Weekly Market Update

General Market News

- Although a rate hike of 50 basis points (bps) at the Federal Reserve's (Fed's) May meeting seems increasingly likely, it is anything but certain. Some Fed officials, including Chair Jerome Powell, have recently expressed a willingness to use a more aggressive increase of one-half of one percentage point if circumstances warrant. Influenced by those comments, the futures market is pricing in roughly 8 additional hikes of 25 bps before the end of 2022, but there are too many unknowns and rapidly changing conditions to make a prediction with any conviction. Last week, Treasury yields rose across the curve. The 2-year was up 22 bps to 2.14 percent, the 5-year rose 25 bps to 2.40 percent, the 10-year gained 20 bps to 2.37 percent, and the 30-year increased 7 bps to 2.54 percent.
- The S&P 500 gained 1.81 percent as investors moved out of bonds and into equities. The major driver seemed to be a more aggressive Fed, which plans to combat inflation with a pair of rate hikes at its May and June meetings. The question remains whether the hikes will be 25 bps, 50 bps, or a mix of the two. Inflation makes Treasury bonds less attractive because their fixed coupon payments are eroded by the effect of higher prices. As a result, investors have taken on more risk in the past two weeks as they seek equities that can provide growth and capital appreciation to offset the rising costs of goods. Top performing sectors this week were energy, materials, and utilities—all recent areas of inflation. West Texas Intermediate Crude was up 10.5 percent. Underperforming sectors included health care, REITs, and consumer discretionary.
- On Thursday, the preliminary estimate for the February durable goods orders report was released. The report showed that durable goods orders fell 2.2 percent, a much larger decline than the expected 0.6 percent drop. This larger-than-expected slowdown in headline durable goods orders was due in large part to a notable drop in aircraft orders last month; orders for machinery and electronics, however, also dropped in February. Core durable goods orders, which strip out the impact of transportation orders, fell 0.6 percent against calls for a 0.6 percent increase. This marks the first decline in core orders in a year, indicating that rising geopolitical uncertainty may have hampered overall business investment. Business spending was strong throughout most of 2021, as businesses invested in equipment to try to meet high levels of consumer demand. Next month's report will give economists a better idea of whether February represented a temporary lull in business investment or if rising uncertainty will continue to affect spending negatively throughout 2022.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	1.81	3.98	–4.35	15.92
Nasdaq Composite	1.99	3.10	–9.28	8.55
DJIA	0.31	3.03	–3.60	7.38
MSCI EAFE	0.19	–0.61	–7.09	–0.33
MSCI Emerging Markets	0.22	–3.75	–8.39	–12.08
Russell 2000	–0.38	1.58	–7.22	–5.48

Source: Bloomberg, as of March 25, 2022

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–3.76	–6.89	–5.22
U.S. Treasury	–3.91	–6.36	–4.76
U.S. Mortgages	–3.52	–5.87	–5.86
Municipal Bond	–3.20	–6.19	–4.42

Source: Morningstar Direct, as of March 25, 2022

What to Look Forward To

On Tuesday, the Conference Board Consumer Confidence Index for March is set to be released. Confidence is expected to drop from 110.5 in February to 107. If estimates hold, this would be the third straight month with lowered confidence and would bring the index to its lowest level since February 2021. The previously released University of Michigan consumer sentiment survey showed that rising inflation concerns weighed on consumer sentiment during the month. Confidence is expected to remain well above pandemic-driven lows we saw in 2020 and early 2021. This should help support continued spending growth this month despite the anticipated index decline. Although rising prices may serve as headwinds for consumer confidence in the short run, we may see an uptick in sentiment if inflationary pressure starts to recede later in the year.

On Thursday, the February personal income and personal spending reports will be released, and both are expected to show improvement during the month. Spending is set to increase 0.5 percent after a 2.1 percent increase in January, and income is set to rise 0.5 percent after remaining unchanged in January. If estimates hold, this would mark two consecutive months of spending growth, which would be a positive sign for overall economic growth. Consumer demand proved to be strong in January despite headwinds created by inflation and the pandemic.

What to Look Forward To (continued)

The continued spending growth in February would be an encouraging sign that consumers remain willing to go out and spend. Income growth has been volatile throughout the pandemic due to shifting federal unemployment and stimulus payments; however, the strong job market is expected to support continued wage growth in the months ahead.

Speaking of the job market, Friday will see the release of the March employment report. Economists expect to see 475,000 jobs added during the month, which would be a decline from the 678,000 jobs that were added in February. If estimates are accurate, this would represent a strong month of hiring growth on a historical basis. The underlying data is also expected to improve, as the unemployment rate is set to fall from 3.8 percent in February to 3.7 percent. Average hourly earnings are expected to increase 0.4 percent. The pre-pandemic low for unemployment was 3.5 percent, and the fact that the unemployment rate is approaching this level highlights the impressive labor market recovery over the past two years. Given the improvements for the job market and the rise in inflationary pressure throughout 2021, the Fed is expected to focus on tightening monetary policy throughout 2022 to combat rising prices.

We'll finish the week with Friday's release of the Institute for Supply Management (ISM) Manufacturing index for March. This measure of manufacturing confidence is expected to decline slightly from 58.6 in February to 58.4. This is a diffusion index, where values above 50 indicate expansion, so if estimates hold, this report would still point toward continued manufacturing growth during the month. Last month, we saw the positive impact that high levels of manufacturing confidence can have, as manufacturing output increased more than expected while confidence remained high. Manufacturing confidence has been supported by high levels of demand for manufactured goods over the past year, but rising material and labor costs have served as headwinds for the industry. Looking ahead, continued demand for manufactured goods is expected to support manufacturing confidence and output in the months ahead.

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