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A head-spinning first quarter of 2022 ended with modest losses. The S&P 500 declined 4.6% over the past three months. The Dow Jones Industrial Average and Nasdaq have lost 4.1% and 8.9%, respectively. Underlying these single-digit losses are some of the most extreme moves on record. The magnitude of single-day price swings, often directionless during the past three months, are creating challenges for portfolio managers not seen in years.

Despite the rocky start to the quarter, in the final weeks of the first quarter, the US equity markets closed out a winning streak even as investors weighed rising interests and war in Ukraine. All three major averages notched two consecutive weeks of gains and reported their best performances since November 2020. The S&P 500 has erased almost half of its year-to-date losses. Despite the robust performance at the index level, results were mixed at the constituent level. Year to date, approximately two-thirds of the stocks in the S&P 500 have been negative, and 80% of the stocks in the index have had a correction of 10% or more. The stronger index-level returns indicate that the surge in the US equity markets in recent weeks was due to a recovery of mega-cap stocks.

Inflation has risen sharply to a 7.9% annual rate, the highest since 1982, driven by the surge in the prices in housing, commodities, and wages. While some of the underlying drivers of inflation will be transient, the pressure from higher wages will persist. Real wages have risen significantly in recent years, driven by a record-breaking pace of economic recovery coming out of the pandemic, accommodative monetary and fiscal policies, and a tight labor market. The persistently high labor market will likely lead to a structural increase in wages. This could potentially keep inflation high even after the surges in commodity prices and input costs begin to normalize.

Underpinning the uncertainty, the Federal Reserve has started pivoting towards a more hawkish stance since its March meeting. As anticipated, the Fed said it would raise interest rates and penciled in six more rate hikes by the end of 2022, the most aggressive pace in 15 years. The Fed's post-meeting statement indicated rising concerns about inflation that have broadened over the past year. Fed chair Jerome Powell signaled greater concern that higher inflation might persist due to a very tight labor market, with record job openings and wages up at the fastest pace in years. The Fed plans to finalize a plan to shrink its $9 trillion asset portfolio at its May 2022 meeting, ending a long-running asset-purchase stimulus program.

In the bond market, the 10-year Treasury notes have risen for five of the past seven quarters and reached 2.414% at the end of Q1, as investors prepare for the Federal Reserve to speed up the rate hikes to quell inflation. Two-year yields rose to 2.404% and briefly inverted on March 31st.

Russia's invasion of Ukraine has rattled already stressed supply chains, exacerbated by the new BA.2 Covid variant. China has resumed its lockdowns in major cities and could intensify its zero-Covid measures with the emergence of the new variant. If this does happen, more supply shortages of key manufacturing components could occur. With much still unknown, war in Ukraine and pandemic-related lockdowns set another test for the already stressed global supply chains.

First Quarter Market Watch

	Date	1 Quarter Ago		1 Year Ago	
	3/31/2022	12/31/2021	% chg	3/31/2021	% chg
DJIA	34,678.35	36,338.30	-4.1%	32,981.55	7.1%
S&P 500	4,530.41	4,766.18	-4.6%	3,972.89	15.6%
NASDAQ Composite	14,220.52	15,644.97	-8.9%	13,246.87	8.1%
Russell 2000	5,144.78	5,580.17	-7.5%	5,518.55	-5.8%

	Date	1 Quarter Ago		1 Year Ago	
	3/31/2022	12/31/2021	% chg	3/31/2021	% chg
Japan Nikkei 225	27,821.43	28,791.71	-8.3%	29,178.80	-13.8%
MSCI EM (Emerging Markets)	1,141.79	1,232.01	-6.9%	1,316.43	-11.1%
MSCI EAFE	2,181.63	2,336.07	-5.8%	2,208.32	1.6%
MSCI AC World	711.56	754.83	-5.3%	673.29	7.7%
FTSE 100	7,524.08	7,313.56	0.0%	6,481.71	17.4%
SSE Composite Index	3,252.20	3,639.78	-10.2%	3,441.91	-3.5%

US Equity Sector

	Q1	1-yr ret.
Consumer Discretionary	-9.0%	5.5%
Consumer Staples	-1.0%	14.6%
Energy	39.0%	66.0%
Financials	-1.5%	12.0%
Health Care	-2.6%	19.1%
Industrials	-2.4%	4.9%
Information Tech	-8.4%	14.2%
Materials	-2.4%	13.1%
Communication Services	-11.9%	-5.9%
Utilities	4.8%	18.3%

US Equity Sector

	Q1	1-yr ret.
RUSSELL 1000 VALUE	-0.7%	9.8%
RUSSELL 1000 GROWTH	-9.0%	9.8%
RUSSELL 2000 VALUE	-2.4%	2.5%
RUSSELL 2000 GROWTH	-12.6%	-15.3%

