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Market Update: March 2022

U.S. stocks rebounded by just over 3% in March, but still recorded declines of more than 5% for the quarter. For domestic stocks, the quarterly decline was the worst in two years and snapped a seven-quarter winning streak. Foreign stocks were flat for the month, but also remained down by over 5% for the quarter.

Early 2022 will be remembered for Russia's invasion of Ukraine, spiking inflation, ongoing supply-chain issues, and the start of the Federal Reserve's campaign to raise rates.

> **For years, investors have only had to deal with one overarching market narrative at a time: Covid, then reflation, then supply-chain inflation, then a tardy Fed, then war. Now things are getting more complicated. The trouble is that lots of stories suddenly apply at once. The result is a confused, and confusing, market.**
>
> **James Mackintosh – WSJ 3/15/22**

Bond investors absorbed their worst thumping in more than 40 years, as both domestic and foreign indices were down about 6% for the quarter. The yield on the 10-year U.S. Treasury Note ended March at 2.324% … up from 1.496% at the end of last year and the record closing of 0.501% early in the pandemic. Yields on shorter-term Treasuries saw their greatest quarterly advances in decades. The average rate for a 30-year mortgage loan now stands at 4.67% according to Freddie Mac, which is the highest level since December 2018.

The poor performance of bonds has robbed investors of a traditional haven at a time when stocks and many other markets have been swinging sharply.

Sam Goldfarb – WSJ 3/31/22

Towards the end of the month, yields on 2-year and 10-year Treasury notes briefly *inverted* … meaning traders were paying more for short-term notes than for longer ones. Such an *inversion* is considered a predictor of recession, but the measure is far from perfect. The curve needs to be inverted for a period of time before it can be a reliable indicator, and even then, a recession is not necessarily imminent.

The bond market is definitely, maybe, telling investors something important, or trivial, and that might be bad, or not. You can hold me to that … Whichever way this thing turns, don't say I didn't see it coming.

Jack Hough, Barron's 3/30/22

The Fed voted at its March meeting to raise interest rates by a quarter percentage point. They also "penciled in" six more increases by year's end. The *fed-funds rate* is expected to reach around 2% by the end of this year … and possibly 2.75% by the end of 2023. (The fed-funds rate is an overnight lending rate between banks that influences other consumer and business borrowing costs.) The Fed is expected to finalize a plan to shrink its $9 trillion balance sheet (purchased bonds) at its next meeting in May.

So, it might be that several more months of rapid job growth, and falling unemployment, are pretty much baked into the economy right now. For the Fed, which is worried that higher inflation is becoming embedded into workers' and businesses' expectations, that is worrisome – especially since workers are now better

positioned to demand wage increases that they think will keep up with rising prices.

Justin Lahart – WSJ 3/29/22

The March jobs report was just released (April 1), and it was another strong month of job creation. The strength of the job market is raising the probability that the next Fed rate hike will be for a 50-basis point (one-half percentage point) increase.

If we think it's appropriate to raise [by a half point] at a meeting or meetings, we will do so. If we determine that we need to tighten beyond common measures of neutral and into a more restrictive stance, we will do that as well.

Monetary policy is a blunt instrument, not capable of precision. My colleagues and I will do our very best to succeed in this challenging task.

Fed Chairman Jerome Powell – WSJ 3/21/22

The Fed will be attempting to achieve a *soft landing* … meaning that inflation will be reduced and employment will hold steady. This could become a very difficult task, as inflation is well above Fed targets and the labor market is considerably tighter than in previously orchestrated soft landings. The Fed is also starting with real interest rates (adjusted for inflation) deeply in negative territory.

In other words, not only is the economy already traveling above the speed limit, the Fed has the gas pedal pressed to the floor. The odds are that getting inflation back to the Fed's 2% target will require much higher interest rates and greater risk of recession than the Fed or markets now anticipate.

Greg Ip – WSJ 3/23/22

How tight is today's job market? According to the Labor Department, there were 11.3 million job openings at the end of February … or about 1.8 jobs for each unemployed person. Back in February 2020, right before the pandemic struck, there were 1.2 available jobs for each unemployed person – a record level at that time.

> **It's a sizzling hot labor market.**
>
> **Diane Swonk, Grant Thornton – WSJ 3/4/22**

The Fed's favorite inflation indicator, the core personal consumption expenditures price index, has increased by 5.4% over the past 12 months. This measure, which excludes food and energy prices, is now rising at the fastest pace in nearly 40 years. Russia's invasion of Ukraine should exacerbate the situation by impacting about a quarter of the world's wheat exports, a fifth of corn exports, and about 10% of global oil exports.

