# MARKET INSIGHTS

*from* Ziegler Capital Management

## Monthly Market Commentary: March 2022

**WRITTEN: MARCH 1, 2022**

The S&P 500 returned -2.99% in February, following January's negative returns and in contrast to calendar year 2021's return of 28.71%. For the year-to-date period through February 28th, the S&P 500 has returned -8.01%. Small cap stocks, as measured by the Russell 2000, returned 1.07% in February, and have returned -8.66% on a year-to-date basis as of February 28, 2022. This contrasts with the 14.82% return for calendar year 2021. Large Cap Value outperformed Growth in February with the Russell 1000 Value returning -1.16% and the Russell 1000 Growth returning -4.25%. On a year-to-date basis as of February 28, 2022, Large Cap Value has outperformed Large Cap Growth with a return of -3.46% versus -12.47%. In February, the Russell 2000 Value returned 1.65% and the Russell 2000 Growth returned 0.44%. On a year-to-date basis as of February 28, 2022, Small Cap Value outperformed Small Cap Growth with a return of -0.37% for Small Cap Value versus Small Cap Growth at -12.64%.

Financial news headlines continue to be led by the geopolitical tension and ultimate invasion of Ukraine by Russia and the related market sell-off, the likely increase in the Federal Funds rate in March, inflation running at multi-decade highs, and continued supply chain disruptions that are having a broader effect on U.S. companies and their consumers. The spike in COVID-19 cases and hospitalizations in late December and early January has significantly subsided, and the number of people who have received at least one dose of a COVID-19 vaccine continues to increase. According to the Centers for Disease Control (CDC), 73.4% of the United States population over 12 years old is fully vaccinated against COVID-19, with 86.1% of the population having received at least one

### Returns by Sector

| | S&P 500 | | Russell 2000 | |
|---|---|---|---|---|
| Sector | Feb. 2022 | YTD | Feb. 2022 | YTD |
| Communication Services | -6.98 | -12.75 | 4.11 | -8.41 |
| Consumer Discretionary | -3.99 | -13.28 | -1.50 | -12.00 |
| Consumer Staples | -1.42 | -2.77 | 3.10 | -6.15 |
| Energy | 7.13 | 27.59 | 11.32 | 20.70 |
| Financials | -1.35 | -1.30 | -0.05 | -3.45 |
| Health Care | -1.02 | -7.71 | 0.02 | -16.13 |
| Industrials | -0.87 | -5.56 | 2.64 | -7.95 |
| Information Technology | -4.90 | -11.45 | -0.70 | -14.57 |
| Materials | -1.24 | -7.99 | 3.70 | -3.72 |
| Real Estate | -4.91 | -13.00 | -0.96 | -8.70 |
| Utilities | -1.85 | -5.06 | 2.37 | -3.15 |
| TOTAL RETURN | -2.99% | -8.01% | 1.07% | -8.66% |

Source: Bloomberg

**ABOUT ZCM MARKET INSIGHTS**

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

www.zieglercap.com/insights

Ziegler CAPITAL MANAGEMENT, LLC

We are a premier asset management firm comprised of investment teams employing repeatable processes providing tailored investment solutions across the fixed income and equity markets.

www.zieglercap.com

zieglercap.com/linkedin

dose as of February 28th. COVID-19 cases and hospitalizations are continuing to fall dramatically across the country.

The $1.0 trillion infrastructure package that focuses on bridges, roads, railways, and broadband internet was signed into law by President Biden on November 15th. Funding will be distributed over a five-year period and puts $550 billion of new funds into transportation, broadband, and utilities. This includes $110 billion in roads, bridges, and other major projects. The American Families Plan remains in limbo with reports it may be broken into smaller bills in hopes to secure passage of parts of the larger bill. In recent negotiations, several of President Biden's campaign promises have been abandoned, such as providing free community college and clean electricity standards. Programs such as the expanded Child Tax Credit and expanded Medicaid that were initially going to be permanent will instead expire in a year or two. To pay for his plans, President Biden's proposals include raising the top income tax and capital gains rates, increasing corporate taxes, and expanding the Internal Revenue Service's collections.

