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MARKET MINUTE

APRIL REVIEW 2022

This month's Market Minute reflects the views of our Investment Office and was composed by
Thomas M. Seay, Senior Managing Director, Research

OVERVIEW

There was a plethora of news to scare the faint of heart during April and investors showed no patience to analyze the data, as they simply sold and sold and sold. Inflation news was front and center and unpleasant as the Consumer Price Index (CPI) increased 1.2% in March and was up 8.5% over the trailing 12 months[3]. First quarter U.S. real GDP contracted at an annualized rate of 1.4%[3]. The main cause of the decline was an increase in U.S. imports – driven by a 2.7%[3] increase in personal consumption – while exports significantly declined as China's economy has stalled due to COVID-19 lockdowns and Europe appears to be heading for a recession due to escalating tensions in Ukraine. High inflation, slowing growth, and the drum beat of war, what more do investors need to test their patience?

Despite these issues, the Federal Reserve ("The Fed") is expected to raise interest rates a half point when it meets on May 3rd and 4th. An onslaught of Fed speakers believe that, with inflation running at levels not seen in over forty years, now is the time to aggressively raise rates and begin the process of putting the inflation genie back in the bottle.

DOMESTIC EQUITY *As of April 30, 2022*

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-4.8%	-4.8%	-8.7%	-0.8%
S&P 500	-8.7%	-8.7%	-12.9%	0.2%
Russell 2000	-9.9%	-9.9%	-16.7%	-16.9%
Russell 1000 Growth	-12.1%	-12.1%	-20.0%	-5.3%
Russell 1000 Value	-5.6%	-5.6%	-6.3%	1.3%

The S&P 500 and Nasdaq indexes finished April at new lows for 2022. The S&P 500 index experienced the worst four month start of a year since 1939 (-12.9%[3]). Nasdaq had its worst month since October 2008—dropping -13.2%[3] in April alone—and is into bear market territory – now down nearly 24% since peaking in late November 2021[3]. Poor earnings or outlooks from the likes of Amazon, Netflix, and Apple along with Elon Musk selling Tesla stock to buy Twitter have all weighed on market sentiment. The U.S. equity markets continued the divergence between growth (Russell 1000 Growth -12.1%[3]) and value (Russell 1000 Value -5.6%[3]). The best sector was Consumer Staples, which was the only sector to post a positive month (+2.6%[3]), while higher-priced, technology-oriented stocks continued to struggle (Technology -11.3%[3], Communication Services -15.6%[3], Consumer Discretionary -13.0%[3]).

INTERNATIONAL EQUITY *As of April 30, 2022*

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-6.3%	-6.3%	-11.4%	-10.3%
MSCI EAFE	-6.5%	-6.5%	-12.0%	-8.1%
MSCI Emerging Markets	-5.6%	-5.6%	-12.1%	-18.3%
MSCI EAFE Small Cap	-6.9%	-6.9%	-14.8%	-13.7%

Non-U.S. equity markets offered no respite from the negative returns as the EAFE index returned -6.5%[3] and the Emerging Markets Index was down -5.6%[3]. The conflict in Ukraine continues to dominate European headlines while in China COVID-19 lockdowns in Shanghai and other major cities is not only affecting the economy but appears to be spreading social unrest. Chinese authorities, attempting to support internet stocks, released a statement that is being interpreted as, "… the end or, at least, a significant easing of internet regulation."[1] Although such statements would normally be a plus for Chinese equity markets, the COVID-19 lockdowns continue to dominate market momentum.

FIXED INCOME *As of April 30, 2022*

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-3.8%	-3.8%	-9.5%	-8.5%
BarCap Global Aggregate	-5.5%	-5.5%	-11.3%	-12.6%
BarCap US High Yield	-3.6%	-3.6%	-8.2%	-5.2%
JPM Emerging Market Bond	-5.5%	-5.5%	-14.2%	-13.0%
BarCap Muni	-2.8%	-2.8%	-8.8%	-7.9%

If investors thought it could not get any worse than March, they were sorely disappointed in April. As interest rates rose throughout the month and The Fed was delivering a hawkish message, fixed income investors were busy hitting the sell button without hesitation. Whether it be U.S. Treasury securities declining -3.10%[3] (Bloomberg Treasury Index), investment grade bonds down -5.47%[3] (Bloomberg Investment Grade Corporate Index), high yield securities down -3.56%[3] (Bloomberg U.S. High Yield Index) or emerging market debt down -5.48%[3] (J.P. Morgan Emerging Markets Bond Index), there was simply no place to hide from the selling pressure in public markets.

Private market direct lending funds held up well and continued to deliver positive returns for their investors. Although less liquid than public market securities, these higher yielding, short duration investments are not subject to the whims of day traders and display a much less volatile profile. In 2021, the Bloomberg Aggregate Index was down 1.54%[3], while the Cliffwater Direct Lending Index was up 12.78%[4]. The main driver of the Cliffwater Index's return was due to interest income (8.93%), delivering the income fixed income investors use to receive in the good old days.

CLOSING

The month of April was a gloomy one and finding a silver lining is a challenge; but rays of sunshine do exist. The first quarter's earnings season has seen 55% of S&P 500 companies report so far with 80% of reporting companies posting better than expected earnings. The blended year-over-year ("YoY") earnings growth rate for Q1 is +7.1%, though excluding Amazon (which reported disappointing results last week) earnings growth would be over +10.0% YoY[2]. Although the inflation data remains troublesome, the year-over-year levels could start to improve, and the negative headline numbers should stabilize or possibly decline. The Fed's transparent monetary policy (i.e., investors are fairly confident in the direction and reasonably sure of the path The Fed will follow) has many market participants believing the majority of the interest rate hikes are already priced into current levels and that the peak in interest rates are near.

The start of 2022 can only be described as miserable, but with 8 months left in 2022 there remains plenty of time to begin the process of rebuilding our portfolios for the future. This year's start allows many to take advantage of tax loss harvesting techniques to reduce 2022 taxes. What was once considered an overpriced and expensive market is significantly cheaper than where we started the year. Do not let fear get in the way of implementing a disciplined investment program to achieve long-term investment goals.

SOURCES:

1 Krane Shares - China Last Night April 29, 2022

2 FactSet - Earnings insight April 29, 2022

3 Bloomberg LP

4 Cliffwater LLC