Commodity Prices

	Mar 2022	1 Qtr Ago	1 Yr. Ago
Gold	1,954.00	1,828.60	1,828.60
Crude Oil	100.28	75.21	75.21
UD Dollar Index	98.36	95.59	95.59
Commodity Index	124.41	99.17	99.17

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Amid the macroeconomic and geopolitical uncertainties, as well as a potentially inverted yield curve, several Wall Street strategists have raised the odds of a recession. BCA's Peter Berezin even raised the possibility of a "civilization-ending global nuclear war" in 2023 to an "uncomfortably high 10%". Yet the S&P 500 has lost less than 1% since February 24th, the day Russia launched its attack of Ukraine. Importantly, we would remind our clients that during the market downturns, countless investors had given up stocks, while others rushed into the most popular investment products at the time. Each of these actions have resulted in significant detriments to their investment returns over the long term.

US oil futures reached $130 a barrel in early March, marking the biggest quarterly gain since 2008. The surge in oil prices has flashed a warning signal of demand destruction. Some analysts think oil prices could hit $150 a barrel. Oil prices rose after Russia's invasion of Ukraine, when Western boycotts and sanctions imposed on Russia began to weigh on global supply. Russia is the world's third-largest oil producer, behind the US and Saudi Arabia. Before the war in Ukraine, Russia supplied 7.5% of the world's crude oil and refined products. With a wave of sanctions imposed on Russian exports, major energy companies and commodity-trading houses have suspended purchases of Russian energy products. The real impact of the sanctions is only starting to impact oil markets, disrupt Russian exports, and threaten further price increases for crude oil, natural gas, and liquids. Oil prices have long responded to the push and pull between speculators in futures markets and traders who transact physical deliveries. Global energy supplies have already been tight due to the curbing of production by the OPEC. The US energy producers have been slow to spend due to the push for decarbonization and prioritizing shareholder returns via dividends and share buybacks.

The 30-year mortgage rate rose to 4.67%, the highest since 2018. Higher mortgage rates typically slow home purchases but so far, higher rates have not dented home purchases or mortgage financing. The number of mortgage loan applications has continued to rise in recent weeks, as demand for homes remains strong and housing inventories remain ultra-low.

The significant market swing year to date has triggered a stampede into derivatives and investment products tied to commodities. Commodity trading went haywire after the war in Ukraine, which triggered wild swings in commodity prices. The commodities market had been traditionally dominated by institutional investors, but the recent significant influx of retail investors has further exacerbated the volatility of commodity prices.

Commodity Prices

	Mar '22	Dec '21	1 Yr. Ago
Treasury Bill, 90 Day	0.52	0.05	0.03
Treasury Note, 2 Year	2.29	0.73	0.16
Treasury Note, 5 Year	2.42	1.26	0.94
Treasury Bond, 10 Year	2.32	1.51	1.74
Treasury Bond, 30 Year	2.45	1.90	2.42

Interest Rates

	Mar 2022	1 Qtr Ago	1 Yr. Ago
PRIME RATE	3.50	3.25	3.25
FEDERAL FUNDS RATE	0.34	0.09	0.07
US 2Y T-Note Yield	2.29	0.73	0.16
US 10Y T-Note Yield	2.32	1.51	1.74
30YR FIXED MORTGAGE	4.67	3.11	3.17

Many constituents within major market indices have had a rocky start to 2022. Portfolio managers are parsing rapid developments in Ukraine and the implications on the global economy and stability of the global financial system. Adding to these challenges to money managers is a surge in commodity prices. The surge in crude oil, natural gas, grains, and metals has been fueling inflation. This added to the uncertainty of the pace and magnitude of the Fed's interest rate increases, which will have implications for stocks and bonds. Going forward, earnings growth will remain a key driver of stock performances. Given the persistent supply chain issues, geopolitical tensions, and a potential demand destruction from rising inflation, we continue to prefer high quality companies with pricing power and are resilient in generating profitable growth in uncertain times.

Amidst heightened macroeconomic and geopolitical uncertainties, we stay the course and remain resilient. As we are closing the chapter of a very tumultuous first quarter and brace ourselves for more bumpy roads ahead, we share an inspirational real-life story by the Wall Street Journal. Echoing the unfortunate war in Ukraine today, the Journal dialed back to the fall of 1939. Just after Hitler's forces invaded Poland and plunged the world into war, a young man from a small town in Tennessee borrowed $10,000 and invested in US stocks. While admitting his own fear, he believed that a maximum level of pessimism was near. He held on to the shares for five years during the most frightening years in modern history and more than quadrupled his investment. His name was John Templeton, who went on to become one of the most respected money managers of all time. Templeton exemplified the characteristics that great investors possess: "curiosity, skepticism, discipline, independence, humility, patience and above-all, courage".

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