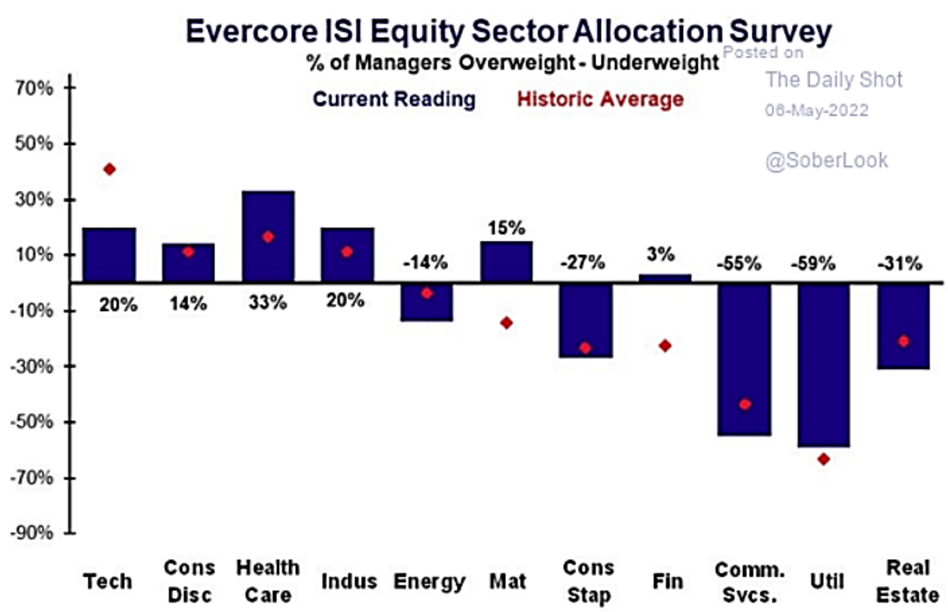
Source: Berenberg research, Eikon

Please reference important disclosures on page 7.

- As equity prices have declined and earnings have grown modestly, the one-year forward price over earnings (P/E) ratio has approached a possible support level of 17x.

Source: The Daily Shot, Bloomberg

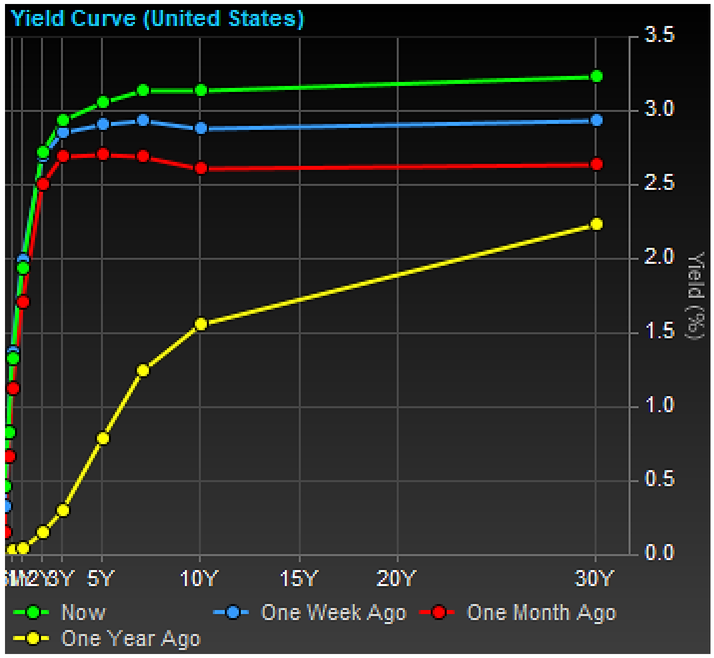
- The chart below shows that institutional investors remain overweight in information technology, but have exposure below the historic average of the overweight. Institutional investors' overweight to the healthcare sector appears to be above the historic average of the healthcare overweight.