Real gross domestic product (GDP) increased at an annualized rate of 7.0% in the fourth quarter of 2021 according to the "second" estimate released by the Bureau of Economic Analysis (BEA). This is an increase from the "advance" estimate of 6.9%. The updated estimates reflect upward revisions in non-residential fixed investment, state and local government spending, and residential fixed investment that were offset by downward revisions to personal consumption expenditures (PCE) and exports. The increase in private inventory investment was led by retail and wholesale trade industries. Within retail, inventory investment by motor vehicle dealers was the leading contributor. The increase in exports reflected increases in goods and services. The increase in exports of goods was widespread with contributors that include consumer goods, foods, feeds, and beverages and industrial supplies and materials. The increase in exports of services was led by travel. The increase in PCE reflected an increase in services that was lead by health care, financial services and insurance, and transportation. The increase in nonresidential fixed investment reflected an increase in intellectual property that was offset by a decrease in structures. The decrease in federal government spending reflected a decrease in defense spending on intermediate goods and services and the decrease in state and local government spending is from a decrease in gross investment. The increase in imports reflects an increase in goods from non-food and non-automotive consumer and capital goods.

According to the U.S. Bureau of Labor Statistics (BLS), the unemployment rate increased slightly to 4.0% in January from 3.9% in December. Total non-farm payroll employment rose by 467,000 in January. The number of unemployed increased slightly to 6.5 million people from 6.3 million people in December. In January, employment growth continued in leisure and hospitality, professional and business services, retail trade, transportation, and warehousing. Both measures continue to generally fall and are significantly lower than their April 2020 highs and are now approaching their February 2020 pre-pandemic levels of 3.5% and 5.7 million people. The labor force participation rate of 62.2% in January increased from 61.9% in December. It has remained in a narrow range since June 2020 with the last three readings the highest rate in that period. Data for January reflect the BLS' adjustments for annual seasonal factors and updated population estimates with most readings considered to be essentially unchanged from December when factored in.

The U.S. savings rate was 6.4% in January, decreasing from an upward revised 8.1% in December. The long-term average savings rate is approximately 9% after its stunning peak of 32.2% in April 2020. Personal income increased $9.0 billion (less than 0.1%) in January according to estimates from the BEA. Disposable personal income increased $19.8 billion (0.1%) and personal consumption expenditures increased $337.2 billion (2.1%). The increase in personal income in January reflected an increase in compensation that was offset by a decrease in government social benefits. Within compensation, the increase reflected increases in private and government wages and salaries. Within government social benefits, a decrease in "other" social benefits (which reflects the end of advance Child Tax Credit payments) was offset by an increase in Social Security benefits which reflects the 5.9% cost-of-living adjustment for 2022.

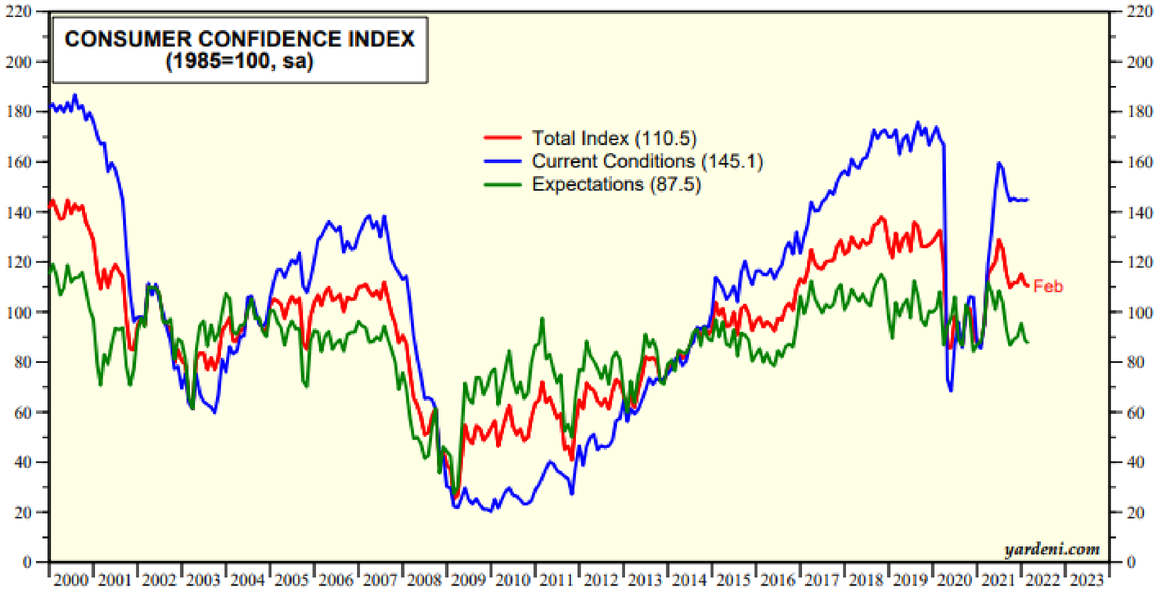
According to minutes and related summary released from their January meeting, the Federal Reserve is beginning plans to raise interest rates and reduce the size of its balance sheet. “Participants observed that, in light of the current high level of the Federal Reserve’s securities holdings, a significant reduction in the size of the balance sheet would likely be appropriate,” the summary stated. The Fed decided not to raise interest rates from a range of 0 to 0.25% but strongly indicated a hike is on the way as soon as March. In early November, the Fed agreed to reduce its $120 billion per month bond purchases by $15 billion per month, paring back to $90 billion in December. At their mid-December meeting, the Fed said it would further accelerate the wind-down by reducing purchases by $30 billion per month. As a result, the Fed purchased $60 billion in Treasury and mortgage securities in January and February, putting the program on track to end by March. The Fed discussed allowing some maturing bonds to “roll off” each month rather than be reinvested and selling mortgages outright to get the balance sheet holding only U.S. Treasuries.

