



PENSION & WEALTH MANAGEMENT ADVISORS

IMPROVING FINANCIAL SECURITY

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Q1 2022 - Market Commentary¹

- Global financial markets experienced high volatility during the first quarter as the Russia/Ukraine War started, the U.S. Federal Reserve's pivot towards aggressive policy tightening, and increasing inflationary pressures created rising economic uncertainties and negatively impacted investor sentiment.
- The U.S. economy experienced its highest levels of inflation since the late 1970's, which forced the Fed to finally capitulate and embark upon a monetary policy tightening cycle.
- In March, the Fed raised interest rates for the first time since 2018 by 0.25% and signaled it will raise interest rates multiple times throughout 2022 and begin to implement Quantitative Tightening in order to reign in future inflation expectations.
- The broad U.S. stock market rallied in the back half of March, which erased some of the larger losses from earlier in the quarter, but it still had its worst quarterly performance since the first quarter of 2020.
- Large caps outperformed small caps, value stocks outperformed growth stocks, and U.S. stocks outperformed non-U.S. stocks. Non-U.S. stocks lagged U.S. stocks as the Russia/Ukraine War created more immediate risks and bigger headwinds to economic growth for both European and Asian economies, especially related to rising energy costs.
- The U.S. dollar strengthened against all major currencies in a flight to safety trade. Emerging markets were the worst performing segment of global equities as Russian stocks plummeted and then stopped trading, and China's C-19 outbreaks and lockdowns hit EM equities.
- Bonds provided no protection as yields rose rapidly during the first quarter in reaction to accelerating inflationary pressures and the Fed's hawkish policy turn.
- The 2-year U.S. Treasury bond yield, which is most sensitive to future rate expectations, rose a whopping 1.6% during the first quarter.
- Bonds had their worst quarterly performance since 1994 and even high-quality bonds underperformed stocks. The 10-year U.S. Treasury yield ended the quarter at 2.34%, up 0.83% from the 1.51% yield at the start of the year.
- Below investment grade bonds as measured by the BofA ML High Yield Index declined nearly 5% in the bond market sell-off as investors priced in greater risk of a recession. Oil and commodity prices gapped higher when Russia invaded Ukraine and western countries announced economic sanctions that will impact Russia's ability to export its oil, natural gas, grains, and metals.
- The West Texas Intermediate Crude Oil Index rose 34% for the first quarter.
- U.S. natural gas increased 53% as Europe will now buy more U.S. LNG as it seeks to cut its dependence on Russian natural gas.
- Gold was one of the few positive performing assets, benefiting from rising inflation and a flight to safety trade.
- Balanced portfolios had a difficult first quarter as both stocks and bonds generated negative returns and saw rising volatility.
- It was the worst quarterly performance for balanced portfolios in two years.

Performance Table¹

	<u>1Q22</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
S&P 500 Index (U.S. large/mega cap stocks)	-4.6% ↓	28.7% ↑↑↑↑	18.4% ↑↑↑	31.5% ↑↑↑↑	-4.4% ↓
Russell 2000 Index (U.S. small cap stocks)	-7.5% ↓↓	14.8% ↑↑↑	20.0% ↑↑↑	25.5% ↑↑↑↑	-11.0% ↓↓
MSCI EAFE Index (large cap developed markets int'l stocks)	-6.5% ↓↓	11.3% ↑↑↑	7.8% ↑↑↑	22.0% ↑↑↑↑	-13.8% ↓↓
MSCI EM Index (emerging markets stocks)	-7.8% ↓↓	-2.5% ↓	18.3% ↑↑↑	18.4% ↑↑↑	-14.6% ↓↓
MSCI All Countries World Index (global stocks)	-5.4% ↓↓	18.5% ↑↑↑	16.3% ↑↑↑	26.6% ↑↑↑↑	-9.4% ↓↓
Bloomberg Aggregate Bond Index (inv. grade bonds)	-5.9% ↓↓	-1.5% ↓	7.5% ↑↑	8.7% ↑↑	0.0% ↔
BofA ML High Yield Index (below inv. grade bonds)	-4.5% ↓	5.4% ↑↑	7.1% ↑↑	14.3% ↑↑↑	-2.1% ↓
Bloomberg Short-Term Treasury Index (cash)	-0.1% ↔	0.0% ↔	1.0% ↑	2.5% ↑	1.9% ↑
Bloomberg Municipal Bond Index	-6.2% ↓↓	1.5% ↑	5.2% ↑↑	7.5% ↑↑	1.3% ↑
Gold	6.1% ↑↑↑	-3.7% ↓	25.1% ↑↑↑↑	18.4% ↑↑↑	-2.9% ↓
Oil (West Texas Intermediate Crude)	34.0% ↑↑↑↑	55.8% ↑↑↑↑	-20.9% ↓↓	31.5% ↑↑↑↑	-25.0% ↓↓
Bitcoin	-0.8% ↓	59.0% ↑↑↑↑	303.7% ↑↑↑↑	90.3% ↑↑↑↑	-75% ↓↓
Morningstar Moderate Target Allocation (60% stocks / 40% stocks)	-5.2% ↓↓	10.2% ↑↑↑	12.8% ↑↑↑	19.0% ↑↑↑	-4.8% ↓

¹ Data sourced from Barclays, Market Watch, MSCI, Russell, Standard & Poors, Wall Street Journal and Barrons.