> **The outsize impact of grocery prices on broad inflation expectations portends higher prices still, especially as the war in Ukraine removes a large swath of global food commodities and oil – crucial for food packaging and transport – from the market. Expectations that food inflation will crest this month look particularly naïve.**
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> **Lisa Beilfuss, Barron's 3/21/22**

Census Bureau data reports that about 12% of American households with children don't have enough to eat, at a time when the lowest-income quintile of households spends more than a quarter of their income on food. These households are hurt the most by the rising prices of *essential items* … and such items, which include milk, bread, shelter, gas, and utilities, rose a whopping 16% from a year earlier. Rising food prices threaten global social systems, with the United Nation's Food & Agriculture Organization's Food Price Index at a record high.

Food prices are going up so fast. Chances of social unrest are extraordinarily high, especially as the current shock comes on top of a pandemic. When a very strong driver of things is changing quickly, we have to understand that the system is becoming unstable.

Yaneer Bar-Yam, New England Complex Systems Institute – Barron's 3/18/22

As a result of Russia's invasion of Ukraine, the European Bank for Reconstruction and Development anticipates their economies will decline this year by 10% and 20%, respectively. The EBRD also expects Russia's economic troubles to persist, due to severely damaging sanctions that effectively cut them off from international finance and key Western technologies.

Overall, the war is expected to reduce global growth by about one percent this year and push up inflation by more than two full percentage points. Outside of commodity markets, Russia's global trading is relatively small. Also, the U.S. Energy Information Administration estimates the world economy is 40% less energy-intensive than it was in the 1990s.

There will be less investment, less international trade, less integration of Russia into global value chains, and this combined with people leaving Russia means lower long-term productivity growth. This effect, I would expect it to linger way beyond sanctions, if there's no regime change.

Beata Javorcik, EBRD Chief Economist – WSJ 3/31/22

China set a 5.5% economic growth target for this year, the lowest rate of growth in more than 25 years. The modest target is an acknowledgment of growing concerns over the impact of government-engineered constraints on the property and technology sectors, as well as the effects of continuing soft domestic consumption attributed to China's "zero-Covid" policy.

> **By the standards of China's rip-roaring economic growth over the past 30 years, the official target for 2022 … is positively leisurely.**
>
> **Nathaniel Taplin – WSJ 3/9/22**

China's economy has been decelerating … from double-digit growth in the first half of 2021 to only 4% growth in the fourth quarter. In the first two months of 2022, home sales for China's 100 largest property developers plummeted 43% from a year earlier. The economic concerns were reflected in Chinese stocks which both crashed and rebounded in the middle of March.

> **The roller-coaster ride demonstrates how much Chinese shares remain at the mercy of politics and news headlines, even as they play a growing role in international investor portfolios. After the convulsions, investors are scrambling to understand how much has really changed.**
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> **Webb/Sebastian – WSJ 3/19/22**

For anyone still thinking they can pick stocks to beat the market averages, consider the following: The average return for U.S. mutual funds investing in large stocks last year was a full five percentage points lower than the S&P 500 Index, with 85% of the funds reporting returns below the index.

> **In the zero-sum game that is active investing (it is a negative sum after expenses), you need victims who can be exploited to be successful. Unfortunately, that pool of victims is persistently**

shrinking. Retail investors' share of the market has fallen from about 90% in 1945 to about 20% today.

Larry Swedroe, Buckingham Strategic Partners – Advisor Perspectives 2/25/22

The Schwab Center for Financial Research reminds us that bouts with market volatility are an unnerving, but normal, feature of long-term investing. Yet, it's hard to sit still when the market is sliding. Every investor is different, but here are a few steps for everyone to consider:

- Resist the urge to sell based solely on recent market movements.
- Take the long view.
- Review your risk tolerance and your risk capacity.
- Make sure you have a diversified portfolio.
- Rebalance your portfolio as needed.

You should expect to see market declines periodically throughout your lifetime, but volatility will create opportunity for disciplined investors.

Right now, the markets are juggling many competing inputs: a war, a rebounding pandemic-weakened global economy, inflation and a supply-chain goat rodeo. Markets hate uncertainty. Wars can end quickly or last decades … It's tough to estimate 2023 earnings in that kind of environment.

One certainty? Beware of experts; they are most often wrong.

Andy Kessler – WSJ 3/20/22

Thanks so much for your ongoing support. Remember, we are always here to help you through these bouts with volatility and uncertainty.

Daniel G. Corrigan, CPA/PFS, CFP®