Inflation was frequently discussed during the meeting with the term mentioned seventy-three times in the summary with committee members saying that price increases have been more persistent and stronger than anticipated. “Participants remarked that recent inflation readings had continued to significantly exceed the Committee’s longer-run goal and elevated inflation was persisting longer than they had anticipated, reflecting supply and demand imbalances related to the pandemic and the reopening of the economy,” the summary stated. The Fed noted inflation has become more widely spread from just COVID-19 affected sectors, noting, “Participants acknowledged that elevated inflation was a burden on U.S. households, particularly those who were least able to pay higher prices for essential goods and services.”

Consumer Confidence fell slightly in February to 110.5, down from a revised 111.1 in January. Consumer Confidence recently reached a peak of 128.9 in June 2021. According to a statement from the Conference Board, “Consumer confidence was down slightly for a second consecutive month in February. The Present Situation Index improved a touch, suggesting the economy continued to expand in Q1 but did not gain momentum. Expectations about short-term growth prospects weakened further, pointing to a likely moderation in growth over the first half of 2022. Meanwhile, the proportion of consumers planning to purchase homes, automobiles, major appliances, and vacations over the next six months all fell.” The Present Situation Index (based on consumers’ assessment of current business and labor market conditions) improved to 145.1 from a revised downward 144.5 in January. The

Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) slightly declined to 87.5 in February from a revised downward 88.8 in January. According to information from the BEA, the consumer is responsible for approximately 70% of the U.S. economy.

### Consumer Confidence




Source: The Conference Board.

The Bloomberg U.S. Aggregate Bond Index returned -1.12% in February and has returned -3.25% on a year-to-date basis as of February 28th. This is on the heels of a -1.54% return for calendar year 2021. The 10-Year U.S. Treasury ended February at 1.83% after ending January at 1.78% and beginning the year at 1.51%. It has increased dramatically since hitting an all-time low of 0.54% in July 2020. The 2-Year U.S. Treasury and 10-Year Treasury spread ended February with a spread of 40 basis points (2-year: 1.43% and 10-year: 1.83%). This contrasts with figures from the beginning of the year with a spread of 78 basis points and the 2-Year at 0.73 % and the 10-Year at 1.51%. Option Adjusted Spreads (as represented by the Bloomberg Corporate Index) ended February at 122 basis points, 16 basis points wider than the January month end of 106 basis points. Spreads began 2022 with a reading of 92 basis points

West Texas Intermediate (WTI) finished February at $95.72 per barrel, increasing 8.6% from January at $88.15 per barrel. WTI has increased 27.2% from beginning 2022 at $75.21 per barrel. This is on the heels of a 58.9% increase in 2021. Turmoil from the geopolitical issues and ultimate invasion of Ukraine by Russia have been a significant factor in the increases so far in 2022. WTI is significantly higher than April 2020's close at $18.84 per barrel during the Saudi/Russia price war.

The Volatility Index (VIX) ended February at 30.15, increasing 21.4% from the January month end reading of 24.83. The VIX has increased 75.1% after beginning 2022 with a reading of 17.22. The VIX increased during the month due to the market turbulence over inflation, potential increases in interest rates and concerns over the geopolitical issues between Russia and Ukraine. It remains lower than the

March 16, 2020, COVID-19 pandemic peak of 82.69. The long-term average of the VIX is approximately twenty.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

**ZIEGLER CAPITAL MANAGEMENT, LLC**
30 South Wacker Drive | Suite 2800 | Chicago, Illinois | 60606 | www.zieglercap.com

22-02001
Printed Internally