Source: The Daily Shot

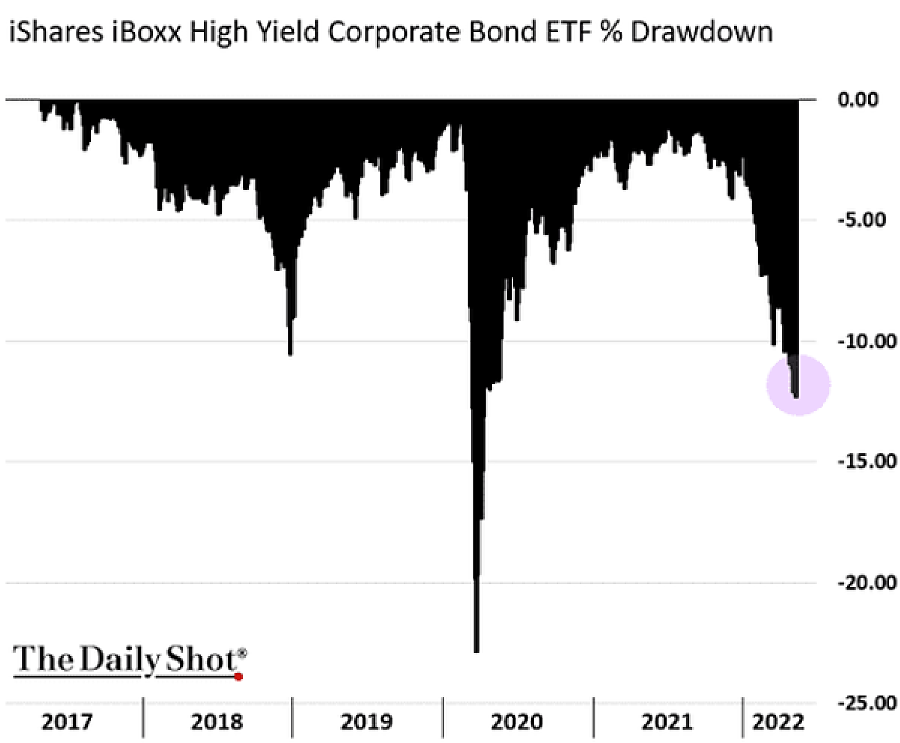
Fixed Income Markets

- The long end of the U.S. Treasury curve steepened this week.



Source: FactSet

- High-yield corporate bonds are experiencing double-digit declines year-to-date.



Source: The Daily Shot

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Please reference important disclosures on page 7.

U.S. Economic and Political News

- As expected, the May Federal Reserve meeting ended with a 50 bps interest rate hike. The Fed also announced the start of the balance sheet drawdown starting in June. The highlight of the meeting appeared to be when Chair Powell essentially ruled out 75 bps hikes in the coming meetings, saying that 50 bps hikes will be on the table for the next several meetings. Powell also didn't rule out pushing policy into restrictive territory, though the ultimate fed funds rate will be data-dependent. However, markets seemed skeptical of Powell's ruling out 75 bps hikes, with the market pricing in a 90% chance of a 75 bps hike in June 2022, according to CME's FedWatch.
- This week's April nonfarm payrolls report showed headline payrolls growth of 428k, ahead of expectations for 396k, although the previous two months revised down 39k lower.
- The Commerce Department reported that nonfarm unit labor costs rose +11.6% in the first quarter, well above elevated consensus expectations of a rise of around +9.9%.

International Markets and News

- The Chinese stock market (Shanghai Composite) fell -1.5% as 25 million residents in Shanghai remain under varying degrees of lockdown, which lead to spending over China's five-day Labor Day holiday to plummet -43.0% from a year earlier.
  - The U.S. Securities and Exchange Commission (SEC) added over 80 U.S.-listed Chinese companies to its list of entities facing possible delisting from U.S. exchanges.
- European markets (STOXX 600 Index) fell -4.6% on concerns that elevated inflation would lead to increased tightening of monetary policy.
  - The Bank of England raised its key interest rate 25 bps to 1.0%, the highest level since 2009.
  - The European Union (EU) will continue to discuss a possible embargo on Russian oil over the weekend after meeting resistance from Hungary, Slovakia, and the Czech Republic.
- Japanese equities (Nikkei 225 Index) gained +0.6%, even as the Tokyo core consumer price index (CPI) rose +1.9% year-over-year in April and the Bank of Japan raised its outlook for inflation.

This Week:

- Corporate earnings reports will increase this week.
- U.S. Economic data:
  - Monday: Wholesale Inventories;
  - Tuesday: NFIB Small Business Index, API Crude Inventories, Redbook Chain Store;
  - Wednesday: MBA Mortgage Purchase Applications, CPI ex Food, Energy, CPI, Treasury Budget, DOE Crude Inventories;
  - Thursday: PPI ex Food, Energy, PPI, Jobless Claims, Natural Gas Inventories;
  - Friday: Export Prices, Import Prices, Michigan Consumer Sentiment (Preliminary).

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®
Executive Director

Griffith Jones, Jr.
Executive Director

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Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.

The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

The NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The Nikkei 225 is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

The S&P 500® Buyback Index is designed to measure the performance of the top 100 stocks with the highest buyback ratios in the S&P 500.

Technical Terms: **The Price Earnings Ratio (P/E Ratio)** is the relationship between a company's stock price and earnings per share (EPS). It is a popular ratio that gives investors a better sense of the value of the company. The P/E ratio shows the expectations of the market and is the price you must pay per unit of current earnings (or future earnings, as the case may be). **The Consumer Price Index (CPI)** is a measure of the aggregate price level in an economy. The CPI consists of a bundle of commonly purchased goods and services. The CPI measures the changes in the purchasing power of a country's currency, and the price level of a basket of goods and services. (Technical definitions are sourced from Corporate Finance Institute.)

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