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MARKET MINUTE

MARCH REVIEW 2022

This month's Market Minute reflects the views of our Investment Office and was composed by
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OVERVIEW

Markets dynamics in March were driven by two overriding factors: the war in Ukraine and the US Federal Reserve. The news cycle has been largely dominated by Russia's late-February invasion of Ukraine and its subsequent inability to capture Kiev, as well as its destruction and capture of the port town of Mariupol. The invasion kicked-off a series of economic sanctions against the Russian economy and the aggressive resupply of the Ukrainian military by Western democracies. By the end of March, Russia's advance in the north of Ukraine—in the general area of the cities of Kiev and Kharkiv—had been stopped and the Ukrainian military was beginning to conduct counter attacks to roll back Russia's limited gains. The war (as well as the sanctions on Russia) has exacerbated global supply-chain shortages in myriad areas including oil and gas, wheat and other grains, sunflower oil, and select metals and industrial inputs. Europe, which is heavily reliant on Russia for oil and gas imports, is bracing for shortages and could be facing a recession as energy prices surge and key manufacturing sectors, such as the automotive sector, are hamstrung due to reliance on either Russian or Ukrainian component supplies that are no longer able to produce as normal.

Amidst this turbulent geo-political situation, the US Federal Reserve delivered its first rate hike since 2018 and Fed Chairman Jerome Powell pledged that the Fed was willing to take further aggressive action to ensure inflation—headline CPI is currently running at 7.9% year-over-year—begins to subside during the remainder of the year. As such, the Fed revised its Fed Funds Rate outlook in March, which envisions seven additional hikes over the next nine months and spurred a rise in the US yield

DOMESTIC EQUITY *As of March 31, 2022*

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	2.5%	-4.1%	-4.1%	7.1%
S&P 500	3.7%	-4.6%	-4.6%	15.6%
Russell 2000	1.2%	-7.5%	-7.5%	-5.8%
Russell 1000 Growth	3.9%	-9.0%	-9.0%	15.0%
Russell 1000 Value	2.8%	-0.7%	-0.7%	11.6%

US equities experienced a volatile month. At one point early in the month the S&P 500 was down by more than -4.6% only to rally in the final weeks of the month to finish March +3.7%—a 8.3 percentage-point swing. The US equity markets were marked by divergence between growth and value, while small cap stocks underperformed their large cap peers (Russell 2000 +1.2%). Within US large cap stocks, growth stocks (Russell 1000 Growth +3.9%) outperformed large cap value stocks (Russell 1000 Value +2.8%) for the month. Meanwhile US small cap value companies (Russell 2000 Value +2.0%) outperformed small cap growth companies (Russell 2000 Growth +0.5%) in March. The US dollar was largely stable against most developed market currencies in March.

INTERNATIONAL EQUITY *As of March 31 2022*

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	0.2%	-5.4%	-5.4%	-1.5%
MSCI EAFE	0.6%	-5.9%	-5.9%	1.2%
MSCI Emerging Markets	-2.3%	-7.0%	-7.0%	-11.4%
MSCI EAFE Small Cap	0.0%	-8.5%	-8.5%	-3.6%

Non-U.S. equity markets generally underperformed US equity markets for the month. Emerging markets were down the most as the MSCI EM Index finished the month -2.3%. The decline in the EM index was due in part to the fact that MSCI removed the portion the Index in mid-March that was attributable to Russia stocks—about 2% of the index as of 28-Feb—as they judged these stocks to be un-investable and marked them down to zero.[1] The main Russian stock exchange (MOEX) was closed by Russian regulators on 25-February at the onset of Russia's invasion of Ukraine and the MOEX only partially re-opened for local investors on 24-March.[2]

International developed markets fared better than emerging markets, but only gained modestly in March. The MSCI EAFE Index rose +0.6% as European shares lagged due to the conflict in Ukraine and the prospect that energy shortages and supply-chain disruptions could push Europe into a recession in the coming quarters. There was little difference between growth and value stocks outside of the US, but non-US small cap stocks (MSCI ACWI ex US Small Cap Index +1.0%) outperformed their large cap peers (MSCI ACWI ex US +0.2%).

FIXED INCOME *As of March 31, 2022*

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-2.8%	-5.9%	-5.9%	-4.2%
BarCap Global Aggregate	-3.0%	-6.2%	-6.2%	-6.4%
BarCap US High Yield	-1.1%	-4.8%	-4.8%	-0.7%
JPM Emerging Market Bond	-1.1%	-9.3%	-9.3%	-6.2%
BarCap Muni	-3.2%	-6.2%	-6.2%	-4.5%

March continued the pain for bond investors and the -2.8% decline for the Bloomberg US Aggregate Bond Index capped the worst quarter in the index's history going back to 1980.[3] Given the paltry coupon income generated by most bonds, this quarter's decline (Bloomberg Aggregate Q1 decline of -5.9%) all but assures that, for the first time since the index's inception in 1975, it will finish with two back-to-back yearly declines.

During March, interest rates moved higher across the US Treasury yield curve and the overall yield curve became flatter. At one point, US 10-year Treasuries had a yield over 2.5% before ending the month at 2.34%.[4] Meanwhile, the yield on 2-year Treasuries rose even more and the spread between the 2-year U.S. Treasury rate and the 10-year U.S. Treasury rate declined from 40 basis points at the beginning of the month to 0 basis points by the end of the month.[4] Interest rate risk remained the major driver of performance of bond returns this year across on all bond types, but declines in credit risk (versus US Treasuries) in March helped alleviate some of the losses among fixed income risk assets as spreads tightened in both high yield (Bloomberg US Corporate High Yield Index -1.1%) and emerging market debt markets (JPMorgan Emerging Market Bond Index -1.1%).

CLOSING

The volatility witnessed in January and February continued apace in March. Both equity markets and bond markets were gripped by the events in Ukraine as well as the actions by the US Fed. Unfortunately, neither the war in Ukraine nor Fed action in terms of rates is close to being over. Markets are grappling with the path of US interest rates and trying to determine how quickly the Fed will raise rates this year and the risks that the Fed may force the US economy into a recession in 2023 as it combats inflation. Similarly, the path to de-escalation in Ukraine seems equally unclear. While Russian plans for a quick victory over Kiev and the capitulation by the Ukrainian people has been shattered, the path to a permanent ceasefire and a lasting peace is likely far off. As such, Clearstead expects heightened volatility to remain in place this Spring, and we are working with our clients to add defensiveness to our client's portfolios and brace for a difficult year. Despite the challenges that face

the global economy and global markets, Clearstead clients know that we structure all-weather portfolios for the long-haul and provide our clients the ability to flourish even during global crises.

SOURCES:

1 MSCI "From Crisis to Crisis: Russia's Diminished Role in Emerging Markets" 3-March-2022

2 Clearstead Research Corner 28-March-2022

3 https://www.wsj.com/articles/bond-market-suffers-worst-quarter-in-decades-11648737087

4 Bloomberg LP, as of 31-March-2022

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